



COSTA MESA SANITARY DISTRICT

ANNUAL COMPREHENSIVE FINANCIAL REPORT

Costa Mesa, California



For Fiscal Year Ended June 30, 2025





Costa Mesa Sanitary District

Annual Comprehensive Financial Report For the Fiscal Year Ended June 30, 2025 (With Comparative Amounts as of June 30, 2024)

**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
For the Fiscal Year Ended June 30, 2025
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COSTA MESA SANITARY DISTRICT

December 15, 2025

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, 2025.

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, 2025. 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.

Board of Directors

Michael Scheafer
Arthur Perry
Robert Ooten
Nicole Wiltshire
Shayanne Wright

Staff

Scott C. Carroll
General Manager

Harper & Burns, LLP
District Counsel

Davis Farr, LLP
District Treasurer

Mark Esquer
District Engineer

Noelani Middenway
*District Clerk &
Public Information Officer*

Kaitlin Tran
Finance Manager

Dyana Bojarski
*Administrative Services
Manager*

John Gonzalez
*Wastewater Maintenance
Manager*

Marissa Pereyda
Solid Waste Manager

www.cmsdca.gov

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: Life Storage, Segerstrom Center for the Arts, Newport-Mesa Unified School District, Vanguard University of Southern California, Interinsurance Exchange of the Automobile Club (AAA), Coast Community College District and the South Coast Plaza shopping complex. South Coast Plaza, featuring 220 stores and 48 restaurants or specialty food establishments, is recognized as one of the highest grossing shopping centers in California by sales volume.

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 (CMSD) continues to proactively identify and plan projects with significant financial impacts on the organization.

For wastewater management, the **Elden Pump Station Forcemain Redundancy Project** is the most ambitious and largest undertaking in CMSD's 81-year history. The project will construct an 18-inch-diameter, 3,200-foot-long secondary pipeline, including approximately 400 feet bored beneath State Route 55. This redundancy pipeline will serve as a backup to the primary line in the event of earthquake damage. The estimated construction cost is \$10.5 million. CMSD has applied for federal assistance through a hazard mitigation grant from the Federal Emergency Management Agency (FEMA). If awarded, CMSD will still be responsible for 25% of the cost, over \$2.6 million. If denied, CMSD may pursue long-term financing options, such as lease-purchase agreements or Certificates of Participation (COP).

The **Gisler Pump Station Forcemain Replacement Project** involves replacing the existing 6-inch, 1,160-foot cast iron forcemain and installing a redundant pipeline. The project is estimated to cost \$1 million and is currently scheduled as a pay-as-you-go (PAYGO) project in 2028. However, if financing is pursued for the Elden project, CMSD may include the Gisler replacement as part of the financing plan, thereby freeing \$1 million for other capital needs.

In compliance with the **Statewide General Waste Discharge Requirements for Sanitary Sewer Systems** (Order No. WQ 2022-0103-DWQ, formerly WQ 2006-0003-DWQ), CMSD must maintain a Sewer System Management Plan (SSMP) that includes preventative maintenance programs to reduce sanitary sewer overflows (SSOs). Closed-circuit television (CCTV) inspections are a critical part of this program. Industry standards recommend inspecting the entire system every ten years; CMSD last completed a full inspection of its 224 miles of pipeline in 2016–2017. A full system inspection is projected to cost more than \$1 million and will be phased over three to four years beginning in 2026. Advanced artificial intelligence technology will be used to analyze video footage, increasing accuracy and efficiency compared to traditional manual reviews.

Under **California's Advanced Clean Fleets regulations**, public agencies must transition to zero-emission fleets, with at least 50% converted by 2030. CMSD is preparing to fund and construct electric vehicle charging stations at Rob Hamers Yard. Five charging stations will be installed to serve five pickup trucks, with the first truck replacement scheduled in 2028. The cost of designing and constructing the stations is still being determined, but CMSD will pursue state grant funds to help offset expenses.

LONG-TERM FINANCIAL PLANNING AND MAJOR INITIATIVES (continued)

For solid waste management, landfill tipping fees are projected to nearly double, from \$43.76 per ton to \$81.00 per ton, by 2028. These landfills, owned and operated by the County of Orange, face financial challenges that require adjusting rates. Tipping fees, charged when refuse is disposed of at the landfill, are passed through to CMSD residents via annual solid waste rates collected on the property tax roll. The increased tipping fee will raise CMSD's solid waste rates to continue funding curbside collection and sustainability programs. The specific rate impact will be determined through a study scheduled for early 2026.

To mitigate potential rate increases, CMSD is exploring a **Pay-As-You-Throw (PAYT)** program, which would implement variable solid waste rates based on cart size. For example, customers with 30-gallon carts would pay less than those with 95-gallon carts. Similar to utility billing models (water, electricity, gas, phone), the cost would scale with usage: the more waste generated, the higher the rate. The program would consider three cart sizes, with rates to be determined in the 2026 study. Implementation will require approval by the Board of Directors.

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 has awarded the District a Certificate of Achievement for Excellence in Financial Reporting for its Annual Comprehensive Financial Report for the fiscal year ended June 30, 2024. This marks the fourteenth consecutive year the District has earned this prestigious honor. To receive a Certificate of Achievement, a government entity must publish an Annual Comprehensive Financial Report that is both easily readable and efficiently organized. The report must comply with generally accepted accounting principles (GAAP) and meet all applicable legal requirements.

A Certificate of Achievement is valid for one year only. We believe that our current Annual Comprehensive Financial Report continues to meet the requirements of the Certificate of Achievement Program, and we are submitting it to the GFOA for consideration of another certificate. The District has received the Popular Annual Financial Reporting Award from the GFOA for the fiscal year ended June 30, 2024. This marks the tenth consecutive year the District has earned this prestigious recognition.

The Award for Outstanding Achievement in Popular Annual Financial Reporting is a distinguished national honor recognizing compliance with the highest standards in preparing state and local government popular reports. To qualify for this award, a government entity must publish a Popular Annual Financial Report that meets program standards for creativity, presentation, understandability, and reader appeal.

An award for Outstanding Achievement in Popular Annual Financial Reporting is valid for one year only. We believe our current report continues to meet the Popular Annual Financial Reporting requirements, and we are submitting it to the GFOA for consideration.

AWARDS (continued)

The District was recognized by the GFOA with the Distinguished Budget Presentation Award for the Biennial Budget for FY 2025-26 and 2026-27. This marks the third time the District has received this prestigious award. The recognition is given to local governments that prepare a budget document of the highest quality, adhering to the guidelines established by both the National Advisory Council on State and Local Budgeting and the GFOA's best practices in 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 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

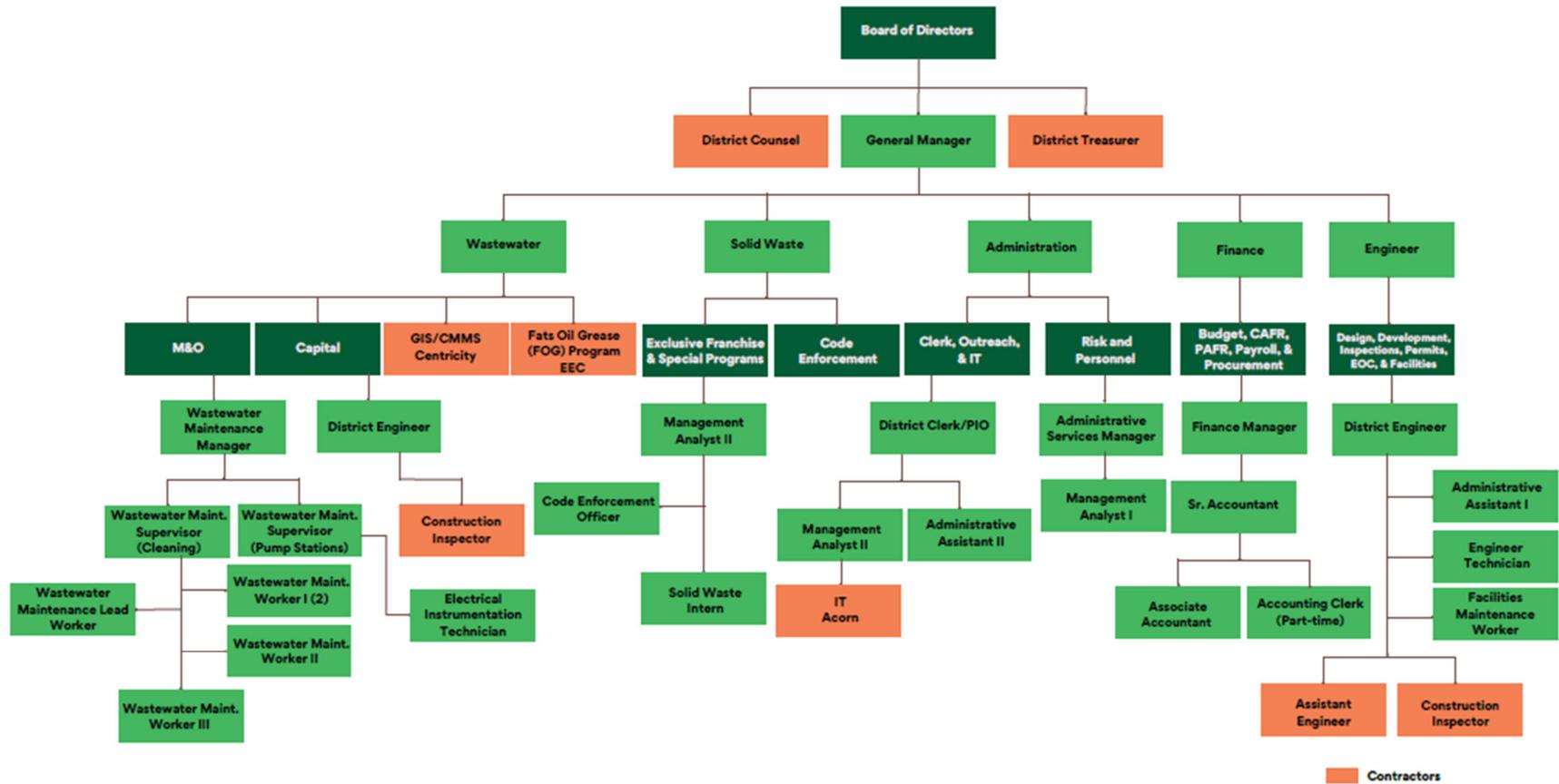
“To protect public health and the environment for current and future generations.”

