

**BAYSHORE
SANITARY DISTRICT**

FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED
JUNE 30, 2012

WITH
INDEPENDENT AUDITORS' REPORT

**BAYSHORE SANITARY DISTRICT
JUNE 30, 2012**

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INDEPENDENT AUDITORS' REPORT

Governing Board
Bayshore Sanitary District
Brisbane, California

We have audited the accompanying basic financial statements of Bayshore Sanitary District as of and for the year ended June 30, 2012 as listed in the table of contents. These basic financial statements are the responsibility of Bayshore Sanitary District's management. Our responsibility is to express an opinion 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, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the basic financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

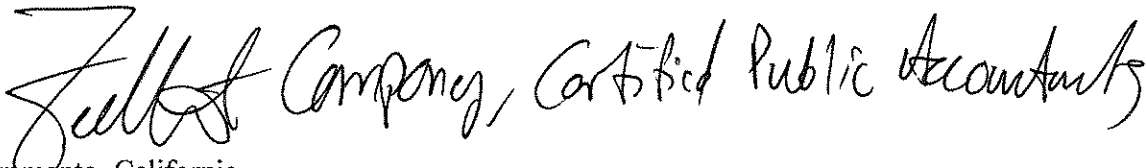
In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Bayshore Sanitary District, as of June 30, 2012, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's office for special districts.

In accordance with *Government Auditing Standards*, we have also issued our report dated, August 15 2012, on our consideration of the District'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.

Governing Board
Bayshore Sanitary District

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 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 required supplementary information. However, we did not audit the information and do not express an opinion on it.

Fechter & Company, Certified Public Accountants

A handwritten signature in black ink that reads "Fechter & Company, Certified Public Accountants". The signature is written in a cursive, flowing style.

Sacramento, California
August 15, 2012

BAYSHORE SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012

The following discussion and analysis of the Bayshore Sanitary District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2012. Please read it in conjunction with the District financial statements.

District Highlights

- Even though the District's property taxes dramatically increased, sewer service charge revenue decreased 5.7% primarily due to reduced water consumption.
- Operating expenses decreased by \$29,661 in spite of the fact that the District's contractual obligation to the San Francisco Public Utilities' Commission increased by 7% over the previous year.
- Passage of ABx1 26, which dissolved redevelopment agencies in California effective January 31, 2010, resulted in unexpected tax proceeds for the District. As the largest special district of the former Daly City Redevelopment Agency, the District is a member of the successor agency Oversight Board.
- The Board and Staff have continued contract negotiations with the SFPUC with regard to the wastewater treatment services. At this time, the District's management and board are optimistic that an equitable, long-term contract will be finalized before the end of the calendar year. In the interim, the current agreement with the SFPUC expired on July 1, 2011, but was again extended.

USING THIS ANNUAL REPORT

This annual report consists of three parts: Management's Discussion and Analysis, Financial Statements, and Supplementary Information. The Financial Statements also include notes that explain in more detail some of the information contained in those statements.

Required Financial Statements

District financial statements report information about the District's use of accounting methods similar to those used by private sector companies. The Statement of Fund Net Assets includes all District assets and liabilities, and provides information about the nature and amounts of investments in resource (assets) and obligations to creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the District, and assessing the liquidity and financial flexibility of the District. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Fund Net Assets. This statement measures the success of the District operations over the past year and can be used to determine whether the District

has successfully recovered all of its costs through its user fees and other charges. The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the District cash receipts, cash disbursements and net changes in cash

BAYSHORE SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012

resulting from operations, investing, and capital and noncapital financial activities. It provides answers to questions such as, "Where did the cash come from?" "Cash was used for what purpose?" and "What was the change in cash balance during the reporting period?"

