

**Costa Mesa Sanitary District**  
**Costa Mesa, California**  
**Comprehensive Annual Financial Report**  
**For the Year Ended June 30, 2016**

290



**Costa Mesa**  
**Sanitary District**

**Providing Solid Waste and Wastewater Collection Services**



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# **Costa Mesa Sanitary District**

## **Comprehensive Annual Financial Report For the Year Ended June 30, 2016**

**Costa Mesa Sanitary District  
290 Paularino Ave.  
Costa Mesa, California 92626**

**Prepared by:  
Scott Carroll, General Manager  
Wendy Hooper Davis, Finance Manager**

**Costa Mesa Sanitary District  
Comprehensive Annual Financial Report  
For the Year Ended June 30, 2016**

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# Costa Mesa Sanitary District

...an Independent Special District

December 8, 2016

To the Honorable President and Members of the Board of Directors of the Costa Mesa Sanitary District and Customers:

It is a pleasure to submit for your information the Comprehensive Annual Financial Report (CAFR) of the Costa Mesa Sanitary District (District) for the year ended June 30, 2016.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal controls that it has established for this purpose. Because the cost of internal controls should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The accounting firm of Rogers, Anderson, Malody & Scott, LLP has issued an unmodified (clean) opinion on the District's financial statements for the year ended June 30, 2016. The independent auditor's report is located in the front of the financial section of this report.

Management's Discussion and Analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this Letter of Transmittal and should be read in conjunction with it.

## PROFILE OF THE DISTRICT

The District was formed in 1944 pursuant to the Sanitary Act of 1923. Established as an independent special district, the District is authorized to provide solid waste and wastewater collection services and to levy rates and fees to support those services.

The District's headquarters is located in the City of Costa Mesa, California. The District provides solid waste and wastewater services to the City of Costa Mesa, portions of the City of Newport Beach and some County of Orange unincorporated areas. The District serves approximately 116,700 residents. Sewage from the District's service area is transported to the Orange County Sanitation District's facilities where it is treated to federally mandated standards to protect the public's health. The District has an agreement with CR&R Incorporated for collection of all solid waste from single family dwellings and small multi-family residences utilizing cart collection. CR&R transports all of the solid waste to its subsidiary-owned recycling and transfer station located in Stanton, California or the new Anaerobic Digestion Facility in Perris, California.

-i-

### Board of Directors

Mike Scheafer  
Arthur Perry  
Robert Ooten  
Arlene Schafer  
James Ferryman

### Staff

Scott C. Carroll  
General Manager

Robin B. Hamers  
District Engineer

Alan R. Burns  
District Counsel

Marcus D. Davis  
District Treasurer

[www.cmsdca.gov](http://www.cmsdca.gov)



District of Distinction  
2009-2017

## **PROFILE OF THE DISTRICT (CONTINUED)**

The affairs of the District are directed by a five member Board of Directors (the Board) elected at large by the registered voters residing in the District. The Board members are also residents and have the same concerns as their constituents. The Board members, who serve four-year staggered terms, are responsible for establishing policy and ordinances, adopting the biennial budget, and appointing the District's General Manager, District Counsel and District Treasurer. The General Manager is responsible for carrying out the policies and ordinances of the Board and for overseeing the day-to-day operations of the District. District Counsel provides legal advice to the Board of Directors while the District Treasurer is responsible for ensuring the safety of District funds by making prudent investments.

## **LOCAL ECONOMY**

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the District operates. The District continues to benefit from its unique geographical location. The local economy is primarily based on retail commercial business and light manufacturing of electronics, pharmaceuticals, and plastics. The District's service area includes several major regional facilities: John Wayne Airport, Orange Coast College, Whittier Law School, Vanguard University, State of California Fairview Developmental Center, Orange County Department of Education, Orange County Fairgrounds, Segerstrom Performing Arts Center, South Coast Repertory Theater, and the South Coast Plaza shopping complex. The volume of sales generated by South Coast Plaza, on the strength of over 250 stores, secures its place as the second highest sales-volume shopping center in California.

As an independent special district having the ability to adjust service rates as required, the District's operating revenues are somewhat insulated from the local economy. The District has a secure revenue stream in the form of an annual charge which is collected on the District's behalf by the County of Orange via the property tax bills.

## **LONG-TERM FINANCIAL PLANNING AND MAJOR INITIATIVES**

The Board of Directors is keenly aware of the need to ensure the District's financial stability. Through a coordinated strategic planning process, the Board has established a series of policies and plans to effectively meet the District's anticipated future needs. The cornerstone of these policies is the District's Strategic Plan, which serves as a framework for planning and decision making over the next five years. The Strategic Plan is a working document that is constantly being reviewed and updated to ensure the District's financial health is sound. When the Plan was last updated in May 2015, the Board of Directors adopted the following financial goals:

- Perform long-term solid and wastewater rate projections.
- Develop a long-term Capital Improvement Plan.
- Evaluate the District's investment policy.
- Produce a Comprehensive Annual Financial Report (CAFR).
- Evaluate an appropriate reserve program for all District funds and develop an inclusive reserve policy.
- Monitor the asset management program.
- Create a Popular Annual Financial Report (PAFR) and upload on the District's website.



## LONG-TERM FINANCIAL PLANNING AND MAJOR INITIATIVES (CONTINUED)

During the fiscal year, the District completed the upgrade of its financial software and the second audit under with the audit firm of Rogers, Anderson, Malody & Scott, LLP. The Board of Directors approved an additional contribution of \$125,000 towards the District's Other Post-Employment Benefits (OPEB).

The District has demonstrated strong leadership towards protecting the environment by implementing new maintenance programs and capital improvement projects that will prevent sanitary sewer overflows (SSOs). For instance, the addition of a second maintenance crew and cleaning truck enables cleaning the entire wastewater system, which consist of 224 miles of gravity pipeline, in 18 months and at a lower cost than private contractors. Other benefits for the District include:

- *Ownership* – The District's cleaning crews take ownership of the system they are cleaning and take pride in the quality of their work.
- *Faster Response Time* – Having equipment stored at the District Yard means faster response time to SSOs and a better chance of preventing or diminishing the amount of wastewater from entering waterways.
- *Knowledge of System* – The District's cleaning crews know the system well because they are out in the field every day working on the system to ensure the community's health and environment are protected.

In addition to the cleaning crew, it's been a full year since the District hired a person for the new SCADA Technician/Industrial Electrician position. This position is responsible for regular and routine inspection and maintenance services of the District's twenty lift stations. In the year since this position has been filled, the District has had zero pump station related SSOs. On January 28, 2016, the District approved a two year agreement with Professional Pipe Services (Pro Pipe) to televise the entire wastewater system. Pro Pipe will identify the condition of pipe segments and when segments are found to be in Grade 5 condition (imminent failure), the District takes immediate action to design and repair the pipe segment before it fails.

For capital improvement projects, the District has awarded several projects using innovative technology that will enhance the efficiencies of the wastewater system and ensure the system will last for generations. For instance, no-dig technology called horizontal directional drilling, has been used to replace wastewater pipes with less disruption to residents, businesses and motorists. Another no-dig technology utilized by the District is relining using cured-in-place pipe, which is a joint less, seamless pipe within a pipe. Besides maintaining pipes, the District has 20 lift stations that require ongoing maintenance. The Elden Lift Station is the largest station pumping 3,750 gallons of wastewater per minute. The District awarded a contract to replace 38-year old valves and force main piping to ensure this large station is operating at optimum level.

Since 2004, the District's headquarters was located at 628 W. 19<sup>th</sup> Street. However, in recent years District administration expanded to enhance service levels, but the consequence was public parking became scarce, especially during Board of Directors meetings. Public seating was limited at Board of Directors meetings due to inadequate meeting space, which discouraged members of the public from attending Board meetings. Also, there is high demand in the community for meeting rooms that small organizations can rent to conduct their business. To address these issues, the District purchased a new building to serve as its headquarters. The building, located at 290 Paularino Avenue, is large enough to have a Board room with a seating capacity of 50 people and the same room can be converted into a community room for public use. The new building has more than double the parking spaces.

## **LONG-TERM FINANCIAL PLANNING AND MAJOR INITIATIVES (CONTINUED)**

The cost of the building was \$3,750,000. The building at 628 W. 19<sup>th</sup> Street was sold for \$1,250,000 with the proceeds used to offset the cost of the new building.

## **FINANCIAL POLICIES AND PROCEDURES**

Management of the District is responsible for establishing and maintaining an adequate internal control structure. Internal accounting controls are designed to ensure that the assets of the District are protected from loss, theft or misuse, and 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: (1) the cost of control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgment by management.

## **AWARDS**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to the District for its Comprehensive Annual Financial Report for the year ended June 30, 2015. This was the fourth consecutive year that the District achieved this prestigious award. In order to be awarded a Certificate of Achievement, a governmental entity must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles (GAAP) and applicable legal requirements.

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's Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The GFOA has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to the District for its Popular Annual Financial Report for the year ended June 30, 2015. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports.

In order to receive an Award for Outstanding Achievement in Popular Annual Financial Reporting, a government unit must publish a Popular Annual Financial Report, whose contents conform to program standards of creativity, presentation, understandability and reader appeal.

An Award for Outstanding Achievement in Popular Annual Financial Reporting is valid for a period of one year only. We believe our current report continues to conform to the Popular Annual Financial Reporting requirements, and we are submitting it to GFOA.

The Special District Leadership Foundation (SDLF) awards the Gold Recognition in Special District Governance, which honors special district board of directors for their commitment and dedication to good governance. The District is one of only four special districts in California to receive gold recognition.



## **AWARDS (CONTINUED)**

The District was reaccredited as a District of Distinction from SDLF. The District of Distinction accreditation is designed as a way for districts to highlight and demonstrate to constituents their prudent practices along with other areas of importance to effectively operate and govern a special district. The District has been a District of Distinction since 2009.

The District received a Certificate of Excellence in Transparency from SDLF. The Certificate demonstrates a special district's commitment to being open and accessible to the public and creating greater awareness of district activities. This is the second time the District has received a Certificate of Excellence in Transparency from SDLF.

The District has been named the winner of the Solid Waste Association of North America's (SWANA) Silver Excellence Award in the Integrated Solid Waste Management Systems category. SWANA's Excellence Awards Program recognizes outstanding solid waste programs and facilities that advance the practice of environmentally and economically sound solid waste management through their commitment to utilizing effective technologies and processes in system design and operations, advancing worker and community health and safety, and implementing successful public education and outreach programs. Programs also must demonstrate that they are fiscally and environmentally responsible through their compliance with all applicable federal, state, and local regulations.

The Santa Ana River Basin Section (SARBS) of the California Water Environment Association (CWEA) named the District as the recipient of the 2015 Collection System of the Year award. SARBS, whose boundaries include Orange, Riverside and San Bernardino Counties, is one of 17 geographical sections of CWEA that trains and certifies wastewater professionals and promotes sound policies to benefit society through protection and enhancement of the statewide water environment. The designation of 'Collection System of the Year' is one of the most prestigious SARBS/CWEA awards, which recognizes an agency's significant accomplishments, safety record, training program, regulatory compliance, maintenance program along with documented administrative and emergency procedures. This is the second time in five years the District has won Collection System of the Year from SARBS. The District first won the award in 2013.

## **ACKNOWLEDGMENTS**

The preparation and development of this report would not have been accomplished without the combined efforts of District staff. We appreciate the dedicated efforts and professionalism that our staff members bring to the District. Appreciation is also expressed to the Board of Directors for their continued support in the planning and implementation of the Costa Mesa Sanitary District's fiscal policies; and finally to the District's auditing firm of Rogers, Anderson, Malody & Scott, LLP for their professional assistance.

