

**SOUTH BAYSIDE WASTE
MANAGEMENT AUTHORITY**

BASIC FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 2015

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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 the Financial Statements

We have audited the accompanying financial statements of the South Bayside Waste Management Authority (the "Authority") as of and for the year ended June 30, 2015, 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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof 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 1, 2015 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.

A handwritten signature in cursive script that reads 'Lance, Soll & Lughard, LLP'.

Brea California
December 1, 2015

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY
Management's Discussion and Analysis
June 30, 2015

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 (FY) ended June 30, 2015. 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 change in net position from last year to this year.

Table 1
Comparative Net Position
June 30, 2015 and 2014

	FY 2015	FY 2014	\$ Change	% Change
Current and other assets	\$ 25,083,366	\$ 25,112,407	\$ (29,041)	-0.1%
Capital assets, net of depreciation	52,127,824	55,393,521	(3,265,697)	-5.9%
Total assets	<u>77,211,190</u>	<u>80,505,928</u>	<u>(3,294,738)</u>	<u>-4.1%</u>
Long-term debt outstanding	50,207,247	51,419,747	(1,212,500)	-2.4%
Other liabilities	5,541,914	6,732,640	(1,190,726)	-17.7%
Total liabilities	<u>55,749,161</u>	<u>58,152,387</u>	<u>(2,403,226)</u>	<u>-4.1%</u>
Net position:				
Net investment in capital assets	6,175,238	8,222,650	(2,047,412)	-24.9%
Unrestricted	15,286,791	14,130,891	1,155,900	8.2%
Total net position	<u>\$ 21,462,029</u>	<u>\$ 22,353,541</u>	<u>\$ (891,512)</u>	<u>-4.0%</u>

Net Position

The total net position decreased by \$0.9 million or 4.0% from the prior fiscal year. The net decrease of \$0.9 million is comprised of a \$2.0 million decrease in net investment in capital assets, which is offset by a \$1.1 million increase in unrestricted net position.

The total liabilities decreased by \$2.4 million or 4.1%. The decrease of \$1.2 million or 2.4% in long-term debt is associated to the \$1.2 million principal payment made on the 2009A bonds. This change is explained further in the “*Long-term Debt*” section below. The decrease of \$1.2 million or 17.7% in other liabilities is related to the timing of payments for the Shoreway operations.

The largest portion of the Authority’s assets is its investment in net capital assets totaling \$52.1 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 \$3.3 million or 5.9% due of an increase in accumulated depreciation. These changes are explained further in the “*Capital Assets*” section below.

The net investment in capital assets is \$6.2 million as of June 30, 2015. It represents the Authority’s investment in infrastructure and other capital assets, net of amounts borrowed to finance that investment. It should be noted that these funds are not available for spending because capital assets cannot be used to liquidate these liabilities. Therefore, the resources needed to repay this debt must be provided from other sources. Unrestricted net position totaling \$15.3 million represents 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, 2015 and 2014

	<u>FY 2015</u>	<u>FY 2014</u>	<u>\$ Change</u>	<u>% Change</u>
Revenues				
Charges for services	32,669,809	31,701,909	967,900	3.1%
Commodity revenue	8,875,856	9,503,894	(628,038)	-6.6%
Other operating revenues	1,102,363	768,003	334,360	43.5%
Investment Income	70,405	163,752	(93,347)	-57.0%
Total Revenues	<u>42,718,433</u>	<u>42,137,558</u>	<u>580,875</u>	<u>1.4%</u>
Expenses				
Operating expenses	40,752,041	38,646,518	2,105,523	5.4%
Interest expense	2,857,904	2,936,029	(78,125)	-2.7%
Total Expenses	<u>43,609,945</u>	<u>41,582,547</u>	<u>2,027,398</u>	<u>4.9%</u>
Increase (decrease) in net position	(891,512)	555,011	(1,446,523)	260.6%
Beginning net position	<u>22,353,541</u>	<u>21,798,530</u>	<u>555,011</u>	<u>2.5%</u>
Ending net position	<u>21,462,029</u>	<u>22,353,541</u>	<u>(891,512)</u>	<u>-4.0%</u>

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

The operating results of the Authority for the current fiscal year were \$5.2 million compared to \$6.6 million for the prior year. Included in the operating results are the revenues from charges for services, commodity revenues, and other operating revenues less the expenses from the Shoreway operations, SBWMA administration expenses and franchise fees. Depreciation expense is excluded from the operating results.

