

**SOUTH BAYSIDE WASTE
MANAGEMENT AUTHORITY**

BASIC FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 2013

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INDEPENDENT AUDITORS' REPORT

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

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities of the South Bayside Waste Management Authority (the "Authority"), California, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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



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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Authority, as of June 30, 2013, and, the respective changes in financial position and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2013, 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* in considering the Authority's internal control over financial reporting and compliance.

Brea, California
December 4, 2013

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY
Management's Discussion and Analysis
June 30, 2013

The 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, 2013. 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 Position presents information on the SBWMA's assets and liabilities as of year-end, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 Position presents the results of the SBWMA's operations over the course of the fiscal year and information as to how the net position 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 position from last year to this year.

Table 1
Comparative Net Position
June 30, 2013 and 2012

	FY 2013	FY 2012	\$ Change	% Change
Current and other assets	\$ 24,299,730	\$ 24,166,865	\$ 132,865	0.5%
Capital assets, net of depreciation	58,344,825	62,355,202	(4,010,377)	-6.4%
Total assets	<u>82,644,555</u>	<u>86,522,067</u>	<u>(3,877,512)</u>	<u>-4.5%</u>
Long-term debt outstanding	55,577,247	56,679,747	(1,102,500)	-1.9%
Other liabilities	5,268,778	6,338,147	(1,069,369)	-16.9%
Total liabilities	<u>60,846,025</u>	<u>63,017,894</u>	<u>(2,171,869)</u>	<u>-3.4%</u>
Net position:				
Net investment in capital assets	7,010,937	10,449,154	(3,438,217)	-32.9%
Unrestricted	14,787,593	13,055,019	1,732,574	13.3%
Total net position	<u>\$ 21,798,530</u>	<u>\$ 23,504,173</u>	<u>\$ (1,705,643)</u>	<u>-7.3%</u>

Net Position

The total net position decreased by \$1.7 million or 7% from the prior fiscal year. The net decrease of \$1.7 million is the result of a \$3.4 million decrease in net investment in capital assets that is offset by a \$1.7 million increase in unrestricted net position.

The \$3.4 million decrease is primarily due to changes in capital assets and implementation of new accounting principles. The changes in capital assets are explained in detail in the *Capital Assets* section below. The change in net investment in capital assets due to accounting principles was a result of the implementation of GASB 65. The Authority implemented GASB Statement 65, Items Previously Reported as Assets and Liabilities. GASB 65, among other things, amends prior guidance with respect to the treatment of bond issuance costs. Under the new guidance, debt issuance costs should be recognized as an expense in the period incurred, rather than be reported as deferred charges to be recognized systematically over the life of the debt. The recognition of this deferred charge as an expense caused a \$0.5 million decrease in net investment in capital assets.

The unrestricted net position increased from \$13.1 million as of FY 2012 to \$14.8 million as of FY 2013. This was an increase of \$1.7 million during FY 2013. This increase is due to a 5.9 million increase in operating income, excluding depreciation that was offset by \$3.1 million of interest payment and \$1.1 million in principal payment of the 2009 Bonds.

The largest portion of the Authority's assets is its investment in net capital assets totaling \$58.3 million. These assets that comprise of land, construction-in-progress, buildings, equipment and infrastructure less accumulated depreciation are primarily located at the Shoreway Environmental Center. The actual year-over-year comparison of the capital assets, net of accumulated depreciation, shows a decrease of \$4 million or 6% because of an increase in accumulated depreciation and a decrease in construction-in-progress. These changes are further explained in the *Capital Assets* section below.

The decrease of \$1.1 million or 17% in other liabilities is related to the timing of accruals for the Shoreway operations.

The net investment in capital assets is \$7.0 million as of June 30, 2013. 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 position totaling \$14.8 million, an increase of \$1.7 million, represent the part of net position that can be used to finance operations.

Results of Operations

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

Table 2
Comparative Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2013 and 2012