Respectfully submitted,

  
Scott Carroll  
General Manager

  
Wendy Hooper Davis  
Finance Manager

## **Our Mission Statement**

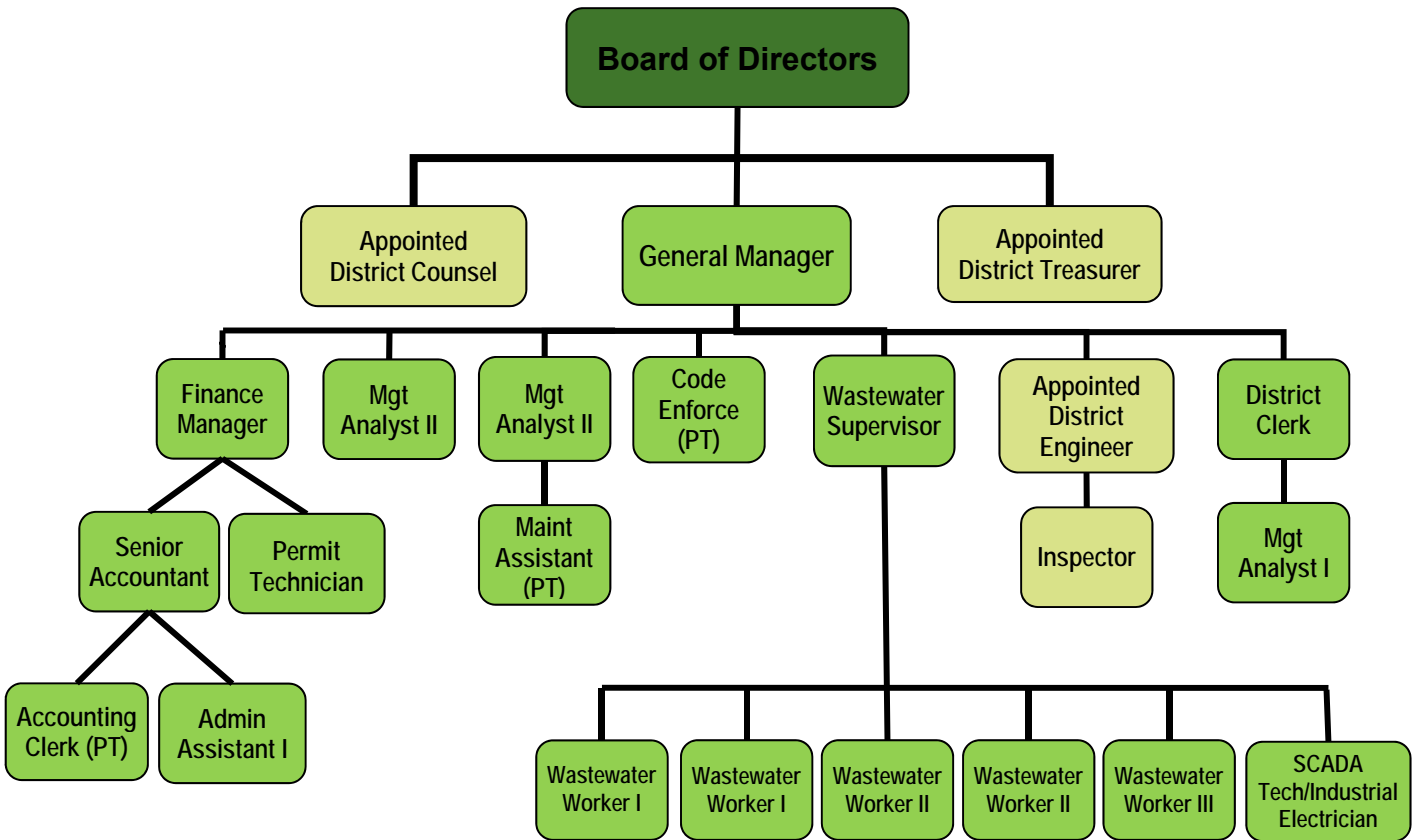
*“Protecting our community’s health and the environment by providing solid waste and wastewater collection services.”*

### **Costa Mesa Sanitary District Board of Directors as of June 30, 2016**

<b><u>Name</u></b>	<b><u>Title</u></b>	<b><u>Elected/ Appointed</u></b>	<b><u>Current Term</u></b>
Michael Scheafer	President	Elected	12/14 - 12/18
Arthur Perry	Vice President	Elected	12/12 - 12/16
Robert Ooten	Secretary	Elected	12/14 - 12/18
Arlene Schafer	Assistant Secretary	Elected	12/14 - 12/18
James Ferryman	Director	Elected	12/12 - 12/16

**Costa Mesa Sanitary District**  
Scott Carroll, General Manager  
290 Paularino Ave.  
Costa Mesa, California 92626  
(949) 645-8400 [www.cmsdca.gov](http://www.cmsdca.gov)

**COSTA MESA SANITARY DISTRICT  
ORGANIZATIONAL CHART  
Fiscal Year June 30, 2016**





Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

**Costa Mesa Sanitary District  
California**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2015**

Executive Director/CEO

## **FINANCIAL SECTION**

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ROGERS, ANDERSON, MALODY & SCOTT, LLP  
CERTIFIED PUBLIC ACCOUNTANTS, SINCE 1948

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## INDEPENDENT AUDITOR'S REPORT

### PARTNERS

Brenda L. Odle, CPA, MST  
Terry P. Shea, CPA  
Kirk A. Franks, CPA  
Scott W. Manno, CPA, CGMA  
Leena Shanbhag, CPA, MST, CGMA  
Bradferd A. Welebir, CPA, MBA, CGMA  
Jay H. Zercher, CPA (Partner Emeritus)  
Phillip H. Waller, CPA (Partner Emeritus)

### MANAGERS / STAFF

Jenny Liu, CPA, MST  
Seong-Hyea Lee, CPA, MBA  
Charles De Simoni, CPA  
Nathan Statham, CPA, MBA  
Gardenya Duran, CPA  
Brianna Schultz, CPA  
Daniel Hernandez, CPA, MBA  
Lisa Dongxue Guo, CPA, MSA

Board of Directors  
Costa Mesa Sanitary District  
Costa Mesa, California

### Report on Financial Statements

We have audited the accompanying financial statements of the Costa Mesa Sanitary District (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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.

### ***Auditor's 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 and the State Controller's *Minimum Audit Requirements for California Special Districts*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

### MEMBERS

American Institute of  
Certified Public Accountants

*PCPS The AICPA Alliance  
for CPA Firms*

*Governmental Audit  
Quality Center*

California Society of  
Certified Public Accountants



An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors consider internal control relevant to the District'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 District'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.

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

### ***Opinions***

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Costa Mesa Sanitary District as of June 30, 2016, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America, as well as the accounting systems prescribed by the State Controller's Office and State Regulations governing Special Districts.

### ***Other Matters***

#### ***Summarized Comparative Information***

We have previously audited the District's 2015 financial statements, and we expressed unmodified audit opinions on those audited financial statements in our report dated December 29, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Schedule of Funding Progress for Other Post-Employment Benefits Plan, Schedule of District's Proportionate Share of Plans' Net Pension Liability and Related Ratios and the Schedule of Plans' Contributions identified as required supplementary information in the accompanying table of contents, 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 the 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 Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section and statistical section 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 do not express an opinion or provide any assurance on them.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 District's internal control over financial reporting and compliance.

*Rogers, Anderson, Malody & Scott, LLP*

San Bernardino, California  
December 8, 2016

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## **Costa Mesa Sanitary District**

### **Management's Discussion and Analysis For the Year Ended June 30, 2016**

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The following discussion and analysis of the financial performance of the Costa Mesa Sanitary District (the District) provides an overview of the District's financial activities for the year ended June 30, 2016. It should be read in conjunction with the financial statements identified in the accompanying table of contents.

#### **Financial Highlights**

Financial highlights during the year ended June 30, 2016 included:

- Total assets of the District exceeded its liabilities as of June 30, 2016 by \$60,493,035. Of this amount, \$18,144,094 is unrestricted and available to meet the District's ongoing obligations to its customers and creditors.
- Net position of the Solid Waste Fund decreased \$214,333 during the year ended June 30, 2016, which was attributable to the adoption of a deficit budget to decrease the fund's reserves. Expenses were projected to exceed revenues by \$725,000; however, revenues came in higher than budgeted and expenses came in lower than expected.
- Net position of the Wastewater Fund increased \$604,650 during the year ended June 30, 2016. This was primarily attributable to an increase in operating revenue, which resulted from a 2% wastewater assessment rate increase, and increased permit and inspection revenue due to increased development activity.

#### **Overview of the Financial Statements**

This Management's Discussion and Analysis (MD&A) serves as an introduction to the District's financial statements. The District's basic financial statements are comprised of four components: (1) Statement of Net Position; (2) Statement of Revenues, Expenses, and Changes in Net Position; (3) Statement of Cash Flows; and (4) Notes to Financial Statements.

The financial statements accompanying this MD&A present the financial position, results of operations, and changes in cash flow during the year ended June 30, 2016. These financial statements have been prepared using accounting methods similar to those used by private sector companies.

## **Costa Mesa Sanitary District**

### **Management's Discussion and Analysis (Continued) For the Year Ended June 30, 2016**

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**Statement of Net Position** - The Statement of Net Position presents information on the District's assets (investment in resources), deferred outflows of resources, liabilities (obligations to creditors) and deferred inflows of resources, with the difference between them reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. However, other factors such as changes in economic conditions, population growth, zoning and new or changed legislation or regulations also need to be considered when establishing financial position.

**Statement of Revenues, Expenses and Changes in Net Position** - The Statement of Revenues, Expenses and Changes in Net Position present information showing how the District's net position changed during the fiscal year. All of the fiscal year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the results of the District's operations for the fiscal year and can be used to determine whether the District has successfully recovered all of its costs through its rates and other charges.

**Statement of Cash Flows** - The Statement of Cash Flows present information regarding the District's use of cash during the year. It reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities. The Statement of Cash flows provides answers to such questions as; "where did cash come from?", "what was cash used for?", and "what was the change in the cash balance during the reporting period?"

**Notes to Financial Statements** - The financial statements also include Notes to Financial Statements that provide important narrative details about the information contained in the financial statements. Information contained in the Notes to Financial Statements is essential to a reader's full understanding of the data provided in the financial statements.

#### **Financial Analysis of the District**

One of the most important questions asked about the District's finances is, "Is the District 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 District in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current fiscal year's revenues and expenses are taken into account regardless of when cash is received or paid.

## Costa Mesa Sanitary District

### Management's Discussion and Analysis (Continued) For the Year Ended June 30, 2016

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#### Statement of Net Position

	Condensed Statement of Net Position		
	2016	2015	Change
Assets			
Current assets and other	\$ 19,812,444	\$ 22,162,492	\$ (2,350,048)
Capital assets	42,348,941	39,200,177	3,148,764
Total assets	<u>62,161,385</u>	<u>61,362,669</u>	<u>798,716</u>
Deferred Outflows of Resources			
Pension related	<u>250,136</u>	<u>158,197</u>	<u>91,939</u>
Liabilities			
Current liabilities	1,503,442	1,260,847	242,595
Non-current liabilities	321,211	308,333	12,878
Total liabilities	<u>1,824,653</u>	<u>1,569,180</u>	<u>255,473</u>
Deferred Inflows of Resources			
Pension related	<u>93,833</u>	<u>122,606</u>	<u>(28,773)</u>
Net Position			
Net investment in capital assets	42,348,941	39,102,729	3,246,212
Unrestricted	<u>18,144,094</u>	<u>20,726,351</u>	<u>(2,582,257)</u>
Total net position	<u>\$ 60,493,035</u>	<u>\$ 59,829,080</u>	<u>\$ 663,955</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. Net position of the District was \$60,493,035 and \$59,829,080 for the years ended June 30, 2016 and June 30, 2015, respectively.

One of the largest portions of the District's net position reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. Investments in capital assets represent \$42,348,941, or 70%, of the total \$60,493,035 net position. The District uses the capital assets to provide services to customers within the District's area; consequently, these assets are not available for future spending.

Unrestricted net position represents 30% of the District's net position, which comprises assets that may be used to meet the District's ongoing obligations to citizens and creditors in accordance with the District's fiscal policies. As of June 30, 2016, unrestricted net position decreased to \$18,144,094 from \$20,726,351, or a \$2,582,257 decrease. The decrease in unrestricted net position is primarily attributable to the purchase of a new District headquarters facility, which is offset by the increase in net investment in capital assets.

## Costa Mesa Sanitary District

### Management's Discussion and Analysis (Continued) For the Year Ended June 30, 2016

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#### Statement of Revenues, Expenses and Changes in Net Position

	Condensed Statement of Revenues, Expenses and Changes in Net Position		
	2016	2015	Change
Revenues			
Operating revenues	\$11,077,758	\$10,825,377	\$ 252,381
Non-operating revenues	574,652	589,791	(15,139)
Total revenues	<u>11,652,410</u>	<u>11,415,168</u>	<u>237,242</u>
Expenses			
Operating expenses	9,323,731	8,634,912	688,819
Depreciation	1,754,124	1,690,932	63,192
Total operating expenses	<u>11,077,855</u>	<u>10,325,844</u>	<u>752,011</u>
Net income, change in net position	574,555	1,089,324	(514,769)
Capital contributions	89,400	-	89,400
Net position, beginning of year	59,829,080	59,012,967	816,113
Implementation of new pronouncement	<u>-</u>	<u>(273,211)</u>	<u>273,211</u>
Net position, end of year	<u>\$60,493,035</u>	<u>\$59,829,080</u>	<u>\$ 663,955</u>

The Statement of Revenues, Expenses and Changes in Net Position shows how the District's net position changed during the years. In the case of the District, net position increased by \$663,955 and \$1,089,324 for the years ended June 30, 2016 and 2015, respectively.

A closer examination of the sources of changes in net position reveals that:

- Solid Waste and Wastewater assessments increased \$148,565 due to an increase in new customers and a 2% rate increase in the Wastewater assessment.
- Investment earnings and fair market adjustment increased \$87,052 due to better than expected yields.
- Solid Waste recycling and disposal costs increased \$270,100 with the implementation of the Organics Recycling Program.
- Wastewater maintenance salaries increased \$175,332 with the addition of a second cleaning crew; however, this was offset by a \$196,192 decrease in Sewer Line Maintenance contract services.
- Sewer line televising increased \$206,543 with the implementation of the two-year District-wide televising program with an adopted budget of \$556,000.



