

Costa Mesa Sanitary District Costa Mesa, California Comprehensive Annual Financial Report For Fiscal Year Ended June 30, 2012

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





Costa Mesa Sanitary District

Comprehensive Annual Financial Report

For the Year Ended June 30, 2012

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

**Prepared by:
Scott Carroll, General Manager
Teresa Gonzalez, Accounting Manager**

**Costa Mesa Sanitary District
Annual Financial Report
For the Year Ended June 30, 2012**

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INTRODUCTORY SECTION



Costa Mesa Sanitary District

... an Independent Special District

November 26, 2012

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

It is a pleasure to submit for your information the Comprehensive Annual Financial Report (CAFR) of the Costa Mesa Sanitary District (CMSD) for the year ended June 30, 2012.

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

The accounting firm of White Nelson Diehl Evans LLP conducted the independent audit for this fiscal year. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Costa Mesa Sanitary District for the fiscal year ended June 30, 2012 are free of material misstatement. The independent audit involved examining on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the Costa Mesa Sanitary District's financial statements for the fiscal year ended June 30, 2012 are fairly presented in conformity with generally accepted accounting principles (GAAP). The independent auditor's report is presented as the first component 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 Costa Mesa Sanitary District was formed in 1944 pursuant to the Sanitary Act of 1923. Established as an Independent Enterprise Special District, the District is authorized to provide refuse and wastewater collection and to levy rates and fees to support those services.

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

www.cmsdca.gov

PROFILE OF THE DISTRICT (CONTINUED)

The District is located in the City of Costa Mesa, in the County of Orange. The District provides trash and sewer services to the City of Costa Mesa, sections of Newport Beach and some unincorporated Orange County 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 health. The District has an agreement with CR&R for collection of all solid waste from single family dwellings and small multi-family residents utilizing curb side collection. CR&R transports all of the solid waste to its subsidiary owned recycling and transfer station located in Stanton, California.

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

The Board has established two standing committees that assist with policy-making decisions. These committees consist of Board members and appropriate management staff. The committees report to the full Board of Directors on their committee efforts and make recommendations of Board action as appropriate.

The purpose of the Operations Committee is (1) to provide advice to the full Board on recycling and related solid waste matters and (2) to review all sewer system capital improvement projects, sewer system management plan matters, and other sewer system and treatment matters and report to the full Board on the same.

The City-District Liaison Committee meets with officials of the City of Costa Mesa and the Mesa Consolidated Water District to discuss items of mutual interest.

FACTORS AFFECTING ECONOMIC CONDITION

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 Costa Mesa Sanitary District operates.

The Costa Mesa Sanitary 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. CMSD's service area includes several major regional facilities: John Wayne Airport, Orange Coast College, Whittier Law School, Vanguard University, State of California Fairview Development Center, Orange County Fairgrounds, Sergerstrom Performing Arts Center, South Coast Repertory Theater, and South Coast Plaza shopping complex. The volume of sales generated by South Coast Plaza, on the strength of over 300 stores, secures its place as the highest volume regional shopping center in the nation.

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www.cmsdca.gov

FACTORS AFFECTING ECONOMIC CONDITION (CONTINUED)

Local Economy (Continued). The economic condition of the City of Costa Mesa appears to be in a recovery mode from the recession. As an independent enterprise special district having the ability to adjust service rates as required, the District's operating revenues are somewhat insulated from the local economy. The economic downturn did not have a negative impact on our revenues as it had on other government agencies whose major source of revenues are from sales, property and other taxes. The District has a secure revenue stream collected from user fees by the County of Orange through the property tax bills.

Long-term Financial Planning. The District's Board of Directors is aware of the need to ensure the District's financial stability. Through a coordinated strategic process, the Board has established a series of policies and plans to effectively meet the District's anticipated future needs. The cornerstone of these policies is the District's Strategic Plan for Fiscal Years 2010-15 that serves as a framework for planning and decision making over the next five years. The District utilizes this information to anticipate future expense obligations and to develop and estimate service rates to ensure these expense obligations are fully funded.

MAJOR INITIATIVES

The District maintains a Sewer Lateral Program to repair or replace damaged private laterals. The program reimburses ratepayers, on a 50/50 basis, up to \$1,800 for lateral repairs and replacement. The goal of this program is to provide an incentive to District customers to maintain their private laterals. During the fiscal year 2012 the District contributed \$199,452 for the replacement and repair of 140 damaged private laterals.

The District televised its entire sewer system from January 2006 to March 2009 and found 255 Grade 5 sewer deficiencies. Grade 5 deficiencies require immediate attention as the risk of collapse or failure is high and failures may result in sanitary sewer overflows (SSOs). The Board of Directors chose to reconstruct these deficiencies in a four-year period with an approximate \$1 million per year construction cost, however, due to the competitive bidding environment, the reconstruction period was reduced to a three-year period. Phase I of the System Wide Sewer Reconstruction Project was completed in fiscal year 2012, with 95 segments with Grade 5 deficiencies rehabilitated, at a total cost of \$767,323. Phase II is budgeted at \$1,175,000 with an expected completion date in fiscal year 2013 and Phase III is budgeted at \$670,000 with an expected completion date in fiscal year 2014.

The District implemented a lockable container program to deter scavenging. In fiscal year 2012 the lockable container program became a pilot project with the possibility of expansion to all trash customers and a model program for other agencies looking to thwart scavengers.

FINANCIAL POLICIES AND PROCEDURES

Internal Control Structure. 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.

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FINANCIAL POLICIES AND PROCEDURES (CONTINUED)

Cash Management. The Treasurer invests funds in accordance with the California Government Code and an investment policy adopted by the Board of Directors. During the fiscal year, funds were invested in U.S. Treasuries, U.S. Government Agency Securities and the State of California Local Agency Investment Fund. Monthly reports are submitted by the Treasurer to the Board of Directors.

Investment interest totaled \$188,000 for fiscal year ended June 30, 2012, or approximately 1.6 percent of total District revenues.

AWARDS

The District received the 2011 Bronze Education Excellence Award from the Solid Waste Association of North America for its telephone book recycling program. The program teaches children to recycle which, in turn, sends money to local schools for saving the hefty books from the trash.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to the District for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2011. This was the first 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.

