

SOUTH BAYSIDE SYSTEM AUTHORITY

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
JUNE 30, 2010

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South Bayside System Authority

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June 30, 2010

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INDEPENDENT AUDITOR'S REPORT

To the Commission of the
South Bayside System Authority
Redwood City, California

We have audited the accompanying financial statements of the business-type activities of the South Bayside System Authority ("the Authority") as of and for the fiscal year ended June 30, 2010, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year comparative information has been derived from the financial statements of the Authority as of June 30, 2009, which were audited by other auditors whose report dated November 6, 2009, expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Authority as of June 30, 2010, and the changes in financial position and cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, the District adopted the provisions of GASB Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits other than Pensions*, effective July 1, 2009.

In accordance with *Government Auditing Standards*, we have issued our report dated October 15, 2010 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 4 through 9 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



Chavan & Associates, LLP *Certified Public Accountants*

Sheldon Chavan, CPA • Bret Harrell, CPA

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's financial statements as a whole. The supplementary information listed in the table of contents basis is presented for purposes of additional analysis and is not a required part of the financial statements. These schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The Analysis of Net Assets Schedule was not audited by us, and has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion thereon.

C & A LLP

October 15, 2010
Campbell, California

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South Bayside System Authority
Management's Discussion and Analysis
June 30, 2010

The South Bayside System Authority (SBSA) has issued its financial statements for the fiscal year ended June 30, 2010 in conformity with the format prescribed by the provisions of Government Accounting Standards Board Statement 34 (GASB 34). This report, Management's Discussion and Analysis, is an overview of the SBSA's financial activities for the fiscal year and is an integral part of the accompanying Basic Financial Statements.

FINANCIAL HIGHLIGHTS

- SBSA's net assets increased by \$7,571,835 or 12.1%.
- SBSA's operating expenses increased \$401,889 or 2.1%.
- Charges to member agencies for services increased \$8,439,720 or 49.5%.
- SBSA's cash increased \$10,244,806 or 95.2%.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis are intended to serve as an introduction to the SBSA's basic financial statements. The SBSA's basic financial statements are comprised of two components: Financial Statements and Notes to the Financial Statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

ACCOUNTING METHOD

The SBSA's revenues and expenses are recognized on a full accrual basis; revenues are recognized in the period earned and expenses are recognized in the period incurred.

BASIC FINANCIAL STATEMENTS

The Financial Statements of the SBSA report information about the SBSA's accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities. The Statement of Net Assets includes all the SBSA's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). It also provides the basis for evaluating the capital structure of the SBSA.

All of the current year's revenues and expenses are accounted for in the Statement of Activities and Changes in Net Assets. These statements reflect the result of the SBSA's operations over the past year.

The final required Financial Statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the SBSA's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations and investments. It also provides answers to questions such as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

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Management's Discussion and Analysis
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FINANCIAL ANALYSIS OF THE SBSA

Our analysis of the SBSA begins on page 10 of the Financial Statements. One of the most important questions asked about the SBSA's finances is "Is the SBSA better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities and Changes in Net Assets report information about the SBSA's activities in a way that will help answer this question. These two statements report the net assets of the SBSA and changes in them. You can think of the SBSA's net assets – the difference between assets and liabilities – as one way to measure the financial health or financial position. Over time, increases or decreases in the SBSA's net assets are one indicator of whether its financial health is improving or deteriorating. However, you will need to consider other non-financial factors such as changes in economic conditions, population growth, and new or changed government legislation.

NET ASSETS

To begin our analysis, a summary of SBSA's Statement of Net Assets is presented in Table 1.

TABLE 1
Condensed Statement of Net Assets

	Fiscal Year 2010	Fiscal Year 2009	Dollar Change	Percent Change
Current and other assets	\$ 26,380,059	\$ 13,904,781	\$ 12,475,278	89.7%
Restricted Assets	49,303,004	7,534,814	41,768,190	554.3%
Total Current and Other	75,683,063	21,439,595	54,243,468	253.0%
Capital assets	66,809,727	54,039,646	12,770,081	23.6%
Total Assets	142,492,790	75,479,241	67,013,549	88.8%
Total Liabilities	72,564,790	13,123,076	59,441,714	453.0%
Invested in capital assets - net of related debt	45,109,325	44,026,831	1,082,494	2.5%
Restricted	6,044,145	7,534,814	(1,490,669)	-19.8%
Unrestricted	18,774,530	10,794,520	7,980,010	73.9%
Total Net Assets	\$ 69,928,000	\$ 62,356,165	\$ 7,571,835	12.1%

As seen above, net assets increased by \$7,571,835 from fiscal year 2008-09 to 2009-10. This increase resulted from a combination of factors, primarily operating expenses for the year being less than budgeted, receipt of cash from one member agency in lieu of participation in the July 2009 bond issuance, and construction spending ramping up more gradually than anticipated. The largest dollar and percentage changes on the Statement of Net Assets were the increase of \$41,768,190 in restricted assets which mostly represents the proceeds from a bond sale (net of construction spending) on deposit with a trustee bank, and the increase of \$59,441,714 in liabilities which is primarily due to the

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aforementioned bond payable. There was also an increase of \$12,475,278 in current and other assets, the bulk of which was the \$10,244,806 increase in cash and investments. There are several reasons for this increase, including a \$5,460,929 member contribution in lieu of bond participation, member contributions of \$1,650,138 to the capital improvement reserve and \$1,350,112 to the equipment replacement reserve, and a \$1,115,416 claim settlement received from the County of San Mateo.

Table 2 below shows the construction fund activity during the year.

TABLE 2
Construction Fund Activity

	New Capital (14 Fund)	Replacement (17 Fund)	Stage 2 (15 Fund)	Capital Improvement Program (20-22 Fund)	Totals
Member contributions	\$ 1,650,138	\$ 1,350,112	\$ 421,131	\$ -	\$ 3,421,381
Operating income	6,809	-	-	8,643,810	8,650,619
Interest	21,970	22,723	19,964	522,144	586,801
Total Revenue	1,678,917	1,372,835	441,095	9,165,954	12,658,801
Cash to construction	<u>\$ 966,180</u>	<u>\$ 211,084</u>	<u>\$ 69,249</u>	<u>\$ 14,074,068</u>	<u>\$ 15,320,581</u>

TABLE 3
Condensed Statements of Activities and Changes in Net Assets

	Fiscal Year 2010	Fiscal Year 2009	Dollar Change	Percent Change
Operating revenues	\$ 25,923,456	\$ 17,612,087	\$ 8,311,369	47.2%
Non-operating revenues	2,077,796	782,583	1,295,213	165.5%
Capital Contributions	3,421,381	3,407,929	13,452	0.4%
Total Revenues	31,422,633	21,802,599	9,620,034	44.1%
Depreciation expense	2,528,270	2,407,646	120,624	5.0%
Other operating expense	16,968,274	16,687,009	281,265	1.7%
Non-operating expense	4,177,306	126,909	4,050,397	3191.6%
Total Expenses	23,673,850	19,221,564	4,452,286	23.2%
Beginning net assets	62,356,165	59,775,130	2,581,035	4.3%
Prior Period Adjustment	(176,948)	-	(176,948)	0.0%
Ending net assets	69,928,000	62,356,165	7,571,835	12.1%
Changes in Net Assets	\$ 7,748,783	\$ 2,581,035	\$ 5,167,748	200.2%

While the Statement of Net Assets shows the change in financial position, the Statement of Activities and Changes in Net Assets (Table 3 above) provides answers as to the nature and source of the changes. Total revenues increased by \$9,620,034 (44.1%) in fiscal year 2009-10 due to an increase in operating revenues of \$8,311,369 (most of which is member contributions for the capital improvement

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program) and non-operating revenues of \$1,295,213 (primarily due to a claim settlement). At the same time total expenses increased by \$4,452,286 (23.2%) primarily due to an increase in non-operating expense of \$4,050,397 (mostly due to bond interest payments). Because of this, the change in net assets was a \$7,748,743 increase compared to the prior year increase of \$2,581,035.

BUDGETARY HIGHLIGHTS

The SBSA adopts an annual budget which provides for the general operations. Budgets are prepared on the accrual basis of accounting. Project-length financial plans are adopted for capital projects. The new Capital Improvement Program provides a ten year forecast of capital requirements. Table 4 shows a comparison of actual to budget for general operations for the year ended June 30, 2010.

TABLE 4
FY 2009-2010 Actual vs Budget

	<u>Actual</u>	<u>Budget</u>	<u>Dollar Variance</u>	<u>Percent Variance</u>
Member Contributions	\$ 16,734,412	\$ 16,734,412	\$ -	0.0%
Source Control Revenue	9,679	-	9,679	-
Other Revenue	416,114	275,000	141,114	51.3%
Total Operating Revenue	<u>17,160,205</u>	<u>17,009,412</u>	<u>150,793</u>	<u>0.9%</u>
Support Services	1,943,520	2,074,573	131,053	6.3%
Technical Services	2,780,770	3,236,632	455,862	14.1%
Operations	6,844,365	6,966,313	121,948	1.8%
Maintenance	3,877,378	4,276,576	399,198	9.3%
Engineering	166,745	189,422	22,677	12.0%
Safety	295,033	315,896	20,863	6.6%
Depreciation	2,528,270	2,528,270	-	0.0%
Operations Fund Expenses	<u>18,436,081</u>	<u>19,587,682</u>	<u>1,151,601</u>	<u>5.9%</u>
Retiree Medical Expenses	839,200	-	(839,200)	0.0%
Total Operating Expenses	<u>19,275,281</u>	<u>19,587,682</u>	<u>312,401</u>	<u>1.6%</u>
Operating Income/(Loss)	<u>\$ (2,115,076)</u>	<u>\$ (2,578,270)</u>	<u>\$ 463,194</u>	<u>-18.0%</u>

The Authority reported a smaller operating loss than was budgeted primarily because operating expenses were favorable to budget for the year. Expense categories with favorable variances were compensation-related expenses, utilities, office supplies, rentals, supplies, equipment maintenance, small tools, chemicals, professional services, contractual services, membership & meetings, conferences & travel, and training. The expense category with an unfavorable variance was administrative expenses.

