

## Board of Directors Finance Committee Meeting

This meeting will be held remotely, with no physical meeting location, pursuant to Government Code Section 54953(e). Members of the public may join the meeting by clicking on the following link:

**To join the meeting by video, click on:**

**<https://oneshoreline-org.zoom.us/j/88677010174?pwd=eTJFeUNGUURhWWcxMis0c2FjdGRWQT09>**

**To join the meeting by phone, call: 669-444-9171, Meeting ID: 886 7701 0174, Passcode: 814798**

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## **AGENDA** **November 17, 2022** **11:00 AM**

- 1. Roll Call**
- 2. Public Comment** Persons wishing to address the Committee on District-related matters not on this Agenda may speak for up to two minutes; comments on Agenda items shall be heard during that item for up to two minutes.
- 3. Action to Set the Agenda**
- 4. Regular Business**
  - A. With the District's Auditor, discuss the draft Audited Financial Statements for the July 1, 2021 – June 30, 2022 Fiscal Year (attached) \*
  - B. With the District's Investment Advisor, discuss the recent performance of investments and potential amendments to the District's Investment Policy (attached) \*
- 5. Adjournment**

\* There is no written staff report for this item

### **Meeting information, and public access and communications**

- During the meeting, public comment can be submitted at the appropriate time via Zoom Chat or by raising your hand, speaking if joining by phone, or email to [board@OneShoreline.org](mailto:board@OneShoreline.org) prior to 8:00 a.m. on the meeting day; please indicate the agenda item to which your comment applies and it will be read or summarized at the meeting by the Board Clerk.
- If you require assistance to participate in the meeting or wish to submit written communication to all Board Members regarding the meeting, please contact the Clerk of the Board by 8:00 am on the day of the meeting.
- Public records relating to an open session item on the agenda are available at least 72 hours prior to a Regular Board meeting or at least 24 hours prior to a Special Board meeting, when these records are distributed to Board members. Public records are available at the District office at 1700 South El Camino Real, Suite 502, San Mateo, CA 94402 and at OneShoreline.org. To receive these documents electronically, please email [board@OneShoreline.org](mailto:board@OneShoreline.org).

# **San Mateo County Flood and Sea Level Rise Resiliency District**

**DRAFT**

**Independent Auditor's Reports,  
Basic Financial Statements,  
Required Supplementary Information, and  
Other Supplementary Information**

For the Year Ended June 30, 2022

San Mateo, California

# SAN MATEO COUNTY FLOOD AND SEA LEVEL RISE RESILIENCY DISTRICT Awards and Achievements



# SAN MATEO COUNTY FLOOD AND SEA LEVEL RISE RESILIENCY DISTRICT

FY2021-2022

## Board of Directors



Dave Pine  
Chair  
District 1



Debbie Ruddock  
Vice Chair  
Coastside



Diane Papan  
Central San Mateo  
County Cities



Don Horsley  
District 3



Donna Colson  
Northern San Mateo County  
Cities



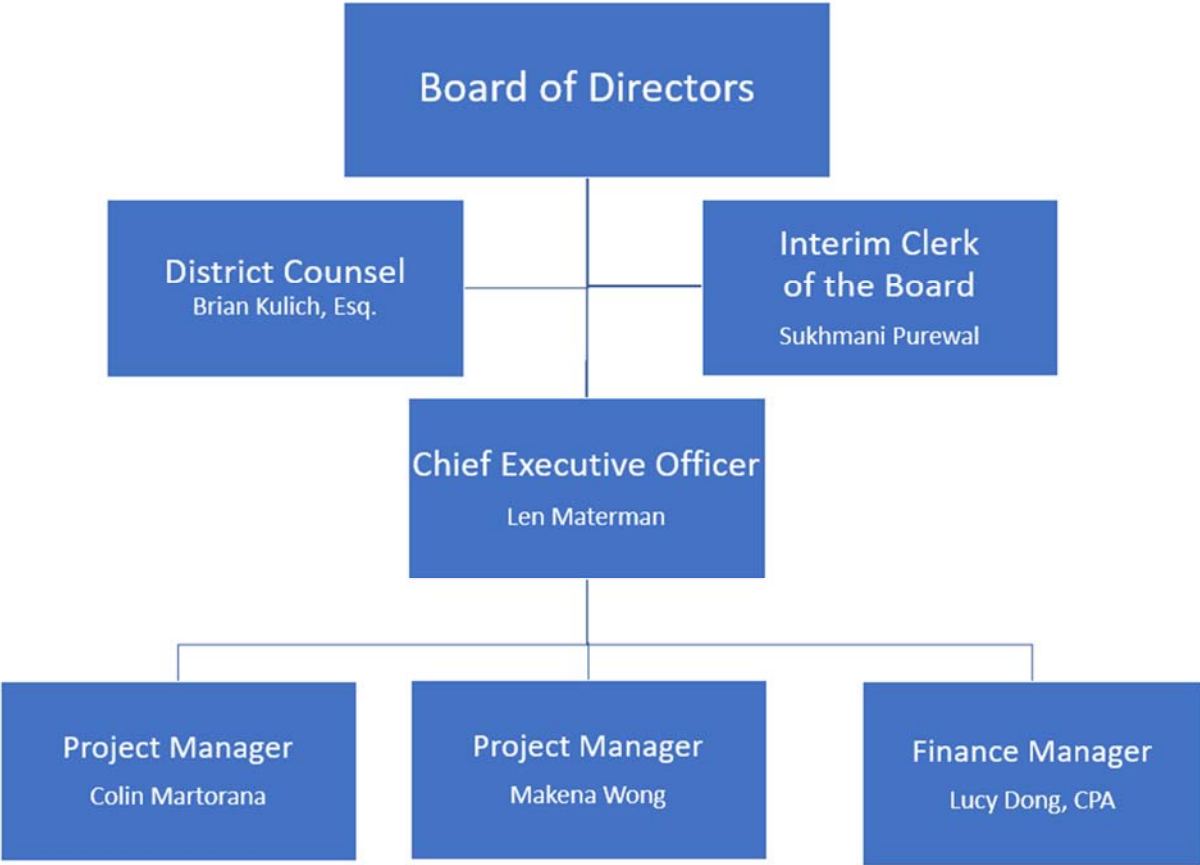
Lisa Gauthier  
Southern San Mateo County  
Cities



Marie Chuang  
San Mateo County Cities  
At-Large

SAN MATEO COUNTY FLOOD AND SEA LEVEL  
RISE RESILIENCY DISTRICT

Organization Chart



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**SAN MATEO COUNTY  
FLOOD AND SEA LEVEL RISE RESILIENCY DISTRICT  
For the Year Ended June 30, 2022**

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## **Independent Auditor's Report**

Board of Directors  
San Mateo County Flood and Sea Level Rise Resiliency District  
San Mateo, California

### **Report on the Audit of the Financial Statements**

#### ***Opinions***

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the San Mateo County Flood and Sea Level Rise Resiliency District (District) as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2022, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinions***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 the 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 the 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.



### ***Auditor's Responsibility 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 GAAS and *Government 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 GAAS and *Government 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.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as noted in the table of contents 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 combining nonmajor fund financial statements and the schedule of cities support are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor fund financial statements and schedule of cities support are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 combining nonmajor fund financial statements and schedule of cities support are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2022 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance.

Walnut Creek, California

November 18, 2022

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**San Mateo County Flood and Sea Level Rise Resiliency District**  
**Management's Discussion and Analysis**  
Required Supplementary Information (Unaudited)  
For the Fiscal Year Ended June 30, 2022

This Management's Discussion and Analysis provides a narrative overview and analysis of the financial activities of the San Mateo County Flood and Sea Level Rise Resiliency District (also known as OneShoreline) for the fiscal year ended June 30, 2022. The information presented here should be read in conjunction with the information furnished in the financial statements and notes to the financial statements.

**Financial Highlights**

**Government-wide Financial Position**

The District's assets exceeded its liabilities and deferred inflows of resources at the close of the fiscal year ended June 30, 2022 by \$57.1 million (net position):

**District's Net Position**  
**June 30, 2022**

Assets:	
Current and other assets	\$ 40,230,389
Capital assets	35,250,810
Total assets	<u>75,481,199</u>
Liabilities:	
Long-term liabilities	16,560,237
Other liabilities	1,791,947
Total liabilities	<u>18,352,184</u>
Deferred inflows of resources	<u>34,201</u>
Net position:	
Net investment in capital assets	18,061,076
Restricted	73
Unrestricted	39,033,665
Total net position	<u>\$ 57,094,814</u>

The District's net position at June 30, 2022 is subdivided into the following components:

- \$18.1 million represents the District's investment in capital assets (*net investment in capital assets*). This is comprised of the net book value of capital assets at June 30, 2022 reduced by the balance of obligations pertaining to capital-related activities. These capital assets and related obligations are used to provide services to citizens and are not available for future spending.
- \$73 represents resources that are subject to external restrictions on their use and are available to meet the District's ongoing obligations for programs with external restrictions (*restricted net position*).
- \$39.0 million is available to fund District's programs for citizens and debt obligations to creditors (*unrestricted net position*).

**San Mateo County Flood and Sea Level Rise Resiliency District**  
**Management's Discussion and Analysis**  
Required Supplementary Information (Unaudited)  
For the Fiscal Year Ended June 30, 2022

The District held \$75.5 million in total assets at June 30, 2022 which were subdivided into the following components:

- \$40.2 million in current and other assets, which are comprised of \$39.4 million in cash and cash equivalents, \$786 thousand in receivables and \$17 thousand in prepaid expenses.
- \$35.3 million in capital assets, net of accumulated depreciation.

The District held \$18.4 million in total liabilities at June 30, 2022 which were subdivided into the following components:

- \$16.6 million in long-term liabilities, which are comprised of outstanding principal and unamortized premium on the District's 2015 revenue refunding bonds as well as accrued vacation and leave for the District's employees at June 30, 2022.
- \$855 thousand in accounts payable.
- \$631 thousand in unearned revenue.
- \$306 thousand in accrued interest payable.

**Fund Financial Position**

The District's governmental funds reported combined fund balances of \$38.1 million at June 30, 2022. \$38.2 million (assigned fund balance), is available for spending at the District's discretion. The components of fund balance are outlined as follows at June 30, 2022:

**District's Fund Balance**  
**June 30, 2022**

Nonspendable	\$ 16,691
Restricted	73
Assigned	38,234,313
Unassigned	(154,821)
Total fund balance	<u>\$ 38,096,256</u>

**Capital Assets and Debt Administration**

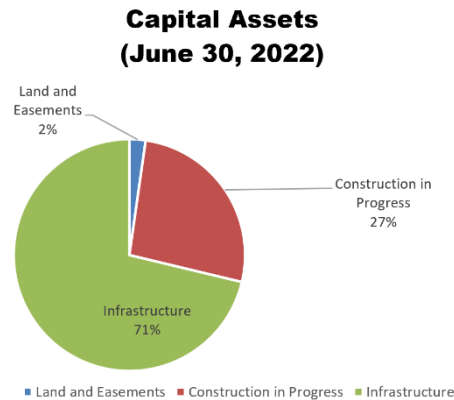
The District's capital assets balance was reported at \$35.3 million (net of accumulated depreciation). This includes land, easements, construction in progress and infrastructure. The District's capital assets as of June 30, 2022 is comprised of the followings:

**Capital Assets**  
**Net of Accumulated Depreciation**

Land	\$ 702,962
Easements	92,419
Construction in progress	9,334,385
Infrastructure, net	25,121,044
Total capital assets, net	<u>\$ 35,250,810</u>

The District's capital assets are comprised of and distributed as follows:

**San Mateo County Flood and Sea Level Rise Resiliency District**  
**Management's Discussion and Analysis**  
 Required Supplementary Information (Unaudited)  
 For the Fiscal Year Ended June 30, 2022



*Additional information on the District's capital assets can be found in Note 4 of this report.*

The District's total long-term obligations were reported at \$16.6 million as of June 30, 2022, which is derived from the outstanding principal and premium of the 2015 Colma Creek revenue refunding bonds and outstanding obligations for accrued vacation leave as indicated in the table below:

**Long Term Obligations**

2015 Revenue refunding bonds - principal	\$ 14,675,000
2015 Revenue refunding bonds - premium	1,839,904
Accrued vacation leave	45,333
Total long term obligations	<u>\$ 16,560,237</u>

*Additional information on the District's long-term obligations can be found in Note 5 of this report.*

**Overview of Financial Statements**

This discussion and analysis serves as an introduction to the District's basic financial statements. The District's basic financial statements consist of two components:

- (1) **Government-wide** financial statements
- (2) **Fund** financial statements

The government-wide financial statements are prepared using the accrual basis of accounting. The governmental fund financial statements are prepared using the modified accrual basis of accounting. Further information on the basis of accounting is discussed in Notes 2(b).

The notes to the basic financial statements provide additional context to the various areas of the basic financial statements.

**San Mateo County Flood and Sea Level Rise Resiliency District**  
**Management's Discussion and Analysis**  
Required Supplementary Information (Unaudited)  
For the Fiscal Year Ended June 30, 2022

**Government-wide Financial Statements** provide readers with a broad overview of the District's finances, in a manner similar to private-sector businesses.

*The statement of net position* presents information on all of the District's assets, liabilities, and deferred outflows/inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

*The statement of activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in a future fiscal period.

The government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the District include public protection.

*The government-wide financial statements can be found on pages 19-20 of this report.*

**Fund Financial Statements** provide a narrower view of the District's finances. A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with financial-related legal requirements. All of the funds of the District are governmental funds which include general, special revenue, capital projects, and debt service funds.

**Governmental funds** are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's near-term financing requirements. Because the focus of governmental funds is narrower than that of governmental activities, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains nine individual governmental funds. Information for the General Fund and the other major funds is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances. Individual fund data for each of the nonmajor governmental funds is provided in the combining statements in this report as supplementary information.