Charges for services, also known as tipping fee revenue, increased by \$1.0 million or 3.1%, from \$31.7 million in FY14 to \$32.7 million in FY15. Public solid waste volumes accounted for \$0.6 million of the revenue growth, while the second half of the calendar year (CY)14 tip fee increase accounted for \$0.4 million of the growth. Public revenue is the revenue generated from non-franchised waste that is delivered to the Shoreway facility, while franchise revenue is from solid waste and organics materials collected by Recology San Mateo County from customers of SBWMA's member agencies and delivered to the Shoreway facility. The Other operating revenues increased by \$0.3 million or 43.5%, mainly due to an increase in the processing of third-party recyclables, which the Authority actively solicited to help offset the fixed costs at the Shoreway facility. Investment income dropped by \$0.1 million, or 57.0%, due to a \$0.1 million Lehman settlement recovery that occurred in FY14. Lehman recoveries for FY15 were \$0.01 million.

The primary component of Operating expenses is related to the Shoreway operations that constitute about 80% of non-discretionary, contractually obligated costs incurred to pay the Shoreway operator, and disposal and processing expense. The Shoreway operations expense increased by \$2.0 million in FY15 primarily due to increases in waste volume and charges for solid waste processing.

Reserves

Table 3 below reflects the amount of reserves that have been designated by the Board in the fiscal years 2015 and 2014.

Table 3
Unrestricted Reserves Balances

	<u>FY 2015</u>	<u>FY 2014</u>
Rate Stabilization Reserve	\$ 3,887,542	\$ 3,706,140
Emergency Reserve	3,887,542	3,706,140
Equipment Replacement	1,429,675	1,130,726
2009 A Bond Repayment	1,058,333	1,004,167
Undesignated	5,023,699	4,583,718
Total Unrestricted Reserves	<u>\$ 15,286,791</u>	<u>\$ 14,130,891</u>

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 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. The Rate Stabilization Reserve & Emergency Reserve is calculated as 10% of Operating expenses. Operating expenses include Shoreway Operations expenses, SBWMA program expenses, 2009A bond interest expense, and franchise fees. Operating expenses exclude depreciation, buyback, and household hazardous waste payments. In July 2015, the Board of Directors clarified the reserve policy for SBWMA, as a result, the reserve balances for FY 2014 have been revised to be comparable to the current year.

Capital Assets

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

Table 4
Capital Assets, Net of Depreciation
Years Ended June 30, 2015 and 2014

	<u>FY 2015</u>	<u>FY 2014</u>	<u>\$ Change</u>	<u>% Change</u>
Land	\$ 14,000,000	\$ 14,000,000	\$ -	-
Buildings and system	34,537,955	34,507,581	30,374	0.1%
Machinery and equipment	22,549,837	22,549,837	-	0.0%
Construction in progress	31,391	6,029	25,362	420.7%
Total Accumulated depreciation	(18,991,359)	(15,669,926)	(3,321,433)	21.2%
Total Net Capital Assets	<u>\$ 52,127,824</u>	<u>\$ 55,393,521</u>	<u>\$ (3,265,697)</u>	<u>-5.9%</u>

The net capital assets decreased by \$3.3 million or 5.9% from \$55.4 million in FY14 to \$52.1 million in FY15. This decrease is primarily due to the annual \$3.3 million increase in accumulated depreciation. The increase in Construction in Progress relates to the addition of the

Materials Recovery Facility tip canopy project. The additions to the Buildings & system relate to welding shop wiring upgrades, replacement of the truck shop fuel dispenser, and the addition of exhibits at the education center.

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 \$50.2 million total debt outstanding.

