COSTA MESA
SANITARY DISTRICT

ANNUAL COMPREHENSIVE FINANCIAL REPORT

For Fiscal Year Ended June 30, 2023

Costa Mesa, California

COSTA MESA SANITARY DISTRICT

INCORPORATED 1944

Costa Mesa Sanitary District

Annual Comprehensive Financial Report
For the Fiscal Year Ended June 30, 2023
(With Comparative Amounts as of June 30, 2022)

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

Prepared by:
Scott Carroll, General Manager
Kaitlin Tran, Finance Manager
Finance Department

COSTA MESA SANITARY DISTRICT

INCORPORATED 1944

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For the Fiscal Year Ended June 30, 2023
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COSTA MESA SANITARY DISTRICT

INCORPORATED 1944

COSTA MESA SANITARY DISTRICT

December 18, 2023

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 Annual Comprehensive Financial Report (ACFR) of the Costa Mesa Sanitary District (District) for the year ended June 30, 2023.

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 Nigro & Nigro PC has issued an unmodified (clean) opinion on the District's financial statements for the year ended June 30, 2023. 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 118,000 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 the solid waste to its subsidiary-owned recycling and transfer station located in Stanton, California or the Anaerobic Digestion Facility in Perris, California.

The affairs of the District are directed by a five-member Board of Directors (the Board) elected by division 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.

www.cmsdca.gov

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"Protecting public health and the environment for current and future generations."

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, 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 236 stores and 55 restaurants, 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 Costa Mesa Sanitary District has initiated a solid waste rate study with the primary goal of securing the necessary funding for the implementation of a comprehensive 3-cart curbside collection program. This strategic move is driven by the crucial need to align with the stringent requirements of Senate Bill 1383 (SB 1383), a California state law aimed at mitigating the environmental impact of organic waste. Complying with SB 1383 is not just a legal mandate but a crucial step in reducing methane emissions, combating climate change, and improving the overall environmental sustainability of the community.

The 3-cart curbside collection program, which includes separate bins for organic waste, recyclables and landfill bound waste, plays a pivotal role in achieving SB 1383 compliance. By diverting organic waste away from landfills, this program not only helps reduce methane emissions but also fosters the generation of nutrient-rich compost, which can be returned to the soil to enrich gardening and well-manicured landscape practices. Furthermore, the enhanced recycling and waste separation under this program contributes to a significant reduction in overall waste disposal, conserving valuable resources and reducing the carbon footprint associated with waste management. The solid waste rate study is essential to secure the necessary funding for the successful launch of this program, ensuring that Costa Mesa, Newport Beach, and the County of Orange meets its environmental responsibilities while promoting a more sustainable and eco-friendly community.

The proliferation of Assessor Dwelling Units (ADUs) in many communities has a notable impact on solid waste and wastewater management practices. ADUs are essentially secondary housing units often built on residential properties, and they can significantly increase the overall waste generation within a given area. As these units become more prevalent, it becomes imperative to address their specific impact on solid waste and wastewater systems.

ADUs may house additional occupants, which in turn generate more waste, including organic waste, recyclables, general landfill-bound waste, and wastewater. This increased waste generation necessitates adjustments in waste collection, transportation, infrastructure, and maintenance. To ensure effective and sustainable solid waste and wastewater collection management, it's vital to tailor the service to the unique needs of ADUs. This often entails charging an appropriate solid waste and wastewater rate that accurately reflects the increased demand placed on the solid waste and wastewater systems.

On February 28, 2022, the Board of Directors adopted wastewater rates for residential and commercial properties for the next five consecutive years (2022-2027). These rates included a specific rate for ADUs. The new rates will ensure adequate funding for wastewater operations, maintenance, and capital expenses as well as ensuring the additional wastewater demand from ADUs does not impact the wastewater management system. Charging ADUs and appropriate solid waste rate is essential to maintain the equity and sustainability of waste management services. It ensures that the costs associated with waste collection and disposal are fairly distributed among all residents, accounting for the varying levels of waste generation. By doing so, the solid waste management system can remain financially viable, while encouraging responsible waste disposal practices. Additionally, an equitable solid waste rate structure discourages overloading of carts and promotes

LONG-TERM FINANCIAL PLANNING AND MAJOR INITIATIVES (CONTINUED)

recycling efforts, which are critical for reducing environmental impacts. Therefore, addressing the unique solid waste management needs of ADUS and charging them appropriately is an important step towards a more efficient and sustainable solid waste management system.

FINANCIAL POLICIES AND PROCEDURES

The 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 judgments by management.

AWARDS

The Government Finance Officers Association (GFOA) of the United States and Canada awarded a *Certificate of Achievement for Excellence in Financial Reporting* to the District for its Annual Comprehensive Financial Report for the year ended June 30, 2022. This was the twelfth 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 Annual Comprehensive 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 Annual Comprehensive 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 District has submitted the Popular Annual Financial Reporting for the year ended June 30, 2022, to the GFOA for an award. If the District receives this award, it would be the seventh 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, in which the 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 the GFOA.

The District was recognized by the GFOA after applying for the Distinguished Budget Presentation Award for the first time using the Biennial Budget FY 2021-22 and 2022-23. The District applied for the Distinguished Budget Presentation Award for FY 2023-24 and 2024-25 and is waiting for the result. This recognition from the GFOA goes to local governments that prepare a budget document of the highest quality and reflect the guidelines established by both the National Advisory Council on state and local budgeting and the GFOA's best practices on budgeting.

The Distinguished Budget Presentation Award represents a significant achievement and ultimately earned CMSD the GFOA's prestigious Triple Crown recognition, which recognizes government agencies that have received the GFOA's Certificate of Achievement for Excellence in Financial Reporting, along with its Popular Annual Financial Reporting (PAFR) award and the Distinguished Budget Presentation award in the same year.

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

ACKNOWLEDGMENTS (CONTINUED)

planning and implementation of the Costa Mesa Sanitary District's fiscal policies; and finally, to the District's auditing firm of Nigro & Nigro PC for their professional assistance.

Respectfully submitted,

Scott Carroll
General Manager

Kaitlin Tran
Finance Manager

Our Mission Statement

"To protect public health and the environment for current and future generations."

Costa Mesa Sanitary District
Board of Directors as of June 30, 2023

Name	Title	Elected/ Appointed	Current Term
Michael Scheafer	President	Elected	12/22-12/26
Arlene Schafer	Vice President	Elected	12/22-12/26
Arthur Perry	Secretary	Elected	12/20-12/24
Robert Ooten	Vice Secretary	Elected	12/22-12/26
Brett Eckles	Director	Elected	12/20-12/24

Costa Mesa Sanitary District
Scott Carroll, General Manager
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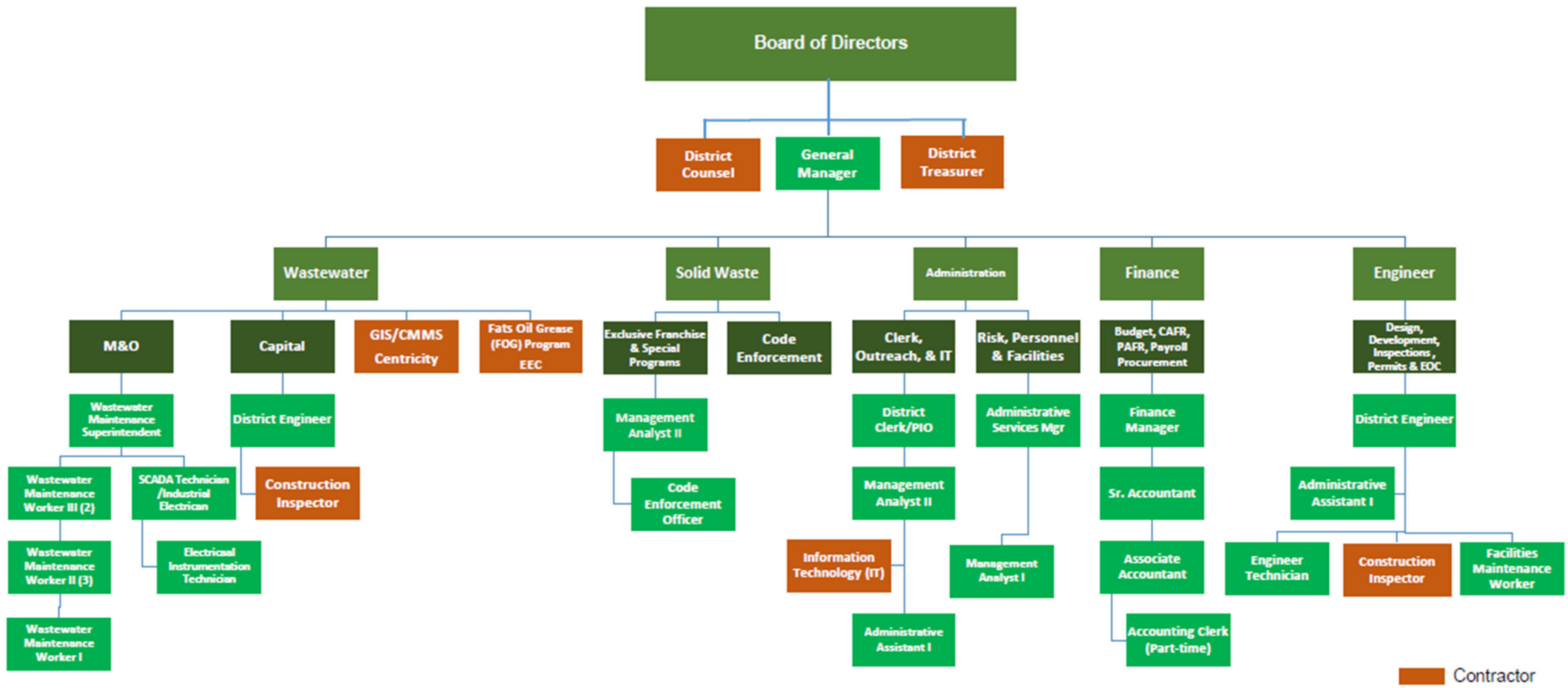
COSTA MESA SANITARY DISTRICT
For the Fiscal Year Ended June 30, 2023
Organizational Chart



Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Costa Mesa Sanitary District
California

For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

June 30, 2022

Christopher P. Morrill

Executive Director/CEO

COSTA MESA SANITARY DISTRICT

INCORPORATED 1944

Financial Section

NIGRO & NIGRO PC
A Professional Accountancy Corporation

INDEPENDENT AUDITORS' REPORT

Board of Directors
Costa Mesa Sanitary District
Costa Mesa, California

Opinion

We have audited the accompanying financial statements of the Costa Mesa Sanitary District (District), which comprise the balance sheets as of June 30, 2023 and the related statements of revenue, expenses, and changes in net position, and cash flows for the year then ended, and related notes to the financial statements, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2023 and the respective changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Jeff Nigro, CPA, CFE | Elizabeth Nigro, CPA | Shannon Bishop, CPA | Peter Glenn, CPA, CFE | Paul J. Kaymark, CPA | Jessica Berry, CPA | Angelika Vartikyan, CPA

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Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards,* we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management’s Discussion and Analysis, Schedule of the District’s Proportionate Share of the Plan’s Net Pension Liability, Schedule of the District’s Contributions to the Pension Plan, Schedule of Changes in the District’s Net OPEB Liability and Related Ratios, and Schedule of the District’s Contributions to the OPEB Plan be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements as a whole. The Schedules of Balance Sheets – Internal Funds and Statements of Revenues, Expenses and Changes in Net Position – Internal Funds are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole. The introductory and statistical sections 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 Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory and statistical sections but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Prior-Year Comparative Information

The financial statements include partial prior-year comparative information. Such information does not include sufficient detail to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2022, from which such partial information was derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued a separate report dated December 18, 2023, 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 the effectiveness of the District's 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.

