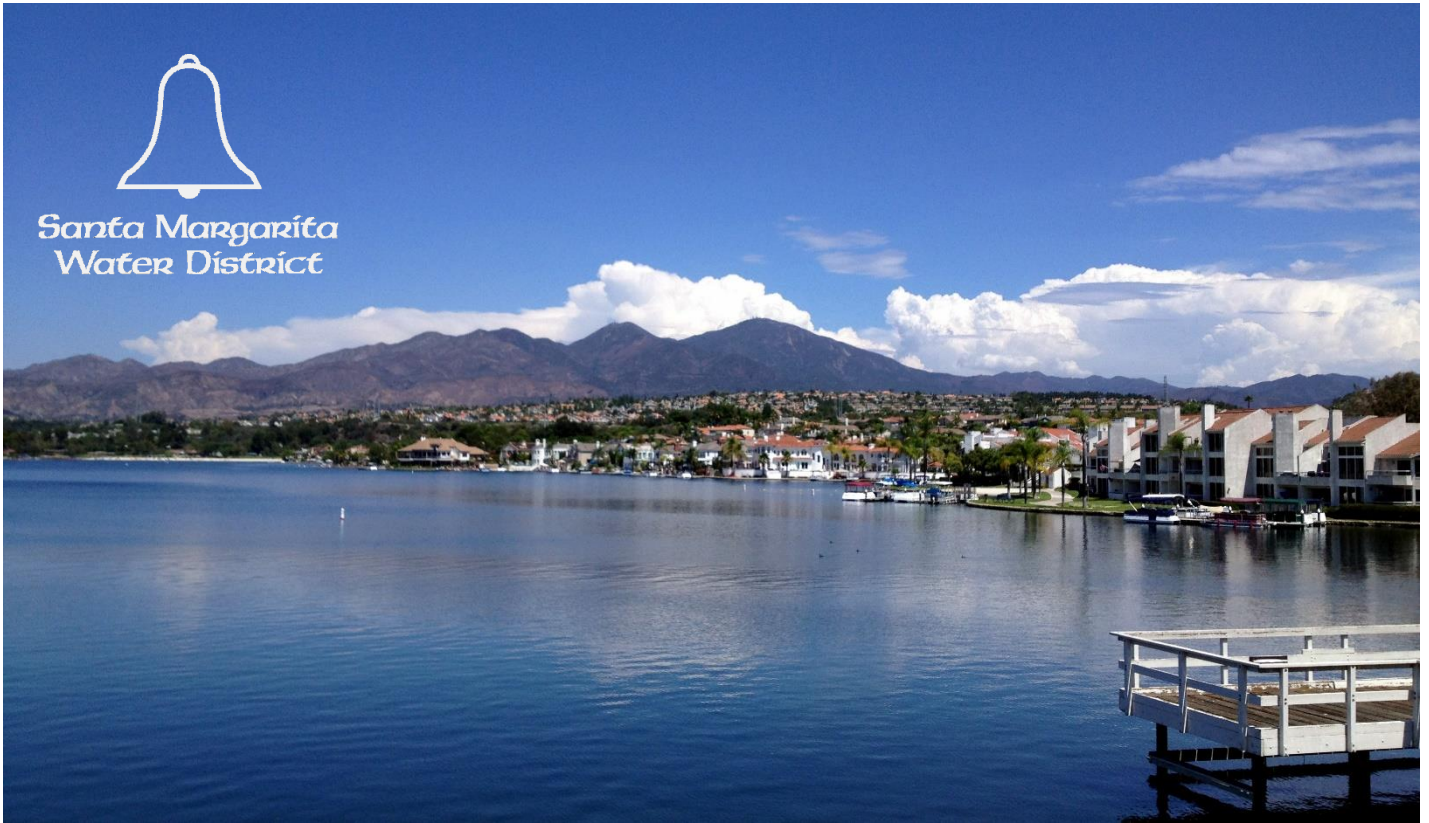




Santa Margarita
Water District



SANTA MARGARITA WATER DISTRICT COMPREHENSIVE ANNUAL FINANCIAL REPORT FISCAL YEAR ENDED JUNE 30, 2016

RANCHO SANTA MARGARITA, CALIFORNIA



Santa Margarita Water District

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2016

Prepared by the Finance Department
26111 Antonio Parkway, Rancho Santa Margarita, CA 92688 • www.smwd.com

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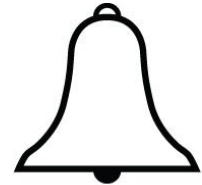
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Introductory Section

BOARD OF DIRECTORS

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

DANIEL R. FERONS
GENERAL MANAGER



Santa Margarita Water District

October 21, 2016

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 submit the third annual Santa Margarita Water District (District) Comprehensive Annual Financial Report (CAFR) for the fiscal year ended on June 30, 2016.

The news during the year was dominated with stories of the ongoing historic drought. The Governor declared a drought emergency with mandatory water use reductions commencing in June 2015 and the District was required to cutback water use by 24% through February 2016 and by 23% through May 2016 compared to water use in 2013. The reduction reflected the growth in the District. Beginning in July 2016, the State of California required self-certification reporting of water use reduction comparing to the average use of 2013 and 2014. The continuing challenge is to promote water use efficiency, develop sustainable supplies, stabilize finances and support economic development in the region.

This CAFR reviews the District's progress in its programs, discusses the current financial picture and highlights the next steps for the District. In addition, the statistics focus on trends in the District and the financial section provides an in-depth discussion of the changes to the financial position of 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 controls 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.

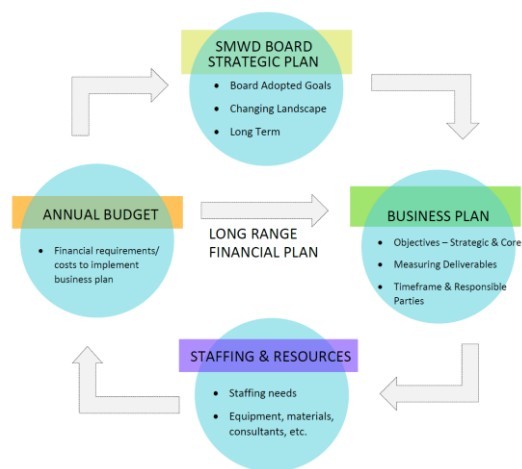
Santa Margarita Water District and Its Services

The District was formed in 1964 on a portion of the historic Rancho Mission Viejo (RMV) and other large landholdings, as a California Water District in the southeast corner of Orange County. The first Board of Directors was comprised of major landowners laying the groundwork for the future. Development began gradually with the first homeowner customers being served in 1974 in what would become the City of Mission Viejo.

In its 52-year history, the District has focused on providing reliable, cost-effective water and wastewater service through innovation and through the dedication of the Board and staff. Annually, the District adopts a Strategic Plan with long-range goals and this year the plan included a business plan with strategic and core objectives to provide focus and direction to move the District from where we are now to where we want to go.

Over the next 20 years, the focus will be:

- Continuing an environmentally sustainable quality of life for its customers;
- Maintaining a strong financial footing;
- Providing sustainable water supplies; and
- Supporting the continuing community development as approved by the County of Orange.



The District has a current population of approximately 159,000; the County of Orange has recently been approving approximately 800 dwelling units per year in the District’s service area. By 2035, the District will serve approximately 70,000 households and have a population of approximately 200,000 people. Balancing the need for a sustainable water supply with water use efficiency and accommodating the growth planned for the region will be a high priority for the District.

Service Area

As the second largest retail water agency in Orange County, the District provides safe, affordable, reliable water and wastewater services to its customers. The service area of the District includes approximately the easterly half of the City of Mission Viejo, most of the City of Rancho Santa Margarita, the Talega community within the City of San Clemente and the unincorporated communities of Coto de Caza, Ladera Ranch, Las Flores, and the Villages of Sendero and Esencia.

The District provides reliable potable water, recycled water and wastewater service within its boundaries to its customers. The District is also responsible for inter-agency coordination and long range planning to meet future water supply and wastewater treatment needs for its service area. Annual strategic planning sessions are held to ensure a sustainable water supply for the future.

Individual improvement districts (further referenced in the Statistical section “Assessed Values by Improvement District”) function as operating units and provide the basis for planning of capital improvements including design, and construction as well as financing. The improvement districts are not operated as separate or independent governmental entities, nor do they have governing boards and they do not have any staff. They are simply geographical subdivisions of the District through which the District funds specific capital improvements that benefit the lands within each improvement district.

The improvement districts, with adopted plans of work and with bonds authorized by a landowner vote, account for 83.5% of the District or 52,424 acres. The remaining acreage within the District includes the County of Orange Ronald W. Caspers Wilderness Park, Prima Deshecha Landfill and Starr Ranch, an Audubon Society preserve - all of which encompass 10,250 acres.

Governance

The District is governed by a five-member Board of Directors elected at large by registered voters within the District boundaries. The terms are four years and elections are staggered every two years on even years. Board members receive a meeting stipend for up to 10 meetings a month; they are not eligible for and do not receive any other benefits such as health insurance or retirement benefits.

The Board of Directors' are responsible for establishing policy, providing strategic planning, oversight and setting direction and vision to ensure that the District meets its mission, obligations and commitment to its members.