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CAPITAL ASSETS

Table 5 shows a summary of capital assets owned by the SBSA as of June 30, 2010.

TABLE 5
Capital Assets

	Balance at June 30, 2009	Additions	Retirements	Transfers	Adjustments	Balance at June 30, 2010
Land	\$ 860,965	\$ -	\$ -	\$ -	\$ -	\$ 860,965
Buildings & Structures	41,363,052	-	-	-	-	41,363,052
Pipelines	8,884,872	-	-	-	149,050	9,033,922
Pump Stations	8,096,112	-	-	65,687	-	8,161,799
Machinery & Equipment	31,658,688	-	(36,370)	541,742	(149,050)	32,015,010
Total PP&E at Cost	90,863,689	-	(36,370)	607,429	-	91,434,748
Accumulated Depreciation	52,212,405	2,528,270	(14,138)	-	-	54,726,537
Total PP&E at Net	\$ 38,651,284	\$ (2,528,270)	\$ (22,232)	\$ 607,429	\$ -	\$ 36,708,211
Construction in Progress:						
Stage 2	\$ 4,385,750	\$ 69,249	\$ -	\$ -	\$ -	\$ 4,454,999
General	11,002,613	15,251,333	-	(607,429)	-	25,646,517
Total CIP	\$ 15,388,363	\$ 15,320,582	\$ -	\$ (607,429)	\$ -	\$ 30,101,516

LONG TERM DEBT

In July 2009, the Authority issued \$55,855,000 of Revenues Bonds. The Bonds were issued to finance the acquisition and construction of capital improvements to the Authority's wastewater system; fund debt service reserve fund, and pay costs of issuing the Bonds. The Bonds are limited obligations of the Authority which are payable solely from and secured solely by the revenues pledged under the Indenture, consisting primarily of payments made by the City of Redwood, the City of San Carlos, and the West Bay Sanitary District (the "Participating Members). Annual principal and interest payments on the bonds are expected to require less than 10 percent of net revenues.

The Authority's Wastewater revenue bonds consisted of the following as of June 30, 2010:

TABLE 6
Wasterwater Revenue Bonds

	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 01, 2009	Bonds Redeemed	Bonds Outstanding June 30, 2010
2008 Wastewater Revenue Bond	12/31/2008	8/1/2029	4.0 - 5.0%	\$ 10,000,000	\$ 10,000,000	\$ -	\$ 10,000,000
2009 Wastewater Revenue Bond	7/1/2009	8/1/2039	1.74 - 8.1%	55,855,000	55,855,000	-	55,855,000
Total Wastewater Revenue Bonds				\$ 65,855,000	\$ 65,855,000	\$ -	\$ 65,855,000

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ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The approved O&M budget for FY 2010-11 was developed considering the increasing costs of doing business, including higher medical insurance premiums and pension contributions, as well as increasing utility and chemical costs. The most recent Memorandum of Understanding with the employee union expired on June 30, 2010, and negotiations for a new agreement are ongoing. Due to economic pressures on our member agencies, no provision for increased compensation is included in this budget. Table 6 shows a comparison of the FY 2010-10 O&M budget to the FY 2009-10 actual results.

TABLE 7
FY 2010-2011 Budget vs FY 2009-2010 Actual

	<u>FY2010-2011 Budget</u>	<u>FY2009-2010 Actual</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Member Contributions	\$ 16,889,355	\$ 16,734,412	\$ 154,943	0.9%
Source Control Revenue	-	9,679	(9,679)	-100.0%
Other Revenues	275,000	416,114	(141,114)	-33.9%
Total Operating Revenue	<u>17,164,355</u>	<u>17,160,205</u>	<u>4,150</u>	<u>0.0%</u>
Support Services	1,617,378	1,943,520	(326,142)	-16.8%
Technical Services	3,281,036	2,780,770	500,266	18.0%
Operations	7,590,907	6,844,365	746,542	10.9%
Maintenance	4,231,882	3,877,378	354,504	9.1%
Engineering	186,677	166,745	19,932	12.0%
Safety	306,475	295,033	11,442	3.9%
Depreciation	2,528,270	2,528,270	-	0.0%
Total Operating Expenses	<u>19,742,625</u>	<u>18,436,081</u>	<u>1,306,544</u>	<u>7.1%</u>
Operating Income/(Loss)	<u>\$ (2,578,270)</u>	<u>\$ (1,275,876)</u>	<u>\$ (1,302,394)</u>	<u>102.1%</u>

A five-year revenue plan was approved with the adoption of the FY 2005-06 budget that provided for increases in member contributions 6.6% through FY 2009-10. Due to the growth in operating expenses, this revenue plan did not provide adequate funding for the Authority's long-term capital needs. A ten-year capital plan utilizing bond funding was subsequently developed to address these needs. No increase in member contributions was budgeted for FY 2010-11, and a new revenue plan will be developed upon completion of labor negotiations.

South Bayside System Authority
Management's Discussion and Analysis
June 30, 2010

CONTACTING THE SOUTH BAYSIDE SYSTEM AUTHORITY MANAGER

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the SBSA's finances and to demonstrate the Authority's accountability for the money it receives. The responsibility for the Authority's accounting and financial reporting rests with the staff of the South Bayside System Authority. If you have any questions about this report or need additional financial information, contact Daniel Child, Manager of the South Bayside System Authority, (650) 832-6224, dchild@sbsa.org, 1400 Radio Road, Redwood City, California, 94065.

BASIC FINANCIAL STATEMENTS

South Bayside System Authority
Statement of Net Assets
June 30, 2010
(With Comparative Totals as of June 30, 2009)

Assets	<u>2010</u>	<u>2009</u>
Current Assets:		
Cash and investments	\$ 21,011,580	\$ 10,766,774
Accounts receivable	35,665	1,290,323
Interest receivable	26,258	40,447
Employee notes receivable	15,987	26,737
Inventory	407,779	66,665
Prepaid expenses	73,745	61,199
Total Current Assets	<u>21,571,014</u>	<u>12,252,145</u>
Noncurrent Assets:		
Investment in real estate	3,901,166	1,348,517
Cash with fiscal agent	49,303,004	7,534,814
Debt issuance costs	907,879	304,119
Capital assets - net:		
Depreciable capital assets:		
Plant in service - net	35,847,246	37,790,318
Non-depreciable capital assets:		
Land	860,965	860,965
Construction in progress:		
Stage 2	4,454,999	4,385,750
General	25,646,517	11,002,613
Total Capital Assets - Net	<u>66,809,727</u>	<u>54,039,646</u>
Total Noncurrent Assets - Net	<u>120,921,776</u>	<u>63,227,096</u>
Total Assets	<u>\$ 142,492,790</u>	<u>\$ 75,479,241</u>
 Liabilities		
Current Liabilities:		
Accounts payable	\$ 3,203,054	\$ 1,915,503
Accrued payroll and employee benefits	470,942	534,785
Accrued interest payable	1,504,589	-
Deferred revenue	237,937	1,050
Noncurrent liabilities due within one year	1,761,208	659,597
Total Current Liabilities	<u>7,177,730</u>	<u>3,110,935</u>
Noncurrent liabilities due in more than one year	65,387,060	10,012,141
Total Liabilities	<u>\$ 72,564,790</u>	<u>\$ 13,123,076</u>
 Net Assets		
Invested in capital assets, net of related debt	\$ 45,109,325	\$ 44,026,831
Restricted for:		
Debt service	6,044,145	7,534,814
Unrestricted	18,774,530	10,794,520
Total Net Assets	<u>\$ 69,928,000</u>	<u>\$ 62,356,165</u>

The notes to the financial statements are an integral part of this statement.

South Bayside System Authority
Statement of Activities and Changes in Net Assets
For the Fiscal Year Ended June 30, 2010
(With Comparative Totals for the Fiscal Year Ended June 30, 2009)

	2010	2009
Operating Revenues:		
Member contributions for services	\$ 25,490,854	\$ 17,051,134
Sources control charges	9,679	12,924
Miscellaneous revenues	422,923	548,029
Total operating revenues	<u>25,923,456</u>	<u>17,612,087</u>
Operating Expenses:		
Plant:		
Support services	2,273,639	2,416,701
Technical services	2,665,776	2,518,137
Operations	6,468,139	6,384,628
Maintenance	3,485,190	3,886,718
Pump stations	984,030	1,092,863
Booster station	19,515	11,048
Force main	9,040	47,049
Source control	198,240	170,465
Claims paid	25,505	580
Retiree health benefits	839,200	158,820
Depreciation	2,528,270	2,407,646
Total operating expenses	<u>19,496,544</u>	<u>19,094,655</u>
Operating Income (Loss)	<u>6,426,912</u>	<u>(1,482,568)</u>
Nonoperating Revenues (Expenses):		
Retiree health contributions	333,131	254,793
Member contributions for:		
Capital improvement reserve	1,650,138	674,800
Equipment replacement reserve	1,350,112	2,595,982
Stage 2 capacity fees	421,131	137,147
Redwood City recycled water	-	271,900
Interest:		
Operations reserve	21,433	40,899
Net increase (decrease) in fair value of investments	113,741	14,002
Contributions Stage 2	19,964	48,189
Capital improvement reserve	21,970	41,755
Self insurance	1,304	2,897
Equipment replacement reserve	22,723	64,480
Retiree medical health	-	704
Recycled water	(130)	58
Plant CIP	428,244	42,906
Interest expense	(4,177,074)	-
Claim settlement	1,115,416	-
Gain (loss) on disposal of fixed assets	(232)	(126,909)
Total nonoperating revenues (expenses)	<u>1,321,871</u>	<u>4,063,603</u>
Change in Net Assets	7,748,783	2,581,035
Beginning Net Assets	62,356,165	59,775,130
Prior Period Adjustment - Accrued Interest	(176,948)	-
Ending Net Assets	<u>\$ 69,928,000</u>	<u>\$ 62,356,165</u>

The notes to the financial statements are an integral part of this statement.

