SEWER AUTHORITY MID-COASTSIDE

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT

FOR THE YEARS ENDED
JUNE 30, 2013 AND 2012

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SEWER AUTHORITY MID-COASTSIDE

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012

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C. G. UHLENBERG LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the
Sewer Authority Mid-Coastside

Half Moon Bay, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Sewer Authority Mid-Coastside (the "Authority"), as of and for the years ended June 30, 2013 and 2012, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Authority's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the of the business-type activities of the Authority, as of June 30, 2013 and 2012, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 2014 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

C. G. Uhlenberg LLP

Redwood City, California
February 5, 2014

MANAGEMENT’S DISCUSSION AND ANALYSIS
(Unaudited)

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 ended on June 30, 2013 and 2012. Please read it in conjunction with the financial statements, which are presented on pages 10 -27.

FINANCIAL HIGHLIGHTS

- The Authority’s net position at June 30, 2013 decreased by $1,457,905 (8.1%) as compared to a decrease of $1,078,837 (5.6%) at June 30, 2012.
- During Fiscal Year 2013, the Authority’s operating revenues increased by $124,815 (3.2%) and expenses increased by $199,412 (3.7%). The corresponding changes in Fiscal Year 2012 were decreased operating revenues of $93,086 (2.4%) and decreased expenses of $87,457 (1.6%).

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

Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Authority's activities in a way that will help answer this question. These two statements report the net position of the Authority and changes in them. You can think of the Authority's net position (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 position 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 POSITION

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

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

	FY 2013	FY 2012	Variance	Total Percent Change
Capital Assets	$ 13,492	$ 13,210	$ 282	2.1%
Other Assets	3,919	5,519	(1,600)	-29.0%
Total Assets	17,411	18,729	(1,318)	-7.0%
Current Liabilities	645	516	129	25.0%
Noncurrent Liabilities	150	139	11	7.9%
Total Liabilities	795	655	140	21.4%
Net Position:				
Investment in Capital Assets	13,492	13,210	282	2.1%
Restricted for Capital Projects	1,915	3,581	(1,666)	-46.5%
Unrestricted	1,209	1,283	(74)	-5.8%
Total Net Position	$ 16,616	$ 18,074	$ (1,458)	-8.1%

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

	FY 2012	FY 2011	Variance	Total Percent Change
Capital Assets	$ 13,210	$ 14,453	$ (1,243)	-8.6%
Other Assets	5,519	5,174	345	6.7%
Total Assets	18,729	19,627	(898)	-4.6%
Current Liabilities	516	371	145	39.1%
Noncurrent Liabilities	139	103	36	0.0%
Total Liabilities	655	474	181	38.2%
Net Position:				
Investment in Capital Assets	13,210	14,453	(1,243)	-8.6%
Restricted for Capital Projects	3,581	3,410	171	5.0%
Unrestricted	1,283	1,290	(7)	-0.5%
Total Net Position	$ 18,074	$ 19,153	$ (1,079)	-5.6%

As can be seen from the tables above, net position at June 30, 2013 and 2012 decreased by $1,457,905 and $1,078,837, respectively, from its immediately preceding year. This decrease is the result of the following:

• Investment in Capital Assets increased by $282,222 and decreased by $1,242,740 in Fiscal Year 2013 and 2012, respectively. The increase in Fiscal Year 2013 was due to high spending in capital assets. The decrease in 2012 was mainly due to the annual depreciation expenses
• Restricted Net Position decreased by $1,666,750 and increased by $171,031 in Fiscal Year 2013 and 2012, respectively. The decrease in Fiscal Year 2013 was due to heavy investment in capital assets. The increase in 2012 was due to capital contributions less project expenditures.
• Unrestricted Net Position (those that can be used to finance day-to-day operations) decreased by $73,377 in Fiscal Year 2013 and decreased by $7,128 in 2012. The decrease in 2013 and 2012 was due to receiving less revenue when compared to expenses.

