

COSTA MESA SANITARY DISTRICT

COSTA MESA, CALIFORNIA



COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR FISCAL YEAR ENDED JUNE 30, 2018



Protecting our community's health and the environment by
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, 2018

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

**Prepared by:
Scott Carroll, General Manager
Marc Davis, District Treasurer
Kaitlin Tran, Senior Accountant**

**Costa Mesa Sanitary District
Comprehensive Annual Financial Report
For the Year Ended June 30, 2018**

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Costa Mesa Sanitary District

...an Independent Special District

January 17, 2019

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, 2018.

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 Teaman, Ramirez & Smith, Inc. has issued an unmodified (clean) opinion on the District's financial statements for the year ended June 30, 2018. 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.



Board of Directors

James Ferryman
Robert Ooten
Arlene Schafer
Michael Scheafer
Arthur Perry

Staff

Scott C. Carroll
General Manager

Robin B. Hamers
District Engineer

Alan R. Burns
District Counsel

Marcus D. Davis
District Treasurer

Noelani Middenway
District Clerk

www.cmsdca.gov



District of Distinction
2009-2019

290 Paularino Ave / Costa Mesa, CA 92626 • (949) 645-8400 / fax: (714) 540-1392

Protecting our community's health and the environment by providing solid waste and wastewater collection services

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 a five-year period. 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)

In September 2017, the District acquired the property located at 2252 Fairview Road for \$1,690,000. This property, with the original structure built in 1961 as a gas station, is located adjacent to the existing District Yard. The District Yard has insufficient parking for the large sewer trucks, as well as lacks space to store emergency equipment and generators that are currently stored at various sites including the City's Public Works Yard, Orange Coast Community College and at the Orange County Fair Grounds. The purchase of this property will allow all emergency equipment and generators to be stored in one secure location which will improve response time in case of an emergency. Additionally, this property will provide a secondary entrance and exit from the Yard to avoid the congestion on Wilson Street. The expansion of the District Yard was completed during the fiscal year.

The District continues to demonstrate 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 District completed its Close Circuit Televising (CCTV) Program, which consisted of video recording the entire 219.4 miles of gravity wastewater pipes to determine current condition, which ensures service reliability to the public, assists with determining life-cycle projections, and identifies any improvements needed. As a result of the CCTV, the District completed phases 9 and 10 of designing and repairing 43 short liner and 11 protruding lateral trims considered to be Grade 5 condition (imminent failure). The CCTV recordings have been integrated into the District's GIS system to document current condition.

For capital improvement projects, Project #101 Westside Pump Station Abandonment has been on the books accumulating funds for over 25 years. The abandonment of six pump stations on the west side in conjunction with the Orange County Sanitation District (OCSD) companion project to construct a new sewer gravity trunk pipeline, which would reduce the risks associated with pump station failures as well as operational, maintenance and replacement costs with the elimination of six existing District pump stations. In July 2016, OCSD analyzed the construction costs for the project proposed to start in fiscal year 2018-2019 and determined that the costs were underestimated by as much as 50% and decided to scrap the project. The District re-appropriated the budgeted funds to begin rehab of the six pump stations and force mains over the next four years. The President Pump Station Force Main Project #317, with a budget of \$1,400,000, started design in the fall of 2016 with a projected completion of the fall of 2017. The President Pump Station Rehab Project #318 with a \$1,000,000 budget will begin design in fiscal year 2017-18, as well as the \$620,000 Canyon Force Main Replacement Project #319 and the \$225,000 Canyon Pump Station Rehab Project #320. The remaining four pump stations with rehabilitated over the next three years.

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, 2017. This was the sixth 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, 2017. This was the second consecutive year that the District achieved this prestigious award. 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.

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.

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 Teaman, Ramirez & Smith, Inc for their professional assistance.

Respectfully submitted,



Scott Carroll
General Manager



Marcus D. Davis
District Treasurer

Our Mission Statement

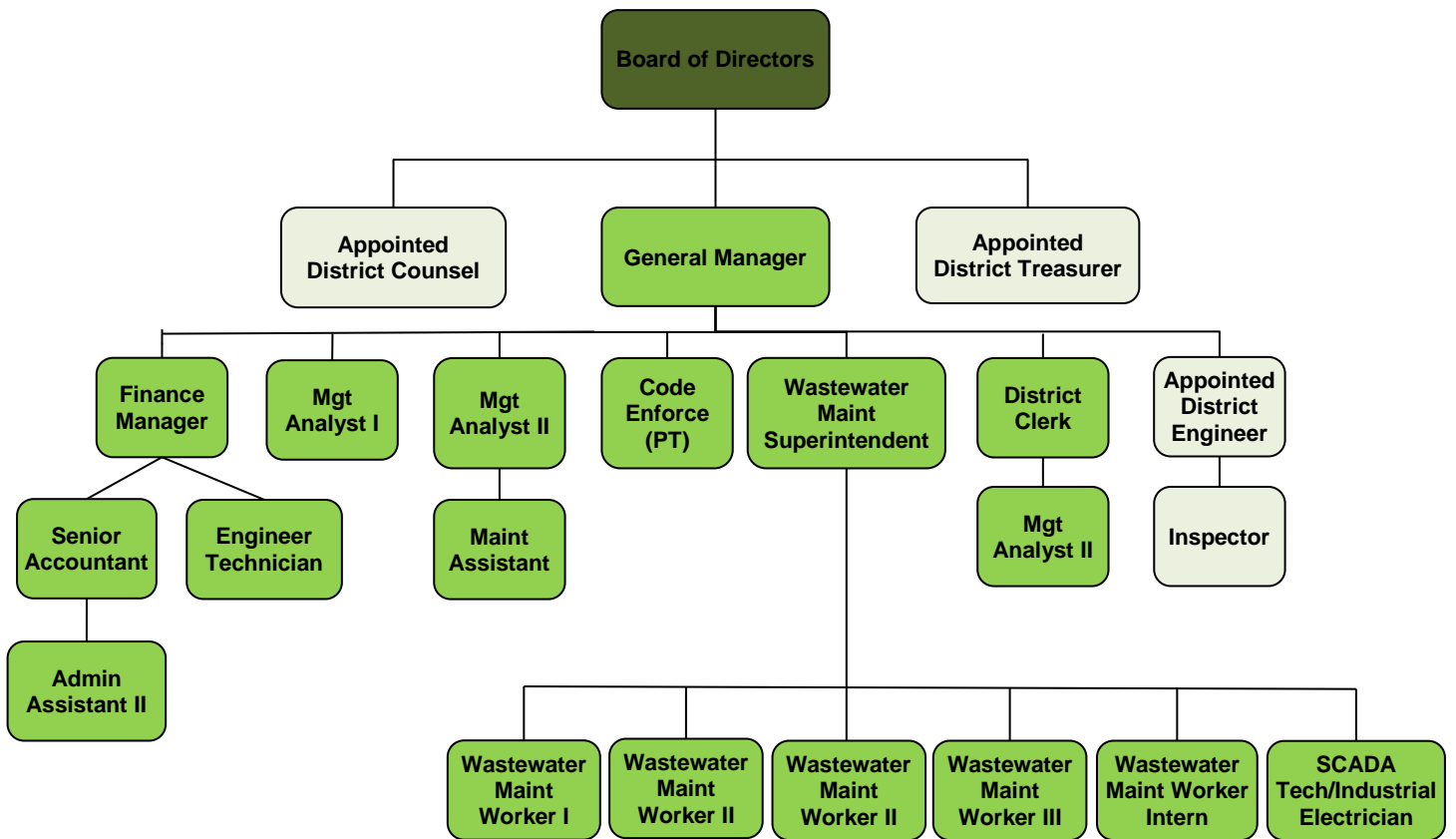
“Protecting our community’s health and the environment by providing solid waste and wastewater collection services.”

Costa Mesa Sanitary District Board of Directors as of June 30, 2018

<u>Name</u>	<u>Title</u>	<u>Elected/ Appointed</u>	<u>Current Term</u>
Michael Scheafer	President	Elected	12/14 - 12/18
James Ferryman	Vice President	Elected	12/16 - 12/20
Arlene Schafer	Secretary	Elected	12/14 - 12/18
Robert Ooten	Assistant Secretary	Elected	12/14 - 12/18
Arthur Perry	Director	Elected	12/16 - 12/20

Costa Mesa Sanitary District
Scott Carroll, General Manager
290 Paularino Avenue
Costa Mesa, California 92626
(949) 645-8400 www.cmsdca.gov

**COSTA MESA SANITARY DISTRICT
ORGANIZATIONAL CHART
Fiscal Year June 30, 2018**





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, 2017

Christopher P. Morrell

Executive Director/CEO

FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Costa Mesa Sanitary District
Costa Mesa, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and each major fund of the Costa Mesa Sanitary District (the "District"), as of and for the year ended June 30, 2018, 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 *Governmental 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Costa Mesa Sanitary District, as of June 30, 2018, and the respective changes in its financial position, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the basic financial statements, the District implemented the provisions of Governmental Accounting Standards board Statement No. 75, *Accounting and Financing Reporting for Postemployment Benefits and Other Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the Schedule of Proportionate Share of Net Pension Liability, the Schedule of Contributions, the Schedule of Net OPEB Liabilities (Assets) and Related Ratios, and the Schedule of Contributions - OPEB, identified as Required Supplementary Information (RSI) 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 RSI in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other 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 the 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 January 17, 2019, 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.

Teaman Ramirez & Smith, Inc.