	<u>FY 2013</u>	<u>FY 2012</u>	<u>\$ Change</u>	<u>% Change</u>
Revenues				
Charges for services	\$ 31,135,507	\$ 29,240,206	\$ 1,895,301	6.5%
Commodity revenue	9,547,841	10,084,135	(536,294)	-5.3%
Other operating revenues	615,793	547,925	67,868	12.4%
Investment Income	59,234	209,502	(150,268)	-71.7%
Total Revenues	<u>41,358,375</u>	<u>40,081,768</u>	<u>\$ 1,276,607</u>	<u>3.2%</u>
Expenses				
Operating expenses	38,538,402	36,711,789	1,826,613	5.0%
Interest expense	3,124,738	3,284,655	(159,917)	-4.9%
Amortization expenses	-	22,222	(22,222)	-100.0%
Total Expenses	<u>41,663,140</u>	<u>40,018,666</u>	<u>1,644,474</u>	<u>4.1%</u>
Increase (decrease) in net position	(304,765)	63,102	(367,867)	-583.0%
Beginning net position	23,504,173	24,791,919	(1,287,746)	-5.2%
Restatements	(1,400,878)	(1,350,848)	(50,030)	100.0%
Beginning net position, restated	<u>22,103,295</u>	<u>23,441,071</u>	<u>(1,337,776)</u>	<u>-5.7%</u>
Ending net position	<u>\$ 21,798,530</u>	<u>\$ 23,504,173</u>	<u>\$ (1,705,643)</u>	<u>-7.3%</u>

While the Statement of Net Position (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 \$1.9 million or 6%, primarily due to higher pricing of approximately 2.7% and increased tonnage of approximately 3%. Since 79% of operating expense is variable to volume, both SBR's operating costs and disposal and processing costs increased, both of which are based on per ton fees. In addition, both of these major cost categories have annual fee adjustments. As reflected in the Table 2 above, there has been a commensurate increase of \$1.8 million or a 5% increase in the operating expenses. Total operating expenses include SBR's operations expense, disposal and processing expense, the SBWMA administration expenses, franchise fees, and depreciation.

Commodity revenue decreased by 0.5 million or 5% due to a decrease in commodity prices and an increase in revenue sharing with SBR, for FY2013 as compared to FY2012.

There is no amortization expense of bond issuance cost in FY 2013. This is due to the implementation of new accounting principle, as related to GASB 65, discussed in detail in the *Net Position* section above. The remaining unamortized bond issuance cost of \$0.5 million, previously reported in the Statement of Net Position has been recognized as an expense. However, the accounting changes of this statement is required to be applied retroactively and

therefore the Authority has reported this in the restatement of the beginning net position. The remaining \$0.9 million restatement relates to the interest expense that was previously capitalized.

Reserves

In 2002, the SBWMA Board established a reserve policy to set aside certain portions of unrestricted net position for specific uses in order to protect the short and long-term financial operation of the Authority. In May 2013 the Board revised the Cash Reserve Policy to accomplish the goal of more clearly defining the Reserve accounts. It maintains the two current reserve accounts - Rate Stabilization Reserve and Equipment Replacement Reserve, and replaced the existing Operating Reserve with an Emergency Reserve Account. The Emergency Reserve is to address unexpected and sudden capital needs or significant one-time increases in Shoreway operating expenses associated with “damage by natural disasters, acts of war or terrorism, or other community emergency scenarios that are not covered by existing insurance policies”. The new Policy also changed the priority order of the accounts so the Rate Stabilization Reserve is first in priority followed by the Emergency Reserve.

Table 3 below reflects the amount of reserves that have been designated by the Board in the fiscal years 2013 and 2012.

Table 3
Unrestricted Reserves Balances

	<u>FY 2013</u>	<u>FY 2012</u>
Operating Reserve	n/a	\$ 3,632,534
Rate Stabilization Reserve	3,032,613	3,632,534
Emergency Reserve	3,032,613	
Equipment Replacement	823,757	612,500
Master Plan Spending	n/a	661,136
2009 A Bond Repayment	958,333	
2009 B Note Repayment	3,000,000	972,973
Undesignated	3,940,277	3,543,342
Total Unrestricted Reserves	<u>\$ 14,787,593</u>	<u>\$ 13,055,019</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, 2013 and 2012

	<u>FY 2013</u>	<u>FY 2012</u>	<u>\$ Change</u>	<u>% Change</u>
Land	\$ 14,000,000	\$ 14,000,000	\$ -	-
Buildings and system	34,105,819	33,878,149	227,670	0.7%
Machinery and equipment	22,531,170	22,479,428	51,742	0.2%
Construction in progress	101,177	1,163,654	(1,062,477)	-91.3%
Total Accumulated depreciation	<u>(12,393,341)</u>	<u>(9,166,029)</u>	<u>(3,227,312)</u>	<u>35.2%</u>
Total Net Capital Assets	<u>\$ 58,344,825</u>	<u>\$ 62,355,202</u>	<u>\$ (4,010,377)</u>	<u>-6.4%</u>

The major change to capital assets was mainly because of a \$3.2 million increase in accumulated depreciation for new assets placed into operations. There was also a \$1.1 million decrease in Construction in Progress. Of this amount, \$0.9 million relates to an adjustment in construction in progress to recognize interest expenses that did not meet the capitalization criteria. The remaining \$0.2 million decrease relates to transfer of assets from construction in progress to buildings.