ACNOWLEDGMENTS

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

Respectfully submitted,



Scott Carroll
General Manager



Teresa Gonzalez
Accounting Manager

Our Mission Statement

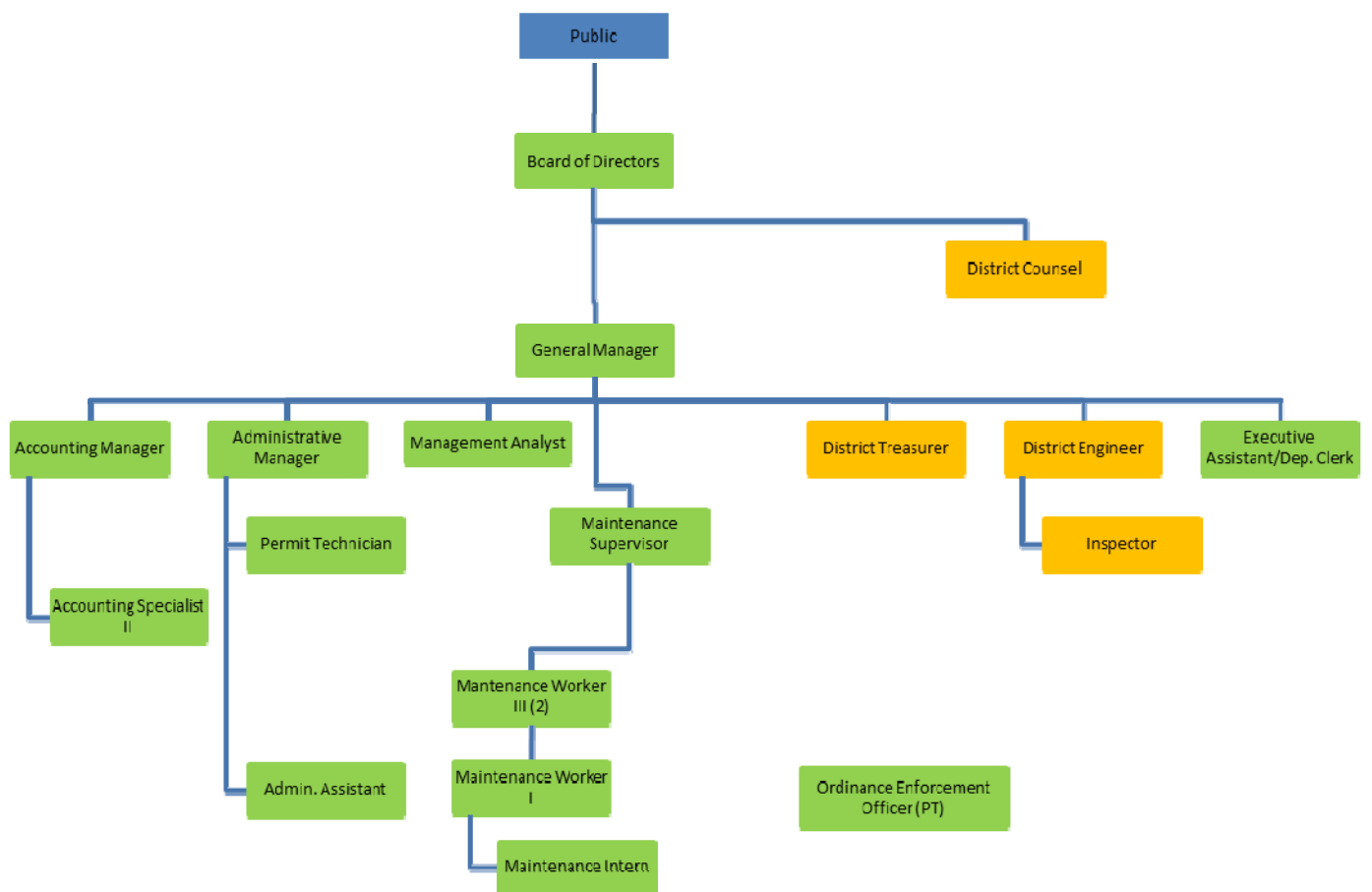
“Protecting our community’s health and the environment by providing solid waste and sewer collection services.”

Costa Mesa Sanitary District Board of Directors as of June 30, 2012

<u>Name</u>	<u>Title</u>	<u>Elected/ Appointed</u>	<u>Current Term</u>
Robert Ooten	President	Elected	12/10 – 12/14
James Ferryman	Vice President	Elected	12/08 – 12/12
Michael Sheafer	Secretary	Elected	12/10 – 12/14
James Fitzpatrick	Director	Elected	12/10 – 12/14
Arthur Perry	Director	Elected	12/08 – 12/12

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

**Costa Mesa Sanitary District
Organizational Chart
As of June 30, 2012**



Certificate of Achievement for Excellence in Financial Reporting

Presented to

Costa Mesa Sanitary District
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Linda C. Davidson

President

Jeffrey R. Emer

Executive Director

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Board of Directors
Costa Mesa Sanitary District
Costa Mesa, California

We have audited the basic financial statements of the Costa Mesa Sanitary District (the District) as of and for the year ended June 30, 2012 as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. The prior year partial comparative information has been derived from the financial statements of the District for the year ended June 30, 2011 and in our report dated November 1, 2011, we expressed an unqualified opinion on these financial statements.

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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Costa Mesa Sanitary District as of June 30, 2012 and the results of its changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 5 to the financial statements, the District has implemented the provisions of Governmental Accounting Standards Board Statement Number 45, "Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions", for the year ended June 30, 2012.

In accordance with Government Auditing Standards, we have also issued our report dated November 26, 2012 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

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

White Nelson Diehl Evans LLP

Irvine, California
November 26, 2012

COSTA MESA SANITARY DISTRICT

Management's Discussion and Analysis

June 30, 2012

The following discussion and analysis of the financial performance of the Costa Mesa Sanitary District (the District) provides an overview of the District's financial activities for the fiscal year ended June 30, 2012. It should be read in conjunction with the financial statements identified in the accompanying table of contents.

Financial Highlights

Financial highlights during the fiscal year ended June 30, 2012 included:

- Total assets of the District exceeded its liabilities as of June 30, 2012 by \$57,564,829. Of this amount, \$17,763,784 is unrestricted and available to meet the District's ongoing obligations to its customers and creditors.
- Net assets of the Solid Waste Fund increased \$473,943 during the year ended June 30, 2012, which was primarily attributable to the receipt of non-budgeted (due to uncertainty) general property tax revenue in the amount of \$214,579, savings in the recycling and disposal costs in the amount of \$128,513 and savings in salaries and benefits due to retirements and changes in staffing levels.
- Net assets of the Liquid Waste fund increased \$933,752 during the year ended June 30, 2012, which was primarily attributable to the net increase in capital assets in the amount of \$630,498 and savings in salaries and benefits due to retirements and changes in staffing levels.

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 three components: 1) Statement of Net Assets; 2) Statement of Revenues, Expenses, and Changes in Net Assets; 3) Statement of Cash Flows; and 4) Notes to the Financial Statements.

The financial statements accompanying this MD&A present the financial position, results of operations, and changes in cash flow during the fiscal year ended June 30, 2012. These financial statements have been prepared using accounting methods similar to those used by private sector companies.

Statement of Net Assets - The Statement of Net Assets present information on the District's assets (investment in resources) and liabilities (obligations to creditors), with the difference between the two reported as net assets. Over time, increases and decreases in net assets 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 changed legislation or regulations also need to be considered when establishing financial position.

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

See independent auditors' report.

COSTA MESA SANITARY DISTRICT

Management's Discussion and Analysis (Continued)

June 30, 2012

Overview of the Financial Statements

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 the Financial Statements - The financial statements also include Notes to the Financial Statements that provide important narrative details about the information contained in the financial statements. Information contained in the Notes to the 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 Assets and the Statement of Revenues, Expenses, and Changes in Net Assets 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 year's revenues and expenses are taken into account regardless of when cash is received or paid.

Statement of Net Assets

Condensed Statement of Net Assets

	2012	2011	Change
Assets:			
Current assets	\$ 19,090,049	\$ 17,930,196	\$ 1,159,853
Capital assets, net	39,792,929	39,122,787	670,142
Total assets	58,882,978	57,052,983	1,829,995
Liabilities:			
Current liabilities	1,259,385	1,036,500	222,885
Non-current liabilities	58,764	40,050	18,714
Total liabilities	1,318,149	1,076,550	241,599
Net assets:			
Net investment in capital assets	39,792,929	39,122,787	670,142
Restricted for capital outlay	8,116	381,368	(373,252)
Unrestricted	17,763,784	16,472,278	1,291,506
Total net assets	\$ 57,564,829	\$ 55,976,433	\$ 1,588,396

See independent auditors' report.

COSTA MESA SANITARY DISTRICT

Management's Discussion and Analysis (Continued)

June 30, 2012

Financial Analysis of the District (Continued)

Statement of Net Assets (Continued)

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. Net assets of the District were \$57,564,829 and \$55,976,434 for the years ended June 30, 2012 and June 30, 2011, respectively.