Riverside, California
January 17, 2019

Costa Mesa Sanitary District

Management's Discussion and Analysis For the Year Ended June 30, 2018

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, 2018. 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, 2018 included:

- Total assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources by \$61,827,147. Of this amount, \$17,262,186 is unrestricted and available to meet the District's ongoing obligations to its customers and creditors.
- Net position of the Solid Waste Fund decreased \$589,355, which includes a prior period adjustment reducing net position in the amount of \$58,612 for the implementation of Governmental Accounting Standards Board (GASB) Statement 75, *Accounting and Financial Reporting for Postemployment Benefits and Other Pensions*. The reduction in beginning net position was primarily attributable to the adoption of a deficit budget to decrease the fund's reserves. Expenses were projected to exceed revenues by \$975,000; however, revenues received were greater than expected and expenses were lower than expected.
- Net position of the Wastewater Fund increased \$801,093. This increase was primarily attributable to operating revenues and transfers exceeding operating expenses by \$919,983. This increase was reduced by a prior period adjustment in the amount of \$118,890 for the implementation of GASB 75.

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. A summary of these components is as follows:

- **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 presents information showing how the

Costa Mesa Sanitary District

Management's Discussion and Analysis (Continued) For the Year Ended June 30, 2018

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 presents 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.

These financial statements have been prepared using accounting methods similar to those used by private sector companies.

In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the District's progress in funding its obligation to provide pension and OPEB benefits to its employees.

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, deferred inflows/outflows of resources, 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, 2018

Condensed Statement of Net Position

	<u>2018</u>	<u>2017</u>	<u>Change</u>
Assets:			
Current	\$18,198,848	\$19,571,713	\$(1,372,865)
Noncurrent	<u>44,601,420</u>	<u>43,096,960</u>	<u>1,504,460</u>
Total assets	<u>62,800,268</u>	<u>62,668,673</u>	<u>131,595</u>
Deferred outflows of resources:			
Pension and OPEB related	<u>590,601</u>	<u>781,250</u>	<u>(190,649)</u>
Liabilities:			
Current	1,226,117	1,664,619	(438,502)
Noncurrent	<u>154,747</u>	<u>421,546</u>	<u>(266,799)</u>
Total liabilities	<u>1,380,864</u>	<u>2,086,165</u>	<u>(705,301)</u>
Deferred inflows of resources:			
Pension and OPEB related	<u>182,858</u>	<u>46,434</u>	<u>136,424</u>
Net position:			
Net investment in capital assets	44,564,961	43,096,960	1,468,001
Unrestricted	<u>17,262,186</u>	<u>18,220,364</u>	<u>(958,178)</u>
Total net position	<u>\$61,827,147</u>	<u>\$61,317,324</u>	<u>\$ 509,823</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 \$61,827,147 and \$61,317,324 for the years ended June 30, 2018 and June 30, 2017, 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 as of June 30, 2018 represent \$44,564,961, or 72%, of the total 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 28% 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, 2018, unrestricted net position decreased from \$18,220,364 to \$17,262,186, or a \$958,178 decrease. The decrease in unrestricted net position is primarily attributable to the increase in the net investment in capital assets, offset by revenues exceeding expenses for the fiscal year.

Costa Mesa Sanitary District

**Management’s Discussion and Analysis (Continued)
For the Year Ended June 30, 2018**

Condensed Statement of Revenues, Expenses and Changes in Net Position

	<u>2018</u>	<u>2017</u>	<u>Change</u>
Revenues:			
Operating	\$11,419,014	\$11,246,522	\$172,492
Non-operating	<u>416,994</u>	<u>761,791</u>	<u>(344,797)</u>
Total revenues	<u>11,836,008</u>	<u>12,008,313</u>	<u>(172,305)</u>
Expenses:			
Operating	<u>11,148,683</u>	<u>11,233,277</u>	<u>(84,594)</u>
Total expenses	<u>11,148,683</u>	<u>11,233,277</u>	<u>(84,594)</u>
Change in net position	687,325	775,036	(87,711)
Capital contributions	-	49,253	(49,253)
Net position at beginning of year	61,317,324	60,493,035	824,289
Prior period adjustment	<u>(177,502)</u>	<u>-</u>	<u>(177,502)</u>
Net position at end of year	<u>\$61,827,147</u>	<u>\$61,317,324</u>	<u>\$509,823</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 \$509,823 and \$824,289 for the years ended June 30, 2018 and 2017, respectively. A closer examination of the sources of changes in net position reveals that:

- Solid Waste and Wastewater assessments increased \$193,543 due to an increase in new customers and a 2% rate increase in the Wastewater assessment.
- Non-operating revenues decreased \$332,825 due to one-time reimbursements from Caltrans and the Orange County Sanitation District received in the prior year.
- The District implemented GASB 75 during the year ended June 30, 2018, which resulted in a prior period adjustment that reduced beginning next position by \$177,502.

Costa Mesa Sanitary District

Management's Discussion and Analysis (Continued) For the Year Ended June 30, 2018

Total District Revenues

	<u>2018</u>	<u>2017</u>	<u>Change</u>
Operating revenues:			
Trash assessments	\$ 4,965,640	\$ 4,882,785	\$ 82,855
Sewer assessments	5,662,878	5,552,190	110,688
Permits and inspection fees	229,124	265,340	(36,216)
Connection fees	146,575	183,352	(36,777)
Other services	<u>414,797</u>	<u>362,855</u>	<u>51,942</u>
Total operating revenues	<u>11,419,014</u>	<u>11,246,522</u>	<u>172,492</u>
Non-operating revenues:			
Investment earnings	50,834	26,139	24,695
Taxes	313,456	287,705	25,751
Other revenues	52,704	385,529	(332,825)
Gain on disposal of assets	<u>-</u>	<u>62,418</u>	<u>(62,418)</u>
Total non-operating revenues	<u>416,994</u>	<u>761,791</u>	<u>(344,797)</u>
Total revenues	<u>\$11,836,008</u>	<u>\$12,008,313</u>	<u>\$(172,305)</u>

Some of the more significant changes consisted of the following:

- The annual trash assessment increased \$82,855 due to an increase in the number of customers.
- The annual sewer assessment increased \$110,688 as a result of implementing year five of the five-year Sewer Rate Study adopted by the Board in December 2012 and increase in new homes.
- Permits and inspection fees decreased \$36,216 due to a reduction in development and building within the District's service area.
- Connection fees decreased \$36,777 due to the timing of payments for new construction, development and building within the District's service area.
- Investment earnings increased \$24,695 as a result of an increase in investment yield, offset by unrealized losses due to the adjustment in fair market of the District's investments.
- Other revenues decreased \$332,825 due to one-time reimbursements from Caltrans and the Orange County Sanitation District received in the prior year.

Costa Mesa Sanitary District

Management's Discussion and Analysis (Continued) For the Year Ended June 30, 2018

Total District Expenses

	<u>2018</u>	<u>2017</u>	<u>Change</u>
Operating expenses:			
Solid waste disposal	\$ 2,662,441	\$ 2,651,384	\$ 11,057
Wastewater disposal	1,407,130	1,815,120	(407,990)
Recycling and disposal charges	2,368,457	2,340,836	27,621
Administration and other	2,479,154	2,322,145	157,009
Repairs and maintenance	492,526	354,171	138,355
Depreciation	<u>1,738,975</u>	<u>1,749,621</u>	<u>(10,646)</u>
Total operating expenses	<u>11,148,683</u>	<u>11,233,277</u>	<u>(84,594)</u>
Total expenses	<u>\$11,148,683</u>	<u>\$11,233,277</u>	<u>\$ (84,594)</u>

Some of the more significant changes consisted of the following:

- Wastewater disposal expenses decreased by \$407,990, which primarily consists of the completion of televising of the sewer lines resulting in decreased expenses of \$341,875, and the elimination of the sewer lateral assistance program resulting in decreased expenses of \$183,517. These decreases were offset somewhat by increases of \$47,211 and \$32,458 in sewer maintenance and capital outlay, respectively.
- Administration and other expenses increased by \$157,009 as compared to the prior year. CalPERS employer contributions increased by \$202,188 resulting from normal employer contributions, plus actuarially-determined amounts for both pension and other post-employment benefits. Administration salaries increased by \$81,912 due to staffing vacancies during the prior year. This was offset somewhat by a decrease in election costs of \$60,591 as no election was held during the year, a decrease in legal costs of \$20,157, and a decrease of \$20,687 in computer licenses and maintenance.
- Repairs and maintenance increased by \$138,355, primarily due to an increase in capital outlay expenses.

Capital Asset Administration

Changes in capital assets for the year ended June 30, 2018 were as follows:

	<u>Balance</u> <u>June 30, 2017</u>	<u>Additions</u>	<u>Transfers/</u> <u>Deletions</u>	<u>Balance</u> <u>June 30, 2018</u>
Non-depreciable assets	\$ 3,621,622	\$2,621,473	\$(1,223,271)	\$ 5,019,824
Depreciable assets	98,036,721	1,808,774	(26,040)	99,819,455
Accumulated depreciation	<u>(58,561,383)</u>	<u>(1,738,975)</u>	<u>26,040</u>	<u>(60,274,318)</u>
Total capital assets, net	<u>\$43,096,960</u>	<u>\$2,691,272</u>	<u>\$(1,223,271)</u>	<u>\$44,564,961</u>

Costa Mesa Sanitary District

**Management’s Discussion and Analysis (Continued)
For the Year Ended June 30, 2018**

Changes in capital assets for the year ended June 30, 2017 were as follows:

	Balance <u>June 30, 2016</u>	<u>Additions</u>	Transfers/ <u>Deletions</u>	Balance <u>June 30, 2017</u>
Non-depreciable assets	\$ 5,318,702	\$4,884,254	\$(6,581,334)	\$ 3,621,622
Depreciable assets	94,274,712	5,292,890	(1,530,880)	98,036,721
Accumulated depreciation	<u>(57,244,473)</u>	<u>(1,749,622)</u>	<u>432,711</u>	<u>(58,561,383)</u>
 Total capital assets, net	 <u>\$42,348,941</u>	 <u>\$2,691,272</u>	 <u>\$(7,679,503)</u>	 <u>\$43,096,960</u>

At the end of fiscal year 2018 and 2017, the District’s investment in capital assets were \$44,564,961 and \$43,096,960 (net of accumulated depreciation), respectively, an increase of \$1,468,001. The investment in capital assets includes land, property rights, subsurface wastewater lines, pump stations, buildings and structures, equipment, vehicles and construction in progress, etc. During the year ended June 30, 2018, the District acquired real property adjacent to its existing District Yard and completed an expansion of the District Yard. 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, 2018, the District had no long-term debt.

