

**Mesa Consolidated
Water District
Costa Mesa, California**

**Comprehensive Annual Financial Report
For the Fiscal Years Ended
June 30, 2010 and 2009**





Board of Directors as of June 30, 2010

<u>Name</u>	<u>Title</u>	<u>Elected/ Appointed</u>	<u>Current Term</u>
Shawn Dewane	President	Elected	12/06 - 12/10
Fred R. Bockmiller Jr.	First Vice President	Elected	12/08 - 11/12
James F. Atkinson	Vice President	Elected	12/06 - 12/10
Trudy Ohlig-Hall	Vice President	Elected	12/08 - 11/12
James Fisler	Vice President	Appointed	08/09 - 12/10

**Paul E. Shoenberger P.E., General Manager
Mesa Consolidated Water District
1965 Placentia Avenue
Costa Mesa, California 92627
(949) 574-1022 – www.mesawater.org**

Mesa Consolidated Water District
Comprehensive Annual Financial Report
For the Fiscal Years Ended June 30, 2010 and 2009

MESA CONSOLIDATED WATER DISTRICT
1965 Placentia Avenue
Costa Mesa, CA 92627

Prepared by:
Financial Services Department

**Mesa Consolidated Water District
Comprehensive Annual Financial Report
For the Fiscal Years Ended June 30, 2010 and 2009**

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Introductory Section

*District Mission:
Dedicated to Satisfying
Our Community's
Water Needs*

December 8, 2010

BOARD OF DIRECTORS

SHAWN DEWANE
President
Division V

FRED R. BOCKMILLER
First Vice President
Division I

JAMES F. ATKINSON
Vice President
Division IV

JAMES FISLER
Vice President
Division II

TRUDY OHLIG-HALL
Vice President
Division III

PAUL E. SHOENBERGER, P.E.
General Manager

COLEEN L. MONTELEONE
District Secretary

VICTORIA L. BEATLEY
Treasurer/Auditor

**BOWIE, ARNESON,
WILES & GIANNONE**
Legal Counsel

Board of Directors
Mesa Consolidated Water District

Introduction

It is our pleasure to submit the Comprehensive Annual Financial Report (CAFR) for the Mesa Consolidated Water District (Mesa/District) for the fiscal years ended June 30, 2010 and 2009, following guidelines set forth by the Governmental Accounting Standards Board (GASB). District staff prepared this financial report. The District is ultimately responsible for both the accuracy of the data and the completeness and the fairness of presentation, including all disclosures in this financial report. We believe that the data presented is accurate in all material respects. This report is designed in a manner that we believe necessary to enhance the reader's understanding of the District's financial position and activities.

Generally Accepted Accounting Principles (GAAP) requires that management provide a narrative introduction, overview and analysis to accompany the financial statements in the form of the Management's Discussion and Analysis (MD&A) Section. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The District's MD&A can be found immediately after the Independent Auditor's Report.

District Structure and Leadership

Mesa is a county water district organized pursuant to Water Code Section 33200 and operates pursuant to Water Code Section 30000 and the following. The District has been providing water service to its customers since 1960. The District is governed by a five-member Board of Directors (Board), elected at-large by Division from within the District's service area. The General Manager administers the day-to-day operations of the District in accordance with policies and procedures established by the Board of Directors. The District employs 63 employees, some of whom are part-time or temporary. There are currently 34 office positions and 28 field positions and 1 vacant position. The District's Board of Directors meets on the second and fourth Tuesdays of each month. Meetings are publicly noticed and citizens are encouraged to attend. The District provides water service to approximately 113,143 residents in the City of Costa Mesa and some unincorporated areas of Orange County through 24,312 service connections.

District Services

Residential customers comprise approximately 82% of the District's customer base and purchase approximately 60% of the water produced annually by the District. The District acquires approximately 12% of its water supply from the Metropolitan Water District of Southern California (MWD) with the balance derived from well production and a Colored Water Treatment Facility (CWTF). In fiscal year 2010 and 2009 the District purchased approximately one billion gallons of water each year from MWD.

Economic Condition, Outlook and Major Initiatives

The District carries out its' mission with a highly-motivated and competent staff empowered to conduct the District's business by placing customer needs and welfare first. Each day, District employees strive to carry out their work mindful of the District's mission which is "Dedicated to Satisfying our Community's Water Needs".

The District's service area includes various major regional facilities: John Wayne Airport, Orange Coast College, Whittier Law School, Vanguard University, Orange County Fairgrounds, Orange County Performing Arts Center, South Coast Repertory Theater and the shopping complex at South Coast Plaza. The local economy is primarily based upon retail, commercial business, and light manufacturing. Recent national financial events have had an impact on the District's service area.

Water supply from the State Water Project has been limited by a regulatory drought imposed by a legal decision regarding the Delta Smelt and the Colorado River supply has decreased due to record low snow packs in the mountains. This supply shortfall has led to increases in the cost of purchased water from MWD as well as reduced deliveries of water to the agencies in Southern California. Mesa is fortunate to have access to the Orange County Groundwater Basin managed by the Orange County Water District (OCWD). The District has also increased its' sources of supply by tapping into the lower aquifer ground water that is more expensive to produce but is less expensive than purchasing imported water.

In 2010 the District started to plan an expansion of the treatment capacity of the CWTF from 6,450 acre feet of water to 9,670 acre feet of water per year. The expansion plans also include a technological upgrade of the treatment process to utilize nano-filtration membrane technology. The objective of this changeover is to produce higher quality water at a lower cost.

The District has also undertaken a major initiative to encourage water conservation and the wise use of water within its service area. The District in conjunction with MWD and the Municipal Water District of Orange County (MWDOC) distributes ultra-low water use devices, and have developed training programs aimed at landscape firms and homeowners associations. The District also works with the City of Costa Mesa to promote the wise use of water through the City's development plan check process. These efforts have reduced water use by approximately 570 acre feet of water per year.

Mesa currently charges a uniform commodity rate of \$2.60 per unit and a bi-monthly fixed charge of \$16 for a 5/8 inch meter. One unit of water equals 748 gallons which means that the cost per gallon is 0.004 cents. At \$595 per year, the cost of water service for a typical single family home using 143,600 gallons of water a year remains a good value for Mesa's customers.

District Water Supply

The District has had a long standing plan to reduce reliance on MWD imported water system by increasing production of local ground water and developing additional water sources.

The District had 9 active groundwater wells at the end of fiscal year 2010, producing high quality lower cost clear water. However, in July 2010, one of the wells was decommissioned. The District has also been pumping water from the lower aquifer since 1985 using a variety of treatment methods. The construction of the CWTF and its two facility wells as well as the pioneering treatment process has allowed the District to access water from the lower aquifer that was not treatable using conventional treatment methods.

In fiscal year 2010, Mesa produced more water from the CWTF than it purchased from the MWD. To encourage the use of water production through the CWTF, MWD has assisted the District by reimbursing a portion of the costs of processing the colored water.

The program used by MWD to reimburse Mesa is the Local Resource Program (LRP) and expands the use of lower aquifer ground water and thereby reduces the demand on MWD supplies.

Mesa sells recycled water for irrigation purposes. The water is purchased from OCWD and replaces potable water that would otherwise have been used for irrigation. Approximately 5% of total water supplied to consumers is recycled.

Internal Control Structure

District management is responsible for the establishment and maintenance of the internal control structure that ensures the assets of the District are protected from loss, theft or misuse. The internal control structure also ensures that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP). The District's internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management.

Budgetary Control

The District Board annually adopts a budget prior to the new fiscal year. The budget authorizes and provides the basis for reporting and control of financial operations and accountability for the District's enterprise operations and capital projects. The budget and reporting treatment applied to the District is consistent with the accrual basis of accounting and the financial statement basis.

Investment Policy

The Board has adopted an investment policy that conforms to state law, District ordinances and resolutions, prudent money management, and the "prudent person" standards. The objective of the Statement of Investment Policy is safety, liquidity and then yield. Currently, District funds are invested in the State Treasurer's Local Agency Investment Fund (LAIF).

Water Rates and District Revenues

Revenue from user charges generated from District customers support District operations. Accordingly, water rates are reviewed annually during the budgeting process. Water rates are user charges imposed on customers for services and are the primary component of the District's revenue. Water rates are composed of a commodity (usage) charge and a fixed bi-monthly service charge. The District raised its rates by 4.42% on the commodity charge in fiscal year 2010.

Audit and Financial Reporting

State Law and Bond covenants require the District to obtain an annual audit of its financial statements by an independent Certified Public Accountant. The accounting firm of Charles Z. Fedak & Company, CPAs has conducted the audit of the District's financial statements. Their unqualified Independent Auditor's Report appears in the Financial Section.

Risk Management

The District participates in the Association of California Water Agencies Joint Powers Insurance Authority (ACWA/JPIA) for the purchase of workers' compensation, liability, property, automobile and fidelity insurance. The liability limits are \$1 million per incident/occurrence.

Awards and Acknowledgements

This is the 17th year that the District is submitting its Comprehensive Annual Financial Report for the Government Finance Officers Association of the United States and Canada's (GFOA) *Certificate of Achievement for Excellence in Financial Reporting*. To be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR. The report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. We believe that this CAFR meets the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for 2010.

Preparation of this report was accomplished through the combined efforts of District staff. We appreciate the dedicated efforts and professionalism that these staff members contribute to the District. We would also like to thank the members of the Board of Directors for their continued support in planning and implementation of the Mesa Consolidated Water District's fiscal policies.

Respectfully submitted,



Victoria L. Beatley, CCMT, SDA
Chief Financial Officer



Saboohi A. Currim, CPA
Controller/Auditor

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Mesa Consolidated Water District, California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2009

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.



President

Executive Director

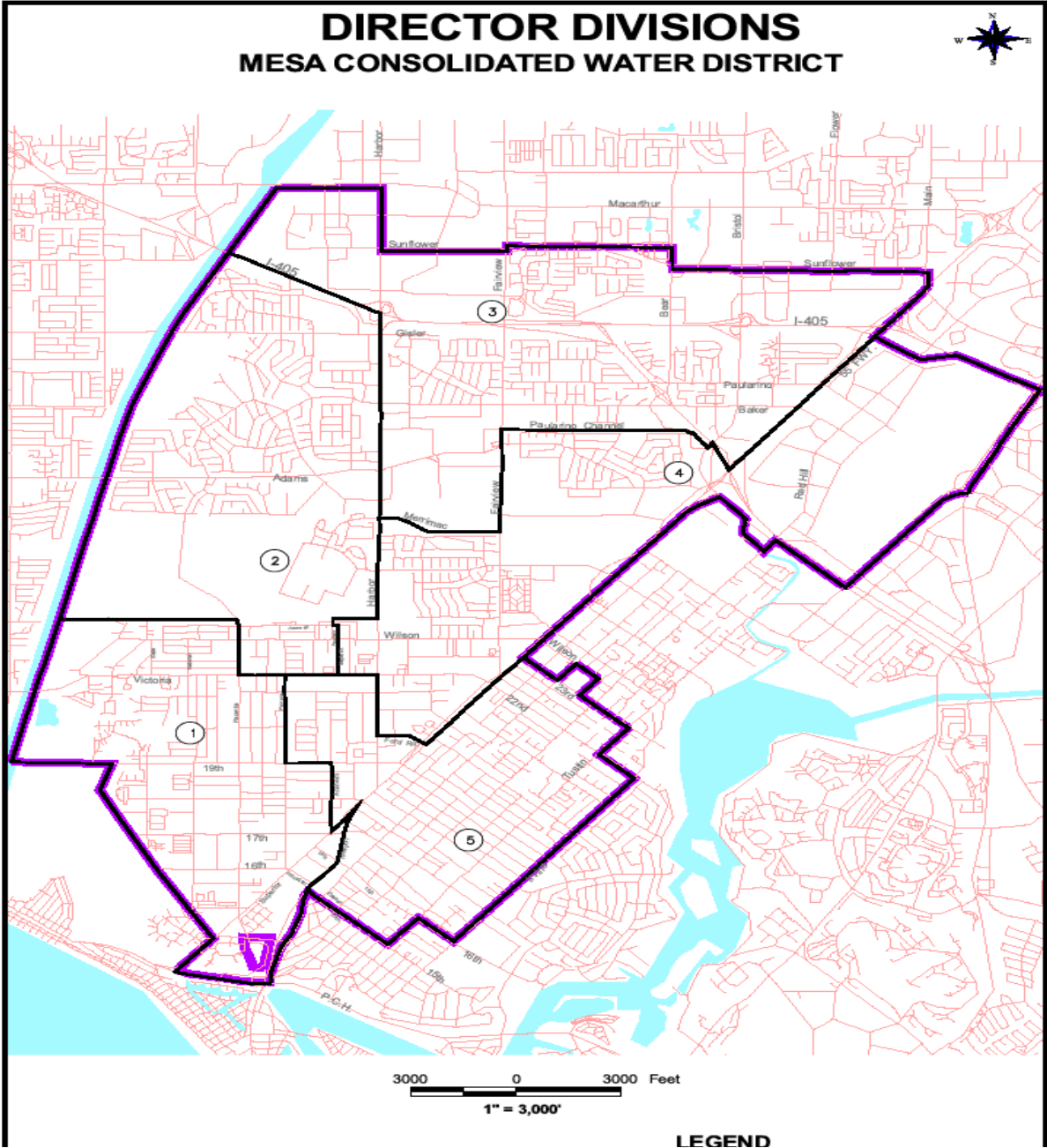
Organizational Chart

Mesa Consolidated Water District
Fiscal Year 2010 Budget

Organizational Chart Fiscal Year 2010



Mesa Consolidated Water District District Service Area Map



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Financial Section



Charles Z. Fedak, CPA, MBA
Paul J. Kaymark, CPA

Charles Z. Fedak & Company

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Independent Auditor's Report

Board of Directors
Mesa Consolidated Water District
Costa Mesa, California

We have audited the accompanying financial statements of the Mesa Consolidated Water District (District) as of and for the fiscal years ended June 30, 2010 and 2009, which collectively comprise the District's basic financial statements 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the Mesa Consolidated Water District as of June 30, 2010 and 2009, and the respective changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 8, 2010, 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 read in conjunction with this report in considering the results of our audit. This report can be found on page 58.

Management's discussion and analysis and required supplemental information are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit this information and express no opinion on it. Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedules in the supplemental information section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are stated fairly in all material respects in relation to the basic financial statements taken as a whole.

The accompanying introductory section and statistical information section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section and statistical information section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

December 8, 2010
Cypress, California

Charles Z. Fedak & Co. CPAs
An Accountancy Corporation

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Mesa Consolidated Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2010 and 2009

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Mesa Consolidated Water District (District) provides an introduction to the financial statements of the District for the fiscal years ended June 30, 2010 and 2009. We encourage readers to consider the information presented here in conjunction with the transmittal letter in the Introductory Section and with the basic financial statements and related notes, which follow this section.

Financial Highlights

- The District's net assets increased 5.4% or \$5.11 million to \$98.99 million in fiscal year 2010. In 2009, the District's net assets increased by 4.6% or \$4.10 million to \$93.88 million. The increase in assets for FY 2010 & 2009 can be attributed in part to increases in water rates in those years as well as the recognition of a onetime capacity charge.
- In 2010, the District's operating revenues decreased 2.2% or \$566 thousand from the prior year due to a decrease in water sales by volume. In 2009, the District's operating revenues increased by 10.5% or \$2.48 million due primarily to a 15.2% increase in water rates offset by a 4.0% drop in water sales by volume (acre-feet).
- In 2010, the District's operating expenses before depreciation increased slightly by 1.0% or \$176 thousand due to effective cost controls established by the District. In 2009, operating expenses before depreciation had increased 7.0% or \$1.19 million due to increases in the rates of imported water as well as charges for basin replenishment paid by the District for pumping groundwater.
- In 2010, capital contributions (which include capacity charges, installation fees, and inspection fees) increased 448.9% or \$1.52 million to \$1.86 million. The increase was due to the recognition of capacity charges received by the District for a large apartment complex that was constructed by the Irvine Company. In contrast, in 2009 the fees earned for capacity charges, and other related fees decreased 78.4% or \$1.23 million to \$339 thousand compared to the previous year.