Table 5
Outstanding Debt, Net of Amortized Costs
June 30, 2015 and 2014

	<u>FY 2015</u>	<u>FY 2014</u>	<u>\$ Change</u>	<u>% Change</u>
2009A Revenue Bond	\$ 50,050,000	\$ 51,255,000	\$ (1,205,000)	-2.4%
Net Premium 2009A	157,247	164,747	(7,500)	-4.6%
Total	<u>\$ 50,207,247</u>	<u>\$ 51,419,747</u>	<u>\$ (1,212,500)</u>	<u>-2.4%</u>

Long-term debt consists of the Revenue Bond Series 2009A that was issued to finance the construction and renovation of a solid waste materials recovery facility and transfer station as well as related equipment.

Additional information on the Authority’s long-term debt can be found in 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 expenses 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, 2015**

ASSETS		
Current Assets:		
Cash and investments for operations		\$ 14,514,777
Accounts receivable		4,241,489
Interest receivable		16,582
Prepaid items		14,500
		<hr/>
Total Current Assets		18,787,348
Noncurrent Assets:		
Cash and cash equivalents with fiscal agent		6,296,018
Capital assets		
Land		14,000,000
Construction in progress		31,391
Building		34,537,955
Equipment		22,549,837
Less: Accumulated depreciation		(18,991,359)
Net capital assets		<hr/> 52,127,824
		<hr/>
Total Noncurrent Assets		58,423,842
		<hr/>
Total Assets		77,211,190
LIABILITIES		
Current Liabilities:		
Accounts payable		3,121,158
Accrued liabilities		209,044
Interest payable		951,788
Current portion of compensated absences		20,692
Long-term debt, due in one year		1,270,000
		<hr/>
Total Current Liabilities		5,572,682
Noncurrent Liabilities:		
Accrued liabilities		1,233,640
Compensated absences due in more than one year		5,592
Long-term debt, due in more than one year		48,937,247
		<hr/>
Total Noncurrent Liabilities		50,176,479
		<hr/>
Total Liabilities		55,749,161
NET POSITION		
Net Position:		
Net investment in capital assets		6,175,238
Unrestricted		15,286,791
		<hr/>
Total Net Position		\$ 21,462,029
		<hr/> <hr/>

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, 2015**

OPERATING REVENUES:

Charges for services	\$ 32,669,809
Commodity revenue	8,875,856
Other	<u>1,102,363</u>

Total Operating Revenues 42,648,028

OPERATING EXPENSES:

Shoreway operations	33,434,107
SBWMA program administration	2,425,553
Franchise fee - transfer station	1,555,322
Depreciation	<u>3,337,059</u>

Total Operating Expenses 40,752,041

Operating Income (Loss) 1,895,987

NONOPERATING REVENUES (EXPENSES):

Investment income	70,405
Interest expense	<u>(2,857,904)</u>

Net Nonoperating Revenue (Expense) (2,787,499)

Change in Net Position (891,512)

NET POSITION AT BEGINNING OF YEAR 22,353,541

NET POSITION AT END OF YEAR \$ 21,462,029

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015**

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 42,292,770
Payments to suppliers	(37,530,675)
Cash payments to employees for services	<u>(1,053,727)</u>
Net Cash Flows from Operating Activities	<u>3,708,368</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received	<u>63,819</u>
Net Cash Flows from Investing Activities	<u>63,819</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Capital asset acquisition and construction	(71,362)
Principal paid on long-term debt	(1,205,000)
Interest paid	<u>(2,885,487)</u>
Net Cash Flows from Capital and Related Financing Activities	<u>(4,161,849)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>(389,662)</u>
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>21,200,457</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 20,810,795</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income (loss)	<u>\$ 1,895,987</u>
Adjustments to reconcile operating income net cash provided (used) by operating activities:	
Depreciation and amortization	3,337,059
Change in assets and liabilities	
(Increase) decrease in accounts receivables	(355,258)
(Increase) decrease in prepaid expenses	1,223
Increase (decrease) in accounts payable	(1,205,658)
Increase (decrease) in accrued liabilities	28,237
Increase (decrease) in accrued compensated absences	<u>6,778</u>
Total Adjustments	<u>1,812,381</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 3,708,368</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, 2015

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 Shoreway Environmental Center in San Carlos; 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 towns of Atherton and Hillsborough, and the cities of Belmont, Burlingame, East Palo Alto, Foster City, 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 elected 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.