Economic Factors and Next Year’s Budgets

Due to the District’s continued healthy position in its Solid Waste Fund, the Board of Directors elected to continue to utilize existing reserves as a means to stabilize trash rates and no increase in rates was adopted. For the next fiscal year, the District will undergo a solid waste rate study to ensure continued long-term health of the fund.

The sewer rate increased 2%, which was the fifth and final year increase outlined in the five-year Sewer Rate Study, which increased 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. A new Sewer Rate Study will be undertaken in the coming fiscal year to establish rates for the next five years.

As of June 30, 2018, the District has fully funded both its unfunded pension liability and other post-employment benefits. The Board of Directors plans to continue this practice of ensuring that both of these liabilities are fully-funded each fiscal year with existing resources.

Improvements continue at the District Headquarters building, which will consist of planned installation of solar panels and roof repairs. A new agreement was negotiated with the District’s trash hauler, which will ensure a continued high-level of service and such special programs as organic waste collection and recycling, Christmas tree recycling, curbside household hazardous waste collections, as well as continued efforts to achieve a 75% diversion rate from the landfills.

Costa Mesa Sanitary District

Management's Discussion and Analysis (Continued) For the Year Ended June 30, 2018

Several sewer capital improvement projects were completed including phases 9 and 10 of grade 5 pipe repairs (pipes deemed to imminently fail), 19th Street pump station electrical improvements, President pump station force main replacement and the expansion of the District Yard. During the coming fiscal year, the Board of Directors will continue to be proactive in its sewer capital improvement program.

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, 2018

	Solid Waste Fund	Wastewater Fund	Other Enterprise Fund	Total
ASSETS				
Current Assets:				
Cash and Cash Equivalents (Note 2)	\$ 1,162,182	\$ 3,132,260	\$ 347,109	\$ 4,641,551
Investments (Note 2)	3,390,561	8,694,517	975,636	13,060,714
Accounts Receivable	73,113	24,218	-	97,331
Interest Receivable	22,086	53,729	5,577	81,392
Assessments Receivable	70,532	72,365	-	142,897
Inventory	-	172,154	-	172,154
Prepaid Expenses	107	2,702	-	2,809
Total Current Assets	<u>4,718,581</u>	<u>12,151,945</u>	<u>1,328,322</u>	<u>18,198,848</u>
Noncurrent Assets:				
Capital Assets (Note 3)				
Non-depreciable	-	5,019,824	-	5,019,824
Depreciable, Net of Accumulated Depreciation	4,193	39,540,944	-	39,545,137
Net OPEB Asset (Note 7)	12,032	24,427	-	36,459
Total Noncurrent Assets	<u>16,225</u>	<u>44,585,195</u>	<u>-</u>	<u>44,601,420</u>
Total Assets	<u>4,734,806</u>	<u>56,737,140</u>	<u>1,328,322</u>	<u>62,800,268</u>
DEFERRED OUTFLOWS OF RESOURCES				
Pension Related (Note 6)	171,239	399,546	-	570,785
OPEB Related (Note 7)	6,539	13,277	-	19,816
Total Deferred Outflows of Resources	<u>177,778</u>	<u>412,823</u>	<u>-</u>	<u>590,601</u>
LIABILITIES				
Current Liabilities:				
Accounts Payable	497,267	239,693	-	736,960
Accrued Liabilities	11,688	50,813	-	62,501
Contingent Liability	-	350,000	-	350,000
Deposits Payable	-	42,500	-	42,500
Compensated Absences	11,903	22,253	-	34,156
Total Current Liabilities	<u>520,858</u>	<u>705,259</u>	<u>-</u>	<u>1,226,117</u>
Noncurrent Liabilities:				
Compensated Absences	9,202	40,368	-	49,570
Net Pension Liability (Note 6)	31,554	73,623	-	105,177
Total Noncurrent Liabilities	<u>40,756</u>	<u>113,991</u>	<u>-</u>	<u>154,747</u>
Total Liabilities	<u>561,614</u>	<u>819,250</u>	<u>-</u>	<u>1,380,864</u>
DEFERRED INFLOWS OF RESOURCES				
Pension Related (Note 6)	53,436	124,683	-	178,119
OPEB Related (Note 7)	1,564	3,175	-	4,739
Total Deferred Inflows of Resources	<u>55,000</u>	<u>127,858</u>	<u>-</u>	<u>182,858</u>
NET POSITION				
Net Investment in Capital Assets	4,193	44,560,768	-	44,564,961
Unrestricted	4,291,777	11,642,087	1,328,322	17,262,186
Total Net Position	<u>\$ 4,295,970</u>	<u>\$ 56,202,855</u>	<u>\$ 1,328,322</u>	<u>\$ 61,827,147</u>

The accompanying notes are an integral part of these statements.

Costa Mesa Sanitary District
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2018

	Solid Waste Fund	Wastewater Fund	Other Enterprise Fund	Total
OPERATING REVENUES				
Trash Assessments	\$ 4,965,640	\$ -	\$ -	\$ 4,965,640
Wastewater Assessments	-	5,662,878	-	5,662,878
Permits and Inspection Fees	-	229,124	-	229,124
Connections Fees	-	146,575	-	146,575
Other Services	89,142	25,655	300,000	414,797
Total Operating Revenues	5,054,782	6,064,232	300,000	11,419,014
OPERATING EXPENSES				
Solid Waste Disposal	2,662,441	-	-	2,662,441
Wastewater Disposal	-	1,407,130	-	1,407,130
Recycling and Disposal Charges	2,368,457	-	-	2,368,457
Administration and Other	838,493	1,640,661	-	2,479,154
Repairs and Maintenance	49,310	443,216	-	492,526
Depreciation	1,910	1,737,065	-	1,738,975
Total Operating Expenses	5,920,611	5,228,072	-	11,148,683
Operating Income (Loss)	(865,829)	836,160	300,000	270,331
NON-OPERATING REVENUES (EXPENSES)				
Investment Earnings	31,299	21,450	(1,915)	50,834
Taxes	313,456	-	-	313,456
Other Revenues	45,583	7,121	-	52,704
Total Non-operating Revenues (Expenses)	390,338	28,571	(1,915)	416,994
Income (Loss) Before Transfers	(475,491)	864,731	298,085	687,325
TRANSFERS				
Transfers In	-	55,252	-	55,252
Transfers Out	(55,252)	-	-	(55,252)
Total Transfers	(55,252)	55,252	-	-
Changes in Net Position	(530,743)	919,983	298,085	687,325
Net Position - Beginning of Year	4,885,325	55,401,762	1,030,237	61,317,324
Prior Period Adjustment	(58,612)	(118,890)	-	(177,502)
Net Position - Beginning of Year, as Restated	4,826,713	55,282,872	1,030,237	61,139,822
Net Position - End of Year	\$ 4,295,970	\$ 56,202,855	\$ 1,328,322	\$ 61,827,147

The accompanying notes are an integral part of these statements.

Costa Mesa Sanitary District
Statement of Cash Flows
For the Year Ended June 30, 2018

	Solid Waste Fund	Wastewater Fund	Other Enterprise Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Customers	\$ 5,062,854	\$ 6,031,633	\$ 300,000	\$ 11,394,487
Payments to Suppliers	(5,434,939)	(3,244,067)	-	(8,679,006)
Payments to Employees	(452,326)	(635,859)	-	(1,088,185)
Net Cash Provided (Used) by Operating Activities	<u>(824,411)</u>	<u>2,151,707</u>	<u>300,000</u>	<u>1,627,296</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Taxes Received	313,456	-	-	313,456
Cash Received from Other Funds	-	55,252	-	55,252
Cash Paid to Other Funds	(55,252)	-	-	(55,252)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>258,204</u>	<u>55,252</u>	<u>-</u>	<u>313,456</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and Construction of Capital Assets	(1,384)	(3,205,592)	-	(3,206,976)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(1,384)</u>	<u>(3,205,592)</u>	<u>-</u>	<u>(3,206,976)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest on Cash and Investments	28,285	15,980	(2,934)	41,331
(Increase) Decrease in Investments	488,586	1,060,197	(174,568)	1,374,215
Net Cash Provided (Used) By Investing Activities	<u>516,871</u>	<u>1,076,177</u>	<u>(177,502)</u>	<u>1,415,546</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(50,720)	77,544	122,498	149,322
Cash and Cash Equivalents - Beginning of Year	<u>1,212,902</u>	<u>3,054,716</u>	<u>224,611</u>	<u>4,492,229</u>
Cash and Cash Equivalents - End of Year	<u>\$ 1,162,182</u>	<u>\$ 3,132,260</u>	<u>\$ 347,109</u>	<u>\$ 4,641,551</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating Income (Loss)	\$ (865,829)	\$ 836,160	\$ 300,000	\$ 270,331
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation	1,910	1,737,065	-	1,738,975
Other Revenues (Expenses)	45,583	7,121	-	52,704
Changes in Assets and Liabilities:				
(Increase) Decrease in Accounts Receivable	(50,081)	(21,949)	-	(72,030)
(Increase) Decrease in Assessments Receivable	12,570	(7,771)	-	4,799
(Increase) Decrease in Prepaid Expenses	715	(503)	-	212
(Increase) Decrease in Net OPEB Liability	(48,050)	(97,550)	-	(145,600)
(Increase) Decrease in Deferred Outflows-Pension	63,136	147,329	-	210,465
(Increase) Decrease in Deferred Outflows-OPEB	44,982	(13,277)	-	31,705
Increase (Decrease) in Accounts Payable	12,862	(433,571)	-	(420,709)
Increase (Decrease) in Accrued Liabilities	717	2,107	-	2,824
Increase (Decrease) in Deposits	-	(10,000)	-	(10,000)
Increase (Decrease) in Compensated Absences	(343)	1,781	-	1,438
Increase (Decrease) in Net Pension Liability	(83,653)	(195,191)	-	(278,844)
Increase (Decrease) in Deferred Inflows-Pension	39,506	92,179	-	131,685
Increase (Decrease) in Deferred Inflows-OPEB	1,564	107,777	-	109,341
Total Adjustments	<u>41,418</u>	<u>1,315,547</u>	<u>-</u>	<u>1,356,965</u>
Net Cash Provided By (Used) For Operating Activities	<u>\$ (824,411)</u>	<u>\$ 2,151,707</u>	<u>\$ 300,000</u>	<u>\$ 1,627,296</u>