REVENUES, EXPENSES, AND CHANGES IN NET POSITION

While the Statement of Net Position shows the change in financial position of net assets, the Statement of Revenues, Expenses, and Changes in Net Position provides answers as to the nature and source of these changes. As can be seen in Tables 2 and 2.1, the loss of $1,457,905 is the source of the decrease in net position in Fiscal Year 2013. The decrease in net position in Fiscal Year 2012 is due to the loss of $1,078,837.

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

	FY 2013	FY 2012	Variance	Total Percent Change
Operation & maintenance	$ 3,075	$ 2,841	$ 234	8.2%
Collection assessments	814	810	4	0.5%
Service fees	162	237	(75)	-31.6%
Other income	3	41	(38)	-92.7%
Operating Revenue	4,054	3,929	125	3.2%
Depreciation expense	1,500	1,651	(151)	-9.1%
Treatment	2,015	1,831	184	10.0%
Collection system	767	815	(48)	-5.9%
Industrial waste	38	32	6	18.8%
Administration	1,281	1,072	209	19.5%
Total Expenses	5,601	5,401	200	3.7%
Net non-operating revenue	39	41	(2)	-4.9%
Capital contributions	50	352	(302)	-85.8%
Change in Net Position	(1,458)	(1,079)	(379)	35.1%
Beginning Net Position	18,074	19,153	(1,079)	-5.6%
Ending Net Position	$ 16,616	$ 18,074	$ (1,458)	-8.1%

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

	FY 2012	FY 2011	Variance	Total Percent Change
Operation & maintenance	$ 2,841	$ 2,732	$ 109	4.0%
Collection assessments	810	779	31	4.0%
Service fees	237	301	(64)	-21.3%
Other income	41	24	17	70.8%
Operating Revenue	3,929	3,836	93	2.4%
Depreciation expense	1,651	1,665	(14)	-0.8%
Treatment	1,831	1,925	(94)	-4.9%
Collection system	815	766	49	6.4%
Industrial waste	32	31	1	3.2%
Administration	1,072	1,101	(29)	-2.6%
Total Expenses	5,401	5,488	(87)	-1.6%
Net non-operating revenue	41	49	(8)	-16.3%
Capital contributions	352	520	(168)	-32.3%
Capital distributions	-	(70)	70	-
Change in Net Position	(1,079)	(1,153)	74	-6.4%
Beginning Net Position	19,153	20,306	(1,153)	-5.7%
Ending Net Position	$ 18,074	$ 19,153	$ (1,079)	-5.6%

A closer examination of the source of changes in net position reveals that the Authority's operating revenues increased by $124,815 in Fiscal Year 2013 due to higher operation & maintenance assessments and collection assessments as compared to an increase of $93,086 in Fiscal Year 2012. Non-operating revenues decreased by $2,195 in Fiscal Year 2013 due to less interest revenue. Non-operating revenue decreased by $8,629 in Fiscal Year 2012 also due to reduced interest revenue.

Total expenses in Fiscal Year 2013 increased by $199,412 and decreased in 2012 by $87,457 due mainly to a combination of the following:

• An increase in administration expenses of $208,755 in Fiscal Year 2013 compared with a decrease of $28,707 in Fiscal Year 2012, due primarily to increased engineering costs and claim expenses in 2013, and due primarily to decreased legal services and temporary employee fees in 2012.
• An increase in treatment expenses of $183,091 in Fiscal Year 2013 compared with a decrease of $93,255 in Fiscal Year 2012, due primarily to an increase in Pump Station and Plant Equipment expenses in 2013, and due primarily to decreased utility, pump station, and plant equipment expenses in 2012.

CAPITAL ASSETS

At the end of Fiscal Year 2013, the Authority had invested approximately $13.5 million in capital assets as shown in Table 3.

