



Santa Margarita Water District
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2014
Rancho Santa Margarita, California



Santa Margarita Water District

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2014

Prepared by the Finance Department

26111 Antonio Parkway, Rancho Santa Margarita, CA 92688 • www.smwd.com

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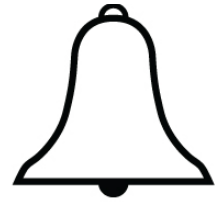
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Introductory Section



BOARD OF DIRECTORS
BETTY H. OLSON, PH.D
CHARLEY WILSON
CHARLES T. GIBSON
SAUNDRA F. JACOBS
JUSTIN McCUSKER



Santa Margarita Water District

October 16, 2014

The Honorable Board of Directors
Santa Margarita Water District
26111 Antonio Parkway
Rancho Santa Margarita, CA 92688

Dear Members of the Board of Directors:

We are pleased to introduce the inaugural issue of the Santa Margarita Water District (District) Comprehensive Annual Financial Report (CAFR) for the fiscal year ended on June 30, 2014. It is a very interesting time for the District and the water/wastewater industry. We are in a historic drought with the last three years being the driest in 120 years in the San Juan Basin where the majority of the District resides, while the State of California projects continual growth in population. The challenge for water providers is to promote water use efficiency and to develop a sustainable supply for the future. This CAFR provides significant highlights and trends along with explanation of the changes to the financial condition of the District. The primary purpose is to provide an opportunity to pause and reflect on the current financial picture and provide a vision of the near and long-term future for the District.

The District's accounting policies are in conformity with Generally Accepted Accounting Principles (GAAP) using pronouncements issued by the Governmental Accounting Standards Board (GASB). Management assumes full responsibility for the completeness and fairness of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. To the best of its knowledge, Management believes that all the enclosed data and disclosures are complete and accurate in all material respects, and reported in a manner designed to fairly present the District's financial position and results from its operations. The report is organized with the following sections:

- This Letter of Transmittal which provides a discussion on the District and its current activities.
- Independent Auditor's Report expressing an opinion on the basic financial statements based on the audit.
- The Management's Discussion and Analysis (MD&A) immediately follows the independent auditor's report. It provides a narrative consisting of highlights, an overview, and analysis of the financial activity for the fiscal year.
- Basic financial statements and the accompanying notes to the financial statements for the year ended June 30, 2014.
- Statistical section that provides detailed information augmenting the basic financial statements about the District's overall financial health.

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Santa Margarita Water District and Its Services

The District is celebrating its fiftieth year having been formed by local ranchers in 1964 on a portion of the historic Rancho Mission Viejo (RMV). With its current population of approximately 156,000 it means we have averaged a growth rate of 3,300 new residents per year or approximately 1,200 new dwelling units per year. Of course, the growth was not straight-lined; the first years were much slower, with the initial board comprised of landowners responsible for master planning the developments of Mission Viejo and Coto de Caza. The first connections to the District were in the late 1960's and early 1970's. The District's story has a history and culture of continual growth and the incumbent planning for that growth. In the last 10 years, as the District has matured, it has started to split its focus to include planning for capital replacement and water reliability as well as accommodating ongoing growth. Over the next 20 years, the District expects to add another 14,000 new connections as a result of community development in the undeveloped portions of RMV under the General Plan amendment known as "The Ranch Plan."



Service Area

The District provides potable water, recycled water and wastewater service within its boundaries. The District also has responsibility for inter-agency coordination and long range planning to meet future water supply and wastewater treatment needs for its service area. Individual improvement districts (further referenced in the Statistical section - Assessed Values by Improvement District) function as operating units and provide a basis for facilities design and adoption of plans of work for construction of facilities, and authorization and sale of bonds. The improvement districts are not operated as separate or independent governmental entities, nor do they have governing boards or any staff. They are geographical subdivisions of the District through which the District funds capital improvements. Land within the improvement districts, that have plans of work that have been adopted and with bonds authorized by landowner vote, account for 83.5% of the District, or 52,424 acres. The remaining acreage within the District includes County of Orange Ronald W. Caspers Wilderness Park, County of Orange Prima Deshecha Landfill, and Starr Ranch (an Audubon Society preserve), all of which encompass 10,250 acres. The District includes approximately the easterly half of the territory within the City of Mission Viejo, the City of Rancho Santa Margarita, the Talega community within the City of San Clemente, and the unincorporated cities of Coto de Caza, Ladera Ranch, and Las Flores.

Governance

The District is governed by a five-member Board of Directors elected at large by registered voters. The terms are for four years and the elections are staggered every two years on even years. The Directors are active in the community and in the water industry, holding leadership positions in advocacy groups such as Association of California Water Agencies, Southern California Water Committee and the Western States Water Council. They are recognized as leaders in Orange County and in the State, bringing a variety of backgrounds to establish policy direction for the District. The powers and functions of the District are exercised by its Board of Directors.

Employees

The District has 122 full time equivalent employees who effectively operate a complex business that delivers a product that is vital to the health of the community. The District is organized under the direction of a General Manager; only the sixth General Manager in the 50-year history of the District which shows the stability over the years. The District has recognized one employee bargaining unit, the Santa Margarita Water District Employee Association (SMWDEA). SMWDEA represents the District hourly and non-confidential

employees and includes 93 individuals. The District and SMWDEA have a four-year Memorandum of Understanding that governs the employee policies, procedures, and benefits in effect during the fiscal year.

The District is organized into four primary divisions: Administration, Engineering, Finance and Operations under the executive team. While we have divisions, the work efforts and teams are supportive across department lines. The philosophy of the management has been to push the authority and responsibility to rank and file and allow people to perform at a higher level. This philosophy allows for development of leadership skills throughout the organization and benefits the District by having well-rounded employees. The average tenure is 11 years.

District Services

The District provides three core services to the community:

Drinking or “Potable” Water System

The District is a member of Municipal Water District of Orange County (MWDOC), which wholesales water within Orange County and is a member of the Metropolitan Water District of Southern California (MWD). Currently the District provides potable water treated by MWD at the Diemer Filtration Plant. The District has made major improvements over the last 10 years to enhance the reliability of the water supply system including the construction of the Upper Chiquita Reservoir, interconnections with Irvine Ranch Water District to deliver water from North Orange County and participation in the ongoing construction of the Baker Filtration Plant, which will treat raw water delivered by MWD via MWDOC or water from Irvine Lake. These facilities, in addition to the other District storage facilities including the El Toro Water District R-6 Reservoir, help provide the District with up to 30 days of average water supply in event of a failure of the importation system.

The District delivers water that meets or exceeds all the Federal and State requirements for drinking water and issues an annual Water Quality Report that summarizes the testing. We operate a certified laboratory to perform the majority of the testing.

Wastewater System

The District operates the sewage collection system and three wastewater treatment plants and is also a member of the South Orange County Wastewater Authority (SOCWA) which is a Joint Powers Authority that operates regional treatment plants. The District owns capacity in two treatment plants operated by SOCWA, the Jay B. Latham and the 3A Water Reclamation Plants and approximately 2.5 million gallons per day (MGD) are treated on behalf of the District. The plants operated by the District are:

- Chiquita Water Reclamation Plant treating approximately 6.3 MGD
- Oso Creek Water Reclamation Plant treating approximately 1.8 MGD
- Nichols Water Reclamation Plant, a small plant operated by the District under contract with Quest Diagnostics

The District is located in a series of valleys and it requires the operation of 17 sewage lift stations to pump wastewater to the various treatment plants. Operation of the collection system is a very important activity and the District video tapes the sewer lines to check for blockages and problem areas as well as operates a fleet of vac-trucks to clean the system. The lift stations are regularly maintained and tested to ensure continuous operation. Back-up power supplies are also maintained by the District in case of outages. The treatment plants are connected to the Dana Point Ocean Outfall for disposal of secondary effluent if the water is not recycled.

Recycled Water System

The District has the capacity to produce up to 7.8 MGD. Currently 17% of the District’s water supply is from recycled water and urban return flows; used for irrigation and construction purposes within the District.

Recycled water is an important element of the District's current and future water supply portfolio with plans to increase to 30% of the overall supply. Recycled water is produced at the Oso Creek and Chiquita Water Reclamation Plants and stored in the Upper Oso Seasonal Storage Reservoir.

The water is delivered to parks, medians, slopes, golf courses and schools in Mission Viejo, Las Flores, Ladera Ranch, Village of Sendero and the Talega community. The District is actively working on sites for conversion to recycled water to offset the demand for domestic water.

Water, Recycled and Wastewater Rates

Rates are established to cover the fixed and variable costs of delivering water and wastewater services to the District's customers. Due to steadily rising costs of imported water from our supplier, MWD, and general inflationary cost increases as measured by the Consumer Price Index (CPI), the District increased its water and sewer rates beginning January 1, 2014. Since more than half of the District's operating budget is dedicated to purchasing water and energy, an increase in rates was necessary to ensure the delivery of a safe, reliable water supply.

The District's Board reviews water, wastewater and recycled water rates and fees annually (and more frequently if warranted) to ensure the District continues to operate cost-effectively while delivering a safe, reliable water supply to the customer's tap. The review also ensures compliance with stringent wastewater treatment and disposal regulations, and re-use of recycled water for irrigation.

Water and Recycled Water Charges

The District charges all customers a fixed basic service rate for domestic water and recycled water. As of January 1, 2014, for a residential account with a ¾-inch meter, these fixed monthly costs are \$6.41 for water. Additionally, there is a tiered rate structure for the volumetric charge for water based on the amount of water used by residential customers. The commercial and irrigation customers are charged a flat rate per unit for all water passed through a meter.

To encourage conservation and cover the cost of buying water from MWD at a higher rate, a tiered rate system on actual units of water per hundred cubic feet (ccf) used is in place for residential water usage. This system imposes higher rates on customers who use larger amounts of water. One ccf unit equals 748 gallons. The per-unit charge covers the water delivery cost. It also covers the cost of treating the water to ensure that it's safe to drink, as well as energy costs for pumping the water to customers.

Customers who live in an elevated area within the District where water is pumped to their location may pay a power surcharge. The surcharge passes through to the customer the cost the District pays for electricity to pump the water. The surcharge is determined by the pumping zone. There are three pumping zones in the District that are assessed a surcharge. This rate applies to domestic and non-domestic water.

Wastewater Charges

The District charges a fixed basic service rate for all wastewater/sewer customers. As of January 1, 2014, a residential account with a ¾-inch meter, the fixed monthly costs is \$9.26 for sewer. Additionally, there is a sanitation volumetric charge of \$1.06 per unit. For commercial customers, the fixed basic service rate is based on meter size and the sanitation volumetric charge is calculated on 90% of the total water consumption and is also based on the type (quality) of wastewater discharged by different classes of users.

Customer Base and Growth in the District (number of accounts, types of accounts and population)

The District has a strong customer base of approximately 156,000 residents in well-planned communities throughout southeast Orange County including Mission Viejo, Rancho Santa Margarita, Coto de Caza, Las

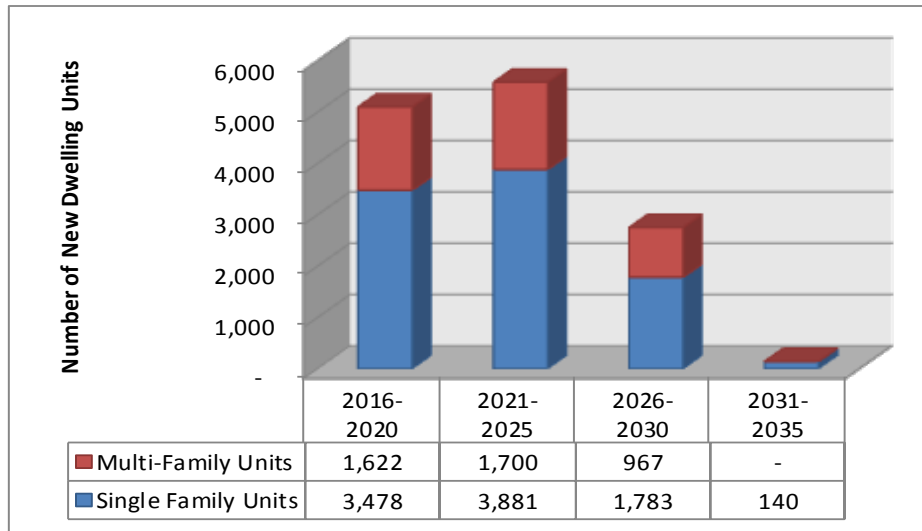
Flores, Ladera Ranch, the Talega community, and the newest development of the Village of Sendero. The District plans for development activities to continue to occur within the District with the addition of approximately 38,000 new residents in final developments within the District known as The Ranch Plan. Facilities needed to serve the initial phases of RMV's The Ranch Plan are currently being constructed. The facilities required to support later stages of the development are projected based on a District-prepared Plan of Works. Residential tract infrastructure for Village of Sendero near the Antonio Parkway and Ortega Highway intersection is generally complete. Home construction in Sendero Village is anticipated to continue for another year or more but by May 2014, approximately 500 homes had been sold.

The following table is a summary of projected new growth to occur in the District over the next five fiscal years. The projection summary indicates that by June 2015, approximately 600 new single family residences and 500 multiple family units may be occupied. Most of the projected new occupancies will occur in The Ranch Plan areas. With in-fill residential units anticipated to be built in existing community areas and new homes being occupied in Sendero Village, by mid-2015 a total of approximately 1,100 new single and multiple family units could be served by the District.

Projected New Dwelling Units 2015-2019

Community	Improvement District	2015	2016	2017	2018	2019
Coto de Caza	I. D. No. 2	2	2	2	2	1
Ladera Ranch	I. D. No. 4D	12	12	12	12	12
Sendero Village PA 1	I. D. No. 4E	585	-	-	-	-
Chiquita Canyon PA 2	I. D. No. 4C	-	150	852	600	402
RMV Gobernadora PA 3	I. D. No. 5	-				300
Talega Valley	I. D. No. 7	4	4	2	-	-
Single Family Units		<u>603</u>	<u>168</u>	<u>868</u>	<u>614</u>	<u>715</u>
Sendero Village PA 1	I. D. No. 4E	502	-	-	-	-
Orange County Affordable Housing	I. D. No. 4C/5	-	100	-	-	-
Chiquita Canyon PA 2	I. D. No. 4C	-	100	182	240	500
Multi-Family Units		<u>502</u>	<u>200</u>	<u>182</u>	<u>240</u>	<u>500</u>
Total Additional Units		<u>1,105</u>	<u>368</u>	<u>1,050</u>	<u>854</u>	<u>1,215</u>

The following graph displays the projected District growth in five-year increments until 2035. In addition to The Ranch Plan entitlement amount (The Ranch Plan has an entitlement of 14,000 residential units), the County of Orange has allocated a maximum of 400 affordable housing units to be constructed within the RMV development areas within the District.



Mass grading of the initial phases of The Ranch Plan PA-2, known as the Village of Esencia development area began in late 2013. Water, wastewater and recycled water pipeline construction to serve approximately 65% of the total PA-2 development area is anticipated to begin in late third quarter of 2014. Home sales in The Ranch Plan PA-2 area are expected to start in late 2015 or during early 2016. RMV estimates that by mid-2016, 150 dwelling units may be occupied. An estimated 100 of the proposed County affordable housing units have been allotted to the PA-2 community area and may also be occupied by mid-2016.

The proposed PA-3 planned community area is located to the east of the Village of Esencia and adjacent to the east side of Cañada Gobernadora Creek. RMV has revised dwelling unit projections to indicate that residential occupancies will not start in PA-3 until 2019. Without specific information on where County affordable housing units will be built, the District’s summary has allotted the remaining 300 of the County units to the PA-3 area.

Water Production Sources in the District and Water Reliability

Water supply and system reliability are very important to the District. We established a goal of providing 30% to 50% of our domestic drinking water from sources other than importing from MWD as a prudent step to insulate our customers from the vagaries of the State of California. The District is pursuing a number of water supply projects described below to meet this goal.

The District has a long history of water use efficiency with the development of its first water recycling projects in 1979. Currently 17% of the District’s water supplies are served by a combination of recycled water and urban return flows. The District is a leader in the state in collection and reuse of urban water used by its customers. The Oso Creek Barrier has been in operation to collect non-storm flows in Oso Creek for the Mission Viejo Golf Course irrigation purposes since 1979, the Barrier collects an average of one million gallons per day which directly offsets the needs for imported water.

The State of California is requiring all urban water agencies to reduce per capita water use by 20 percent by 2020, the so-called 20x2020 requirement. We are proud to say we have met the goal in 2014 and have a water use efficiency master plan to continue to reduce the per capita use within the District.

In addition to the 20x2020 rule, Governor Brown requested a 20% cutback in his drought declaration this year and the State Water Resources Control Board enacted regulations requiring mandatory outdoor use restrictions. In response the District enacted Stage 2 of its water conservation ordinance which limits outdoor

irrigation and has increased its public outreach program to engage customers in helping the District meet the requested flow reductions.

Efficiencies in District Operations

We are proud of the efforts of the District employees to continuously improve and plan for efficiencies. In 1994, the District had over 160 employees and currently we have less than 130, but have added over 20,000 new connections. The District has implemented a variety of new technologies to maintain a high level of service while efficiently managing its resources. Examples include being the first water quality laboratory to fully automate its data collection and reporting; the water distribution and wastewater collection systems are also fully automated through the state of the art Supervisory, Control and Data Acquisition System (SCADA) which allows for remote operation of all facilities including the treatment plants.

We are embarking on a review of the District's enterprise software during the upcoming year to implement our current master plan. The effort includes the financial software as well as the customer service and web interface. The proposed system upgrades will allow for planned growth within the District and enhance the ability of the staff to provide water use efficiency data and customer service.

We are particularly proud to note this year, the District has reduced the weekly customer turn-offs for non-payment by over 200%, from an average of 75 to less than 25. The staff took the initiative to reach out and make personal contact with customers to assist them with payment options. This was done during regular hours and has resulted in saving two days a week for a field crew to turn meters on and off. This is an example of the culture at the District, to continuously review current practices and look for innovative solutions.

Accounting and Budgetary Controls

In developing and evaluating the District's accounting system, consideration is given to the adequacy of internal controls. Internal accounting controls are designed to provide reasonable, but not absolute assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the costs of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management. We believe that the District's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

On an annual basis, each department head is responsible for developing a detailed budget for their area of responsibility. The annual budget serves as each manager's plan to meet the goals of the District for the coming year, as well as employing its guiding principles and overall mission statement. The annual operating budget and capital budget are also used to develop the goals and objectives for the District and its employees. The budget is viewed as the financial control over the District's operations and provides accountability for the District. Each month the financial results are compared to the budget with variance explanations provided. On a quarterly basis, the District reforecasts the annual budget and identifies the cause of any variances from the budget. The Board of Directors annually adopts the operating and capital budget prior to the new fiscal year.

Debt Administration

At June 30, 2014, the District had \$142,120,000 in general obligation bonds outstanding, and \$151,130,000 in community facility bonds outstanding. The weighted average cost on all outstanding general obligation and community facilities district debt as of year-end was 5.177%. The District also had \$10,383,922 of notes payable as of June 30, 2014. It is the general intent of the District that non-operating revenues, primarily special assessment for debt service, are adequate to provide for debt service. In addition, the District may

collect funds from standby charges, connection charges, and various other revenue sources should they occur. The pledged revenues exceed the annual debt service of the bonds.

Reserves Policy

The Board of Directors adopted a reserve policy for the District which states the purpose, source, and funding limits for each of its unrestricted and designated reserves in 3 categories: Operating Reserves, Capital Reserves, and Pension Reserves. The reserves are necessary to maintain liquidity enabling the District to invest these funds for future operating and capital requirements, such as for operating and capital emergencies, and planned replacement, repairs, and refurbishment. The funding level and types of reserves are reviewed, and modified as necessary, annually by the Board of Directors.

Administrative Code and Investment Policy

The Board of Directors adopted an Administrative Code, which includes policies, procedures, and controls over various operating and administrative duties. An Investment Policy, as adopted by the Board of Directors, gives guidance to the District in terms of how to invest its funds in instruments permitted by the California Government Code Sections 53601 et seq. The investment objectives of the District are to provide a balanced portfolio with the overall objective to preserve capital, maintain liquidity, and maximize the rate of return.

Annual Audit

The District is required by bond covenants and state statutes to obtain an annual audit of its financial statements by an independent certified public accountant. Based on best practices, the Board requires that the District rotate audit firm every 5 years or sooner. The accounting firm of McGladrey LLP conducted this year's audit for the first time. Their audit report, which contains an unmodified opinion, is included in the financial section of this report.

Major Initiatives

Cadiz Valley Water Conservation, Recovery and Storage Project

Cadiz, Inc. and the District entered into a public private partnership to develop the Cadiz Water Conservation, Recovery and Storage Project located in the Fenner Valley in the County of San Bernardino. The project will develop an underutilized water supply that currently evaporates from dry lakes and put it to beneficial use. The project is designed to average 50,000 acre-feet (AF) per year of water supply delivered to the MWD Colorado River Aqueduct for transporting to South California Water Agencies. The District has a firm capacity of 5,000 AF in the project and an option for an additional 10,000 AF. Several other public and private water purveyors have signed letters of intent to purchase water from the project.

The District is the lead agency on the project and certified the environmental impact report in 2012, the Orange County Superior Court recently ruled in favor of the District on challenges brought against the certification. The County of San Bernardino is also a strong partner in the project, providing additional oversight with the Groundwater Monitoring, Management and Mitigation Plan, an agreement between the County, the District and Cadiz which puts into place the joint controls for ensuring the project operates as planned.

The next steps include finalizing the design of the project including the well field, pipeline, water quality and interconnection with the MWD facilities. In addition, the District will be working to develop an agreement with MWD for delivery of the water and finalizing the formation of the Fenner Valley Joint Powers Authority for the operation of the project.

San Juan Basin Authority Project

The San Juan Basin Authority (SJBA) is a joint powers agency; its members include the City of San Juan Capistrano, South Coast Water District, Moulton Niguel Water District and the District. SJBA was formed to manage and develop the potential groundwater supplies in the San Juan Basin which is formed by the San Juan Creek and its tributaries. SJBA recently completed the draft San Juan Basin Groundwater and Facilities Plan Update and identified that it may be possible to develop a project to recharge the basin with a combination of storm flows, urban return flows and recycled water to maximize the potential water supply.

Currently the San Juan Basin is experiencing its lowest rainfall in any three-year period in recorded history. This has required groundwater producers to reduce production. The proposed project would help alleviate this situation from occurring in the future and would result in a reliable local supply for the District. The project would reduce the District's dependency on imported water. Current activities include reviewing recharge basin project sites and availability of recycled water. The District has obtained a grant from the United States Bureau of Reclamation for funding assistance on the project.

