Costa Mesa Sanitary District
Costa Mesa, California

Comprehensive Annual Financial Report For The Year Ended June 30, 2017

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

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Costa Mesa Sanitary District

Comprehensive Annual Financial Report
For the Year Ended June 30, 2017

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

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

Costa Mesa Sanitary District
Comprehensive Annual Financial Report
For the Year Ended June 30, 2017

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Costa Mesa Sanitary District

...an Independent Special District

December 22, 2017

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

It is a pleasure to submit for your information the Comprehensive Annual Financial Report (CAFR) of the Costa Mesa Sanitary District (District) for the year ended June 30, 2017.

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

The accounting firm of Rogers, Anderson, Malody & Scott, LLP has issued an unmodified (clean) opinion on the District's financial statements for the year ended June 30, 2017. The independent auditor's report is located in the front of the financial section of this report.

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

PROFILE OF THE DISTRICT

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

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

290 Paularino Ave / Costa Mesa, CA 92626 • (949) 645-8400 / fax: (949) 650-2253

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

PROFILE OF THE DISTRICT (CONTINUED)

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

LOCAL ECONOMY

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

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

LONG-TERM FINANCIAL PLANNING AND MAJOR INITIATIVES

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

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

LONG-TERM FINANCIAL PLANNING AND MAJOR INITIATIVES (CONTINUED)

During the fiscal year, the District completed the first year of a four-year upgrade program to improve processing and security of the District's software and hardware. In November 2016, the improvements to the new headquarters building located at 290 Paularino Ave. were completed and the District moved in. In June 2017, the Board of Directors approved the payoff of the unfunded pension liability in the amount of $335,647. This is the third audit of a three year agreement with the audit firm of Rogers, Anderson, Malody & Scott, LLP.

The District continues to demonstrate strong leadership towards protecting the environment by implementing new maintenance programs and capital improvement projects that will prevent sanitary sewer overflows (SSOs). For instance, the District is completing the second and final year of its Close Circuit Televising (CCTV) Program, which consist of video recording the entire 219 miles of gravity wastewater pipes, to determine current condition, which ensures service reliability to the public, assists with determining life-cycle projections, and identifies any improvements needed. As a result of the CCTV, the District took immediate action to design and repair 271 Grade 5 condition (imminent failure) pipe segments before they could fail at a cost of approximately $428,000 through June 30, 2017. The CCTV recordings have been integrated into the District's GIS system to document current conditions.

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

On June 22, 2017, the Board of Directors adopted Resolution 2017-901 to purchase the property located at 2252 Fairview Road for $1,690,000. This property, with the original structure built in 1961 as a gas station, is located adjacent to the existing District Yard.

The District's Yard has insufficient parking for the large sewer trucks, as well as lacks space to store emergency equipment and generators that are currently stored at various sites including the City's Public Works Yard, Orange Coast Community College and at the Orange County Fair Grounds. The purchase of this property will allow all emergency equipment and generators to be stored in one secure location which will improve response time in case of an emergency. Additionally, this property will provide a secondary entrance and exit from the Yard to avoid the congestion on Wilson Street.

The sale of 2252 Fairview Road closed on September 29, 2017. The District Engineer has begun plans to remove the existing wall separating the properties and to build a new wall around the perimeter of the property. Plans are currently in plan check with the City of Costa Mesa Building Department.

FINANCIAL POLICIES AND PROCEDURES

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

AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to the District for its Comprehensive Annual Financial Report for the year ended June 30, 2016. This was the fifth consecutive year that the District achieved this prestigious award. In order to be awarded a Certificate of Achievement, a governmental entity must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles (GAAP) and applicable legal requirements.

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

The GFOA has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to the District for its Popular Annual Financial Report for the year ended June 30, 2016. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports.

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

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

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

AWARDS (CONTINUED)

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

The District received a Certificate of Excellence in Transparency from SDLF. The Certificate demonstrates a special district's commitment to being open and accessible to the public and creating greater awareness of district activities. The District has received a Certificate of Excellence in Transparency from SDLF from 2013 through 2019.

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

The Santa Ana River Basin Section (SARBS) of the California Water Environment Association (CWEA) named the District as the recipient of the 2016 Collection System of the Year award. SARBS, whose boundaries include Orange, Riverside and San Bernardino Counties, is one of 17 geographical sections of CWEA that trains and certifies wastewater professionals and promotes sound policies to benefit society through protection and enhancement of the statewide water environment. The designation of 'Collection System of the Year' is one of the most prestigious SARBS/CWEA awards, which recognizes an agency's significant accomplishments, safety record, training program, regulatory compliance, maintenance program along with documented administrative and emergency procedures. This is the third time in six years the District has won Collection System of the Year from SARBS. The District first won the award in 2013.

ACKNOWLEDGMENTS

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

Respectfully submitted,

Scott Carroll	Wendy Hooper Davis
General Manager	Finance Manager

Our Mission Statement

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

Costa Mesa Sanitary District
Board of Directors as of June 30, 2017

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

Costa Mesa Sanitary District
Scott Carroll, General Manager
290 Paularino Ave.
Costa Mesa, California 92626
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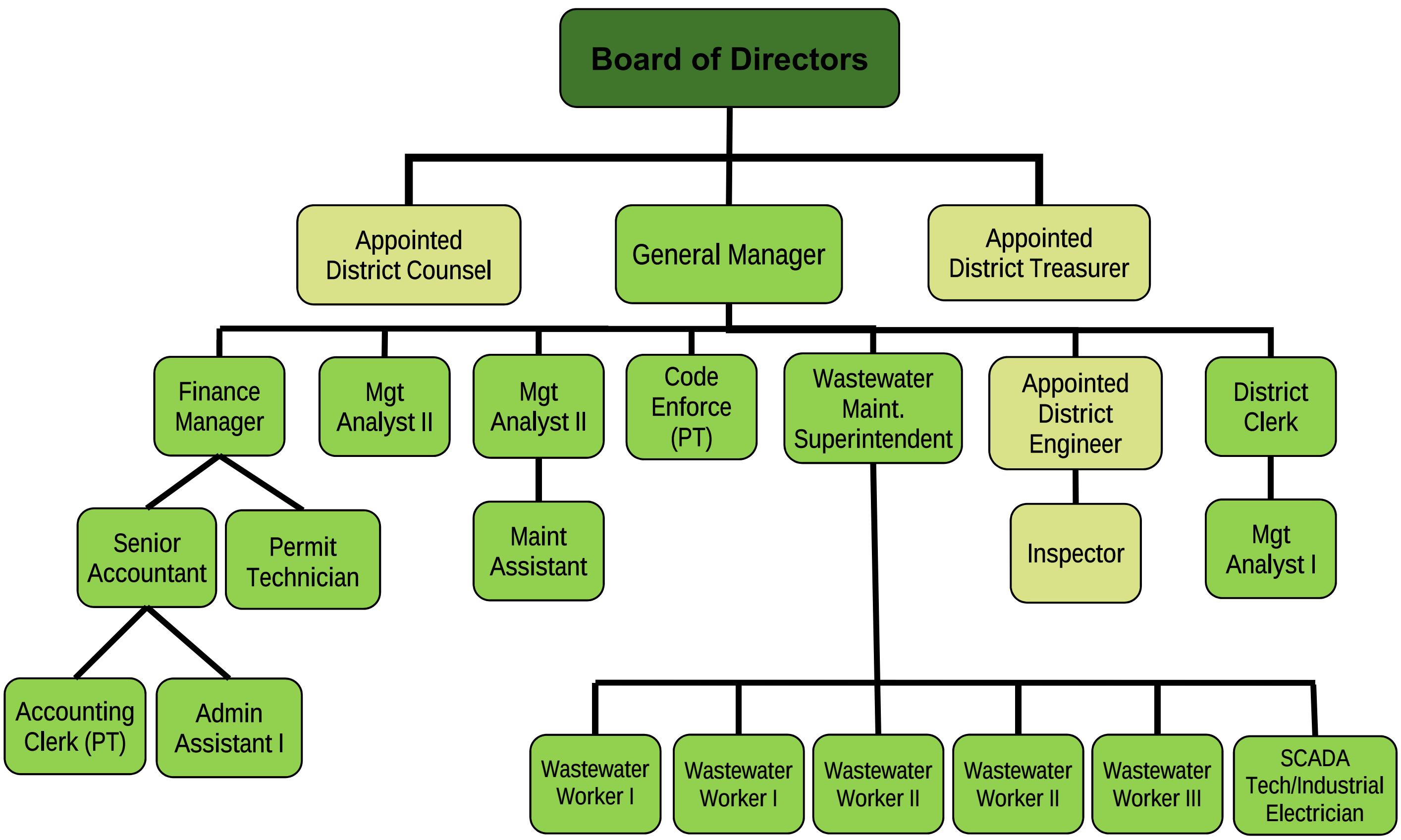
COSTA MESA SANITARY DISTRICT
ORGANIZATIONAL CHART
Fiscal Year June 30, 2017



Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Coast Mesa Sanitary District

California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2016

Executive Director/CEO

FINANCIAL SECTION

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

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INDEPENDENT AUDITOR'S 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, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Costa Mesa Sanitary District as of June 30, 2017, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America, as well as the accounting systems prescribed by the State Controller's Office and State Regulations governing Special Districts.

Other Matters

Summarized Comparative Information

We have previously audited the District's 2016 financial statements, and we expressed unmodified audit opinions on those audited financial statements in our report dated December 8, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

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

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Rogers, Anderson, Malody & Scott, LLP.

San Bernardino, California
December 22, 2017

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The following discussion and analysis of the financial performance of the Costa Mesa Sanitary District (the District) provides an overview of the District's financial activities for the year ended June 30, 2017. It should be read in conjunction with the financial statements identified in the accompanying table of contents.

Financial Highlights

Financial highlights during the year ended June 30, 2017 included:

- Total assets of the District exceeded its liabilities as of June 30, 2017 by $61,317,324. Of this amount, $18,220,364 is unrestricted and available to meet the District's ongoing obligations to its customers and creditors.
- Net position of the Solid Waste Fund decreased $316,053 during the year ended June 30, 2017, which was attributable to the adoption of a deficit budget to decrease the fund's reserves. Expenses were projected to exceed revenues by $829,000; however, revenues came in higher than budgeted and expenses came in lower than expected.
- Net position of the Wastewater Fund increased $1,175,757 during the year ended June 30, 2017. This increase was mostly attributable to Operating Revenues exceeded Operating Expenses by $576,506. The remaining increase in Non-Operating Revenues was the result of one-time reimbursements from Caltrans and the Orange County Sanitation District as reflected in Other Revenues.

Overview of the Financial Statements

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

The financial statements accompanying this MD&A present the financial position, results of operations, and changes in cash flow during the year ended June 30, 2017. 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), deferred outflows of resources, liabilities (obligations to creditors) and deferred inflows of resources, with the difference between them reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. However, other factors such as changes in economic conditions, population growth, zoning and new or changed legislation or regulations also need to be considered when establishing financial position.

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

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

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

Financial Analysis of the District

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

Statement of Net Position

	Condensed Statement of Net Position		
	2017	2016	Change
Assets			
Current assets and other	$ 19,571,713	$ 19,812,444	$ (240,731)
Capital assets	43,096,960	42,348,941	748,019
Total assets	62,668,673	62,161,385	507,288
Deferred Outflows of Resources			
Pension related	781,250	250,136	531,114
Liabilities			
Current liabilities	1,664,619	1,503,442	161,177
Non-current liabilities	421,546	321,211	100,335
Total liabilities	2,086,165	1,824,653	261,512
Deferred Inflows of Resources			
Pension related	46,434	93,833	(47,399)
Net Position			
Net investment in capital assets	43,096,960	42,348,941	748,019
Unrestricted	18,220,364	18,144,094	76,270
Total net position	$ 61,317,324	$ 60,493,035	$ 824,289

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. Net position of the District was $61,317,324 and $60,493,035 for the years ended June 30, 2017 and June 30, 2016, respectively.

One of the largest portions of the District's net position reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. Investments in capital assets represent $43,096,960, or 70%, of the total $61,317,324 net position. The District uses the capital assets to provide services to customers within the District's area; consequently, these assets are not available for future spending.

Unrestricted net position represents 30% of the District's net position, which comprises assets that may be used to meet the District's ongoing obligations to citizens and creditors in accordance with the District's fiscal policies. As of June 30, 2017, unrestricted net position increased to $18,220,364 from $18,144,094, or a $76,270 increase. The increase in unrestricted net position is primarily attributable to the purchase of a new District headquarters facility, which is offset by the increase in net investment in capital assets.

Statement of Revenues, Expenses and Changes in Net Position

	Condensed Statement of Revenues, Expenses and Changes in Net Position		
	2017	2016	Change
Revenues			
Operating revenues	$11,246,522	$11,077,758	$ 168,764
Non-operating revenues	761,791	574,652	187,139
Total revenues	12,008,313	11,652,410	355,903
Expenses			
Operating expenses	9,483,656	9,323,731	159,925
Depreciation	1,749,621	1,754,124	(4,503)
Total operating expenses	11,233,277	11,077,855	155,422
Net income, change in net position	775,036	574,555	200,481
Capital contributions	49,253	89,400	(40,147)
Net position, beginning of year	60,493,035	59,829,080	663,955
Net position, end of year	$61,317,324	$60,493,035	$ 824,289

The Statement of Revenues, Expenses and Changes in Net Position shows how the District's net position changed during the years. In the case of the District, net position increased by $824,290 and $663,955 for the years ended June 30, 2017 and 2016, respectively.

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

- Solid Waste and Wastewater assessments increased $217,108 due to an increase in new customers and a 2% rate increase in the Wastewater assessment.
- Investment earnings and fair market adjustment decreased $266,385 due to unrealized losses from a decrease in market value.
- Other Revenues increased $340,770 for one-time reimbursements from Caltrans and the Orange County Sanitation District
- Solid Waste recycling and disposal costs increased $62,807 due to a higher than expected increase in households and tonnage generated.
- Sewer line televising increased $396,621 with the implementation of year two of District-wide televising program.
- The Solid Waste and the Wastewater Funds paid off the unfunded pension liability of $100,647 and $235,000, respectively, for a total of $335,647.

Total District Revenues

	2017	2016	Change
Operating revenues			
Trash assessments	$ 4,882,785	$ 4,787,459	$ 95,326
Wastewater assessments	5,552,190	5,430,408	121,782
Permits and inspection fees	265,340	231,850	33,490
Connection fees	183,352	257,323	(73,971)
Other services	362,855	370,718	(7,863)
Total operating revenues	11,246,522	11,077,758	168,764
Non-operating revenues			
Investment income	26,139	292,524	(266,385)
Taxes	287,705	270,876	16,829
Other revenues	385,529	44,760	340,769
Gain on disposal of assets	62,418	(33,508)	95,926
Total non-operating revenues	761,791	574,652	187,139
Total revenues	$ 12,008,313	$ 11,652,410	$ 355,903

Some of the more significant changes consisted of the following:

- The annual Wastewater assessment increased $121,782 as a result of implementing year four of the five-year Sewer Rate Study adopted by the Board in December 2012 and an increase in new homes.

- Permits and inspection fees increased $33,490 due to the continued increase in development and building within the District's service area.

- Connection fees decreased $73,971 due to the timing of payments for new construction development and building within the District's service area.

- Investment income decreased $266,388 as a result of unrealized losses due to the adjustment in fair market of the District's investments.

Total District Expenses

	2017	2016	Change
Operating expenses			
Solid waste disposal	$ 2,651,384	$ 2,588,577	$ 62,807
Liquid waste disposal	1,815,120	1,641,085	174,035
Recycling and disposal charges	2,340,836	2,181,635	159,201
Administration and other	2,322,145	2,101,358	220,787
Repairs and maintenance	354,171	811,076	(456,905)
Depreciation	1,749,621	1,754,124	(4,503)
Total operating expenses	11,233,277	11,077,855	155,422
Total expenses	$ 11,233,277	$ 11,077,855	$ 155,422

Some of the more significant changes consisted of the following:

- Solid waste disposal expenses increased by $62,807 as the result of an increase in the number of households serviced as a result of increased building with in the District.

