

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

SEWER AUTHORITY MID-COASTSIDE

**FOR FISCAL YEAR ENDED
JUNE 30, 2008**

**1000 North Cabrillo Highway
Half Moon Bay, California 94019-1466**



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**1000 North Cabrillo Highway
Half Moon Bay, California 94019-1466**



**Prepared By:
Administrative Services Department, Sewer Authority Mid-Coastside**

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SEWER AUTHORITY MID-COASTSIDE
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2008

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INTRODUCTORY SECTION

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A PUBLIC AGENCY
SERVING
City of Half Moon Bay
Granada Sanitary District
Montara Water and Sanitary District



1000 N. Cabrillo Highway
Half Moon Bay, CA 94019
(650) 726-0124
FAX (650) 726-7833
www.samcleanswater.org

October 15, 2008

Board of Directors
Sewer Authority Mid-Coastside
1000 North Cabrillo Highway
Half Moon Bay, CA 94019

The staff of Sewer Authority Mid-Coastside (SAM) is pleased to present the Comprehensive Annual Financial Report for the fiscal year ended June 30, 2008.

This report was prepared following guidelines set forth by the Governmental Accounting Standards Board. Responsibility for both the accuracy of the data presented and the completeness and fairness of the presentation, including all disclosures, rests with SAM. We believe the data, as presented, is accurate in all material respects and is reported in a manner designed to enhance your understanding of the financial condition of SAM.

This letter of transmittal is the Introductory Section and is designed to complement the MD&A, which follows the Independent Auditor's Report in the Financial Section.

THE REPORTING ENTITY AND ITS SERVICES

The City of Half Moon Bay, Granada Sanitary District, and Montara Water and Sanitary District formed SAM in a Joint Exercise of Powers Agreement (JPA) dated February 3, 1976. SAM is a public agency created to meet the wastewater collection and treatment service requirements of each community within its three member agency boundaries. SAM's service area includes a population of approximately 25,000 people. SAM is an independent public agency and is not financially responsible for any other governmental entity nor is it a component unit of another governmental entity.

SAM is governed by a six-member Board of Directors who are appointed by their respective agencies. The Board is comprised of two members from each agency. Members of the Board elect the president, customarily for a one-year term of office. Historically, the tenure of directors has generally been long, thereby enabling SAM to maintain continuity and stability in policies and service. See Page number viii for the current members of the Board of Directors and their respective dates of initial appointment to the Board. A Manager, who serves at the pleasure of the Board of Directors, determines SAM affairs. SAM has employed Mr. John Foley III, the Manager, in this present capacity since July 1, 2003. There are 14 employees in the SAM Operations/NDWSCP, Collections and Administration departments.

SAM has existed for 32 years for the purpose of protecting and serving the public health of the member agency communities through construction and maintenance of a sewer system, and wastewater treatment. The SAM regional system includes three main pumping stations, an eight-mile transmission line, the wastewater treatment plant, and an ocean outfall, where final effluent is dispersed to the receiving ocean waters, which are a part of the Monterey Bay National Marine Sanctuary. SAM also provides contract services to neighboring communities to maintain the collection systems for its member agencies, which include 104.5 miles of sewer pipelines and 17 lift stations.

SAM collection system has 1.9 miles of gravity pipeline and 5.8 miles of force main. The flows at the pump stations range from an average of approximately 0.198 million gallons per day (MGD), at the lowest flow station to an average of approximately 0.966 MGD, at the highest flow station. SAM wastewater treatment system is permitted for 4.0 MGD in average dry weather flow (ADWF). Currently, SAM ADWF is about 1.545 MGD. Treatment process includes primary sedimentation, roughing filter, activated sludge, secondary clarification, disinfection and anaerobic sludge digestion. The remaining biosolids are removed and buried in landfill.

The U.S. Environmental Protection Agency, the California Regional Water Quality Control Board, the California Health Services Department, as well as other regulatory agencies provide the permits and the standards that SAM must meet in order to collect, treat, recycle, reuse, and dispose of wastewater.

SAM LOCATION

SAM is located in the rural seaside community of Half Moon Bay, which is located 30 miles south of San Francisco, 40 miles north of San Jose, and lies on the most western edge of the County of San Mateo. Geographically, the City and its neighboring unincorporated Coastside Communities are west of the population center of the peninsula and are separated from it by a scenic coastal mountain range. The Coastside residential communities offer a strong tourist economy with many shops, restaurants, beaches, and magnificent vistas. Yet, the Coastside still retains a small-town feel, an agricultural heritage and is one of Northern California's major floricultural centers. SAM's administrative office and wastewater treatment facility are located approximately 1 mile from downtown Half Moon Bay, directly off Scenic Coastal Route Highway 1.