Costa Mesa Sanitary District Board of Directors as of June 30, 2025

<u>Name</u>	<u>Title</u>	<u>Elected/ Appointed</u>	<u>Current Term</u>
Michael Scheafer	President	Elected	12/22-12/26
Robert Ooten	Vice President	Elected	12/22-12/26
Arthur Perry	Secretary	Elected	12/24-12/28
Nicole Wiltshire	Director	Elected	12/24-12/28
Shyanne Wright	Director	Elected	12/25-12/26

Costa Mesa Sanitary District
Scott Carroll, General Manager
290 Paularino Avenue
Costa Mesa, California 92626
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COSTA MESA SANITARY DISTRICT
For the Fiscal Year Ended June 30, 2025
 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, 2024

Christopher P. Morill

Executive Director/CEO

Financial Section





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, 2025 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, 2025 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.

Change in Accounting Principle

As described in Notes 1 and 4, to the financial statements, as of July 1, 2024, the District adopted new accounting guidance, GASB Statement No. 101, Compensated Absences. Our opinion is not modified with respect to these matters.

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.

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, 2024, 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 15, 2025, 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.



Murrieta, California
December 15, 2025



COSTA MESA SANITARY DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2025 (With Comparative Amounts for June 30, 2024)

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, 2025. 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 2025, the District's net position increased 3.04%, or \$2,089,857 from the prior year's net position of \$68,713,903 to \$70,803,760, as a result of the year's operations.
- In fiscal year 2025, operating revenues increased by 8.35%, or \$1,238,004 from \$14,823,109 to \$16,061,113, from the prior year, primarily due to increases in wastewater and trash assessment revenue as a result of rate increases.
- In fiscal year 2025, operating expenses before depreciation expense increased by 12.21% or \$1,490,875 from \$12,211,733 to \$13,702,608, from the prior year, primarily due to increases in wastewater and solid waste 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.

COSTA MESA SANITARY DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2025 (With Comparative Amounts for June 30, 2024)

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

	<u>June 30, 2025</u>	<u>June 30, 2024</u>	<u>Change</u>
Assets:			
Current assets	\$ 25,725,739	\$ 23,707,519	\$ 2,018,220
Non-current assets	135,335	138,268	(2,933)
Capital assets, net	46,857,436	45,932,072	925,364
Total assets	<u>72,718,510</u>	<u>69,777,859</u>	<u>2,940,651</u>
Deferred outflows of resources	<u>649,958</u>	<u>758,086</u>	<u>(108,128)</u>
Total assets and deferred outflows of resources	<u>\$ 73,368,468</u>	<u>\$ 70,535,945</u>	<u>\$ 2,832,523</u>
Liabilities:			
Current liabilities	\$ 1,644,587	\$ 979,109	\$ 665,478
Non-current liabilities	813,073	715,019	98,054
Total liabilities	<u>2,457,660</u>	<u>1,694,128</u>	<u>763,532</u>
Deferred inflows of resources	<u>107,048</u>	<u>127,914</u>	<u>(20,866)</u>
Net position:			
Net investment in capital assets	46,857,436	45,916,096	941,340
Restricted for net OPEB asset	135,335	138,268	(2,933)
Unrestricted	23,810,989	22,659,539	1,151,450
Total net position	<u>70,803,760</u>	<u>68,713,903</u>	<u>2,089,857</u>
Total liabilities, deferred outflows of resources and net position	<u>\$ 73,368,468</u>	<u>\$ 70,535,945</u>	<u>\$ 2,832,523</u>

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 \$70,803,760 as of June 30, 2025.

COSTA MESA SANITARY DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2025 (With Comparative Amounts for June 30, 2024)

FINANCIAL ANALYSIS OF THE DISTRICT (continued)

Condensed Balance Sheets (continued)

By far the largest portion of the District's net position (66.18% as of June 30, 2025) 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 2025, the District showed a positive balance in its unrestricted net position of \$23,810,989 which may be utilized in future years.

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

	<u>June 30, 2025</u>	<u>June 30, 2024</u>	<u>Change</u>
Operating revenues	\$ 16,061,113	\$ 14,823,109	\$ 1,238,004
Operating expenses	<u>(13,702,608)</u>	<u>(12,211,733)</u>	<u>(1,490,875)</u>
Operating income before depreciation	2,358,505	2,611,376	(252,871)
Depreciation expense	<u>(2,262,672)</u>	<u>(1,864,817)</u>	<u>(397,855)</u>
Operating income	95,833	746,559	(650,726)
Non-operating revenues(expenses), net	<u>1,994,024</u>	<u>2,167,227</u>	<u>(173,203)</u>
Change in net position	2,089,857	2,913,786	(823,929)
Net position:			
Beginning of year	<u>68,713,903</u>	<u>65,800,117</u>	<u>2,913,786</u>
End of year	<u>\$ 70,803,760</u>	<u>\$ 68,713,903</u>	<u>\$ 2,089,857</u>

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 3.04%, or \$2,089,857 from the prior year's net position of \$68,713,903 to \$70,803,760, as a result of the year's operations.

COSTA MESA SANITARY DISTRICT*Management's Discussion and Analysis (Unaudited)**For the Fiscal Year Ended June 30, 2025 (With Comparative Amounts for June 30, 2024)*

FINANCIAL ANALYSIS OF THE DISTRICT (continued)**Total Revenues**

	<u>June 30, 2025</u>	<u>June 30, 2024</u>	<u>Increase (Decrease)</u>
Operating revenues:			
Trash assessments	\$ 7,632,409	\$ 6,689,791	\$ 942,618
Wastewater assessments	7,922,032	7,782,022	140,010
Permits and inspection fees	230,911	147,859	83,052
Connection fees	107,039	64,392	42,647
Other services	168,722	139,045	29,677
Total operating revenues	<u>16,061,113</u>	<u>14,823,109</u>	<u>1,238,004</u>
Non-operating revenues:			
Property taxes	472,473	444,436	28,037
Investment earnings	1,255,556	1,081,554	174,002
Grant revenue	-	315,341	(315,341)
Sale of capital assets	102,284	-	102,284
Other non-operating revenues	163,711	325,896	(162,185)
Total non-operating revenues	<u>1,994,024</u>	<u>2,167,227</u>	<u>(173,203)</u>
Total revenues	<u>\$ 18,055,137</u>	<u>\$ 16,990,336</u>	<u>\$ 1,064,801</u>

In fiscal year 2025, operating revenues increased by 8.35 %, or \$1,238,004 from \$14,823,109 to \$16,061,113, from the prior year, primarily due to increases in wastewater and trash assessment revenue as a result of rate increases. Also, non-operating revenues decreased by 7.99%, or \$173,203 from \$2,167,227 to \$1,994,024, primarily due to not receiving grant revenue in the current year.

COSTA MESA SANITARY DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2025 (With Comparative Amounts for June 30, 2024)

FINANCIAL ANALYSIS OF THE DISTRICT (continued)

Total Expenses

	<u>June 30, 2025</u>	<u>June 30, 2024</u>	<u>Increase (Decrease)</u>
Operating expenses:			
Solid waste disposal	\$ 4,384,160	\$ 3,120,925	\$ 1,263,235
Wastewater disposal	2,744,432	2,479,212	265,220
Recycling and disposal charges	2,379,490	2,505,489	(125,999)
General and administrative	2,862,327	2,556,517	305,810
Materials and services	1,332,199	1,549,590	(217,391)
Total operating expenses	<u>13,702,608</u>	<u>12,211,733</u>	<u>1,490,875</u>
Depreciation expense	<u>2,262,672</u>	<u>1,864,817</u>	<u>397,855</u>
Total expenses	<u>\$ 15,965,280</u>	<u>\$ 14,076,550</u>	<u>\$ 1,888,730</u>

In fiscal year 2025, operating expenses before depreciation expense increased by 12.21% or \$1,490,875 from \$12,211,733 to \$13,702,608, from the prior year, primarily due to increases in wastewater and solid waste disposal expenses, as well as general and administrative costs.

Capital Assets

	<u>Balance June 30, 2025</u>	<u>Balance June 30, 2024</u>
Capital assets:		
Non-depreciable assets	\$ 5,460,691	\$ 5,894,003
Depreciable assets	112,653,948	109,620,551
Accumulated depreciation	<u>(71,257,203)</u>	<u>(69,582,482)</u>
Total capital assets, net	<u>\$ 46,857,436</u>	<u>\$ 45,932,072</u>

At the end of year 2025, the District's investment in capital assets amounted to \$46,857,436 (net of accumulated depreciation), respectively. Capital asset additions amounted to \$3,188,036 for various projects and equipment. See Note 3 for further information.

Long-Term Debt

As of June 30, 2025, 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.

COSTA MESA SANITARY DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2025 (With Comparative Amounts for June 30, 2024)

CONDITIONS AFFECTING CURRENT AND FUTURE FINANCIAL POSITION

Economic Factors and Next Year's Budgets

The Costa Mesa Sanitary District (CMSD) is an independent special district that manages enterprise funds, meaning residents pay directly for the services they receive. Because of this structure, CMSD does not typically experience declining revenues during economic downturns. In fact, 97% of CMSD's revenues come from rates or assessments applied to property owners who receive solid waste and wastewater collection services.

From time to time, rate studies are conducted to determine if adjustments are needed to keep up with inflation and rising operational costs, such as salaries and benefits, tools, supplies, equipment, contracted services, and capital improvement projects.

The most recent wastewater rate study was completed in 2021, when the Board of Directors approved a five-year rate adjustment plan. Rates remained stable for the last three consecutive years of that plan with no increases. The next wastewater rate study is scheduled for FY 2026–27, with new adjustments taking effect July 1, 2027. These adjustments will be necessary to cover rising construction costs caused by inflation and potential reciprocal tariffs applied after the federal government imposed higher tariffs on goods and supplies from trading partners. Additional adjustments may be required if CMSD is denied federal funding for the Elden Pump Station Forcemain Redundancy project, as the agency may need to rely on long-term financing.