## Costa Mesa Sanitary District

### Management's Discussion and Analysis (Continued) For the Year Ended June 30, 2016

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#### Total District Revenues

	<u>2016</u>	<u>2015</u>	<u>Change</u>
Operating revenues			
Trash assessments	\$ 4,787,459	\$ 4,768,071	\$ 19,388
Sewer assessments	5,430,408	5,301,231	129,177
Permits and inspection fees	231,850	206,971	24,879
Connection fees	257,323	192,913	64,410
Other services	370,718	356,191	14,527
	<u>11,077,758</u>	<u>10,825,377</u>	<u>252,381</u>
Non-operating revenues			
Investment income	292,524	205,472	87,052
Taxes	270,876	245,415	25,461
Other revenues	44,760	138,904	(94,144)
Gain on disposal of assets	(33,508)	-	(33,508)
	<u>574,652</u>	<u>589,791</u>	<u>(15,139)</u>
Total revenues	<u>\$ 11,652,410</u>	<u>\$ 11,415,168</u>	<u>\$ 237,242</u>

Some of the more significant changes consisted of the following:

- The annual Wastewater assessment increased \$129,177 as a result of implementing year three of the five year Sewer Rate Study adopted by the Board in December 2012.
- Permits and inspection fees increased \$24,879 due to the continued increase in development and building within the District's service area.
- Connection fees increased \$64,410 due to the continued increase in development and building within the District's service area.
- Investment Income increased \$87,052 as a result of increases in earnings and the fair value of the District's investments.

**Costa Mesa Sanitary District**

**Management’s Discussion and Analysis (Continued)  
For the Year Ended June 30, 2016**

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**Total District Expenses**

	<u>2016</u>	<u>2015</u>	<u>Change</u>
Operating expenses			
Solid waste disposal	\$ 2,588,577	\$ 2,329,438	\$ 259,139
Wastewater disposal	1,641,085	1,665,480	(24,395)
Recycling and disposal charges	2,181,635	2,170,978	10,657
Administration and other	2,101,358	2,238,016	(136,658)
Repairs and maintenance	811,076	231,000	580,076
Depreciation	<u>1,754,124</u>	<u>1,690,932</u>	<u>63,192</u>
Total operating expenses	<u>11,077,855</u>	<u>10,325,844</u>	<u>752,011</u>
Total expenses	<u>\$ 11,077,855</u>	<u>\$ 10,325,844</u>	<u>\$ 752,011</u>

Some of the more significant changes consisted of the following:

- Solid waste disposal expenses increased by \$259,139 as the result of an increase in the number of customers resulting from increased building with in the District.
- Wastewater disposal expenses decreased by \$24,395 as a result of hiring a second wastewater line cleaning crew and eliminating outside contractors to clean.
- Recycling and disposal charges increased \$10,657 due to an increase of 152 tons of solid waste over the prior fiscal year.
- Administration and other decreased \$136,658 due to a reduction in professional services as a result of completing a compensation and classification study and filling vacant positions which were temporarily filled with contractual assistance.
- Repairs and maintenance in the Wastewater Fund increased as a result of recording of maintenance expense for the Westside Abandonment Project, Pump Station Coating and Manhole Rehab Project and Grade 4 CCTV Improvements totaling \$551,075.
- Depreciation increased by \$63,192 due to the addition of completed Capital Improvement Projects during the fiscal year.

## Costa Mesa Sanitary District

### Management's Discussion and Analysis (Continued) For the Year Ended June 30, 2016

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#### Capital Asset Administration

Changes in capital assets for the year ended June 30, 2016 were as follows:

	Balance June 30, 2015	Additions	Transfers/ Deletions	Balance June 30, 2016
Non-depreciable assets	\$ 1,621,582	\$ 4,266,126	\$ (569,006)	\$ 5,318,702
Depreciable assets	93,004,835	1,338,021	(68,144)	94,274,712
Accumulated depreciation	<u>(55,523,688)</u>	<u>(1,754,124)</u>	<u>33,339</u>	<u>(57,244,473)</u>
Total capital assets, net	<u>\$ 39,102,729</u>	<u>\$ 3,850,023</u>	<u>\$ (603,811)</u>	<u>\$ 42,348,941</u>

Changes in capital assets for the year ended June 30, 2015 were as follows:

	Balance June 30, 2014	Additions	Transfers/ Deletions	Balance June 30, 2015
Non-depreciable assets	\$ 2,067,293	\$ 772,417	\$ (1,218,128)	\$ 1,621,582
Depreciable assets	91,370,696	1,634,139	-	93,004,835
Accumulated depreciation	<u>(53,832,756)</u>	<u>(1,690,932)</u>	<u>-</u>	<u>(55,523,688)</u>
Total capital assets, net	<u>\$ 39,605,233</u>	<u>\$ 715,624</u>	<u>\$ (1,218,128)</u>	<u>\$ 39,102,729</u>

At the end of fiscal year 2016 and 2015, the District's investment in capital assets were \$42,348,941 and \$39,102,729 (net of accumulated depreciation), respectively, an increase of \$3,246,212. The investment in capital assets includes land, property rights, subsurface wastewater lines, pump stations, buildings and structures, equipment, vehicles and construction in progress, etc. Additional information on the District's capital assets can be found in Note 3 of the Notes to Financial Statements.

#### Long-Term Debt

As of June 30, 2016, the District had no long-term debt.

## **Costa Mesa Sanitary District**

### **Management's Discussion and Analysis (Continued) For the Year Ended June 30, 2016**

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#### **Economic Factors and Next Year's Budgets**

Due to the District's healthy position in its Solid Waste Fund, the Board of Directors adopted an Organics Recycling Program without increasing the Solid Waste assessment by using reserves. The Wastewater assessment rate increased 2%. This was year three of the five year Sewer Rate Study increasing rates 2% per year. The District is anticipating a slight increase in property tax revenue in the coming year due to continued development within the District's service area.

In the Solid Waste Fund, the District implemented the Organics Recycling Program requiring residents to separate organic waste to reach the District's diversion goals. The trash hauler's Anaerobic Digestion (AD) Facility was anticipated to be online by October 2015. However, the AD Facility did not come online until September 2016. Therefore, the District did not pay the higher rate for diverting organic materials.

The Wastewater Fund budget for the fiscal year ending June 30, 2017 includes the first full year with a second wastewater cleaning crew and truck, which allows the District's wastewater lines to be cleaned entirely in-house in approximately 18 months. In fiscal year 2015-16, the District began the two-year District-wide televising of the entire wastewater system. As a result of the televising, Grade 5 wastewater pipe deficiencies are documented and put out for emergency repair. The funding for the Grade 5s was transferred from the Westside Abandonment Project #101. The Victoria Force Main Replacement project is budgeted in the upcoming fiscal year as well as the purchase of a new portable televising camera and trailer to view wastewater line issues as needed instead of waiting for a contractor.

#### **Request for Information**

The financial report is designed to provide our Board of Directors, citizens, customers, ratepayers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the funds it receives. If you have questions about the report or need additional financial information, contact the District's Finance Department at 290 Paularino Ave. Costa Mesa, California 92626.

## **BASIC FINANCIAL STATEMENTS**

**Costa Mesa Sanitary District****Statement of Net Position****June 30, 2016**

(with prior year data for comparison only)

	Solid Waste	Wastewater
<b>ASSETS:</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents (Note 2)	\$ 1,666,338	\$ 3,794,362
Investments (Note 2)	3,866,575	8,804,447
Accounts receivable	23,930	4,797
Interest receivable	13,086	35,447
Assessments receivable	84,783	59,038
Inventory	-	177,163
Prepaid expenses	240	2,157
Due from other governments	-	-
<b>TOTAL CURRENT ASSETS</b>	<b>5,654,952</b>	<b>12,877,411</b>
<b>NONCURRENT ASSETS:</b>		
Capital assets (Note 3):		
Non-depreciable	-	5,318,702
Depreciable, net of accumulated depreciation	10,091	37,020,148
Net OPEB asset (Note 7)	70,796	143,633
<b>TOTAL NONCURRENT ASSETS</b>	<b>80,887</b>	<b>42,482,483</b>
<b>TOTAL ASSETS</b>	<b>5,735,839</b>	<b>55,359,894</b>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>		
Pension related (Note 6)	75,041	175,095
<b>LIABILITIES:</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	468,621	559,932
Accrued liabilities	10,424	83,449
Contingent liability	-	350,000
Compensated absences	13,976	17,040
<b>TOTAL CURRENT LIABILITIES</b>	<b>493,021</b>	<b>1,010,421</b>
<b>NON-CURRENT LIABILITIES:</b>		
Compensated absences	5,917	40,582
Net pension liability (Note 6)	82,414	192,298
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>88,331</b>	<b>232,880</b>
<b>TOTAL LIABILITIES</b>	<b>581,352</b>	<b>1,243,301</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>		
Pension related (Note 6)	28,150	65,683
<b>NET POSITION:</b>		
Net investment in capital assets	10,091	42,338,850
Unrestricted	5,191,287	11,887,155
<b>TOTAL NET POSITION</b>	<b>\$ 5,201,378</b>	<b>\$ 54,226,005</b>

The accompanying notes are an integral part of these financial statements

Other Enterprise Fund	Totals	
	2016	2015
\$ 320,259	\$ 5,780,959	\$ 8,589,864
743,130	13,414,152	13,223,681
-	28,727	75,960
2,263	50,796	32,164
-	143,821	166,414
-	177,163	73,625
-	2,397	-
-	-	784
<u>1,065,652</u>	<u>19,598,015</u>	<u>22,162,492</u>
-	5,318,702	1,621,582
-	37,030,239	37,481,147
-	214,429	97,448
<u>-</u>	<u>42,563,370</u>	<u>39,200,177</u>
<u>1,065,652</u>	<u>62,161,385</u>	<u>61,362,669</u>
-	250,136	158,197
-	1,028,553	816,753
-	93,873	63,576
-	350,000	350,000
-	31,016	30,518
<u>-</u>	<u>1,503,442</u>	<u>1,260,847</u>
-	46,499	37,653
-	274,712	270,680
<u>-</u>	<u>321,211</u>	<u>308,333</u>
<u>-</u>	<u>1,824,653</u>	<u>1,569,180</u>
-	93,833	122,606
-	42,348,941	39,102,729
1,065,652	18,144,094	20,726,351
<u>\$ 1,065,652</u>	<u>\$ 60,493,035</u>	<u>\$ 59,829,080</u>



**Costa Mesa Sanitary District****Statement of Revenues, Expenses and Changes in Net Position  
For the year ended June 30, 2016**

(with prior year data for comparison only)

	Solid Waste	Wastewater
OPERATING REVENUES:		
Trash assessments	\$ 4,787,459	\$ -
Sewer assessments	-	5,430,408
Permits and inspection fees	-	231,850
Connection fees	-	257,323
Other services	96,897	13,821
TOTAL OPERATING REVENUES	<u>4,884,356</u>	<u>5,933,402</u>
OPERATING EXPENSES:		
Solid waste disposal	2,588,577	-
Liquid waste disposal	-	1,641,085
Recycling and disposal charges	2,181,635	-
Administration and other	688,776	1,412,582
Repairs and maintenance	26,000	785,076
Depreciation	10,609	1,743,515
TOTAL OPERATING EXPENSES	<u>5,495,597</u>	<u>5,582,258</u>
OPERATING INCOME (LOSS)	<u>(611,241)</u>	<u>351,144</u>
NONOPERATING REVENUES (EXPENSES):		
Investment income	84,264	194,622
Taxes	270,876	-
Other revenues	41,768	2,992
Gain on disposal of assets	-	(33,508)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>396,908</u>	<u>164,106</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	<u>(214,333)</u>	<u>515,250</u>
CAPITAL CONTRIBUTIONS AND TRANSFERS:		
Capital contributions	-	89,400
Transfers in	-	-
Transfers out	-	-
TOTAL CAPITAL CONTRIBUTIONS AND TRANSFERS	<u>-</u>	<u>89,400</u>
CHANGES IN NET POSITION	(214,333)	604,650
NET POSITION - BEGINNING OF YEAR	<u>5,415,711</u>	<u>53,621,355</u>
NET POSITION - END OF YEAR	<u>\$ 5,201,378</u>	<u>\$ 54,226,005</u>

The accompanying notes are an integral part of these financial statements

Other Enterprise Fund	Totals	
	2016	2015
\$ -	\$ 4,787,459	\$ 4,768,071
-	5,430,408	5,301,231
-	231,850	206,971
-	257,323	192,913
260,000	370,718	356,191
<u>260,000</u>	<u>11,077,758</u>	<u>10,825,377</u>
-	2,588,577	2,329,438
-	1,641,085	1,665,480
-	2,181,635	2,170,978
-	2,101,358	2,238,016
-	811,076	231,000
-	1,754,124	1,690,932
<u>-</u>	<u>11,077,855</u>	<u>10,325,844</u>
260,000	(97)	499,533
13,638	292,524	205,472
-	270,876	245,415
-	44,760	138,904
-	(33,508)	-
<u>13,638</u>	<u>574,652</u>	<u>589,791</u>
273,638	574,555	1,089,324
-	89,400	-
-	-	6,750
-	-	(6,750)
<u>-</u>	<u>89,400</u>	<u>-</u>
273,638	663,955	1,089,324
792,014	59,829,080	58,739,756
<u>\$ 1,065,652</u>	<u>\$ 60,493,035</u>	<u>\$ 59,829,080</u>