One of the largest portions of the District's net assets 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 \$39,792,929, or 69%, of the total \$57,564,829 net assets - an increase of 2% from prior fiscal year. 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 assets represent 31% of the District's net assets comprising assets that may be used to meet the District's on going obligations to citizens and creditors in accordance with the District's fiscal policies. As of June 30, 2012, unrestricted assets increased to \$17,763,784 from \$16,472,278 in the prior fiscal year, or a \$1,291,506 increase. Upon review of the net assets it was determined that internally imposed reserves do not meet the definition for classifying net assets as restricted, therefore only externally restricted net assets qualified to be categorized as restricted.

As of June 30, 2012, the District reported positive balances in all three categories of net assets.

Statement of Revenues, Expenses and Changes in Net Assets

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	2012	2011	Change
Revenues:			
Operating revenues	\$ 10,759,564	\$ 10,731,490	\$ 28,074
Non-operating revenues	826,870	436,139	390,731
Total revenues	11,586,434	11,167,629	418,805
Expenses:			
Operating expenses	8,303,399	8,160,177	143,222
Depreciation	1,607,841	1,540,281	67,560
Non-operating expenses	86,798	1,542	85,256
Total expenses	9,998,038	9,702,000	296,038
Net Income/Change in net assets	1,588,396	1,465,629	122,767
Net assets, beginning of year	55,976,433	54,510,804	1,465,629
Net assets, end of year	\$ 57,564,829	\$ 55,976,433	\$ 1,588,396

See independent auditors' report.

COSTA MESA SANITARY DISTRICT

Management's Discussion and Analysis (Continued)

June 30, 2012

Financial Analysis of the District (Continued)

Statement of Revenues, Expenses and Changes in Net Assets (Continued)

The statement of revenues, expenses and changes in net assets shows how the District's net assets changed during the fiscal years. In the case of the District, net assets increased by \$1,588,396 and \$1,465,629 for the fiscal years ended June 30, 2012 and 2011, respectively.

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

During the year ended June 30, 2012, the District benefited from the receipt of unanticipated general property tax revenue in the amount of \$214,579, an unanticipated savings in the amount of \$119,911 in salaries in benefits due to early retirements and changes in staffing levels and a net increase in capital assets in the amount of \$670,142.

Total District Revenues

	2012	2011	Change
Operating revenues:			
Trash assessments	\$ 5,180,748	\$ 5,185,184	\$ (4,436)
Sewer assessments	5,117,377	5,116,190	1,187
Permits and inspection fees	83,237	46,222	37,015
Connection fees	78,230	28,865	49,365
Other services	299,972	355,029	(55,057)
Total operating revenues	10,759,564	10,731,490	28,074
Non-operating revenues:			
Investment income	188,000	154,279	33,721
Taxes	214,579	212,004	2,575
Other revenues	424,291	69,856	354,435
Total non-operating revenues	826,870	436,139	390,731
Total revenues	\$ 11,586,434	\$ 11,167,629	\$ 418,805

In 2012, other revenues increased due to a one-time reimbursement received in fiscal year 2011-2012 from other public agencies for the sharing of capital project costs.

See independent auditors' report.

COSTA MESA SANITARY DISTRICT

Management's Discussion and Analysis (Continued)

June 30, 2012

Financial Analysis of the District (Continued)

Total District Expenses

	2012	2011	Change
Operating expenses:			
Solid waste and recycling disposal charges	\$ 4,450,943	\$ 4,510,918	\$ (59,975)
Liquid waste disposal and capital improvement charges	1,912,341	1,619,781	292,560
Administrative and other	1,940,115	2,029,478	(89,363)
Depreciation	1,607,841	1,540,281	67,560
Total operating expenses	9,911,240	9,700,458	210,782
Non-operating expenses:			
Loss on disposal of assets and other expenses	86,798	1,542	85,256
Total non-operating expenses	86,798	1,542	85,256
Total expenses	\$ 9,998,038	\$ 9,702,000	\$ 296,038

In 2012, liquid waste disposal and capital improvement charges expenses increased by \$292,560 due to increases in repairs and maintenance to the sewer lines and pump stations.

Capital Asset Administration

Changes in capital asset amounts for 2012 were as follows:

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

Changes in capital asset amounts for 2011 were as follows:

	Balance 2010 (As Restated)	Additions	Transfers/ Deletions	Balance 2011
Capital assets:				
Non-depreciable assets	\$ 3,807,784	\$ 219,849	\$ (2,662,335)	\$ 1,365,298
Depreciable assets	83,849,202	3,085,057	(44,022)	86,890,237
Accumulated depreciation	(47,634,948)	(1,540,281)	42,481	(49,132,748)
Total capital assets, net	\$ 40,022,038	\$ 1,764,625	\$ (2,663,876)	\$ 39,122,787

At the end of fiscal year 2012 and 2011, the District's investment in capital assets amounted to \$39,792,929 and \$39,122,787 (net of accumulated depreciation), respectively. The investment in capital assets includes land, property rights, subsurface sewer lines, pump stations, buildings and structures, equipment, vehicles and construction in progress, etc. Significant changes in capital assets of the District during the fiscal year ended June 30, 2012 were: sewer construction costs on Bristol Street (\$356,859), system wide sewer grade 5 reconstruction costs (\$538,027), and the rehabilitation of South Coast Drive Area 5 sewer (\$545,885).

See independent auditors' report.

COSTA MESA SANITARY DISTRICT

Management's Discussion and Analysis (Continued)

June 30, 2012

Capital Asset Administration (Continued)

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, 2012, the District had no long-term debt.

Economic Factors and Next Year's Budgets

Due to the struggling economic condition of the state and local economies, the Costa Mesa Sanitary District's budget for the fiscal year ending June 30, 2013 includes no increases to both the annual trash and sewer collection rates charge. The budget for fiscal year ending June 30, 2013 includes \$2,170,000 in appropriations for capital improvements and replacement projects. This is an aggressive CIP plan to improve sewer improvement projects that will ensure current and future wastewater is continually being collected and transported in a safe and efficient manner.

Request for Information

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

See independent auditors' report.

BASIC FINANCIAL STATEMENTS

COSTA MESA SANITARY DISTRICT
COMBINED STATEMENT OF NET ASSETS

June 30, 2012
(With prior year data for comparison only)

	Solid Waste	Liquid Waste
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents (Note 2)	\$ 2,262,027	\$ 4,840,115
Investments (Note 2)	3,446,515	7,374,592
Accounts receivable	26,220	-
Interest receivable	11,887	26,141
Assessments receivable	203,945	167,193
Inventory	-	33,359
Due from other governments	-	352,217
TOTAL CURRENT ASSETS	5,950,594	12,793,617
NONCURRENT ASSETS:		
Capital assets (Note 3):		
Non-depreciable	-	1,149,384
Depreciable, net of accumulated depreciation	39,644	38,603,901
TOTAL NONCURRENT ASSETS	39,644	39,753,285
TOTAL ASSETS	5,990,238	52,546,902
LIABILITIES AND NET ASSETS		
LIABILITIES:		
CURRENT LIABILITIES:		
Accounts payable	197,187	788,077
Accrued liabilities	14,617	53,039
Deposits payable	-	100,000
Unearned revenue	62,596	-
Due to other governments	-	43,869
Compensated absences	-	-
TOTAL CURRENT LIABILITIES	274,400	984,985
NON-CURRENT LIABILITIES:		
Compensated absences	10,712	28,267
Other post-employment benefits (Note 5)	6,510	13,275
TOTAL NON-CURRENT LIABILITIES	17,222	41,542
TOTAL LIABILITIES	291,622	1,026,527
NET ASSETS:		
Invested in capital assets	39,644	39,753,285
Restricted for capital outlay	-	8,116
Unrestricted	5,658,972	11,758,974
TOTAL NET ASSETS	\$ 5,698,616	\$ 51,520,375

See independent auditors' report and notes to financial statements.