FINANCIAL ANALYSIS OF THE DISTRICT

One of the most important questions asked about the District finances is whether or not the District's overall financial position has improved or deteriorated. The Statement of Fund Net Assets and the Statement of Revenues, Expenses and Changes in Fund Net Assets report information about the District activities in a way that will help answer this question. These two statements report the net assets of the District and changes in them. You can think of District net assets – the difference between assets and liabilities – as one way to measure financial health or financial position. Over time, increases or decreases in District net assets are one indicator of whether its financial health is improving or deteriorating. Other factors to consider include changes in economic conditions, population growth, and new or changed legislation.

Changes in Net Assets

District total net assets increased from the previous year by \$495,223. The following condensed financial statements show fund net asset position, statement of fund net assets and statement of revenue and expenses and changes in fund net assets.

Condensed Statement of Fund Net Assets

	<u>2012</u>	<u>2011</u>	<u>\$ Change</u>	<u>% Change</u>
Current Assets	\$ 3,454,362	\$ 3,231,109	\$ 223,253	6.91%
Capital Assets	<u>2,675,348</u>	<u>2,394,875</u>	<u>280,473</u>	11.71%
Total Assets	<u>6,129,710</u>	<u>5,625,984</u>	<u>503,726</u>	8.95%
Current Liabilities	<u>16,350</u>	<u>7,847</u>	<u>(8,503)</u>	-108%
Total Liabilities	<u>16,350</u>	<u>7,847</u>	<u>(8,503)</u>	-108%
Invested in Capital Assets	2,675,348	2,394,875	280,473	11.71%
Restricted for Connection Fees	80,738	77,785	2,953	3.66%
Unrestricted	<u>3,357,274</u>	<u>3,145,477</u>	<u>211,797</u>	6.73%
Total Net Assets	<u>\$6,113,360</u>	<u>\$5,618,137</u>	<u>\$ 495,223</u>	8.81%

Changes in District net assets can be determined by reviewing the following condensed Statement of Revenues, Expenses, and Change in Fund Net Assets.

BAYSHORE SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012

Condensed Statement of Revenues and Expenses and Changes in Fund Net Assets

	<u>2012</u>	<u>2011</u>	<u>\$ Change</u>	<u>% Change</u>
Operating Revenue	\$ 1,051,101	\$ 1,094,740	\$ (43,639)	-3.99%
Property Taxes	240,754	134,372	106,382	79.17%
Connection Fees	2,953	7,015	(4,062)	-57.90%
Interest Income and other	15,034	18,132	(3,098)	-17.09%
Total Revenue	<u>1,309,842</u>	<u>1,254,259</u>	<u>55,583</u>	4.43%
Operating Expenses	<u>1,114,630</u>	<u>1,081,052</u>	<u>(29,661)</u>	-2.74%
Increase in Fund Net Assets	195,212	173,207	22,005	12.70%
Fund Net Assets, Beginning of Year	<u>5,618,137</u>	<u>5,444,930</u>		
Prior period adjustment	<u>300,011</u>	<u>-</u>		
Fund Net Assets, End of Year	<u>\$6,113,360</u>	<u>\$5,618,137</u>		

Budgetary Highlights

The District is not required by statute to adopt a budget. However, in its commitment to fiscal responsibility, the District adopts an annual budget that outlines the major elements of forthcoming operations and capital improvements.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2012, the District had \$2,675,348 (net of accumulated depreciation) invested in capital assets.

The assets included: land, buildings, sewage collection system consisting of subsurface lines and pumps, and equipment. The increase of \$280,473 in capital assets for this year is due to the annual depreciation expense taken on district assets plus a prior period adjustment of \$300,011. The District engineer reviewed the depreciation schedule and determined that there were items that had not been capitalized from the 2004-2008 fiscal years. The District also replaced a couple of laterals as part of its ongoing maintenance of District infrastructure.