Board meetings are held on a regularly scheduled basis on the first Wednesday and second Friday after the first Wednesday of the month. Meetings are conducted in accordance with the provisions of the Ralph M. Brown Act (California Government Code Section 54950 et seq.). To implement the mission and protect the future for customers, the Directors generally schedule strategic planning workshops annually and other special meetings as needed. In addition, the Board has three standing committees: Engineering and Operations, Finance and Administration and Water Quality and Innovation. The committees provide for detailed review of the applicable subject matter.

The Directors are active in the community and in the water industry. They bring a variety of backgrounds to their overall role of setting the policy direction for the District. They also hold leadership positions in advocacy groups such as the Association of California Water Agencies, Southern California Water Committee and Western States Water Council as well as chairing the South Orange County Watershed Management Area Executive Committee and the San Juan Basin Authority and as a San Diego Regional Water Quality Control Board Member.

Employees

As of June 30, 2016 the District had 135 full time employees. The employees are highly trained and effectively operate a complex business that delivers a product vital to the health of the community.

The District is organized into four primary divisions - Administration, Finance, Water Resources/Engineering, and Operations - all under the direction of the General Manager and executive team. The General Manager, an over thirty-year employee of the District who reports to the Board of Directors, is only the sixth general manager in the history of the District which indicates the District's stability over the years. The executive team provides for the day-to-day management and leadership for the departments. The District provides cross-training for its employees to support the work efforts across departmental lines. The philosophy of management is to provide employees the opportunity to perform at the highest responsible level to enhance the work effort and opportunities for each employee.

The District has recognized one employee bargaining unit, the Santa Margarita Water District Employee Association (SMWDEA). SMWDEA represents the District's hourly and non-confidential employees and includes 101 individuals. The District and SMWDEA have completed three years of a four-year memorandum of understanding that along with the District's adopted employee policies, procedures and benefits governs the relationship with management during the fiscal year

District Services

Nearly all of the District's water is imported. In order to protect its customers' future, the District adopted the following goals at the strategic planning workshop in 2016:

- The District will have 10,000-14,000 acre feet (AF) of MWD alternative water supply by 2030
- The District will have six months of water storage by 2030
- The District will recycle 100% of its wastewater by 2019

The District provides three core services to the community:

Drinking or "Potable" Water System

Like many water purveyors in south Orange County, nearly all of the District's water supply is imported from northern California via the State Water Project and from the Colorado River via the Colorado River Aqueduct. The State Water Project, also known as the California Aqueduct, is the longest aqueduct system in the world; the Colorado River Aqueduct is a 242-mile water conveyance that brings water from the Colorado River to southern California.

The Municipal Water District of Orange County (MWDOC) wholesales water to the District and to other agencies within Orange County. MWDOC is a member of the Metropolitan Water District of Southern California (MWD) which wholesales water to all of southern California. Currently MWD provides the District with treated water from the Robert B. Diemer Filtration Plant.

Major improvements have been made over the last 11 years to enhance the reliability of the water supply system including the construction of the Upper Chiquita Reservoir, interconnections with the Irvine Ranch Water District (IRWD) and participation in the construction of the Baker Filtration Plant, which will treat raw water delivered by MWD or in an emergency, water from Irvine Lake. The Baker Filtration Plant is scheduled to come online in November 2016 and will greatly enhance the local reliability by providing a redundant treatment system to the MWD Robert E. Diemer Filtration Plant. These facilities, in addition to the other District's two emergency storage facilities, will help the District provide customers with up to 30 days of average water supply in the event of a failure of the regional water delivery system.

The District emphasizes the efficient use of water. Beginning in June of 2015 through June 2016, the State mandated a water use reduction of 24%, and the District exceeded that target. The District enacted Stage 2 of its water conservation ordinance which limits outdoor irrigation and substantially increased its public outreach program to engage customers in helping meet the requested reductions. The customers of the District responded very well in partnering with the District to reduce their consumption.

The District's water quality meets or exceeds all the Federal and State requirements for drinking water. A Water Quality Report is issued annually that summarizes the testing. The District operates a certified laboratory to perform the majority of the testing.

Recycled Water System

Recycled water is an important element of the District's current and future water supply portfolio with plans to utilize 100% of the wastewater which will provide up to 30% of its ultimate total water demand. Currently, the District has the capacity to produce up to 7.8 million gallons per day (MGD) of recycled water, meeting the requirements of Title 22 of the California Code of Regulations. The recycled water supply is from highly treated wastewater and urban return flows and is primarily used for irrigation and construction purposes. Recycled water is produced at the one of the District's three wastewater reclamation plants and stored in the Upper Oso Seasonal Storage Reservoir as well as reservoirs throughout the District.

The water is delivered to parks, medians, slopes, golf courses and schools in Mission Viejo, Las Flores, Ladera Ranch, the Village of Sendero, Village of Esencia and the Talega community.

The District is actively working on sites for conversion to recycled water to offset the demand for imported potable water with construction of “purple pipes” in Coto de Caza and Mission Viejo adding approximately 1,500 AF of demand since 2014. Planning for future conversions in Rancho Santa Margarita is underway. In addition, planning for expansion of the recycled water supply is under way at the Chiquita Water Reclamation Plant and at the 3A Water Reclamation Plant.

Wastewater System

The District operates an extensive sewage collection system as well as four wastewater treatment plants. The District is also a member of the South Orange County Wastewater Authority (SOCWA), a Joint Powers Authority, which operates regional treatment plants. The District owns capacity in the following six wastewater treatment plants:

- Jay B. Latham Wastewater Treatment Plant operated by SOCWA;
- 3A Water Reclamation Plant, jointly owned by MNWD and the District, operated by the District;
- Chiquita Water Reclamation Plant, owned and operated by the District;
- Oso Creek Water Reclamation Plant, owned and operated by the District;
- Nichols Water Reclamation Plant, a small plant operated by the District under contract with Quest Diagnostics; and
- Los Alisos Water Reclamation Plant, operated by IRWD.

Operation of the collection system is a very important activity and the District video system inspects the sewer lines to check for blockages and problem areas as well as operates a fleet of vacuum trucks to clean the system. The District is located in a series of hills and valleys and requires the operation of 19 sewage lift stations to pump wastewater to the various treatment plants. 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. All of the treatment plants, except the Los Alisos Plant, are connected to the SOCWA Dana Point Ocean Outfall for disposal of secondary effluent if the water is not recycled.

Revenues

The District generates operating revenues primarily from charges related to water, recycled water and wastewater services provided. Other revenues are classified as non-operating revenues and include: special assessment tax revenues, property taxes, grant funding, lease rental income and investment income.

Water, Recycled and Wastewater Rates

The District’s rates are established to cover the cost of providing infrastructure and delivering water and wastewater services to the District’s customers. With the emphasis on water use efficiency and fiscal responsibility, the District’s rate structure is comprised of two parts. The first part is fixed monthly charges to each customer to fully cover the related fixed costs, including provisions for providing and replacing infrastructure. The second part is a variable rate based on the volume of water used and on the amount of wastewater discharged by each customer. More than half of the District’s operating budget is dedicated to purchasing water and energy and an increase in rates in 2016 was necessary to ensure the delivery of a safe, reliable water supply.

The Board adopted a new rate structure and rates on March 4, 2015 by Resolution No. 2015-03-01 in conjunction with Gov. Code 53756 extending through January 1, 2019.

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, dependable 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

As part of the rate restructure, implementation of a water budget rate structure began January 1, 2016 for the Single-Family Residential (SFR) and Irrigation account customers. Under this new rate structure, each SFR and Irrigation customer is allocated a budgeted amount of water for monthly water usage in Tier One and Two. The adopted rate structure also includes a fixed charge by meter size for potable and recycled water and by usage type for wastewater customers.

The District charges all customers a fixed basic service rate for domestic (potable) water and recycled water. The potable and recycled water monthly fixed rates are scheduled to increase for most SFR customers by \$6.90 and for most irrigation accounts by \$10.95 on January 1, 2017. The District's Board approved smoothing the increase in the charge for fixed costs over a three-year period from 2015-2017 by authorizing the transfer of \$1.2 million in 2016 from the Rate Stabilization Fund Reserve.

For volumetric consumption, a tiered rate system based on actual units of water used per hundred cubic feet (ccf-one ccf equals 748 gallons) is in place for residential water usage to encourage conservation and to cover the cost of buying imported water from MWD at a higher rate. The District volumetric rates impose higher rates on customers who use larger amounts of water than budgeted because it costs the District more to deliver the water. 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 all customers.

Customers who live in an elevated area within the District where water is pumped to their home may also pay a power surcharge. The surcharge passes through to the customer the cost that 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 such a surcharge. This rate applies to domestic and non-domestic water.

Wastewater Charges

The District charges a fixed basic service monthly charge for all wastewater/sewer customers. Additionally, there is a wastewater volumetric charge per unit for each customer. For commercial customers, the fixed basic service rate is based on meter size and the wastewater volumetric charge is calculated on 90% of the total water consumption based on the type (quality) of wastewater discharged by different classes of users. The Board authorized \$3.0 million in 2015 and in 2016 from the Rate Stabilization Fund Reserve to be used to soften the fixed rate increases in wastewater charges.

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

The District has a strong customer base of residents throughout southeast Orange County and provides water and wastewater service to development approved by the County of Orange; approximately 38,000 new residents will be added as part of The Ranch Plan approved by the County of Orange.