*The governmental fund financial statements can be found on pages 21 - 24 of this report.*

**San Mateo County Flood and Sea Level Rise Resiliency District**  
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Required Supplementary Information (Unaudited)  
For the Fiscal Year Ended June 30, 2022

**Notes to the Basic Financial Statements** provide additional information that is essential to obtain a full understanding of the data provided in the government-wide and fund financial statements.

*The notes can be found starting on page 25 of this report.*

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, the District's net position may serve over time as a useful indicator of whether the District's financial position is improving or deteriorating. Other factors, such as market conditions, should be considered in measuring the District's overall financial position. The District's net position is summarized as follows:

<b>District's Net Position</b>				
	<u>June 30, 2022</u>	<u>June 30, 2021</u>	<u>Difference (\$)</u>	<u>Difference (%)</u>
<b>Assets:</b>				
Current and other assets	\$ 40,230,389	\$ 37,990,220	\$ 2,240,169	5.90%
Capital assets, net	35,250,810	28,218,730	7,032,080	24.92%
Total assets	<u>75,481,199</u>	<u>66,208,950</u>	<u>9,272,249</u>	
<b>Liabilities:</b>				
Long-term liabilities	16,560,237	17,440,087	(879,850)	-5.04%
Other liabilities	1,791,947	1,219,522	572,425	46.94%
Total liabilities	<u>18,352,184</u>	<u>18,659,609</u>	<u>(307,425)</u>	
Deferred inflows of resources	<u>34,201</u>	<u>36,815</u>	<u>(2,614)</u>	-7.10%
<b>Net position:</b>				
Net investment in capital assets	18,061,076	10,333,658	7,727,418	74.78%
Restricted	73	69	4	5.80%
Unrestricted	39,033,665	37,178,799	1,854,866	4.99%
Total net position	<u>\$ 57,094,814</u>	<u>\$ 47,512,526</u>	<u>\$ 9,582,288</u>	

The District's current assets increased by \$2.2 million. This was primarily a result of increasing property tax apportionments from the County of San Mateo for the year ended June 30, 2022 in comparison with the year ended June 30, 2021. The District's other liabilities increased by \$0.6 million primarily as a result of advance receipt of project funding for capital project activities.



**San Mateo County Flood and Sea Level Rise Resiliency District**  
**Management's Discussion and Analysis**  
Required Supplementary Information (Unaudited)  
For the Fiscal Year Ended June 30, 2022

**Assets**

- *Cash and cash equivalents* were reported at \$39.4 million as of June 30, 2022. \$28.6 million was deposited in the District's US Bank Custodial Account, \$2.4 million was deposited in District's Wells Fargo Bank Account, \$8.4 million was deposited in the District's Local Agency Investment Fund Account.
- *Interest receivable* was reported at \$13 thousand at June 30, 2022 and represents proportionate interest earned at the end of June 30, 2022 that are expected to be collected within 15 days after the fiscal year end.
- *Taxes receivable* was reported at \$126 thousand as of June 30, 2022 and represents the property tax that was earned at the end of June 30, 2022 and will be distributed within 60 days after fiscal year end.
- *Intergovernment receivable* was reported at \$648 thousand at June 30, 2022, and represents the District's grant awards earned but not yet paid by the granting agencies as of June 30, 2022.
- *Prepaid expenses* were reported at \$17 thousand at June 30, 2022 and represents the District's prepaid insurance premium.
- *Capital assets* amounted to \$35.3 million, net of accumulated depreciation, and are broken down further in the tables under note 4.

**Liabilities**

- *Accounts Payable* was reported at \$855 thousand as of June 30, 2022 and represents the sum of all outstanding amounts the District owed to vendors for goods or services received that have not yet been paid for at the end of the fiscal year.
- *Unearned Revenue* was reported at \$631 thousand as of June 30, 2022 and represents transactions where the District has received cash but has not yet performed the associated services at the end of the fiscal year.
- *Accrued Interest* was reported at \$306 thousand as of June 30, 2022 and represents the amount of interest that the District has incurred as of June 30, 2022, on the 2015 Colma Creek revenue refunding bonds but which has not yet been paid out.
- *Long-term obligations* were reported to \$16.6 million as of June 30, 2022 and are further broken down in the table under note 5. The District has \$785 thousand in debt service principal payments due within one year on the 2015 Colma Creek revenue refunding bonds, and \$15.7 million in debt service principal payments due beyond one year on the same bonds. \$45 thousand is reported for the District's accrued vacation and leave which is due within one year.

**Deferred inflows of resources** were reported at \$34 thousand at June 30, 2022 and represents deferred gains on refunding pertaining to the 2015 Colma Creek revenue refunding bonds.

**San Mateo County Flood and Sea Level Rise Resiliency District**  
**Management's Discussion and Analysis**  
Required Supplementary Information (Unaudited)  
For the Fiscal Year Ended June 30, 2022

The District's activities and changes in net position for the year ended June 30, 2022 are summarized as follows:

<b>District's Changes in Net Position</b>				
	<u>FY 2022</u>	<u>FY 2021</u>	<u>Difference (\$)</u>	<u>Difference (%)</u>
Program expenses:				
Public protection	\$ 3,646,184	\$ 2,309,629	\$ 1,336,555	57.87%
Depreciation expense	785,142	785,142	-	0.00%
Interest on long-term liabilities	593,630	630,965	(37,335)	-5.92%
Total program expenses	<u>5,024,956</u>	<u>3,725,736</u>	<u>1,299,220</u>	
Program revenues:				
Operating grants and contributions	2,242,915	1,611,698	631,217	39.16%
Capital grants and contributions	7,278,352	648,071	6,630,281	100.00%
Total program revenues	<u>9,521,267</u>	<u>2,259,769</u>	<u>7,261,498</u>	
General revenues:				
Property tax	6,370,033	5,820,523	549,510	9.44%
Interest and investment income	(1,294,776)	(32,992)	(1,261,784)	3824.52%
Other	10,720	10,443	277	2.65%
Total general revenues	<u>5,085,977</u>	<u>5,797,974</u>	<u>(711,997)</u>	
Changes in net position	9,582,288	4,332,007	5,250,281	121.20%
Net position - beginning:	<u>47,512,526</u>	<u>43,180,519</u>	<u>4,332,007</u>	
Net position - ending	<u>\$ 57,094,814</u>	<u>\$ 47,512,526</u>	<u>\$ 9,582,288</u>	

### Analysis of Governmental Activities - Revenues and Expenses

The District's net position increased by \$9.6 million for the year ended June 30, 2022. The District's project costs are expected to gradually decrease in future years as projects will move to operation and maintenance. For the year ended June 30, 2022, the District's costs are still outweighed by its annual revenues for property tax and contributions by \$9.6 million. In particular, the District's property tax revenues from the County increased by \$0.5 million and the District Capital Grant increased by \$7.3 million, and the District is incurred \$1.3 million more in costs for public protection activities as a result of more capital projects getting underway.

### GOVERNMENTAL FUND FINANCIAL ANALYSIS

The following is a summary of significant changes in activities under the District's major governmental funds between the year ended June 30, 2021 and the year ended June 30, 2022:

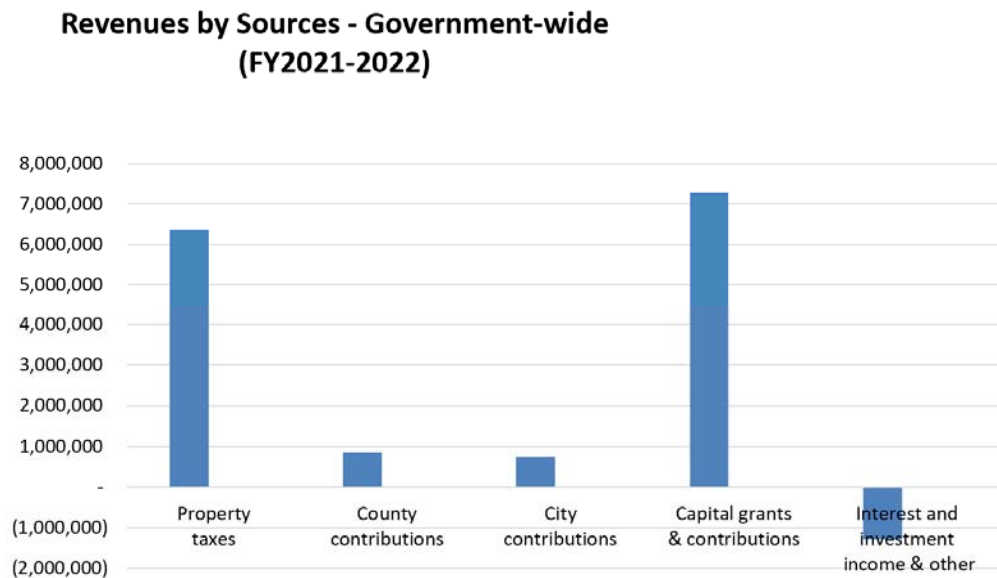
- The District had a significant increase in the activities for the Bayfront Canal Atherton Capital Project fund for the financial reporting period ended June 30, 2022, to report increasing capital project activities. The fund reported total revenues and expenditures of \$7.2 million for project costs incurred through the balance sheet date.
- The District created the Burlingame-Millbrae SFO Shoreline Capital Project fund for the financial reporting period ended June 30, 2022, to report capital project activities. The fund has started incurring capital outlay in the amount of \$0.2 million for the year ended June 30, 2022. Future years are expected to reflect increased activities for this fund.

**San Mateo County Flood and Sea Level Rise Resiliency District**  
**Management's Discussion and Analysis**  
Required Supplementary Information (Unaudited)  
For the Fiscal Year Ended June 30, 2022

**BUDGETARY ANALYSIS**

The General fund, Colma Creek Flood Control fund, and San Bruno Creek Flood Control fund each incurred expenditures that were lower than budgeted estimates in the amounts of \$0.5 million, \$0.7 million and \$0.1 million respectively. This was mainly due to an anticipated higher volume of expenditures for services and supplies connected to project activities for the year ended June 30, 2022. The District is steadily expanding its operations and anticipates annual increases in expenditures, but costs for the year ended June 30, 2022 did not rise to the level expected when preparing budgeted forecasts.

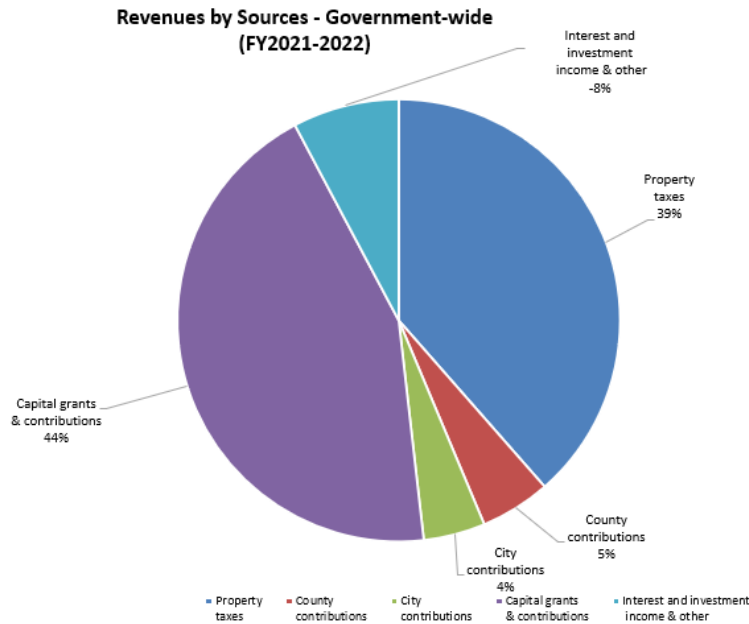
**Governmental Activities - Revenues**



**Program Revenues** accounted for 11.4% of the District's overall governmental activities revenues. Program revenues reported \$1,595,000 at June 30, 2022. \$745,000 were contributed by 20 local cities and \$850,000 were contributed by San Mateo County as third-year start-up funding support and Measure K Grant Initial Payment to the District.

**San Mateo County Flood and Sea Level Rise Resiliency District**  
**Management's Discussion and Analysis**  
Required Supplementary Information (Unaudited)  
For the Fiscal Year Ended June 30, 2022

The District's revenues for the fiscal year ended June 30, 2022 are comprised of and distributed as follows:



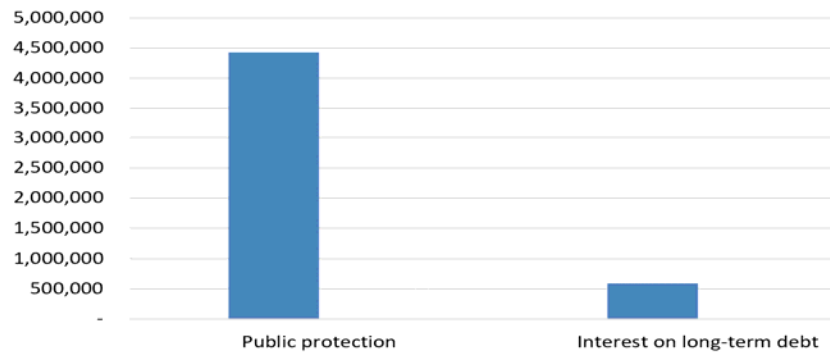
**General Revenues** were reported at \$5.1 million and accounted for 36.4% of the District's overall governmental activities revenues. General Revenues primarily consisted of the following:

- *Property Tax Revenues* reported \$6.4million and generated from the District's 9 flood control zones contained within 5 special revenue funds reported in the basic financial statements.
- *Interest and Investment Income and other revenue* was reported at a negative \$1.3 million, which was primarily due to downturns in the fair market value adjustments of the District's investment portfolio.