Other Enterprise Fund	Totals	
	2012	2011
\$ 136,815	\$ 7,238,957	\$ 7,911,158
208,453	11,029,560	9,507,390
-	26,220	75,838
570	38,598	46,436
-	371,138	326,236
-	33,359	37,938
-	352,217	25,200
<u>345,838</u>	<u>19,090,049</u>	<u>17,930,196</u>
-	1,149,384	1,365,298
-	38,643,545	37,757,489
-	39,792,929	39,122,787
<u>345,838</u>	<u>58,882,978</u>	<u>57,052,983</u>
-	985,264	765,301
-	67,656	54,357
-	100,000	100,000
-	62,596	97,675
-	43,869	589
-	-	18,578
-	1,259,385	1,036,500
-	38,979	40,050
-	19,785	-
-	58,764	40,050
-	1,318,149	1,076,550
-	39,792,929	39,122,787
-	8,116	381,368
345,838	17,763,784	16,472,278
<u>\$ 345,838</u>	<u>\$ 57,564,829</u>	<u>\$ 55,976,433</u>

COSTA MESA SANITARY DISTRICT

COMBINED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETSFor the year ended June 30, 2012
(With prior year data for comparison only)

	Solid Waste	Liquid Waste
OPERATING REVENUES:		
Trash assessments	\$ 5,180,748	\$ -
Sewer assessments	-	5,117,377
Permits and inspection fees	-	83,237
Connection fees	-	78,230
Other services	98,862	23,610
TOTAL OPERATING REVENUES	5,279,610	5,302,454
OPERATING EXPENSES:		
Solid waste disposal	2,366,360	-
Liquid waste disposal	-	1,694,170
Recycling and disposal charges	2,080,487	-
Administration and other	686,891	1,253,224
Repairs and maintenance	4,096	218,171
Depreciation	5,236	1,602,605
TOTAL OPERATING EXPENSES	5,143,070	4,768,170
OPERATING INCOME	136,540	534,284
NONOPERATING REVENUES (EXPENSES):		
Investment income	50,750	134,049
Taxes	214,579	-
Other revenues	72,074	352,217
Loss on disposal of assets	-	(86,798)
TOTAL NONOPERATING REVENUES (EXPENSES)	337,403	399,468
INCOME BEFORE TRANSFERS	473,943	933,752
TRANSFERS:		
Transfers in	-	-
Transfers out	-	-
TOTAL TRANSFERS	-	-
CHANGES IN NET ASSETS	473,943	933,752
NET ASSETS - BEGINNING OF YEAR, AS ORIGINALLY REPORTED	5,224,673	50,586,623
RESTATEMENT OF NET ASSETS	-	-
NET ASSETS - BEGINNING OF YEAR, AS RESTATED	5,224,673	50,586,623
NET ASSETS - END OF YEAR	\$ 5,698,616	\$ 51,520,375

See independent auditors' report and notes to financial statements.

Other Enterprise Fund	Totals	
	2012	2011
\$ -	\$ 5,180,748	\$ 5,185,184
-	5,117,377	5,116,190
-	83,237	46,222
-	78,230	28,865
177,500	299,972	355,029
177,500	10,759,564	10,731,490
-	2,366,360	2,364,254
-	1,694,170	1,287,705
-	2,080,487	2,134,678
-	1,940,115	2,029,478
-	222,267	344,062
-	1,607,841	1,540,281
-	9,911,240	9,700,458
177,500	848,324	1,031,032
3,201	188,000	154,279
-	214,579	212,004
-	424,291	69,856
-	(86,798)	(1,542)
3,201	740,072	434,597
180,701	1,588,396	1,465,629
-	-	28,520
-	-	(28,520)
-	-	-
180,701	1,588,396	1,465,629
165,137	55,976,433	37,701,960
-	-	16,808,844
165,137	55,976,433	54,510,804
\$ 345,838	\$ 57,564,829	\$ 55,976,433

COSTA MESA SANITARY DISTRICT
COMBINED STATEMENT OF CASH FLOWS

For the year ended June 30, 2012
(With prior year data for comparison only)

	Solid Waste	Liquid Waste
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 5,286,310	\$ 5,362,665
Payments to suppliers	(5,042,723)	(1,916,411)
Payments to employees	(316,337)	(746,671)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(72,750)</u>	<u>2,699,583</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Taxes received	214,579	-
Cash received from other funds	-	-
Cash paid to other funds	-	-
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>214,579</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(44,878)	(2,319,901)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(44,878)</u>	<u>(2,319,901)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on cash and investments	53,371	139,592
Increase (decrease) in investments	(412,727)	(990,992)
NET CASH USED BY INVESTING ACTIVITIES	<u>(359,356)</u>	<u>(851,400)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(262,405)	(471,718)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>2,524,434</u>	<u>5,311,833</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 2,262,029</u></u>	<u><u>\$ 4,840,115</u></u>

See independent auditors' report and notes to financial statements.

Other Enterprise Fund	Totals	
	2012	2011
\$ 177,500	\$ 10,826,475	\$ 10,740,875
-	(6,959,134)	(6,650,129)
-	(1,063,008)	(1,109,409)
177,500	2,804,333	2,981,337
-	214,579	212,004
-	-	28,520
-	-	(28,520)
-	214,579	212,004
-	(2,364,779)	(642,571)
-	(2,364,779)	(642,571)
2,875	195,838	122,963
(118,451)	(1,522,170)	(5,988,526)
(115,576)	(1,326,332)	(5,865,563)
61,924	(672,199)	(3,314,793)
74,891	7,911,158	11,225,951
\$ 136,815	\$ 7,238,959	\$ 7,911,158

(Continued)

COSTA MESA SANITARY DISTRICT

COMBINED STATEMENT OF CASH FLOWS
(CONTINUED)

For the year ended June 30, 2012
(With prior year data for comparison only)

	Solid Waste	Liquid Waste
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income	\$ 136,540	\$ 534,284
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation	5,236	1,602,605
Other revenues	72,074	352,217
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(1,028)	50,646
(Increase) decrease in assessments receivable	(29,267)	(15,635)
(Increase) decrease in inventory	-	4,579
(Increase) decrease in prepaid items	-	-
(Increase) decrease in due from other governments	-	(327,017)
Increase (decrease) in accounts payable	(217,186)	437,149
Increase (decrease) in accrued liabilities	525	12,774
Increase (decrease) in OPEB liabilities	6,510	13,275
Increase (decrease) in unearned revenue	(35,079)	-
Increase (decrease) in due to other governments	-	43,280
Increase (decrease) in compensated absences	(11,075)	(8,574)
Total adjustments	(209,290)	2,165,299
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ (72,750)	\$ 2,699,583

See independent auditors' report and notes to financial statements.

Other Enterprise Fund	Totals	
	2012	2011
<u>\$ 177,500</u>	<u>\$ 848,324</u>	<u>\$ 1,031,032</u>
-	1,607,841	1,540,281
-	424,291	69,856
-	49,618	(46,797)
-	(44,902)	85,239
-	4,579	(37,938)
-	-	23,373
-	(327,017)	747,108
-	219,963	(151,770)
-	13,299	(230,334)
-	19,785	-
-	(35,079)	(31,969)
-	43,280	(2,295)
-	(19,649)	(14,449)
<u>-</u>	<u>1,956,009</u>	<u>1,950,305</u>
<u>\$ 177,500</u>	<u>\$ 2,804,333</u>	<u>\$ 2,981,337</u>

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COSTA MESA SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

a. The Organization:

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

b. Uniform Accounting System:

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

c. Basis of Presentation:

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

The District reports the following major enterprise funds:

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

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

See independent auditors' report.