Nigro & Nigro, PC

Murrieta, California
December 18, 2023

Management's Discussion and Analysis (MD&A) offers readers of Costa Mesa Sanitary District's financial statements a narrative overview of the District's financial activities for the year ended June 30, 2023. This MD&A presents financial highlights, an overview of the accompanying financial statements, an analysis of net position and results of operations, a current-to prior year analysis, a discussion on restrictions, commitments and limitations, and a discussion of significant activity involving capital assets and long-term debt. Please read in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- In fiscal year 2023, the District's net position increased 1.44%, or $936,922 from the prior year's net position of $64,863,195 to $65,800,117, as a result of the year's operations.
- In fiscal year 2023, operating revenues increased by 10.74%, or $1,288,247 from $11,944,766 to $13,283,013, from the prior year, primarily due to increases in wastewater and trash assessment revenue as a result of rate increases.
- In fiscal year 2023, operating expenses before depreciation expense increased by 24.56% or $2,216,674 from $9,024,086 to $11,240,760, from the prior year, primarily due to increases in wastewater disposal expenses, as well as general and administrative costs.

REQUIRED FINANCIAL STATEMENTS

This annual report consists of a series of financial statements. The Balance Sheet, Statement of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies.

The Balance Sheet includes all of the District's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness. The final required financial statement is the Statement of Cash Flows, which provides information about the District's cash receipts and cash payments during the reporting period. The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

FINANCIAL ANALYSIS OF THE 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 this year's activities?" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Position report information about the District in a way that helps answer this question.

These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District's net position and changes in them. You can think of the District's net position – the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources – as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, zoning and new or changed government legislation.

Condensed Balance Sheets

	June 30, 2023	June 30, 2022	Change
Assets:			
Current assets	$ 20,980,692	$ 21,464,300	$ (483,608)
Non-current assets	119,120	485,274	(366,154)
Capital assets, net	45,866,987	44,180,926	1,686,061
Total assets	66,966,799	66,130,500	836,299
Deferred outflows of resources	815,468	615,440	200,028
Total assets and deferred outflows of resources	$ 67,782,267	$ 66,745,940	$ 1,036,327
Liabilities:			
Current liabilities	$ 1,342,529	$ 1,625,302	$ (282,773)
Non-current liabilities	523,276	67,445	455,831
Total liabilities	1,865,805	1,692,747	173,058
Deferred inflows of resources	116,345	189,998	(73,653)
Net position:			
Net investment in capital assets	45,866,987	44,180,926	1,686,061
Restricted for net OPEB and pension	119,120	485,274	(366,154)
Unrestricted	19,814,010	20,196,995	(382,985)
Total net position	65,800,117	64,863,195	936,922
Total liabilities, deferred outflows of resources and net position	$ 67,782,267	$ 66,745,940	$ 1,036,327

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources of the District exceeded liabilities and deferred inflows of resources by $65,800,117 as of June 30, 2023.

FINANCIAL ANALYSIS OF THE DISTRICT (continued)

Condensed Balance Sheets (continued)
By far the largest portion of the District's net position (69.71% as of June 30, 2023) 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. The District uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending.

At the end of year 2023, the District showed a positive balance in its unrestricted net position of $19,814,010 which may be utilized in future years.

Condensed Statements of Revenues, Expenses, and Changes in Net Position

	June 30, 2023	June 30, 2022	Change
Operating revenues	$ 13,283,013	$ 11,994,766	$ 1,288,247
Operating expenses	(11,240,760)	(9,024,086)	(2,216,674)
Operating income before depreciation	2,042,253	2,970,680	(928,427)
Depreciation expense	(1,774,046)	(1,756,608)	(17,438)
Operating income	268,207	1,214,072	(945,865)
Non-operating revenues(expenses), net	668,715	353,071	315,644
Change in net position	936,922	1,567,143	(630,221)
Net position:			
Beginning of year	64,863,195	63,296,052	1,567,143
End of year	$ 65,800,117	$ 64,863,195	$ 936,922

The statement of revenues, expenses and changes in net position shows how the District's net position changed during the fiscal years. In the case of the District, net position increased 1.44%, or $936,922 from the prior year's net position of $64,863,195 to $65,800,117, as a result of the year's operations.

FINANCIAL ANALYSIS OF THE DISTRICT (continued)

Total Revenues

	June 30, 2023	June 30, 2022	Increase (Decrease)
Operating revenues:			
Trash assessments	$ 6,320,712	$ 5,959,420	$ 361,292
Wastewater assessments	6,649,293	5,718,282	931,011
Permits and inspection fees	126,610	134,311	(7,701)
Connection fees	55,914	54,407	1,507
Other services	130,484	128,346	2,138
Total operating revenues	13,283,013	11,994,766	1,288,247
Non-operating revenues:			
Property taxes	412,347	380,848	31,499
Investment earnings	60,277	(880,129)	940,406
Rental income	150	2,607	(2,457)
Grant revenue	37,312	669,568	(632,256)
Sale of capital assets	25,913	19,845	6,068
Other non-operating revenues	132,716	160,332	(27,616)
Total non-operating revenues	668,715	353,071	315,644
Total revenues	$ 13,951,728	$ 12,347,837	$ 1,603,891

In fiscal year 2023, operating revenues increased by 10.74%, or $1,288,247 from $11,944,766 to $13,283,013, from the prior year, primarily due to increases in wastewater and trash assessment revenue as a result of rate increases. Also, non-operating revenues increased by 89.40%, or $315,644 from $353,071 to $668,715, primarily due to better returns on the District's investments as a result of rising market interest rates.

FINANCIAL ANALYSIS OF THE DISTRICT (continued)

Total Expenses

	June 30, 2023	June 30, 2022	Increase (Decrease)
Operating expenses:			
Solid waste disposal	$ 2,971,389	$ 2,883,201	$ 88,188
Wastewater disposal	2,233,427	1,730,761	502,666
Recycling and disposal charges	2,410,340	2,389,672	20,668
General and administrative	2,492,982	1,050,027	1,442,955
Materials and services	1,132,622	970,425	162,197
Total operating expenses	11,240,760	9,024,086	2,216,674
Depreciation expense	1,774,046	1,756,608	17,438
Total expenses	$ 13,014,806	$ 10,780,694	$ 2,234,112

In fiscal year 2023, operating expenses before depreciation expense increased by 24.56% or $2,216,674 from $9,024,086 to $11,240,760, from the prior year, primarily due to increases in wastewater disposal expenses, as well as general and administrative costs.

Capital Assets

Capital assets:	Balance June 30, 2023	Balance June 30, 2022
Non-depreciable assets	$ 8,884,739	$ 7,208,290
Depreciable assets	105,000,613	103,676,724
Accumulated depreciation	(68,018,365)	(66,704,088)
Total capital assets, net	$ 45,866,987	$ 44,180,926

At the end of year 2023, the District's investment in capital assets amounted to $45,866,987 (net of accumulated depreciation), respectively. Capital asset additions amounted to $3,460,107 for various projects and equipment. See Note 3 for further information.

Long-Term Debt

As of June 30, 2023, the District had no long-term debt.

NOTES TO THE BASIC FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

CONDITIONS AFFECTING CURRENT AND FUTURE FINANCIAL POSITION

Economic Factors and Next Year's Budgets

For nearly 80 years, the Costa Mesa Sanitary District has been proud of being debt free by implementing PAYGO for replacing wastewater infrastructure. But now the district is facing a challenging situation which necessitates the consideration of long-term financing for a crucial $10 million capital improvement project. This project is of paramount importance as it is aimed at ensuring the reliability of wastewater collection for the district's largest pipeline. The financial constraints stemming from limited revenues (annual wastewater revenue budget is $8 million) have compelled the district to explore alternative means of funding in order to maintain the integrity and functionality of this critical infrastructure.

The $10 million capital improvement project, the Elden Forcemain Redundancy Project, is essential for the long sustainability of the wastewater collection system, especially for the district's largest pipeline, which collects and transport approximately 3,700 gallons of wastewater per minute during peak flow. Any disruption or failure of this pipeline could have dire consequences for public health and the environment. By opting for long-term financing, the Costa Mesa Sanitary District can secure the necessary resources to carry out the project, but wastewater rates will have to be adjusted in the near future to pay for the long-term financing. This approach allows the district to make the essential infrastructure upgrades while spreading the financial commitment to our ratepayers over a more manageable timeframe, thereby safeguarding the reliability of wastewater collection for the community and environmental compliance.

The district has shown an unwavering commitment to proactively addressing the critical issue of aging wastewater infrastructure. Recognizing the potential risks and costs associated with infrastructure failure, the district has taken decisive steps to prioritize infrastructure maintenance and replacement before issues become imminent. In a significant demonstration of our dedication, the district has allocated over $3 million for various capital improvements in the upcoming fiscal year, underlining our proactive stance on maintaining the integrity and reliability of the wastewater system.

This substantial financial commitment reflects the district's forward-thinking approach to safeguarding public health and the environment while minimizing the disruption and financial burden that could arise from unexpected infrastructure failures. By investing in capital improvements, the district not only ensures that continued effectiveness of our wastewater system but also serves as a model for other public agencies to follow in our footsteps, promoting responsible infrastructure management across the region. The proactive approach of the Costa Mesa Sanitary District showcases our dedication to providing efficient, safe, and reliable services to our community, setting a valuable example for other public agencies facing similar challenges.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's Finance Manager at 290 Paularino Avenue, Costa Mesa, California 92626 and (949) 645-8400.

COSTA MESA SANITARY DISTRICT

Balance Sheets

June 30, 2023 (With Comparative Amounts as of June 30, 2022)

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2023	2022
Current assets:		
Cash and cash equivalents (Note 2)	$ 5,070,084	$ 5,718,827
Investments (Note 2)	15,129,262	15,204,344
Accrued interest receivable	89,375	40,692
Accounts receivable	41,250	61,466
Assessment receivable	277,221	197,470
Property tax receivable	13,549	12,672
Inventory – materials and supplies	196,869	196,869
Prepaid expenses	163,082	31,960
Total current assets	20,980,692	21,464,300
Non-current assets:		
Net OPEB asset (Note 5)	119,120	232,927
Net pension asset (Note 6)	-	252,347
Capital assets – not being depreciated (Note 3)	8,884,739	7,208,290
Capital assets – being depreciated, net (Note 3)	36,982,248	36,972,636
Total non-current assets	45,986,107	44,666,200
Total assets	66,966,799	66,130,500
Deferred outflows of resources:		
Deferred amounts related to net OPEB liability (Note 5)	99,782	45,670
Deferred amounts related to net pension liability (Note 6)	715,686	569,770
Total deferred outflows of resources	815,468	615,440
Total assets and deferred outflows of resources	$ 67,782,267	$ 66,745,940
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
Current liabilities:		
Accounts payable and accrued expenses	$ 1,241,640	$ 1,512,054
Deposits and unearned revenues	-	25,150
Long-term liabilities – due within one year:		
Compensated absences (Note 4)	100,889	88,098
Total current liabilities	1,342,529	1,625,302
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Compensated absences (Note 4)	76,062	67,445
Net pension liability (Note 6)	447,214	-
Total non-current liabilities	523,276	67,445
Total liabilities	1,865,805	1,692,747
Deferred inflows of resources:		
Deferred amounts related to net OPEB liability (Note 5)	93,662	160,141
Deferred amounts related to net pension liability (Note 6)	22,683	29,857
Total deferred inflows of resources	116,345	189,998
Net position:		
Investment in capital assets	45,866,987	44,180,926
Restricted for net OPEB and pension liabilities	119,120	485,274
Unrestricted	19,814,010	20,196,995
Total net position	65,800,117	64,863,195
Total liabilities, deferred inflows of resources and net position	$ 67,782,267	$ 66,745,940

COSTA MESA SANITARY DISTRICT

Statements of Revenues, Expenses and Changes in Net Position

For the Fiscal Year Ended June 30, 2023 (With Comparative Amounts as of June 30, 2022)