The Master Plan construction project was completed under budget, through the diligent efforts of the Project Management team and deductions of some unnecessary cost components, realizing savings of \$1 million.

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 \$55.6 million total debt outstanding.

Table 5
Outstanding Debt, Net of Amortized Costs
June 30, 2013 and 2012

	<u>FY 2013</u>	<u>FY 2012</u>	<u>\$ Change</u>	<u>% Change</u>
2009A Revenue Bond	52,405,000	53,500,000	(1,095,000)	-
2009B Revenue Bond	3,000,000	3,000,000	-	-
Net Premium 2009A	172,247	179,747	(7,500)	-4.17%
Total	<u>\$ 55,577,247</u>	<u>\$ 56,679,747</u>	<u>\$ (1,102,500)</u>	<u>-1.95%</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 decreased because of the payment of principal, starting in the current fiscal year.

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

SUBSEQUENT EVENTS

The Board adopted a resolution approving early redemption of the Solid Waste Enterprise Revenue Bonds Series 2009B during the Board meeting on June 27, 2013. The Board felt that early redemption of the bonds was in the best financial interests of the Authority. The early redemption resulted in net savings of \$141,000. It was paid in full on August 15, 2013, one year before it was due.

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 POSITION
JUNE 30, 2013**

		<u>Business-Type Activities</u>
ASSETS		
Current Assets:		
Cash and investments for operations		\$ 14,324,388
Accounts receivable		3,716,945
Interest receivable		10,636
Prepaid items		<u>23,919</u>
Total Current Assets		<u>18,075,888</u>
Noncurrent Assets:		
Cash and cash equivalents with fiscal agent		6,223,842
Capital assets		
Land		14,000,000
Construction in progress		101,177
Building		34,105,819
Equipment		22,531,170
Less: Accumulated depreciation		<u>(12,393,341)</u>
Net capital assets		<u>58,344,825</u>
Total Noncurrent Assets		<u>64,568,667</u>
Total Assets		<u>82,644,555</u>
LIABILITIES		
Current Liabilities:		
Accounts payable		2,736,962
Accrued liabilities		194,623
Interest payable		1,041,038
Current portion of compensated absences		14,714
Long-term debt, due in one year		<u>4,150,000</u>
Total Current Liabilities		<u>8,137,337</u>
Noncurrent Liabilities:		
Accrued liabilities		1,275,135
Compensated absences due in more than one year		6,306
Long-term debt, due in more than one year		<u>51,427,247</u>
Total Noncurrent Liabilities		<u>52,708,688</u>
Total Liabilities		<u>60,846,025</u>
NET POSITION		
Net Position:		
Net investment in capital assets		7,010,937
Unrestricted		<u>14,787,593</u>
Total Net Position		<u>\$ 21,798,530</u>

See Independent Auditors' Report and Notes to Basic Financial Statements

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

**STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013**

OPERATING REVENUES:	
Charges for services	\$ 31,135,507
Commodity revenue	9,547,841
Other	615,793
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Total Operating Revenues	41,299,141
OPERATING EXPENSES:	
Shoreway operations	31,393,691
SBWMA program administration	2,439,532
Franchise fee - transfer station	1,477,867
Depreciation	3,227,312
	<hr/>
Total Operating Expenses	38,538,402
	<hr/>
Operating Income (Loss)	2,760,739
NONOPERATING REVENUES (EXPENSES):	
Investment income	59,234
Interest expense	(3,124,738)
	<hr/>
Net Nonoperating Revenue (Expense)	(3,065,504)
	<hr/>
Change in Net Position	(304,765)
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NET POSITION AT BEGINNING OF YEAR	23,504,173
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RESTATEMENTS	(1,400,878)
	<hr/>
NET POSITION - BEGINNING OF YEAR, AS RESTATED	22,103,295
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NET POSITION AT END OF YEAR	\$ 21,798,530
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SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013**