**San Mateo County Flood and Sea Level Rise Resiliency District**  
**Management's Discussion and Analysis**  
 Required Supplementary Information (Unaudited)  
 For the Fiscal Year Ended June 30, 2022

**Governmental Activities - Expenses**

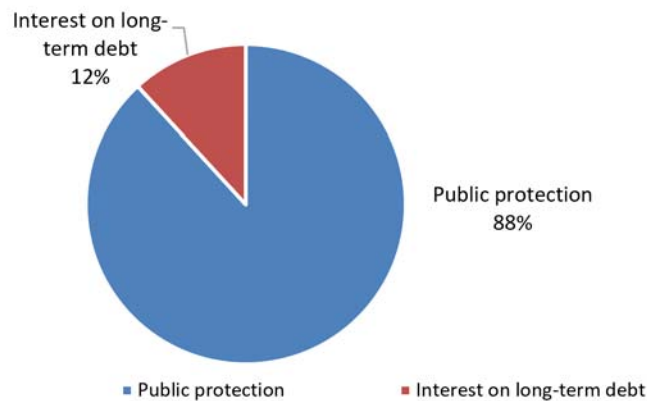
**Governmental Activities  
Expense by Function/Program  
(FY2021-2022)**



- **Expenses for *Public Protection*** accounted for 88% of the District's overall governmental activities expenses. Public protection reported \$4,431,326 at June 30, 2022, \$2,989,690 was the costs of Services and Supplies, \$639,251 was the costs of Salaries and Benefits, \$6,463 was capital project fund soft costs reflected as capital outlay, \$10,780 was changes in accrued compensation liability, and \$785,142 was costs for depreciation on various infrastructure capital assets.
- **Expenses for *Interest on long-term debt*** is current portion of the accrued interest of 2015 Colma Creek Revenue Refunding bond, reported \$593,630 and accounted for 12% of the District's overall governmental activities expenses.

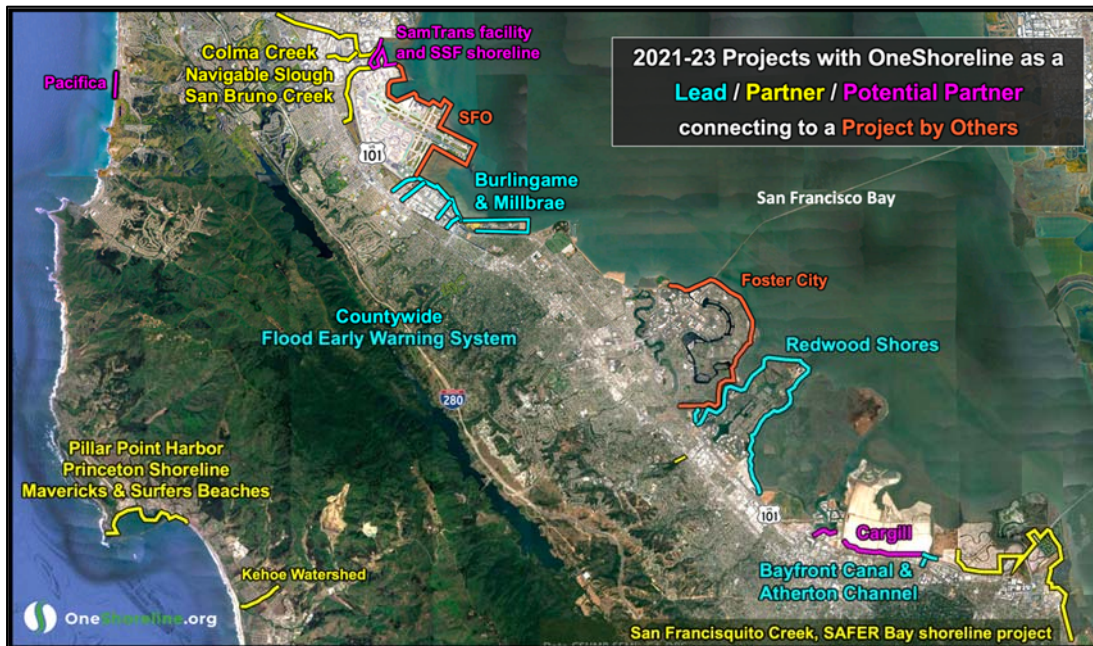
The District's expenses for the fiscal year ended June 30, 2022 are comprised of and distributed as follows:

**Governmental Activities  
Expense by Function/Program  
(FY2021-2022)**



**San Mateo County Flood and Sea Level Rise Resiliency District  
Management's Discussion and Analysis  
Required Supplementary Information (Unaudited)  
For the Fiscal Year Ended June 30, 2022**

The map below highlights the locations of projects around San Mateo County where the District (also known as OneShoreline) is either the lead agency, a partner agency or a potential partner. The following two pages describe three of these projects in greater detail – more information may be found at <https://OneShoreline.org/Projects>.



**Accomplishments in FY 2021-22**

**Complete construction of the Bayfront Canal and Atherton Channel Flood Protection and Ecosystem Restoration Project**

Just east of Highway 101 and north of Marsh Road, the Atherton Channel converges with the Bayfront Canal near the border between Redwood City and Menlo Park, and empties into San Francisco Bay. For the past several decades, high tides have kept flows in the Canal and Channel from draining to the Bay, and minor rainfall events have resulted in the flooding of nearby mobile home parks and businesses.



Shortly after it was established in January 2020, OneShoreline assumed the role of lead agency on the Bayfront Canal and Atherton Channel Flood Protection and Ecosystem Restoration Project to install concrete box culverts under Marsh Road in order to divert stormwater during high tide conditions from the Bayfront Canal into ponds managed by the U.S. Fish & Wildlife Service. By connecting the Bayfront Canal and Atherton Channel to these ponds, the Canal's capacity is essentially increased and the flood threat to the community is decreased.



Between early 2020 and June of 2021, OneShoreline certified the project's CEQA document, secured land rights and federal and state environmental permits, developed an agreement to fund construction and maintenance with San Mateo County, cities of Redwood City and Menlo Park, and the Town of Atherton, and awarded the construction contract.



**San Mateo County Flood and Sea Level Rise Resiliency District**  
**Management's Discussion and Analysis**  
Required Supplementary Information (Unaudited)  
For the Fiscal Year Ended June 30, 2022

Within the FY 2021-22 fiscal year, OneShoreline met its major construction schedule milestones, including completing work within regulated waters in October 2021, and establishing the hydraulic connection between the Canal and ponds in December 2021. In January 2022, the Project area was backfilled and improved (as compared to its pre-project condition) and in February, March, and April 2022, pond berms providing the Project's environmental mitigation were regraded and seeded, the trash racks were installed, and the Marsh Road entrance to Bedwell Bayfront Park was repaved.



The approximately \$10 million project was completed with change orders totaling a mere 2% of the construction contract. This winter, the new facility is positioned to perform its first stormwater diversion from Bayfront Canal.

### Countywide Flood Early Warning System

The District is managing a Flood Emergency Response project funded by the State's Department of Water Resources to create a coordinated county-wide flood emergency preparedness and response program, upgrade and expand the region's flood early warning system to inform for emergency personnel, public works staff, and the general public reference during an event, and creation of three site-specific Flood Emergency Action Plans (EAPs) to better define and coordinate activities and emergency-related responsibilities before, during, and after flood events, and lead a public outreach regarding these.



Between mid-2020 and mid-2021, the District upgraded and expanded the flood early warning system. A key component of this effort was the continued development of the monitoring system's threshold warning levels, and messaging program.

Within the 2021-22 fiscal year, OneShoreline installed temporary gauges to refine the threshold warning levels at each station and enhance our understanding of downstream in-channel conditions and warning lead times. During the atmospheric river of October 24, 2021, early notice of flooding was delivered to emergency response and public works personnel. Also, during this fiscal year, OneShoreline focused its attention on developing a partnership with the County and Resource Conservation District to expand its early warning system to the community of Pescadero near the Pacific coast. OneShoreline developed the first iteration of a Countywide Flood Early Warning System website that includes dashboards for a quick overview of each station's key data. Although this website is still in development, features of it may be previewed on our website, at <https://OneShoreline.org/FloodWarning>.



**San Mateo County Flood and Sea Level Rise Resiliency District**  
**Management's Discussion and Analysis**  
Required Supplementary Information (Unaudited)  
For the Fiscal Year Ended June 30, 2022

**Millbrae and Burlingame Shoreline Area Protection & Enhancement Project**

Within the cities of Millbrae and Burlingame along San Francisco Bay, regionally significant electrical distribution and water treatment facilities and transportation and rail corridors, major corporate sites, and many local businesses and homes are vulnerable to flooding and sea level rise. In late 2019 and early 2020, these cities completed separate efforts to evaluate their vulnerabilities and potential adaptation strategies to reduce those vulnerabilities. Meanwhile, immediately to the north, SFO is planning and designing a project to protect the entire perimeter of the airport from sea level rise.

Consistent with its core purpose, in 2020 OneShoreline brought together these entities to advance their independent efforts in a coordinated and connected way. The objectives of this project are to not only remove hundreds of properties and critical infrastructure from the FEMA floodplain, but advance long-term resilience to sea level rise and extreme storms, as well as provide environmental and recreational enhancements.

During 2021-22 fiscal year, OneShoreline secured \$8 million from the State of California. Half of that amount is dedicated to engaging a consultant team on this project to complete data gathering, 30% design, and a Draft Environmental Impact Report of a project to keep the shoreline and creek banks indicated by the red lines on the image right from overtopping when the Bay water level is substantially higher than it is today.



**Work with cities and developers so that private property and public infrastructure are planned in the context of future climate conditions and regional protection efforts**

Because San Mateo County has more people and property at risk from the first few feet of sea level rise than any other county in California, its residents and their elected leaders understand that climate change poses a transformative challenge to our communities. An enduring aspect of the District's work to build long-term resilience countywide rests on identifying opportunities for new development and infrastructure projects to be resilient and be part of the regional solution to this transformative challenge. These projects are intended to function for decades, during which time the impacts of climate change will grow, and thus these projects should be designed to function under foreseeable future conditions, including higher sea levels and more intense storms, wildfires, drought, and heat. Incorporating climate resilience into the siting and building of these assets now will avoid the much more difficult and costly effort to retrofit these assets later.

With a portion of the \$8 million in State funding mentioned above, OneShoreline is also working with several cities to update their General Plans, Specific Plans, and zoning ordinances so that these critical documents can today help guide our region's resilience to the future conditions brought on by climate change. The work to update these key planning documents began with the City of Burlingame, which in December 2021 became the first city in the Bay Area to incorporate requirements related to sea level rise protection into its citywide zoning ordinance. In parallel, OneShoreline has also reviewed and provided verbal and written comments on design concepts or submittals from private developers with water-fronting projects. At the suggestion of planning staff from several cities, these OneShoreline comments are being templated into a draft Planning Guidance Policy, which can be used as a standardized and evolving resource for cities and the County to account for climate-driven flooding, stormwater capture, groundwater rise, and sea level rise in planning documents, processes, and approvals.



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**BASIC FINANCIAL STATEMENTS**  
**Government-Wide Financial Statements**

**SAN MATEO COUNTY**  
**FLOOD AND SEA LEVEL RISE RESILIENCY DISTRICT**  
**Statement of Net Position**  
**June 30, 2022**

	<b>Governmental Activities</b>
<b>Assets</b>	
Cash and investments	\$ 39,427,453
Interest receivable	12,687
Taxes receivable	125,643
Intergovernmental receivable	647,915
Prepaid expenses	16,691
Capital assets, net of accumulated depreciation	
Nondepreciable	10,129,766
Depreciable	25,121,044
Total Assets	<u>75,481,199</u>
<b>Liabilities</b>	
Accounts payable	855,309
Accrued interest	305,729
Unearned revenue	630,909
Long-term liabilities	
Revenue refunding bonds - due within one year	925,630
Revenue refunding bonds - due beyond one year	15,589,274
Accrued vacation and leave - due within one year	45,333
Total Liabilities	<u>18,352,184</u>
<b>Deferred Inflows of Resources</b>	<u>34,201</u>
<b>Net Position</b>	
Net investment in capital assets	18,061,076
Restricted for debt service	73
Unrestricted	39,033,665
Total net position	<u><u>\$ 57,094,814</u></u>

The accompanying notes are an integral part of this statement.

**SAN MATEO COUNTY**  
**FLOOD AND SEA LEVEL RISE RESILIENCY DISTRICT**  
**Statement of Activities**  
**For the Year Ended June 30, 2022**

	<b>Governmental Activities</b>
<b>Program Expenses</b>	
Public protection	\$ 3,646,184
Depreciation expense	785,142
Interest on long-term liabilities	593,630
Total Program Expenses	<u>5,024,956</u>
<b>Program Revenues</b>	
Operating grants and contributions	2,242,915
Capital grants and contributions	7,278,352
Total Program Revenues	<u>9,521,267</u>
Net Program Revenues	<u>4,496,311</u>
<b>General Revenues</b>	
Property tax	6,370,033
Interest and investment income (loss)	(1,294,776)
Other	10,720
Total General Revenues	<u>5,085,977</u>
Change in Net Position	9,582,288
Net Position - Beginning	<u>47,512,526</u>
<b>Net Position - Ending</b>	<u><u>\$ 57,094,814</u></u>

The accompanying notes are an integral part of this statement.