Gobernadora Multipurpose Basin

Cañada Gobernadora is the rechannelized creek that transverses the development of Coto de Caza, it was developed along with the community to serve as the storm flow and urban runoff channel. It was built primarily in the 1980's and met the design criteria in place at the time and did not include facilities to reduce or detain flows. The downstream ecological area and critical District facilities were impacted by high storm flows in Cañada Gobernadora. The District, worked with RMV and the County of Orange to develop the Gobernadora Multipurpose Basin to capture urban return flows, develop a wetlands treatment process and reduce peak storm flow rates.

The first phase of the project is nearing completion and will be placed in operation before the end of 2014. The project will divert low flows into the upper basin and they will transverse a series of basins to settle debris and continue through wetlands for collection and reuse in the irrigation system. The project will provide 400 to 750 AF per year of new supply to the District that reduces demand for imported water. The lower basin is also under construction. The lower basin will provide for storm retention and may be used for recharging the basin with recycled water.

Baker Filtration Plant

The Baker Filtration Plant is a joint project being constructed by Irvine Ranch Water District on behalf of the District, Moulton Niguel Water District, El Toro Water District, Trabuco Canyon Water District and itself. The Baker Plant treats raw water from MWD and/or Irvine Lake to meet drinking water standards. It provides an important system reliability component to the District as an alternative to the Diemer Filtration Plant which is currently the primary supply of drinking water to South Orange County. The District will obtain 13 cubic feet per second (cfs) delivered to the existing South County Pipeline when the plant is completed in 2016. The Baker Plant, along with Upper Chiquita and R-6 Reservoirs, helps the District meet its goals for system reliability to be able to sustain a short-term outage of 30 days of the MWD domestic water system.

Desalination

Poseidon Water is proposing to develop a privately owned 50 MGD ocean desalination plant in Huntington Beach. The project is in the permitting stages and Poseidon is working with the Coastal Commission to obtain a coastal development permit. The activities include developing a report on alternatives to open ocean intake facilities. The District has entered into a non-binding letter of intent to purchase 5,000 AF per year in the project.

A second ocean desalination project is proposed for Dana Point - the Doheny Desalination Plant is proposed to produce up to 15 MGD and is under preliminary design. MWDOC and South Coast Water District are the

lead agencies on the development of the project. Doheny Desalination may work in conjunction with the SJBA project to help provide for a seawater barrier along the coast.

Alternative Energy Program

The water-energy nexus is important to recognize as a water agency and the District is pleased to be pursuing alternative energy projects. We have been producing energy from methane generated at the Chiquita Water Reclamation Plant through micro-turbines for a number of years and we are considered leaders in their use based on our long-term record. In addition, this year the District entered into contracts to develop solar energy projects at the District headquarters and at the Chiquita Plant. The power produced will reduce the peak demand on the power grid and will supply 70% of the power used at the District headquarters building.

In addition, the District is working with vendors to convert the bio-solids produced at the Chiquita Plant into energy as a byproduct to the reduction in bio-solids. The proposed projects may not only reduce the District's need to haul bio-solids but will also help provide electrical power in conjunction with the existing micro-turbines and proposed solar project to have the Chiquita Plant 90% off of the power grid.

Recycled Water Program

This year, the District increased its recycled water capacity at the Chiquita Plant to 6.0 MGD through a project to increase the efficiency of the disinfection system. This has allowed the District to expand its use of recycled water to include delivery to the City of San Juan Capistrano. A key element to establish a long term reliable supply of recycled water is seasonal storage. Seasonal storage allows the agencies to produce recycled water year round and store in the periods of low demands for use during peak demands. The District is pursuing conversion of an existing facility to a recycled water reservoir with capacity for regional participation.

Trampas Canyon Seasonal Storage

The Trampas Canyon Reservoir was constructed in 1973-1975 and has been used as a tailing retention facility for a quarry located in Trampas Canyon currently operated by Lapeyre Industrial Sands. The existing dam is an Earthfill dam and the District's contractor is developing a preliminary plan for submittal to the Division of Safety of Dams (DSOD) to increase the capacity from 3,000 to 5,000 AF. The project is proposed to be developed over the next 24 to 36 months at an estimated cost of \$40 to \$55 million.



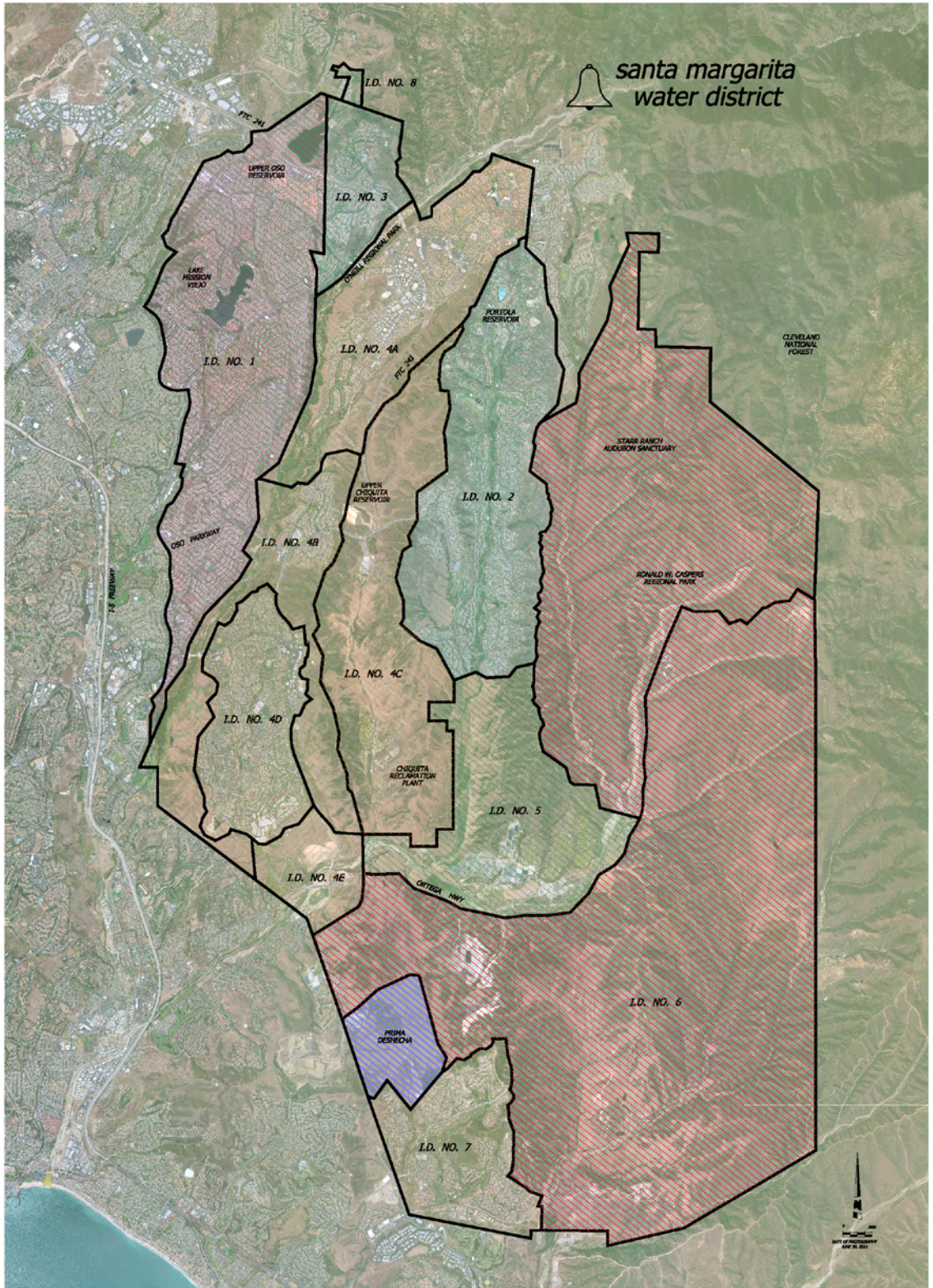
Acknowledgements

We would like to express our appreciation to all members of the District's staff, particularly the members of the Finance Department who participated in the preparation of this inaugural report. We would also like to thank the Board of Directors for their continued interest and support in all aspects of the District's financial management.

Respectfully submitted,

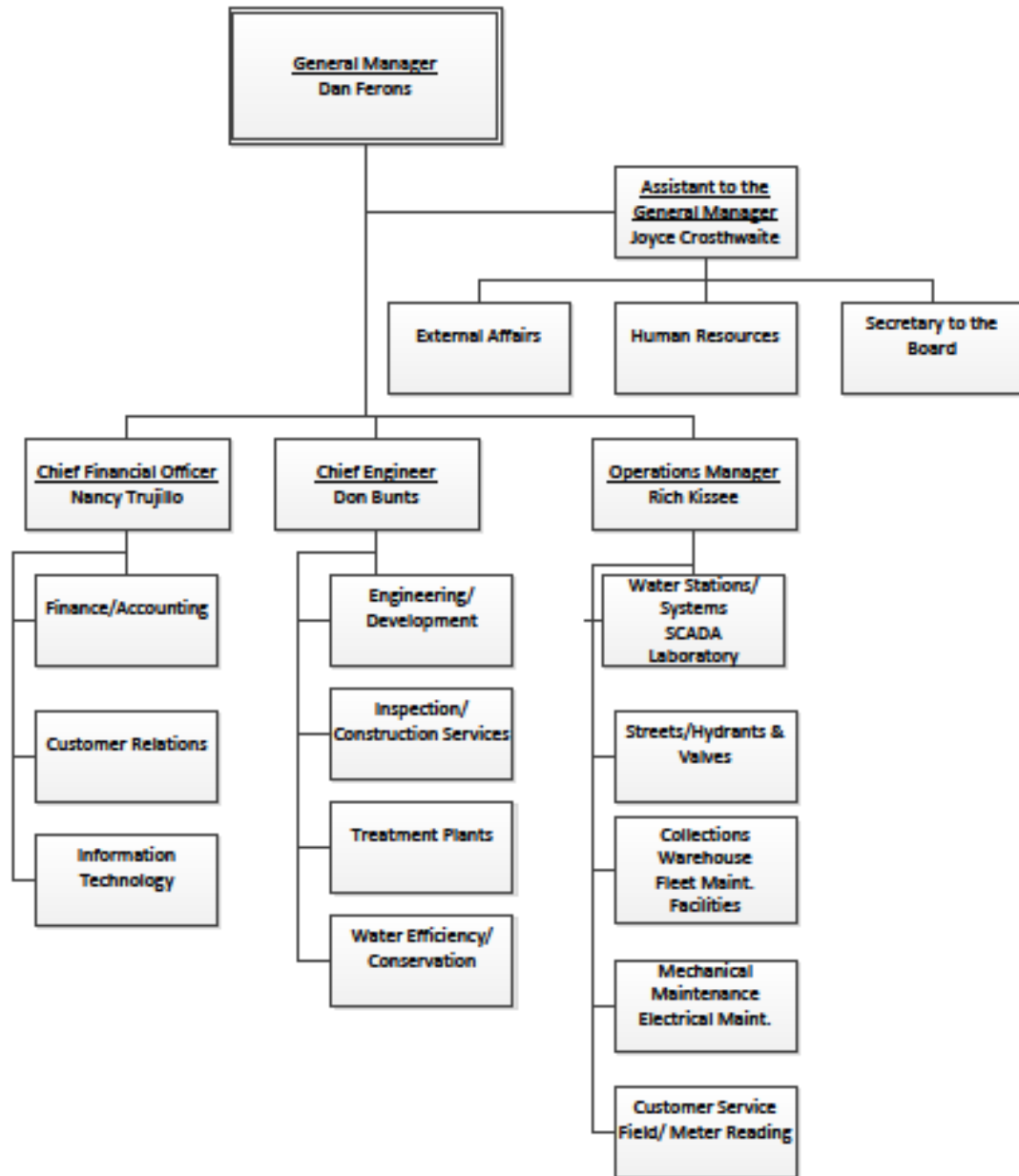
Daniel Ferons
General Manager

Nancy E. Trujillo, CPA
Chief Financial Officer



SCALE 1"=2000'

Santa Margarita Water District



District Officials

Elected/Appointed Board of Directors:

Name	Length of Service	Current Term of Service
Saundra F. Jacobs	18 Years	2010-2014
Betty H. Olson, Ph. D.	20 Years	2012-2016
Charley Wilson	14 Years	2012-2016
Charles T. Gibson	2 Years	2012-2016
Justin McCusker	1 Year	2013-2014

District Management:

Name	Position
Daniel R. Feron	General Manager
Don Bunts	Chief Engineer
Nancy E. Trujillo	Chief Financial Officer
Rich Kisse	Operations Manager
Joyce Crosthwaite	Assistant to the General Manager
Kelly Radvansky	Secretary to the Board

Financial Section



Independent Auditor's Report

Board of Directors
Santa Margarita Water District
Rancho Santa Margarita, CA

Report on the Financial Statements

We have audited the accompanying financial statements of the Santa Margarita Water District (the District) as of and for the year ended June 30, 2014 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2014, and the changes in its financial position and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis and funding progress for defined benefit pension plan* on pages 16–20 and 52, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of the District. The *introductory and statistical sections* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The *introductory and statistical sections* have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

McGladrey LLP

Irvine, CA
October 16, 2014

Santa Margarita Water District
Management's Discussion and Analysis
For the Year Ended June 30, 2014

This section of the Santa Margarita Water District's (District) annual financial report presents Management's Discussion and Analysis of the District's financial performance during the fiscal year ended June 30, 2014. The information presented here is to be read and considered in conjunction with additional information provided with the letter of transmittal and the basic financial statements and accompanying notes.

Fiscal Highlights

- Cash and investments of \$202.6 million on June 30, 2014 represents an increase of \$35.4 million (21%) compared to the prior year balance of \$167.2 million. This is primarily due to the addition of construction cash resulting from the bond issued during the fiscal year.
- The net capital asset balance of \$532.7 million at June 30, 2014 increased \$21.8 million (4.3%) compared with the prior year balance of \$510.9 million. The largest increase in capital assets was in construction in progress. There are several construction projects that were active during the year but not completed including: Gobernadora Multi-Purpose Basin project, PA-1 (Sendero) costs for the District's share of the Middle Chiquita Reservoir, and domestic and recycled water transmission pipelines.
- The District's total revenues increased \$13.0 million or 14.3% from the prior fiscal year. This is due to a rate increase during the fiscal year, and the increase in ad-valorem property tax resulting from an increase in assessed values and the sale of excess capacity in a pipeline.
- The District's total expenses increased \$3.8 million or 10.4% from the prior fiscal year. This is due to the need to purchase additional water due to weather conditions and increased interest expense resulting from the additional 2013 Series CFD bonds that were issued during the fiscal year.

Overview of the Financial Statements

This annual financial report consists of two parts, Management's Discussion and Analysis and the basic financial statements, including notes to the financial statements. The District's financial statements offer key, high-level financial information about the District's activities.

The District is a self-supporting entity that follows enterprise fund accounting and presents its financial statements on the accrual basis of accounting.

The Statement of Net Position includes information on all the District's assets and deferred outflows, liabilities and deferred inflows, with the difference between assets and deferred outflows and liabilities and deferred inflows reported as net position. Changes in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Position presents information regarding how the District's net position changed during the fiscal year ended June 30, 2014. All changes in net position reflect the transactions giving rise to the change.

The Statement of Cash Flows 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

**Santa Margarita Water District
Management's Discussion and Analysis
For the Year Ended June 30, 2014**

changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities and provides information on the sources and uses of the District's cash.

Financial Analysis of the District

The District's financial statements begin on page 9 of this document. In reviewing the statements, one of the most important questions to ask about the District's finances is "Is the District, as a whole, better off or worse off as a result of the year's activities?" The statement of Net Position, and the Statement of Revenues, Expenses and Changes in Net Position report information about the District's activities in a way that will help answer this question. Over time, increases or decreases in the District's net position is one indicator of whether its financial health is improving or deteriorating. However, one needs to consider other non-financial factors such as changes in economic conditions, population growth, zoning, and new or changed government legislation.

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 15 through 40.

Condensed Statement of Net Position

	Fiscal Year 2014	Fiscal Year 2013	Increase (Decrease)	Percent Increase (Decrease)
Assets				
Current Assets	\$ 144,861,122	\$ 186,092,396	\$ (41,231,274)	-22.2%
Capital assets, net	532,656,604	510,889,587	21,767,017	4.3%
Non-Current Asset	74,595,481	-	74,595,481	100.0%
Total assets	752,113,207	696,981,983	55,131,224	7.9%
Deferred outflow of resources	4,701,076	5,583,149	(882,073)	-15.8%
Total assets and deferred outflows of resources	756,814,283	702,565,132	54,249,151	7.7%
Liabilities				
Current Liabilities	41,742,767	34,139,844	7,602,923	22.3%
Non-Current Liabilities	296,966,766	259,133,800	37,832,966	14.6%
Total Liabilities	338,709,533	293,273,644	45,435,889	15.5%
Net Position				
Net investment in capital assets	302,966,953	277,327,900	25,639,053	9.2%
Restricted	45,816,869	44,250,055	1,566,814	3.5%
Unrestricted	69,320,928	87,713,533	(18,392,605)	-21.0%
Total Net Position	418,104,750	409,291,488	8,813,262	2.2%
Total liabilities and net position	\$ 756,814,283	\$ 702,565,132	\$ 54,249,151	7.7%

Santa Margarita Water District
Management's Discussion and Analysis
For the Year Ended June 30, 2014

The District's total assets increased \$55,131,224 or 7.9% to \$752,113,207 compared with the prior year of \$696,981,983 primarily due to the issuance of new debt which includes construction funds that had not all been spent by the end of the fiscal year. This new debt also impacted the increase in total liabilities to \$338,709,539 from \$293,273,644 or 15.5% from the prior year.

Net Position increased by \$8,813,262 or 2.2% to \$418,104,750 compared to prior year. By far the largest portion of the District's net position (72% as of June 30, 2014 and 68% as of June 30, 2013) reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are not available for future spending.

At the end of fiscal year 2014 and 2013, The District shows a positive balance in its unrestricted net position of \$69,320,928 and 87,713,533 respectively to be utilized in future years. Unrestricted net position decreased primarily due to more funds being restricted with the issuance of the 2013 Series Special Tax bonds and the use of funds to prepay the Allen-McCulloch Pipeline operating lease.

Santa Margarita Water District
Management's Discussion and Analysis
For the Year Ended June 30, 2014

Condensed Statement of Revenues, Expenses and Changes in Net Position

	Fiscal Year 2014	Fiscal Year 2013	Increase (Decrease)	Percent Increase (Decrease)
Operating Revenues:				
Water Sales	\$ 36,178,908	\$ 32,981,298	\$ 3,197,610	9.7%
Sanitation Charges	19,033,220	17,715,923	1,317,297	7.4%
Other Charges or Services	4,229,003	2,980,019	1,248,984	41.9%
Total Operating Revenues	59,441,131	53,677,240	5,763,891	10.7%
Operating Expenses:				
Water and Sanitation Expenses	45,050,626	39,962,537	5,088,089	12.7%
Compensation	14,606,120	14,677,928	(71,808)	-0.5%
General and Administrative	3,484,417	3,127,012	357,405	11.4%
Total Operating Expenses before depreciation and amortization	63,141,163	57,767,477	5,373,686	9.3%
Depreciation and Amortization	16,985,856	17,101,815	(115,959)	-0.7%
Operating (loss)	(20,685,888)	(21,192,052)	506,164	-2.4%
Non-Operating Revenues (Expenses)				
Special Assessment for Debt Service	29,694,891	26,882,700	2,812,191	10.5%
Other Non-Operating Revenues	14,838,897	10,435,978	4,402,919	42.2%
Interest Expense	(14,566,035)	(12,169,963)	(2,396,072)	19.7%
Other Non-Operating Expense	(4,103,448)	(2,474,481)	(1,628,967)	65.8%
Total Non-operating Revenues(Expenses)	25,864,305	22,674,234	3,190,071	14.1%
Net Income before contributed capital	5,178,417	1,482,182	3,696,235	249.4%
Contributed capital	3,634,845	1,828,196	1,806,649	98.8%
Change in net position	8,813,262	3,310,378	5,502,884	166.2%
Net position beginning of year	409,291,488	405,447,273	3,844,215	0.9%
Prior period adjustment		533,837	(533,837)	-100.0%
Net position end of year	\$ 418,104,750	\$ 409,291,488	\$ 8,813,262	2.2%

In 2014 the District's total operating revenues increased 10.7% or \$5,763,891 due to increased sales as customer demand increased due to weather conditions and a rate increase effective January 1, 2014. In 2014 the District's total operating expenses before depreciation and amortization increased 5.9% or \$3,396,699 due to increased demand resulting in increased water purchases.

Net non-operating increased due to a rise in special assessment for debt service revenue of \$2,812,191 resulting from an increase in assessed values attributable to the improvement in the real estate market as well as additional ad-valorem taxes due to the issuance of the Sendero 2013 Community Facilities District (CFD)

Santa Margarita Water District
Management's Discussion and Analysis
For the Year Ended June 30, 2014

and the sale of excess capacity in a pipeline for \$4,117,110. These revenues were partially offset by issuance costs for the new CFD bond issued as well as payment of reimbursement agreements from the bond funds.

In 2014 the District's capital contribution increased 98.8% or \$1,806,649 primarily due to an increase in receipt of grant funds for capital facilities.

Restrictions, commitments or other limitations significantly affect the availability of fund resources for future use. Future commitments include bond refinancing in fiscal year 2015 that will reduce the total debt for the District.

Capital Asset Administration

At the end of fiscal year 2014 and 2013, the District's investment in capital assets amounted to \$532,656,604 and \$510,889,587 (net of accumulated depreciation and amortization), respectively. The largest category that increased during the fiscal year was construction in progress. Several large construction projects occurred during the fiscal year but were not completed. Additional information regarding the District's capital assets can be found in Note 5 of this report.