SAM service area encompasses a total of approximately 24 square miles. Roughly 12 square miles (or 50% of the total) lie within the boundaries of the City of Half Moon Bay, in San Mateo County. In the unincorporated area, 6 square miles (or 25% of the total) lie within in the City of El Granada, and 6 square miles (or 25% of the total) lie within the City of Montara.

ECONOMIC CONDITION AND OUTLOOK

In its second quarterly report of 2008, the UCLA Anderson Forecast cautiously affirms the “no recession” prognostication it has been advocating over the past several quarters, while acknowledging that the most recent employment data – an increase in the unemployment rate from 5.0% to 5.5% – falls within “recession range.” Recession or not, the Forecast acknowledges that Gross Domestic Product (GDP) could dip into negative range over the next six to nine months, as the housing bust continues to wreak havoc on the national economy.

In the first of a pair of essays on the national economy, UCLA Anderson Senior Economist David Shulman says, “Although the economy will likely avoid falling into a formal recession, the economic outlook through the end of 2009 is decidedly subprime.” The UCLA Anderson Forecast asserts that real GDP growth from the third quarter of 2007 through the end of 2009 will average “a very tepid” 1.2%, adding that “we expect that the current quarter real GDP growth will come in at a minus 0.7% and the first quarter of 2009 could be negative as well.” Additionally, unemployment will reach 6% by the end of 2009, with a caveat that states if the May 5.5% unemployment rate is duplicated in June, a 6.0% unemployment rate would come much sooner.

The Forecast report also says that the Federal Reserve Bank is beginning to shift its attention from the financial system, which has been negatively impacted by the housing bust, to its more traditional concern about inflation. As a result, the Forecast does not believe that tepid economic growth will prevent the Fed from raising interest rates in the middle of 2009.

In an accompanying essay, UCLA Anderson Forecast Director Edward Leamer addresses the most recent unemployment data and reveals his economic bottom line: “I am holding to what is now a shaky view: no recession this year.” Among Leamer’s arguments is that the rising unemployment rate is more of a “hiring freeze” than the massive layoffs associated with an actual recession. This one month’s unemployment figure stands alone and, therefore, does not indicate a negative trend.

State Budget Discussion

In California, the question is whether or not hard times in the real estate (and ancillary) sector(s) have had significant impact on other areas of the state’s economy. As in the Forecast’s first quarterly report of the year (released in March), the conclusion is that, “What happened in housing, stayed in housing.” The California report states, “There is no generalized spread of contraction to the rest of the economy, then when the [housing, construction and finance] sectors do hit bottom, California will be posed to take off once again.”

In California, UCLA Anderson Forecast Economist Jerry Nickelsburg concludes that California’s service sectors, the state’s traditional economic engines of growth, are still sidestepping the turbulence in the financial, construction and real estate sectors, keeping California’s employment growth positive. He also notes that exports and agriculture, which had not shown much growth recently, are now providing enough additional positive data to also offset the sharp declines in home construction and real estate.

The Forecast predicts a very weak California economy throughout 2008. The strength in exports of both goods and services in the Bay Area and Los Angeles, along with the strength of agriculture in the Central and Salinas Valleys will keep California employment flat the first half of the year, with the unemployment rate topping out at about 6.1% by year end. Two principal negatives in the state economy will persist into 2009. Residential construction will remain at a very low level throughout next year, while the now permanent job losses in the finance sector must be offset by growth in other areas. As for talk of a recession in the state, Nickelsburg writes, "It does not appear that California will exhibit the kind of loss that typically goes with a national recession ... for California, this is primarily a housing related adjustment to an overheated speculative market. The carnage is palpable, but contained as California benefits from some very traditional industries and its position in the sun on the edge of the Pacific Rim."

COMMUNICATION AND COMMUNITY INVOLVEMENT

SAM has for years recognized the value of providing its customers with information about wastewater, its process, and treatment. A vital part of SAM's public information program consists of a Source Control Program, which issues permits for close to 100 dischargers and monitors their compliance. Fats, oils, and greases are a high priority in the source control program and many of SAM dischargers are required to have and maintain grease traps. In addition to commercial discharge permitting, SAM has developed door hangers in multiple languages to educate residents in residential areas where grease is a problem. Collection system maintenance and Source Control staff collaborate and identify hot spots that may need increased inspections, maintenance, or outreach.

