

BAYSHORE SANITARY DISTRICT
MANAGEMENT REPORT
FOR THE YEAR ENDED JUNE 30, 2014

BAYSHORE SANITARY DISTRICT

Management Report
For the Year Ended June 30, 2014

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Board of Directors of the
Bayshore Sanitary District
Brisbane, California

In planning and performing our audit of the financial statements of the Bayshore Sanitary District for the year ended June 30, 2014, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce, to a relatively low level, the risk that errors or irregularities in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We will review the status of these comments during our next audit engagement. We will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. We thank the District's staff for its cooperation on this audit.

Fechter & Company, Certified Public Accountants



August 29, 2014
Sacramento, CA

BAYSHORE SANITARY DISTRICT

Required Communications
For the Year Ended June 30, 2014

The Auditor's Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

As part of obtaining reasonable assurance about whether the District financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Internal Control Considerations at a Small Entity

At most small to mid-sized entities, internal controls cannot be designed to guarantee absolute assurance against fraud or abuse due to the lack of resources to properly segregate duties. However, even in smaller entities there are a number of procedures which can be performed in order to assist the District both analyze its finances and protect against the risk of fraud:

- An individual independent of the bookkeeping function should review the bank reconciliations on a monthly basis.
- Checks should be signed by a person independent of the bookkeeping and preparation process.
- The board of directors should review the District's financial statements on a monthly basis. This would include a balance sheet, a profit & loss statement, and a budget to actual statement.

BAYSHORE SANITARY DISTRICT

Required Communications
For the Year Ended June 30, 2014

- Individuals responsible for reviewing the financial information should exercise “professional skepticism” for the information presented. Staff should be questioned about major changes from expectations and changes from the prior year.

Accounting Estimates

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

- Capital asset lives and depreciation expense

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of financial statements. An audit adjustment may or may not indicate matters that could have a significant effect on the District’s financial reporting process. The following audit adjustment, made by us on an annual basis, indicates a matter that could have a significant effect on the District’s financial reporting process:

- Posting current year depreciation expense
- Posting year-end accounts payable
- Reconciling net assets with previous periods

Disagreements with Management

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

Consultations with Other Independent Auditors

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

BAYSHORE SANITARY DISTRICT

Required Communications
For the Year Ended June 30, 2014

Issues Discussed Prior to Retention of Independent Auditors

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

Difficulties Encountered in Performing the Audit

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

BAYSHORE
SANITARY DISTRICT
FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED
JUNE 30, 2014
WITH
INDEPENDENT AUDITORS' REPORT

BAYSHORE SANITARY DISTRICT
JUNE 30, 2014

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INDEPENDENT AUDITORS' REPORT

Governing Board
Bayshore Sanitary District
Brisbane, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Bayshore Sanitary District as of June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinion.

Governing Board
Bayshore Sanitary District
Brisbane, CA

Unmodified Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bayshore Sanitary District as of June 30, 2014, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other information

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 large, stylized handwritten signature in black ink that reads "Fechter & Company, CPAs". The signature is written in a cursive, flowing style.

Sacramento, California
September 9, 2014

BAYSHORE SANITARY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014

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, 2014. Please read it in conjunction with the District financial statements.

District Highlights

- The District completed the first full fiscal year under terms of the renegotiated wastewater treatment contract with the San Francisco Public Utilities Commission (SFPUC) and it resulted in a 10% decrease in the annual sewer service charge.
- There was a decrease in sewer service charges due to lower discharges from the Universal Paragon landfill remediation and the PG7E hydro testing projects.
- The District's Sewer System Management Plan was reviewed and updated and the annual internal review was completed. The development of an emergency response plan for the Carlyle Pump Station was initiated.
- Video inspection of the District's oldest lines was conducted for CIP planning purposes.
- The District Engineer began a project of creating a fiscal year procedures manual relative to sewer service charges, SFPUC billing documentation review, non-residential usage, etc. This project will be completed by December 31, 2014.

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 Position 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 Position. 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 resulting from operations, investing, and capital and noncapital financial activities. It provides

BAYSHORE SANITARY DISTRICT

**MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

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 Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the District activities in a way that will help answer this question. These two statements report the net position of the District and changes in them. You can think of District net position – the difference between assets and liabilities – as one way to measure financial health or financial position. Over time, increases or decreases in District net position are one indicator of whether its financial health is improving or deteriorating. Other factors to consider include changes in economic conditions, population growth, condition of the District’s pipeline infrastructure, future expected infrastructure costs and new or changed legislation.

Changes in Net Position

District total net position increased from the previous year by \$210,532. The following condensed financial statements show net position, statement of net position and statement of revenue and expenses and changes in net position.

