



Costa Mesa Sanitary District

Costa Mesa, California

Comprehensive Annual Financial Report

For Fiscal Year Ended June 30, 2013





Costa Mesa Sanitary District

Comprehensive Annual Financial Report

For the Year Ended June 30, 2013

**Costa Mesa Sanitary District
628 W. 19th Street
Costa Mesa, California 92627**

**Prepared by:
Scott Carroll, General Manager
Marc Davis, Treasurer**

**Costa Mesa Sanitary District
Annual Financial Report
For the Year Ended June 30, 2013**

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INTRODUCTORY SECTION



Costa Mesa Sanitary District

...an Independent Special District

January 15, 2014

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

It is a pleasure to submit for your information the Comprehensive Annual Financial Report (CAFR) of the Costa Mesa Sanitary District ("District") for the year ended June 30, 2013.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control 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 White Nelson Diehl Evans LLP has issued an unqualified ("clean") opinion on the District's financial statements for the year ended June 30, 2013. 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 Enterprise Special District, the District is authorized to provide refuse 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 trash and sewer services to the City of Costa Mesa, sections of the City of Newport Beach and some unincorporated areas within the County of Orange. The District serves approximately 116,700 residents. Sewage from the District's service area is transported to the Orange County Sanitation District's facilities where it is treated to federally mandated standards to protect the public health. The District has an agreement with CR&R Environmental Services for collection of all solid waste from single family dwellings and small multi-family residences utilizing curb side collection. CR&R transports all of the solid waste to its subsidiary-owned recycling and transfer station located in Stanton, California.

Board of Directors

James Ferryman
Michael Scheafer
Arthur Perry
Robert Ooten
Arlene Schafer

Staff

Scott C. Carroll
General Manager/
District Clerk

Robin B. Hamers
District Engineer

Alan R. Burns
District Counsel

Marcus D. Davis
District Treasurer

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PROFILE OF THE DISTRICT (CONTINUED)

The affairs of the District are directed by a five member Board of Directors elected at large by the registered voters residing in the District. The Board members are also residents and have the same concerns as their constituents. The Board members, who serve four-year staggered terms, are responsible for establishing policy and ordinances, adopting the annual budget, and hiring the District's General Manager. 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.

LOCAL ECONOMY

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the District operates. The District continues to benefit from its unique geographical location. The local economy is primarily based on retail commercial business and light manufacturing of electronics, pharmaceuticals, and plastics. The District's service area includes several major regional facilities: John Wayne Airport's air traffic control tower, Orange Coast College, Whittier Law School, Vanguard University, State of California Fairview Development Center, Orange County Fairgrounds, Segerstrom Performing Arts Center, South Coast Repertory Theater, and the South Coast Plaza shopping complex. The volume of sales generated by South Coast Plaza, on the strength of over 300 stores, secures its place as the highest volume regional shopping center in the nation.

As an independent enterprise special district having the ability to adjust service rates as required, the District's operating revenues are somewhat insulated from the local economy. The recent economic downturn did not have a negative impact on the District's revenues as it had on other government agencies, whose major source of revenues are from sales, property and other taxes. The District has a secure revenue stream in the form of an annual charge which is collected on the District's behalf by the County of Orange via the property tax bills.

LONG-TERM FINANCIAL PLANNING AND MAJOR INITIATIVES

The Board of Directors is keenly aware of the need to ensure the District's financial stability. Through a coordinated strategic process, the Board has established a series of policies and plans to effectively meet the District's anticipated future needs. The cornerstone of these policies is the District's Strategic Plan, which serves as a framework for planning and decision making over the next five years. The Strategic Plan was reviewed and updated in May 2013. It documents the following seven strategic elements, and identifies service goals for each year as to how to accomplish the strategic elements.

- Sewer infrastructure – Our objective is to collect and transport wastewater to meet the needs of existing and future customers.
- Solid waste – Our objective is to manage the collection and recycling of residential trash in the most economical and environmentally friendly way.

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

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LONG-TERM FINANCIAL PLANNING AND MAJOR INITIATIVES (CONTINUED)

- Partnerships – To foster beneficial relationships to accomplish the goals of the District.
- Community outreach and communications – Our objective is to inform and establish beneficial relations with the community.
- Administrative Management – To create, maintain and implement policies and procedures to ensure sound management of the District.
- Personnel/organizational management – To employ and retain a high quality, motivated workforce.
- Finances – To ensure the short and long-term fiscal health of the District.

The District has effectively incorporated its Asset Replacement Fund and Asset Management Fund into the financial plan, system and activities. These funds were established for the purpose of segregating and accumulating funds for the purchase and replacement of equipment and capital improvement projects (CIP), ensuring that equipment and capital projects can be funded when replacement or rehabilitation is required.

The purpose of the Asset Management Fund is to accumulate reserves for capital improvement projects. This fund has a reserve requirement of \$5,000,000. The financial position of this fund is evaluated each year by staff to ensure there is adequate and sustainable funding for the next thirty years. The financial plan for this Fund is obtained from the Asset Management Model. The Model is a computerized program where the District's infrastructure inventory has been entered. The model has the capability to calculate the yearly amount of estimated replacement costs, or CIP, and the reserve contribution required from the Liquid Waste Fund in order to maintain the targeted reserve balance. The Model's objective is to ensure current and future wastewater is continually being collected and transported in a safe and efficient manner.

Also key during the year ended June 30, 2013, was the initiation of a Knowledge Transfer Program. Knowledge Transfer is a segment of an overall approach to Succession Planning, which is an on-going process of systematically identifying, assessing and developing talent to ensure the leadership and management continuity for all key positions in the organization. It ensures that replacements have been prepared to fill key vacancies on short notice, that individuals have the development capacity to assume greater responsibility, and that individuals are prepared for exercising increased technical proficiency in their work.

Generally speaking, the term “knowledge management” (KM) represents a broad concept, and is thought of as a system for finding, understanding, and using knowledge to achieve organizational objectives. The three activities of finding, storing and retrieving are the “organizational memory” of the District. It is more than simply moving or transferring files and data from one employee (or department) to another. KM allows others to build upon a person's professional experience, within the context of the organization, in a way that strengthens not only the employee, but the organization as a whole.

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

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LONG-TERM FINANCIAL PLANNING AND MAJOR INITIATIVES (CONTINUED)

There are at least two types of knowledge – *Explicit* and *Tacit*. Explicit can be described as data and is often found in software systems or documents. On the other hand, tacit knowledge includes cognitive skills such as beliefs, images, intuition and mental models as well as technical skills such as craft and know-how. Tacit knowledge is knowledge that people carry in their minds and is, therefore, difficult to access. Often, people are not aware of the knowledge they possess or how it can be valuable to others. Tacit knowledge is considered more valuable because it provides context for people, places, ideas, and experiences. Effective transfer of tacit knowledge generally requires extensive personal contact and trust. Consequently, the focus of the District's approach is to implement a process by which the tacit knowledge of key positions/employees is captured and available for transfer.

The economic and policy issues the District currently faces are a reflection of the statewide environmental policies, demands for increased transparency, and the ramifications of a sluggish economy. On a statewide level, Assembly Bill 939 (AB939) sets State diversion goals at 50% and Assembly Bill 341 (AB341) requires the State to divert 75% by 2020. Currently, the District is diverting over 57% of the solid waste collected from the local landfills. The District is in the process of evaluating all options to obtain an even higher diversion rate in cooperation with other organizations by the year 2014. The plan includes organic recycling where green and food waste will be converted into renewable natural gas along with educational and public outreach programs that will encourage residents to participate in waste reduction and recycling efforts.

FINANCIAL POLICIES AND PROCEDURES

Management of the District is responsible for establishing and maintaining an adequate internal control structure. Internal accounting controls are designed to ensure that the assets of the District are protected from loss, theft or misuse, and that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgment by management.

AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to the District for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2012. This was the second consecutive year that the District achieved this prestigious award. In order to be awarded a Certificate of Achievement, a governmental entity must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles (GAAP) and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement's Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

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ACNOWLEDGMENTS

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 White Nelson Diehl Evans LLP for their professional assistance.

