

BAYSHORE SANITARY DISTRICT
FINANCIAL REPORT
WITH
INDEPENDENT AUDITOR'S REPORT THEREON
JUNE 30, 2022

**BAYSHORE SANITARY DISTRICT
FINANCIAL REPORT
JUNE 30, 2022**

TABLE OF CONTENTS

| | <u>PAGE</u> |
|---|-------------|
| INDEPENDENT AUDITOR’S REPORT | 1-3 |
| MANAGEMENT’S DISCUSSION AND ANALYSIS | 4-7 |
| FINANCIAL STATEMENTS | |
| Statement of Net Position | 8 |
| Statement of Revenues, Expenses, and Changes in Net Position | 9 |
| Statement of Cash Flows | 10 |
| Notes to Financial Statements | 11-18 |
| SUPPLEMENTARY INFORMATION | |
| Statement of Actual Operating Expenses with Budgeted Expenses..... | 19 |

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Bayshore Sanitary District
Brisbane, California

Opinion

We have audited the accompanying financial statements of the business-type activities of Bayshore Sanitary District as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise Bayshore Sanitary District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Bayshore Sanitary District as of June 30, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Bayshore Sanitary District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Bayshore Sanitary District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Board of Directors
Bayshore Sanitary District
Brisbane, California

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Board of Directors
Bayshore Sanitary District
Brisbane, California

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Statement of Actual Operating Expenses with Budgeted Expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Statement of Actual Operating Expenses with Budgeted Expenses is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Fechter & Company,
Certified Public Accountants

A handwritten signature in blue ink that reads "Fechter + Company". The signature is written in a cursive, flowing style with a long horizontal flourish extending to the right.

Sacramento, California
November 16, 2022

**BAYSHORE SANITARY DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2022**

The following discussion and analysis of the Bayshore Sanitary District’s (the District) financial performance provides an overview of the District’s financial activities for the fiscal year ended June 30, 2022. Please read it in conjunction with the District’s financial statements.

District Highlights

- There were no mainline sewer overflows in fiscal year 2021-22.
- Successfully negotiated Amendment #3 of the North San Mateo County Sanitation District maintenance service agreement.
- The Habitat for Humanity 6-unit project is complete and occupied.
- A new Siemens flow meter was installed at the Carlyle Pump Station.
- The Midway Village redevelopment project is on-going and will continue for approximately 4 years.
- The Point Martin developers anticipate beginning construction of 122 market rate residences and 11 below market units in 2023.
- There are two other projects in the early stages of development that will generate 199 additional living units in the District.

Financial Highlights

- As required by Prop. 218, the District’s customers were notified in May, 2022 that the sewer service charge rates for fiscal year 2022-23 will move to step two of the five-year plan adopted on May 27, 2021.
- Operating expenses were under the projected total for the fiscal year. However, the District’s contractual arrangement with the City and County of San Francisco for treatment and disposal of the District’s wastewater exceeded the budgeted amount for the year.
- Property tax revenues for the fiscal year 2021-22 again exceeded budget estimates. The District continues to receive taxes from the Brisbane and Daly City’s redevelopment successor agencies.
- Development at Midway Village generated connection fees in the amount of \$501,858. Those funds are held in the Capital Improvement Reserve Fund and can only be used for capital improvements to the District’s wastewater collection system.

**BAYSHORE SANITARY DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2022**

USING THIS FINANCIAL REPORT

This financial 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 Net Position includes all District 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 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 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’s cash receipts, cash disbursements, and net changes in cash resulting from operations, investing, and capital and noncapital financial activities. It provides answers to questions such as, “where did the cash come from,” “for what purpose was cash expended,” and “what were the components of the change in cash balances 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’s 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

The District’s total net position increased from the previous year by \$512,532. This is primarily due to the significant connection fees collected this fiscal year. The following condensed financial statements reflect the Statement of Net Position, along with the Statement of Revenues, Expenses, and Changes in Net Position:

**BAYSHORE SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2022**

Condensed Statement of Net Position

| | <u>2022</u> | <u>2021</u> | <u>\$ Change</u> | <u>% Change</u> |
|----------------------------|---------------------|---------------------|-------------------|-----------------|
| Current Assets | \$ 6,009,240 | \$ 5,467,188 | \$ 542,052 | 9.91% |
| Capital Assets | 2,480,643 | 2,510,163 | (29,520) | -1.18% |
| Total Assets | <u>8,489,883</u> | <u>7,977,351</u> | <u>512,532</u> | <u>6.42%</u> |
| Current Liabilities | <u>42,531</u> | <u>42,531</u> | <u>-</u> | <u>0.00%</u> |
| Invested in Capital Assets | 2,480,643 | 2,510,163 | (29,520) | -1.18% |
| Unrestricted | <u>5,966,709</u> | <u>5,424,657</u> | <u>542,052</u> | <u>9.99%</u> |
| Total Net Position | <u>\$ 8,447,352</u> | <u>\$ 7,934,820</u> | <u>\$ 512,532</u> | <u>6.46%</u> |

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

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

| | <u>2022</u> | <u>2021</u> | <u>\$ Change</u> | <u>% Change</u> |
|---------------------------|---------------------|---------------------|-------------------|-----------------|
| Operating Revenue | \$ 1,348,924 | \$ 1,036,767 | \$ 312,157 | 30.11% |
| Property Taxes | 469,337 | 410,838 | 58,499 | 14.24% |
| Connection Fees | 526,506 | 118,312 | 408,194 | 345.01% |
| Interest Income and other | <u>12,194</u> | <u>20,493</u> | <u>(8,299)</u> | <u>-40.50%</u> |
| Total Revenue | <u>2,356,961</u> | <u>1,586,410</u> | <u>770,551</u> | <u>48.57%</u> |
| Operating Expenses | <u>1,844,429</u> | <u>1,545,394</u> | <u>299,035</u> | <u>19.35%</u> |
| Increase in Net Position | 512,532 | 41,016 | 471,516 | 1149.59% |
| Beginning Net Position | <u>7,934,820</u> | <u>7,893,804</u> | <u>41,016</u> | <u>0.52%</u> |
| Ending Net Position | <u>\$ 8,447,352</u> | <u>\$ 7,934,820</u> | <u>\$ 512,532</u> | <u>6.46%</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.

**BAYSHORE SANITARY DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2022**

CAPITAL ASSETS AND DEBT ADMINISTRATION

At the end of fiscal year 2022, the District had \$2,480,643 (net of accumulated depreciation) invested in capital assets. The assets included: land, buildings, a sewage collection system consisting of subsurface lines and pumps, and equipment. The decrease of \$29,520 in capital assets for this year is due to annual depreciation expense exceeding additions. The following condensed table summarizes District capital assets at historical costs for fiscal years ended June 30, 2022 and 2021:

| | 2022 | 2021 | \$ Change | % Change |
|---------------------------|---------------------|---------------------|--------------------|----------|
| Land | \$ 54,424 | \$ 54,424 | \$ - | 0.00% |
| Buildings | 567,850 | 567,850 | - | 0.00% |
| Sewage collection system | 3,603,997 | 3,574,719 | 29,278 | 0.82% |
| Furniture and equipment | 15,747 | 15,747 | - | 0.00% |
| Total capital assets | 4,242,018 | 4,212,740 | 29,278 | 0.69% |
| Accumulated depreciation | (1,761,375) | (1,702,577) | (58,798) | 3.45% |
| Total capital assets, net | <u>\$ 2,480,643</u> | <u>\$ 2,510,163</u> | <u>\$ (29,520)</u> | -1.18% |

The District developed an updated GIS sewer system map, where the District Engineer conducted a field survey of the entire collection system and updated the years of construction, with a focus on replacement cost. This database is separate from the GAAP-compliant capital asset schedule maintained for the purposes of financial reporting, based on historical cost and date placed in service. The District relies on both reports for making decisions and planning more sewer replacement including residential laterals from the cleanout to the mainline sewer.

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 the District’s 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, California 94005, or (415) 467-1144.

**BAYSHORE SANITARY DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2022**

ASSETS

| | |
|--------------------------------|------------------|
| Current Assets: | |
| Cash and investments | \$ 6,000,012 |
| Trade and interest receivables | 5,167 |
| Prepaid expenses | <u>4,061</u> |
| Total current assets | 6,009,240 |
| Capital assets, net | <u>2,480,643</u> |
| TOTAL ASSETS | 8,489,883 |

LIABILITIES AND NET POSITION

| | |
|--|----------------------------|
| Current Liabilities: | |
| Accounts payable and accrued liabilities | <u>42,531</u> |
| Net Position: | |
| Invested in capital assets, net | 2,480,643 |
| Unrestricted | <u>5,966,709</u> |
| Total Net Position | <u><u>\$ 8,447,352</u></u> |

