

SOUTH BAYSIDE WASTE
MANAGEMENT AUTHORITY

Financial Statements

Fiscal Year Ended June 30, 2004

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

Financial Statements

Fiscal Year Ended June 30, 2004

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To the Board of Directors
South Bayside Waste Management Authority

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements business-type activities of the South Bayside Waste Management Authority (the "Authority") as of and for the year ended June 30, 2004, which collectively comprise the Authority's basic financial statements, as listed in the accompanying table of contents. These financial statements are the responsibility of the management of the Authority. 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the South Bayside Waste Management Authority as of June 30, 2004, and changes in financial position and cash flows of the South Bay Waste Management Authority for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The information identified in the accompanying table of contents as management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United State of America. We have applied certain limited procedures, which consisted principally of inquiries with management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2004, on our consideration of the Authority's internal control over financial reporting and 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 the internal control over financial reporting or on compliance.

Conrad and Associates, L.L.P.

October 15, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the financial performance of the South Bayside Waste Management Authority (SBWMA) provides an overview of the SBWMA's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the financial statements identified in the accompanying table of contents.

Using the Accompanying Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the SBWMA as a whole and present a longer-term view of the SBWMA's finances. The SBWMA has only one fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

- This annual report consists of three parts – *management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that provides additional financial and budgetary information.

Reporting the SBWMA as a Whole

The accompanying **financial statements** include two statements that present financial data for the SBWMA as a whole. One of the most important questions asked about the SBWMA's finances is, "Is the SBWMA as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the SBWMA as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the SBWMA's net assets and changes in them. You can think of the SBWMA's net assets – the difference between assets and liabilities – as one way to measure the SBWMA's financial health, or *financial position*. Over time, *increases and decreases* in the SBWMA's net assets are one indicator of whether its *financial health* is improving or not.

FINANCIAL STATEMENTS

A summary of the *statement of net assets* follows:

Table 1
Net Assets

	JPA Activities	
	<u>2004</u>	<u>2003</u>
Current and other assets	\$13,364,908	\$13,212,957
Capital assets	<u>16,053,975</u>	<u>17,046,653</u>
Total assets	<u>29,418,883</u>	<u>30,259,610</u>
Long-term debt outstanding	16,730,000	17,465,000
Other liabilities	<u>1,198,027</u>	<u>1,262,022</u>
Total liabilities	<u>17,928,027</u>	<u>18,727,022</u>
Net assets:		
Invested in capital assets, net of debt	878,964	1,058,412
Unrestricted	<u>10,611,892</u>	<u>10,474,176</u>
Total net assets	<u>\$11,490,856</u>	<u>\$11,532,588</u>

A summary of the *statement of activities* follows:

Table 2
Changes in Net Assets

	JPA Activities	
	<u>2004</u>	<u>2003</u>
Operating Revenues:		
Charges for services	\$36,637,961	\$34,264,287
Other	59,619	102,800
Total Operating Revenues	<u>36,697,580</u>	<u>34,367,087</u>
Operating Expenses		
Administration and Operation	30,977,629	27,506,017
Franchise Fee – Transfer Station	1,318,472	1,280,710
Professional Services	1,668,787	1,164,466
Taxes	5,430	30,862
Depreciation	1,188,565	1,184,396
Total operating expenses	<u>35,158,883</u>	<u>31,166,541</u>
Operating Income	<u>1,538,697</u>	<u>3,200,636</u>
Non-Operating Revenues (Expenses):		
Investment Income	116,339	570,988
Operations Contract Surcharge	(1,161,000)	-
Interest Expense	(490,315)	(1,000,730)
Bond Issuance Costs	(30,207)	(33,112)
Miscellaneous	(15,246)	(235,550)
Total non-operating expenses	<u>(1,580,429)</u>	<u>(698,404)</u>
Increase (decrease) in net assets	(41,732)	2,502,232
Beginning net assets	11,532,588	9,030,356
Ending net assets	<u>\$11,490,856</u>	<u>\$11,532,588</u>

The increase or decrease in net assets can provide an indication as to whether the overall financial position of the SBWMA improved or declined during the year. Net assets of the SBWMA's activities remained the same at \$11.5 million as seen in Table 2. *Unrestricted* net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – changed from \$10.5 million at June 30, 2003 to \$10.6 million at the end of this year as seen in Table 1. The net assets (financial position) of the SBWMA changed as a result of the revenue and expense fluctuations described below.