The accompanying notes are an integral part of these statements.

Costa Mesa Sanitary District
Notes to the Financial Statements
Year Ended June 30, 2018

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) 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.

B) 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.

C) 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.

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.

Costa Mesa Sanitary District
Notes to the Financial Statements
Year Ended June 30, 2018

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C) Measurement Focus, Basis of Accounting and Financial Statement Presentation - Continued

The District reports the following major enterprise funds:

Solid Waste Fund - 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 wastewater 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.

D) 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.

E) Pending Accounting Standards

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

- GASB 83, *Certain Asset Retirement Obligations*, effective for periods beginning after June 15, 2018.
- GASB 84, *Fiduciary Activities*, effective for periods beginning after December 15, 2018.
- GASB 87, *Leases*, effective for periods beginning after December 15, 2019.
- GASB 88 - *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placement*, effective for periods beginning after June 15, 2018.
- GASB 89 - *Accounting for Interest Cost Incurred before the End of a Construction Period*, effective for periods beginning after December 15, 2019.
- GASB 90 - *Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 61*, effective for periods beginning after December 15, 2018.

Costa Mesa Sanitary District
Notes to the Financial Statements
Year Ended June 30, 2018

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

F) Current Year Standards

- GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*, effective for periods beginning after June 15, 2017. Currently, this statement is reflected on the District's financial statements.
- GASB 81, *Irrevocable Split-Interest Agreements*, effective for periods beginning after December 15, 2016 and did not impact the District.
- GASB 85, *Omnibus 2017*, effective for periods beginning after June 15, 2017 and did not impact the District.
- GASB 86, *Certain Debt Extinguishment Issues*, effective for periods beginning after June 15, 2017 and did not impact the District.

G) 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.

H) Investments

Investments are stated at fair value (the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date). Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment earnings included 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.

I) 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.

Costa Mesa Sanitary District
Notes to the Financial Statements
Year Ended June 30, 2018

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

J) Inventory

Inventory items 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.

K) 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 five years 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

L) 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.

M) Pension Plan

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by 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 at www.calpers.ca.gov.

Costa Mesa Sanitary District
Notes to the Financial Statements
Year Ended June 30, 2018

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

M) Pension Plan - Continued

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, 2016
Measurement Date (MD)	June 30, 2017
Employer Financial Reporting Date	June 30, 2018
Measurement Period (MP)	July 1, 2016 to June 30 2017

N) Other Postemployment Benefits (OPEB)

For purposes of measuring the net OPEB liability (asset), deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District's plan (OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

Generally accepted accounting principles require 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	June 30, 2017
Measurement Date	June 30, 2017
Measurement Period	July 1, 2016 to June 30, 2017

O) 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 the Financial Statements
Year Ended June 30, 2018

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

P) Net Position

Net position is categorized as follows:

- *Net Investment in Capital Assets* - This component of net position consists of capital assets, net of accumulate 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 of 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*.

Q) 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.

R) 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, 2018.

Costa Mesa Sanitary District
Notes to the Financial Statements
Year Ended June 30, 2018

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

R) Property Taxes - Continued

The Property tax calendar is as follows:

Lien Date	January 1	
Levy Year	July 1	
Due Dates	November 1	1 st Installment
	March 1	2 nd Installment
Delinquent Dates	December 10	1 st Installment
	April 10	2 nd Installment

S) 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.

T) 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.

U) Claims and Judgments

When it is probably 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, 2018, the District recorded a loss provision for the disputed Order from Regional Water Quality Control Board, for additional details see Note 5. Small dollar claims and judgements are recorded as expenses when paid.

Costa Mesa Sanitary District
Notes to the Financial Statements
Year Ended June 30, 2018

2) CASH AND INVESTMENTS

Cash and investments as of June 30, 2018 are reported in the accompanying Statement of Net Position as follows:

Cash and Cash Equivalents	\$	4,641,551
Investments		<u>13,060,714</u>
 Total	 \$	 <u>17,702,265</u>

Cash and investments as of June 30, 2018 consisted of the following:

Cash and Cash Equivalents:		
Demand Deposits	\$	-
California Local Agency Investments Fund (LAIF)		4,640,146
Money Market		705
Petty Cash		<u>700</u>
 Total Cash and Cash Equivalents	 \$	 <u>4,641,551</u>
Investments:		
United States Government Sponsored Agency Securities	\$	10,326,838
Negotiable Certificates of Deposit		<u>2,733,876</u>
 Total Investments		 <u>13,060,714</u>
 Total Cash and Investments	 \$	 <u>17,702,265</u>

Investments Authorized by the District’s Investment Policy

The District’s investment policy authorizes investments selected on the basis of credit worthiness, financial strength, experience, and minimal capitalization. The District shall select only licensed brokers and dealers in good standing with the California Department of Securities, the Securities and Exchange Commission, the National Association of Securities Dealers, or other applicable self-regulatory organizations. The District is prohibited from investing in any funds in inverse floaters, range notes, interest-only strips derived from mortgage pools, or any investment which may result in a zero interest accrual if held to maturity. It is the District policy to diversify its investment portfolio to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer, or a specific class of securities.

The primary objectives of the District’s investment activities in priority order are: safety, liquidity, and return on investments. Investments shall be chosen with judgement and care, considering the probable safety of their capital as well as the probable income to be derived. Although the District has pre-authorized investment categories per Resolution No. R-43, the only investments in practice are those in the local government investment pool administered by the State of California (LAIF) and the Santa Barbara County Investment Pool.

Costa Mesa Sanitary District
Notes to the Financial Statements
Year Ended June 30, 2018

2) CASH AND INVESTMENTS - Continued

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustees, are governed by the provisions of the debt agreements. 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.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
United States Treasury Obligations 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%	10%
Medium-Term Corporate Notes	5 years	20%	10%
Mutual Funds	5 years	20%	10%
Local Agency Investment Fund (LAIF)	N/A	50%	\$65,000,000
Shares of Beneficial Interest	5 years	20%	10%

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 rates. One of the ways that the District's 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.

Costa Mesa Sanitary District
Notes to the Financial Statements
Year Ended June 30, 2018

2) CASH AND INVESTMENTS - Continued

Interest Rate Risk - Continued

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, 2018.

Cash Equivalent and Investment Type	Remaining Maturities in Months			Total
	12 Months or Less	13 to 24 Months	25 to 60 Months	
United States Government Sponsored				
Agency Securities	\$ 447,120	\$ 246,280	\$ 9,633,438	\$ 10,326,838
Local Agency Investment Fund	4,640,146	-	-	4,640,146
Negotiable Certificates of Deposit	1,847,358	486,532	399,986	2,733,876
Money Market	705	-	-	705
Total	\$ 6,935,329	\$ 732,812	\$ 10,033,424	\$ 17,701,565

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.

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

Cash Equivalent and Investment Type	Total	Minimum Legal Rating	AAA	Not Rated
United States Government Sponsored				
Agency Securities	\$ 10,326,838	N/A	\$ 10,326,838	\$ -
Local Agency Investment Fund	4,640,146	N/A	-	4,640,146
Negotiable Certificates of Deposit	2,733,876	N/A	-	2,733,876
Money Market	705	N/A	705	-
Total	\$ 17,701,565		\$ 10,327,543	\$ 7,374,022

Costa Mesa Sanitary District
Notes to the Financial Statements
Year Ended June 30, 2018

2) CASH AND INVESTMENTS - Continued

Concentration of Credit Risk

The investment policy of the District contains no limitation 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	Report Amount	Percent of Investment
Federal Farm Credit Bank	United States Government Sponsored Agency Securities	\$ 2,410,329	23%
Federal National Mortgage Association	United States Government Sponsored Agency Securities	\$ 2,903,930	28%
Federal Home Loan Mortgage Corporation	United States Government Sponsored Agency Securities	\$ 2,455,676	24%
Federal Home Loan Bank	United States Government Sponsored Agency Securities	\$ 2,556,903	25%

Custodial Credit Risk

The custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the 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 the District's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2018, the District's deposits were collateralized as required by California Law.

Costa Mesa Sanitary District
Notes to the Financial Statements
Year Ended June 30, 2018

2) CASH AND INVESTMENTS - Continued

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.