Required Financial Statements

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

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

Mesa Consolidated Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2010 and 2009

Financial Analysis of the District

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The 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 the cash is received or paid.

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 21 through 41.

Statements of Net Assets

	Condensed Statements of Net Assets				
	<u>2010</u>	<u>2009</u>	<u>Change</u>	<u>2008</u>	<u>Change</u>
Assets:					
Current assets	\$ 23,360,669	22,652,447	708,222	18,096,497	4,555,950
Non-current assets	411,674	230,297	181,377	1,954,370	(1,724,073)
Capital and intangible assets, net	<u>95,598,885</u>	<u>95,783,813</u>	<u>(184,928)</u>	<u>96,537,146</u>	<u>(753,333)</u>
Total assets	<u>\$ 119,371,228</u>	<u>118,666,557</u>	<u>704,671</u>	<u>116,588,013</u>	<u>2,078,544</u>
Liabilities:					
Current liabilities	\$ 7,846,971	9,627,413	(1,780,442)	9,498,116	129,297
Non-current liabilities	<u>12,534,272</u>	<u>15,157,698</u>	<u>(2,623,426)</u>	<u>17,304,119</u>	<u>(2,146,421)</u>
Total liabilities	<u>20,381,243</u>	<u>24,785,111</u>	<u>(4,403,868)</u>	<u>26,802,235</u>	<u>(2,017,124)</u>
Net assets:					
Invested in capital assets, net of related debt	82,182,580	80,253,802	1,928,778	79,666,689	587,113
Restricted for debt service	2,395,355	2,560,453	(165,098)	2,129,366	431,087
Unrestricted	<u>14,412,050</u>	<u>11,067,191</u>	<u>3,344,859</u>	<u>7,989,723</u>	<u>3,077,468</u>
Total net assets	<u>98,989,985</u>	<u>93,881,446</u>	<u>5,108,539</u>	<u>89,785,778</u>	<u>4,095,668</u>
Total liabilities and net assets	<u>\$ 119,371,228</u>	<u>118,666,557</u>	<u>704,671</u>	<u>116,588,013</u>	<u>2,078,544</u>

Statements of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets of the District exceeded liabilities by \$98.99 million and \$93.88 million as of June 30, 2010 and 2009, respectively.

Mesa Consolidated Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2010 and 2009

Statements of Net Assets, continued

By far the largest portion of the District's net assets (83% and 85% as of June 30, 2010 and 2009 respectively) reflect the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are *not* available for future spending.

At the end of fiscal year 2010 and 2009, the District showed a positive balance in its unrestricted net assets of \$14.41 million and \$11.07 million, respectively. See Note 9 for the amount of spendable net assets that may be utilized in future years.

Statements of Revenues, Expenses and Changes in Net Assets

Statements of Revenues, Expenses and Changes in Net Assets

	<u>2010</u>	<u>2009</u>	<u>Change</u>	<u>2008</u>	<u>Change</u>
Revenues:					
Operating revenues	\$ 25,601,091	26,167,523	(566,432)	23,683,553	2,483,970
Non-operating revenues	<u>3,991,489</u>	<u>2,666,479</u>	<u>1,325,010</u>	<u>2,580,004</u>	<u>86,475</u>
Total revenues	<u>29,592,580</u>	<u>28,834,002</u>	<u>758,578</u>	<u>26,263,557</u>	<u>2,570,445</u>
Expenses:					
Operating expenses	18,314,481	18,138,788	175,693	16,949,055	1,189,733
Depreciation	3,539,223	3,511,025	28,198	3,482,048	28,977
Non-operating expenses	<u>4,489,284</u>	<u>3,427,199</u>	<u>1,062,085</u>	<u>9,694,891</u>	<u>(6,267,692)</u>
Total expenses	<u>26,342,988</u>	<u>25,077,012</u>	<u>1,265,976</u>	<u>30,125,994</u>	<u>(5,048,982)</u>
Net income(loss) before contributions	3,249,592	3,756,990	(507,398)	(3,862,437)	7,619,427
Capital contributions	<u>1,858,947</u>	<u>338,678</u>	<u>1,520,269</u>	<u>1,570,586</u>	<u>(1,231,908)</u>
Change in net assets	5,108,539	4,095,668	1,012,871	(2,291,851)	6,387,519
Net assets, beginning of year	<u>93,881,446</u>	<u>89,785,778</u>	<u>4,095,668</u>	<u>92,077,629</u>	<u>(2,291,851)</u>
Net assets, end of year	<u>\$ 98,989,985</u>	<u>93,881,446</u>	<u>5,108,539</u>	<u>89,785,778</u>	<u>4,095,668</u>

The Statement of Revenues, Expenses and Changes of Net Assets shows how the District's net assets changed during the fiscal years. In the case of the District, net assets increased by \$5.11 million in the fiscal year ended June 30, 2010 and by \$4.10 million for the fiscal year ended June 30, 2009.

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

In 2010, the District's operating revenues decreased by 2.2% or \$566 thousand due primarily to a decrease in water sales by volume. In 2009, the District's operating revenues increased by 10.5% or \$2.48 million due to a 15.2% increase in water rates balanced by a 4.0% decrease in water sales by volume (acre-feet).

In 2010, the District's operating expenses before depreciation increased 1.0% or \$176 thousand due to effective cost controls established by the District. In 2009, operating expenses before depreciation increased 7.0% or \$1.19 million due to increases in the rates of imported water as well as the charges for basin replenishment paid by the District for pumping groundwater.

In 2010, capital contributions (which include capacity charges, installation fees, and inspection fees) increased 448.9% or \$1.52 million to \$1.86 million. This was due to the recognition of capacity charges received by the District for a large apartment complex that was constructed by the Irvine Company. In 2009, the fees earned for capacity charges, and other related fees decreased 78.4% or \$1.23 million to \$339 thousand compared to the previous year.

Mesa Consolidated Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2010 and 2009

Total District Revenues

	<u>2010</u>	<u>2009</u>	<u>Change</u>	<u>2008</u>	<u>Change</u>
Operating revenues:					
Water sales	\$ 19,315,363	20,016,831	(701,468)	17,973,986	2,042,845
Meter service charges	3,998,580	3,932,115	66,465	3,899,409	32,706
Recycled water sales	1,100,038	1,061,400	38,638	983,502	77,898
Concessions from governmental agencies	564,614	455,175	109,439	291,752	163,423
Other charges and services	622,496	702,002	(79,506)	534,904	167,098
Total operating revenues	<u>25,601,091</u>	<u>26,167,523</u>	<u>(566,432)</u>	<u>23,683,553</u>	<u>2,483,970</u>
Non-operating revenues:					
Investment earnings	103,864	338,335	(234,471)	696,673	(358,338)
Pass-thru water sales to governmental agencies	3,623,321	2,328,144	1,295,177	1,883,331	444,813
Other non-operating, net	264,304	-	264,304	-	-
Total non-operating revenues	<u>3,991,489</u>	<u>2,666,479</u>	<u>1,325,010</u>	<u>2,580,004</u>	<u>86,475</u>
Total revenues	<u>\$ 29,592,580</u>	<u>28,834,002</u>	<u>758,578</u>	<u>26,263,557</u>	<u>2,570,445</u>

In 2010, as noted previously, total District operating revenue decreased 2.2% or \$566 thousand. Non-operating revenues increased 49.7% or \$1.33 million due primarily to an increase in pass-thru water sales to the City of Huntington Beach in 2010.

In 2009, as noted previously, total District operating revenue increased 10.5% or \$2.48 million due to an increase in water rates. Non-operating revenue increased 3.4% or \$86 thousand due to an increase in pass-thru water sales in 2009.

Total District Expenses

	<u>2010</u>	<u>2009</u>	<u>Change</u>	<u>2008</u>	<u>Change</u>
Operating expenses:					
Import source of supply	\$ 1,897,896	2,047,418	(149,522)	1,827,324	220,094
Clear well production	3,975,004	4,352,458	(377,454)	4,969,970	(617,512)
Colored well production	2,924,926	2,469,328	455,598	1,886,228	583,100
Recycled water	337,400	361,556	(24,156)	361,854	(298)
Total water supply	9,135,226	9,230,760	(95,534)	9,045,376	185,384
Transmission and distribution	4,461,625	4,381,860	79,765	4,096,822	285,038
Customer service	667,732	591,357	76,375	617,730	(26,373)
General and administrative	4,049,898	3,934,811	115,087	3,189,127	745,684
Depreciation	3,539,223	3,511,025	28,198	3,482,048	28,977
Total operating expense	<u>21,853,704</u>	<u>21,649,813</u>	<u>203,891</u>	<u>20,431,103</u>	<u>1,218,710</u>
Non-operating expenses:					
Interest expense - long-term debt	749,969	966,598	(216,629)	1,192,813	(226,215)
Pass-thru water purchases	3,623,321	2,328,144	1,295,177	1,883,331	444,813
Pension plan prior service costs	-	-	-	6,413,660	(6,413,660)
Loss on sale/disposal of assets	115,994	106,544	9,450	160,554	(54,010)
Other non-operating, net	-	25,913	(25,913)	44,533	(18,620)
Total non-operating expenses	<u>4,489,284</u>	<u>3,427,199</u>	<u>1,062,085</u>	<u>9,694,891</u>	<u>(6,267,692)</u>
Total expenses	<u>\$ 26,342,988</u>	<u>25,077,012</u>	<u>1,265,976</u>	<u>30,125,994</u>	<u>(5,048,982)</u>

Mesa Consolidated Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2010 and 2009

Total District Expenses, continued

In 2010, as noted previously, total District operating expenses including depreciation increased 0.9% or \$204 thousand primarily due to a small increase in colored well water production costs and transmission and distribution costs. Non-operating expenses increased 31.0% or \$1.06 million primarily due to increases in pass through water sales costs.

In 2009, as noted previously, total District operating expenses increased 6.0% or \$1.22 million due to increases in imported source of supply costs, colored well water production costs, and general administrative costs. Non-operating expenses decreased 64.6% or \$6.26 million primarily due to the pay down of the CalPERS Pension Plan prior services costs in 2008.

Capital Asset Administration

At the end of fiscal year 2010 and 2009, the District's investment in capital assets amounted to \$95.28 million and \$95.42 million, respectively, (net of accumulated depreciation). This investment in capital assets includes: land, transmission and distribution systems, reservoirs, tanks, pumps, buildings and structures, equipment, vehicles and construction-in-progress, etc. (See Note 5 for further information)

Changes in capital asset amounts for the fiscal year 2010 were as follows:

	<u>Balance 2009</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2010</u>
Capital assets:				
Non-depreciable assets	\$ 8,620,806	3,508,509	(2,025,505)	10,103,810
Depreciable assets	147,184,642	2,025,505	(330,264)	148,879,883
Accumulated depreciation	<u>(60,389,695)</u>	<u>(3,494,952)</u>	<u>176,050</u>	<u>(63,708,597)</u>
Total capital assets, net	<u>\$ 95,415,753</u>			<u>95,275,096</u>

Changes in capital asset amounts for the fiscal year 2009 were as follows:

	<u>Balance 2008</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2009</u>
Capital assets:				
Non-depreciable assets	\$ 7,696,119	2,733,564	(1,808,877)	8,620,806
Depreciable assets	145,851,983	1,897,153	(564,494)	147,184,642
Accumulated depreciation	<u>(57,352,542)</u>	<u>(3,466,978)</u>	<u>429,825</u>	<u>(60,389,695)</u>
Total capital assets, net	<u>\$ 96,195,560</u>			<u>95,415,753</u>

Intangible Assets

Changes in intangible asset amounts for the fiscal year 2010 were as follows:

	<u>Balance 2009</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2010</u>
Intangible assets	\$ 2,025,666	-	-	2,025,666
Accumulated amortization	<u>(1,657,606)</u>	<u>(44,271)</u>	-	<u>(1,701,877)</u>
Total intangible assets, net	<u>\$ 368,060</u>			<u>323,789</u>

Changes in intangible asset amounts for the fiscal year 2009 were as follows:

	<u>Balance 2008</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2009</u>
Intangible assets	\$ 1,955,511	70,155	-	2,025,666
Accumulated amortization	<u>(1,613,925)</u>	<u>(44,047)</u>	366	<u>(1,657,606)</u>
Total intangible assets, net	<u>\$ 341,586</u>			<u>368,060</u>

Mesa Consolidated Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2010 and 2009

Debt Administration

Changes in long-term debt amounts for the fiscal year 2010 were as follows:

	<u>Balance</u> <u>2009</u>	<u>Additions</u>	<u>Payments/ Deletions</u>	<u>Balance</u> <u>2010</u>
Long-term debt:				
1998 Series COPs	\$ 14,490,700	-	(14,490,700)	-
2009 Series COPs	-	14,135,633	(1,659,940)	12,475,693
2008 Pension refinancing loan	1,595,174	-	(944,700)	650,474
OCWD loans	1,039,311	-	(98,699)	940,612
Total long-term debt	<u>\$ 17,125,185</u>	<u>14,135,633</u>	<u>(17,194,039)</u>	<u>14,066,779</u>

Changes in long-term debt amounts for the fiscal year 2009 were as follows:

	<u>Balance</u> <u>2008</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance</u> <u>2009</u>
Long-term debt:				
1998 Series COPs	\$ 15,735,782	-	(1,245,082)	14,490,700
2008 Pension refinancing loan	2,504,362	-	(909,188)	1,595,174
OCWD loans	1,134,675	-	(95,364)	1,039,311
Total long-term debt	<u>\$ 19,374,819</u>	<u>-</u>	<u>(2,249,634)</u>	<u>17,125,185</u>

(See Note 8 for further debt service information)

Subsequent Event

Pension Refinancing Loan

In November 2010, the District paid \$408,115, which was the remaining principal balance on the 2008 Pension Refinancing Loan due to mature in February 2011. The loan was considered paid in full as of November 15, 2010.

2010 Revenue Certificates of Participation

On December 8, 2010, the Mesa Consolidated Water District Improvement Corporation (Corporation) issued \$21,535,000 of 2010 Revenue Certificates of Participation (COPs). The proceeds from the sale of the COPs will be used to finance the expansion and technology upgrade of the District's Colored Water Treatment Facility. The COPs were issued at a premium of \$1,273,262 which will be amortized over the life of the debt service. Principal and interest are payable on March 15th of each year, commencing March 15, 2013 at an average interest rate of 4.72%. The certificates are scheduled to mature on March 15, 2025.

(See Note 15 for further information)

Requests for Information

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District at 1965 Placentia Avenue, Costa Mesa, California 92627 or call (949) 574-1022.