- Liquid waste disposal expenses increased by $174,035 as a result of the implementation of year two of District-wide televising program.

- Recycling and disposal charges increased $159,201 in total tonnage generated and the higher cost to dispose of organics waste.

- Administration and other increased $220,787 mainly due to the paid off unfunded pension liability totaling $335,647.

- Repairs and maintenance in the Wastewater Fund decreased as a result of recording of maintenance expense for the Westside Abandonment Project #101, Pump Station Coating and Manhole Rehab Project #194 and Grade 4 CCTV Improvements totaling $551,075 in the prior fiscal year.

Capital Asset Administration

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

	Balance June 30, 2016	Additions	Transfers/ Deletions	Balance June 30, 2017
Non-depreciable assets	$ 5,318,702	$ 4,884,254	$ (6,581,334)	$ 3,621,622
Depreciable assets	94,274,712	5,292,889	(1,530,880)	98,036,721
Accumulated depreciation	(57,244,473)	(1,749,621)	432,711	(58,561,383)
Total capital assets, net	$ 42,348,941	$ 8,427,522	$ (7,679,503)	$ 43,096,960

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

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

At the end of fiscal year 2017 and 2016, the District's investment in capital assets were $43,096,960 and $42,348,941 (net of accumulated depreciation), respectively, an increase of $748,019. The investment in capital assets includes land, property rights, subsurface wastewater lines, pump stations, buildings and structures, equipment, vehicles and construction in progress, etc. Additional information on the District's capital assets can be found in Note 3 of the Notes to Financial Statements.

Long-Term Debt

As of June 30, 2017, the District had no long-term debt.

Economic Factors and Next Year's Budgets

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

In the Solid Waste Fund, the District implemented the Organics Recycling Program requiring residents to separate organic waste in an effort to reach the District's diversion goals. The Anaerobic Digestion (AD) Facility which will convert all organic waste into fertilizer and renewable natural gas to power the trash trucks was anticipated to be online by October 2015. However, the AD Facility did not come online until September 2016. Therefore, the District has not yet had a full year at the higher rate of $71.50 per ton for diverting organic materials away from the landfills, compared to the $51.97 rate for disposal of mixed waste.

As of June 30, 2017, the District has fully funded both its unfunded pension liability and Other Post-Employment Benefits, which should result in a decrease in the retirement expenses for the fiscal year. Improvements continue at the District Headquarters building, which will consist of planned installation of solar panels and roof repairs. The Board of Directors has tasked the General Manager with negotiating a new agreement with the District's trash contractor, which could result in either a cost savings or cost increase in the following year. The Sewer Lateral Assistance Program was replaced with a new Residential CCTV Program, which is a free video inspection of the homeowner's sewer lateral to proactively determine its condition to prevent future problems. The District Engineer will be starting the Sewer Master Plan update once the District-wide televising of the wastewater lines is complete. The Canyon Pump Station and Force Main Replacement projects are budgeted for the 2017-2018 fiscal year.

Request for Information

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

BASIC FINANCIAL STATEMENTS

Costa Mesa Sanitary District

Statement of Net Position
June 30, 2017
(with prior year data for comparison only)

	Solid Waste	Wastewater
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents (Note 2)	$ 1,212,902	$ 3,054,716
Investments (Note 2)	3,879,147	9,754,714
Accounts receivable	23,032	2,269
Interest receivable	19,082	48,259
Assessments receivable	83,102	64,594
Inventory	-	172,154
Prepaid expenses	822	2,199
TOTAL CURRENT ASSETS	5,218,087	13,098,905
NONCURRENT ASSETS:		
Capital assets (Note 3):		
Non-depreciable	-	3,621,622
Depreciable, net of accumulated depreciation	4,719	39,470,619
Net OPEB asset (Note 7)	74,115	150,369
TOTAL NONCURRENT ASSETS	78,834	43,242,610
TOTAL ASSETS	5,296,921	56,341,515
DEFERRED OUTFLOWS OF RESOURCES:		
Pension related (Note 6)	234,375	546,875
LIABILITIES:		
CURRENT LIABILITIES:		
Accounts payable	484,405	673,264
Accrued liabilities	10,971	48,706
Contingent liability	-	350,000
Deposits payable	-	52,500
Compensated absences	15,293	29,480
TOTAL CURRENT LIABILITIES	510,669	1,153,950
NON-CURRENT LIABILITIES:		
Compensated absences	6,165	31,360
Net pension liability (Note 6)	115,207	268,814
TOTAL NON-CURRENT LIABILITIES	121,372	300,174
TOTAL LIABILITIES	632,041	1,454,124
DEFERRED INFLOWS OF RESOURCES:		
Pension related (Note 6)	13,930	32,504
NET POSITION:		
Net investment in capital assets	4,719	43,092,241
Unrestricted	4,880,606	12,309,521
TOTAL NET POSITION	$ 4,885,325	$ 55,401,762

The accompanying notes are an integral part of these financial statements

Continued

Other Enterprise Fund	Totals 2017	Totals 2016
$ 224,611	$ 4,492,229	$ 5,780,959
801,068	14,434,929	13,414,152
-	25,301	28,727
4,558	71,899	50,796
-	147,696	143,821
-	172,154	177,163
-	3,021	2,397
1,030,237	19,347,229	19,598,015
-	3,621,622	5,318,702
-	39,475,338	37,030,239
-	224,484	214,429
-	43,321,444	42,563,370
1,030,237	62,668,673	62,161,385
-	781,250	250,136
-	1,157,669	1,028,553
-	59,677	93,873
-	350,000	350,000
-	52,500	-
-	44,773	31,016
-	1,664,619	1,503,442
-	37,525	46,499
-	384,021	274,712
-	421,546	321,211
-	2,086,165	1,824,653
-	46,434	93,833
-	43,096,960	42,348,941
1,030,237	18,220,364	18,144,094
$ 1,030,237	$ 61,317,324	$ 60,493,035

Costa Mesa Sanitary District

Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2017
(with prior year data for comparison only)

	Solid Waste	Wastewater
OPERATING REVENUES:		
Trash assessments	$ 4,882,785	$ -
Wastewater assessments	-	5,552,190
Permits and inspection fees	-	265,340
Connection fees	-	183,352
Other services	93,861	8,994
TOTAL OPERATING REVENUES	4,976,646	6,009,876
OPERATING EXPENSES:		
Solid waste disposal	2,651,384	-
Wastewater disposal	-	1,815,120
Recycling and disposal charges	2,340,836	-
Administration and other	776,115	1,546,030
Repairs and maintenance	26,200	327,971
Depreciation	5,372	1,744,249
TOTAL OPERATING EXPENSES	5,799,907	5,433,370
OPERATING INCOME (LOSS)	(823,261)	576,506
NONOPERATING REVENUES (EXPENSES):		
Investment income	5,417	16,137
Taxes	287,705	-
Other revenues	149,286	236,243
Rent income (expense)	(35,200)	35,200
Gain on disposal of assets	-	62,418
TOTAL NONOPERATING REVENUES (EXPENSES)	407,208	349,998
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	(416,053)	926,504
CAPITAL CONTRIBUTIONS AND TRANSFERS:		
Capital contributions	-	49,253
Transfers in	100,000	200,000
Transfers out	-	-
TOTAL CAPITAL CONTRIBUTIONS AND TRANSFERS	100,000	249,253
CHANGES IN NET POSITION	(316,053)	1,175,757
NET POSITION - BEGINNING OF YEAR	5,201,378	54,226,005
NET POSITION - END OF YEAR	$ 4,885,325	$ 55,401,762