Operating Activities

Revenue increased for the SBWMA's activities by \$2.3 million or 6.8%, while total expenses increased by \$4.0 million or 12.8%. Operating Income decreased by \$1.7 million or 52%. The majority of the revenue increase was due to higher than anticipated revenue from the sale of recycling commodities. The majority of the expense increase can be attributed to a per ton increase in payments to BFI for operation of the Transfer Station as a result of higher than expected health and pension costs.

The non-operating expense of \$1.161 million was the operations contract surcharge payment to BFI for approved operating costs in 2002 that surpassed the dollar per ton reimbursement calculation. The per ton reimbursement rate is based on budgeted expenses. This payment represents the approved true-up of actual expenses to budget.

FUND ACCOUNTING

The SBWMA has only one fund. At the end of the current fiscal year, unreserved fund balance was \$10,611,892 while total fund balance reached \$11,490,856. As a measure of the fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 30.2 percent of total fund expenditures, while total fund balance represents 32.7 percent of that same amount.

GENERAL FUND BUDGET

Major deviations between the final budget and its actual operating results were as follows:

	Budget	Actual
Operating revenues	\$34,390,000	36,697,580
Operating expenses	32,711,510	35,158,883
Operating net income	1,678,490	1,538,697

- BFI operating expenditures were \$2.4 million over budget or 7%. There is a direct correlation between operating contract expenditure increases and revenue increases. The BFI operating revenues were \$2.3 million over budget or 7%. Net operating income was down \$0.1 million from budget.

CAPITAL ASSETS

Capital Assets
(net of depreciation)

	<u>Activities</u>	
	<u>2004</u>	<u>2003</u>
Land	\$14,000,000	\$14,000,000
Buildings and system	3,016,825	3,016,825
Machinery and equipment	4,177,824	3,981,937
Total Accumulated Depreciation	<u>(5,140,674)</u>	<u>(3,952,109)</u>
Total	<u>\$16,053,975</u>	<u>\$17,046,653</u>

The major additions to capital assets during the year ended June 30, 2004 were 2 sets of scales totaling \$195,887.

Additional information on the capital assets can be found in Note (3) of the financial statements.

LONG-TERM DEBT

At the end of the current fiscal year, the SBWMA had bonded debt outstanding of \$17,465,000.

	<u>Outstanding Debt</u> <u>Activities</u>	
	<u>2004</u>	<u>2003</u>
Revenue Bonds	\$17,465,000	\$18,165,000

Additional information on the SBWMA's long-term debt can be found in the notes (4) to the accompanying financial statements.

Contacting the SBWMA's Financial Management

This financial report is designed to provide our member agencies, investors and creditors with a general overview of the SBWMA's finances and to show the SBWMA's accountability for the revenues and expenditures in the course of doing business. If you have questions about this report or need additional financial information, contact the Administrative Officer, SBWMA, 610 Elm Street, San Carlos, California 94070.

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FINANCIAL STATEMENTS

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY
Statements of Net Assets
June 30, 2004

<u>Assets</u>	
Current assets:	
Cash and investments (note 2)	\$ 10,389,622
Accounts receivable	45,747
Interest Receivable	<u>98,569</u>
Total current assets	<u>10,533,938</u>
Noncurrent assets:	
Cash with fiscal agent (note 2)	<u>2,289,989</u>
Unamortized bond issuance costs	<u>540,981</u>
Capital assets (note 3):	
Land	14,000,000
Building	3,016,825
Equipment	4,177,824
Less: accumulated depreciation	<u>(5,140,674)</u>
Net capital assets	<u>16,053,975</u>
Total noncurrent assets	<u>18,884,945</u>
Total assets	<u>29,418,883</u>
 <u>Liabilities and Net Assets</u> 	
Current liabilities:	
Accounts payable	158,657
Interest payable	304,370
Current portion of bonds payable (note 4)	<u>① 735,000</u>
Total current liabilities	1,198,027
Noncurrent liabilities:	
Bonds payable-long term portion (note 4)	<u>① 16,730,000</u>
Total liabilities	<u>17,928,027</u>
Net assets:	
Invested in capital assets, net of related debt	878,964
Unrestricted	<u>10,611,892</u>
Total net assets	<u>\$ 11,490,856</u>

① 17,465,000

See accompanying notes to financial statements.