Basic Financial Statements

**Mesa Consolidated Water District
Statement of Net Assets
For the Fiscal Years Ended June 30, 2010 and 2009**

<i>Assets</i>	2010	2009
Current assets:		
Cash and cash equivalents (note 2)	\$ 15,861,465	15,269,521
Restricted – cash and cash equivalents (note 2)	2,525,910	2,732,228
Accrued interest receivable	21,350	53,382
Accounts receivable – water sales and services, net (note 3)	3,566,481	3,819,706
Accounts receivable – governmental agencies	959,728	376,627
Materials and supplies inventory	298,561	311,747
Prepaid expenses and deposits	127,174	89,236
Total current assets	<u>23,360,669</u>	<u>22,652,447</u>
Non-current assets:		
Deferred charges, net (note 4)	398,019	215,991
Other non-current assets	13,655	14,306
Intangible assets, net (note 5)	323,789	368,060
Capital assets, not being depreciated (note 5)	10,103,810	8,620,806
Depreciable capital assets, net (note 5)	85,171,286	86,794,947
Total non-current assets	<u>96,010,559</u>	<u>96,014,110</u>
Total assets	<u>\$ 119,371,228</u>	<u>118,666,557</u>

Continued on next page

See accompanying notes to the basic financial statements

Mesa Consolidated Water District
Statement of Net Assets
For the Fiscal Years Ended June 30, 2010 and 2009

<i>Liabilities and Net Assets</i>	2010	2009
Current liabilities:		
Accounts payable and accrued expenses	\$ 663,454	759,877
Accounts payable – governmental agencies	3,227,905	3,076,573
Accrued wages and related payables	193,443	135,073
Customer advances and deposits	1,307,445	2,898,407
Accrued interest payable – loans payable	16,262	18,388
Accrued interest payable – certificates of participation payable	130,555	171,775
Long-term liabilities – due within one year:		
Compensated absences (note 6)	115,277	103,919
Well loans payable (note 8)	102,156	98,701
Refinancing loan payable (note 8)	650,474	944,700
Certificates-of-participation payable (note 8)	1,440,000	1,420,000
Total current liabilities	7,846,971	9,627,413
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Compensated absences (note 6)	345,831	311,756
Other post employment benefits payable (note 7)	314,292	184,158
Well loans payable (note 8)	838,456	940,610
Refinancing loan payable (note 8)	-	650,474
Certificates-of-participation payable (note 8)	11,035,693	13,070,700
Total non-current liabilities	12,534,272	15,157,698
Total liabilities	20,381,243	24,785,111
Net assets: (note 9)		
Invested in capital assets, net of related debt	82,182,580	80,253,802
Restricted for debt service	2,395,355	2,560,453
Unrestricted	14,412,050	11,067,191
Total net assets	98,989,985	93,881,446
Total liabilities and net assets	\$ 119,371,228	118,666,557

See accompanying notes to the basic financial statements

Mesa Consolidated Water District
Statement of Revenues, Expenses and Changes in Net Assets
For the Fiscal Years Ended June 30, 2010 and 2009

	2010	2009
Operating revenues:		
Water consumption sales	\$ 19,315,363	20,016,831
Monthly meter service charge	3,998,580	3,932,115
Recycled water sales	1,100,038	1,061,400
Concessions from governmental agencies	564,614	455,175
Other charges and services	622,496	702,002
Total operating revenues	25,601,091	26,167,523
Operating expenses:		
Imported source of supply	1,897,896	2,047,418
Clear water – basin replenishment assessment	2,822,315	3,018,851
Clear water – pumping	697,147	840,467
Clear water – treatment	136,168	149,457
Clear water – production – labor and materials	319,374	343,683
Colored water – basin replenishment assessment	1,122,094	939,153
Colored water – pumping	599,136	551,312
Colored water – treatment	901,604	722,810
Colored water – production – labor and materials	302,092	256,053
Recycled water	337,400	361,556
Transmission and distribution	4,461,625	4,381,860
Customer service	667,732	591,357
General and administrative	4,049,898	3,934,811
Total operating expenses	18,314,481	18,138,788
Operating income before depreciation and amortization	7,286,610	8,028,735
Depreciation and amortization	(3,539,223)	(3,511,025)
Operating income	3,747,387	4,517,710
Non-operating revenue(expense):		
Investment earnings	103,864	338,335
Interest expense – long-term debt	(749,969)	(966,598)
Pass-thru water sales to governmental agencies	3,623,321	2,328,144
Pass-thru water purchases to governmental agencies	(3,623,321)	(2,328,144)
Loss on sale/disposition of capital assets, net	(115,994)	(106,544)
Other non-operating, net	264,304	(25,913)
Total non-operating expenses, net	(497,795)	(760,720)
Net income(loss) before capital contributions	3,249,592	3,756,990
Capital contributions:		
Capacity and installation charges	1,693,593	180,247
Developers and others	165,354	158,431
Capital contributions	1,858,947	338,678
Change in net assets	5,108,539	4,095,668
Net assets, beginning of year	93,881,446	89,785,778
Net assets, end of year	\$ 98,989,985	93,881,446

See accompanying notes to the basic financial statements

**Mesa Consolidated Water District
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2010 and 2009**

	2010	2009
Cash flows from operating activities:		
Cash receipts from customers for water sales and services	\$ 25,271,183	25,626,672
Cash paid to employees for salaries and wages	(5,987,701)	(5,200,342)
Cash paid to vendors and suppliers for materials and services	(11,979,954)	(12,624,495)
Net cash provided by operating activities	5,653,866	7,801,835
Cash flows from non-capital financing activities:		
Proceeds from other non-operating activities	1,385	661
Principal paid on refinancing loan	(944,700)	(909,188)
Interest paid on refinancing loan	(47,884)	(83,396)
Net cash used by non-capital financing activities	(991,199)	(991,923)
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(3,343,154)	(2,733,564)
Proceeds from capacity and installation charges	1,727,462	223,772
Proceeds from refinancing of long term debt	15,550,628	-
Principal paid on long-term debt	(17,478,726)	(1,460,364)
Issuance costs paid on 2009 COPS	(242,430)	-
Interest paid on long-term debt	(594,159)	(975,888)
Proceeds from performance bonds	72,808	115,373
Payments to refund performance bonds	(109,133)	(208,532)
Proceeds from sale of capital assets	3,807	2,595
Net cash used by capital and related financing activities	(4,412,897)	(5,036,608)
Cash flows from investing activities:		
Investment earnings	135,856	401,926
Proceeds from sale of investments	-	1,844,161
Net cash provided by investing activities	135,856	2,246,087
Net increase in cash and cash equivalents	385,626	4,019,391
Cash and cash equivalents, beginning of year	18,001,749	13,982,358
Cash and cash equivalents, end of year	\$ 18,387,375	18,001,749
Reconciliation of cash and cash equivalents to the statements of net assets:		
Cash and cash equivalents	\$ 15,861,465	15,269,521
Restricted cash and cash equivalents	2,525,910	2,732,228
Total cash and cash equivalents	\$ 18,387,375	18,001,749

Continued on next page

See accompanying notes to the basic financial statements

Mesa Consolidated Water District
Statements of Cash Flows, continued
For the Fiscal Years Ended June 30, 2010 and 2009

	2010	2009
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ <u>3,747,387</u>	<u>4,517,710</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	3,539,223	3,511,025
Bad debt expense	24,000	48,054
Changes in assets and liabilities:		
(Increase)decrease in assets:		
Accounts receivable – water sales and services	253,225	(839,637)
Accounts receivable – governmental agencies	(583,101)	298,786
Materials and supplies inventory	13,186	(52,186)
Prepaid expense and deposits	(37,938)	(7,113)
Increase(decrease) in liabilities:		
Accounts payable and accrued expenses	(96,423)	68,375
Accounts payable – governmental agencies	151,332	83,523
Customer deposits and deferred revenue	(1,590,962)	(42,324)
Compensated absences	45,433	17,205
Accrued wages & related payables	58,370	14,259
Other post employment benefits	130,134	184,158
Total adjustments	<u>1,906,479</u>	<u>3,284,125</u>
Net cash provided by operating activities	<u>\$ <u>5,653,866</u></u>	<u>7,801,835</u>
Non-cash investing, capital and financing transactions:		
Capital contributions	\$ 165,354	158,431
Nonoperating Revenues	220,501	-
Assets abandoned	330,264	535,793
Net loss on disposal of assets	119,801	109,139
Change in fair value of investments and recognized gains/losses	2,346	21,099
Amortization of bond premium	8,380	119,918
Amortization of bond issuance costs	47,183	24,924
Total non-cash investing, capital and financing	<u>\$ <u>893,829</u></u>	<u>969,304</u>

See accompanying notes to the basic financial statements

Mesa Consolidated Water District
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2010 and 2009

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

Mesa Consolidated Water District (District) is an independent special district formed on January 1, 1960, pursuant to Section 33200 et. seq., of the California Water Code, which was designated the Costa Mesa District Merger Law. The general provisions of this law called for the consolidation of four predecessor agencies.

The District is located in Orange County, California and provides water to the City of Costa Mesa, parts of the City of Newport Beach, and unincorporated parts of Orange County, including the John Wayne Airport. Mesa sells water at a “pass-thru” cost to the City of Huntington Beach through a jointly owned pipeline.

The District’s potable water is produced from groundwater wells or purchased from the Municipal Water District of Orange County (MWDOC), a member agency of the Metropolitan Water District of Southern California (MWD). Non-potable (recycled) water is purchased from the Orange County Water District (OCWD).

The District’s revenue results solely from its activities as a water utility and it does not receive tax revenues of any kind.

The District is governed by a five-member Board of Directors (Board) who serve overlapping four-year terms. Each member of the Board represents one of five geographic divisions of approximately equal population. The Board periodically elects one of its members to serve as President and another as First Vice-President. The Board appoints the General Manager who is responsible for the day-to-day operations and the administration of the District in accordance with its policies. The Board also appoints the District Secretary, Assistant District Secretary, District Treasurer, and Assistant District/Treasurer.

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Statements No. 14, *The Financial Reporting Entity*, and No. 39, *Determining Whether Certain Organizations Are Component Units* (an amendment of No. 14). The District is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable.

Mesa Consolidated Water District Improvement Corporation (Corporation) was incorporated in March 1988. The Corporation is a California non-profit public benefit corporation formed to assist in the financing of certain improvements to the District’s water system and as such has no employees or other operations. Although the Corporation is a legally separate entity, it is included as a blended component unit of the District as it is, in substance, part of its operations.

Complete financial statements for the Corporation are available at the District’s office or upon request by writing to the Financial Services Department, Mesa Consolidated Water District, 1965 Placentia Avenue, Costa Mesa, California 92627 or by calling (949) 574-1022.

B. Basis of Accounting and Measurement Focus

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the cost of providing water to its service area on a continuing basis be financed or recovered primarily through user charges (water sales and service charges), capital grants and similar funding. Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

Mesa Consolidated Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2010 and 2009

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

B. Basis of Accounting and Measurement Focus, continued

Operating revenues and expenses, such as water sales and service charges along with water purchases, 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. Management, administration and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in these categories are reported as non-operating revenues and expenses. Non-operating revenues and expenses, such as grant funding, investment income and interest expense, result from non-exchange transactions, in which, the District gives (receives) value without directly receiving (giving) value in exchange.

C. Financial Reporting

The District's basic financial statements are presented in conformance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*" (GASB No. 34). This statement established revised financial reporting requirements for state and local governments throughout the United States for the purpose of enhancing the understandability and usefulness of financial reports.

GASB No. 34 and its related GASB pronouncements provide for a revised view of financial information and restructure the format of financial information provided prior to its adoption. A statement of net assets replaces the balance sheet and reports assets, liabilities, and the difference between them as net assets, not equity. A statement of revenues, expenses and changes in net assets replaces both the income statement and the statement of changes in retained earnings and contributed capital. GASB No. 34 also requires that the statement of cash flows be prepared using the direct method. Under the direct method, cash flows from operating activities are presented by major categories.

Under GASB No. 34, enterprise funds, such as the District, have the option of consistently following or not following pronouncements issued by the Financial Accounting Standards Board (FASB) subsequent to November 30, 1989. The District has elected not to follow FASB standards issued after that date, unless such standards are specifically adopted by GASB.

D. Assets, Liabilities, and Net Assets

1. Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in net assets during the reporting period.

2. Cash and Cash Equivalents

Substantially all of the District's cash is invested in interest bearing accounts. The District considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

3. Investments and Investment Policy

The District has adopted an investment policy directing the District's Treasurer to deposit funds in financial institutions.

Changes in market value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in market value, and any gains or losses realized upon the liquidation or sale of investments.

Mesa Consolidated Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2010 and 2009

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Liabilities, and Net Assets, continued

4. Accounts Receivable

The District extends credit to customers in the normal course of operations. When management deems customer accounts uncollectible, the District uses the allowance method for the reservation and write-off of those accounts.

5. Restricted Assets

Restricted assets are financial resources generated for a specific purpose such as capital projects or debt service. These assets are for the benefit of a specified purpose and, as such, are legally or contractually restricted by an external third-party agreement.

6. Prepaid Expenses

Certain payments to vendors reflect costs or deposits applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.

7. Material and Supplies Inventory

Materials and supplies inventory consisting primarily of pipe fittings, meters, and hydrants used for construction and repairs to the water system are valued at cost. The first-in-first-out (FIFO) perpetual cost flow assumption is used when inventory is expensed or capitalized the time of use.

8. Capital and Intangible Assets

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for capitalizing equipment purchases at \$5,000 for non-infrastructure assets. Donated assets are recorded at estimated cost at the date of donation. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

	Years
Land improvements	30 - 50
Building and improvements	30 - 50
Machinery and equipment	7 - 20
Transmission and distribution system	10 - 100
Metering stations	10 - 100
Wells and pumping plant	50
Reservoirs	75
Control systems	10

Mesa Consolidated Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2010 and 2009

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Liabilities, and Net Assets, continued

9. Intangible Assets

Intangible assets acquired and/or constructed are recorded at historical cost. Intangible assets are regularly evaluated for potential impairment and amortized on a straight-line basis over their contractual and/or estimated useful lives as follows:

	<u>Years</u>
Capacity rights	40
Computer software	5 - 10
Easements	40
Monitoring well rights	50

10. Compensated Absences

The District's personnel policies provide for accumulation of vacation and sick leave. Liabilities for vacation and sick leave are recorded when benefits are earned. Cash payment of unused vacation is available to those qualified employees when retired or terminated.

11. Customer Advances and Deposits

Customer advances represent deposits received in aid of construction, which are refundable if the applicable construction does not take place. Construction advances are transferred to contributed capital when the applicable construction project is completed. Customer deposits may be collected at the time water service is initiated. Deposits may be applied to customer accounts or refunded at the time an account is closed.

12. Deferred Charges

The deferred charges are from bond issuance costs that will be amortized using the straight-line method over the remaining life of the respective debt service.

13. Water Sales

The majority of water sales are billed on a bi-monthly cyclical basis. Large meter customers and high consumption users are billed on a monthly basis. Estimated unbilled water sales and service charges through June 30th have been accrued as of year end.

14. Capital Contributions

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

15. Capital and Operating Grants

When a grant agreement is approved and eligible expenditures are incurred, the amount is recorded as a federal capital or operating grant receivable on the statement of net assets and as capital grant contribution or operating grant revenue, as appropriate, on the statement of revenues, expenses and changes in net assets.

Mesa Consolidated Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2010 and 2009

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Liabilities, and Net Assets, continued

16. Budgetary Policies

The District adopts an annual non-appropriated budget for planning, control, and evaluation purposes. Budgetary control and evaluation are affected by comparison of actual revenue and expense with planned revenue and expense for the period. Encumbrance accounting is not used to account for commitments related to unperformed contracts for construction and services.

17. Net Assets

The financial statements utilize a net assets presentation. Net assets are categorized as follows:

- **Net Investment in Capital Assets** – This component of net assets 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 Assets** – This component of net assets consists of constraints placed on net assets use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted Net Assets** – This component of net assets consists of net assets that do not meet the definition of *restricted* or *net investment in capital assets*.

(2) Cash and Investments

Cash and investments as of June 30, are classified in the financial statements as follows:

	2010	2009
Cash and cash equivalents	\$ 15,861,465	15,269,521
Restricted cash and cash equivalents	2,525,910	2,732,228
	\$ 18,387,375	18,001,749

Cash and investments as of June 30, consist of the following:

	2010	2009
Petty cash	\$ 2,100	2,100
Deposits with financial institutions	2,030,592	1,263,245
California Local Agency Investment Fund	13,828,773	14,004,176
Held by Bond Trustee:		
Money market funds	2,525,910	2,732,228
Total cash and cash equivalents	\$ 18,387,375	18,001,749

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

The table on the following page identifies the investment types that are authorized by the District in accordance with 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. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's Investment Policy.

Mesa Consolidated Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2010 and 2009

(2) Cash and Investments, continued

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment In One Issuer
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Prime Commercial Paper	270 days	15%	10%
Negotiable Certificates of Deposit	1 year	10%	*
Local Agency Investment Fund (LAIF)	N/A	None	None
County Pooled Investment Funds	N/A	None	None
State of California obligations	5 years	None	None
California local agency obligations	5 years	None	None
Medium term notes	5 years	30%	None
Money Market Mutual Funds	N/A	None	10%

* Subject to FDIC limits

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's Investment Policy.