**Costa Mesa Sanitary District**

**Statement of Cash Flows**  
**For the year ended June 30, 2016**  
(with prior year data for comparison only)

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	Solid Waste	Wastewater
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 4,955,453	\$ 5,874,136
Payments to suppliers	(5,020,032)	(2,168,424)
Payments to employees	(488,668)	(1,356,129)
	<u>                    </u>	<u>                    </u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(553,247)</u>	<u>2,349,583</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Taxes received	270,876	-
Cash received from other funds	-	-
Cash paid to other funds	-	-
	<u>                    </u>	<u>                    </u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>270,876</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(4,549)	(5,216,286)
Proceeds from sale of assets	-	1,296
	<u>                    </u>	<u>                    </u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(4,549)</u>	<u>(5,214,990)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on cash and investments	76,596	184,718
(Increase) decrease in investments	(384,943)	458,202
	<u>                    </u>	<u>                    </u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(308,347)</u>	<u>642,920</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(595,267)</u>	<u>(2,222,487)</u>
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>2,261,605</u>	<u>6,016,849</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,666,338</u>	<u>\$ 3,794,362</u>

The accompanying notes are an integral part of these financial statements

Other Enterprise Fund	Totals	
	2016	2015
\$ 260,000	\$ 11,089,589	\$ 10,878,521
-	(7,188,456)	(7,389,282)
-	(1,844,797)	(1,673,077)
<u>260,000</u>	<u>2,056,336</u>	<u>1,816,162</u>
-	270,876	245,415
-	-	6,750
-	-	(6,750)
<u>-</u>	<u>270,876</u>	<u>245,415</u>
-	(5,220,835)	(1,188,439)
-	1,296	-
<u>-</u>	<u>(5,219,539)</u>	<u>(1,188,439)</u>
12,579	273,893	203,142
(263,730)	(190,471)	(1,193,741)
<u>(251,151)</u>	<u>83,422</u>	<u>(990,599)</u>
<u>8,849</u>	<u>(2,808,905)</u>	<u>(117,461)</u>
<u>311,410</u>	<u>8,589,864</u>	<u>8,707,325</u>
<u>\$ 320,259</u>	<u>\$ 5,780,959</u>	<u>\$ 8,589,864</u>

**Costa Mesa Sanitary District**

**Statement of Cash Flows**

**For the year ended June 30, 2016**

(with prior year data for comparison only)

	Solid Waste	Wastewater
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ (611,241)	\$ 351,144
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	10,609	1,743,515
Actuarial pension expense adjustments	(34,997)	(81,676)
Construction in process abandoned	-	275,088
Other revenues (expenses)	41,768	-
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	14,040	33,193
(Increase) decrease in assessments receivable	15,290	7,303
(Increase) decrease in inventory	-	(103,538)
(Increase) decrease in prepaid expenses	(240)	(2,157)
(Increase) decrease in due from other governments	-	784
(Increase) decrease in OPEB assets	(38,638)	(78,343)
Increase (decrease) in accounts payable	49,027	162,773
Increase (decrease) in accrued liabilities	4,074	26,223
Increase (decrease) in compensated absences	(2,939)	12,282
Increase (decrease) in OPEB liabilities	-	-
Total adjustments	57,994	1,995,447
NET CASH PROVIDED BY (USED) FOR OPERATING ACTIVITIES	\$ (553,247)	\$ 2,346,591
NONCASH INVESTING, CAPITAL OR FINANCING ACTIVITIES		
Contributed capital	\$ -	\$ 89,400
Capital assets in accounts payable	-	68,144

The accompanying notes are an integral part of these financial statements

Other Enterprise Fund	Totals	
	2016	2015
\$ 260,000	\$ (97)	\$ 499,533
-	1,754,124	1,690,932
-	(116,673)	(38,122)
-	275,088	-
-	41,768	37,658
-	47,233	(47,575)
-	22,593	61,296
-	(103,538)	-
-	(2,397)	200
-	784	518
-	(116,981)	(97,448)
-	211,800	(268,757)
-	30,297	(13,834)
-	9,343	3,748
-	-	(13,234)
-	2,053,441	1,315,382
\$ 260,000	\$ 2,053,344	\$ 1,814,915
\$ -	\$ 89,400	\$ -
-	68,144	-

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**Costa Mesa Sanitary District**

**Notes to Financial Statements  
For the year ended June 30, 2016**

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**Note 1. Nature of Activities and Significant Accounting Policies**

*Reporting entity*

The Costa Mesa Sanitary District (the District) was incorporated in February 1944 pursuant to Division VI, Part 1 of the Health and Safety Code of the State of California (sometimes referred to as the Sanitary District Act of 1923). At the present time, the boundaries of the District extend into the Cities of Costa Mesa and Newport Beach as well as unincorporated areas within the County of Orange.

*Fund accounting*

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues and expenses. This system permits separate accounting for each established fund, for purposes of complying with: (a) applicable legal provisions, (b) Board of Director's ordinances and resolutions and (c) other requirements. Also, the accounts have been maintained in accordance with the California State Controller's uniform system of accounts.

*Measurement focus, basis of accounting and financial statement presentation*

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied. The accompanying financial statements are reported using the economic resources measurement focus, and the accrual basis of accounting. Under the economic resources measurement focus all assets, deferred outflows of resources, liabilities and deferred inflows of resources (whether current or noncurrent) associated with these activities are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

**Costa Mesa Sanitary District**

**Notes to Financial Statements  
For the year ended June 30, 2016**

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**Note 1. Nature of Activities and Significant Accounting Policies (Continued)**

*Measurement focus, basis of accounting and financial statement presentation (continued)*

The accounts of the District are presented as enterprise funds. An enterprise fund is a proprietary type fund used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The District reports the following major enterprise funds:

*Solid Waste* - This fund is used to account for the collection of trash charges, the cost of managing the refuse collection and recycling processes, and the cost of contract services provided to the District.

*Wastewater* - This fund is used to account for the collection of sewer charges, the cost of construction, maintaining sewer lines and pump stations, and the cost of contract services provided to the District. This fund also accounts for the collection of charges paid by or on behalf of the property owner for the construction of wastewater lines in the streets, and cost of acquisition, construction, and reconstruction of wastewater facilities within the District.

The District also reports a non-major other enterprise fund:

The other enterprise fund accounts for the accumulation of reserves for the purchase of new or replacement vehicles, equipment and computers. Revenues are recorded as charges for rental of assets to the Solid and Wastewater Funds.

*Use of Estimates*

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Costa Mesa Sanitary District**

**Notes to Financial Statements  
For the year ended June 30, 2016**

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**Note 1. Nature of Activities and Significant Accounting Policies (Continued)**

*Restricted Resources*

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

*New Accounting Pronouncements*

The District follows all pronouncement of the Government Accounting Standards Board (GASB).

The District implemented GASB Statement No. 72, *Fair Value Measurement and Application*. The objective of this statement is to address accounting and financial reporting issues related to fair value measurement. The statement defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between two market participants. This statement provides guidance for determining a fair value measurement for financial reporting purposes and also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

The District implemented GASB Statement No. 82, *Pension Issues*. The objective of this statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The statement addresses the presentation of payroll-related measures in required supplementary information, the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes and the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

## **Costa Mesa Sanitary District**

### **Notes to Financial Statements For the year ended June 30, 2016**

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#### **Note 1. Nature of Activities and Significant Accounting Policies (Continued)**

##### *Pending Accounting Standards*

GASB has issued the following statements which may impact the District's financial reporting requirements in the future:

- GASB 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, effective for periods beginning after June 15, 2016.
- GASB 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, effective for periods beginning after June 15, 2016.
- GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, effective for periods beginning after June 15, 2017.
- GASB 77, *Tax Abatement Disclosures*, effective for periods beginning after December 15, 2015.
- GASB 81, *Irrevocable Split-interest Agreements*, effective for periods after December 15, 2016.
- GASB 82, *Pension Issues and amendment of GASB Statements No. 67, No. 68 and No. 73*, effective for periods beginning after June 15, 2016. The District has chosen to early implement this statement during the current fiscal year.

##### *Cash and Cash Equivalents*

For purposes of the statement of cash flows, cash equivalents are defined to include an investment in the District's cash and investment pool, as well as any direct investment in short-term, highly liquid investments that are both readily convertible to known amounts of cash or so near their maturity that they present insignificant risk of changes in value because of changes in interest rates, and have an original maturity date of three months or less. Investments in United States Government Sponsored Agency Securities are not considered to be cash equivalents as defined above and, therefore, are excluded from the statement of cash flows.

##### *Investments*

Investments are stated at fair value (the value at which financial instruments could be exchanged in a current transaction between willing parties, other than in a forced liquidation sale). Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

All District investments are held in marketable securities that have a readily available market and are considered highly liquid. As a result, changes in investments are reported net on the statement of cash flows.

**Costa Mesa Sanitary District**

**Notes to Financial Statements  
For the year ended June 30, 2016**

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**Note 1. Nature of Activities and Significant Accounting Policies (Continued)**

*Accounts Receivable*

Management has evaluated the accounts receivable and believes they are all collectible. Management evaluates all accounts receivable and if it is determined that they are uncollectible they are written off as a bad debt expense.

*Inventory*

Inventories consist primarily of equipment parts retained for use in District equipment and are valued at cost which approximates market using the first in, first out method.

*Capital Assets*

Capital assets purchased by the District are capitalized at cost. Data reflected in the District's capital asset records include estimates of original cost as determined by knowledgeable District personnel. Contributed capital assets, consisting primarily of donated subsurface wastewater lines dedicated to the District by contractors or other governmental agencies are recorded as contributed capital assets, which increases the net position of the District. Such contributed capital assets are recorded at their acquisition value as of the date received.

Any single item purchased by the District with a cost greater than or equal to \$5,000 and an estimated useful life of greater than one year is capitalized and depreciated. Depreciation is charged to operations using the straight-line method based on the estimated useful life of the asset. The estimated useful lives are as follows:

Buildings	20 - 50 years
Improvements	20 years
Subsurface wastewater lines	60 years
Equipment	5 - 20 years
Vehicles	5 - 10 years
Other	5 - 20 years

**Costa Mesa Sanitary District**

**Notes to Financial Statements  
For the year ended June 30, 2016**

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**Note 1. Nature of Activities and Significant Accounting Policies (Continued)**

*Compensated Absences*

Compensated absences are comprised of unpaid vacation leave which is accrued when benefits are fully vested. The District's liability for compensated absences is determined annually.

*Pension Plan*

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by the CalPERS Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. CalPERS audited financial statements are publicly available reports that can be obtained at CalPERS' website under Forms and Publications.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used.

Valuation date (VD)	June 30, 2014
Measurement date (MD)	June 30, 2015
Employer financial reporting date	June 30, 2016
Measurement period (MP)	July 1, 2014 to June 30, 2015

*Deferred Outflows and Deferred Inflows of Resources*

Deferred outflows of resources are transactions that result in the consumption of net position in one period that are applicable to future periods and are not considered assets as described by the statement. Deferred outflows of resources are required to be presented separately after assets on the statement of net position.

Deferred inflows of resources are transactions that result in the acquisition of net position in one period that are applicable to future periods and are not considered to be liabilities as described by the statement. Deferred inflows of resources are required to be presented separately after liabilities on the statement of net position.

**Costa Mesa Sanitary District**

**Notes to Financial Statements  
For the year ended June 30, 2016**

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**Note 1. Nature of Activities and Significant Accounting Policies (Continued)**

*Net Position*

Net position is categorized as follows:

- *Net Investment in Capital Assets* – This component of net position consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt against the acquisition, construction or improvement of those assets.
- *Restricted Net Position* – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted Net Position* – This component of net position consists of net position that does not meet the definition of *restricted* net position or *net investment in capital assets*.

*Operating Revenues and Expenses*

Operating revenues, such as charges for services (Solid Waste and Wastewater), result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as property taxes and assessments, and investment income, result from non-exchange transactions or ancillary activities in which the District gives (receives) value without directly receiving (giving) equal value in exchange.

Operating expenses include the cost of services, administrative expenses and depreciation on capital assets.

**Costa Mesa Sanitary District**

**Notes to Financial Statements  
For the year ended June 30, 2016**

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**Note 1. Nature of Activities and Significant Accounting Policies (Continued)**

*Property Taxes*

The Orange County Assessor’s Office assesses all real and personal property within the County each year. The Orange County Tax Collector’s Office bills and collects the District’s share of property taxes and assessments. The Orange County Treasurer’s Office remits current and delinquent property tax collections to the District throughout the year. Property taxes in California are levied in accordance with Article XIII A of the State Constitution at 1% of countywide assessed valuations. This levy is allocated pursuant to state law to the appropriate units of local governments.

Property taxes receivable at year-end are related to property taxes collected by the Orange County Tax Collector which have not been credited to the District’s cash balance as of June 30, 2016.

The property tax calendar is as follows:

Lien Date:	January 1
Levy Date:	July 1
Due Dates:	First Installment - November 1 Second Installment - March 1
Collection Dates:	First Installment - December 10 Second Installment - April 10

*Capital Contributions*

Capital contributions represent cash and capital asset additions contributed to the District by property owners or real estate developers desiring services that require capital expenditures or capacity commitment.