BAYSHORE SANITARY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

The following table summarizes District capital assets at historical costs for fiscal year ended June 30, 2012 and 2011:

	2012	2011
Land	\$ 54,424	\$ 54,424
Buildings	470,226	470,226
Sewage collection system	3,356,614	3,011,009
Furniture and equipment	15,747	15,747
	<u>3,897,011</u>	<u>3,551,406</u>
Accumulated depreciation	<u>(1,221,663)</u>	<u>(1,156,531)</u>
Total capital assets	<u>\$2,675,348</u>	<u>\$2,394,875</u>

RATES AND OTHER ECONOMIC FACTORS

The District is governed in part by provisions of the State Water Resources Control Board (SWRCB) that require rate-based revenues that must cover the costs of operation, maintenance and recurring capital replacement (OM&R). The District is not subject to general economic conditions such as increases or declines in property tax values or other types of revenues that vary with economic conditions such as sales taxes. Accordingly, the District sets its rates to its users to cover the costs of OM&R plus any increments for known or anticipated changes in program costs.

Increases in operating costs have been kept at or below inflationary levels in recent years.

REQUESTS FOR INFORMATION

This financial report is designed to provide our customers and creditors with a general overview of District finances, and demonstrate District accountability for the money it receives. If you have any questions about this report, or need additional financial information, contact the District at 36 Industrial Way, Brisbane, CA 94005 or (415) 467-1144.

BAYSHORE SANITARY DISTRICT
STATEMENT OF NET ASSETS
June 30, 2012

ASSETS

Current Assets:

Cash and investments	\$ 3,382,849
Trade receivables	69,266
Interest receivable	2,247

Total current assets 3,454,362

Capital assets	3,897,011
Accumulated depreciation	<u>(1,221,663)</u>

Total capital assets, net 2,675,348

TOTAL ASSETS \$ 6,129,710

LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable and accrued liabilities	<u>\$ 16,350</u>
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Total current liabilities 16,350

Net Assets

Invested in capital assets, net	2,675,348
Restricted for connection fees	80,738
Unrestricted	<u>3,357,274</u>

Total net assets 6,113,360

TOTAL LIABILITIES AND NET ASSETS \$ 6,129,710

The accompanying notes are an integral part of these financial statements

**BAYSHORE SANITARY DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012**

Operating revenues:	
Sewer service charges	\$ 1,041,707
Permit and inspection fees	9,394
	<u>1,051,101</u>
Operating expenses:	
Sewage collection	148,592
Sewage treatment	840,908
Administration and general	125,130
	<u>1,114,630</u>
Total operating revenues	1,051,101
Total operating expenses	1,114,630
Operating income (loss)	<u>(63,529)</u>
Non-operating revenues and (expenses):	
Taxes revenue	240,754
Interest income	15,034
Other	-
	<u>255,788</u>
Total non-operating revenues and (expenses)	255,788
Income (loss) before contributions	192,259
Capital contributions (connection fees)	<u>2,953</u>
Change in net assets	195,212
Beginning net assets	<u>5,618,137</u>
Prior period adjustment	<u>300,011</u>
Ending net assets	<u>\$ 6,113,360</u>

The accompanying notes are an integral part of these financial statements

**BAYSHORE SANITARY DISTRICT
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2012**

Cash flows from operating activities:	
Receipts from customers	\$ 983,395
Payments to suppliers	<u>(1,054,358)</u>
Net cash provided by operating activities	<u>(70,963)</u>
Cash Flows from non-capital financing activities:	
Receipts from property taxes and other operating income	<u>240,754</u>
Net cash provided by non-capital financing activities	<u>240,754</u>
Cash flows from capital and related financing activities:	
Connection fees collected	2,953
Other income	<u>-</u>
Net cash provided by (used in) capital and related financing activities	<u>2,953</u>
Cash flows from investing activities:	
Capital expenses	(32,231)
Interest income	<u>15,778</u>
Net cash provided by investing activities	<u>(16,453)</u>
Net increase (decrease) in cash and cash equivalents	156,291
Cash and cash equivalents, beginning of year	<u>3,226,558</u>
Cash and cash equivalents, end of year	<u><u>\$ 3,382,849</u></u>
Reconciliation of operating income (loss) to net cash provided by (used) by operating activities:	
Operating income (loss)	\$ (63,529)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	51,769
(Increase) decrease in accounts receivable	(67,706)
Increase (decrease) in accounts payable and accrued liabilities	<u>8,503</u>
Net cash provided (used) by operating activities	<u><u>\$ (70,963)</u></u>