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. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

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), and, the District's investment policy that requires no more than two-thirds of the District's deposits in a depository shall be collateralized by mortgage-backed securities, with the remainder to be secured by non-mortgage-backed securities. 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. Of the bank balances, up to \$250,000 at June 30, 2010 and 2009, respectively, is federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

Mesa Consolidated Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2010 and 2009

(2) Cash and Investments, continued

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code 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.

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 matures or comes close to maturity evenly over time as necessary to provide requirements for cash flow and liquidity needed for operations. Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity date:

Interest Rate Risk, continued

Maturities at June 30, 2010 are as follows:		Investment
<u>Cash and Investment by Type</u>	<u>Fair</u>	<u>Maturities</u>
	<u>Value</u>	<u>12 months</u>
		<u>or less</u>
California Local Agency Investment Fund	\$ 13,828,773	13,828,773
Held by Bond Trustee:		
Money market	<u>2,525,910</u>	<u>2,525,910</u>
Total	<u>\$ 16,354,683</u>	<u>16,354,683</u>
Maturities at June 30, 2009 are as follows:		Investment
<u>Cash and Investment by Type</u>	<u>Fair</u>	<u>Maturities</u>
	<u>Value</u>	<u>12 months</u>
		<u>or less</u>
California Local Agency Investment Fund	\$ 14,004,176	14,004,176
Held by Bond Trustee:		
Money market	<u>2,732,228</u>	<u>2,732,228</u>
Total	<u>\$ 16,736,404</u>	<u>16,736,404</u>

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 minimum rating required by (where applicable) the California Government Code, the District's Investment Policy, or debt agreements, and the actual rating as of year end for each investment type.

Mesa Consolidated Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2010 and 2009

(2) Cash and Investments, continued

Credit ratings of cash equivalents and investments as of June 30, 2010 were as follows:

<u>Investment Type</u>		<u>Minimum Legal Rating</u>	<u>Ratings as of Year-End</u>	
			<u>AAA</u>	<u>Not Rated</u>
Local Agency Investment Fund	\$ 13,828,773	N/A	-	13,828,773
Held by Bond Trustee:				
Money Market Funds	<u>2,525,910</u>	AAA	<u>2,525,910</u>	<u>-</u>
	<u>\$ 16,354,683</u>		<u>2,525,910</u>	<u>13,828,773</u>

Credit ratings of cash equivalents and investments as of June 30, 2009 were as follows:

<u>Investment Type</u>		<u>Minimum Legal Rating</u>	<u>Ratings as of Year-End</u>	
			<u>AAA</u>	<u>Not Rated</u>
Local Agency Investment Fund	\$ 14,004,176	N/A	-	14,004,176
Held by Bond Trustee:				
Money Market Funds	<u>2,732,228</u>	AAA	<u>2,732,228</u>	<u>-</u>
	<u>\$ 16,736,404</u>		<u>2,732,228</u>	<u>14,004,176</u>

Concentration of Credit Risk

The investment policy of the District requires that with the exception of U.S. Treasuries, LAIF or the Orange County Investment Pool (OCIP), no more than 50% of the District's total investment portfolio will be invested in a single security type or with a single financial institution. At June 30, 2010 and 2009, respectively, there were no investments greater than the concentrations authorized by the District's Statement of Investment Policy.

(3) Accounts Receivable

The balance at June 30, consists of the following:

	<u>2010</u>	<u>2009</u>
Accounts receivable – water sales and services	\$ 3,607,401	3,841,110
Allowance for uncollectible accounts	<u>(40,920)</u>	<u>(21,404)</u>
Accounts receivable – water sales, net	<u>\$ 3,566,481</u>	<u>3,819,706</u>

(4) Deferred Charges

Deferred charges are related to the Certificates of Participation issuance costs and are being amortized on a straight-line basis over the remaining life of the Certificates. At June 30, 2010 and 2009, deferred charges net of accumulated amortization were \$398,019 and \$215,991, respectively.

(5) Capital Assets

Depreciation and amortization expense at June 30: is as follows:

	<u>2010</u>	<u>2009</u>
Capital assets - depreciation expense	\$ (3,494,952)	(3,466,978)
Intangible assets - amortization expense	<u>(44,271)</u>	<u>(44,047)</u>
	<u>\$ (3,539,223)</u>	<u>(3,511,025)</u>

Mesa Consolidated Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2010 and 2009

(5) Capital Assets, continued

Changes in capital assets for 2010 were as follows:

	<u>Balance 2009</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2010</u>
Non-depreciable assets:				
Land	\$ 6,750,215	-	-	6,750,215
Construction-in-progress	1,870,591	3,508,509	(2,025,505)	3,353,595
Total non-depreciable assets	<u>8,620,806</u>	<u>3,508,509</u>	<u>(2,025,505)</u>	<u>10,103,810</u>
Depreciable assets:				
Land improvements	879,537	-	-	879,537
Buildings and improvements	4,171,060	-	-	4,171,060
Machinery and equipment	2,627,958	111,416	-	2,739,374
Transmission and distribution system	78,379,359	1,914,089	(330,264)	79,963,183
Reservoirs	27,753,367	-	-	27,753,367
Wells and pumping plant	9,474,340	-	-	9,474,340
Metering stations	645,905	-	-	645,905
Control systems	634,730	-	-	634,730
Colored water treatment facility	22,618,386	-	-	22,618,386
Total depreciable assets	<u>147,184,642</u>	<u>2,025,505</u>	<u>(330,264)</u>	<u>148,879,883</u>
Accumulated depreciation:				
Land improvements	(544,544)	(25,031)	-	(569,575)
Buildings and improvements	(1,624,820)	(113,875)	-	(1,738,695)
Machinery and equipment	(2,132,345)	(132,193)	-	(2,264,538)
Transmission and distribution system	(37,508,341)	(1,426,664)	176,050	(38,758,955)
Reservoirs	(7,742,845)	(451,394)	-	(8,194,239)
Wells and pumping plant	(4,355,601)	(199,280)	-	(4,554,881)
Metering stations	(227,357)	(12,918)	-	(240,275)
Control systems	(630,063)	(2,678)	-	(632,741)
Colored water treatment facility	(5,623,779)	(1,130,919)	-	(6,754,698)
Total accumulated depreciation	<u>(60,389,695)</u>	<u>(3,494,952)</u>	<u>176,050</u>	<u>(63,708,597)</u>
Total depreciable assets, net	<u>86,794,947</u>	<u>(1,469,447)</u>	<u>(154,214)</u>	<u>85,171,286</u>
Total capital assets, net	<u>\$ 95,415,753</u>			<u>95,275,096</u>

Capital asset additions during 2010 included purchases of machinery & equipment.

Intangible Assets

Changes in intangible asset amounts for the year were as follows:

	<u>Balance 2009</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2010</u>
Intangible assets	\$ 2,025,666	-	-	2,025,666
Accumulated amortization	(1,657,606)	(44,271)	-	(1,701,877)
Total intangible assets, net	<u>\$ 368,060</u>	<u>(44,271)</u>	<u>-</u>	<u>323,789</u>

Mesa Consolidated Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2010 and 2009

(5) Capital Assets, continued

Changes in capital assets for 2009 were as follows:

	<u>Balance 2008</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2009</u>
Non-depreciable assets:				
Land	\$ 6,750,215	-	-	6,750,215
Construction-in-progress	945,904	2,733,564	(1,808,877)	1,870,591
Total non-depreciable assets	<u>7,696,119</u>	<u>2,733,564</u>	<u>(1,808,877)</u>	<u>8,620,806</u>
Depreciable assets:				
Land improvements	884,983	-	(5,446)	879,537
Buildings and improvements	4,103,578	67,482	-	4,171,060
Machinery and equipment	2,646,561	55,081	(73,684)	2,627,958
Transmission and distribution system	77,090,133	1,774,590	(485,364)	78,379,359
Reservoirs	27,753,367	-	-	27,753,367
Wells and pumping plant	9,474,340	-	-	9,474,340
Metering stations	645,905	-	-	645,905
Control systems	634,730	-	-	634,730
Colored water treatment facility	22,618,386	-	-	22,618,386
Total depreciable assets	<u>145,851,983</u>	<u>1,897,153</u>	<u>(564,494)</u>	<u>147,184,642</u>
Accumulated depreciation:				
Land improvements	(522,973)	(27,017)	5,446	(544,544)
Buildings and improvements	(1,524,503)	(100,317)	-	(1,624,820)
Machinery and equipment	(2,036,772)	(139,930)	44,357	(2,132,345)
Transmission and distribution system	(36,455,621)	(1,432,742)	380,022	(37,508,341)
Reservoirs	(7,321,803)	(421,042)	-	(7,742,845)
Wells and pumping plant	(4,156,215)	(199,386)	-	(4,355,601)
Metering stations	(214,439)	(12,918)	-	(227,357)
Control systems	(627,356)	(2,707)	-	(630,063)
Colored water treatment facility	(4,492,860)	(1,130,919)	-	(5,623,779)
Total accumulated depreciation	<u>(57,352,542)</u>	<u>(3,466,978)</u>	<u>429,825</u>	<u>(60,389,695)</u>
Total depreciable assets, net	<u>88,499,441</u>	<u>(1,569,825)</u>	<u>(134,669)</u>	<u>86,794,947</u>
Total capital assets, net	<u>\$ 96,195,560</u>			<u>95,415,753</u>

Capital asset additions during 2009 included replacing mainline valves, hydrants, and meters.

Intangible Assets

Changes in intangible asset amounts for the year were as follows:

	<u>Balance 2008</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2009</u>
Intangible assets	\$ 1,955,511	70,155	-	2,025,666
Accumulated amortization	(1,613,925)	(44,047)	366	(1,657,606)
Total intangible assets, net	<u>\$ 341,586</u>	<u>26,108</u>	<u>366</u>	<u>368,060</u>

Mesa Consolidated Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2010 and 2009

(5) Capital Assets, continued

Construction-In-Progress

The District has been involved in various construction projects throughout the year. The balances of the various construction projects that comprise the construction-in-progress balances at June 30 are as follows:

The balance at June 30, consists of the following projects:

	<u>2008</u>	<u>2009</u>	<u>2010</u>
SCADA improvement project	\$ 194,746	674,306	1,568,443
GIS implementation project	137,729	178,031	196,741
CWTF expansion project	10,098	41,600	589,202
New production well	8,824	192,523	253,097
Valve replacement	197,592	367,078	346
Computerized maintenance management	23,985	-	-
Well No. 5 Color Treatment Project	-	-	117,414
Posiden Project	-	-	35,719
450 Anton Boulevard	165,523	183,313	185,771
1901 Newport Blvd	31,159	31,329	32,186
Miscellaneous projects	176,247	202,412	374,676
Construction-in-process	<u>\$ 945,904</u>	<u>1,870,591</u>	<u>3,353,595</u>

(6) Compensated Absences

Compensated absences comprise unpaid vacation and sick leave which is accrued as earned.

The changes to compensated absences balances at June 30, were as follows:

<u>Balance</u> <u>2009</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance</u> <u>2010</u>	<u>Current</u> <u>Portion</u>	<u>Long-term</u> <u>Portion</u>
\$ 415,675	380,598	(335,165)	461,108	115,277	345,831
<u>Balance</u> <u>2008</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance</u> <u>2009</u>	<u>Current</u> <u>Portion</u>	<u>Long-term</u> <u>Portion</u>
\$ 398,470	355,029	(337,824)	415,675	103,919	311,756

(7) Post Employment Benefits Payable

During the fiscal year ended June 30, 2009, the District implemented GASB Statement No. 45, which changed the accounting and financial reporting used by local government employers for post employment benefits. Previously, the costs of such benefits were generally recognized as expenses of local government employers on a pay-as-you-go basis. The new reporting requirements for these benefit programs as they pertain to the District are set forth below.

Plan Description – Eligibility

The District contracts with the California Public employees Retirement System (CalPERS) to receive health benefits through the Public Employees' Medical and Hospital Care Act (PEMHCA) and is required to pay the PEMCHA minimum (\$105/month in 2010) for each CalPERS retiree who is enrolled in CalPERS medical insurance for whom the District was their employer.

Mesa Consolidated Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2010 and 2009

(7) Post Employment Benefits Payable, continued

Plan Description – Eligibility, continued

The following requirements must be satisfied in order to be eligible for post employment medical, dental, and vision benefits: (1) attainment of age 55 and (2) 11 years of full-time service, and (3) retirement from the District (the District must be the last employer prior to retirement). For qualifying participants enrolled in a CalPERS medical plan, their District benefit includes the PEMHCA minimum.

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Active plan members	\$ 62	60	-
Retirees and beneficiaries receiving benefits	19	19	-
Separated plan members entitled to but not yet receiving benefits	-	-	-
Total plan membership	<u>\$ 81</u>	<u>79</u>	<u>-</u>

Plan Description – Benefits

The District offers post employment medical, dental and vision benefits to retired employees who satisfy the eligibility rules. Spouses at the time of the employee’s retirement and surviving spouses are also eligible to receive benefits. Retirees may enroll in any plan available through the District’s medical and dental programs. The ability to participate in the vision program is linked to participation in the medical program. The contribution requirements of Plan members and the District are established and may be amended by the Board of Directors.

Funding Policy

The District is required to contribute the *Annual Required Contribution (ARC) of the Employer*, 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 liabilities (or funding excess) over a period not to exceed thirty years. The current ARC rate is 2.95% of the annual covered payroll.

The District will pay 100% of the cost of the post-employment benefit plan. The District funds the plan on a pay-as-you-go basis and maintains reserves (and records a liability) for the difference between pay-as-you-go and the actuarially determined ARC cost.

Annual Cost

For the fiscal years ended June 30, 2010 and 2009, the District’s ARC cost was \$196,096 and \$223,482, respectively. The District’s net OPEB payable obligation amounted to \$130,134 and \$184,158 for the years ended June 30, 2010 and 2009. The District contributed \$66,418 and \$39,324 in age adjusted contributions for current retiree OPEB premiums for the fiscal years ended June 30, 2010 and 2009.

Mesa Consolidated Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2010 and 2009

(7) Post Employment Benefits Payable, continued

Annual Cost, continued

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Annual OPEB expense:			
Annual required contribution (ARC)	\$ 196,096	223,482	-
Interest on net OPEB obligation	6,763	-	-
Adjustment to annual required contribution	<u>(6,307)</u>	<u>-</u>	<u>-</u>
Total annual OPEB expense	196,552	223,482	-
Change in net OPEB payable obligation:			
Age adjusted contributions made	<u>(66,418)</u>	<u>(39,324)</u>	<u>-</u>
Total change in net OPEB payable obligation	130,134	184,158	-
OPEB payable – beginning of year	<u>184,158</u>	<u>-</u>	<u>-</u>
OPEB payable – end of year	<u>\$ 314,292</u>	<u>184,158</u>	<u>-</u>

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal year 2010 and the two preceding years were as follows:

Three-Year History of Net OPEB Obligation

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Age Adjusted Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation Payable</u>
2010	\$ 230,419	66,418	28.82%	\$ 130,134
2009	223,482	39,324	17.60%	184,158
2008*	-	-	0.00%	-

* The information for one preceding years is unavailable.
 GASB No. 45 was implemented in fiscal year 2009.

Funded Status and Funding Progress of the Plan

Required Supplemental Information – Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Plan Assets (a)</u>	<u>Actuarial Accrued Liability (b)</u>	<u>Unfunded Actuarial Accrued Liability (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
6/30/2010	\$ -	2,377,499	2,377,499	0.00%	\$ 7,668,084	31.01%

The most recent valuation (dated June 30, 2010) includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of \$2,377,499. There are no plan assets because the District funds on a pay-as-you-go basis and maintains net assets equal to the remaining net post-employment benefits payable obligation. The covered payroll (annual payroll of active employees covered by the plan) for the year ended June 30, 2010 was \$7,668,084. At June 30, 2010, the ratio of the unfunded actuarial accrued liability to annual covered payroll was 31.01%.