South Bayside System Authority
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2010
(With Comparative Totals for the Fiscal Year Ended June 30, 2009)

	2010	2009
Cash Flows from Operating Activities:		
Cash received from member agencies for services	\$ 26,954,146	\$ 17,122,446
Cash paid to suppliers for goods and services and employees for services	(16,845,824)	(16,446,856)
Other cash received (paid)	422,923	548,029
Net Cash Provided (Used) by Operating Activities	<u>10,531,245</u>	<u>1,223,619</u>
Cash Flows from Capital and Related Financing Activities:		
Cash received from member agencies other than for services	3,793,444	3,934,622
Cash received from claim settlements	1,115,416	-
Cash paid for investment in real estate	(2,552,649)	-
Proceeds from capital debt	55,202,615	9,708,696
Interest paid on capital debt	(2,849,433)	-
Cash received on the sale of capital assets	22,000	-
Purchases and construction of capital assets	(13,893,080)	(6,198,721)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>40,838,313</u>	<u>7,444,597</u>
Cash Flows from Investing Activities:		
Investment income	643,438	292,269
Net Cash Provided (Used) by Investing Activities	<u>643,438</u>	<u>292,269</u>
Net Increase (Decrease) in Cash and Cash Equivalents	52,012,996	8,960,485
Cash and Cash Equivalents Beginning	<u>18,301,588</u>	<u>9,341,103</u>
Cash and Cash Equivalents Ending	<u>\$ 70,314,584</u>	<u>\$ 18,301,588</u>
Reconciliation of Operating Income (Loss) to Cash Flows Provided (Used) by Operating Activities:		
Operating Income (Loss)	\$ 6,426,912	\$ (1,482,568)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	2,528,270	2,407,646
Amortization of premium and issuance costs	47,951	-
Net change in:		
Accounts receivable	1,215,726	62,026
Employee notes receivable	10,750	(3,638)
Inventory	(341,114)	(66,665)
Prepaid expenses	(12,546)	56,200
Accounts payable	(139,952)	246,182
Accrued payroll and employee benefits	(63,843)	(27,022)
Deferred revenue	236,887	-
Accrued compensated absences	(32,715)	31,458
Net OPEB obligation	654,919	-
Net Cash Provided (Used) by Operating Activities	<u>\$ 10,531,245</u>	<u>\$ 1,223,619</u>

The notes to the financial statements are an integral part of this statement.

South Bayside System Authority

Notes to Financial Statements

June 30, 2010

NOTE 1 - NATURE OF ORGANIZATION

The South Bayside System Authority (the Authority) was founded in 1975 as the successor to the Strategic Consolidation Sewerage Plan. The Authority took title to all property of the Strategic Consolidation Sewerage Plan. The Authority maintains and operates sanitary sewerage pumping, transmission and outfall facilities constructed by the Strategic Consolidation Sewerage Plan. In addition, the Authority has constructed, and is operating sewerage treatment plant facilities. The members of the Authority are the Cities of Belmont, Redwood City, San Carlos, and the West Bay Sanitary District

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Accounting

All activities of the Authority are accounted for within enterprise funds. The Authority's financial statements include a Statement of Net Assets, a Statement of Activities and Changes in Net Assets and a Statement of Cash Flows.

The financial statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the Authority's assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

The Authority applies all Governmental Accounting Standards Board (GASB) pronouncements applicable to accounting and reporting for proprietary operations, including the following pronouncements issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB's) of the Committee on Accounting Procedure.

Statement of Net Assets

The statement of net assets is designed to display the financial position of the Authority. The Authority's net assets are classified into three categories as follows:

- Invested in capital assets, net of related debt - This component of net assets consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted - This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants),

South Bayside System Authority

Notes to Financial Statements

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grantors, contributors, or law or regulations of other governments. It also pertains to constraints imposed by law or constitutional provisions or enabling legislation.

- Unrestricted - This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Statement of Revenues, Expenses, and Changes in Net Assets

The statement of revenues, expenses, and changes in net assets is the operating statement for proprietary funds. This statement distinguishes between operating and non-operating revenues and expenses and presents a separate subtotal for operating revenues, operating expenses, and operating income. Operating revenues in the enterprise funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

Budgets and Budgetary Accounting

The Authority adopted a one year budget which provides for the general operations of the Authority. Budgets are prepared on the accrual basis of accounting. Project-length financial plans are adopted for all capital projects.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash represents balances that can be readily withdrawn without substantial notice or penalty. 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 an original maturity date of three months or less.

Investments

In accordance with GASB Statement No. 40, *Deposit and Investment Disclosures (Amendment of GASB No.3)*, certain disclosure requirements for Deposits and Investment Risks were made in the following areas:

- Interest Rate Risk
- Credit Risk
 - Overall
 - Custodial Credit Risk
 - Concentrations of Credit Risk

In addition, other disclosures are specified including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end and other disclosures.

Investments are reported in the statement of net assets at fair value. Changes in fair market value

South Bayside System Authority

Notes to Financial Statements

June 30, 2010

that occur during the 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 or sale of investments.

The Authority participates in an investment pool managed by the State of California known as the Local Agency Investment Fund (LAIF), which has invested a portion of the pooled funds in structured notes and asset-backed securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, the structured notes and asset-backed securities are subject to market risk as to change in interest rates.

Receivables

Receivables include amounts due from member assessments, other assessments and other resources. All receivables are current and reported net of an allowance for uncollectible accounts. The allowance for uncollectible accounts was zero as of June 30, 2010.

Inventories

Inventories are valued using the average cost method. Inventories are recorded as expenses when consumed rather than when purchased.

Capital Assets

Property, plant and equipment purchased after June 30, 1992 are stated at cost. Prior acquisitions are stated at appraised value. Property, plant and equipment contributed to the Authority are stated at estimated fair value at the time of contribution. Authority policy has set the capitalization threshold for reporting capital assets at \$5,000. Depreciation is computed using the straight-line method over the estimated useful lives of the assets generally as outlined by the State Controller's Report on Fixed Assets. The purpose of depreciation is to spread the cost of plant and equipment equitably among all customers over the life of these assets, so that each customer's bill includes a pro rata share of the cost of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of plant and equipment cost.

Depreciation of all plant and equipment in service is charged as an expense against operations each year and the total amount of depreciation taken over the years, called accumulated depreciation, is reported on the statement of net assets as a reduction in the book value of the capital assets.

The Authority has assigned the useful lives listed below to plant and equipment:

Buildings and Structures	50-70
Pipelines	35
Pump Stations	7-25
Machinery and Equipment	5-10

South Bayside System Authority

Notes to Financial Statements

June 30, 2010

Compensated Absences

The Authority has a policy whereby an employee can accumulate unused vacation. Compensated absences are recorded as a liability when accrued. Accumulated vacation is computed using current employee accumulated vacation hours at current pay rates. The Authority does not offer sick leave.

Accounting Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes.

Upcoming New Accounting Pronouncements

The Government Accounting Standards Board has issued Statement **No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions***. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Governments also are required to classify and report amounts in the appropriate fund balance classifications by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent. Disclosure of the policies in the notes to the financial statements is required. The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified by the provisions in this Statement. The requirements of this Statement are effective for financial statements for periods beginning **after** June 15, 2010. The implementation of this standard will **not** have a significant impact on the Authority's financial statements.

The Government Accounting Standards Board has issued Statement **No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans***. This Statement amends Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, to permit an agent employer that has an individual-employer OPEB plan with fewer than 100 total plan members to use the alternative measurement method, at its option, regardless of the number of total plan members in the agent multiple-employer OPEB plan in which it participates. Consistent with this change to the employer-reporting requirements, this Statement also amends a Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, requirement that a defined benefit OPEB plan obtain an actuarial valuation. The amendment permits the requirement to be satisfied for an agent multiple-employer OPEB plan by reporting an aggregation of results of actuarial valuations of the individual-employer OPEB plans or measurements resulting from use of the alternative measurement method for individual-employer OPEB plans that are eligible. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning **after** June 15, 2011. The

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implementation of this standard will **not** have a significant impact on the Authority's financial statements.

The Government Accounting Standards Board has issued Statement **No. 58 *Accounting and Financial Reporting for Chapter 9 Bankruptcies***. The objective of this Statement is to provide accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. It requires governments to re-measure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms (that is, approves) a new payment plan. The provisions of this Statement are effective for financial statements for periods beginning **after** June 15, 2009. The implementation of this standard will **not** have a significant impact on the Authority's financial statements.

The Government Accounting Standards Board has issued Statement **No. 59, *Financial Instruments Omnibus***. The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. This statement amends numerous previously issues standards, including Statement 31, is clarified to indicate that a 2a7-like pool, as described in Statement 31, is an external investment pool that operates in conformity with the Securities and Exchange Commission's (SEC) Rule 2a7 as promulgated under the Investment Company Act of 1940, as amended. Statement No. 40, *Deposit and Investment Risk Disclosures*, is amended to indicate that interest rate risk information should be disclosed only for debt investment pools—such as bond mutual funds and external bond investment pools—that do not meet the requirements to be reported as a 2a7-like pool. The provisions of this Statement are effective for financial statements for periods beginning **after** June 15, 2010. The implementation of this standard will **not** have a significant impact on the Authority's financial statements.