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, 2018:

Investments by Fair Value Level	<u>June 30, 2018</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Debt Securities:				
United States Government Sponsored				
Agency Securities	\$ 10,326,838	\$ -	\$ 10,326,838	\$ -
Negotiable Certificates of Deposit	<u>2,733,876</u>	<u>-</u>	<u>2,733,876</u>	<u>-</u>
Total Investments by Fair Value Level	<u>13,060,714</u>	<u>\$ -</u>	<u>\$ 13,060,714</u>	<u>\$ -</u>
Investments Measured at Net Asset Value (NAV) (Approximate Fair Value):				
Money Market	705			
Local Agency Investment Fund	<u>4,640,146</u>			
Total Investments at Fair Value	<u>\$ 17,701,565</u>			

The United States Government Sponsored Agency Securities and negotiable certificates of deposit are classified in Level 2 of the fair value hierarchy and 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 the Financial Statements
Year Ended June 30, 2018

3) CAPITAL ASSETS

Changes in capital asset for the year ended June 30, 2018 are as follows:

	<u>Balance</u> <u>June 30, 2017</u>	<u>Additions</u> <u>and Transfers</u>	<u>Retirements</u> <u>and Transfers</u>	<u>Balance</u> <u>June 30, 2018</u>
Capital Assets, Not Being Depreciated:				
Land	\$ 2,732,279	\$ 1,595,000	\$ -	\$ 4,327,279
Property Rights	4,025	-	-	4,025
Construction in Progress	885,318	1,026,473	(1,223,271)	688,520
Total Capital Assets, Not Being Depreciated	<u>3,621,622</u>	<u>2,621,473</u>	<u>(1,223,271)</u>	<u>5,019,824</u>
Capital Assets, Being Depreciated:				
Subsurface Sewer Lines	90,226,166	1,286,385	(26,040)	91,486,511
Building and Improvements	5,711,211	406,027	-	6,117,238
Equipment	1,149,163	73,033	-	1,222,196
Vehicles	950,181	43,329	-	993,510
Total Capital Assets, Being Depreciated	<u>98,036,721</u>	<u>1,808,774</u>	<u>(26,040)</u>	<u>99,819,455</u>
Less Accumulated Depreciation:				
Subsurface Sewer Lines	(57,281,563)	(1,426,529)	26,040	(58,682,052)
Building and Improvements	(423,619)	(126,417)	-	(550,036)
Equipment	(498,178)	(84,956)	-	(583,134)
Vehicles	(358,023)	(101,073)	-	(459,096)
Total Accumulated Depreciation	<u>(58,561,383)</u>	<u>(1,738,975)</u>	<u>26,040</u>	<u>(60,274,318)</u>
Total Capital Assets Being Depreciated, Net	<u>39,475,338</u>	<u>69,799</u>	<u>-</u>	<u>39,545,137</u>
Total Capital Assets, Net	<u>\$ 43,096,960</u>	<u>\$ 2,691,272</u>	<u>\$ (1,223,271)</u>	<u>\$ 44,564,961</u>

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

Solid Waste	\$ 1,910
Wastewater	<u>1,737,065</u>
Total	<u>\$ 1,738,975</u>

Costa Mesa Sanitary District
Notes to the Financial Statements
Year Ended June 30, 2018

4) COMPENSATED ABSENCES

Accumulated unpaid vacation and other employee benefit amounts are accrued when vested. At June 30, 2018, compensated absences payable amounted to \$83,726, of which \$34,156 is considered a current liability.

Changes to compensated absences for 2018, were as follows:

	<u>Balance June 30, 2017</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance June 30, 2018</u>	<u>Current Portion</u>	<u>Long-Term Portion</u>
Compensated Absences	\$ 82,298	\$ 46,201	\$ (44,773)	\$ 83,726	\$ 34,156	\$ 49,570

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. Currently, the amount of the fines is in dispute with the Regional Water Quality Control Board.

6) PENSION PLAN

A) General Information about the Pension Plan

Plan Descriptions

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 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 at www.calpers.ca.gov.

Costa Mesa Sanitary District
Notes to the Financial Statements
Year Ended June 30, 2018

6) PENSION PLAN - Continued

A) General Information about the Pension Plan - Continued

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.

The Plans' provisions and benefits in effect at June 30, 2018 are summarized as follows:

	<u>Miscellaneous Tier I</u>	<u>Miscellaneous Tier II</u>	<u>Miscellaneous PEPRA</u>
	Prior to January 1, 2013	From July 2, 2011 to December 31, 2012	On or After January 1, 2013
Hire Date			
Benefit Formula	2% @ 55	2% @ 62	2% @ 62
Benefit Vesting Schedule	5 years of service	5 years of service	5 years of 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	9.599%	7.850%	6.908%

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 the Financial Statements
Year Ended June 30, 2018

6) PENSION PLAN - Continued

A) General Information about the Pension Plan - Continued

Contributions - Continued

Employer contributions to the Plan for the fiscal year ended June 30, 2018 were \$110,124.

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, 2017, using an annual actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 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, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	Market Value of Assets
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Salary Increase	3.3% - 14.2% ⁽¹⁾
Investment Rate of Return	7.15% ⁽²⁾
Mortality Rate Table	Derived using CalPERS' Membership Data for all Funds ⁽³⁾
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

⁽¹⁾ Depending on age, service and type of employment

⁽²⁾ Net of pension plan investment expenses, including inflation

⁽³⁾ The Mortality Table used was developed based on CalPER's specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table refer to 2014 experience study report.

Costa Mesa Sanitary District
Notes to the Financial Statements
Year Ended June 30, 2018

6) PENSION PLAN - Continued

A) General Information about the Pension Plan - Continued

Actuarial Methods and Assumptions Used to Determine Total Pension Liability - Continued

All other actuarial assumptions used in the June 30, 2016 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

In the 2018 fiscal year, the discount rate reduced from 7.65 percent to 7.15 percent.

Discount Rate

The discount rate used to measure the total pension liability was 7.15% 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 7.15 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.15 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained from the CalPERS website www.calpers.ca.gov.

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 (PERF) cash flows. Taking into account historical returns of all the PERF asset classes, (which includes the agent plan and two cost-sharing plans or PERF A, B and C funds) 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 the rounded down to the nearest one quarter of one percent.

Costa Mesa Sanitary District
Notes to the Financial Statements
Year Ended June 30, 2018

6) PENSION PLAN - Continued

A) General Information about the Pension Plan - Continued

Discount Rate - Continued

The following table reflects the 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. The target allocation shown was adopted by the CalPERS Board effective on July 1, 2014.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 ¹	Real Return Years 11+ ²
Global Equity	47.0%	4.90%	5.38%
Global Fixed Income	19.0%	0.80%	2.27%
Inflation Sensitive	6.0%	0.60%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	-0.40%	-0.90%
Total	<u>100%</u>		

¹ An expected inflation of 2.5% used for this period

² An expected inflation of 3.0% used for this period

Pension Plan Fiduciary Net Pension

Information about the pension plans' 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.

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 the Financial Statements
Year Ended June 30, 2018

6) PENSION PLAN - Continued

A) General Information about the Pension Plan - Continued

Proportionate Share of the 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: 6/30/2016 (VD)	\$ 1,922,046	\$ 1,538,025	\$ 384,021
Balance at: 6/30/2017 (MD)	2,311,188	2,206,011	105,177
Net Changes During 2016-17	\$ 389,142	\$ 66,986	\$ (278,844)

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, 2017, 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, 2016 rolled forward to June 30, 2017 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.

The District's proportionate share of the net pension liability for the Plan as of June 30, 2016 and 2017 was as follows:

Proportionate Share - June 30, 2016	0.01105%
Proportionate Share - June 30, 2017	<u>0.00267%</u>
Change - Increase (Decrease)	<u><u>(0.00838)%</u></u>

Costa Mesa Sanitary District
Notes to the Financial Statements
Year Ended June 30, 2018

6) PENSION PLAN - Continued

A) General Information about the Pension Plan - Continued

Proportionate Share of the 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 7.15 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 (6.15 percent) or 1 percentage-point higher (8.15 percent) than the current rate:

Miscellaneous Plans	Discount Rate - 1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate + 1% (8.15%)
Net Pension Liability	\$ 423,073	\$ 105,177	\$ (158,111)

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 expensed 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 the Financial Statements
Year Ended June 30, 2018

6) PENSION PLAN - Continued

A) General Information about the Pension Plan - Continued

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

As of the start of the measurement period (July 1, 2016), the net pension liability for the Plan is \$384,021.

For the measurement period ending June 30, 2017 (the measurement date), the District Plan incurred a pension expense/ (income) of (\$185,479).

As of June 30, 2018, the District has deferred outflows and deferred inflows of resources related to Plan as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Experience	\$ 777	\$ 11,136
Changes in Assumptions	96,441	7,354
Differences between Projected and Actual Earnings	21,811	-
Change in Employer's Proportion	30,472	159,629
Difference in Actual vs Projected Contributions	311,160	-
Pension Contributions Subsequent to Measurement Date	110,124	-
Total	\$ 570,785	\$ 178,119

These amounts above are net of outflows and inflow recognized in the 2016-17 measurement period expense. \$110,124 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, 2019.

Costa Mesa Sanitary District
Notes to the Financial Statements
Year Ended June 30, 2018

6) PENSION PLAN - Continued

A) General Information about the Pension Plan - Continued

Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions - Continued

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
2018	\$ 123,795
2019	106,238
2020	65,459
2021	(12,950)
2022	-

Payable to the Pension Plan

At June 30, 2018, the District had \$2,908 payable for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2018.

Costa Mesa Sanitary District
Notes to the Financial Statements
Year Ended June 30, 2018

7) OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Plan Description

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 District’s plan does not issue financial statements.