The accompanying notes are an integral part of these financial statements

BAYSHORE SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Bayshore Sanitary District (District) is a California Special District, formed in June 1925. The District operates a wastewater collection facility serving portions of the City of Brisbane and the Bayshore area of Daly City. Revenues are derived principally from sewer service charges collected from commercial and residential users within the District.

Although the nucleus of a financial reporting entity usually is a primary government, an organization other than a primary government, such as a stand-alone government, may serve as the nucleus for its financial reporting entity when the stand-alone government provides separately issued financial statements. A stand-alone government is a legally separate governmental organization that does not have a separately elected governing body and does not meet the definition of a component unit. The Bayshore Sanitary District meets the criteria as a stand-alone government, and accordingly, is accounted for and reported on as though it were a primary government.

B. Basis of Presentation

The District accounts for its financial transactions in accordance with the policies and procedures for California special districts. The accounting policies of the District conform to accounting principles generally accepted in the United States of America, and as prescribed by the Governmental Accounting Standards Board and Audits of State and Local Governmental Units, issued by the American Institute of Certified Public Accountants.

C. Basis of Accounting

Proprietary Fund Financial Statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Fund Net Assets, and a Statement of Cash Flows for each major proprietary fund and non-major funds aggregated. The District has only one fund, its main operating fund.

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (Whether current or noncurrent) are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Fund Net Assets present increases (revenues) and decreases (expenses) in total 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.

BAYSHORE SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

C. Basis of Accounting - continued

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the District. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the District. All other expenses are reported as non-operating expenses.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as property taxes, result from non-exchange transactions or ancillary activities.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as needed.

As permitted by Governmental Accounting Standards Board's statement number 20, the District applies all applicable GASB pronouncements as well as all applicable FASB pronouncements issued on or before November 30, 1989.

D. Budget

Annually, the Board adopts an operating budget. This budget is revised by the Board during the year, if necessary, to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption.

E. Property, Plant, Equipment and Depreciation

Capital assets, which include property, plant, and equipment are recorded at historical costs or estimated historical cost, if actual cost is not available. Contributed assets are recorded at estimated fair value on the date of contribution. District historically has capitalized assets with an expected useful life of greater than \$5,000.

Depreciation is computed using the straight-line method over the estimated useful life of the assets as follows: Buildings – 50 years; sewage collection system – 80 years; and furniture and equipment 7-20 years.

F. Statement of Cash Flows

For purposes of the statement of cash flows, all highly liquid investments with maturities of three months or less, when purchased are considered to be cash equivalents. The District did not incur any interest expense during the year presented. All investments at June 30, 2012 are considered cash equivalents.

BAYSHORE SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

G. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

H. Revenues – Connection Fees

Connection fees represent a one-time contribution of resources to the District imposed on contractors and developers for the purpose of financing growth-related construction and improvements. Connection fees are recognized as other capital contributions in the statement of revenues, expenses, and changes in net assets.

I. Accounts Receivable

Management believes that the District’s receivables are fully collectible. Accordingly, no allowance for doubtful accounts has been made.

NOTE 2: DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Cash and cash equivalents as of June 30, 2012, consist of the following:

Deposits with financial institutions	\$ 852,795
Investments	2,530,054
Total Deposits and Investments	<u>\$ 3,382,849</u>

General Authorizations

Unless otherwise expressly approved by the District Board, funds available for investment shall be deposited and/or invested only as follows:

- Federal Deposit Insurance Corporation-issued accounts in banks or savings and loan associations as permitted by CGC 53635
- The Local Agency Investment Fund (LAIF) created by CGC 16429.1

The following investments are prohibited by the District under the provisions of CGC 53601.6 and 63631.5; Inverse floaters, range notes, interest-only strips derived from mortgage pools or any investment that may result in a zero interest accrual if held to maturity.