The Village of Sendero, Planning Area 1 of The Ranch Plan, opened in June of 2013 and has completed sales with 941 units sold. Infrastructure for the Village of Sendero, located at the Antonio Parkway and Ortega Highway intersection, is complete.

For the Village of Esencia (Esencia), Planning Area 2 of The Ranch Plan, residents have moved into the first phase of development and sales after started in the second phase. It is estimated that the first phase of 840 new homes in Esencia will be sold out by mid-2017. The second phase of Esencia contains approximately 878 new homes.

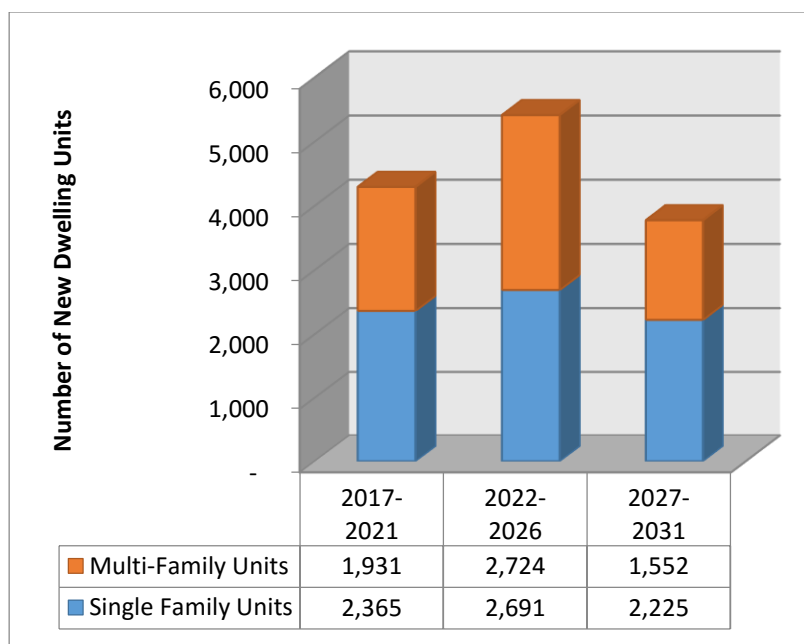
Facilities needed to serve Esencia are currently being constructed with approximately 80% of those facilities already in place.

Planning Area 3, which will be the largest planning area in The Ranch Plan, directly to the east of Esencia and adjacent to the east side of Cañada Gobernadora Creek, is currently in the planning process. Planning Area 3 is estimated to open in 2019/2020. Revised dwelling unit projections indicate that residential occupancies will not start until 2019. The Ranch Plan will also include affordable units and those of have been planned by the County of Orange which completed environmental documentation in 2016. The facilities required to support later stages of the development are projected based on a District-prepared Plan of Works.

The following table is a summary of projected new growth to occur in the entire District over the next five fiscal years. Most of the projected new occupancies will occur in The Ranch Plan area with some in-fill residential units anticipated to be built in existing communities.

Projected New Dwelling Units 2017-2021						
Community	Improvement District	2017	2018	2019	2020	2021
		Coto de Caza	I. D. No. 2	2	2	1
Ladera Ranch	I. D. No. 4D	12	12	12	12	12
Sendero Village PA 1	I. D. No. 4E	19	-	-	-	-
Esencia PA 2	I. D. No. 4C	400	400	417	-	-
RMV Gobernadora PA 3	I. D. No. 5	-	-	-	530	530
Talega Valley	I. D. No. 7	2	-	-	-	-
Single Family Units		435	414	430	543	543
Sendero Village PA 1	I. D. No. 4E	107	-	-	-	-
Orange County Affordable Housing	I. D. No. 4C/5	107	112	-	-	62
Esencia PA 2	I. D. No. 4C	150	262	150	150	139
RMV Gobernadora PA 3	I. D. No. 5	-	-	-	180	512
Multi-Family Units		364	374	150	330	713
Total Additional Units		799	788	580	873	1,256

The following graph displays the projected District growth in five-year increments until 2031.



Water Production Sources in the District and Water Reliability

Water supply and system reliability are very important to the District. The District established a goal of providing 30% to 50% of its domestic drinking water from sources other than imported water from MWD as a prudent step to insulate its customers from the vagaries of the State of California water supply. The District is pursuing a number of water supply projects described below to meet this goal. Recycled water will play an increasingly significant role in the District’s plans to develop local water supplies. This is further discussed under the “Major Initiatives” section.

The District has a long history of water use efficiency with the development of its first water recycling projects in 1979. 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 to supplement the recycled water supply which directly offsets the needs for imported water.

The District, working with RMV and the County of Orange, constructed the state-of-the-art Gobernadora Multipurpose Basin to capture urban return flows, develop a wetlands treatment process and reduce peak storm flow rates generated in Coto de Caza. The project diverts low flows into an upper basin and the flows transverse a series of basins to settle debris and continue through wetlands for collection and reuse in the irrigation system. The project provided approximately 215 AF of new supply to the District, thus reducing demand for imported water. In addition, the facility is connected to the recycled water system allowing for conversion of the Portola Reservoir to recycled water.

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 about the achievement of the District’s objectives with regard to: (1) the reliability of financial records for preparing financial statements and maintaining accountability for assets; (2) effectiveness and efficiency of operations; (3) compliance with applicable laws and regulations; and (4) safeguarding of assets against loss from unauthorized acquisition, use or disposition.

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 valuation of costs and benefits requires estimates and judgements by management.

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 implement the goals, guiding principles and mission of the District for the coming year. The current year budget included a close look at revenue reductions due to the mandatory water use reductions and the District also reduced its projected expenses.

The annual operating budget and capital budget are also an integral piece in the development of the goals and objectives for the District and its employees. The budget is viewed as the financial control over District's operations and provides accountability for the District. Each month the financial results are compared to the budget with variance explanations provided to the Finance and Administration Committee. On a quarterly basis, the District provides the financial statements to the full Board 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, 2016, the District had \$106,070,000 in general obligation bonds outstanding and \$139,270,000 in community facility bonds outstanding. The District also had \$8,791,224 of loans payable as of June 30, 2016. It is the general intent of the District that non-operating revenues, primarily ad-valorem tax revenues, 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 three 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 conduct 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 firms at least every five years or sooner. The accounting firm of RSM US LLP, conducted this year's audit for its third year of service. Their audit report, which contains an unmodified opinion, is included in the financial section of this report.

Efficiencies in District Operations

The District is proud of the efforts of its employees to continuously improve and plan for efficiencies. In 1994, the District had over 150 employees; as of June 30, 2016 it had 135 employees while having over 104,000 connections (water and wastewater). The District has implemented a variety of new technologies to maintain a high level of service while efficiently managing its resources. Examples include:

- Installing solar panels to power 80% of the administration building;
- Installing solar panels at the Chiquita Water Treatment Plant to power approximately 50% of the plant.
- Automating the water quality laboratory data collection and reporting;
- Upgrading the water distribution and wastewater collection system through the state-of-the-art Supervisory, Control and Data Acquisition System (SCADA) which allows for enhanced communication for remote operation of all facilities including the treatment plants;

The District selected vendors for a new technology enterprise resources plan to upgrade 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 will enhance the ability to provide water use efficiency data and customer service without adding staff.

This year the District emphasized water use efficiency by outreach to the customers in order to meet the critical target for the water reduction as set by the State of California. The District prides itself in providing innovative outdoor water efficiency programs. The District has developed a new landscape design program that provides homeowners the opportunity to meet with professional landscape designers to help transform their turf-dominated landscape to something that results in long-term water savings and aesthetics.

Major Initiatives

Recycled Water Conversions:

The District has initiated a significant effort to expand its recycled water network and convert irrigation customers from potable to recycled water. Construction was completed in the Calafia community in the City of Mission Viejo (with funding partially provided through a Proposition 50 grant) and a pipeline to serve the community of Coto de Caza (Los Patrones) is also proceeding. A conversion was also completed for the Palmia community. These three projects save approximately 1,600 AF in potable water. In addition, the District is planning to convert the City of Rancho Santa Margarita to recycled water via purple pipe with an estimated \$13 million recycled water project which is expected to save approximately 1,000 AF in potable water. These conversions provide recycled water in place of potable water used for irrigation of landscaped areas.

Water Use Efficiency:

The District implemented an ongoing successful water use efficiency program based on a behavioral science that emphasizes structural changes in the approach to water use. The elements include one-on-one outreach, landscape redesigns, participation in retrofit programs and rebates, education programs and expanded use of WaterSmart Software’s “Home Water Reports” and their on-line portal. Home Water Reports allow customers to review their water usage history as well as compare their usage to similar neighborhoods while receiving personalized water saving recommendations

The District has developed an innovative program utilizing water use efficiency staff to work with customers and provide on-site audits, landscape design assistance and water use education. In addition, the District has developed public messaging, including extensive use of social media and commercial television spots. This has resulted in a tremendous customer response to reduce demand.



