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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FINANCIAL REPORT

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For the Fiscal Year Ended
June 30, 2008

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

SEWER AUTHORITY MID-COASTSIDE

1000 N. Cabrillo Highway
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(650) 726-0124
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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 Town of El Granada, and 6 square miles (or 25% of the total) lie within the Town 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 statues 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

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

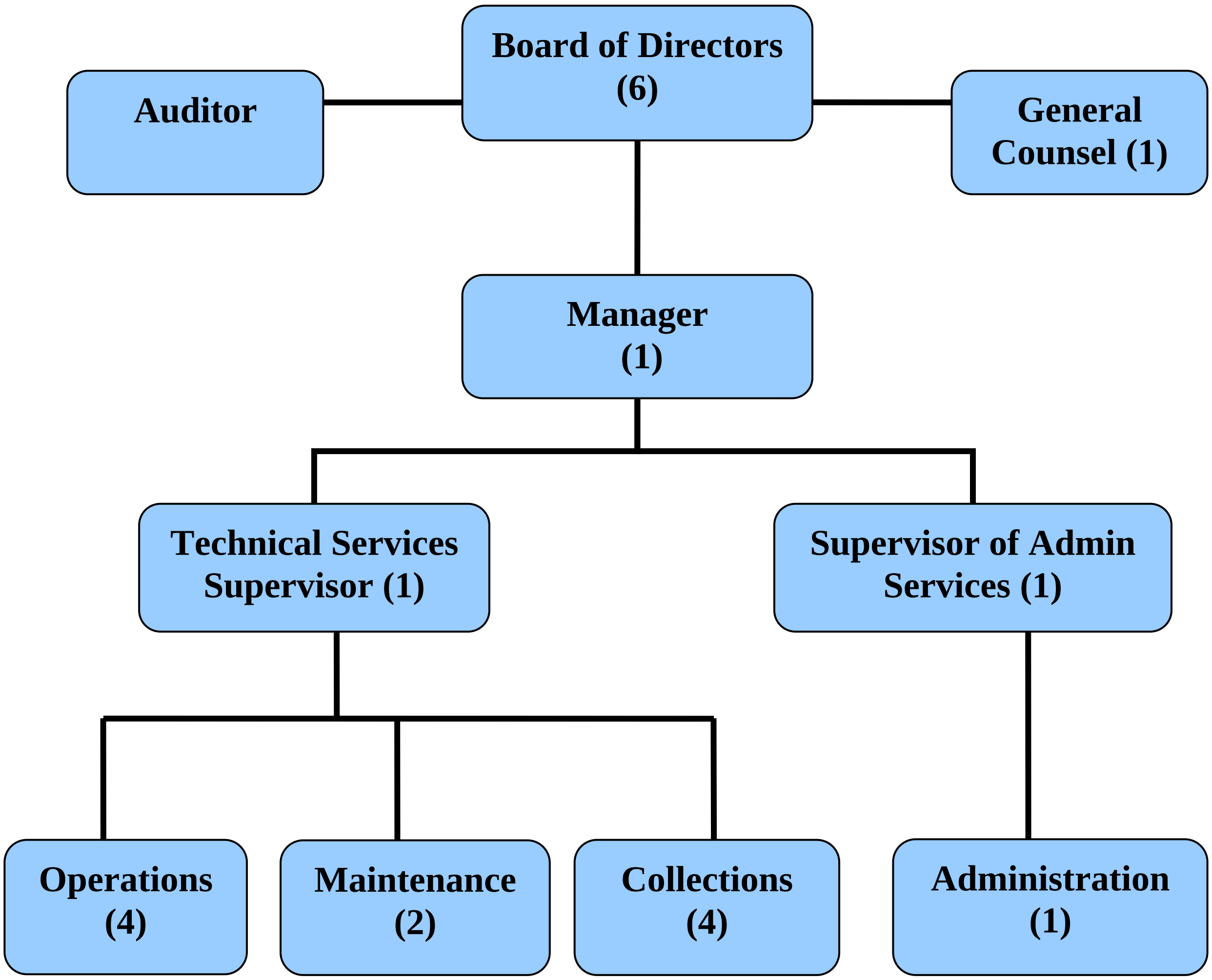
President

Jeffrey R. Esser

Executive Director

Sewer Authority Mid-Coastside

Organizational Chart



FINANCIAL SECTION

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MGO
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CERTIFIED PUBLIC ACCOUNTANTS & MANAGEMENT CONSULTANTS