**BASIC FINANCIAL STATEMENTS**  
**Fund Financial Statements**

**SAN MATEO COUNTY**  
**FLOOD AND SEA LEVEL RISE RESILIENCY DISTRICT**  
**Governmental Funds**  
**Balance Sheet**  
**June 30, 2022**

	<b>General Fund</b>	<b>Colma Creek Flood Control Fund</b>	<b>San Bruno Creek Flood Control Fund</b>	<b>Bayfront Canal Atherton Capital Project Fund</b>	<b>Burlingame-Millbrae SFO Shoreline Capital Project Fund</b>	<b>Debt Service Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets</b>								
Cash and investments	\$ 2,675,928	\$ 30,557,646	\$ 3,818,052	\$ 694,264	\$ -	\$ 73	\$ 1,681,490	\$ 39,427,453
Receivables:								
Accounts receivable	-	-	-	-	-	-	-	-
Taxes receivable	-	114,470	5,586	-	-	-	5,587	125,643
Grants receivable	500,835	-	-	-	147,080	-	-	647,915
Interest receivable	847	10,012	1,252	46	-	-	530	12,687
Dues from other funds	7,649	-	-	-	-	-	-	7,649
Other assets	5,489	-	-	-	-	11,202	-	16,691
Total Assets	<u>\$ 3,190,748</u>	<u>\$ 30,682,128</u>	<u>\$ 3,824,890</u>	<u>\$ 694,310</u>	<u>\$ 147,080</u>	<u>\$ 11,275</u>	<u>\$ 1,687,607</u>	<u>\$ 40,238,038</u>
<b>Liabilities</b>								
Accounts payable	\$ 53,502	\$ 170,122	\$ 420,769	\$ 63,401	\$ 147,172	\$ -	\$ 343	\$ 855,309
Unearned revenues	-	-	-	630,909	-	-	-	630,909
Dues to other funds	-	-	-	-	7,649	-	-	7,649
Other liabilities	-	-	-	-	-	-	-	-
Total Liabilities	<u>\$ 53,502</u>	<u>\$ 170,122</u>	<u>\$ 420,769</u>	<u>\$ 694,310</u>	<u>\$ 154,821</u>	<u>\$ -</u>	<u>\$ 343</u>	<u>\$ 1,493,867</u>
<b>Deferred Inflows of Resources</b>	500,835	-	-	-	147,080	-	-	647,915
<b>Fund Balances</b>								
Nonspendable	5,489	-	-	-	-	11,202	-	16,691
Restricted	-	-	-	-	-	73	-	73
Assigned	2,630,922	30,512,006	3,404,121	-	-	-	1,687,264	38,234,313
Unassigned	-	-	-	-	(154,821)	-	-	(154,821)
Total Fund Balances	<u>2,636,411</u>	<u>30,512,006</u>	<u>3,404,121</u>	<u>-</u>	<u>(154,821)</u>	<u>11,275</u>	<u>1,687,264</u>	<u>38,096,256</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 3,190,748</u>	<u>\$ 30,682,128</u>	<u>\$ 3,824,890</u>	<u>\$ 694,310</u>	<u>\$ 147,080</u>	<u>\$ 11,275</u>	<u>\$ 1,687,607</u>	<u>\$ 40,238,038</u>

The accompanying notes are an integral part of this statement.

**SAN MATEO COUNTY**  
**FLOOD AND SEA LEVEL RISE RESILIENCY DISTRICT**  
**Reconciliation of the Governmental Funds Balance Sheet to**  
**the Government-Wide Statement of Net Position**  
**June 30, 2022**

<b>Fund balances - total governmental funds</b>	<b>\$ 38,096,256</b>
Amounts reported for governmental activities in the statement of net position are different because:	
Other long-term assets are not available to pay for current period expenditures and, therefore, are shown as deferred inflows of resources in the governmental funds.	647,915
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds.	35,250,810
Interest payable on long-term liabilities does not require the use of current financial resources and, therefore, is not accrued as a liability in the governmental funds.	(305,729)
Deferred inflows of resources in governmental activities do not require the use of current financial resources and, therefore, are not reported in the governmental funds.	(34,201)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Revenue refunding bonds	(14,675,000)
Premium on revenue refunding bonds	(1,839,904)
Accrued vacation and leave	(45,333)
<b>Net position of governmental activities</b>	<b><u><u>\$ 57,094,814</u></u></b>

The accompanying notes are an integral part of this statement.

**SAN MATEO COUNTY**  
**FLOOD AND SEA LEVEL RISE RESILIENCY DISTRICT**  
**Governmental Funds**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**For the Year Ended June 30, 2022**

	<b>General Fund</b>	<b>Colma Creek Flood Control Fund</b>	<b>San Bruno Creek Flood Control Fund</b>	<b>Bayfront Canal Atherton Capital Project Fund</b>	<b>Burlingame-Millbrae SFO Shoreline Capital Project Fund</b>	<b>Debt Service Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Revenues</b>								
Property tax	\$ -	\$ 5,420,183	\$ 438,553	\$ -	\$ -	\$ -	\$ 511,297	\$ 6,370,033
County contributions	850,000	-	-	-	-	-	-	850,000
City contributions	745,000	-	-	-	-	-	-	745,000
Capital grants and contributions	91,031	-	-	7,187,321	-	-	-	7,278,352
Interest and investment income (loss)	(57,155)	(1,043,930)	(132,969)	(9,445)	-	4	(51,281)	(1,294,776)
Other	200	10,520	-	-	-	-	-	10,720
Total Revenues	1,629,076	4,386,773	305,584	7,177,876	-	4	460,016	13,959,329
<b>Expenditures</b>								
Current:								
Salaries and benefits	639,251	-	-	-	-	-	-	639,251
Services and supplies	341,208	2,047,735	246,667	-	-	856	353,224	2,989,690
Capital outlay	41,414	20,713	428,861	7,177,876	154,821	-	-	7,823,685
Debt service - principal	-	-	-	-	-	750,000	-	750,000
Debt service - interest	-	-	-	-	-	752,500	-	752,500
Total Expenditures	1,021,873	2,068,448	675,528	7,177,876	154,821	1,503,356	353,224	12,955,126
<b>Other Financing Sources (Uses):</b>								
Transfers in	60,000	-	-	-	-	1,502,500	-	1,562,500
Transfers out	-	(1,552,500)	(4,500)	-	-	-	(5,500)	(1,562,500)
Total Other Financing Sources (Uses)	60,000	(1,552,500)	(4,500)	-	-	1,502,500	(5,500)	-
Net Change in Fund Balances	667,203	765,825	(374,444)	-	(154,821)	(852)	101,292	1,004,203
Fund Balances - Beginning, as previously reported	1,953,304	29,746,181	3,778,565	-	-	12,127	1,601,876	37,092,053
Cumulative effect of prior period adjustment	15,904	-	-	-	-	-	(15,904)	-
Fund Balances - Beginning, as restated	1,969,208	29,746,181	3,778,565	-	-	12,127	1,585,972	37,092,053
<b>Fund Balances - Ending</b>	<b>\$ 2,636,411</b>	<b>\$ 30,512,006</b>	<b>\$ 3,404,121</b>	<b>\$ -</b>	<b>\$ (154,821)</b>	<b>\$ 11,275</b>	<b>\$ 1,687,264</b>	<b>\$ 38,096,256</b>

The accompanying notes are an integral part of this statement.



**SAN MATEO COUNTY**  
**FLOOD AND SEA LEVEL RISE RESILIENCY DISTRICT**  
**Reconciliation of the Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances of Governmental Funds to the**  
**Government-Wide Statement of Activities**  
**For the Year Ended June 30, 2022**

**Net change in fund balances - total governmental funds** **\$ 1,004,203**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for general capital assets and infrastructure	\$ 7,823,685		
Less capital project fund soft costs reflected as capital outlay	(6,463)		
Less current year depreciation	(785,142)		
			7,032,080

Unavailable revenues are reported as deferred inflows of resources in the governmental funds, but are recognized as revenues in the statement of activities.

647,915

Repayment and defeasance of long-term liabilities are expenditures and other financing uses in the governmental funds but reduce long-term liabilities in the statement of net position

750,000

Change in accrued interest

15,626

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds

Amortization of bond premium	140,630		
Amortization of deferred gain on refunding	2,614		
Change in accrued vacation leave	(10,780)		
			132,464

**Change in net position of governmental activities**

**\$ 9,582,288**

The accompanying notes are an integral part of this statement.

## NOTES TO BASIC FINANCIAL STATEMENTS

**SAN MATEO COUNTY**  
**FLOOD AND SEA LEVEL RISE RESILIENCY DISTRICT**

Notes to Financial Statements  
For the Year Ended June 30, 2022

**1. FINANCIAL REPORTING ENTITY**

On February 23, 2016, the San Mateo County Board of Supervisors (County Board) approved a report entitled “Improving Flood Control in San Mateo County’s Areas of Responsibilities” (Report) and approved Resolution No. 074363 for an Appropriation Transfer Request to begin implementation of the Report’s recommendations. This included funding totaling \$6.2 million from the County general fund over a three-year period to establish a program to address flood risks in the County’s areas of responsibility as outlined in the Report.

In May of 2017, the City/County Association of Governments of San Mateo County (C/CAG)’s Countywide Water Coordination Committee (Committee) was established, which consisted of seven city elected officials and one member of the County Board. In April 2018, the Committee convened a Staff Advisory Team (SAT) comprised of 18 staff-level representatives from C/CAG, the County, cities, and other water-related or interested agencies to help develop a proposal to establish a new water management agency.

The SAT, in coordination with the Committee, developed an overall roadmap for the process to create a new agency as described in the “Flood and Sea Level Rise Resiliency Agency Proposal” (Proposal), dated December 21, 2018. This was reviewed and approved by the County Board on January 29, 2019. The Proposal revised (through special legislation) the 1959 San Mateo Flood Control District Act (Act) to change the governance of the District from the County Board to a seven-member board consisting of five city members and two County Board members. The revisions to the Act also enhanced authorities related to sea level rise and coastal erosion, clarified funding and financing authorities to reflect current state regulations/constitutional restrictions, and changed the name of the entity to the Flood and Sea Level Rise Resiliency District. The new entity was officially formed effective January 1, 2020. The District’s mission and role is to address sea level rise, flooding, coastal erosion, and large-scale stormwater infrastructure improvements through integrated regional planning, design, permitting, project implementation, and long-term operations and maintenance to create a resilient “one shoreline” approach in San Mateo County by 2100.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**(a) Basis of Presentation**

*Government-Wide Financial Statements*

The statement of net position and statement of activities report the financial activities of the District as a whole. The statement of activities presents a comparison between direct expenses and program revenues of the District. Direct expenses are those that are specifically associated with the District’s operations. Program revenues refer to grants, contributions, and other revenues that meet the operational requirements of the program. Any revenues not classified as program revenues are presented as general revenues.

*Fund Financial Statements*

The fund financial statements provide information about the District’s funds. The emphasis of fund financial statements is on major governmental funds, which are each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are presented as separate columns in the fund financial statements.

**SAN MATEO COUNTY**  
**FLOOD AND SEA LEVEL RISE RESILIENCY DISTRICT**

Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2022

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The District reports the following major governmental funds:

- The *General Fund* serves as the District's primary operating fund and accounts for all financial resources and transactions of the District, except those accounted for in another fund.
- The *Colma Creek Flood Control Fund* accounts for funds that support various flood control projects within Colma Creek. This fund is financed by property taxes.
- The *San Bruno Creek Flood Control Fund* accounts for funds that support various flood control projects within the City of San Bruno. This fund is financed by property taxes.
- The *Bayfront Canal Atherton Capital Project Fund* accounts for funds that support significant capital project operations for the District. This fund is financed by grants and contributions.
- The *Burlingame-Millbrae SFO Shoreline Capital Project Fund* accounts for funds that support significant capital project operations for the District. This fund is financed by the State Coastal Conservancy grant.
- The *Debt Service Fund* accounts for the accumulation and resources for, and the payment of, long-term debt principal, interest, and related costs.

The District reports the following non-major governmental funds:

- *San Francisquito Creek Flood Control Fund* accounts for creek improvement activities in San Francisquito Creek. This fund is financed by property taxes.
- *Ravenswood Slough Flood Control Zone Fund* accounts for flood control projects in the Ravenswood Slough Flood Control Zone Fund. This fund is financed by property taxes.

**(b) Basis of Accounting**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred regardless of when the related cash flows take place.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Property taxes and grant and contribution revenues from reimbursement type programs are considered to be available when they are collectible within two months of the end of the current fiscal period in order to properly match revenues with related expenditures. Expenditures are recognized in the accounting period in which the liability is incurred.

**(c) Implementation of Governmental Accounting Standards Board (GASB) Statements**

The District has evaluated and implemented GASB Statements No. 87, *Leases*, No. 92, *Omnibus*, No. 93, *Replacement of Interbank Offered Rates*, No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – An Amendment of GASB Statements No. 14 and No. 84*, and a *Supersession of GASB Statement No. 32*. None of these standards were determined to have an impact on the District's financial reporting for the year ended June 30, 2022.

**SAN MATEO COUNTY**  
**FLOOD AND SEA LEVEL RISE RESILIENCY DISTRICT**

Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2022

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The District is currently evaluating its accounting practices to determine the potential impact on the financial statements of GASB Statements No. 91, *Conduit Debt Obligations*, No. 94, *Public-Private and Public-Private Partnerships and Availability Payment Arrangements*, No. 96, *Subscription-Based Information Technology*, No. 99, *Omnibus*, No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62* and No. 101, *Compensated Absences*.

**(d) Receivables**

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

**(e) Prepaid Items**

Certain payments to external parties reflect costs applicable to future accounting periods and are recognized as prepaid items in both government-wide and fund financial statements. Prepayments are amortized and recognized as expenditures in the period consumed using the consumption method.

**(f) Capital Assets**

Capital assets are recorded at historical cost or estimated historical cost if historical cost is not available. The District defines capital assets as assets with an initial unit cost of more than \$5,000 and an estimated useful life in excess of one year. Capital assets used in operations are depreciated using the straight-line method over their estimated useful lives in government-wide financial statements. Estimated useful lives for depreciable capital assets currently held by the District range from 46 years to 50 years.