	Fiscal Year	Fiscal Year	Increase	Percent
	2014	2013	(Decrease)	Increase
			(Decrease)	(Decrease)
Water plant	\$ 388,167,572	383,838,198	\$ 4,329,374	1.1%
Sewer plant	208,091,030	207,993,474	97,556	0.0%
Water and sewer infrastructure*	155,312,220	154,995,307	316,913	0.2%
Operational equipment	11,245,599	12,489,545	(1,243,946)	-10.0%
Administration building	9,687,807	9,687,807	-	0.0%
Capacity Rights	948,128	1,823,324	(875,196)	-48.0%
Miscellaneous/Master Plan	825,478	825,478	-	0.0%
Total depreciable assets	<u>774,277,834</u>	<u>771,653,133</u>	<u>2,624,701</u>	<u>0.3%</u>
Depreciation and Amortization	<u>(298,950,957)</u>	<u>(284,475,630)</u>	<u>(14,475,327)</u>	<u>5.1%</u>
Net depreciable assets	<u>475,326,877</u>	<u>487,177,503</u>	<u>(11,850,626)</u>	<u>-2.4%</u>
Construction in progress	48,517,805	14,900,162	33,617,643	225.6%
Land	5,148,656	5,148,656	-	0.0%
Land - Administration building	3,663,266	3,663,266	-	0.0%
Total non-depreciable assets	<u>57,329,727</u>	<u>23,712,084</u>	<u>33,617,643</u>	<u>141.8%</u>
Total Assets, net	<u>\$ 532,656,604</u>	<u>\$ 510,889,587</u>	<u>\$ 21,767,017</u>	<u>4.3%</u>

*Water and Sewer Infrastructure donated to the District by developers upon completion.

Debt Administration

In 2014 total long-term debt increased \$38,217,789 which includes the issuance of new Community Facilities Debt (Series 2013 Special Tax Bonds) and less the annual debt service payments. The following table summarizes the changes in long-term debt amounts for 2014:

Santa Margarita Water District
Management's Discussion and Analysis
For the Year Ended June 30, 2014

	Balance 2013	Additions	Transfers/ Deletions	Balance 2014
Long-Term debt:				
Bonds Payable	\$ 252,880,000	57,420,000	(17,050,000)	293,250,000
Loans Payable	11,151,200	-	(767,278)	10,383,922
	<u>264,031,200</u>	<u>57,420,000</u>	<u>(17,817,278)</u>	<u>303,633,922</u>
Net Premium (Discount)	3,356,567	(474,568)	(910,365)	1,971,634
Total Long-Term Debt	<u>\$ 267,387,767</u>	<u>\$56,945,432</u>	<u>\$ (18,727,643)</u>	<u>\$ 305,605,556</u>

Additional information on long-term debt can be found in Note 6 of this report.

Requests for Information

This financial report is designed to provide our customers, investors, and creditors with an overview of the District's financial operations and condition. If you have questions about this report or need additional information you may contact the District's Chief Financial Officer at P.O. Box 7005, Mission Viejo, California 92690-7005.

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Basic Financial Statements and Accompanying Notes

SANTA MARGARITA WATER DISTRICT
Statement of Net Position
As of June 30, 2014

ASSETS:

Current Assets:

Cash and investments (Note 2)	\$ 90,450,133
Accrued interest receivable	185,016
Accounts receivable - water and sanitation customers (Note 3)	6,820,948
Accounts receivable - other (Note 3)	1,647,562
Property taxes receivable	635,646
Water and supplies inventory	1,560,169
Prepaid expenses	331,408
Restricted - cash and investments (Note 2)	42,501,707
Restricted - cash held for others (Note 2)	601,964
Restricted - accrued interest receivable	126,569
Total Current Assets	<u>144,861,122</u>

Non-current Assets:

Capital assets - not depreciated (Note 5)	57,329,727
Capital assets, net of accumulated depreciation & amortization (Note 5)	475,326,877
Restricted - unspent bond proceeds (Note 2)	56,564,485
Restricted - cash for debt reserve funds (Note 2)	12,494,185
Prepaid insurance on outstanding bonds payable	635,501
Loan receivable (Note 4)	4,901,310
Total Non-current Assets	<u>607,252,085</u>

Total Assets	<u>752,113,207</u>
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Deferred outflows of resources:

Deferred loss on debt defeasance (Note 6)	<u>4,701,076</u>
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Total Assets and Deferred Outflows of Resources	<u>\$ 756,814,283</u>
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See accompanying notes to the basic financial statements.

SANTA MARGARITA WATER DISTRICT
Statement of Net Position
As of June 30, 2014

LIABILITIES:

Current Liabilities:

Accounts payable and accrued expenses	\$	10,404,410
Accrued wages and related payables		373,299
Retentions payable and construction deposits		1,255,213
Other deposits payable		724,905
Unearned revenue		4,962,333
Accrued interest payable		5,615,734
Long-term liabilities - due within one year		
Compensated absences (Note 8)		945,377
Bonds payable (Note 6)		16,675,000
Loans payable (Note 6)		786,496
Total Current Liabilities		41,742,767

Non-current Liabilities:

Long-term liabilities - due in more than one year		
Compensated absences (Note 7)		71,157
Bonds payable (Note 6)		278,546,634
Loans payable (Note 6)		9,597,426
Reimbursement agreement advances (Note 6)		3,824,081
Accrued interest payable on reimbursement agreements (Note 6)		4,927,468
Total Non-current Liabilities		296,966,766

Total Liabilities		338,709,533
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NET POSITION:

Net investment in capital assets (Note 8)		302,966,953
Restricted Net Position (Note 9)		45,816,869
Unrestricted		69,320,928
Total Net Position	\$	418,104,750

See accompanying notes to the basic financial statements.

SANTA MARGARITA WATER DISTRICT
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2014

OPERATING REVENUES:

Water sales:

Water commodity charge	\$ 29,088,099
Monthly service charge	5,294,867
Transmission charge	1,795,942
Total water sales	<u>36,178,908</u>

Sanitation services charges:

Sanitation service charge	12,385,305
Monthly service charge	6,252,730
Transmission charge	395,185
Total sanitation service charges	<u>19,033,220</u>

Other charges or services:

Jointly operated facilities and other reimbursements	1,080,018
Construction related revenues	708,874
Rebates	221,760
Customer related revenues	698,786
Other revenues	1,519,565
Total other charges or services	<u>4,229,003</u>
Total Operating Revenues	<u>59,441,131</u>

OPERATING EXPENSES:

Source of supply - water purchases	28,264,492
Power	4,944,194
Transmission and distribution	6,283,927
Regional facilities	3,076,129
Sewage treatment	2,481,884
Salaries, wages and related benefits	14,606,120
Customer relations	448,664
General and administrative	3,035,753
Total Operating Expenses	<u>63,141,163</u>

Operating (loss) before depreciation and amortization expense	(3,700,032)
Depreciation and amortization expense	(16,985,856)
Operating (loss)	<u>\$ (20,685,888)</u>

Continued on next page

See accompanying notes to the basic financial statements.

SANTA MARGARITA WATER DISTRICT
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2014

NON-OPERATING REVENUES (EXPENSES)

Special assessment tax revenues for debt service	\$ 29,694,891
Property taxes for operations	6,118,055
Investment earnings	1,577,099
Capacity lease revenue	809,832
Rental revenue	1,199,966
Interest expense	(14,566,035)
Gain/(Loss) on sale of capital asset	4,203,401
Debt issuance costs	(965,681)
Other non-operating revenue	930,544
Contributions to other agencies	(3,137,767)
Total non-operating, Revenues(Expenses)	<u>25,864,305</u>
Net income before capital contributions	<u>5,178,417</u>

CAPITAL CONTRIBUTIONS

Contributed facilities	316,913
Jointly-operated facilities capital reimbursements	83,078
Capital grants	3,234,854
Total capital contributions	<u>3,634,845</u>
Change in net position	<u>8,813,262</u>
Net position, beginning of year	409,291,488
Net position, end of year	<u><u>\$ 418,104,750</u></u>

See accompanying notes to the basic financial statements.

SANTA MARGARITA WATER DISTRICT
Statement of Cash Flows
For the Year Ended June 30, 2014

	2014
Cash flows from operating activities:	
Cash receipts from customers	\$ 54,784,839
Cash receipts from others	5,061,673
Cash paid to employees for salaries and wages	(14,502,705)
Cash paid to vendors and suppliers for materials and services	(43,697,274)
Net cash provided by (used in) operating activities	1,646,533
Cash flows from non-capital financing activities:	
Property taxes received	6,133,925
Other receipts (payments)	930,544
Capacity lease revenue	809,832
Net cash provided by non-capital financing activities	7,874,301
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(36,443,927)
Proceeds from disposal of capital assets	4,232,808
Capital contributions	3,317,932
Special assessment tax revenues for debt service received	33,392,499
Proceeds from bond funding and reimbursable advances	57,538,006
Principal paid for debt service	(18,784,412)
Interest paid for debt service	(16,031,027)
Other receipts (payments)	(4,103,448)
Net cash provided by (used in) capital and related financing activities	23,118,431
Cash flows from investing activities:	
Proceeds from the sale and maturity of investment securities	(211,463,945)
Purchase of investment securities	173,289,248
Investment earnings	44,146
Rental revenues	1,199,966
Net cash provided by (used in) investing activities	(36,930,585)
Net increase(decrease) in cash and cash equivalents	(4,291,320)
Cash and cash equivalents, beginning of year	14,684,472
Cash and cash equivalents, end of year	\$ 10,393,152

Continued on next page

SANTA MARGARITA WATER DISTRICT
Statement of Cash Flows
For the Year Ended June 30, 2014

	2014
Reconciliation of cash and cash equivalents to amounts reported on the statement of net position:	
Reported on the statement of net position:	
Cash and investments	91,052,097
Restricted - cash and investments	42,501,707
Restricted - debt reserve fund	12,494,185
Restricted - unspent bond proceeds	56,564,485
Total cash and investments - per statement of net position	202,612,474
Less investments not meeting the definition of cash and cash equivalents:	
Investments	(192,219,322)
Total cash and cash equivalents	10,393,152
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (20,685,888)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation and amortization expense - capital recovery	16,985,856
Change in assets and liabilities:	
(Increase)decrease in assets:	
Accounts receivable - water and sanitation customers	(427,289)
Accounts receivable - other	337,771
Water and supplies inventory	(114,811)
Prepaid expenses and other deposits	(626,173)
Increase(decrease) in liabilities:	
Accounts payable and accrued expenses	4,846,548
Accrued wages and related payables	70,520
Retentions payable and construction deposits	732,205
Deferred revenue and other deposits	494,899
Compensated absences	32,895
Total adjustments	22,332,421
Net cash provided by (used in) operating activities	\$ 1,646,533
Supplemental disclosure of non-cash capital and related financing and investing activities	
Amortization of premiums and discounts	\$ 910,365
Amortization of deferred charges	(862,289)
Accrual of interest for loans receivables	830,853
Contributed facilities	316,913
Disposal of capital assets	29,407
Accrual of construction payables	(4,755,005)
Unrealized gain on investments	1,554,779
	\$ (1,974,977)

See accompanying notes to the basic financial statements.

Santa Margarita Water District
Notes to the Basic Financial Statements
For the Year Ended June 30, 2014

1. Reporting Entity and Summary of Significant Accounting Policies

Organization

Santa Margarita Water District (District) was established on December 23, 1964 under provisions of the California Water District Law (Section 34000, et seq. of the California Water Code). At the time of its formation, the District encompassed approximately 41,400 acres. Its area has been expanded to approximately 62,700 acres through a series of annexations (and one de-annexation). Individual improvement districts, of which there are presently 14, function as operating units and provide a basis for the design and adoption of plans of work and authorization and sale of bonds.

Separate internal accounts are maintained for each improvement district and community facilities district to account for each improvement district and community facilities district for the purposes of complying with applicable legal provisions, Board of Directors' resolutions and other requirements.

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting and Financial Reporting Standards Codification 2100, *The Financial Reporting Entity*. The District is the primary governmental unit based on the foundation of a separate governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable if it appoints a voting majority of the organization's governing body and: 1) it is able to impose its will on that organization, or 2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

Basis of Accounting and Measurement Focus

The accounting policies of the District's basic financial statements conform to Generally Accepted Accounting Principles in the United States of America (GAAP) applicable to state and local government agencies using pronouncements issued by the Governmental Accounting Standards Board (GASB) and as such, the District reports its activities as an enterprise fund. The basic financial statements presented are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, 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.

Operating revenues and expenses result from providing water and wastewater services associated with the principal activity of the District. Operating revenues include water sales and sewer service charges. Operating expenses include water purchases and wastewater disposal costs, salaries and benefits and depreciation on capital assets. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses. Non-operating revenues and expenses, such as special assessments, property taxes, grant funding, investment income and interest expense, result from non-exchange transactions. The District gives (receives) value without directly receiving (giving) value in exchange.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the

Santa Margarita Water District
Notes to the Basic Financial Statements
For the Year Ended June 30, 2014

financial statements, and the reported amounts for revenues and expenses for the reporting period. Actual results may differ from those estimates.

Cash and Investments

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

Substantially all of the District's cash is invested in interest bearing cash accounts and is recorded at cost. The District considers all highly liquid investments purchased with maturities of three months or less to be cash equivalents.

The District records investments at fair value and changes in fair value are recorded as unrealized gains or losses. All demand deposits and certificates of deposit held by a bank are entirely insured or collateralized with securities having a market value of at least 10% in excess of the total amount of funds on deposit. Investment income is comprised of interest earnings, changes in market value, and any gains or losses realized upon the liquidation on or sale of investments.

Restricted Assets

Amounts shown as restricted assets are to be used for specified purposes, such as servicing general obligation bond debt and the construction of capital assets. Such assets have been restricted by either bond indenture, law or contractual obligation.

Concentration

The District currently purchases 100% of its water from Metropolitan Water District of Southern California.

Inventories

Inventories consist of purchased water held in reservoirs, and supplies inventory including water meters, pipe, meter boxes and other materials required to maintain the District's water and sewer system. Non-water related inventories are recorded at historical cost. Water inventory is valued at average cost per acre-foot through the Municipal Water District of Orange County (MWDOC).

Capital Assets

Capital assets are stated at historical cost or the estimated historical cost if actual cost is not available. Donated assets which consist of tract facilities and other capital assets contributed by developers are recorded as contributed facilities based on fair value at date of donation. Interest costs are capitalized on eligible expenditures incurred to ready a capital asset for use. Depreciation of capital assets is charged as an expense against operations. Depreciation is recorded using the straight-line method based on estimated lives which range from 4 to 75 years, consisting primarily of operational equipment over 4 to 12 years; water plant, power plant and administrative building over 40 years; and mains and other conduits over 60 to 75 years. Capital outlays that cost \$5,000 or more and that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Santa Margarita Water District
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The District also owns intangible assets which include capacity rights for acquiring rights to water in pipelines owned and maintained by other agencies. These rights are amortized over a useful life of 10 years.

Accounts Receivable Uncollectible Accounts

The District extends credit to customers in the normal course of operations. Amounts over \$50 are sent first to collections and are written off once no further amounts are recovered. The District believes that any uncollectible receivables are immaterial and therefore no allowance is recorded.

Property Taxes

The County of Orange Assessor's Office assesses all real and personal property within the County each year. The County of Orange Tax Collector's Office bills and collects the District's share of property taxes and special assessments. The County of Orange Treasurer's Office remits current and delinquent tax collections to the District throughout the year. Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent (1%) of countywide assessed valuations. Secured property tax revenues are accrued each year in September based on detailed schedules provided by the County of Orange. Revenues are recognized at the time the accruals are made in the period the taxes are levied. The property tax funds are legally restricted by bond covenants to pay debt service payments per individual bond issue.

Property taxes receivable at year-end are related to property taxes and special assessments collected by the County of Orange, which have not been remitted to the District as of June 30. The property tax calendar is as follows:

Lien date	March 1
Levy date	July 1
Due dates	November 1 and March 1
Collection dates	December 10 and April 10

Prepaid Expenses and other Deposits

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

Deferred Loss on Debt Defeasance

The advance refunding of certain bonds resulted in refunding gains and losses. Such gains and losses are included in as a deferred outflow of resources on the accompanying statement of net position and are amortized over the shorter of maturity of the refunding debt or the remaining maturity of the refunding debt.

Interest Expense

The District incurs interest charges on bonds and notes payable. Certain interest is capitalized as a component cost of facilities under construction and amortized over the useful life of the facilities. Interest incurred and capitalized during the year ended June 30, 2014 totaled \$12,544,595 and \$2,021,440 respectively, net interest expense is \$14,566,035.

Santa Margarita Water District
Notes to the Basic Financial Statements
For the Year Ended June 30, 2014

Compensated Absences

The District's personnel policies provide for the accumulation of general leave for vacation and sick time. Full-time employees earn from 140 to 272 hours per year, depending on their length of employment. General leave may be accumulated to a maximum of twice the employee's annual entitlement or 400 hours, whichever occurs first. Eligible part-time employees accrue general leave on a pro-rata based on the number of hours worked in a regular workweek divided by 40 hours. All accrued and unused general leave is paid to the employee upon termination of employment or retirement. The cost of vested or accumulated general leave is accrued as an expense as benefits are incurred to the employee.

Net Position

Net position consists of the difference between assets and deferred outflows, and liabilities and deferred inflows. Net position is categorized as follows:

Net Investment in Capital Assets– This component of net position consists of capital assets, net of accumulated depreciation and reduced by any debt outstanding against the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows or resources that are attributable to the acquisition, construction or improvement of those assets or related debt are included in this component of net position.

Restricted– This component of net position consists of assets that have limitations imposed on their use through external restrictions imposed by creditors or other state and federal government regulatory agencies. These are then reduced by liabilities and deferred inflows of resources related to those assets.

Unrestricted– This component of net position is the net amount of the assets, deferred outflows or resources, liabilities, and deferred inflows of resources that are not included in the determination of the net investment in capital assets or restricted net position.

New Accounting Pronouncements

The GASB has issued pronouncements that will impact future financial presentations. Management has not currently determined the specific amounts, but it believes that GASB No. 68 will result in a material liability being recognized in the financial statements during fiscal year 2015.

GASB No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27. Effective for the District's fiscal year ending June 30, 2015.

GASB No. 69, Government Combinations and Disposal of Government Operations. Effective for the District's fiscal year ending June 30, 2015.

GASB No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date- An Amendment of GASB Statement No. 68. Effective for the District's fiscal year ending June 30, 2015.

Santa Margarita Water District
Notes to the Basic Financial Statements
For the Year Ended June 30, 2014

2. Cash and Investments

Cash and investments as of June 30, 2014 are classified in the accompanying financial statements as follows:

Cash and investments	\$ 90,450,133
Restricted - cash and investments	
Special assessments for debt service	42,501,707
Restricted - cash held for others	601,964
Bond proceeds for capital projects in non-current	56,564,485
Bond reserve funds in non-current assets	12,494,185
Total cash and investments	<u>\$ 202,612,474</u>
Cash and cash equivalents	<u>\$ 10,393,152</u>
Money market funds	51,922,158
Other investments	<u>140,297,164</u>
Total investments	<u>192,219,322</u>
Total cash and investments	<u>\$ 202,612,474</u>

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

The table below identifies the investment types that are authorized for the District by the California Government Code and the District's investment policy. The table also identifies certain provisions of the California Government Code (or the District's investment policy, if more restrictive) that address interest rate risk and concentration of credit risk. This table does not address investment of debt proceeds held by bond trustee that are governed by the provisions of the debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

Santa Margarita Water District
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Investment Types Authorized by State Law	Authorized by Investment Policy	*Maximum Maturity	*Maximum Percentage of Portfolio	*Maximum Investment in One Issuer
Local Agency Bonds	No	N/A	N/A	N/A
U.S. Treasury Obligations	Yes	5 years	None	None
U.S. Agency Securities	Yes	5 years	None	None
Banker's Acceptances	Yes	180 days	40%	30%
Commercial Paper	Yes	270 days	25%	10%
Negotiable Certificates of Deposit	Yes	5 years	20%	None
Non-negotiable Certificates of Deposit	Yes	5 years	40%	None
Repurchase Agreements	No	N/A	N/A	N/A
Reverse Repurchase Agreements	No	N/A	N/A	N/A
Medium Term Notes	Yes	5 years	30%	None
Mutual Funds	Yes	N/A	20%	10%
Money Market Mutual Funds	Yes	N/A	20%	10%
Mortgage Pass-Through Securities	No	N/A	N/A	N/A
County Pooled Investment Funds	No	N/A	N/A	N/A
Local Agency Investment Fund (LAIF)	Yes	N/A	None	None
JPA Pools (other investment pools)	No	N/A	N/A	N/A

**Based on state law requirements or investment policy requirements, whichever is more restrictive.*

Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Allowed	Maximum Investment in One Issuer
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Banker's Acceptances	180 days	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Fund	N/A	None	None
Investment Contracts	None	None	None
Certificates of Deposit	365 days	None	None
Local Agency Bonds	None	None	None
Reverse/Repurchase Agreements	None	None	None
Local Agency Investment Fund (LAIF)	None	None	None

Santa Margarita Water District
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For the Year Ended June 30, 2014

Disclosures Relating to Interest Rate Risk

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

Investment Type	Total	Remaining Maturity in Months		
		12 Months or Less	13 to 24 months	25 to 60 months
U.S. Treasury	\$ 37,149,212	1,806,905	12,220,551	23,121,756
Federal Agency	52,219,340	18,455,573	18,902,157	14,861,610
Medium-Term Corporate Note	25,606,181	-	6,581,893	19,024,288
Negotiable Certificates of Deposit	4,193,363	-	4,193,363	-
Commercial Paper	21,129,067	21,129,067	-	-
Money Market Fund	51,922,158	51,922,158	-	-
Total Investments	\$192,219,322	93,313,704	41,897,964	57,007,654

Disclosures Related to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of year-end for each investment type, and the minimum rating required by (where applicable) the California Government Code, the District investment policy, or debt agreements.