COSTA MESA SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

c. Basis of Presentation (Continued):

Other Enterprise Fund:

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

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

d. Measurement Focus and Basis of Accounting:

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

e. Net Assets:

In the Statement of Net Assets, net assets are classified in the following categories:

- Invested in capital assets, net of related debt - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets. The District does not have any debt outstanding related to capital assets.
- Restricted net assets - Certain assets of the District are restricted in use by ordinance, or by external creditors, grantors, contributors, or laws or regulations of other governments and, accordingly are shown as restricted assets on the accompanying statement of net assets.
- Unrestricted net assets - This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets".

See independent auditors' report.

COSTA MESA SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

f. Operating Revenues and Expenses:

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

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

g. 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.

h. Capital Assets:

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

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

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

See independent auditors' report.

COSTA MESA SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

i. 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.

j. Property Taxes:

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

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

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

k. 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 or retirement of capital assets.

l. Compensated Absences:

Accumulated unpaid vacation and other employee benefit amounts are accrued when vested. At June 30, 2012, compensated absences payable amounted to \$38,979, the total of which is considered a long-term liability.

See independent auditors' report.

COSTA MESA SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

l. Compensated Absences (Continued):

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

Changes to compensated absences for 2012, were as follows:

	Balance <u>June 30, 2011</u>	<u>Earned</u>	<u>Taken</u>	Balance <u>June 30, 2012</u>	Current <u>Portion</u>	Long-Term <u>Portion</u>
Compensated absences	\$ <u>58,628</u>	\$ <u>50,315</u>	\$ <u>(69,964)</u>	\$ <u>38,979</u>	\$ <u>-</u>	\$ <u>38,979</u>

m. 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, 2012, in the opinion of the District's legal counsel, the District had no material claims which would require loss provision in the financial statements. Small dollar claims and judgments are recorded as expenses when paid.

n. Investments:

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

o. 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.

See independent auditors' report.

COSTA MESA SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

p. Estimates:

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

2. CASH AND INVESTMENTS:

Cash and Investments:

Cash and investments as of June 30, 2012 are reported in the accompanying combined financial statements as follows:

Financial Statement Classification:

Cash and cash equivalents	\$ 7,238,957
Investments	<u>11,029,560</u>
Total	<u>\$ 18,268,517</u>

Cash and investments as of June 30, 2012 consisted of the following:

Demand Deposits:

Cash deposits	\$ 149,132
Petty cash	<u>700</u>
Total demand deposits	<u>149,832</u>

Investments:

United States Government Sponsored	
Agency Securities	11,029,560
California Local Agency Investment Fund (LAIF)	6,011,575
Money Market Mutual Funds	<u>1,077,550</u>
Total investments	<u>18,118,685</u>

Total cash and investments	<u>\$ 18,268,517</u>
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See independent auditors' report.

COSTA MESA SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2012

2. CASH AND INVESTMENTS (CONTINUED):

Investments Authorized by the California Government Code and the District's Investment Policy:

The table below identifies the investment types that are authorized for the District by the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

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

Disclosures Relating to Interest Rate Risk:

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

See independent auditors' report.

COSTA MESA SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2012

2. CASH AND INVESTMENTS (CONTINUED):

Disclosures Relating to Interest Rate Risk (Continued):

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity as of June 30, 2012.

Investment Type	Remaining Maturity (in Months)			Total
	12 Months or Less	13 - 24 Months	25 - 60 Months	
United States Government Sponsored				
Agency Securities	\$ -	\$ -	\$ 11,029,560	\$ 11,029,560
Local Agency Investment Fund	6,011,575	-	-	6,011,575
Money Market Mutual Funds	<u>1,077,550</u>	<u>-</u>	<u>-</u>	<u>1,077,550</u>
	<u>\$ 7,089,125</u>	<u>\$ -</u>	<u>\$ 11,029,560</u>	<u>\$ 18,118,685</u>

Disclosures Relating to Credit Risk:

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the California Government Code, the District's investment policy and the actual rating by Standards and Poor as of year end for each investment type:

Investment Type	Total	Minimum Legal Rating	AAA	AA+	Unrated
United States Government					
Sponsored Agency Securities	\$ 11,029,560	N/A	\$ -	\$ 11,029,560	\$ -
Local Agency Investment Fund	6,011,575	N/A	-	-	6,011,575
Money Market Mutual Funds	<u>1,077,550</u>	A	<u>1,077,550</u>	<u>-</u>	<u>-</u>
	<u>\$ 18,118,685</u>		<u>\$ 1,077,550</u>	<u>\$ 11,029,560</u>	<u>\$ 6,011,575</u>

See independent auditors' report.

COSTA MESA SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2012

2. CASH AND INVESTMENTS (CONTINUED):

Concentration of Credit Risk:

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

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>	<u>Percent of Investment</u>
Federal Home Loan Bank	United States Government Sponsored Agency Securities	\$ 1,001,330	5.53%
Federal National Mortgage Association	United States Government Sponsored Agency Securities	4,009,010	22.13%
Federal Home Loan Mortgage Corporation	United States Government Sponsored Agency Securities	3,013,090	16.63%
Federal Farm Credit Bank	United States Government Sponsored Agency Securities	3,006,130	16.59%

Custodial Credit Risk:

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

Investment in State Investment Pool:

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

See independent auditors' report.

COSTA MESA SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2012

3. CAPITAL ASSETS:

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

	Balance at July 1, 2011	Additions	Deletions	Balance at June 30, 2012
Capital assets, not being depreciated:				
Land	\$ 979,655	\$ -	\$ -	\$ 979,655
Property rights	4,025	-	-	4,025
Construction in progress	<u>381,618</u>	<u>145,225</u>	<u>(361,139)</u>	<u>165,704</u>
Total capital assets, not being depreciated	<u>1,365,298</u>	<u>145,225</u>	<u>(361,139)</u>	<u>1,149,384</u>
Capital assets, being depreciated:				
Subsurface sewer lines	82,398,312	2,094,364	(111,484)	84,381,192
Building and improvements	3,661,073	234,797	-	3,895,870
Equipment	614,538	206,654	-	821,192
Vehicles	<u>216,314</u>	<u>44,880</u>	<u>-</u>	<u>261,194</u>
Total capital assets, being depreciated	<u>86,890,237</u>	<u>2,580,695</u>	<u>(111,484)</u>	<u>89,359,448</u>
Less accumulated depreciation:				
Subsurface sewer lines	(48,677,688)	(1,430,053)	24,686	(50,083,055)
Building and improvements	(174,973)	(74,262)	-	(249,235)
Equipment	(149,056)	(77,459)	-	(226,515)
Vehicles	<u>(131,031)</u>	<u>(26,067)</u>	<u>-</u>	<u>(157,098)</u>
Total accumulated depreciation	<u>(49,132,748)</u>	<u>(1,607,841)</u>	<u>24,686</u>	<u>(50,715,903)</u>
Total capital assets being depreciated, net	<u>37,757,489</u>	<u>972,854</u>	<u>(86,798)</u>	<u>38,643,545</u>
Total capital assets, net	<u>\$ 39,122,787</u>	<u>\$ 1,118,079</u>	<u>\$ (447,937)</u>	<u>\$ 39,792,929</u>

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

Solid waste	<u>\$ 5,236</u>
Liquid waste	<u>\$ 1,602,605</u>

See independent auditors' report.