Mesa Consolidated Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2010 and 2009

(7) Post Employment Benefits Payable, continued

Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and the pattern of sharing of costs between the employer and plan members to that point. Consistent with the long-term perspective of actuarial calculations, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities for benefits.

The following is a summary of the actuarial assumptions and methods:

Valuation date	June 30, 2010
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll amortization
Remaining amortization period	30 Years as of the valuation date
Amortization periods used	Closed
Asset valuation method	15 Year smoothed market
Actuarial assumptions:	
Investment rate of return	2.50% – Current LAIF rating (rounded)
Projected salary increase	3.25%
Inflation - discount rate	2.06%
Individual salary growth	District annual COLA

(8) Long-term Debt

	<u>2009</u>	<u>Additions</u>	<u>Principal Pmts Amortization</u>	<u>2010</u>
1998 Series COPs	\$ 15,530,000	-	(15,530,000)	-
Less: Unamortized discount	(1,039,300)	-	1,039,300	-
Total 1998 Series COPs	<u>14,490,700</u>	<u>-</u>	<u>(14,490,700)</u>	<u>-</u>
2009 Series COPs	-	14,700,000	(1,715,000)	12,985,000
Plus: Unamortized premium	-	953,791	(93,053)	860,738
Less: Unamortized deferred loss	-	(1,518,158)	148,113	(1,370,045)
Total 2009 Series COPs	<u>-</u>	<u>14,135,633</u>	<u>(1,659,940)</u>	<u>12,475,693</u>
Total COPs	<u>14,490,700</u>	<u>14,135,633</u>	<u>(16,150,640)</u>	<u>12,475,693</u>
2008 Pension refinancing loan	<u>1,595,174</u>	<u>-</u>	<u>(944,700)</u>	<u>650,474</u>
Orange County Water District well loans:				
Well 9 loan	272,989	-	(41,678)	231,311
Well 1B and 10 loan	271,149	-	(23,112)	248,037
Well 11 loan	495,173	-	(33,909)	461,264
Total well loans	<u>1,039,311</u>	<u>-</u>	<u>(98,699)</u>	<u>940,612</u>
Total long-term debt	<u>17,125,185</u>	<u>14,135,633</u>	<u>(17,194,039)</u>	<u>14,066,779</u>
Less: current portion	<u>(2,463,401)</u>			<u>(2,192,630)</u>
Long-term portion	<u>\$ 14,661,784</u>			<u>11,874,149</u>

Mesa Consolidated Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2010 and 2009

(8) Long-term Debt, continued

Certificates of Participation

1998 Series Refunding Certificates of Participation

On June 23, 1998, the Mesa Consolidated Water District Improvement Corporation (Corporation) issued \$28,000,000 of 1998 Certificates of Participation with an average interest rate of 4.56% to advance refund and defease in substance \$25,750,000 of outstanding 1992 Certificates of Participation with an average interest rate of 6.30%.

On August 1, 2009, the Mesa Consolidated Water District Improvement Corporation (Corporation) executed a \$14,700,000 Installment Purchase Agreement with the District used to advance refund \$15,530,000 of outstanding 1998 Refunding Certificates of Participation. As a result, the 1998 Refunding Certificates of Participation are considered defeased and the liability for those obligations has been removed from the financial statements.

2009 Certificates of Participation

On August 11, 2009 the Mesa Consolidated Water District Improvement Corporation (Corporation) issued \$14,700,000 of 2009 Certificates of Participation. The proceeds of the sale of the Certificates of Participation were used to refinance the District's 1998 Refunding Certificates of Participation. As a result, the 1998 Refunding Certificates of Participation are considered defeased and the liability for those obligations has been removed from the financial statements. The District executed the advance refunding to reduce the District's total debt service payments over the next nine years by a present value of \$1,759,896 and obtain an economic gain of \$947,804.

The 2009 Certificates of Participation were issued at an original issue premium of \$953,791, which will be amortized by \$9,305 per month over the life of the debt service. Also, the refunding of the 1998 Certificates of Participation incurred a deferred loss of \$1,518,158, which will be amortized by \$14,811 per month over the life of the debt service.

The certificates are scheduled to mature on March 15, 2018. Principal and interest are payable semi-annually on March 15th and September 15th of each year with interest rates ranging from 2.0% to 5.0%.

Future annual debt service requirements on the bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 1,440,000	537,850	1,977,850
2012	1,470,000	501,850	1,971,850
2013	1,520,000	457,750	1,977,750
2014	1,560,000	412,150	1,972,150
2015	1,620,000	349,750	1,969,750
2016-2018	5,375,000	546,250	5,921,250
Sub-total	12,985,000	2,805,600	15,790,600
Less: premium/(deffered loss), net	(509,307)		
Total	12,475,693		
Less: current portion	(1,440,000)		
Total non-current	\$ 11,035,693		

Mesa Consolidated Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2010 and 2009

(8) Long-term Debt, continued

Pension Refinancing Loan

On February 29, 2008, the District entered into a loan agreement to fund existing employee past service pension obligations to the California Public Employees Retirement System (CalPERS) in the amount of \$2,800,000. Terms of the agreement call for quarterly payments of principal and interest of \$82,715 at a rate of 3.85%, maturing in February 2011.

Future annual debt service requirements on the loan payable is as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 650,474	-	650,474

Loans Payable – Wells 9, 1B, and 10

On November 13, 1991, the District entered into two agreements with the Orange County Water District (OCWD) to assist in the construction of three well facilities to improve water supply facilities. The agreement was funded on November 15, 1994. Under the terms of the agreements, OCWD agreed to loan the District up to \$2,250,000 at the rate of 3.50%. The District used one loan to drill and construct Well 9. The second loan was used to refurbish an existing Well 1B and to drill a test hole in what would have been designated Well 10. At June 30, 2010 and 2009, the total principal due to OCWD for these wells was \$940,612 and \$1,039,311, respectively.

Loans Payable – Wells 9, 1B, and 10, continued

Future annual debt service requirements on the Well 9 loan is as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 43,135	8,096	51,231
2012	44,645	6,586	51,231
2013	46,208	5,024	51,232
2014	47,825	3,406	51,231
2015	49,499	1,732	51,231
Total	231,311	24,844	256,155
Less current portion	(43,135)		
Total non-current	\$ 188,176		

Future annual debt service requirements on the Well 1B, Well 10 loan is as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 23,922	8,681	32,603
2012	24,759	7,844	32,603
2013	25,626	6,977	32,603
2014	26,523	6,080	32,603
2015	27,451	5,152	32,603
2016-2019	119,756	10,659	130,415
Total	248,037	45,393	293,430
Less current portion	(23,922)		
Total non-current	\$ 224,115		

Mesa Consolidated Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2010 and 2009

(8) Long-term Debt, continued

Loans Payable – Well 11

On January 21, 1998, the District entered into a loan agreement with OCWD in the amount of \$750,000 to fund the construction of the Well 11 facility. The loan was funded on February 5, 2001. Terms of the agreement call for annual installments of principal and interest at the rate of 3.50% maturing in 20 years.

Future annual debt service requirements on the Well 11 loan is as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 35,099	16,144	51,243
2012	36,327	14,916	51,243
2013	37,598	13,645	51,243
2014	38,914	12,328	51,242
2015	40,276	10,966	51,242
2016-2019	175,704	29,267	204,970
2020-2021	97,346	5,140	102,486
Total	461,264	102,406	563,669
Less current portion	(35,099)		
Total non-current	\$ 426,165		

Mesa Consolidated Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2010 and 2009

(9) Net Assets

Calculation of net assets as of June 30, were as follows:

	2010	2009
Net investment in capital assets:		
Capital and intangible assets, net	\$ 95,598,885	95,783,813
Certificates of participation payable, current	(1,440,000)	(1,420,000)
Certificates of participation payable, non-current	(11,035,693)	(13,070,700)
Well loans payable, current	(102,156)	(98,701)
Well loans payable, non-current	(838,456)	(940,610)
Total net investment in capital assets	82,182,580	80,253,802
Restricted net assets:		
Restricted – cash and cash equivalents	2,525,910	2,732,228
Accrued interest payable	(130,555)	(171,775)
Total restricted net assets	2,395,355	2,560,453
Unrestricted net assets:		
Non-spendable net assets:		
Materials and supplies inventory	298,561	311,747
Prepaid expenses and deposits	127,174	89,236
Deferred charges, net	398,019	215,991
Total non-spendable net assets	823,754	616,974
Spendable net assets are designated as follows:		
Undesignated net assets reserve	13,588,296	10,450,217
Total spendable net assets	13,588,296	10,450,217
Total unrestricted net assets	14,412,050	11,067,191
Total net assets	\$ 98,989,985	93,881,446

(10) Deferred Compensation Program

For the benefit of its employees, the District participates in a 457 Deferred Compensation Program (Program). The purpose of this Program is to provide deferred compensation for public employees that elect to participate in the Program. Generally, eligible employees may defer receipt of a portion of their salary until termination, retirement, death or unforeseeable emergency. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the deferred salary for income tax purposes.

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the District is in compliance with this legislation. Therefore, these assets are not the legal property of the District, and are not subject to claims of the District's general creditors. Market value of the plan assets held in trust at June 30, 2010 and 2009 was \$3,522,768, and \$2,277,316, respectively.

Mesa Consolidated Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2010 and 2009

(10) Deferred Compensation Program, continued

The District has implemented GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. Since the District has little administrative involvement and does not perform the investing function for this plan, the assets and related liabilities are not shown on the statement of net assets.

(11) Defined Benefit Pension Plan

Plan Description

The District contributes to the California Public Employees Retirement System (CalPERS), a cost-sharing multiple-employer defined benefit pension plan. 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 the Authority. Copies of CalPERS annual financial report may be obtained from their executive Office: 400 P Street, Sacramento, CA 95814.

Funding Policy

The contribution rate for plan members in the CalPERS 2.0% at 55 Risk Pool Retirement Plan is 7.0% of their annual covered salary. The District makes these contributions required of District employees on their behalf and for their account. 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 cost (APC) percentage of payroll for fiscal year 2010, 2009 and 2008 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 2010, 2009 and 2008, the District's annual contributions for the CALPERS plan were equal to the District's required and actual contributions for each fiscal year as follows:

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>APC Percentage of Payroll</u>
2008	\$ 1,395,295	100%	8.952%
2009	825,267	100%	9.296%
2010	848,572	100%	9.466%

(12) Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California water agencies. The purpose of the ACWA/JPIA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. At June 30, 2010, the District participated in the liability and property programs of the ACWA/JPIA as follows:

- General and auto liability, public officials and employees' errors and omissions: Total risk financing self-insurance limits of \$1 million. The District purchased additional excess coverage layers: \$59 million for general, auto and public official's liability, which increases the limits on the insurance coverage noted above.

Mesa Consolidated Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2010 and 2009

(12) Risk Management, continued

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

- Employee dishonesty coverage up to \$500,000 per loss includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction coverage.
- Property loss is paid at the replacement cost for property on file, if replaced within two years after the loss. Otherwise it is paid on an actual cash value basis to a combined total of \$100 million per occurrence, subject to a \$10,000 deductible per occurrence.
- Boiler and machinery coverage for the replacement cost up to \$100 million per occurrence, subject to various deductibles depending on the type of equipment.
- Workers' Compensation Insurance up to California statutory limits for all work related injuries/illnesses covered by California law. Coverage is through the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA).

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the year ending June 30, 2010. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2010, 2009 and 2008, respectively.

(13) Governmental Accounting Standards Board Statements Issued, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2010, that have effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 59

In June 2010, the GASB issued Statement No. 59, *Financial Instruments Omnibus*. This statement improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools. This statement is effective for financial statements for periods beginning after June 15, 2010. This statement is not expected to have a significant impact on the presentation of the District's financial statements.

Governmental Accounting Standards Board Statement No. 60

In November 2010, the GASB issued Statement No.60, *Accounting and Financial Reporting for Service Concession Arrangements*. This standard address how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. This statement is effective for financial statements for periods beginning after December 15, 2011. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 61

In November 2010, the GASB issued Statement No.61, *The Financial Reporting Entity, Omnibus*. This standard is designed to improve financial reporting for governmental entities by amending the requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 34, *Basic Financial Statement and Management's Discussion and Analysis for State and local Governments*. This statement is effective for financial statements for periods beginning after December 15, 2011. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Mesa Consolidated Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2010 and 2009

(14) Commitments and Contingencies

Construction Contracts

The District did not have any agreements with developers and private parties relating to the installation, improvement or modification of transmission facilities and distribution systems within its service area at June 30, 2010 and 2009.

Grant Awards

The District did not receive grant funding during the fiscal years ended June 30, 2010 and 2009.

Litigation

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

(15) Subsequent Event

Pension Refinancing Loan

In November 2010, the District paid \$408,115, which was the remaining principal balance on the 2008 Pension Refinancing Loan due to mature in February 2011. The loan was considered paid in full as of November 15, 2010.

2010 Revenue Certificates of Participation

On December 8, 2010, the Mesa Consolidated Water District Improvement Corporation (Corporation) issued \$21,535,000 of 2010 Revenue Certificates of Participation (COPs). The proceeds from the sale of the COPs will be used to finance the expansion and technology upgrade of the District's Colored Water Treatment Facility. The COPs were issued at a premium of \$1,273,262 which will be amortized over the life of the debt service. Principal and interest are payable on March 15th of each year, commencing March 15, 2013 with interest rates ranging from 3.0% to 5.0%. The certificates are scheduled to mature on March 15, 2025.

Future annual debt service requirements on the COPs are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ -	231,989	231,989
2012	-	994,237	994,237
2013	340,000	994,237	1,334,237
2014	355,000	984,038	1,339,038
2015	370,000	969,838	1,339,838
2016-2020	6,090,000	4,554,225	10,644,225
2021-2025	14,380,000	2,182,125	16,562,125
Total	\$ <u>21,535,000</u>	<u>10,910,689</u>	<u>32,445,689</u>

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Supplemental Information

**Mesa Consolidated Water District
Revenue Coverage
Certificates of Participation – Schedule 1
For the Years Ended June 30, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
Total revenues	\$ 31,286,173	29,014,249
Total maintenance and operating expense	<u>21,807,668</u>	<u>20,308,687</u>
Net Revenues	<u>9,478,505</u>	<u>8,705,562</u>
 Certificates of participation maximum annual debt service and all other parity debt constituting obligations payable from net revenues.	 \$ <u>2,014,455</u> *	 <u>2,175,993</u>
 Ratio of net revenues to maximum annual debt service and all other parity debt payable from net revenues.	 4.71	 4.00

* 1998 Refunding Certificates of Participation were defeased in fiscal year 2010.

See Schedule 2 for a reconciliation of total revenue and total expense to Statements of Revenues, Expenses and Changes in Net Assets.

Mesa Consolidated Water District
Reconciliation of
Total Revenues and Total Expenses for
Certificates of Participation Revenue Coverage – Schedule 2
For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Revenues:		
Operating revenues	\$ 25,601,091	26,167,523
Non-operating revenues	3,991,489	2,666,479
Capacity and installation charges	<u>1,693,593</u>	<u>180,247</u>
Total revenues	<u>\$ 31,286,173</u>	<u>29,014,249</u>
Maintenance and operating expenses:		
Operating expenses before depreciation and amortization	\$ 18,314,481	18,138,788
Less: Other post employment benefits non-cash accrual	<u>(130,134)</u>	<u>(184,158)</u>
Total maintenance and operating expense	<u>18,184,347</u>	<u>17,954,630</u>
Non-operating expenses	4,489,284	3,427,199
Less: Certificates of participation interest expense	(749,969)	(966,598)
Less: Loss on sale/disposition of capital assets, net	<u>(115,994)</u>	<u>(106,544)</u>
Total non-operating expense	<u>3,623,321</u>	<u>2,354,057</u>
Total expense	<u>\$ 21,807,668</u>	<u>20,308,687</u>

Statistical Information Section

**Mesa Consolidated Water District
Statistical Section**

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, note disclosures, and required supplementary information says about the District’s overall financial health.