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The Board of Directors of the
Sewer Authority Mid-Coastside
Half Moon Bay, California

Independent Auditor's Report

We have audited the accompanying basic financial statements of the Sewer Authority Mid-Coastside (Authority) as of and for the year ended June 30, 2008, as listed in the table of contents. 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. The basic financial statements as of June 30, 2007, were audited by Moreland & Associates, Inc., who merged with Macias Gini & O'Connell LLP as of April 2, 2008, and whose report dated October 27, 2007, expressed an unqualified opinion on those statements. As discussed in Note 1.h., the Authority has restated its June 30, 2007 financial statements during the current year to properly accrue for member agencies over assessments and to properly record cumulative accumulated depreciation expense on depreciable assets in conformity with accounting principles generally accepted in the United States of America. The merged auditor reported on the June 30, 2007 financial statements before the restatement.

We conducted our audit in accordance with 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. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 2008 financial statements present fairly, in all material respects, the financial position of the Authority as of June 30, 2008, and the changes in its financial position and its cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2008 on our consideration of the Authority'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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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 & O'Connell LLP

Certified Public Accountants

Walnut Creek, California
October 15, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Sewer Authority Mid-Coastside's (Authority) Comprehensive Annual Financial Report presents our analysis of the Authority's financial performance during the Fiscal Years ending on June 30, 2007 and 2008. Please read it in conjunction with the financial statements, which are presented on pages 7 and 8.

FINANCIAL HIGHLIGHTS

- The Authority's net assets at June 30, 2008 decreased by $869,516 (3.8%) as compared to a decrease of $921,668 (3.4%) at June 30, 2007.
- During Fiscal Year 2008, the Authority's operating revenues increased by $380,953 (10.5%) and expenses increased by $358,432 (7.6%). The corresponding changes in Fiscal Year 2007 were an increase in operating revenues by $252,798 (7.5%) and an increase in expenses by $434,679 (10.2%).

BASIC FINANCIAL STATEMENTS

The financial statements of the Authority report information about the Authority using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities. The Statement of Net Assets includes all of the Authority's assets and liabilities, and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Authority's creditors (liabilities). It also provides the basis for evaluating the capital structure of the Authority, and assessing the liquidity and financial flexibility of the Authority.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of the Authority's operations over the past year and can be used to determine the Authority's credit worthiness and whether the Authority has successfully recovered all its costs through its user fees and other charges.

The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Authority's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations and investments. It also provides answers to such questions as: "Where did cash come from?", "What was cash used for?", and "What was the change in cash balance during the reporting period?"

FINANCIAL ANALYSIS OF THE AUTHORITY

Our analysis of the Authority begins on page 4 of the Management's Discussion and Analysis. One of the most important questions asked about the Authority's finances is: "Is the Authority, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the Authority's activities in a way that will help answer this question. These two statements report the net assets of the Authority and changes in them. You can think of the Authority's net assets (the difference between assets and liabilities) as one way to measure financial health or financial position. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating. However, you will need to consider other non-financial factors, such as changes in economic conditions, population growth, zoning, and new or changed government legislation.

NET ASSETS

To begin our analysis, a summary of the Authority's Statements of Net Assets is presented in Tables 1 and 1.1.

Table 1
Condensed Statements of Net Assets (In thousands of dollars)

	FY 2008	FY 2007	Variance	Total Percent Change
Capital Assets	$18,396	$19,834	$(1,438)	(7.3%)
Other Assets	4,108	3,838	270	7.0%
Total Assets	22,504	23,672	(1,168)	(4.9%)
Other Liabilities	603	902	(299)	(33.1%)
Total Liabilities	603	902	(299)	(33.1%)
Net Assets:				
Invested in Capital Assets	18,396	19,834	(1,438)	(7.3%)
Unrestricted	3,505	2,936	569	19.4%
Total Net Assets	$21,901	$22,770	$ (869)	(3.8%)

Table 1.1
Condensed Statements of Net Assets (In thousands of dollars)

	FY 2007	FY 2006	Variance	Total Percent Change
Capital Assets	$19,834	$24,304	$(4,470)	(18.4%)
Other Assets	3,838	2,986	852	28.5%
Total Assets	23,672	27,290	(3,618)	(13.2%)
Other Liabilities	902	245	657	268.2%
Total Liabilities	902	245	657	268.2%
Net Assets:				
Invested in Capital Assets	19,834	24,304	(4,470)	(18.4%)
Unrestricted	2,936	2,741	195	7.1%
Total Net Assets	$22,770	$27,045	$(4,275)	(15.8%)