**(g) Accrued Vacation Leave**

The District allows employees to accumulate earned but unused vacation and leave time, which is eligible for payment upon separation from the District. The liability of such time is reported as incurred in the government-wide financial statements. The liability for those amounts is recorded in the governmental funds only if the liability is considered due and payable. The liability for accrued vacation and leave includes the District's share of social security and Medicare contributions payable on behalf of the employees.

**(h) Deferred Inflows of Resources**

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources until that time. The District has deferred inflows for a deferred gain on refunding connected to the issuance of its 2015 revenue refunding bonds, which is amortized annually.

**(i) Property Tax**

Secured taxes are distributed from the County of San Mateo to the District monthly on the basis of the County's apportionment schedules.

**SAN MATEO COUNTY**  
**FLOOD AND SEA LEVEL RISE RESILIENCY DISTRICT**

Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2022

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(j) County and City Contributions**

The District receives annual contributions from both the County of San Mateo and the local city governments within the County. The financial obligations are determined each year based on the budget of the District, which is established by the Board of Directors.

**(k) Due From/Due To Other Funds and Transfers**

Interfund transactions are treated as transfers under the other financial sources and use a section of the statement of revenues, expenditures, and changes in fund balance. Transfers among governmental funds are netted as part of the reconciliation to the government-wide financial statements.

**(l) Investment Earnings**

The District earns interest quarterly from the Local Agency Investment Fund (LAIF) and monthly on its investments with U.S. Bank.

**(m) Accounting Estimates**

The preparation of basic 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 based on subsequent events could differ from those estimates.

**3. CASH AND INVESTMENTS**

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

Investments with financial institutions	\$ 36,884,718
Deposits with financial institutions	<u>2,542,736</u>
Total cash and investments	<u><u>\$ 39,427,454</u></u>

**(a) Deposits**

Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside entity. However, 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 percent of the total amount deposited by the public agencies. As of June 30, 2022, cash balances in bank were insured up to \$250,000 per insured bank by the Federal Depositary Insurance Corporation. At June 30, 2022, the bank balance of \$2,171,175 was uninsured and collateralized with securities held by the pledging financial institutions' trust department or agent, but not in the name of the District.

**SAN MATEO COUNTY  
FLOOD AND SEA LEVEL RISE RESILIENCY DISTRICT**

Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2022

**3. CASH AND CASH EQUIVALENTS (Continued)**

**(b) Investments**

Investment Policy

The District's investment policy addresses safekeeping and custody practices with financial institutions in which the District deposits funds, types of permitted investment instruments, and the percentage of the portfolio that may be invested in certain instruments. The objectives of the policy, in order of priority are safety, liquidity, and return on investments.

The table below identifies the investment types that are authorized by the investment policy. The table also identifies certain provisions of the investment policy that address interest rate risk and concentration of credit risk. The investment policy places maturity limits based on the type of security.

<b>Authorized Investments</b>	<b>Maximum Percentage of District Portfolio</b>	<b>Maximum Percentage Acquired from Single Issuer</b>	<b>Maximum Maturity</b>	<b>Credit Rating Requirements <sup>(1)</sup></b>
U.S. Treasury Obligations	No limit	No limit	None	None
Federal Agency or United States Government-Sponsored Enterprise Obligations	No limit	No limit	None	None
Obligations of the State of California or Any Local Agency Within the State	20%	No limit	None	A
Registered Treasury Notes or Bonds of Any of the Other 49 States in Addition to California	20%	No limit	None	A
Commercial Paper (2)	20%	10%	270 days	None
Negotiable Certificates of Deposit	30%	No limit	None	A (long-term) A-1 (short-term)
Demand Deposits	No limit	No limit	None	None
Passbook Savings Accounts - Collateralized	No limit	No limit	None	None
Shares of Beneficial Interest Issued by Diversified Management Companies	20%	10%	None	None
Repurchase Agreements (3)	No limit	No limit	None	None
Local Agency Investment Fund (State Pool)	Maximum amount permitted by the State Treasurer	No limit	None	None
San Mateo County Pool	No limit	No limit	None	None
Local Government Investment Pools (LGIPs)	No limit	No limit	None	AAA
Bankers' Acceptances	40%	30%	180 days	None
Medium-Term Notes	30%	No limit	5 years	A

<sup>(1)</sup> Ratings listed are the required minimum investment security ratings assessed by a nationally recognized statistical-rating organization (NRSRO).

<sup>(2)</sup> No more than 5% of outstanding commercial paper investments can be invested in the Energy industry/sector.

<sup>(3)</sup> Overnight Repurchase Agreement shall be used solely as a short-term investment not to exceed 3 days.

**SAN MATEO COUNTY**  
**FLOOD AND SEA LEVEL RISE RESILIENCY DISTRICT**  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2022

**3. CASH AND CASH EQUIVALENTS (Continued)**

District Investments

As of June 30, 2022, the District's investments consisted of the following:

<u>Investment Type</u>	<u>Credit Rating S&amp;P's/Moody's</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less than 1</u>	<u>1 to 5</u>	<u>Fair Value</u>
U.S. Treasury Notes	AA+ / Aaa	\$ 3,363,409	\$ 21,467,033	\$ 24,830,443
Local Agency Investment Funds	Not Rated	8,392,536	-	8,392,536
Medium Term Notes	BBB+ to AAA / A3 to AAA	-	3,544,270	3,544,270
Municipal Notes	Not Rated to A+ / AA3	-	117,469	117,469
Total Investments		<u>\$ 11,755,945</u>	<u>\$ 25,128,773</u>	<u>\$ 36,884,718</u>

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will affect the fair value of an investment. In accordance with the investment policy, the Treasurer manages the risk exposure by limiting the weighted average maturity of its investment portfolio to not more than two years at any time. The weighted average maturity of the District's investment portfolio at June 30, 2022 was 724 days.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The investment policy sets limits to certain investment types specifying the amount the District may invest in any one issuer. As of June 30, 2022, there were no issuers which held more than 5% of the District's investment portfolio.

Local Agency Investment Fund

As of June 30, 2022, the District's investment in the Local Agency Investment Fund (LAIF) was \$8.4 million, and the total amount invested by all participating agencies in LAIF is \$35.8 billion. The Local Investment Advisory Board (LIAB), which consists of five members as designated by State statute, provides oversight for LAIF. All securities are purchased under the authority of Government Code Sections 16430 and 16480.4. The value of the pool shares in LAIF is determined on an amortized cost basis, which approximates fair value. LAIF is part of the Pooled Money Investment Account (PMIA), which is not SEC-registered. As of June 30, 2022, the PMIA balance was \$234.5 billion, of which 1.88% in structured notes and asset backed securities.

Fair Value Measurement

The District prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). Investments in an external investment pool are not subject to reporting within the level hierarchy. The three levels of the fair value hierarchy are described below:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the District has the ability to access.



**SAN MATEO COUNTY**  
**FLOOD AND SEA LEVEL RISE RESILIENCY DISTRICT**

Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2022

**3. CASH AND CASH EQUIVALENTS (Continued)**

- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets in inactive markets; inputs other than quoted prices that are observable for the asset or liability; or inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Authorized investments in which the District can invest are outlined in the County's current effective investment policy, which are summarized in the "Investment Policy" section above.

The District's investments by fair value as of June 30, 2022 included the following:

<b>Investments</b>	<b>Total</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>
Investments subject to fair value hierarchy:			
U.S. Treasury notes	\$ 24,830,443	\$ 24,830,443	\$ -
Medium term notes	3,544,270	-	3,544,270
Municipal notes	117,469	-	117,469
Total investments subject to fair value hierarchy	<u>28,492,182</u>	<u>24,830,443</u>	<u>3,661,739</u>
Investments not subject to fair value hierarchy:			
Local agency investment funds held by State Treasury	<u>\$ 8,392,536</u>		

**4. CAPITAL ASSETS**

Capital assets activity for the District for the year ended June 30, 2022 is as follows:

	<b>Balance July 1, 2021</b>	<b>Additions</b>	<b>Transfers</b>	<b>Deletions</b>	<b>Balance June 30, 2022</b>
Non-Depreciable Capital Assets:					
Land	\$ 702,962	\$ -	\$ -	\$ -	\$ 702,962
Easements	92,419	-	-	-	92,419
Construction in Progress	1,517,163	7,817,222	-	-	9,334,385
Total non-depreciable capital assets	<u>2,312,544</u>	<u>7,817,222</u>	<u>-</u>	<u>-</u>	<u>10,129,766</u>
Depreciable capital assets:					
Infrastructure	39,253,006	-	-	-	39,253,006
Less accumulated depreciation for:					
Infrastructure	(13,346,820)	(785,142)	-	-	(14,131,962)
Depreciable capital assets, net	<u>25,906,186</u>	<u>(785,142)</u>	<u>-</u>	<u>-</u>	<u>25,121,044</u>
Total Capital Assets, net	<u>\$ 28,218,730</u>	<u>\$ 7,032,080</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,250,810</u>

Construction in process additions for the year ended June 30, 2022 primarily represents work performed on the Bayfront canal and Atherton Channel Flood Protection and Ecosystems Restoration Project, and the San Bruno Creek Emergency Tide Gate Repair Project.

**SAN MATEO COUNTY**  
**FLOOD AND SEA LEVEL RISE RESILIENCY DISTRICT**

Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2022

**5. LONG TERM LIABILITIES**

The District's long-term liabilities as of June 30, 2022 are as follows:

	Balance 7/1/2021	Additions	Retirements	Balance 6/30/2022	Amounts Due Within 1 Year
Revenue refunding bonds	\$ 15,425,000	\$ -	\$ (750,000)	\$ 14,675,000	\$ 785,000
Add: unamortized premium	1,980,534	-	(140,630)	1,839,904	140,630
Revenue refunding bonds, net	17,405,534	-	(890,630)	16,514,904	925,630
Accrued vacation leave	34,553	34,345	(23,565)	45,333	45,333
Total Governmental Activities	\$ 17,440,087	\$ 34,345	\$ (914,195)	\$ 16,560,237	\$ 970,963

**(a) 2015 Lease Revenue Refunding Bonds**

In August 2015, the San Mateo County Flood Control District (the "Flood Control District") issued \$18.7 million in Revenue Refunding Bonds (the "2015 Revenue Refunding Bonds") with a bond premium of \$2.8 million to refund the County Joint Powers Financing Authority's (JPFA) outstanding balance of its 1997 Certificates of Participation (COPs) and 2004 COPs and to pay its costs of issuance. The Flood Control District pledged its revenues to repay the 2015 Revenue Refunding Bonds through August 2035.

Revenue refunding bonds are pledged by all revenues, income and investment earnings, received by Colma Creek Flood Control Zone (Colma Creek), including the ad valorem taxes levied by the County and allocable to the Colma Creek. There is no right of acceleration under the indenture in an event of default. In the event of default, the trustee, U.S. Bank National Association, shall exercise its rights to indemnification and protection from liability under the indenture and its rights to payment of its fees and expenses shall survive its resignation or removal and final payment or defeasance of the bonds. The trustee shall be entitled to interest on all amounts advanced by it under the indenture at the maximum interest rate permitted by law. Notwithstanding the foregoing, the trustee shall not be required to advance its own funds. The trustee in its individual or other capacity may become the owner or pledgee of the bonds with the same rights it would have if it were not the trustee.

When the District was formed effective January 1, 2020, it assumed the obligations associated with this debt formerly connected to the original County Flood Control District.

The District's long-term debt as of June 30, 2022 are as follows:

Type of Indebtedness	Maturities	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2022
<b>2015 Revenue Refunding Bonds:</b>					
Serial current interest bonds	8/1/22 - 8/1/35	5.00%	\$750,000 - \$1,410,000	\$18,725,000	\$14,675,000

**SAN MATEO COUNTY**  
**FLOOD AND SEA LEVEL RISE RESILIENCY DISTRICT**

Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2022

**6. LONG TERM LIABILITIES(Continued)**

Annual debt service requirements for the governmental activities of the District as of June 30, 2022 are summarized as follows:

<u>Fiscal Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>
2023	\$ 785,000	\$ 714,125
2024	825,000	673,875
2025	865,000	631,625
2026	910,000	587,250
2027	950,000	540,750
2028-2032	5,535,000	1,919,875
2033-2036	4,805,000	444,625
Total	<u>\$ 14,675,000</u>	<u>\$ 5,512,125</u>

**(b) Accrued Vacation and Leave**

The District's policy allows employees to accumulate earned but unused vacation time, which is eligible for payment upon separation from the District's service. The liability of such time is reported as incurred in the government-wide financial statements. The liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements. The liability for accrued vacation leave includes the District's share of social security and Medicare contributions payable on behalf of the employees. Vacation time accrues at a rate of 160.0 hours for the Executive Director and at a rate of 96.0 hours annually for other District employees, with a cap of 180 hours. Additionally, the Executive Director earns management leave accrual at a rate of 40.0 hours annually.

**7. LEASE**

The District occupies an office building to conduct its business under a noncancelable operating lease. Total rental paid for this lease was \$101,843 for the year ended June 30, 2022. Future minimum lease payments total \$69,472 for the year ending June 30, 2023.

**8. REVENUES**

**(a) County and City Contributions**

Pursuant to the resolution approved by the County Board on January 29, 2019, the County and local city agencies within the County are expected to make annual contributions to the District until such time that the District is able to secure adequate independent funding sources of its own. For the year ended June 30, 2022, the County made contributions of \$850,000 and the city agencies contributed a combined amount of \$745,000 as prescribed by Board resolution.

**(b) Property Tax**

The District receives monthly property tax payments from the County of San Mateo based on the County's apportionment factor calculations. The District's revenue for property tax appropriations amounted to \$6,370,033 for the year ended June 30, 2022.