Table 3
Capital Assets (In thousands of dollars)

	FY 2013	FY 2012	Variance	Total Percent Change
Non-depreciable Assets	$ 1,472	$ 1,003	$ 469	46.8%
Depreciable Assets	43,418	42,111	1,307	3.1%
Subtotal	44,890	43,114	1,776	4.1%
Less Accumulated Depreciation	(31,398)	(29,904)	(1,494)	5.0%
Net Capital Assets	$ 13,492	$ 13,210	$ 282	2.1%

Table 3.1
Capital Assets (In thousands of dollars)

	FY 2012	FY 2011	Variance	Total Percent Change
Non-depreciable Assets	$ 1,003	$ 1,001	$ 2	0.2%
Depreciable Assets	42,111	41,706	405	1.0%
Subtotal	43,114	42,707	407	1.0%
Less Accumulated Depreciation	(29,904)	(28,254)	(1,650)	5.8%
Net Capital Assets	$ 13,210	$ 14,453	$ (1,243)	-8.6%

More information about the Authority's capital assets is presented in the Notes to the Financial Statements on page 21.

ECONOMIC FACTORS AND NEXT YEAR'S OUTLOOK

The Authority's Board of Directors and management considered many factors when setting the Fiscal Year 2014 budget and user rate charges. The approved Fiscal Year 2014 budget is driven by the "services" provided to the three member agencies - the City of Half Moon Bay, the Montara Water and 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) operational and maintenance assessments, 2) collections assessments, and 3) service fees.

Operating revenues available for recovering operating costs are projected to be $4.02 million, an increase of $20,000 due to higher assessments and fees in Fiscal Year 2014.

Operating expenses are expected to increase by $25,000 due to the increase in collection expenses.

These indicators were taken into consideration when adopting the Authority's budget for Fiscal Year 2014.

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 POSITION
JUNE 30, 2013 AND 2012

	2013	2012
Assets		
Current Assets		
Cash and investment	$ 3,813,492	$ 5,296,156
Accounts and interest receivable	63,129	198,270
Prepaids and other assets	42,378	24,496
Total Current Assets	3,918,999	5,518,922
Noncurrent Assets		
Nondepreciable capital assets	1,472,334	1,003,515
Depreciable capital assets, net	12,020,171	12,206,768
Total Noncurrent Assets	13,492,505	13,210,283
Total Assets	$ 17,411,504	$ 18,729,205
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	$ 542,606	$ 229,047
Due to member agencies	-	179,650
Accrued payroll liability	36,749	30,197
Compensated absences - current	65,758	77,139
Total Current Liabilities	645,113	516,033
Noncurrent Liabilities		
Compensated absences - noncurrent	49,376	52,593
Post employment benefits	100,810	86,469
Total Noncurrent Liabilities	150,186	139,062
Total Liabilities	$ 795,299	$ 655,095
Net Position		
Invested in capital assets	$ 13,492,505	$ 13,210,283
Restricted for capital projects	1,914,347	3,581,097
Unrestricted	1,209,353	1,282,730
Total Net Position	$ 16,616,205	$ 18,074,110

The notes to the financial statements are an integral part of this statement

SEWER AUTHORITY MID-COASTSIDE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
Operating Revenues		
Operation and maintenance assessments	$ 3,075,144	$ 2,840,997
Collection assessments	814,368	810,029
Service fees	161,375	237,170
Other income	3,171	41,047
Total Operating Revenues	4,054,058	3,929,243
Operating Expenses		
Treatment	2,014,641	1,831,550
Collection system	766,628	814,710
Industrial waste	38,120	31,979
Administration	1,280,835	1,072,080
Depreciation	1,500,214	1,650,707
Total Operating Expenses	5,600,438	5,401,026
Operating Loss	(1,546,380)	(1,471,783)
Nonoperating Income (Expenses):		
Interest and dividend income	38,483	40,678
Total Nonoperating Income	38,483	40,678
Loss Before Capital Contributions	(1,507,897)	(1,431,105)
Capital Contributions	49,992	352,268
Changes in Net Position	(1,457,905)	(1,078,837)
Net Position - Beginning	18,074,110	19,152,947
Net Position - Ending	$ 16,616,205	$ 18,074,110