*Maintenance Costs*

All expenses for maintenance and repairs of property, including renewals of minor items, are charged to the appropriate maintenance expense accounts. A betterment or replacement of a unit of property is accounted for as an addition and retirement of capital assets.



**Costa Mesa Sanitary District**

**Notes to Financial Statements  
For the year ended June 30, 2016**

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**Note 1. Nature of Activities and Significant Accounting Policies (Continued)**

*Claims and Judgments*

When it is probable that a claim liability has been incurred at year-end, and the amount of the loss can be reasonably estimated, the District records the estimated loss, net of any insurance coverage under its participation in the Joint Power Insurance Authority program. At June 30, 2016, the District recorded a loss provision for a disputed Order from Regional Water Quality Control Board, for additional details see Note 5. Small dollar claims and judgments are recorded as expenses when paid.

*Prior Year Data*

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the District's prior year financial statements, from which this selected financial data was derived.

**Note 2. Cash and Investments**

Cash and investments as of June 30, 2016 are reported in the accompanying combined statement of net position as follows:

Cash and cash equivalents	\$	5,780,959
Investments		<u>13,414,152</u>
Total	\$	<u><u>19,195,111</u></u>

**Costa Mesa Sanitary District**

**Notes to Financial Statements  
For the year ended June 30, 2016**

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**Note 2. Cash and Investments (Continued)**

Cash and investments as of June 30, 2016 consisted of the following:

Cash and cash equivalents:	
Demand deposits	\$ 128,192
California Local Agency Investments Fund (LAIF)	3,521,217
Money Market	2,130,800
Petty cash	750
Total cash and cash equivalents	<u>5,780,959</u>
Investments:	
United States Government Sponsored Agency Securities	10,500,537
Negotiable Certificates of Deposit	2,913,615
Total investments	<u>13,414,152</u>
Total cash and investments	<u>\$ 19,195,111</u>

*Investments Authorized by the California Government Code and the District's Investment Policy*

The table below identifies the investment types that are authorized for the District by the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
United States Treasury Obligations	5 Years	None	None
Federal Agencies (United States Government Sponsored Agency Securities)	5 Years	None	None
Commercial Paper	270 days	25%	10%
Certificates of Deposit	1 Year	25%	None
Negotiable Certificates of Deposit	5 Years	25%	10%
Bankers' Acceptances	180 Days	25%	15%
Medium-Term Corporate Notes	5 Years	20%	None
Mutual Funds	5 Years	20%	10%
Local Agency Investment Fund (LAIF)	N/A	50%	\$40,000,000
Shares of Beneficial Interest	5 Years	20%	10%
Supranational Securities	5 Years	15%	None

**Costa Mesa Sanitary District**

**Notes to Financial Statements  
For the year ended June 30, 2016**

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**Note 2. Cash and Investments (Continued)**

*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 District 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 District’s cash equivalents and investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District’s investments by maturity as of June 30, 2016.

<u>Cash Equivalent and Investment Type</u>	<u>Remaining Maturities in Months</u>			<u>Total</u>
	<u>12 Months or Less</u>	<u>13-24 Months</u>	<u>25-60 Months</u>	
United States Government				
Sponsored Agency Securities	\$ 1,000,270	\$ -	\$ 9,500,267	\$ 10,500,537
Local Agency Investment Fund	3,521,217	-	-	3,521,217
Negotiable Certificates of Deposit	575,793	1,034,114	1,303,708	2,913,615
Money Market	2,130,800	-	-	2,130,800
<b>Total</b>	<b>\$ 7,228,080</b>	<b>\$ 1,034,114</b>	<b>\$ 10,803,975</b>	<b>\$ 19,066,169</b>

*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.

**Costa Mesa Sanitary District**

**Notes to Financial Statements  
For the year ended June 30, 2016**

**Note 2. Cash and Investments (Continued)**

*Credit Risk (continued)*

Presented below is the California Government Code, the District’s investment policy and the actual rating by Standards and Poor as of yearend for each cash equivalent and investment type:

Cash Equivalent and Investment Type	Total	Minimum	AAA	AA+	Unrated
		Legal Rating			
United States Government					
Sponsored Agency Securities	\$ 10,500,537	N/A	\$ 9,500,267	\$ 1,000,270	\$ -
Local Agency Investment Fund	3,521,217	N/A	-	-	3,521,217
Negotiable Certificates of Deposit	2,913,615	N/A	-	-	2,913,615
Money Market	2,130,800	N/A	2,130,800	-	-
<b>Total</b>	<b>\$ 19,066,169</b>		<b>\$ 11,631,067</b>	<b>\$ 1,000,270</b>	<b>\$ 6,434,832</b>

*Concentration of Credit Risk*

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer that represents 5% or more of total District’s investments are as follows:

Issuer	Investment Type	Reported Amount	Percent of Investment
Federal Farm Credit Bank	United States Government Sponsored Agency Securities	\$ 4,004,060	21%
Federal National Mortgage Association	United States Government Sponsored Agency Securities	3,253,875	17%
Federal Home Loan Mortgage Corporation	United States Government Sponsored Agency Securities	1,739,948	9%
Federal Home Loan Bank	United States Government Sponsored Agency Securities	1,502,655	8%

*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.

**Costa Mesa Sanitary District**

**Notes to Financial Statements  
For the year ended June 30, 2016**

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**Note 2. Cash and Investments (Continued)**

*Custodial Credit Risk (continued)*

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 District'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 District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2016, the District's deposits were collateralized as required by California Law.

*Investment in State Investment Pool*

The District is a voluntary participant in the Local Agency Investment Fund (LAIF), which is part of the Pooled Money Investment Account that is regulated by the California Government Code under the oversight of the State Treasurer, Director of Finance and State Controller. The District may invest up to \$65 million in the LAIF fund. Investments in LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. All investments with LAIF are secured by the full faith and credit of the State of California. Separate LAIF financial statements are available from the California State Treasurer's Office on the Internet at [www.treasurer.ca.gov](http://www.treasurer.ca.gov).

The District's investment in this pool is reported in the accompanying financial statements at cost which approximates fair value at amounts based upon the District'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). Included in LAIF's investment portfolio are certain derivative securities or similar products in the form of asset-backed securities totaling \$1,718 million, which represents 1.26% of the total LAIF portfolio of \$75.3 billion as of June 30, 2016. LAIF's (and the District's) exposure to risk (credit, market or legal) is not currently available.

**Costa Mesa Sanitary District**

**Notes to Financial Statements  
For the year ended June 30, 2016**

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**Note 2. Cash and Investments (Continued)**

*Fair Value Measurements*

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The District has the following recurring fair value measurements as of June 30, 2016:

Investments by fair value level	June 30, 2016	Fair Value Measurements Using		
		(Level 1)	(Level 2)	(Level 3)
Debt securities				
United States Government				
Sponsored Agency Securities	\$ 10,500,537	\$ -	\$ 10,500,537	\$ -
Local Agency Investment Fund	3,521,217	-	3,521,217	-
Negotiable Certificates of Deposit	2,913,615	-	2,913,615	-
Total investments by fair value level	16,935,369	\$ -	\$ 16,935,369	\$ -
Investments measured at the net asset value (NAV)				
Money Market	2,130,800			
Total investments measured at the NAV	2,130,800			
Total investments at fair value	<u>\$ 19,066,169</u>			

The United States Government Sponsored Agency Securities and negotiable certificates of deposit are classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

**Costa Mesa Sanitary District****Notes to Financial Statements  
For the year ended June 30, 2016**

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**Note 3. Capital Assets**

Changes in capital assets for the year ended June 30, 2016 are as follows:

	<u>Balance June 30, 2015</u>	<u>Additions and Transfers</u>	<u>Retirements and Transfers</u>	<u>Balance June 30, 2016</u>
Capital assets, not being depreciated:				
Land	\$ 979,655	\$ -	\$ -	\$ 979,655
Property rights	4,025	-	-	4,025
Construction in progress	637,902	4,266,126	(569,006)	4,335,022
Total capital assets, not being depreciated	<u>1,621,582</u>	<u>4,266,126</u>	<u>(569,006)</u>	<u>5,318,702</u>
Capital assets, being depreciated:				
Subsurface sewer lines	87,418,022	742,213	(53,920)	88,106,315
Building and improvements	3,916,504	122,894	-	4,039,398
Equipment	1,054,076	138,966	(14,224)	1,178,818
Vehicle	616,233	333,948	-	950,181
Total capital assets, being depreciated	<u>93,004,835</u>	<u>1,338,021</u>	<u>(68,144)</u>	<u>94,274,712</u>
Less accumulated depreciation:				
Subsurface sewer line	(54,417,386)	(1,473,348)	30,554	(55,860,180)
Building and improvements	(484,079)	(79,738)	-	(563,817)
Equipment	(438,914)	(122,194)	2,785	(558,323)
Vehicle	(183,309)	(78,844)	-	(262,153)
Total accumulated depreciation	<u>(55,523,688)</u>	<u>(1,754,124)</u>	<u>33,339</u>	<u>(57,244,473)</u>
Total capital assets being depreciated	<u>37,481,147</u>	<u>(416,103)</u>	<u>(34,805)</u>	<u>37,030,239</u>
Total capital assets, net	<u>\$ 39,102,729</u>	<u>\$ 3,850,023</u>	<u>\$ (603,811)</u>	<u>\$ 42,348,941</u>

**Costa Mesa Sanitary District**

**Notes to Financial Statements  
For the year ended June 30, 2016**

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**Note 3. Capital Assets (Continued)**

Depreciation expense was charged to functions of the District as follows:

Solid Waste	\$	10,609
Wastewater		<u>1,743,515</u>
Total	\$	<u><u>1,754,124</u></u>

**Note 4. Compensated Absences**

Accumulated unpaid vacation and other employee benefit amounts are accrued when vested. At June 30, 2016, compensated absences payable amounted to \$68,171, of which \$30,518 is considered a current liability.

Changes to compensated absences for 2016, were as follows:

	<u>Balance June 30, 2015</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance June 30, 2016</u>	<u>Current Portion</u>	<u>Long-Term Portion</u>
Compensated absences	<u>\$ 68,171</u>	<u>\$ 69,905</u>	<u>\$ (60,561)</u>	<u>\$ 77,515</u>	<u>\$ 31,016</u>	<u>\$ 46,499</u>

**Note 5. Contingent Liability and Commitments**

*Contingent Liability*

The Regional Water Quality Control Board ordered the District to pay a fine in relation to two sanitary sewer overflows that occurred in the District's operating system on August 31, 2013. The District is disputing the amount of the related fines and has accrued \$350,000 as a contingent liability for possible future payments of these fines. At December 29, 2015, the amount of the fines is in dispute with the Regional Water Quality Control Board.



**Note 6. Pension Plan**

***General Information about the Pension Plan***

*Plan Description*

All qualified permanent and probationary employees are eligible to participate in the Public Agency Cost-sharing Multiple-Employer Defined Benefit Pension Plan (Plan) administered by the California Public Employees' Retirement System (CalPERS). The Plan consists of individual three individual rate plans (benefit tiers) in miscellaneous risk pools. Plan assets may be used to pay benefits for any employer rate plan of the pools. Accordingly, rate plans within each pool are not separate plans under GASB No. 68. Individual employers may sponsor more than one rate plan in the pools. Benefit provisions are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS' website.

*Benefits Provided*

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plan operates under the provisions of the California Public Employees' Retirement Law (PERL), the California Public Employees' Pension Reform Act of 2013 (PEPRA), and the regulations, procedures and policies adopted by the CalPERS Board of Administration. The Plan's authority to establish and amend the benefit terms are set by the PERL and PEPRA, and may be amended by the California state legislature and in some cases require approval by the CalPERS Board.

**Costa Mesa Sanitary District**

**Notes to Financial Statements  
For the year ended June 30, 2016**

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**Note 6. Pension Plan (Continued)**

*Benefits Provided (continued)*

The Plans provisions and benefits in effect at June 30, 2016 are summarized as follows:

	<u>Miscellaneous Tier I</u>	<u>Miscellaneous Tier II</u>	<u>Miscellaneous PEPRA</u>
	Prior to January 1, 2011	From July 1, 2011 to December 31, 2012	On or after January 1, 2013
Hire date			
Benefit formula	2 % @ 55	2 % @ 60	2 % @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50-63+	50-65+	52-67+
Monthly benefits, as			
a % of eligible compensation	1.426% to 2.418%	1.092% to 2.418%	1.000% to 2.500%
Required employee contribution rates	7.00%	7.00%	6.50%
Required employer contribution rates	11.48%	7.57%	6.50%

*Contributions*

Section 20814(c) of the California Public Employees’ Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS’ annual actuarial valuation process. For public agency cost-sharing plans covered by Miscellaneous or Safety Risk Pools, the Plan’s actuarially determined rate is based on the estimated amount necessary to pay the Plan’s allocated share of the risk pool’s costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Employer contribution rates may change if plan contracts are amended.