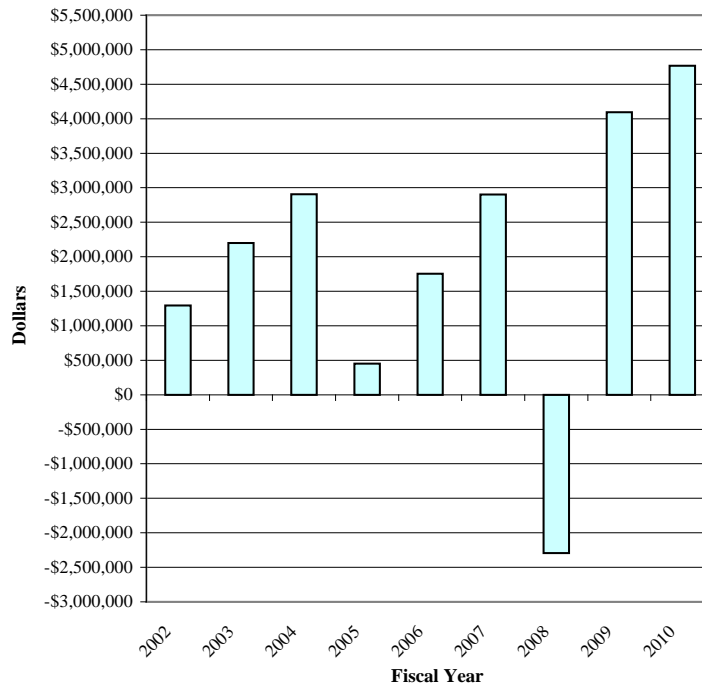
Table of Contents

	<u>Page No.</u>
Financial Trends These schedules contain information to help the reader understand how the District’s financial performance and well-being have changed over time.	45-49
Revenue Capacity These schedules contain information to help the reader assess the District’s most significant own-source revenue, water sales.	50-53
Debt Capacity These schedules present information to help the reader assess the affordability of the District’s current levels of outstanding debt and the District’s ability to issue additional debt in the future.	54-55
Demographic Information This schedule offers demographic indicators to help the reader understand the environment within which the District’s financial activities take place.	56
Operating Information This schedule contains service and infrastructure data to help the reader understand how the information in the District’s financial report relates to the service the District provides.	57

**Mesa Consolidated Water District
Changes in Net Assets and Net Assets by Component
Last Nine Fiscal Years**

	Fiscal Year				
	2002	2003	2004	2005	2006
Changes in net assets:					
Operating revenues (see schedule 2)	\$ 17,469,379	18,675,491	21,152,117	19,861,777	21,581,533
Operating expenses (see schedule 3)	(12,581,164)	(12,512,542)	(14,663,234)	(14,057,580)	(16,553,046)
Depreciation and amortization	(3,015,067)	(3,177,351)	(2,315,214)	(3,657,160)	(3,723,357)
Operating income(loss)	1,873,148	2,985,598	4,173,669	2,147,037	1,305,130
Net non-operating revenue(expense) (see schedule 4)	(1,511,465)	(1,394,094)	(1,513,303)	(1,849,226)	(793,973)
Net income(loss) before capital contributions	361,683	1,591,504	2,660,366	297,811	511,157
Capital contributions	933,382	606,528	245,757	155,261	1,243,635
Changes in net assets	\$ 1,295,065	2,198,032	2,906,123	453,072	1,754,792
Net assets by component:					
Invested in capital assets, net of related debt	\$ 66,980,656	68,986,313	74,811,457	75,490,249	76,477,207
Restricted	4,400,408	3,764,970	3,657,397	3,535,502	3,025,987
Unrestricted	18,480,720	11,308,534	8,497,086	8,393,261	9,670,610
Total net assets	\$ 89,861,784	84,059,817	86,965,940	87,419,012	89,173,804

Changes in Net Assets



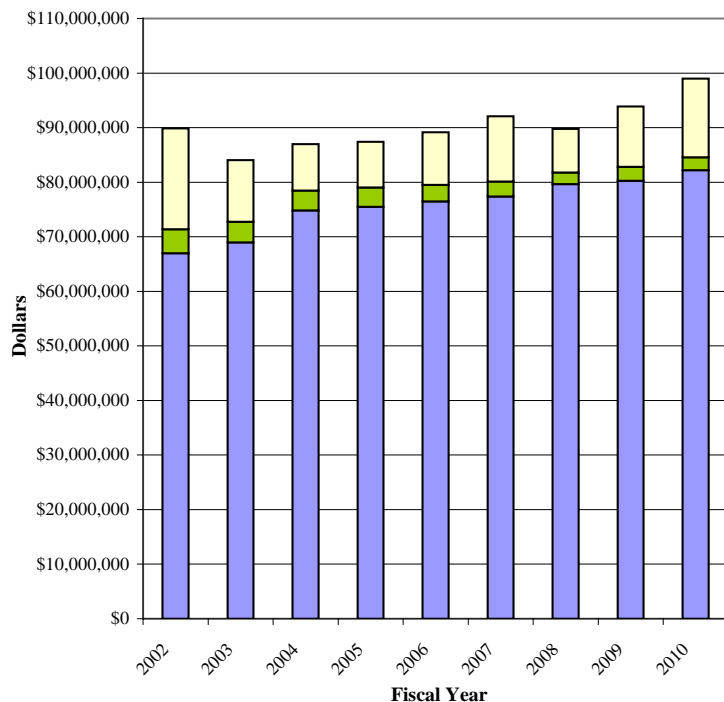
Note: Mesa Consolidated Water District Implemented GASB34 in 2002.

Source: Mesa Consolidated Water District Audited Financial Statements.

Schedule 1

Fiscal Year			
2007	2008	2009	2010
24,151,208	23,683,553	26,167,523	25,601,091
(16,587,133)	(16,949,055)	(18,138,788)	(18,314,481)
<u>(3,442,188)</u>	<u>(3,482,048)</u>	<u>(3,511,025)</u>	<u>(3,539,223)</u>
4,121,887	3,252,450	4,517,710	3,747,387
<u>(1,613,532)</u>	<u>(7,114,887)</u>	<u>(760,720)</u>	<u>(837,920)</u>
2,508,355	(3,862,437)	3,756,990	2,909,467
<u>395,470</u>	<u>1,570,586</u>	<u>338,678</u>	<u>1,858,947</u>
<u>2,903,825</u>	<u>(2,291,851)</u>	<u>4,095,668</u>	<u>4,768,414</u>
77,383,180	79,666,689	80,253,802	82,182,580
2,744,556	2,129,366	2,560,453	2,395,355
<u>11,949,893</u>	<u>7,989,723</u>	<u>11,067,191</u>	<u>14,412,050</u>
<u>92,077,629</u>	<u>89,785,778</u>	<u>93,881,446</u>	<u>98,989,985</u>

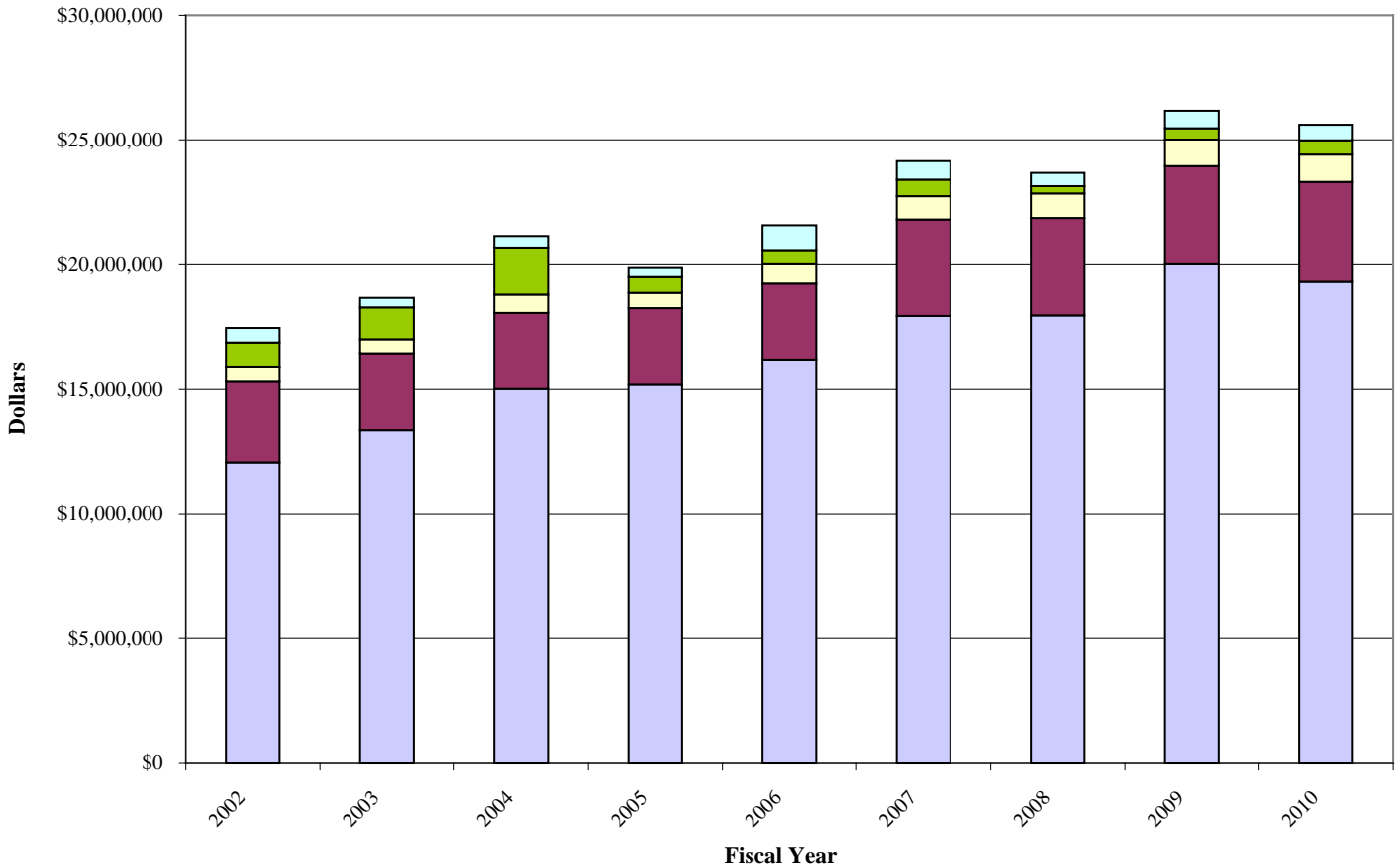
Net Assets by Component



**Mesa Consolidated Water District
Operating Revenue by Source
Last Nine Fiscal Years**

Schedule 2

Fiscal Year	Water Sales	Bi-Monthly Service Charges	Recycled Water Sales	Concessions/ Other Agencies	Other Charges and Services	Total Operating Revenue
2002	12,048,797	3,261,236	569,510	964,582	625,254	17,469,379
2003	13,376,621	3,040,176	562,474	1,307,056	389,164	18,675,491
2004	15,016,603	3,048,781	740,893	1,837,675	508,165	21,152,117
2005	15,194,447	3,069,375	612,484	629,172	356,299	19,861,777
2006	16,168,013	3,075,359	776,360	529,776	1,032,025	21,581,533
2007	17,945,830	3,868,656	927,781	666,803	742,138	24,151,208
2008	17,973,986	3,899,409	983,502	291,752	534,904	23,683,553
2009	20,016,831	3,932,115	1,061,400	455,175	702,002	26,167,523
2010	19,315,363	3,998,580	1,100,038	564,614	622,496	25,601,091

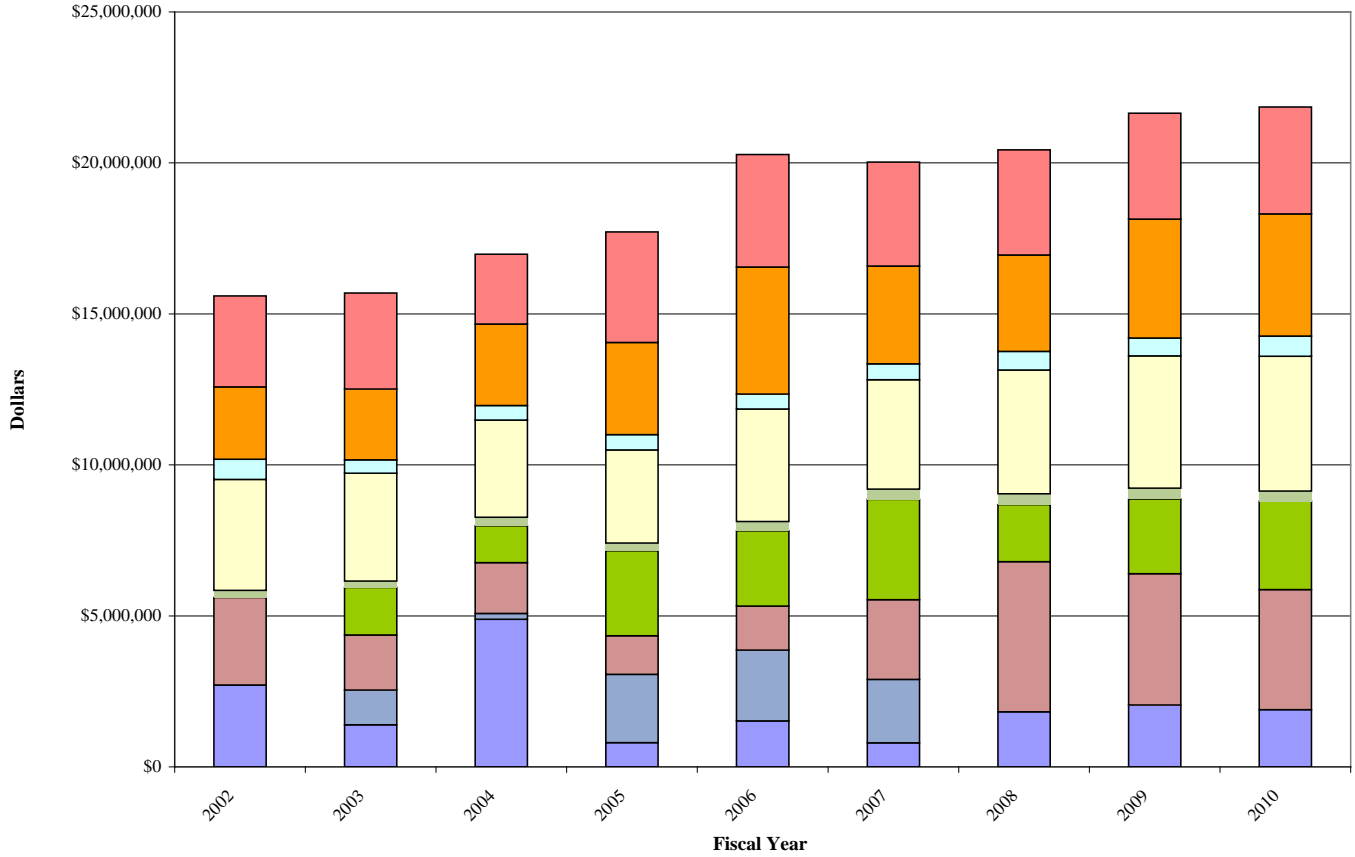


Source: Mesa Consolidated Water District Audited Financial Statements

**Mesa Consolidated Water District
Operating Expenses by Activity
Last Nine Fiscal Years**

Schedule 3

Fiscal Year	Source of Supply	In-lieu Source of Supply	Clear Water Production	Colored Water Production	Recycled Water	Transmission & Distribution	Customer Service	General and Administrative	Depreciation and Amortization	Total Operating Expenses
2002	2,708,195	-	2,899,727	972	236,274	3,671,731	673,628	2,390,637	3,015,067	15,596,231
2003	1,395,665	1,150,469	1,818,639	1,574,069	217,240	3,568,334	444,412	2,343,714	3,177,351	15,689,893
2004	4,886,716	194,669	1,682,403	1,223,183	280,467	3,216,057	485,890	2,693,849	2,315,214	16,978,448
2005	805,079	2,260,508	1,277,244	2,812,817	257,613	3,082,654	508,804	3,052,861	3,657,160	17,714,740
2006	1,525,155	2,339,069	1,460,494	2,495,201	306,569	3,726,944	494,136	4,205,478	3,723,357	20,276,403
2007	793,521	2,101,378	2,641,180	3,322,247	341,953	3,622,632	523,798	3,240,424	3,442,188	20,029,321
2008	1,827,324	-	4,969,970	1,886,228	361,854	4,096,822	617,730	3,189,127	3,482,048	20,431,103
2009	2,047,418	-	4,352,458	2,469,328	361,556	4,381,860	591,357	3,934,811	3,511,025	21,649,813
2010	1,897,896	-	3,975,004	2,924,926	337,400	4,461,625	667,732	4,049,898	3,539,223	21,853,704

