

SEWER AUTHORITY
MID-COASTSIDE
JUNE 30, 2001 AND 2000

FINANCIAL STATEMENTS,
INDEPENDENT AUDITORS' REPORT
AND
SUPPLEMENTARY INFORMATION

Sewer Authority Mid-Coastside

Financial Statements, Independent Auditors' Report and Supplementary Information

Board of Directors and Management

Independent Auditors' Report	1
------------------------------	---

Financial Statements

Balance Sheet	2
---------------	---

Statement of Operations	3
-------------------------	---

Statement of Fund Equity	4
--------------------------	---

Statement of Cash Flows	5
-------------------------	---

Notes to Financial Statements	6 - 12
-------------------------------	--------

Other Supplementary Information

Schedule of Operating Expenses	13
--------------------------------	----

Sewer Authority Mid-Coastside

Board of Directors and Management

Board of Directors

Dennis Coleman	City of Half Moon Bay
Deborah Ruddock	City of Half Moon Bay
Leonard Woren	Granada Sanitary District
Joseph Carlevaris	Granada Sanitary District
Scott Boyd	Montara Sanitary District
Bob Ptacek	Montara Sanitary District

Management

David Dickson	Manager
Katharine Salera	Finance and Administrative Supervisor
Anthony Pullin	Technical Services Supervisor
Humberto Molina	Operations Supervisor

Independent Auditors' Report

BOARD OF DIRECTORS
SEWER AUTHORITY MID-COASTSIDE
Half Moon Bay, California

We have audited the accompanying balance sheet of **SEWER AUTHORITY MID-COASTSIDE (the Authority)** as of June 30, 2001 and 2000, and the related statements of operations, fund equity and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the State Controller's Minimum Audit requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Sewer Authority Mid-Coastside as of June 30, 2001 and 2000 and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the California State Controller's Office for Special Districts.

The other supplementary information on page 13 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hood & Strong LLP

August 31, 2001

Consultants and

Business Advisors

101 California

Suite 1500

San Francisco

CA 94111

415.781.0793

fax: 415.421.2976

San Francisco

Meade Park

Sewer Authority Mid-Coastside

Balance Sheet

<i>June 30,</i>	2001	2000
Assets		
Current Assets:		
Cash	\$ 112,830	\$ 145,891
Investments	2,032,108	1,246,658
Accounts and interest receivable	72,495	82,138
Prepaid expenses	60,632	9,031
Total current assets	2,278,065	1,483,718
Fixed Assets:		
Property, plant and equipment, net	28,511,518	29,859,851
Construction in progress	401,603	300,685
	28,913,121	30,160,536
Total Assets	\$ 31,191,186	\$ 31,644,254
Liabilities and Fund Equity		
Current Liabilities:		
Accounts payable	\$ 141,884	\$ 124,475
Accrued compensation and benefits	171,865	114,791
Total liabilities	313,749	239,266
Fund Equity:		
Contributed capital:		
Government grants	14,817,680	14,817,680
Less accumulated amortization	9,429,862	8,935,939
	5,387,818	5,881,741
Agency contributions	24,565,764	24,565,764
Total contributed capital	29,953,582	30,447,505
Retained earnings:		
Designated for insurance		195,599
Designated for contingencies		162,536
Undesignated	(80,658)	599,348
Operating reserve	250,000	
Capital replacement reserve	754,483	
Total retained earnings	923,825	957,483
Total fund equity	30,877,407	31,404,988
Total Liabilities and Fund Equity	\$ 31,191,156	\$ 31,644,254

Sewer Authority Mid-Coastside

Statement of Operations

<i>Years Ended June 30,</i>	2001	2000
Operations:		
Revenues:		
Operation and maintenance assessments	\$ 2,377,020	\$ 2,240,674
Collection assessments	280,908	393,043
Service fees	26,401	20,384
Total operating revenues	2,684,329	2,654,101
Expenses:		
Treatment	2,609,389	2,901,541
Collection system	238,292	378,440
Industrial waste	13,983	19,526
Administration	418,478	384,582
Total operating expenses	3,280,142	3,684,089
Operating loss	(595,813)	(1,029,988)
Non-Operating Revenues (Expenses):		
Interest on investments	90,760	73,753
Other income	2,921	(1,737)
Loss on disposal of fixed assets	(25,419)	(30,385)
Total non-operating revenue (expense), net	68,262	41,631
Net Loss	\$ (527,551)	\$ (988,357)