For solid waste services, the last rate study was conducted in 2024 to support changes to CMSD's curbside recycling program required under state law (SB 1383, the Short-Lived Climate Pollutant Reduction Strategy). As part of this program, all CMSD customers received a blue-lid cart for separating and discarding recyclable materials. The Board of Directors adopted a five-year rate adjustment plan ending June 30, 2029.

However, another solid waste rate study will be necessary before June 30, 2029, because the County of Orange plans to nearly double landfill tip fees starting July 1, 2026. These higher landfill costs will be passed on to CMSD customers. If approved by the Board, the upcoming study will also incorporate variable rates, meaning different rates will apply based on three cart size options.

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 Poularino Avenue, Costa Mesa, California 92626 and (949) 645-8400.

COSTA MESA SANITARY DISTRICT

Balance Sheets

June 30, 2025 (With Comparative Amounts as of June 30, 2024)

<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>	<u>2025</u>	<u>2024</u>
Current assets:		
Cash and cash equivalents (Note 2)	\$ 9,090,095	\$ 8,057,764
Investments (Note 2)	15,913,563	14,874,661
Accrued interest receivable	128,067	98,172
Accounts receivable	50,438	217,672
Assessment receivable	148,998	129,058
Property tax receivable	8,308	5,543
Due from other governments	1,170	-
Inventory – materials and supplies	241,786	195,522
Prepaid expenses	143,314	129,127
Total current assets	<u>25,725,739</u>	<u>23,707,519</u>
Non-current assets:		
Net OPEB asset (Note 5)	135,335	138,268
Capital assets – not being depreciated (Note 3)	5,460,691	5,894,003
Capital assets – being depreciated, net (Note 3)	41,396,745	40,038,069
Total non-current assets	<u>46,992,771</u>	<u>46,070,340</u>
Total assets	<u>72,718,510</u>	<u>69,777,859</u>
Deferred outflows of resources:		
Deferred amounts related to net OPEB liability (Note 5)	56,011	70,209
Deferred amounts related to net pension liability (Note 6)	593,947	687,877
Total deferred outflows of resources	<u>649,958</u>	<u>758,086</u>
Total assets and deferred outflows of resources	<u>\$ 73,368,468</u>	<u>\$ 70,535,945</u>
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,397,086	\$ 863,283
Long-term liabilities – due within one year:		
Compensated absences (Note 4)	247,501	115,826
Total current liabilities	<u>1,644,587</u>	<u>979,109</u>
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Compensated absences (Note 4)	186,596	87,323
Net pension liability (Note 6)	626,477	627,696
Total non-current liabilities	<u>813,073</u>	<u>715,019</u>
Total liabilities	<u>2,457,660</u>	<u>1,694,128</u>
Deferred inflows of resources:		
Deferred amounts related to net OPEB liability (Note 5)	100,737	112,744
Deferred amounts related to net pension liability (Note 6)	6,311	15,170
Total deferred inflows of resources	<u>107,048</u>	<u>127,914</u>
Net position:		
Net investment in capital assets (Note 7)	46,857,436	45,916,096
Restricted for net OPEB asset	135,335	138,268
Unrestricted	23,810,989	22,659,539
Total net position	<u>70,803,760</u>	<u>68,713,903</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 73,368,468</u>	<u>\$ 70,535,945</u>

COSTA MESA SANITARY DISTRICT*Statements of Revenues, Expenses and Changes in Net Position**For the Fiscal Year Ended June 30, 2025 (With Comparative Amounts as of June 30, 2024)*

	<u>2025</u>	<u>2024</u>
Operating revenues:		
Trash assessments	\$ 7,632,409	\$ 6,689,791
Wastewater assessments	7,922,032	7,782,022
Permits and inspection fees	230,911	147,859
Connection fees	107,039	64,392
Other services	168,722	139,045
Total operating revenues	<u>16,061,113</u>	<u>14,823,109</u>
Operating expenses:		
Solid waste disposal	4,384,160	3,120,925
Wastewater disposal	2,744,432	2,479,212
Recycling and disposal charges	2,379,490	2,505,489
General and administrative	2,862,327	2,556,517
Materials and services	1,332,199	1,549,590
Total operating expenses	<u>13,702,608</u>	<u>12,211,733</u>
Operating income before depreciation	2,358,505	2,611,376
Depreciation expense	<u>(2,262,672)</u>	<u>(1,864,817)</u>
Operating income	<u>95,833</u>	<u>746,559</u>
Non-operating revenues(expenses):		
Property taxes	472,473	444,436
Investment earnings	1,255,556	1,081,554
Grant revenue	-	315,341
Sale of capital assets	102,284	-
Other non-operating revenues	163,711	325,896
Total non-operating revenues(expenses), net	<u>1,994,024</u>	<u>2,167,227</u>
Change in net position	2,089,857	2,913,786
Net position:		
Beginning of year	<u>68,713,903</u>	<u>65,800,117</u>
End of year	<u>\$ 70,803,760</u>	<u>\$ 68,713,903</u>

COSTA MESA SANITARY DISTRICT

Statements of Cash Flows

For the Fiscal Year Ended June 30, 2025 (With Comparative Amounts as of June 30, 2024)

	<u>2025</u>	<u>2024</u>
Cash flows from operating activities:		
Cash receipts from customers and others	\$ 16,370,948	\$ 15,436,087
Cash paid to employees for salaries and wages	(3,012,645)	(2,681,194)
Cash paid to vendors and suppliers for materials and services	<u>(9,896,687)</u>	<u>(9,617,111)</u>
Net cash provided by operating activities	<u>3,461,616</u>	<u>3,137,782</u>
Cash flows from non-capital financing activities:		
Proceeds from property taxes	<u>469,708</u>	<u>452,442</u>
Net cash provided by non-capital financing activities	<u>469,708</u>	<u>452,442</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(3,188,036)	(1,929,902)
Proceeds from the sale of capital assets	<u>102,284</u>	<u>-</u>
Net cash used in capital and related financing activities	<u>(3,085,752)</u>	<u>(1,929,902)</u>
Cash flows from investing activities:		
Change in investments	(472,610)	781,505
Investment earnings	<u>659,369</u>	<u>545,853</u>
Net cash provided by investing activities	<u>186,759</u>	<u>1,327,358</u>
Net decrease in cash and cash equivalents	1,032,331	2,987,680
Cash and cash equivalents:		
Beginning of year	<u>8,057,764</u>	<u>5,070,084</u>
End of year	<u>\$ 9,090,095</u>	<u>\$ 8,057,764</u>

COSTA MESA SANITARY DISTRICT*Statements of Cash Flows (continued)**For the Fiscal Year Ended June 30, 2025 (With Comparative Amounts as of June 30, 2024)*

	<u>2025</u>	<u>2024</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 95,833	\$ 746,559
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	2,262,672	1,864,817
Grant revenue	-	315,341
Other non-operating revenues	163,711	325,896
Change in assets - (increase)decrease:		
Accounts receivable	167,234	(176,422)
Assessment receivable	(19,940)	148,163
Due from other governments	(1,170)	-
Inventory - materials and supplies	(46,264)	1,347
Prepaid expenses	(14,187)	33,955
Change in deferred outflows of resources - (increase)decrease		
Deferred amounts related to net OPEB asset	14,198	29,573
Deferred amounts related to net pension liability	93,930	27,809
Change in liabilities - increase(decrease):		
Accounts payable and accrued expenses	533,803	(378,357)
Compensated absences	230,948	26,198
Net OPEB asset	2,933	(19,148)
Net pension liability	(1,219)	180,482
Change in deferred inflows of resources - increase(decrease)		
Deferred amounts related to net OPEB asset	(12,007)	19,082
Deferred amounts related to net pension liability	(8,859)	(7,513)
Total adjustments	<u>3,365,783</u>	<u>2,391,223</u>
Net cash provided by operating activities	<u>\$ 3,461,616</u>	<u>\$ 3,137,782</u>
Noncash investing, capital and financing transactions:		
Change in fair-value of investments	\$ 566,292	\$ 526,904
Capital-related retainage payable	<u>-</u>	<u>\$ (15,976)</u>

COSTA MESA SANITARY DISTRICT

Notes to Financial Statements

June 30, 2025

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 District's 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.

COSTA MESA SANITARY DISTRICT

Notes to Financial Statements

June 30, 2025

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.

COSTA MESA SANITARY DISTRICT

Notes to Financial Statements

June 30, 2025

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	60 years
Buildings and Improvements	20-50 years
Equipment	5-20 years
Vehicles	10-12 years
Other	5-20 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 employee benefits provide for accumulation of vacation and sick leave. Liabilities for vacation and sick leave are recorded when benefits are earned. Full cash payment for all unused vacation leave is available to employees upon retirement or termination. Cash payment for all unused sick leave is available up to 50% of the employee's current pay rate upon retirement or termination based on years of service at the District. The cost of vacation is recorded in the period accrued. In accordance with GASB No. 101, Compensated Absences, leave is recognized when it is attributable to services already rendered, the leave accumulates, and the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Management evaluates sick leave for other District employees to determine the amount that is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. This analysis includes assessing relevant factors such as historical information about the use, payment or forfeiture of compensated absences and the District's portion of Medicare taxes.

COSTA MESA SANITARY DISTRICT

Notes to Financial Statements

June 30, 2025

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)

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.

The following timeframes are used for pension reporting:

Valuation Date June 30, 2023

Measurement Date June 30, 2024

Measurement Period July 1, 2023 to June 30, 2024

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 retirees) as of the beginning of the measurement period.

10. 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, 2023

Measurement Date June 30, 2024

Measurement Period July 1, 2023 to June 30, 2024

COSTA MESA SANITARY DISTRICT

Notes to Financial Statements

June 30, 2025

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)

11. 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.
- **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 XIII A 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 15

COSTA MESA SANITARY DISTRICT

Notes to Financial Statements

June 30, 2025

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

F. Reclassifications

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

G. New Pronouncements – Governmental Accounting Standards Board (GASB)

During the fiscal year ended June 30, 2025, the District has implemented new GASB pronouncements as follows:

GASB Statement No. 101 – Compensated Absences

This GASB Statement amends the definition of a compensated absence to encompass the various types of benefits offered by governmental employees and establishes a unified model for accounting and reporting. The statement also revises the related financial statement disclosure requirements, including eliminating certain disclosures previously required that GASB research found did not provide essential information to financial statement users. The GASB statement applies to all units of state and local governments. The District adopted the Statement as of July 1, 2024. See Note 4 for the effect of this Statement.