	2023	2022
Operating revenues:		
Trash assessments	$ 6,320,712	$ 5,959,420
Wastewater assessments	6,649,293	5,718,282
Permits and inspection fees	126,610	134,311
Connection fees	55,914	54,407
Other services	130,484	128,346
Total operating revenues	13,283,013	11,994,766
Operating expenses:		
Solid waste disposal	2,971,389	2,883,201
Wastewater disposal	2,233,427	1,730,761
Recycling and disposal charges	2,410,340	2,389,672
General and administrative	2,492,982	1,050,027
Materials and services	1,132,622	970,425
Total operating expenses	11,240,760	9,024,086
Operating income before depreciation	2,042,253	2,970,680
Depreciation expense	(1,774,046)	(1,756,608)
Operating income	268,207	1,214,072
Non-operating revenues(expenses):		
Property taxes	412,347	380,848
Investment earnings	60,277	(880,129)
Rental revenue	150	2,607
Grant revenue	37,312	669,568
Sale of capital assets	25,913	19,845
Other non-operating revenues	132,716	160,332
Total non-operating revenues(expenses), net	668,715	353,071
Change in net position	936,922	1,567,143
Net position:		
Beginning of year	64,863,195	63,296,052
End of year	$ 65,800,117	$ 64,863,195

COSTA MESA SANITARY DISTRICT

Statements of Cash Flows

For the Fiscal Year Ended June 30, 2023 (With Comparative Amounts as of June 30, 2022)

	2023	2022
Cash flows from operating activities:		
Cash receipts from customers and others	$ 13,368,506	$ 12,804,377
Cash paid to employees for salaries and wages	(2,397,646)	(2,079,722)
Cash paid to vendors and suppliers for materials and services	(8,683,555)	(7,919,799)
Net cash provided by operating activities	2,287,305	2,804,856
Cash flows from non-capital financing activities:		
Proceeds from property taxes	411,470	377,284
Net cash provided by non-capital financing activities	411,470	377,284
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(3,460,107)	(2,211,471)
Proceeds from the sale of capital assets	25,913	19,845
Net cash used in capital and related financing activities	(3,434,194)	(2,191,626)
Cash flows from investing activities:		
Change in investments	(195,763)	(2,060,376)
Investment earnings	282,439	(14,116)
Net cash provided by (used in) investing activities	86,676	(2,074,492)
Net decrease in cash and cash equivalents	(648,743)	(1,083,978)
Cash and cash equivalents:		
Beginning of year	5,718,827	6,802,805
End of year	$ 5,070,084	$ 5,718,827

COSTA MESA SANITARY DISTRICT

Statements of Cash Flows (continued)

For the Fiscal Year Ended June 30, 2023 (With Comparative Amounts as of June 30, 2022)

	2023	2022
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 268,207	$ 1,214,072
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,774,046	1,756,608
Rental revenue	150	2,607
Grant revenue	37,312	669,568
Other non-operating revenues	132,716	160,332
Change in assets – (increase)decrease:		
Accounts receivable	20,216	(20,414)
Assessment receivable	(79,751)	2,518
Inventory – materials and supplies	-	(8,358)
Prepaid expenses	(131,122)	2,597
Change in deferred outflows of resources – (increase)decrease		
Deferred amounts related to net OPEB liability	(54,112)	16,313
Deferred amounts related to net pension liability	(145,916)	(283,492)
Change in liabilities – increase(decrease):		
Accounts payable and accrued expenses	(270,414)	(210,011)
Deposits and unearned revenues	(25,150)	(5,000)
Compensated absences	21,408	10,809
Net OPEB liability	113,807	(169,040)
Net pension liability	699,561	(497,440)
Change in deferred inflows of resources – increase(decrease)		
Deferred amounts related to net OPEB liability	(66,479)	143,433
Deferred amounts related to net pension liability	(7,174)	19,754
Total adjustments	2,019,098	1,590,784
Net cash provided by operating activities	$ 2,287,305	$ 2,804,856
Noncash investing, capital and financing transactions:		
Change in fair-value of investments	$ (270,845)	$ (881,092)

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A. Description of Organization

The Costa Mesa Sanitary District (District) was formed in 1944 under the Sanitary District Act of 1923. The District is responsible for residential solid waste (trash) collection and its transmittal to recycling facilities for sorting, recycling, and disposal. The District also maintains a wastewater (sewer) collection system that collects and transmits wastewater to Orange County Sanitation District facilities for treatment and disposal. The Districts service area encompasses the city of Costa Mesa and small portions of Newport Beach and unincorporated Orange County, serving a population of approximately 118,000.

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Standards Board Statement No. 61, The Financial Reporting Entity (GASB Statement No. 61). The District is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable if it appoints a voting majority of the organization's governing body and: 1) It is able to impose its will on that organization, or 2) There is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

B. Basis of Presentation, Basis of Accounting

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the year in which all eligibility requirements have been satisfied.

Operating revenues are those revenues that are generated from the primary operations of the District. The District reports a measure of operations by presenting the change in net position from operations as operating income in the statement of revenues, expenses, and changes in net position. Operating activities are defined by the District as all activities other than financing and investing activities (interest expense and investment income), grants and subsidies, and other infrequently occurring transactions of a non-operating nature. Operating expenses are those expenses that are essential to the primary operations of the District. All other expenses are reported as non-operating expenses.

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position

1. Cash and Cash Equivalents
For purposes of the statement of cash flows, the District considers all highly liquid investments with a maturity of 90 days or less, when purchased, to be cash equivalents. Cash deposits are reported at the carrying amount, which reasonably estimates fair value.

2. Investments
Investments are reported at fair value except for short-term investments, which are reported at cost, which approximates fair value. Cash deposits are reported at carrying amount, which reasonably estimates fair value. Investments in governmental investment pools are reported at fair value based on the fair value per share of the pool's underlying portfolio.

In accordance with fair value measurements, the District categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement.

Financial assets and liabilities recorded on the balance sheet are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical investments, such as stocks, corporate and government bonds. The District has the ability to access the holding and quoted prices as of the measurement date.

Level 2 – Inputs, other than quoted prices, that are observable for the asset or liability either directly or indirectly, including inputs from markets that are not considered to be active.

Level 3 – Inputs that are unobservable. Unobservable inputs reflect the District's own assumptions about the factors market participants would use in pricing an investment, and is based on the best information available in the circumstances.

3. Receivables and Allowance for Doubtful Accounts
Customer accounts receivable consist of amounts owed by private individuals and organizations for services rendered in the regular course of business operations. Receivables are shown net of allowances for doubtful accounts. Uncollectable accounts are based on prior experience and management's assessment of the collectability of existing accounts.

4. Prepaids
Certain payments of vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position (continued)

5. Inventories
Supply inventories maintained by the District consist primarily of equipment parts retained for use in the District's equipment. Inventories are valued at cost using the first-in, first-out method.

6. Capital Assets
Capital assets are stated at cost or at their estimated fair value at date of donation. It is the District's policy to capitalize assets costing over $5,000. The provision for depreciation is computed using the straight-line method over the estimated service lives of the capital assets. Estimated service lives for the District's classes of assets are as follows:

Description	Estimated Lives
Subsurface Wastewater lines	20-60 years
Buildings and Improvements	20-50 years
Equipment	5-20 years
Vehicles	5-10 years

7. Deferred Outflows/Inflows of Resources
In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net assets that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net assets that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time.

8. Compensated Absences
The District's personnel policies provide for accumulation of vacation and sick leave (employee benefits). Liabilities for vacation leave are recorded when benefits are earned. Full cash payment for all unused vacation leave is available to employees upon retirement or termination.

9. Pensions
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 the District's California Public Employees' Retirement System (CalPERS) plans and addition to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position (continued)

10. Pensions (continued)

The following timeframes are used for pension reporting:

Valuation Date June 30, 2021
Measurement Date June 30, 2022
Measurement Period July 1, 2021 to June 30, 2022

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. The difference between projected and actual earnings is amortized straight-line over 5 years. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive and retires) as of the beginning of the measurement period.

11. Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, 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 Retiree Benefits Plan ("the Plan") and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments which are reported at cost.

The following timeframes are used for OPEB reporting:

Valuation Date June 30, 2021
Measurement Date June 30, 2022
Measurement Period July 1, 2021 to June 30, 2022

12. Net Position

Net position is classified into two components: net investment in capital assets and unrestricted. These classifications are defined as follows:

- **Net investment in capital assets -** This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

12. Net Position (continued)

- **Restricted net position** – This component of net position consists of items that do not meet the definition of "investment in capital assets" that are reserved for a specific purpose by covenants, grants, contracts or regulatory requirements.

- **Unrestricted net position -** This component of net position consists of net position that does not meet the definition of "net investment in capital assets.".

D. Use of Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reported period. Actual results could differ from those estimates.

E. 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. The Orange County Auditor-Controller's Office remits current property tax collections to the District throughout the year. Property tax in California is levied in accordance with Article XIIIA of the State Constitution at one percent (1%) of countywide assessed valuations. Property taxes receivable at year-end are related to property taxes collected by the Orange County Tax Collector's Office, which have not been credited to the District's cash balance as of June 30.

The property tax calendar is as follows:

Lien date March 1
Levy date July 1
Due dates November 1 and March 1
Collection dates December 10 and December 18

F. Reclassifications
Certain amounts from the prior year have been reclassified to conform to the current year's presentation.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments were classified in the accompanying financial statements as follows:

Description	June 30, 2023
Cash and cash equivalents	$ 5,070,084
Investments	15,129,262
Total cash and investments	$ 20,199,346

NOTE 2 – CASH AND INVESTMENTS (continued)

Cash and investments consisted of the following:

Description	June 30, 2023
Petty cash	$ 10,700
Demand deposits held with financial institutions	35,091
Local Agency Investment Fund (LAIF)	2,938,516
California CLASS	2,085,777
Investments	15,129,262
Total cash and investments	$ 20,199,346

Demand Deposits with Financial Institutions
At June 30, 2023, the carrying amount of the District's demand deposits were $35,091 and the financial institution's balances were $46,219. The net difference represents outstanding checks, deposits-in-transit and/or other reconciling items between the financial institution's balance and the District's balance for each year.

Custodial Credit Risk – Deposits
Custodial credit risk for *deposits* is the risk that in the event of the failure of a depository financial institution the District 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 the District 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 fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2023, the District's deposits were covered by the Federal Deposit Insurance Corporation insurance limits or collateralized as required by California law.

Investments
The District's investments as of June 30, 2023 are presented in the following Investment Table:

				Maturity		
Type of Investments	**Measurement Input**	**Credit Rating**	**Total Fair Value**	**12 Months or Less**	**13 to 24 Months**	**25 to 120 Months**
U.S. government sponsored agency securities	Level 2	A to AAA	$ 10,813,748	$ 487,520	$ 461,390	$ 9,864,838
Corporate bonds	Level 2	A to AAA	285,007	99,456	-	185,551
Negotiable certificates-of-deposit	Level 2	AAA	4,021,881	1,660,890	1,366,300	994,691
Money-market mutual funds	N/A	AAA	8,626	8,626	-	-
Total investments			$ 15,129,262	$ 2,256,492	$ 1,827,690	$ 11,045,080

NOTE 2 – CASH AND INVESTMENTS (continued)

Investments Authorized by the California Government Code and the District's Investment Policy
The table below identifies the investment types that are authorized for the District by the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. The table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District or the investment of funds within the OPEB Trust that are governed by the agreement between the District and the Trustee, rather than the general provisions of the California Government Code or the District's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	5-years	None	None
U.S. Government Sponsored Agency Securities	5-years	None	None
State of California Obligations	5-years	None	None
CA Local Agency Obligations	5-years	None	None
Negotiable Certificates of Deposit (Negotiable CD)	5-years	30%	5%
CD Placement Service	5-years	30%	None
Banker's Acceptances	180 days	40%	30%
Reverse Purchase Agreement	92 days	20%	None
Repurchase Agreements	1-year	None	None
Commercial Paper	270 days	25%	10%
Medium- Term Notes	5-years	30%	None
California Local Agency Investment Fund (LAIF)	N/A	None	None
County Pooled Investment Funds	N/A	None	None
Joint Powers Authority Pool	N/A	None	None
Mutual Funds and Money Market Mutual Funds	N/A	20%	10%
Collateralized Bank Deposits	5-years	None	None
Bank/Time Deposits	5-years	None	None

NOTE 2 – CASH AND INVESTMENTS (continued)

Investments Authorized by Debt Agreements
Investments of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustees. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
US Treasury Obligations	None	None	None
US Government Sponsored Agency Securities:	None	None	None
Federal Home Loan Bank	None	None	None
Federal Home Loan Mortgage Corporation	None	None	None
Federal National Mortgage Association	None	None	None
Federal Farm Credit Bank	None	None	None
State and Local Agency Obligations	None	None	None
Banker's Acceptances	1-year	None	None
Medium- Term Notes	3-year	None	None
Commercial Paper	None	None	None
Money Market Mutual Funds	N/A	None	None
Investment Agreements	None	None	None
Certificates of Deposit	None	None	None
Repurchase Agreements	30 days	None	None
Local Agency Investment Fund (LAIF)	None	None	None

Disclosures Relating to Interest Rate Risk
Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by in the Investment Table that shows the distribution of the District's investments by maturity as of June 30, 2023.