Respectfully submitted,



Scott Carroll
General Manager



Marcus D. Davis
Treasurer

Our Mission Statement

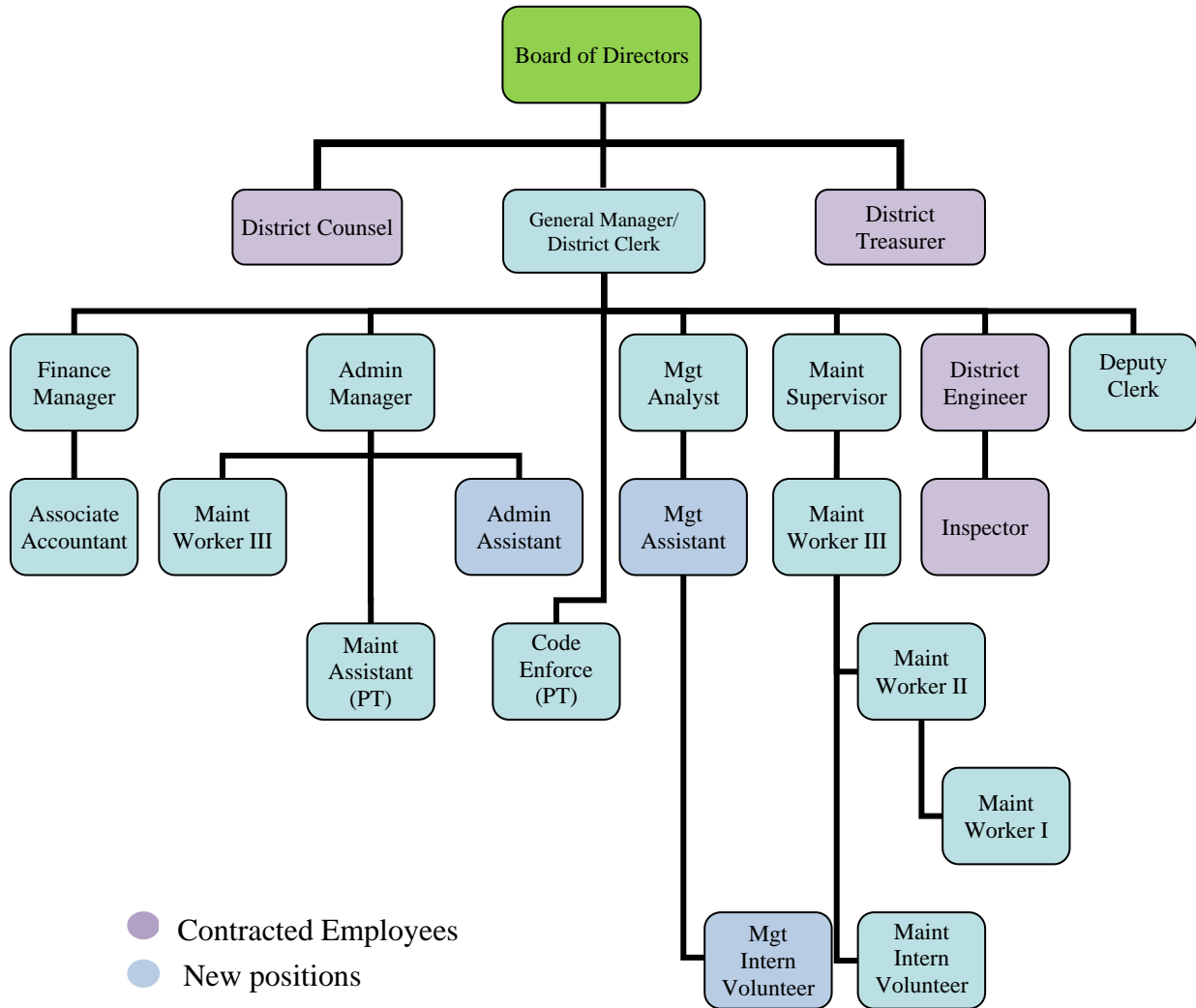
“Protecting our community’s health and the environment by providing solid waste and sewer collection services.”

Costa Mesa Sanitary District Board of Directors as of June 30, 2013

<u>Name</u>	<u>Title</u>	<u>Elected/ Appointed</u>	<u>Current Term</u>
James Ferryman	President	Elected	12/12 – 12/16
Michael Scheafer	Vice President	Elected	12/10 – 12/14
Arthur Perry	Secretary	Elected	12/12 – 12/16
Robert Ooten	Assistant Secretary	Elected	12/10 – 12/14
Arlene Schafer	Director	Appointed	12/10 – 12/14

**Costa Mesa Sanitary District
Scott Carroll, General Manager
628 W. 19th Street
Costa Mesa, California 92627
(949) 645-8400 www.cmsdca.gov**

COSTA MESA SANITARY DISTRICT ORGANIZATIONAL CHART JULY 2013





Government Finance Officers Association

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

Presented to

**Costa Mesa Sanitary District
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2012

Executive Director/CEO

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Board of Directors
Costa Mesa Sanitary District
Costa Mesa, California

Report on Financial Statements

We have audited the accompanying financial statements of the Costa Mesa Sanitary District (the District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Costa Mesa Sanitary District as of June 30, 2013 and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America, as well as the accounting systems prescribed by the State Controller's Office and State Regulations governing Special Districts.

Emphasis of Matters

As discussed in Note 1e to the basic financial statements, the District incorporated deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure of net position due to the adoption of Governmental Accounting Standards Board's Statement No. 63, *"Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position"*. The adoption of this standard also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Our opinion is not modified with respect to this matter.

As discussed in Note 1e to the basic financial statements, the District has changed its method for accounting and reporting certain items previously reported as assets or liabilities during fiscal year 2012-2013 due to the early adoption of Governmental Accounting Standards Board's Statement No. 65, *"Items Previously Reported as Assets and Liabilities"*. Our opinion is not modified with respect to this matter.

Other Matters

Summarized Comparative Information

The financial statements include partial prior year comparative information. Such information does not include all of the information required 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, 2012, from which such partial information was derived.

We have previously audited the Costa Mesa Sanitary District's 2012 financial statements, and our report dated November 26, 2012, expressed an unmodified opinion on those audited financial statements. In our opinion, the partial summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters (Continued)

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the District's basic financial statements as a whole. The Introductory Section and Statistical Section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Introductory Section and Statistical Section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2014, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

White Nelson Nick Evans LLP

Irvine, California
January 15, 2014

COSTA MESA SANITARY DISTRICT

Management's Discussion and Analysis

June 30, 2013

The following discussion and analysis of the financial performance of the Costa Mesa Sanitary District (the District) provides an overview of the District's financial activities for the fiscal year ended June 30, 2013. It should be read in conjunction with the financial statements identified in the accompanying table of contents.

Financial Highlights

Financial highlights during the fiscal year ended June 30, 2013 included:

- Total assets of the District exceeded its liabilities as of June 30, 2013 by \$58,478,333. Of this amount, \$18,684,743 is unrestricted and available to meet the District's ongoing obligations to its customers and creditors.
- Net position of the Solid Waste Fund decreased \$6,168 during the year ended June 30, 2013, which was primarily attributable to a reduction beginning net position in the amount of \$197,436 due to a correction of prior year accruals of expenses, offset by an increase in general property tax revenue of \$86,467, an increase in other revenue of \$20,879 and savings in salaries and benefits due to temporary vacancies in staffing.
- Net position of the Liquid Waste fund increased \$915,296 during the year ended June 30, 2013, which was primarily attributable to an increase in permits and inspections fees of \$57,299 and connection fees of \$111,032 due to increased development, a decrease in liquid waste disposal expenses of \$399,141 due to timing of completion of capital improvement projects, and savings in salaries and benefits due to temporary vacancies in staffing, as well as savings in various maintenance and operations accounts.

Overview of the Financial Statements

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

The financial statements accompanying this MD&A present the financial position, results of operations, and changes in cash flow during the fiscal year ended June 30, 2013. These financial statements have been prepared using accounting methods similar to those used by private sector companies.

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

See independent auditors' report.

COSTA MESA SANITARY DISTRICT

Management's Discussion and Analysis

(Continued)

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

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

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

Financial Analysis of the District

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the District in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current fiscal year's revenues and expenses are taken into account regardless of when cash is received or paid.

See independent auditors' report.

COSTA MESA SANITARY DISTRICT

Management's Discussion and Analysis

(Continued)

Statement of Net Position

	Condensed Statement of Net Position		
	<u>2013</u>	<u>2012</u>	<u>Change</u>
Assets:			
Current assets	\$19,862,554	\$19,090,049	\$772,505
Capital assets, net	<u>39,793,590</u>	<u>39,792,929</u>	<u>661</u>
Total assets	<u>59,656,144</u>	<u>58,882,978</u>	<u>773,166</u>
Liabilities:			
Current liabilities	1,141,331	1,259,385	(118,054)
Non-current liabilities	<u>36,480</u>	<u>58,764</u>	<u>(22,284)</u>
Total liabilities	<u>1,177,811</u>	<u>1,318,149</u>	<u>(140,338)</u>
Net Position:			
Net investment in capital assets	39,793,590	39,792,929	661
Restricted for capital outlay	-	8,116	(8,116)
Unrestricted	<u>18,684,743</u>	<u>17,763,784</u>	<u>920,959</u>
Total net position	<u>\$58,478,333</u>	<u>\$57,564,829</u>	<u>\$913,504</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. Net position of the District was \$58,478,333 and \$57,564,829 for the fiscal years ended June 30, 2013 and June 30, 2012, respectively.

One of the largest portions of the District's net position reflects the District's net investment in capital assets less any related debt used to acquire those assets that is still outstanding. Investments in capital assets represent \$39,793,590, or 68%, of the total \$58,478,333 net position. The District uses the capital assets to provide services to customers within the District's area; consequently, these assets are not available for future spending.