Change in Accounting Policies

Effective July 1, 2009, the Authority implemented Government Accounting Standards Board Statement **No. 45, *Accounting and Reporting by Employers for Postemployment Benefits other than Pensions***. The new pronouncement provides guidance for local governments in recognizing the cost of retiree health care. Under GASB 45, the cost of providing retiree healthcare coverage over the working life of the employee is amortized and recognized in the financial statements, rather than at the time the health care premiums are paid. The Authority has decided to continue to record payments for postemployment benefits on a pay as you go basis and not contribute toward the difference between the annual required contribution and the premiums and health insurance benefits actually paid throughout the year. See Note 10 for additional information.

Effective July 1, 2009, the Authority implemented Government Accounting Standards Board Statement **No. 51, *Accounting and Financial Reporting for Intangible Assets***. Governments possess many different types of assets that may be considered intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. Intangible

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Notes to Financial Statements

June 30, 2010

assets, and more specifically easements, are referred to in the description of capital assets in Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*. This reference has created questions as to whether and when intangible assets should be considered capital assets for financial reporting purposes. This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance has been applied in addition to the existing authoritative guidance for capital assets. The implementation of this statement has not had an impact on the Authority’s financial statements.

NOTE 3 - CASH AND INVESTMENTS

The Authority’s cash and investments consisted of the following as of June 30, 2010 and 2009:

	Fair Value		Investment Rating	Maturities
	2010	2009		
Cash and investments:				
Demand deposits	\$ 395,284	\$ 250,061	N/A	Current
Cash on hand	500	500	N/A	Current
Local Agency Investment Fund	20,615,796	10,516,213	Note Rated	Current
Subtotal - Unrestricted Cash and Investments	21,011,580	10,766,774		
Restricted:				
Cash with fiscal agent	49,303,004	7,534,814	Note Rated	Current
Total Cash and Investments	\$ 70,314,584	\$ 18,301,588		

Cash Designated for Retiree Health Benefits

The Authority has designated \$276,899 of the amount in the Local Agency Investment Fund for retiree health benefits.

Cash Deposits

Bank balances are insured up to \$250,000 per bank by the Federal Deposit Insurance Company ("FDIC"). The Authority’s cash in bank exceeded the insured limit by \$593,829 as of June 30, 2010. None of the Authority’s deposits with financial institutions in excess of FDIC limits were held in uncollateralized accounts.

Collateral and Categorization Requirements

The California Government Code requires California banks and savings and loan associations to secure an agency’s deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of an agency’s deposits. California law also allows financial institutions to secure an agency’s deposits by pledging first trust deed mortgage notes having a value of at least 150% of an agency’s total deposits.

South Bayside System Authority

Notes to Financial Statements

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Restricted Cash

The Authority's restricted cash consisted of \$49,303,004 in cash and investments as of June 30, 2009 held by trustees or fiscal agent, of which \$6,044,145 is pledged for the payment or security of bonds. The Authority has designated funds of \$276,899 for future retiree health benefits which are part of the Authority's pooled cash balance.

Investment Policy

The Authority's investment guidelines as defined by its written investment policy were approved by the Commission. Implementation and direction is established by an internal finance committee. Monthly, the Board ratifies the investments that have been made.

The Authority's investment policy follows the California Government Code which authorizes the Authority to invest in the following:

Authorized Investment Type	Maximum Maturity	Maximum Investment in One Issuer
Treasury Bills, Notes and Bonds	3 years	\$ 2,000,000
Securities in U.S. Government Agencies	3 years	-
Certificates of Deposit	1 years	-
Bankers' Acceptances	180 days	3,000,000
Commercial Paper	15 days	1,000,000
Passbook Savings Accounts	-	100,000
Local Agency Investment Fund (LAIF)	-	40,000,000

Local Agency Investment Fund

LAIF allows local agencies such as the Authority to participate in a Pooled Money Investment Account managed by the State Treasurer's Office and overseen by the Pooled Money Investment Board and State Treasurer investment committee. The Local Agency Investment Advisory Board oversees LAIF. The investments with LAIF are not classified for credit risk due to their diverse nature and are stated at cost, which approximates fair value. The total amount invested by all public agencies in LAIF, as of June 30, 2010, was approximately \$69.39 billion. Of that amount, 94.58% is invested in non-derivative financial products and 5.42% in structured notes and asset-backed securities. The average maturity for the investment in LAIF is 212 days.

South Bayside System Authority

Notes to Financial Statements

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Risk Disclosures

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are described below:

- *Interest Rate Risk* - Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to the changes in market interest rates. In order to limit loss exposure due to Interest Rate Risk, the investment policy limits the length of maturity of investments
- *Credit Risk* - Credit risk is the risk of loss due to the failure of the security issuer. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. In order to limit loss exposure due to Credit Risk, the investment policy limits purchases of investments to those rated A-1 by Standard & Poor's or P-1 by Moody's Investors Service.
- *Custodial Credit Risk* - Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. Or, in the case of investments, the risk of loss of the investment due failure, impairment or malfeasance of the third party whose name in which the investment is held and who has physical possession of the instrument. In order to limit loss exposure due to Custodial Credit Risk, the investment policy requires all securities be received and delivered using the standard delivery versus payment (DVP) procedure, and all securities be held by a third party bank or trust department under the terms of a custody or trustee agreement. None of the Authority's investments were subject to custodial credit risk.
- *Concentration of Credit Risk* - See the chart on page 19 for the Authority's limitations on the amount that can be invested in any one issuer. As of June 30, 2010, 89.42% of the Authority's cash was invested in LAIF, 7.41% was invested in government securities and 3.17% was deposited in banks, CD's and money market accounts.

NOTE 4 - EMPLOYEE NOTES RECEIVABLE

All full-time and part-time Authority employees are eligible to obtain an interest free loan to purchase a computer or certain tools. All requests for loans must be approved by the Department Manager and Support Service Manager. Repayment of these loans is handled through payroll deductions which are spread equally over a two year period. Employees must pay off any outstanding balance of their loans upon ending employment with the Authority. As of June 30, 2010 and 2009, outstanding balances for notes receivable were \$15,987 and \$26,737, respectively.

South Bayside System Authority
Notes to Financial Statements
June 30, 2010

NOTE 5 - CAPITAL ASSETS (PROPERTY, PLANT AND EQUIPMENT)

The Authority's capital assets consisted of the following as of June 30, 2010:

Description	Balance					Balance June 30, 2010
	June 30, 2009	Additions	Deletions	Transfers	Adjustments	
Land	\$ 860,965	\$ -	\$ -	\$ -	\$ -	\$ 860,965
Construction in progress:						
Stage 2	4,385,750	69,249	-	-	-	4,454,999
General	11,002,613	15,251,333	-	(607,429)	-	25,646,517
Total non-depreciable capital assets	16,249,328	15,320,582	-	(607,429)	-	30,962,481
Buildings and structures	41,363,052	-	-	-	-	41,363,052
Pipelines	8,884,872	-	-	-	149,050	9,033,922
Pump stations	8,096,112	-	-	65,687	-	8,161,799
Machinery and equipment	31,658,688	-	(36,370)	541,742	(149,050)	32,015,010
Less accumulated depreciation for:						
Buildings and structures	(22,800,431)	(892,486)	-	-	-	(23,692,917)
Pipelines	(2,832,442)	(197,160)	-	-	-	(3,029,602)
Pump stations	(5,971,313)	(205,249)	-	-	-	(6,176,562)
Machinery and equipment	(20,608,219)	(1,233,375)	14,138	-	-	(21,827,456)
Total depreciable capital assets - net	37,790,319	(2,528,270)	(22,232)	607,429	-	35,847,246
Total capital assets - net	\$ 54,039,647	\$ 12,792,312	\$ (22,232)	\$ -	\$ -	\$ 66,809,727

Depreciation expense for the year ended June 30, 2010 and 2009 was \$2,528,270 and \$2,407,646, respectively.

NOTE 6 - NONCURRENT LIABILITIES

The Authority's noncurrent liabilities consisted of the following as of June 30, 2010:

Noncurrent Debt	Balance			Balance June 30, 2010	Due Within One Year
	July 01, 2009	Additions	Deductions		
Wastewater Revenue Bonds	\$ 10,000,000	\$ 55,855,000	\$ -	\$ 65,855,000	\$ 1,135,000
Unamortized Premium	12,815	-	674	12,141	-
Net OPEB Obligation	-	839,200	184,281	654,919	-
Compensated Absences	659,923	-	33,715	626,208	626,208
Total Noncurrent Debt	\$ 10,672,738	\$ 56,694,200	\$ 218,670	\$ 67,148,268	\$ 1,761,208

Wastewater Revenue Bonds

The Authority's Wastewater revenue bonds consisted of the following as of June 30, 2010:

Bond	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds		Bonds Outstanding June 30, 2010
					Outstanding July 01, 2009	Redeemed	
2008 Wastewater Revenue Bond	12/31/2008	8/1/2029	4.0 - 5.0%	\$ 10,000,000	\$ 10,000,000	\$ -	\$ 10,000,000
2009 Wastewater Revenue Bond	7/1/2009	8/1/2039	1.74 - 8.1%	55,855,000	55,855,000	-	55,855,000
Total Wastewater Revenue Bonds				\$ 65,855,000	\$ 65,855,000	\$ -	\$ 65,855,000

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Notes to Financial Statements

June 30, 2010

2008 Wastewater Revenue Bonds

In December 2008, the Authority issued \$10,000,000 of Revenues Bonds. The Bonds were issued to finance the acquisition and construction of capital improvements to the Authority's wastewater system; fund debt service reserve fund, and pay costs of issuing the Bonds. The Bonds are limited obligations of the Authority which are payable solely from and secured solely by the revenues pledged under the Indenture, consisting primarily of payments made by the City of Redwood, the City of San Carlos, and the West Bay Sanitary District (the "Participating Members). Annual principal and interest payments on the bonds are expected to require less than 10 percent of net revenues.