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

Statement of Revenues, Expenses and Changes in Net Assets

Fiscal Year Ended June 30, 2004

Operating revenues:	
Charges for services	\$ 36,637,961
Other	<u>59,619</u>
 Total operating revenues	 <u>36,697,580</u>
 Operating expenses:	
Operation and Administration	30,977,629
Franchise fee - Transfer Station	1,318,472
Professional services	1,668,787
Taxes	5,430
Depreciation	<u>1,188,565</u>
 Total operating expenses	 <u>35,158,883</u>
 Operating income	 <u>1,538,697</u>
 Non-operating revenues (expenses):	
Investment income	116,339
Operations contract surcharge	(1,161,000)
Interest expense	(490,315)
Bond issuance costs	(30,207)
Miscellaneous	<u>(15,246)</u>
 Total non-operating revenues (expenses)	 <u>(1,580,429)</u>
 Increase (decrease) in net assets	 (41,732)
 Net assets at beginning of year	 <u>11,532,588</u>
 Net assets at end of year	 <u>\$ 11,490,856</u>

See accompanying notes to basic financial statements.

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

Statement of Cash Flows

June 30, 2004

Cash flows from operating activities:	
Cash received from systems users	\$ 36,769,784
Other income received	59,619
Cash payments to suppliers for goods and services	(35,230,040)
Cash payments for miscellaneous expense	<u>(15,246)</u>
Net cash provided by (used for) operating activities	<u>1,584,117</u>
Cash flows from capital and related financing activities:	
Interest paid on bonds	(490,588)
Principal paid on bonds	<u>(700,000)</u>
Net cash provided by (used for) capital and related financing activities	<u>(1,190,588)</u>
Cash flows from investing activities:	
Purchase of equipment	(195,887)
Interest received on investments	<u>117,820</u>
Net cash provided by (used for) investing activities	<u>(78,067)</u>
Net increase (decrease) in cash and cash equivalents	315,462
Cash and cash equivalents at beginning of year	<u>10,679,784</u>
Cash and cash equivalents at end of year	<u>\$ 10,995,246</u>
Reconciliation of operating income to net cash cash provided by (used for) operating activities:	
Operating income	\$ 1,538,697
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	1,188,565
Operations contract surcharge	(1,161,000)
Miscellaneous expense	(15,246)
(Increase) decrease in accounts receivable	131,823
Increase (decrease) in accounts payable	<u>(98,722)</u>
Total cash provided by (used for) operating activities	<u>\$ 1,584,117</u>

Noncash Investing, Capital and Related Financing Activities

There were no investing, capital and related financing activities for the year ended June 30, 2004.

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

Statement of Cash Flows

June 30, 2004

Cash flows from operating activities:	
Cash received from systems users	\$ 36,769,784
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Noncash Investing, Capital and Related Financing Activities

There were no investing, capital and related financing activities for the year ended June 30, 2004.

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

Notes to Basic Financial Statements

Fiscal Year ended June 30, 2004

(1) Summary of Significant Accounting Policies

The South Bayside Waste Management Authority (the "Authority") was organized October 13, 1999 under the provisions of the Joint Exercise of Powers Act of the Government Code of the State of California. The purpose of the Authority is to provide joint ownership, financing, and administration of the San Carlos Transfer Station and San Mateo Recyclery (the "Facilities"); and the planning, administration management, review, monitoring, enforcement and reporting of solid waste, recyclable material and plant material collection activities within the Authority's service area.