**SAN MATEO COUNTY**  
**FLOOD AND SEA LEVEL RISE RESILIENCY DISTRICT**

Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2022

**8. REVENUES (Continued)**

**(c) Capital Grant Contributions**

The District also receives one-time capital grant contributions for specific projects. For the year ended June 30, 2022, the District incurred capital project costs on the Burlingame-Millbrae SFO Shoreline Capital Project, for which it received a capital grant reimbursement after the balance sheet date.

**9. FUND BALANCE**

Governmental funds report fund balance in classifications based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. Fund balances for the District's governmental funds are made up of the following:

- (a) Nonspendable Fund Balance** – includes amounts that are (1) not in spendable form, or (2) legally or contractually require to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash such as prepaid amounts.
- (b) Restricted Fund Balance** – includes amounts that are restricted for specific purposes due to external sources or enabling legislation.
- (c) Assigned Fund Balance** – includes amounts intended to be used by the District for specific purposes that are not restricted. Intent is expressed by (a) the Board of Directors or (b) a body (for example: a budget or finance committee) or official to which the Council has delegated the authority to assign amounts to be used for specific purposes. Assigned fund balances represent all District activities outside of debt service operations, which are encompassed under the restricted fund category. These costs are intended for specific purposes, but are not restricted.
- (d) Unassigned Fund Balance** – includes the residual classification that includes all amounts not contained in other classifications. The General Fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds other than the General Fund, if expenditures incurred for specific purposes exceed the amounts that are restricted or assigned to those purposes, it may be necessary to report a negative unassigned fund balance in that fund.

**10. INTERFUND BALANCES AND TRANSFERS**

The District's Burlingame-Millbrae SFO Shoreline Capital Project Fund expended more funds than its available cash as of June 30, 2022, which resulted in a negative cash balance of \$154,821 and required short-term borrowing from the District's general fund. The District's Burlingame-Millbrae SFO Shoreline Capital Project Fund expects to repay the amount due to the general fund upon collection of its grants receivable.

For the year ended June 30, 2022, the Colma Creek Flood Control fund made a transfer of \$1,502,500 to the Debt Service fund for the purpose of financing debt service obligations.

**SAN MATEO COUNTY**  
**FLOOD AND SEA LEVEL RISE RESILIENCY DISTRICT**

Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2022

**11. NET POSITION**

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources. To determine the amounts to report as restricted net position and unrestricted net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. The District considers restricted net position to have been depleted before unrestricted net position is applied.

**12. RISK MANAGEMENT**

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. By agreement, the District was an additional insured on the County of San Mateo's excess liability insurance coverage for the year ended June 30, 2022. Effective July 1, 2022, the District was covered under AWCA JPIA Liability and Property Program. County Counsel provides legal representation for any claims or litigation of the District. The District engages with a separate insurance provider for worker's compensation insurance to employees with a limit of \$1,000,000 per accident. The existing insurance policy for workers' compensation at the balance sheet date is valid through April 1, 2023. Claims have not exceeded coverage for the District since its inception on January 1, 2020.

**13. PRIOR PERIOD ADJUSTMENT**

During the year ended June 30, 2022, the District consolidated the San Mateo County Flood Control Zone Special Revenue Fund into the General Fund and restated General Fund fund balance by \$15,904. A special revenue fund is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The restricted or committed proceeds of specific revenue sources should be expected to continue to comprise a substantial portion of the inflows reported in the fund. The San Mateo County Flood Control Zone Special Revenue Fund did not have a specific restricted or committed revenue source. Its activities were thus incorporated into the General Fund as of July 1, 2021.

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REQUIRED SUPPLEMENTARY INFORMATION  
(Unaudited)

**SAN MATEO COUNTY**  
**FLOOD AND SEA LEVEL RISE RESILIENCY DISTRICT**  
**General Fund**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balance - Budget and Actual**  
**For the Year Ended June 30, 2022**

	<b>Budgeted Amounts</b>		<b>Actual Amount</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Budgetary Basis</b>	<b>Final Budget</b>
<b>Revenues</b>				
County contributions	\$ 1,250,000	\$ 1,250,000	\$ 850,000	\$ (400,000)
City contributions	745,000	745,000	745,000	-
Capital grants and contributions	291,000	291,000	91,031	(199,969)
Interest and investment income (loss)	6,780	6,780	(57,155)	(63,935)
Other	-	-	200	200
Total Revenues	<u>2,292,780</u>	<u>2,292,780</u>	<u>1,629,076</u>	<u>(663,704)</u>
<b>Expenditures</b>				
Current:				
Salaries and benefits	\$ 891,264	\$ 891,264	\$ 639,251	\$ 252,013
Services and supplies	400,754	400,754	341,208	59,546
Capital outlay	230,000	230,000	41,414	188,586
Total Expenditures	<u>1,522,018</u>	<u>1,522,018</u>	<u>1,021,873</u>	<u>500,145</u>
Net Change in Fund Balance	<u>\$ 770,762</u>	<u>\$ 770,762</u>	607,203	<u>\$ (163,559)</u>
Budgetary Fund Balance - Beginning, as restated			1,969,208	
<b>Budgetary Fund Balance - Ending</b>			<u>\$ 2,576,411</u>	
<b>Other financing sources</b>				
Operating transfers in			<u>60,000</u>	
<b>GAAP Fund Balance</b>			<u>\$ 2,636,411</u>	



**SAN MATEO COUNTY**  
**FLOOD AND SEA LEVEL RISE RESILIENCY DISTRICT**  
**Colma Creek Flood Control Fund**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balance - Budget and Actual**  
**For the Year Ended June 30, 2022**

	<b>Budgeted Amounts</b>		<b>Actual Amount</b>	
	<b>Original</b>	<b>Final</b>	<b>Budgetary Basis</b>	<b>Variance with Final Budget</b>
<b>Revenues</b>				
Property taxes	\$ 3,431,959	\$ 3,431,959	\$ 5,420,183	\$ 1,988,224
Interest and investment income (loss)	97,293	97,293	(1,043,930)	(1,141,223)
Other	10,512	10,512	10,520	8
Total Revenues	<u>3,539,764</u>	<u>3,539,764</u>	<u>4,386,773</u>	<u>847,009</u>
<b>Expenditures</b>				
Current:				
Services and supplies	\$ 2,428,473	\$ 2,428,473	\$ 2,047,735	\$ 380,738
Capital outlay	350,000	350,000	20,713	329,287
Total Expenditures	<u>2,778,473</u>	<u>2,778,473</u>	<u>2,068,448</u>	<u>710,025</u>
Net Change in Fund Balance	<u>\$ 761,291</u>	<u>\$ 761,291</u>	2,318,325	<u>\$ 1,557,034</u>
Budgetary Fund Balance - Beginning			29,746,181	
<b>Budgetary Fund Balance - Ending</b>			<u>32,064,506</u>	
<b>Other financing uses</b>				
Operating transfers out			<u>(1,552,500)</u>	
<b>GAAP Fund Balance</b>			<u>\$ 30,512,006</u>	

**SAN MATEO COUNTY**  
**FLOOD AND SEA LEVEL RISE RESILIENCY DISTRICT**  
**San Bruno Creek Flood Control Fund**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balance - Budget and Actual**  
**For the Year Ended June 30, 2022**

	<b>Budgeted Amounts</b>		<b>Actual Amount</b>	
	<b>Original</b>	<b>Final</b>	<b>Budgetary Basis</b>	<b>Variance with Final Budget</b>
<b>Revenues</b>				
Property taxes	\$ 286,839	\$ 286,839	\$ 438,553	\$ 151,714
Interest and investment income (loss)	12,543	12,543	(132,969)	(145,512)
Total Revenues	<u>299,382</u>	<u>299,382</u>	<u>305,584</u>	<u>6,202</u>
<b>Expenditures</b>				
Current:				
Services and supplies	\$ 376,800	\$ 376,800	\$ 246,667	\$ 130,133
Capital outlay	-	825,000	428,861	396,139
Total Expenditures	<u>376,800</u>	<u>1,201,800</u>	<u>675,528</u>	<u>526,272</u>
Net Change in Fund Balance	<u>\$ (77,418)</u>	<u>\$ (902,418)</u>	<u>(369,944)</u>	<u>\$ 532,474</u>
Budgetary Fund Balance - Beginning			3,778,565	
<b>Budgetary Fund Balance - Ending</b>			<u>\$ 3,408,621</u>	
<b>Other financing uses</b>				
Operating transfers out			<u>(4,500)</u>	
<b>Excess (deficiency) of revenues and other source over expenditures</b>			<u>\$ 3,404,121</u>	

**SAN MATEO**  
**FLOOD AND SEA LEVEL RISE RESILIENCY DISTRICT**  
Notes to Required Supplementary Information  
For the Year Ended June 30, 2022

**1. BUDGETS, BUDGETARY PROCESS, AND ENCUMBRANCES**

The District adopts an annual operating budget. Annual budgets are prepared using the modified accrual basis of accounting, which is consistent with the basis used to present the District's financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

The annual budget is adopted by the Board of Directors. The District has the flexibility to expend funds based on operational needs as long as expenditures do not exceed the approved budget.

The District uses an encumbrance system to assist in controlling expenditures. Purchase orders, contracts, and other commitments for the expenditures of monies are recorded under this system in order to reserve applicable appropriations. Encumbrances outstanding at year-end are reported in assigned fund balance as they do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year. The District did not have outstanding encumbrances as of June 30, 2022.

**2. EXPENDITURES LESS THAN BUDGET**

The District had many areas of operations for the year ended June 30, 2022 where actual expenditures fell short of budgeted amounts. This is due primarily to the fact that the District was a new entity effective as of January 1, 2020 and some areas of operations did not increase at the pace originally anticipated when the budget was prepared prior to the COVID-19 pandemic. The District has initiated a number of capital projects which are expected to increase in activity in the coming years.

## SUPPLEMENTARY INFORMATION

**SAN MATEO COUNTY**  
**FLOOD AND SEA LEVEL RISE RESILIENCY DISTRICT**  
**Nonmajor Governmental Funds**  
**Combining Balance Sheet**  
**June 30, 2022**

	<b>San Francisquito Creek Flood Control Fund</b>	<b>Ravenswood Slough Flood Control Zone Fund</b>	<b>San Mateo County Flood Control Zone Fund</b>	<b>Total Nonmajor Governmental Funds</b>
<b>Assets</b>				
Cash and investments	\$ 1,222,326	\$ 459,164	\$ -	\$ 1,681,490
Receivables				
Taxes receivable	5,332	255	-	5,587
Interest receivable	386	144	-	530
Total Assets	<u>\$ 1,228,044</u>	<u>\$ 459,563</u>	<u>\$ -</u>	<u>\$ 1,687,607</u>
<b>Liabilities</b>				
Accounts payable	<u>\$ 343</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 343</u>
<b>Fund Balances</b>				
Assigned	<u>1,227,701</u>	<u>459,563</u>	<u>-</u>	<u>1,687,264</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 1,228,044</u>	<u>\$ 459,563</u>	<u>\$ -</u>	<u>\$ 1,687,607</u>

**SAN MATEO COUNTY**  
**FLOOD AND SEA LEVEL RISE RESILIENCY DISTRICT**  
**Nonmajor Governmental Funds**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**For the Year Ended June 30, 2022**

	San Francisquito Creek Flood Control Fund	Ravenswood Slough Flood Control Zone Fund	San Mateo County Flood Control Zone Fund	Total Nonmajor Governmental Funds
<b>Revenues</b>				
Property tax	\$ 489,767	\$ 21,530	\$ -	\$ 511,297
Interest and investment loss	(35,577)	(15,704)	-	(51,281)
Total Revenues	454,190	5,826	-	460,016
<b>Expenditures</b>				
Current:				
Services and supplies	352,544	680	-	353,224
<b>Other Financing Sources (Uses)</b>				
Transfers In	-	-	-	-
Transfers Out	(5,300)	(200)	-	(5,500)
Total Expenditures	(5,300)	(200)	-	(5,500)
Net Change in Fund Balances	96,346	4,946	-	101,292
Fund Balances - Beginning, as originally reported	1,131,355	454,617	15,904	1,601,876
Cumulative effect of prior period adjustment	-	-	(15,904)	(15,904)
Fund Balances - Beginning, as restated	1,131,355	454,617	-	1,585,972
<b>Fund Balances - Ending</b>	<u>\$ 1,227,701</u>	<u>\$ 459,563</u>	<u>\$ -</u>	<u>\$ 1,687,264</u>

**SAN MATEO COUNTY**  
**FLOOD AND SEA LEVEL RISE RESILIENCY DISTRICT**  
**Schedule of Cities Support**  
**For the Year Ended June 30, 2022**

<b>City/ Agency</b>	<b>Year Ended June 30, 2022 Contributions</b>
Atherton	\$ 25,000
Belmont	40,000
Brisbane	25,000
Burlingame	40,000
Colma	25,000
Daly City	55,000
East Palo Alto	40,000
Foster City	40,000
Half Moon Bay	25,000
Hillsborough	25,000
Menlo Park	40,000
Millbrae	40,000
Pacifica	40,000
Portola Valley	25,000
Redwood City	55,000
San Bruno	40,000
San Carlos	40,000
San Mateo	55,000
South San Francisco	55,000
Woodside	15,000
Total	<u>\$ 745,000</u>

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**Independent Auditor's 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  
San Mateo County Flood and Sea Level Rise Resiliency District  
San Mateo, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the San Mateo County Flood and Sea Level Rise Resiliency District (District), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 18, 2022.

***Report on Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

***Report on Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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 financial statements. 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*.

**Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Walnut Creek, California  
November 18, 2022



November 8, 2022

## Memorandum

To: Lucy Dong, Finance Manager  
*San Mateo County, Flood and Sea Level Rise Resiliency District*

From: Monique Spyke, Managing Director  
*PFM Asset Management LLC*

Re: 2022 Investment Policy Review

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PFM Asset Management LLC has completed its review of the San Mateo County, Flood and Sea Level Rise Resiliency District (the "District") Investment Policy (the "Policy"). This year, we are recommending changes to the Policy that will: address recent and upcoming California Government Code (the "Code") changes; increase the District's investment opportunities; create consistent language regarding the District's Environmental, Social and Governance ("ESG") criteria. Below we have summarized our material recommendations, and all of our suggested edits can be seen in the attached redlined version of the Policy.

### Code Changes

Senate Bill 998 ("SB 998"), which took effect on January 1, 2021, and shall be in effect until January 1, 2026, made a number of amendments to certain sections of the Code which govern the investment of public funds. The bill was written in response to the potential impact COVID-19 may have on the California economy and the investment opportunities of California local agencies. Of the Code changes resulting from SB 998, only one impacts the District's Investment Policy and that is the deletion of commercial paper language regarding the issuing corporation's outstanding paper. We recommended the District delete the language that was removed from Code, as shown in Policy *Section XI. Authorized Investments, paragraph 5 Commercial Paper*.

Senate Bill 1489, also known as the Local Government Omnibus Act of 2022, was approved by Governor Newsom on September 18, 2022, and will go into effect on January 1, 2023. The bill made a number of changes to Code, two of which were in Code section 53601, the section of Code that governs the investments of public funds. Changes made to section 53601 include language stating an investment's term or remaining maturity shall be measured from the settlement date to final maturity and, that a security purchased in accordance with section 53601 shall not have a forward settlement date exceeding 45 days from the time of investment. Previously, Code was silent on both of these items. In the opening paragraph of *Section XI Authorized Investments*, in the attached relined version of the Policy, we suggest the District add the new Code language regarding forward settlement. In Policy *Section XIII Maturity Limit*, we suggest adding the new Code language regarding calculating a security's term to maturity.

SB 1489 also modified Code section 53646 and its quarterly reporting requirements. Per Code, producing a quarterly report is optional for public agencies. However, should an agency choose to produce a quarterly report, certain requirements must be met. One of those requirements was to

produce the quarterly report within thirty (30) days following the end of the quarter. With SB 1489 that time has been extended to forty-five (45) days. We recommend the District update its policy in accordance with the Code change, as shown in Policy *Section XVI Performance Standards*.

### **Investment opportunities**

We recommend the District add supranationals and asset-backed securities as authorized investment types, as permitted by Code. In accordance with Code, we propose that the investment limit for supranational and asset-backed securities be 30 percent and 20 percent, respectively.

Investing in the supranationals allowed by Code will not expose the District to any additional exchange rate risk. Many local agencies participate in supranational investments, including both San Mateo County and the California Pooled Money Investment Account. Supranationals are currently excluded from the ESG criteria laid out in the Policy. However, we do include the Supranational Bonds in our ESG reports because these investment types are rated. Should the District opt to incorporate supranationals, financial statements and reports may refer to them as Significant Other Observable Inputs Level 2.

### **ESG criteria consistency**

The District's ESG investment criteria, as described in Policy *Section VII ESG Investment Criteria*, prohibits the District from investing in companies of the following industries: energy services, oil and gas producers, and refiners and pipelines. As such, we recommend the District delete language from Policy *Section XI Authorized Investments, paragraph 5 Commercial Paper*, regarding limiting investment in the Energy industry/sector to 5%, as this contradicts the Policy's ESG criteria.

All of the changes described above are shown in the attached redlined version of the Policy. Please let us know if you have any questions on our review and recommendations.



**San Mateo County  
Flood and Sea Level Rise Resiliency District**

**INVESTMENT POLICY**

Effective Date

Deleted: January 1, 2021

Approved by the  
San Mateo County Flood and Sea Level Rise Resiliency Board of Directors  
on December 14, 2020

Amended on Date

Deleted: Resolution No. 2020-12-14

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## **I. Introduction**

It is the policy of the San Mateo County Flood and Sea Level Rise Resiliency District ("District") to invest public funds in a manner which will provide maximum security of principal invested with secondary emphasis on providing adequate liquidity, achieving a competitive yield while conforming to all applicable statutes and resolutions governing the investment of public funds and in a manner consistent with the environmental and social purposes of the District. The authority governing investments for local agencies is outlined in the California Government Code Sections §53600 et. seq.

## **II. Delegation of Authority**

The Chief Executive Officer ("CEO") may delegate his/her authority over investment activities to the Finance Manager or Treasurer to invest and reinvest the funds of the District and other depositors as specified in California Government Code Sections §53607. The Finance Manager or Treasurer may assign staff members to perform day-to-day treasury activities related to the investment of District funds. No person may engage in an investment transaction except as expressly provided under the terms of this Policy. Outside investment advisors must be approved by the CEO.

## **III. Policy Statement**

This Investment Policy establishes cash management and investment guidelines for the Finance Manager or Treasurer, and those to whom he/she delegates investment authority, who are responsible for the stewardship of the District Funds. Each transaction and the entire portfolio must comply with California Government Code and this Policy. All portfolio activities will be monitored and judged by the standards of this Policy and its investment objectives. Activities that violate its intent will be considered contrary to policy.

The Finance Manager or Treasurer will annually render to the District Board of Directors ("Board") Finance Committee a statement of investment policy, which the Finance Committee shall review and approve at a public meeting. Any change in the policy shall also be reviewed and approved by the Board at a public meeting.

## **IV. Standard of Care**

The standard of prudence to be used for managing the District's investments shall be California Government Code Section §53600.3, the prudent investor standard, which states that "When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency."

The District recognizes that market prices of securities will vary depending on economic and interest rate conditions at any point in time. It is further recognized, that in a well-diversified investment portfolio, occasional measured losses may occur due to economic, bond market, or individual security credit events. These occasional declines in value must be considered within the context of the overall investment program objectives and the resultant long-term rate of return. The Finance Manager or Treasurer and other individuals assigned to manage the investment portfolio, acting within the intent and scope of this Policy and other written procedures and exercising due diligence, shall be relieved of personal responsibility and liability for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely manner and appropriate action is taken to control adverse developments.

## **V. Scope**

This Investment Policy ("Policy") applies to all the investment activities of the District. The Policy will also apply to all other funds under the Finance Manager or Treasurer's span of control unless specifically exempted by statute or ordinance. All the invested financial assets are accounted for in the District's fund accounting system which includes: General Fund, Capital Project Funds, Debt Service Funds, and Trust and Agency Funds.

All cash shall be pooled for investment purposes. The investment income derived from the pooled investment account shall be allocated to the contributing funds based upon the proportion of the respective average balances relative to the total pooled balance. Investment income shall be distributed to funds within the District's fund accounting system at a minimum of once per year.

This Investment Policy does not apply to the investment of bond proceeds, which are governed by the appropriate bond documents. This does not apply to any pension or other post-employment benefit funds held in a trust, as the District does not have any such funds at this time.

## **VI. Investment Objectives**

The primary objectives, in priority order, of the investment activities of the District are:

1. **SAFETY** – Safety of principal is the foremost objective of the District. The District shall seek to preserve principal by mitigating credit risk and market risk, as defined below:  
  
    **"Credit Risk"** - the risk of loss due to failure of the issuer of a security or the diminished quality of its rating. Credit risk shall be mitigated by diversifying the investment portfolio.  
  
    **"Market Risk"** - the risk of market value fluctuations due to overall changes in the general level of interest rates. Market risk shall be mitigated by limiting the average maturity of the District's portfolio to three years and the maximum maturity of any one security in the portfolio to five years. The portfolio shall be structured with an adequate mix of highly liquid securities and those with maturities scheduled to meet major cash outflow requirements.
2. **LIQUIDITY** – The District's portfolio will remain sufficiently liquid to enable the District to meet its cash flow requirements. It is important that the portfolio contain investments which provide the ability of being easily sold at any time with minimal risk of loss of principal or interest.
3. **RETURN** – The District's portfolio will be designed to attain a market rate of return through economic cycles consistent with the constraints imposed by its safety objective and cash-flow considerations.

## **VII. ESG Investment Criteria**

ESG investing is the process of incorporating the analysis of non-financial environmental, social, and governance factors into investment decisions alongside more traditional financial criteria. As outlined in this Investment Policy, it is the District's objective to integrate environmental, social, and governance ("ESG") factors into investment decisions for its investment portfolio to the extent practical and possible. To achieve this objective, the District will apply the ESG Investment Criteria as defined below to the Acceptable Investment Instruments as defined in the District's Investment Policy.

The ESG investment criteria will be based on the ESG risk ratings, industry and sub-industry definitions, and sub-industry rankings provided by Sustainalytics as of the most recent prior-month end date. The ESG Investment Criteria will be reviewed annually by the District's Finance Manager or Treasurer.



ESG Investment Criteria	
<b>Criteria #1: Industry Exclusions</b> <i>Based on Sustainalytics industry definitions</i>	(1) Energy Services (2) Oil & Gas Producers (3) Refiners & Pipelines
<b>Criteria #2: ESG Environment Risk Limit</b> <i>Based on Sustainalytics ESG risk ratings</i>	The environmental risk component of an issuer's ESG Risk Rating must be no greater than ( $\leq$ ) 7.5 points
<b>Criteria #3: ESG Risk Rating Limit</b> <i>Based on Sustainalytics ESG risk ratings</i>	The issuer ESG Risk Rating must be no greater than ( $<$ ) 30
<b>ESG Risk Rating Limit Exception:</b>  <b>Top ESG Performers Within Industry Peer Groups</b>	If Criteria #1 and #2 are satisfied, an issuer is eligible if the issuer's ESG Risk Rating is between 30-39.99 and the issuer's subindustry ranking is in the top 25 <sup>th</sup> percentile
<b>Acceptable Investments subject to the ESG Investment Criteria</b>	Commercial Paper Negotiable Certificates of Deposit Bankers' Acceptances Corporate obligations Medium-Term Notes

If a previously purchased investment no longer satisfies the ESG Investment Criteria set forth herein, the District will continue to hold that investment unless the District directs its investment advisor to sell the investment.

#### **VIII. Investment Procedures**

The Finance Manager or Treasurer will establish investment procedures for the operation of the District's investment program for approval by the Board Finance Committee.

#### **IX. Ethics and Conflicts of Interest**

Officers and employees involved in the investment process will refrain from personal business activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial decisions.

#### **X. Authorized Financial Dealers and Institutions**

The Finance Manager or Treasurer will maintain a list of financial dealers and institutions qualified and authorized to transact business with the District.

The purchase by the District of any investment other than those purchased directly from the issuer will be purchased either from an institution licensed by the State as a broker-dealer, as defined in Section §25004 of the Corporations Code, which is a member of the Financial Industry Regulatory Authority (FINRA), or a member of a federally regulated securities exchange, a national or state-chartered bank, a federal or state association (as defined by Section §5102 of the Financial Code), or a brokerage firm designated as a Primary Government Dealer by the Federal Reserve Bank.

The Finance Manager or Treasurer will investigate all institutions that wish to do business with the District to determine if they are adequately capitalized, make markets in securities appropriate for the District's needs, and agree to abide by the conditions outlined in the District's Investment Policy and any other guidelines that may be provided. This will be done annually by having financial institutions:

1. Provide written notification that they have read, and will abide by, the District's Investment Policy.
2. Submit their most recent audited Financial Statement within 120 days of the institution's fiscal year-end.

If the District has an investment advisor, the investment advisor may use its own list of authorized broker-dealers to conduct transactions on behalf of the District.

Purchase and sale of securities will be made based on best execution.

#### **XI. Authorized Investments**

Where this section specifies a percentage limitation for a particular security type or issuer, that percentage is applicable only on the date of purchase and shall be calculated based on market value. Credit criteria listed in this section refers to the credit rating at the time the security is purchased. If an investment's credit rating falls below the minimum rating required at the time of purchase, the Finance Manager or Treasurer or his/her designee will perform a timely review and decide whether to sell or hold the investment. [A security purchased in accordance with this section shall not have a forward settlement date exceeding 45 days from the time of investment.](#)

The District will diversify its investment by security type and institution. With the exception of U.S. Treasury and federal agency securities, investment pools, and market funds, no more than 5% of the market value of the District's portfolio will be invested in a single issuer regardless of sector.

Acceptable investments authorized for purchase by the Finance Manager or Treasurer are:

1. **U.S. Treasury obligations** for which the full faith and credit of the United States are pledged for the payment of principal and interest.
2. **Federal agency or United States government-sponsored enterprise obligations**, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.
3. **Obligations of the State of California or any local agency within the state**, including bonds payable solely out of revenues from a revenue-producing property owned, controlled, or operated by the state or any local agency, or by a department, board, agency, or authority of the state or any local agency that is rated in a rating category of "A" or its equivalent or better by a nationally recognized statistical-rating organization (NRSRO). Purchases of the obligations described in this subdivision and in subdivision 4 (registered treasury notes or bonds of any of the other 49 states in addition to California) collectively may not exceed 20% of the District's portfolio.
4. **Registered treasury notes or bonds of any of the other 49 states in addition to California**, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state, or by a department, board, agency, or authority of any of these states that are rated in a rating category of "A" or its equivalent or better by an NRSRO. Purchases of the obligations described in this subdivision and in subdivision 3 (obligations of the State of California or any local agency within the state) collectively may not exceed 20% of the District's portfolio.
5. **Commercial Paper** of "prime" quality of the highest-ranking or of the highest letter and number rating as provided for by a NRSRO. The entity that issues the commercial paper must meet all of the following conditions in either paragraph (a) or paragraph (b):
  - a. The entity meets the following criteria: (i) is organized and operating in the United States as a general corporation, (ii) has total assets in excess of five hundred million dollars (\$500,000,000), and (iii) has debt other than commercial paper, if any, that is rated in a

rating category of "A" or its equivalent or higher by an NRSRO. The entity meets the following criteria: (i) is organized within the United States as a special purpose corporation, trust, or limited liability company, (ii) has program-wide credit enhancements including, but not limited to, over-collateralization, letters of credit, or surety bond, and (iii) has a commercial paper that is rated "A-1" or higher, or the equivalent, by an NRSRO.