Unrestricted net position represents 32% of the District's net position, which comprises assets that may be used to meet the District's on going obligations to citizens and creditors in accordance with the District's fiscal policies. As of June 30, 2013, net position increased to \$58,478,333 from \$57,564,829 in the prior fiscal year, or a \$913,504 increase. The increase in net position is primarily attributable to capital improvement projects for which funding is being received in the annual charge, but will not be constructed until future years.

See independent auditors' report.

COSTA MESA SANITARY DISTRICT

Management's Discussion and Analysis

(Continued)

Statement of Revenues, Expenses and Changes in Net Position

	Condensed Statement of Revenues, Expenses and Changes in Net Position		
	<u>2013</u>	<u>2012</u>	<u>Change</u>
Revenues:			
Operating revenues	\$10,636,733	\$10,759,564	\$(122,831)
Non-operating revenues	<u>253,459</u>	<u>826,870</u>	<u>(573,411)</u>
Total revenues	<u>10,890,192</u>	<u>11,586,434</u>	<u>(696,242)</u>
Expenses:			
Operating expenses	7,953,569	8,303,399	(349,830)
Depreciation	1,715,991	1,607,841	108,150
Non-operating expenses	<u>114,692</u>	<u>86,798</u>	<u>27,894</u>
Total expenses	<u>9,784,252</u>	<u>9,998,038</u>	<u>(213,786)</u>
Net income/change in net position	1,105,940	1,588,396	(482,456)
Capital contributions	5,000	-	5,000
Net position, beginning of year	57,564,829	55,976,433	1,588,396
Restatement of net position	<u>(197,436)</u>	<u>-</u>	<u>(197,436)</u>
Net position, end of year	<u>\$58,478,333</u>	<u>\$57,564,829</u>	<u>\$913,504</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 by \$913,504 and \$1,588,396 for the fiscal years ended June 30, 2013 and 2012, respectively.

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

- General property tax revenues increased by \$86,467 primarily attributable to the elimination of redevelopment agencies throughout the State of California and the reallocation of tax increment revenue to other jurisdictions;
- Permits and inspections fees increased by \$57,299 and connection fees increased by \$111,032 due to increased development;
- Liquid waste disposal expenses decreased by \$399,141 due to timing of completion of capital improvement projects; and
- Savings in salaries and benefits were generated due to temporary vacancies in staffing.

See independent auditors' report.

COSTA MESA SANITARY DISTRICT

Management's Discussion and Analysis

(Continued)

Total District Revenues

	<u>2013</u>	<u>2012</u>	<u>Change</u>
Operating revenues:			
Trash assessments	\$ 4,921,705	\$ 5,180,748	\$(259,043)
Sewer assessments	5,133,674	5,117,377	16,297
Permits and inspection fees	140,536	83,237	57,299
Connection fees	189,262	78,230	111,032
Other services	<u>251,556</u>	<u>299,972</u>	<u>(48,416)</u>
Total operating revenues	<u>10,636,733</u>	<u>10,759,564</u>	<u>(122,831)</u>
Non-operating revenues:			
Investment income (loss)	(144,970)	188,000	(332,970)
Taxes	301,046	214,579	86,467
Other revenues	<u>97,383</u>	<u>424,291</u>	<u>(326,908)</u>
Total non-operating revenues	<u>253,459</u>	<u>826,870</u>	<u>(573,411)</u>
Total revenues	<u>\$10,890,192</u>	<u>\$11,586,434</u>	<u>\$(696,242)</u>

Some of the more significant changes consisted of the following:

- The annual trash assessment decreased \$259,043 as a result of the Board's reduction in rates.
- Connection fees increased \$111,032 due to increased development.
- Investment income decreased \$332,970 as a result of a reduction in the market value of the District's investments.
- Other revenue decreased \$326,908 as a result of the elimination of one-time revenue received in the prior fiscal year.

See independent auditors' report.

COSTA MESA SANITARY DISTRICT

Management's Discussion and Analysis

(Continued)

Total District Expenses

	<u>2013</u>	<u>2012</u>	<u>Change</u>
Operating expenses:			
Solid waste disposal	\$2,365,389	\$2,366,360	\$ (971)
Liquid waste disposal	1,295,029	1,694,170	(399,141)
Recycling and disposal charges	2,102,046	2,080,487	21,559
Administration and other	2,030,985	1,940,115	90,870
Repairs and maintenance	160,120	222,267	(62,147)
Depreciation	<u>1,715,991</u>	<u>1,607,841</u>	<u>108,150</u>
Total operating revenues	<u>9,669,560</u>	<u>9,911,240</u>	<u>(241,680)</u>
Non-operating expenses:			
Loss on disposal of assets	<u>114,692</u>	<u>86,798</u>	<u>27,894</u>
Total non-operating expenses	<u>114,692</u>	<u>86,798</u>	<u>27,894</u>
Total expenses	<u>\$9,784,252</u>	<u>\$9,998,038</u>	<u>\$(213,786)</u>

Liquid waste disposal expenses decreased by \$399,141 due to the timing of completion of capital improvement projects. This was somewhat offset by an increase in depreciation expense of \$108,150 due to assets acquired during the prior fiscal year for which a full year of depreciation is incurred.

Capital Asset Administration

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

	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Transfers/</u> <u>Deletions</u>	<u>Balance</u> <u>June 30, 2013</u>
Non-depreciable assets	\$ 1,149,384	\$1,376,130	\$(1,213,941)	\$ 1,311,573
Depreciable assets	89,359,448	1,686,928	(255,399)	90,790,977
Accumulated depreciation	<u>(50,715,903)</u>	<u>(1,715,991)</u>	<u>122,934</u>	<u>(52,308,960)</u>
Total capital assets, net	<u>\$39,792,929</u>	<u>\$1,347,067</u>	<u>\$(1,346,406)</u>	<u>\$39,793,590</u>

See independent auditors' report.

COSTA MESA SANITARY DISTRICT

Management's Discussion and Analysis

(Continued)

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

	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Transfers/</u> <u>Deletions</u>	<u>Balance</u> <u>June 30, 2012</u>
Non-depreciable assets	\$ 1,365,298	\$ 145,225	\$(361,139)	\$ 1,149,384
Depreciable assets	86,890,237	2,580,695	(111,484)	89,359,448
Accumulated depreciation	<u>(49,132,748)</u>	<u>(1,607,841)</u>	<u>24,686</u>	<u>(50,715,903)</u>
Total capital assets, net	<u>\$39,122,787</u>	<u>\$1,118,079</u>	<u>\$(447,937)</u>	<u>\$39,792,929</u>

At the end of fiscal year 2013 and 2012, the District's investment in capital assets were \$39,793,590 and \$39,792,929 (net of accumulated depreciation), respectively, an increase of \$661. The investment in capital assets includes land, property rights, subsurface sewer lines, pump stations, buildings and structures, equipment, vehicles and construction in progress, etc.

Additional information on the District's capital assets can be found in Note 3 of the Notes to Financial Statements.

Long-Term Debt

As of June 30, 2013, the District had no long-term debt.

Economic Factors and Next Year's Budgets

Due to the District's health position in its Solid Waste Fund, the Board of Directors reduced the assessment for trash collection services from \$228 per year to \$216 per year. There is no change in the sewer rate. The District is anticipating slightly higher property tax revenue due to the dissolution of the redevelopment agencies throughout the State. New programs to be funded during the year ending June 30, 2014 include the inspection of all 4,560 manhole covers to ensure their structural integrity is meeting industry standards, a Solid Waste Academy where residents will learn all about the solid waste industry, and events celebrating the District's 70th anniversary. The budget also includes funding to purchase a new utility truck with a crane capable of removing the District's largest pumps. Funding for capital improvement projects has reduced from \$2,170,000 to \$1,810,000.

Request for Information

The financial report is designed to provide our Board of Directors, citizens, customers, ratepayers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the funds it receives. If you have questions about the report or need additional financial information, contact the District's Finance Department at 628 W. 19th Street, Costa Mesa, California 92627.

See independent auditors' report.

BASIC FINANCIAL STATEMENTS

COSTA MESA SANITARY DISTRICT
COMBINED STATEMENT OF NET POSITION

June 30, 2013
(With prior year data for comparison only)

	Solid Waste	Liquid Waste
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents (Note 2)	\$ 2,403,433	\$ 5,045,850
Investments (Note 2)	3,729,147	7,829,100
Accounts receivable	45,831	3,402
Interest receivable	8,061	16,899
Assessments receivable	169,785	193,558
Inventory	-	67,274
Due from other governments	-	-
TOTAL CURRENT ASSETS	<u>6,356,257</u>	<u>13,156,083</u>
NONCURRENT ASSETS:		
Capital assets (Note 3):		
Non-depreciable	-	1,311,573
Depreciable, net of accumulated depreciation	30,668	38,451,349
TOTAL NONCURRENT ASSETS	<u>30,668</u>	<u>39,762,922</u>
TOTAL ASSETS	<u>6,386,925</u>	<u>52,919,005</u>
LIABILITIES:		
CURRENT LIABILITIES:		
Accounts payable	625,385	306,730
Accrued liabilities	15,420	33,741
Deposits payable	-	100,000
Unearned revenue	31,455	-
Due to other governments	-	-
Compensated absences	10,010	18,590
TOTAL CURRENT LIABILITIES	<u>682,270</u>	<u>459,061</u>
NON-CURRENT LIABILITIES:		
Compensated absences	5,749	11,260
Other post-employment benefits (Note 5)	6,458	13,013
TOTAL NON-CURRENT LIABILITIES	<u>12,207</u>	<u>24,273</u>
TOTAL LIABILITIES	<u>694,477</u>	<u>483,334</u>
NET POSITION:		
Net investment in capital assets	30,668	39,762,922
Restricted for capital outlay	-	-
Unrestricted	5,661,780	12,672,749
TOTAL NET POSITION	<u>\$ 5,692,448</u>	<u>\$ 52,435,671</u>

See independent auditors' report and notes to financial statements.