Based on the franchise agreements with each member agency and Recology effective January 1, 2011, the Authority collects service fees from Recology for the processing and disposal of collected materials. The facility operator, South Bay Recycling, also collects fees from public customers which are remitted to the Authority. South Bay Recycling is paid by the Authority to operate the facility and transport materials to disposal and processing facilities on a per ton basis pursuant to the Operations Agreement. The compensation to both contractors is adjusted annually based primarily on various CPI indices. The Authority also directly pays for disposal and processing of solid waste and organics materials to vendors such as BFI/Republic, Recology Grover, 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 and the sale of commodities.

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.

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

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

Note 1: Summary of Significant Accounting Policies (Continued)

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 used.

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 and sick leave. The liability for compensated absences is determined annually.

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

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

Note 1: Summary of Significant Accounting Policies (Continued)

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.

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.

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

Note 2: Cash and Investments (Continued)

<u>Statement of Net Position</u>	
Cash and investments for operations	\$ 14,514,777
Cash and investments with fiscal agent	<u>6,296,018</u>
Total Cash and Investments	<u>\$ 20,810,795</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)

(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

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

Note 2: Cash and Investments (Continued)

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
Obligations issued or guaranteed by FMHA, FHA, General Services Administration, GNMA, U.S. Maritime Administration, HUD, and backed by the full faith and credit of the United States of America	None
Direct obligations of FHLB, FHLMC, FNMA, REFCORP, Farm Credit Enterprise, Federal Agriculture Mortgage Association, Tennessee Valley Authority	None
Money Market Fund	AA
U.S. dollar denominated Certificates of Deposit, savings accounts, deposit accounts	None
Investment agreements, including GIC's forward purchase agreements and reserve fund put agreements	None
Commercial Paper	A-1
General obligations of States or municipalities	AAA
Bankers acceptances	A-1+
Medium Term Notes	AAA
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	\$ 5,718,430	\$ 5,718,430
California Local Agency Investment Fund	7,974,338	7,974,338
Cash and Cash Equivalents with Fiscal Agent:		
Money Market Fund	6,296,018	6,296,018
Total Investments	<u>\$ 19,988,786</u>	19,988,786
Total Cash in Bank and Cash on Hand		822,009
Total Cash and Investments		<u>\$ 20,810,795</u>

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

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, 2015, for each investment type as provided by S&P ratings:

Investment Type	AAAm	Not rated	Total
Cash and Cash Equivalents with Fiscal Agent:			
Money Market Fund	\$ 6,296,018	\$ -	\$ 6,296,018
San Mateo County Investment Pool	-	5,718,430	5,718,430
California Local Agency Investment Fund	-	7,974,338	7,974,338
Total Investments	\$ 6,296,018	\$ 13,692,768	19,988,786
Total Cash in Bank and Cash on Hand			822,009
Total Cash and Investments			\$ 20,810,795

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015**

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, 2015.

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 Shoreway Environmental Center in San Carlos. 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, 2015, the Authority paid \$17,445,438 to South Bay Recycling to operate the Facility.

Note 4: Capital Assets

Changes in capital assets were as follows for fiscal ended June 30, 2015:

	Balance July 1, 2014	Transfers	Additions	Retirements	Balance June 30, 2015
Capital assets not depreciated:					
Land	\$ 14,000,000	\$ -	\$ -	\$ -	\$ 14,000,000
Construction in Progress	6,029	-	25,362	-	31,391
Total non-depreciable assets	<u>14,006,029</u>	<u>-</u>	<u>25,362</u>	<u>-</u>	<u>14,031,391</u>
Capital assets being depreciated:					
Buildings	34,507,581	-	46,000	(15,626)	34,537,955
Equipment	<u>22,549,837</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,549,837</u>
Total depreciable assets	<u>57,057,418</u>	<u>-</u>	<u>46,000</u>	<u>(15,626)</u>	<u>57,087,792</u>
Less accumulated depreciation:					
Buildings	(7,865,516)	-	(1,444,079)	15,626	(9,293,969)
Equipment	<u>(7,804,410)</u>	<u>-</u>	<u>(1,892,980)</u>	<u>-</u>	<u>(9,697,390)</u>
Total accumulated depreciation	<u>(15,669,926)</u>	<u>-</u>	<u>(3,337,059)</u>	<u>15,626</u>	<u>(18,991,359)</u>
Net depreciable assets	<u>41,387,492</u>	<u>-</u>	<u>(3,291,059)</u>	<u>-</u>	<u>38,096,433</u>
Capital assets, net	<u>\$ 55,393,521</u>	<u>\$ -</u>	<u>\$ (3,265,697)</u>	<u>\$ -</u>	<u>\$ 52,127,824</u>