Investment Type	Total	Exempt from Disclosure	Minimum Rating Required				
			AAA -AAAm	AA+	AA AA-	A+ A	A-1 A-1+
U.S. Treasury	\$37,149,212	\$ 37,149,212	-	-	-	-	-
Federal Agency	52,219,341	-	-	52,219,341	-	-	-
Medium-Term Corporate Notes	25,606,181	-	513,137	5,399,066	6,680,250	13,013,728	-
Negotiable Certificates of Deposit	4,193,363	-	-	-	-	-	4,193,363
Commercial Paper	21,129,067	-	-	-	-	-	21,129,067
Money Market Fund	51,922,158	-	51,922,158	-	-	-	-
Total Investments	\$192,219,322	\$ 37,149,212	52,435,295	57,618,407	6,680,250	13,013,728	25,322,430

Minimum legal ratings for the above investments per the California Government Code or the District's investment policy (whichever is more restrictive) as follows:

Medium term notes	A
U.S. Agencies	N/A
U.S. Treasuries	N/A
Investment contracts	N/A
Money market funds	A
Commercial Paper	A

Santa Margarita Water District
Notes to the Basic Financial Statements
For the Year Ended June 30, 2014

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer as of June 30, 2014 that represents 5% or more of the total District investments are identified in the following table:

<u>Instrument</u>	<u>Issuer</u>	<u>Market Value</u>	<u>Percentage of Portfolio</u>
U.S. Treasury	U.S. Treasury	\$37,149,212	19.3%
Federal Agency	Fannie Mae	24,357,592	12.7%
Federal Agency	Freddie Mac	16,651,252	8.7%
Federal Agency	Federal Home Loan Bank	10,232,322	5.3%
Federal Agency	Federal Farm Credit Bank	978,175	0.5%
Total Agency		89,368,553	46.5%
Medium term note	General Electric Capital Corp.	4,470,007	2.2%
Medium term note	US Bancorp	2,986,259	1.6%
Medium term note	Bank of New York Mellon	2,469,510	1.3%
Medium term note	JP Morgan Chase	2,107,942	1.1%
Medium term note	Berkshire Hathaway	1,966,261	1.0%
Medium term note	Boeing Company	1,465,232	0.8%
Medium term note	IBM Corp.	1,371,635	0.7%
Medium term note	Chevron Corp.	1,370,681	0.7%
Medium term note	John Deere Capital Corp.	1,347,851	0.7%
Medium term note	Wells Fargo & Co.	1,311,223	0.7%
Medium term note	Colgate-Palmolive	1,051,634	0.5%
Medium term note	Apple Inc.	929,058	0.5%
Medium term note	Toyota Motor Credit	920,040	0.5%
Medium term note	American Honda Finance	754,410	0.4%
Medium term note	HSBC USA	571,301	0.3%
Medium term note	Microsoft Corp.	513,137	0.3%
Total Medium term note		25,606,181	13.3%
Negotiable CD	Rabobank Nederland NY	2,141,217	1.1%
Negotiable CD	Skandinaviska Enskilda Banken NY	2,052,146	1.1%
Total Negotiable CD		4,193,363	2.2%
Commercial Paper	Toyota Motor Credit	8,414,451	4.4%
Commercial Paper	General Electric Capital Corp.	5,894,058	3.1%
Commercial Paper	Bank of Tokyo	3,099,400	1.6%
Commercial Paper	Canadian Imperial Holding	1,997,902	1.0%
Commercial Paper	JP Morgan Securities	1,723,256	0.9%
Total Commercial Paper		21,129,067	11.0%
Money Market Fund	Fidelity Treasury	21,473,142	11.1%
Money Market Fund	Dreyfus Treasury	5,774,125	3.0%
Money Market Fund	Dreyfus Cash Management	709,969	0.4%
Money Market Fund	Highmark Treasury	136,237	0.1%
Money Market Fund	Blackrock Liquidity	16,488,002	8.6%
Money Market Fund	Morgan Stanley Govt Inst.	7,340,683	3.8%
Total Money Market Funds		51,922,158	27.0%
Total Investments		\$192,219,322	100.0%

Santa Margarita Water District
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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. Custodial credit risk generally applies only to direct investment in marketable securities. Custodial credit risk does not apply to a local government's indirect investment 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 provisions for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

For investments held by bond trustee, the bond trustee selects the investments under the terms of the applicable trust agreement, acquires the investment, and holds the investment on behalf of the District in a third party safe keeping account at either Bank of New York or Union Bank.

3. Accounts Receivables

Accounts receivables-other consists of billings to other agencies for joint-owned facilities, grant funds, and charges for customer connections to the District sewer system is as follows:

City of San Juan Capistrano	\$	42,552
City of San Clemente		228,646
County of Orange		14,058
Proposition 50 grant		830,543
Irvine Ranch Water District		37,593
Moulton Niguel Water District		108,230
Connection Charges		64,141
Other Various		126,556
Quest Diagnostics		82,779
SCP Receivables		66,490
South Coast/JRWSS		8,694
Trabuco Canyon Water District		37,280
Total Accounts Receivable-Misc.	\$	<u>1,647,562</u>

Santa Margarita Water District
Notes to the Basic Financial Statements
For the Year Ended June 30, 2014

4. Loan Receivable

In 1996 the District, by Board action, made bond funds available to Rancho Mission Viejo for Improvement District No. 4C to complete construction of various District capital projects within the improvement district. The capital projects included: South County Pipeline, Chiquita Water Reclamation Plant, Seasonal Storage Facilities, Administration Building, Irvine Lake Pipeline and Chiquita Effluent Disposal System.

The outstanding principal balance of the loan accrues interest monthly based on the average annual yield of the State of California Local Agency Investment Fund. Beginning in 2005 accrued interest has been collected via ad-valorem property taxes. As of June 30, 2014 the outstanding principal balance was \$4,070,457 and the outstanding accrued interest was \$830,853. Installment payments for the loan will be finalized once mass grading and “will serve letters” are issued. The payments terms are expected to be finalized by the end of 2014.

5. Capital Assets

Capital assets as of June 30, 2014 consist of the following:

Description	Balance at June 30, 2013	Additions	Transfers	Dispositions/ Retirements	Balance at June 30, 2014
Water plant	\$ 383,838,198	-	4,351,713	(22,339)	388,167,572
Sewer plant	207,993,474	-	97,556	-	208,091,030
Water and sewer infrastructure*	154,995,307	316,913	-	-	155,312,220
Operational equipment	12,489,545	398,616	-	(1,642,562)	11,245,599
Administration building	9,687,807	-	-	-	9,687,807
Capacity Rights	1,823,324	-	-	(875,196)	948,128
Miscellaneous/Master Plan	825,478	-	-	-	825,478
Total depreciable assets	771,653,133	715,529	4,449,269	(2,540,097)	774,277,834
Less accumulated depreciation & amortization:					
Water plant	(113,999,123)	(7,470,529)	-	8,395	(121,461,257)
Sewer plant	(87,705,753)	(4,708,327)	-	-	(92,414,080)
Water and sewer infrastructure*	(64,746,099)	(3,832,426)	-	-	(68,578,525)
Administration building	(5,836,889)	(349,509)	-	-	(6,186,398)
Operational equipment	(10,092,706)	(601,284)	-	1,626,938	(9,067,052)
Miscellaneous/Master Plan	(271,736)	(23,781)	-	-	(295,517)
Capacity Rights	(1,823,324)	-	-	875,196	(948,128)
Total depreciation & amortization	(284,475,630)	(16,985,856)	-	2,510,529	(298,950,957)
Net depreciable assets	487,177,503	(16,270,327)	4,449,269	(29,568)	475,326,877
Capital Assets Not Being Depreciated:					
Construction in progress	14,900,162	38,066,912	(4,449,269)	-	48,517,805
Land	5,148,656	-	-	-	5,148,656
Land - Administration building	3,663,266	-	-	-	3,663,266
Total nondepreciable assets	23,712,084	38,066,912	(4,449,269)	-	57,329,727
Total Assets	\$ 510,889,587	21,796,585	-	(29,568)	532,656,604

*Water and Sewer Infrastructure donated to the District by developers upon completion.

Santa Margarita Water District
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Depreciation and amortization expense for the year ended June 30, 2014 was \$16,985,856. Capitalized interest for the year ended June 30, 2014 was \$2,021,440 which is included in the additions for capital assets.

The following identifies the ten largest construction projects in fiscal year 2014:

Project Description	Project Expenses to Date	Remaining Commitment
Canada Gobernadora Multi-Purpose Basin Final Project	\$ 9,085,011	\$ 1,148,331
DW Transmission Pipelines/Appurt	3,816,480	5,755,507
RW Transmission Pipelines	3,698,229	5,873,759
PA-1 share of 2.72 - 5.0MG Z1 Middle Chiquita Reservoir	3,399,281	6,552,706
3-5 MG 570 HGL ZA RW Reservoir For PA-1	2,476,394	7,475,593
PA-1 Master dev & Intract Sewer(Tr 17051)	1,590,460	1,301,207
PA-1 Master dev & Intract Fac. (Tr 17051)	1,494,714	1,396,953
Zone A&B RW PRS Facilities (3 total combined w/DWPRS)	1,478,942	1,046,096
Zone 1 & 1A DW Prs Facilies (6 total combined w/RW)	1,334,932	1,020,106
Canada Gobernadora Multi-Purpose Basin Grading	1,294,175	775,825
	\$ 29,668,617	32,346,083

The project costs above do not include capitalized interest as the project is budgeted based on engineering estimates. Project costs reflect only the District's portion of the cost of the facilities that are shared with other agencies.

* Does not reflect reimbursement from Prop. 50 grant funds which are recorded as grant revenue under contributed capital.

Santa Margarita Water District
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For the Year Ended June 30, 2014

6. Long-Term Liabilities

Long-term liabilities and changes for the year ended June 30, 2014 was as follows:

	Balance at June 30,2013	Additions	Deletions	Balance at June 30,2014	Amount Due Within One year	Amount Due Beyond One Year
General obligation bonds payable:						
1994 Series A	\$ 2,105,000	\$ -	\$ (1,990,000)	\$ 115,000	\$ 115,000	\$ -
1994 Series B	15,580,000	-	(7,400,000)	8,180,000	8,180,000	-
2003 Bonds	13,000,000	-	(660,000)	12,340,000	685,000	11,655,000
2004 Bonds	62,770,000	-	-	62,770,000	-	62,770,000
2009 Series A	36,435,000	-	(725,000)	35,710,000	750,000	34,960,000
2009 Series B	26,780,000	-	(3,775,000)	23,005,000	4,035,000	18,970,000
Total GOB Payable	156,670,000	-	(14,550,000)	142,120,000	13,765,000	128,355,000
Community Facilities District						
2007 Series	58,290,000	-	(1,545,000)	56,745,000	1,690,000	55,055,000
2011 A Series	33,455,000	-	(955,000)	32,500,000	1,035,000	31,465,000
2011 B Series	4,465,000	-	-	4,465,000	-	4,465,000
2013 Series	-	57,420,000	-	57,420,000	185,000	57,235,000
Total Community Facilities District	96,210,000	57,420,000	(2,500,000)	151,130,000	2,910,000	148,220,000
Subtotal Bonds Payable	252,880,000	57,420,000	(17,050,000)	293,250,000	16,675,000	276,575,000
Premium (Discount), net	1,851,091	1,030,908	(910,365)	1,971,634	-	1,971,634
Total Bonds Payable	254,731,091	58,450,908	(17,960,365)	295,221,634	16,675,000	278,546,634

1994 General Obligation Bonds – Series A & B

In 1994, the District issued \$55,415,000 of Consolidated Refunding General Obligation Water Bonds – Series A with an interest rate of 4.25% to 9.50% that matures annually on August 1st from 1995 to 2015. The bonds were issued to refund the 1968 General Obligation Sewer Bonds, the 1968 General Obligation Water Bonds, the 1972 General Obligation Water Bonds, the 1975 General Obligation Sewer Bonds, The 1984 General Obligation Water-Sewer Bonds and the 1987 General Obligation Water-Sewer Bonds. In 1994, the District issued \$55,250,000 of Consolidated Refunding General Obligation Water Bonds – Series B with an interest rate of 7.25% that matures annually on August 1st from 1995 to 2015. The 1994 Series B Bonds refunded the 1997 Series Bonds. The source of repayment of these bonds is special assessment tax revenues for debt service.

2003 General Obligation Bonds

In 2003, the District issued \$18,225,000 of Consolidated Revenue Bonds with an interest rate of 1.05% to 4.75% that matures annually on August 1st from 2004 to 2017 and 2004 to 2032. The bonds were issued to construct water and wastewater facilities for Improvement District 4 and the

Santa Margarita Water District
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For the Year Ended June 30, 2014

development of the Ladera Ranch Project as well as Improvement Districts 2 and 2A. The source of repayment of these bonds is special assessment tax revenues for debt service.

2004 General Obligation Bonds

In 2004, the District issued \$62,770,000 of Consolidated Refunding General Obligation Water Bonds with an interest rate of 5.00% that matures annually on August 1st from 2005 to 2020. The bonds were issued to partially redeem the Santa Margarita/Dana Point Authority Revenue Bonds, Series 1994B for Improvement Districts 3, 3A, 4 and 4A. Principal payments will be made starting in fiscal year 2016. The source of repayment of these bonds is special assessment tax revenue for debt service.

2007 Special Tax Bonds

In 2007, the District issued \$63,480,000 of Special Tax Bonds (Serial \$32,030,000 and term \$31,450,000) with an interest rate of 4.00% to 4.50% that matures annually on September 1st from (serial) 2007 to 2023 and (term) ending in years 2025, 2027 and 2030. The bonds were issued to refund a portion of the outstanding Series 1999 Special Tax bonds and all of the outstanding Series 2003 Special Tax Bonds. The source of repayment of these bonds is special assessment tax revenues for debt service.

2009 General Obligation Bonds Series A & B

In 2009, the District issued \$38,490,000 of General Obligation Water Bonds – Series A with an interest rate of 2.00% to 5.25% that matures annually on August 1st from 2010 to 2029. The proceeds from the bonds were used to pay for domestic water supply reliability projects including an interconnection to the South County Water Transmission System, the Upper Chiquita Reservoir and the Baker Regional Water Treatment Plant. In 2009, the district issued \$36,205,000 of Consolidated Refunding General Obligation Water Bonds – Series B with an interest rate from 2.00% to 5.00% that matures annually on August 1st from 2010 to 2018. The proceeds from the bonds were used to refund the 2009A General Obligation Water Bonds. The source of repayment of these bonds is special assessment tax revenues for debt service.

2011 Special Tax Bonds Series A & B

In 2011, the District issued \$34,245,000 of Special Tax Bonds – Series A with an interest rate of 2.00% to 5.25% that matures annually on September 1st from 2012 to 2029. The bonds were issued to refund the outstanding Series 1999 Special Tax Bonds. In 2011, the District issued \$4,465,000 of Special Tax Bonds – Series B with an interest rate of 5.375% to 5.625% that matures annually on September 1st from 2023 to 2033. The bonds were issued to construct water and wastewater facilities for the Talega Valley Planned Development with a portion of the bond proceeds being used to finance improvements and modifications to the existing Chiquita Water Reclamation Plant. The source of repayment of these bonds is special assessment tax revenues for debt service.

2013 Special Tax Bonds

In 2013, the District issued \$57,420,000 of Special Tax Bonds with an interest rate of 2.00% to 5.625% that mature annually on September 1st from 2015 to 2043. The bonds were issued to construct water and wastewater facilities for the Sendero Village Development. Additionally,

Santa Margarita Water District
Notes to the Basic Financial Statements
For the Year Ended June 30, 2014

\$14,650,344 of the bond funds will be used to construct facilities that will belong to the County of Orange. The source of repayment of these bonds is special assessment tax revenues for debt service.

Anticipated future payments by improvement district and community facilities district for general obligation and special tax bonds payable are as follows:

General Obligation Bonds Debt Service Schedule

Year	Principal	Interest	Total
2015	\$ 13,765,000	\$ 6,640,073	\$ 20,405,073
2016	14,405,000	5,880,019	20,285,019
2017	15,430,000	5,195,531	20,625,531
2018	16,505,000	4,455,606	20,960,606
2019	17,325,000	3,653,747	20,978,747
2020-2024	31,810,000	10,542,253	42,352,253
2025-2029	9,900,000	7,137,527	17,037,527
2030-2034	11,810,000	4,340,456	16,150,456
2035-2039	11,170,000	1,490,142	12,660,142
Total	\$ 142,120,000	\$ 49,335,354	\$ 279,655,732

Community Facility District Debt Service Schedule

Year	Principal	Interest	Total
2015	\$ 2,910,000	\$ 7,385,056	\$ 10,295,056
2016	3,055,000	7,285,063	10,340,063
2017	3,395,000	7,168,988	10,563,988
2018	3,740,000	7,032,800	10,772,800
2019	4,120,000	6,872,263	10,992,263
2020-2024	27,240,000	31,173,175	58,413,175
2025-2029	41,315,000	23,206,046	64,521,046
2030-2034	24,380,000	13,812,532	38,192,532
2035-2039	18,035,000	9,170,552	27,205,552
2040-2044	22,940,000	5,310,985	28,250,985
Total	\$ 151,130,000	\$ 118,417,460	\$ 486,130,750

Debt Reserve Requirement

The District is required to hold monies in a reserve fund based on bond covenants. At June 30, 2014 the district had \$7,145,414 for the 2011 Series A & B bonds payable which is the reserve requirement for both 2011 series issues and \$5,348,771 for the 2013 Series.

Santa Margarita Water District
Notes to the Basic Financial Statements
For the Year Ended June 30, 2014

Source of Repayment

The District's general obligation and special tax bonds are general obligations of the improvement districts and community facilities districts of the District. These bonds are payable from annual ad-valorem assessments levied upon the assessable land within each district based on the assessed value of such land but not the improvements thereon. As additional security for repayment of the bonds, the District has established liens on the following funds received from or attributable to the districts for which the bonds are issued to the extent such funds are received by each district: (i) standby charges, (ii) connection charges, (iii) that district's share of property taxes or special taxes received from Orange County, California, (iv) proceeds from the foreclosure of property to the extent necessary to pay delinquent ad valorem assessments or standby charges and (v) investment earnings, if any, thereon. Generally, the bonds represent several (and not joint) obligations of each district. An event of default with respect to the bond of a particular district will not result in an event of default with respect to the bond of any other district.

Deferred Loss on Debt Defeasance

The balance for deferred loss on debt defeasance as of June 30, 2014 is as follows:

Issue	Balance at June 30, 2013	Additions	Deletions	Balance at June 30, 2014
2004A Series	1,643,509	-	(348,990)	1,294,519
2007 Series	3,009,664	-	(306,857)	2,702,807
2009B Series	407,271	-	(168,514)	238,757
2011A Series	522,705	-	(57,712)	464,993
Total	\$ 5,583,149	\$ -	\$ (882,073)	\$ 4,701,076

Notes Payable:

The District has three outstanding loans with the State Water Resources Control Board. The outstanding balance as of June 30, 2014 is as follows:

	Balance at June 30, 2013	Additions	Deletions	Balance at June 30, 2014	Amount Due Within One Year	Amount Due Beyond One Year
2003 Loan	\$ 4,290,853	\$ -	\$ (379,495)	\$ 3,911,358	\$ 389,741	\$ 3,521,617
2003 Loan	6,536,510	-	(369,855)	6,166,655	378,361	5,788,294
2008 Loan	323,837	-	(17,928)	305,909	18,394	287,515
Total	\$11,151,200	\$ -	\$ (767,278)	\$ 10,383,922	\$ 786,496	\$ 9,597,426

Santa Margarita Water District
Notes to the Basic Financial Statements
For the Year Ended June 30, 2014

2003 State Water Resources Control Board Loan

In fiscal year 2003 the District entered into a loan agreement with the State Water Resources Control Board which was subsequently amended to provide \$7,228,123 for water reclamation projects under Water Code Section 13999.10. This loan is to be repaid over 20 years, and accrues interest at a rate of 2.7%. The future debt service payments as of June 30, 2014 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 389,741	\$ 105,607	\$ 495,348
2016	400,265	95,084	495,349
2017	411,072	84,277	495,349
2018	422,170	73,178	495,348
2019	433,569	61,779	495,348
2020-2023	1,854,541	126,849	1,981,390
Total	\$ 3,911,358	\$ 546,774	\$ 4,458,132

2003 State Water Resources Control Board Loan

In fiscal year 2003, the District entered into a second loan agreement with the State Water Resources Control Board to provide \$7,979,635 for water reclamation projects under Water Code section 3999.10. Principal payments are being made in fiscal years 2009 through 2028 and accrue interest rate at a rate of 1.3% and also have a service charge rate of 1.0%. The remaining debt service payments as of June 30, 2014 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Service Charge</u>	<u>Total</u>
2015	\$ 378,361	\$ 80,166	\$ 61,667	\$ 520,194
2016	387,065	75,248	57,883	520,196
2017	395,966	70,216	54,012	520,194
2018	405,073	65,068	50,053	520,194
2019	414,390	59,802	46,002	520,194
2020-2024	2,219,375	215,685	165,911	2,600,971
2025-2028	1,966,425	64,634	49,719	2,080,778
Total	\$ 6,166,655	\$ 630,819	\$ 485,247	\$ 7,282,721

2008 State Water Resources Control Board Loan

In fiscal year 2008, the District entered into a loan agreement with the State Water Resources Control Board to provide \$408,000 for water reclamation projects under the Water Code Section 3999.10. This loan is to be repaid over 20 years, and accrues interest at a rate of 2.6%. The remaining debt service payments as of June 30, 2014 are as follows:

Santa Margarita Water District
Notes to the Basic Financial Statements
For the Year Ended June 30, 2014

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 18,394	\$ 7,954	\$ 26,348
2016	18,873	7,475	26,348
2017	19,363	6,985	26,348
2018	19,867	6,481	26,348
2019	20,383	5,965	26,348
2020-2024	110,147	21,593	131,740
2025-2028	98,882	6,510	105,392
Total	<u>\$ 305,909</u>	<u>\$ 62,963</u>	<u>\$ 368,872</u>

Reimbursement Agreement Advances and Accrued Interest

Funds may be advanced by landowners and developers for planning, design and/or construction of facilities of systems for which an improvement district or community facilities district has not yet issued bonds. Such funds are advanced to the District under a reimbursement agreement between the landowner/developer and the District providing that the advances shall be repaid from the next appropriate bond issue. Reimbursement from bond proceeds is dependent upon approval of the facilities by the District's Board of Directors. Advances accrue interest at either 6% or the LAIF rate per annum, based on the terms of the agreement, from the date of the advance until repayment date and interest is capitalized into the cost of the related facilities.

