

**SOUTH BAYSIDE WASTE
MANAGEMENT AUTHORITY
BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2016**

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**SOUTH BAYSIDE WASTE
MANAGEMENT AUTHORITY**

**BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2016**

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the South Bayside Waste Management Authority (Authority) as of and for the year ended June 30, 2016, 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 the 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 Authority'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 Authority'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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2016, and the changes in financial position and, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principles

Management adopted the provisions of Governmental Accounting Standards Board Statement No. 72, Fair Value Measurement and Application, which became effective during the year ended June 30, 2016 as discussed in Note 1h to the financial statements. There was no material effect on the financial statements.

The emphasis of this matter does not constitute a modification to our opinions.

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 **DES** **Opinion Date**, 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.

Pleasant Hill, California

Opinion Date

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY
Management's Discussion and Analysis
June 30, 2016

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, 2016. 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, 2016 and 2015

	<u>FY 2016</u>	<u>FY 2015</u>	<u>\$ Change</u>	<u>% Change</u>
Current and other assets	\$ 26,613,281	\$ 25,083,366	\$ 1,529,915	6.1%
Capital assets, net of depreciation	49,811,020	52,127,824	(2,316,804)	-4.4%
Total assets	<u>76,424,301</u>	<u>77,211,190</u>	<u>(786,889)</u>	<u>-1.0%</u>
Long-term debt outstanding	48,929,747	50,207,247	(1,277,500)	-2.5%
Other liabilities	8,661,070	5,541,914	3,119,156	56.3%
Total liabilities	<u>57,590,817</u>	<u>55,749,161</u>	<u>1,841,656</u>	<u>3.3%</u>
Net position:				
Net investment in capital assets	5,011,381	6,175,238	(1,163,857)	-18.8%
Unrestricted	13,822,103	15,286,791	(1,464,688)	-9.6%
Total net position	<u>\$ 18,833,484</u>	<u>\$ 21,462,029</u>	<u>\$ (2,628,545)</u>	<u>-12.2%</u>

Net Position

The total net position decreased by \$2.6 million or 12.2% from the prior fiscal year. The net decrease of \$2.6 million is comprised of a \$1.2 million decrease in net investment in capital assets and a \$1.4 million decrease in unrestricted net position.

The total liabilities increased by \$1.8 million or 3.3%. The decrease of \$1.3 million or 2.5% in long-term debt is associated to the \$1.3 million principal payment made on the 2009A bonds. This change is explained further in the "*Long-term Debt*" section below. The increase of \$3.1 million or 56.3% 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 \$49.8 million. These assets are comprised of land, construction-in-progress, buildings, equipment and infrastructure, less accumulated depreciation, and 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 \$2.3 million or 4.4% due to an increase in accumulated depreciation. These changes are explained further in the "*Capital Assets*" section below.

The net investment in capital assets is \$5.0 million as of June 30, 2016. 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 \$13.8 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
For the Years Ended June 30, 2016 and 2015