**Costa Mesa Sanitary District**

**Notes to Financial Statements  
For the year ended June 30, 2016**

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**Note 6. Pension Plan (Continued)**

*Contributions (continued)*

Employer contributions to the Plan for the fiscal year ended June 30, 2016 were \$108,023. The actual employer payments of \$103,072 made to CalPERS by the District during the measurement period ended June 30, 2015 differed from the District's proportionate share of the employer's contributions of \$49,845 by \$53,227 which is being amortized over the expected average remaining service lifetime in the Public Agency Cost-Sharing Multiple Employer Plan.

**Net Pension Liability**

The District's net pension liability for each Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Plan is measured as of June 30, 2015, using an annual actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is as follows.

*Actuarial Methods and Assumptions Used to Determine Total Pension Liability*

	Miscellaneous Plan
Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry age normal
Asset Valuation Method	Market value of assets
Actuarial Assumptions:	
Discount Rate	7.65%. For the measurement date June 30, 2014, 7.5%
Inflation	2.75%
Salary Increases (1)	Varies by entry age and service
Investment Rate of Return (2)	7.65%
Mortality Rate Table (3)	Derived using CALPERS' membership data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until purchasing power protection allowance floor on purchasing power applies, 2.75% thereafter

(1) Annual increases vary by category, entry age, and duration of service  
 (2) Net of pension plan investment and administrative expenses; includes inflation  
 (3) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

**Note 6. Pension Plan (Continued)**

*Actuarial Methods and Assumptions Used to Determine Total Pension Liability (continued)*

All other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

*Change of assumptions*

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50 percent used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65 percent used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

*Discount Rate*

The discount rate used to measure the total pension liability was 7.65 percent for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

**Costa Mesa Sanitary District**

**Notes to Financial Statements  
For the year ended June 30, 2016**

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**Note 6. Pension Plan (Continued)**

*Discount Rate (continued)*

The following table reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 <sup>1</sup>	Real Return Years 11+ <sup>2</sup>
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	12.0%	6.83%	6.95%
Real Estate	11.0%	4.50%	5.13%
Infrastructure and Forestland	3.0%	4.50%	5.09%
Liquidity	2.0%	(0.55%)	(1.05%)
Total	100%		

<sup>1</sup> An expected inflation of 2.5% used for this period

<sup>2</sup> An expected inflation of 3.0% used for this period

*Pension Plan Fiduciary Net Position*

Information about the pension plans’ assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position are presented in CalPERS’ audited financial statements, which are publicly available reports that can be obtained at CalPERS’ website under Forms and Publications, at [www.calpers.ca.gov](http://www.calpers.ca.gov). The plans’ fiduciary net position and additions to/deductions from the plans’ fiduciary net position have been determined on the same basis used by the pension plan, which is the economic resources measurement focus and the accrual basis of accounting. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. Investments are reported at fair value.

The plans’ fiduciary net position disclosed in the GASB 68 accounting valuation report may differ from the plans’ assets reported in the funding actuarial valuation report due to several reasons. First, for the accounting valuations, CalPERS must keep items such as deficiency reserves, fiduciary self-insurance and Other Post-Employment Benefits (OPEB) expense included as assets. These amounts are excluded for rate setting purposes in the funding actuarial valuation. In addition, differences may result from early Comprehensive Annual Financial Report closing and final reconciled reserves

**Costa Mesa Sanitary District**

**Notes to Financial Statements  
For the year ended June 30, 2016**

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**Note 6. Pension Plan (Continued)**

***Proportionate Share of Net Pension Liability***

The following table shows the Plans' proportionate share of the net pension liability over the measurement period.

Miscellaneous Plans	Increase (Decrease)		
	Plan Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Plan Net Pension Liability (c) = (a) - (b)
Balance at: 6/30/2014 (VD)	\$ 1,594,928	\$ 1,324,248	\$ 270,680
Balance at: 6/30/2015 (MD)	1,715,713	1,441,001	274,712
Net changes during 2014-15	<u>\$ 120,785</u>	<u>\$ 116,753</u>	<u>\$ 4,032</u>

*Valuation Date (VD), Measurement Date (MD).*

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2015, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The District's proportion of the net pension liability was determined by CalPERS using the output from the Actuarial Valuation System and the fiduciary net position, as provided in the CalPERS Public Agency Cost-Sharing Allocation Methodology Report, which is a publicly available report that can be obtained at CalPERS' website under Forms and Publications, at [www.calpers.ca.gov](http://www.calpers.ca.gov).

The District's proportionate share of the net pension liability for the Plan as of June 30, 2014 and 2015 was as follows:

Proportionate Share - June 30, 2014	0.01095%
Proportionate Share - June 30, 2015	<u>0.01001%</u>
Change - Increase (Decrease)	<u>(0.00094%)</u>

**Costa Mesa Sanitary District**

**Notes to Financial Statements  
For the year ended June 30, 2016**

---

**Note 6. Pension Plan (Continued)**

***Proportionate Share of Net Pension Liability (Continued)***

*Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*

The following presents the District’s proportionate share of the net pension liability for the Plan as of the measurement date, calculated using the discount rate of 7.65 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.65 percent) or 1 percentage-point higher (8.65 percent) than the current rate:

Miscellaneous Plans	Discount Rate - 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)
Net Pension Liability	<u>\$ 208,369</u>	<u>\$ 274,712</u>	<u>\$ 81,801</u>

*Subsequent Events*

There were no subsequent events that would materially affect the results presented in this disclosure.

*Recognition of Gains and Losses*

Under GASB 68, gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense.

The amortization period differs depending on the source of the gain or loss:

Difference between projected and actual earnings	5 year straight-line amortization
All other amounts	Straight-line amortization over the average expected remaining service lives of all members that are provided with benefits (active, inactive and retired) as of the beginning of the measurement period

**Costa Mesa Sanitary District**

**Notes to Financial Statements  
For the year ended June 30, 2016**

---

**Note 6. Pension Plan (Continued)**

The expected average remaining service lifetime (EARSL) is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired) in the Public Agency Cost-Sharing Multiple-Employer Plan (PERF C).

The EARSL for the Plan for the June 30, 2015 measurement period is 3.8 years, which was obtained by dividing the total service years of 467,023 (the sum of remaining service lifetimes of the active employees) by 122,410 (the total number of participants: active, inactive, and retired). Note that inactive employees and retirees have remaining service lifetimes equal to 0. Also note that total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

*Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions*

As of the start of the measurement period (July 1, 2014), the net pension liability for the Plan is \$270,680.

For the measurement period ending June 30, 2015 (the measurement date), the District Plan incurred a pension expense/(income) of (\$31,027).

*Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions*

As of June 30, 2016, the District has deferred outflows and deferred inflows of resources related to Plan as follows:

Miscellaneous Plan	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Experience	\$ 6,606	\$ -
Changes of Assumptions	-	(62,501)
Net Difference between Projected and Actual Earnings on Pension Plan Investments	-	(31,332)
Change in Employer's Proportion	79,789	-
Difference in Actual vs Projected Contributions	55,718	-
Pension Contributions Subsequent to Measurement Date	108,023	-
Total	<u>\$ 250,136</u>	<u>\$ (93,833)</u>



**Costa Mesa Sanitary District**

**Notes to Financial Statements  
For the year ended June 30, 2016**

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**Note 6. Pension Plan (Continued)**

*Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions (continued)*

These amounts above are net of outflows and inflow recognized in the 2014-15 measurement period expense. \$108,023 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

Amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in future pension expense as follows:

Miscellaneous Plan	
Measurement Period Ended June 30,	Deferred Outflows/(Inflows) of Resources
2016	\$ 14,154
2017	14,578
2018	10,328
2019	9,223
2020	-
Thereafter	-

*Payable to the Pension Plan*

At June 30, 2016, the District has no payable or the outstanding amount of contributions to the pension plan required for the year ended June 30, 2016.

**Note 7. Other Post-Employment Benefits (OPEB) Plan**

***Plan Description***

*Eligibility*

The District, through a single-employer plan, provides post-employment health care benefits. The plans assets are held in trust with the Public Agency portion of the California Employers’ Retiree Benefit Trust Fund (CERBT), an agent multiple-employer Section 115 trust fund plan administered by California Public Employees’ Retirement System (CalPERS), which acts as a common investment and administrative agent for participating public employers within the State of California. The following requirements must be satisfied in order to be eligible for lifetime post-employment medical benefits: (1) Attainment of age 50, and 5 years of CalPERS service (or disability), and (2) Retirement from CalPERS and from the District (the District must be the last employer prior to retirement). Currently, there are five retired employees who have met these eligibility requirements and four of which have elected to receive the benefits. The CERBT is included in the CalPERS annual financial report available on the CalPERS website. The Districts plan does not issue financial statements.

**Costa Mesa Sanitary District**

**Notes to Financial Statements  
For the year ended June 30, 2016**

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**Note 7. Other Post-Employment Benefits (OPEB) Plan (Continued)**

The total payments made for these benefits for retired employees for the year ended June 30, 2016 were \$132,905. Membership in the OPEB plan consisted of the following members as of June 30, 2016:

Active plan members	16
Retirees and beneficiaries receiving benefits	4
Separated plan members entitled to but not yet receiving benefits	<u>2</u>
Total plan membership	<u><u>22</u></u>

*Benefits*

The District offers post-employment medical benefits to retired employees who satisfy the eligibility rules. Retirees may enroll in any plan available through the District’s CalPERS medical plan. The contribution requirement of the Plan members and the District are established and may be amended by the Board of Directors. As a member of the CalPERS medical plan the District is required to participate in its post-employment medical benefit plan. The District currently pays the CalPERS minimum required employer contribution on an “Unequal” basis (\$60 per month in 2014, Equal being \$119, and indexed to medical CPI plus amortized factor, becoming equal in 2024). The District currently has one retiree with a special agreement receiving \$350 per month. The special agreement was a Board approved policy issued to maintain the benefits offered to former City of Costa Mesa employees accepting to become District employees.

*Funding Policy*

The District is required to contribute the Annual Required Contribution of the Employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liability (or funding excess) over a period not to exceed twenty-five years with a remaining period of twenty-four years at June 30, 2016. The current ARC rate is 1.8% of the annual covered payroll.

The District will pay 100% of the cost of the post-employment benefit plan. The District is currently funding the plan on a pay-as-you-go basis, through fiscal year 2016 and records an asset for the difference between pay-as-you-go and the actuarially determined ARC cost.

*Annual OPEB Cost and Net OPEB Asset*

The District’s annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement 45. 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 liabilities of the plan over a period not to exceed twenty-five years.

**Costa Mesa Sanitary District**

**Notes to Financial Statements  
For the year ended June 30, 2016**

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**Note 7. Other Post-Employment Benefits (OPEB) Plan (Continued)**

*Annual OPEB Cost and Net OPEB Asset (continued)*

The following table shows the component of the District’s annual OPEB costs for the year, the amount actually contributed to the plan, and changes in the District’s net OPEB obligation/asset.

Annual required contribution (ARC)	\$ 14,000
Interest on Net OPEB obligation	1,924
Adjustment to ARC	-
Annual OPEB cost	<u>15,924</u>
Contribution made	<u>(132,905)</u>
Increase in Net OPEB asset	(116,981)
Net OPEB (asset) at June 30, 2015	<u>(97,448)</u>
Net OPEB (asset) at June 30, 2016	<u>\$ (214,429)</u>

*Trend Information*

The District’s annual OPEB cost, the actual contribution, the percentage of annual OPEB costs contributed to the plan, and the net OPEB obligation the year ended June 30, 2016 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Actual Contribution Made	Percentage of Annual OPEB Costs Contributed	Net OPEB Obligation (Asset)
06/30/16	\$ 15,924	\$ (132,905)	834.62%	\$ (214,429)
06/30/15	15,966	(126,648)	793.24%	(97,448)
06/30/14	17,099	(23,336)	136.48%	13,234

*Funded Status and Funding Progress*

As of June 30, 2015, the most recent actuarial valuation date, the actuarial accrued liability (AAL) for benefits was \$274,772, and the actuarial value of assets (AVA) was \$149,227, resulting in an unfunded actuarial accrued liability (UAAL) of \$125,545 and a funded ratio (actuarial value of assets as a percentage of the actuarial accrued liability) of 54.31%. The covered payroll (annual payroll of active employees covered by the plan) was \$975,346 and the ratio of the UAAL to the covered payroll was 12.87%.

**Note 7. Other Post-Employment Benefits (OPEB) Plan (Continued)**

*Actuarial Methods and Assumptions*

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation. 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. Actuarial valuations of an ongoing plan involve 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 District 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 following the notes to basic financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

In the June 30, 2015 actuarial investment valuation, the entry age normal cost method was used. The actuarial assumptions included an inflation rate of 3.0% per annum, an investment return of 7.0% per annum, a projected salary increase of 3.25% per annum and a health inflation rate of 7.0% per annum graded down in approximately one-half percent increments to an ultimate rate of 5.0% after the sixth year. The District is using the level percentage of payroll method to allocate amortization cost by year over a closed 20 year period. The actuarial value of assets is determined by spreading the difference between the market value of assets and the expected actuarial value of assets over a five year rolling period.