Santa Margarita Water District
Notes to the Basic Financial Statements
For the Year Ended June 30, 2014

Reimbursable advances and accrued interest by the landowner/developer at June 30, 2014 are as follows:

Landowner/Developer	2013	Additions	Expiration/ Payments	2014
	Reimbursable Advance			
Coto de Caza, Ltd.	\$ 22,019	\$ -	\$ -	\$ 22,019
DMB Ladera	129,152	-	129,152	-
F.N. Projects	201,925	-	-	201,925
Quest	3,441,307	-	142,453	3,298,854
San Juan Company	181,783	-	-	181,783
Santa Margarita Company	44,500	-	-	44,500
Rancho Mission Viejo	1,703,215	118,006	1,746,221	75,000
Total	\$ 5,723,901	\$ 118,006	\$ 2,017,826	\$ 3,824,081

Landowner/Developer	2013	Additions	Expiration/ Payments	2014
	Accrued Interest			
Coto de Caza, Ltd.	\$ 44,899	\$ 1,321	\$ -	\$ 46,220
DMB Ladera	22,811	-	22,811	-
F.N. Projects	216,086	12,116	-	228,202
Quest	4,568,284	205,050	220,442	4,552,892
San Juan Company	33,550	1,426	500	34,476
Santa Margarita Company	63,005	2,670	-	65,675
Rancho Mission Viejo	2,796	3	2,796	3
Total	\$ 4,951,431	\$ 222,586	\$ 246,549	\$ 4,927,468

7. Compensated Absences

Changes to compensated absences balances for June 30, 2014 were as follows:

Balance 2013	Earned	Taken	Balance 2014	Current Portion	Long-term Portion
\$ 983,639	\$ 983,490	\$ (950,595)	\$ 1,016,534	\$ 945,377	\$ 71,157

Santa Margarita Water District
Notes to the Basic Financial Statements
For the Year Ended June 30, 2014

8. Net Investment In Capital Assets

Calculations of net investment in capital assets as of June 30 were as follows:

Net investment in capital assets	
Capital assets, net	\$ 532,656,604
Deferred loss on debt defeasance, net	4,701,076
Bond proceeds not used for capital projects	56,564,485
Current:	
Bonds payable	(16,675,000)
Loans payable	(786,496)
Non-Current:	
Bonds payable	(278,546,634)
Bond funds for county projects	14,650,344
Loans payable	(9,597,426)
Total net investment in capital assets	<u><u>\$ 302,966,953</u></u>

9. Restricted Net Position

Restricted net position consists of the following:

Bond Reserves	\$ 12,494,185
Special assessments for debt service	42,501,707
Bond proceeds not used for capital projects	56,564,485
Property taxes receivable	635,646
Restricted cash held for others	601,964
Restricted accrued interest receivable	126,569
Less:	
Bond proceeds not used for capital projects	(56,564,485)
Liabilities payable from restricted assets	
Accrued interest payable	(5,615,734)
Accrued interest payable on reimbursement agreements	(4,927,468)
Total restricted net position	<u><u>\$ 45,816,869</u></u>

Restricted assets include restricted property taxes receivable, restricted cash and investments, and restricted accrued interest receivables.

10. Defined Benefit Pension Plan with California Public Employee's Retirement System

Plan Description

The District contributes to the California Public Employees' Retirement System (CalPERS), an agent multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and

Santa Margarita Water District
Notes to the Basic Financial Statements
For the Year Ended June 30, 2014

beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions of all other requirements are established by state statute and city ordinance. Copies of CalPERS annual financial report may be obtained from its Executive Office, 400 P Street, Sacramento, CA 95814.

All full time employees are eligible to participate in CalPERS with benefits vesting after five years of service. Employees hired prior to January 1, 2013 are eligible for the benefit formula of 2.7% at 55 years of age. For employees hired after that date, who generally have not already been a member of a pension system are subject to the California Public Employees' Pension Report Act of 2013 (PEPRA). This legislation established a benefit formula of 2.0% at 62 years of age.

Funding Policy

For the employees in the 2.7% at 55 years of service plan, employees are required to contribute 8% of their annual covered salary. During the year ended June 30, 2014, the employees contributed 3% and the District paid the remaining 5% of the employee's contribution rate as determined by the memorandum of understanding (MOU) with the employees. For the employees in the 2.0% at 62 years of service the employees paid the full 6.25% contribution rate.

The District's actuarially required employer contribution rate for fiscal year 2014 was 19.795% This rate includes the current employer normal rate of 8.972% and the unfunded rate of 10.823% of annual covered payroll. The contribution requirements of employee participants and the District are established by state statute and may be amended by CalPERS.

California Public Employees' Pension Reform Act of 2013 – Second Tier

On September 12, 2012, the California Governor signed the California Public Employees' Pension Reform Act of 2013 (PEPRA) into law. PEPRA took effect January 1, 2013. The key components of the legislation are that it established a new retirement tier and benefit structure for new public employees, prohibits certain cash payments from being counted as compensation, prohibits the purchase of additional retirement service credits, requires a three-year compensation period, and increases the retirement age for all new public employees. Pursuant to PEPRA, the District established a second-tier for new employees hired on or after January 1, 2013 with a benefit formula of 2.0% at 62 years of age.

The District is required to contribute the actuarially determine remaining amounts necessary to fund the benefits for its members. The District's annual pension cost, the percentage of annual pension cost contributed to the plan, and the net pension obligation for 2014 and the preceding two years were as follows:

Fiscal Year	Annual Pension Cost APC	Percentage of APC Contributed	Net Pension Obligation
2012	\$1,850,778	100%	\$ -
2013	1,898,992	100%	-
2014	1,907,669	100%	-

Santa Margarita Water District
Notes to the Basic Financial Statements
For the Year Ended June 30, 2014

The plan's most recent actuarial valuation date and funding status for the District as of June 30, 2012 as determined by CalPERS is as follows:

	(A) Entry Age Actuarial Accrued Liability (AAL) Date	(B) Actuarial Value of Assets	(C) Unfunded AAL (UAAL) (A)-(B)	Actuarial Funded Ratio (B)/(A)	(D) Covered Payroll	UAAL as a Percentage of Covered Payroll (C)/(D)	
	6/30/12	\$66,094,946	\$49,433,804	\$16,661,142	74.8%	\$9,211,593	180.8%

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 actuarial assumptions and methods:

Valuation date:	June 30, 2012
Actuarial cost method:	Entry Age Normal Cost Method
Amortization method:	Level Percentage of Payroll
Average remaining amortization period:	23 Years as of the Valuation Date
Asset valuation methods:	15 Year Smoothed Market
Discount rate	7.50% (net of administrative expenses)
Projected salary increases	3.3% to 14.2% depending on Age, Service, and type of employment
Inflation	2.75%
Payroll growth	3.00%
Individual salary growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%

11. Deferred Compensation Plans

Employees of the District may participate in the District's deferred compensation plan organized under Section 457 of the Internal Revenue Code (457 Plan). The plan is administered by Mass Mutual. The plan allows the employees to defer or postpone receipt of income. Such income deferral provides tax advantages and a savings plan for the employees. The plan, available to all District employees, permits employees, as of January 1, 2014 to defer up to the lesser of \$17,500 or

Santa Margarita Water District
Notes to the Basic Financial Statements
For the Year Ended June 30, 2014

100% of includable compensation, as defined until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

In 2001, the District adopted a deferred compensation plan organized under section 401(a) of the Internal Revenue Code. The 401(a) plan, in conjunction with the 457 Plan allows employees to shelter matching contributions by the District from income taxes. All employees are eligible to participate up to the maximum employer contribution of \$1,740 per year. Withdrawals can be made upon retirement, disability or termination, but not later than 70 ½. For the year ended June 30, 2014, the employer contributions totaled \$180,284. The maximum contribution rate is included in the MOU and can be amended in the MOU and approved by the Board of Directors.

In 2003, the district adopted a deferred compensation plan organized under section 414(h) of the Internal Revenue Code. Contract “at will” employee(s) may contribute one-time bonus money stipulated by the Board of Directors. Regular earned compensation may not be deferred into the 414(h) account and Contract “at will” employees will not have the option of receiving such amount directly instead of having the District contribute it to the Plan. The annual addition that may be contributed or allocated to the participant’s individual account under the plan for 2014 shall not exceed \$49,000, as adjusted for increases allowed in the Code.

12. Joint Powers Agreement

San Juan Basin Authority

The District is a member of the San Juan Basin Authority (SJBA) which operates under a joint powers agreement with the member agencies consisting of:

Santa Margarita Water District
South Coast Water District
Moulton Niguel Water District
City of San Juan Capistrano

The general purpose of the SJBA is to acquire, construct, use, operate and maintain facilities to supply water for irrigation, domestic, and municipal purposes, provide for the development and conservation of water supplies, and to coordinate regional management of the San Juan Creek basin and its tributary waters.

During the year ended June 30, 2014 the District paid \$0 to the SJBA for various costs of which the majority related to the development and maintenance of the facilities. In Fiscal Year 2014 the SJBA choose to use reserves to pay for their operating costs. Payments to SJBA are charged by the District to maintenance and operations expense. Copies of SJBA annual financial statements can be obtained at the District: San Juan Basin Authority c/o Santa Margarita Water District, P.O. Box 7005, Mission Viejo, California 92690-7005.

Santa Margarita/Dana Point Authority

The Santa Margarita/Dana Point Authority (SMDP) was created on August 25, 1987 between the Santa Margarita Water district and the Dana Point Sanitary District for the purpose of selling bonds to finance the acquisition of capacity in the JayB. Latham treatment plant. In addition, SMDP issued revenue bonds, Series A and Series B dated July 15, 1994, and Series 1997A dated October 1, 1997 for the purpose of acquiring the 1994 and 1997 refunding Bonds, respectively, issued by the District

Santa Margarita Water District
Notes to the Basic Financial Statements
For the Year Ended June 30, 2014

(Note 6). During 1999, the Dana Point Sanitary District was dissolved and the South Coast Water District became the successor agency.

Each member is responsible for the debt service of Authority debt to the extent that the member benefits from the use of the debt proceeds. Authority issuances for which the district is responsible for debt service have been accounted for as a bond payable liability in the financial statements. During the year ended June 30, 2014 the District paid bond principal payments totaling \$14,550,000 and interest payments totaling \$7,496,925 to SMDP to service all of the District's general obligation debt.

South Orange County Wastewater Authority

The District is a member of the South Orange County Wastewater Authority (SOCWA), formerly the South East Regional Reclamation Authority, which operates under a joint powers agreement with member agencies consisting of:

- City of Laguna Beach (CLB)
- City of San Clemente (CSC)
- City of San Juan Capistrano (CSJC)
- El Toro Water District (ETWD)
- Emerald Bay Services District (EBSD)
- Irvine Ranch Water District (IRWD)
- Moulton Niguel Water District (MNWD)
- Santa Margarita Water District (SMWD)
- South Coast Water District (SCWD)
- Trabuco Canyon Water District (TCWD)

The general purpose of SOCWA is to plan for, acquire, construct, maintain, repair, manage, operate and control facilities for the collection, transmission, treatment and disposal of waste water, the reclamation of waste water and the use of reclaimed waste water for any beneficial purpose. Revenues and expenses are allocated to each member agency based on its participation in the various projects.

During the year ended June 30, 2014 the District paid \$2,417,842 to SOCWA for various costs, the majority of which related to the plant operating costs. Copies of SOCWA's annual financial statements can be obtained by contacting SOCWA at 34156 Del Obispo Street, Dana Point, CA 92629.

13. Operating Lease

Allen-McCulloch Pipeline/Santiago Aqueduct Parallel System

The District is a participant in subleases with the Municipal Water District of Orange County (MWDOC) in a project known as the Allen-McCulloch Pipeline/Santiago Aqueduct Parallel System. Under the terms of the subleases, the District makes annual lease payments equal to an allocated portion of the annual debt service requirements of the nonprofit corporation bonds sold by Municipal Water District of Orange County Public Facilities Corporation to finance the project. In fiscal year 1995 MWDOC sold the pipeline to the Metropolitan Water District (MWD). Under the terms of the sale agreement, MWD assumed a portion of the debt service obligations of MWDOC related to the nonprofit corporation bonds. The future payment commitments of the District were reduced by the allocated portion of the debt service obligations assumed by MWD. The 1996 Refunding Certificates

Santa Margarita Water District
Notes to the Basic Financial Statements
For the Year Ended June 30, 2014

of Participation bonds matured in fiscal year 2007 releasing bond reserve funds totaling \$2,386,310 for the debt service payment. The original terms of the lease agreement had the final payment in 2017. In fiscal year 2014, the District chose to pay the remaining balance of \$4,320,147 in full and has no future obligation for future benefits, so the amount has been expensed in 2014.

14. 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 California Sanitation Risk Management Authority and through the Authority the District participates in several of its programs including liability, property, and worker's compensation insurance. There were no significant settlements or reductions in insurance coverage from settlements for the past three years.

The District maintains \$300,000 in an unrestricted but designated uninsured expenses reserve for small claims not paid from operating funds that are not covered by insurance. Management believes that the insurance policies and reserve funds are adequate to cover the cost of claims incurred to date. However, such liabilities are, by necessity, based upon estimates and there can be no assurance that the ultimate cost will not exceed such estimates.

15. Contingencies

The District's contingencies include lawsuits and disputes that may arise in the ordinary course of business. The District believes there are no existing matters that will have a material adverse effect on the District's financial position.

16. Commitment to Purchase Water

In June 2010, the District entered into the Environmental Processing and Cost Sharing Agreement (Environmental Agreement) with a private enterprise, Cadiz, Inc. for the Cadiz Water Conservation and Storage Project (Cadiz Project). The Environmental Agreement contemplated that the District would be the Lead Agency for the Cadiz Project, and be responsible for the preparation and adequacy of the California Environmental Quality Act documentation.

The Cadiz Project is located in Eastern San Bernardino County. Phase 1 of this project would pump an average of 50,000 acre-feet per year of water from the groundwater basin underlying the Cadiz and Fenner Valleys and the adjacent Bristol Valley over a 50-year period and deliver the water to Project participants. Phase II of the Cadiz Project, the Imported Water Storage Component, if considered and approved, would construct spreading basins to recharge surface water in to the groundwater basin and convey stored water back to project participants.

Once the project starts delivering water, the District would be required to purchase on an annual take-or-pay basis 5,000 acre-feet of water from the project (to the extent such quantities are available). Management's estimate of the annual cost for this allocation of water is approximately five to six million dollars per year. This estimate is based upon projections of uncertain future costs, including the cost to be incurred by Cadiz, Inc. to construct the related facilities and the cost to operate and maintain, the facilities to provide the procured water. An additional optional annual allocation of 10,000 acre-feet of water is available to the District as the District's option.

This agreement is subject to approval by certain local and regional agencies and the results of litigation by parties that have alleged that the extraction of water from the aforementioned groundwater basin might jeopardize the environmental stability of the basin. If the project is halted

Santa Margarita Water District
Notes to the Basic Financial Statements
For the Year Ended June 30, 2014

due to this litigation, the District would continue its current practice of purchasing water from Metropolitan Water District of Southern California. The amount of possible future litigation costs associated with this matter are not known. Cadiz, Inc. has agreed to indemnify the District for such costs.

In July 2012, the board approved certain resolutions relating to these agreements. Resolution No. 2012-07-02 states the District certification of the Final EIR for the Cadiz Project. Resolution No. 2012-07-03 adopts the CEQA findings, a mitigation monitoring and reporting program, a statement of overriding considerations, approved the water purchases and sale agreements, and approved the updated groundwater management, monitoring and mitigation plan with regard to phase I of the Cadiz Valley Water Conservation, Recovery and Storage Project.

17. Subsequent Events

2014A Refunding General Obligation Bonds

In July 2014 the District issued \$65,340,000 Refunding General Obligation Bonds Series 2014A with interest rates from 3.00% to 5.00% that matures annually on August 1 from 2015 to 2029. The proceeds of the bonds were used to refund the 2003A and 2004A (Improvement District Nos. 2, 2A, 3, 3A, 4, 4A & 4B) of the Santa Margarita Water District/Dana Point Authority. The source of repayment of these bonds is special assessment tax revenues for debt service.

2014B Refunding General Obligation Bonds

In August 2014 the District issued \$32,810,000 of Special Tax Refunding Bonds series 2014B with interest rates from 2.00% to 5.00% that matures annually on September 1 from 2015 to 2033. The proceeds of the bonds were used to refund the 2011A and 2011B Community Facilities District 99-1 (Talega) of the Santa Margarita Water District Special Tax Refunding Bonds. The source of repayment of these bonds is special assessment tax revenues for debt service.

Required Supplementary Information

**Santa Margarita Water District
Schedule of Funding Progress
For the Year Ended June 30, 2014**

Schedule of Funding Progress

Pension Plan

The following table shows a three-year history for the funded status of the District's public employee defined benefit pension plan. The information reflects the most recent actuarial valuation and the two preceding valuations from CalPERS.

Actuarial Valuation Date	(A) Entry Age Actuarial Accrued Liability (AAL)	(B) Actuarial Value of Assets	(C) Unfunded AAL (UAAL) (A)-(B)	Actuarial Funded Ratio (B)/(A)	(D) Covered Payroll	UAAL as a Percentage of Covered Payroll (C)/(D)
6/30/2012	\$ 66,094,946	\$49,433,804	\$16,661,142	74.8%	\$ 9,211,592	180.9%
6/30/2011	61,460,182	45,498,914	15,961,268	74.0%	9,425,665	169.3%
6/30/2010	56,643,460	41,755,324	14,888,136	73.7%	9,265,544	160.7%

Statistical Section

This section of the Santa Margarita Water 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.

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

- Net position
- Changes in net position
- Operating revenue by source
- Operating expenses by type

Revenue Schedules – These schedules contain information to help the reader assess the factors affecting the District's ability to generate its sales and property taxes.

- Water sales by customer class
- Water and sewer rates
- Ten largest water and sewer customers
- Assessment rate by improvement district

Debt Schedules – 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.

- Direct and overlapping property tax rates
- Debt service coverage ratio
- Outstanding debt by type
- Outstanding debt ratios

Demographic and Economic Information – These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place and to help make comparisons over time and with other governments

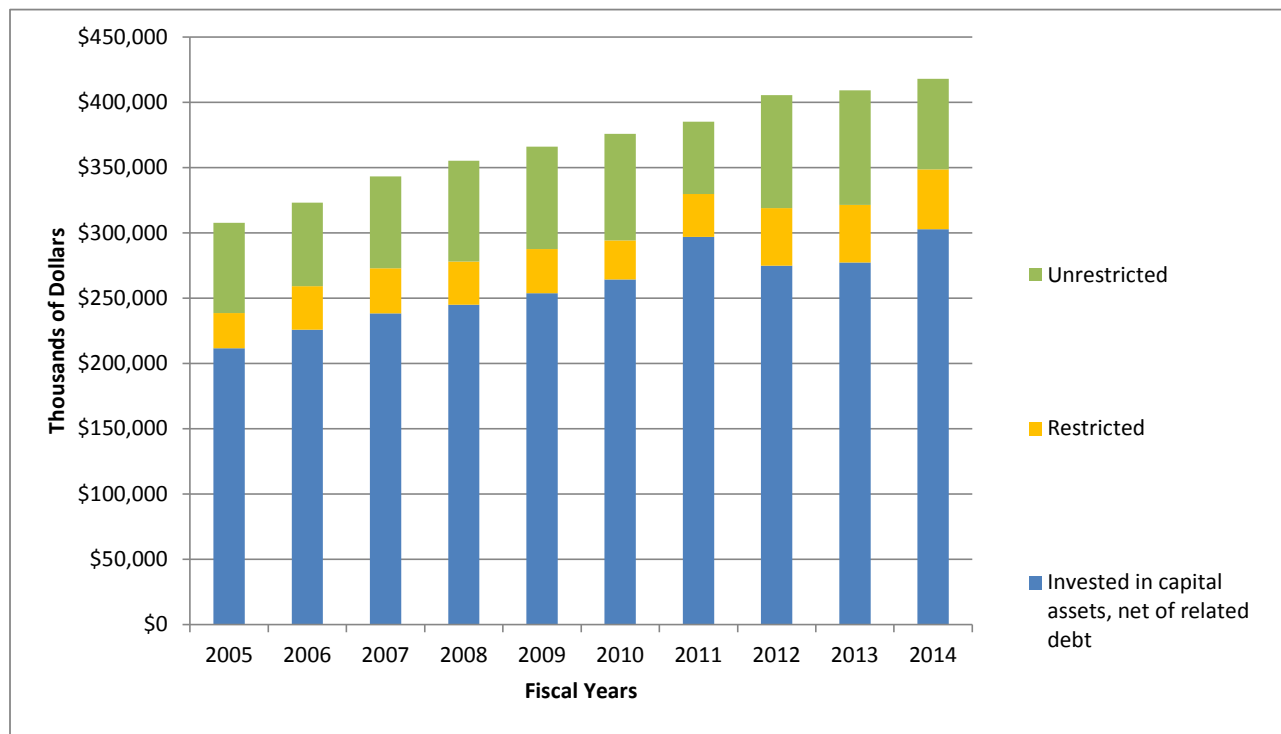
- Principal employers
- Demographic and economic statistics

Operating Information – These schedules contain information about the District's operations and resources to help the reader understand how the District's financial information relates to the services the District provides and the activities it performs

- Water and sewer connections
- Capital asset statistics
- Employee information

Santa Margarita Water District
 Net Position
 (Thousands of Dollars)
 Last Ten Fiscal Years

Net Position	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Invested in capital assets, net of related debt	\$ 211,829	\$ 225,950	\$ 238,485	\$ 245,168	\$ 253,883	\$ 264,455	\$ 297,117	\$ 274,835	\$ 277,328	\$ 302,967
Restricted	26,923	33,421	34,476	32,998	33,699	29,739	32,618	44,180	44,250	45,817
Unrestricted	69,046	63,871	70,460	77,212	78,637	81,693	55,518	86,432	87,714	69,321
Total net position	\$ 307,798	\$ 323,242	\$ 343,421	\$ 355,378	\$ 366,219	\$ 375,887	\$ 385,253	\$ 405,447	\$ 409,292	\$ 418,105



Source: SMWD Basic Financial Statements

Santa Margarita Water District
Change in Net Position
Last Ten Fiscal Years

Continued

	Fiscal Year			
	2005	2006	2007	2008
Operating Revenues:				
Water sales	\$ 25,535,976	\$ 25,604,654	\$ 27,609,051	\$ 26,427,232
Sanitation sale service charge	13,470,412	14,533,550	17,654,059	17,059,141
Utility billing charges	291,571	487,359	577,380	595,892
Construction charges	697,871	242,980	120,548	70,600
Other income	4,366,317	2,527,829	3,134,410	3,993,418
Total operating revenues	<u>44,362,147</u>	<u>43,396,372</u>	<u>49,095,448</u>	<u>48,146,283</u>
Operating Expenses:				
Water purchases	15,535,742	16,433,333	18,839,312	18,567,162
Power	3,608,641	4,137,824	4,855,951	4,722,243
Maintenance and operations	895,190	700,225	662,827	488,112
Regional facilities	2,253,731	304,532	762,492	923,413
Sewage treatment	2,769,176	2,563,938	2,444,253	2,541,385
Operating general	1,582,002	1,594,216	2,160,560	1,960,078
Repair and maintenance	1,871,339	2,081,963	2,793,521	2,669,400
Employee cost	10,393,680	11,356,361	11,925,772	12,167,725
Customer relations	487,786	690,237	757,091	786,075
General and administrative	2,468,288	2,562,556	2,072,401	1,896,998
Total operating expenses	<u>41,865,575</u>	<u>42,425,185</u>	<u>47,274,180</u>	<u>46,722,591</u>
Depreciation and amortization	<u>12,751,322</u>	<u>13,406,422</u>	<u>14,408,104</u>	<u>15,397,838</u>
Operating income (loss)	<u>(10,254,750)</u>	<u>(12,435,235)</u>	<u>(12,586,836)</u>	<u>(13,974,146)</u>
Non-operating revenues (expenses)				
Property taxes-ad valorem restricted	25,019,065	28,079,634	25,131,345	23,365,446
Property taxes-ad valorem 1% general	1,580,283	2,125,886	6,057,575	6,597,774
Capacity lease income	-	2,185,002	844,220	820,119
Investment income	4,987,663	3,919,171	6,707,558	10,165,417
Rental income	-	-	-	-
Other non-operating income	-	-	-	-
Contributions to other agencies	-	-	-	-
Other non-operating expenses	-	-	-	-
Interest expense	<u>(17,184,063)</u>	<u>(16,756,876)</u>	<u>(16,462,362)</u>	<u>(17,517,207)</u>
Total non-operating revenues (expenses)	<u>14,402,948</u>	<u>19,552,817</u>	<u>22,278,336</u>	<u>23,431,549</u>
Income before contributed capital	4,148,198	7,117,582	9,691,500	9,457,403
Contributed capital	12,297,427	5,887,940	10,265,805	2,417,505
Connection fees	48,588	50,466	-	-
Jointly owned facilities capital reimb				
Capital grants	-	2,388,038	222,027	81,237
Change in Net Position	<u>\$ 16,445,625</u>	<u>\$ 15,393,560</u>	<u>\$ 20,179,332</u>	<u>\$ 11,956,145</u>