	<u>FY 2016</u>	<u>FY 2015</u>	<u>\$ Change</u>	<u>% Change</u>
Revenues				
Charges for services	34,644,942	32,669,809	1,975,133	6.0%
Commodity revenue	8,036,209	8,875,856	(839,647)	-9.5%
Other operating revenues	1,125,874	1,102,363	23,511	2.1%
Investment Income	107,925	70,405	37,520	53.3%
Total Revenues	<u>43,914,950</u>	<u>42,718,433</u>	<u>1,196,517</u>	<u>2.8%</u>
Expenses				
Operating expenses	43,732,674	40,752,041	2,980,633	7.3%
Interest expense	2,810,821	2,857,904	(47,083)	-1.6%
Total Expenses	<u>46,543,495</u>	<u>43,609,945</u>	<u>2,933,550</u>	<u>6.7%</u>
Increase (decrease) in net position	(2,628,545)	(891,512)	(1,737,033)	-194.8%
Beginning net position	21,462,029	22,353,541	(891,512)	-4.0%
Ending net position	<u>18,833,484</u>	<u>21,462,029</u>	<u>(2,628,545)</u>	<u>-12.2%</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 \$3.4 million compared to \$5.2 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 \$2.0 million or 6.0%, from \$32.6 million in FY15 to \$34.6 million in FY16. \$1.2 million of the revenue growth was due to an increase in "self-haul" public solid waste, split by \$1.1 million due to an increase in volumes and \$0.1 million due to a tipping fee increase. The remaining revenue growth of \$0.8 million was due to an increase in franchise waste, split by \$0.5 million due to an increase in volumes and \$0.3 million due to an increase in franchise tip fees. 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 organic materials collected by Recology San Mateo County from customers of SBWMA's member agencies and delivered to the Shoreway facility. Commodity Revenues decreased by \$0.8 million in FY16 compared to FY15 due to an approximate 16% reduction in commodity prices during the end of calendar year 2015. Other operating revenues and investment income were largely static compared to FY15.

The primary component of operating expenses is related to the Shoreway operations that constitute about 82% of non-discretionary, contractually obligated costs incurred to pay the Shoreway operator, and disposal and processing expense. The Shoreway operations expense increased by \$2.9 million in FY16 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 2016 and 2015.

Table 3
Unrestricted Reserves Balances

	<u>FY 2016</u>	<u>FY 2015</u>
Rate Stabilization Reserve	\$ 4,174,238	\$ 3,887,542
Emergency Reserve	4,174,238	3,887,542
Equipment Replacement	1,736,098	1,429,675
2009 A Bond Repayment	1,091,667	1,058,333
Undesignated	2,645,862	5,023,699
Total Unrestricted Reserves	<u>\$ 13,822,103</u>	<u>\$ 15,286,791</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.

Capital Assets

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

Table 4
Capital Assets, Net of Depreciation
For the Years Ended June 30, 2016 and 2015

	<u>FY 2016</u>	<u>FY 2015</u>	<u>\$ Change</u>	<u>% Change</u>
Land	\$ 14,000,000	\$ 14,000,000	\$ -	-
Buildings and systems	35,359,894	34,537,955	821,939	2.4%
Machinery and equipment	22,574,212	22,549,837	24,375	0.1%
Construction in progress	126,347	31,391	94,956	302.5%
Total accumulated depreciation	<u>(22,249,433)</u>	<u>(18,991,359)</u>	<u>(3,258,074)</u>	<u>17.2%</u>
Total Net Capital Assets	<u>\$ 49,811,020</u>	<u>\$ 52,127,824</u>	<u>\$ (2,316,804)</u>	<u>-4.4%</u>

The net capital assets decreased by \$2.3 million or 4.4% from \$52.1 million in FY15 to \$49.8 million in FY16. This decrease is primarily due to the annual \$3.3 million increase in accumulated depreciation offset by the increase of \$0.8 million in Buildings and systems. The increase in Construction in Progress relates to the addition of the LED Lighting Retrofit project underway at the Shoreway facility. The additions to buildings and systems relates to repair of the floor surfaces at the facility, the Materials Recovery Facility tip canopy project and replacement of one of the delivery bay roller doors. The addition to machinery and equipment was the replacement of an engine in one of the landfill tipper.

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 \$48.9 million total debt outstanding.

Table 5
Outstanding Debt, Net of Amortized Costs
June 30, 2016 and 2015

	<u>FY 2016</u>	<u>FY 2015</u>	<u>\$ Change</u>	<u>% Change</u>
2009A Revenue Bond	\$ 48,780,000	\$ 50,050,000	\$ (1,270,000)	-2.5%
Net Premium 2009A	149,747	157,247	(7,500)	-4.8%
Total	<u>\$ 48,929,747</u>	<u>\$ 50,207,247</u>	<u>\$ (1,277,500)</u>	<u>-2.5%</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, 2016**