Another part of SAM's public information program is the Outreach Program. SAM collaborates with local schools to teach pollution prevention, conservation and overall awareness of environmental issues. This program endeavors to teach young people environmental responsibility with respect to water pollution control. The program includes school classroom visits and tours of SAM wastewater treatment plant. SAM presentations to the students may include subjects such as water cycle, the differences between storm drains, and the sanitary sewer system, the different types of pollutant sources, the water treatment process, and the different jobs available in the field of water and wastewater treatment. SAM also extends tours to all interested parties and community groups.

SAM staff has received certificates of commendation from the Surfrider Foundation, a volunteer water quality test group, and SAM has provided space and equipment for Surfrider Foundation to set up a water-testing laboratory so that local water quality information can be made available in a timely manner. Additionally, SAM supports its employee's participation in the California Water Environment Association, Bay Area Pollution Prevention Group, the California Association of Sanitary Agencies Fats, Oils and Grease Group.

MAJOR INITIATIVES

SAM is committed to providing continuous, reliable service. To maintain its infrastructure, SAM has a long-term Capital Improvement Program that includes a two-stage capital improvement plan. After extensive studies and peer review in 1999 and 2000, the first stage, increasing wet weather storage capacity in the northernmost part of the system, was initiated in 2002 and completed in 2003. It included construction of a 430,000-gallon storage facility at the Montara Pump Station – the Montara Storm Water Retention Tank. The phase 1 construction was followed by a sanitary sewer flow monitoring analysis to better identify the necessary elements of the second phase. Phase 2 planning has begun and will involve increasing wet weather storage capacity in the central part of the system near the Portola Pump Station.

SAM's Maintenance Program utilizes SAM staff and outside resources to maintain, repair, and upgrade all of its equipment and structures. Preventative maintenance ensures reliability, decreases downtime, decreases unscheduled repairs and in general, fixes issues before they become problems. Over the past 6 years, SAM has replaced or rebuilt all of the SAM owned pumps in the Intertie Pipeline System (IPS). In addition, the IPS Junction Structures were replaced, 12 gravity manholes were either rehabilitated or replaced in the IPS gravity section upstream of Portola Pump Station and an odor control upgrade was done at Portola Pump Station. SAM continues to improve control and monitoring through the use of smarter, processor-based control systems. These processor-based control systems are currently being upgraded, as needed, to current technology PLC units with touch screen interfaces.

AWARDS

SAM has been the recipient of the California Sanitation Risk Management Workers' Compensation Program Honors for Lowest Claims Frequency and Severity Rates for eight consecutive years from 1996/97 through 2005/06.

The California Water Environment Association and its Santa Clara Valley Section presented SAM with the Plant of the Year 2000 award.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Sewer Authority Mid-Coastside for its comprehensive annual financial report for the fiscal year ended June 30, 2007. This was the fourth consecutive year that the Sewer Authority Mid-Coastside has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirement.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

FINANCIAL INFORMATION

Accounting System

SAM reports its activities as an enterprise fund under the broad category of funds called proprietary funds. SAM uses the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred.

Internal Controls

The management of SAM is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of SAM are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of Financial Statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and the valuation of costs and benefits requires estimates and judgments by management. We believe that SAM internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Budgetary Controls

A utility or other enterprise government agency is a self-supporting operation of a commercial nature and the appropriate level of revenues and expenses is largely determined by the demand for service. Depending upon the timing and level of demand for service, the expenses will vary. Accordingly, SAM budgetary controls are established at the levels of total estimated expenses. The Board of Directors adopts the SAM Comprehensive Budget annually by resolution. The SAM Manager has the authority to approve budget transfers between expenditure categories and departments.

Results of Operations

Operating Revenues for the year ended June 30, 2008 are discussed in detail on Pages 3 to 7 of the MD&A.

Debt Administration

At June 30, 2008, SAM has no outstanding debt. SAM has no current plans to issue additional debt.

Cash Management

In accordance with SAM's Investment Policy (See note 2 to the Financial Statements), during fiscal year 2007-08, SAM had investments held by the State of California Local Agency Investment Fund (LAIF). LAIF is available to local governments and is administered by the Office of the State Treasurer. The fund invests primarily in fixed income securities following an investment strategy of safety, liquidity and yield. The amount of interest earned was \$140,432.