Sewer Authority Mid-Coastside

Statement of Fund Equity

Years Ended June 30, 2001 and 2000

	Contributed Capital				Total
	Government Grants	Accumulated Amortization	Agency Contributions	Retained Earnings	
Fund Equity, June 30, 1999	\$ 14,817,680	\$ (8,442,016)	\$ 24,565,764	\$ 1,451,917	\$ 32,393,345
Net loss				(988,357)	(988,357)
Amortization on property, plant and equipment acquired by grants		(493,923)		493,923	
Fund Equity, June 30, 2000	14,817,680	(8,935,939)	24,565,764	957,483	31,404,988
Net loss				(527,551)	(527,551)
Amortization on property, plant and equipment acquired by grants		(493,923)		493,923	
Fund Equity, June 30, 2001	\$ 14,817,680	\$ (9,429,862)	\$ 24,565,764	\$ 923,855	\$ 30,877,437

The accompanying notes are an integral part of this statement.

Sewer Authority Mid-Coastside

Statement of Cash Flows

<i>Years Ended June 30,</i>	2001	2000
Cash Flows from Operating Activities:		
Operating loss	\$ (595,813)	\$ (1,029,988)
Adjustments to reconcile operating loss to net cash provided by operations:		
Other income	2,920	(1,737)
Depreciation	1,491,533	1,479,629
(Increase) decrease in current assets:		
Accounts receivable	13,542	(59,033)
Prepaid expenses	(51,600)	37,080
Increase (decrease) in current liabilities:		
Accounts payable	17,409	(60,237)
Other liabilities	57,074	(6,635)
Total adjustments	1,530,878	1,389,067
Net cash provided by operating activities	935,065	359,079
Cash Flows from Financing Activities:		
Acquisition of fixed assets	(269,537)	(777,536)
Net cash used by financing activities	(269,537)	(777,536)
Cash Flows from Investing Activities:		
Interest on investments	86,861	71,642
Net cash provided by investing activities	86,861	71,642
Net Increase (Decrease) in Cash and Cash Equivalents	752,389	(346,815)
Cash and Cash Equivalents, beginning of year	1,392,549	1,739,364
Cash and Cash Equivalents, end of year	\$ 2,144,938	\$ 1,392,549
Reconciliation of Cash and Cash Equivalents to the Balance Sheet:		
Cash	\$ 112,830	\$ 145,891
Investments	2,032,108	1,246,658
Total cash and cash equivalents	\$ 2,144,938	\$ 1,392,549

Sewer Authority Mid-Coastside

Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies:

a. Organization

Sewer Authority Mid-Coastside (the Authority) is a public entity created February 3, 1976 by a Joint Exercise of Powers Agreement between the City of Half Moon Bay, the Montara Sanitary District and the Granada Sanitary District (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 Sewer Authority Mid-Coastside.

c. Basis of Accounting

As defined by the Governmental Accounting Standards Board, the Sewer Authority Mid-Coastside is a proprietary entity and is accounted for on a cost of service measurement focus using the accrual basis of accounting. Under this method, revenues are recognized when earned and become measurable and expenses are recognized when the related liabilities are incurred.

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration.

Proprietary fund equity includes retained earnings and contributed capital. Contributed capital and retained earnings are comprised of the aggregate of the various fund balances maintained by the Authority for internal management purposes.

d. Budgets

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual budgets which include operations, maintenance and administration and construction projects are adopted by the Board of Directors.

Sewer Authority Mid-Coastside

Notes to Financial Statements

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. Property, Plant and Equipment

Property, plant and equipment are recorded at historical cost. Depreciation is computed using the straight-line method over the estimated useful lives as follows: sewage treatment facilities, 5 - 75 years; general plant facility, 3 - 10 years; collection system, 5 - 10 years; easement, 40 years. The Authority does not depreciate the intertie pipeline or the outfall system (subsurface collector, interceptor and outfall lines and mains) because such items are permanently maintained and are considered in the opinion of management to have an indeterminable life. The portion of depreciation relating solely to assets acquired through receipts of government grants is charged to contributed capital.

g. Contributed Capital

Federal and state reimbursement-type grants for the acquisition or construction of fixed assets are recorded as contributed capital.