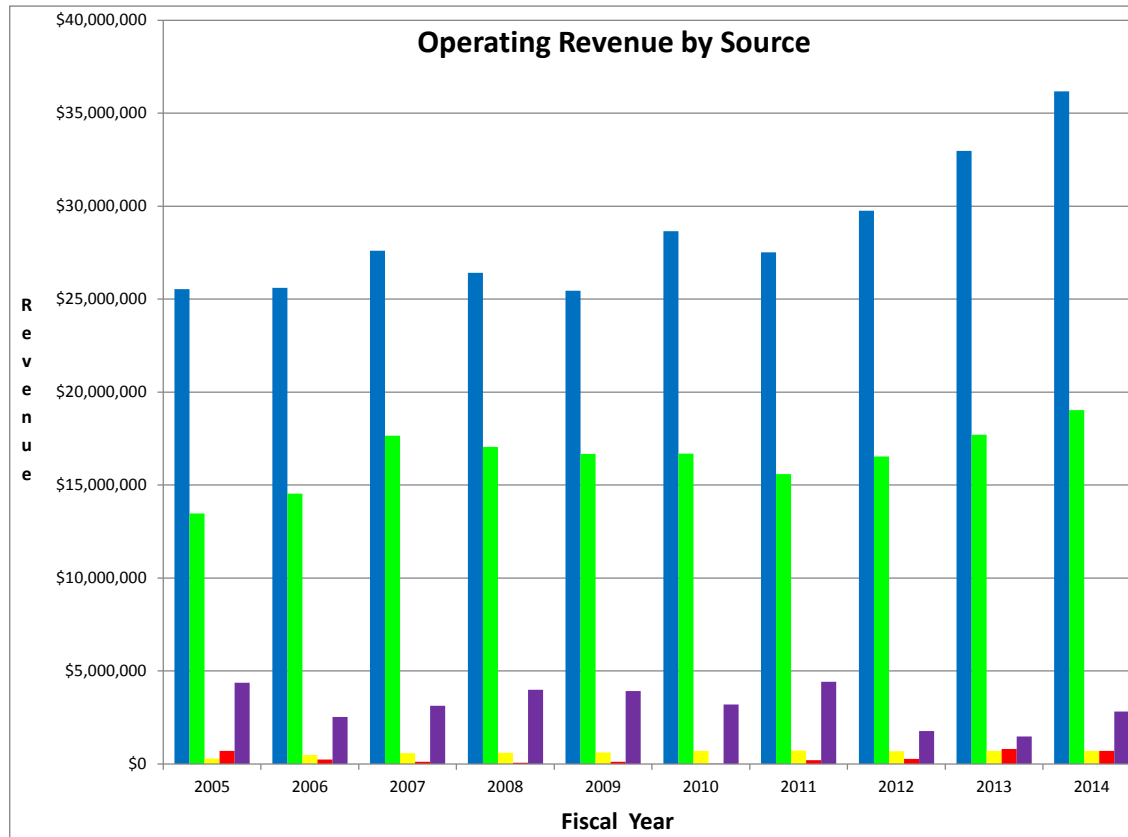
Source: SMWD Basic Financial Statements

Santa Margarita Water District
Change in Net Position
Last Ten Fiscal Years

Fiscal Year					
2009	2010	2011	2012	2013	2014
\$ 25,457,728	\$ 28,653,367	\$ 27,522,866	\$ 29,764,206	\$ 32,981,298	\$ 36,178,908
16,669,997	16,693,371	15,600,334	16,536,155	17,715,923	19,033,220
609,990	709,257	722,208	681,507	697,052	698,786
117,135	11,065	208,086	276,091	806,665	708,874
3,916,457	3,192,317	4,424,449	1,771,983	1,476,302	2,821,343
<u>46,771,307</u>	<u>49,259,377</u>	<u>48,477,943</u>	<u>49,029,942</u>	<u>53,677,240</u>	<u>59,441,131</u>
19,486,182	21,236,768	21,185,215	23,293,146	26,665,738	28,264,492
4,918,128	4,457,427	4,204,479	4,078,145	4,068,216	4,944,194
628,474	400,051	440,267	571,337	524,473	622,498
1,312,608	917,472	1,257,311	1,205,974	1,191,408	3,076,129
3,063,690	3,047,929	3,351,879	2,513,606	2,499,279	2,481,884
2,183,938	1,897,521	1,847,191	2,162,963	1,869,340	2,195,665
2,656,010	4,652,062	3,829,607	3,201,117	3,144,083	3,465,764
12,650,816	12,682,205	13,548,863	14,362,327	14,677,928	14,606,120
662,994	419,491	431,618	398,792	398,016	448,664
2,027,678	2,351,800	2,273,941	2,587,771	2,728,996	3,035,753
<u>49,590,518</u>	<u>52,062,726</u>	<u>52,370,371</u>	<u>54,375,178</u>	<u>57,767,477</u>	<u>63,141,163</u>
<u>15,720,816</u>	<u>15,920,805</u>	<u>15,920,180</u>	<u>15,608,541</u>	<u>17,101,815</u>	<u>16,985,856</u>
<u>(18,540,027)</u>	<u>(18,724,154)</u>	<u>(19,812,608)</u>	<u>(20,953,777)</u>	<u>(21,192,052)</u>	<u>(20,685,888)</u>
23,300,874	27,323,161	25,129,283	24,680,109	26,882,700	29,694,891
6,473,244	5,590,346	5,987,585	5,893,978	5,946,208	6,118,055
5,201,528	7,149,921	805,793	807,066	806,955	809,833
7,930,250	4,531,146	2,348,104	2,226,758	370,637	1,577,099
-	-	1,116,498	1,174,618	1,188,799	1,199,966
-	-	-	1,935,929	2,123,379	5,133,944
-	-	(890,000)	-	-	(3,137,767)
(15,782,326)	(14,826,211)	(13,979,495)	(13,192,069)	(14,644,444)	(965,681)
<u>(15,782,326)</u>	<u>(14,826,211)</u>	<u>(13,979,495)</u>	<u>(13,192,069)</u>	<u>(14,644,444)</u>	<u>(14,566,035)</u>
<u>27,123,570</u>	<u>29,768,363</u>	<u>20,517,768</u>	<u>23,526,389</u>	<u>22,674,234</u>	<u>25,864,305</u>
8,583,543	11,044,209	705,160	2,572,612	1,482,182	5,178,417
2,258,061	349,875	8,648,926	17,184,484	488,881	316,913
-	25,500	-	-	25,500	-
-	-	-	346,862	156,995	83,078
-	1,895,388	12,994	89,638	1,156,820	3,234,854
<u>\$ 10,841,604</u>	<u>\$ 13,314,972</u>	<u>\$ 9,367,080</u>	<u>\$ 20,193,596</u>	<u>\$ 3,310,378</u>	<u>\$ 8,813,262</u>

Santa Margarita Water District
Operating Revenue by Source
Last Ten Fiscal Years

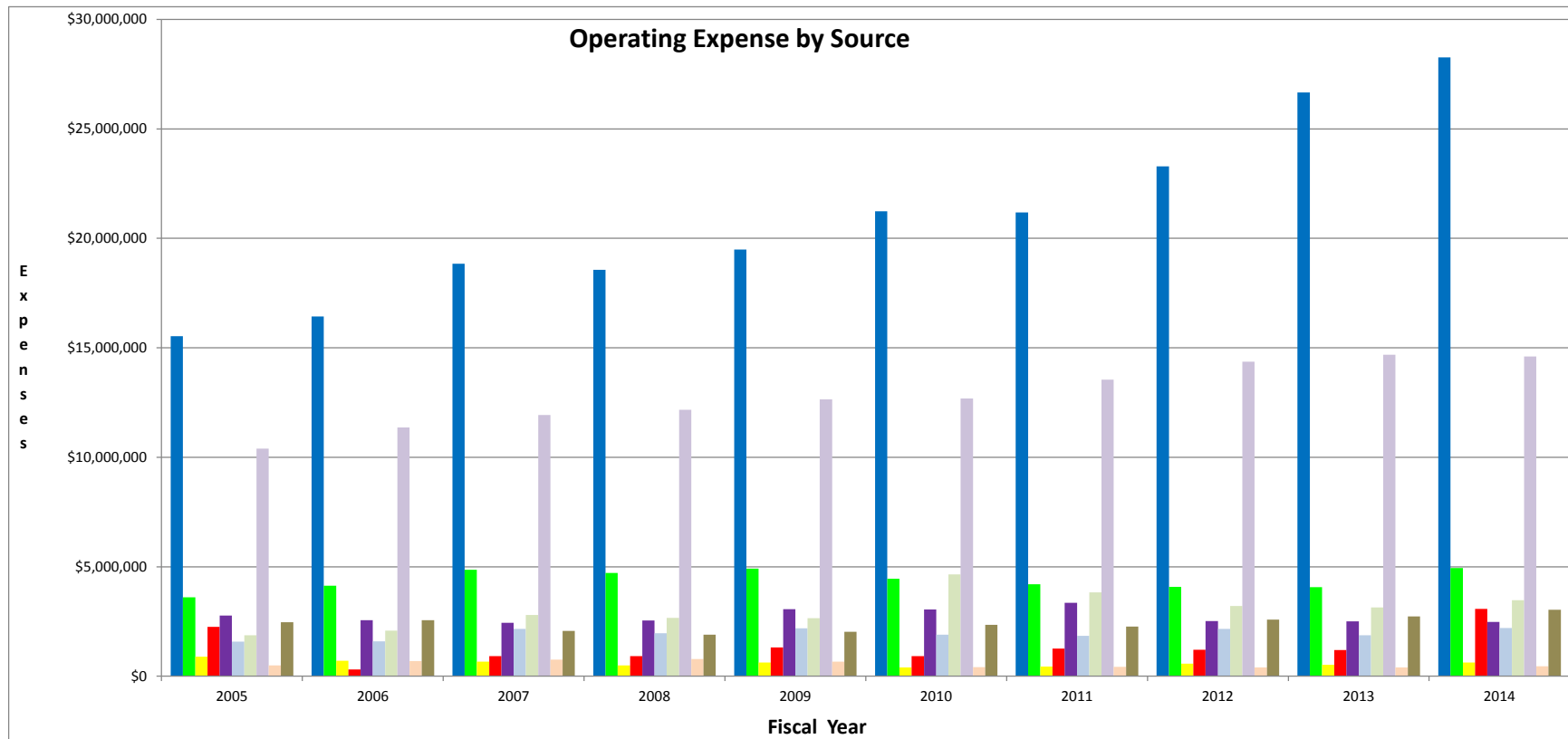
Fiscal Year	Water Sales	Sanitation Sale Service Charge	Utility Billing Charges	Construction Revenue	Other Income	Total Operating Revenue
2005	\$ 25,535,976	\$ 13,470,412	\$ 291,571	\$ 697,871	\$ 4,366,317	\$ 44,362,147
2006	25,604,654	14,533,550	487,359	242,980	2,527,829	43,396,372
2007	27,609,051	17,654,059	577,380	120,548	3,134,410	49,095,448
2008	26,427,232	17,059,141	595,892	70,600	3,993,418	48,146,283
2009	25,457,728	16,669,997	609,990	117,135	3,916,457	46,771,307
2010	28,653,367	16,693,371	709,257	11,065	3,192,317	49,259,377
2011	27,522,866	15,600,334	722,208	208,086	4,424,449	48,477,943
2012	29,764,206	16,536,155	681,507	276,091	1,771,983	49,029,942
2013	32,981,298	17,715,923	697,052	806,665	1,476,302	53,677,240
2014	36,178,908	19,033,220	698,786	708,874	2,821,343	59,441,131



Source : SMWD Finance Department

Santa Margarita Water District
Operating Expenses by Type
Last Ten Fiscal Years

Fiscal Year	Water purchases	Power	Maintenance and operations	Regional facilities	Sewage treatment	Operating general	Repair and maintenance	Employee cost	Customer relations	General and administrative	Total Operating Expense
2005	\$ 15,535,742	\$ 3,608,641	\$ 895,190	\$ 2,253,731	\$ 2,769,176	\$ 1,582,002	\$ 1,871,339	\$ 10,393,680	\$ 487,786	\$ 2,468,288	\$ 41,865,575
2006	16,433,333	4,137,824	700,225	304,532	2,563,938	1,594,216	2,081,963	11,356,361	690,237	2,562,556	42,425,185
2007	18,839,312	4,855,951	662,827	923,413	2,444,253	2,160,560	2,793,521	11,925,772	757,091	2,072,401	47,435,101
2008	18,567,162	4,722,243	488,112	923,413	2,541,385	1,960,078	2,669,400	12,167,725	786,075	1,896,998	46,722,591
2009	19,486,182	4,918,128	628,474	1,312,608	3,063,690	2,183,938	2,656,010	12,650,816	662,994	2,027,678	49,590,518
2010	21,236,768	4,457,427	400,051	917,472	3,047,929	1,897,521	4,652,062	12,682,205	419,491	2,351,800	52,062,726
2011	21,185,215	4,204,479	440,267	1,257,311	3,351,879	1,847,191	3,829,607	13,548,863	431,618	2,273,941	52,370,371
2012	23,293,146	4,078,145	571,337	1,205,974	2,513,606	2,162,963	3,201,117	14,362,327	398,792	2,587,771	54,375,178
2013	26,665,738	4,068,216	524,473	1,191,408	2,499,279	1,869,340	3,144,083	14,677,928	398,016	2,728,996	57,767,477
2014	28,264,492	4,944,194	622,498	3,076,129	2,481,884	2,195,665	3,465,764	14,606,120	448,664	3,035,753	63,141,163



Source : SMWD Finance Department

Santa Margarita Water District
Water Sales by Customer Class

Water Consumption by Customer Class (ccf)								
Fiscal Year	Outdoor Irrigation		Business/ Commercial	Construction	Lakefill	Residential	Residential	Total Sales
	Non-domestic	Domestic				Single Family	Multi Family	
2007	3,565,202	3,221,402	888,098	23,726	147,764	8,051,510	1,231,110	17,128,812
2008	3,329,309	2,932,041	615,318	11,587	126,776	7,815,567	1,196,945	16,027,543
2009	3,158,358	2,753,428	573,783	5,693	167,922	7,629,827	1,173,414	15,462,425
2010	2,794,862	2,399,442	474,282	8,524	100,891	7,113,397	1,146,014	14,037,412
2011	2,228,114	2,019,882	438,741	22,175	66,879	6,625,628	1,120,028	12,521,447
2012	2,450,876	2,205,524	430,481	8,424	101,622	6,912,508	1,134,031	13,243,466
2013	2,834,162	2,525,388	444,967	23,117	96,428	7,072,765	1,120,178	14,117,005
2014	3,215,513	2,717,103	459,931	48,862	136,794	7,367,772	1,117,415	15,063,390

ccf = 100 cubic feet = 748 gallons

Domestic water is water that is treated to drinking water standards

Non-domestic water is water that is not of drinking water quality, but which may still be used for many other purposes

Data prior to 2007 is not available

Source: SMWD utility billing system

Santa Margarita Water District
Water and Sewer Rates

Water Basic Monthly Charge - Residential Single and Multi-Family

Meter Size	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
3/4"	\$ 5.74	\$ 5.74	\$ 5.74	\$ 5.74	\$ 5.74	\$ 6.03	\$ 6.03	\$ 6.22	\$ 6.32	\$ 6.41

Water Commodity Charges Residential Single Family (per ccf)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
1ST TIER	\$ 1.38	\$ 1.38	\$ 1.38	\$ 1.38	\$ 1.38	\$ 1.61	\$ 1.61	\$ 1.66	\$ 1.69	\$ 1.71
2ND TIER	1.56	1.56	1.56	1.56	1.56	1.73	1.73	1.78	1.81	1.84
3RD TIER	2.05	2.05	2.05	2.05	2.05	2.18	2.18	2.25	2.29	2.32
4TH TIER	2.46	2.46	2.46	2.46	2.46	2.67	2.67	2.75	2.79	2.83
5TH TIER						3.49	3.49	3.60	3.66	3.71
MWDOC						0.28	0.28	0.39	0.51	0.62
Surcharge										

Water Commodity Charges Residential Multi-Family (per ccf)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
1ST TIER	\$ 1.38	\$ 1.38	\$ 1.38	\$ 1.38	\$ 1.38	\$ 1.61	\$ 1.61	\$ 1.66	\$ 1.69	\$ 1.71
2ND TIER	1.56	1.56	1.56	1.56	1.56	1.73	1.73	1.78	1.81	1.84
3RD TIER	2.05	2.05	2.05	2.05	2.05	2.18	2.18	2.25	2.29	2.32
4TH TIER	2.46	2.46	2.46	2.46	2.46	2.67	2.67	2.75	2.79	2.83
5TH TIER						3.49	3.49	3.60	3.66	3.71
MWDOC						0.28	0.28	0.39	0.51	0.62
Surcharge										

Sewer Charges- Residential Single Family

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Base Minimum	\$ 8.25	\$ 8.25	\$ 8.25	\$ 8.25	\$ 8.25	\$ 8.72	\$ 8.72	\$ 8.99	\$ 9.13	\$ 9.26
Base Maximum	20.57	20.57	20.57	20.57	20.57	19.72	19.72	20.32	20.68	20.92
Commodity	0.88	0.88	0.88	0.88	0.88	1.00	1.00	1.03	1.05	1.06

Sewer Charges - Residential Multi-Family

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Base Minimum	\$ 8.25	\$ 8.25	\$ 8.25	\$ 8.25	\$ 8.25	\$ 8.72	\$ 8.72	\$ 8.99	\$ 9.13	\$ 9.26
Base Maximum	16.17	16.17	16.17	16.17	16.17	17.72	17.72	18.26	18.58	18.80
Commodity	0.88	0.88	0.88	0.88	0.88	1.00	1.00	1.03	1.05	1.06

Average Single Family Residential Monthly Water Bill (based on 3/4" meter and 15 units (ccf) of water)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
	\$ 28.06	\$ 28.06	\$ 28.06	\$ 28.06	\$ 28.06	\$ 31.26	\$ 31.26	\$ 32.20	\$ 32.75	\$ 33.23

Santa Margarita Water District
Ten Largest Water and Sewer Customers

Fiscal Year 2014
Top Ten Water Customers

Customer	Annual Revenue	% of Total
1 LARMAC	\$ 1,677,023	4.6%
2 SAMLARC	1,311,603	3.6%
3 CZ MASTER ASSOCIATION	1,124,391	3.1%
4 CITY OF MISSION VIEJO	1,094,865	3.0%
5 CASTA DEL SOL HOA	899,322	2.5%
6 TALEGA MAINTENANCE CORP	685,787	1.9%
7 COTO DE CAZA GOLF & RACQUET	592,186	1.6%
8 LAKE M.V. ASSOC.	349,171	1.0%
9 M.V. ENVIRONMENTAL ASSN	340,587	0.9%
10 L.F. MAINTENANCE CORP	320,802	0.9%
Total	\$ 8,395,739	23.1%
TOTAL WATER SALES	\$ 36,178,908	

Top Ten Sewer Customers

Customer	Annual Revenue	% of Total
1 SOUTH COUNTY APARTMENTS	\$ 64,745	0.3%
2 22751 EL PRADO, LLC	56,049	0.3%
3 VILLA LA PAZ	52,340	0.3%
4 IRVINE COMPANY	52,150	0.3%
5 WESTERN NATIONAL PROP.	48,762	0.3%
6 AVALON BAY COMMUNITIES, INC.	47,395	0.2%
7 LADERA WNG, LLC	46,159	0.2%
8 EQUITY RESIDENTIAL PROPERTIES	35,177	0.2%
9 APPLIED MEDICAL RESOURCES INC.	34,420	0.2%
10 FINISTERRA ON THE LAKE	31,111	0.2%
Total	\$ 468,308	2.5%
TOTAL SEWER SALES	\$ 19,033,220	

Fiscal Year 2007
Top Ten Water Customers

Customer	Annual Revenue	% of Total
1 LARMAC	\$ 1,606,456	5.8%
2 CITY OF MISSION VIEJO	1,107,914	4.0%
3 SAMLARC	1,005,643	3.6%
4 CZ MASTER ASSOCIATION	987,237	3.6%
5 CASTA DEL SOL HOA	838,373	3.0%
6 TALEGA MAINTENANCE CORP	556,413	2.0%
7 M.V. ENVIRONMENTAL ASSN	446,315	1.6%
8 COTO DE CAZA GOLF & RACQUET	403,325	1.5%
9 OSO VALLEY GREENBELT ASSN	358,774	1.3%
10 MBK HOMES (BRIAR ROSE)	354,286	1.3%
Total	\$ 7,664,737	27.7%
TOTAL WATER SALES	\$ 27,609,051	

Top Ten Sewer Customers

Customer	Annual Revenue	% of Total
1 VILLA LA PAZ	\$ 49,496	0.3%
2 AVILA APARTMENTS	47,686	0.3%
3 ARCHSTONE COMMUNITIES	46,360	0.3%
4 LADERA WNG, LLC	43,112	0.2%
5 WESTERN NATIONAL PROP.	43,094	0.2%
6 AVALON BAY COMMUNITIES, INC.	42,353	0.2%
7 SOUTH COUNTY APARTMENTS	31,003	0.2%
8 EQUITY RESIDENTIAL PROPERTIES	30,657	0.2%
9 CAPO U.S.D.	27,477	0.2%
10 BRE PROPERTIES INC	26,048	0.1%
Total	\$ 387,285	2.2%
TOTAL SEWER SALES	\$ 17,654,059	