The notes to the financial statements are an integral part of this statement

SEWER AUTHORITY MID-COASTSIDE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
Cash Flows from Operating Activities		
Receipts from users	$ 4,009,549	$ 3,890,491
Payments to suppliers for goods and services	(2,028,711)	(1,740,768)
Payments to employees	(1,769,541)	(1,874,136)
Net Cash Provided by Operating Activities	211,297	275,587
Cash Flows from Capital and Related Financing Activities:		
Acquisition of capital assets	(1,782,436)	(407,967)
Capital assessments received	49,992	352,268
Net Cash (Used) by Capital and Related Financing Activities	(1,732,444)	(55,699)
Cash Flows from Investing Activities:		
Investment income received	38,483	40,678
Net Change in Cash and Cash Equivalents	(1,482,664)	260,566
Cash and Cash Equivalents - Beginning	5,296,156	5,035,590
Cash and Cash Equivalents - Ending	$ 3,813,492	$ 5,296,156
Reconciliation of Operating Loss to		
Net Cash Provided by Operating Activities		
Operating loss	$ (1,546,380)	$ (1,471,783)
Adjustments to reconcile operating loss to		
net cash provided by operating activities		
Depreciation	1,500,214	1,650,707
(Increase) decrease in accounts receivable	135,141	(107,302)
(Increase) decrease in prepaids and other assets	(17,882)	23,205
Increase in accounts payable and accruals liabilities	313,559	77,148
Increase (decrease) in due to member agencies	(179,650)	68,550
Increase (decrease) in accrued payroll liabilities	6,552	(2,708)
Increase (decrease) in compensated absences	(14,598)	9,715
Increase in post employment benefits	14,341	28,055
Net Cash Provided by Operating Activities	$ 211,297	$ 275,587
Supplemental disclosure of noncash Capital and Related Financing Activities:		
Capital Contribution (decrease) due to changes in		
due to member agencies	$ -	$ (70,050)

The notes to the financial statements are an integral part of this statement

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the 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 Water and Sanitary District and the Granada Sanitary District (collectively the "Member Agencies"). The Authority was formed pursuant to the provisions of Title 1, Division 7, and 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 land and its inhabitants within member agencies' respective boundaries. Authority revenue is mainly derived from assessments for operations, maintenance and collections made on the member agencies.

B. Description of the Financial 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 application of these criteria, no potential component units were identified that would be 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. The Authority has elected not to apply private sector standards issued after November 30, 1989.

Cash Equivalents - 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.

Investments are reported at fair value. The value is determined based upon market closing prices. The fair value of mutual funds is stated at share value.

Capital Assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. The Authority utilized a capitalization threshold of $5,000 for all capital assets. 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	3-50 years
General plant facility	3-25 years
Collection system	3-10 years

Operating Income and Expense – 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.

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

Net Position - The financial statements utilize a net position presentation. Net position is categorized as invested in capital assets, restricted and unrestricted.

- *Invested in capital assets* groups all capital assets into one component and the accumulated depreciation of these assets reduce the balance in this category.
- *Restricted net position for capital projects* reflect net position that are subject to constraints externally imposed by its member agencies. The Authority's capital project budget requires funding and project approval from each participating member agency governing body.
- *Unrestricted net position* represent net position of the Authority that are not restricted for any project or purpose.

The Authority applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

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.

Reclassifications - Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements. In June 2011, GASB issued Statement No. 63 *Financial Reporting of Deferred Outflows of Resources and Net Position.* The statement requires that the difference between assets and liabilities be reported as net position.

D. Upcoming Accounting and Reporting Changes

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

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is effective for financial statements for periods beginning after December 15, 2012. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27,* which is effective for financial statements for periods beginning after June 15, 2014. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities.