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 (\$75 per month), Equal being \$125, 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 Cost Mesa employees accepting to become District employees.

Employees Covered

As of June 30, 2017 actuarial valuation, the following current and former employees were covered by the benefit terms under the Plan:

Active employees	15
Inactive employees or beneficiaries currently receiving benefits	4
Inactive employees entitled to, but not yet receiving benefits	1
Total	20

Contributions

The annual contribution is based on the actuarially determined contribution. For the fiscal year ended June 30, 2018, the District’s cash contributions were \$0 in payments to the trust, \$7,457 cash benefits and the estimated implied subsidy was \$12,359 resulting in total payments of \$19,816.

Costa Mesa Sanitary District
Notes to the Financial Statements
Year Ended June 30, 2018

7) OTHER POST-EMPLOYMENT BENEFITS (OPEB) - Continued

Net OPEB Liability (Asset)

The District's net OPEB liability (asset) was measured as of June 30, 2017 and the total OPEB liability used to calculate the net OPEB liability (asset) was determined by an actuarial valuation dated June 30, 2017 based on the following actuarial methods and assumptions:

Actuarial Assumptions

Discount Rate	6.75%
Inflation	2.75%
Salary Increases	3.00% plus merit
Investment Rate of Return	6.75%
Mortality Rate ⁽¹⁾	Derived using CalPERS Membership Data for all funds
Pre-Retirement Turnover ⁽²⁾	Derived using CalPERS Membership Data for all funds
Healthcare Trend Rate	7.5% (Non-Medicare) decreasing to 4.0%
	6.5% (Medicare) decreasing to 4.0%

Notes:

⁽¹⁾ Pre-retirement mortality information was derived from data collected during 1997 to 2011 CalPERS Experience Study dated January 2014 and post-retirement mortality information was derived from the 2007 to 2011 CalPERS Experience Study. The Experience Study Reports may be access on the CalPERS website www.calpers.ca.gov under Forms and Publications.

⁽²⁾ The pre-retirement turnover information was developed based on CalPERS specific data. For more details, please refer to the 2007 to 2011 Experience Study Report. The Experience Study Report may be accessed on the CalPERS website www.calpers.ca.gov under Forms and Publications.

The long-term expected rate of return on OPEB 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 OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan's target asset are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Global Equity	57.0%	4.82%
Fixed Income	27.0%	1.47%
TIPS	5.0%	1.29%
Commodities	3.0%	0.84%
REITs	8.0%	3.76%
Total	100%	

Costa Mesa Sanitary District
Notes to the Financial Statements
Year Ended June 30, 2018

7) OTHER POST-EMPLOYMENT BENEFITS (OPEB) - Continued

Discount Rate

The discount rate used to measure the total OPEB liability was 6.75 percent. The projection of cash flows used to determine the discount rate assumed that District contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projects benefit payments to determine the total OPEB liability.

Changes in the OPEB Liability

The changes in the net OPEB liability (asset) for the Plan are as follows:

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability/(Asset) (c) = (a) - (b)
Balance at June 30, 2017 <i>(Valuation Date June 30, 2017)</i>	\$ 263,190	\$ 154,048	\$ 109,142
Changes Recognized for the Measurement Period:			
Service Cost	17,288	-	17,288
Interest	17,915	-	17,915
Actual and Expected Experience Difference	-	-	-
Changes of Assumptions	-	-	-
Contribution – Employer	-	156,123	(156,123)
Net Investment Income	-	24,822	(24,822)
Benefit Payments	(30,123)	(30,123)	-
Administrative Expense	-	(141)	141
	5,080	150,681	(145,601)
Net Changes			
Balance at June 30, 2018 <i>(Measurement Date June 30, 2017)</i>	\$ 268,270	\$ 304,729	\$ (36,459)

Costa Mesa Sanitary District
Notes to the Financial Statements
Year Ended June 30, 2018

7) OTHER POST-EMPLOYMENT BENEFITS (OPEB) - Continued

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Discount Rate

The following presents the net OPEB liability (asset) of the District if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2017:

	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
Net OPEB Liability (Asset)	\$ 121	\$ (36,459)	\$ (66,204)

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Health Care Cost Trend Rates

The following presents the net OPEB liability (asset) of the District if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2017:

	1% Decrease	Current Healthcare Cost Trend Rates	1% Increase
Net OPEB Liability (Asset)	\$ (67,669)	\$ (36,459)	\$ 3,094

OPEB Plan Fiduciary Net Position

CERBT issues a publicly available financial report that may be obtained from the California Public Employees Retirement System Executive Office, 400 P Street, Sacramento, California 95814.

Recognition of Deferred Outflows and Deferred Inflows of Resources

Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time.

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

Costa Mesa Sanitary District
Notes to the Financial Statements
Year Ended June 30, 2018

7) OTHER POST-EMPLOYMENT BENEFITS (OPEB) - Continued

Recognition of Deferred Outflows and Deferred Inflows of Resources - Continued

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

Net difference between projected and actual earnings on OPEB plan investments	5 years
All other amounts	Expected average remaining service lifetime (EARSL)

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the fiscal year ended June 30, 2018, the District recognized OPEB expense of \$15,261. As of fiscal year ended June 30, 2018, the District reported deferred outflows and inflows of resources related to OPEB from the following services:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	\$ 19,816	\$ -
Changes in assumptions	-	-
Net differences between projected and actual earnings on OPEB plan investments	-	(4,739)
Total	\$ 19,816	\$ (4,739)

The \$19,816 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2018 measurement date as the valuation was for the same reporting period. Other amounts reported as deferred outflows of resources related to OPEB will be recognized as expense as follows:

Year Ended June 30,	Deferred Outflow/(Inflows) of Resources
2019	\$ (1,185)
2020	(1,185)
2021	(1,185)
2022	(1,184)
2023	-
Thereafter	-

Costa Mesa Sanitary District
Notes to the Financial Statements
Year Ended June 30, 2018

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 omission; injuries to employees and natural disasters. To help mitigate these risks, the District is a member of the Special District Risk Management Authority (the 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. The District is self-insured to \$50,000 for Public Officials Errors and Omissions and up to \$250,000 for General Liability and Property Loss which are paid through the Authority's pool. The self-insurance amount for Workers Compensation is \$750,000.

Self-Insurance Programs of the Authority

At June 30, 2018, 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 deductible for licensed vehicles.

Auto 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.

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 \$1,000,000 per occurrence.

Costa Mesa Sanitary District
Notes to the Financial Statements
Year Ended June 30, 2018

9) PRIOR PERIOD ADJUSTMENT

The prior period adjustment of \$177,502 relates to the implementation of GASB Statement 75 for postemployment benefits other than pensions. According to GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which was implemented by the Authority in the 2018 fiscal year, recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses related to OPEB plan.

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REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of the Net Pension Liability

Schedule of Plan Contributions – Pension

Schedule of changes in Net OPEB Liabilities (Asset) and Related Ratios for
Measurement Periods Ended June 30,

Schedule of Contributions – OPEB

Costa Mesa Sanitary District
Schedule of Proportionate Share of the Net Pension Liability
Last Ten Years*
For the Year Ended June 30, 2018

Fiscal Year	Proportion of the Net Pension Liability ¹	Proportionate Share of the Net Pension Liability	Covered Payroll ²	Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.00470%	\$ 270,680	\$ 785,130	34.48%	83.03%
2016	0.01001%	\$ 274,712	\$ 927,345	29.62%	83.99%
2017	0.01105%	\$ 384,681	\$ 1,003,922	37.14%	80.02%
2018	0.00267%	\$ 105,177	\$ 1,182,000	8.89%	95.45%

Notes to Schedule:

¹ 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.

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

*This is the fourth year of implementation, therefore only four years are presented.

Costa Mesa Sanitary District
Schedule of Contributions - Pension
Last Ten Years*
For the Year Ended June 30, 2018

Fiscal Year	Contractually Required Contribution (Actuarially Determined)	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll ¹	Contributions as a Percentage of Covered Payroll
2015	\$ 103,072	\$ (103,072)	\$ 0	\$ 972,345	11.11%
2016	\$ 108,023	\$ (108,023)	\$ 0	\$ 1,033,922	10.45%
2017	\$ 450,487	\$ (450,487)	\$ 0	\$ 1,182,000	38.11%
2018	\$ 110,124	\$ (110,124)	\$ 0	\$ 1,376,416	8.00%

¹ Cover payroll is defined as the payroll on which contributions to a pension plan are based, in accordance with GASB 82.

*This is the fourth year of implementation, therefore only four years are presented.

Notes to Schedule:

Change in Benefit Terms: None

Change in Assumptions: The discount rate was changed from 7.65 percent to 7.15 percent.

Costa Mesa Sanitary District
Schedule of Changes in Net OPEB Liabilities (Asset) and Related Ratios for
Measurement Periods Ended June 30,

	Measurement Period	2017
Total OPEB Liability		
Service Cost		\$ 17,288
Interest on the Total OPEB Liability		17,915
Changes in Assumptions		-
Changes in Benefit Terms		-
Benefit Payments		(30,123)
		<hr/>
	Net Change in Total OPEB Liability	5,080
	Total OPEB Liability - Beginning	263,190
		<hr/>
	Total OPEB Liability - Ending (a)	\$ 268,270
		<hr/>
Plan Fiduciary Net Position		
Contribution - Employer		\$ 156,123
Net Investment Income		24,822
Benefit Payments		(30,123)
Administrative Expense		(141)
		<hr/>
	Net Change in Plan Fiduciary Net Position	150,681
	Plan Fiduciary Net Position - Beginning	154,048
		<hr/>
	Plan Fiduciary Net Position - Ending (b)	\$ 304,729
		<hr/>
	Net OPEB Liability (Asset) - Ending (a)-(b)	\$ (36,459)
		<hr/> <hr/>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability		113.6%
Covered-employee Payroll		1,182,000
Net OPEB Liability (Asset) as a Percentage of Covered-employee Payroll		(3.1)%

Notes to Schedule:

Historical information is required only for measurement periods for which GASB 75 is applicable. Future years' information will be displayed up to 10 years as information becomes available.