Risk Management

SAM carries commercial property and differences in condition insurance coverage through an insurance broker. SAM is also a member of the California Sanitation Risk Management Authority (CSRMA), a risk-pooling self-insurance authority. Through CSRMA, SAM carries liability risk insurance. SAM manages risk through careful monitoring of losses, working closely with CSRMA's third party claims adjuster, and designing and implementing programs to minimize losses.

The SAM Safety Committee analyzes worker's compensation issues by monitoring work conditions, and organizing and implementing safety-training programs to reduce employee exposure to hazards. Limiting or eliminating risk, including protection of employee and the public at large, is a top priority of the Risk Management Program.

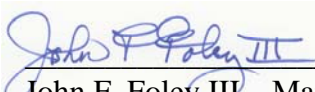
INDEPENDENT AUDIT

State statutes require an annual audit by an independent certified public accountant. For the 2004, 2005, 2006 and 2007 years, the accounting firm of Moreland and Associates conducted the audit. In 2008, Macias Gini & O'Connell LLP acquired Moreland & Associates. Macias Gini & O'Connell LLP conducted the 2008 audit and their audit report, which contains an unqualified opinion, is included in the financial section of this report.

ACKNOWLEDGEMENT

I wish to express my sincere appreciation to the Board of Directors, and Parsons accounting in the planning and implementation of the financial affairs of SAM. We appreciate and acknowledge the thorough, professional and timely manner in which our independent auditors, Macias Gini & O'Connell LLP, conducted the audit.

I acknowledge the efforts of personnel in SAM's accounting department in following good financial management practices and SAM management, administrative and technical staff in providing information and assistance during the preparation of this report.



John F. Foley III, Manager

SEWER AUTHORITY MID-COASTSIDE

Principal Officials and Management

BOARD OF DIRECTORS

Marina Fraser
Vice-Chair
Since 2006

Richard Lohman
Secretary/Interim Treasurer
Since 2004

Jim Harvey
Board Member
Since 2007

Leonard Woren
Board Member
Since 1997

John Muller
Board Member
Since 2006

Scott Boyd
Board Member
Since 2008

General Counsel

James L. Copeland, Esq.
Sidley Austin, LLP

Management

Mr. John F. Foley III, Manager
Mr. Tony Pullin, Technical Services Supervisor
Ms. Jeannette L. Tracy, Supervisor of Admin Services

Italicized Text Indicates Date Elected

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Sewer Authority
Mid-Coastside, California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Oliver S. Cox