Disclosures Relating to Credit Risk
Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented in the Investment Table are Standard & Poor's credit ratings for the District's investments as of June 30, 2023. U.S. treasury obligations are not required to be rated and therefore no rating has been assigned.

NOTE 2 – CASH AND INVESTMENTS (continued)

Concentration of Credit Risk
Investments in any one issuer that represent 5% or more of total District investments are as follows:

Issuer	Amount
U.S. government sponsored agency securities:	
Federal National Mortgage Association	$ 1,841,733
Federal Farm Credit Banks Funding Corporation	2,288,154
Federal Home Loan Bank	6,683,861

Fair Value Measurements
The District categorizes its fair value measurement within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are quoted prices for similar assets in active markets, and Level 3 inputs are significant unobservable inputs. All of the District's investments were assigned a Level 2 input on the Investment Table.

Investment in State Investment Pool
The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. For financial reporting purposes, the District considers LAIF a cash equivalent due to its highly liquid nature and dollar-in dollar-out amortized cost methodology. As of June 30, 2023, the District held $2,938,516 in LAIF.

California Cooperative Liquid Assets Securities System (California CLASS)
The California Cooperative Liquid Assets Securities System (California CLASS) is a joint exercise of power entity authorized under Section 6509.7, California Government Code. California CLASS is a pooled investment option that was created via a joint exercise of powers agreement by and among California public agencies. California CLASS provides California public agencies with a convenient method for investing in high-quality, short- to medium-term securities carefully selected to optimize interest earnings while prioritizing safety and liquidity. The California CLASS Prime and Enhanced Cash funds offer public agencies the opportunity to strengthen and diversify their cash management programs in accordance with the safety, liquidity, and yield hierarchy that governs the investment of public funds.

The management of California CLASS is under the direction of a Board of Trustees comprised of eligible Participants of the program. The Board of Trustees has appointed Public Trust Advisors, LLC to serve as the Investment Advisor and Administrator of the program and has appointed U.S. Bank as the Custodian.

NOTE 2 – CASH AND INVESTMENTS (continued)

California Cooperative Liquid Assets Securities System (California CLASS) (continued)

The District is a voluntary participant in California CLASS. The fair value of the District's investment in this pool is reported at an amount based upon the District's pro-rata share of the fair value provided by California CLASS for the entire California CLASS portfolio (in relation to the amortized cost of the of that portfolio). The balance available for withdrawal is based on the accounting records maintained by California CLASS. California CLASS is not categorized under the fair value hierarchy established by GAAP as it is held at an amortized cost basis. The California Class Prime and Enhanced Cash funds receive a credit rating of AAAm (S&P Global Ratings) and AAAf/S1 (FitchRatings), respectively. For financial reporting purposes, the District considers California CLASS a cash equivalent due to its highly liquid nature and dollar-in dollar-out amortized cost methodology. As of June 30, 2023, the District held $2,085,777 in California CLASS.

NOTE 3 – CAPITAL ASSETS AND DEPRECIATION

Changes in capital assets for the fiscal year ended June 30, 2023, were as follows:

Description	Balance July 1, 2022	Additions	Deletions/ Transfers	Balance June 30, 2023
Non-depreciable assets:				
Land	$ 4,327,279	$ -	$ -	$ 4,327,279
Property rights	4,025	-	-	4,025
Construction-in-process	2,876,986	2,675,635	(999,186)	4,553,435
Total non-depreciable assets	7,208,290	2,675,635	(999,186)	8,884,739
Depreciable assets:				
Subsurface sewer lines	94,544,329	1,036,717	(374,955)	95,206,091
Buildings and improvements	6,448,038	-	-	6,448,038
Equipment	1,477,995	43,558	-	1,521,553
Vehicles	1,206,362	703,383	(84,814)	1,824,931
Total depreciable assets	103,676,724	1,783,658	(459,769)	105,000,613
Accumulated depreciation:				
Subsurface sewer lines	(63,913,745)	(1,328,019)	374,955	(64,866,809)
Buildings and improvements	(1,103,635)	(140,297)	-	(1,243,932)
Equipment	(897,012)	(107,651)	-	(1,004,663)
Vehicles	(789,696)	(198,079)	84,814	(902,961)
Total accumulated depreciation	(66,704,088)	(1,774,046)	459,769	(68,018,365)
Total depreciable assets, net	36,972,636	9,612	-	36,982,248
Total capital assets, net	$ 44,180,926	$ 2,685,247	$ (999,186)	$ 45,866,987

NOTE 4 – COMPENSATED ABSENCES

Summary changes to compensated absences balances for the year ended June 30, 2023, were as follows:

Balance July 1, 2022	Additions	Deletions	Balance June 30, 2023	Due Within One Year	Due in More Than One Year
$ 155,543	$ 150,973	$ (129,566)	$ 176,950	$ 100,889	$ 76,062

NOTE 5 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Summary
The following balances on the balance sheet will be addressed in this footnote as follows:

Description	2022
OPEB related deferred outflows	$ 99,782
Net other post-employment benefits (asset)	(119,120)
OPEB related deferred inflows	93,662

A. General Information about the OPEB Plan

Plan Description
The District through an agent multiple-employer other post-employment benefit plan, provides medical, dental, and vision coverage to 19 active employees, 2 retired employees, and covered dependents of retirees. 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). The CERBT is included in the CalPERS annual financial report available on the CalPERS website. The District's plan does not issue financial statements.

Funding Policy
The contribution requirements of plan members and the District are established and may be amended by the District and/or the District's 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 ($141.55 per month), Equal being $149, and indexed to medical CPI plus amortized factor, becoming equal in 2024).

Contributions
Benefit provisions and contribution requirements are established and may be amended through agreements and memorandums of understanding between the District and its employees. The plan does not require employee contributions. Administrative costs of this plan are financed by the District. For fiscal year ended June 30, 2022, the measurement period, the District's contributions totaling $20,624 included $16,135 placed in its OPEB Trust, $3,333 in current year premium payments, and an implied subsidy of $1,156.

NOTE 5 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

A. General Information about the OPEB Plan (continued)

Accounting for the Plan
The other post-employment benefit trust is prepared using the accrual basis of accounting. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide contributions. Benefits are recognized when due and payable in accordance with the terms of each plan.

Method Used to Value Investments
Investments are reported in the accompanying financial statements at fair value, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measure date. Securities for which market quotations are not readily available are valued at their fair value as determined by the custodian with the assistance of a valuation service.

B. Net OPEB Liability
The District's total OPEB liability was measured as of June 30, 2022 and was determined by an actuarial valuation as of June 30, 2022. A summary of the principal assumptions and methods used to determine the total OPEB liability is shown below.

Actuarial Assumptions
The total OPEB liability in the June 30, 2022 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Valuation Date	June 30, 2021
Measurement Date	June 30, 2022
Actuarial Cost Method	Entry age normal, level percentage of payroll
Asset Valuation Method	Fair value of assets as of the measurement date
Actuarial Assumptions:	
Discount Rate	6.20%
Long-Term Expected Rate of Return on Investments	6.20%
Inflation	2.50%
Payroll increases	3.00%
Healthcare Trend Rates	Pre-65 - 5.6% trending down annually to 3.0% by 2075 and later Post-65 - 6.25% trending down annually to 5.6% by 2023 and later and later
Morbidity	CalPERS 2017 Study
Mortality	CalPERS 2017 Study
Disability	Not valued
Retirement	2017 CalPERS Public Agency Miscellaneous experience study; 2.5%@55 and 2% @62
Percent Married	80% of future retirees would enroll a spouse

NOTE 5 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

B. Net OPEB Liability (continued)

Actuarial Assumptions (continued)

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. The target allocation and best estimates of the arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
CERBT moderate investment policy:		
Equity	49.00%	4.50%
Fixed income	23.00%	2.20%
REITs	20.00%	3.90%
TIPS	5.00%	1.30%
Commodities	3.00%	1.20%
Total	100.00%	

Discount Rate

The discount rate used to measure the total OPEB liability was 6.20%. The projection of cash flows used to determine the discount rate assumed that the District's 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 projected benefit payments to determine the total OPEB liability.

C. Changes in the Net OPEB Liability

The changes in the total OPEB liability are as follows:

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability/(Asset)
Balance at July 1, 2022 (Measurement date July 1, 2021)	$ 288,426	$ 521,353	$ (232,927)
Changes for the year:			
Service cost	25,299	-	25,299
Interest	19,502	-	19,502
Differences in experience	-	-	-
Changes in assumption	2,350	-	2,350
Employer contributions	-	3,372	(3,372)
Net investment income	-	(69,896)	69,896
Investment income more than expected	-	-	-
Benefit payments	(3,372)	(3,372)	-
Administrative expenses	-	(132)	132
Net changes	43,779	(70,028)	113,807
Balance at June 30, 2023 (Measurement date June 30, 2022)	$ 332,205	$ 451,325	$ (119,120)

NOTE 5 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

C. Changes in the Net OPEB Liability (continued)

Changes of Assumptions
In fiscal year 2021-22, the discount rate decreased from 6.25% to 6.20%, reflecting updated long-term rates of return provided by CalPERS in March 2022, which increased the total OPEB liability by $2,350.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate
The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (5.20%) or 1 percentage point higher (7.20%) than the current discount rate:

	1% Decrease 5.2%	Discount Rate 6.2%	1% Increase 7.2%
Net OPEB Liability	$ (66,608)	$ (119,120)	$ (161,841)

Sensitivity of the Total OPEB Liability to Changes in Medical Trend Rates
The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using medical trend rates that are 1-percentage point lower:

		Healthcare Cost	
	4.6% Decreasing to 2.9%	5.6% Decreasing to 3.9%	6.6% Decreasing to 4.9%
Net OPEB Liability	$ (172,561)	$ (119,120)	$ (50,290)

D. OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB
For the year ended June 30, 2023, the District recognized OPEB expense of $13,840. At June 30, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Account Description	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions made after the measurement date	$ 20,624	$ -
Changes in assumptions	23,209	(12,934)
Differences between expected and actual experience	16,745	(80,728)
Differences between projected and actual earnings on OPEB plan investments	39,204	-
Total Deferred Outflows/(Inflows) of Resources	$ 99,782	$ (93,662)

NOTE 5 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

D. OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB (continued)
The differences between projected and actual earnings on plan investments is amortized over five years. The District reported $20,624 as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

Amortization Period Fiscal Year Ended June 30	Deferred Outflows/(Inflows) of Resources
2024	$ 2,232
2025	1,906
2026	(706)
2027	15,404
2028	(5,092)
Thereafter	(28,248)
Total	$ (14,504)

NOTE 6 – PENSION PLAN

Summary
The following balances on the balance sheet will be addressed in this footnote as follows:

Description	2023
Pension related deferred outflows	$ 715,686
Net pension liability	447,214
Pension related deferred inflows	22,683

Qualified employees are covered under a multiple-employer defined benefit pension plan maintained by agencies of the State of California known as the California Public Employees' Retirement System (CalPERS), or "The Plan".