2009 Wastewater Revenue Bonds

In July 2009, the Authority issued \$55,855,000 of Revenues Bonds. The Bonds were issued to finance the acquisition and construction of capital improvements to the Authority's wastewater system; fund debt service reserve fund, and pay costs of issuing the Bonds. The Bonds are limited obligations of the Authority which are payable solely from and secured solely by the revenues pledged under the Indenture, consisting primarily of payments made by the City of Redwood, the City of San Carlos, and the West Bay Sanitary District (the "Participating Members). Annual principal and interest payments on the bonds are expected to require less than 10 percent of net revenues.

Wastewater Revenue Bonds Debt Service

The debt service requirements for the bonds as of June 30, 2010 were as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2011	\$ 1,135,000	\$ 4,500,162	\$ 5,635,162
2012	1,365,000	4,465,664	5,830,664
2013	1,400,000	4,419,592	5,819,592
2014	1,435,000	4,365,288	5,800,288
2015	1,480,000	4,303,386	5,783,386
2016-2020	8,220,000	20,330,477	28,550,477
2021-2025	10,120,000	17,560,962	27,680,962
2026-2030	12,825,000	13,655,156	26,480,156
2031-2035	12,160,000	8,927,415	21,087,415
2036-2040	15,715,000	3,311,888	19,026,888
Total	\$ 65,855,000	\$ 85,839,989	\$ 151,694,989

South Bayside System Authority

Notes to Financial Statements

June 30, 2010

Wastewater Revenue Bonds - Build America Bonds Refundable Credit

The Authority elected to treat the 2009 Wastewater Revenue Bonds as Build America Bonds under section 54AA of the Tax Code, which entitles it to a refundable credit from the United States Treasury equal to 35% of the interest payable on the bonds. The credit is reported as member contributions. As of June 30, 2010, \$236,887 of the August 2010 credit was reported as deferred revenue.

The following is a summary of the credit to be received over the life of the bonds:

Fiscal Year	35% Credit to Maturity
2011	\$ 1,418,869
2012	1,411,485
2013	1,400,225
2014	1,386,293
2015	1,369,913
2016-2020	6,521,901
2021-2025	5,737,111
2026-2030	4,625,586
2031-2035	3,124,595
2036-2040	1,159,161
Total	\$ 28,155,139

NOTE 7 - OPERATING LEASE COMMITMENTS

In August of 2009, the Authority entered into an operating lease for their temporary administrative office at 1201 Radio Road, Redwood City, CA. The lease ends on June 30, 2011 and the base monthly rent is \$9,750. The minimum lease obligation for the fiscal year ending June 30, 2011 is \$117,000. Rent expense for the fiscal year ended June 30, 2010 was \$61,219.

NOTE 8 - INTERFUND TRANSACTIONS

Interfund transactions are reported as either loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

Interfund Due-to/from

Interfund receivables and payables consisted of a \$36,265 loan from the Operation fund to the Recycled Water fund.

South Bayside System Authority

Notes to Financial Statements

June 30, 2010

Interfund Transfers

Interfund transfers consist of transfers from funds receiving revenue to funds through which the resources are to be expended. Interfund transfers for the 2009-10 fiscal year were as follows:

Fund Receiving Transfers	Fund Making Transfers	Amount
Operation Fund	Equipment Replacement Fund	\$ 122,398
Operation Fund	Capital Improvements Fund	81,433
Operation Fund	Plant CIP Fund	403,597
Total Transfers		\$ 607,428

NOTE 9 - DEFINED BENEFIT PENSION PLAN

Plan Description

The Authority contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee retirement system. PERS provides retirement and disability benefits, annual cost-of living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. PERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained from the Executive Office, 400 P Street, Sacramento CA 95814.

All full-time Authority employees are eligible to participate in PERS with benefits vesting after five years of service. Authority employees are covered under the "2% at 55" formula. Under this retirement plan, employee's retirement earnings, at age 55, are calculated by multiplying 2% by the employee's years of service. An employee with five years of service is eligible to retire at age 50 at a reduced pension amount. The pension amount increases with age and length of services.

Funding Policy

Active plan members are required by state statute to contribute 7% of their annual covered salary. The Authority makes the contributions required of Authority employees on their behalf and for their account, which amounted to \$534,753 for the year ended June 30, 2010. The Authority is required to contribute at an actuarially determined rate, which was 11.405% for the fiscal year ended June 30, 2010.

Annual Pension Cost

For the fiscal year ended June 30, 2010, the Authority's annual pension cost of \$879,479 equaled or exceeded the annual required contribution. The required contribution was determined as part of the June 30, 2008 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included: (a) 7.75% investment rate of return (net of administrative

South Bayside System Authority

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expenses); (b) projected annual salary increases that vary by age, duration of service, and type of employment; (c) 3.0% inflation; (d) 3.25% payroll growth; and (e) individual salary growth based on a merit scale varying by duration of employment coupled with an assumed annual inflation of 3.00% and an annual production growth of 0.25%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a period three years.

Three Year Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/08	\$ 666,462	100	0
6/30/09	792,989	100	0
6/30/10	879,479	100	0

Side Fund

As of the actuarial valuation date of June 30, 2003, the Authority's plan became part of a CalPERS Risk Pool for employers with less than 100 active plan members. At the time of joining the risk pool, a side fund was created to account for the difference between the funded status of the pool and the funded status of SBSA's plan. As of the valuation date of June 30, 2008, the side fund amounted to \$1,594,736. This amount does not represent SBSA's entire unfunded liability but only the difference between the funded status of the risk pool and the funded status of SBSA's plan. The side fund is amortized annually and the annual amortization amount is included as part of SBSA's actuarially determined annual required contribution. The average remaining amortization period for the side fund at June 30, 2010 was 13 years.

Required Supplementary Information

Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2004	\$ 2,746	\$ 2,461	\$ 285	89.6%	\$ 744	38.3%
2005	2,892	2,589	303	89.5%	755	40.1%
2006	2,754	2,492	262	90.5%	700	37.4%
2007	2,612	2,391	221	91.5%	665	33.2%
2008	2,780	2,547	233	91.6%	689	33.8%

** In Millions **

South Bayside System Authority
Notes to Financial Statements
June 30, 2010

NOTE 10 - OTHER POST EMPLOYMENT BENEFITS

The Authority is a phase 3 employer and is required to adopt GASB 45 beginning with the 2009/10 fiscal year.

Plan Description

The Authority's Retiree Healthcare Plan (the Plan) is a single-employer defined benefit healthcare plan administered by the Authority. The plan provides healthcare benefits to eligible retirees and their dependents. Benefit provisions are established and may be amended through agreements and memorandums of understanding between the Authority, its management employees, and unions representing Authority employees.

Normal Retirement Benefit	
Eligibility Age	50
Service Required	5 years of PERS credit
Benefit Amount	Payment of any PERS premium to a maximum of the Kaiser pre-Medicare premiums. The 1-party, 2-party, or family premiums are limited by those respective Kaiser premiums.
Benefits End	Paid for life (child benefits end at age 26)
Post-Retirement Death Benefit	Payment of one-party or two-party premium to eligible surviving spouse/beneficiary for the life of the survivors. Child benefits cease at age 25. Same benefit limitation as above.
Pre-Retirement Death Benefit	
Eligibility Age	50
Service Required	5 years of PERS credit
Benefit Amount	Same as for post-retirement death
Disability Benefit	Same as retirement benefits shown above if meet service requirements.

Funding Policy

There is no statutory requirement for the Authority to prefund its OPEB obligation. The Authority has currently chosen to pay plan benefits on a pay-as-you-go basis. There are no employee contributions. For fiscal year ending June 30, 2010, the Authority paid approximately \$184,284 for retiree healthcare plan benefits. The Annual Required Contribution (ARC) is an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC is equal to the normal cost plus a 30-year amortization of the unfunded actuarial liability.

South Bayside System Authority

Notes to Financial Statements

June 30, 2010

Annual OPEB Cost and Net OPEB Obligation

The following table, based on the Authority's actuarial valuation as of July 1, 2009, shows the components of the Authority's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Authority's Net OPEB obligation:

Annual required contribution	\$ 839,200
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	839,200
Contributions made	(184,281)
Increase in net OPEB obligation	654,919
Net OPEB obligation - beginning of year	-
Net OPEB obligation - end of year	\$ 654,919

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year ending June 30, 2010 are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual Cost Contributed	Net OPEB Obligation
June 30, 2010	\$ 839,200	21.96%	\$ 654,919

Funded Status and Funding Progress

The funded status of the plan as of July 1, 2009, the plan's most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	\$ 7,613,800
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	\$ 7,613,800
Funded ratio (actuarial value of plan assets/AAL)	0%
Projected covered payroll (active Plan members)	\$ 6,802,600
UAAL as a percentage of covered payroll	111.92%

Actuarial valuations of an ongoing plan involve estimates of the value of expected benefit payments and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

South Bayside System Authority

Notes to Financial Statements

June 30, 2010

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used are consistent with the long-term perspective of the calculations.

In the October 28, 2009 actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 5% investment rate of return, which is the expected long-term investment return on Authority investments, a 3.25% general inflation assumption, and an annual aggregate payroll increase rate of 3.25%. The UAAL is being amortized as a level dollar amount over 30 years on a closed basis, starting July 1, 2009.