ASSETS	
Current Assets:	
Cash and investments for operations (Note 2)	\$16,136,138
Accounts receivable	4,133,293
Interest receivable	<u>23,018</u>
Total Current Assets	<u>20,292,449</u>
Noncurrent Assets:	
Cash and investments with fiscal agent (Note 2)	6,320,832
Capital assets (Note 4):	
Land	14,000,000
Construction in progress	126,347
Building	35,359,894
Equipment	22,574,212
Less Accumulated Depreciation	<u>(22,249,433)</u>
Net capital assets	<u>49,811,020</u>
Total Noncurrent Assets	<u>56,131,852</u>
Total Assets	<u>76,424,301</u>
LIABILITIES	
Current Liabilities:	
Accounts payable	6,283,299
Accrued liabilities	156,401
Interest payable	936,971
Current portion of compensated absences	28,796
Long-term debt due in one year (Note 5)	<u>1,310,000</u>
Total Current Liabilities	<u>8,715,467</u>
Noncurrent Liabilities:	
Compensated absences due in more than one year	21,963
Accrued liabilities (Note 8)	1,233,640
Long-term debt due in more than one year (Note 5)	<u>47,619,747</u>
Total Noncurrent Liabilities	<u>48,875,350</u>
Total Liabilities	<u>57,590,817</u>
NET POSITION	
Net investment in capital assets	5,011,381
Unrestricted	<u>13,822,103</u>
Total Net Position	<u><u>\$18,833,484</u></u>

See accompanying notes to the financial statements

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

**STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016**

OPERATING REVENUES:	
Charges for services	\$34,644,942
Commodity revenue	8,036,209
Other	<u>1,125,874</u>
Total Operating Revenues	<u>43,807,025</u>
OPERATING EXPENSES:	
Shoreway operations	36,344,428
SBWMA program administration	2,430,067
Franchise fee - transfer station	1,649,758
Depreciation (Note 4)	<u>3,308,421</u>
Total Operating Expenses	<u>43,732,674</u>
Operating Income	<u>74,351</u>
NONOPERATING REVENUES (EXPENSES):	
Investment income	107,925
Interest expense	<u>(2,810,821)</u>
Net Nonoperating Revenue (Expense)	<u>(2,702,896)</u>
Change in Net Position	(2,628,545)
NET POSITION AT BEGINNING OF YEAR	<u>21,462,029</u>
NET POSITION AT END OF YEAR	<u><u>\$18,833,484</u></u>

See accompanying notes to the financial statements

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016**

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from customers	\$43,915,221
Payments to suppliers	(36,235,460)
Payments to employees	<u>(1,040,320)</u>
Net Cash Flows (used for) Operating Activities	<u>6,639,441</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	<u>101,489</u>
Net Cash Flows from Investing Activities	<u>101,489</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital assets additions	(991,617)
Retirement of long-term debt	(1,270,000)
Interest paid	<u>(2,833,138)</u>
Net Cash Flows (Used for) Capital and Related Financing Activities	<u>(5,094,755)</u>
Net Cash Flows	1,646,175
Cash and investments for operations - beginning of year	<u>20,810,795</u>
Cash and investments - end of year	<u><u>\$22,456,970</u></u>
Reconciliation of operating income to net cash flows from operating activities:	
Operating income (loss)	\$74,351
Adjustments to reconcile operating income to cash flows from operating activities:	
Depreciation	3,308,421
Net change in:	
Accounts receivable	108,196
Prepays	14,500
Accounts payable	3,162,141
Accrued liabilities	(52,643)
Compensated absences	<u>24,475</u>
Net Cash Flows from Operating Activities	<u><u>\$6,639,441</u></u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	
Amortization related to long-term debt	\$7,500

See accompanying notes to the financial statements

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2016

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.

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

Note 1: Summary of Significant Accounting Policies (Continued)

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 Policy

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 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.

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2016

Note 1: Summary of Significant Accounting Policies (Continued)

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 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 reports 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 reports 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.