Other Enterprise Fund	Totals	
	2013	2012
\$ 137,118	\$ 7,586,401	\$ 7,238,957
212,751	11,770,998	11,029,560
-	49,233	26,220
345	25,305	38,598
-	363,343	371,138
-	67,274	33,359
-	-	352,217
350,214	19,862,554	19,090,049
-	1,311,573	1,149,384
-	38,482,017	38,643,545
-	39,793,590	39,792,929
350,214	59,656,144	58,882,978
-	932,115	985,264
-	49,161	67,656
-	100,000	100,000
-	31,455	62,596
-	-	43,869
-	28,600	-
-	1,141,331	1,259,385
-	17,009	38,979
-	19,471	19,785
-	36,480	58,764
-	1,177,811	1,318,149
-	39,793,590	39,792,929
-	-	8,116
350,214	18,684,743	17,763,784
\$ 350,214	\$ 58,478,333	\$ 57,564,829

COSTA MESA SANITARY DISTRICT

COMBINED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITIONFor the year ended June 30, 2013
(With prior year data for comparison only)

	Solid Waste	Liquid Waste
OPERATING REVENUES:		
Trash assessments	\$ 4,921,705	\$ -
Sewer assessments	-	5,133,674
Permits and inspection fees	-	140,536
Connection fees	-	189,262
Other services	101,634	4,322
TOTAL OPERATING REVENUES	<u>5,023,339</u>	<u>5,467,794</u>
OPERATING EXPENSES:		
Solid waste disposal	2,365,389	-
Liquid waste disposal	-	1,295,029
Recycling and disposal charges	2,102,046	-
Administration and other	687,230	1,343,755
Repairs and maintenance	16,545	143,575
Depreciation	8,976	1,707,015
TOTAL OPERATING EXPENSES	<u>5,180,186</u>	<u>4,489,374</u>
OPERATING INCOME (LOSS)	<u>(156,847)</u>	<u>978,420</u>
NONOPERATING REVENUES (EXPENSES):		
Investment income (loss)	(45,884)	(95,862)
Taxes	301,046	-
Other revenues	92,953	4,430
Loss on disposal of assets	-	(114,692)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>348,115</u>	<u>(206,124)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	<u>191,268</u>	<u>772,296</u>
CAPITAL CONTRIBUTIONS AND TRANSFERS:		
Capital contributions	-	5,000
Transfers in	-	138,000
Transfers out	-	-
TOTAL CAPITAL CONTRIBUTIONS AND TRANSFERS	<u>-</u>	<u>143,000</u>
CHANGES IN NET POSITION	<u>191,268</u>	<u>915,296</u>
NET POSITION - BEGINNING OF YEAR, AS ORIGINALLY REPORTED	5,698,616	51,520,375
RESTATEMENT OF NET POSITION (NOTE 7)	<u>(197,436)</u>	<u>-</u>
NET POSITION - BEGINNING OF YEAR, AS RESTATED	<u>5,501,180</u>	<u>51,520,375</u>
NET POSITION - END OF YEAR	<u>\$ 5,692,448</u>	<u>\$ 52,435,671</u>

See independent auditors' report and notes to financial statements.

Other Enterprise Fund	Totals	
	2013	2012
\$ -	\$ 4,921,705	\$ 5,180,748
-	5,133,674	5,117,377
-	140,536	83,237
-	189,262	78,230
145,600	251,556	299,972
145,600	10,636,733	10,759,564
-	2,365,389	2,366,360
-	1,295,029	1,694,170
-	2,102,046	2,080,487
-	2,030,985	1,940,115
-	160,120	222,267
-	1,715,991	1,607,841
-	9,669,560	9,911,240
145,600	967,173	848,324
(3,224)	(144,970)	188,000
-	301,046	214,579
-	97,383	424,291
-	(114,692)	(86,798)
(3,224)	138,767	740,072
142,376	1,105,940	1,588,396
-	5,000	-
-	138,000	-
(138,000)	(138,000)	-
(138,000)	5,000	-
4,376	1,110,940	1,588,396
345,838	57,564,829	55,976,433
-	(197,436)	-
345,838	57,367,393	55,976,433
\$ 350,214	\$ 58,478,333	\$ 57,564,829

COSTA MESA SANITARY DISTRICT
COMBINED STATEMENT OF CASH FLOWS

For the year ended June 30, 2013
(With prior year data for comparison only)

	Solid Waste	Liquid Waste
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 5,099,700	\$ 5,794,674
Payments to suppliers	(4,600,276)	(2,570,531)
Payments to employees	(334,374)	(788,936)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>165,050</u>	<u>2,435,207</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Taxes received	301,046	-
Cash received from other funds	-	138,000
Cash paid to other funds	-	-
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>301,046</u>	<u>138,000</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	-	(1,844,117)
Proceeds from sale of assets	-	17,773
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>-</u>	<u>(1,826,344)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on cash and investments	42,318	89,611
Increase (decrease) in investments	(367,008)	(630,739)
NET CASH USED BY INVESTING ACTIVITIES	<u>(324,690)</u>	<u>(541,128)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	141,406	205,735
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>2,262,027</u>	<u>4,840,115</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 2,403,433</u></u>	<u><u>\$ 5,045,850</u></u>

See independent auditors' report and notes to financial statements.

Other Enterprise Fund	Totals	
	2013	2012
\$ 145,600	\$ 11,039,974	\$ 10,826,475
-	(7,170,807)	(6,959,134)
-	(1,123,310)	(1,063,008)
145,600	2,745,857	2,804,333
-	301,046	214,579
-	138,000	-
(138,000)	(138,000)	-
(138,000)	301,046	214,579
-	(1,844,117)	(2,364,781)
-	17,773	-
-	(1,826,344)	(2,364,781)
1,857	133,786	195,838
(9,154)	(1,006,901)	(1,522,170)
(7,297)	(873,115)	(1,326,332)
303	347,444	(672,201)
136,815	7,238,957	7,911,158
\$ 137,118	\$ 7,586,401	\$ 7,238,957

(Continued)

COSTA MESA SANITARY DISTRICT

COMBINED STATEMENT OF CASH FLOWS
(CONTINUED)

For the year ended June 30, 2013
(With prior year data for comparison only)

	Solid Waste	Liquid Waste
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ (156,847)	\$ 978,420
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	8,976	1,707,015
Other revenues	92,953	4,430
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(19,611)	(3,402)
(Increase) decrease in assessments receivable	34,160	(26,365)
(Increase) decrease in inventory	-	(33,915)
(Increase) decrease in due from other governments	-	352,217
Increase (decrease) in accounts payable	230,762	(481,347)
Increase (decrease) in accrued liabilities	803	(19,298)
Increase (decrease) in unearned revenue	(31,141)	-
Increase (decrease) in due to other governments	-	(43,869)
Increase (decrease) in compensated absences	5,047	1,583
Increase (decrease) in OPEB liabilities	(52)	(262)
Total adjustments	321,897	1,456,787
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 165,050	\$ 2,435,207

NONCASH CAPITAL FINANCING ACTIVITIES:

Capital assets of \$5,000 were acquired through contributions from developers.

NONCASH INVESTMENT ACTIVITIES:

Fair market value of investments decreased \$265,463.

See independent auditors' report and notes to financial statements.

Other Enterprise Fund	Totals	
	2013	2012
<u>\$ 145,600</u>	<u>\$ 967,173</u>	<u>\$ 848,324</u>
-	1,715,991	1,607,841
-	97,383	424,291
-	(23,013)	49,618
-	7,795	(44,902)
-	(33,915)	4,579
-	352,217	(327,017)
-	(250,585)	219,963
-	(18,495)	13,299
-	(31,141)	(35,079)
-	(43,869)	43,280
-	6,630	(19,649)
-	(314)	19,785
<u>-</u>	<u>1,778,684</u>	<u>1,956,009</u>
<u><u>\$ 145,600</u></u>	<u><u>\$ 2,745,857</u></u>	<u><u>\$ 2,804,333</u></u>

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COSTA MESA SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

a. The Organization:

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

b. Uniform Accounting System:

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

c. Basis of Presentation:

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

The District reports the following major enterprise funds:

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

Liquid Waste - This fund is used to account for the collection of sewer charges, the cost of construction, maintaining sewer lines and pump stations, and the cost of contract services provided to the District. This fund also accounts for the collection of charges paid by or on behalf of the property owner for the construction of street sewers, and cost of acquisition, construction, and reconstruction of sewage facilities within the District.