Required Supplementary Information

Schedule of Funding Progress - Postemployment Healthcare Plan						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a/c))
7/1/2009	\$ -	\$ 7,613,800	\$ 7,613,800	0.00%	\$ 6,802,600	111.92%

NOTE 11 - RISK MANAGEMENT

The Authority is a member of the California Sanitation Risk Management Authority (CSRMA) which covers the general liability claims up to \$10,750,000, and provides coverage of Employment Practices Liability (EPL) up to \$10,750,000. Excess public entity general liability insurance of \$10,750,000 is obtained by

CSRMA commercially, resulting in a total coverage of \$25,000,000. The Authority has a self-insured retention of \$10,000 per general liability claim and \$25,000 per EPL claim. Once the Authority's self-insured retention is met, CSRMA becomes responsible for payment of all claims up to the limit. During the fiscal year ended June 30, 2010, the Authority's contributions were \$133,269.

The Authority also has workers compensation insurance with CSRMA which covers workers' compensation claims up to \$750,000. Excess public entity workers' compensation and employee's liability insurance are obtained by CSRMA commercially up to statutory limit and \$25,000,000 respectively. The Authority has a self-insured retention of \$750,000 per claim. During the fiscal year ended June 30, 2010, the Authority's contributions were \$263,273.

The contributions made to each risk pool equal the ratio of their respective payrolls to the total

South Bayside System Authority

Notes to Financial Statements

June 30, 2010

payrolls of all entities participating in the same layer of each program, in each program year. Actual surpluses or losses are shared according to a formula developed from overall loss costs and spread to member entities on a percentage basis after retrospective rating.

During fiscal year 2010, the Authority paid and expensed claims in the amount of \$25,505.

CSRMA's audited financial statements may be obtained by writing then at 600 Montgomery Street, 9th Floor, San Francisco, California 94111-2711.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

The Authority is at risk to be a defendant in various lawsuits which arise in the normal course of business.

The Authority had outstanding construction contract commitments on capital projects totaling \$10,022,109 and \$574,238 at June 30, 2010 and 2009, respectively.

SUPPLEMENTARY INFORMATION

South Bayside System Authority
Combining Schedule of Net Assets
Supplementary Information - Enterprise Funds
June 30, 2010

Assets	Equipment Replacement	Capital Improvements	Construction Stage 2	Self Insurance	Recycled Water	Capital Improvement Program	Operation	Total
Current Assets:								
Cash and investments	\$ 4,372,003	\$ 2,649,286	\$ 1,587,155	\$ 356,179	\$ -	\$ 4,206,771	\$ 7,840,186	\$ 21,011,580
Accounts receivable	-	-	7,377	-	-	-	28,288	35,665
Interest receivable	-	-	-	-	-	-	26,258	26,258
Employee notes receivable	-	-	-	-	-	-	15,987	15,987
Due from other funds	-	-	-	-	-	-	36,265	36,265
Inventory	-	-	-	-	-	-	407,779	407,779
Prepaid expenses	-	-	-	-	-	9,750	63,995	73,745
Total Current Assets	<u>4,372,003</u>	<u>2,649,286</u>	<u>1,594,532</u>	<u>356,179</u>	<u>-</u>	<u>4,216,521</u>	<u>8,418,758</u>	<u>21,607,279</u>
Noncurrent Assets:								
Investment in real estate	-	-	-	-	-	2,552,649	1,348,517	3,901,166
Cash with fiscal agent	-	-	-	-	-	49,303,004	-	49,303,004
Debt issuance costs	-	-	-	-	-	907,879	-	907,879
Capital assets - net:								
Depreciable capital assets:								
Plant in service - net	-	-	-	-	-	-	35,847,246	35,847,246
Non depreciable capital assets:								
Land	-	-	-	-	-	-	860,965	860,965
Construction in progress:								
Stage 2	-	-	4,454,999	-	-	-	-	4,454,999
General	2,844,440	4,609,752	-	-	-	18,192,325	-	25,646,517
Total Capital Assets - Net	<u>2,844,440</u>	<u>4,609,752</u>	<u>4,454,999</u>	<u>-</u>	<u>-</u>	<u>18,192,325</u>	<u>36,708,211</u>	<u>66,809,727</u>
Total Noncurrent Assets - Net	<u>2,844,440</u>	<u>4,609,752</u>	<u>4,454,999</u>	<u>-</u>	<u>-</u>	<u>70,955,857</u>	<u>38,056,728</u>	<u>120,921,776</u>
Total Assets	<u>\$ 7,216,443</u>	<u>\$ 7,259,038</u>	<u>\$ 6,049,531</u>	<u>\$ 356,179</u>	<u>\$ -</u>	<u>\$ 75,172,378</u>	<u>\$ 46,475,486</u>	<u>\$ 142,529,055</u>
Liabilities								
Current Liabilities:								
Accounts payable	\$ 1,699	\$ 63,671	\$ 21,859	\$ -	\$ 17,743	\$ 2,332,365	\$ 765,717	\$ 3,203,054
Accrued payroll and employee benefits	-	-	-	-	-	-	470,942	470,942
Accrued interest payable	-	-	-	-	-	1,504,589	-	1,504,589
Due to other funds	-	-	-	-	36,265	-	-	36,265
Deferred revenue	-	-	-	-	-	236,887	1,050	237,937
Noncurrent liabilities due within one year	-	-	-	-	-	1,135,000	626,208	1,761,208
Total Current Liabilities	<u>1,699</u>	<u>63,671</u>	<u>21,859</u>	<u>-</u>	<u>54,008</u>	<u>5,208,841</u>	<u>1,863,917</u>	<u>7,213,995</u>
Noncurrent liabilities due in more than one year	-	-	-	-	-	64,732,141	654,919	65,387,060
Total Liabilities	<u>\$ 1,699</u>	<u>\$ 63,671</u>	<u>\$ 21,859</u>	<u>\$ -</u>	<u>\$ 54,008</u>	<u>\$ 69,940,982</u>	<u>\$ 2,518,836</u>	<u>\$ 72,601,055</u>
Net Assets								
Invested in capital assets, net of related debt	\$ 2,844,440	\$ 4,609,752	\$ 4,454,999	\$ -	\$ -	\$ (3,508,077)	\$ 36,708,211	\$ 45,109,325
Restricted for:								
Debt service	-	-	-	-	-	6,044,145	-	6,044,145
Unrestricted	4,370,304	2,585,615	1,572,673	356,179	(54,008)	2,695,328	7,248,439	18,774,530
Total Net Assets	<u>\$ 7,214,744</u>	<u>\$ 7,195,367</u>	<u>\$ 6,027,672</u>	<u>\$ 356,179</u>	<u>\$ (54,008)</u>	<u>\$ 5,231,396</u>	<u>\$ 43,956,650</u>	<u>\$ 69,928,000</u>

South Bayside System Authority
Combining Schedule of Activities and Changes in Net Assets
Supplementary Information - Enterprise Funds
For the Fiscal Year Ended June 30, 2010

	Equipment Replacement	Capital Improvements	Construction Stage 2	Self Insurance	Recycled Water	Capital Improvement Program	Operation	Total
Operating Revenues:								
Member contributions for services	\$ -	\$ -	\$ -	\$ -	\$ 112,632	\$ 8,643,810	\$ 16,734,412	\$ 25,490,854
Sources control charges	-	-	-	-	-	-	9,679	9,679
Miscellaneous revenues	-	6,809	-	-	-	-	416,114	422,923
Total operating revenues	-	6,809	-	-	112,632	8,643,810	17,160,205	25,923,456
Operating Expenses:								
Plant:								
Support services	-	-	-	-	-	47,951	2,225,688	2,273,639
Technical services	-	-	-	-	2,962	-	2,662,814	2,665,776
Operations	-	-	-	-	115,427	-	6,352,712	6,468,139
Maintenance	-	-	-	-	29,418	-	3,455,772	3,485,190
Pump stations	-	-	-	-	-	-	984,030	984,030
Booster station	-	-	-	-	-	-	19,515	19,515
Force main	-	-	-	-	-	-	9,040	9,040
Source control	-	-	-	-	-	-	198,240	198,240
Claims paid	-	-	-	25,505	-	-	-	25,505
Retiree health benefits	-	-	-	-	-	-	839,200	839,200
Depreciation	-	-	-	-	-	-	2,528,270	2,528,270
Total operating expenses	-	-	-	25,505	147,807	47,951	19,275,281	19,496,544
Operating Income (Loss)	-	6,809	-	(25,505)	(35,175)	8,595,859	(2,115,076)	6,426,912
Nonoperating Revenues (Expenses):								
Retiree health contributions	-	-	-	-	-	-	333,131	333,131
Member contributions for:								
Capital improvement reserve	-	1,650,138	-	-	-	-	-	1,650,138
Equipment replacement reserve	1,350,112	-	-	-	-	-	-	1,350,112
Stage 2 capacity fees	-	-	421,131	-	-	-	-	421,131
Interest Income:								
Operations reserve	-	-	-	-	-	-	21,433	21,433
Net increase (decrease) in fair value of investments	-	-	-	-	-	93,900	19,841	113,741
Contributions Stage 2	-	-	19,964	-	-	-	-	19,964
Capital improvement reserve	-	21,970	-	-	-	-	-	21,970
Self insurance	-	-	-	1,304	-	-	-	1,304
Equipment replacement reserve	22,723	-	-	-	-	-	-	22,723
Recycled water	-	-	-	-	(130)	-	-	(130)
Plant CIP	-	-	-	-	-	428,244	-	428,244
Interest expense	-	-	-	-	-	(4,177,074)	-	(4,177,074)
Claim settlement	-	-	-	-	-	-	1,115,416	1,115,416
Gain (loss) on disposal of fixed assets	-	-	-	-	-	-	(232)	(232)
Total nonoperating revenues (expenses)	1,372,835	1,672,108	441,095	1,304	(130)	(3,654,930)	1,489,589	1,321,871
Income (Loss) Before Transfers	1,372,835	1,678,917	441,095	(24,201)	(35,305)	4,940,929	(625,487)	7,748,783
Transfers In	-	-	-	-	-	-	607,428	607,428
Transfers Out	(122,398)	(81,433)	-	-	-	(403,597)	-	(607,428)
Change in Net Assets	1,250,437	1,597,484	441,095	(24,201)	(35,305)	4,537,332	(18,059)	7,748,783
Beginning Net Assets	5,964,307	5,597,883	5,586,577	380,380	(18,703)	871,012	43,974,709	62,356,165
Prior Period Adjustment - Accrued Interest	-	-	-	-	-	(176,948)	-	(176,948)
Ending Net Assets	\$ 7,214,744	\$ 7,195,367	\$ 6,027,672	\$ 356,179	\$ (54,008)	\$ 5,231,396	\$ 43,956,650	\$ 69,928,000