Continued

Other Enterprise Fund	Totals 2017	Totals 2016
$ -	$ 4,882,785	$ 4,787,459
-	5,552,190	5,430,408
-	265,340	231,850
-	183,352	257,323
260,000	362,855	370,718
260,000	11,246,522	11,077,758
-	2,651,384	2,588,577
-	1,815,120	1,641,085
-	2,340,836	2,181,635
-	2,322,145	2,101,358
-	354,171	811,076
-	1,749,621	1,754,124
-	11,233,277	11,077,855
260,000	13,245	(97)
4,585	26,139	292,524
-	287,705	270,876
-	385,529	44,760
-	-	-
-	62,418	(33,508)
4,585	761,791	574,652
264,585	775,036	574,555
-	49,253	89,400
-	300,000	-
(300,000)	(300,000)	-
(300,000)	49,253	89,400
(35,415)	824,289	663,955
1,065,652	60,493,035	59,829,080
$ 1,030,237	$ 61,317,324	$ 60,493,035

Statement of Cash Flows
For the Year Ended June 30, 2017
(with prior year data for comparison only)

	Solid Waste	Wastewater
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	$ 5,124,636	$ 6,248,100
Payments to suppliers	(5,378,317)	(2,318,403)
Payments to employees	(542,984)	(1,571,632)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(796,665)	2,358,065
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Taxes received	291,580	-
Cash received from other funds	100,000	235,200
Cash paid to other funds	(35,200)	-
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	356,380	235,200
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	-	(3,622,116)
Proceeds from sale of assets	-	1,236,146
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	-	(2,385,970)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on cash and investments	57,467	145,393
(Increase) decrease in investments	(70,618)	(1,092,334)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(13,151)	(946,941)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(453,436)	(739,646)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	1,666,338	3,794,362
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 1,212,902	$ 3,054,716

Continued

Other Enterprise Fund	Totals 2017	Totals 2016
$ 260,000	$ 11,632,736	$ 11,089,589
-	(7,696,720)	(7,188,456)
-	(2,114,616)	(1,844,797)
260,000	1,821,400	2,056,336
-	291,580	270,876
-	335,200	-
(300,000)	(335,200)	-
(300,000)	291,580	270,876
-	(3,622,116)	(5,220,835)
-	1,236,146	1,296
-	(2,385,970)	(5,219,539)
13,808	216,668	273,893
(69,456)	(1,232,408)	(190,471)
(55,648)	(1,015,740)	83,422
(95,648)	(1,288,730)	(2,808,905)
320,259	5,780,959	8,589,864
$ 224,611	$ 4,492,229	$ 5,780,959

Statement of Cash Flows
For the Year Ended June 30, 2017
(with prior year data for comparison only)

	Solid Waste	Wastewater
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	$ (823,261)	$ 576,506
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	5,372	1,744,249
Actuarial pension expense adjustments	(140,761)	(328,443)
Construction in process abandoned	-	-
Other revenues (expenses)	149,286	236,243
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(2,977)	2,528
(Increase) decrease in assessments receivable	1,681	(5,556)
(Increase) decrease in inventory	-	5,009
(Increase) decrease in prepaid expenses	(582)	(42)
(Increase) decrease in OPEB assets	(3,319)	(6,736)
Increase (decrease) in accounts payable	15,784	113,332
Increase (decrease) in accrued liabilities	547	(34,743)
Increase (decrease) in unearned revenue	-	-
Increase (decrease) in deposits	-	52,500
Increase (decrease) in compensated absences	1,565	3,218
Total adjustments	26,596	1,781,559
NET CASH PROVIDED BY (USED) FOR OPERATING ACTIVITIES	$ (796,665)	$ 2,358,065
NONCASH INVESTING, CAPITAL OR FINANCING ACTIVITIES		
Contributed capital	$ -	$ 49,253
Capital assets in accounts payable	-	327,932
Interfund Rent	(35,200)	35,200

The accompanying notes are an integral part of these financial statements

Continued

Other Enterprise Fund	Totals 2017	Totals 2016
$ 260,000	$ 13,245	$ (97)
-	1,749,621	1,754,124
-	(469,204)	(116,673)
-	-	275,088
-	385,529	44,760
-	(449)	47,233
-	(3,875)	22,593
-	5,009	(103,538)
-	(624)	(2,397)
-	(10,055)	784
-	129,116	(116,981)
-	(34,196)	211,800
-	-	30,297
-	52,500	-
-	4,783	9,343
-	1,808,155	2,056,433
$ 260,000	$ 1,821,400	$ 2,056,336
$ -	$ 49,253	$ 89,400
-	327,932	68,144
-	-	-

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Note 1. Nature of Activities and Significant Accounting Policies

Reporting entity

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

Fund accounting

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

Measurement focus, basis of accounting and financial statement presentation

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

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

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

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

The District reports the following major enterprise funds:

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

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

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

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

Use of Estimates

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

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

Restricted Resources

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

Pending Accounting Standards

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

- GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions,* effective for periods beginning after June 15, 2017.
- GASB 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pensions Plans*, effective for periods beginning after December 15, 2015.
- GASB 79, *Certain External Investment Pools and Pool Participants*, effective for periods beginning after June 15, 2015, except for the provisions in paragraphs 18, 19, 23-26, and 40, which are effective for periods beginning after December 15, 2015.
- GASB 82, *Pension Issues and amendment of GASB Statements No. 67, No. 68 and No. 73*, effective for periods beginning after June 15, 2016. The District has chosen to early implement this statement during the current fiscal year.
- GASB 83, *Certain Asset Retirement Obligations*, effective for periods beginning after June 15, 2018.
- GASB 85, *Omnibus 2017*, effective for periods beginning after June 15, 2017.
- GASB 87, *Leases*, effective for periods beginning after December 15, 2019.

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.

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

Investments

Investments are stated at fair value (the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date). Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

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

Accounts Receivable

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

Inventory

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

Capital Assets

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

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

Buildings	20 - 50 years
Improvements	20 years
Subsurface wastewater lines	60 years
Equipment	5 - 20 years
Vehicles	5 - 10 years
Other	1 - 20 years

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

Compensated Absences

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

Pension Plan

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

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

Valuation date (VD)	June 30, 2015
Measurement date (MD)	June 30, 2016
Employer financial reporting date	June 30, 2017
Measurement period (MP)	July 1, 2015 to June 30, 2016

Deferred Outflows and Deferred Inflows of Resources

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

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

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

Net Position

Net position is categorized as follows:

- *Net Investment in Capital Assets* – This component of net position consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt against the acquisition, construction or improvement of those assets.

- *Restricted Net Position* – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

- *Unrestricted Net Position* – This component of net position consists of net position that does not meet the definition of *restricted* net position or *net investment in capital assets*.

Operating Revenues and Expenses

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

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

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

Property Taxes

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

Property taxes receivable at year-end are related to property taxes collected by the Orange County Tax Collector which have not been credited to the District's cash balance as of June 30, 2017.

The property tax calendar is as follows:

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

Capital Contributions

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

Maintenance Costs

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

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

Claims and Judgments

When it is probable that a claim liability has been incurred at year-end, and the amount of the loss can be reasonably estimated, the District records the estimated loss, net of any insurance coverage under its participation in the Joint Power Insurance Authority program. At June 30, 2017, the District recorded a loss provision for a disputed Order from Regional Water Quality Control Board, for additional details see Note 5. Small dollar claims and judgments are recorded as expenses when paid.