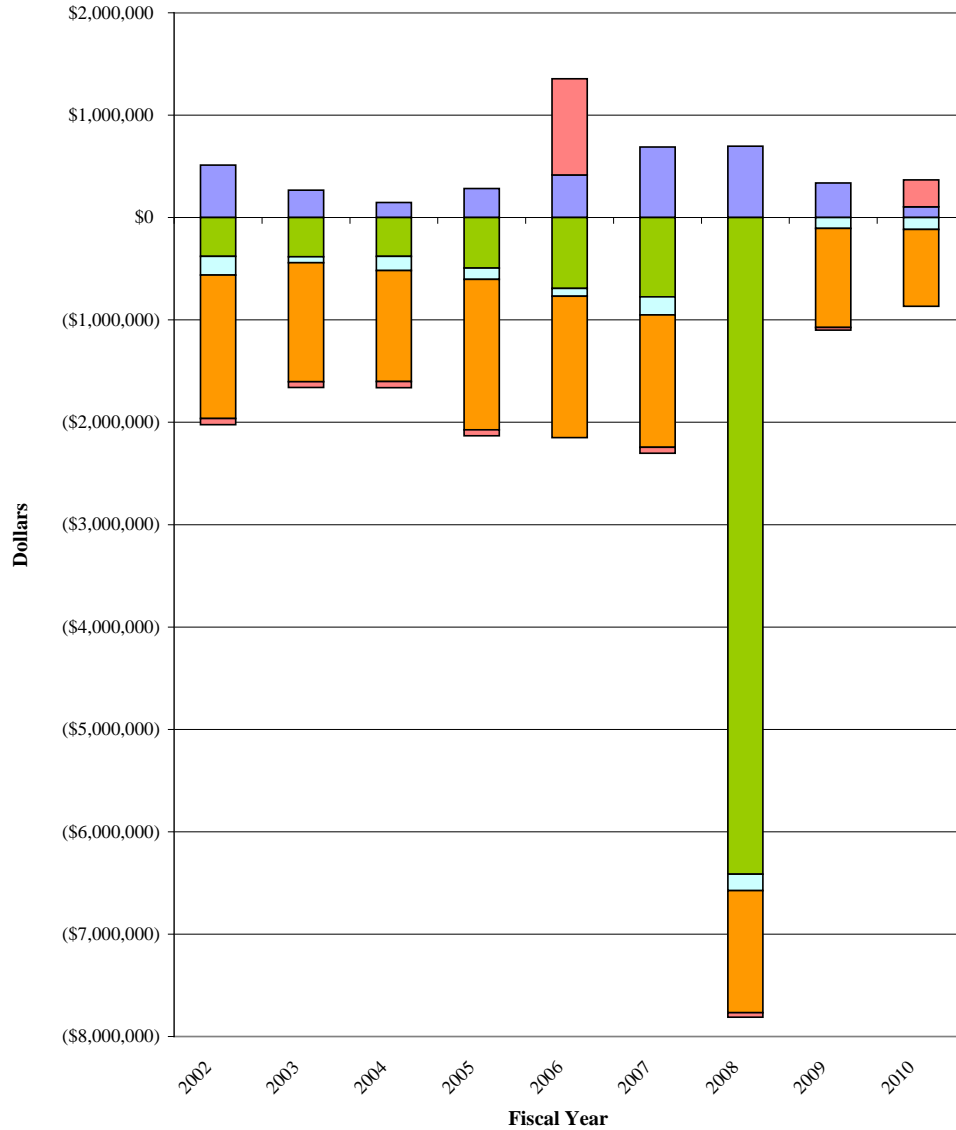


Source: Mesa Consolidated Water District Audited Financial Statements

**Mesa Consolidated Water District
Non-operating Revenues and Expenses
Last Nine Fiscal Years**

Schedule 4

Fiscal Year	Investment Income ⁽¹⁾	Pension Plan Prior Service	Gain/(Loss) on Sale of Assets	Interest Expense	Other Income & Expense, net	Net Non-operating Revenues/(Expenses)
2002	512,230	(378,576)	(183,245)	(1,400,726)	(61,148)	(1,511,465)
2003	266,772	(382,192)	(58,816)	(1,162,194)	(57,664)	(1,394,094)
2004	147,680	(378,780)	(138,617)	(1,084,848)	(58,738)	(1,513,303)
2005	282,799	(493,172)	(111,117)	(1,468,358)	(59,378)	(1,849,226)
2006	416,090	(692,025)	(76,384)	(1,381,722)	940,068	(793,973)
2007	688,588	(775,498)	(175,858)	(1,292,290)	(58,474)	(1,613,532)
2008	696,673	(6,413,660)	(160,554)	(1,192,813)	(44,533)	(7,114,887)
2009	338,335	-	(106,544)	(966,598)	(25,913)	(760,720)
2010	103,864	-	(115,994)	(749,969)	264,304	(497,795)

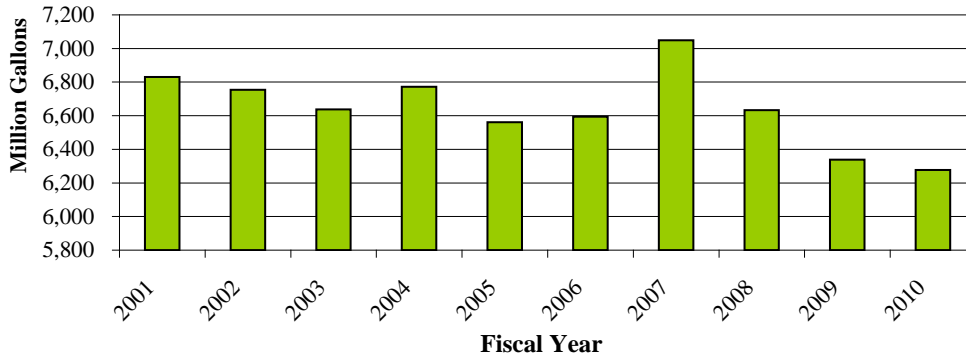


Notes: (1) Includes Interest Income Realized and Unrealized Gains and Losses On Investments.
Source: Mesa Consolidated Water District Audited Financial Statements

**Mesa Consolidated Water District
Revenue Base
Last Ten Fiscal Years**

Schedule 5

Fiscal Year	Water Consumption (Gallons)
2001	6,830,530,586
2002	6,754,280,984
2003	6,636,973,904
2004	6,772,528,752
2005	6,560,724,302
2006	6,594,613,014
2007	7,048,852,096
2008	6,632,737,815
2009	6,338,694,880
2010	6,276,476,792

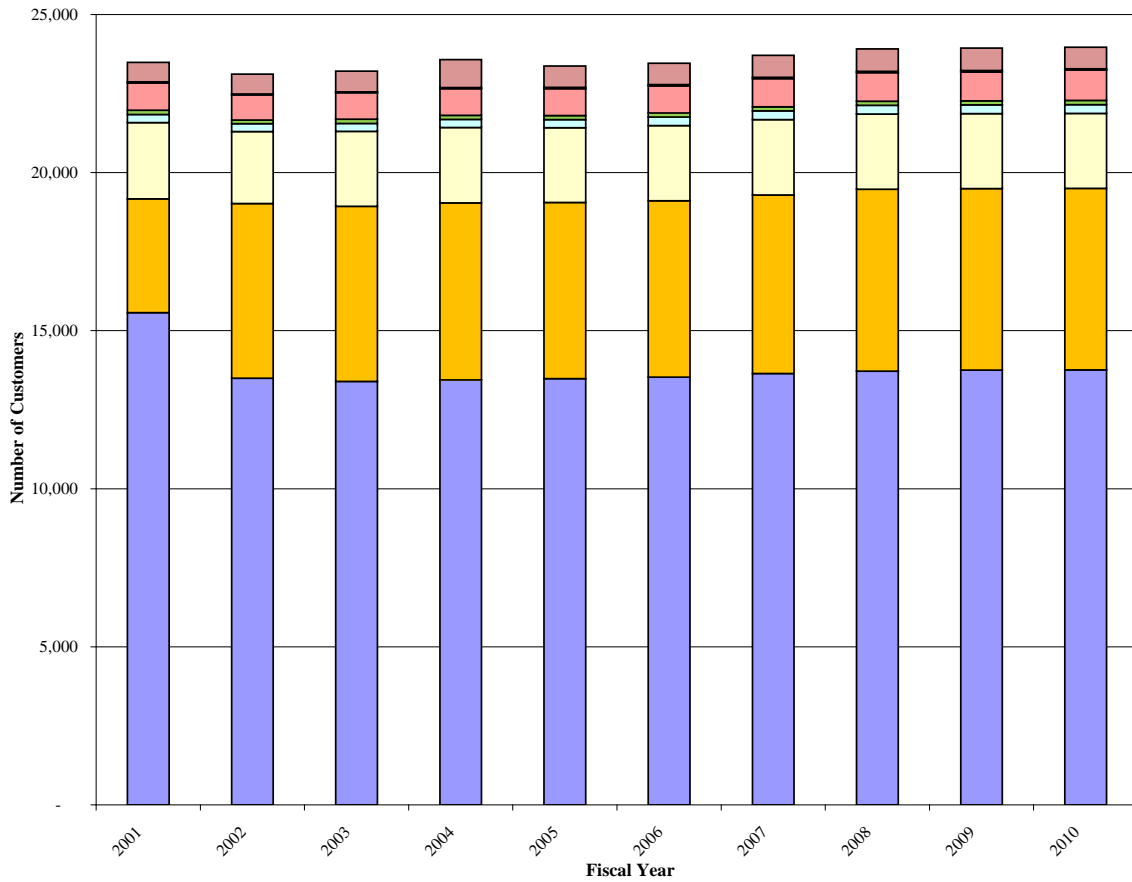


Note: For Information Regarding Water Sales See Schedule 2 'Operating Revenue by Source'.
Source: Mesa Consolidated Water District Billing System

**Mesa Consolidated Water District
Customers by Type
Last Ten Fiscal Years**

Schedule 6

Fiscal Year	Customer Type							
	Single-Family Residential	Multi-Family Residential	Commerical/Business	Industrial	Government	Irrigation	Recycled Water	Other/Unclassified
2001	15,571	3,601	2,412	257	134	865	32	617
2002	13,499	5,522	2,276	250	118	790	32	628
2003	13,397	5,538	2,370	253	129	835	33	655
2004	13,439	5,605	2,381	255	130	845	37	883
2005	13,483	5,572	2,368	254	127	855	38	676
2006	13,532	5,581	2,372	272	127	860	38	676
2007	13,647	5,645	2,384	279	128	891	40	698
2008	13,722	5,750	2,377	278	131	903	42	710
2009	13,754	5,741	2,371	276	131	913	42	714
2010	13,761	5,740	2,372	277	133	959	42	684



Source: Mesa Consolidated Water District - Administrative Services Department

**Mesa Consolidated Water District
Revenue Rates
Last Ten Fiscal Years**

Schedule 7

Minimum Bimonthly Service Charge - Potable Water Service

Meter Size		6/30/01	6/30/02	6/30/03	6/30/04	6/30/05	6/30/06	6/30/07	6/30/08	6/30/09	6/30/10
5/8"	\$	12.00	12.00	12.00	12.00	12.00	12.00	15.00	15.00	15.00	16.00
3/4"		18.00	18.00	18.00	18.00	18.00	18.00	22.50	22.50	22.50	24.00
1"		30.00	30.00	30.00	30.00	30.00	30.00	37.50	37.50	37.50	40.00
1 1/2"		60.00	60.00	60.00	60.00	60.00	60.00	75.00	75.00	75.00	80.00
2"		96.00	96.00	96.00	96.00	96.00	96.00	120.00	120.00	120.00	128.00
3"		210.00	210.00	210.00	210.00	210.00	210.00	262.50	262.50	262.50	250.00
4"		600.00	600.00	600.00	600.00	600.00	600.00	750.00	750.00	750.00	504.00
6"		1,190.00	1,190.00	1,190.00	1,190.00	1,190.00	1,190.00	1,490.00	1,490.00	1,490.00	1,190.00
8"		1,490.00	1,490.00	1,490.00	1,490.00	1,490.00	1,490.00	1,860.00	1,860.00	1,860.00	1,920.00

Minimum Bimonthly Service Charge - Fireline Water Service - Class I

Meter Size		6/30/01	6/30/02	6/30/03	6/30/04	6/30/05	6/30/06	6/30/07	6/30/08	6/30/09	6/30/10
2"	\$	11.00	11.00	11.00	11.00	11.00	11.00	14.00	14.00	14.00	15.00
3"		17.00	17.00	17.00	17.00	17.00	17.00	21.00	21.00	21.00	22.50
4"		22.00	22.00	22.00	22.00	22.00	22.00	28.00	28.00	28.00	30.00
6"		33.00	33.00	33.00	33.00	33.00	33.00	42.00	42.00	42.00	45.00
8"		44.00	44.00	44.00	44.00	44.00	44.00	56.00	56.00	56.00	60.00
10"		55.00	55.00	55.00	55.00	55.00	55.00	70.00	70.00	70.00	90.00
12"		66.00	66.00	66.00	66.00	66.00	66.00	84.00	84.00	84.00	(1)

Minimum Bimonthly Service Charge - Fireline Water Service - Class II

Meter Size		6/30/01	6/30/02	6/30/03	6/30/04	6/30/05	6/30/06	6/30/07	6/30/08	6/30/09	6/30/10
2"	\$	22.00	22.00	22.00	22.00	22.00	22.00	28.00	28.00	28.00	30.00
3"		34.00	34.00	34.00	34.00	34.00	34.00	42.00	42.00	42.00	45.00
4"		44.00	44.00	44.00	44.00	44.00	44.00	56.00	56.00	56.00	60.00
6"		66.00	66.00	66.00	66.00	66.00	66.00	84.00	84.00	84.00	90.00
8"		88.00	88.00	88.00	88.00	88.00	88.00	112.00	112.00	112.00	120.00
10"		110.00	110.00	110.00	110.00	110.00	110.00	140.00	140.00	140.00	180.00
12"		132.00	132.00	132.00	132.00	132.00	132.00	168.00	168.00	168.00	(1)

Water Use Rate (per 100 cubic feet = 748 gallons)

User Type		6/30/01	6/30/02	6/30/03	6/30/04	6/30/05	6/30/06	6/30/07	6/30/08	6/30/09	6/30/10
<u>Residential</u>											
Potable Commodity Rate	\$	1.33	1.61	1.61	1.68	1.77	1.81	1.99	2.17	2.50	2.60
<u>Non-Residential</u>											
Fireline Commodity Rate	\$	2.66	3.22	3.22	3.36	3.54	3.62	3.98	4.34	5.00	5.20
Recycled Commodity Rate		1.20	1.45	1.45	1.51	1.59	1.70	1.79	1.95	2.25	2.34

Notes: (1) Rates for 12" Fireline Class I/II no longer established (Resolution 1384) as of 06/30/10.