The Authority receives payments from the member agencies for capital and the plant expansion projects. The payments received are recorded as contributed capital. Generally, payments received for capital projects are allocated consistently among the member agencies. However, payments for the plant expansion project are covered by a separate agreement which determines the allocation of payment terms among the member agencies.

h. 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 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.

Sewer Authority Mid-Coastside

Notes to Financial Statements

Note 2 - Cash and Investments:

The Authority invests surplus cash in accordance with its investment policy with the following investment objectives: to assure safety of principal, to retain liquidity to meet projected and unexpected cash needs at the Authority, and to attain the best available yield without restricting principal. The investment policy authorizes the Authority to invest in United States Treasury securities, Obligations of United States Government Agencies, the State Treasurer's Local Agency Investment Fund, Certificates of Deposits, Passbook Savings Accounts, Bankers' Acceptances of U.S. Banks, Negotiable Certificates of Deposit, and Repurchase Agreements Executed Against U.S. Government or Agency Securities.

Cash held at June 30, 2001 and 2000 had a bank balance of \$439,851 and \$257,277, respectively, of which \$100,000 was insured by the FDIC. The bank balance was also collateralized with securities held by the pledging bank's trust department in a public entity collateral pool in an amount equal to at least 110% of the outstanding deposits as required by California State Statutes.

During the years ended and at June 30, 2001 and 2000 the Authority's investment securities were comprised of the investment pool, Local Agency Investment Fund. This state-wide investment pool, under the authority of the Office of the Treasurer of the State of California, is not required to be categorized into one of the three categories defined by the Governmental Accounting Standards Board. The carrying value of the Local Agency Investment Fund deposits approximates the fair value of the underlying investments of the pool.

Note 3 - Related Party Transactions:

The financial statements include the following revenues and contributed capital from its member agencies, including assessments for designated funds at June 30, 2001

	2001		
	Operation and Maintenance Assessments	Collection Assessments	Capital Contributions
City of Half Moon Bay	\$ 1,152,792	\$ 83,796	\$ -
Granada Sanitary District	678,768	85,968	-
Montara Sanitary District	545,460	111,144	-
	<u>\$ 2,377,020</u>	<u>\$ 280,908</u>	<u>\$ -</u>

Sewer Authority Mid-Coastside

Notes to Financial Statements

	2000		
	Operation and Maintenance Assessments	Collection Assessments	Capital Contributions
City of Half Moon Bay	\$ 1,135,685	\$ 120,575	\$ -
Granada Sanitary District	610,618	99,648	-
Montara Sanitary District	494,371	172,820	-
	\$ 2,240,674	\$ 393,043	\$ -

Note 4 - Fixed Assets:

	Balance June 30, 1999	Additions and Reclassi- fications	Retirements	Transfers from CIP	Balance June 30, 2000
Sewage treatment facilities	\$ 36,529,434	\$ 210,344	\$(658,474)	\$ 2,041,276	\$ 38,122,580
General plant facility	269,621	16,443	(14,492)	9,269	280,841
Collection system	199,021	2,917			201,938
Easement	24,950				24,950
Total property, plant and equipment	37,023,026	229,704	(672,966)	2,050,545	38,630,309
Less accumulated depreciation	(7,933,410)	(1,479,629)	642,581		(8,770,458)
	29,089,616	(1,249,925)	(30,385)	2,050,545	29,859,851
Construction in progress	1,803,397	547,833		(2,050,545)	300,685
	\$ 30,893,013	\$ (702,092)	\$ (30,385)	\$ -	\$ 30,160,536

Sewer Authority Mid-Coastside

Notes to Financial Statements

	Balance June 30, 2000	Additions and Reclassi- fications	Retirements	Transfers from CIP	Balance June 30, 2001
Sewage treatment facilities	\$ 38,122,580	\$ 97,432	\$(249,761)	\$ 71,187	\$ 38,041,438
General plant facility	280,841				280,841
Collection system	201,938				201,938
Easement	24,950				24,950
<hr/>					
Total property, plant and equipment	38,630,309	97,432	(249,761)	71,187	38,549,167
Less accumulated depreciation	(8,770,458)	(1,491,533)	224,342		(10,037,649)
<hr/>					
	29,859,851	(1,394,101)	(25,419)	71,187	28,511,518
Construction in progress	300,685	172,105		(71,187)	401,603
<hr/>					
	\$ 30,160,536	\$ (1,221,996)	\$ (25,419)		\$ 28,913,121
<hr/>					

Note 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 25% 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 provide the Authority general liability coverage up to \$750,000 subject to a \$2,500 deductible, and workers' compensation coverage up to \$300,000 an occurrence. Participation in CSRMA insurance-purchasing pools provide the Authority general liability insurance excess coverage to \$10 million, worker's compensation insurance excess coverage to \$2 million and property insurance coverage to \$16.3 million.