Condensed Statement of Net Position

	<u>2014</u>	<u>2013</u>	<u>\$ Change</u>	<u>% Change</u>
Current Assets	\$ 4,046,217	\$ 3,792,753	\$ 253,464	6.68%
Capital Assets	<u>2,578,197</u>	<u>2,624,209</u>	<u>(46,012)</u>	-1.75%
Total Assets	<u>6,624,414</u>	<u>6,416,962</u>	<u>207,452</u>	3.23%
Current Liabilities	<u>10,090</u>	<u>13,170</u>	<u>3,080</u>	-23.39%
Total Liabilities	<u>10,090</u>	<u>13,170</u>	<u>3,080</u>	-23.39%
Invested in Capital Assets	2,578,197	2,624,209	(46,012)	-1.75%
Restricted for Connection Fees	80,738	80,738	-	-%
Unrestricted	<u>3,955,389</u>	<u>3,698,845</u>	<u>256,544</u>	6.94%
Total Net Position	<u>\$ 6,614,324</u>	<u>\$6,403,792</u>	<u>\$ 210,532</u>	3.29%

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

BAYSHORE SANITARY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014

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

	<u>2014</u>	<u>2013</u>	<u>\$ Change</u>	<u>% Change</u>
Operating Revenue	\$ 974,932	\$1,030,118	\$ (55,186)	-5%
Property Taxes	248,956	344,163	(95,207)	-28%
Connection Fees	-	1,807	(1,807)	-
Interest Income and other	11,108	19,791	(8,683)	-44%
Total Revenue	<u>1,234,996</u>	<u>1,395,879</u>	<u>(160,883)</u>	-11%
Operating Expenses	<u>1,024,464</u>	<u>1,105,447</u>	<u>(80,983)</u>	-7%
Increase in Fund Net Position	210,532	290,432	(79,900)	-27%
Fund Net Position, Beginning of Year	<u>6,403,792</u>	<u>6,113,360</u>		
Fund Net Position, End of Year	<u>\$6,614,324</u>	<u>\$6,403,792</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 2014, the District had \$2,578,197 (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 decrease of \$46,012 in capital assets for this year is due to the annual depreciation expense taken on district assets. 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, 2014**

The following table summarizes District capital assets at historical costs for fiscal year ended June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Land	\$ 54,424	\$ 54,424
Buildings	470,226	470,226
Sewage collection system	3,362,114	3,356,614
Furniture and equipment	<u>15,747</u>	<u>15,747</u>
	3,902,511	3,897,011
Accumulated depreciation	<u>(1,324,314)</u>	<u>(1,272,802)</u>
Total capital assets	<u><u>\$2,578,197</u></u>	<u><u>\$2,624,209</u></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 POSITION
JUNE 30, 2014**

ASSETS

Current Assets:

Cash and investments	\$ 4,043,497
Trade receivables	2,720
Interest receivable	-
	-

Total current assets	4,046,217
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Capital assets

Accumulated depreciation	3,902,511
	(1,324,314)

Total capital assets, net	2,578,197
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TOTAL ASSETS	\$ 6,624,414
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LIABILITIES AND NET POSITION

Current liabilities:

Accounts payable and accrued liabilities	\$ 10,090
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Total current liabilities	10,090
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Net Position

Invested in capital assets, net	2,578,197
Restricted for connection fees	80,738
Unrestricted net position	3,955,389

Total net position	6,614,324
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TOTAL LIABILITIES AND NET POSITION	\$ 6,624,414
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The accompanying notes are an integral part of these financial statements

BAYSHORE SANITARY DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014

Operating revenues:	
Sewer service charges	\$ 974,932
Permit and inspection fees	<u>1,600</u>
Total operating revenues	<u>976,532</u>
Operating expenses:	
Sewage collection	160,109
Sewage treatment	717,649
Administration and general	<u>146,706</u>
Total operating expenses	<u>1,024,464</u>
Operating loss	<u>(47,932)</u>
Non-operating revenues and (expenses):	
Taxes revenue	248,956
Interest income	<u>9,508</u>
Total non-operating revenues and (expenses)	<u>258,464</u>
Income (loss) before contributions	210,532
Capital contributions (connection fees)	<u>-</u>
Change in net position	210,532
Beginning net position	<u>6,403,792</u>
Prior period adjustment	<u>-</u>
Ending net position	<u><u>\$ 6,614,324</u></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, 2014**

Cash flows from operating activities:	
Receipts from customers	\$ 976,532
Payments to suppliers	<u>(976,032)</u>
Net cash provided by operating activities	<u>500</u>
Cash Flows from non-capital financing activities:	
Receipts from property taxes and other operating income	<u>248,956</u>
Net cash provided by non-capital financing activities	<u>248,956</u>
Cash flows from investing activities:	
Capital expenses	(5,500)
Interest income	<u>11,049</u>
Net cash provided by investing activities	<u>5,549</u>
Net increase (decrease) in cash and cash equivalents	255,005
Cash and cash equivalents, beginning of year	<u>3,788,492</u>
Cash and cash equivalents, end of year	<u><u>\$ 4,043,497</u></u>
Reconciliation of operating income (loss) to net cash provided by (used) by operating activities:	
Operating income (loss)	\$ (47,932)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	51,512
Increase (decrease) in accounts payable and accrued liabilities	<u>(3,080)</u>
Net cash provided (used) by operating activities	<u><u>\$ 500</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, 2014

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 Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, 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 position. 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, 2014

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. The budget presented on page 18 is not on GAAP basis as it presents capital improvements as an expense as opposed to a capitalized item.