NOTE 2 – CASH AND INVESTMENTS

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

<u>Description</u>	<u>June 30, 2025</u>
Cash and cash equivalents	\$ 9,090,095
Investments	<u>15,913,563</u>
Total cash and investments	<u><u>\$ 25,003,658</u></u>

Cash and investments consisted of the following:

<u>Description</u>	<u>June 30, 2025</u>
Petty cash	\$ 10,700
Demand deposits held with financial institutions	85,993
Local Agency Investment Fund (LAIF)	4,227,239
California Cooperative Liquid Assets Securities System (CLASS)	4,766,163
Investments	<u>15,913,563</u>
Total cash and investments	<u><u>\$ 25,003,658</u></u>

Demand Deposits with Financial Institutions

At June 30, 2025, the carrying amount of the District's demand deposits were \$85,993 and the financial institution's balances were \$85,993. 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.

COSTA MESA SANITARY DISTRICT

Notes to Financial Statements

June 30, 2025

NOTE 2 – CASH AND INVESTMENTS (continued)

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, 2025, 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, 2025 are presented in the following Investment Table:

Type of Investments	Measurement Input	Credit Rating	Total Fair Value	Maturity		
				12 Months or Less	13 to 24 Months	25 to 120 Months
U.S. treasury obligations	Level 2	N/A	\$ 388,140	\$ 199,736	\$ -	\$ 188,404
U.S. government sponsored agency securities	Level 2	A to AAA	12,357,818	6,232,165	3,490,956	2,634,697
Corporate bonds	Level 2	A to AAA	200,113	200,113	-	-
Negotiable certificates-of-deposit	Level 2	AAA	2,967,492	973,194	1,109,690	884,608
Total investments			\$ 15,913,563	\$ 7,605,208	\$ 4,600,646	\$ 3,707,709

COSTA MESA SANITARY DISTRICT

Notes to Financial Statements

June 30, 2025

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

COSTA MESA SANITARY DISTRICT

Notes to Financial Statements

June 30, 2025

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.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
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, 2025.

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, 2025. U.S. treasury obligations are not required to be rated and therefore no rating has been assigned.

COSTA MESA SANITARY DISTRICT

Notes to Financial Statements

June 30, 2025

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	\$ 2,642,022
Federal Farm Credit Banks Funding Corporation	2,644,196
Federal Home Loan Bank	6,550,795
Federal Agriculture Mortgage Corporation	820,805

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, 2025, the District held \$4,227,239 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.

COSTA MESA SANITARY DISTRICT

Notes to Financial Statements

June 30, 2025

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 AAAsf/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, 2025, the District held \$4,766,163 in California CLASS.

NOTE 3 – CAPITAL ASSETS AND DEPRECIATION

Changes in capital assets for the fiscal year ended June 30, 2025, were as follows:

Description	Balance July 1, 2024	Additions	Deletions/ Transfers	Balance June 30, 2025
Non-depreciable assets:				
Land	\$ 4,327,279	\$ 119,908	\$ -	\$ 4,447,187
Property rights	4,025	-	-	4,025
Construction-in-process	1,562,699	2,962,656	(3,515,876)	1,009,479
Total non-depreciable assets	5,894,003	3,082,564	(3,515,876)	5,460,691
Depreciable assets:				
Subsurface sewer lines	98,599,584	3,426,152	(181,924)	101,843,812
Buildings and improvements	6,990,584	28,536	(406,027)	6,613,093
Equipment	1,561,347	166,660	-	1,728,007
Vehicles	2,469,036	-	-	2,469,036
Total depreciable assets	109,620,551	3,621,348	(587,951)	112,653,948
Accumulated depreciation:				
Subsurface sewer lines	(65,949,146)	(1,457,255)	181,924	(67,224,477)
Buildings and improvements	(1,411,357)	(509,914)	406,027	(1,515,244)
Equipment	(1,098,530)	(98,029)	-	(1,196,559)
Vehicles	(1,123,449)	(197,474)	-	(1,320,923)
Total accumulated depreciation	(69,582,482)	(2,262,672)	587,951	(71,257,203)
Total depreciable assets, net	40,038,069	1,358,676	-	41,396,745
Total capital assets, net	\$ 45,932,072	\$ 4,441,240	\$ (3,515,876)	\$ 46,857,436

COSTA MESA SANITARY DISTRICT
Notes to Financial Statements
June 30, 2025

NOTE 4 – COMPENSATED ABSENCES

Summary changes to compensated absences balances for the year ended June 30, 2025, were as follows:

<u>Balance</u> <u>July 1, 2024</u>	<u>Net</u> <u>Change</u>	<u>Balance</u> <u>June 30, 2025</u>	<u>Due Within</u> <u>One Year</u>	<u>Due in More</u> <u>Than One Year</u>
\$ 203,149	\$ 230,948	\$ 434,097	\$ 247,501	\$ 186,596

As of June 30, 2025, the total liability for compensated absences was \$434,097, of which \$247,501 is expected to be paid within one year and is reported as a current liability. The beginning balance of compensated absences as of July 1, 2024, reflected an immaterial difference upon implementation of GASB Statement No. 101; therefore, no restatement was required.

NOTE 5 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Summary

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

<u>Description</u>	<u>2025</u>
OPEB related deferred outflows	\$ 56,011
Net other post-employment benefits (asset)	(135,335)
OPEB related deferred inflows	100,737

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 24 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 contracted under the unequal method, which allows for a lesser contribution for annuitants. The contribution increases by formula (prescribed by PEMHCA Government Code 22892) each year until the contribution for annuitants becomes equal to the contribution for active employees. Once the District becomes "equal" and is required to provide the same contribution for active employees and annuitants going forward. The employer contribution of \$158 equal to the active employer contribution in 2025.

COSTA MESA SANITARY DISTRICT
Notes to Financial Statements
June 30, 2025

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

A. General Information about the OPEB Plan (continued)

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, 2024, the measurement period, the District’s contributions totaling \$4,343 included \$3,605 in current year premium payments, and an implied subsidy of \$738.

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, 2024 and was determined by an actuarial valuation as of June 30, 2023. 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, 2024 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Valuation Date	June 30, 2023
Measurement Date	June 30, 2024
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	6.00%
Long-Term Expected	
Rate of Return on Investments	6.00%
Inflation	2.30%
Payroll increases	2.80%
Healthcare Trend Rates	5.50% for 2024 through 2034; 4.50% for 2035 through 2074; and 4.0% for 2075 and later years
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

COSTA MESA SANITARY DISTRICT
Notes to Financial Statements
 June 30, 2025

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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
CERBT moderate investment policy:		
Equity	49.00%	5.90%
Fixed income	23.00%	0.90%
REITs	20.00%	3.30%
TIPS	5.00%	0.40%
Commodities	3.00%	0.40%
Total	<u>100.00%</u>	

Discount Rate

The discount rate used to measure the total OPEB liability was 6.00%. 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:

	<u>Increase (Decrease)</u>		
	<u>Total OPEB Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net OPEB Liability/(Asset)</u>
Balance at July 1, 2024 (Measurement date July 1, 2023)	\$ 358,333	\$ 496,601	\$ (138,268)
Changes for the year:			
Service cost	38,179	-	38,179
Interest	23,662	-	23,662
Employer contributions	-	4,343	(4,343)
Net investment income	-	54,727	(54,727)
Benefit payments	(4,343)	(4,343)	-
Administrative expenses	-	(162)	162
Net changes	57,498	54,565	2,933
Balance at June 30, 2025 (Measurement date June 30, 2024)	<u>\$ 415,831</u>	<u>\$ 551,166</u>	<u>\$ (135,335)</u>

COSTA MESA SANITARY DISTRICT
Notes to Financial Statements
 June 30, 2025

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

C. Changes in the Net OPEB Liability (continued)

Changes of Assumptions

In fiscal year ending June 30, 2024, the measurement period, there were no changes in assumptions.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the District, as well as what the District’s net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (5.0%) or 1 percentage point higher (7.0%) than the current discount rate:

	<u>1% Decrease 5.0%</u>	<u>Discount Rate 6.0%</u>	<u>1% Increase 7.0%</u>
Net OPEB Liability	\$ (82,149)	\$ (135,335)	\$ (180,547)

Sensitivity of the Net OPEB Liability to Changes in Healthcare Trend Rates

The following presents the net OPEB liability of the District, as well as what the District’s net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	Healthcare Cost		
	<u>4.5% Decreasing to 3.0%</u>	<u>5.5% Decreasing to 4.0%</u>	<u>6.5% Decreasing to 5.0%</u>
Net OPEB Liability	\$ (200,203)	\$ (135,335)	\$ (53,169)

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

For the year ended June 30, 2025, the District recognized OPEB expense of \$26,641. At June 30, 2025, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

<u>Account Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
OPEB contributions made after the measurement date	\$ 20,780	\$ -
Changes in assumptions	18,705	(26,950)
Differences between expected and actual experience	11,861	(73,786)
Differences between projected and actual earnings on OPEB plan investments	4,665	-
Total Deferred Outflows/(Inflows) of Resources	<u>\$ 56,011</u>	<u>\$ (100,736)</u>

COSTA MESA SANITARY DISTRICT

Notes to Financial Statements

June 30, 2025

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 \$20,780 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, 2026. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

<u>Amortization Period</u> <u>Fiscal Year Ended June 30</u>	<u>Deferred</u> <u>Outflows/(Inflows)</u> <u>of Resources</u>
2026	\$ (8,015)
2027	8,092
2028	(12,401)
2029	(12,267)
2030	(7,388)
Thereafter	<u>(33,526)</u>
Total	<u>\$ (65,505)</u>

NOTE 6 – PENSION PLAN

Summary

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

<u>Description</u>	<u>2025</u>
Pension related deferred outflows	\$ 593,947
Net pension liability	626,477
Pension related deferred inflows	6,311

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".