However, an unintended consequence of successful conservation is “demand hardening.” Demand is hardened when water use is reduced to the minimum needed to sustain a basic quality of life with the result that as more conservation practices are deployed, the less savings there are to gain from reducing non-critical uses. Watering restrictions are less effective as a drought response measure if non-critical uses such as outdoor landscape watering have already been reduced. This may necessitate future drought response measures that are more expensive, more difficult, and require more significant customer behavior changes. The District remains committed to working with its customers to find the best way to reduce demand.

Water Reliability Projects:

San Juan Watershed 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. In 2014, SJBA adopted the San Juan Basin Groundwater and Facilities Plan Update which noted that it may be possible to recharge the basin with a combination of storm flows, urban return flows and recycled water to maximize the potential water supply. In 2016, SJBA, adopted the San Juan Basin Optimization Project which identified potential projects to enhance the water supply.

The District is currently developing environmental documentation for the first phase of the proposed project to help alleviate drought conditions through recharge and develop an innovative, sustainable supply for the region while also reducing the District’s dependency on imported water. Phase 1 of the project, scheduled to be completed in 2018, includes capturing storm water through rubber dams on the San Juan Creek

Trampas Canyon Seasonal Storage

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 it in the periods of low demands for use during peak demands.

The Trampas Canyon Reservoir was constructed in 1973-1975 and has been used as a tailing retention facility for a quarry currently operated by Lapeyre Industrial Sands. The existing dam is an earth fill dam and the District finalizing plans for to rebuild the dam and increase the capacity to 5,000 AF. The project is proposed to be ready for construction in 2017. Funding is proposed to be provided with combination of District reserves, State Water Resources Control Board low interest loans, grants and potential partnerships with adjacent agencies.



Baker Filtration Plant

The Baker Filtration Plant is a joint project being constructed by IRWD on behalf of the District, MNWD, El Toro Water District, and Trabuco Canyon Water District. The Baker Plant treats raw water from MWD, and in an emergency from Irvine Lake, to meet drinking water standards. It provides important system reliability to the District and is 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 December 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 30-day supply in the event of an outage of the MWD domestic water system.

Lake Mission Viejo Advanced Purified Water Project



Located in the City of Mission Viejo (City) in Orange County, California, and managed by the Lake Mission Viejo Association, the manmade Lake Mission Viejo (LMV) is used as a recreational lake, as well as an emergency firefighting supply. Under the existing condition, the 125-acre LMV is subject to water loss due to evaporation and subsurface seepage. Historically, in order to maintain the existing water level, LMV received water from two separate sources: (1) natural sources, including precipitation and groundwater, and (2) potable water from the District.

The Advanced Purified Water (APW) facility, on-line as of October 2016, is owned and operated by the District, and produces a purified recycled water effluent for direct

discharge and use in LMV, in addition to providing for other existing recycled water uses within the District's service area. The project's production capacity would be designed to reliably produce up to 600 AFY of advanced treated recycled water. Lake Mission Viejo is the first recreational lake to be filled with recycled water in California and possibly in the nation.

Cadiz Valley Water Conservation, Recovery and Storage Project

Cadiz, Inc. (Cadiz) and the District entered into a public private partnership to develop the Cadiz Water Conservation, Recovery and Storage Project located in Fenner Valley in the County of San Bernardino. The project will develop an underutilized water supply that currently evaporates from dry lakes and will put it to beneficial use. The project is designed to average 50,000 AF per year of water supply delivered to the MWD Colorado River Aqueduct for transporting to southern California water agencies. The District has a firm option to purchase 5,000 AF in the project and a second 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, as the lead agency for purposes of the California Environmental Quality Act, certified the environmental impact report (EIR) in 2012. Litigation ensued but the Orange County Superior Court ruled in favor of the District and the decision was affirmed in the Court of Appeals. The County of San Bernardino is a strong partner in the project, providing additional oversight with the Groundwater Monitoring, Management and Mitigation Plans as well as being part of an agreement between the County, the District and Cadiz which establishes the joint controls for ensuring the project operates as planned.

The current work of the District for the Cadiz project is comprised of reviewing technical elements of the interconnection with the MWD facilities and the design of the project including the well field, pipeline and treatment facilities. Additionally, the District is coordinating with Cadiz for permitting the pipeline across Bureau of Land Management lands.

Desalination

Poseidon Water LLP (Poseidon) 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.

Orange County Water District (OCWD) has signed a non-binding memorandum of understanding to purchase the water and the District is working with OCWD for the potential delivery of water. The District has entered into a non-binding letter of intent to purchase up to 5,000 AF per year from 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 by South Coast Water District (SCWD). Initially it would have a preliminary plan for approximately 5 MGD. SCWD is the lead agency on the project. Doheny Desalination may work in conjunction with the SJBA project to help provide a seawater barrier along the coast.

Recycled Water Production Program

Effective on July 1, 2015 the District assumed the operation of the 3A Water Reclamation Plant, which it owns in partnership with MNWD. A major project is under preliminary design to increase its recycled water capacity to 6 MGD which will allow for the treatment of 100% of the wastewater collected in the City of Mission Viejo. This will allow the District to expand its use of recycled water to include potentially groundwater recharge.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Report to the District for its comprehensive annual financial report for the fiscal year ended June 30, 2015. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

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 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,