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. The District historically has capitalized assets with a value 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 5-20 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, 2014 are considered cash equivalents.

BAYSHORE SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

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 position.

I. Accounts Receivable

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

J. Property Tax Revenues and Sanitation Service Charges

Property taxes and irrigation service charges are billed and collected by the County of San Mateo through the property tax billings. Real property taxes are levied against owners of record. The taxes are due in two installments on November 1 and February 1 and become delinquent after December 10 and April 10, respectively. Property taxes are based on assessed values of real property. A revaluation of all real property must be made upon sale or completion of construction.

K. Implementation of New Accounting Principles

The District adopted the provisions of GASB Statement No. 63 (GASB 63), Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. GASB 63 provides financial reporting guidance for deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. It also identifies net position as the residual of all other elements presented in a statement of financial position, or the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. As implied above, GASB 63 changes the previous classification of net assets to net position, and consequently, the statement of net assets to the statement of net position. The District had no deferred inflows or outflows of resources as of June 30, 2014.

BAYSHORE SANITARY DISTRICT

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 2: DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Cash and cash equivalents as of June 30, 2014, consist of the following:

Deposits with financial institutions	\$ 1,498,255
Investments	2,545,242
Total Deposits and Investments	<u>\$ 4,043,497</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.

The District's investments were in compliance with the above provisions as of and for the year ended June 30, 2014.

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:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity Date</u>
State Investment Pool	<u>\$ 2,545,242</u>	212 Days

BAYSHORE SANITARY DISTRICT

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 2: DEPOSITS AND INVESTMENTS - continued

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, 2014, the District's bank balance of \$1,504,649, with a reported balance of \$1,498,255, is collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

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).

BAYSHORE SANITARY DISTRICT

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 2: DEPOSITS AND INVESTMENTS - continued

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, 2014, are summarized as follows:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Land	\$ 54,424	\$ -	\$ -	\$ 54,424
Buildings	470,226	-	-	470,226
Sewage collection system	3,356,614	5,500	-	3,362,114
Furniture and equipment	15,747	-	-	15,747
Total historical cost	3,897,011	5,500	-	3,902,511
Accumulated depreciation	(1,272,802)	(51,512)	-	(1,324,314)
Total net of accumulated depreciation	\$ 2,624,209	\$ (46,012)	\$ -	\$ 2,578,197

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 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.

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.

BAYSHORE SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

NOTE 4: RISK MANAGEMENT - continued

Audited condensed financial information for CSRMA is presented below for the year ended June 30, 2013 (most recent information available):

Total Assets	\$ 28,340,390
Total Liabilities	16,300,058
Equity	<u>12,040,332</u>
Total revenues	<u>9,652,254</u>
Total expenses	<u>\$ 9,950,148</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, 2014 that will adversely affect the District's financial position.

NOTE 6: SUBSEQUENT EVENTS

The District has reviewed events through September 15, 2014. No matters have been noted that would materially affect the carrying balances of district assets and liabilities.

SUPPLEMENTARY INFORMATION

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, 2014, appears on pages 1 and 2. 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, 2014, 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
September 9, 2014

BAYSHORE SANITARY DISTRICT
COMPARATIVE STATEMENT OF OPERATING EXPENSES WITH BUDGET
FOR THE YEAR ENDED JUNE 30, 2014

Operating expenses:	<u>Budget</u>	<u>Actual</u>	<u>Under (Over)</u> <u>Budget</u>
Sewage treatment			
Sewage treatment expense	\$ 800,000	\$ 717,649	\$ (21,047)
Sewage collection			
Gas and oil	300	274	26
Operation and maintenance	88,200	87,664	536
Repairs and maintenance	10,000	5,838	4,162
Utilities	12,000	13,816	(1,816)
Special services	3,700	1,005	2,695
Depreciation	-	51,512	(51,512)
Total sewage collection	<u>114,200</u>	<u>160,109</u>	<u>(45,909)</u>
Administrative and general			
Payroll & Benefits	14,000	12,178	1,822
Director fees	14,250	11,590	2,660
Election expenses	3,500	-	3,500
Insurance	10,000	8,399	1,601
Licenses and permits	4,000	3,401	599
Memberships	3,000	1,816	1,184
Office expense	4,950	3,248	1,702
Audit and accounting fees	10,300	10,156	144
Legal fees	30,000	16,662	13,338
Other services	3,000	2,927	73
Engineering fees	64,000	48,869	15,131
Administration	17,000	15,926	1,074
Printing and publications	1,500	601	899
Travel and meetings	5,000	1,799	3,201
Repairs and maintenance	500	1,248	(748)
Capital improvements	66,500	7,886	58,614
Total administrative and general	<u>251,500</u>	<u>146,706</u>	<u>104,794</u>
Total operating expenses	<u>\$ 1,165,700</u>	<u>\$ 1,024,464</u>	<u>\$ 37,838</u>