Source: Mesa Consolidated Water District Board of Directors Approved Rate Ordinances & Resolutions

**Mesa Consolidated Water District
Ten Largest Water Users
Current Fiscal Year and Five Years Ago⁽¹⁾**

Schedule 8

FY 2009/10	Consumption	Acre Feet	% of Total	FY 2004/05	Consumption	Acre Feet	% of Total
1 Mesa Verde (Costa Mesa Golf Course)	177,674	408	2.1%	Mesa Verde (Costa Mesa Golf Course)	162,871	374	1.8%
2 Fairview Developmental Center	66,162	152	0.8%	Fairview Developmental Center	84,514	194	1.0%
3 Newport-Mesa Unified School District	57,604	132	0.7%	Fairview Developmental Center	66,472	153	0.8%
4 Fairview Developmental Center	50,504	116	0.6%	Monticello Community Association	52,790	121	0.6%
5 Monticello Community Association	49,114	113	0.6%	John Wayne Airport	49,980	115	0.6%
6 Fairview Developmental Center	42,460	97	0.5%	Newport-Mesa Unified School District	46,200	106	0.5%
7 John Wayne Airport	41,300	95	0.5%	Vanguard University	45,514	104	0.5%
8 Vanguard Univeristy	38,364	88	0.5%	Fairview Developmental Center	45,240	104	0.5%
9 CalTrans	36,741	84	0.4%	Orange Coast College	44,636	102	0.5%
10 Orange Coast College	36,447	84	0.4%	Orange County Fairgrounds	39,468	91	0.4%
		<u>1,369</u>	<u>7.1%</u>			<u>1,464</u>	<u>7.2%</u>
 Sales :				 Sales :			
Potable			\$ 18,228	Potable			\$ 19,490
Recycled			<u>1,034</u>	Recycled			<u>843</u>
Total sales			<u>\$ 19,262</u>	Total sales			<u>\$ 20,333</u>

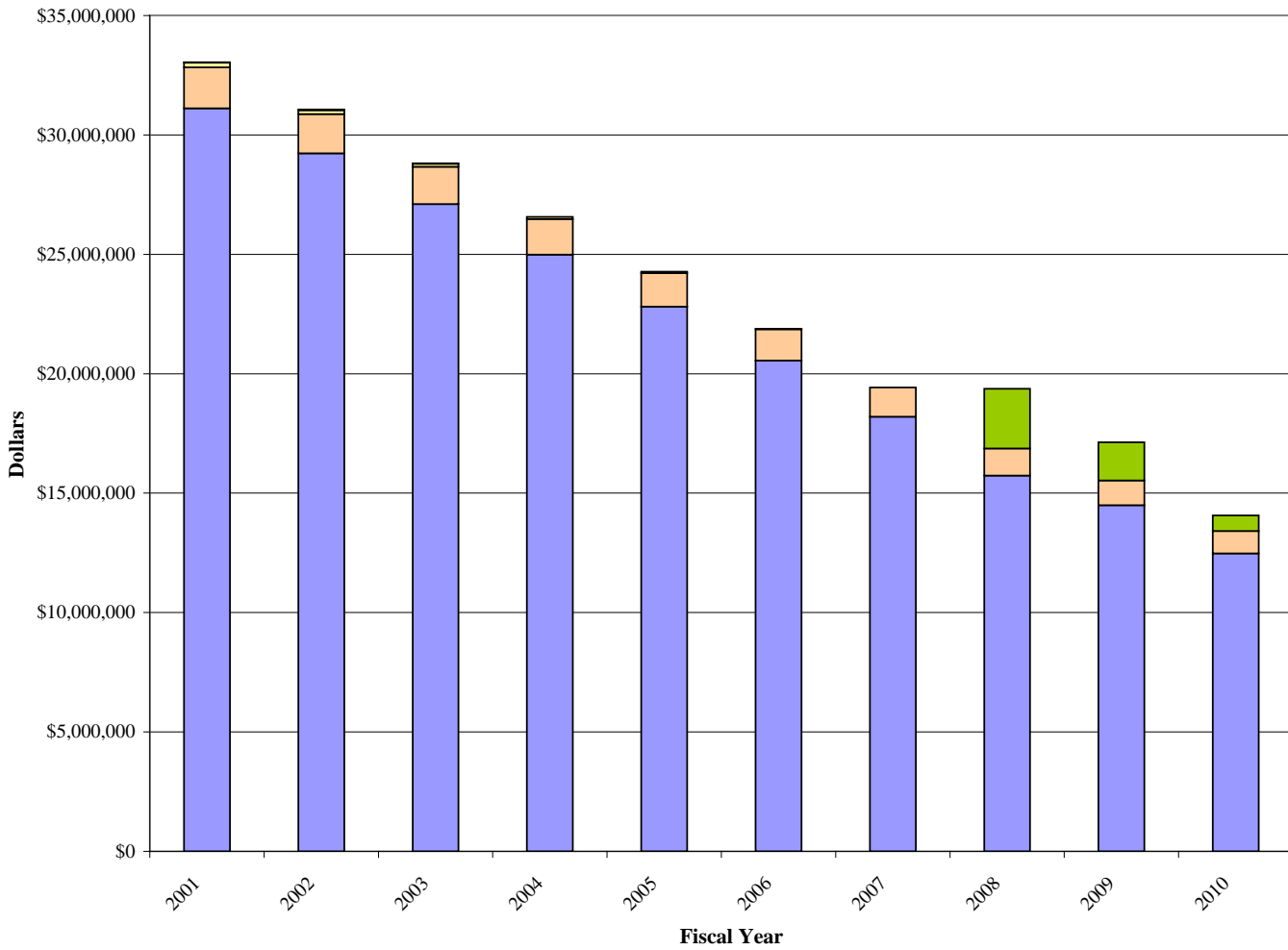
Note: (1) Information On The Top Ten Customers Not Available Prior to 2002.

Source: Mesa Consolidated Water District Billing System

**Mesa Consolidated Water District
Ratio of Outstanding Debt by Type
Last Ten Fiscal Years**

Schedule 9

Fiscal Year	Certificates of Participation	OCWD Well Loans	DWR Loan	Capital Leases	Pension Refi Loan	Total		
						Debt	Per Capita	As a Share of Personal Income
2001	31,113,283	1,717,782	192,181	22,306	-	33,045,552	297.89	N/A (1)
2002	29,231,089	1,642,826	159,882	25,285	-	31,059,082	280.52	0.74%
2003	27,103,430	1,565,248	126,463	14,049	-	28,809,190	258.35	0.65%
2004	24,990,620	1,484,954	91,893	2,072	-	26,569,539	235.11	0.56%
2005	22,812,810	1,401,849	56,110	-	-	24,270,769	214.71	0.49%
2006	20,549,999	1,315,836	19,093	-	-	21,884,928	193.43	0.41%
2007	18,202,188	1,226,813	-	-	-	19,429,001	170.72	0.35%
2008	15,735,780	1,134,675	-	-	2,504,362	19,374,817	170.02	0.34%
2009	14,490,700	1,039,311	-	-	1,595,174	17,125,185	147.02	0.30%
2010	12,475,693	940,612	-	-	650,474	14,066,779	120.05	0.24%



Note: (1) Data Not Available.
Source: Mesa Consolidated Water District Audited Financial Statements

**Mesa Consolidated Water District
Pledged-Revenue Coverage
Last Ten Fiscal Years**

Schedule 10

Fiscal Year	Operating Revenues	Operating Expenses ⁽¹⁾	Net Available Revenues	Debt Service			Coverage Ratio
				Principal ⁽²⁾	Interest	Total	
2001	19,153,000	(13,839,000)	5,314,000	2,020,000	1,686,213	3,706,213	1.43
2002	19,874,000	(14,656,000)	5,218,000	2,105,000	1,600,238	3,705,238	1.41
2003	20,634,000	(14,511,000)	6,123,000	2,210,000	1,318,881	3,528,881	1.74
2004	23,693,000	(17,364,000)	6,329,000	2,365,000	1,216,208	3,581,208	1.77
2005	22,449,000	(16,910,000)	5,539,000	2,430,000	1,142,650	3,572,650	1.55
2006	24,156,000	(18,967,000)	5,189,000	2,515,000	1,061,308	3,576,308	1.45
2007	28,709,000	(21,131,000)	7,578,000	2,600,000	976,375	3,576,375	2.12
2008	26,706,000	(19,591,000)	7,115,000	1,375,000	808,270	2,183,270	3.26
2009	29,014,000	(20,308,000)	8,706,000	1,365,000	810,993	2,175,993	4.00
2010	31,286,000	(21,808,000)	9,478,000	1,440,000	574,455	2,014,455	4.71

Notes: (1) Operating Expenses Exclude Depreciation Expense.

(2) Includes Only Normal Principal Payments (payments as a result of debt refinancing not included).

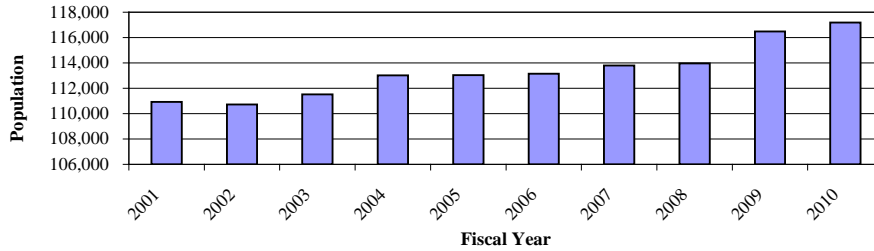
Source: Mesa Consolidated Water District Audited Financial Statements.

Mesa Consolidated Water District Demographics and Economics Statistics Last Ten Fiscal Years

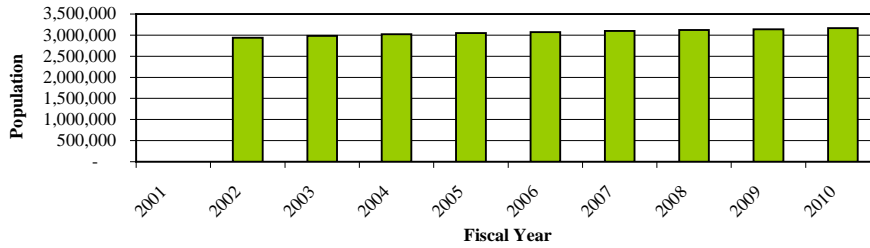
Schedule 11

Year	Costa Mesa		County of Orange		
	Population	Unemployment Rate	Population	Personal Income (thousands of dollars)	Personal Income per Capita
2001	110,932	2.5%	N/A	N/A	N/A
2002	110,720	3.9%	2,940,743	111,750,294	38,001
2003	111,512	4.9%	2,983,731	117,722,484	39,455
2004	113,011	4.5%	3,019,889	125,670,056	41,614
2005	113,042	4.0%	3,047,054	133,031,819	43,659
2006	113,143	4.6%	3,072,336	143,949,044	46,853
2007	113,805	4.4%	3,098,121	150,214,300	48,486
2008	113,955	5.5%	3,121,251	153,833,900	49,286
2009	116,479	8.4%	3,139,017	154,348,400	49,171
2010	117,178	8.5%	3,166,461	155,459,600	49,096 (1)

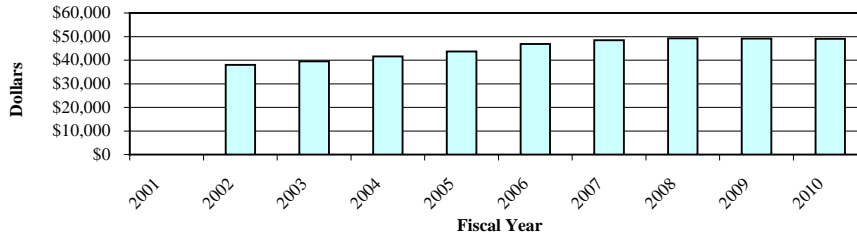
Population - Costa Mesa



Population - Orange County



Personal Income per Capita - Orange County



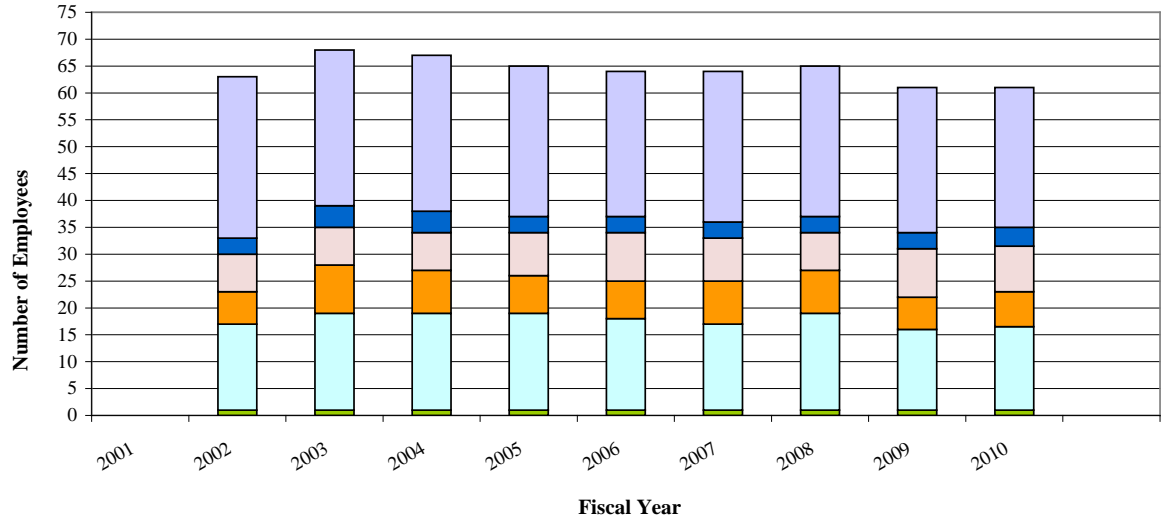
Note: (1) Mesa Consolidated Water District Estimate

Sources: Employment Development Department
 County of Orange Facts and Figures
 County of Orange Comprehensive Annual Financial Report
 California Department of Finance
 U.S. Department of Labor, Bureau of Labor Statistics
 Economic & Business Review, Chapman University Volume 28 Number 2 June 2010

**Mesa Consolidated Water District
Operating and Capacity Indicators
Last Ten Fiscal Years**

Schedule 12

Department	Fiscal Year									
	2001 (1)	2002	2003	2004	2005	2006	2007	2008	2009	2010
General Manager	N/A	1	1	1	1	1	1	1	1	1
Administrative Services	N/A	16	18	18	18	17	16	18	15	16
Engineering Services	N/A	6	9	8	7	7	8	8	6	7
Finance	N/A	7	7	7	8	9	8	7	9	9
Human Resources	N/A	3	4	4	3	3	3	3	3	4
Operations / Maintenance	N/A	30	29	29	28	27	28	28	27	26
Communications										2
	N/A	62	67	66	64	63	63	64	60	62



Note: (1) 2001 Data Not Available.
Source: Mesa Consolidated Water District

Other Operating and Capacity Indicators

Fiscal Year	District Area (Square Miles)	Miles of Pipeline	Number of Fire Hydrants	System Capacity (MGD)
2001	18	350	3,426	19
2002	18	300	3,444	18
2003	18	300	3,444	18
2004	18	300	3,452	19
2005	18	350	3,463	18
2006	18	350	3,465	18
2007	18	350	3,470	19
2008	18	350	3,457	17
2009	18	350	3,457	17
2010	18	350	3,383	17

Notes: (1) FY2010-Hydrant Records Reviewed. Non-Existent Hydrant files removed.
Source: Mesa Consolidated Water District-Engineering Department.

Report on Internal Controls and Compliance



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**Independent Auditor's Report on Internal Control Over Financial Reporting
And on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Board of Directors
Mesa Consolidated Water District
Costa Mesa, California

We have audited the basic financial statements of the Mesa Consolidated Water District (District) as of and for the year ended June 30, 2010, and have issued our report thereon dated December 8, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Directors and Management and is not intended to be and should not be used by anyone other than these specified parties.

December 8, 2010
Cypress, California

*Charles Z. Fedak & Co. CPAs
An Accountancy Corporation*