NOTE 6 – PENSION PLAN (continued)

A. General Information about the Pension Plan

The Plan

The District has engaged with CalPERS to administer the following pension plans for its employees (members):

	Miscellaneous Plans		
	Classic Tier 1	Classic Tier 2	PEPRA Tier 3
Hire date	Prior to January 1, 2013	From July 2, 2011 to December 31, 2012	On or after January 1, 2013
Benefit formula	2.0% @ 55	2.0% @ 60	2.0% @ 62
Benefit vesting schedule	5-years of service	5-years of service	5-years of service
Benefits payments	monthly for life	monthly for life	monthly for life
Retirement age	50 - 63 & up	50 - 65 & up	52 - 67 & up
Monthly benefits, as a % of eligible compensation	1.426% to 2.418%	1.092% to 2.418%	1.0% to 2.5%
Required member contribution rates	7.000%	7.000%	7.250%
Required employer contribution rates – FY 2022	11.600%	9.300%	7.730%

Plan Description

The Plan is an agent multiple-employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). A full description of the pension plan regarding number of employees covered, benefit provisions, assumptions (for funding, but not accounting purposes), and membership information are listed in the Plan's June 30, 2021, and June 30, 2020 Annual Actuarial Valuation Report (funding valuation). Details of the benefits provided can be obtained in Appendix B of the actuarial valuation report. This report and CalPERS' audited financial statements are publicly available reports that can be obtained at CalPERS' website.

At June 30, 2022 measurement date, the following members were covered by the benefit terms:

	Miscellaneous Plans			
Plan Members	Classic Tier 1	Classic Tier 2	PEPRA Tier 3	Total
Active members	4	3	13	20
Transferred and terminated members	2	4	10	16
Retired members and beneficiaries	5	2	-	7
Total plan members	11	9	23	43

All qualified permanent and probationary employees are eligible to participate in the District's cost-sharing multiple-employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by state statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions, and membership information that can be found on the CalPERS website.

NOTE 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 nonindustrial disability benefits after five 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.

Contributions
Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers are 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. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance 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. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements are classified as plan member contributions.

Contributions for the year ended June 30, 2023, were as follows:

	Miscellaneous Plans			
Contribution Type	**Classic Tier 1**	**Classic Tier 2**	**PEPRA Tier 3**	**Total**
Contributions – employer	$ 94,582	$ 36,903	$ 94,823	$ 226,308

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions

Proportionate Share of Net Pension Liability and Pension Expense
The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2022, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2021, rolled forward to June 30, 2022, using standard update procedures. The District's proportionate share of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

NOTE 6 – PENSION PLAN (continued)

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (continued)

The following table shows the District's proportionate share of the risk pool collective net pension liability over the measurement period for the Miscellaneous Plan for the fiscal year ended June 30, 2023:

	Percentage Share of Risk Pool		
	Fiscal Year Ending June 30, 2023	Fiscal Year Ending June 30, 2022	Change Increase/ (Decrease)
Measurement Date	June 30, 2022	June 30, 2021	
Percentage of Risk Pool Net Pension Liability	0.009557%	-0.013290%	0.022847%
Percentage of Plan Net Pension Liability	0.003872%	-0.004666%	0.008538%

Proportionate Share of Net Pension Liability and Pension Expense (continued)

The District's proportionate share percentage of the net pension liability for the June 30, 2022, measurement date was as follows:

Plan Type and Balance Descriptions	Plan Total Pension Liability	Plan Fiduciary Net Position	Change in Plan Net Pension Liability
CalPERS – Miscellaneous Plan:			
Balance as of June 30, 2021 (Measurement Date)	$ 3,956,983	$ 4,209,330	$ (252,347)
Balance as of June 30, 2022 (Measurement Date)	$ 4,725,413	$ 4,278,199	$ 447,214
Change in Plan Net Pension Liability	$ 768,430	$ 68,869	$ 699,561

For the year ended June 30, 2022, the District recognized a pension credit of $772,780. At June 30, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Account Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions made after the measurement date	$ 226,308	$ -
Difference between actual and proportionate share of employer contributions	3,033	(16,668)
Adjustment due to differences in proportions	349,620	-
Differences between expected and actual experience	8,981	(6,015)
Differences between projected and actual earnings on pension plan investments	81,918	-
Changes in assumptions	45,826	-
Total Deferred Outflows/(Inflows) of Resources	$ 715,686	$ (22,683)

NOTE 6 – PENSION PLAN (continued)

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (continued)

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period. The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, changes of assumptions, and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 3.8 years.

Proportionate Share of Net Pension Liability and Pension Expense (continued)
An amount of $226,308 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 ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as a reduction to pension expense as follows:

Amortization Period Fiscal Year Ended June 30	Deferred Outflows/(Inflows) of Resources
2024	$ 181,798
2025	151,964
2026	82,830
2027	50,103
Total	$ 466,695

Actuarial Methods and Assumptions Used to Determine Total Pension Liability
For the measurement period ending June 30, 2022 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2021, total pension liability. The June 30, 2022, total pension liability was based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirement of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	6.90%
Inflation	2.30%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table	Derived using CalPERS' Membership Data for all Funds.
Post Retirement Benefit Increase	Contract COLA up to 2.30% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.30% thereafter

NOTE 6 – PENSION PLAN (continued)

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (continued)

Long-term Expected Rate of Return
The long-term expected rate of return on pension plan investments was determined using a building-block method in which 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. Using historical returns of all of the funds' asset classes, expected compound (geometric) returns were calculated over the next 20 years using a building-block approach. The expected rate of return was then adjusted to account for assumed administrative expenses of 10 Basis points. The expected real rates of return by asset class are as follows:

The table below reflects long-term expected real rate of return by asset class.

Asset Class	Assumed Asset Allocation	Real Return [1,2]
Global Equity - Cap-weighted	30.0%	4.54%
Global Equity - Non-Cap-weighted	12.0%	3.84%
Private Equity	13.0%	7.28%
Treasury	5.0%	0.27%
Mortgage-backed Securities	5.0%	0.50%
Investment Grade Corporates	10.0%	1.56%
High Yield	5.0%	2.27%
Emerging Market Debt	5.0%	2.48%
Private Debt	5.0%	3.57%
Real Estate	15.0%	3.21%
Leverage	-5.0%	-0.59%
	100.0%	

[1] An expected inflation of 2.3% is used for this period.
[2] Figures are based on the 2021 Asset Liability Management study.

Discount Rate
The discount rate used to measure the total pension liability was 6.90%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTE 6 – PENSION PLAN (continued)

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (continued)

Subsequent Events
On July 12, 2021, CalPERS reported a preliminary 21.3% net return on investments for fiscal year 2020-21. Based on the thresholds specified in CalPERS Funding Risk Mitigation policy, the excess return of 14.3% prescribes a reduction in investment volatility that corresponds to a reduction in the discount rate used for funding purposes of 0.20%, from 7.00% to 6.80%. Since CalPERS was in the final stages of the four-year Asset Liability Management (ALM) cycle, the board elected to defer any changes to the asset allocation until the ALM process concluded, and the board could make its final decision on the asset allocation in November 2021.

On November 17, 2021, the board adopted a new strategic asset allocation. The new asset allocation along with the new capital market assumptions, economic assumptions and administrative expense assumption support a discount rate of 6.90% (net of investment expense but without a reduction for administrative expense) for financial reporting purposes. This includes a reduction in the price inflation assumption from 2.50% to 2.30% as recommended in the November 2021 CalPERS Experience Study and Review of Actuarial Assumptions. This study also recommended modifications to retirement rates, termination rates, mortality rates and rates of salary increases that were adopted by the board. These new assumptions will be reflected in the GASB 68 accounting valuation reports for the June 30, 2022, measurement date.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate
The following presents the net pension liability/(asset) of the Plan as of the measurement date, calculated using the discount rate of 6.90%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (5.90%) or 1 percentage-point higher (7.90%) than the current rate:

	Plan's Net Pension Liability/(Asset)		
Plan Type	**Discount Rate - 1% 5.90%**	**Current Discount Rate 6.90%**	**Discount Rate + 1% 7.90%**
CalPERS – Miscellaneous Plan	$ 1,091,373	$ 447,214	$ (82,769)

Pension Plan Fiduciary Net Position
Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial report and can be obtained from CalPERS' website under Forms and Publications.

NOTE 7 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The District is a member of the Special District Risk Management Authority (SDRMA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California special districts. The purpose of the SDRMA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. Further information about SDRMA is as follows:

A.	**Entity**	SDRMA
B.	**Purpose**	To pool member contributions and realize the advantages of self-insurance
C.	**Participants**	As of June 30, 2023 – 499 member districts
D.	**Governing board**	Seven representatives employed by members
E.	**District payments for FY 2023:**	
	Property/Liability policy	$75,091
	Workers' compensation policy	$23,063
F.	**Condensed financial information**	June 30, 2023

	June 30, 2023
Statement of financial position:	
Total assets	$ 146,574,993
Deferred outflows	1,664,198
Total liabilities	76,343,471
Deferred inflows	374,517
Net position	$ 71,521,203
Statement of revenues, expenses and changes in net position:	
Total revenues	$ 100,884,445
Total expenses	(96,706,371)
Change in net position	4,178,074
Beginning – net position	67,343,129
Ending – net position	$ 71,521,203

G.	**Member agencies share of year-end financial position**	Not Calculated

At June 30, 2023, the District participated in the liability and property programs of the SDRMA as follows:

- General and auto liability, public officials and employees' errors and omissions: Total risk financing self-insurance limits of $2,500,000, combined single limit at $2,500,000 per occurrence. The District purchased additional excess coverage layers: $10,000,000 for general, auto and public officials liability, which increases the limits on the insurance coverage noted above. The self-insurance amount for Workers Compensation is $750,000.

NOTE 7 – RISK MANAGEMENT (continued)

In addition to the above, the District also has the following insurance coverage:

- Employee dishonesty coverage up to $1,000,000 per loss includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction coverage's.
- Property loss is paid at the replacement cost for property on file, if replaced within three years after the loss, otherwise paid on an actual cash value basis, to a combined total of $750 million per occurrence, subject to a $2,000 deductible per occurrence.
- Boiler and machinery coverage for the replacement cost up to $100 million per occurrence, subject to a $1,000 deductible per occurrence.
- Public officials personal liability up to $10,000,000 each occurrence, with an annual aggregate of $10,00,000 per each elected/appointed official to which this coverage applies, subject to the terms, with a deductible of $500 per claim.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years. There were no reductions in insurance coverage in fiscal year 2023, 2022, and 2021. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2023, 2022, and 2021.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

Excluded Leases – Short-Term Leases and De Minimis Leases

The District does not recognize a lease receivable and a deferred inflow of resources for short-term leases. Short-term leases are certain leases that have a maximum possible term under the lease contract of 12-months (or less), including any options to extend, regardless of their probability of being exercised.

Also, d*e minimis* lessor or lessee leases are certain leases (i.e., room rental, copiers, printers, postage machines) that regardless of their lease contract period are *de minimis* with regards to their aggregate total dollar amount to the financial statements as a whole.

Litigation

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

NOTE 9 – SUBSEQUENT EVENTS

The District has evaluated subsequent events through December 18, 2023, the date which the financial statements were available to be issued.

Required Supplementary Information

COSTA MESA SANITARY DISTRICT

Schedule of the District's Proportionate Share of the Net Pension Liability
For the Year Ended June 30, 2023

Last Ten Fiscal Years*

California Public Employees' Retirement System (CalPERS) Miscellaneous Plan

Measurement Date	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan's Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability
June 30, 2014	0.00470%	$ 270,680	$ 785,130	34.48%	83.03%
June 30, 2015	0.01001%	274,712	927,345	29.62%	83.99%
June 30, 2016	0.01105%	384,681	1,003,922	38.32%	80.02%
June 30, 2017	0.00267%	105,177	1,182,000	8.90%	95.45%
June 30, 2018	0.00237%	89,267	1,376,416	6.49%	96.61%
June 30, 2019	0.00395%	158,318	1,631,291	9.71%	94.80%
June 30, 2020	0.00581%	245,093	2,257,055	10.86%	92.81%
June 30, 2021	-0.01329%	(252,346)	1,725,293	-14.63%	106.38%
June 30, 2022	0.00956%	447,214	1,960,264	22.81%	90.54%

Notes to Schedule:

Benefit Changes:
There were no changes in benefits.