Prior Year Data

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

Note 2. Cash and Investments

Cash and investments as of June 30, 2017 are reported in the accompanying combined statement of net position as follows:

Cash and cash equivalents	$ 4,492,229
Investments	14,434,929
Total	$ 18,927,158

Note 2. Cash and Investments (Continued)

Cash and investments as of June 30, 2017 consisted of the following:

Cash and cash equivalents:	
Demand deposits	$ -
California Local Agency Investments Fund (LAIF)	4,483,202
Money Market	8,327
Petty cash	700
Total cash and cash equivalents	4,492,229
Investments:	
United States Government Sponsored Agency Securities	10,556,831
Negotiable Certificates of Deposit	3,878,098
Total investments	14,434,929
Total cash and investments	$ 18,927,158

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.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
United States Treasury Obligations	5 Years	None	None
Federal Agencies (United Stated Government Sponsored Agency Securities)	5 Years	None	None
Commercial Paper	270 days	25%	10%
Certificates of Deposit	1 Year	25%	None
Negotiable Certificates of Deposit	5 Years	25%	10%
Bankers' Acceptances	180 Days	25%	15%
Medium-Term Corporate Notes	5 Years	20%	None
Mutual Funds	5 Years	20%	10%
Local Agency Investment Fund (LAIF)	N/A	50%	$65,000,000
Shares of Beneficial Interest	5 Years	20%	10%

Note 2. Cash and Investments (Continued)

Interest Rate Risk

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

Information about the sensitivity of the fair values of the District's cash equivalents and investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity as of June 30, 2017.

	Remaining Maturities in Months			
Cash Equivalent and Investment Type	12 Months or Less	13-24 Months	25-60 Months	Total
United States Government Sponsored Agency Securities	$ -	$ -	$ 10,556,831	$ 10,556,831
Local Agency Investment Fund	4,483,202	-	-	4,483,202
Negotiable Certificates of Deposit	1,274,644	1,845,149	758,305	3,878,098
Money Market	8,327	-	-	8,327
Total	$ 5,766,173	$ 1,845,149	$ 11,315,136	$ 18,926,458

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.

Note 2. Cash and Investments (Continued)

Credit Risk (continued)

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

Cash Equivalent and Investment Type	Total	Minimum Legal Rating	AAA	AA+	Unrated
United States Government					
Sponsored Agency Securities	$ 10,556,831	N/A	$ 9,974,657	$ 582,174	$ -
Local Agency Investment Fund	4,483,202	N/A	-	-	4,483,202
Negotiable Certificates of Deposit	3,878,098	N/A	-	-	3,878,098
Money Market	8,327	N/A	8,327	-	-
Total	$ 18,926,458		$ 9,982,984	$ 582,174	$ 8,361,300

Concentration of Credit Risk

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

Issuer	Investment Type	Reported Amount	Percent of Investment
Federal Farm Credit Bank	United States Government Sponsored Agency Securities	$ 2,961,310	16%
Federal National Mortgage Association	United States Government Sponsored Agency Securities	2,970,790	16%
Federal Home Loan Mortgage Corporation	United States Government Sponsored Agency Securities	2,484,214	13%
Federal Home Loan Bank	United States Government Sponsored Agency Securities	2,140,517	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.

Note 2. Cash and Investments (Continued)

Custodial Credit Risk (continued)

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2017, the District's deposits were collateralized as required by California Law.

Investment in State Investment Pool

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

The District's investment in this pool is reported in the accompanying financial statements at NAV which approximates fair value at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). Included in LAIF's investment portfolio are certain derivative securities or similar products in the form of asset-backed securities totaling $2,244 million, which represents 2.25% of the total LAIF portfolio of $77.6 billion as of June 30, 2017. LAIF's (and the District's) exposure to risk (credit, market or legal) is not currently available.

Note 2. Cash and Investments (Continued)

Fair Value Measurements

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The District has the following recurring fair value measurements as of June 30, 2017:

		Fair Value Measurements Using		
Investments by fair value level:	June 30, 2017	(Level 1)	(Level 2)	(Level 3)
Debt securities				
United States Government				
Sponsored Agency Securities	$ 10,556,831	$ -	$ 10,556,831	$ -
Negotiable Certificates of Deposit	3,878,098	-	3,878,098	-
Total investments by fair value level	14,434,929	$ -	$ 14,434,929	$ -
Investments measured at net asset				
value (NAV) (approximates fair value):				
Money Market	8,327			
Investments not subject to fair value				
Measurement:				
Local Agency Investment Fund	4,483,202			
Total investments at fair value	$ 18,926,458			

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

Note 3. Capital Assets

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

	Balance June 30, 2016	Additions and Transfers	Retirements and Transfers	Balance June 30, 2017
Capital assets, not being depreciated:				
Land	$ 979,655	$ 1,830,588	$ (77,964)	$ 2,732,279
Property rights	4,025	-	-	4,025
Construction in progress	4,335,022	3,053,666	(6,503,370)	885,318
Total capital assets, not being depreciated	5,318,702	4,884,254	(6,581,334)	3,621,622
Capital assets, being depreciated:				
Subsurface sewer lines	88,106,315	2,122,256	(2,405)	90,226,166
Building and improvements	4,039,398	2,913,936	(1,242,123)	5,711,211
Equipment	1,178,818	256,697	(286,352)	1,149,163
Vehicles	950,181	-	-	950,181
Total capital assets, being depreciated	94,274,712	5,292,889	(1,530,880)	98,036,721
Less accumulated depreciation:				
Subsurface sewer lines	(55,860,180)	(1,423,789)	2,406	(57,281,563)
Building and improvements	(563,817)	(118,296)	258,494	(423,619)
Equipment	(558,323)	(111,666)	171,811	(498,178)
Vehicles	(262,153)	(95,870)	-	(358,023)
Total accumulated depreciation	(57,244,473)	(1,749,621)	432,711	(58,561,383)
Total capital assets being depreciated, net	37,030,239	3,543,268	(1,098,169)	39,475,338
Total capital assets, net	$ 42,348,941	$ 8,427,522	$ (7,679,503)	$ 43,096,960

Note 3. Capital Assets (Continued)

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

Solid Waste	$ 5,372
Wastewater	1,744,249
Total	$ 1,749,621

Note 4. Compensated Absences

Accumulated unpaid vacation and other employee benefit amounts are accrued when vested. At June 30, 2017, compensated absences payable amounted to $82,298, of which $44,773 is considered a current liability.

Changes to compensated absences for 2017, were as follows:

	Balance June 30, 2016	Earned	Taken	Balance June 30, 2017	Current Portion	Long-Term Portion
Compensated absences	$ 77,515	$ 62,979	$ (58,196)	$ 82,298	$ 44,773	$ 37,525

Note 5. Contingent Liability and Commitments

Contingent Liability

The Regional Water Quality Control Board ordered the District to pay a fine in relation to two sanitary sewer overflows that occurred in the District's operating system on August 31, 2013. The District is disputing the amount of the related fines and has accrued $350,000 as a contingent liability for possible future payments of these fines. At December 22, 2017, the amount of the fines is in dispute with the Regional Water Quality Control Board.

Note 6. Pension Plan

General Information about the Pension Plan

Plan Description

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

Benefits Provided

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

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

Note 6. Pension Plan (Continued)

Benefits Provided (continued)

The Plans provisions and benefits in effect at June 30, 2017 are summarized as follows:

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

Contributions

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

Note 6. Pension Plan (Continued)

Contributions (continued)

Employer contributions to the Plan for the fiscal year ended June 30, 2017 were $450,487. The actual employer payments of $450,487 made to CalPERS by the District during the measurement period ended June 30, 2016 differed from the District's proportionate share of the employer's contributions of $384,021 by $66,466 which is being amortized over the expected average remaining service lifetime in the Public Agency Cost-Sharing Multiple Employer Plan.

Net Pension Liability

The District's net pension liability for each Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Plan is measured as of June 30, 2016, using an annual actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is as follows.

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

	Miscellaneous Plan
Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry age normal
Asset Valuation Method	Market value of assets
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases (1)	3.3% - 14.2%
Investment Rate of Return (2)	7.65%
Mortality Rate Table (3)	Derived using CALPERS' membership data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until purchasing power protection allowance floor on purchasing power applies, 2.75% thereafter

(1) Annual increases vary by category, entry age, and duration of service

(2) Net of pension plan investment and administrative expenses; includes inflation

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

Note 6. Pension Plan (Continued)

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

All other actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

Change of assumptions

There were no changes of assumptions.

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund (PERF). The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website, at www.calpers.ca.gov.