2. CASH AND INVESTMENTS

Cash and investments as of June 30, 2013 and 2012 consisted of the following:

	2013	2012
Petty cash	$ 500	$ 500
Demand deposits	348,048	889,972
Investments	3,464,944	4,405,684
Total cash and investments	$ 3,813,492	$ 5,296,156

Investments Authorized by the Authority's Investment Policy

The Authority's investment policy permits investments pursuant to the California Government Code Section 53600 et seq. and 53630 et seq. and includes the following:

A. United States Treasury Securities (Bills, Notes and Bonds).
B. Obligations of United States Government Agencies such as Federal Home Loan Banks, Federal National Mortgage Association, and Federal Farm Credit Banks.
C. Local Agency Investment Fund (LAIF).
D. Certificate of Deposit (in any of the 50 largest F.D.I.C. Insured U.S. banks with which the Authority may have a credit or other business relationship).
E. Passbook savings account demand deposits.
F. Bankers' Acceptances of the U.S. Banks as defined in D. above.

G. Negotiable Certificates of Deposit of the U.S. banks as defined in D. above.
H. Repurchase Agreements executed against U.S. Government or Agency securities. Current market value of the collateral must be greater than or equal to the principal amount invested.

D, E, F, G and H above shall be insured or collateralized at the levels required by the Government Code.

External Investment Pool

The Authority invests in the California State Treasurer's Local Agency Investment Fund (LAIF). LAIF, established in 1977, is regulated by California Government Code Section 16429 and under the day to day administration of the State Treasurer. As of June 30, 2013 and June 30, 2012, LAIF had approximately $21 billion and $22 billion in investments, respectively. The Pool is not registered with the SEC.

LAIF determines fair value on its investment portfolio based on market quotations for those securities where market quotations are readily available, and on amortized cost of best estimate for those securities where market value is not readily available. The Authority's investments with LAIF at June 30, 2013 and June 30, 2012, included a portion of the pooled funds invested in structured notes and asset-backed securities. These investments are described as follows.

Structured Notes are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and / or that have embedded forwards or options.

Asset-Backed Securities, the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as Collateralized Mortgage Obligations) or credit card receivables.

As of June 30, 2013 the Authority had $3,464,944 invested in LAIF, which had invested 1.96% of the pool investments funds in Structured Notes and Asset-Backed Securities. The Authority valued its investments with LAIF by multiplying its account balance with a fair value factor determined by LAIF. This factor is the result of dividing all Pooled Money Investment Account (PMIA), of which LAIF is a part of, participants' total aggregate fair value $58,828,474,533.05 by total aggregate amortized cost $58,812,406,570.14 resulting in a factor of 1.000273207

As of June 30, 2012 the Authority had $4,405,684 invested in LAIF, which had invested 3.47% of the pool investments funds in Structured Notes and Asset-Backed Securities. The Authority valued its investments with LAIF by multiplying its account balance with a fair value factor determined by LAIF. This factor is the result of dividing all PMIA participants' total aggregate fair value $60,588,263,603.42 by total aggregate amortized cost $60,514,457,550.95 resulting in a factor of 1.001219643.

Investment Risks

Investments are subject to certain types of risks, including interest rate risk, custodial credit risk, credit quality risk, and concentration of credit risk. The following describes those risks.

Interest Rate Risk - is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. The Authority does not have a formal policy regarding interest rate risk. However, the Authority's practice to manage 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.

Custodial Credit Risk - is the risk that the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority does not have a formal policy regarding custodial credit risk. 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 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.

As of June 30, 2013, the carrying amount of the Authority's cash deposits was $348,048 while the bank balance was $487,615. The bank balance and the carrying amount differed due to deposits in transit and outstanding checks. The FDIC insured the bank balances up to $250,000 per depositor, per insured depository institution, for each account ownership category. Balances that exceed the FDIC insurance limits are collateralized by pledged investment securities.

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. The Authority does not have a formal policy regarding credit risk. LAIF does not receive a rating from 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.

Marking Investments to Fair Value

The Authority adopted Governmental Accounting Standards Board (GASB) Statement 31, which requires that the Authority's investments be carried at fair value instead of cost. Under GASB 31, the Authority must adjust the carrying value of its investments to reflect their fair value at each fiscal year end, and it must include the effects of these adjustments in income for that fiscal year.