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, 2022

| | |
|--------------------------------|--------------|
| Operating revenues: | |
| Sewer service charges | \$ 1,304,125 |
| Permit and inspection fees | 44,799 |
| | <hr/> |
| Total operating revenues | 1,348,924 |
| | <hr/> |
| Operating expenses: | |
| Sewage collection | 257,294 |
| Sewage treatment | 1,412,129 |
| Administration and general | 175,006 |
| | <hr/> |
| Total operating expenses | 1,844,429 |
| | <hr/> |
| Operating loss | (495,505) |
| | <hr/> |
| Non-operating revenues: | |
| Tax revenue | 469,337 |
| Interest income | 12,180 |
| Other | 14 |
| | <hr/> |
| Total non-operating revenues | 481,531 |
| | <hr/> |
| Loss before connection fees | (13,974) |
| | <hr/> |
| Connection fees | 526,506 |
| | <hr/> |
| Change in net position | 512,532 |
| | <hr/> |
| Beginning net position | 7,934,820 |
| | <hr/> |
| Ending net position | \$ 8,447,352 |
| | <hr/> <hr/> |

The accompanying notes are an integral part of these financial statements.

**BAYSHORE SANITARY DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED
JUNE 30, 2022**

| | |
|---|----------------------------|
| Cash flows from operating activities: | |
| Receipts from customers | \$ 1,348,924 |
| Payments to suppliers | <u>(1,785,631)</u> |
| Net cash used by operating activities | <u>(436,707)</u> |
| Cash flows from non-capital financing activities: | |
| Receipts from property taxes and other operating income | <u>995,857</u> |
| Net cash provided by non-capital financing activities | <u>995,857</u> |
| Cash flows from investing activities: | |
| Capital expenses | (29,278) |
| Interest income | <u>9,260</u> |
| Net cash used in investing activities | <u>(20,018)</u> |
| Net increase in cash and cash equivalents | 539,132 |
| Cash and cash equivalents, beginning of year | <u>5,460,880</u> |
| Cash and cash equivalents, end of year | <u><u>\$ 6,000,012</u></u> |
| Reconciliation of operating income to net cash: provided by operating activities | |
| Operating loss | \$ (495,505) |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Depreciation | 58,798 |
| Decrease in accounts payable and accrued liabilities | <u>-</u> |
| Net cash used in operating activities | <u><u>\$ (436,707)</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, 2022**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Bayshore Sanitary District (the 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 (GAAP), and as prescribed by the Governmental Accounting Standards Board (GASB) 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 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 Position. The Statement of Revenues, Expenses, and Changes in Net Position 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, 2022**

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 Financial Accounting Standards Board (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 to actual comparison, as listed under the Table of Contents, is not presented in accordance with GAAP because current-year capital asset additions are presented as expenditures rather than increases in capital asset balances.

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 has historically capitalized assets with a value of greater than \$5,000 with an estimated useful life greater than one year.

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. All investments at June 30, 2022, are considered cash equivalents.

**BAYSHORE SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2022**

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 sewer 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. GASB Statement 63

The District has 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.

**BAYSHORE SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2022**

NOTE 2: DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Cash and cash equivalents as of June 30, 2022 consist of the following:

| | | |
|--------------------------------------|--------|---------------|
| Deposits with financial institutions | \$ | 3,240,156 |
| State Investment Pool | | 2,759,856 |
| Total Deposits and Investments | \$ | 6,000,012 |

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 California Government Code (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, 2022.

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 | \$ 2,759,856 | 1.05 years |

**BAYSHORE SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2022**

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

Custodial credit risk over deposits 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 market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure 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, 2022, the District's bank balance of \$3,384,789 with a reported balance of \$2,708,708, 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

Custodial credit risk over investments 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, 2022**