Members of the Authority currently include the cities of Atherton, Belmont, Burlingame, East Palo Alto, Foster City, Hillsborough, Menlo Park, Redwood City, San Carlos, San Mateo, as well as the West Bay Sanitary Authority and the County of San Mateo.

A twelve-member board consisting of one representative from each member controls the Authority. None of the members entities exercise specific control over budgeting and financing of the Authority's activities beyond their representation on the board. Accounting services are provided by the City of San Carlos.

Through the operation of franchise agreements with each member, BFI Waste Systems of North America, Inc. collects fees charged for the use of the Facilities and remits them to the Authority. Pursuant to an Operations Agreement with the Authority, BFI will operate the Facilities and be paid compensation based on costs with a provision for profit and incentives for cost savings and performance.

The following is a summary of the significant accounting policies of the Authority:

a. Basis for Accounting

The Authority is a proprietary entity and uses an enterprise fund format to report its activities for financial statement purposes. Enterprise funds are used for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs and expenses, including depreciation, of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

An enterprise fund is used to account for activities similar to those in the private sector, where the proper matching of revenues and costs is important and the full accrual basis of accounting is required. With this measurement focus, all assets and 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.

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

Notes to Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

The Authority applies all applicable GASB pronouncements in accounting and reporting for proprietary operations as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financing Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedure.

b. Cash and Investments

Investments are reported in the accompanying balance sheet at fair value, except for certain certificates of deposit and investment contracts that are reported at costs because they are net transferable and they have terms that are not affected by changes in market interest rates. Changes in fair value that occur during a fiscal year are recognized as *investment income* reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation, maturity, or sale of investments.

c. Cash Equivalents

For purposes of the statement of cash flows, cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash or so near their maturity that they present insignificant risk of changes in value because of changes in interest rates, and have a maturity date of three months or less at the time of purchase.

d. Capital Assets

Capital assets owned by the Authority are capitalized at historical cost. Depreciation is charged to operations using a straight-line method, based on the average useful life of the asset. The estimated useful lives for equipment is four years and forty years for buildings.

e. Classification of Revenues

Operating revenues consist of interest received from members for use of the Facility. *Nonoperating revenues* consist of investment income.

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

Notes to Basic Financial Statements

(Continued)

(2) Cash and Investments

Cash and investments held by the Authority at June 30, 2004 consisted of the following:

Demand deposits	\$ 1,241,887
U.S. Treasury Notes	1,000,000
County of San Mateo Pool	7,463,038
Local Agency Investment Fund – State of California	<u>684,697</u>
 Total cash and investments held by the Authority	 <u>\$10,389,622</u>

Cash and investments held by fiscal agents at June 30, 2004 consisted of the following:

U.S. Treasury Notes	\$ 605,624
Investment Contract	<u>1,684,365</u>
	<u>\$2,289,989</u>

The Authority is generally authorized under provisions of the Authority's investment policy and Section 53601 of the Government Code to invest in investment instruments so long as the investment is appropriate when investment objectives and policies are taken into consideration, according to the investment policy, Agency investment instruments may include:

- Securities of the U.S. Government or its agencies
- U.S. Treasury notes, bonds
- Negotiable certificates of deposit – (30% max)
- Banker's acceptances – (30% max)
- Commercial paper – (15% max)
- Local Agency Investment Fund (state pool) deposits – a special fund of the California State Treasury through which local governments may pool investments.
- County of San Mateo Investment Pool – a special fund of the County of San Mateo County Treasury through which local governments may pool investments.
- Money Market Accounts – (20% max)

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

Notes to Basic Financial Statements

(Continued)

(2) Cash and Investments, (Continued)

- Medium Term Corporate Notes – (30% max)
- Certificates of Deposits – (25% max)

Under the California Government Code, a financial institution is required to secure deposits made by state or local government units by pledging securities held in the form of an undivided collateral pool. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Authority deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

Deposits of cities and other state or local governments are classified in three categories to give an indication of the level of custodial risk assumed by the entity. Category 1 includes deposits that are insured or collateralized with securities held by the Authority or its agent in the Authority's name. Category 2 includes deposits collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name. Category 2 also includes deposits collateralized by an interest in an undivided collateral pool held by an authorized Agent of Depository and subject to certain regulatory requirements under State Law. Category 3 includes deposits collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Authority's name. Category 3 also includes any uncollateralized deposits.