Changes in Assumptions:
From fiscal year June 30, 2015 and June 30, 2016:

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

From fiscal year June 30, 2016 to June 30, 2017:
There were no changes in assumptions.

From fiscal year June 30, 2017 to June 30, 2018:
The discount rate was reduced from 7.65% to 7.15%.

From fiscal year June 30, 2018 to June 30, 2019:
There were no significant changes in assumptions.

From fiscal year June 30, 2019 to June 30, 2020:
There were no significant changes in assumptions.

From fiscal year June 30, 2020 to June 30, 2021:
There were no significant changes in assumptions.

From fiscal year June 30, 2021 to June 30, 2022:
There were no significant changes in assumptions.

From fiscal year June 30, 2021 to June 30, 2022:
The discount rate was reduced to 6.90% and the inflation rate to 2.30%.

*Fiscal year 2014 was the first measurement date year of implementation; therefore, only nine years are shown.

COSTA MESA SANITARY DISTRICT

Schedule of the District's Contributions to the Defined Benefit Pension Plan
For the Year Ended June 30, 2023

Last Ten Fiscal Years*

California Public Employees' Retirement System (CalPERS) Miscellaneous Plan

Fiscal Year	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
June 30, 2015	$ 103,072	$ (103,072)	$ -	$ 972,345	10.60%
June 30, 2016	108,023	(108,023)	-	1,033,922	10.45%
June 30, 2017	450,487	(450,487)	-	1,182,000	38.11%
June 30, 2018	110,124	(110,124)	-	1,376,416	8.00%
June 30, 2019	117,340	(117,340)	-	1,631,291	7.19%
June 30, 2020	131,461	(131,461)	-	2,257,055	5.82%
June 30, 2021	159,582	(159,582)	-	1,725,293	9.25%
June 30, 2022	199,722	(199,722)	-	1,960,264	10.19%
June 30, 2023	226,308	(226,308)	-	2,191,887	10.32%

Notes to Schedule:

Fiscal Year	Valuation Date	Actuarial Cost Method	Asset Valuation Method	Inflation	Investment Rate of Return
June 30, 2015	June 30, 2013	Entry Age	Fair Value	2.75%	7.65%
June 30, 2016	June 30, 2014	Entry Age	Fair Value	2.75%	7.65%
June 30, 2017	June 30, 2015	Entry Age	Fair Value	2.75%	7.65%
June 30, 2018	June 30, 2016	Entry Age	Fair Value	2.75%	7.15%
June 30, 2019	June 30, 2017	Entry Age	Fair Value	2.50%	7.15%
June 30, 2020	June 30, 2018	Entry Age	Fair Value	2.50%	7.15%
June 30, 2021	June 30, 2019	Entry Age	Fair Value	2.50%	7.15%
June 30, 2022	June 30, 2020	Entry Age	Fair Value	2.50%	7.15%
June 30, 2022	June 30, 2020	Entry Age	Fair Value	2.30%	6.90%

Amortization Method	Level percentage of payroll, closed
Salary Increases	Depending on age, service, and type of employment
Investment Rate of Return	Net of pension plan investment expense, including inflation
Retirement Age	50 years (2%@55 and 2%@62), 52 years (2%@62)
Mortality	Mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board.

*Fiscal year 2015 was the first measurement date year of implementation; therefore, only nine years are shown.

COSTA MESA SANITARY DISTRICT

Schedule of Changes in the District's Net OPEB Liability and Related Ratios

For the Year Ended June 30, 2023

Last Ten Fiscal Years*

Fiscal Year Ended	**June 30, 2023**	**June 30, 2022**	**June 30, 2021**	**June 30, 2020**	**June 30, 2019**	**June 30, 2018**
Measurement Date	**June 30, 2022**	**June 30, 2021**	**June 30, 2020**	**June 30, 2019**	**June 30, 2018**	**June 30, 2017**
Total OPEB liability:						
Service cost	$ 25,299	$ 18,903	$ 18,352	$ 18,341	$ 17,807	$ 17,288
Interest	19,502	23,695	22,075	19,882	18,641	17,915
Changes of assumptions	2,350	25,171	-	(20,482)	-	-
Differences between expected and actual experience	-	(96,526)	-	26,513	-	-
Benefit payments	(3,372)	(14,630)	(20,389)	(17,381)	(19,816)	(30,123)
Net change in total OPEB liability	43,779	(43,387)	20,038	26,873	16,632	5,080
Total OPEB liability - beginning	288,426	331,813	311,775	284,902	268,270	263,190
Total OPEB liability - ending	332,205	288,426	331,813	311,775	284,902	268,270
Plan fiduciary net position:						
Contributions - employer	3,372	31,604	36,845	34,190	19,816	156,123
Net investment income	(69,896)	108,829	13,154	21,104	24,267	24,822
Administrative expense	(132)	(150)	(179)	(74)	(566)	(141)
Benefit payments	(3,372)	(14,630)	(20,389)	(17,381)	(19,816)	(30,123)
Net change in plan fiduciary net position	(70,028)	125,653	29,431	37,839	23,701	150,681
Plan fiduciary net position - beginning	521,353	395,700	366,269	328,430	304,729	154,048
Plan fiduciary net position - ending	451,325	521,353	395,700	366,269	328,430	304,729
District's net OPEB liability	$ (119,120)	$ (232,927)	$ (63,887)	$ (54,494)	$ (43,528)	$ (36,459)
Plan fiduciary net position as a percentage of the total OPEB liability	135.86%	180.76%	119.25%	117.48%	115.28%	113.59%
Covered payroll	$ 2,008,712	$ 1,819,281	$ 1,601,979	$ 1,322,576	$ 1,354,463	$ 1,182,000
District's net OPEB liability as a percentage of covered payroll	-5.93%	-12.80%	-3.99%	-4.12%	-3.21%	-3.08%

Notes to Schedule:

Benefit Changes:

Measurement Date June 30, 2017 – There were no changes in benefits

Measurement Date June 30, 2018 – Coverage expanded to spouses for future retirees hired on or after July 1, 2009 if they have 25 years of service, effective fiscal year ending June 30, 2018

Measurement Date June 30, 2019 – There were no changes in benefits

Measurement Date June 30, 2020 – There were no changes in benefits

Measurement Date June 30, 2021 – There were no changes in benefits

Measurement Date June 30, 2022 – There were no changes in benefits

Changes in Assumptions:

Measurement Date June 30, 2017 – Average per capita claims cost was updated to reflect actual 2017 premiums, health care cost trend rate was updated to reflect 2018 industry survey data, and mortality table was updated to reflect most recent CalPERS studies.

Measurement Date June 30, 2018 – There were no changes in assumptions

Measurement Date June 30, 2019 – Payroll increases include merit increases

Measurement Date June 30, 2020 – There were no changes in assumptions

Measurement Date June 30, 2021 – Discount rate decreased to 6.50%, inflation rate decreased to 2.26%, payroll increases increased to 3.25%

Measurement Date June 30, 2022 – Discount rate decreased to 6.20%, inflation rate increased to 2.50%, payroll increases decreased to 3.00%

* Fiscal year 2018 was the first year of implementation; therefore, only six years are shown.

COSTA MESA SANITARY DISTRICT

Schedule of Contributions – Other Post-Employment Benefits (OPEB) Plan
For the Year Ended June 30, 2023

Last Ten Fiscal Years*

Fiscal Year Ended	**June 30, 2023**	**June 30, 2022**	**June 30, 2021**	**June 30, 2020**	**June 30, 2019**	**June 30, 2018**
Actuarially determined contribution	$ 16,135	$ 5,897	$ 15,785	$ 16,456	$ 16,809	$ 19,904
Contributions in relation to the actuarially determined contributions	(20,624)	(3,372)	(31,604)	(36,845)	(34,190)	(19,816)
Contribution deficiency (excess)	$ (4,489)	$ 2,525	$ (15,819)	$ (20,389)	$ (17,381)	$ 88
Covered payroll	$ 2,328,257	$ 2,008,712	$ 1,819,281	$ 1,601,979	$ 1,322,576	$ 1,354,463
Contributions as a percentage of covered payroll	0.89%	0.17%	1.74%	2.30%	2.59%	1.46%

Notes to Schedule:

Valuation Date	June 30, 2021	June 30, 2021	June 30, 2019	June 30, 2019	June 30, 2017	June 30, 2017
Methods and Assumptions Used to Determine Contribution Rates:						
Actuarial cost method Entry age normal	Entry Age	Entry Age	Entry Age	Entry Age	Entry Age	Entry Age
Amortization method Closed period, level percent of pay	(1)	(1)	(1)	(1)	(1)	(1)
Amortization period	20-years	20-years	20-years	20-years	20-years	20-years
Asset valuation method	Fair Value	Fair Value	Fair Value	Fair Value	Fair Value	Fair Value
Discount rate	6.25%	6.25%	6.50%	6.50%	6.50%	6.50%
Inflation	2.50%	2.50%	2.26%	2.26%	2.26%	2.26%
Payroll increases	3.00%	3.00%	3.25%	3.25%	3.25%	3.25%
Mortality	(2)	(2)	(2)	(2)	(2)	(2)
Morbidity	(3)	(3)	(3)	(3)	(3)	(3)
Disability	Not Valued	Not Valued	Not Valued	Not Valued	Not Valued	Not Valued
Retirement	(4)	(4)	(4)	(4)	(4)	(4)
Percent Married	80%	80%	80%	80%	80%	80%
Healthcare trend rates	(5)	(5)	(5)	(5)	(5)	(5)

(1) Closed period, level percent of pay
(2) CalPERS 2017 Study
(3) CalPERS 2017 Study
(4) CalPERS Public Agency Miscellaneous 2.5% @55 and 2% @62
(5) Pre-65 - 5.6% trending fluctuating annually to 3.0% in 2075 and later
Post-65 - 6.25% fluctuating annually to 5.6% in 2023 and later

* Fiscal year 2018 was the first year of implementation; therefore, only six years are shown.