Data prior to 2007 is not available

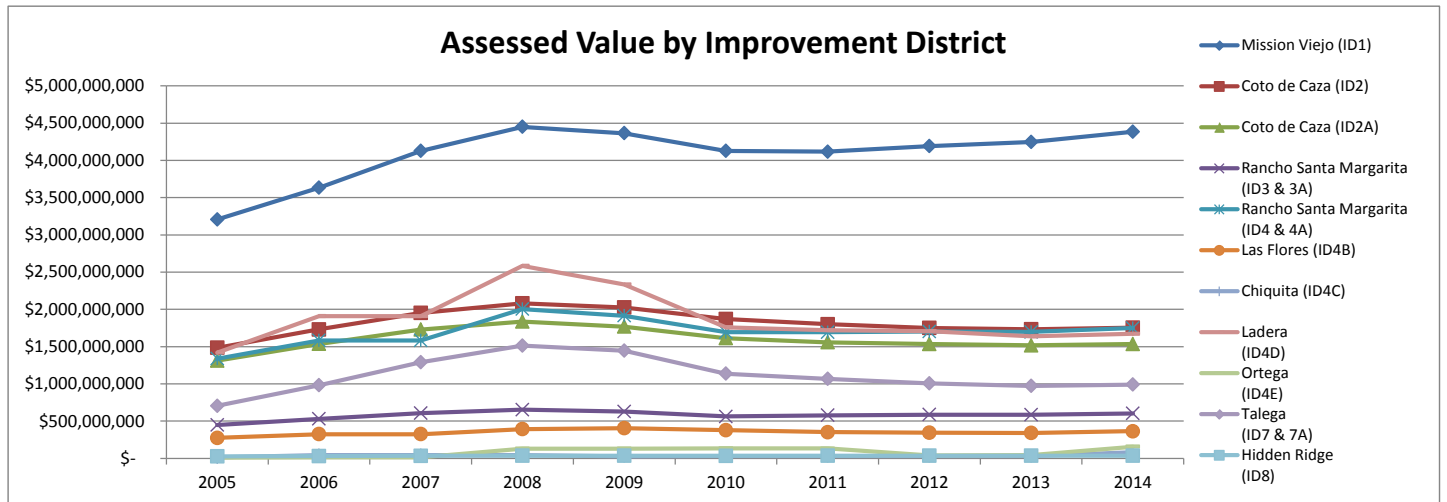
Source: SMWD utility billing system

Santa Margarita Water District
Assessed Values by Improvement District

Fiscal Year	Improvement District										
	Mission Viejo (ID1)	Coto de Caza (ID2)	Coto de Caza (ID2A)	Rancho Santa Margarita (ID3 & 3A)	Rancho Santa Margarita (ID4 & 4A)	Las Flores (ID4B)	Chiquita (ID4C)	Ladera (ID4D)	Ortega (ID4E)	Talega (ID7 & 7A)	Hidden Ridge (ID8)
2005	\$ 3,206,227,069	\$ 1,485,456,013	\$ 1,310,522,627	\$ 449,821,069	\$ 1,338,598,422	\$ 276,086,717	\$ 12,131,708	\$ 1,421,181,452	\$ 10,933,357	\$ 705,451,768	\$ 27,469,413
2006	3,632,289,776	1,731,018,520	1,536,484,122	529,499,138	1,584,732,146	325,284,550	42,622,000	1,910,415,335	14,754,502	982,569,346	31,630,351
2007	4,126,461,710	1,953,185,392	1,730,359,426	607,526,050	1,584,732,146	325,284,550	42,622,000	1,910,415,335	14,754,502	1,289,207,476	34,807,644
2008	4,449,923,470	2,081,839,058	1,836,061,498	653,157,053	2,004,747,344	392,717,942	44,712,270	2,583,528,083	131,405,007	1,514,589,697	37,484,785
2009	4,364,900,186	2,026,091,700	1,768,302,783	628,972,943	1,915,351,402	405,922,872	29,089,960	2,333,309,213	131,942,617	1,444,772,280	37,043,143
2010	4,128,048,587	1,871,136,170	1,612,607,868	562,407,496	1,693,456,550	379,000,051	29,651,487	1,760,764,375	134,581,258	1,136,688,593	34,066,847
2011	4,116,938,492	1,800,451,601	1,558,144,499	578,962,833	1,693,794,017	351,929,740	29,486,395	1,720,589,112	132,748,143	1,067,513,480	35,376,650
2012	4,190,962,875	1,752,221,733	1,534,074,021	587,661,916	1,702,515,206	345,445,199	29,707,479	1,707,493,549	40,219,243	1,005,822,603	35,353,549
2013	4,246,079,372	1,733,186,576	1,516,823,350	584,731,994	1,697,614,604	342,556,495	30,356,810	1,638,801,486	44,332,116	974,637,526	36,008,090
2014	4,385,604,517	1,753,304,514	1,533,937,230	602,615,493	1,749,594,903	364,559,743	84,468,220	1,671,307,674	158,159,741	990,509,069	37,061,718

Assessment Rate by Improvement District per \$100 of Assessed Value

Fiscal Year	Improvement District										
	Mission Viejo (ID1)	Coto de Caza (ID2)	Coto de Caza (ID2A)	Rancho Santa Margarita (ID3 & 3A)	Rancho Santa Margarita (ID4 & 4A)	Las Flores (ID4B)	Chiquita (ID4C)	Ladera (ID4D)	Ortega (ID4E)	Talega (ID7 & 7A)	Hidden Ridge (ID8)
2005	0.0240	0.0950	0.1680	0.3940	0.3910	0.5100	5.3800	0.1230	0.6700	*	0.4350
2006	0.0215	0.0855	0.1514	0.3689	0.3591	0.4621	7.0968	0.0815	0.7589	*	0.3633
2007	0.0152	0.0754	0.1227	0.2957	0.2909	0.3844	1.9728	0.1043	2.1848	*	0.3181
2008	0.0000	0.0691	0.1135	0.2834	0.2680	0.3735	1.9632	0.0859	0.2695	*	0.2915
2009	0.0000	0.0610	0.1135	0.2834	0.2680	0.3735	4.2142	0.0860	0.3557	*	0.2752
2010	0.0000	0.1015	0.1293	0.3990	0.4084	0.4654	3.9954	0.1796	0.3556	*	0.3315
2011	0.0000	0.0950	0.0971	0.3501	0.3927	0.4864	3.2696	0.1774	0.4501	*	0.2963
2012	0.0000	0.0952	0.0575	0.3694	0.3900	0.4803	3.2401	0.1765	1.0301	*	0.3067
2013	0.0000	0.0948	0.0578	0.4146	0.4491	0.5519	3.6571	0.1997	1.1554	*	0.3085
2014	0.0000	0.0243	0.0000	0.1753	0.2841	0.3591	1.1457	0.407	0.1684	*	0.3017



* ID-7 assessment rates are calculated for each individual parcel

**SANTA MARGARITA WATER DISTRICT
IMPROVEMENT DISTRICT NO. 2/2A
DIRECT AND OVERLAPPING DEBT SUMMARY**

Overlapping District	FY 2013-14 Total Levy	Amount of Levy on Parcels in the District	Percent of Levy on Parcels in the District	Total Debt Outstanding [1]	District Share of Total Debt Outstanding
Metropolitan Water District G.O. Bond	\$94,962,540	\$141,620	0.1491%	\$165,085,000	\$246,196
County of Orange CFD No. 87-8	\$2,159,631	\$2,159,631	100.0000%	\$9,033,223	\$9,033,223
Capistrano Unified School District SFID No. 1 Series B, 2012 Refunding	\$4,314,758	\$102,084	2.3659%	\$35,109,930	\$830,672
				ESTIMATED SHARE OF OVERLAPPING DEBT	\$10,110,091
Santa Margarita Water District ID No. 2					\$6,490,000 [2]
Santa Margarita Water District ID No. 2A					\$660,000 [2]
				TOTAL DIRECT AND OVERLAPPING DEBT	\$17,260,091
				TOTAL LAND ASSESSED VALUE [3]	\$1,762,635,915
				VALUE-TO-LIEN RATIO	102.122
				SMWD Amount Authorized	36,849,373.000

Sources: David Taussig & Associates, Inc.; Santa Margarita Water District; Metropolitan Water District; County Of Orange

[1] Based on principal payments as of September 2, 2013. All districts shown make principal payments on September 1 except for MWD which makes principal payments on March 1.

[2] Based on information provided by the Santa Margarita Water District.

[3] Based on FY 2013-14 land value provided by County Auditor.

**SANTA MARGARITA WATER DISTRICT
IMPROVEMENT DISTRICT NO. 2A
DIRECT AND OVERLAPPING DEBT SUMMARY**

Overlapping District	FY 2013-14 Total Levy	Amount of Levy on Parcels in the District	Percent of Levy on Parcels in the District	Total Debt Outstanding [1]	District Share of Total Debt Outstanding
Metropolitan Water District G.O. Bond	\$94,962,540	\$123,199	0.1297%	\$165,085,000	\$214,172
Santa Margarita Water District ID No. 2	\$428,321	\$373,982	87.3136%	\$6,490,000	\$5,666,654
County of Orange CFD No. 87-8	\$2,159,631	\$2,159,631	100.0000%	\$9,033,223	\$9,033,223
Capistrano Unified School District SFID No. 1 Series B, 2012 Refunding	\$4,314,758	\$50,925	1.1802%	\$35,109,930	\$414,385
				ESTIMATED SHARE OF OVERLAPPING DEBT	\$15,328,433
Santa Margarita Water District ID No. 2A					\$660,000 [2]
				TOTAL DIRECT AND OVERLAPPING DEBT	\$15,988,433
				TOTAL LAND ASSESSED VALUE [3]	\$1,539,021,190
				VALUE-TO-LIEN RATIO	96.258
				SMWD Amount Authorized	54,375,627.000

Sources: David Taussig & Associates, Inc.; Santa Margarita Water District; Metropolitan Water District; County Of Orange

[1] Based on principal payments as of September 2, 2013. All districts shown make principal payments on September 1 except for MWD which makes principal payments on March 1.

[2] Based on information provided by the Santa Margarita Water District.

[3] Based on FY 2013-14 land value provided by County Auditor.

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**SANTA MARGARITA WATER DISTRICT
IMPROVEMENT DISTRICT NO. 3/3A
DIRECT AND OVERLAPPING DEBT SUMMARY**

Overlapping District	FY 2013-14 Total Levy	Amount of Levy on Parcels in the District	Percent of Levy on Parcels in the District	Total Debt Outstanding [1]	District Share of Total Debt Outstanding
Metropolitan Water District G.O. Bond	\$94,962,540	\$44,646	0.0470%	\$165,085,000	\$77,613
County of Orange CFD No. 87-5B	\$2,071,794	\$384,178	18.5433%	\$5,895,560	\$1,093,229
County of Orange CFD No. 87-5C	\$1,311,416	\$1,311,416	100.0000%	\$4,374,591	\$4,374,591
County of Orange CFD No. 87-5D	\$1,066,933	\$1,066,933	100.0000%	\$3,968,488	\$3,968,488
Capistrano Unified School District CFD No. 88-1	\$1,470,880	\$242,176	16.4647%	\$1,330,000	\$218,981
Capistrano Unified School District SFID No. 1 Series B, 2012 Refunding	\$4,314,758	\$104	0.0024%	\$35,109,930	\$844
Saddleback Valley Unified School District G.O. Bond Series 2004	\$5,382,673	\$204,731	3.8035%	\$2,125,000	\$80,825
Saddleback Valley Unified School District G.O. Bond Series 2007	\$3,581,616	\$136,227	3.8035%	\$44,065,000	\$1,676,019
Saddleback Valley Unified School District G.O. Bond Series 2013 Refunding	\$432,122 [4]	\$16,263	3.7634%	\$70,650,000	\$2,658,862
Saddleback Valley Unified School District CFD No. 89-2	\$1,648,415	\$1,648,415	100.0000%	\$7,311,602	\$7,311,602
Saddleback Valley Unified School District CFD No. 89-3	\$1,133,456	\$1,133,456	100.0000%	\$4,838,718	\$4,838,718
				ESTIMATED SHARE OF OVERLAPPING DEBT	\$26,299,771
Santa Margarita Water District ID No. 3/3A					\$17,385,000 [2]
				TOTAL DIRECT AND OVERLAPPING DEBT	\$43,684,771
				TOTAL LAND ASSESSED VALUE [3]	\$625,629,187
				VALUE-TO-LIEN RATIO	14.321
				SMWD Amount Authorized	71,823,634.000

Sources: David Taussig & Associates, Inc.; Santa Margarita Water District; Metropolitan Water District; Saddleback Valley USD; County Of Orange

[1] Based on principal payments as of September 2, 2013. All districts shown make principal payments on September 1 except for MWD which makes principal payments on March 1.

[2] Based on information provided by the Santa Margarita Water District.

[3] Based on FY 2013-14 land value provided by County Auditor.

[4] FY 2013-2014 levy information was not available from the County of Orange Auditor as of December 4, 2013. FY 2013-2014 levy approximated by multiplying the district's FY 2013-2014 secured assessed value by the FY 2013-2014 ad valorem rate.

**SANTA MARGARITA WATER DISTRICT
IMPROVEMENT DISTRICT NO. 4/4A/4B
DIRECT AND OVERLAPPING DEBT SUMMARY**

Overlapping District	FY 2013-14 Total Levy	Amount of Levy on Parcels in the District	Percent of Levy on Parcels in the District	Total Debt Outstanding [1]	District Share of Total Debt Outstanding
Metropolitan Water District G.O. Bond	\$94,962,540	\$312,355	0.3289%	\$165,085,000	\$543,005
County of Orange CFD No. 86-1	\$2,761,210	\$2,761,210	100.0000%	\$11,180,000	\$11,180,000
County of Orange CFD No. 86-2	\$890,094	\$890,094	100.0000%	\$5,810,000	\$5,810,000
County of Orange CFD No. 87-5A	\$0	\$0	100.0000%	\$290,000	\$290,000
County of Orange CFD No. 87-5B	\$2,071,794	\$1,687,616	81.4567%	\$5,895,560	\$4,802,331
County of Orange CFD No. 87-5E	\$943,649	\$943,649	100.0000%	\$4,810,000	\$4,810,000
County of Orange CFD No. 99-1	\$1,559,864	\$1,559,864	100.0000%	\$18,965,000	\$18,965,000
County of Orange CFD No. 2000-1	\$1,979,779	\$1,979,779	100.0000%	\$24,465,000	\$24,465,000
County of Orange CFD No. 2001-1	\$2,124,618	\$2,124,618	100.0000%	\$28,720,000	\$28,720,000
County of Orange CFD No. 2002-1	\$4,591,103	\$4,591,103	100.0000%	\$63,555,000	\$63,555,000
County of Orange CFD No. 2003-1	\$3,808,525	\$3,808,525	100.0000%	\$54,150,000	\$54,150,000
County of Orange CFD No. 2004-1	\$4,788,392	\$4,788,392	100.0000%	\$70,745,000	\$70,745,000
Capistrano Unified School District CFD No. 88-1	\$1,470,880	\$1,228,704	83.5353%	\$1,330,000	\$1,111,019
Capistrano Unified School District CFD No. 92-1	\$2,673,271	\$2,673,271	100.0000%	\$14,430,000	\$14,430,000
Capistrano Unified School District CFD No. 98-2	\$10,137,865	\$10,137,865	100.0000%	\$104,839,491	\$104,839,491
Capistrano Unified School District SFID No. 1 Series B, 2012 Refunding	\$4,314,758	\$48,722	1.1292%	\$35,109,930	\$396,460
Saddleback Valley Unified School District G.O. Bond Series 2004	\$5,382,673	\$363,483	6.7528%	\$2,125,000	\$143,498
Saddleback Valley Unified School District G.O. Bond Series 2007	\$3,581,616	\$241,861	6.7528%	\$44,065,000	\$2,975,643
Saddleback Valley Unified School District G.O. Bond Series 2013 Refunding	\$432,122 [4]	\$28,873	6.6816%	\$70,650,000	\$4,720,554
Saddleback Valley Unified School District CFD No. 88-1	\$939,195	\$939,195	100.0000%	\$6,150,000	\$6,150,000
ESTIMATED SHARE OF OVERLAPPING DEBT					\$422,802,001
Santa Margarita Water District ID No. 4					\$87,890,000 [2]
Santa Margarita Water District ID No. 4A					\$18,485,000 [2]
Santa Margarita Water District ID No. 4B					\$11,095,000 [2]
TOTAL DIRECT AND OVERLAPPING DEBT					\$540,272,001
TOTAL LAND ASSESSED VALUE [3]					\$4,028,140,411
VALUE-TO-LIEN RATIO					7.456
SMWD Amount Authorized					1,267,546,366.000

Sources: David Taussig & Associates, Inc.; Santa Margarita Water District; Metropolitan Water District; Saddleback Valley USD; County Of Orange

[1] Based on principal payments as of September 2, 2013. All districts shown make principal payments on September 1 except for MWD which makes principal payments on March 1.

[2] Based on information provided by the Santa Margarita Water District.

[3] Based on FY 2013-14 land value provided by County Auditor.

[4] FY 2013-2014 levy information was not available from the County of Orange Auditor as of December 4, 2013. FY 2013-2014 levy approximated by multiplying the district's FY 2013-2014 secured assessed value by the FY 2013-2014 ad valorem rate.

**SANTA MARGARITA WATER DISTRICT
IMPROVEMENT DISTRICT NO. 4A
DIRECT AND OVERLAPPING DEBT SUMMARY**

Overlapping District	FY 2013-14 Total Levy	Amount of Levy on Parcels in the District	Percent of Levy on Parcels in the District	Total Debt Outstanding [1]	District Share of Total Debt Outstanding
Metropolitan Water District G.O. Bond	\$94,962,540	\$126,630	0.1333%	\$165,085,000	\$220,136
Santa Margarita Water District ID No. 4	\$9,668,017 [4]	\$4,681,916 [5]	48.4268%	\$87,890,000	\$42,562,357
County of Orange CFD No. 86-1	\$2,761,210	\$2,761,210	100.0000%	\$11,180,000	\$11,180,000
County of Orange CFD No. 86-2	\$890,094	\$890,094	100.0000%	\$5,810,000	\$5,810,000
County of Orange CFD No. 87-5A	\$0	\$0	100.0000%	\$290,000	\$290,000
County of Orange CFD No. 87-5B	\$2,071,794	\$1,687,616	81.4567%	\$5,895,560	\$4,802,331
County of Orange CFD No. 87-5E	\$943,649	\$943,649	100.0000%	\$4,810,000	\$4,810,000
Capistrano Unified School District CFD No. 88-1	\$1,470,880	\$1,228,704	83.5353%	\$1,330,000	\$1,111,019
Capistrano Unified School District SFID No. 1 Series B, 2012 Refunding	\$4,314,758	\$23,112	0.5357%	\$35,109,930	\$188,069
Saddleback Valley Unified School District G.O. Bond Series 2004	\$5,382,673	\$363,483	6.7528%	\$2,125,000	\$143,498
Saddleback Valley Unified School District G.O. Bond Series 2007	\$3,581,616	\$241,861	6.7528%	\$44,065,000	\$2,975,643
Saddleback Valley Unified School District G.O. Bond Series 2013 Refunding	\$432,122 [6]	\$28,873	6.6816%	\$70,650,000	\$4,720,554
Saddleback Valley Unified School District CFD No. 88-1	\$939,195	\$939,195	100.0000%	\$6,150,000	\$6,150,000
				ESTIMATED SHARE OF OVERLAPPING DEBT	\$84,963,608
Santa Margarita Water District ID No. 4A					\$18,485,000 [2]
				TOTAL DIRECT AND OVERLAPPING DEBT	\$103,448,608
				TOTAL LAND ASSESSED VALUE [3]	\$1,749,594,903
				VALUE-TO-LIEN RATIO	16.913
				SMWD Amount Authorized	164,000,000

Sources: David Taussig & Associates, Inc.; Santa Margarita Water District; Metropolitan Water District; Saddleback Valley USD; County Of Orange

[1] Based on principal payments as of September 2, 2013. All districts shown make principal payments on September 1 except for MWD which makes principal payments on March 1.

[2] Based on information provided by the Santa Margarita Water District.

[3] Based on FY 2013-14 land value provided by County Auditor.

[4] Includes FY 2013-14 levy for ID 4, 4A, 4B, 4C, and 4E attributable to ID 4 debt only.

[5] Based on FY 2013-14 ID 4 rate of \$0.1606/\$100 and ID 4A rate of \$0.107/\$100 attributable to ID 4 debt only.

[6] FY 2013-2014 levy information was not available from the County of Orange Auditor as of December 4, 2013. FY 2013-2014 levy approximated by multiplying the district's FY 2013-2014 secured assessed value by the FY 2013-2014 ad valorem rate.

**SANTA MARGARITA WATER DISTRICT
IMPROVEMENT DISTRICT NO. 4B [6]
DIRECT AND OVERLAPPING DEBT SUMMARY**

Overlapping District	FY 2013-14 Total Levy	Amount of Levy on Parcels in the District	Percent of Levy on Parcels in the District	Total Debt Outstanding [2]	District Share of Total Debt Outstanding
Metropolitan Water District G.O. Bond	\$94,962,540	\$182,766	0.1925%	\$165,085,000	\$317,724
Santa Margarita Water District ID No. 4	\$9,668,017 [4]	\$4,886,336 [5]	50.5412%	\$87,890,000	\$44,420,697
Capistrano Unified School District CFD No. 92-1	\$2,673,271	\$2,673,271	100.0000%	\$14,430,000	\$14,430,000
Capistrano Unified School District SFID No. 1 Series B, 2012 Refunding	\$4,314,758	\$17,390	0.4030%	\$35,109,930	\$141,509
				ESTIMATED SHARE OF OVERLAPPING DEBT	\$59,309,930
Santa Margarita Water District ID No. 4B					\$11,095,000 [1]
				TOTAL DIRECT AND OVERLAPPING DEBT	\$70,404,930
				TOTAL LAND ASSESSED VALUE [3]	\$2,194,027,158
				VALUE-TO-LIEN RATIO	31.163
				SMWD Amount Authorized	339,000,000

Sources: David Taussig & Associates, Inc.; Santa Margarita Water District; Metropolitan Water District; County Of Orange

[1] Based on information provided by the Santa Margarita Water District.

[2] Based on principal payments as of September 2, 2013. All districts shown make principal payments on September 1 except for MWD which makes principal payments on March 1.