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund (PERF) cash flows. Taking into account historical returns of all the PERF asset classes (which includes the agent plan and two cost-sharing plans or PERF A, B and C funds), expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

Note 6. Pension Plan (Continued)

Discount Rate (continued)

The following table reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the CalPERS Board effective on July 1, 2015.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10[1]	Real Return Years 11+[2]
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	20.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	1.0%	(0.55%)	(1.05%)
Total	100%		

[1] An expected inflation of 2.5% used for this period

[2] An expected inflation of 3.0% used for this period

Pension Plan Fiduciary Net Position

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

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

Note 6. Pension Plan (Continued)

Proportionate Share of Net Pension Liability

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

	Increase (Decrease)		
Miscellaneous Plans	Plan Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Plan Net Pension Liability (c) = (a) - (b)
Balance at: 6/30/2015 (VD)	$ 1,715,713	$ 1,441,001	$ 274,712
Balance at: 6/30/2016 (MD)	1,922,046	1,538,025	384,021
Net changes during 2015-16	$ 206,333	$ 97,024	$ 109,309

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

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2016, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. The District's proportion of the net pension liability was determined by CalPERS using the output from the Actuarial Valuation System and the fiduciary net position, as provided in the CalPERS Public Agency Cost-Sharing Allocation Methodology Report, which is a publicly available report that can be obtained at CalPERS' website, at www.calpers.ca.gov.

The District's proportionate share of the net pension liability for the Plan as of June 30, 2015 and 2016 was as follows:

Proportionate Share - June 30, 2015	0.01001%
Proportionate Share - June 30, 2016	0.01105%
Change - Increase (Decrease)	0.00104%

Note 6. Pension Plan (Continued)

Proportionate Share of Net Pension Liability (Continued)

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

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

Miscellaneous Plans	Discount Rate - 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)
Net Pension Liability	$ 642,789	$ 384,021	$ 170,163

Subsequent Events

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

Recognition of Gains and Losses

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

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

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

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

Note 6. Pension Plan (Continued)

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

The EARSL for the Plan for the 2015-16 measurement period is 3.8 years, which was obtained by dividing the total service years of 475,689 (the sum of remaining service lifetimes of the active employees) by 127,009 (the total number of participants: active, inactive, and retired). Note that inactive employees and retirees have remaining service lifetimes equal to 0. Also note that total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

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

As of the start of the measurement period (July 1, 2015), the net pension liability for the Plan is $274,712.

For the measurement period ending June 30, 2016 (the measurement date), the District Plan incurred a pension expense/(income) of ($18,717).

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

As of June 30, 2017, the District has deferred outflows and deferred inflows of resources related to Plan as follows:

Miscellaneous Plan	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Experience	$ 3,859	$ 884
Changes of Assumptions	-	36,509
Net Difference between Projected and Actual Earnings on Pension Plan Investments	190,015	-
Change in Employer's Proportion	69,577	-
Difference in Actual vs Projected Contributions	67,312	9,041
Pension Contributions Subsequent to	-	
Measurement Date	450,487	-
Total	$ 781,250	$ 46,434

Note 6. Pension Plan (Continued)

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

These amounts above are net of outflows and inflow recognized in the 2015-16 measurement period expense. $450,487 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

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

Miscellaneous Plan		
Measurement Period Ended June 30,	Deferred Outflows/(Inflows) of Resources	
2017	$	71,994
2018		67,376
2019		95,742
2020		49,217
2021		-

Payable to the Pension Plan

At June 30, 2017, the District has no payable for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2017.

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

Plan Description

Eligibility

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

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

The total payments made for these benefits for retired employees for the year ended June 30, 2017 were $30,123. Membership in the OPEB plan consisted of the following members as of June 30, 2017:

Active plan members	17
Retirees and beneficiaries receiving benefits	4
Separated plan members entitled to but not yet receiving benefits	0
Total plan membership	21

Benefits

The District offers post-employment medical benefits to retired employees who satisfy the eligibility rules. Retirees may enroll in any plan available through the District's CalPERS medical plan. The contribution requirement of the Plan members and the District are established and may be amended by the Board of Directors. As a member of the CalPERS medical plan the District is required to participate in its post-employment medical benefit plan. The District currently pays the CalPERS minimum required employer contribution on an "Unequal" basis ($75 per month in 2016, Equal being $125, and indexed to medical CPI plus amortized factor, becoming equal in 2024). The District currently has one retiree with a special agreement receiving $350 per month. The special agreement was a Board approved policy issued to maintain the benefits offered to former City of Costa Mesa employees accepting to become District employees.

Funding Policy

The District is required to contribute the Annual Required Contribution of the Employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liability (or funding excess) over a period not to exceed twenty-five years with a remaining period of twenty-four years at June 30, 2017. The current ARC rate is 1.6% 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 2017 and records an asset for the difference between pay-as-you-go and the actuarially determined ARC cost.

Annual OPEB Cost and Net OPEB Asset

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

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

Annual OPEB Cost and Net OPEB Asset (continued)

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

Annual required contribution (ARC)	$ 19,278
Interest on Net OPEB obligation	(15,719)
Adjustment to ARC	16,509
Annual OPEB cost	20,068
Contribution made	(30,123)
Increase in Net OPEB asset	(10,055)
Net OPEB (asset) at June 30, 2016	(214,429)
Net OPEB (asset) at June 30, 2017	$ (224,484)

Trend Information

The District's annual OPEB cost, the actual contribution, the percentage of annual OPEB costs contributed to the plan, and the net OPEB obligation the year ended June 30, 2017 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Actual Contribution Made	Percentage of Annual OPEB Costs Contributed	Net OPEB Obligation (Asset)
06/30/17	$ 20,068	$ (30,123)	150.10%	$ (224,484)
06/30/16	15,924	(132,905)	834.62%	(214,429)
06/30/15	15,966	(126,648)	793.24%	(97,448)

Funded Status and Funding Progress

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

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

Actuarial Methods and Assumptions

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

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

Changes in Assumptions

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

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

Note 8. Joint Powers Insurance Authority

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

Description of the Authority

The Authority is a risk-pooling self-insurance authority, created under provisions of California Government Code Section 6500 et. seq. The Authority's purpose is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage. The District is self-insured to $50,000 for Public Officials Errors and Omissions and up to $250,000 for General Liability and Property Loss which are paid through the Authority's pool. The self-insurance amount for Workers Compensation is $750,000.

Self-Insurance Programs of the Authority

At June 30, 2017, 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 $1,000,000 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.

REQUIRED SUPPLEMENTARY INFORMATION

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

Schedule of Plan Contributions

Schedule of Funding Progress Other Post-Employment Benefit Plan

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

	Measurement date		
	6/30/2014	6/30/2015	6/30/2016
Plan's Proportion of the Net Pension Liability[1]	0.00470%	0.01001%	0.01105%
Plan's Proportionate Share of the Collective Net Pension Liability	$ 270,680	$ 274,712	$ 384,021
Employer's Covered Payroll[2]	$ 785,130	$ 927,345	$ 1,033,922
Employer's Proportionate Share of the Collective Net Pension Liability as a Percentage of the Employer's Covered-Employee Payroll	34.48%	29.62%	37.14%
Pension Plan's Fiduciary Net Position as a Percentage of the Total Pension Liability	83.03%	83.99%	80.02%

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

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

*This is the third year of implementation, therefore only three years are presented.

Schedule of Plan Contributions - Last 10 Years*

	Fiscal year		
	6/30/2015	6/30/2016	6/30/2017
Actuarially Determined Contribution	$ 103,072	$ 108,023	$ 450,487
Contributions in Relation to the Actuarially Determined Contribution	(103,072)	(108,023)	(450,487)
Contribution Deficiency (Excess)	$ -	$ -	$ -
Employer's Covered Payroll[1]	$ 927,345	$ 1,033,922	$ 1,182,000
Contributions as a Percentage of Covered Payroll	11.11%	10.45%	38.11%

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

*This is the third year of implementation, therefore only three years are presented.