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2016

Note 1: Summary of Significant Accounting Policies (Continued)

h. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs are inputs – other than quoted prices included within level 1 – that are observable for an asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for an asset or liability.

If the fair value of an asset or liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

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
JUNE 30, 2016**

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	\$ 16,136,138
Cash and investments with fiscal agent	<u>6,320,832</u>
Total Cash and Investments	<u>\$ 22,456,970</u>

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

c. Investment Authorized by the California Government Code and the Authority's Investment Policy

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

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

Note 2: Cash and Investments (Continued)

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Minimum Credit Quality</u>	<u>Maximum in Portfolio</u>	<u>Maximum Investment In One Issuer</u>
State Local Agency Investment Fund	Upon Demand	N/A	50% to 70% of the investment portfolio, as approved by the SBWMA Board but no more than \$50 million permitted by LAIF	N/A
San Mateo County Investment Pool	Upon Demand	N/A	30% to 50% of the investment portfolio, as approved by the SBWMA Board	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	A-1	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	A-1	30%	(A), (B)

(A) 5% of outstanding paper of issuing corporation

(B) 5% of the portfolio in one corporation

d. Investments Authorized by Debt Agreements

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

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

Note 2: Cash and Investments (Continued)

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:

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

Note 2: Cash and Investments (Continued)

Investment Type	12 Months or less	Total
California Local Agency Investment Fund	\$ 10,009,318	\$ 10,009,318
San Mateo County Investment Pool	5,779,735	5,779,735
Cash and Cash Equivalents with Fiscal Agent:		
Money Market Fund	6,320,832	6,320,832
Total Investments	<u>\$ 22,109,885</u>	22,109,885
Total Cash in Bank and Cash on Hand		<u>347,085</u>
Total Cash and Investments		<u>\$ 22,456,970</u>

Local Agency Investment Fund

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

San Mateo County Investment Fund

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

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

Note 2: Cash and Investments (Continued)

f. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. 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, 2016, for each investment type as provided by S&P ratings:

Investment Type	AAAm	Total
Cash and Cash Equivalents with Fiscal Agent:		
Money Market Fund	\$ 6,320,832	\$ 6,320,832
Totals	<u>\$ 6,320,832</u>	6,320,832
Not rated:		
California Local Agency Investment Fund		10,009,318
San Mateo County Investment Pool		5,779,735
Total Investments		<u>22,109,885</u>
Total Cash in bank and cash on hand		347,085
Total Cash and Investments		<u>\$ 22,456,970</u>

g. Fair Value Hierarchy

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2016

Note 2: Cash and Investments (Continued)

The following is a summary of the fair value hierarchy of the fair value of investments of the Authority as of June 30, 2016:

Investment Type	Level 2	Total
Investments by Fair Value:		
California Local Agency Investment Fund	\$ 10,009,318	\$ 10,009,318
San Mateo County Investment Pool	5,779,735	5,779,735
Total Investments at Fair Value	\$ 15,789,053	15,789,053
Investments Measured at Amortized Cost:		
Money Market Fund		6,320,832
Total Investments		22,109,885
Cash in banks		347,085
Total Cash and Investments		\$ 22,456,970

The California Local Agency Investment Fund and the San Mateo County Investment Pool, classified in the Level 2 of the fair value hierarchy, are valued based on the fair value of the underlying assets of the pool. Fair value is defined as the quoted market value on the last trading day of the period. These prices are obtained from various pricing sources by our custodian bank.

h. 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, 2016.

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, 2016, the Authority paid \$18,275,660 to South Bay Recycling to operate the Facility.