COSTA MESA SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2012

4. PENSION PLAN:

a. Plan Description:

The Costa Mesa Sanitary District contributes to the California Public Employees Retirement System (CalPERS), a cost-sharing multiple-employer public employee defined benefit pension plan. It participates in the 2% at 55 (Tier I) and 2% at 60 (Tier II) Risk Pools of CalPERS, effective July 1, 2004 and October 1, 2011, respectively. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public agencies within the State of California. Benefit provisions and all other requirements are established by state statute and District ordinance. Copies of CalPERS annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814.

b. Funding Policy:

The contribution rate for plan members of both Tier I and Tier II is 7% of their covered salary, of which, the District pays 7% for Tier I and 0% (zero percent) for Tier II on behalf of the employee. Also, the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The required employer contribution rates are equal to the annual pension costs (APC) percentage of payroll for fiscal years 2012, 2011 and 2010 as noted below. The contribution requirements of the plan members are established by State statute, and the employer contribution rate is established and may be amended by CalPERS. For fiscal years 2012, 2011 and 2010, the District's annual employer contributions for the CalPERS plan were equal to the District's required and actual contributions for each fiscal year as follows:

Three-Year Trend Information for CalPERS

Fiscal Year Ended	Annual Pension Cost (APC) Total Tiers I & II	Percentage of APC Contributed	Net Pension Obligation	APC Percentage of Payroll (Tier I)	APC Percentage of Payroll (Tier II)
6/30/10	\$ 112,710	100%	\$ -	12.605%	-
6/30/11	108,525	100%	-	11.890%	-
6/30/12	104,790	100%	-	11.900%	8.437%

See independent auditors' report.

COSTA MESA SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2012

4. PENSION PLAN (CONTINUED):

c. Funding Status:

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

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

a. Plan Description:

Eligibility:

The District, through an agent multiple-employer plan, provides post-employment health care benefits. The plan is part of the Public Agency portion of the California Employers' Retiree Benefit Trust Fund (CERBT), an agent multiple-employer plan administered by California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for participating public employers within the State of California. The following requirements must be satisfied in order to be eligible for lifetime post employment medical benefits: (1) Attainment of age 50, and 5 years of CalPERS service (or disability), and (2) Retirement from CalPERS and from the District (the District must be the last employer prior to retirement). Currently, there are six retired employees who have met these eligibility requirements and four of which have elected to receive the benefits. The total payments made for these benefits for retired employees for the year ended June 30, 2012 were \$1,215.

Membership in the OPEB plan consisted of the following members as of June 30, 2012:

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

See independent auditors' report.

COSTA MESA SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2012

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

a. Plan Description (Continued):

Benefits:

The District offers post employment medical benefits to retired employees who satisfy the eligibility rules. Retirees may enroll in any plan available through the District's CalPERS medical plan. The contribution requirement of the Plan members and the District are established and may be amended by the Board of Directors. As a member of the CalPERS medical plan the District is required to participate in its post employment medical benefit plan. The District currently pays the CalPERS minimum required employer contribution on an "Unequal" basis (\$44.80 per month in 2012, Equal being \$112, and indexed to medical CPI plus amortized factor, becoming equal in 2024). The District currently has one retiree with a special agreement receiving \$350 per month. The special agreement was a Board approved policy issued to maintain the benefits offered to former City of Costa Mesa employees accepting to become District employees.

b. Funding Policy:

The District is required to contribute the Annual Required Contribution of the Employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liability (or funding excess) over a period not to exceed thirty years. The current ARC rate is 2.4% 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 2012 and records a liability for the difference between pay-as-you-go and the actuarially determined ARC cost. The District expects to prefund the obligation in the fiscal year 2012-2013.

c. Annual OPEB Cost and Net OPEB Obligation:

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

See independent auditors' report.

COSTA MESA SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2012

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

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

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

Annual required contribution (ARC)	\$ 21,000
Interest on Net OPEB obligation	-
Adjustment to ARC	-
Annual OPEB cost	<u>21,000</u>
Contribution made, net of adjustment	<u>(1,215)</u>
Increase in Net OPEB obligation	19,785
Net OPEB obligation at June 30, 2011	<u>-</u>
Net OPEB obligation at June 30, 2012	<u>\$ 19,785</u>

d. Trend Information:

The District's annual OPEB cost, the actual contribution, the percentage of annual OPEB costs contributed to the plan, and the net OPEB obligation for the year ended June 30, 2012 were as follows:

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

e. Funded Status and Funding Progress:

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

See independent auditors' report.

COSTA MESA SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2012

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

f. Actuarial Methods and Assumptions:

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

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

6. JOINT POWERS INSURANCE AUTHORITY:

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

Description of the Authority:

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

See independent auditors' report.

COSTA MESA SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2012

6. JOINT POWERS INSURANCE AUTHORITY (CONTINUED):

Self-Insurance Programs of the Authority:

At June 30, 2012, 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 \$5,000,000 per occurrence with no annual aggregate limits and a \$0 deductible, except \$500 on property damage per occurrence.

Auto Liability - Insured up to \$5,000,000 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 \$5,000,000 per occurrence with an annual aggregate limit of \$5,000,000.

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

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

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

REQUIRED SUPPLEMENTARY INFORMATION

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

COSTA MESA SANITARY DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2012

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

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

See independent auditors' report.

STATISTICAL SECTION

COSTA MESA SANITARY DISTRICT

DESCRIPTION OF STATISTICAL SECTION CONTENTS

June 30, 2012

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

Contents:	<u>Pages</u>
<u>Financial Trends</u> these schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.	38 - 45
<u>Revenue Capacity</u> these schedules contain information to help the reader assess the District's most significant own source revenues, sewer and trash revenues.	46 - 49
<u>Debt Capacity</u> these schedules present information to help the reader assess the affordability of the District's current levels of outstanding debt and the District's ability to issue additional debt in the future.	50 - 53
<u>Demographic and Economic Information</u> these schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place.	54 - 55
<u>Operating Information</u> these schedules contain service and infrastructure data to help the reader understand how the information in the District's financial report relates to the services the District provides and the activities it performs.	56 - 58

Costa Mesa Sanitary District

Changes in Net Assets and Net Assets by Component

Last Ten Fiscal Years

	Fiscal Year			
	2003	2004	2005	2006
Changes in net assets:				
Operating revenues	\$ 5,899,213	\$ 6,367,747	\$ 6,792,623	\$ 7,532,247
Operating expenses	(5,689,330)	(6,147,861)	(7,091,449)	(7,112,655)
Depreciation and amortization	(597,144)	(607,543)	(659,881)	(681,562)
Operating income (loss)	(387,261)	(387,657)	(958,707)	(261,970)
Non-operating revenue(expenses), net	450,512	268,620	360,375	189,116
Net income (loss) before capital contributions	63,251	(119,037)	(598,332)	(72,854)
Capital contributions	-	230,551	961,280	128,822
Changes in net assets	\$ 63,251	\$ 111,514	\$ 362,948	\$ 55,968
Net assets:				
Invested in capital assets, net of related debt	\$ 10,493,226	\$ 11,347,128	\$ 12,178,288	\$ 11,965,261
Restricted for capital outlay	2,406,728	2,515,596	2,632,700	2,732,231
Unrestricted	8,292,721	7,441,465	6,939,816	7,109,280
Total net assets	\$ 21,192,675	\$ 21,304,189	\$ 21,750,804	\$ 21,806,772