**Costa Mesa Sanitary District
Schedule of Contributions - OPEB
Last Ten Fiscal Years'**

Fiscal Year Ended June 30,	<u>2018</u>
Actuarially Determined Contribution (ADC)	\$ 19,904
Contributions in Relation to the ADC	(19,816)
Contribution Deficiency (Excess)	<u>\$ 88</u>
Covered-Employee Payroll	\$ 1,354,463
 Contributions as a percentage of covered-employee payroll	 1.5%

Notes to Schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2018 were from the June 30, 2017 actuarial valuation.

Methods and assumptions used to determine contributions:

Actuarial Cost Method	Entry Age Normal
Amortization Method/Period	Level percent of payroll over a closed rolling 15-year period
Asset Valuation Method	Market value
Inflation	2.75%
Salary Increases	3.00% plus merit
Investment Rate of Return	6.75% per annum
Healthcare Cost-trend Rates	7.5% (Non-Medicare) decreasing to 4.0% 6.5% (Medicare) decreasing to 4.0%
Retirement Age	The probabilities of Retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.
Mortality	Pre-retirement mortality probability based on 2014 CalPERS 1997-2011 Experience Study covering CalPERS participants. Post-retirement mortality probability based on CalPERS Experience Study 2007-2011 covering participants in CalPERS.

Historical information is required only for measurement periods for which GASB 75 is applicable. Future years' information will be displayed up to 10 years as information become available.

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STATISTICAL SECTION

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For the year ended June 30, 2018

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.	48 - 49
<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.	50 - 58
<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.	59 - 62
<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.	63 - 64
<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.	65 - 67

Costa Mesa Sanitary District

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

	Fiscal Year			
	2009	2010 (As Restated)	2011	2012
Changes in net position:				
Operating revenues	\$ 10,144,512	\$ 10,460,180	\$ 10,731,490	\$ 10,759,564
Operating expenses	(7,945,850)	(7,487,385)	(8,160,177)	(8,303,399)
Depreciation and amortization	(573,004)	(622,319)	(1,540,281)	(1,607,841)
Operating income (loss)	1,625,658	2,350,476	1,031,032	848,324
Non-operating revenue (expenses), net	659,472	1,245,767	434,597	740,072
Net income (loss) before capital contributions	2,285,130	3,596,243	1,465,629	1,588,396
Capital contributions	14,000	4,243,681	-	-
Changes in net position	\$ 2,299,130	\$ 7,839,924	\$ 1,465,629	\$ 1,588,396
Net position:				
Net investment in capital assets	\$ 17,350,061	\$ 40,022,038	\$ 39,122,787	\$ 39,792,929
Restricted for capital outlay	6,285,042	7,719,551	381,368	8,116
Unrestricted	6,226,933	6,769,215	16,472,278	17,763,784
Total net position	\$ 29,862,036	\$ 54,510,804	\$ 55,976,433	\$ 57,564,829

Source: Costa Mesa Sanitary District

Fiscal Year					
2013	2014	2015	2016	2017	2018
\$ 10,636,733	\$ 10,327,835	\$ 10,825,377	\$ 11,077,758	\$ 11,246,522	\$ 11,419,014
(7,953,569)	(8,453,930)	(8,634,912)	(9,323,731)	(9,483,656)	(9,409,708)
<u>(1,715,991)</u>	<u>(1,604,500)</u>	<u>(1,690,932)</u>	<u>(1,754,124)</u>	<u>(1,749,622)</u>	<u>(1,738,975)</u>
967,173	269,405	499,533	(97)	13,244	270,331
<u>138,767</u>	<u>260,229</u>	<u>589,791</u>	<u>574,652</u>	<u>761,793</u>	<u>416,994</u>
1,105,940	529,634	1,089,324	574,555	775,037	687,325
5,000	5,000		89,400	49,253	-
<u>\$ 1,110,940</u>	<u>\$ 534,634</u>	<u>\$ 1,089,324</u>	<u>\$ 663,955</u>	<u>\$ 824,290</u>	<u>\$ 687,325</u>
\$ 39,793,590	\$ 29,605,233	\$ 39,102,729	\$ 42,348,941	\$ 43,096,961	\$ 44,564,961
-	-	-	-	-	-
<u>18,684,743</u>	<u>19,407,734</u>	<u>20,726,351</u>	<u>18,144,094</u>	<u>18,220,364</u>	<u>17,262,186</u>
<u>\$ 58,478,333</u>	<u>\$ 49,012,967</u>	<u>\$ 59,829,080</u>	<u>\$ 60,493,035</u>	<u>\$ 61,317,325</u>	<u>\$ 61,827,147</u>

Costa Mesa Sanitary District

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

	Fiscal Year			
	2009	2010	2011	2012
Operating revenues				
Trash assessments	\$ 5,168,413	\$ 5,176,122	\$ 5,185,184	\$ 5,180,748
Wastewater assessments	4,632,923	5,124,283	5,116,190	5,117,377
Permits and inspection fees	28,183	22,870	46,222	83,237
Connection fees	24,270	11,468	28,865	78,230
Other services and charges	290,723	125,437	355,029	299,972
Total Operating Revenues	\$ 10,144,512	\$ 10,460,180	\$ 10,731,490	\$ 10,759,564

Source: Costa Mesa Sanitary District

Continued

Fiscal Year					
2013	2014	2015	2016	2017	2,018
\$ 4,921,705	\$ 4,681,766	\$ 4,768,071	\$ 4,787,459	\$ 4,882,785	\$ 4,965,640
5,133,674	5,081,699	5,301,231	5,430,408	5,552,190	5,662,878
140,536	118,041	206,971	231,850	265,340	229,124
189,262	134,158	192,913	257,323	183,352	146,575
251,556	312,171	356,191	370,718	362,855	414,797
<u>\$ 10,636,733</u>	<u>\$ 10,327,835</u>	<u>\$ 10,825,377</u>	<u>\$ 11,077,758</u>	<u>\$ 11,246,522</u>	<u>\$ 11,419,014</u>

Costa Mesa Sanitary District

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

	Fiscal Year			
	2009	2010	2011	2012
Operating expenses				
Solid waste disposal	\$ 4,499,524	\$ 4,469,887	\$ 4,510,918	\$ 4,450,943
Wastewater disposal	1,516,374	1,047,977	1,619,781	1,912,341
General and administrative	1,929,952	1,969,521	2,029,478	1,940,115
Total Operating Expenses	\$ 7,945,850	\$ 7,487,385	\$ 8,160,177	\$ 8,303,399

Continued

Fiscal Year					
<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
\$ 4,483,980	\$ 4,477,812	\$ 4,500,416	\$ 4,770,212	\$ 4,992,220	\$ 5,030,898
1,438,604	1,591,051	1,665,480	1,641,085	1,800,679	1,407,130
<u>2,030,985</u>	<u>2,385,067</u>	<u>2,469,016</u>	<u>2,912,434</u>	<u>2,690,757</u>	<u>2,971,680</u>
<u>\$ 7,953,569</u>	<u>\$ 8,453,930</u>	<u>\$ 8,634,912</u>	<u>\$ 9,323,731</u>	<u>\$ 9,483,656</u>	<u>\$ 9,409,708</u>

Costa Mesa Sanitary District

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

	Fiscal Year			
	2009	2010	2011	2012
Non-operating revenues (expenses)				
Investment Earnings	\$ 297,158	\$ 188,045	\$ 154,279	\$ 188,000
Taxes	223,789	220,329	212,004	214,579
Other revenues	151,007	838,628	69,856	424,291
Other expenses	-	-	-	-
Loss on disposal of assets	(12,482)	(1,235)	(1,542)	(86,798)
Total non-operating revenues	\$ 659,472	\$ 1,245,767	\$ 434,597	\$ 740,072

Source: Costa Mesa Sanitary District

Fiscal Year					
2013	2014	2015	2016	2017	2018
\$(144,970)	\$291,073	\$205,472	\$ 292,524	\$ 26,140	\$ 50,834
301,046	235,336	245,415	270,876	287,705	313,456
97,383	77,814	138,904	44,760	385,530	52,704
-	(350,000)	-	-	-	-
(114,692)	6,006	-	(33,508)	62,418	-
<u>\$ 138,767</u>	<u>\$260,229</u>	<u>\$589,791</u>	<u>\$ 574,652</u>	<u>\$761,793</u>	<u>\$416,994</u>

Costa Mesa Sanitary District

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

	Fiscal Year			
	2009	2010	2011	2012
Solid Waste				
<u>Customer Type</u>				
Single family residential	\$239.41	\$239.41	\$239.41	\$239.41
Wastewater				
<u>Customer Type</u>				
Single family residential	\$ 60.71	\$ 66.23	\$ 66.23	\$ 66.23
Multi-family residential	46.75	51.00	51.00	51.00
Commercial-Average Strength (per 1000 sf)	35.31	38.52	38.52	38.52
Commercial-High Strength (per 1000 sf)	-	-	-	-
Industrial (per 1000 sf)	104.03	113.50	113.50	113.50
Other (per 1000 sf)	31.29	34.14	34.14	34.14