See independent auditors' report.

COSTA MESA SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

c. Basis of Presentation (Continued):

Other Enterprise Fund:

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

d. Measurement Focus and Basis of Accounting:

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

e. New Accounting Pronouncements:

Implemented:

In fiscal year 2012-2013, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 63, “*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*”. This statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, “*Elements of Financial Statements*” into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new Statement of Net Position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

COSTA MESA SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

e. New Accounting Pronouncements (Continued):

Implemented (Continued):

In fiscal year 2012-2013, the District early implemented GASB Statement No. 65, "*Items Previously Reported as Assets and Liabilities*". This statement established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. The implementation of this statement did not result in any reclassification of assets or liabilities due to deferred outflows of resources or deferred inflows of resources.

Pending Accounting Standards:

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

- GASB 66 - "*Technical Corrections, an amendment of GASB Statement No. 10 and Statement No. 62*", effective for periods beginning after December 15, 2012.
- GASB 67 - "*Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25*", effective for the fiscal years beginning after June 15, 2013.
- GASB 68 - "*Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*", effective for the fiscal years beginning after June 15, 2014.
- GASB 69 - "*Government Combinations and Disposals of Government Operations*", effective for periods beginning after December 15, 2013.
- GASB 70 - "*Accounting and Financial Reporting for Nonexchange Financial Guarantees*", effective for the periods beginning after June 15, 2013.

f. Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District does not have deferred outflows of resources.

COSTA MESA SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

f. Deferred Outflows/Inflows of Resources (Continued):

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 position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The District does not have deferred inflows of resources.

g. Net Position Flow Assumption:

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the District's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

h. Operating Revenues and Expenses:

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

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

i. Accounts Receivable:

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

See independent auditors' report.

COSTA MESA SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

j. Capital Assets:

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

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

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

k. Capital Contributions:

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

l. Property Taxes:

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

See independent auditors' report.

COSTA MESA SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

l. Property Taxes (Continued):

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

The property tax calendar is as follows:

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

m. Maintenance Costs:

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

n. Compensated Absences:

Accumulated unpaid vacation and other employee benefit amounts are accrued when vested. At June 30, 2013, compensated absences payable amounted to \$45,609, the total of which is considered a long-term liability.

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

Changes to compensated absences for 2013, were as follows:

	Balance <u>June 30, 2012</u>	<u>Earned</u>	<u>Taken</u>	Balance <u>June 30, 2013</u>	Current <u>Portion</u>	Long-Term <u>Portion</u>
Compensated absences	<u>\$ 38,979</u>	<u>\$ 34,956</u>	<u>\$ (28,326)</u>	<u>\$ 45,609</u>	<u>\$ 28,600</u>	<u>\$ 17,009</u>

See independent auditors' report.

COSTA MESA SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

o. Claims and Judgments:

When it is probable that a claim liability has been incurred at year-end, and the amount of the loss can be reasonably estimated, the District records the estimated loss, net of any insurance coverage under its participation in the Joint Power Insurance Authority program. At June 30, 2013, in the opinion of the District's legal counsel, the District had no material claims which would require loss provision in the financial statements. Small dollar claims and judgments are recorded as expenses when paid.

p. Investments:

Investments are stated at fair value (quoted market price or the best available estimates thereof). Net increase (decrease) in the fair value of investments, which consists of realized gains (losses) and the unrealized gains (losses), is shown as investment income (loss) in the statement of revenues, expenses and changes in net position.

q. Cash and Cash Equivalents:

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

r. Prior Year Data:

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

COSTA MESA SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

s. Use of Estimates:

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

2. CASH AND INVESTMENTS:

Cash and Investments:

Cash and investments as of June 30, 2013 are reported in the accompanying combined statement of net position as follows:

Cash and cash equivalents	\$ 7,586,401
Investments	<u>11,770,998</u>
Total	<u><u>\$ 19,357,399</u></u>

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

Demand Deposits:	
Cash deposits	\$ 164,766
Petty cash	<u>700</u>
Total demand deposits	<u>165,466</u>

Investments:	
United States Government Sponsored	
Agency Securities	11,770,999
California Local Agency Investment Fund (LAIF)	7,217,123
Money Market Mutual Funds	<u>203,811</u>
Total investments	<u>19,191,933</u>
Total cash and investments	<u><u>\$ 19,357,399</u></u>

See independent auditors' report.

COSTA MESA SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

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.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
United States Treasury Obligations	5 years	None	None
Federal Agencies (United States Government Sponsored Agency Securities)	5 years	None	None
Banker's Acceptances	180 days	25%	15%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	25%	10%
Medium-Term Corporate Notes	5 years	20%	10%
Money Market Mutual Funds	5 years	20%	None
Local Agency Investment Fund (LAIF)	N/A	None	\$ 40 million

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 evenly over time as necessary to provide the cash flow and liquidity needed for operations.

See independent auditors' report.

COSTA MESA SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

2. CASH AND INVESTMENTS (CONTINUED):

Disclosures Relating to Interest Rate Risk (Continued):

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity as of June 30, 2013.

Investment Type	Remaining Maturity (in Months)			Total
	12 Months or Less	13 - 24 Months	25 - 60 Months	
United States Government Sponsored				
Agency Securities	\$ -	\$ -	\$ 11,770,999	\$ 11,770,999
Local Agency Investment Fund	7,217,123	-	-	7,217,123
Money Market Mutual Funds	<u>203,811</u>	<u>-</u>	<u>-</u>	<u>203,811</u>
	<u>\$ 7,420,934</u>	<u>\$ -</u>	<u>\$ 11,770,999</u>	<u>\$ 19,191,933</u>

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

Investment Type	Total	Minimum Legal Rating	AAA	AA+	Unrated
United States Government					
Sponsored Agency Securities	\$ 11,770,999	N/A	\$ -	\$ 11,770,999	\$ -
Local Agency Investment Fund	7,217,123	N/A	-	-	7,217,123
Money Market Mutual Funds	<u>203,811</u>	A	<u>203,811</u>	<u>-</u>	<u>-</u>
	<u>\$ 19,191,933</u>		<u>\$ 203,811</u>	<u>\$ 11,770,999</u>	<u>\$ 7,217,123</u>

See independent auditors' report.

COSTA MESA SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

2. CASH AND INVESTMENTS (CONTINUED):

Concentration of Credit Risk:

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

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>	<u>Percent of Investment</u>
Federal Home Loan Bank	United States Government Sponsored Agency Securities	\$ 3,919,220	20.42%
Federal National Mortgage Association	United States Government Sponsored Agency Securities	4,909,539	25.58%
Federal Home Loan Mortgage Corporation	United States Government Sponsored Agency Securities	1,961,170	10.22%
Federal Farm Credit Bank	United States Government Sponsored Agency Securities	981,070	5.11%

Custodial Credit Risk:

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. The District's deposits were collateralized as required by California Law.

Investment in State Investment Pool:

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) 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.

See independent auditors' report.

COSTA MESA SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

3. CAPITAL ASSETS:

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

	<u>Balance at July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2013</u>
Capital assets, not being depreciated:				
Land	\$ 979,655	\$ -	\$ -	\$ 979,655
Property rights	4,025	-	-	4,025
Construction in progress	<u>165,704</u>	<u>1,376,130</u>	<u>(1,213,941)</u>	<u>327,893</u>
Total capital assets, not being depreciated	<u>1,149,384</u>	<u>1,376,130</u>	<u>(1,213,941)</u>	<u>1,311,573</u>
Capital assets, being depreciated:				
Subsurface sewer lines	84,381,192	1,215,431	(1,413)	85,595,210
Building and improvements	3,895,870	20,634	-	3,916,504
Equipment	821,192	116,368	(160,202)	777,358
Vehicles	<u>261,194</u>	<u>334,495</u>	<u>(93,784)</u>	<u>501,905</u>
Total capital assets, being depreciated	<u>89,359,448</u>	<u>1,686,928</u>	<u>(255,399)</u>	<u>90,790,977</u>
Less accumulated depreciation:				
Subsurface sewer lines	(50,083,055)	(1,498,805)	1,345	(51,580,515)
Building and improvements	(249,235)	(78,178)	-	(327,413)
Equipment	(226,515)	(92,372)	61,411	(257,476)
Vehicles	<u>(157,098)</u>	<u>(46,636)</u>	<u>60,178</u>	<u>(143,556)</u>
Total accumulated depreciation	<u>(50,715,903)</u>	<u>(1,715,991)</u>	<u>122,934</u>	<u>(52,308,960)</u>
Total capital assets being depreciated, net	<u>38,643,545</u>	<u>(29,063)</u>	<u>(132,465)</u>	<u>38,482,017</u>
Total capital assets, net	<u>\$ 39,792,929</u>	<u>\$ 1,347,067</u>	<u>\$ (1,346,406)</u>	<u>\$ 39,793,590</u>

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

Solid waste	<u>\$ 8,976</u>
Liquid waste	<u>\$ 1,707,015</u>

See independent auditors' report.