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 statements 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, 2022 is summarized as follows:

| | Balance July 1, 2021 | Additions | Deletions | Transfers | Balance June 30, 2022 |
|----------------------------------|-------------------------|-------------------|-------------|-------------|--------------------------|
| Capital Assets, non-depreciable: | | | | | |
| Land | \$ 54,424 | \$ - | \$ - | \$ - | \$ 54,424 |
| Construction in progress | - | - | - | - | - |
| Total, non-depreciable | <u>54,424</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>54,424</u> |
| Capital Assets, depreciable: | | | | | |
| Buildings | 567,850 | - | - | - | 567,850 |
| Sewage collection system | 3,574,719 | 29,278 | - | - | 3,603,997 |
| Furniture and equipment | 15,747 | - | - | - | 15,747 |
| Total, depreciable | <u>4,158,316</u> | <u>29,278</u> | <u>-</u> | <u>-</u> | <u>4,187,594</u> |
| Accumulated depreciation | <u>(1,702,577)</u> | <u>(58,798)</u> | <u>-</u> | <u>-</u> | <u>(1,761,375)</u> |
| Total capital assets, net | <u>\$ 2,510,163</u> | <u>\$(29,520)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,480,643</u> |

The District's depreciation expense for the fiscal year ended June 30, 2022 was \$58,798.

**BAYSHORE SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2022**

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 disasters. 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.

Audited condensed financial information for CSRMA is presented below for the year ended June 30, 2021 (most recent information available):

| | |
|-------------------|---------------------|
| Total Assets | \$31,110,033 |
| Total Liabilities | 24,687,781 |
| Equity | <u>\$6,422,252</u> |
| | |
| Total revenues | <u>\$15,793,441</u> |
| | |
| Total expenses | <u>\$16,584,260</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, 2022 that will adversely affect the District's financial position.

The District has been in discussions with the San Francisco Public Utilities Commission (SFPUC) to resolve a fee dispute concerning the District's annual sewer service charges. It is not anticipated that this dispute will result in litigation or result in costs beyond the disputed amount and possible interest charges. It is likely that the parties will resolve this dispute at a lower sum. The District is unable to estimate the amount likely to be paid, and therefore no amount has been accrued on the financial statements presented.

**BAYSHORE SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2022**

NOTE 6: SUBSEQUENT EVENTS

In accordance with FASB Accounting Standards Codification Topic 855, Subsequent Events, the District has evaluated subsequent events through November 16, 2022, which is the date these financial statements were available to be issued. Management has not determined any subsequent events that require disclosure or adjustment to the financial statements.

SUPPLEMENTARY INFORMATION

BAYSHORE SANITARY DISTRICT
STATEMENT OF ACTUAL OPERATING EXPENSES WITH BUDGETED EXPENSES
FOR THE YEAR ENDED
JUNE 30, 2022

| Operating expenses | <u>Budget</u> | <u>Actual</u> | <u>Under (Over)</u> <u>Budget</u> |
|---|----------------------------|----------------------------|--------------------------------------|
| Sewage treatment: | | | |
| Sewage treatment expense | <u>\$ 1,300,000</u> | <u>\$ 1,412,129</u> | <u>\$ (112,129)</u> |
| Sewage collection: | | | |
| Gas and oil | 500 | 2,951 | (2,451) |
| Operation and maintenance | 112,500 | 116,020 | (3,520) |
| Repairs and maintenance | 13,500 | 2,253 | 11,247 |
| Utilities | 19,000 | 14,595 | 4,405 |
| Special services | 4,000 | 1,078 | 2,922 |
| Outside spill response and cleaning service | 68,000 | 61,599 | 6,401 |
| Depreciation | - | 58,798 | (58,798) |
| Total sewage collection | <u>217,500</u> | <u>257,294</u> | <u>(39,794)</u> |
| Administrative and general: | | | |
| Payroll and Benefits | 13,400 | 13,335 | 65 |
| Director fees | 15,000 | 13,110 | 1,890 |
| Insurance | 18,000 | 12,443 | 5,557 |
| Licenses and permits | 7,000 | 6,535 | 465 |
| Memberships | 2,500 | 2,002 | 498 |
| Office expense | 6,300 | 5,823 | 477 |
| Audit and accounting fees | 12,500 | 11,675 | 825 |
| Legal fees | 22,000 | 28,075 | (6,075) |
| Other services | 4,700 | 4,573 | 127 |
| Engineering fees | 70,000 | 54,487 | 15,513 |
| Administration | 21,000 | 20,183 | 817 |
| Printing and publications | 1,500 | 840 | 660 |
| Travel and meetings | 7,500 | 1,925 | 5,575 |
| Board Room Maintenance & Repairs | 5,000 | - | 5,000 |
| Total administrative and general | <u>206,400</u> | <u>175,006</u> | <u>31,394</u> |
| Total operating expenses | <u><u>\$ 1,723,900</u></u> | <u><u>\$ 1,844,429</u></u> | <u><u>\$ (120,529)</u></u> |