Supplementary Information

COSTA MESA SANITARY DISTRICT

Schedules of Balance Sheets – Internal Funds

For the Year Ended June 30, 2023 (With Comparative Amounts as of June 30, 2022)

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	Solid Waste	Wastewater	Other Enterprise	2023	2022
Current assets:					
Cash and cash equivalents	$ 1,076,095	$ 3,431,246	$ 562,743	$ 5,070,084	$ 5,718,827
Investments	3,211,094	10,238,929	1,679,239	15,129,262	15,204,344
Accrued interest receivable	17,322	62,277	9,776	89,375	40,692
Accounts receivable	35,315	5,935	-	41,250	61,466
Assessment receivable	147,414	129,807	-	277,221	197,470
Property tax receivable	13,549	-	-	13,549	12,672
Inventory – materials and supplies	-	196,869	-	196,869	196,869
Prepaid expenses	23,909	139,173	-	163,082	31,960
Total current assets	4,524,698	14,204,236	2,251,758	20,980,692	21,464,300
Non-current assets:					
Net OPEB asset	39,310	79,810	-	119,120	232,927
Net pension asset	-	-	-	-	252,347
Capital assets – not being depreciated	-	8,884,739	-	8,884,739	7,208,290
Capital assets – being depreciated, net	31,547	36,950,701	-	36,982,248	36,972,636
Total non-current assets	70,857	45,915,250	-	45,986,107	44,666,200
Total assets	4,595,555	60,119,486	2,251,758	66,966,799	66,130,500
Deferred outflows of resources:					
Deferred amounts related to net OPEB liability	32,928	66,854	-	99,782	45,670
Deferred amounts related to net pension liability	214,705	500,981	-	715,686	569,770
Total deferred outflows of resources	247,633	567,835	-	815,468	615,440
Total assets and deferred outflows of resources	$ 4,843,188	$ 60,687,321	$ 2,251,758	$ 67,782,267	$ 66,745,940
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION					
Current liabilities:					
Accounts payable and accrued expenses	$ 515,688	$ 725,952	$ -	$ 1,241,640	$ 1,512,054
Deposits and unearned revenues	-	-	-	-	25,150
Long-term liabilities – due within one year:					
Compensated absences	24,319	76,570	-	100,889	88,098
Total current liabilities	540,007	802,522	-	1,342,529	1,625,302
Non-current liabilities:					
Long-term liabilities – due in more than one year:					
Compensated absences	18,334	57,728	-	76,062	67,445
Net pension liability	134,164	313,050	-	447,214	-
Total non-current liabilities	152,498	370,778	-	523,276	67,445
Total liabilities	692,505	1,173,300	-	1,865,805	1,692,747
Deferred inflows of resources:					
Deferred amounts related to net OPEB liability	30,908	62,754	-	93,662	160,141
Deferred amounts related to net pension liability	6,804	15,879	-	22,683	29,857
Total deferred inflows of resources	37,712	78,633	-	116,345	189,998
Net position:					
Investment in capital assets	31,547	45,835,440	-	45,866,987	44,180,926
Restricted for net OPEB and pension liabilities	39,310	79,810	-	119,120	485,274
Unrestricted	4,042,114	13,520,138	2,251,758	19,814,010	20,196,995
Total net position	4,112,971	59,435,388	2,251,758	65,800,117	64,863,195
Total liabilities, deferred inflows of resources and net position	$ 4,843,188	$ 60,687,321	$ 2,251,758	$ 67,782,267	$ 66,745,940

COSTA MESA SANITARY DISTRICT

Schedules of Revenues, Expenses and Changes in Net Position – Internal Funds
For the Year Ended June 30, 2023 (With Comparative Amounts as of June 30, 2022)

	Solid Waste	Wastewater	Other Enterprise	2023	2022
Operating revenues:					
Trash assessments	$ 6,320,712	$ -	$ -	$ 6,320,712	$ 5,959,420
Wastewater assessments	-	6,649,293	-	6,649,293	5,718,282
Permits and inspection fees	-	126,610	-	126,610	134,311
Connection fees	-	55,914	-	55,914	54,407
Other services	130,484	-	-	130,484	128,346
Total operating revenues	6,451,196	6,831,817	-	13,283,013	11,994,766
Operating expenses:					
Solid waste disposal	2,971,389	-	-	2,971,389	2,883,201
Wastewater disposal	-	2,233,427	-	2,233,427	1,730,761
Recycling and disposal charges	2,410,340	-	-	2,410,340	2,389,672
General and administrative	811,936	1,681,046	-	2,492,982	1,050,027
Materials and services	428,289	704,333	-	1,132,622	970,425
Total operating expenses	6,621,954	4,618,806	-	11,240,760	9,024,086
Operating income(loss) before depreciation	(170,758)	2,213,011	-	2,042,253	2,970,680
Depreciation expense	(10,480)	(1,763,566)	-	(1,774,046)	(1,756,608)
Operating income(loss)	(181,238)	449,445	-	268,207	1,214,072
Non-operating revenues(expenses):					
Property taxes	412,347	-	-	412,347	380,848
Investment earnings	10,267	58,110	(8,100)	60,277	(880,129)
Rental revenue	-	150	-	150	2,607
Grant revenue	36,858	454	-	37,312	669,568
Sale of capital assets	10,273	15,640	-	25,913	19,845
Transfers In/(Out)	(23,800)	(160,700)	184,500	-	-
Other non-operating revenues	134,917	(2,201)	-	132,716	160,332
Total non-operating revenues(expenses), net	580,862	(88,547)	176,400	668,715	353,071
Change in net position	399,624	360,898	176,400	936,922	1,567,143
Net position:					
Beginning of year	3,713,347	59,074,490	2,075,358	64,863,195	63,296,052
End of year	$ 4,112,971	$ 59,435,388	$ 2,251,758	$ 65,800,117	$ 64,863,195

Statistical Section

This part of the District's Annual Comprehensive 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.

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COSTA MESA SANITARY DISTRICT

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

Description	Fiscal Year				
	2014	2015	2016	2017	2018
Changes in net position:					
Operating revenues	$ 10,327,835	$ 10,825,377	$ 11,077,758	$ 11,246,522	$ 11,419,014
Operating expenses	(8,453,930)	(8,634,912)	(9,323,731)	(9,483,656)	(9,409,708)
Depreciation and amortization	(1,604,500)	(1,690,932)	(1,754,124)	(1,749,622)	(1,738,975)
Operating income (loss)	269,405	499,533	(97)	13,244	270,331
Non-operating revenue (expenses), net	260,229	589,791	574,652	761,793	416,994
Net income (loss) before capital contributions	529,634	1,089,324	574,555	775,037	687,325
Capital contributions	5,000	-	89,400	49,253	-
Changes in net position	$ 534,634	$ 1,089,324	$ 663,955	$ 824,290	$ 687,325
Net position:					
Net investment in capital assets	$ 29,605,233	$ 39,102,729	$ 42,348,941	$ 43,096,961	$ 44,564,961
Restricted for net OPEB and pension liabilities	-	-	-	-	-
Unrestricted	19,407,734	20,726,351	18,144,094	18,220,364	17,262,186
Total net position	$ 49,012,967	$ 59,829,080	$ 60,493,035	$ 61,317,325	$ 61,827,147

Description	Fiscal Year				
	2019	2020	2021	2022	2023
Changes in net position:					
Operating revenues	$ 11,372,000	$ 11,929,955	11,599,955	$ 11,994,766	$ 13,283,013
Operating expenses	(10,293,776)	(10,667,557)	(10,337,557)	(9,024,086)	(11,240,760)
Depreciation and amortization	(1,685,650)	(1,726,363)	(1,736,570)	(1,756,608)	(1,774,046)
Operating income (loss)	(607,426)	(463,965)	(474,172)	1,214,072	268,207
Non-operating revenue (expenses), net	1,147,748	604,908	615,115	353,071	668,715
Net income (loss) before capital contributions	540,322	140,943	140,943	1,567,143	936,922
Capital contributions	10,000	28,000	28,000	-	-
Changes in net position	$ 550,322	$ 168,943	168,943	$ 1,567,143	$ 936,922
Net position:					
Net investment in capital assets	$ 43,447,263	$ 43,588,263	43,726,063	$ 44,180,926	$ 45,866,987
Restricted for net OPEB and pension liabilities	-	-	-	485,274	119,120
Unrestricted	18,930,206	19,538,846	19,569,989	20,196,995	19,814,010
Total net position	$ 62,377,469	$ 63,127,109	63,296,052	$ 64,863,195	$ 65,800,117

Source: Costa Mesa Sanitary District

COSTA MESA SANITARY DISTRICT

Operating Revenues by Source

Last Ten Fiscal Years

Description	Fiscal Year				
	2014	2015	2016	2017	2,018
Operating revenues:					
Trash assessments	$ 4,681,766	$ 4,768,071	$ 4,787,459	$ 4,882,785	$ 4,965,640
Wastewater assessments	5,081,699	5,301,231	5,430,408	5,552,190	5,662,878
Permits and inspection fees	118,041	206,971	231,850	265,340	229,124
Connection fees	134,158	192,913	257,323	183,352	146,575
Other services and charges	312,171	356,191	370,718	362,855	414,797
Total operating revenues	$ 10,327,835	$ 10,825,377	$ 11,077,758	$ 11,246,522	$ 11,419,014

Description	Fiscal Year				
	2019	2020	2021	2022	2023
Operating revenues:					
Trash assessments	$ 4,907,485	$ 5,151,672	$ 5,546,056	$ 5,959,420	$ 6,320,712
Wastewater assessments	5,644,174	5,624,274	5,687,650	5,718,282	6,649,293
Permits and inspection fees	215,070	237,572	153,238	134,311	126,610
Connection fees	161,484	242,026	90,485	54,407	55,914
Other services and charges	443,787	454,339	122,526	128,346	130,484
Total operating revenues	$ 11,372,000	$ 11,709,883	$ 11,599,955	$ 11,994,766	$ 13,283,013

Source: Costa Mesa Sanitary District

COSTA MESA SANITARY DISTRICT

Operating Expenses by Activity

Last Ten Fiscal Years

Description	Fiscal Year				
	2014	2015	2016	2017	2018
Operating expenses:					
Solid waste and recycling disposal	$ 4,477,812	$ 4,500,416	$ 4,770,212	$ 4,992,220	$ 5,030,898
Wastewater disposal	1,591,051	1,665,480	1,641,085	1,800,679	1,407,130
General and administrative	2,385,067	2,469,016	2,912,434	2,690,757	2,971,680
Total operating expenses	$ 8,453,930	$ 8,634,912	$ 9,323,731	$ 9,483,656	$ 9,409,708

Description	Fiscal Year				
	2019	2020	2021	2022	2023
Operating expenses:					
Solid waste and recycling disposal	$ 5,090,936	$ 5,544,397	$ 5,530,688	$ 5,272,873	$ 5,381,729
Wastewater disposal	2,044,275	1,514,716	1,884,233	1,730,761	2,233,427
General and administrative	3,158,565	2,961,564	2,922,636	2,020,452	3,625,604
Total operating expenses	$ 10,293,776	$ 10,020,677	$ 10,337,557	$ 9,024,086	$ 11,240,760

Source: Costa Mesa Sanitary District

COSTA MESA SANITARY DISTRICT

Non-Operating Revenues (Expenses), Net

Last Ten Fiscal Years

Decription	Fiscal Year				
	2014	2015	2016	2017	2018
Non-operating revenues (expenses):					
Investment earnings	$ 291,073	$ 205,472	$ 292,524	$ 26,140	$ 50,834
Taxes	235,336	245,415	270,876	287,705	313,456
Other revenues	77,814	138,904	44,760	385,530	52,704
Other expenses	(350,000)	-	-	-	-
Loss on disposal of assets	6,006	-	(33,508)	62,418	-
Total non-operating revenues	$ 260,229	$ 589,791	$ 574,652	$ 761,793	$ 416,994

Decription	Fiscal Year				
	2019	2020	2021	2022	2023
Non-operating revenues (expenses):					
Investment earnings	$ 661,506	$ 445,719	$ 26,470	$ (880,129)	$ 60,277
Taxes	328,943	364,570	371,085	380,848	412,347
Other revenues	162,579	202,946	217,560	832,507	170,178
Other expenses	-	-	-	-	-
Loss on disposal of assets	(5,280)	(160,215)	-	19,845	25,913
Total non-operating revenues	$ 1,147,748	$ 853,020	$ 615,115	$ 353,071	$ 668,715

Source: Costa Mesa Sanitary District

COSTA MESA SANITARY DISTRICT

Solid Waste and Wastewater Revenue Rates

Last Ten Fiscal Years

Description	Fiscal Year				
	2014	2015	2016	2017	2018
Solid Waste Customer:					
Single family residential	$ 216.00	$ 216.00	$ 216.00	$ 216.00	$ 216.00
Wastewater Customer:					
Single family residential	$ 85.34	$ 87.05	$ 88.79	$ 90.57	$ 92.38
Multi-family residential	50.09	51.09	52.11	53.15	54.21
Trailer	50.09	51.09	52.11	53.15	54.21
Accessory Dwelling Unit (ADU)	-	-	-	-	-
Commercial-Avg. Strength (per 1000 sf)	37.96	38.72	39.49	40.28	41.09
Commercial-High Strength (per 1000 sf)	41.40	42.23	43.07	43.93	44.81
Industrial (per 1000 sf)	97.44	99.39	101.38	103.41	105.48