COSTA MESA SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013

4. PENSION PLAN:

a. Plan Description:

The Costa Mesa Sanitary District contributes to the California Public Employees Retirement System (CalPERS), a cost-sharing multiple-employer public employee defined benefit pension plan. It participates in the 2% at 55 (Tier I) and 2% at 60 (Tier II) Risk Pools of CalPERS, effective July 1, 2004 and October 1, 2011, respectively. The Miscellaneous 2% at 62 Risk Pool was created by California Employees' Pension Reform Act (PEPRA) as of January 1, 2013 and is open to all new employees who do not qualify for the Miscellaneous 2% at 55 Risk Pool. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public agencies within the State of California. Benefit provisions and all other requirements are established by state statute and District ordinance. Copies of CalPERS annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814.

b. Funding Policy:

The contribution rate for plan members of both Tier I and Tier II is 7% of their covered salary, of which, the District pays 7% for Tier I and 0% (zero percent) for Tier II on behalf of the employee. Also, the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. Active plan members of Miscellaneous 2% at 62 Risk Pool are required to contribute 6.25% of their annual covered salary. The required employer contribution rate of the fiscal year ended June 30, 2013 for the Miscellaneous 2% at 62 Risk Pool was 6.25%. PEPRA does not allow the District to pay any portion of the employee required contribution on behalf of the employee. The required employer contribution rates are equal to the annual pension costs (APC) percentage of payroll for fiscal years 2013, 2012, and 2011 as noted below. The contribution requirements of the plan members are established by State statute, and the employer contribution rate is established and may be amended by CalPERS. For fiscal years 2013, 2012, and 2011, the District's annual employer contributions for the CalPERS plan were equal to the District's required and actual contributions for each fiscal year as follows:

Three-Year Trend Information for CalPERS

Fiscal Year Ended	Annual Pension Cost (APC) Total Tiers I & II	Percentage of APC Contributed	Net Pension Obligation
6/30/11	\$ 108,525	100%	\$ -
6/30/12	104,790	100%	-
6/30/13	91,941	100%	-

See independent auditors' report.

COSTA MESA SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

4. PENSION PLAN (CONTINUED):

c. Funding Status:

As of July 1, 2005, the District miscellaneous plan became part of a CalPERS Risk Pool for employers with less than 100 active plan members. The risk pool combines the assets and liabilities across employers of the same risk pool to provide a method to spread the risk of uncertain gains and losses over a large base of members. As part of a cost-sharing multiple-employer defined benefit plan, disclosure of the schedule of funding progress is not required as information is not specific to the District.

5. OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN:

a. Plan Description:

Eligibility:

The District, through an agent multiple-employer plan, provides post-employment health care benefits. The plan is part of the Public Agency portion of the California Employers' Retiree Benefit Trust Fund (CERBT), an agent multiple-employer plan administered by California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for participating public employers within the State of California. The following requirements must be satisfied in order to be eligible for lifetime post employment medical benefits: (1) Attainment of age 50, and 5 years of CalPERS service (or disability), and (2) Retirement from CalPERS and from the District (the District must be the last employer prior to retirement). Currently, there are six retired employees who have met these eligibility requirements and four of which have elected to receive the benefits. The total payments made for these benefits for retired employees for the year ended June 30, 2013 were \$17,000.

Membership in the OPEB plan consisted of the following members as of June 30, 2013:

Active plan members	13
Retirees and beneficiaries receiving benefits	4
Separated plan members entitled to but not yet receiving benefits	<u>2</u>
Total plan membership	<u><u>19</u></u>

See independent auditors' report.

COSTA MESA SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

5. OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED):

a. Plan Description (Continued):

Benefits:

The District offers post employment medical benefits to retired employees who satisfy the eligibility rules. Retirees may enroll in any plan available through the District's CalPERS medical plan. The contribution requirement of the Plan members and the District are established and may be amended by the Board of Directors. As a member of the CalPERS medical plan the District is required to participate in its post employment medical benefit plan. The District currently pays the CalPERS minimum required employer contribution on an "Unequal" basis (\$115 per month in 2013, Equal being \$115, and indexed to medical CPI plus amortized factor, becoming equal in 2024). The District currently has one retiree with a special agreement receiving \$350 per month. The special agreement was a Board approved policy issued to maintain the benefits offered to former City of Costa Mesa employees accepting to become District employees.

b. Funding Policy:

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

The District will pay 100% of the cost of the post employment benefit plan. The District is currently funding the plan on a pay-as-you-go basis, through fiscal year 2013 and records a liability for the difference between pay-as-you-go and the actuarially determined ARC cost.

c. Annual OPEB Cost and Net OPEB Obligation:

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded liabilities of the plan over a period not to exceed twenty-five years.

See independent auditors' report.

COSTA MESA SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

5. OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED):

c. Annual OPEB Cost and Net OPEB Obligation (Continued):

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

Annual required contribution (ARC)	\$ 17,000
Interest on Net OPEB obligation	1,384
Adjustment to ARC	<u>(1,698)</u>
Annual OPEB cost	16,686
Contribution made, net of adjustment	<u>(17,000)</u>
Decrease in Net OPEB obligation	(314)
Net OPEB obligation at June 30, 2012	<u>19,785</u>
 Net OPEB obligation at June 30, 2013	 <u><u>\$ 19,471</u></u>

d. Trend Information:

The District's annual OPEB cost, the actual contribution, the percentage of annual OPEB costs contributed to the plan, and the net OPEB obligation for the two years ended June 30, 2013 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Actual Contribution (Net of Adjustments)	Percentage of Annual OPEB Costs Contributed	Net OPEB Obligation
6/30/12	\$ 21,000	\$ 1,215	5.79 %	\$ 19,785
6/30/13	\$ 16,686	\$ 17,000	101.88 %	\$ 19,471

e. Funded Status and Funding Progress:

As of June 30, 2012, the first actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability (AAL) for benefits was \$131,000, and the actuarial value of assets (AVA) was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$131,000. The covered payroll (annual payroll of active employees covered by the plan) was \$897,000 and the ratio of the UAAL to the covered payroll was 14.60%.

See independent auditors' report.

COSTA MESA SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

5. OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED):

f. Actuarial Methods and Assumptions:

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets consistent with the long-term perspective of the calculations. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the District are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to basic financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

In the June 30, 2012 actuarial investment valuation, the entry age normal cost method was used. The actuarial assumptions included an inflation rate of 3.0% per annum, an investment return of 4% per annum, for fiscal year 2011-12 and 7% per annum after 2011-12, a projected salary increase of 3.25% per annum and a health inflation rate of 8.5% per annum graded down in approximately one-half percent increments to an ultimate rate of 5%. The District is using the level percentage of payroll method to allocate amortization cost by year and a closed 30 year period for the initial unfunded actuarial accrued liability (fiscal year 2011-12) and a closed 25 year amortization (beginning fiscal year 2012-2013) for any residual unfunded actuarial accrued liabilities.

6. JOINT POWERS INSURANCE AUTHORITY:

The District is a member of the Special District Risk Management Authority.

Description of the Authority:

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

See independent auditors' report.

COSTA MESA SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

6. JOINT POWERS INSURANCE AUTHORITY (CONTINUED):

Self-Insurance Programs of the Authority:

At June 30, 2013, the District participated in the Authority's self-insurance programs as follows:

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

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

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

Workers' Compensation - Insured up to statutory limits.

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

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

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

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

7. RESTATEMENT OF NET POSITION:

Beginning net position for the Solid Waste Enterprise Fund was restated as of July 1, 2012, from \$5,698,616 to \$5,501,177 to correct the understatement of accounts payable in the amount of \$197,436.

8. SUBSEQUENT EVENTS:

On August 31, 2013, the District experienced a sewage spill and has not been assessed penalties as of January 15, 2014. Based on spills of similar magnitude occurring in other agencies, the District Engineer estimated the potential fine to range from \$75,000 to \$150,000.

See independent auditors' report.

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF FUNDING PROGRESS
OTHER POST-EMPLOYMENT BENEFIT PLAN**

COSTA MESA SANITARY DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

For the year ended June 30, 2013

**SCHEDULE OF FUNDING PROGRESS
OTHER POST-EMPLOYMENT BENEFIT PLAN**

Actuarial Valuation Date	Actuarial Accrued Liability (AAL) (a)	Actuarial Value of Assets (AVA) (b)	Unfunded AAL (UAAL) (a) - (b)	Funded Ratio (b)/(a)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(a)-(b)]/(c)
6/30/2012	\$ 131,000	\$ -	\$ 131,000	0.00%	\$ 897,000	14.60%

See independent auditors' report.

STATISTICAL SECTION

COSTA MESA SANITARY DISTRICT

DESCRIPTION OF STATISTICAL SECTION CONTENTS

June 30, 2013

This part of the District's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements and the note disclosures say about the government's overall financial health.