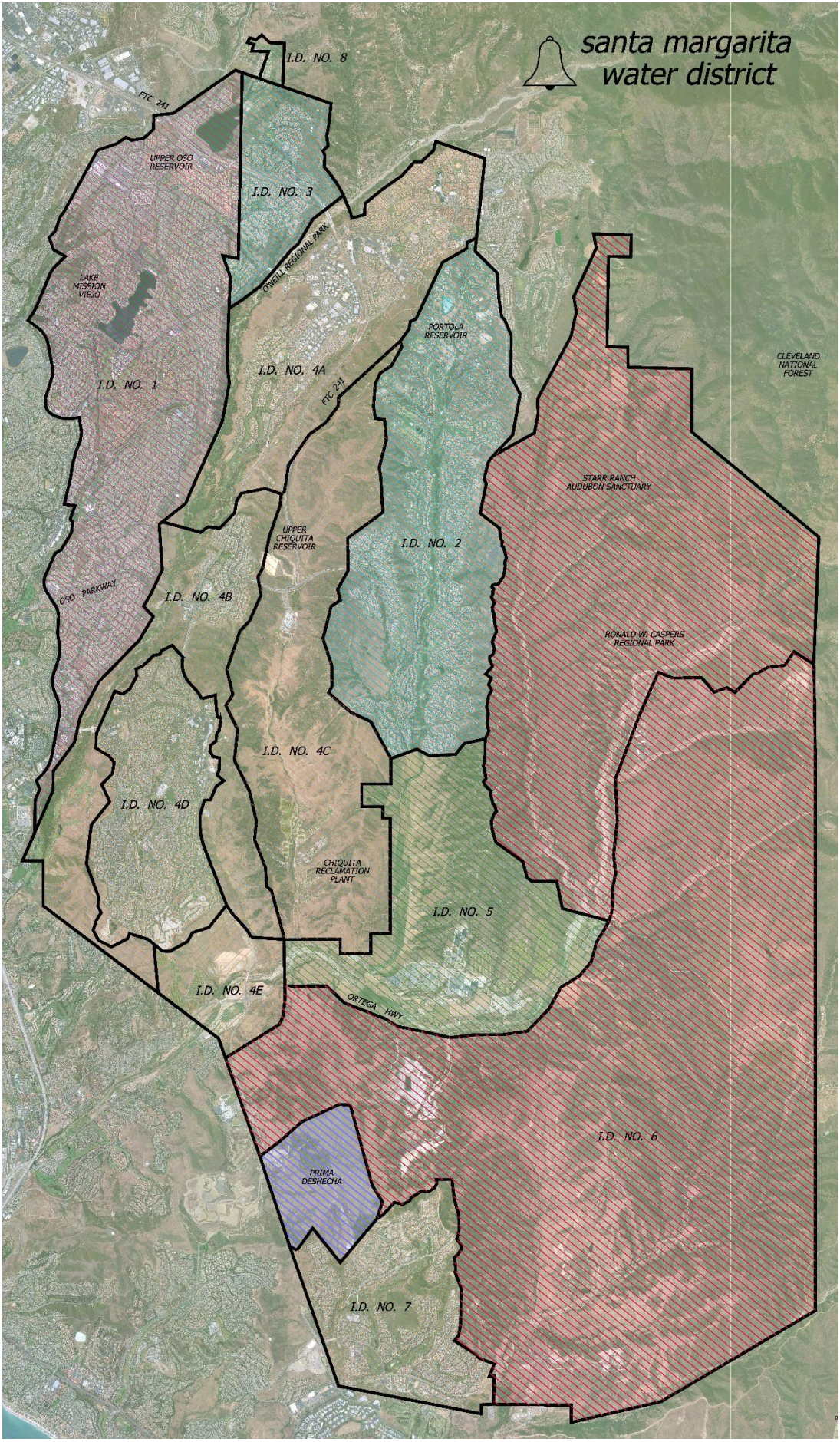
Daniel R. Ferons
General Manager



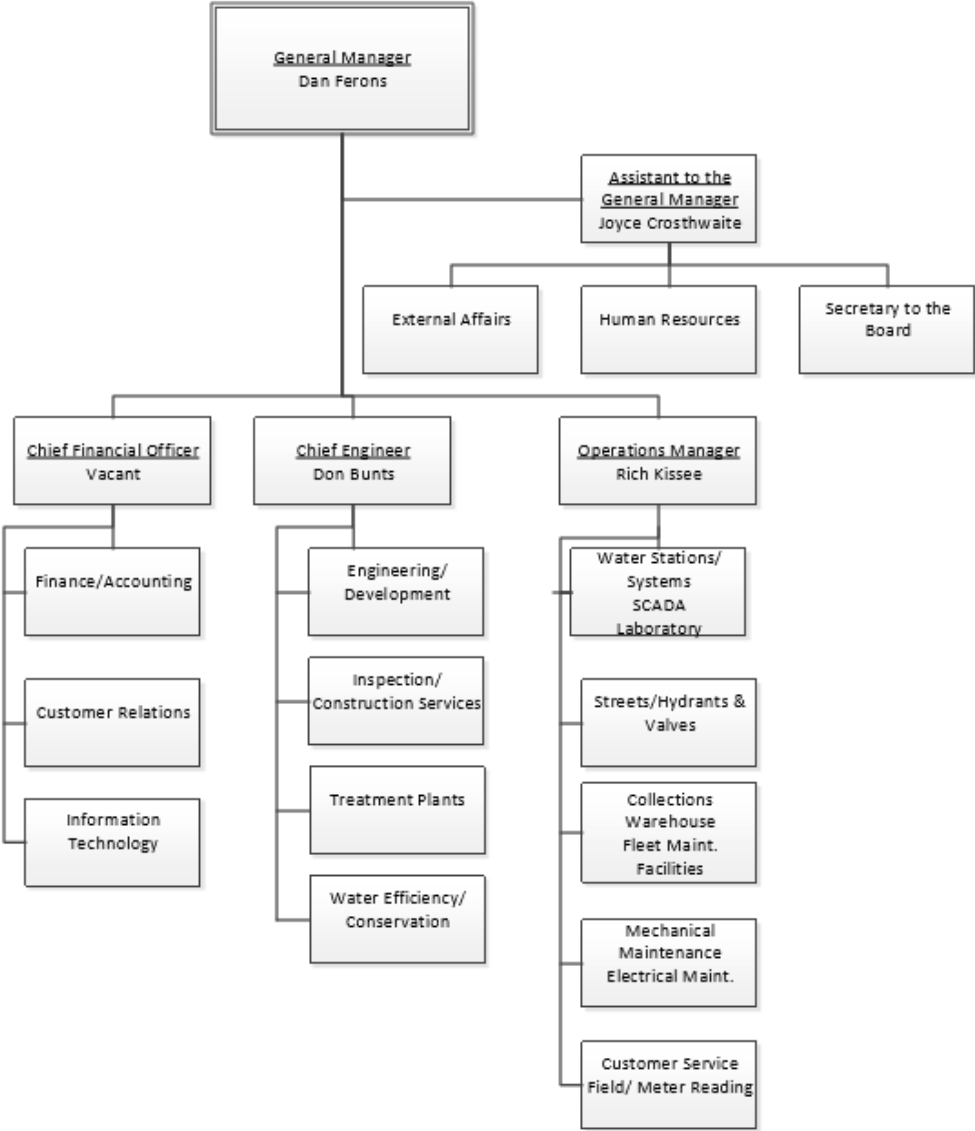
Erica Castillo, CPA
Controller



santa margarita
water district



Santa Margarita Water District



District Officials

Elected/Appointed Board of Directors:

Name	Length of Service	Current Term of Service
Saundra F. Jacobs	20 Years	2012-2018
Betty H. Olson, Ph. D.	22 Years	2012-2016
Charley Wilson	16 Years	2012-2016
Charles T. Gibson	4 Years	2012-2016
Justin McCusker	3 Year	2014-2018

District Management:

Name	Position
Daniel R. Ferons	General Manager
Joyce Crosthwaite	Assistant to the General Manager
Kelly Radvansky	Secretary to the Board
Don Bunts	Chief Engineer
Rich Kisse	Operations Manager
Erica Castillo	Controller



Government Finance Officers Association

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Reporting**

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**Santa Margarita Water District
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015

Executive Director/CEO

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Financial Section



RSM US LLP

Independent Auditor's Report

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

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, 2016, 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 District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2016, 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 management's discussion and analysis, the Schedule of Changes in the District's Net Pension Liability and Related Ratios, and the Schedule of District Contributions 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, which 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 that comprise the District's basic financial statements. The introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

RSM US LLP

Irvine, California
October 21, 2016

SANTA MARGARITA WATER DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2016

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, 2016. 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 \$151.1 million on June 30, 2016 represents a decrease of \$22.4 million (13%) compared to the prior year balance of \$173.5 million. This is primarily due to the use of construction cash resulting from increased construction activity during the fiscal year.
- The net capital asset balance of \$591.8 million at June 30, 2016 increased \$34.9 million (6.3%) compared with the prior year balance of \$556.9 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: The Baker Pipeline Water Supply Facilities, and Lake Mission Viejo Advanced Purified Water Project.
- The District's total revenues increased \$6.4 million or 6.7% from the prior fiscal year. This is primarily due to an increase in special assessment for debt service derived from the County tax collection process.
- The District's total expenses decreased \$12.8 million or 12.5% from the prior fiscal year. This is primarily due to a transfer of construction costs owned by the County of Orange for the Gobernadora Multi-Purpose Lower Basin that occurred in 2015 and not in 2016. This was slightly offset by an increase in general and administrative expense increase related to professional service and water use efficiency outreach and programs as compared to FY 2015.

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, 2016. All changes in net position reflect the transactions giving rise to the change.

SANTA MARGARITA WATER DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2016

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 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 10 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. Net Position as of June 30, 2016 increased by \$29,800,647, or 9.0%, to \$436,737,531 compared to prior year of \$406,936,884 primarily due an increase in capital assets, which includes the Baker Pipeline Water Supply Facility, Lake Mission Viejo Advanced Purified Water Project, Califia Retrofit Project and the construction and completion of the Solar Energy Project for the admin and Chiquita Water Treatment Plant.

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 beginning on page 16.

SANTA MARGARITA WATER DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2016

Condensed Statement of Net Position

	Fiscal Year 2016	Fiscal Year 2015*	Increase (Decrease)	Percent Increase (Decrease)
Assets				
Current Assets	\$ 112,960,876	\$ 136,595,073	\$ (23,634,197)	-17.3%
Capital Assets, net	591,755,182	556,901,231	34,853,951	6.3%
Non-Current Assets	54,576,547	58,680,589	(4,104,042)	-7.0%
Total assets	759,292,605	752,176,893	7,115,712	0.9%
Deferred Outflows of Resources	6,049,481	6,316,685	(267,204)	-4.2%
Total Assets and Deferred Outflows of Resources	765,342,086	758,493,578	6,848,508	0.9%
Liabilities				
Current Liabilities	57,257,150	42,763,647	14,493,503	33.9%
Non-Current Liabilities	269,064,814	301,703,387	(32,638,573)	-10.8%
Total Liabilities	326,321,964	344,467,034	(18,145,070)	-5.3%
Deferred Inflows of Resources	2,282,591	7,089,660	(4,807,069)	-67.8%
Net Position				
Net Investment in Capital Assets	398,739,051	347,590,410	51,148,641	14.7%
Restricted	15,127,513	19,620,392	(4,492,879)	-22.9%
Unrestricted	22,870,967	39,726,082	(16,855,115)	-42.4%
Total Net Position	436,737,531	406,936,884	29,800,647	7.3%
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 765,342,086	\$ 758,493,578	\$ 6,848,508	0.9%

*Certain amounts were reclassified for comparative purposes.

The District's total assets increased \$7,115,712 to \$759,292,605 compared with the prior year of \$752,176,893 primarily due to an increase in capital assets (construction in progress). Total liabilities of \$326,321,964 and \$344,467,034 for fiscal years 2016 and 2015, respectively, decreased \$18,145,070, or 5.3%, primarily due to debt service payments and loan repayments during the 2016.

Deferred outflows of resources decreased slightly by \$267,204 or 4.2% to \$6,049,481 compared to the prior year of \$6,316,685 primarily due to the amortization of debt defeasance of costs.

Deferred inflows of resources decreased by \$4,807,069 or 67.8% compared to prior year primarily due to the prepayment of debt in fiscal year 2016 related to the advance receipt of special assessment taxes.

Net position increased by \$29,800,647, or 7.3%, to \$436,737,531 compared to prior year of \$406,936,884. The largest portion of the District's change in net position (91% as of June 30, 2016 and 85% as of June 30, 2015) 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.

SANTA MARGARITA WATER DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2016

At the end of fiscal year 2016 and 2015, The District shows a positive balance in its unrestricted net position of \$22,870,967 and \$39,726,082, respectively, to be utilized in future years. Unrestricted net position decreased primarily due to more funds being spent on capital projects during fiscal year 2016 as compared with fiscal year 2015, which included expenses for the Baker Pipeline Water Supply Facility and Lake Mission Viejo Advanced Purified Water Project.