Source: Costa Mesa Sanitary District

Fiscal Year					
2007	2008	2009	2010 (As Restated)	2011	2012
\$ 8,209,035	\$ 9,606,545	\$ 10,144,512	\$ 10,460,180	\$ 10,731,490	\$ 10,759,564
(7,371,732)	(7,762,619)	(7,945,850)	(7,487,385)	(8,160,177)	(8,303,399)
(344,790)	(478,763)	(573,004)	(622,319)	(1,540,281)	(1,607,841)
492,513	1,365,163	1,625,658	2,350,476	1,031,032	848,324
769,752	751,660	659,472	1,245,767	434,597	740,072
1,262,265	2,116,823	2,285,130	3,596,243	1,465,629	1,588,396
2,377,046	-	14,000	4,243,681	-	-
<u>\$ 3,639,311</u>	<u>\$ 2,116,823</u>	<u>\$ 2,299,130</u>	<u>\$ 7,839,924</u>	<u>\$ 1,465,629</u>	<u>\$ 1,588,396</u>
\$ 14,363,225	\$ 17,040,959	\$ 17,350,061	\$ 40,022,038	\$ 39,122,787	\$ 39,792,929
8,157,794	6,028,258	6,285,042	7,719,551	381,368	8,116
2,925,064	4,493,689	6,226,933	6,769,215	16,472,278	17,763,784
<u>\$ 25,446,083</u>	<u>\$ 27,562,906</u>	<u>\$ 29,862,036</u>	<u>\$ 54,510,804</u>	<u>\$ 55,976,433</u>	<u>\$ 57,564,829</u>

Costa Mesa Sanitary District

Operating Revenue by Source

Last Ten Fiscal Years

	Fiscal Year			
	2003	2004	2005	2006
Trash assessments	\$ 4,105,544	\$ 4,428,648	\$ 4,793,693	\$ 5,101,835
Sewer assessments	1,642,255	1,739,375	1,905,567	2,279,091
Permits and inspection fees	43,126	48,260	54,897	71,560
Connection fees	44,230	77,359	38,466	42,133
Other services and charges	64,058	74,105	-	37,628
Total Operating Revenues	\$ 5,899,213	\$ 6,367,747	\$ 6,792,623	\$ 7,532,247

Source: Costa Mesa Sanitary District

Fiscal Year					
2007	2008	2009	2010	2011	2012
\$ 5,101,054	\$ 5,136,643	\$ 5,168,413	\$ 5,176,122	\$ 5,185,184	\$ 5,180,748
2,747,778	4,254,608	4,632,923	5,124,283	5,116,190	5,117,377
190,412	22,552	28,183	22,870	46,222	83,237
137,522	13,687	24,270	11,468	28,865	78,230
32,269	179,055	290,723	125,437	355,029	299,972
<u>\$ 8,209,035</u>	<u>\$ 9,606,545</u>	<u>\$ 10,144,512</u>	<u>\$ 10,460,180</u>	<u>\$ 10,731,490</u>	<u>\$ 10,759,564</u>

Costa Mesa Sanitary District

Operating Expenses by Activity

Last Ten Fiscal Years

	Fiscal Year			
	2003	2004	2005	2006
Solid waste disposal	\$ 4,283,616	\$ 4,230,486	\$ 4,441,589	\$ 4,650,142
Liquid waste disposal	906,596	1,248,691	1,338,201	1,274,987
General and administrative	499,118	668,684	1,311,659	1,187,526
Total Operating Expenses	\$ 5,689,330	\$ 6,147,861	\$ 7,091,449	\$ 7,112,655

Source: Costa Mesa Sanitary District

Fiscal Year					
2007	2008	2009	2010	2011	2012
\$ 4,568,661	\$ 4,584,097	\$ 4,499,524	\$ 4,469,887	\$ 4,510,918	\$ 4,450,943
1,384,802	1,540,711	1,516,374	1,047,977	1,619,781	1,912,341
1,418,269	1,637,811	1,929,952	1,969,521	2,029,478	1,940,115
<u>\$ 7,371,732</u>	<u>\$ 7,762,619</u>	<u>\$ 7,945,850</u>	<u>\$ 7,487,385</u>	<u>\$ 8,160,177</u>	<u>\$ 8,303,399</u>

Costa Mesa Sanitary District

Non-operating Revenue (Expenses), net

Last Ten Fiscal Years

	Fiscal Year			
	2003	2004	2005	2006
Investment income	\$ 418,691	\$ 161,587	\$ 351,957	\$ 165,387
Investment expense	(133,526)	(126,082)	(58,003)	(50,826)
Taxes	165,347	155,726	33,527	64,965
Other revenues	-	77,389	32,894	32,280
Other expenses	-	-	-	(22,690)
Loss on disposal of assets	-	-	-	-
Total non-operating revenues, net	\$ 450,512	\$ 268,620	\$ 360,375	\$ 189,116

Fiscal Year					
2007	2008	2009	2010	2011	2012
\$ 571,489	\$ 469,376	\$ 297,158	\$ 188,045	\$ 154,279	\$ 188,000
(43,941)	-	-	-	-	-
217,796	226,046	223,789	220,329	212,004	214,579
50,264	66,265	151,007	838,628	69,856	424,291
-	(10,027)	-	-	-	-
(25,856)	-	(12,482)	(1,235)	(1,542)	(86,798)
<u>\$ 769,752</u>	<u>\$ 751,660</u>	<u>\$ 659,472</u>	<u>\$ 1,245,767</u>	<u>\$ 434,597</u>	<u>\$ 740,072</u>

Costa Mesa Sanitary District

Sewer and Trash Revenue Rates

Last Ten Fiscal Years

		Fiscal Year			
		2003	2004	2005	2006
Sewer					
Customer Type					
Single family residential	\$	25.38	\$ 26.90	\$ 29.05	\$ 31.37
Multi-family residential		19.54	20.71	22.37	24.16
Commercial (per 1000 sf)		14.76	15.65	16.90	18.25
Industrial (per 1000 sf)		43.48	46.09	49.78	53.76
Other (per 1000 sf)		13.08	13.86	14.97	16.17
Trash					
Customer Type					
Single family residential	\$	193.64	\$ 209.13	\$ 225.86	\$ 239.41

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

Fiscal Year					
2007	2008	2009	2010	2011	2012
\$ 37.64	\$ 56.47	\$ 60.71	\$ 66.23	\$ 66.23	\$ 66.23
28.99	43.49	46.75	51.00	51.00	51.00
21.90	32.85	35.31	38.52	38.52	38.52
64.51	96.77	104.03	113.50	113.50	113.50
19.40	29.11	31.29	34.14	34.14	34.14
\$ 239.41	\$ 239.41	\$ 239.41	\$ 239.41	\$ 239.41	\$ 23,941.00

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Costa Mesa Sanitary District