<u>Deposits held by Authority</u>	<u>Category</u>			<u>Bank</u>	<u>Carrying</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Balance</u>	<u>Amount</u>
Deposits held by Authority:					
Demand Deposits	<u>\$100,000</u>	<u>942,336</u>	<u>-</u>	<u>1,042,336</u>	<u>1,241,887</u>
Total deposits	<u>\$100,000</u>	<u>942,336</u>	<u>-</u>	<u>1,042,336</u>	<u>1,241,887</u>

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

Notes to Basic Financial Statements

(Continued)

(2) Cash and Investments, (Continued)

Investments of cities and other state or local governments are classified in three categories to give an indication of the level of custodial risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the Authority or the Authority's custodial agent (which must be a different institution other than the party through which the Authority purchased the securities) in the Authority's name. Investments held "in the Authority's name" include securities held in a separate custodial or fiduciary account and identified as owned by the Authority in the custodian's internal accounting records. Category 2 includes uninsured and unregistered investments for which the securities are held in the Authority's name by the dealer's agent (or by the trust department of the dealer if the dealer was a financial institution and another department of the institution purchased the securities for the Authority). Category 3 includes uninsured and unregistered investments for which the securities are held by the dealer's agent but not in the Authority's name. Category 3 also includes all securities held by the broker-dealer agent of the Authority (the party that purchased the securities for the Authority) regardless of whether or not the securities are being held in the Authority's name.

<u>Form of Investment</u>	Category			<u>Carrying Amount</u>
	1	2	3	
Investments held by the authority subject to categorization:				
U.S. Treasury Notes	\$ -	1,000,000	-	1,000,000
Investments held by fiscal agent subject to categorization:				
U.S. Treasury Notes	-	605,624	-	605,624
	\$ -	1,605,624	-	1,605,624
Noncategorized investments:				
Investment Contract				1,684,365
County of San Mateo Investment Pool				7,463,038
Local Agency Investment Fund – State of California				684,697
Total investments				\$11,437,724

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

Notes to Basic Financial Statements

(Continued)

(2) Cash and Investments, (Continued)

The Authority is a voluntary 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 fair value of the Authority's investment in this pool is reported in the accompanying financial statements at amounts based upon the Authority's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). 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, and corporations.

The Authority is a voluntary participant in the County of San Mateo Investment Pool that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the County of San Mateo. The fair value of the Authority's investment in this pool is reported in the accompanying financial statements at amounts based upon the Authority's pro-rata share of the fair value provided by the County for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County, which are recorded on an amortized cost basis. Included in the County's investment portfolio are certificates of deposits, commercial paper, asset-backed securities, floating rate securities, corporate bonds, mortgage-backed securities, and United States treasury notes.

Cash and Investments with Fiscal Agent

The Authority has monies held by trustees or fiscal agents pledged to the payment or security of certain bonds. The California Government Code provides that these monies, in the absence of specific statutory provisions governing the issuance of bonds may be invested in accordance with the ordinances, resolutions or indentures specifying the types of investments its trustees or fiscal agent may make. These ordinances, resolutions and indentures are generally more restrictive than the Authority's general investment policy.

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

Notes to Basic Financial Statements

(Continued)

(3) Capital Assets

Capital asset activity for the year ended June 30, 2004 is as follow:

	<u>Balance at June 30, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2004</u>
Buildings	\$ 3,016,825	-	-	3,016,825
Equipment	<u>3,981,937</u>	<u>195,887</u>	<u>-</u>	<u>4,177,824</u>
Total cost of depreciable assets	<u>6,998,762</u>	<u>195,887</u>	<u>-</u>	<u>7,194,649</u>
Less: accumulated depreciation:				
Building	(2,121,008)	(629,619)	-	(2,750,627)
Equipment	<u>(1,831,101)</u>	<u>(558,946)</u>	<u>-</u>	<u>(2,390,047)</u>
Total accumulated depreciation	<u>(3,952,109)</u>	<u>(1,188,565)</u>	<u>-</u>	<u>(5,140,674)</u>
Capital assets not depreciated:				
Land	<u>14,000,000</u>	<u>-</u>	<u>-</u>	<u>14,000,000</u>
Capital assets, net	<u>\$17,046,653</u>	<u>(992,678)</u>	<u>-</u>	<u>16,053,975</u>

Depreciation expense was \$1,188,565 for the year ended June 30, 2004.