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 41,100,852
Payments to suppliers	<u>(36,382,776)</u>
Net Cash Flows from Operating Activities	<u>4,718,076</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
(Increase) decrease in cash and investments with fiscal agent	(30,359)
Interest received	<u>61,176</u>
Net Cash Flows from Investing Activities	<u>30,817</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Capital asset acquisition and construction	(84,488)
Principal paid on long-term debt	(1,095,000)
Interest paid	<u>(3,150,488)</u>
Net Cash Flows from Capital and Related Financing Activities	<u>(4,329,976)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>418,917</u>
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>13,905,471</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 14,324,388</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income (loss)	<u>\$ 2,760,739</u>
Adjustments to reconcile operating income net cash provided (used) by operating activities:	
Depreciation and amortization	3,227,312
Change in assets and liabilities	
(Increase) decrease in accounts receivables	(198,289)
(Increase) decrease in prepaid expenses	(20,567)
Increase (decrease) in accounts payable	(956,258)
Increase (decrease) in accrued liabilities	(85,194)
Increase (decrease) in accrued compensated absences	<u>(9,667)</u>
Total Adjustments	<u>1,957,337</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 4,718,076</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	
Amortization related to long-term debt	<u>\$ 7,500</u>

See Independent Auditors' Report and Notes to Basic Financial Statements

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2013

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 Sanitary 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, Smurfit-Stone, Zanker Road and Bio-Fuel Systems.

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 implemented GASB Statement 65, Items Previously Reported as Assets and Liabilities. GASB 65, among other things, amends prior guidance with respect to the treatment of debt issuance costs. Debt issuance costs should be recognized in the period incurred rather than be reported on the statement of net position as deferred charges to be recognized systematically over the life of the debt. The accounting changes of this statement should be applied retroactively and therefore the Authority has reported a

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Note 1: Summary of Significant Accounting Policies (Continued)

restatement of beginning net position for any unamortized debt issuance costs previously reported on the statement of net position to conform.

c. Net position flow assumption

Sometimes the Authority will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Authority's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

d. 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 are capitalized and depreciated over the remaining useful life of the asset. The Authority's policy is to capitalize all assets with costs exceeding the \$10,000 threshold and a useful life of more than one year.

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.

e. 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.

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2013

Note 1: Summary of Significant Accounting Policies (Continued)

f. 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.

g. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Authority has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has no items that qualify for reporting in this category.

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 Treasurer may waive the collateral requirement for deposits that are fully insured up to \$250,000 by the FDIC.

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.

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Note 2: Cash and Investments (Continued)

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>Statement of Net Position</u>	
Cash and investments for operations	\$ 14,324,388
Cash and investments with fiscal agent	<u>6,223,842</u>
Total Cash and Investments	<u><u>\$ 20,548,230</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.

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.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Minimum Credit Quality</u>	<u>Maximum in Portfolio</u>	<u>Maximum 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)

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Note 2: Cash and Investments (Continued)

- (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

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	\$ 2,159,304	\$ 2,159,304
California Local Agency Investment Fund	11,316,784	11,316,784
Cash and Cash Equivalents with Fiscal Agent:		
Money Market Fund	6,223,842	6,223,842
Total Investments	<u>\$ 19,699,930</u>	19,699,930
Total Cash in Bank and Cash on Hand		848,300
Total Cash and Investments		<u>\$ 20,548,230</u>

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Note 2: Cash and Investments (Continued)

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.

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. Investments in California Local Agency Investment Fund and San Mateo County Investment Pool are not rated and therefore no rating is shown.

Presented below is the actual rating as of June 30, 2013, for each investment type as provided by Moody's ratings:

<u>Investment Type</u>	<u>AAA</u>	<u>Total</u>
Cash and Cash Equivalents with Fiscal Agent:		
Money Market Fund	<u>\$ 6,223,842</u>	<u>\$ 6,223,842</u>
California Local Agency Investment Fund		11,316,784
San Mateo County Investment Pool		<u>2,159,304</u>
Total Investments		<u>19,699,930</u>
Total Cash in Bank and Cash on Hand		<u>848,300</u>
Total Cash and Investments		<u><u>\$ 20,548,230</u></u>

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

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. There were no such investments at June 30, 2013.

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. to operate them. This agreement expired on December 31, 2006 and the Authority had 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, 2013, the Authority paid \$15,839,848 to South Bay Recycling to operate the Facility.