BAYSHORE SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

NOTE 2: DEPOSITS AND INVESTMENTS - continued

The District's investments were in compliance with the above provisions as of and for the year ended June 30, 2012.

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 changes in market interest rates. The District manages its exposure to interest rate risk by purchasing only shorter-term investments as necessary to provide the cash flow and liquidity needed for operations. Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of the District's investment by maturity:

Investment Type	Fair Value	Maturity Date
State Investment Pool	\$ 2,530,054	212 Days

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The state investment pool is not rated.

Concentration of Credit Risk

The District's investment policy contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government Code.

Custodial Credit Risk – Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy, as well as the California Government Code, requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The marked 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 public deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105% of the secured deposits. As of June 30, 2012, the District's bank balance of \$871,133, with a reported balance of \$852,795, is collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

BAYSHORE SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

NOTE 2: DEPOSITS AND INVESTMENTS - continued

Custodial Credit Risk – Investments

This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. However, the District's policy states that all security transactions entered into by the Bayshore Sanitary District shall be conducted on delivery-versus-payment (DVP) basis. All securities purchased or acquired shall be delivered to the Bayshore Sanitary District by book entry, physical delivery or by third party custodial agreement (CGC 53601).

Investment in the State Investment Pool

The District is a voluntary participant in the 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 District's investment in the pool is reported in the accompanying financial statement at amounts based upon the District'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 is recorded on the amortized cost basis.

NOTE 3: CAPITAL ASSETS

Changes in the District's capital assets and related accumulated depreciation for the year ended June 30, 2012, are summarized as follows:

	Balance July 1, 2011	Additions	Deletions	Adjustments	Balance June 30, 2012
Land	\$ 54,424	\$ -	\$ -	\$ -	\$ 54,424
Buildings	470,226	-	-	-	470,226
Sewage collection system	3,011,009	32,231	-	313,374	3,356,614
Furniture and equipment	15,747	-	-	-	15,747
Total historical cost	3,551,406	32,231	-	313,374	3,897,011
Accumulated depreciation	(1,156,531)	(51,769)	-	(13,363)	(1,221,663)
Total net of accumulated depreciation	<u>\$ 2,394,875</u>	<u>\$ (19,538)</u>	<u>\$ -</u>	<u>\$ 300,011</u>	<u>\$ 2,675,348</u>

NOTE 4: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions' injuries to employees; and natural disaster. The District joined together with other entities to form the California Sanitation Risk

BAYSHORE SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

NOTE 4: RISK MANAGEMENT – continued

Management Authority (CSRMA), a public entity risk pool currently operating as a common risk management and insurance program for 53 member entities. The purpose of CSRMA is to spread the adverse effects of losses among the member entities and to purchase excess insurance as a group, thereby reducing its cost. The District pays annual premiums to CSRMA for its Pooled Liability and Property Damage insurance.

The District pays annual premiums to the State Compensation Insurance Fund for its Workers' Compensation Program.

CSRMA is governed by a Board composed of one representative from each member agency. The Board controls the operations of CSRMA including selection of management and approval of operating budgets, independent of any influence by member entities.

Audited condensed financial information for CSRMA is presented below for the year ended June 30, 2011 (most recent information available):

Total Assets	\$ 31,453,997
Total Liabilities	<u>15,533,884</u>
Equity	<u>15,920,113</u>
Total revenues	<u>10,355,129</u>
Total expenses	<u>\$ 7,622,401</u>

The policy includes coverage limits of \$1,000,000 per occurrence/\$3,000,000 in aggregate for Commercial General Liability; limits of \$1,000,000 per occurrence/\$1,000,000 in aggregate for Excess General Liability and Errors & Omissions.