Contents:	<u>Pages</u>
<u>Financial Trends</u> these schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.	42 - 49
<u>Revenue Capacity</u> these schedules contain information to help the reader assess the District's most significant own source revenues, sewer and trash revenues.	50 - 53
<u>Debt Capacity</u> these schedules present information to help the reader assess the affordability of the District's current levels of outstanding debt and the District's ability to issue additional debt in the future.	54 - 57
<u>Demographic and Economic Information</u> these schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place.	58 - 59
<u>Operating Information</u> these schedules contain service and infrastructure data to help the reader understand how the information in the District's financial report relates to the services the District provides and the activities it performs.	60 - 62

Costa Mesa Sanitary District

Changes in Net Position and Net Position by Component

Last Ten Fiscal Years

	Fiscal Year			
	2004	2005	2006	2007
Changes in net position:				
Operating revenues	\$ 6,367,747	\$ 6,792,623	\$ 7,532,247	\$ 8,209,035
Operating expenses	(6,147,861)	(7,091,449)	(7,112,655)	(7,371,732)
Depreciation and amortization	(607,543)	(659,881)	(681,562)	(344,790)
Operating income (loss)	(387,657)	(958,707)	(261,970)	492,513
Non-operating revenue(expenses), net	268,620	360,375	189,116	769,752
Net income (loss) before capital contributions	(119,037)	(598,332)	(72,854)	1,262,265
Capital contributions	230,551	961,280	128,822	2,377,046
Changes in net position	\$ 111,514	\$ 362,948	\$ 55,968	\$ 3,639,311
Net position:				
Net investment in capital assets	\$ 11,347,128	\$ 12,178,288	\$ 11,965,261	\$ 14,363,225
Restricted for capital outlay	2,515,596	2,632,700	2,732,231	8,157,794
Unrestricted	7,441,465	6,939,816	7,109,280	2,925,064
Total net position	\$ 21,304,189	\$ 21,750,804	\$ 21,806,772	\$ 25,446,083

Source: Costa Mesa Sanitary District

Fiscal Year					
2008	2009	2010 (As Restated)	2011	2012	2013
\$ 9,606,545	\$ 10,144,512	\$ 10,460,180	\$ 10,731,490	\$ 10,759,564	\$ 10,636,733
(7,762,619)	(7,945,850)	(7,487,385)	(8,160,177)	(8,303,399)	(7,953,569)
(478,763)	(573,004)	(622,319)	(1,540,281)	(1,607,841)	(1,715,991)
1,365,163	1,625,658	2,350,476	1,031,032	848,324	967,173
751,660	659,472	1,245,767	434,597	740,072	138,767
2,116,823	2,285,130	3,596,243	1,465,629	1,588,396	1,105,940
-	14,000	4,243,681	-	-	5,000
<u>\$ 2,116,823</u>	<u>\$ 2,299,130</u>	<u>\$ 7,839,924</u>	<u>\$ 1,465,629</u>	<u>\$ 1,588,396</u>	<u>\$ 1,110,940</u>
\$ 17,040,959	\$ 17,350,061	\$ 40,022,038	\$ 39,122,787	\$ 39,792,929	\$ 39,793,590
6,028,258	6,285,042	7,719,551	381,368	8,116	-
4,493,689	6,226,933	6,769,215	16,472,278	17,763,784	18,684,743
<u>\$ 27,562,906</u>	<u>\$ 29,862,036</u>	<u>\$ 54,510,804</u>	<u>\$ 55,976,433</u>	<u>\$ 57,564,829</u>	<u>\$ 58,478,333</u>

Costa Mesa Sanitary District

Operating Revenue by Source

Last Ten Fiscal Years

	Fiscal Year			
	2004	2005	2006	2007
Trash assessments	\$ 4,428,648	\$ 4,793,693	\$ 5,101,835	\$ 5,101,054
Sewer assessments	1,739,375	1,905,567	2,279,091	2,747,778
Permits and inspection fees	48,260	54,897	71,560	190,412
Connection fees	77,359	38,466	42,133	137,522
Other services and charges	74,105	-	37,628	32,269
Total Operating Revenues	\$ 6,367,747	\$ 6,792,623	\$ 7,532,247	\$ 8,209,035

Source: Costa Mesa Sanitary District

Fiscal Year					
2008	2009	2010	2011	2012	2013
\$ 5,136,643	\$ 5,168,413	\$ 5,176,122	\$ 5,185,184	\$ 5,180,748	\$ 4,921,705
4,254,608	4,632,923	5,124,283	5,116,190	5,117,377	5,133,674
22,552	28,183	22,870	46,222	83,237	140,536
13,687	24,270	11,468	28,865	78,230	189,262
179,055	290,723	125,437	355,029	299,972	251,556
<u>\$ 9,606,545</u>	<u>\$ 10,144,512</u>	<u>\$ 10,460,180</u>	<u>\$ 10,731,490</u>	<u>\$ 10,759,564</u>	<u>\$ 10,636,733</u>

Costa Mesa Sanitary District

Operating Expenses by Activity

Last Ten Fiscal Years

	Fiscal Year			
	2004	2005	2006	2007
Solid waste disposal	\$ 4,230,486	\$ 4,441,589	\$ 4,650,142	\$ 4,568,661
Liquid waste disposal	1,248,691	1,338,201	1,274,987	1,384,802
General and administrative	668,684	1,311,659	1,187,526	1,418,269
Total Operating Expenses	\$ 6,147,861	\$ 7,091,449	\$ 7,112,655	\$ 7,371,732

Source: Costa Mesa Sanitary District

Fiscal Year					
2008	2009	2010	2011	2012	2013
\$ 4,584,097	\$ 4,499,524	\$ 4,469,887	\$ 4,510,918	\$ 4,450,943	\$ 4,483,980
1,540,711	1,516,374	1,047,977	1,619,781	1,912,341	1,438,604
1,637,811	1,929,952	1,969,521	2,029,478	1,940,115	2,030,985
<u>\$ 7,762,619</u>	<u>\$ 7,945,850</u>	<u>\$ 7,487,385</u>	<u>\$ 8,160,177</u>	<u>\$ 8,303,399</u>	<u>\$ 7,953,569</u>

Costa Mesa Sanitary District

Non-operating Revenue (Expenses), net

Last Ten Fiscal Years

	Fiscal Year			
	2004	2005	2006	2007
Investment income (loss)	\$ 161,587	\$ 351,957	\$ 165,387	\$ 571,489
Investment expense	(126,082)	(58,003)	(50,826)	(43,941)
Taxes	155,726	33,527	64,965	217,796
Other revenues	77,389	32,894	32,280	50,264
Other expenses	-	-	(22,690)	-
Loss on disposal of assets	-	-	-	(25,856)
Total non-operating revenues, net	\$ 268,620	\$ 360,375	\$ 189,116	\$ 769,752

Source: Costa Mesa Sanitary District

Fiscal Year					
2008	2009	2010	2011	2012	2013
\$ 469,376	\$ 297,158	\$ 188,045	\$ 154,279	\$ 188,000	\$ (144,970)
-	-	-	-	-	-
226,046	223,789	220,329	212,004	214,579	301,046
66,265	151,007	838,628	69,856	424,291	97,383
(10,027)	-	-	-	-	-
-	(12,482)	(1,235)	(1,542)	(86,798)	(114,692)
<u>\$ 751,660</u>	<u>\$ 659,472</u>	<u>\$ 1,245,767</u>	<u>\$ 434,597</u>	<u>\$ 740,072</u>	<u>\$ 138,767</u>

Costa Mesa Sanitary District

Sewer and Trash Revenue Rates

Last Ten Fiscal Years

		Fiscal Year			
		2004	2005	2006	2007
Sewer					
Customer Type					
Single family residential	\$	26.90	\$ 29.05	\$ 31.37	\$ 37.64
Multi-family residential		20.71	22.37	24.16	28.99
Commercial (per 1000 sf)		15.65	16.90	18.25	21.90
Industrial (per 1000 sf)		46.09	49.78	53.76	64.51
Other (per 1000 sf)		13.86	14.97	16.17	19.40
Trash					
Customer Type					
Single family residential	\$	209.13	\$ 225.86	\$ 239.41	\$ 239.41

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

Fiscal Year					
2008	2009	2010	2011	2012	2013
\$ 56.47	\$ 60.71	\$ 66.23	\$ 66.23	\$ 66.23	\$ 66.23
43.49	46.75	51.00	51.00	51.00	51.00
32.85	35.31	38.52	38.52	38.52	38.52
96.77	104.03	113.50	113.50	113.50	113.50
29.11	31.29	34.14	34.14	34.14	34.14
\$ 239.41	\$ 239.41	\$ 239.41	\$ 239.41	\$ 239.41	\$ 228.00

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Costa Mesa Sanitary District