*Changes in Assumptions*

The following are significant changes to the actuarial assumptions from the June 30, 2013 valuation:

- Projected mortality improvements now uses the Projection Scale MP-14 with rates converging in 2022 after 15 years applied to all mortality.
- Medical trend based on one-half increments to an ultimate rate of 5%.
- Spouse coverage assumed to be 60% of future retirees
- ACA excise tax 2% of load on cash
- Implied subsidy included for <65

**Costa Mesa Sanitary District**

**Notes to Financial Statements  
For the year ended June 30, 2016**

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**Note 8. Joint Powers Insurance Authority**

The District is exposed to various general liability risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. To help mitigate these risks, the District is a member of the Special District Risk Management Authority.

*Description of the Authority*

The Authority is a risk-pooling self-insurance authority, created under provisions of California Government Code Section 6500 et. seq. The Authority's purpose is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage.

*Self-Insurance Programs of the Authority*

At June 30, 2016, the District participated in the Authority's self-insurance programs as follows:

*Property Loss* - Insured up to insurable value with a \$2,000 deductible for buildings and personal property and a \$500 deductible for licensed vehicles.

*General Liability* - Insured up to \$10,000,000 per occurrence with no annual aggregate limits and a \$0 deductible, except \$500 on property damage per occurrence.

*Auto Liability* - Insured up to \$10,000,000 per occurrence with no annual aggregate limits and a \$0 deductible, except \$1,000 on property damage per occurrence.

*Workers' Compensation* - Insured up to statutory limits.

*Public Officials' Errors and Omissions* - Insured up to \$10,000,000 per occurrence with an annual aggregate limit of \$10,000,000.

In addition to the above, the Authority has purchased insurance coverage as follows:

*Employee Dishonesty Coverage* - Insured up to \$400,000 per occurrence.

The District pays annual premiums for these coverages. They are subject to retrospective adjustments based on claims expended. The nature and amount of these adjustments cannot be estimated and are charged to expenses as invoiced. There were no instances in the past three years where a settlement exceeded the District's coverage.

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**REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of the District's Proportionate Share of the Plans' Net Pension Liability and Related Ratios as of the Measurement Date

Schedule of Plan Contributions

Schedule of Funding Progress Other Post-Employment Benefit Plan

**Costa Mesa Sanitary District**

**Required Supplementary Information  
For the year ended June 30, 2016**

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**Schedule of the District's Proportionate Share of the Plans' Net Pension Liability and  
Related Ratios as of the Measurement Date - Last 10 Years\***

	Measurement date	
	6/30/2014	6/30/2015
Plan's Proportion of the Net Pension Liability <sup>1</sup>	0.0047%	0.0100%
Plan's Proportionate Share of the Collective Net Pension Liability	\$ 270,680	\$ 274,712
Employer's Covered Payroll <sup>2</sup>	\$ 927,345	\$ 1,033,922
Employer's Proportionate Share of the Collective Net Pension Liability as a Percentage of the Employer's Covered-Employee Payroll	29.19%	26.57%
Pension Plan's Fiduciary Net Position as a Percentage of the Total Pension Liability	83.03%	83.99%

<sup>1</sup> Proportion of the collective net pension liability represents the plan's proportion of PERF C, which includes both the Miscellaneous and Safety Risk Pools excluding the 1959 Survivors Risk Pool.

<sup>2</sup> Covered payroll is defined as the payroll on which contributions to a pension plan are based, in accordance with GASB 82.

\*This is the second year of implementation, therefore only two years are presented.



**Costa Mesa Sanitary District**

**Required Supplementary Information  
For the year ended June 30, 2016**

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**Schedule of Plan Contributions - Last 10 Years\***

	Fiscal year	
	6/30/2014	6/30/2015
Actuarially Determined Contribution	\$ 103,072	\$ 108,023
Contributions in Relation to the Actuarially Determined Contribution	(103,072)	(108,023)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
 Employer's Covered Payroll <sup>1</sup>	 \$ 927,345	 \$ 1,033,922
 Contributions as a Percentage of Covered Payroll	 11.11%	 10.45%

<sup>1</sup> Covered payroll is defined as the payroll on which contributions to a pension plan are based, in accordance with GASB 82.

\*This is the second year of implementation, therefore only two years are presented.

**Notes to Schedule:**

Change in Benefit Terms: None

Change in Assumptions: The discount rate was changed from 7.5 percent (net of administrative expense) to 7.65 percent to correct for an adjustment to exclude administrative expense.

**Costa Mesa Sanitary District**

**Required Supplementary Information  
For the year ended June 30, 2016**

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**Schedule of Funding Progress for Other Post-Employment Benefit Plan**

Actuarial Valuation Date	Actuarial Accrued Liability (AAL) (a)	Actuarial Value of Assets (b)	Unfunded AAL (UAAL) (a) - (b)	Funded Ratio (b) / (a)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(a)-(b)]/(c)
6/30/2015	\$ 274,772	\$ 149,227	\$ 125,545	54.31%	\$ 975,346	12.87%
6/30/2013	154,000	23,000	131,000	14.94%	728,000	17.99%
6/30/2012	131,000	-	131,000	0.00%	897,000	14.60%

## **STATISTICAL SECTION**

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**Costa Mesa Sanitary District**

**Description of Statistical Section Contents**

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For the year ended June 30, 2016

This part of the District’s Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements and the note disclosures say about the government’s overall financial health.

Contents:	<u>Pages</u>
<u>Financial Trends</u> these schedules contain trend information to help the reader understand how the District’s financial performance and well-being have changed over time.	54-55
<u>Revenue Capacity</u> these schedules contain information to help the reader assess the District’s most significant own source revenues, solid waste and wastewater revenues.	56-64
<u>Debt Capacity</u> these schedules present information to help the reader assess the affordability of the District’s current levels of outstanding debt and the District’s ability to issue additional debt in the future.	65-68
<u>Demographic and Economic Information</u> these schedules offer demographic and economic indicators to help the reader understand the environment within which the District’s financial activities take place.	69-70
<u>Operating Information</u> these schedules contain service and infrastructure data to help the reader understand how the information in the District’s financial report relates to the services the District provides and the activities it performs.	71-73

**Costa Mesa Sanitary District**

**Changes in Net Position and Net Position by Component  
Last Ten Fiscal Years**

	Fiscal Year			
	2007	2008	2009	2010 (As Restated)
Changes in net position:				
Operating revenues	\$ 8,209,035	\$ 9,606,545	\$ 10,144,512	\$ 10,460,180
Operating expenses	(7,371,732)	(7,762,619)	(7,945,850)	(7,487,385)
Depreciation and amortization	(344,790)	(478,763)	(573,004)	(622,319)
Operating income (loss)	492,513	1,365,163	1,625,658	2,350,476
Non-operating revenue (expenses), net	769,752	751,660	659,472	1,245,767
Net income (loss) before capital contributions	1,262,265	2,116,823	2,285,130	3,596,243
Capital contributions	2,377,046	-	14,000	4,243,681
<b>Changes in net position</b>	<b>\$ 3,639,311</b>	<b>\$ 2,116,823</b>	<b>\$ 2,299,130</b>	<b>\$ 7,839,924</b>
Net position:				
Net investment in capital assets	\$ 14,363,225	\$ 17,040,959	\$ 17,350,061	\$ 40,022,038
Restricted for capital outlay	8,157,794	6,028,258	6,285,042	7,719,551
Unrestricted	2,925,064	4,493,689	6,226,933	6,769,215
<b>Total net position</b>	<b>\$ 25,446,083</b>	<b>\$ 27,562,906</b>	<b>\$ 29,862,036</b>	<b>\$ 54,510,804</b>

Source: Costa Mesa Sanitary District

Continued

Fiscal Year					
2011	2012	2013	2014	2015	2016
\$ 10,731,490	\$ 10,759,564	\$ 10,636,733	\$ 10,327,835	\$ 10,825,377	\$ 11,077,758
(8,160,177)	(8,303,399)	(7,953,569)	(8,453,930)	(8,634,912)	(9,323,731)
<u>(1,540,281)</u>	<u>(1,607,841)</u>	<u>(1,715,991)</u>	<u>(1,604,500)</u>	<u>(1,690,932)</u>	<u>(1,754,124)</u>
1,031,032	848,324	967,173	269,405	499,533	(97)
<u>434,597</u>	<u>740,072</u>	<u>138,767</u>	<u>260,229</u>	<u>589,791</u>	<u>574,652</u>
1,465,629	1,588,396	1,105,940	529,634	1,089,324	574,555
-	-	5,000	5,000	-	89,400
<u>\$ 1,465,629</u>	<u>\$ 1,588,396</u>	<u>\$ 1,110,940</u>	<u>\$ 534,634</u>	<u>\$ 1,089,324</u>	<u>\$ 663,955</u>
\$ 39,122,787	\$ 39,792,929	\$ 39,793,590	\$ 29,605,233	\$ 39,102,729	\$ 42,348,941
381,368	8,116	-	-	-	-
<u>16,472,278</u>	<u>17,763,784</u>	<u>18,684,743</u>	<u>19,407,734</u>	<u>20,726,351</u>	<u>18,144,094</u>
<u>\$ 55,976,433</u>	<u>\$ 57,564,829</u>	<u>\$ 58,478,333</u>	<u>\$ 49,012,967</u>	<u>\$ 59,829,080</u>	<u>\$ 60,493,035</u>

**Costa Mesa Sanitary District**

**Operating Revenues by Source  
Last Ten Fiscal Years**

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	Fiscal Year			
	2007	2008	2009	2010
Operating revenues				
Trash assessments	\$ 5,101,054	\$ 5,136,643	\$ 5,168,413	\$ 5,176,122
Wastewater assessments	2,747,778	4,254,608	4,632,923	5,124,283
Permits and inspection fees	190,412	22,552	28,183	22,870
Connection fees	137,522	13,687	24,270	11,468
Other services and charges	32,269	179,055	290,723	125,437
<b>Total Operating Revenues</b>	<b>\$ 8,209,035</b>	<b>\$ 9,606,545</b>	<b>\$ 10,144,512</b>	<b>\$ 10,460,180</b>

Source: Costa Mesa Sanitary District



Continued

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Fiscal Year					
2011	2012	2013	2014	2015	2016
\$ 5,185,184	\$ 5,180,748	\$ 4,921,705	\$ 4,681,766	\$ 4,768,071	\$ 4,787,459
5,116,190	5,117,377	5,133,674	5,081,699	5,301,231	5,430,408
46,222	83,237	140,536	118,041	206,971	231,850
28,865	78,230	189,262	134,158	192,913	257,323
355,029	299,972	251,556	312,171	356,191	370,718
<u>\$ 10,731,490</u>	<u>\$ 10,759,564</u>	<u>\$ 10,636,733</u>	<u>\$ 10,327,835</u>	<u>\$ 10,825,377</u>	<u>\$ 11,077,758</u>

**Costa Mesa Sanitary District**

**Operating Expenses by Activity  
Last Ten Fiscal Years**

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	Fiscal Year			
	2007	2008	2009	2010
Operating expenses				
Solid waste disposal	\$ 4,568,661	\$ 4,584,097	\$ 4,499,524	\$ 4,469,887
Wastewater disposal	1,384,802	1,540,711	1,516,374	1,047,977
General and administrative	1,418,269	1,637,811	1,929,952	1,969,521
<b>Total Operating Expenses</b>	<u>\$ 7,371,732</u>	<u>\$ 7,762,619</u>	<u>\$ 7,945,850</u>	<u>\$ 7,487,385</u>

Source: Costa Mesa Sanitary District

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Fiscal Year					
<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
\$ 4,510,918	\$ 4,450,943	\$ 4,483,980	\$ 4,477,812	\$ 4,500,416	\$ 4,770,212
1,619,781	1,912,341	1,438,604	1,591,051	1,665,480	1,641,085
<u>2,029,478</u>	<u>1,940,115</u>	<u>2,030,985</u>	<u>2,385,067</u>	<u>2,469,016</u>	<u>2,912,434</u>
<u>\$ 8,160,177</u>	<u>\$ 8,303,399</u>	<u>\$ 7,953,569</u>	<u>\$ 8,453,930</u>	<u>\$ 8,634,912</u>	<u>\$ 9,323,731</u>

**Costa Mesa Sanitary District**

**Non-Operating Revenue (Expense), Net  
Last Ten Fiscal Years**

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	Fiscal Year			
	2007	2008	2009	2010
Non-operating revenues (expenses)				
Investment income (loss)	\$ 571,489	\$ 469,376	\$ 297,158	\$ 188,045
Investment expense	(43,941)	-	-	-
Taxes	217,796	226,046	223,789	220,329
Other revenues	50,264	66,265	151,007	838,628
Other expenses	-	(10,027)	-	-
Loss on disposal of assets	(25,856)	-	(12,482)	(1,235)
<b>Total non-operating revenues, net</b>	<b>\$ 769,752</b>	<b>\$ 751,660</b>	<b>\$ 659,472</b>	<b>\$ 1,245,767</b>