Notes to Schedule:

Change in Benefit Terms: None

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

Schedule of Funding Progress for Other Post-Employment Benefit Plan

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

STATISTICAL SECTION

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Description of Statistical Section Contents

For the Year Ended June 30, 2017

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:

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

	Fiscal Year			
	2008	2009	2010 (As Restated)	2011
Changes in net position:				
Operating revenues	$ 9,606,545	$ 10,144,512	$ 10,460,180	$ 10,731,490
Operating expenses	(7,762,619)	(7,945,850)	(7,487,385)	(8,160,177)
Depreciation and amortization	(478,763)	(573,004)	(622,319)	(1,540,281)
Operating income (loss)	1,365,163	1,625,658	2,350,476	1,031,032
Non-operating revenue (expenses), net	751,660	659,472	1,245,767	434,597
Net income (loss) before capital contributions	2,116,823	2,285,130	3,596,243	1,465,629
Capital contributions	-	14,000	4,243,681	-
Changes in net position	$ 2,116,823	$ 2,299,130	$ 7,839,924	$ 1,465,629
Net position:				
Net investment in capital assets	$ 17,040,959	$ 17,350,061	$ 40,022,038	$ 39,122,787
Restricted for capital outlay	6,028,258	6,285,042	7,719,551	381,368
Unrestricted	4,493,689	6,226,933	6,769,215	16,472,278
Total net position	$ 27,562,906	$ 29,862,036	$ 54,510,804	$ 55,976,433

Source: Costa Mesa Sanitary District

	Fiscal Year				
2012	2013	2014	2015	2016	2017
$ 10,759,564	$ 10,636,733	$ 10,327,835	$ 10,825,377	$ 11,077,758	$ 11,246,522
(8,303,399)	(7,953,569)	(8,453,930)	(8,634,912)	(9,323,731)	(9,483,656)
(1,607,841)	(1,715,991)	(1,604,500)	(1,690,932)	(1,754,124)	(1,749,621)
848,324	967,173	269,405	499,533	(97)	13,245
740,072	138,767	260,229	589,791	574,652	761,791
1,588,396	1,105,940	529,634	1,089,324	574,555	775,036
-	5,000	5,000		89,400	49,253
$ 1,588,396	$ 1,110,940	$ 534,634	$ 1,089,324	$ 663,955	$ 824,289
$ 39,792,929	$ 39,793,590	$ 29,605,233	$ 39,102,729	$ 42,348,941	$ 43,096,960
8,116	-	-	-	-	-
17,763,784	18,684,743	19,407,734	20,726,351	18,144,094	18,220,364
$ 57,564,829	$ 58,478,333	$ 49,012,967	$ 59,829,080	$ 60,493,035	$ 61,317,324

Costa Mesa Sanitary District

Operating Revenues by Source
Last Ten Fiscal Years

	Fiscal Year			
	2008	2009	2010	2011
Operating revenues				
Trash assessments	$ 5,136,643	$ 5,168,413	$ 5,176,122	$ 5,185,184
Wastewater assessments	4,254,608	4,632,923	5,124,283	5,116,190
Permits and inspection fees	22,552	28,183	22,870	46,222
Connection fees	13,687	24,270	11,468	28,865
Other services and charges	179,055	290,723	125,437	355,029
Total Operating Revenues	$ 9,606,545	$ 10,144,512	$ 10,460,180	$ 10,731,490

Source: Costa Mesa Sanitary District

Continued

Fiscal Year					
2012	2013	2014	2015	2016	2017
$ 5,180,748	$ 4,921,705	$ 4,681,766	$ 4,768,071	$ 4,787,459	$ 4,882,785
5,117,377	5,133,674	5,081,699	5,301,231	5,430,408	5,552,190
83,237	140,536	118,041	206,971	231,850	265,340
78,230	189,262	134,158	192,913	257,323	183,352
299,972	251,556	312,171	356,191	370,718	362,855
$ 10,759,564	$ 10,636,733	$ 10,327,835	$ 10,825,377	$ 11,077,758	$ 11,246,522

Operating Expenses by Activity
Last Ten Fiscal Years

	Fiscal Year			
	2008	2009	2010	2011
Operating expenses				
Solid waste disposal	$ 4,584,097	$ 4,499,524	$ 4,469,887	$ 4,510,918
Wastewater disposal	1,540,711	1,516,374	1,047,977	1,619,781
General and administrative	1,637,811	1,929,952	1,969,521	2,029,478
Total Operating Expenses	$ 7,762,619	$ 7,945,850	$ 7,487,385	$ 8,160,177

Source: Costa Mesa Sanitary District

Continued)

Fiscal Year					
2012	2013	2014	2015	2016	2017
$ 4,450,943	$ 4,483,980	$ 4,477,812	$ 4,500,416	$ 4,770,212	$ 4,992,220
1,912,341	1,438,604	1,591,051	1,665,480	1,641,085	1,815,120
1,940,115	2,030,985	2,385,067	2,469,016	2,912,434	2,676,316
$ 8,303,399	$ 7,953,569	$ 8,453,930	$ 8,634,912	$ 9,323,731	$ 9,483,656

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

	Fiscal Year			
	2008	2009	2010	2011
Non-operating revenues (expenses)				
Investment income (loss)	$ 469,376	$ 297,158	$ 188,045	$ 154,279
Investment expense	-	-	-	-
Taxes	226,046	223,789	220,329	212,004
Other revenues	66,265	151,007	838,628	69,856
Other expenses	(10,027)	-	-	-
Gain (loss) on disposal of assets	-	(12,482)	(1,235)	(1,542)
Total non-operating revenues, net	$ 751,660	$ 659,472	$1,245,767	$ 434,597

Source: Costa Mesa Sanitary District

Continued)

Fiscal Year					
2012	2013	2014	2015	2016	2017
$ 188,000	$ (144,970)	$ 291,073	$ 205,472	$ 292,524	$ 26,139
-	-	-	-	-	-
214,579	301,046	235,336	245,415	270,876	287,705
424,291	97,383	77,814	138,904	44,760	385,529
-	-	(350,000)	-	-	-
(86,798)	(114,692)	6,006	-	(33,508)	62,418
$ 740,072	$ 138,767	$ 260,229	$ 589,791	$ 574,652	$ 761,791

Solid Waste and Wastewater Revenue Rates
Last Ten Fiscal Years

	Fiscal Year			
	2008	2009	2010	2011
Solid Waste				
Customer Type				
Single family residential	$239.41	$239.41	$239.41	$239.41
Wastewater				
Customer Type				
Single family residential	$ 56.47	$ 60.71	$ 66.23	$ 66.23
Multi-family residential	43.49	46.75	51.00	51.00
Commercial-Average Strength (per 1000 sf)	32.85	35.31	38.52	38.52
Commercial-High Strength (per 1000 sf)	-	-	-	-
Industrial (per 1000 sf)	96.77	104.03	113.50	113.50
Other (per 1000 sf)	29.11	31.29	34.14	34.14

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

Fiscal Year					
2012	2013	2014	2015	2016	2017
$239.41	$228.00	$216.00	$216.00	$216.00	$ 216.00
$ 66.23	$ 66.23	$ 85.34	$ 87.05	$ 88.79	$ 90.75
51.00	51.00	50.09	51.09	52.11	53.15
38.52	38.52	37.96	38.72	39.49	40.28
-	-	41.40	42.23	43.07	43.93
113.50	113.50	97.44	99.39	101.38	103.41
34.14	34.14	N/A	N/A	N/A	N/A

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Principal Wastewater Customers
Current Fiscal Year and Nine Years Ago