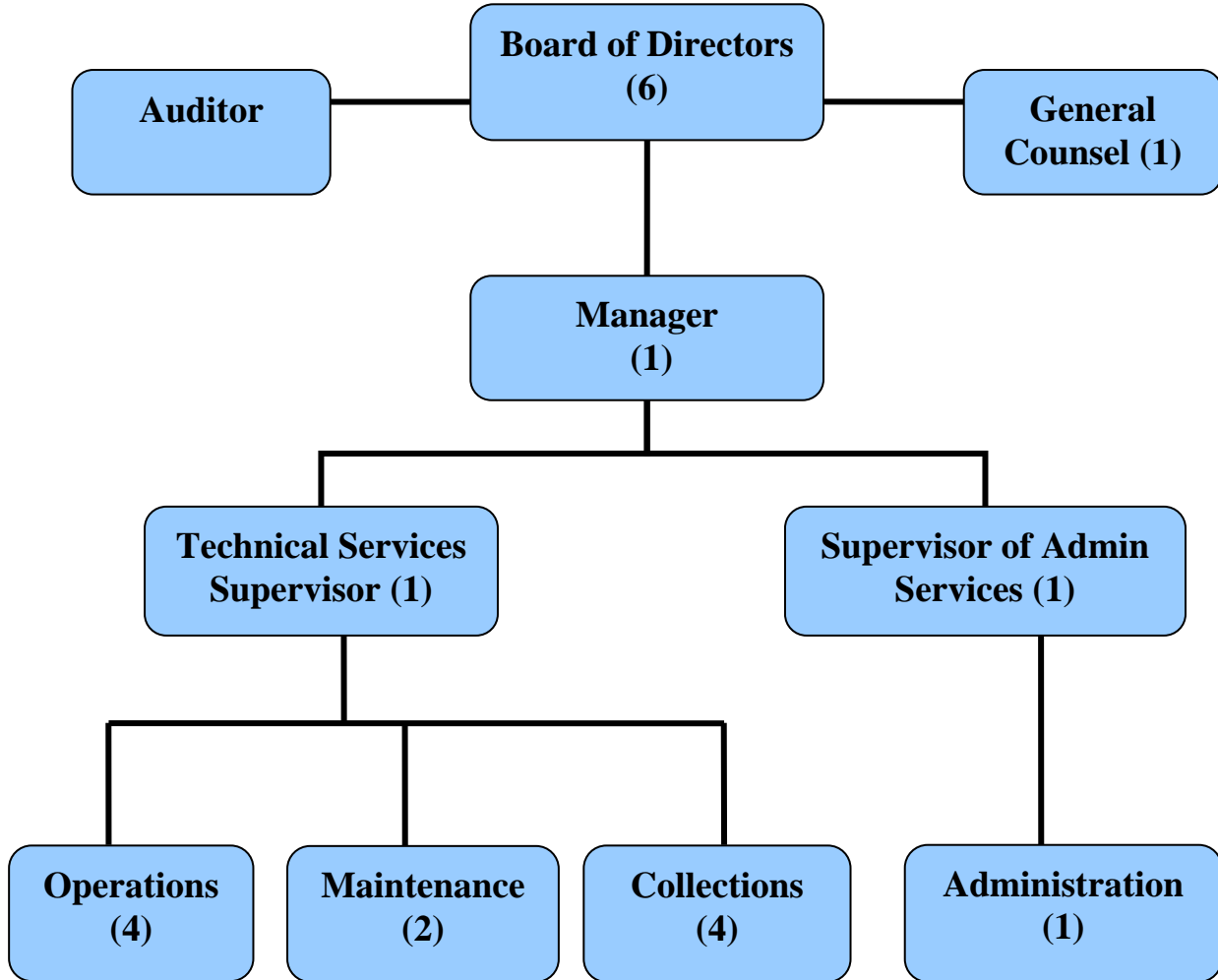
President

Jeffrey R. Emer

Executive Director

Sewer Authority Mid-Coastside

Organizational Chart



FINANCIAL SECTION

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

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Authority. The accompanying introductory section and statistical section as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Macias Gini & Connell LLP

Certified Public Accountants

Walnut Creek, California

October 15, 2008

SEWER AUTHORITY MID-COASTSIDE

Notes to Financial Statements

June 30, 2008 and 2007

1. Summary of Significant Accounting Policies

a. Organization

Sewer Authority Mid-Coastside (the Authority) is a public entity created on February 3, 1976 by a Joint Exercise of Powers Agreement between the City of Half Moon Bay, the Montara Sanitary Authority and the Granada Sanitary Authority (member agencies). The Authority was formed pursuant to the provisions of Title 1, Division 7, Chapter 5 of the California Government Code. Under this agreement, the Authority has the power to construct, maintain and operate facilities for the collection, transmission, treatment and disposal of wastewater for the benefit of the lands and inhabitants within member agencies' respective boundaries. Authority revenue is derived from assessments for operations, maintenance and collections made on the member agencies.

b. Reporting Entity

In evaluating how to define the government for financial reporting purposes, management has considered all potential component units. Criteria used in evaluating the inclusion of a potential component unit includes, but is not limited to, financial interdependency, oversight responsibility, ability to significantly influence operations, scope of public service, and the existence of special financing relationships. Based upon the applications of these criteria, no potential component units were identified that were required to be included in the financial statements of the Authority.

c. Basis of Accounting

As defined by the Governmental Accounting Standards Board (GASB), the Authority is a proprietary fund and is accounted for on a cost of service measurement focus using the accrual basis of accounting in accordance with generally accepted accounting principles as promulgated by the GASB. In addition, the Authority applies all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

d. Operating Income and Expenses

Operating income and operating expense are defined as activities that result directly from the Authority's operations as a sewer service provider to its member agencies. Non-operating income and expense are defined as ancillary activities such as interest income on funds invested, and other costs not directly attributable to operating activities.