Condensed Statement of Revenues, Expenses and Changes in Net Position

	Fiscal Year 2016	Fiscal Year 2015	Increase (Decrease)	Percent Increase (Decrease)
Operating Revenues:				
Water Sales	\$ 30,957,212	\$ 34,142,144	\$ (3,184,932)	-9.3%
Sanitation Charges	21,473,415	19,490,718	1,982,697	10.2%
Other Charges or Services	5,947,550	4,568,331	1,379,219	30.2%
Total Operating Revenues	58,378,177	58,201,193	176,984	0.3%
Operating Expenses:				
Water and Sanitation Expenses	39,766,300	39,728,882	37,418	0.1%
Compensation	16,022,443	15,655,872	366,571	2.3%
General and Administrative	5,623,430	4,201,700	1,421,730	33.8%
Total Operating Expenses before depreciation and amortization	61,412,173	59,586,454	1,825,719	3.1%
Depreciation and Amortization	17,177,880	17,081,495	96,385	0.6%
Operating (loss)	(20,211,876)	(18,466,756)	(1,745,120)	9.5%
Non-Operating Revenues (Expenses)				
Special Assessment for Debt Service	32,385,845	23,454,537	8,931,308	38.1%
Other Non-Operating Revenues	11,406,653	14,097,427	(2,690,774)	-19.1%
Interest Expense	(7,345,905)	(9,303,180)	1,957,275	21.0%
Other Non-Operating Expense	(4,204,789)	(17,010,981)	12,806,192	75.3%
Total Non-operating Revenues(Expenses)	32,241,804	11,237,803	21,004,001	186.9%
Net Income before capital contributions	12,029,928	(7,228,953)	19,258,881	-266.4%
Capital contributions	17,770,719	21,422,458	(3,651,739)	-17.0%
Change in net position	29,800,647	14,193,505	15,607,142	110.0%
Net position beginning of year	406,936,884	392,743,379	14,193,505	3.6%
Net position end of year	\$ 436,737,531	\$ 406,936,884	\$ 29,800,647	7.3%

In 2016 the District's total operating revenues increased by \$176,984 or .3% primarily due to the District's scheduled rate increases for water and sanitation in January 2016 offset by a reduction of water consumption by customers in response to the state drought mandate to lower potable water consumption by 24% through June 2016.

SANTA MARGARITA WATER DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2016

In 2015 the District's total operating expenses before depreciation and amortization increased by \$1,672,050 or 2.8% primarily due to increases in water use efficiency programs and outreach related to the mandatory decreased reduction of water; in addition, there was an increase in professional services due to previously capitalized projects costs for projects that were discontinued, therefore being expensed in fiscal year 2016.

Net non-operating revenues increased by \$21,004,001 or 186.9% primarily due to increased tax revenues as a result of higher debt service due in fiscal year 2016. Additionally, in fiscal year 2015 an expense for the transfer of construction in progress for the Gobernadora Multi-Purpose Basin to the County of Orange, costs associated with the Rancho Mission Viejo Village of Sendero and Cow Camp Road projects, coupled with an adjustment related to residual taxes payment made in error to the District in fiscal year 2014 occurred which did not occur in 2016.

In fiscal year 2016 the District's capital contributions decreased by \$3,651,739 or 17.0% primarily due to capital grant monies from the California Department of Public Health under Proposition 50 received in fiscal 2015 and not in fiscal 2016, as well as the completion of Gobernadora Multi-Purpose Basin, partially offset by bond proceed revenues from the County for Village of Esencia construction projects.

Restrictions, commitments and other limitations significantly affect the availability of fund resources for future use.

Capital Asset Administration

At the end of fiscal years 2016 and 2015, the District's capital assets amounted to \$591,775,182 and \$556,901,231 (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 including the Baker Pipeline Water Supply Facility and Lake Mission Viejo Advanced Purified Water Project. Additional information regarding the District's capital assets can be found in Note 5 of this report.

SANTA MARGARITA WATER DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2016

	Fiscal Year 2016	Fiscal Year 2015	Increase (Decrease)	Percent Increase (Decrease)
Water plant	\$ 394,612,202	\$ 388,551,480	\$ 6,060,722	1.6%
Sewer plant	205,251,902	208,110,025	(2,858,123)	-1.4%
Contributed facilities	158,827,701	155,312,220	3,515,481	2.3%
Operational equipment	13,343,440	12,112,608	1,230,832	10.2%
Administration building	9,687,807	9,687,807	-	0.0%
Capacity Rights	948,128	948,128	-	0.0%
Miscellaneous/Master Plan	783,558	783,558	-	0.0%
Total depreciable assets	<u>783,454,738</u>	<u>775,505,826</u>	<u>7,948,912</u>	<u>1.0%</u>
Less accumulated depreciation & amortization:				
Depreciation and Amortization	332,722,315	315,669,762	17,052,553	5.4%
Net depreciable assets	<u>450,732,423</u>	<u>459,836,064</u>	<u>(9,103,641)</u>	<u>-2.0%</u>
Construction in progress	129,614,653	85,657,061	43,957,592	51.3%
Land	7,744,840	7,744,840	-	0.0%
Land - Administration building	3,663,266	3,663,266	-	0.0%
Total non depreciable assets	<u>141,022,759</u>	<u>97,065,167</u>	<u>43,957,592</u>	<u>45.3%</u>
Total Capital Assets, net	<u>\$ 591,755,182</u>	<u>\$ 556,901,231</u>	<u>\$ 34,853,951</u>	<u>6.3%</u>

Debt Administration

In fiscal year 2016 total long-term debt decreased \$22,167,999 or 7.8% to \$262,230,010 which reflects the annual debt service payments and amortization of net premium (discount). The following table summarizes the changes in long-term debt amounts for 2016.

	Balance at June 30, 2015	Additions	Transfers/ Deletions	Balance at June 30, 2016	Increase (Decrease)	Percent Increase (Decrease)
Long-Term debt:						
Bonds Payable	\$ 264,370,000	\$ -	\$ (19,030,000)	\$ 245,340,000	\$ (19,030,000)	-7.2%
Loans Payable	9,597,425	-	(806,201)	8,791,224	(806,201)	-8.4%
	<u>273,967,425</u>	<u>-</u>	<u>(19,836,201)</u>	<u>254,131,224</u>	<u>(19,836,201)</u>	<u>-7.2%</u>
Net Premium (Discount)	10,430,584	-	(2,331,798)	8,098,786	(2,331,798)	-22.4%
Total Long-Term Debt	<u>\$ 284,398,009</u>	<u>\$ -</u>	<u>\$ (22,167,999)</u>	<u>\$ 262,230,010</u>	<u>\$ (22,167,999)</u>	<u>-7.8%</u>

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

SANTA MARGARITA WATER DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2016

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 Controller at P.O. Box 7005, Mission Viejo, California 92690-7005.

**Basic Financial Statements and
Accompanying Notes**

SANTA MARGARITA WATER DISTRICT
Statement of Net Position
June 30, 2016

ASSETS:

Current Assets:

Cash and investments (Note 2)	\$ 73,497,663
Accrued interest receivable	275,893
Accounts receivable - water and sanitation customers	6,046,495
Accounts receivable - other (Note 3)	5,111,949
Property taxes receivable	793,597
Water and supplies inventory	1,679,306
Prepaid expenses	450,969
Restricted - cash and investments (Note 2)	23,990,117
Restricted - cash held for others (Note 2)	124,437
Restricted - accrued interest receivable	65,953
Loan receivable - due within one year (Note 4)	924,497
Total Current Assets	<u>112,960,876</u>

Acquisition and construction of capital assets

Capital assets - not depreciated (Note 5)	141,022,759
Capital assets, net of accumulated depreciation & amortization (Note 5)	450,732,423
Restricted - unspent bond proceeds (Note 2)	41,449,725
Restricted - cash for debt reserve funds (Note 2)	12,034,634
Prepaid insurance on outstanding bonds payable	275,318
Loan receivable - due in more than one year (Note 4)	816,870
Total Non-current Assets	<u>646,331,729</u>

Total Assets	<u>759,292,605</u>
---------------------	---------------------------

DEFERRED OUTFLOWS OF RESOURCES:

Deferred outflow related to net pension liability (Note 10)	2,564,395
Deferred loss on debt defeasance (Note 6)	3,485,086
Total Deferred Outflows of Resources	<u>6,049,481</u>

TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>765,342,086</u>
--	---------------------------

See accompanying notes to the basic financial statements.