3. RELATED PARTY TRANSACTIONS

Name of related parties	Relationship
City of Half Moon Bay (HMB)	Member agency
Granada Sanitary District (GSD)	Member agency
Montara Water and Sanitary District (MWSD)	Member agency

Related party transactions for the years ended June 30, 2013 and 2012 are summarized as follows:

	2013			
	Operation and Maintenance Assessments	Collection Assessments	Capital Assessments	Service Revenue
HMB	$ 1,433,016	$ 300,492	$ 25,248	11,384
GSD	996,348	232,536	14,748	20,520
MWSD	645,780	281,340	9,996	84,537
	$ 3,075,144	$ 814,368	$ 49,992	$ 116,441

	2012			
	Operation and Maintenance Assessments	Collection Assessments	Capital Assessments	Service Revenue
HMB	$ 1,308,859	$ 272,079	$ -	61,373
GSD	948,149	225,561	211,361	5,016
MWSD	583,989	312,389	140,907	69,433
	$ 2,840,997	$ 810,029	$ 352,268	$ 135,822

Related party transactions as of June 30, 2013 and 2012 are summarized as follows:

	2013		2012	
	Receivable	Payable	Receivable	Payable
HMB	$ 2,359	$ -	$ 35,568	$ -
GSD	11,303	-	104,225	-
MWSD	39,979	-	21,974	111
	$ 53,641	$ -	$ 161,767	$ 111

4. CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2013 were as follows:

Nondepreciable Assets:	Balance June 30, 2012	Additions	Retirements	Transfers	Balance June 30, 2013
Easement	$ 24,950	$ -	$ -	$ -	$ 24,950
Land	569,740	-	-	-	569,740
Construction in progress	408,825	864,182	-	(395,363)	877,644
Total Nondepreciable Assets	1,003,515	864,182	-	(395,363)	1,472,334
Depreciable Assets:					
Sewage treatment facilities	41,388,969	918,254	(6,271)	395,363	42,696,315
General plant facility	313,851	-	(297)	-	313,554
Collection system	405,205	-	-	-	405,205
Total Depreciable Assets	42,108,025	918,254	(6,568)	395,363	43,415,074
Less: Accumulated Depreciation					
Sewage treatment facilities	(29,331,000)	(1,479,071)	6,271	-	(30,803,800)
General plant facility	(199,941)	(14,035)	297	-	(213,679)
Collection system	(373,316)	(7,108)	-	-	(380,424)
Total Accumulated Depreciation	(29,904,257)	(1,500,214)	6,568	-	(31,397,903)
Total Depreciable Assets, net	$ 12,203,768	$ (581,960)	$ -	$ 395,363	$ 12,017,171
Total Capital Assets, net	$ 13,207,283	$ 282,221	$ -	$ -	$ 13,489,505

Changes in capital assets for the year ended June 30, 2012 were as follows:

Nondepreciable Assets:	Balance June 30, 2011	Additions	Retirements	Transfers	Balance June 30, 2012
Easement	$ 24,950	$ -	$ -	$ -	$ 24,950
Land	569,740	-	-	-	569,740
Construction in progress	405,809	125,687	-	(122,671)	408,825
Total Nondepreciable Assets	1,000,499	125,687	-	(122,671)	1,003,515
Depreciable Assets:					
Sewage treatment facilities	41,017,488	248,810	-	122,671	41,388,969
General plant facility	313,851	-	-	-	313,851
Collection system	374,735	33,470	-	-	408,205
Total Depreciable Assets	41,706,074	282,280	-	122,671	42,111,025
Less: Accumulated Depreciation					
Sewage treatment facilities	(27,701,758)	(1,629,242)	-	-	(29,331,000)
General plant facility	(184,134)	(15,807)	-	-	(199,941)
Collection system	(367,658)	(5,658)	-	-	(373,316)
Total Accumulated Depreciation	(28,253,550)	(1,650,707)	-	-	(29,904,257)
Total Depreciable Assets, net	13,452,524	(1,368,427)	-	122,671	12,206,768
Total Capital Assets, net	$ 14,453,023	$ (1,242,740)	$ -	$ -	$ 13,210,283

5. OPERATING LEASES

The Authority leased equipment for treatment purpose on a short and defined term. As of June 30, 2013, SAM had no operating leases that have initial or remaining noncancelable lease terms in excess of one year.