SEWER AUTHORITY MID-COASTSIDE

Notes to Financial Statements

June 30, 2008 and 2007

1. Summary of Significant Accounting Policies (Continued)

e. Statement of Cash Flows

For purposes of the statement of cash flows, the Authority considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

f. Capital Assets

The Authority utilizes a capitalization threshold of \$1,000 for vehicles, machinery and equipment; and \$5,000 for easement, land and other facility and system improvements. Capital assets are recorded at historical cost. Depreciation is computed using the straight-line method over the estimated useful lives as follows:

Sewage treatment facilities	3-75 years
General plant facility	3-25 years
Collection system	3-10 years

g. Compensated Absences

Employees may accumulate up to, but not more than, twice their yearly allowance of vacation time. Vacation which has been earned but has not been used is accrued by employees, and is included in accrued compensation and benefits. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

h. Restatement of Net Assets

Based on the Board's Reserve Fund Policy established and adopted in March 2001, net operating revenue on expense budgets in any budget year is refunded to the member agencies in proportion to their contributions. This policy became effective in fiscal year 2002. During fiscal year 2008, the Authority re-evaluated its cumulative assessment computations and determined that member agencies were due \$384,903 for fiscal years 2002 through 2006 over-assessments and \$177,040 for fiscal year 2007 over-assessments. As a result, the June 30, 2007 beginning net assets were restated in the amount of \$384,903 and the operating revenues for the year ended June 30, 2007 were reduced in the amount of \$177,040 representing fiscal year 2007 over-assessments.

In addition, the Authority re-evaluated its computation of accumulated depreciation on certain assets acquired in 1984 and determined these assets should have been annually depreciated. As a result, the July 1, 2006 net assets balance was restated in the amount of \$2,967,998 representing cumulative depreciation expense on these assets from 1984 through June 30, 2006.

SEWER AUTHORITY MID-COASTSIDE

Notes to Financial Statements

June 30, 2008 and 2007

1. Summary of Significant Accounting Policies (Continued)

i. *Reclassifications*

Certain 2007 amounts in the basic financial statements have been reclassified for comparative purposes to conform to the presentation in the 2008 basic financial statements.

j. *Effect of New Pronouncements*

In May 2007, GASB issued Statement No. 50, *Pension Disclosures*, which more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. As described in Note 6, the Authority applied provisions of this statement during the fiscal year ended June 30, 2008.

The Authority is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following GASB Statements:

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*, which addresses how state and local governments should account for and report their costs and obligations related to post-employment healthcare and other non-pension benefits. Collectively, these benefits are commonly referred to as other post-employment benefits, or OPEB. The statement generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB costs for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. This statement's provisions may be applied prospectively and do not require governments to fund their OPEB plans. An employer may establish its OPEB liability at zero as of the beginning of the initial year of implementation; however, the unfunded actuarial liability is required to be amortized over future periods. This statement also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time. Application of this statement is effective for the Authority's fiscal year ending June 30, 2010.

SEWER AUTHORITY MID-COASTSIDE

Notes to Financial Statements

June 30, 2008 and 2007

1. Summary of Significant Accounting Policies (Continued)

In November 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the statement excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and postclosure care and nuclear power plant decommissioning. Application of this statement is effective for the Authority's fiscal year ending June 30, 2009.

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. Application of this statement is effective for the Authority's fiscal year ending June 30, 2010.

k. *Use of 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. Actual results could differ from those estimates.

SEWER AUTHORITY MID-COASTSIDE

Notes to Financial Statements

June 30, 2008 and 2007

2. Cash and Investments

Cash and investments as of June 30, 2008 and 2007 consist of the following:

	<u>2008</u>	<u>2007</u>
Petty cash	\$ 500	\$ 500
Demand deposits	686,715	1,177,321
Investments	<u>3,310,528</u>	<u>2,524,435</u>
Total Cash and Investments	<u>\$ 3,997,743</u>	<u>\$ 3,702,256</u>

Investments Authorized by the Authority's Investment Policy

The Authority's investment policy authorizes investments in the local government investment pool administered by the State of California (LAIF). The Authority places demand deposits with banks that are insured and provide collateral at the levels required by the Government Code.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Authority manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the Authority's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Authority's investments by maturity:

	<u>Remaining Maturity</u> <u>12 Months or less</u>	
<u>Investment Type</u>	<u>2008</u>	<u>2007</u>
Local Agency Investment Fund	<u>\$ 3,310,528</u>	<u>\$ 2,524,435</u>

SEWER AUTHORITY MID-COASTSIDE

Notes to Financial Statements

June 30, 2008 and 2007

2. Cash and Investments (Continued)

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. LAIF does not have a rating provided by a nationally recognized statistical rating organization.