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

Fiscal Year					
2013	2014	2015	2016	2017	2018
\$ 228.00	\$ 216.00	\$ 216.00	\$ 216.00	\$ 216.00	\$ 216.00
\$ 66.23	\$ 85.34	\$ 87.05	\$ 88.79	\$ 90.57	\$ 92.38
51.00	50.09	51.09	52.11	53.15	54.21
38.52	37.96	38.72	39.49	40.28	41.09
-	41.40	42.23	43.07	43.93	44.81
113.50	97.44	99.39	101.38	103.41	105.48
34.14	N/A	N/A	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	2018		2009	
	Square Feet Assessed	Percentage of Total	Square Feet Assessed	Percentage of Total
International Asset Management Group	329,350	3.73%	72,970	0.84%
CJ Sergerstrom & Sons	262,217	2.97%	274,160	3.17%
CLA Val Company	252,485	2.86%	390,170	4.51%
3030 & 3080 Airway LLC	158,070	1.79%	149,020	1.72%
CPF Airway Associates LLC	131,115	1.49%	-	-
Van Ausdeln, Sandra Ann Trust	124,407	1.41%	168,960	1.95%
Bre CA Office Owner LLC	119,429	1.35%	124,410	1.44%
GRISWOLD INDUSTRIES	118,583	1.34%	-	-
Life Storage LP	118,514	1.34%	1,000	0.01%
NAPA VISTA TOLOCAY LLC	114,588	1.30%	-	-
ORANGE GROVE PROPERTIES	109,870	1.25%	103,780	1.20%
Total square feet: Industrial Principal Customers	<u>1,838,628</u>	<u>20.84%</u>	<u>1,284,470</u>	<u>14.84%</u>
Total square feet : Industrial Customers	<u>8,823,822</u>	<u>100.00%</u>	<u>8,659,106</u>	<u>100.00%</u>
Commercial Customer Type				
C J Segerstrom & Sons	1,783,455	5.27%	-	-
600 Anton Boulevard Associates	1,471,041	4.34%	334,240	1.41%
South Coast Plaza	864,865	2.55%	-	-
PR II/MCC South Coast	835,672	2.47%	-	-
The Irvine Company	834,368	2.46%	-	-
Interinsurance Exchange of the Auto Club of CA	750,914	2.22%	130,340	0.55%
Vanguard University of Southern California	570,245	1.68%	37,290	0.16%
Segerstrom Center	561,752	1.66%	86,620	0.37%
S-Tract LLC	536,975	1.59%	-	-
Center Tower Associates	451,546	1.33%	486,330	2.05%
J Ray Sanderson/Cardinal	419,439	1.24%	446,150	1.88%
School Newport Harbor	409,009	1.21%	459,090	1.94%
Total square feet: Commercial Principal Customers	<u>9,489,281</u>	<u>28.02%</u>	<u>1,980,060</u>	<u>8.36%</u>
Total square feet: Commercial Customers	<u>33,865,277</u>	<u>100.00%</u>	<u>23,684,480</u>	<u>100.00%</u>
Multi-family Residential Customer Type				
	Household Units	Percentage of Total	Household Units	Percentage of Total
MarJack LLC	890	3.62%	-	-
Casden Lakes LP	770	3.13%	770	3.07%
Costa Mesa Partners	764	3.11%	764	3.05%
United Dominion Realty LP	764	3.11%	764	3.05%
Pinecreek Investment Co.	620	2.52%	620	2.47%
ZMV Partnership	508	2.07%	508	2.03%
Katella Investment Co.	440	1.79%	-	-
Village Investments	422	1.72%	-	-
UDR Harbor Greens LP	384	1.56%	384	1.53%
Bay Apartment Communities, Inc.	333	1.35%	273	1.09%
Riverville Family Associates LLC	296	1.20%	-	-
Total household units: Multi-family Principal Customers	<u>6,191</u>	<u>25.19%</u>	<u>4,083</u>	<u>16.29%</u>
Total household units assessed: Multi-family Customers	<u>24,578</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			
	2009	2010	2011	2012
Capital leases	\$ -	\$ -	\$ -	\$ -
Total debt	\$ -	\$ -	\$ -	\$ -
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

Fiscal Year					
2013	2014	2015	2016	2017	2018
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Costa Mesa Sanitary District

**Debt Coverage
Last Ten Fiscal Years**

	Fiscal Year			
	2009	2010	2011	2012
Revenues	\$ 10,803,984	\$ 11,705,947	\$ 11,166,087	\$ 11,499,636
Operating expenses	7,945,850	7,487,385	8,160,177	8,303,399
Net revenues	<u>\$ 2,858,134</u>	<u>\$ 4,218,562</u>	<u>\$ 3,005,910</u>	<u>\$ 3,196,237</u>
Debt service:				
Principal	\$ -	\$ -	\$ -	\$ -
Interest	-	-	-	-
Total debt service	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Debt coverage ratio	N/A	N/A	N/A	N/A

Source: Costa Mesa Sanitary District

Continued

						Fiscal Year					
2013		2014		2015		2016		2017		2018	
\$	10,775,500	\$	10,938,064	\$	11,415,168	\$	11,652,410	\$	12,008,315	\$	11,836,008
	<u>7,953,569</u>		<u>8,453,930</u>		<u>8,634,912</u>		<u>9,323,731</u>		<u>9,483,656</u>		<u>9,409,708</u>
\$	<u>2,821,931</u>	\$	<u>2,484,134</u>	\$	<u>2,780,256</u>	\$	<u>2,328,679</u>	\$	<u>2,524,659</u>	\$	<u>2,426,300</u>
\$	-	\$	-	\$	-	\$	-	\$	-	\$	-
	<u>-</u>		<u>-</u>		<u>-</u>		<u>-</u>		<u>-</u>		<u>-</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
2008	107,514	4.70%	2,989,141	155,068,367	51,877
2009	109,808	8.00%	3,026,786	148,372,628	49,020
2010	109,960	8.50%	3,010,232	150,467,328	49,985
2011	110,008	7.80%	3,055,745	154,131,535	50,440
2012	111,675	6.80%	3,090,132	161,743,827	52,342
2013	112,174	5.60%	3,114,363	169,792,810	54,519
2014	112,784	5.60%	3,145,515	173,305,650	55,096
2015	113,204	4.50%	3,169,776	183,052,341	57,749
2016	112,822	3.70%	3,172,532	196,920,661	62,071
2017	113,825	2.70%	3,190,400	208,653,019	65,400
2018	c	c	c	c	c

* 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
 - (b) The District has chosen to use County data since the District believes that the County data
 - (c) Data not currently available

Sources: (a) United States Census Bureau
 (b) California Labor Market Info
 (c) U.S. Department of Commerce, Bureau of Economic Analysis

Costa Mesa Sanitary District

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

Employer	2018		2009	
	Number of Employees	Percentage of Total City Employment	Number of Employees	Percentage of Total City Employment
EPL Intermediate, Inc. (Subsidiary of El Pollo Loco Holdings, Inc)	3,998		1,000	
Experian Information Solutions, Inc. *	3,700		3,700	
Coast Community College District Foundation**	2,900		3,044	
Newport Mesa Unified School District	1,900			
Automobile Club of Southern California -AAA (2 Locations)*	1,500			
Westar Capital Associates II, LLC*	1,500			
California State Hospital - Fairview Develop. Ctr.	1,200		1,500	
Macy's	1,184			
TTM Technologies Inc	800			
City of Costa Mesa	700			
Total Top Ten Employers	19,382	0%	9,244	0%
 Total City Labor Force (2)	 65,600			

* Company-wide numbers
** Includes full-time and part-time

Costa Mesa Sanitary District

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

	Fiscal Year									
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Solid Waste	1.65	1.31	3.42	3.27	4.60	4.60	3.80	4.70	4.70	4.30
Wastewater	9.85	9.94	9.60	8.28	9.40	10.40	9.20	13.30	13.30	13.70
Total Full-time equivalent	<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>18.00</u>	<u>18.00</u>	<u>18.00</u>

Source: Costa Mesa Sanitary District Accounting Department

Costa Mesa Sanitary District

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

	Fiscal Year				
	2009	2010	2011	2012	2013
Solid Waste:					
Household units serviced	21,482	21,501	21,531	21,559	21,490
Recycled/landfill tonnage	40,908	40,374	40,865	39,841	39,851
Recycled %	50.44%	50.44%	51.92%	57.53%	57.54%
Wastewater:					
Linear feet (LF) of sewer line cleaned	411,150	4,125	890,006	650,551	708,092
Average of wastewater discharged	10.3 MGD	10.1 MGD	10.3 MGD	10.4 MGD	10.5 MGD
Sewer lateral financial assistance grant:	120	128	146	144	169

	Fiscal Year				
	2014	2015	2016	2017	2018
Solid Waste:					
Household units serviced	21,606	21,824	22,398	22,518	22,602
Recycled/landfill tonnage	40,650	41,823	41,975	43,055	43,808
Recycled %	57.39%	56.81%	57.01%	59.44%	58.99%
Liquid Waste:					
Linear feet (LF) of sewer line cleaned	716,938	115,605	705,574	878,095	797,762
Average of wastewater discharged	10.6 MGD	8.75 MGD	11MGD	11MGD	8.7MGD
Sewer lateral financial assistance grant:	184	237	240	271	19
CCTV sewer lateral program grants	*	*	*	*	114

MGD - Millions of gallons per day

* Data not available for the fiscal years

Source: Costa Mesa Sanitary District

Costa Mesa Sanitary District

**Capital Asset Statistics
Last Ten Fiscal Years**

Wastewater

<u>Fiscal Year</u>	<u>Miles of Sanitary Sewers</u>	<u>Number of Pump Stations</u>	<u>Number of Manholes</u>
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
2017	224	20	4,716
2018	224	20	4,718

Source: Costa Mesa Sanitary District