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

Note 4: Capital Assets

Changes in capital assets were as follows for fiscal year ended June 30, 2016:

	Balance at June 30, 2015	Additions	Retirements	Transfers	Balance at June 30, 2016
Capital assets not being depreciated:					
Land	\$ 14,000,000	\$ -	\$ -	\$ -	\$ 14,000,000
Construction in Progress	31,391	126,347	(2,741)	(28,650)	126,347
Total non-depreciable assets	14,031,391	126,347	(2,741)	(28,650)	14,126,347
Capital assets being depreciated:					
Buildings	34,537,955	799,743	(6,454)	28,650	35,359,894
Equipment	22,549,837	68,268	(43,893)	-	22,574,212
Total capital assets being depreciated	57,087,792	868,011	(50,347)	28,650	57,934,106
Less accumulated depreciation for:					
Buildings	(9,293,969)	(1,413,867)	6,454	-	(10,701,382)
Equipment	(9,697,390)	(1,894,554)	43,893	-	(11,548,051)
Total accumulated depreciation	(18,991,359)	(3,308,421)	50,347	-	(22,249,433)
Net capital assets being depreciated	38,096,433	(2,440,410)	-	28,650	35,684,673
Capital assets, net	\$ 52,127,824	\$(2,314,063)	\$ (2,741)	\$ -	\$ 49,811,020

Note 5: Revenue Bonds

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

	Balance June 30, 2015	Retirements	Balance June 30, 2016	Due Within One Year
2009A Solid Waste				
System Revenue Bonds	\$ 50,050,000	\$ (1,270,000)	\$ 48,780,000	\$ 1,310,000
Bond premiums	157,247	(7,500)	149,747	-
	\$ 50,207,247	\$ (1,277,500)	\$ 48,929,747	\$ 1,310,000

a. Solid Waste Enterprise Revenue Bonds Series 2009A

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

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

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2016

Note 5: Revenue Bonds (Continued)

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

b. 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 2015, the Net Revenues to Debt Service Coverage ratio was 1.58.

c. 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
2017	\$ 1,310,000	\$ 2,784,712	\$ 4,094,712
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	1,570,000	2,554,750	4,124,750
2022 - 2026	9,165,000	12,087,838	21,252,838
2027 - 2031	12,185,000	9,412,063	21,597,063
2032 - 2036	16,380,000	6,903,000	23,283,000
2037	3,890,000	690,300	4,580,300
Total	<u>\$ 48,780,000</u>	<u>\$ 42,419,294</u>	<u>\$ 91,199,294</u>

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2016

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
General Liability deductible	2,500 SIR
Environmental Impact Liability aggregate	2,000,000
Environmental Liability deductible	25,000 SIR
Hired & Non-Owned Auto Limit	1,000,000
Employee Benefits Liability	1,000,000
Excess Liability	10,000,000

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.

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, 2016 is \$1,233,640 and is included in the accounts payable balance.

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

Note 8: Net Position

Designations

The Authority has designated \$11,176,241 of the unrestricted net position for several reserves which include: \$4,174,238 for rate stabilization, \$4,174,238 for emergency reserve, \$1,736,098 for equipment replacement, \$1,091,667 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, 2016.

Note 10: Subsequent Event

On the evening of Wednesday, September 7, 2016, the Authority's Shoreway Environmental Center Recycling Plant in San Carlos (333 Shoreway Road) sustained damage during a fire which was quickly brought under control by local fire response teams. There were no injuries to site personnel. While there was significant fire and water damage sustained to the recycling materials and processing equipment inside the plant, the building structure remained intact. Alternative plans were swiftly put into place to handle the flow of more than 300 tons of recyclable materials received at the site every day without impacting the residents and business owners that utilize the facility. Cleanup and repair activities began promptly to return the facility to normal. Preliminary estimates anticipate total claims in the amount of \$6-9 million for personal property loss and \$1-2 million in business income loss. These estimates fell well within the limits of the Authority's insurance policy coverage which has a \$5,000 deductible. It is anticipated that all other costs will be borne by the insurance provider, The Hanover Insurance Group, and that operations will return to normal by the end of Quarter 1 2017.

**INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with the 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, the basic financial statements of the South Bayside Waste Management Authority (Authority), as of and for the year ended June 30, 2016, and have issued our report thereon dated [BFS Opinion Date]. Our report included an emphasis of a matter paragraph disclosing the implementation of new accounting principles.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We have also issued a separate Memorandum on Internal Control dated [BFS Opinion Date] which is an integral part of our audit and should be read in conjunction with this report.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Pleasant Hill, California
[BFS Opinion Date]

**SOUTH BAYSIDE WASTE
MANAGEMENT AUTHORITY
MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS
FOR THE YEAR ENDED JUNE 30, 2016**

**SOUTH BAYSIDE WASTE
MANAGEMENT AUTHORITY
MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS**

For The Year Ended June 30, 2016

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MEMORANDUM ON INTERNAL CONTROL

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

In planning and performing our audit of the basic financial statements of the South Bayside Waste Management Authority (Authority) as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This communication is intended solely for the information and use of management, the Board of Directors, others within the organization, and agencies and pass-through entities requiring compliance with *Government Auditing Standards*, and is not intended to be and should not be used by anyone other than these specified parties.

Pleasant Hill, California
November 29, 2016

REQUIRED COMMUNICATIONS

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

We have audited the basic financial statements of the South Bayside Waste Management Authority (Authority) for the year ended June 30, 2016. Professional standards require that we communicate to you the following information related to our audit under generally accepted auditing standards and *Government Auditing Standards* and the Uniform Guidance.

Significant Audit Findings

Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year, except as follows:

GASB Statement No. 72 – *Fair Value Measurement and Application*

This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

This Statement establishes a hierarchy of inputs to valuation techniques used to measure fair value. That hierarchy has three levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 inputs are inputs—other than quoted prices—included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs, such as management’s assumption of the default rate among underlying mortgages of a mortgage-backed security.

This Statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. Governments should organize these disclosures by type of asset or liability reported at fair value. It also requires additional disclosures regarding investments in certain entities that calculate net asset value per share (or its equivalent).

The pronouncement became effective and affected the notes to the financial statements, but did not have a material effect on the financial statements. See Note 1h to the financial statements for current year disclosures.

GASB 76 - *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*

The objective of this Statement is to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.

The pronouncement became effective, but did not have a material effect on the financial statements.

GASB 79 - *Certain External Investment Pools and Pool Participants*

The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015.

This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

The pronouncement became effective, but did not have a material effect on the financial statements.

Unusual Transactions, Controversial or Emerging Areas

We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the Authority's financial statements were):

Estimated Fair Value of Investments: As of June 30, 2016, the Authority held approximately \$22.5 million of cash and investments as measured by fair value as disclosed in Note 2 to the financial statements. Fair value is essentially market pricing in effect as of June 30, 2016. These fair values are not required to be adjusted for changes in general market conditions occurring subsequent to June 30, 2016.

Estimate of Depreciation: Management's estimate of the depreciation is based on useful lives determined by management. These lives have been determined by management based on the expected useful life of assets as disclosed in Note 1d to the financial statements. We evaluated the key factors and assumptions used to develop the depreciation estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Estimate of Compensated Absences: Accrued compensated absences which are comprised of accrued vacation, holiday, and certain other compensating time is estimated using accumulated unpaid leave hours and hourly pay rates in effect at the end of the fiscal year as disclosed in Note 1e to the financial statements. We evaluated the key factors and assumptions used to develop the accrued compensated absences and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Disclosures

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. We did not propose any audit adjustments that, in our judgment, could have a significant effect, either individually or in the aggregate, on the Authority's financial reporting process.

Professional standards require us to accumulate all known and likely uncorrected misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We have no such misstatements to report to the Board of Directors.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in a management representation letter dated November 29, 2016.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Information Accompanying the Financial Statements

We were engaged to report on the supplementary information which accompany the financial statements, but are not required supplementary information. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of Board of Directors and management and is not intended to be, and should not be, used by anyone other than these specified parties.

Pleasant Hill, California
November 29, 2016