South Bayside System Authority
Combining Schedule of Cash Flows
Supplementary Information - Enterprise Funds
For the Fiscal Year Ended June 30, 2010

	Equipment Replacement	Capital Improvements	Construction Stage 2	Self Insurance	Recycled Water	Capital Improvement Program	Operation	Total
Cash Flows from Operating Activities:								
Cash received from member agencies for services	\$ -	\$ -	\$ -	\$ 326,727	\$ 112,632	\$ 8,870,947	\$ 17,643,840	\$ 26,954,146
Cash paid to suppliers for goods and services and employees for services	-	-	-	(25,505)	(130,064)	-	(16,690,255)	(16,845,824)
Other cash received (paid)	-	6,809	-	-	-	-	416,114	422,923
Net Cash Provided (Used) by Operating Activities	-	6,809	-	301,222	(17,432)	8,870,947	1,369,699	10,531,245
Cash Flows from Capital and Related Financing Activities:								
Cash received from member agencies other than for services	1,350,112	1,650,448	459,753	-	-	-	333,131	3,793,444
Cash received from claim settlements	-	-	-	-	-	-	1,115,416	1,115,416
Contributions to (from) other funds	-	-	-	-	17,562	(521,638)	504,076	-
Cash paid for investments in real estate	-	-	-	-	-	(2,552,649)	-	(2,552,649)
Proceeds from capital debt	-	-	-	-	-	55,202,615	-	55,202,615
Interest paid on capital debt	-	-	-	-	-	(2,849,433)	-	(2,849,433)
Cash received on the sale of capital assets	-	-	-	-	-	-	22,000	22,000
Purchases and construction of capital assets	(109,262)	(835,396)	(47,564)	-	-	(12,293,428)	(607,430)	(13,893,080)
Net Cash Provided (Used) by Capital and Related Financing Activities	1,240,850	815,052	412,189	-	17,562	36,985,467	1,367,193	40,838,313
Cash Flows from Noncapital Financing Activities:								
Transfers in	-	-	-	-	-	-	607,428	607,428
Transfers out	(122,398)	(81,433)	-	-	-	(403,597)	-	(607,428)
Net Cash Provided (Used) by Noncapital Financing Activities	(122,398)	(81,433)	-	-	-	(403,597)	607,428	-
Cash Flows from Investing Activities:								
Investment income	22,723	21,970	19,964	1,304	(130)	522,144	55,463	643,438
Net Cash Provided (Used) by Investing Activities	22,723	21,970	19,964	1,304	(130)	522,144	55,463	643,438
Net Increase (Decrease) in Cash and Cash Equivalents	1,141,175	762,398	432,153	302,526	-	45,974,961	3,399,783	52,012,996
Cash and Cash Equivalents Beginning	3,230,828	1,886,888	1,155,002	53,653	-	7,534,814	4,440,403	18,301,588
Cash and Cash Equivalents Ending	\$ 4,372,003	\$ 2,649,286	\$ 1,587,155	\$ 356,179	\$ -	\$ 53,509,775	\$ 7,840,186	\$ 70,314,584
Reconciliation of Operating Income (Loss) to Cash Flows Provided (Used) by Operating Activities:								
Operating Income (Loss)	\$ -	\$ 6,809	\$ -	\$ (25,505)	\$ (35,175)	\$ 8,595,859	\$ (2,115,076)	\$ 6,426,912
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:								
Depreciation	-	-	-	-	-	-	2,528,270	2,528,270
Amortization of premium and issuance costs	-	-	-	-	-	47,951	-	47,951
Net change in:								
Accounts receivable	-	-	-	326,727	-	-	888,999	1,215,726
Employee notes receivable	-	-	-	-	-	-	10,750	10,750
Inventory	-	-	-	-	-	-	(341,114)	(341,114)
Prepaid expenses	-	-	-	-	-	(9,750)	(2,796)	(12,546)
Accounts payable	-	-	-	-	17,743	-	(157,695)	(139,952)
Accrued payroll and employee benefits	-	-	-	-	-	-	(63,843)	(63,843)
Deferred revenue	-	-	-	-	-	236,887	-	236,887
Accrued compensated absences	-	-	-	-	-	-	(32,715)	(32,715)
Net OPEB obligation	-	-	-	-	-	-	654,919	654,919
Net Cash Provided (Used) by Operating Activities	\$ -	\$ 6,809	\$ -	\$ 301,222	\$ (17,432)	\$ 8,870,947	\$ 1,369,699	\$ 10,531,245

South Bayside System Authority
 Analysis of Net Assets
 Supplemental Schedule
 For the Fiscal Year Ended June 30, 2010

	Belmont	Redwood City	San Carlos	West Bay Sanitary District	Totals
OPERATION FUND (FUND 18):					
General reserve:					
Balance at June 30, 2009	\$ 333,639	\$ 2,941,787	\$ 959,977	\$ 1,206,054	\$ 5,441,457
Reclassify Investment in Real Estate	(88,315)	(721,348)	(257,251)	(281,603)	(1,348,517)
Adjust Prior Year plant	(15,061)	(132,802)	(43,336)	(54,445)	(245,644)
Adjust Pump 09-10	-	-	-	-	-
Unrealized Gain/(Losses)	1,187	10,766	3,401	4,487	19,841
Excess (deficiency) of contributions over O & M Exp.	136,612	1,825,067	118,983	308,143	2,388,805
Harbor/Fair Oaks Adjustment	-	-	-	-	-
Contributions to Plant Reserves	-	-	-	-	-
Balance at June 30, 2010	<u>\$ 368,062</u>	<u>\$ 3,923,470</u>	<u>\$ 781,774</u>	<u>\$ 1,182,636</u>	<u>\$ 6,255,942</u>
Investment in Real Estate					
Balance at June 30, 2010	<u>\$ 88,315</u>	<u>\$ 721,348</u>	<u>\$ 257,251</u>	<u>\$ 281,603</u>	<u>\$ 1,348,517</u>
Plant:					
Balance at June 30, 2009	\$ 3,708,341	\$ 17,100,138	\$ 4,896,986	\$ 10,678,971	\$ 36,384,436
Adjust Prior Year Plant	15,061	132,802	43,336	54,445	245,644
Depreciation	(236,132)	(1,092,886)	(313,307)	(680,696)	(2,323,021)
Net fixed asset disposal	(24)	(109)	(31)	(68)	(232)
Transfer from Capital Improvement Fund	4,653	57,593	5,590	13,598	81,434
Transfer from Equipment Replacement Fund (Plant)	2,351	52,135	7,542	26,394	88,422
Transfer from Construction Stage 2 Fund	-	-	-	-	-
Transfer from Plant CIP Fund	37,802	174,957	50,157	108,971	371,887
Balance at June 30, 2010	<u>\$ 3,532,052</u>	<u>\$ 16,424,630</u>	<u>\$ 4,690,273</u>	<u>\$ 10,201,615</u>	<u>\$ 34,848,570</u>
Pump Station					
Balance at June 30, 2009	\$ 354,240	\$ 711,005	\$ 601,687	\$ 354,273	\$ 2,021,205
Depreciation	(38,026)	(44,027)	(52,486)	(70,710)	(205,249)
Transfer from CIP Bond	-	-	-	33,976	33,976
Transfer from Capital Improvement Fund	5,659	14,332	5,659	6,059	31,709
Balance at June 30, 2010	<u>\$ 321,873</u>	<u>\$ 681,310</u>	<u>\$ 554,860</u>	<u>\$ 323,598</u>	<u>\$ 1,881,641</u>
RETIREE MEDICAL HEALTH BENEFITS RESERVE (FUND 12):					
Balance at June 30, 2009	\$ 13,248	\$ 56,000	\$ 22,070	\$ 36,294	\$ 127,612
Contributions	34,583	146,187	57,615	94,746	333,131
Interest Income	45	192	76	125	438
OPEB Obligation	(67,988)	(287,396)	(113,268)	(186,268)	(654,920)
Expenses/ withdrawals	(19,130)	(80,868)	(31,871)	(52,412)	(184,281)
Balance at June 30, 2010	<u>\$ (39,242)</u>	<u>\$ (165,885)</u>	<u>\$ (65,378)</u>	<u>\$ (107,515)</u>	<u>\$ (378,020)</u>
CONSTRUCTION STAGE 2 (FUND 15):					
Reserve for construction-Stage 2					
Balance at June 30, 2009	\$ 822,753	\$ 2,073,864	\$ 773,329	\$ 1,916,631	\$ 5,586,577
Adjust Prior Year Construction in Progress	(673,766)	(1,598,962)	(589,115)	(1,523,907)	(4,385,750)
Purchase of Capacity	28,104	380,213	12,814	-	421,131
Interest	2,916	7,808	2,671	6,569	19,964
Transfer to Operations Fund	-	-	-	-	-
Balance at June 30, 2010	<u>\$ 180,008</u>	<u>\$ 862,922</u>	<u>\$ 199,699</u>	<u>\$ 399,293</u>	<u>\$ 1,641,922</u>
Invested in Capital Assets - Net of Related Debt	<u>\$ 673,766</u>	<u>\$ 1,598,962</u>	<u>\$ 589,115</u>	<u>\$ 1,523,907</u>	<u>\$ 4,385,750</u>
SELF INSURANCE (FUND 16):					
Reserve for self-insurance					
Balance at June 30, 2009	\$ 42,713	\$ 158,608	\$ 67,236	\$ 111,823	\$ 380,380
Interest Income	146	543	230	383	1,302
Expenses	(2,864)	(10,633)	(4,508)	(7,498)	(25,503)
Balance at June 30, 2010	<u>\$ 39,995</u>	<u>\$ 148,518</u>	<u>\$ 62,958</u>	<u>\$ 104,708</u>	<u>\$ 356,179</u>