As can be seen from the tables above, net assets at June 30, 2008 and 2007 decreased by $869,516 and $921,668, respectively, from its immediately preceding year. This decrease is the result of the following:

- Investment in Capital Assets decreased by $1,438,576 and $4,469,868 in Fiscal Year 2008 and 2007, respectively, mainly due to the annual depreciation expenses and prior period adjustment related to accumulated depreciation.
- Unrestricted Net Assets at June 30, 2008 and 2007 (those that can be used to finance day-to-day operations) increased by $569,060 and $195,299, respectively, due to slightly less expenditures on administrative, collection & treatment expenses than budgeted, and less expenditures on capital project investments than was budgeted.

REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

While the Statement of Net Assets shows the change in financial position of net assets, the Statement of Revenues, Expenses, and Changes in Net Assets provides answers as to the nature and source of these changes. As can be seen in Tables 2 and 2.1, the loss of $869,516 and $921,668 is the source of the decrease in net assets in Fiscal Years 2008 and 2007, respectively.

Table 2
Condensed Statements of Revenues, Expenses and Changes in Net Assets
(In thousands of dollars)

	FY 2008	FY 2007	Variance	Total Percent Change
Operation & maintenance	$ 3,187	$ 2,967	$ 220	7.4%
Collection assessments	766	620	146	23.5%
Service fees	70	56	14	25.0%
Non-operating Revenues	171	141	30	21.3%
Total Revenues	4,194	3,784	410	10.8%
Depreciation Expense	1,681	1,678	3	0.2%
Treatment	1,618	1,616	2	0.1%
Collection system	698	544	154	28.3%
Industrial waste	19	3	16	533.3%
Administration	1,048	865	183	21.2%
Total Expenses	5,064	4,706	358	7.6%
Change in Net Assets	(870)	(922)	52	(5.6%)
Prior Year Adjustment	-	(3,353)	3,353	(100.0%)
Beginning Net Assets, as restated	22,770	27,045	(4,275)	(15.8%)
Ending Net Assets	$ 21,900	$ 22,770	$ (870)	(3.8%)

Table 2.1
Condensed Statements of Revenues, Expenses and Changes in Net Assets
(In thousands of dollars)

	FY 2007	FY 2006	Variance	Total Percent Change
Operation & maintenance	$ 2,967	$ 2,570	$ 397	15.4%
Collection assessments	620	774	(154)	(19.9%)
Service fees	56	46	10	21.7%
Non-operating Revenues	141	93	48	51.6%
Total Revenues	3,784	3,483	301	8.6%
Depreciation Expense	1,678	1,507	171	11.3%
Treatment	1,616	1,559	57	3.7%
Collection system	544	505	39	7.7%
Industrial waste	3	10	(7)	(70.0%)
Administration	865	690	175	25.4%
Total Expenses	4,706	4,271	435	10.2%
Change in Net Assets	(922)	(788)	(134)	17.0%
Prior Year Adjustment	(3,353)	0	(3,353)	n/a
Beginning Net Assets, as restated	27,045	27,833	(788)	(2.8%)
Ending Net Assets	$ 22,770	$ 27,045	$(4,275)	(15.8%)

A closer examination of the source of changes in net assets reveals that the Authority's operating revenues increased by $380,953 in Fiscal Year 2008 due to higher operation & maintenance assessments as compared to an increase of $252,798 in Fiscal Year 2007. Non-operating revenues increased by $29,631 in Fiscal Year 2008 due to higher interest income. Interest revenue increased by $24,327 in Fiscal Year 2008 mainly due to the increase in funds invested in LAIF during 2008.

Total expenses in Fiscal Year 2008 and 2007 increased by $358,432 and $434,679, respectively, due mainly to a combination of the following:

- Increase in collection system expenses of $154,877 and $38,634 in Fiscal Years 2008 and 2007 respectively due to the hiring of new collection employees.
- Increase in administration expenses by $182,774 and $174,331 in Fiscal Years 2008 and 2007 respectively due to the transfer of an employee from treatment to administration, and an increase in engineering fees.
- Increase in treatment expenses by $1,793 and $57,377 in Fiscal Years 2008 and 2007 respectively. There was an increase in 2008 in pump station expenses, but a decrease in payroll expense due to a transfer of an employee from treatment to administration.

