

**SOUTH BAYSIDE WASTE  
MANAGEMENT AUTHORITY**

**BASIC FINANCIAL STATEMENTS**

**FISCAL YEAR ENDED JUNE 30, 2012**

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## INDEPENDENT AUDITORS' 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 year ended June 30, 2012, 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, 2012, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2012, 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



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

*Lance, Soll & Lingham, LLP*

Brea, California  
December 10, 2012

**SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY**  
**Management's Discussion and Analysis**  
**June 30, 2012**

This Management's Discussion and Analysis (MD&A) section presents an overview and analysis of the financial performance of the South Bayside Waste Management Authority (SBWMA) for the fiscal year ended June 30, 2012. It should be read in conjunction with the audited financial statements that follow this section.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The SBWMA's financial statements include:

*Statement of Net Assets* presents information on the SBWMA's assets and liabilities as of year-end, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

*Statement of Revenues, Expenses, and Changes in Net Assets* presents the results of the SBWMA's operations over the course of the fiscal year and information as to how the net assets changed during the year. These statements can be used as an indicator of the extent to which the Authority has successfully recovered its costs through user fees and other charges.

*Statement of Cash Flows* presents changes in cash and cash equivalents resulting from operational, capital, non-capital, and investing activities. The statement summarizes the annual flow of cash receipts and cash payments, without consideration of the timing of the event giving rise to the obligation or receipt and exclude non-cash accounting measures of depreciation or amortization of assets.

*Notes to Financial Statements* provide information that is essential to a full understanding of the financial statements that is not displayed on the face of the financial statements.

**FINANCIAL ANALYSIS**

The following table summarizes the Authority's changes in net assets from last year to this year.

**Table 1**  
**Comparative Net Assets**  
**June 30, 2012 and 2011**

	<b>FY 2012</b>	<b>FY 2011</b>	<b>\$ Change</b>	<b>% Change</b>
Current and other assets	\$ 24,166,865	\$ 25,863,687	\$ (1,696,822)	-6.6%
Capital assets, net of depreciation	62,355,202	64,131,415	(1,776,213)	-2.8%
Total assets	<u>86,522,067</u>	<u>89,995,102</u>	<u>(3,473,035)</u>	<u>-3.9%</u>
Long-term debt outstanding	56,679,747	56,687,247	(7,500)	0.0%
Other liabilities	6,338,147	8,515,936	(2,177,789)	-25.6%
Total liabilities	<u>63,017,894</u>	<u>65,203,183</u>	<u>(2,185,289)</u>	<u>-3.4%</u>
Net assets:				
Invested in capital assets, net of related debt	10,449,154	15,589,135	(5,139,981)	-33.0%
Unrestricted	13,055,019	9,202,784	3,852,235	41.9%
Total net assets	<u>\$ 23,504,173</u>	<u>\$ 24,791,919</u>	<u>\$ (1,287,746)</u>	<u>-5.2%</u>

## *Net Assets*

The total net assets decreased by \$1.3 million or 5.2% from the prior fiscal year. However, as shown in Table 2, the FY2011 Net Assets have been restated for depreciation expense of \$1.4 million. With this restatement, there is less than \$0.1 million increase in net assets.

The current and other assets decreased by \$1.7 million or 6.6% from the prior fiscal year. This decrease is primarily due to the \$2 million decrease in cash with fiscal agent offset by \$0.3 million increase in cash from operations. The \$2 million decrease in cash with fiscal agent is a result of higher interest payment made as of June 30.

The largest portion of the Authority's assets is its investment in net capital assets totaling \$62.4 million. These assets that comprise of land, buildings, equipment and infrastructure less accumulated depreciation are primarily located at the Shoreway Environmental Center. Due to the understatement of FY2011 depreciation expenses stated above, the FY 2011 capital assets, net of depreciation, were overstated by \$1.4 million. As a result, the actual year-over-year comparison of the capital assets, net of accumulated depreciation, shows a decrease of only \$0.4 million because of additional depreciation expense for assets newly placed in service during the current fiscal year.

The decrease of \$2.2 million or 25.6% in other liabilities is related to the timing of the accruals for the Shoreway operations.

The investment in capital assets, net of related debt, is \$10.4 million as of June 30, 2012. It 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 investment in capital assets is 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 \$13.1 million, an increase of \$3.8 million, represent the part of net assets that can be used to finance operations.