Description	Fiscal Year				
	2019	2020	2021	2022	2023
Solid Waste Customer:					
Single family residential	$ 216.00	$ 224.88	$ 240.60	$257.40	$ 272.88
Wastewater Customer:					
Single family residential	$ 92.38	$ 92.38	$ 92.38	$ 92.38	$ 101.22
Multi-family residential	54.21	54.21	54.21	54.21	76.83
Trailer	54.21	54.21	54.21	54.21	71.35
Accessory Dwelling Unit (ADU)	-	-	-	-	37.21
Commercial-Avg. Strength (per 1000 sf)	41.09	41.09	41.09	41.09	44.13
Commercial-High Strength (per 1000 sf)	44.81	44.81	44.81	44.81	49.14
Industrial (per 1000 sf)	105.48	105.48	105.48	105.48	113.64

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

COSTA MESA SANITARY DISTRICT

Principal Wastewater Customers

Current Fiscal Year and Nine Years Ago

Description	2023		2014	
Industrial Customer Type	**Square Feet Assessed**	**Percentage of Total**	**Square Feet Assessed**	**Percentage of Total**
International Asset Management Group	329,349	3.53%	-	0.00%
CJ Segerstrom & Sons	276,718	2.96%	276,720	2.88%
CLA VAL Company	252,484	2.70%	252,480	2.63%
TRICO Costa Mesa/Rents/TCH LTD	183,738	1.97%	-	0.00%
Olen Commercial Realty	141,588	1.52%	-	0.00%
Aero Orange County LLC	131,115	1.40%	-	0.00%
Van Ausdeln, Sandra Ann Trust	124,407	1.33%	124,410	1.29%
Life Storage LP	118,514	1.27%	-	0.00%
Napa Vista Tologcay LLC	114,588	1.23%	-	0.00%
Griswold Industries	114,583	1.23%	91,090	0.95%
Total square feet: Industrial Principal Customers	1,787,084	19.14%	744,700	7.75%
Total square feet : Industrial Customers	9,338,575	100.00%	9,608,180	100.00%
Commercial Customer Type				
South Coast Plaza	1,645,617	5.22%	1,108,630	3.43%
Newport Mesa Unified School District	1,438,431	4.56%	-	0.00%
CJ Segerstrom & Sons	1,321,779	4.19%	-	0.00%
The Irvine Company LLC/Sakioka Farms	862,568	2.74%	834,370	2.58%
PR ll/MCC South Coast	835,672	2.65%	-	0.00%
Interinsurance Exchange of the Auto Club of CA	750,914	2.38%	750,910	2.33%
Coast Community College District	674,061	2.14%	674,060	2.09%
Pacific Mesa Properties	617,671	1.96%	-	0.00%
Riverville Family Properties LLC	590,313	1.87%	-	0.00%
Vanguard University of Southern California	570,245	1.81%	570,250	1.77%
Segerstrom Center for the Arts	561,752	1.78%	-	0.00%
Total square feet: Commercial Principal Customers	9,869,023	31.30%	3,938,220	12.20%
Total square feet: Commercial Customers	31,531,306	100.00%	32,280,130	100.00%
Multi-family Residential Customer Type	**Household Units**	**Percentage of Total**	**Household Units**	**Percentage of Total**
Costa Mesa Partners/Oasis California	902	3.66%	-	0.00%
MarJack LLC	890	3.61%	-	0.00%
Casden Lakes LP	770	3.12%	770	3.01%
United Dominion Realty LP	764	3.10%	764	2.98%
Katella Investment Co./Wimbledon Glen Associate LP	684	2.78%	-	0.00%
Pinecreek Investment Co.	620	2.52%	620	2.42%
ZMV Partnership	508	2.06%	508	1.98%
Village Investments	422	1.71%	-	0.00%
LMC Costa Mesa Holding LP	393	1.59%	-	0.00%
UDR Harbor Greens	384	1.56%	384	1.50%
Total household units: Multi-family Principal Custom	6,337	25.72%	3,046	11.90%
Total household units assessed: Multi-family Custom	24,642	100.00%	25,597	100.00%

Source: Costa Mesa Sanitary District

COSTA MESA SANITARY DISTRICT

Ratio of Outstanding Debt

Last Ten Fiscal Years

Description	Fiscal Year				
	2014	2015	2016	2017	2018
Capital leases	$ -	$ -	$ -	$ -	$ -
Total debt	$ -	$ -	$ -	$ -	$ -
Total debt per capita	$ -	$ -	$ -	$ -	$ -
Total debt as a percent of personal income	0.00%	0.00%	0.00%	0.00%	0.00%

Description	Fiscal Year				
	2019	2020	2021	2022	2023
Capital leases	$ -	$ -	$ -	$ -	$ -
Total debt	$ -	$ -	$ -	$ -	$ -
Total debt per capita	$ -	$ -	$ -	$ -	$ -
Total debt as a percent of personal income	0.00%	0.00%	0.00%	0.00%	0.00%

Source: Costa Mesa Sanitary District

COSTA MESA SANITARY DISTRICT

Debt Coverage
Last Ten Fiscal Years

Description	Fiscal Year				
	2014	2015	2016	2017	2018
Total revenues	$ 10,938,064	$ 11,415,168	$ 11,652,410	$ 12,008,315	$ 11,836,008
Operating expenses	8,453,930	8,634,912	9,323,731	9,483,656	9,409,708
Net revenues	$ 2,484,134	$ 2,780,256	$ 2,328,679	$ 2,524,659	$ 2,426,300
Debt service:					
Principal	$ -	$ -	$ -	$ -	$ -
Interest	-	-	-	-	-
Total debt service	$ -	$ -	$ -	$ -	$ -
Debt coverage ratio	N/A	N/A	N/A	N/A	N/A

Description	Fiscal Year				
	2019	2020	2021	2022	2023
Total revenues	$ 12,525,028	$ 12,366,052	$ 12,215,070	$ 12,347,837	$ 13,951,728
Operating expenses	10,299,056	9,823,826	10,337,557	9,024,086	11,240,760
Net revenues	$ 2,225,972	$ 2,542,226	$ 1,877,513	$ 3,323,751	$ 2,710,968
Debt service:					
Principal	$ -	$ -	$ -	$ -	$ -
Interest	-	-	-	-	-
Total debt service	$ -	$ -	$ -	$ -	$ -
Debt coverage ratio	N/A	N/A	N/A	N/A	N/A

Source: Costa Mesa Sanitary District

COSTA MESA SANITARY DISTRICT

Demographics and Economic Statistics
Last Ten Calendar Years

	City of Costa Mesa (a)		County of Orange (b)		
Calendar Year	District Service Population	Unemployment Rate	Population	Personal Income* (in thousands)	Personal Income per Capita
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	113,615	2.30%	3,185,968	$ 220,684,684	$ 69,268
2019	113,003	6.50%	3,175,692	$ 227,732,561	$ 71,711
2020	112,958	4.30%	3,170,345	$ 236,303,451	$ 74,618
2021	110,750	2.70%	3,167,809	$ 257,834,298	$ 81,567
2022	109,527	3.60%	3,151,184	$ 263,290,135	$ 83,553
2023	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 City of Costa Mesa.

(b) The District has chosen to use County data since the District believes that the County data is representative of the conditions and experience of the District.

(c) Data not currently available

Sources : (1) United States Census Bureau
(2) California Labor Market Info
(3) U.S. Department of Commerce, Bureau of Economic Analysis

COSTA MESA SANITARY DISTRICT

Principal Employers

Current Fiscal Year and Nine Years Ago

	2023*			2014		
Employer	Number of Employees	Rank	Percentage of Total City Employment	Number of Employees	Rank	Percentage of Total City Employment
Experian Information Solution	-	1	0%	3,700	1	5.73%
Coast Community College District Foundation	-	2	0%	2,900	2	4.49%
Orange Coast Community College	-	3	0%	1,900	3	2.94%
Fairview Developmental Center	-	4	0%	1,500	4	2.32%
A Clark /Mccarthy Joint Venture	-	5	0%	1,250	5	1.94%
Interinsurance Exchange of the Auto Club	-	6	0%	1,200	6	1.86%
Filenet Corporation	-	7	0%	600	7	0.93%
Sure Haven	-	8	0%	550	8	0.85%
TTM Technologies, Inc	-	9	0%	500	9	0.77%
Nordstorm, Inc.	-	10	0%	500	10	0.77%
Total Top Ten Employers	0		0%	14,600		23%
Total City Labor Force	65,400					

* Data not readily available.

Source: Dunn & Bradstreet, State of California Employment Development Department

COSTA MESA SANITARY DISTRICT

District Employees by Function

Last Ten Fiscal Years

Description	Fiscal Year				
	2014	2015	2016	2017	2018
Solid Waste	4.60	3.80	4.70	4.70	4.30
Wastewater	10.40	9.20	13.30	13.30	13.70
Total full-time equivalent (FTE)	15.00	13.00	18.00	18.00	18.00

Description	Fiscal Year				
	2019	2020	2021	2022	2023
Solid Waste	4.00	5.30	4.80	4.80	6.50
Wastewater	14.00	12.70	14.70	14.70	18.50
Total full-time equivalent (FTE)	18.00	18.00	19.50	19.50	25.00

Source: Costa Mesa Sanitary District

COSTA MESA SANITARY DISTRICT

Operating Indicators by Function

Last Ten Fiscal Years

	Fiscal Year				
	2014	**2015**	**2016**	**2017**	**2018**
Solid Waste:					
Household units serviced	21,606	21,824.00	22,398	22,518	22,602
Recycled/landfill tonnage	40,674	41,774	34,363	32,865	33,190
Organics	*	*	7,284	9,451	9,010
Recycled %	57.39%	56.81%	57.01%	59.44%	58.99%
Wastewater:					
Linear feet (LF) of sewer line cleaned	716,938	910,000	1,096,701	878,095	883,900
Average of wastewater discharged	10.8 MGD	11 MGD	11MGD	11MGD	8.7MGD
Sewer lateral financial assistance grants	184	237	240	271	19
CCTV sewer lateral program grants	*	*	*	*	114
Sewer Inspection Rebate Program	*	*	*	*	*

	Fiscal Year				
	2019	**2020**	**2021**	**2022**	**2023**
Solid Waste:					
Household units serviced	22,848	22,972	23,036**	23,088	23,097
Recycled/landfill tonnage	32,781	33,587	34,361**	30,759**	29,579
Organics	9,772	10,608	10,317**	9,201	9,451
Recycled %	60.51%	50.00%	48%**	60.56%	61.14%
Liquid Waste:					
Linear feet (LF) of sewer line cleaned	593,701	730,826	730,826	1,014,330	1,038,437
Average of wastewater discharged	10MGD	8.9MGD	8.9MGD	9MGD	8.4MGD
Sewer lateral financial assistance grants	*	*	*	*	*
CCTV sewer lateral program grants	10	*	*	*	*
Sewer Inspection Rebate Program	34	38	21**	36	34

MGD - Millions of gallons per day
* Data not available for the fiscal years
**Restated

Source: Costa Mesa Sanitary District

Wastewater Division

Fiscal Year	Miles of Sanitary Sewers	Number of Pump Stations	Number of Manholes
2014	224	20	4,705
2015	224	20	4,707
2016	224	20	4,716
2017	224	20	4,718
2018	224	20	4,720
2019	224	20	4,721
2020	224	20	5,650
2021	224	20	5,110
2022	224	20	5,109
2023	224	20	5,109

Source: Costa Mesa Sanitary District

Other Independent Auditors' Reports

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

Board of Directors
Costa Mesa Sanitary District
Costa Mesa, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Costa Mesa Sanitary District (District), which comprise the balance sheet as of June 30, 2023, and the related statement of revenues, expenses and changes in net position and cash flows for the fiscal year then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 18, 2023.

Internal Control Over Financial Reporting
In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

Jeff Nigro, CPA, CFE | Elizabeth Nigro, CPA | Shannon Bishop, CPA | Peter Glenn, CPA, CFE | Paul J. Kaymark, CPA | Jessica Berry, CPA | Angelika Vartikyan, CPA

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

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

Nigro & Nigro, PC

Murrieta, California
December 18, 2023