Concentration of Credit Risk

The investment policy of the Authority contains no limitations on the amount that can be invested in any one issue beyond that stipulated by the California Government Code.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Authority deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

SEWER AUTHORITY MID-COASTSIDE

Notes to Financial Statements

June 30, 2008 and 2007

2. Cash and Investments (Continued)

Investment in State Investment Pool

The Authority is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the Authority's investment in this pool is reported in the accompanying financial statements at amounts based upon the Authority's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

As of June 30, 2008, the City's investment in LAIF was \$3,310,528. The total amount recorded by all public agencies in LAIF at that date was approximately \$25,161,000,000. Of that amount, 85.28% was invested in non-derivative financial products and 14.72% in structured notes and asset backed securities.

3. Related Party Transactions

The financial statements of the Authority include the following revenues from its member agencies, including assessments for designated funds at June 30, 2008 and 2007:

	2008	
	Operation and Maintenance Assessments	Collection Assessments
	City of Half Moon Bay	\$ 1,601,940
Granada Sanitary District	976,538	267,444
Montara Water and Sanitary District	608,567	279,881
Total	\$ 3,187,045	\$ 766,551
	2007	
	Operation and Maintenance Assessments	Collection Assessments
City of Half Moon Bay	\$ 1,489,733	\$ 262,129
Granada Sanitary District	888,013	138,086
Montara Water and Sanitary District	589,443	219,570
Total	\$ 2,967,189	\$ 619,785

SEWER AUTHORITY MID-COASTSIDE

Notes to Financial Statements

June 30, 2008 and 2007

4. Capital Assets

Changes in capital assets for the year ended June 30, 2008:

	Balance July 1, 2007, as restated	Additions	Retirements	Balance June 30, 2008
Nondepreciable Assets:				
Easement	\$ 24,950	\$ -	\$ -	\$ 24,950
Land	569,740	-	-	569,740
Construction in progress	208,923	34,475	-	243,398
Total Nondepreciable Assets	<u>803,613</u>	<u>34,475</u>	<u>-</u>	<u>838,088</u>
Depreciable Assets:				
Sewage treatment facilities	40,382,174	181,516	-	40,563,690
General plant facility	313,760	26,442	-	340,202
Collection system	476,817	-	-	476,817
Total Depreciable Assets	<u>41,172,751</u>	<u>207,958</u>	<u>-</u>	<u>41,380,709</u>
Total Capital Assets	41,976,364	242,433		42,218,797
Less: Accumulated Depreciation				
Sewage treatment facilities	(21,704,697)	(1,606,768)	-	(23,311,465)
General plant facility	(146,736)	(15,077)	-	(161,813)
Collection system	(290,627)	(59,164)	-	(349,791)
Total Accumulated Depreciation	<u>(22,142,060)</u>	<u>(1,681,009)</u>	<u>-</u>	<u>(23,823,069)</u>
Total Depreciable Assets, net	<u>19,030,691</u>	<u>(1,473,051)</u>	<u>-</u>	<u>17,557,640</u>
Total Capital Assets, net	<u>\$ 19,834,304</u>	<u>\$ (1,438,576)</u>	<u>\$ -</u>	<u>\$ 18,395,728</u>

SEWER AUTHORITY MID-COASTSIDE

Notes to Financial Statements

June 30, 2008 and 2007

4. Capital Assets (Continued)

Changes in capital assets for the year ended June 30, 2007:

	Balance July 1, 2006, as restated	Additions	Retirements	Balance June 30, 2007, as restated
Nondepreciable Assets:				
Easement	\$ 24,950	\$ -	\$ -	\$ 24,950
Land	569,740	-	-	569,740
Construction in progress	165,533	78,278	(34,888)	208,923
Total Nondepreciable Assets	760,223	78,278	(34,888)	803,613
Depreciable Assets:				
Sewage treatment facilities	40,260,987	121,187	-	40,382,174
General plant facility	313,760	-	-	313,760
Collection system	465,118	11,699	-	476,817
Total Depreciable Assets	41,039,865	132,886	-	41,172,751
Total Capital Assets	41,800,088	211,164	(34,888)	41,976,364
Less: Accumulated Depreciation				
Sewage treatment facilities	(20,102,157)	(1,602,540)	-	(21,704,697)
General plant facility	(129,598)	(17,138)	-	(146,736)
Collection system	(232,159)	(58,468)	-	(290,627)
Total Accumulated Depreciation	(20,463,914)	(1,678,146)	-	(22,142,060)
Total Depreciable Assets, net	20,575,951	(1,545,260)	-	19,030,691
Total Capital Asset, net	\$ 21,336,174	\$ (1,466,982)	\$ (34,888)	\$ 19,834,304