## Results of Operations

The following table summarizes the Authority's revenues, expenses, and changes in net assets.

**Table 2**  
**Comparative Revenues, Expenses, and Changes in Net Assets**  
**Years Ended June 30, 2012 and 2011**

	<u>FY 2012</u>	<u>FY 2011</u>	<u>\$ Change</u>	<u>% Change</u>
<b>Revenues</b>				
Charges for services	\$ 29,240,206	\$ 28,660,638	\$ 579,568	2.0%
Commodity revenue	10,084,135	10,719,422	(635,287)	-5.9%
Other operating revenues	547,925	627,347	(79,422)	-12.7%
Investment Income	209,502	(6,575)	216,077	-3286.3%
Unclaimed funds	-	6,014	(6,014)	-100.0%
Total Revenues	<u>40,081,768</u>	<u>40,006,846</u>	<u>\$ 74,922</u>	<u>0.2%</u>
<b>Expenses</b>				
Operating expenses	36,711,789	36,561,270	150,519	0.4%
Interest expense	3,284,655	(7,500)	3,292,155	-43895.4%
Amortization expenses	22,222	22,222	-	0.0%
Total Expenses	<u>40,018,666</u>	<u>36,575,992</u>	<u>3,442,674</u>	<u>9.4%</u>
Increase (decrease) in net assets	63,102	3,430,854	(3,367,752)	-98.2%
Beginning net assets	24,791,919	21,361,065	3,430,854	16.1%
Restatements	(1,350,848)	-	(1,350,848)	100.0%
Beginning net assets, restated	<u>23,441,071</u>	<u>21,361,065</u>	<u>2,080,006</u>	<u>9.7%</u>
Ending net assets	<u>\$ 23,504,173</u>	<u>\$ 24,791,919</u>	<u>\$ (1,287,746)</u>	<u>-5.2%</u>

While the Statement of Net Assets (Table 1 above) shows the change in financial position, the Statement of Activities (Table 2 above) provides answers as to the nature and sources of the changes.

Charges for services increased by \$0.6 million or 2%, primarily due to slightly higher pricing and volume. This increase was offset by the \$0.6 million decrease in commodity revenue. The commodity revenue has higher pricing in FY2012 but a new revenue sharing feature of the new operating contract of \$1.2 million offset this increase. Additionally, the new operating contract started on January 1, 2011 and the revenue sharing for calendar year 2011 was paid in FY 2012.

The investment income increased by \$0.2 million mainly because of interest earned from the investment held as bond reserve by the trustee.

Total operating expenses include the Shoreway operations expense, the SBWMA administration expenses, franchise fees, and depreciation. Total Shoreway Operations expense decreased by \$2.2 million or 6.9%. This decrease is primarily due to the change from the Allied cost plus operating contract that ended on December 31, 2010 to a new contract with SBR at a fixed rate per ton, adjusted primarily by changes in annual indexes and collective bargaining rates. FY2011 was a transition year with higher interim operating costs for eight months during construction of the new Shoreway facility. In addition, it had six months with the old cost plus operating contract with Republic and six months with the new operating contract with SBR. The



SBWMA program administration expense decreased by 0.7 million or 25.8% because the additional start-up expenses of the new contracts subsided. These reductions are offset by increase in depreciation expenses of \$3.0 million for additional capital assets related to the Shoreway Master Plan Project.

The interest expense increased by \$3.3 million due primarily to the new interest expense on the 2009 bonds that had previously been capitalized during the construction period.

### ***Reserves***

In 2002, the SBWMA Board established a reserve policy to set aside certain portions of unrestricted net assets for specific uses in order 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 in the fiscal years 2012 and 2011.

**Table 3  
Unrestricted Reserves Balances**

	<u>FY 2012</u>	<u>FY 2011</u>
Operating Reserve	\$ 3,632,534	\$ 3,354,346
Rate Stabilization Reserve	3,632,534	1,301,260
Equipment Replacement	612,500	-
Master Plan Spending	661,136	1,685,963
2009 B Note Repayment	972,973	-
Undesignated	<u>3,543,342</u>	<u>2,861,215</u>
Total Unrestricted Reserves	<u>\$ 13,055,019</u>	<u>\$ 9,202,784</u>

### ***Capital Assets***

The following table summarizes changes in the Authority's capital assets.