	2017		2008	
Industrial Customer Type	Square Feet Assessed	Percentage of Total	Square Feet Assessed	Percentage of Total
International Asset Management Group	329,350	3.48%	72,970	0.84%
CJ Sergerstrom & Sons	276,720	2.92%	274,160	3.17%
CLA Val Company	252,485	2.66%	390,170	4.51%
3030 & 3080 Airway LLC	158,070	1.67%	149,020	1.72%
Olen Properties Corporation	141,588	1.49%	-	-
CPF Airway Associates LLC	131,115	1.38%	168,960	1.95%
Van Ausdeln, Sandra Ann Trust	124,407	1.31%	124,410	1.44%
Bre CA Office Owner LLC	119,429	1.26%	-	-
Life Stoarge LP	118,514	1.25%	1,000	0.01%
1650 Sunflower 40 LLC	114,588	1.21%	-	-
Griswold Industries	114,583	1.21%	103,780	1.20%
Total square feet: Industrial Principal Customers	1,880,849	19.84%	1,284,470	14.84%
Total square feet : Industrial Customers	9,474,986	100.00%	8,659,106	100.00%
Commercial Customer Type				
C J Segerstrom & Sons	1,317,820	4.09%	-	-
South Coast Plaza	1,183,642	3.68%	334,240	1.41%
School Costa Mesa Union	957,026	2.97%	-	-
PR II/MCC South Coast	835,670	2.60%	-	-
The Irvine Company	834,370	2.59%	130,340	0.55%
Interinsurance Exchange of the Auto Club of CA	750,914	2.33%	37,290	0.16%
Coast Community College District	674,060	2.09%	86,620.00	0.37%
Segerstrom Center	591,090	1.84%	-	-
Vanguard University of Southern California	570,245	1.77%	486,330	2.05%
Sears Roebuck & Co.	536,975	1.67%	446,150	1.88%
600 Anton Boulevard Associates	490,350	1.52%	459,090.00	1.94%
Total square feet: Commercial Principal Customers	8,742,162	27.15%	1,980,060	8.36%
Total square feet: Commercial Customers	32,189,878	100.00%	23,684,480	100.00%
Multi-family Residential Customer Type	Household Units	Percentage of Total	Household Units	Percentage of Total
MarJack LLC	890	3.67%	-	-
Casden Lakes LP	770	3.18%	770	3.07%
Costa Mesa Partners	764	3.15%	764	3.05%
United Dominion Realty LP	764	3.15%	764	3.05%
Pinecreek Investment Co.	620	2.56%	620	2.47%
ZMV Partnership	508	2.10%	508	2.03%
Katella Investment Co.	440	1.82%	-	-
Village Investments	422	1.74%	-	-
UDR Harbor Greens LP	384	1.59%	384	1.53%
Bay Apartment Communities, Inc.	333	1.37%	273	1.09%
Riverville Family Associates LLC	296	1.22%	-	-
Total household units: Multi-family Principal Customers	6,191	25.56%	4,083	16.29%
Total household units assessed: Multi-family Customers	24,296	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			
	2008	2009	2010	2011
Capital leases	$ -	$ -	$ -	$ -
Total debt	$ -	$ -	$ -	$ -
Total debt per capita	$ -	$ -	$ -	$ -
Total debt as a percent of personal income	0.00%	0.00%	0.00%	0.00%

Source: Costa Mesa Sanitary District

Fiscal Year					
2012	2013	2014	2015	2016	2017
$ -	$ -	$ -	$ -	$ -	$ -
$ -	$ -	$ -	$ -	$ -	$ -
$ -	$ -	$ -	$ -	$ -	$ -
0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Debt Coverage
Last Ten Fiscal Years

	Fiscal Year			
	2008	2009	2010	2011
Revenues	$ 10,358,205	$ 10,803,984	$ 11,705,947	$ 11,166,087
Operating expenses	7,762,619	7,945,850	7,487,385	8,160,177
Net revenues	$ 2,595,586	$ 2,858,134	$ 4,218,562	$ 3,005,910
Debt service:				
Principal	$ -	$ -	$ -	$ -
Interest	-	-	-	-
Total debt service	$ -	$ -	$ -	$ -
Debt coverage ratio	N/A	N/A	N/A	N/A

Source: Costa Mesa Sanitary District

Continued)

Fiscal Year					
2012	2013	2014	2015	2016	2017
$ 11,499,636	$ 10,775,500	$ 10,938,064	$ 11,415,168	$ 11,652,410	$ 12,008,313
8,303,399	7,953,569	8,453,930	8,634,912	9,323,731	9,483,656
$ 3,196,237	$ 2,821,931	$ 2,484,134	$ 2,780,256	$ 2,328,679	$ 2,524,657
$ -	$ -	$ -	$ -	$ -	$ -
-	-	-	-	-	-
$ -	$ -	$ -	$ -	$ -	$ -
N/A	N/A	N/A	N/A	N/A	N/A

Demographics and Economic Statistics
Last Ten Calendar Years

	City of Costa Mesa (a)		County of Orange (b)		
Calendar Year	District Service Popuation	Unemployment Rate	Population	Personal Income* (in thousands)	Personal Income per Capita
2008	107,641	3.50%	2,957,902	$ 153,446,641	$ 51,877
2009	107,514	4.70%	2,989,141	155,068,367	51,877
2010	109,808	8.00%	3,026,786	148,372,628	49,020
2011	109,960	8.50%	3,010,232	150,467,328	49,985
2012	110,008	7.80%	3,055,745	154,131,535	50,440
2013	111,675	6.80%	3,090,132	161,743,827	52,342
2014	112,174	5.60%	3,114,363	169,792,810	54,519
2015	112,784	5.60%	3,145,515	173,305,650	55,096
2016	113,204	4.50%	3,169,776	183,052,341	57,749
2017	112,822	3.70%	3,172,532	196,920,661	62,071

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

Notes:

(a) Approximate population of Costa Mesa Sanitary District is the same as the population of the City of Costa Mesa.

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

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

Principal Employers
Current Fiscal Year and Nine Years Ago

Employer	2017 Number of Employees	2017 Percentage of Total City Employment	2008 Number of Employees	2008 Percentage of Total City Employment
Epl Intermediate, Inc.	3,998	5.96%		
Experian Information Solutions, Inc.	3,700	5.51%	1,000	
Coast Community College District Foundation	2,900	4.32%	3,044	4.66%
Orange Coast Community College	1,900	2.83%	2,500	
California State Hospital- Fairview Develop. Center	1,500	2.24%	1,500	2.30%
Stearns Lending, LLC	1,500	2.24%		
Auto Club Enterprises	1,200	1.79%		
Westar Capital Associates II, LLC	1,184	1.76%		
Deloitte Consulting LLP	800	1.19%		
Dynamic Cooking Systems, Inc.	700	1.04%		
Coast Community College	-	-	2,500	3.83%
Total Top Ten Employers	19,382	28.88%	10,544	10.79%

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

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

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Solid Waste	1.60	1.65	1.31	3.42	3.27	4.60	4.60	3.80	4.75	4.70
Wastewater	9.40	9.85	9.94	9.60	8.28	9.40	10.40	9.20	12.75	13.30
Total Full-time equivalent	11.00	11.50	11.25	13.02	11.55	14.00	15.00	13.00	17.50	18.00

Sources: Costa Mesa Sanitary District

Operating Indicators by Function
Last Ten Fiscal Years

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

	Fiscal Year 2013	2014	2015	2016	2017
Solid Waste:					
Household units serviced	21,490	21,606	21,824	22398	22,518
Recycled/landfill tonnage	39,851	40,650	41,823	41975	43,055
Recycled %	57.54%	57.39%	56.81%	57.01%	59.44%
Liquid Waste:					
Linear feet (LF) of sewer line cleaned	708,092	716,938	115,605	705,574	878,095
Average of wastewater discharged	10.5 MGD	10.6 MGD	8.75 MGD	11MGD	11MGD
Sewer lateral financial assistance grants	169	184	237	240	271

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

Sources: Costa Mesa Sanitary District

Capital Asset Statistics
Last Ten Fiscal Years

Wastewater

Fiscal Year	Miles of Sanitary Sewers	Number of Pump Stations	Number of Manholes
2008	221	20	4,646
2009	221	20	4,649
2010	224	20	4,703
2011	224	20	4,703
2012	224	20	4,703
2013	224	20	4,704
2014	224	20	4,705
2015	224	20	4,705
2016	224	20	4,716
2017	224	20	4,716

Sources: Costa Mesa Sanitary District