Source: Costa Mesa Sanitary District

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Fiscal Year					
2011	2012	2013	2014	2015	2016
\$ 154,279	\$ 188,000	\$ (144,970)	\$ 291,073	\$ 205,472	\$ 292,524
-	-	-	-	-	-
212,004	214,579	301,046	235,336	245,415	270,876
69,856	424,291	97,383	77,814	138,904	44,760
-	-	-	(350,000)	-	-
(1,542)	(86,798)	(114,692)	6,006	-	(33,508)
<u>\$ 434,597</u>	<u>\$ 740,072</u>	<u>\$ 138,767</u>	<u>\$ 260,229</u>	<u>\$ 589,791</u>	<u>\$ 574,652</u>

**Costa Mesa Sanitary District**

**Solid Waste and Wastewater Revenue Rates  
Last Ten Fiscal Years**

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	Fiscal Year			
	2007	2008	2009	2010
<b>Solid Waste</b>				
Customer Type				
Single family residential	\$ 239.41	\$ 239.41	\$ 239.41	\$ 239.41
<b>Wastewater</b>				
Customer Type				
Single family residential	\$ 37.64	\$ 56.47	\$ 60.71	\$ 66.23
Multi-family residential	28.99	43.49	46.75	51.00
Commercial-Average Strength (per 1000 sf)	21.90	32.85	35.31	38.52
Commercial-High Strength (per 1000 sf)	-	-	-	-
Industrial (per 1000 sf)	64.51	96.77	104.03	113.50
Other (per 1000 sf)	19.40	29.11	31.29	34.14

Source: Costa Mesa Sanitary District Board of Directors approved rate ordinances and resolutions

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Fiscal Year					
2011	2012	2013	2014	2015	2016
\$ 239.41	\$ 239.41	\$ 228.00	\$ 216.00	\$ 216.00	\$ 216.00
\$ 66.23	\$ 66.23	\$ 66.23	\$ 85.34	\$ 87.05	\$ 88.79
51.00	51.00	51.00	50.09	51.09	52.11
38.52	38.52	38.52	37.96	38.72	39.49
-	-	-	41.40	42.23	43.07
113.50	113.50	113.50	97.44	99.39	101.38
34.14	34.14	34.14	N/A	N/A	N/A

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## Costa Mesa Sanitary District

### Principal Wastewater Customers Current Fiscal Year and Nine Years Ago

Industrial Customer Type	2016		2007	
	Square Feet Assessed	Percentage of Total	Square Feet Assessed	Percentage of Total
International Asset Management Group	329,350	3.44%	72,970	0.84%
CJ Sergerstrom & Sons	276,720	2.89%	274,160	3.17%
CLA Val Company	252,480	2.64%	390,170	4.51%
3030 & 3080 Airway LLC	158,070	1.65%	149,020	1.72%
Olen Properties Corporation	141,588	1.48%	-	0.00%
CPF Airway Associates LLC	131,115	1.37%	168,960	1.95%
Van Ausdeln, Sandra Ann Trust	124,410	1.30%	124,410	1.44%
Bre CA Office Owner LLC	119,429	1.25%	-	0.00%
Sovran Acquisition LP	118,514	1.24%	1,000	0.01%
1650 Sunflower 40 LLC	114,950	1.20%	-	0.00%
Griswold Industries	114,583	1.20%	103,780	1.20%
Total square feet: Industrial Principal Customers	<u>1,881,209</u>	<u>19.66%</u>	<u>1,284,470</u>	<u>14.84%</u>
Total square feet : Industrial Customers	<u>9,561,853</u>	<u>100.00%</u>	<u>8,659,106</u>	<u>100.00%</u>
<b>Commercial Customer Type</b>				
C J Segerstrom & Sons	1,321,780	4.08%	-	0.00%
South Coast Plaza	1,108,640	3.42%	334,240	1.41%
PR II/MCC South Coast	835,670	2.58%	-	0.00%
The Irvine Company	834,370	2.58%	130,340	0.55%
Interinsurance Exchange of the Auto Club of CA	750,910	2.32%	37,290	0.16%
Coast Community College District	674,060	2.08%	86,620	0.37%
Segerstrom Center	591,090	1.83%	-	0.00%
Vanguard University of Southern California	570,250	1.76%	486,330	2.05%
Sears Roebuck & Co.	536,980	1.66%	446,150	1.88%
600 Anton Boulevard Associates	490,350	1.51%	459,090	1.94%
Center Tower Associates	451,550	1.39%	-	0.00%
Total square feet: Commercial Principal Customers	<u>8,165,650</u>	<u>25.21%</u>	<u>1,980,060</u>	<u>8.36%</u>
Total square feet: Commercial Customers	<u>32,379,357</u>	<u>100.00%</u>	<u>23,684,480</u>	<u>100.00%</u>
<b>Multi-family Residential Customer Type</b>				
	Household Units	Percentage of Total	Household Units	Percentage of Total
MarJack LLC	890	3.66%	-	0.00%
Casden Lakes LP	770	3.17%	770	3.07%
Costa Mesa Partners	764	3.14%	764	3.05%
United Dominion Realty LP	764	3.14%	764	3.05%
Pinecreek Investment Co.	620	2.55%	620	2.47%
ZMV Partnership	508	2.09%	508	2.03%
Katella Investment Co.	440	1.81%	-	0.00%
Village Investments	422	1.74%	-	0.00%
UDR Harbor Greens LP	384	1.58%	384	1.53%
Bay Apartment Communities, Inc.	333	1.37%	273	1.09%
Riverville Family Associates LLC	296	1.22%	-	0.00%
Total household units: Multi-family Principal Customers	<u>6,191</u>	<u>25.47%</u>	<u>4,083</u>	<u>16.29%</u>
Total household units assessed: Multi-family Customers	<u>24,296</u>	<u>100.00%</u>	<u>25,053</u>	<u>100.00%</u>

Source: Costa Mesa Sanitary District

**Costa Mesa Sanitary District**

**Ratio of Outstanding Debt  
Last Ten Fiscal Years**

---

	Fiscal Year			
	2007	2008	2009	2010
Capital leases	\$ -	\$ -	\$ -	\$ -
<b>Total debt</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Total debt per capita	\$ -	\$ -	\$ -	\$ -
Total debt as a percent of personal income	0.00%	0.00%	0.00%	0.00%

Source: Costa Mesa Sanitary District Accounting Department

Fiscal Year					
2011	2012	2013	2014	2015	2016
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

**Costa Mesa Sanitary District**

**Debt Coverage  
Last Ten Fiscal Years**

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	Fiscal Year			
	2007	2008	2009	2010
Revenues	\$ 9,022,728	\$ 10,358,205	\$ 10,803,984	\$ 11,705,947
Operating expenses	7,371,732	7,762,619	7,945,850	7,487,385
Net revenues	<u>\$ 1,650,996</u>	<u>\$ 2,595,586</u>	<u>\$ 2,858,134</u>	<u>\$ 4,218,562</u>
Debt service:				
Principal	\$ 1,354,945	\$ -	\$ -	\$ -
Interest	43,941	-	-	-
Total debt service	<u>\$ 1,398,886</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Debt coverage ratio	1.18	N/A	N/A	N/A

Source: Costa Mesa Sanitary District

Continued

Fiscal Year					
2011	2012	2013	2014	2015	2016
\$ 11,166,087	\$ 11,499,636	\$ 10,775,500	\$ 10,938,064	\$ 11,415,168	\$ 11,652,410
8,160,177	8,303,399	7,953,569	8,453,930	8,634,912	9,323,731
<u>\$ 3,005,910</u>	<u>\$ 3,196,237</u>	<u>\$ 2,821,931</u>	<u>\$ 2,484,134</u>	<u>\$ 2,780,256</u>	<u>\$ 2,328,679</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
N/A	N/A	N/A	N/A	N/A	N/A

**Costa Mesa Sanitary District**

**Demographics and Economic Statistics  
Last Ten Calendar Years**

Calendar Year	City of Costa Mesa (a)		County of Orange (b)		
	District Service Population	Unemployment Rate	Population	Personal Income* (in thousands)	Personal Income per Capita
2007	108,096	3.00%	2,953,062	\$ 150,598,354	\$ 50,997
2008	107,641	3.50%	2,957,902	153,446,641	51,877
2009	107,514	4.70%	2,989,141	155,068,367	51,877
2010	109,808	8.00%	3,026,786	148,372,628	49,020
2011	109,960	8.50%	3,010,232	150,467,328	49,985
2012	110,008	7.80%	3,055,745	154,131,535	50,440
2013	111,675	6.80%	3,090,132	161,743,827	52,342
2014	112,174	5.60%	3,114,363	169,792,810	54,519
2015	112,784	5.60%	3,145,515	173,305,650	55,096
2016	113,204	4.50%	3,169,776	183,052,341	57,749

\* Total personal income estimates are in thousands of dollars, not adjusted for inflation.

- Notes:
- (a) Approximate population of Costa Mesa Sanitary District is the same as the population of the City of Costa Mesa.
  - (b) The District has chosen to use County data since the District believes that the County data is representative of the conditions and experience of the District.

- Sources:
- (a) United States Census Bureau
  - (a) California LaborMarketInfo
  - (b) U.S. Department of Commerce, Bureau of Economic Analysis
  - (b) United States Census Bureau

**Costa Mesa Sanitary District**

**Principal Employers  
Current Fiscal Year and Nine Year Ago**

Employer	2016		2007	
	Number of Employees	Percentage of Total City Employment	Number of Employees	Percentage of Total City Employment
Epl Intermediate, Inc.	3,998	6.53%	-	-
Experian Information Solutions, Inc.	3,700	6.04%	-	-
Coast Community College District Foundation	2,900	4.73%	3,044	4.66%
Automobile Club of Southern California	2,516	4.11%	-	-
Orange Coast Community College	1,900	3.10%	2,500	3.83%
California State Hospital-Fairview Develop. Center	1,500	2.45%	1,500	2.30%
Westar Capital Associates II, LLC	1,184	1.93%	-	-
Deloitte Consulting LLP	800	1.31%	-	-
Dynamic Cooking Systems, Inc.	700	1.14%	-	-
Filenet Corporation	600	0.98%	-	-
Coast Community College	-	-	2,131	3.26%
Interinsurance Exchange	-	-	1,200	1.84%
First Team Real Estate Inc.	-	-	1,025	1.57%
Los Angeles Times	-	-	1,000	1.53%
Macy's Department Stores Inc.	-	-	800	1.23%
Resources Connection Inc.	-	-	750	1.15%
International Business Machines	-	-	750	1.15%
<b>Total Top Ten Employers</b>	<b>19,798</b>	<b>32.32%</b>	<b>14,700</b>	<b>22.52%</b>

Sources: City of Costa Mesa, Dunn & Bradstreet, State of California Employment Development Department

**Costa Mesa Sanitary District**

**Full-time and Part-time District Employees By Function  
Last Ten Fiscal Years**

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	Fiscal Year									
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Solid Waste	1.10	1.60	1.65	1.31	3.42	3.27	4.60	4.60	3.80	4.75
Wastewater	6.90	9.40	9.85	9.94	9.60	8.28	9.40	10.40	9.20	12.75
Total Full-time equivalent	<u>8.00</u>	<u>11.00</u>	<u>11.50</u>	<u>11.25</u>	<u>13.02</u>	<u>11.55</u>	<u>14.00</u>	<u>15.00</u>	<u>13.00</u>	<u>17.50</u>

Sources: Costa Mesa Sanitary District Accounting Department



**Costa Mesa Sanitary District**

**Operating Indicators by Function  
Last Ten Fiscal Years**

	Fiscal Year				
	2007*	2008	2009	2010	2011
<b>Solid Waste:</b>					
Household units serviced	-	21,471	21,482	21,501	21,531
Recycled/landfill tonnage	-	42,269	40,908	40,374	40,865
Recycled %	-	50.45%	50.44%	50.44%	51.92%
<b>Wastewater:</b>					
Linear feet (LF) of sewer line cleaned	-	350,000	411,150	4,125	890,006
Average of wastewater discharged	-	10.6 MGD	10.3 MGD	10.1 MGD	10.3 MGD
Sewer lateral financial assistance grants	-	90	120	128	146

	Fiscal Year				
	2012	2013	2014	2015	2016
<b>Solid Waste:</b>					
Household units serviced	21,559	21,490	21,606	21,824	22398
Recycled/landfill tonnage	39,841	39,851	40,650	41,823	41975
Recycled %	57.53%	57.54%	57.39%	56.81%	57.01%
<b>Liquid Waste:</b>					
Linear feet (LF) of sewer line cleaned	650,551	708,092	716,938	115,605	705,574
Average of wastewater discharged	10.4 MGD	10.5 MGD	10.6 MGD	8.75 MGD	11MGD
Sewer lateral financial assistance grants	144	169	184	237	240

MGD - Millions of gallons per day

\* Data not available for the fiscal years

Sources: Costa Mesa Sanitary District

**Costa Mesa Sanitary District**

**Capital Asset Statistics  
Last Ten Fiscal Years**

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**Wastewater**

<u>Fiscal Year</u>	<u>Miles of Sanitary Sewers</u>	<u>Number of Pump Stations</u>	<u>Number of Manholes</u>
2007	221	20	4,646
2008	221	20	4,646
2009	221	20	4,649
2010	224	20	4,703
2011	224	20	4,703
2012	224	20	4,703
2013	224	20	4,704
2014	224	20	4,705
2015	224	20	4,705
2016	224	20	4,716

Sources: Costa Mesa Sanitary District