CAPITAL ASSETS

At the end of Fiscal Year 2007-08, the Authority had invested $21.6 million in capital assets as shown in Table 3.

Table 3
Capital Assets (In thousands of dollars)

	FY 2008	FY 2007	Variance	Total Percent Change
Non-depreciable Assets	$ 838	$ 804	$ 34	4.2%
Depreciable Assets	41,381	41,172	209	0.5%
Subtotal	42,219	41,976	243	0.6%
Less Accumulated Depreciation	(23,823)	(22,142)	(1,681)	7.6%
Net Capital Assets	$ 18,396	$ 19,834	$(1,438)	(7.3%)

Table 3.1
Capital Assets (In thousands of dollars)

	FY 2007	FY 2006, as restated	Variance	Total Percent Change
Non-depreciable Assets	$ 804	$ 760	$ 44	5.8%
Depreciable Assets	41,172	41,040	132	0.3%
Subtotal	41,976	41,800	176	0.4%
Less Accumulated Depreciation	(22,142)	(20,464)	(1,648)	8.2%
Net Capital Assets	$ 19,834	$ 21,336	$(1,502)	(7.0%)

The July 1, 2006 capital assets has been restated in the amount of $2,967,998 representing cumulative depreciation expense on certain assets from 1984 through 2006. More information about the Authority's capital assets is presented in Note 4 to the Financial Statements.

ECONOMIC FACTORS AND NEXT YEAR'S OUTLOOK

The Authority's Board of Directors and management considered many factors when setting the FY2008-09 budget and user rate charges. The adopted FY2008-09 budget is driven by the "services" provided to the three member agencies – the City of Half Moon Bay, the Montara Sanitary District and the Granada Sanitary District - within our service area. It also reflects the commitment to providing, maintaining and operating a facility for the collection, transmission, treatment and disposal of wastewater for the benefit of inhabitants in these service areas at rates that are stable and reasonable.

The Authority's revenues are from three major sources: 1) the operational and maintenance assessments, 2) the collections assessments, and 3) service fees.

Operating Revenues available for recovering operating costs are projected to be $4.52 million, an increase of $558,000 due to higher assessments and fees in FY2008-09.

Other Operating Expenses are expected to increase by $447,000 due to the increase in treatment, administration and collection expenses.

These indicators were taken into consideration when adopting the Authority's budget for FY2008-09.

CONTACTING THE AUTHORITY

This financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Sewer Authority Mid-Coastside at 1000 N. Cabrillo Highway, Half Moon Bay, CA 94019 or call (650) 726–0124.

SEWER AUTHORITY MID-COASTSIDE

Statements of Net Assets

June 30, 2008 and 2007

		2008		2007
ASSETS				
Current Assets:				
Cash	$	687,216	$	1,177,821
Investments		3,310,527		2,524,435
Accounts and interest receivable		71,959		80,668
Prepaids and other assets		38,971		55,445
Total Current Assets		4,108,673		3,838,369
Noncurrent Assets:				
Nondepreciable capital assets		838,088		803,613
Depreciable capital assets, net		17,557,640		19,030,691
Total Noncurrent Assets		18,395,728		19,834,304
Total Assets		22,504,401		23,672,673
LIABILITIES				
Current Liabilities:				
Accounts payable and accrued liabilities		183,586		150,632
Due to member agencies		231,744		561,943
Current portion of accrued compensation and benefits		188,194		189,705
Total Liabilities		603,524		902,280
NET ASSETS				
Invested in capital assets		18,395,728		19,834,304
Unrestricted		3,505,149		2,936,089
Total Net Assets	$	21,900,877	$	22,770,393

See accompanying notes to the basic financial statements.