Note 4: Capital Assets

Changes in capital assets were as follows for fiscal ended June 30, 2013:

	Balance July 1, 2012	Adjustments*	Transfers	Additions	Retirements	Balance June 30, 2013
Capital assets not depreciated:						
Land	\$ 14,000,000	\$ -	\$ -	\$ -	\$ -	\$ 14,000,000
Construction in Progress	1,163,654	(867,553)	(227,670)	32,746	-	101,177
Total non-depreciable assets	15,163,654	(867,553)	(227,670)	32,746	-	14,101,177
Capital assets being depreciated:						
Buildings	33,878,149	-	227,670	-	-	34,105,819
Equipment	22,479,428	-	-	51,742	-	22,531,170
Total depreciable assets	56,357,577	-	227,670	51,742	-	56,636,989
Less accumulated depreciation:						
Buildings	(5,147,223)	-	-	(1,332,821)	-	(6,480,044)
Equipment	(4,018,806)	-	-	(1,894,491)	-	(5,913,297)
Total accumulated depreciation	(9,166,029)	-	-	(3,227,312)	-	(12,393,341)
Net depreciable assets	47,191,548	-	227,670	(3,175,570)	-	44,243,648
Capital assets, net	\$ 62,355,202	\$ (867,553)	\$ -	\$ (3,142,824)	\$ -	\$ 58,344,825

*Adjustments were made to correct interest that was capitalized but should have been expensed in prior years.

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Note 5: Revenue Bonds

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

	Balance July 1, 2012	Additions	Retirements	Balance June 30, 2013	Due within one year
2009A Solid Waste System Revenue Bonds	\$ 53,500,000	\$ -	\$ (1,095,000)	\$ 52,405,000	\$ 1,150,000
2009B Solid Waste System Revenue Bonds	3,000,000	-	-	3,000,000	3,000,000
	<u>\$ 56,500,000</u>	<u>\$ -</u>	<u>\$ (1,095,000)</u>	<u>55,405,000</u>	<u>\$ 4,150,000</u>
				Add: Unamortized premiums/discounts	172,247
				Net Long-Term Debt	<u>\$ 55,577,247</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.

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. In June 2013 the Board of Directors adopted a resolution authorizing the early redemption of this bond. See note 10 for additional information.

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 of \$52.4 million in remaining debt service

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Note 5: Revenue Bonds (Continued)

on the bonds which is scheduled to occur in fiscal year 2037. 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 fiscal year 2014.

For fiscal year 2013, gross revenues including operating revenues and non-operating interest earnings amounted to \$41,358,375. The operating and maintenance costs, including operating expenses, transfers out for overhead and administrative costs but excluded interest, franchise fee payable to the City of San Carlos, and depreciation or amortization amounted to \$33,833,223. As a result, the net revenue for fiscal year 2013 amounted to \$7,525,152, which represented coverage of 1.78 times over the \$4,227,238 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
2014	\$ 4,150,000	\$ 2,962,696	\$ 7,112,696
2015	1,205,000	2,885,488	4,090,488
2016	1,270,000	2,833,138	4,103,138
2017	1,310,000	2,784,713	4,094,713
2018	1,365,000	2,729,506	4,094,506
2019-2023	7,870,000	12,921,375	20,791,375
2024-2028	10,215,000	11,173,288	21,388,288
2029-2033	13,735,000	7,978,313	21,713,313
2034-2037	14,285,000	4,832,100	19,117,100
Total	<u>\$ 55,405,000</u>	<u>\$ 51,100,617</u>	<u>\$ 106,505,617</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, 2013

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, 2013. 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, 2013. As of June 30, 2013, the Authority had recorded \$1,275,135 of accrued liabilities.

Note 8: Net Position

a. Designations

The Authority has designated \$10,847,316 of the unrestricted net position for several reserves which include: \$3,032,613 for rate stabilization, \$3,032,613 for emergency reserve, \$823,757 for equipment replacement, \$958,333 for the payment of 2009A bonds and \$3,000,000 for the payment of the 2009B bonds. These designations may be modified, amended or removed by Authority Board action.

b. Restatements

The Authority had capitalized interest on capital debt in prior years that should have been recorded as interest expense. A prior period adjustment was made to net position for \$867,553 to reflect this correction.

The Authority implemented GASB Statement 65, Items Previously Reported as Assets and Liabilities. As discussed in Note 1, a prior period adjustment was made for \$533,325 to comply with this new guidance.

The amounts reported in the Statement of Revenues, Expenses and Changes in Net Position is calculated as follows:

Reason for Restatement	
Capitalized interest	\$ 867,553
Unamortized Bond Issuance Costs as of June 30, 2012	<u>533,325</u>
Total Restatements Reported	<u>\$ 1,400,878</u>

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

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, 2013.

Note 10: Subsequent Events

On June 27, 2013, the Board of Directors adopted resolution Number 2013-16 authorizing the early redemption of the Solid Waste Enterprise Revenue Bonds Series 2009B (Taxable) in compliance with the Indenture of Trust. The Board felt that early redemption of the Bonds was in the best financial interests of the SBWMA. On August 15, 2013, the bonds were fully redeemed in accordance with this Resolution.