The District has designated a portion of its retained earnings 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.

Note 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), an agent 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 are established by State statutes within the Public Employees' Retirement Law.

The Authority selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through Board Action. CalPERS issues a separate comprehensive annual financial report. Copies of CalPERS' annual financial report may be obtained from the CalPERS Executive Office 400 P Street Sacramento, CA 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. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year ended June 30, 2001 was 0.00%. The Authority has chosen to make the members' contributions on their behalf. 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 year ended June 30, 2001, the Authority's annual pension cost was \$0 and the Authority actually contributed \$0 as well as the member's contribution of \$54,944. The Authority's required contribution for fiscal year ended June 30, 2001 was determined as part of the June 30, 1998 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses) and; (b) projected salary increases that vary by duration of service ranging from 3.75% to 14.20%. Both (a) and (b) include an inflation component of 3.5%.

The actuarial value of the Plan's assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a two to five year period depending on the size of investment gains and/or losses. The Plan's unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period as of the June 30, 1998 valuation was twelve years.

Sewer Authority Mid-Coastside

Notes to Financial Statements

Three Year Trend Information:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 1999	\$ 39,379	100.0%	\$ 0
June 30, 2000	-0-	100.0%	0
June 30, 2001	-0-	100.0%	0

Required Supplementary Information:

Funded Status of the Plan

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability/ (Excess Assets)	Funded Status	Annual Covered Payroll	UAAL As a % of Payroll
6/30/97	1,118,024	1,645,863	(527,839)	147.2%	841,979	(62.7%)
6/30/98	1,426,353	2,193,487	(767,134)	153.8%	897,485	(85.5%)
6/30/99	1,658,137	2,539,378	(881,241)	153.1%	907,835	(97.1%)

b. Deferred Compensation Plan

The Authority maintains a deferred compensation plan, 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. The plan assets are held in trust for the exclusive benefit of the participants and are not included in the Authority's financial statements.

Note 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 to the Authority. No provision has been made in the financial statements for any liability that may result.

Sewer Authority Mid-Coastside

Schedule of Operating Expenses

Years Ended June 30, 2001 (with comparative totals for 2000)

	2001				2000	
	Treatment	Collection	Industrial Waste	Administration	Total	Total
Salaries, wages and benefits	\$ 549,941	\$ 169,399	\$ 13,852	\$ 261,548	\$ 994,740	\$ 1,323,534
Directors' fees				2,650	2,650	2,900
Audit fees				8,416	8,416	7,300
Engineering fees				11,690	11,690	5,062
Legal fees				12,525	12,525	16,249
Professional services		3,729		10,298	14,027	21,205
Contractual services	59,898	22,860		7,828	90,586	81,475
Sludge disposal	67,487				67,487	68,594
Membership and dues				4,947	4,947	4,992
Printing and publications				2,538	2,538	4,014
Skills improvement	6,071		35	1,250	7,356	7,419
Meetings and travel				4,440	4,440	2,108
Safety program	17,237	818			18,055	13,318
Office expense				9,682	9,778	19,485
Insurance expense				7,935	17,963	36,991
Utilities	203,168	10,028			204,078	215,782
Maintenance contracts	20,008	910			20,343	22,732
Fuels and lubricants	4,415	335			7,737	10,637
Operating supplies	94,059	4,773			98,832	112,150
Repairs and maintenance	133,846	(1,172)			132,674	222,752
Small tools	1,315			2,095	3,410	5,761
Depreciation expense	1,451,944	23,290		16,299	1,491,533	1,479,629
Fines and Penalties				54,337	54,337	
	\$ 2,609,389	\$ 238,292	\$ 13,983	\$ 418,478	\$ 3,280,142	\$ 3,684,089