SEWER AUTHORITY MID-COASTSIDE

Statements of Revenues, Expenses and Changes in Net Assets

For the Years Ended June 30, 2008 and 2007

	2008	2007
Operating Revenues:		
Operation and maintenance assessments	$ 3,187,045	$ 2,967,189
Collection assessments	766,551	619,785
Service fees	70,092	55,761
Total Operating Revenues	4,023,688	3,642,735
Operating Expenses:		
Treatment	1,618,312	1,616,519
Collection system	698,426	543,549
Industrial waste	19,153	3,028
Administration	1,047,626	864,852
Depreciation	1,681,009	1,678,146
Total Operating Expenses	5,064,526	4,706,094
Operating Loss	(1,040,838)	(1,063,359)
Nonoperating Revenues:		
Interest on investments	140,432	116,104
Other income	30,890	25,587
Total Nonoperating Revenues	171,322	141,691
Change in Net Assets	(869,516)	(921,668)
Net Assets, Beginning, as previously reported	22,770,393	27,044,962
Prior period adjustment	-	(3,352,901)
Net Assets, Beginning, as restated	22,770,393	23,692,061
Net Assets, Ending	$ 21,900,877	$ 22,770,393

See accompanying notes to the basic financial statements.

SEWER AUTHORITY MID-COASTSIDE
Statements of Cash Flows
For the Years Ended June 30, 2008 and 2007

	2008	2007
Cash Flows from Operating Activities:		
Receipts from users	$ 3,725,264	$ 3,847,046
Payments to suppliers for goods and services	(1,654,495)	(1,541,930)
Payments to employees	(1,681,105)	(1,398,751)
Net Cash Provided by Operating Activities	389,664	906,365
Cash Flows from Capital and Related Activities:		
Acquisition of capital assets	(242,433)	(176,276)
Cash Flows from Investing Activities:		
Investment income received	148,256	103,783
Net Change in Cash and Cash Equivalents	295,487	833,872
Cash and Cash Equivalents, Beginning	3,702,256	2,868,384
Cash and Cash Equivalents, Ending	$ 3,997,743	$ 3,702,256
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:		
Operating loss	$ (1,040,838)	$ (1,063,359)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Other income	30,890	25,587
Depreciation	1,681,009	1,678,146
Decrease in accounts receivable	885	1,684
(Increase) decrease in prepaids and other assets	16,474	(7,689)
Increase in accounts payable	32,954	16,309
Increase (decrease) in due to member agencies	(330,199)	177,040
Increase (decrease) in accrued compensation and benefits	(1,511)	78,647
Net Cash Provided by Operating Activities	$ 389,664	$ 906,365

See accompanying notes to the basic financial statements.

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.

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.

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.

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.

2. Cash and Investments

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

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

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:

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

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).

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	$ 219,226
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

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	803,613	34,475	-	838,088
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	41,172,751	207,958	-	41,380,709
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	(22,142,060)	(1,681,009)	-	(23,823,069)
Total Depreciable Assets, net	19,030,691	(1,473,051)	-	17,557,640
Total Capital Assets, net	$ 19,834,304	$ (1,438,576)	$ -	$ 18,395,728

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

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.

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

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
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.

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.

Contents **Table**

SEWER AUTHORITY MID-COASTSIDE

Table 1

Summary of Net Assets by Component

	Fiscal Year Ended June 30				
	2008	2007	2006	2005	2004
Invested in capital assets	$ 18,395,728	$ 19,834,304	$ 24,304,172	$ 25,336,782	$ 26,650,694
Unrestricted	3,505,149	2,936,089	2,740,790	2,496,438	1,947,309
Total Net Assets	$ 21,900,877	$ 22,770,393	$ 27,044,962	$ 27,833,220	$ 28,598,003

Note: Information for years prior to 2004 is not available.

Source: Sewer Authority Mid-Coastside

SEWER AUTHORITY MID-COASTSIDE

Table 2

Summary of Changes in Net Assets

	Fiscal Year Ended June 30				
	2008	2007	2006	2005	2004
Operating Revenues:					
Operations and maintenance assessments	$ 3,187,045	$ 2,967,189	$ 2,569,932	$ 2,787,432	$ 2,897,640
Collection assessments	766,551	619,785	773,940	404,556	312,252
Service fees	70,092	55,761	46,065	37,303	46,586
Total Operating Revenues	4,023,688	3,642,735	3,389,937	3,229,291	3,256,478
Non-Operating Revenues:					
Interest on investments	140,432	116,104	55,076	29,008	19,349
Other income	30,890	25,587	38,144	32,808	44,340
Total Non-Operating Revenues	171,322	141,691	93,220	61,816	63,689
Total Revenues	4,195,010	3,784,426	3,483,157	3,291,107	3,320,167
Operating Expenses:					
Treatment	(1,618,312)	(1,616,519)	(1,559,142)	(1,442,136)	(1,380,169)
Collection system	(698,426)	(543,549)	(504,915)	(421,638)	(364,591)
Industrial waste	(19,153)	(3,028)	(9,714)	(17,639)	(16,583)
Administration	(1,047,626)	(864,852)	(690,521)	(680,161)	(687,471)
Depreciation	(1,681,009)	(1,678,146)	(1,507,123)	(1,494,316)	(1,587,473)
Total Operating Expenses	(5,064,526)	(4,706,094)	(4,271,415)	(4,055,890)	(4,036,287)
Changes in Net Assets	$ (869,516)	$ (921,668)	$ (788,258)	$ (764,783)	$ (716,120)

Note: Information for years prior to 2004 is not available.