SEWER AUTHORITY MID-COASTSIDE

Notes to Financial Statements

June 30, 2008 and 2007

5. Insurance

The Authority mitigates its risk of property, liability, and workers' compensation losses by being a member of the California Sanitation Risk Management Authority (CSRMA) and participating in their risk sharing and insurance-purchasing pools. The CSRMA risk sharing pools operate to share risk among the members. Members of the pool are assessed a yearly premium which, based upon experience, can be reduced up to 50% or increased up to 50%, retroactively. The members of the pool share losses which exceed the maximum premium assessment. Participation in CSRMA risk sharing pools provides the Authority general liability coverage up to \$15,750,000 subject to a \$2,500 deductible, and workers' compensation coverage up to \$750,000 per occurrence. Participation in CSRMA insurance-purchasing pools provide the Authority general liability insurance excess coverage, workers' compensation insurance excess coverage and property insurance coverage to \$34 million.

The Authority has designated a portion of its net assets for future payment of minor claims and the deductible portion of insured claims. Claims paid have not been material to the financial statements and are charged to operations as incurred.

6. Employee Benefits

a. Employees Retirement Plan (Defined Benefit Pension Plan)

Plan Description. The Authority's defined benefit pension plan, (the "Plan"), provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Plan is part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), a cost sharing multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements is established by State statutes within the Public Employees' Retirement Law.

The Authority selects optional benefit provisions from the benefit menu by contract with PERS and adopts those benefits through Board Action. PERS issues a separate annual financial report. Copies of the PERS' annual financial report may be obtained from the PERS Executive Office – 400 P Street – Sacramento, California 95814.

Funding Policy. Active plan members in the Plan are required to contribute 7% of their annual covered salary. The Authority is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. Under the current MOU, the Authority paid the employee and employer's portion for retirement. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration.

SEWER AUTHORITY MID-COASTSIDE

Notes to Financial Statements

June 30, 2008 and 2007

6. Employee Benefits (Continued)

The required employer contribution rate for the fiscal years ended June 30, 2008 and 2007 was 11.691% and 11.733%, respectively. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

Annual Pension Cost. For fiscal years ended June 30, 2008 and 2007, the Authority's annual pension cost was \$115,616 and \$117,427, respectively, which was equal to the Authority's required and actual contribution.

Three-Year Trend Information for PERS

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2006	\$110,300	100%	\$-0-
June 30, 2007	117,427	100%	-0-
June 30, 2008	115,616	100%	-0-

b. Other Postemployment Healthcare Benefits

In addition to providing pension benefits, the Authority provides certain healthcare benefits for retired employees. The Authority's memorandum of understanding with its employees establishes the provisions for these postemployment healthcare benefits. Postemployment healthcare benefits eligibility is determined in accordance with regulations promulgated by CalPERS. The costs of retiree healthcare benefits are recognized as expenditures as claims are paid. For fiscal year 2008 and 2007, these costs totaled \$1,751 and \$725, respectively. At June 30, 2008 and 2007, 2 and 1 participants, respectively, were eligible to receive these benefits.

c. Deferred Compensation Plan

The Authority maintains two deferred compensation plans, qualified under Section 457 of the Internal Revenue Code, in which substantially all employees may participate. Generally, deferred compensation is payable upon retirement, termination of employment, disability or death. The Authority does not make contributions to the Plan, with the exception of the Manager. The Authority did not make contributions to the Plan in fiscal years and 2007-08 and 2006-07. The plan assets are held in trust for the exclusive benefit of the participants and are not included in the Authority's financial statements.

SEWER AUTHORITY MID-COASTSIDE

Notes to Financial Statements

June 30, 2008 and 2007

7. Commitments and Contingencies

Litigation. Commitments and contingencies of an indeterminable amount include normal recurring pending claims and litigation related to the Authority's operations. Authority management is of the opinion that the eventual resolution of these matters will not result in a material liability of the Authority. No provision has been made in the financial statements for any liability that may result.

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STATISTICAL SECTION
(UNAUDITED)

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SEWER AUTHORITY MID-COASTSIDE

Statistical Section

June 30, 2008 and 2007

This part of the comprehensive annual financial report for the Authority presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Authority's overall financial health.

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