SANTA MARGARITA WATER DISTRICT
Statement of Net Position
June 30, 2016

LIABILITIES:

Current Liabilities:

Accounts payable and accrued expenses	\$ 22,050,542
Accrued wages and related payables	648,760
Retentions payable and construction deposits	1,130,524
Other deposits payable	776,829
Unearned revenue	14,508
Accrued interest payable	4,573,620
Advances from others	346,000
Long-term liabilities - due within one year	
Compensated absences (Note 7)	1,054,896
Bonds payable (Note 6)	17,530,000
Loans payable (Note 6)	826,401
Reimbursement agreement advances (Note 6)	3,293,864
Accrued interest payable on reimbursement agreements (Note 6)	5,011,206
Total Current Liabilities	57,257,150

Non-current Liabilities:

Long-term liabilities - due in more than one year	
Compensated absences (Note 7)	79,401
Bonds payable (Note 6)	235,908,786
Loans payable (Note 6)	7,964,823
Reimbursement agreement advances (Note 6)	402,587
Accrued interest payable on reimbursement agreements (Note 6)	261,765
Net pension liability (Note 10)	24,447,452
Total Non-current Liabilities	269,064,814

Total Liabilities	326,321,964
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DEFERRED INFLOWS OF RESOURCES:

Deferred inflow related to net pension liability (Note 10)	2,085,897
Deferred gain on debt defeasance (Note 6)	196,694
Total Deferred Inflows of Resources	2,282,591

TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	328,604,555
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Commitments and contingencies (Notes 14 and 15)

NET POSITION:

Net investment in capital assets (Note 8)	398,739,051
Restricted for (Note 9):	
Special assessment for debt service	14,143,526
Other	983,987
Unrestricted	22,870,967
Total Net Position	\$ 436,737,531

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, 2016

OPERATING REVENUES:

Water sales:

Water commodity charge	\$ 19,970,397
Monthly service charge	9,496,995
Transmission charge	1,489,820
Total water sales	<u>30,957,212</u>

Sanitation services charges:

Sanitation service charge	11,040,967
Monthly service charge	10,112,072
Transmission charge	320,376
Total sanitation service charges	<u>21,473,415</u>

Other charges or services:

Jointly operated facilities and other reimbursements	2,750,205
Construction related revenues	1,121,823
Rebates	196,661
Customer related revenues	647,657
Other revenues	1,231,204
Total other charges or services	<u>5,947,550</u>
Total Operating Revenues	<u>58,378,177</u>

OPERATING EXPENSES:

Source of supply - water purchases	23,677,839
Power	5,189,368
Transmission and distribution	8,189,709
Regional facilities	175,282
Sewage treatment	2,534,102
Salaries, wages and related benefits	16,022,443
Customer relations	354,427
General and administrative	5,269,003
Total Operating Expenses	<u>61,412,173</u>

Operating (loss) before depreciation and amortization expense	(3,033,996)
Depreciation and amortization expense	(17,177,880)
Operating (loss)	<u>\$ (20,211,876)</u>

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, 2016

NON-OPERATING REVENUES (EXPENSES):

Special assessment tax revenues for debt service	\$	32,385,845
Property taxes for operations		7,074,733
Investment earnings		2,420,094
Capacity lease revenue		824,530
Rental revenue		1,087,296
Interest expense		(7,345,905)
Loss on sale of capital asset		(146,518)
Other non-operating expense		(739,879)
Contributions to other agencies		(3,318,392)
Total non-operating, revenues (expenses)		32,241,804
Net income before capital contributions		12,029,928

CAPITAL CONTRIBUTIONS:

Contributed land from developer		3,515,481
Contributions from agencies		11,227,266
Jointly-owned facilities capital reimbursements		2,064,227
Capital grants		963,745
Total capital contributions		17,770,719
Change in net position		29,800,647
Net position, beginning of year		406,936,884
Net position, end of year		\$ 436,737,531

See accompanying notes to the basic financial statements.

SANTA MARGARITA WATER DISTRICT
Statement of Cash Flows
For the Year Ended June 30, 2016

Cash flows from operating activities:	
Cash receipts from customers	\$ 52,054,373
Cash receipts from others	10,965,097
Cash paid to employees for salaries and wages	(16,810,208)
Cash paid to vendors and suppliers for materials and services	(40,851,261)
Net cash provided by operating activities	5,358,001
 Cash flows from non-capital financing activities:	
Property taxes received	6,933,124
Loan receivable payment received	184,617
Capacity lease revenue	824,530
Contributions to other agencies	(3,318,392)
Net cash provided by non-capital financing activities	4,623,879
 Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(47,354,347)
Capital contributions	14,255,238
Special assessment tax revenues for debt service received	29,393,234
Repayments of reimbursable advances	(2,053,747)
Principal paid for bond debt service and loans payable	(19,836,201)
Interest paid for debt service	(10,381,909)
Net cash (used in) capital and related financing activities	(35,977,732)
 Cash flows from investing activities:	
Proceeds from the sale and maturity of investment securities	186,212,770
Purchase of investment securities	(164,459,948)
Investment earnings	29,104
Rental revenues	1,087,296
Net cash provided by investing activities	22,869,222
Net (decrease) in cash and cash equivalents	(3,126,630)
Cash and cash equivalents, beginning of year	7,309,444
Cash and cash equivalents, end of year	\$ 4,182,814

Continued on next page

See accompanying notes to the basic financial statements.

SANTA MARGARITA WATER DISTRICT
Statement of Cash Flows
For the Year Ended June 30, 2016

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	73,497,663
Cash held for others	124,437
Restricted - cash and investments	23,990,117
Restricted - debt reserve fund	12,034,634
Restricted - unspent bond proceeds	41,449,725
Total cash and investments - per statement of net position	151,096,576

Less investments not meeting the definition of cash and cash equivalents:

Investments	(146,913,762)
Total cash and cash equivalents	4,182,814

Reconciliation of operating loss to net cash provided by operating activities:

Operating (loss)	(20,211,876)
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Adjustments to reconcile operating (loss) to net cash provided by operating activities:

Depreciation and amortization expense - capital recovery	17,177,880
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Change in assets and liabilities:

(Increase) decrease in assets:

Accounts receivable - water and sanitation customers	(376,254)
Accounts receivable - other	4,783,332
Water and supplies inventory	108,944
Prepaid expenses	(83,922)

Increase (decrease) in liabilities:

Accounts payable and accrued expenses	4,751,867
Accrued wages and related payables	164,639
Retentions payable and construction deposits	(238,420)
Other deposits payable	234,215
Net pension liability	(1,017,751)
Compensated absences	65,347

Total adjustments	25,569,877
Net cash provided by operating activities	\$ 5,358,001

Supplemental disclosure of non-cash capital and related financing and investing activities:

Amortization of premiums and discounts	\$ 2,331,798
Amortization of deferred charges	34,790
Contributed land	3,515,481
Disposal of capital assets	(785,269)
Capital assets acquired by construction payables	3,822,630
Unrealized gain on investments	2,483,455

See accompanying notes to the basic financial statements.

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

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.

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

1. Summary of Significant Accounting Policies (continued)

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

Cash Equivalents 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 fair value of at least 10% in excess of the total amount of funds on deposit. Investment income is comprised of interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

Fair Value

The District measures investments at fair value, or the price that would be received to sell an asset. The District values its asset by using the market approach, cost approach or income approach, as appropriate. The District values its investments into 3 categories: level 1, quoted prices for identical assets in active markets, level 2, other than quoted prices included in level 1, and level 3, unobservable inputs for an asset or liability.

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 potable water from the Metropolitan Water District of Southern California (MWD) and is paid through the Municipal Water District of Orange County (MWDOC).

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

1. Summary of Significant Accounting Policies (continued)

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 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 land, tract facilities and other capital assets contributed by developers are recorded as contributed facilities based on acquisition 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.

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. The District maintains an allowance for doubtful accounts for amounts outstanding more than 45 days, and amounts over \$50 are sent first to collections and are written off once no further amounts are recovered.

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 recognized on a modified accrual basis based on the period the taxes are received. At year end an accrual for the remaining unpaid taxes levied for the tax year is recorded. 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 pertaining to the current tax year, 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

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

1. Summary of Significant Accounting Policies (continued)

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 Gain or Loss on Debt Defeasance

The advance refunding of certain bonds resulted in refunding gains and losses. Losses are included as deferred outflows of resources and gains are included as deferred inflows 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 refunded debt using the effective interest method.

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, 2016 totaled \$10,775,212 and \$3,429,307 respectively, and net interest expense is \$7,345,905. Bond premiums and discounts on refunded debt are deferred and amortized over the life of the bonds using the effective interest method.

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 Pension Liability

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to the net pension liability, and pension expenses, information about the fiduciary net position of the California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Deferred outflows of resources and deferred inflows of resources represent the effects on the net pension liability that have occurred after the liability was measured or differences between amounts based on the assumptions versus actual results. These amounts are amortized between a one and five-year period.

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

1. Summary of Significant Accounting Policies (continued)

Net Position

Net position consists of the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources. 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 used for 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 Government Accounting Standards Board (GASB) has issued pronouncements that will impact future financial presentations. Management has not currently determined the impact, if any, of the newly issued pronouncements.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Effective for the District's fiscal year June 30, 2017.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. Effective for the District's fiscal year ending June 30, 2018.

GASB Statement No. 77, *Tax Abatement Disclosures*. Effective for the District's fiscal year ending June 30, 2017.

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. Effective for the District's fiscal year ending June 30, 2017.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. Effective for the District's fiscal year ending June 30, 2017.

GASB Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*. Effective for the District's fiscal year ending June 30, 2018.

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

1. Summary of Significant Accounting Policies (continued)

Accounting Changes

The accompanying financial statements reflect the implementation of GASB Statement No. 72, *Fair Value Measurement and Application*. This resulted in increased disclosure under Note 2, Cash and Investment. In addition, the District also adopted GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for state and Local Governments*. There was no financial impact to the financial statements as a result of adopting GASB Statement No. 76.