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015**

Note 5: Revenue Bonds

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

	<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2015</u>	<u>Due within one year</u>
2009A Solid Waste System Revenue Bonds	\$ 51,255,000	\$ -	\$ (1,205,000)	\$ 50,050,000	\$ 1,270,000
				<u>157,247</u>	
				<u>\$ 50,207,247</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. 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 \$51.3 million in remaining debt service on the bonds which is scheduled to occur in fiscal year 2037.

According to the Rate Covenant in the 2009A Bond Indenture, the Authority will maintain a Net Revenue to Debt Service coverage ratio of 1.40. As of the Calendar Year 2014, the Net Revenues to Debt Service Coverage ratio was 1.91.

c. Debt Service Requirements

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

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015**

Note 5: Revenue Bonds (Continued)

For the Year Ending June 30	Principal	Interest	Total
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	1,420,000	2,665,000	4,085,000
2020	1,495,000	2,592,125	4,087,125
2021-2025	8,710,000	12,545,113	21,255,113
2026-2030	11,470,000	10,128,938	21,598,938
2031-2035	15,450,000	6,903,000	22,353,000
2036-2037	7,560,000	2,070,900	9,630,900
Total	<u>\$ 50,050,000</u>	<u>\$ 45,252,433</u>	<u>\$ 95,302,433</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)	\$25,000 SIR
Environmental Impact Liability	per Incident

Note 7: Pollution Remediation

In 2000 the South Bay Waste Management Authority (SBWMA) purchased the property located at 225/333 Shoreway Road in San Carlos. The property had pre-existing ground water contamination issues and the former property owner Allied Waste (now Republic Services) was identified as the responsible party. The ground water contamination is the result of hydrocarbon and petroleum products. Both Allied Waste and the SBWMA have managed a remediation effort under supervision from the County of San Mateo Department of Environmental Health.

The San Mateo County Health System (SMCHS) and the California Regional Water Quality Control Board (RWQCB) have reviewed and approved the SBWMA's "Closure Report" submitted on January 29, 2013 to close the Shoreway Environmental Center ("Shoreway") groundwater remediation project and issued a NOTICE OF CASE CLOSURE on April 29, 2014. This case closure letter is the final step in the Shoreway remediation closure and "no further remediation action" is required at the Shoreway facility. While no further remediation effort was deemed necessary, due to concerns about potential residual contamination, the property has a deed restriction requiring it to remain industrially zoned.

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015**

Note 7: Pollution Remediation (Continued)

In March of 2010, the SBWMA received a lump sum settlement payment of \$1,500,000 from Republic Services (formerly Allied Waste and BFI). This money was deposited into a SBWMA account dedicated to the ongoing clean-up efforts at Shoreway (the remediation cost estimate was negotiated with Allied per methods approved by County regulators and based on input from environmental engineers). At the close of remediation efforts on April 29, 2014 the Shoreway Remediation Fund had an unspent balance of \$1,239,826. The unspent balance as of June 30, 2015 is \$1,233,640.

Note 8: Net Position

Designations

The Authority has designated \$10,263,092 of the unrestricted net position for several reserves which include: \$3,887,542 for rate stabilization, \$3,887,542 for emergency reserve, \$1,429,675 for equipment replacement, \$1,058,333 for the payment of 2009A bonds. These designations may be modified, amended or removed by Authority Board action.

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, 2015.