Equipment lease expense for the years ended June 30, 2013 and 2012 totaled $99,500 and $79,598, respectively.

6. RISK MANAGEMENT

The Authority mitigates its risk of liability, workers' compensation and property 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 pool programs operate to reduce costs by sharing risk among the members. Members of the pool are assessed a yearly premium which is based on member exposure data. In addition, there is retrospective rating process, the result of which is applied to the member's renewal invoice. Participation in CSRMA insurance purchasing pools provide the Authority General Liability Insurance, including excess coverage, to $25.5 million; workers' compensation insurance to statutory limits and property insurance coverage for covered locations to $42.3 million in insurable values.

7. EMPLOYEES' RETIREMENT 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 (PERS), a cost sharing multiple-employer plan administered by PERS, 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 memorandum of understanding (MOU), the Authority pays the employer's portion for retirement. The actuarial methods and assumptions used are those adopted by the PERS Board of Administration.

The required employer contribution rate for the fiscal years ended June 30, 2013 and 2012 was 14.279% and 13.526%, 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 PERS.

Annual Pension Cost

For fiscal years ended June 30, 2013 and 2012, the Authority's annual pension cost was $160,094 and $179,611, respectively, which was equal to the Authority's required and actual contribution. The required contribution was determined as part of the June 30, 2010 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included: (a) 7.75% investment rate of return (net of administrative expenses); (b) projected annual salary increases that vary by age, duration of service, and type of employment; (c) 3.0% inflation; (d) 3.25% payroll growth; and (e) individual salary growth based on a merit scale varying by duration of employment coupled with an assumed annual inflation of 3.0%

and an annual production growth of 0.25%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a 15-year period (smoothed market value) depending on the size of investment gains and/or losses.

Three Year Trend Information of PERS

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2011	160,073	100%	-
6/30/2012	179,611	100%	-
6/30/2013	160,094	100%	-

8. OTHER EMPLOYMENT BENEFITS

A. Defined Benefit Plan - Retiree Healthcare Benefits

The Authority recognizes the cost of postemployment healthcare in the year when employee services are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on the Authority's future cash flows. Because the Authority adopted the requirements of GASB Statement No. 45 prospectively, recognition of the liability accumulated from prior years will be phased in over thirty years, commencing with the 2010 liability.

Plan Description

The Authority administers a single-employer defined benefit healthcare plan ("the Defined Benefit Plan") with PERS to provide postemployment healthcare benefit to eligible retirees through the Authority's group health insurance plan which covers both active and retired members. Benefit provisions are established through negotiations between the Authority and the union representing employees and are renegotiated each three-year bargaining period. The Authority provides health insurance benefits of $115 monthly to employees who retire after age 50 with at least 5 years of Authority service. Employees hired after 2012 are excluded from the Defined Benefit Plan. The Defined Benefit Plan does not issue a publicly available financial report.

Funding Policy

Contribution requirements also are negotiated between the Authority and union representatives. Currently, the Authority pays $115 on behalf of each eligible retired employee or eligible survivor of a retired employee and the person receives benefit pays any additional premium based on the coverage selected. The Authority contributed $6,250 and $3,624, respectively, to the plan in each of the years ended June 30, 2013 and 2012.

Annual OPEB Cost and Net OPEB Obligation

The Authority's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following shows the components of the Authority's annual OPEB cost, the amount actually contributed, and changes in the Authority's net OPEB obligation to the Retiree Health Plan for the years ended June 30, 2013 and 2012.