(4) Bonds Payable

A summary of bonds payable for the year ended June 30, 2004 is as follows:

	<u>Balance at June 30, 2003</u>	<u>Additions</u>	<u>Principal Repayment</u>	<u>Balance at June 30, 2004</u>	<u>Amount Due Within One Year</u>
2000 Solid Waste System Revenue Bonds	<u>\$18,165,000</u>	<u>-</u>	<u>(700,000)</u>	<u>17,465,000</u>	<u>735,000</u>

Revenue Bonds Series 2000

On March 1, 2000, the Authority issued \$20,090,000 in Solid Waste System Revenue Bonds, Series 2000. The proceeds were used to finance the acquisition of land, buildings, and equipment at the San Carlos Transfer Station and San Mateo Recyclery (the "Facilities").

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

Notes to Basic Financial Statements

(Continued)

(4) Bonds Payable, (Continued)

The bonds mature in amounts ranging from \$615,000 to \$1,590,000 beginning March 1, 2001. The bonds bear interest at 4.5% - 5.75% which is payable semiannually on March 1 and September 1, commencing September 1, 2000. The bonds are payable only out of net revenues derived from the operations of the Facilities.

The required reserve for the Revenue Bonds Series 2000 is \$1,684,365. As of June 30, 2004, the reserve was \$1,684,365. The amount of bonds outstanding at June 30, 2004 total \$17,465,000.

Debt Service Requirement to Maturity

The annual requirements to amortize the Revenue Bonds Series 2000 as of June 30, 2004 are as follows:

<u>Year ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
2005	\$ 735,000	937,860	1,672,860
2006	765,000	903,335	1,668,335
2007	805,000	866,485	1,671,485
2008	840,000	827,005	1,667,005
2009	880,000	784,898	1,664,898
2010	925,000	740,149	1,665,149
2011	970,000	692,825	1,662,825
2012	1,020,000	641,995	1,661,995
2013	1,075,000	587,035	1,662,035
2014	1,135,000	527,705	1,662,705
2015	1,195,000	463,782	1,658,782
2016	1,265,000	393,342	1,658,342
2017	1,340,000	314,329	1,654,329
2018	1,420,000	232,396	1,652,396
2019	1,505,000	149,116	1,654,116
2020	<u>1,590,000</u>	<u>60,950</u>	<u>1,650,950</u>
Totals	<u>\$17,465,000</u>	<u>9,123,207</u>	<u>26,588,207</u>

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

Notes to Basic Financial Statements

(Continued)

(5) Insurance Coverage

The authority purchases commercial insurance policies to protect itself from claims arising from the following types of losses:

<u>Types of Coverage (Deductible)</u>	<u>Coverage Limits</u>
All Risk Fire & Property (\$5,000)	\$8,361,107
Commercial General Liability (\$10,000)	2,000,000
Pollution Liability (\$10,000)	5,000,000
Excess Liability (N/A)	4,000,000
Boiler & Machinery (\$2,500)	5,000,000
Employee Dishonesty (\$20,000)	12,000,000

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

**REPORT ON COMPLIANCE AND OTHER MATTERS AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING REQUIRED
BY GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of the South Bayside Waste Management Authority as of and for the year ended June 30, 2004 and have issued our report thereon dated October 15, 2004. 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 of America.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the South Bayside Waste Management Authority are free of material misstatements, 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 statements amounts. Such provisions included those provisions of laws and regulations identified in the State Controller's Minimum Audit Requirements for California Special Districts. 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*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered South Bayside Waste Management Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of management and the State Controller and is not intended to be and should not be used by anyone other than these specified parties.

Conrad and Associates, L.L.P.

October 15, 2004