Source: Sewer Authority Mid-Coastside

SEWER AUTHORITY MID-COASTSIDE
Table 3
Ten-Year Summary of Sewer Revenues by Component

Fiscal year Ended June 30	Operational and Maintenance Assessments	Collections Assessments	Service Fees	Total
2008	$ 3,187,045	$ 766,551	$ 70,092	$ 4,023,688
2007	2,967,189	619,785	55,761	3,642,735
2006	2,569,932	773,940	46,065	3,389,937
2005	2,787,432	404,556	37,303	3,229,291
2004	2,897,640	312,252	46,586	3,256,478
2003	2,641,646	363,318	43,013	3,047,977
2002	2,382,932	390,477	56,587	2,829,996
2001	2,377,020	280,908	26,401	2,684,329
2000	2,240,674	393,043	20,384	2,654,101
1999	2,213,533	483,441	20,207	2,717,181

Source: Sewer Authority Mid-Coastside

SEWER AUTHORITY MID-COASTSIDE
Table 4
Sewer Service Usage by Member Agency
Last Ten Fiscal Years
(Flow in Million Gallons)

	Fiscal Year Ended June 30									
SAM Member Agency	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
City of Half Moon Bay	345.2	343.9	428.1	425.9	333.7	317.0	334.9	316.5	333.9	367.6
Granada Sanitary District.	186.5	199.5	224.0	196.5	203.8	176.0	171.5	163.8	195.5	191.9
Montara Water & Sanitary District	138.8	131.2	173.4	152.6	140.8	157.6	165.3	153.4	163.5	170.4
Total Flows	670.5	674.6	825.5	775.0	678.3	650.6	671.7	633.7	692.9	729.9

Source: Sewer Authority Mid-Coastside

SEWER AUTHORITY MID-COASTSIDE
Table 5
Sewer Rates
Last Ten Fiscal Years

	City of Half Moon Bay (i)	Granada Sanitary District (ii)	Montara Water and Sanitary District (iii)
Fiscal Year Ended June 30	Annual Base Rate	Annual Base Rate	Annual Base Rate
2008	$ 231.22	$ 314.00	$ 357.60
2007	231.22	314.00	357.60
2006	231.22	314.00	357.60
2005	231.22	314.00	330.14
2004	231.22	314.00	322.40
2003	231.22	273.50	315.97
2002	231.22	273.50	334.80
2001	231.22	273.50	311.08
2000	231.22	273.50	300.74
1999	231.22	N/A	315.00

N/A Not Available

Sources:

(i) City of Half Moon Bay, California
(ii) Granada Sanitary District
(iii) Montara Water and Sanitary District

SEWER AUTHORITY MID-COASTSIDE
Table 6
Principal Payers
June 30, 2008

	2008				2007			
		Amount	%			Amount	%	
Operations and Maintenance Assessments								
Member Agency								
City of Half Moon Bay	$	1,601,940	50.26%		$	1,489,733	50.21%	
Granada Sanitary District		976,538	30.64%			888,013	29.93%	
Montara Sanitary District		608,567	19.10%			589,443	19.87%	
Total	$	3,187,045	100.00%		$	2,967,189	100.0%	
Collections Assessments								
Member Agency								
City of Half Moon Bay	$	219,226	28.60%		$	262,129	42.29%	
Granada Sanitary District		267,444	34.89%			138,086	22.28%	
Montara Sanitary District		279,881	36.51%			219,570	35.43%	
Total	$	766,551	100.00%		$	619,785	100.00%	
Service Fees								
Nurseryman's Exchange	$	30,379	43.34%		$	27,567	49.44%	
Browning Ferris Industries		11,648	16.62%			8,196	14.70%	
California State Parks		6,724	9.59%			4,882	8.76%	
Safeway Stores		1,965	2.80%			542	0.97%	
Bay Chevron Service Station		1,595	2.28%			770	1.38%	
The Brewery of HMB		1,040	1.48%			944	1.69%	
Miramar Beach Restaurant		855	1.22%			700	1.26%	
Cetrella		670	0.96%			226	0.41%	
Barbara's Fish Trap		670	0.96%			542	0.97%	
Total		55,546	79.25%			44,369	79.57%	
Total Service Fees	$	70,092	100.00%		$	55,761	100.00%	

Note: Information from nine years ago is not available.