Principal Sewer Customers

Current Fiscal Year and Nine Years Ago

	2013		2004	
Industrial Customer Type	Square Feet Assessed	Percentage of Total	Square Feet Assessed	Percentage of Total
Commonwealth Ave Apts	329,350	3.42%	72,970	0.84%
CJ Sergerstrom & Sons	276,720	2.88%	274,160	3.17%
CLA Val Co	252,480	2.62%	390,170	4.51%
Alsenz, Evert C TR	171,670	1.78%	168,960	1.95%
MS Airways LLC	158,070	1.64%	149,020	1.72%
Van Ausdeln, Sandra Ann TR	124,410	1.29%	124,410	1.44%
SCIF Redhill LLC	118,510	1.23%	1,000	0.01%
1650 Sunflower 40 LLC	114,950	1.19%	-	0.00%
Griswold Industries	114,580	1.19%	103,780	1.20%
Orange Grove Properties LLC	109,870	1.14%	109,870	1.27%
Seventeenth Street Realty LLC	98,580	1.02%	-	0.00%
Total square feet: Industrial Principal Customers	1,869,190	19.42%	1,394,340	16.10%
Total square feet : Industrial Customers	9,622,890	100.00%	8,659,106	100.00%
Commercial Customer Type				
South Coast Plaza	1,108,630	3.44%	334,240	1.41%
RREF America REIT II	835,680	2.59%	-	0.00%
Magurie Properties - Pacific Arts Plaza LLC	615,010	1.91%	130,340	0.55%
Interinsurance Exchange of the Auto Club of Ca	750,910	2.33%	37,290	0.16%
Coast Community College District	674,060	2.09%	86,620	0.37%
Sears Roebuck & Co.	536,980	1.66%	446,150	1.88%
Vanguard University of Southern California	528,170	1.64%	486,330	2.05%
600 Anton Boulevard	490,350	1.52%	459,090	1.94%
Center Tower Associates	415,550	1.29%	-	0.00%
J Ray Sanderson/Cardinal Development Bristol	419,440	1.30%	419,440	1.77%
One Town Center Drive Associates	362,700	1.12%	319,390	1.35%
JKS-CMFV LLC	357,440	1.11%	308,760	1.30%
Total square feet: Commercial Principal Customers	7,094,920	22.00%	3,027,650	12.78%
Total square feet: Commercial Customers	32,256,260	100.00%	23,684,480	100.00%
Multi-family Residential Customer Type	Household Units	Percentage of Total	Household Units	Percentage of Total
RTS - Sunflower, LLC	890	3.47%	-	0.00%
Casden Lakes LP	770	3.00%	770	3.07%
Costa Mesa Partners	764	2.97%	764	3.05%
United Dominion Realty LP	764	2.97%	764	3.05%
Pincreek Investment Co.	620	2.41%	620	2.47%
ZMV Partnership	508	1.98%	508	2.03%
UDR Harbor Greens LP	384	1.50%	384	1.53%
Bay Apartment Communities, Inc.	333	1.30%	273	1.09%
Riverville Family Associates LLC	296	1.15%	-	0.00%
Park Mesa Village	276	1.07%	276	1.10%
Parkwood Village Ltd	276	1.07%	276	1.10%
Total household units: Multi-family Principal Customers	5,881	22.90%	4,635	18.50%
Total household units assessed: Multi-family Customers	25,684	100.00%	25,053	100.00%

Source: Costa Mesa Sanitary District

Costa Mesa Sanitary District

Ratio of Outstanding Debt

Last Ten Fiscal Years

	Fiscal Year			
	2004	2005	2006	2007
Capital leases	\$ 1,784,541	\$ 1,573,627	\$ 1,354,945	\$ -
Total debt	\$ 1,784,541	\$ 1,573,627	\$ 1,354,945	\$ -
Total debt per capita	\$ 14	\$ 12	\$ 13	\$ -
Total debt as a percent of personal income	0.04%	0.03%	0.02%	0.00%

Source: Costa Mesa Sanitary District Accounting Department

Fiscal Year					
2008	2009	2010	2011	2012	2013
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Costa Mesa Sanitary District

Debt Coverage

Last Ten Fiscal Years

	Fiscal Year			
	2004	2005	2006	2007
Net Revenues	\$ 6,762,449	\$ 7,211,001	\$ 7,772,189	\$ 9,022,728
Operating Expenses	6,147,861	7,091,449	7,112,655	7,371,732
Net revenues	<u>\$ 614,588</u>	<u>\$ 119,552</u>	<u>\$ 659,534</u>	<u>\$ 1,650,996</u>
Debt Service:				
Principal	\$ 149,612	\$ 210,914	\$ 218,682	\$ 1,354,945
Interest	<u>126,082</u>	<u>58,003</u>	<u>50,826</u>	<u>43,941</u>
Total debt service	<u>\$ 275,694</u>	<u>\$ 268,917</u>	<u>\$ 269,508</u>	<u>\$ 1,398,886</u>
Debt coverage ratio	2.23	0.44	2.45	1.18

Source: Costa Mesa Sanitary District

Fiscal Year					
2008	2009	2010	2011	2012	2013
\$ 10,358,205	\$ 10,803,984	\$ 11,705,947	\$ 11,166,087	\$ 11,499,636	\$ 10,775,500
7,762,619	7,945,850	7,487,385	8,160,177	8,303,399	7,953,569
\$ 2,595,586	\$ 2,858,134	\$ 4,218,562	\$ 3,005,910	\$ 3,196,237	\$ 2,821,931
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
N/A	N/A	N/A	N/A	N/A	N/A

Costa Mesa Sanitary District
Demographics and Economic Statistics
Last Ten Calendar Years

Calendar Year	City of Costa Mesa (a)		County of Orange (b)		
	District Service Population	Unemployment Rate	Population	Personal Income (thousands of dollars)	Personal Income per Capita
2003	109,171	4.3%	2,940,109	\$ 122,427,855	\$ 41,641
2004	109,903	3.8%	2,956,096	130,321,396	44,086
2005	109,030	3.4%	2,957,263	139,408,948	47,141
2006	108,096	3.0%	2,953,062	150,598,354	50,997
2007	107,641	3.5%	2,957,902	153,446,641	51,877
2008	107,514	4.7%	2,989,141	155,068,367	51,877
2009	109,808	8.0%	3,026,786	148,372,628	49,020
2010	109,960	8.5%	3,017,598	150,467,328	49,863
2011	110,008	7.8%	3,055,745	154,131,535	50,440
2012	111,918	6.8%	3,090,132	*	*

* Data not readily available.

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

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

Costa Mesa Sanitary District

Principal Employers

Current Fiscal Year and Nine Years Ago

Employer	2013		2004 *	
	Number of Employees	Percentage of Total City Employment	Number of Employees	Percentage of Total City Employment
Experian Information Solution	3,700	5.73%		
Coast Community College District Foundation	2,900	4.49%		
Orange Coast Community College	1,900	2.94%		
Fairview Developmental Center	1,500	2.32%		
A Clark/McCarthy Joint Venture	1,250	1.94%		
Interinsurance Exchange of the Auto Club	1,200	1.86%		
Pacific Building Care, Inc.	850	1.32%		
Filenet Corporation	600	0.93%		
TTM Technologies	500	0.77%		
Nordstrom, Inc.	500	0.77%		
Total ten employers total	14,900	23.07%	-	0.00%

* - Data not available for the fiscal year 2003- 2004

Costa Mesa Sanitary District

Full-time and Part-time District Employees
By Function

Last Nine Fiscal Years

	Fiscal Year								
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Solid Waste	0.95	0.95	1.10	1.60	1.65	1.31	3.42	3.27	4.60
Liquid Waste	<u>4.55</u>	<u>5.55</u>	<u>6.90</u>	<u>9.40</u>	<u>9.85</u>	<u>9.94</u>	<u>9.60</u>	<u>8.28</u>	<u>9.40</u>
Total Full-time equivalent	<u>5.50</u>	<u>6.50</u>	<u>8.00</u>	<u>11.00</u>	<u>11.50</u>	<u>11.25</u>	<u>13.02</u>	<u>11.55</u>	<u>14.00</u>

Note: The District had no employees prior to 2005. All operations were provided by contract services.

Costa Mesa Sanitary District

Operating Indicators
By Function

Last Six Fiscal Years

	Fiscal Year					
	2008	2009	2010	2011	2012	2013
Solid Waste:						
Household units serviced	21,471	21,482	21,501	21,531	21,559	21,490
Recycled/landfill tonnage	42,269	40,908	40,374	40,865	39,841	39,800
Recycled %	50.45%	50.44%	50.44%	51.92%	57.53%	58.00%
Liquid Waste:						
Linear feet (LF) of sewer line cleaned	350,000	411,150	4,125	890,006	650,551	708,092
Average of wastewater discharged	10.6 MGD	10.3 MGD	10.1 MGD	10.3 MGD	10.4 MGD	10.5 MGD
Sewer lateral financial assistance grants	90	120	128	146	144	169

MGD - Millions of gallons per day

Source: Costa Mesa Sanitary District Accounting Department, District Engineer

Costa Mesa Sanitary District

Capital Asset Statistics

Last Ten Fiscal Years

Liquid Waste

Fiscal Year	Miles of Sanitary Sewers	Number of Pump Stations	Number of Manholes
2004	219	20	4,581
2005	220	20	4,599
2006	220	20	4,600
2007	221	20	4,646
2008	221	20	4,646
2009	221	20	4,649
2010	224	20	4,703
2011	224	20	4,703
2012	224	20	4,703
2013	224	20	4,560

Source: Costa Mesa Sanitary District Engineer