[3] Based on FY 2013-14 land value provided by the County Auditor. Includes land value for property in ID 4B, ID 4D, and ID 4E.

[4] Includes FY 2013-14 levy for ID 4, 4A, 4B, 4C, and 4E attributable to ID 4 debt only.

[5] Based on FY 2013-14 ID 4 rate of \$0.1606/\$100 for property in ID 4B, ID 4D, and ID 4E. Also includes ID 4B rate of \$0.3184/\$100, ID 4D rate of \$0.0000/\$100, and ID 4E rate of \$0.1277/\$100 attributable to ID 4 debt only.

[6] Includes property that pays for ID 4B debt (i.e., ID 4B, ID 4D, and ID 4E).

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**SANTA MARGARITA WATER DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 99-1 (TALEGA)
OVERLAPPING DEBT SUMMARY**

<u>Overlapping District</u>	<u>FY 2013-2014 Total Levy</u>	<u>Amount of Levy on Parcels in District</u>	<u>Percent of Levy on Parcels in District</u>	<u>Total Debt Outstanding [1]</u>	<u>District Share of Total Debt Outstanding</u>
Capistrano Unified School District CFD No. 90-2	\$3,951,684	\$3,951,684	100.0000%	\$39,985,000	\$39,985,000
Capistrano Unified School District CFD No. 90-2 IA No. 2002-1	\$3,869,450	\$3,869,450	100.0000%	\$43,110,000	\$43,110,000
Metropolitan Water District	\$94,962,540	\$83,993	0.0884%	\$165,085,000	\$146,015
					<u>\$83,241,015</u>
					Plus CFD No. 99-1 Refunding Bonds Series 2007 \$56,745,000 [1]
					Plus CFD No. 99-1 Refunding Bonds Series 2011A \$32,500,000 [1]
					Plus CFD No. 99-1 Bonds Series 2011B \$4,465,000 [1]
					<u>Estimated Share of Direct and Overlapping Debt Allocable to the District</u> \$176,951,015
					SMWD Amount Authorized \$268,100,000

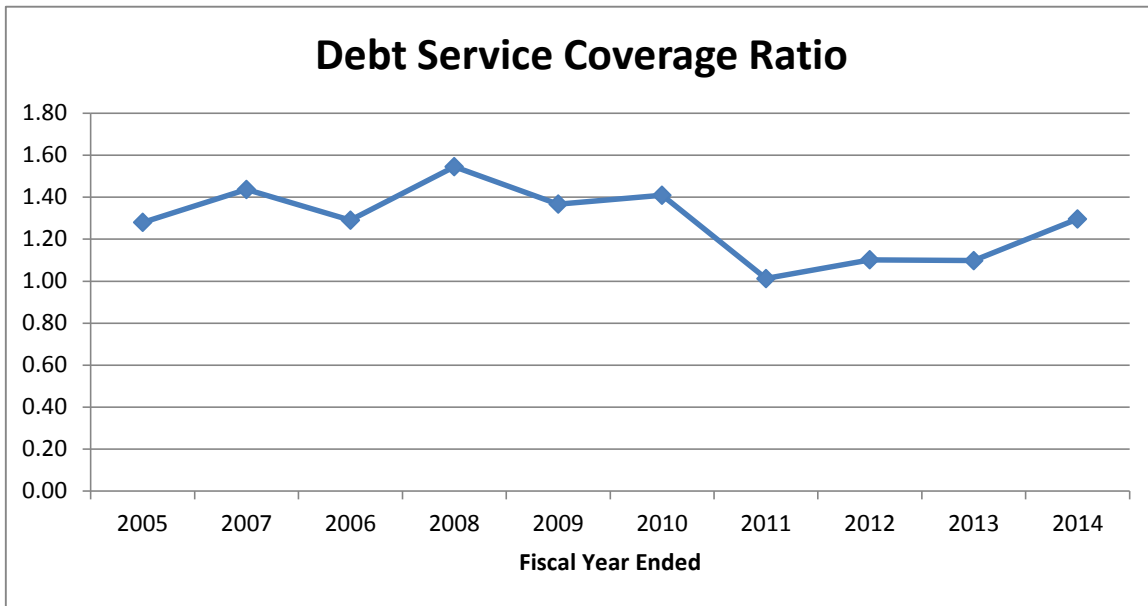
[1] As of September 2, 2013.

Santa Margarita Water District
Debt Service Coverage Ratio

Fiscal Year	Total Revenues [1]	Operating Expenses [2]	Net Available Revenues	Annual Debt Service			Coverage Ratio
				Principal	Interest	Total	
2005	\$ 75,997,746	\$ 41,865,575	\$ 34,132,171	\$ 9,323,715	\$ 17,336,273	\$ 26,659,988	1.28
2007	87,836,146	47,274,180	40,561,966	11,247,461	16,972,117	28,219,578	1.44
2006	79,756,531	42,425,185	37,331,346	10,597,015	18,327,067	28,924,082	1.29
2008	89,095,039	46,722,591	42,372,448	11,644,358	15,772,177	27,416,535	1.55
2009	89,677,203	49,590,518	40,086,685	13,394,718	15,918,998	29,313,716	1.37
2010	93,879,451	52,062,726	41,816,725	14,646,674	15,027,533	29,674,207	1.41
2011	83,865,206	52,370,371	31,494,835	16,216,752	14,876,121	31,092,873	1.01
2012	86,506,075	54,375,178	32,130,897	15,601,752	13,555,395	29,157,147	1.10
2013	90,995,918	57,767,477	33,228,441	15,803,677	14,450,735	30,254,412	1.10
2014	103,974,920	63,141,163	40,833,757	17,817,278	13,673,314	31,490,592	1.30

[1] Total Revenues includes ad-valorem tax receipts, investment income, capacity lease revenue and connection fees

[2] Operating expense excludes depreciation and amortization and interest expense



Source: SMWD Finance Department

Santa Margarita Water District
Outstanding Debt by Type

Fiscal Year Ended	General Obligation Bonds	CFD Bonds	Notes Payable	El Toro R-6 Reservoir Capacity Obligation	Total
2005	\$ 207,400,000	\$ 99,790,000	\$ 7,473,654	\$ 5,067,654	\$ 319,731,308
2006	198,945,000	99,345,000	10,975,434	4,546,375	313,811,809
2008	179,610,000	102,285,000	13,348,472	3,416,229	298,659,701
2007	189,710,000	103,035,000	12,664,857	3,996,426	309,406,283
2009	207,635,000	101,550,000	14,404,809	2,804,122	326,393,931
2010	193,735,000	100,090,000	13,461,914	2,158,349	309,445,263
2011	181,498,000	98,425,000	12,831,276	1,477,058	294,231,334
2012	168,705,000	98,400,000	11,976,705	758,296	279,840,001
2013	156,670,000	96,210,000	11,150,200	-	264,030,200
2014	142,120,000	151,130,000	10,383,922	-	303,633,922

Increase in CFD Bonds in 2014 is due to the issuance of the 2013-1 CFD Bonds.
Final payment for the El Toro R-6 Reservoir was in Fiscal Year 2012.

Source: SMWD financial statements

Santa Margarita Water District
Outstanding Debt Ratios

Fiscal Year	Total Outstanding Debt	Taxable Assessed Valuation	Ratio of Assessed Valuation to Debt	Total Water Connections	Outstanding Debt per Water Connection	Debt Service Per Capita
2005	\$ 319,731,308	\$ 10,243,879,615	3.12%	51,306	\$ 6,232	\$ 2,216
2007	309,406,283	13,619,356,231	2.27%	52,871	5,852	2,086
2006	313,811,809	12,321,299,786	2.55%	52,318	5,998	2,149
2008	298,659,701	15,730,166,207	1.90%	53,093	5,625	2,002
2009	326,393,931	15,085,699,099	2.16%	53,180	6,138	2,183
2010	309,445,263	13,342,409,282	2.32%	53,212	5,815	2,062
2011	294,231,334	13,085,934,962	2.25%	53,239	5,527	1,952
2012	279,840,001	12,931,477,373	2.16%	53,268	5,253	1,848
2013	264,030,200	12,845,128,419	2.06%	53,406	4,944	1,734
2014	303,633,922	13,331,122,822	2.28%	54,068	5,616	1,949

Fiscal Year	Amount Levied	Amount Collected [1]	Percent Collected
2005	\$ 28,437,369	\$ 28,409,196	99.9%
2006	32,073,300	31,661,616	98.7%
2007	32,134,332	31,834,662	99.1%
2008	30,112,097	30,385,061	100.9%
2009	33,482,604	33,329,587	99.5%
2010	31,936,614	32,001,185	100.2%
2011	31,409,878	30,277,114	96.4%
2012	31,446,270	31,154,186	99.1%
2013	33,747,352	33,997,213	100.7%
2014	36,436,003	36,730,606	100.8%

Tax receipts are the second largest revenue source

The amounts levied and collected are based on the County tax year which is from August 1 - July 31.

[1] Amount collected may include amounts levied in prior years

*Source: County of Orange Tax Ledger Summary
SMWD utility billing system
SMWD Finance Department*

Santa Margarita Water District
Principal Employers

Employer	2013		2006	
	Number of Employees	Percentage of Employment	Number of Employees	Percentage of Employment
City of Rancho Santa Margarita				
Applied Medical	1,723	10.65%	1,100	3.77%
O'Connell Landscape	1,033	6.38%	450	1.54%
Cox Communications	783	4.84%	750	2.57%
Saddleback Valley School District	357	2.21%	572	1.96%
Lucas & Mercier Construction	300	1.85%	567	1.94%
Control Components Inc.	302	1.87%	400	1.37%
Target Corporation	200	1.24%	300	1.03%
Car Sound Exhaust System Inc.	207	1.28%	n/a	n/a
Capistrano Unified School District	162	1.00%	200	0.68%
PADI	200	1.24%	200	0.68%
Santa Margarita Catholic H.S.	207	1.28%	200	0.68%
Kohl's	122	0.75%	n/a	n/a
	5,596	34.59%	4,739	16.2%

City of Mission Viejo				
Mission Hospital Regional Medical Center	2,500	4.44%	2,130	3.94%
Saddleback College	1,877	3.33%	1,347	2.50%
Saddleback Valley Unified School District	1,245	2.21%	640	1.19%
Capistrano Unified School District	537	0.95%	n/a	n/a
Nordstrom	400	0.71%	300	0.56%
City of Mission Viejo	261	0.46%	n/a	n/a
Target Corporation	250	0.44%	n/a	n/a
Macy's Department Store	250	0.44%	475	0.88%
U.S. Post Office	194	0.34%	249	0.46%
Vocational Visions	175	0.31%	n/a	n/a
Unisys Corporation			1,000	1.85%
Coldwell Banker			410	0.76%
Quest Diagnostics			300	0.56%
Bristol Farms			250	0.46%
	7,689	13.63%	7,101	13.16%

City of San Clemente				
Capistrano Unified School District	573	1.94%	n/a	n/a
Saddleback Memorial Medical Center	299	1.01%	n/a	n/a
City of San Clemente	215	0.73%	221	0.74%
Walmart	204	0.69%	235	0.79%
Fisherman's Restaurants	187	0.63%	195	0.66%
Albertsons Grocery	181	0.61%	267	0.90%
Lowe's Home Improvement	150	0.51%	n/a	n/a
ICU Medical	146	0.49%	604	2.03%
Target Retail Store	130	0.44%	n/a	n/a
Quest Diagnostics	116	0.39%	n/a	n/a
San Clemente Hospital			320	1.08%
Nichols Institute Diagnostics			235	0.79%
Campus Crusade for Christ			210	0.71%
Bio Lase Technology			174	0.59%
Ralph's Grocery			130	0.44%
	2,201	7.44%	2,591	0.0873

Source: City of Rancho Santa Margarita CAFR, City of Mission Viejo CAFR, City of San Clemente CAFR
 FY 2013 was the most recent data available at the time this report was prepared
 SMWD service area also includes unincorporated portions of the County of Orange
 Data prior to 2006 is not available, data from 2014 was not available in time of preparation of this report

Santa Margarita Water District
Demographic and Economic Information

Fiscal Year Ended	SMWD Population [1]	City of Rancho Santa Margarita		City of Mission Viejo		City of San Clemente		County of Orange		
		Population	Median Age	Population	Median Age	Population	Median Age	Personal Income (thousands of dollars) [2]	Per Capita Personal Income [2]	Unemployment Rate
2004	138,367	48,809	*	97,845	39.7	62,988	38.0	\$ 130,200,000	\$ 52,871	4.5%
2005	144,301	49,006	*	97,848	38.0	65,031	38.0	139,300,000	54,127	3.9%
2007	148,317	49,306	31.9	98,030	38.4	66,833	38.0	153,300,000	55,172	4.0%
2006	146,047	48,969	31.9	98,165	38.1	66,077	38.0	150,500,000	56,114	3.6%
2008	149,214	49,501	31.9	99,781	39.6	67,549	38.0	155,000,000	53,552	5.2%
2009	149,533	49,643	31.9	100,122	38.8	68,234	40.0	148,300,000	51,374	9.3%
2010	150,043	49,945	32.7	93,297	39.0	68,763	39.0	153,300,000	52,124	9.5%
2011	150,762	48,278	33.5	93,483	39.0	63,743	39.0	163,300,000	53,733	9.1%
2012	151,411	48,079	34.1	94,196	35.2	64,208	39.0	166,900,000	54,319	8.0%
2013	152,245	48,550	36.0	94,824	41.6	64,542	40.0	168,966,400	54,827	6.7%
2014	155,798	#	#	#	#	#	#	#	#	5.2%

SMWD service area also includes unincorporated portions of the County of Orange

* Data is not available

Data was not available at the time the report was prepared

[1] Data for FY2014 is an estimate

[2] Personal income information is not available by city

Sources:

Bureau of Labor Statistics

City of Rancho Santa Margarita CAFR

City of Mission Viejo CAFR

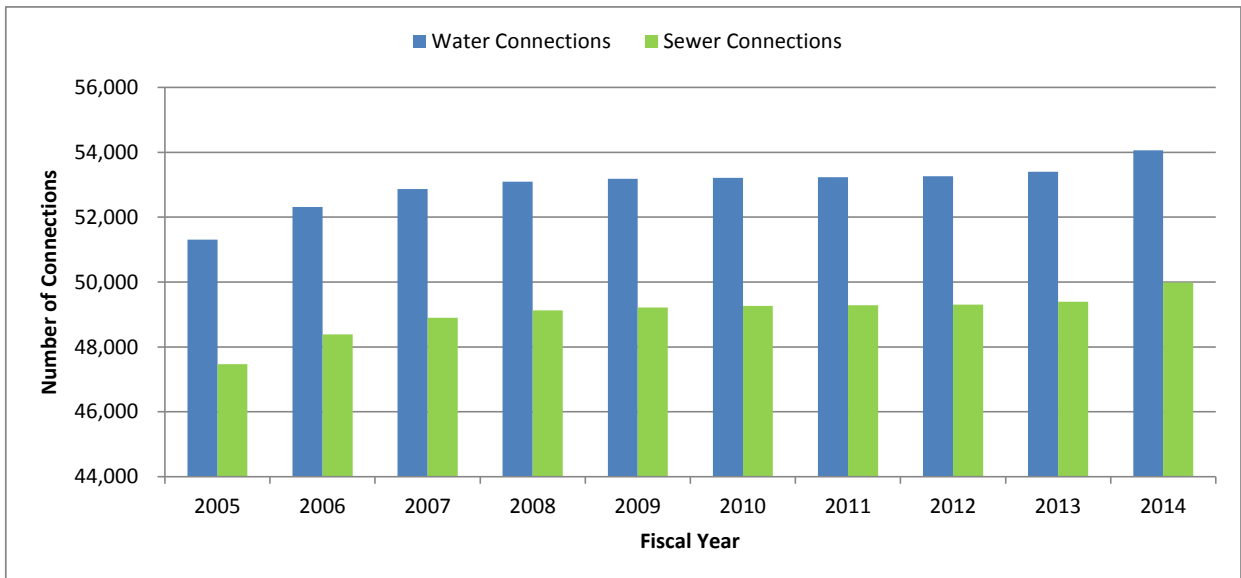
City of San Clemente CAFR

MWDOC Water Rate & Financial Information Reports

Santa Margarita Water District
Water and Sewer Connections

Water Connections by Customer Class										
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Non-domestic Irrigation	677	1,175	1,203	1,209	1,213	1,213	1,214	1,213	1,252	1,277
Commercial	2,007	2,074	2,094	2,109	2,117	2,118	2,120	2,122	2,129	2,166
Domestic Irrigation	1,902	1,487	1,483	1,481	1,483	1,476	1,473	1,474	1,477	1,486
Construction	52	56	57	37	26	21	26	35	42	51
Lakefill	2	2	2	2	2	2	2	2	2	2
Residential Single Family	34,073	34,818	35,299	35,508	35,589	35,633	35,659	35,676	35,715	36,022
Residential Multi Family	12,593	12,706	12,733	12,747	12,750	12,749	12,745	12,746	12,789	13,064
Total Water Connections	51,306	52,318	52,871	53,093	53,180	53,212	53,239	53,268	53,406	54,068

Sewer Connections by Customer Class										
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Commercial	807	873	873	884	888	890	888	890	894	903
Residential Single Family	34,068	34,813	35,294	35,503	35,583	35,627	35,653	35,670	35,709	36,016
Residential Multi Family	12,589	12,702	12,729	12,743	12,746	12,745	12,745	12,746	12,789	13,064
Total Sewer Connections	47,464	48,388	48,896	49,130	49,217	49,262	49,286	49,306	49,392	49,983



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Operating Revenue per Water Connection	\$ 865	\$ 829	\$ 929	\$ 907	\$ 879	\$ 926	\$ 911	\$ 920	\$ 1,005	\$ 1,099
Operating Expenses per Water Connection	\$ 816	\$ 811	\$ 894	\$ 880	\$ 933	\$ 978	\$ 984	\$ 1,021	\$ 1,082	\$ 1,168

Source: SMWD utility billing system

Santa Margarita Water District
Capital Asset Statistics

	Fiscal Years Ended				
	2010	2011	2012	2013	2014
Domestic System					
Miles of Water Mains	595	595	595	595	595
Maximum Storage Capacity (Acre-feet)	927	1,215	1,215	1,215	1,215
Number of Storage Tanks	31	32	32	32	32
Number of Pump Stations	20	21	21	21	21
Non-Domestic System					
Miles of Water Mains	116	116	116	116	116
Number of Storage Tanks	6	6	6	6	6
Number of Open Reservoirs	2	2	2	2	2
Maximum Storage Capacity (Acre-feet)	4,535	4,535	4,535	4,535	4,535
Number of Pump Stations	11	11	11	11	11
Sewer System					
Miles of Sewer Line	605	605	605	605	605
Number of Lift Stations	17	17	17	17	17
Treatment Plants	2	2	2	2	2
Treatment Capacity (MGD)	9	9	9	9	9
Average Flows (MGD)	8.4	8.3	8.1	8.1	8.1

MGD = million gallons per day

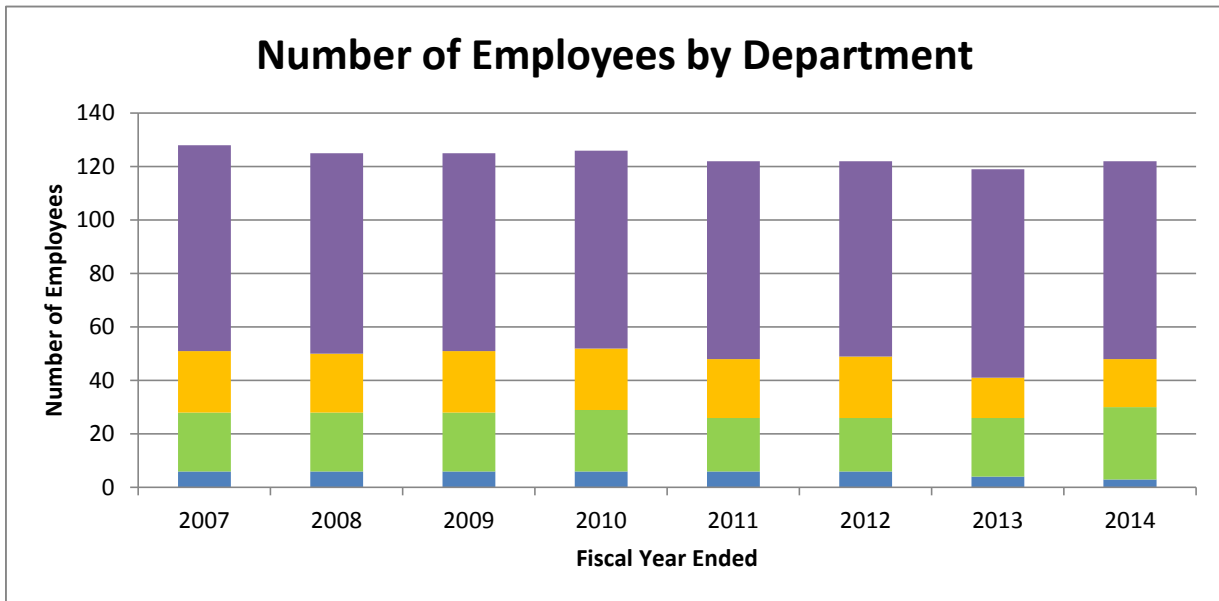
An Acre-foot of water is enough to cover 1 acre of land 1 foot deep and is equivalent to 325,851 gallons

Information prior to FY2010 is not available

Source: SMWD Engineering and Operations Departments

Santa Margarita Water District
Employee Information

	2007	2008	2009	2010	2011	2012	2013	2014
Administration	6	6	6	6	6	6	4	3
Finance	22	22	22	23	20	20	22	27
Engineering	23	22	23	23	22	23	15	18
Operations	77	75	74	74	74	73	78	74
Total	128	125	125	126	122	122	119	122



	2007	2008	2009	2010	2011	2012	2013	2014
Water Connections per Employee	413	425	425	422	436	437	449	443
Sewer Connections per Employee	382	393	394	391	404	404	415	410
Total Revenues per employee	\$ 686,220	\$ 712,760	\$ 717,418	\$ 745,075	\$ 687,420	\$ 709,066	\$ 764,672	\$ 852,253

Excludes the elected Board of Directors
Data prior to 2007 is not available

Source: SMWD payroll records



1964  2014

*Santa Margarita
Water District*

Board of Directors

Sandra F. Jacobs
President

Betty Olson, Ph.d
Vice President

Charley Wilson
Treasurer

Charles T. Gibson
Director

Justin McCusker
Director

General Manager

Daniel R. Feron

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