Source: Sewer Authority Mid-Coastside

SEWER AUTHORITY MID-COASTSIDE
Table 7
Demographic Statistics
Last Eight Calendar Years

Calendar Year	Population Served (Numbers) [1]	Service Area (sq. miles) [2]
2007	22,469	12
2006	20,926	12
2005	20,877	12
2004	20,865	12
2003	20,821	12
2002	20,612	12
2001	20,606	12
2000	20,554	12

Note: Information for years prior to 2000 is not available

Sources: [1] U. S. Census Bureau
[2] Sewer Authority Mid-Coastside

SEWER AUTHORITY MID-COASTSIDE
Table 8
Full-time and Part-time Employees
Last Ten Fiscal Years

	Full-Time and Part-Time Employees as of June 30									
	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Total Number of Employees	14	13	11	11	12	12	12	14	13	18

Source: Sewer Authority Mid-Coastside

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SEWER AUTHORITY MID-COASTSIDE
Table 9
Operating Indicators by Function
Last Ten Fiscal Years

	Fiscal Year Ended June 30									
	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
NDWSCP Permit Activity										
Automotive	17	17	17	18	17	19	19	19	18	*
Medical	10	10	10	10	11	11	12	12	15	*
Agriculture	2	2	2	2	2	2	2	2	2	*
Construction	0	0	0	0	0	0	0	0	0	*
Photo	4	4	4	4	3	4	3	3	4	*
Laundry	3	3	3	3	3	4	3	3	3	*
Septic	2	2	0	0	2	2	2	2	2	*
Restaurant	59	57	53	54	52	57	43	50	54	*
Fish	7	6	6	7	7	6	21	7	7	*
Treatment Plant Activity										
Effluent Flow (million gallons)	668	675	826	775	678	651	672	634	693	730
Effluent BOD (mg/L)	12.6	14.5	16.8	15.5	12.7	13.3	12.4	12.7	12.8	13.2
Effluent TSS (mg/L)	6.5	8.4	8.1	13.0	9.3	8.6	9.1	15.3	9.3	9.6
Electricity Used (kWh)	5348	4514	4563	4870	5888	5263	5689	5499	6076	5574
Gas Produced (k ft^3)	5433	5526	6078	9430	9341	8920	9234	8082	5349	5231

NDWSCP: Non Domestic Waste Source Control Program

* Not Available

Source: Sewer Authority Mid-Coastside

SEWER AUTHORITY MID-COASTSIDE
Table 10
Capital Asset Statistics by Function
Last Ten Fiscal Years

	Fiscal Year Ended June 30				
	2008	2007	2006	2005	2004
Wastewater:					
Sanitary Sewers (miles)	104.50	104.50	104.50	104.50	104.50
Maximum Daily Treatment Capacity (million gallons)	3.7	3.7	3.7	3.7	3.7
Property, Plant and Equipment, Net (1)	$ 18,152,330	$ 19,625,381	$ 24,138,639	$ 25,263,642	$ 26,650,694
Construction In Process	243,398	208,923	165,533	73,140	
Total Capital Assets, Net	$ 18,395,728	$ 19,834,304	$ 24,304,172	$ 25,336,782	$ 26,650,694

Note: (1) The July 1, 2006 property, plant and equipment, net balance was restated in the amount of $2,967,998 representing cumulative depreciation expense on certain assets from 1984 through June 30, 2006.

Source: Sewer Authority Mid-Coastside

Fiscal Year Ended June 30				
2003	2002	2001	2000	1999
104.50	104.50	104.50	104.50	104.50
3.7	3.7	3.7	3.7	3.7
$ 27,666,725	$ 27,840,177	$ 28,511,518	$ 29,859,851	$ 29,089,616
269,164	619,550	401,603	300,685	1,803,397
$ 27,935,889	$ 28,459,727	$ 28,913,121	$ 30,160,536	$ 30,893,013