NOTE 5: COMMITMENTS AND CONTINGENCIES

The District is exposed to litigation that arises from the normal course of business. It is the assertion of legal counsel and management that no litigation exists at June 30, 2012 that will adversely affect the District's financial position.

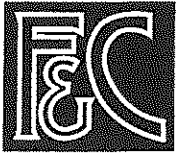
NOTE 6: SUBSEQUENT EVENTS

The District has reviewed events through August 15, 2012. No matters have been noted that would materially affect the carrying balances of district assets and liabilities.

NOTE 7: PRIOR PERIOD ADJUSTMENT

After the end of the year, the District's engineer reviewed the depreciation schedule and noted that certain additions from the 2004-2008 years had not been capitalized. The total amount of the prior period adjustment was \$300,011.

SUPPLEMENTARY INFORMATION



**FECHTER
& COMPANY**
Certified Public Accountants

Craig R. Fechter, CPA
Scott A. German, CPA

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

Board of Directors
Bayshore Sanitary District
Brisbane, California

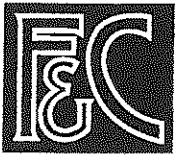
Our report on our audit of the basic financial statements of Bayshore Sanitary District for the fiscal year ended June 30, 2012, appears on page 1. That audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The comparative statement of operating expense with budget for the year ended June 30, 2012, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Fechter & Company, Certified Public Accountants

Sacramento, California
August 15, 2012

**BAYSHORE SANITARY DISTRICT
COMPARATIVE STATEMENT OF OPERATING EXPENSES WITH BUDGET
FOR THE YEAR ENDED JUNE 30, 2012**

Operating expenses:	<u>Budget</u>	<u>Actual</u>	<u>Under (Over) Budget</u>
Sewage treatment			
Sewage treatment expense	\$ 850,000	\$ 840,908	\$ (21,047)
Sewage collection			
Gas and oil	300	-	300
Operation and maintenance	85,000	83,195	1,805
Repairs and maintenance	15,000	1,215	13,785
Utilities	12,000	9,979	2,021
Special services	2,200	2,434	(234)
Depreciation	-	51,769	(51,769)
Total sewage collection	<u>114,500</u>	<u>148,592</u>	<u>(34,092)</u>
Administrative and general			
Benefits	9,600	9,700	(100)
Director fees	12,600	11,157	1,443
Election expenses	4,000	-	4,000
Insurance	11,000	8,230	2,770
Licenses and permits	4,000	2,818	1,182
Memberships	3,000	2,714	286
Office expense	5,000	2,760	2,240
Audit and accounting fees	10,000	9,693	307
Legal fees	45,000	18,744	26,256
Other services	3,000	2,779	221
Engineering fees	62,000	40,957	21,043
Administration	16,800	14,896	1,904
Printing and publications	1,500	552	948
Travel and meetings	5,000	130	4,870
Repairs and maintenance	500	-	500
Capital improvements	42,200	-	42,200
Total administrative and general	<u>235,200</u>	<u>125,130</u>	<u>110,070</u>
Total operating expenses	<u>\$ 1,199,700</u>	<u>\$ 1,114,630</u>	<u>\$ 54,931</u>



**INDEPENDENT AUDITORS' 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***

Board of Directors
Bayshore Sanitary District
Brisbane, California

We have audited the financial statements of the Bayshore Sanitary District (the District), as of and for the year ended June 30, 2012, and have issued our report thereon dated August 15, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Controller General of the United States, and the State Controller's Minimum Audit Requirements for California Special District.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District'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 District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to initiate, authorize, record, process, or report financial data reliably, in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Agency's financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Agency's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.


Governing Board
Bayshore Sanitary District
Brisbane, California

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the District 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 Board, management, and the State Controller's office and is not intended to be and should not be used by anyone other than these specified parties.

Fechter & Company, Certified Public Accountants



Sacramento, California
August 15, 2012