South Bayside System Authority
 Analysis of Net Assets
 Supplemental Schedule
 For the Fiscal Year Ended June 30, 2010

	Belmont	Redwood City	San Carlos	West Bay Sanitary District	Totals
EQUIPMENT REPLACEMENT (FUND 17):					
Reserve for pump station replacement					
Balance at June 30, 2009	\$ (345,953)	\$ 8,968	\$ (252,538)	\$ 462,207	\$ (127,316)
Adjust Prior Year Transfer from Plant Replacement	345,953	-	252,538	-	598,491
Contributions	-	-	-	-	-
Interest Income	(1,186)	31	(866)	1,584	(437)
Interest Expense - (Inter-Fund Loan)	-	-	-	-	-
Transfer to Pump Replacement	-	-	-	(33,974)	(33,974)
Balance at June 30, 2010	<u>\$ (1,186)</u>	<u>\$ 8,999</u>	<u>\$ (866)</u>	<u>\$ 429,817</u>	<u>\$ 436,764</u>
Reserve for plant replacement					
Balance at June 30, 2009	\$ 929,207	\$ 3,047,313	\$ 940,764	\$ 1,174,339	\$ 6,091,623
Adjust Prior Year Construction in Progress	(510,477)	(1,433,299)	(454,750)	(357,228)	(2,755,754)
Adjust Prior Year Transfer to Pump Station Replacement	(345,953)	-	(252,538)	-	(598,491)
Contribution	145,766	647,140	188,188	369,018	1,350,112
Interest Income	3,431	11,537	3,542	4,648	23,158
Interest Expense (Inter-Fund Loan)	-	-	-	-	-
Transfer to Operation Fund (Plant)	(2,351)	(52,135)	(7,542)	(26,394)	(88,422)
Balance at June 30, 2010	<u>\$ 219,623</u>	<u>\$ 2,220,556</u>	<u>\$ 417,664</u>	<u>\$ 1,164,383</u>	<u>\$ 4,022,226</u>
Invested in Capital Assets - Net of Related Debt	<u>\$ 510,477</u>	<u>\$ 1,433,299</u>	<u>\$ 454,750</u>	<u>\$ 357,228</u>	<u>\$ 2,755,754</u>
CAPITAL IMPROVEMENTS (FUND 14):					
Capital improvements reserve					
Balance at June 30, 2009	\$ 543,176	\$ 3,036,803	\$ 603,891	\$ 1,414,013	\$ 5,597,883
Adjust Prior Year Construction in Progress	(436,171)	(1,712,230)	(475,333)	(1,101,272)	(3,725,006)
Contributions - General Reserves	145,952	768,479	216,512	519,194	1,650,136
Contributions - Recycled Water	-	6,809	-	-	6,809
Interest Income	2,108	11,706	2,435	5,723	21,972
Interest Income - Interfund Loan	-	-	-	-	-
Miscellaneous Revenue (Net of Exp)	-	-	-	-	-
Transfer to Operation Fund	(4,653)	(57,593)	(5,590)	(13,598)	(81,434)
Balance at June 30, 2010	<u>\$ 250,412</u>	<u>\$ 2,053,975</u>	<u>\$ 341,915</u>	<u>\$ 824,060</u>	<u>\$ 3,470,361</u>
Invested in Capital Assets - Net of Related Debt	<u>\$ 436,171</u>	<u>\$ 1,712,230</u>	<u>\$ 475,333</u>	<u>\$ 1,101,272</u>	<u>\$ 3,725,006</u>
RECYCLED WATER FUND (FUND 19):					
Balance at June 30, 2009	\$ -	\$ (18,703)	\$ -	\$ -	\$ (18,703)
Interest Income	-	(130)	-	-	(130)
RWC Recycled Water O&M Contributions	-	112,632	-	-	112,632
RWC Recycled Water O&M Expenditures	-	(147,807)	-	-	(147,807)
Balance at June 30, 2010	<u>\$ -</u>	<u>\$ (54,008)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (54,008)</u>

South Bayside System Authority
 Analysis of Net Assets
 Supplemental Schedule
 For the Fiscal Year Ended June 30, 2010

	Belmont	Redwood City	San Carlos	West Bay Sanitary District	Totals
PLANT CIP FUND (FUND 20):					
Balance at June 30, 2009	\$ 929,439	\$ (29,850)	\$ (8,410)	\$ (20,167)	\$ 871,012
Adjust Prior Year Construction in Progress	(399,950)	(2,105,854)	(593,308)	(1,422,741)	(4,521,853)
Adjust Prior Year Debt (Belmont Excluded)	-	5,115,484	1,441,248	3,456,083	10,012,815
Adjust Prior Year Restricted for Debt Service	-	(3,849,488)	(1,084,564)	(2,600,762)	(7,534,814)
Adjust Prior Year Debt Issuance Costs (Deferred Charges)	-	(155,373)	(43,775)	(104,972)	(304,119)
Adjust Prior Year Accrued Interest	-	(90,401)	(25,470)	(61,076)	(176,947)
Restricted for Debt Service	-	(3,087,917)	(869,994)	(2,086,233)	(6,044,145)
Proceeds from Debt Held with Fiscal Agent	-	(18,251,201)	(5,142,119)	(12,330,726)	(35,724,046)
Debt Issuance Costs (Deferred Charges)	-	(308,457)	(86,905)	(208,397)	(603,760)
Debt Issued	-	28,535,640	8,039,672	19,279,014	55,854,326
Construction in Progress	(5,325,645)	(4,263,322)	(1,201,154)	(2,880,351)	(13,670,472)
Accrued Interest Expenditures	-	(783,309)	(199,146)	(345,187)	(1,327,642)
Unearned Revenue	-	(139,481)	(35,840)	(61,566)	(236,887)
Contributions	5,325,645	2,093,372	537,639	924,041	8,880,696
Interest Income on bond proceeds	-	252,664	64,237	111,343	428,244
Unrealized Gain or Loss	-	55,401	14,085	24,414	93,900
Debt Service Payment and other Debt related expenses	-	(1,709,456)	(434,608)	(753,320)	(2,897,383)
Interest Income	22,080	(13,027)	(3,312)	(5,741)	-
Investment in Real Estate	(224,633)	(1,370,772)	(352,266)	(604,978)	(2,552,649)
Transfer to Operation Fund - Plant	(43,461)	(189,289)	(55,816)	(115,031)	(403,597)
Balance at June 30, 2010	<u>\$ 283,475</u>	<u>\$ (294,637)</u>	<u>\$ (39,808)</u>	<u>\$ 193,648</u>	<u>\$ 142,679</u>
Investment in Real Estate					
Balance at June 30, 2010	<u>\$ 224,633</u>	<u>\$ 1,370,772</u>	<u>\$ 352,266</u>	<u>\$ 604,978</u>	<u>\$ 2,552,649</u>
Invested in Capital Assets - Net of Related Debt					
Balance at June 30, 2009	\$ 399,950	\$ (3,009,630)	\$ (847,940)	\$ (2,033,342)	\$ (5,490,962)
Adjust Prior Year Debt not Invested in Capital Assets	-	3,849,488	1,084,564	2,600,762	7,534,814
Adjust Prior Year Debt Issuance Costs (Deferred Charges)	-	155,373	43,775	104,972	304,119
Construction in Progress	5,325,645	4,263,322	1,201,154	2,880,351	13,670,472
Debt Issued	-	(28,535,640)	(8,039,672)	(19,279,014)	(55,854,326)
Proceeds from Debt Held with Fiscal Agent	-	18,251,201	5,142,119	12,330,726	35,724,046
Debt Issuance Costs (Deferred Charges)	-	308,457	86,905	208,397	603,760
Balance at June 30, 2010	<u>\$ 5,725,595</u>	<u>\$ (4,717,429)</u>	<u>\$ (1,329,094)</u>	<u>\$ (3,187,149)</u>	<u>\$ (3,508,077)</u>
Restricted for Debt Service	<u>\$ -</u>	<u>\$ 3,087,917</u>	<u>\$ 869,994</u>	<u>\$ 2,086,233</u>	<u>\$ 6,044,145</u>
Total Net Assets	<u>\$ 12,814,028</u>	<u>\$ 31,016,949</u>	<u>\$ 8,612,707</u>	<u>\$ 17,484,316</u>	<u>\$ 69,928,000</u>

OTHER INDEPENDENT AUDITOR'S REPORT



**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 Commission
South Bayside System Authority

We have audited the financial statements of the South Bayside System Authority (“the Authority”) as of and for the year ended June 30, 2010, and have issued our report thereon dated October 15, 2010. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Authority’s internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority’s internal control over financial reporting.

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 entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority’s financial statements are free of 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the Authority’s Commission, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

October 15, 2010
Campbell, California