Eligible commercial paper will have a maximum maturity of 270 days or less. No more than 20% of the District's portfolio may be invested in commercial paper.

**Deleted:** The District may purchase

**Deleted:** no more than 10% of the outstanding commercial paper of any single issuer. No more than 5% of the outstanding commercial paper investments can be invested in the Energy industry/sector....

**6. Negotiable Certificates of Deposit** issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section §5102 of the Financial Code), a state or federal credit union, or by a federally- or state-licensed branch of a foreign bank. Eligible negotiable certificates of deposit (negotiable CDs) shall be rated in a rating category of "A" for long-term, "A-1" for short-term, their equivalents, or better by an NRSRO. No more than 30% of the District's portfolio may be invested in negotiable CDs.

**7. Mortgage and Asset Backed Securities** A mortgage passthrough security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable passthrough certificate, or consumer receivable-backed bond. Securities eligible for investment under this subdivision shall be rated in a rating category of "AA" or its equivalent or better by an NRSRO and have a maximum remaining maturity of five years or less. Purchase of securities authorized by this subdivision shall not exceed 20% of the District's portfolio.

**8. Demand Deposits - Collateralized**

**9. Passbook Savings Accounts - Collateralized**

**10. Shares of beneficial interest issued by diversified management companies** that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1, et seq.). To be eligible for investment, money market funds must be managed with the goal of maintaining a stable net asset value (NAV) per share of \$1.00.

Further, to be eligible for investment pursuant to this subdivision these companies (money market funds) will either: (i) attain the highest ranking or the highest letter and numerical rating provided by at least two NRSROs or (ii) have retained an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years of experience managing money market mutual funds and with assets under management in excess of \$500,000,000.

It is possible that a money market fund that is managed with the goal of maintaining a stable NAV per share of \$1.00 may be unable to maintain an NAV of \$1.00 per share due to market conditions or other factors. In such instances, the Finance Manager or Treasurer or his/her designee will perform a timely review and decide whether to sell or hold the fund(s), subject to any restraints imposed by the money market fund(s).

No more than 20% of the District's investment portfolio may be invested in money market funds. Further, no more than 10% of the District's investment portfolio may be invested in any one money market fund.

**11. Repurchase Agreements.** Overnight Repurchase Agreement shall be used solely as a short-term investment not to exceed 3 days.

**12. Local Agency Investment Fund (State Pool)** an investment pool run by the State Treasurer. The District can invest up to the maximum amount permitted by the State Treasurer.

**13. San Mateo County Pool** - The District may invest in the San Mateo County Pool established by the San Mateo County Treasurer for the benefit of local agencies (as established in California Code Section §53684).

**14. Local Government Investment Pools (LGIPs)** - Shares of beneficial interest issued by a joint powers authority (Local Government Investment Pools or "Pool") organized pursuant to Government Code Section 6509.7 that invest in the securities and obligations authorized in subdivisions (a) to (r) of California Government Code Section 53601, inclusive. Each share will represent an equal proportional interest in the underlying pool of securities owned by the Joint Powers Authority. The Pool will be rated in a rating category "AAA" or its equivalent by a NRSRO. To be eligible under this section, the shares will maintain a stable net asset value (NAV) and the joint powers authority issuing the shares will have retained an investment adviser that meets all of the following criteria:

- a. The adviser is registered or exempt from registration with the Securities and Exchange Commission.
- b. The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (q) Government Code Section 53601, inclusive.
- c. The adviser has assets under management in excess of five hundred million dollars (\$500,000,000).

**15. Bankers' Acceptance** otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank. Purchases of bankers' acceptances may not exceed 180 days' maturity or 40% of the District's portfolio that may be invested pursuant to this section. However, no more than 30% of the District's portfolio may be invested in bankers' acceptances or any one commercial bank pursuant to this section.

**16. Medium-Term Notes** defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, are issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Notes eligible for investment under this subdivision shall be rated in a rating category of "A" or its equivalent or better by an NRSRO. Purchases of medium-term notes shall not include other instruments authorized by this section and shall not exceed 30% of the District's portfolio that may be invested pursuant to this section.

**17. Supranational Entities** United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated in a rating category of "AA" or its equivalent or better by an NRSRO and shall not exceed 30 percent of the District's portfolio.

## **XII. Collateralization**

Section 53600 et. seq. of the State of California Government Code outlines the collateral requirements for public funds on deposit above the FDIC insurance amounts. These collateral requirements apply to both active bank deposits (checking and savings accounts) and inactive bank deposits (non-negotiable certificates of deposit).

## **XIII. Maturity Limit**

To the extent possible, the District will match its investments with cash flow requirements. Investments will be purchased with the intent to hold until maturity. However, this will not preclude

the sale of securities prior to maturity in order to reposition the portfolio's duration, credit quality, to meet unanticipated cash flow requirements, and/or to enhance the rate of return. State law requires that the maturity of any given instrument should not exceed five years unless specifically approved by the Board of Directors at least three months before the investment is made. [For purposes of compliance with this section, an investment's term or remaining maturity shall be measured from the settlement date to final maturity](#)

#### **XIV. Internal Control**

The Finance Manager or Treasurer is responsible for establishing and maintaining an internal control structure designed to provide reasonable assurance that the assets of the District are protected from loss, theft, or misuse. The Finance Manager or Treasurer or designee shall arrange for an annual audit by an external CPA firm in compliance with the requirements of state law and generally accepted accounting principles as pronounced by the GASB (Governmental Accounting Standards Board.) As part of the audit, investment transactions will be tested. The annual audit will be an integral part, but not the sole part, of management's program of monitoring internal controls.

#### **XV. Custody of Securities**

All securities owned by the District, except time deposits and securities used as collateral for repurchase agreements, will be kept in safekeeping by a third-party bank's trust department, acting as an agent for the District under the terms of a custody agreement executed by the bank and the District. All securities will be received and delivered using standard delivery versus payment procedures.

#### **XVI. Performance Standards**

The Finance Manager or Treasurer shall submit quarterly investment reports, in compliance with Government Code Sections §53646, §53607, and §27134, to the Finance Committee and the Board within [45 days after the end of the quarter](#). These reports shall contain sufficient information to permit an informed outside reader to evaluate the performance of the investment program and shall be in compliance with Government Code. This includes the type of investments, name of the issuer, maturity date, par, yield, return, performance benchmark and current market value of all securities.

#### **XVII. Policy Review**

This Investment Policy will be reviewed at least annually to ensure its consistency with:

1. The California Government Code sections regulate the investment and reporting of public funds.
2. The overall objectives of the preservation of principal, sufficient liquidity, and a market return.
3. Performance of investment advisor(s) against the appropriate benchmark.

#### **XVIII. Investment Policy Adoption**

This Investment Policy is approved through Resolution No. 2020-12-14 (attached) of the Board on December 14, 2020. The Policy shall be reviewed at least annually by the Finance Committee and any modifications made thereto must be approved by the Board.

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## Glossary

**Asset-Backed Securities (ABS)** are securities backed by loans or receivables on assets other than real estate. ABS can be secured by a variety of assets including, but not limited to credit card receivables, auto loans, and home equity loans.

**Bankers' Acceptances** are short-term credit arrangements to enable businesses to obtain funds to finance commercial transactions. They are time drafts drawn on a bank by an exporter or importer to obtain funds to pay for specific merchandise. By its acceptance, the bank becomes primarily liable for the payment of the draft at maturity. An acceptance is a high-grade negotiable instrument.

**Broker-Dealer** is a person or a firm who can act as a broker or a dealer depending on the transaction. A broker brings buyers and sellers together for a commission. They do not take a position. A dealer acts as a principal in all transactions, buying and selling for his own account.

### Certificates of Deposit

1. **Negotiable Certificates of Deposit** are large-denomination CDs. They are issued at face value and typically pay interest at maturity if maturing in less than 12 months. CDs that mature beyond this range pay interest semi-annually. Negotiable CDs are issued by U.S. banks (domestic CDs), U.S. branches of foreign banks (Yankee CDs), and thrifts. There is an active secondary market for negotiable domestic and Yankee CDs. However, the negotiable thrift CD secondary market is limited. Yields on CDs exceed those on U.S. treasuries and agencies of similar maturities. This higher yield compensates the investor for accepting the risk of reduced liquidity and the risk that the issuing bank might fail. State law does not require the collateralization of negotiable CDs.
2. **Non-negotiable Certificates of Deposit** are time deposits with financial institutions that earn interest at a specified rate for a specified term. Liquidation of the CD prior to maturity incurs a penalty. There is no secondary market for these instruments, therefore, they are not liquid. They are classified as public deposits, and financial institutions are required to collateralize them. Collateral may be waived for the portion of the deposits that are covered by FDIC insurance.

**Collateral** refers to securities, evidence of deposits, or other property that a borrower pledges to secure repayment of a loan. It also refers to securities pledged by a bank to secure deposits. In California, repurchase agreements, reverse repurchase agreements, and public deposits must be collateralized.

**Commercial Paper** is a short term, an unsecured, promissory note issued by a corporation to raise working capital.

**Demand Deposits** are funds held that can be withdrawn at any time without advance notice to the institution holding the funds.

**Duration** is a measure of the sensitivity of the price of a security or a portfolio of securities to a change in interest rates, typically stated in years.

**Federal Agency Obligations** are issued by U.S. Government Agencies or Government Sponsored Enterprises (GSE). Although they were created or sponsored by the U.S. Government, most Agencies and GSEs are not guaranteed by the United States Government. Examples of these securities are notes, bonds, bills, and discount notes issued by Fannie Mae (FNMA), Freddie Mac (FHLMC), the Federal Home Loan Bank System (FHLB), and Federal Farm Credit Bank (FFCB). The Agency market is a very large and liquid market, with billions traded every day.

**Guaranteed Investment Contracts (GIC)** are contracts that guarantee principal repayment after a certain period along with a predetermined interest rate.

**Issuer** means any corporation, governmental unit, or financial institution that borrows money through the sale of securities.

**Liquidity** refers to the ease and speed with which an asset can be converted into cash without loss of value. In the money market, security is said to be liquid if the difference between the bid and asked prices is narrow, and reasonably sized trades can be done at those quotes.

**Local Agency Investment Fund (LAIF)** is a special fund in the State Treasury that local agencies may use to deposit funds for investment. There is no minimum investment period and the minimum transaction is \$5,000, in multiples of \$1,000 above that. It offers high liquidity because deposits can be converted to cash in twenty-four hours and no interest is lost. All interest is distributed to those agencies participating in a proportionate share determined by the amounts deposited and the length of time they are deposited. Interest is paid quarterly via direct deposit to the agency's LAIF account. The State keeps an amount for reasonable costs of making the investments, not to exceed one-quarter of one percent of the earnings.

**Local Government Investment Pools (LGIP)** are investment tools similar to money market funds that allow public entities to invest funds.

**Market Value** is the price at which a security is trading and could presumably be purchased or sold.

**Maturity** is the date upon which the principal or stated value of an investment becomes due and payable.

**Medium-Term Notes** are debt obligations issued by corporations and banks, usually in the form of unsecured promissory notes. These are negotiable instruments that can be bought and sold in a large and active secondary market. For the purposes of the California Government Code, the term "Medium-Term" refers to a maximum remaining maturity of five years or less. They can be issued with fixed or floating-rate coupons, and with or without early call features, although the vast majority are fixed-rate and non-callable. Corporate notes have a greater risk than Treasuries or Agencies because they rely on the ability of the issuer to make payment of principal and interest.

**Money Market Fund** is a type of investment comprising a variety of short-term securities with high quality and high liquidity. The fund provides interest to shareholders. Eligible money market funds must strive to maintain a stable net asset value (NAV) of \$1 per share.

**Mortgage-Backed Securities (MBS) or Mortgage Passthrough Securities** are securities that are backed cash flows from an underlying pool of mortgages.

**Principal** describes the original cost of security. It represents the amount of capital or money that the investor pays for the investment.

**Repurchase Agreements** are short-term investment transactions. Banks buy temporarily idle funds from a customer by selling him U.S. Government or other securities with a contractual agreement to repurchase the same securities on a future date at an agreed-upon interest rate. Repurchase Agreements are typically for one to ten days in maturity. The customer receives interest from the bank. The interest rate reflects both the prevailing demand for Federal Funds and the maturity of the Repo. Repurchase Agreements must be collateralized.

**Supranational Entities** are formed by two or more central governments with the purpose of promoting economic development for the member countries. Supranational institutions finance their activities by issuing debt, such as supranational bonds. Examples of supranational institutions include the European Investment Bank and the World Bank. Similarly, to the government bonds, the bonds issued by these institutions are considered direct obligations of the issuing nations and have a high credit rating.

**Total Return** is the performance of a portfolio including interest income and any capital appreciation or depreciation as a result of interest rate movements.

**U.S. Treasury Issues** are the direct obligations of the United States Government. They are highly liquid and are considered the safest investment security. U.S. Treasury issues include:

1. **Treasury Bills** are non-interest-bearing discount securities issued by the U.S. Treasury to finance the national debt. Bills are currently issued in one, three, six, and twelve-month maturities.
2. **Treasury Notes** that have original maturities of one to ten years.
3. **Treasury Bonds** that have original maturities of greater than 10 years.

**Yield to Maturity** is the rate of income return on an investment, minus any premium above par or plus any discount with the adjustment spread over the period from the date of the purchase to the date of maturity of the bond.