COSTA MESA SANITARY DISTRICT
Notes to Financial Statements
June 30, 2025

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 Plan		
	Classic Tier 1	Classic Tier 2	PEPRA Tier 3
	Prior to January 1, 2013	From July 2, 2011 to December 31, 2012	On or after January 1, 2013
Hire date			
Benefit formula	2.0% @ 55	2.0% @ 60	2.0% @ 62
Benefit vesting schedule	5-years of service monthly for life	5-years of service monthly for life	5-years of service monthly for life
Benefits payments			
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%	8.250%
Required employer contribution rates – FY 2025	13.310%	10.930%	8.180%

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, 2024, and June 30, 2023 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, 2024 measurement date, the following members were covered by the benefit terms:

Plan Members	Miscellaneous Plan			Total
	Classic Tier 1	Classic Tier 2	PEPRA Tier 3	
Active members	3	3	18	24
Transferred and terminated members	1	4	14	19
Retired members and beneficiaries	7	2	-	9
Total plan members	11	9	32	52

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.

COSTA MESA SANITARY DISTRICT

Notes to Financial Statements

June 30, 2025

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, 2025, were as follows:

Contribution Type	Miscellaneous Plan			Total
	Classic Tier 1	Classic Tier 2	PEPRA Tier 3	
Contributions – employer	\$ 88,224	\$ 48,837	\$ 149,513	\$ 286,574

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, 2024, 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, 2023, rolled forward to June 30, 2024, 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.

COSTA MESA SANITARY DISTRICT
Notes to Financial Statements
 June 30, 2025

NOTE 6 – PENSION PLAN (continued)

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

Proportionate Share of Net Pension Liability and Pension Expense (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, 2025:

	Percentage Share of Risk Pool		Change Increase/ (Decrease)
	Fiscal Year Ending June 30, 2025	Fiscal Year Ending June 30, 2024	
Measurement Date	June 30, 2024	June 30, 2023	
Percentage of Risk Pool Net Pension Liability	0.012953%	0.012553%	0.000400%
Percentage of Plan Net Pension Liability	0.012953%	0.005031%	0.007922%

The District’s proportionate share percentage of the net pension liability for the June 30, 2024, 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, 2023 (Measurement Date)	\$ 5,410,086	\$ 4,782,390	\$ 627,696
Balance as of June 30, 2024 (Measurement Date)	\$ 6,327,668	\$ 5,701,191	\$ 626,477
Change in Plan Net Pension Liability	\$ 917,582	\$ 918,801	\$ (1,219)

For the year ended June 30, 2024, the District recognized a pension expense of \$370,426. At June 30, 2025, 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	\$ 286,574	\$ -
Difference between actual and proportionate share of employer contributions	21,778	(4,199)
Adjustment due to differences in proportions	179,264	-
Differences between expected and actual experience	54,165	(2,114)
Differences between projected and actual earnings on pension plan investments	36,066	-
Changes in assumptions	16,102	-
Total Deferred Outflows/(Inflows) of Resources	\$ 593,949	\$ (6,313)

COSTA MESA SANITARY DISTRICT
Notes to Financial Statements
 June 30, 2025

NOTE 6 – PENSION PLAN (continued)

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

Proportionate Share of Net Pension Liability and Pension Expense (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.

An amount of \$286,574 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, 2026. 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
2026	\$ 160,359
2027	131,143
2028	21,919
2029	(12,359)
Total	\$ 301,062

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

For the measurement period ending June 30, 2024 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2023, total pension liability. The June 30, 2024, total pension liability was based on the following actuarial methods and assumptions:

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

Notes to Financial Statements

June 30, 2025

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.

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Real Return</u> ^{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%
	<u>100.0%</u>	

¹ An expected inflation of 2.3% is used for this period.

² Figures are based on the 2022 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.

COSTA MESA SANITARY DISTRICT
Notes to Financial Statements
 June 30, 2025

NOTE 6 – PENSION PLAN (continued)

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

Subsequent Events

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

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 Type	Plan's Net Pension Liability/(Asset)		
	Discount Rate -	Current Discount	Discount Rate +
	1% 5.90%	Rate 6.90%	1% 7.90%
CalPERS – Miscellaneous Plan	\$ 1,480,335	\$ 626,477	\$ (76,373)

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 – NET INVESTMENT IN CAPITAL ASSETS

Net investment in capital assets consisted of the following as of June 30:

Description	June 30, 2025	June 30, 2024
Net investment in capital assets:		
Capital assets – not being depreciated	\$ 5,460,691	\$ 5,894,003
Capital assets, net – being depreciated	41,396,745	40,038,069
Capital-related retention payable	-	(15,976)
Total net investment in capital assets	\$ 46,857,436	\$ 45,916,096

COSTA MESA SANITARY DISTRICT
Notes to Financial Statements
June 30, 2025

NOTE 8 – 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, 2025 – 512 member districts
D. Governing board	Seven representatives employed by members
E. District payments for FY 2025:	
Property/Liability policy	\$381,304
Workers' compensation policy	\$26,181
F. Condensed financial information	June 30, 2025

Statement of financial position:	<u>June 30, 2025</u>
Total assets	<u>\$ 185,602,180</u>
Deferred outflows	<u>1,361,901</u>
Total liabilities	<u>78,502,352</u>
Deferred inflows	<u>332,457</u>
Net position	<u><u>\$ 108,129,272</u></u>
Statement of revenues, expenses and changes in net position:	
Total revenues	\$ 136,035,247
Total expenses	<u>(113,092,341)</u>
Change in net position	22,942,906
Beginning – net position	<u>85,186,366</u>
Ending – net position	<u><u>\$ 108,129,272</u></u>
G. Member agencies share of year-end financial position	Not Calculated

At June 30, 2025, 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.

COSTA MESA SANITARY DISTRICT

Notes to Financial Statements

June 30, 2025

NOTE 8 – 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 \$10,000,000 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 2025, 2024, and 2023. 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, 2025, 2024, and 2023.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

Construction Contracts

The District has a variety of agreements with private parties relating to the installation, improvement, or modification of sewer facilities and treatment systems within its service area. The financing of such construction contracts is being provided primarily from the District's replacement reserves. The District has committed approximately \$594,645 to complete the open contracts as of June 30, 2025.

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, *de 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 10 – SUBSEQUENT EVENTS

The District has evaluated subsequent events through December 15, 2025, the date on 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, 2025*

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	Plan's Fiduciary
				Share of the Net Pension Liability as a Percentage of Covered Payroll	Net Position as a Percentage of the Plan's Total Pension Liability
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%
June 30, 2023	0.00126%	627,696	2,191,887	28.64%	88.40%
June 30, 2024	0.00130%	626,477	2,371,526	26.42%	90.10%

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 years June 30, 2018 to June 30, 2022:

There were no significant changes in assumptions.

From fiscal year June 30, 2022 to June 30, 2023:

The discount rate was reduced to 6.90% and the inflation rate to 2.30%.

From fiscal years June 30, 2023 to June 30, 2025:

There were no significant changes in assumptions.

COSTA MESA SANITARY DISTRICT

*Schedule of the District's Contributions to the Defined Benefit Pension Plan
For the Year Ended June 30, 2025*

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, 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%
June 30, 2024	229,495	(229,495)	-	2,371,526	9.68%
June 30, 2025	286,574	(286,574)	-	2,758,688	10.39%

Notes to Schedule:

Fiscal Year	Valuation Date	Actuarial Cost Method	Asset Valuation Method	Inflation	Investment Rate of Return
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, 2023	June 30, 2021	Entry Age	Fair Value	2.30%	6.90%
June 30, 2024	June 30, 2022	Entry Age	Fair Value	2.30%	6.90%
June 30, 2025	June 30, 2023	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)

COSTA MESA SANITARY DISTRICT

Schedule of Changes in the District's Net OPEB Liability and Related Ratios For the Year Ended June 30, 2025

Fiscal Year Ended	Last Ten Fiscal Years*				
	June 30, 2025	June 30, 2024	June 30, 2023	June 30, 2022	June 30, 2021
Measurement Date	June 30, 2024	June 30, 2023	June 30, 2022	June 30, 2021	June 30, 2020
Total OPEB liability:					
Service cost	\$ 38,179	\$ 38,839	\$ 25,299	\$ 18,903	\$ 18,352
Interest	23,662	22,868	19,502	23,695	22,075
Changes of assumptions	-	(20,756)	2,350	25,171	-
Differences between expected and actual experience	-	(10,334)	-	(96,526)	-
Benefit payments	(4,343)	(4,489)	(3,372)	(14,630)	(20,389)
Net change in total OPEB liability	57,498	26,128	43,779	(43,387)	20,038
Total OPEB liability - beginning	358,333	332,205	288,426	331,813	311,775
Total OPEB liability - ending	415,831	358,333	332,205	288,426	331,813
Plan fiduciary net position:					
Contributions - employer	4,343	20,624	3,372	31,604	36,845
Net investment income	54,727	29,272	(69,896)	108,829	13,154
Administrative expense	(162)	(131)	(132)	(150)	(179)
Benefit payments	(4,343)	(4,489)	(3,372)	(14,630)	(20,389)
Net change in plan fiduciary net position	54,565	45,276	(70,028)	125,653	29,431
Plan fiduciary net position - beginning	496,601	451,325	521,353	395,700	366,269
Plan fiduciary net position - ending	551,166	496,601	451,325	521,353	395,700
District's net OPEB liability/(asset)	\$ (135,335)	\$ (138,268)	\$ (119,120)	\$ (232,927)	\$ (63,887)
Plan fiduciary net position as a percentage of the total OPEB liability	132.55%	138.59%	135.86%	180.76%	119.25%
Covered payroll	\$ 2,640,788	\$ 2,328,257	\$ 2,008,712	\$ 1,819,281	\$ 1,601,979
District's net OPEB liability as a percentage of covered payroll	-5.12%	-5.94%	-5.93%	-12.80%	-3.99%

Notes to Schedule:

Benefit Changes:

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
 Measurement Date June 30, 2023 - There were no changes in benefits
 Measurement Date June 30, 2024 - There were no changes in benefits

Changes in Assumptions:

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%
 Measurement Date June 30, 2023 - Discount rate decreased to 6.00%, inflation rate decreased to 2.30%, payroll increases decreased to 2.80%
 Measurement Date June 30, 2024 - There were no changes in assumptions

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

COSTA MESA SANITARY DISTRICT

*Schedule of Changes in the District's Net OPEB Liability and Related Ratios (continued)
For the Year Ended June 30, 2025*

Fiscal Year Ended Measurement Date	Last Ten Fiscal Years*		
	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>
	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Total OPEB liability:			
Service cost	\$ 18,341	\$ 17,807	\$ 17,288
Interest	19,882	18,641	17,915
Changes of assumptions	(20,482)	-	-
Differences between expected and actual experience	26,513	-	-
Benefit payments	<u>(17,381)</u>	<u>(19,816)</u>	<u>(30,123)</u>
Net change in total OPEB liability	26,873	16,632	5,080
Total OPEB liability - beginning	<u>284,902</u>	<u>268,270</u>	<u>263,190</u>
Total OPEB liability - ending	<u>311,775</u>	<u>284,902</u>	<u>268,270</u>
Plan fiduciary net position:			
Contributions - employer	34,190	19,816	156,123
Net investment income	21,104	24,267	24,822
Administrative expense	(74)	(566)	(141)
Benefit payments	<u>(17,381)</u>	<u>(19,816)</u>	<u>(30,123)</u>
Net change in plan fiduciary net position	37,839	23,701	150,681
Plan fiduciary net position - beginning	<u>328,430</u>	<u>304,729</u>	<u>154,048</u>
Plan fiduciary net position - ending	366,269	328,430	304,729
District's net OPEB liability/(asset)	<u>\$ (54,494)</u>	<u>\$ (43,528)</u>	<u>\$ (36,459)</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>117.48%</u>	<u>115.28%</u>	<u>113.59%</u>
Covered payroll	<u>\$ 1,322,576</u>	<u>\$ 1,354,463</u>	<u>\$ 1,182,000</u>
District's net OPEB liability as a percentage of covered payroll	<u>-4.12%</u>	<u>-3.21%</u>	<u>-3.08%</u>

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

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

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

COSTA MESA SANITARY DISTRICT

*Schedule of Contributions – Other Post-Employment Benefits (OPEB) Plan
For the Year Ended June 30, 2025*

Fiscal Year Ended	Last Ten Fiscal Years*				
	June 30, 2025	June 30, 2024	June 30, 2023	June 30, 2022	June 30, 2021
Actuarially determined contribution	\$ -	\$ -	\$ 16,135	\$ 5,897	\$ 15,785
Contributions in relation to the actuarially determined contributions	(4,343)	(3,605)	(20,624)	(3,372)	(31,604)
Contribution deficiency (excess)	<u>\$ (4,343)</u>	<u>\$ (3,605)</u>	<u>\$ (4,489)</u>	<u>\$ 2,525</u>	<u>\$ (15,819)</u>
Covered payroll	<u>\$ 2,640,788</u>	<u>\$ 2,640,788</u>	<u>\$ 2,328,257</u>	<u>\$ 2,008,712</u>	<u>\$ 1,819,281</u>
Contributions as a percentage of covered payroll	0.16%	0.14%	0.89%	0.17%	1.74%

Notes to Schedule:

Valuation Date	June 30, 2023	June 30, 2022	June 30, 2021	June 30, 2021	June 30, 2019
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Methods and Assumptions Used to Determine

Contribution Rates:

	Entry Age				
Actuarial cost method Entry age normal	Entry Age				
Amortization method Closed period, level percent of pay	(1)	(1)	(1)	(1)	(1)
Amortization period	20-years	20-years	20-years	20-years	20-years
Asset valuation method	Fair Value				
Discount rate	6.00%	6.00%	6.25%	6.25%	6.50%
Inflation	2.30%	2.30%	2.50%	2.50%	2.26%
Payroll increases	2.80%	2.80%	3.00%	3.00%	3.25%
Mortality	(2)	(2)	(2)	(2)	(2)
Morbidity	(3)	(3)	(3)	(3)	(3)
Disability	Not Valued				
Retirement	(4)	(4)	(4)	(4)	(4)
Percent Married	80%	80%	80%	80%	80%
Healthcare trend rates	(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

COSTA MESA SANITARY DISTRICT

*Schedule of Contributions – Other Post-Employment Benefits (OPEB) Plan (continued)
For the Year Ended June 30, 2025*

Last Ten Fiscal Years*

Fiscal Year Ended	June 30, 2020	June 30, 2019	June 30, 2018
Actuarially determined contribution	\$ 16,456	\$ 16,809	\$ 19,904
Contributions in relation to the actuarially determined contributions	(36,845)	(34,190)	(19,816)
Contribution deficiency (excess)	\$ (20,389)	\$ (17,381)	\$ 88
Covered payroll	\$ 1,601,979	\$ 1,322,576	\$ 1,354,463
Contributions as a percentage of covered payroll	2.30%	2.59%	1.46%

Notes to Schedule:

Valuation Date	June 30, 2019	June 30, 2017	June 30, 2017
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Methods and Assumptions Used to Determine

Contribution Rates:

Actuarial cost method	Entry age normal	Entry Age	Entry Age	Entry Age
Amortization method	Closed period, level percent of pay	(1)	(1)	(1)
Amortization period	20-years	20-years	20-years	20-years
Asset valuation method	Fair Value	Fair Value	Fair Value	Fair Value
Discount rate	6.50%	6.50%	6.50%	6.50%
Inflation	2.26%	2.26%	2.26%	2.26%
Payroll increases	3.25%	3.25%	3.25%	3.25%
Mortality	(2)	(2)	(2)	(2)
Morbidity	(3)	(3)	(3)	(3)
Disability	Not Valued	Not Valued	Not Valued	Not Valued
Retirement	(4)	(4)	(4)	(4)
Percent Married	80%	80%	80%	80%
Healthcare trend rates	(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 eight years are shown.

Supplementary Information

COSTA MESA SANITARY DISTRICT
Schedules of Balance Sheets – Internal Funds
June 30, 2025 (With Comparative Amounts as of June 30, 2024)

<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>	Solid Waste	Wastewater	Other Enterprise	2025	2024
Current assets:					
Cash and cash equivalents	\$ 2,144,574	\$ 5,762,598	\$ 1,182,923	\$ 9,090,095	\$ 8,057,764
Investments	3,754,397	10,088,284	2,070,882	15,913,563	14,874,661
Accrued interest receivable	29,908	82,147	16,012	128,067	98,172
Accounts receivable	46,655	3,783	-	50,438	217,672
Assessment receivable	79,224	69,774	-	148,998	129,058
Property tax receivable	8,308	-	-	8,308	5,543
Due from other governments	-	1,170	-	1,170	-
Inventory – materials and supplies	-	241,786	-	241,786	195,522
Prepaid expenses	17,696	125,618	-	143,314	129,127
Total current assets	6,080,762	16,375,160	3,269,817	25,725,739	23,707,519
Non-current assets:					
Net OPEB asset	44,661	90,674	-	135,335	138,268
Capital assets – not being depreciated	-	5,460,691	-	5,460,691	5,894,003
Capital assets – being depreciated, net	18,418	41,378,327	-	41,396,745	40,038,069
Total non-current assets	63,079	46,929,692	-	46,992,771	46,070,340
Total assets	6,143,841	63,304,852	3,269,817	72,718,510	69,777,859
Deferred outflows of resources:					
Deferred amounts related to net OPEB liability	18,483	37,528	-	56,011	70,209
Deferred amounts related to net pension liability	178,185	415,762	-	593,947	687,877
Total deferred outflows of resources	196,668	453,290	-	649,958	758,086
Total assets and deferred outflows of resources	\$ 6,340,509	\$ 63,758,142	\$ 3,269,817	\$ 73,368,468	\$ 70,535,945
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</u>					
Current liabilities:					
Accounts payable and accrued expenses	\$ 794,645	\$ 602,441	\$ -	\$ 1,397,086	\$ 863,283
Long-term liabilities – due within one year:					
Compensated absences	78,267	169,234	-	247,501	115,826
Total current liabilities	872,912	771,675	-	1,644,587	979,109
Non-current liabilities:					
Long-term liabilities – due in more than one year:					
Compensated absences	59,008	127,588	-	186,596	87,323
Net pension liability	187,943	438,534	-	626,477	627,696
Total non-current liabilities	246,951	566,122	-	813,073	715,019
Total liabilities	1,119,863	1,337,797	-	2,457,660	1,694,128
Deferred inflows of resources:					
Deferred amounts related to net OPEB liability	33,243	67,494	-	100,737	112,744
Deferred amounts related to net pension liability	1,894	4,417	-	6,311	15,170
Total deferred inflows of resources	35,137	71,911	-	107,048	127,914
Net position:					
Net investment in capital assets	18,418	46,839,018	-	46,857,436	45,916,096
Restricted for net OPEB asset	44,661	90,674	-	135,335	138,268
Unrestricted	5,122,430	15,418,742	3,269,817	23,810,989	22,659,539
Total net position	5,185,509	62,348,434	3,269,817	70,803,760	68,713,903
Total liabilities, deferred inflows of resources and net position	\$ 6,340,509	\$ 63,758,142	\$ 3,269,817	\$ 73,368,468	\$ 70,535,945

COSTA MESA SANITARY DISTRICT

Schedules of Revenues, Expenses and Changes in Net Position – Internal Funds For the Year Ended June 30, 2025 (With Comparative Amounts as of June 30, 2024)