Net OPEB Obligation as of June 30, 2012	$ 86,469
Annual OPEB Cost:	
Normal Cost	5,900
Amortization of Unfunded Actuarial Accrued Liability	10,800
Interest	3,891
Benefit payments made	(6,250)
Net OPEB Obligation as of June 30, 2013	$ 100,810

Net OPEB Obligation as of June 30, 2011	$ 58,414
Annual OPEB Cost:	
Normal Cost	30,171
Interest	1,508
Benefit payments made	(3,624)
Net OPEB Obligation as of June 30, 2012	$ 86,469

Trend Information

The table below presents three year trend information:

Year	Annual OPEB Cost	Actual Employer Contribution	Percentage Contributed	Net OPEB Obligation
2011	$ 31,679	$ 2,472	8%	$ 58,414
2012	$ 31,679	$ 3,624	11%	$ 86,469
2013	$ 16,700	$ 6,250	37%	$ 100,810

Funded Status and Funding Progress

As of June 30, 2013, the most recent actuarial valuation date, the actuarial accrued liability (AAL) for benefits was $166,200, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was $1,141,200 and the ratio of unfunded actuarial accrued liability (UAAL) to the covered payroll was 14.6%.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Required Supplementary Information – Schedule of Funding Progress for the Retiree Health Plan

Valuation Date	AAL - Simplified Entry Age	Actuairal Value of Assets	UAAL	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
06/30/13	$ 166,200	$ -	$ 166,200	0.0%	$ 1,141,200	14.6%

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2013 actuarial valuation, the Projected Unit Credit method was used. The actuarial assumptions used in the valuation are as follows:

Retirement age for active employees – age 50

Marital status – 20% of future female retirees and 30% of future male retirees will have a spouse eligible for and electing the continuation of benefits if the retiree predeceases the spouse. Wives are assumed to be three years younger than husbands.

Mortality – Rates of death and disability for active employees and retirees was based on the California PERS rates for Public Agencies from 2010 Experience Study.

Turnover – No employees hired after 2012 are eligible for this benefit. Assumed 20% of future retirees will decline coverage.

Healthcare cost trend rate – The benefit is frozen by contract so no increases are assumed.

Health insurance benefit – $115 monthly to employees who retire after age 50 with at least 5 years of service.

Inflation rate – The expected long-term inflation assumption of 3% was used.

Based on the historical and expected returns of the Authority's short-term investment portfolio, a discount rate of 4.5% was used. The unfunded actuarial accrued liability is being amortized as a level dollar of projected payroll on an open basis. The remaining amortization period as of June 30, 2013 was 27 years.

B. Defined Contribution Plan - Retiree Healthcare Benefits

For employees hired on after January 1, 2013 and retiring thereafter, the Authority will contribute 1.5% of the employees' base monthly salary toward a Medical-After-Retirement Account (MARA) while employed. There was one employee eligible for this plan as of June 30, 2013 and the Authority is in the process of contributing to the plan.

Deferred Compensation Plans

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 made contributions to the deferred compensation plans of $8,000 for the each of the years ending June 30, 2013 and 2012. The plan assets are held in trust for the exclusive benefit of the participants and are not included in the Authority's financial statements.

Compensated Absences

Accrued compensated absences for the years ended June 30, 2013 and 2012 were as follows:

	2013	2012
Beginning	$ 129,732	$ 120,017
Additions	63,974	86,854
Reductions	(78,572)	(77,139)
End of year	$ 115,134	$ 129,732
Due within one year	$ 65,758	$ 77,139

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of the
Sewer Authority Mid-Coastside

Half Moon Bay, California

We have audited, 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 the financial statements of the the business-type activities of Sewer Authority Mid-Coastside as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise Sewer Authority Mid-Coastside 's basic financial statements, and have issued our report thereon dated February 5, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Sewer Authority Mid-Coastside 's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Sewer Authority Mid-Coastside 's internal control. Accordingly, we do not express an opinion on the effectiveness of Sewer Authority Mid-Coastside 's internal control.

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

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

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sewer Authority Mid-Coastside 's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

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

C. G. Uhlenberg LLP

Redwood City, California
February 5, 2014