**Table 4  
Capital Assets, Net of Depreciation  
Years Ended June 30, 2012 and 2011**

	<u>FY 2012</u>	<u>FY 2011</u>	<u>\$ Change</u>	<u>% Change</u>
Land	\$ 14,000,000	\$ 14,000,000	\$ -	-
Buildings and system	33,878,149	4,340,224	29,537,925	680.6%
Machinery and equipment	22,479,428	1,819,150	20,660,278	1135.7%
Construction in progress	1,163,654	48,618,890	(47,455,236)	-97.6%
Total Accumulated depreciation	<u>(9,166,029)</u>	<u>(4,646,849)</u>	<u>(4,519,180)</u>	<u>97.3%</u>
Total Net Capital Assets	<u>\$ 62,355,202</u>	<u>\$ 64,131,415</u>	<u>\$ (1,776,213)</u>	<u>-2.8%</u>

The major change to capital assets was the additional spending on the Shoreway capital project, capitalization of this project from the construction in progress to building and equipment, and the initiation of depreciation on these new capital assets.

The Master Plan construction project is 99% complete and proceeding with an estimated completion date of June 2013. The project capital cost in total is expected to be under budget.

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 has \$56.7 million total debt outstanding.

**Table 5  
Outstanding Debt, Net of Amortized Costs  
June 30, 2012 and 2011**

	<u>FY 2012</u>	<u>FY 2011</u>	<u>\$ Change</u>	<u>% Change</u>
2009A Revenue Bond	53,500,000	53,500,000	\$ -	-
2009B Revenue Bond	3,000,000	3,000,000	-	-
Net Premium 2009A	179,747	187,247	(7,500)	-4.01%
Total	<u>\$ 56,679,747</u>	<u>\$ 56,687,247</u>	<u>\$ (7,500)</u>	<u>-0.01%</u>

Long-term debt consisted of the Revenue Bonds Series 2009A and B that were issued to finance the construction and renovation of a solid waste materials recovery facility and transfer station as well as related equipment. The balance of long-term debt remained unchanged between the two fiscal years because the repayment of principal does not begin until the fiscal year 2012-13.

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

**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, 2012**

ASSETS		
Current Assets:		
Cash and investments for operations	\$	13,905,471
Accounts receivable		3,518,656
Interest receivable		12,578
Prepaid Items		<u>3,352</u>
Total Current Assets		<u>17,440,057</u>
Noncurrent Assets:		
Cash and cash equivalents with fiscal agent		6,193,483
Unamortized bond issuance costs		533,325
Capital assets		
Land		14,000,000
Construction in progress		1,163,654
Building		33,878,149
Equipment		22,479,428
Less: Accumulated depreciation		<u>(9,166,029)</u>
Net capital assets		<u>62,355,202</u>
Total Noncurrent Assets		<u>69,082,010</u>
Total Assets		<u>86,522,067</u>
LIABILITIES		
Current Liabilities:		
Accounts payable		3,693,220
Accrued liabilities		160,714
Interest payable		1,059,288
Current portion of compensated absences		21,480
Long-term debt, due in one year		<u>1,095,000</u>
Total Current Liabilities		<u>6,029,702</u>
Noncurrent Liabilities:		
Accrued liabilities		1,394,238
Compensated absences due in more than one year		9,207
Long-term debt, due in more than one year		<u>55,584,747</u>
Total Noncurrent Liabilities		<u>56,988,192</u>
Total Liabilities		<u>63,017,894</u>
Net Assets:		
Invested in capital assets, net of related debt		10,449,154
Unrestricted		<u>13,055,019</u>
Total Net Assets	\$	<u><u>23,504,173</u></u>

See independent auditors' 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, 2012**

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OPERATING REVENUES:	
Charges for services	\$ 29,240,206
Commodity revenue	10,084,135
Other	<u>547,925</u>
TOTAL OPERATING REVENUES	<u>39,872,266</u>
OPERATING EXPENSES:	
Shoreway operations	29,632,968
SBWMA program administration	2,521,680
Franchise fee - transfer station	1,388,809
Depreciation	<u>3,168,332</u>
Total Operating Expenses	<u>36,711,789</u>
Operating Income (Loss)	<u>3,160,477</u>
NONOPERATING REVENUES (EXPENSES):	
Investment income	209,502
Interest expense	(3,284,655)
Amortization expense	<u>(22,222)</u>
Net Nonoperating Revenue (Expense)	<u>(3,097,375)</u>
Change in Net Assets	<u>63,102</u>
NET ASSETS AT BEGINNING OF YEAR	24,791,919
RESTATEMENTS	<u>(1,350,848)</u>
NET ASSETS - BEGINNING OF YEAR, AS RESTATED	<u>23,441,071</u>
NET ASSETS AT END OF YEAR	<u>\$ 23,504,173</u>

See independent auditors' report and notes to basic financial statements.

**SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2012**

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CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 38,262,765
Payments to suppliers	<u>(33,602,244)</u>
Net Cash Flows from Operating Activities	<u>4,660,521</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
(Increase) decrease in cash and investments with fiscal agent	1,951,484
Interest received	<u>275,270</u>
Net Cash Flows from Investing Activities	<u>2,226,754</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Capital asset acquisition and construction	(2,742,967)
Interest paid	<u>(3,292,155)</u>
Net Cash Flows from Capital and Related Financing Activities	<u>(6,035,122)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>852,153</u>
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>13,053,318</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 13,905,471</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income (loss)	<u>\$ 3,160,477</u>
Adjustments to reconcile operating loss net cash provided (used) by operating activities:	
Depreciation and amortization	3,168,332
Change in assets and liabilities	
(Increase) decrease in accounts receivables	506,328
(Increase) decrease in prepaid expenses	3,173
Increase (decrease) in accounts payable	(28,353)
Increase (decrease) in accrued liabilities	(2,115,829)
Increase (decrease) in unearned revenue	(18,993)
Increase (decrease) in accrued compensated absences	<u>(14,614)</u>
Total Adjustments	<u>1,500,044</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 4,660,521</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	
Amortization related to long-term debt	<u>\$ 14,722</u>

See independent auditors' report and notes to basic financial statements.

**SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY**

**NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2012**

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**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 agency effective January 1, 2011 South Bay Recycling collects fees charged for the use of the Facilities and remits them to the Authority. Pursuant to an Agreement with the Authority, South Bay Recycling will operate the Facilities and be 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, 2012**

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**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; meaning 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 of capital assets by type as listed below:

Building	10 - 40 years
Improvements	5 - 20 years
Equipment	5 - 15 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, 2012**

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**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	\$ 13,905,471
Cash and investments with fiscal agent	<u>6,193,483</u>
Total Cash and Investments	<u>\$ 20,098,954</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 when the Authority's Investment Policy is more restrictive.



**SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2012**

**Note 2: Cash and Investments (Continued)**

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 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:

Authorized Investment Type	Minimum Credit Quality
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, 2012**

**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	Total
San Mateo County Investment Pool	\$ 2,125,381	\$ 2,125,381
California Local Agency Investment Fund	10,743,368	10,743,368
Cash and Cash Equivalents with Fiscal Agent:		
Money Market Fund	6,193,483	6,193,483
Total Investments	\$ 19,062,232	19,062,232
Total Cash in Bank and Cash on Hand		1,036,722
Total Cash and Investments		\$ 20,098,954

**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 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.

**SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2012**

**Note 2: Cash and Investments (Continued)**

**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, 2012 for each investment type as provided by Moody's ratings:

Investment Type	AAA	Total
Cash and Cash Equivalents with Fiscal Agent:		
Money Market Fund	\$ 6,193,483	\$ 6,193,483
California Local Agency Investment Fund		10,743,368
San Mateo County Investment Pool		2,125,381
Total Investments		19,062,232
Total Cash in Bank and Cash on Hand		1,036,722
Total Cash and Investments		\$ 20,098,954

**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. There were no such investments at June 30, 2012.

**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. The Authority signed a new agreement effective January 1, 2011 with South Bay Recycling to operate the facility. For the year ended June 30, 2012 the Authority paid \$13,971,093 to South Bay Recycling to operate the Facility.

**SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2012**

**Note 4: Capital Assets**

Changes in capital assets were as follows for fiscal ended June 30, 2012:

	Balance July 1, 2011	Adjustments*	Additions	Retirements	Balance June 30, 2012
Capital assets not depreciated:					
Land	\$ 14,000,000	\$ -	\$ -	\$ -	\$ 14,000,000
Construction in Progress	48,618,890	(49,703,857)	2,248,621	-	1,163,654
Total non-depreciable assets	62,618,890	(49,703,857)	2,248,621	-	15,163,654
Capital assets being depreciated:					
Buildings	4,340,224	29,097,441	440,484	-	33,878,149
Equipment	1,819,150	20,606,416	53,862	-	22,479,428
Total depreciable assets	6,159,374	49,703,857	494,346	-	56,357,577
Less accumulated depreciation:					
Buildings	(3,331,466)	(536,083)	(1,279,674)	-	(5,147,223)
Equipment	(1,315,383)	(814,765)	(1,888,658)	-	(4,018,806)
Total accumulated depreciation	(4,646,849)	(1,350,848)	(3,168,332)	-	(9,166,029)
Net depreciable assets	1,512,525	48,353,009	(2,673,986)	-	47,191,548
Capital assets, net	\$ 64,131,415	\$ (1,350,848)	\$ (425,365)	\$ -	\$ 62,355,202

\*Adjustments were made to correct assets not properly placed into service in prior years.

**Note 5: Revenue Bonds**

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

	Balance July 1, 2011	Additions	Retirements	Balance June 30, 2012	Due within one year
2009A Solid Waste System Revenue Bonds	\$ 53,500,000	\$ -	\$ -	\$ 53,500,000	\$ 1,095,000
2009B Solid Waste System Revenue Bonds	3,000,000	-	-	3,000,000	-
	<u>\$ 56,500,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>56,500,000</u>	<u>\$ 1,095,000</u>
				<u>179,747</u>	
				<u>\$ 56,679,747</u>	

**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.

**SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2012**

**Note 5: Revenue Bonds (Continued)**

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.

**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 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.

**c. Revenue Pledge**

The bonds are secured by a pledge of the Authority's Net Revenue as defined under the bond indenture. For the 2009A bonds, 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 the 2009B bonds, 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.

For fiscal year 2012, gross revenues including operating revenues and non-operating interest earnings amounted to \$40,081,768; and operating and maintenance costs, including operating expenses, transfers out for overhead and administrative cost but not interest, depreciation or amortization and amounted to \$33,543,457. As a result, the net revenue for fiscal year 2012 amounted to \$6,538,311, which represented coverage of 2.06 times over the \$3,177,863 in debt service paid during the year for the two bonds.

**d. Debt Service Requirements**

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

For the Year Ending June 30	Principal	Interest	Total
2013	\$ 1,095,000	\$ 3,150,488	\$ 4,245,488
2014	1,150,000	3,094,363	4,244,363
2015	4,205,000	2,960,488	7,165,488
2016	1,270,000	2,833,138	4,103,138
2017	1,310,000	2,784,713	4,094,713
2018-2022	7,500,000	13,096,131	20,596,131
2023-2027	9,665,000	11,630,563	21,295,563
2028-2032	12,940,000	8,695,188	21,635,188
2033-2037	17,365,000	6,212,700	23,577,700
Total	<u>\$ 56,500,000</u>	<u>\$ 54,457,772</u>	<u>\$ 110,957,772</u>

**SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2012**

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

**Note 7: Pollution Remediation**

Since 2000, the Authority has been the property owner of 333 Shoreway Road in San Carlos, a property which has ground water contamination. However, the County regulator has identified the 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, 2012. 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 year 2020.

In fiscal year 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, 2012. As of June 30, 2012, the Authority had recorded \$1,394,238 of accrued liabilities.

**Note 8: Net Assets**

**a. Designations**

The Authority has designated \$9,511,677 of the unrestricted net assets for future spending plans or concerns about the availability of future resources. These amounts include \$3,632,524 for operations, \$3,632,534 for rate stabilization, \$612,500 for equipment replacement, \$661,136 for master plan spending and \$972,973 for the repayment of the 2009 B bond payable. These designations may be modified, amended or removed by Authority Board action.

**b. Restatements**

Net assets have been restated by \$1,350,848 to depreciate assets completed but not placed into service in the prior year.

**SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2012**

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**Note 9: Commitments and Contingent Liabilities**

Litigation

SBWMA is subject to litigation arising in the normal course of business. In the opinion of legal counsel there is no pending litigation, which is likely to have a material adverse effect on the financial position of SBWMA.

Construction Commitments

There are no significant construction commitments as of June 30, 2012.