	Solid Waste	Wastewater	Other Enterprise	2025	2024
Operating revenues:					
Trash assessments	\$ 7,632,409	\$ -	\$ -	\$ 7,632,409	\$ 6,689,791
Wastewater assessments	-	7,922,032	-	7,922,032	7,782,022
Permits and inspection fees	-	230,911	-	230,911	147,859
Connection fees	-	107,039	-	107,039	64,392
Other services	168,722	-	-	168,722	139,045
Total operating revenues	7,801,131	8,259,982	-	16,061,113	14,823,109
Operating expenses:					
Solid waste disposal	4,384,160	-	-	4,384,160	3,120,925
Wastewater disposal	-	2,744,432	-	2,744,432	2,479,212
Recycling and disposal charges	2,379,490	-	-	2,379,490	2,505,489
General and administrative	1,090,375	1,771,952	-	2,862,327	2,556,517
Materials and services	396,635	935,564	-	1,332,199	1,549,590
Total operating expenses	8,250,660	5,451,948	-	13,702,608	12,211,733
Operating income(loss) before depreciation	(449,529)	2,808,034	-	2,358,505	2,611,376
Depreciation expense	(10,300)	(2,252,372)	-	(2,262,672)	(1,864,817)
Operating income(loss)	(459,829)	555,662	-	95,833	746,559
Non-operating revenues(expenses):					
Property taxes	470,495	1,978	-	472,473	444,436
Investment earnings	319,029	788,720	147,807	1,255,556	1,081,554
Grant revenue	-	-	-	-	315,341
Sale of capital assets	-	102,284	-	102,284	-
Transfers In/(Out)	(318,800)	(32,200)	351,000	-	-
Other non-operating revenues	151,937	11,774	-	163,711	325,896
Total non-operating revenues(expenses), net	622,661	872,556	498,807	1,994,024	2,167,227
Change in net position	162,832	1,428,218	498,807	2,089,857	2,913,786
Net position:					
Beginning of year	5,022,677	60,920,216	2,771,010	68,713,903	65,800,117
End of year	<u>\$ 5,185,509</u>	<u>\$ 62,348,434</u>	<u>\$ 3,269,817</u>	<u>\$ 70,803,760</u>	<u>\$ 68,713,903</u>

Statistical Section

COSTA MESA SANITARY DISTRICT

Description of Statistical Section

For the Year Ended June 30, 2025

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.

Contents: **Page**

Financial Trends 47-50

These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.

Revenue Capacity 51-52

These schedules contain information to help the reader assess the District's most significant own source revenues, solid waste, and wastewater revenues.

Debt Capacity 53-54

These schedules present information to help the reader assess the affordability of the District's current levels of outstanding debt and the District's ability to issue additional debt in the future.

Demographics and Economic Information 55-56

These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place.

Operating Information 57-59

These schedules contain service and infrastructure data to help the reader understand how the information in the District's financial report relates to the services the District provides and the activities it performs.

COSTA MESA SANITARY DISTRICT

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

Description	Fiscal Year				
	2016	2017	2018	2019	2020
Changes in net position:					
Operating revenues	\$ 11,077,758	\$ 11,246,522	\$ 11,419,014	\$ 11,372,000	\$ 11,929,955
Operating expenses	(9,323,731)	(9,483,656)	(9,409,708)	(10,293,776)	(10,667,557)
Depreciation and amortization	(1,754,124)	(1,749,622)	(1,738,975)	(1,685,650)	(1,726,363)
Operating income (loss)	(97)	13,244	270,331	(607,426)	(463,965)
Non-operating revenue (expenses), net	574,652	761,793	416,994	1,147,748	604,908
Net income (loss) before capital contributions	574,555	775,037	687,325	540,322	140,943
Capital contributions	89,400	49,253	-	10,000	28,000
Changes in net position	\$ 663,955	\$ 824,290	\$ 687,325	\$ 550,322	\$ 168,943
Net position:					
Net investment in capital assets	\$ 42,348,941	\$ 43,096,961	\$ 44,564,961	\$ 43,447,263	\$ 43,588,263
Restricted for net OPEB and pension liabilities	-	-	-	-	-
Unrestricted	18,144,094	18,220,364	17,262,186	18,930,206	19,538,846
Total net position	\$ 60,493,035	\$ 61,317,325	\$ 61,827,147	\$ 62,377,469	\$ 63,127,109

Description	Fiscal Year				
	2021	2022	2023	2024	2025
Changes in net position:					
Operating revenues	\$ 11,599,955	\$ 11,994,766	13,283,013	\$ 14,823,109	\$ 16,061,113
Operating expenses	(10,337,557)	(9,024,086)	(11,240,760)	(12,211,733)	(13,702,608)
Depreciation and amortization	(1,736,570)	(1,756,608)	(1,774,046)	(1,864,817)	(2,262,672)
Operating income (loss)	(474,172)	1,214,072	268,207	746,559	95,833
Non-operating revenue (expenses), net	615,115	353,071	668,715	2,167,227	1,994,024
Net income (loss) before capital contributions	140,943	1,567,143	936,922	2,913,786	2,089,857
Capital contributions	28,000	-	-	-	-
Changes in net position	\$ 168,943	\$ 1,567,143	936,922	\$ 2,913,786	\$ 2,089,857
Net position:					
Net investment in capital assets	\$ 43,726,063	\$ 44,180,926	45,866,987	\$ 45,916,096	\$ 46,857,436
Restricted for net OPEB and pension liabilities	-	485,274	119,120	138,268	135,335
Unrestricted	19,569,989	20,196,995	19,814,010	22,659,539	23,810,989
Total net position	\$ 63,296,052	\$ 64,863,195	65,800,117	\$ 68,713,903	\$ 70,803,760

Source: Costa Mesa Sanitary District

COSTA MESA SANITARY DISTRICT
Operating Revenues by Source
Last Ten Fiscal Years

Description	Fiscal Year				
	2016	2017	2018	2019	2,020
Operating revenues:					
Trash assessments	\$ 4,787,459	\$ 4,882,785	\$ 4,965,640	\$ 4,907,485	\$ 5,151,672
Wastewater assessments	5,430,408	5,552,190	5,662,878	5,644,174	5,624,274
Permits and inspection fees	231,850	265,340	229,124	215,070	237,572
Connection fees	257,323	183,352	146,575	161,484	242,026
Other services and charges	370,718	362,855	414,797	443,787	454,339
Total operating revenues	\$ 11,077,758	\$ 11,246,522	\$ 11,419,014	\$ 11,372,000	\$ 11,709,883

Description	Fiscal Year				
	2021	2022	2023	2024	2025
Operating revenues:					
Trash assessments	\$ 5,546,056	\$ 5,959,420	\$ 6,320,712	\$ 6,689,791	\$ 7,632,409
Wastewater assessments	5,687,650	5,718,282	6,649,293	7,782,022	7,922,032
Permits and inspection fees	153,238	134,311	126,610	147,859	230,911
Connection fees	90,485	54,407	55,914	64,392	107,039
Other services and charges	122,526	128,346	130,484	139,045	168,722
Total operating revenues	\$ 11,599,955	\$ 11,994,766	\$ 13,283,013	\$ 14,823,109	\$ 16,061,113

Source: Costa Mesa Sanitary District

COSTA MESA SANITARY DISTRICT
Operating Expenses by Activity
Last Ten Fiscal Years

Description	Fiscal Year				
	2016	2017	2018	2019	2020
Operating expenses:					
Solid waste and recycling disposal	\$ 4,770,212	\$ 4,992,220	\$ 5,030,898	\$ 5,090,936	\$ 5,544,397
Wastewater disposal	1,641,085	1,800,679	1,407,130	2,044,275	1,514,716
General and administrative	2,912,434	2,690,757	2,971,680	3,158,565	2,961,564
Total operating expenses	\$ 9,323,731	\$ 9,483,656	\$ 9,409,708	\$ 10,293,776	\$ 10,020,677

Description	Fiscal Year				
	2021	2022	2023	2024	2025
Operating expenses:					
Solid waste and recycling disposal	\$ 5,530,688	\$ 5,272,873	\$ 5,381,729	\$ 5,626,414	\$ 6,763,650
Wastewater disposal	1,884,233	1,730,761	2,233,427	2,479,212	2,744,432
General and administrative	2,922,636	2,020,452	3,625,604	4,106,107	4,194,526
Total operating expenses	\$ 10,337,557	\$ 9,024,086	\$ 11,240,760	\$ 12,211,733	\$ 13,702,608

Source: Costa Mesa Sanitary District

COSTA MESA SANITARY DISTRICT
Non-Operating Revenues (Expenses), Net
Last Ten Fiscal Years

Description	Fiscal Year				
	2016	2017	2018	2019	2020
Non-operating revenues (expenses):					
Investment earnings	\$ 292,524	\$ 26,140	\$ 50,834	\$ 661,506	\$ 445,719
Property taxes	270,876	287,705	313,456	328,943	364,570
Other revenues	44,760	385,530	52,704	162,579	202,946
Loss on disposal of assets	(33,508)	62,418	-	(5,280)	(160,215)
Total non-operating revenues	\$ 574,652	\$ 761,793	\$ 416,994	\$ 1,147,748	\$ 853,020

Description	Fiscal Year				
	2021	2022	2023	2024	2025
Non-operating revenues (expenses):					
Investment earnings	\$ 26,470	\$ (880,129)	\$ 60,277	\$ 1,081,554	\$ 1,255,556
Property taxes	371,085	380,848	412,347	444,436	472,473
Other revenues	217,560	832,507	170,178	641,237	163,711
Loss on disposal of assets	-	19,845	25,913	-	102,284
Total non-operating revenues	\$ 615,115	\$ 353,071	\$ 668,715	\$ 2,167,227	\$ 1,994,024

Source: Costa Mesa Sanitary District

COSTA MESA SANITARY DISTRICT
Solid Waste and Wastewater Revenue Rates
Last Ten Fiscal Years

Description	Fiscal Year				
	2016	2017	2018	2019	2020
Solid Waste Customer:					
Single family residential	\$ 216.00	\$ 216.00	\$ 216.00	\$ 216.00	\$ 224.88
Wastewater Customer:					
Single family residential	\$ 88.79	\$ 90.57	\$ 92.38	\$ 92.38	\$ 92.38
Multi-family residential	52.11	53.15	54.21	54.21	54.21
Trailer	52.11	53.15	54.21	54.21	54.21
Accessory Dwelling Unit (ADU)	-	-	-	-	-
Commercial-Avg. Strength (per 1000 sf)	39.49	40.28	41.09	41.09	41.09
Commercial-High Strength (per 1000 sf)	43.07	43.93	44.81	44.81	44.81
Industrial (per 1000 sf)	101.38	103.41	105.48	105.48	105.48