Principal Sewer Customers

Current Fiscal Year and Nine Years Ago

Industrial Customer Type	2012		2003	
	Square Feet Assessed	Percentage of Total	Square Feet Assessed	Percentage of Total
Commonwealth Ave Apts	329,350	3.38%	72,970	0.84%
CJ Sergerstrom & Sons	276,720	2.84%	274,160	3.17%
CLA Val Co	252,480	2.59%	390,170	4.51%
Alsenz, Evert C TR	171,670	1.76%	168,960	1.95%
MS Airways LLC	158,070	1.62%	149,020	1.72%
Van Ausdeln, Sandra Ann TR	124,410	1.28%	124,410	1.44%
Whittier College	122,830	1.26%	122,820	1.42%
SCIF Redhill LLC	118,510	1.22%	1,000	0.01%
1650 Sunflower 40 LLC	114,590	1.18%	-	0.00%
Griswold Industries	114,580	1.18%	103,780	1.20%
Orange Grove Properties LLC	109,870	1.13%	109,870	1.27%
Total square feet: Industrial Principal Customers	1,893,080	19.42%	1,517,160	17.52%
Total square feet : Industrial Customers	9,745,720	100.00%	8,659,106	100.00%
Commercial Customer Type				
South Coast Plaza	1,108,630	3.45%	334,240	1.41%
RREF America REIT II	835,680	2.60%	-	0.00%
Magurie Properties - Pacific Arts Plaza LLC	834,370	2.60%	130,340	0.55%
Interinsurance Exchange of the Auto Club of Ca	750,910	2.34%	37,290	0.16%
Coast Community College District	674,060	2.10%	86,620	0.37%
Sears Roebuck & Co.	536,980	1.67%	446,150	1.88%
Vanguard University of Southern California	528,170	1.64%	486,330	2.05%
600 Anton Boulevard	490,350	1.53%	459,090	1.94%
Center Tower Associates	451,550	1.41%	-	0.00%
J Ray Sanderson/Cardinal Development Bristol	419,440	1.31%	419,440	1.77%
One Town Center Drive Associates	362,700	1.13%	319,390	1.35%
Los Angeles Times	132,990	0.41%	308,760	1.30%
Total square feet: Commercial Principal Customers	7,125,830	22.18%	3,027,650	12.78%
Total square feet: Commercial Customers	32,129,250	100.00%	23,684,480	100.00%
Multi-family Residential Customer Type	Household	Percentage	Household	Percentage
	Units	of Total	Units	of Total
RTS - Sunflower, LLC	890	3.52%	-	0.00%
Casden Lakes LP	770	3.04%	770	3.07%
Costa Mesa Partners	764	3.02%	764	3.05%
United Dominion Realty LP	764	3.02%	764	3.05%
Pincreek Investment Co.	620	2.45%	620	2.47%
ZMV Partnership	508	2.01%	508	2.03%
UDR Harbor Greens LP	384	1.52%	384	1.53%
Bay Apartment Communities, Inc.	333	1.32%	273	1.09%
Riverville Family Associates LLC	296	1.17%	-	0.00%
Park Mesa Village	276	1.09%	276	1.10%
Parkwood Village Ltd	276	1.09%	276	1.10%
Total household units: Multi-family Principal Customers	5,881	23.24%	4,635	18.50%
Total household units assessed: Multi-family Customers	25,309	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			
	2003	2004	2005	2006
Capital leases	\$ 1,934,153	\$ 1,784,541	\$ 1,573,627	\$ 1,354,945
Total debt	\$ 1,934,153	\$ 1,784,541	\$ 1,573,627	\$ 1,354,945
Total debt per capita	\$ 16	\$ 14	\$ 12	\$ 13
Total debt as a percent of personal income	0.04%	0.04%	0.03%	0.02%

Source: Costa Mesa Sanitary District Accounting Department

Fiscal Year					
2007	2008	2009	2010	2011	2012
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Costa Mesa Sanitary District

Debt Coverage

Last Ten Fiscal Years

	Fiscal Year			
	2003	2004	2005	2006
Net Revenues	\$ 6,483,251	\$ 6,762,449	\$ 7,211,001	\$ 7,772,189
Operating Expenses	5,689,330	6,147,861	7,091,449	7,112,655
Net revenues	<u>\$ 793,921</u>	<u>\$ 614,588</u>	<u>\$ 119,552</u>	<u>\$ 659,534</u>
Debt Service:				
Principal	\$ 179,376	\$ 149,612	\$ 210,914	\$ 218,682
Interest	<u>133,526</u>	<u>126,082</u>	<u>58,003</u>	<u>50,826</u>
Total debt service	<u>\$ 312,902</u>	<u>\$ 275,694</u>	<u>\$ 268,917</u>	<u>\$ 269,508</u>
Debt coverage ratio	2.54	2.23	0.44	2.45

Source: Costa Mesa Sanitary District

Fiscal Year					
<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
\$ 9,022,728	\$ 10,358,205	\$ 10,803,984	\$ 11,705,947	\$ 11,166,087	\$ 11,499,636
<u>7,371,732</u>	<u>7,762,619</u>	<u>7,945,850</u>	<u>7,487,385</u>	<u>8,160,177</u>	<u>8,303,399</u>
<u>\$ 1,650,996</u>	<u>\$ 2,595,586</u>	<u>\$ 2,858,134</u>	<u>\$ 4,218,562</u>	<u>\$ 3,005,910</u>	<u>\$ 3,196,237</u>
\$ 1,354,945	\$ -	\$ -	\$ -	\$ -	\$ -
<u>43,941</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 1,398,886</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
1.18	N/A	N/A	N/A	N/A	N/A

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

Calendar Year	City of Costa Mesa (a)		County of Orange (b)		
	District Service Population	Unemployment Rate	Population	Personal Income (thousands of dollars)	Personal Income per Capita
2002	109,195	4.4%	2,917,106	\$ 116,004,953	\$ 39,767
2003	109,171	4.3%	2,940,109	122,427,855	41,641
2004	109,903	3.8%	2,956,096	130,321,396	44,086
2005	109,030	3.4%	2,957,263	139,408,948	47,141
2006	108,096	3.0%	2,953,062	150,598,354	50,997
2007	107,641	3.5%	2,957,902	153,446,641	51,877
2008	107,514	4.7%	2,989,141	155,068,367	51,877
2009	109,808	8.0%	3,026,786	148,372,628	49,020
2010	109,960	8.5%	3,017,598	150,467,328	49,863
2011	110,008	7.8%	3,028,846	*	*

* Data not readily available.

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

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

Costa Mesa Sanitary District

Principal Employers

Current Fiscal Year and Nine Years Ago

Employer	2012		2003 *	
	Number of Employers	Percentage of Total City Employment	Number of Employers	Percentage of Total City Employment
Experian Information Solution	3,700	5.71%		
Coast Community College District Foundation	2,900	4.48%		
Orange Coast Community College	1,900	2.93%		
Fairview Development Center	1,500	2.32%		
A Clark/McCarthy Joint Venture	1,250	1.93%		
Interinsurance Exchange of the Auto Club	1,200	1.85%		
Pacific Building Care, Inc.	850	1.31%		
International Business Machines Corporation	750	1.16%		
Filenet Corporation	600	0.93%		
TTM Technologies, Inc.	500	0.77%		
Total ten employers total	15,150	23.39%	-	0.00%

* - Data not available for the fiscal year 2002- 2003

Costa Mesa Sanitary District
Full-time and Part-time District Employees
By Function
Last Eight Fiscal Years

	Fiscal Year							
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Solid Waste	0.95	0.95	1.10	1.60	1.65	1.28	3.80	3.27
Liquid Waste	<u>4.55</u>	<u>5.55</u>	<u>6.90</u>	<u>9.40</u>	<u>9.85</u>	<u>10.72</u>	<u>8.45</u>	<u>8.25</u>
Total Full-time equivalent	<u><u>5.50</u></u>	<u><u>6.50</u></u>	<u><u>8.00</u></u>	<u><u>11.00</u></u>	<u><u>11.50</u></u>	<u><u>12.00</u></u>	<u><u>12.25</u></u>	<u><u>11.52</u></u>

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

Costa Mesa Sanitary District

Operating Indicators
By Function

Last Five 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%
Liquid Waste:					
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	140

MGD - Millions of gallons per day

Source: Costa Mesa Sanitary District

Costa Mesa Sanitary District

Capital Asset Statistics

Last Ten Fiscal Years

Liquid Waste

Fiscal Year	Miles of Sanitary Sewers	Number of Pump Stations	Number of Manholes
2003	218	20	4,555
2004	219	20	4,581
2005	220	20	4,599
2006	220	20	4,600
2007	221	20	4,646
2008	221	20	4,646
2009	221	20	4,649
2010	224	20	4,703
2011	224	20	4,703
2012	224	20	4,703