Description	Fiscal Year				
	2021	2022	2023	2024	2025
Solid Waste Customer:					
Single family residential	\$ 240.60	\$ 257.40	\$ 272.88	\$289.20	\$328.92
Wastewater Customer:					
Single family residential	\$ 92.38	\$ 92.38	\$ 101.22	\$ 118.43	\$ 118.43
Multi-family residential	54.21	54.21	76.83	89.89	89.89
Trailer	54.21	54.21	71.35	83.48	83.48
Accessory Dwelling Unit (ADU)	-	-	37.21	43.54	43.54
Commercial-Avg. Strength (per 1000 sf)	41.09	41.09	44.13	51.63	51.63
Commercial-High Strength (per 1000 sf)	44.81	44.81	49.14	57.49	57.49
Industrial (per 1000 sf)	105.48	105.48	113.64	132.96	132.96

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	2025		2016	
	Square Feet Assessed	Percentage of Total	Square Feet Assessed	Percentage of Total
Industrial Customer Type				
Costa Mesa Sunflower LLC	329,349	3.53%	-	0.00%
C J Segerstrom & Sons	276,718	2.96%	276,718	2.88%
CLA VAL Co	252,484	2.70%	252,484	2.63%
Olden Commercial Realty Corp	141,588	1.52%	154,478	1.61%
Aero Orange County LLC	131,115	1.40%	-	0.00%
Van Ausdeln, Sandra Ann Tr	124,407	1.33%	124,407	1.29%
Life Storage LP	118,514	1.27%	-	0.00%
Napa Vista Tolocay LLC	114,588	1.23%	-	0.00%
Giswold Industries	114,583	1.23%	114,583	1.19%
Orange Grove Properties LLC	109,870	1.18%	109,870	1.14%
Total square feet: Industrial Principal Customers	<u>1,713,216</u>	<u>18.35%</u>	<u>1,032,540</u>	<u>10.75%</u>
Total square feet: Industrial Customers	<u>9,338,575</u>	<u>100.00%</u>	<u>9,608,180</u>	<u>100.00%</u>
Commercial Customer Type				
South Coast Plaza	1,175,680	3.73%	1,108,642	3.43%
C J Segerstrom & Sons	1,145,650	3.63%	1,321,779	4.09%
PR II/MCC South Coast Property Owner LLC	835,672	2.65%	835,672	2.59%
The Irvine Company LLC	834,368	2.65%	834,368	2.58%
Costa Mesa Union School District	825,769	2.62%	957,026	2.96%
Interinsurance Exchange of the Automobile Club	705,212	2.24%	750,914	2.33%
Coast Community College School District	674,061	2.14%	674,061	2.09%
Pacific Mesa Properties	617,671	1.96%	-	0.00%
Center for the Segerstrom	561,752	1.78%	591,089	1.83%
Vanguard University of Southern California	528,173	1.68%	570,245	1.77%
600 Anton Boulevard Associates	490,347	1.56%	490,347	1.52%
Total square feet: Commercial Principal Customers	<u>8,394,355</u>	<u>26.62%</u>	<u>8,134,143</u>	<u>25.20%</u>
Total square feet: Commercial Customers	<u>31,531,306</u>	<u>100.00%</u>	<u>32,280,130</u>	<u>100.00%</u>
Multi-family Residential Customer Type				
Marjack LLC Irvine Company LLC	890	3.61%	890	3.48%
Casden Lakes LP	770	3.12%	770	3.01%
United Dominion Realty LP	764	3.10%	764	2.98%
Advanced Costa Mesa 23 LLC	734	2.98%	-	0.00%
Pinecreek Investment Co	620	2.52%	620	2.42%
ZMU Partnership	508	2.06%	508	1.98%
State of California	455	1.85%	-	0.00%
Village Investment	454	1.84%	422	1.65%
Katella Investment Co	440	1.79%	440	1.72%
LMC Costa Mesa Holdings LP	393	1.59%	-	0.00%
Total household units: Multi-family Principal Custom	<u>6,028</u>	<u>24.46%</u>	<u>4,414</u>	<u>17.24%</u>
Total household units assessed: Multi-family Custom	<u>24,642</u>	<u>100.00%</u>	<u>25,597</u>	<u>100.00%</u>

Source: Costa Mesa Sanitary District

COSTA MESA SANITARY DISTRICT
Ratio of Outstanding Debt
Last Ten Fiscal Years

Description	Fiscal Year				
	2016	2017	2018	2019	2020
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				
	2021	2022	2023	2024	2025
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				
	2016	2017	2018	2019	2020
Total revenues	\$ 11,652,410	\$ 12,008,315	\$ 11,836,008	\$ 12,525,028	\$ 12,366,052
Operating expenses	9,323,731	9,483,656	9,409,708	10,299,056	9,823,826
Net revenues	<u>\$ 2,328,679</u>	<u>\$ 2,524,659</u>	<u>\$ 2,426,300</u>	<u>\$ 2,225,972</u>	<u>\$ 2,542,226</u>
Debt service:					
Principal	\$ -	\$ -	\$ -	\$ -	\$ -
Interest	-	-	-	-	-
Total debt service	<u>\$ -</u>				
Debt coverage ratio	N/A	N/A	N/A	N/A	N/A

Description	Fiscal Year				
	2021	2022	2023	2024	2025
Total revenues	\$ 12,215,070	\$ 12,347,837	\$ 13,951,728	\$ 16,990,336	\$ 18,055,137
Operating expenses	10,337,557	9,024,086	11,240,760	12,211,733	13,702,608
Net revenues	<u>\$ 1,877,513</u>	<u>\$ 3,323,751</u>	<u>\$ 2,710,968</u>	<u>\$ 4,778,603</u>	<u>\$ 4,352,529</u>
Debt service:					
Principal	\$ -	\$ -	\$ -	\$ -	\$ -
Interest	-	-	-	-	-
Total debt service	<u>\$ -</u>				
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

<u>Calendar Year</u>	<u>City of Costa Mesa (a)</u>		<u>County of Orange (b)</u>		
	<u>District Service Population</u>	<u>Unemployment Rate</u>	<u>Population</u>	<u>Personal Income* (in thousands)</u>	<u>Personal Income per Capita</u>
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	108,354	3.70%	3,135,755	\$ 278,760,587	\$ 88,897
2024	109,140	4.00%	3,170,435	c	c
2025	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

<u>Employer</u>	<u>2025*</u>			<u>2016</u>		
	<u>Number of Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>	<u>Number of Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>
Epl Intermediate, Inc.	-	1	0%	3,998		6.19%
Experian Information Solutions, Inc.	-	2	0%	3,700		5.73%
Coast Community College District Foundation	-	3	0%	2,900		4.49%
Automobile Club of Southern California	-	4	0%	2,516		2.94%
Orange Coast Community College	-	5	0%	1,900		1.86%
California State Hospital - Fairview Develop. Ctr	-	6	0%	1,500		1.08%
Westar Capital Associates II, LLC	-	7	0%	1,184		0.93%
Deloitte Consulting LLP	-	8	0%	800		0.85%
Dynamic Cooking System, Inc.	-	9	0%	700		0.77%
Filenet Corporation	-	10	0%	600		0.67%
Total Top Ten Employers	-		0%	19,798		26%
Total City Labor Force	65,700					

* Data not available for fiscal year 2024 - 2025.

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

COSTA MESA SANITARY DISTRICT
District Employees by Function
Last Ten Fiscal Years

Description	Fiscal Year				
	2016	2017	2018	2019	2020
Solid Waste	4.70	4.70	4.30	4.00	5.30
Wastewater	13.30	13.30	13.70	14.00	12.70
Total full-time equivalent (FTE)	18.00	18.00	18.00	18.00	18.00

Description	Fiscal Year				
	2021	2022	2023	2024	2025
Solid Waste	4.80	4.80	6.50	6.00	6.90
Wastewater	14.70	14.70	18.50	19.00	18.60
Total full-time equivalent (FTE)	19.50	19.50	25.00	25.00	25.50

Source: Costa Mesa Sanitary District

COSTA MESA SANITARY DISTRICT
Operating Indicators by Function
Last Ten Fiscal Years

	Fiscal Year				
	2016	2017	2018	2019	2020
Solid Waste:					
Household units serviced	22,398	22,518.00	22,602	22,848	22,972
Recycled/landfill tonnage (Mixed waste)	34,363	32,865	33,190	32,781	33,587
Recyclable tonnage	*	*	*	*	*
Landfill tonnage	*	*	*	*	*
Organics tonnage	7,284	9,451	9,010	9,772	10,608
Recycled % (Diversion rate)	57.01%	59.44%	58.99%	60.51%	50.00%
Wastewater:					
Linear feet (LF) of sewer line cleaned	1,096,701	878,095	883,900	593,701	730,826
Average of wastewater discharged	11MGD	11MGD	8.7MGD	10MGD	8.9MGD
Sewer lateral financial assistance grants	240	271	19	*	*
CCTV sewer lateral program grants	*	*	114	10	*
Sewer Inspection Rebate Program	*	*	*	34	38

	Fiscal Year				
	2021	2022	2023	2024	2025
Solid Waste:					
Household units serviced	23,036**	23,088	23,097	23,123	23,216
Recycled/landfill tonnage (Mixed waste)	34,361**	30,759**	29,579	28,885	7,541
Recyclable tonnage	*	*	*	*	3,151
Landfill tonnage	*	*	*	*	18,158
Organics tonnage	10,317**	9,201	9,451	9,686	9,013
Recycled % (Diversion rate)	48%**	60.56%	61.14%	61.42%	47%
Liquid Waste:					
Linear feet (LF) of sewer line cleaned	730,826	1,014,330	1,038,437	1,014,154	862,400
Average of wastewater discharged	8.9MGD	9MGD	8.4MGD	8.2MGD	8.2MGD
Sewer lateral financial assistance grants	*	*	*	*	*
CCTV sewer lateral program grants	*	*	*	*	*
Sewer Inspection Rebate Program	21**	36	34	16	17

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

Source: Costa Mesa Sanitary District

COSTA MESA SANITARY DISTRICT
Capital Asset Statistics
Last Ten Fiscal Years

Wastewater Division

Fiscal Year	Miles of Sanitary Sewers	Number of Pump Stations	Number of Manholes
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
2024	224	20	5,109
2025	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, 2025, 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 15, 2025.

Report on 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.

Report on 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.



Murrieta, California
December 15, 2025