2. Cash and Investments

Cash and investments as of June 30, 2016 are classified in the accompanying financial statements as follows:

Cash and investments	\$ 73,497,663
Restricted - cash and investments	
Special assessments for debt service	23,990,117
Restricted - cash held for others	124,437
Bond proceeds for capital projects in non-current	41,449,725
Bond reserve funds in non-current assets	12,034,634
Total cash and investments	<u>\$ 151,096,576</u>
Cash and cash equivalents	<u>\$ 4,182,814</u>
Money market funds	51,668,554
Investments	<u>95,245,208</u>
Total investments	<u>146,913,762</u>
Total cash and investments	<u>\$ 151,096,576</u>

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

2. Cash and Investments (continued)

Fair Value Measurement

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs, which includes quoted prices for similar assets in active markets, quoted prices for identical assets in markets that are not active, or inputs other than quoted prices that are observable for the asset such as, interest rates and yield curves observable at commonly quoted intervals, implied volatilities, and credit spreads ; and Level 3 inputs are significant unobservable inputs. The District has the following recurring fair value measurements as of June 30, 2016:

- U.S. Treasury securities of \$43.9 million are valued using quoted market prices (Level 1 inputs).
- U.S. Agency securities of \$9.2 million are valued using quoted prices for similar assets (Level 2 inputs).
- Supranationals of \$1.2 million are valued using quoted prices for similar assets (Level 2 inputs).
- Municipal Bonds of \$.5 million are valued using quoted prices for similar assets (Level 2 inputs).
- Medium-term Corporate Notes of \$21.0 million are valued institutional quotes based on various market and industry inputs (Level 2 inputs).
- Negotiable Certificates of Deposit of \$12.7 million are valued using quoted prices for similar assets (Level 2 inputs).
- Commercial Paper of \$1.5 million are valued using quoted prices for similar assets (Level 2 inputs).
- Asset-backed securities of \$5.2 million are valued using quoted prices for similar assets (Level 2 inputs).
- Money Market Mutual Funds of \$51.7 million are valued using quoted prices for similar assets (Level 2 inputs).

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

2. Cash and Investments (continued)

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

The table below identifies the investment types that are authorized for the District by the California Government Code 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.

Investment Types Authorized by State Law	Authorized by Investment Policy	*Maximum Maturity	*Maximum Percentage of Portfolio	*Maximum Investment in One Issuer
U.S. Treasury	Yes	10 years	80%	80%
Federal Agency	Yes	10 years	80%	80%
Municipal Bonds	Yes	5 years	30%	10%
Medium-Term Corporate Notes	Yes	5 years	30%	30%
Supranationals	Yes	5 years	30%	30%
Banker's Acceptances	Yes	180 days	40%	30%
Negotiable Certificates of Deposit	Yes	5 years	20%**	20%
Placement Service Deposits	Yes	5 years	20%**	20%
Non-negotiable Certificates of Deposit	Yes	5 years	40%	40%
Commercial Paper	Yes	270 days	25%	25%
Collateralized Securities	No	N/A	N/A	N/A
Asset-Backed Securities	Yes	5 years	20%	20%
Repurchase Agreements	Yes	1 year	100%	100%
Reverse Repurchase Agreements	No	N/A	N/A	N/A
Mutual Funds	No	N/A	N/A	N/A
Money Market Mutual Funds	Yes	N/A	20%	10%
County Pooled Investment Funds	No	N/A	N/A	N/A
Local Agency Investment Fund (LAIF)	Yes	N/A	50%	50%
JPA Pools (other investment pools)	Yes	N/A	20%	20%

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

*** The combined maximum cannot exceed 30%.*

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

2. Cash and Investments (continued)

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.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury	None	100%	100%
Federal Agency	None	100%	100%
Municipal Bonds	None	100%	100%
Banker's Acceptances	1 year	100%	100%
Negotiable Certificates of Deposit	365 days	100%	100%
Commercial Paper	270 days	100%	100%
Investment Contracts	None	100%	100%
Repurchase Agreements	None	100%	100%
Money Market Mutual Funds	N/A	100%	100%
Local Agency Investment Fund (LAIF)	None	100%	100%

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:

	<u>Remaining Maturity in Months</u>			
	<u>Total</u>	<u>12 Months or Less</u>	<u>13 to 24 months</u>	<u>25 to 60 months</u>
U.S. Treasury	\$ 43,880,699	\$ 4,260,961	\$ 4,904,215	\$ 34,715,523
Federal Agency	9,236,665	-	2,869,281	6,367,384
Supranationals	1,158,956	-	-	1,158,956
Municipal Bonds	535,558	-	-	535,558
Medium-Term Corporate Notes	21,025,291	2,009,576	7,102,881	11,912,834
Negotiable Certificates of Deposit	12,692,345	7,731,174	4,961,171	-
Commercial Paper	1,522,657	1,522,657	-	-
Asset-Backed Securities	5,193,037	-	96,617	5,096,420
Money Market Mutual Funds	51,668,554	51,668,554	-	-
Total Investments	\$ 146,913,762	\$ 67,192,922	\$ 19,934,165	\$ 59,786,675

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

2. Cash and Investments (continued)

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.

<u>Rating</u>	
AAA	\$ 6,351,995
AA+	55,491,708
AA	1,112,768
AA-	8,857,830
A+	3,816,539
A	5,494,719
A-	2,495,143
BBB+	1,140,512
A-1	2,220,389
A-1+	8,263,605
AAAm	51,668,554
Total	<u><u>\$ 146,913,762</u></u>

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

U.S. Treasuries	N/A
Federal Agency	N/A
Municipal Bonds	N/A
Supranational	AAA
Medium-Term Corporate Notes	A
Negotiable Certificates of Deposit	N/A
Commercial Paper	A-1
Asset-Backed Securities	AA
Money Market Mutual Funds	AAAm

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

2. Cash and Investments (continued)

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer as of June 30, 2016 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	\$ 43,880,699	29.9%

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 fair 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, Wells Fargo Bank, or Union Bank.

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

3. Accounts Receivables, Other

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

Cadiz	\$ 2,435
Center for Sustainable Energy	156,995
City of San Juan Capistrano	18,844
City of San Clemente	48,506
County of Orange	2,415,433
State of California - Proposition 84 IRWM Grant	202,344
United States Bureau of Reclamation Grant	10,408
Irvine Ranch Water District	29,928
Moulton Niguel Water District	1,107,777
Quest Diagnostics/Nichols Institute	72,694
Rancho Mission Viejo, LLC - misc.	62,775
San Juan Basin Authority	19,752
South County Pipeline Receivables	54,838
South Coast/JRWSS	19,499
Trabuco Canyon Water District	811,190
Other Various	78,531
Total Accounts Receivable-Other	<u>\$ 5,111,949</u>

4. Loan Receivable

In 1996 the District, by Board action, made bond funds available to Rancho Mission Viejo, LLC 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 the 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. As of June 30, 2016 the outstanding principal and interest was \$1,145,961 and \$595,406, respectively, totaling \$1,741,367. Installment payments for the loan were finalized in February 2015 and are based on the estimated number of units sold in Planning Area 2 from 2016 through 2018.

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

5. Capital Assets

Capital assets as of June 30, 2016 consist of the following:

	Balance at June 30, 2015	Additions	Transfers	Dispositions/ Retirements	Balance at June 30, 2016
Water plant	\$ 388,551,480	\$ -	\$ 6,060,722	\$ -	\$ 394,612,202
Sewer plant	208,110,025	-	(2,858,123)	-	205,251,902
Contributed facilities	155,312,220	3,515,481	-	-	158,827,701
Operational equipment	12,112,608	1,235,619	165,685	(170,472)	13,343,440
Administration building	9,687,807	-	-	-	9,687,807
Capacity Rights	948,128	-	-	-	948,128
Miscellaneous/Master Plan	783,558	-	-	-	783,558
Total depreciable assets	<u>775,505,826</u>	<u>4,751,100</u>	<u>3,368,284</u>	<u>(170,472)</u>	<u>783,454,738</u>
Less accumulated depreciation & amortization:					
Water plant	(128,936,423)	(7,474,217)	-	-	(136,410,640)
Sewer plant	(97,195,373)	(4,686,265)	-	101,373	(101,780,265)
Contributed facilities	(72,404,448)	(3,847,202)	-	-	(76,251,650)
Administration building	(6,535,907)	(349,509)	-	-	(6,885,416)
Operational equipment	(9,332,576)	(801,098)	-	23,954	(10,109,720)
Miscellaneous/Master Plan	(316,907)	(19,589)	-	-	(336,496)
Capacity Rights	(948,128)	-	-	-	(948,128)
Total depreciation & amortization	<u>(315,669,762)</u>	<u>(17,177,880)</u>	<u>-</u>	<u>125,327</u>	<u>(332,722,315)</u>
Net depreciable assets	<u>459,836,064</u>	<u>(12,426,780)</u>	<u>3,368,284</u>	<u>(45,145)</u>	<u>450,732,423</u>
Capital Assets Not Being Depreciated:					
Construction in progress	85,657,061	48,065,999	(3,368,284)	(740,123)	129,614,653
Land	7,744,840	-	-	-	7,744,840
Land - Administration building	3,663,266	-	-	-	3,663,266
Total non depreciable assets	<u>97,065,167</u>	<u>48,065,999</u>	<u>(3,368,284)</u>	<u>(740,123)</u>	<u>141,022,759</u>
Total Assets	<u>\$ 556,901,231</u>	<u>\$ 35,639,219</u>	<u>\$ -</u>	<u>\$ (785,268)</u>	<u>\$ 591,755,182</u>

Depreciation and amortization expense for the year ended June 30, 2016 was \$17,177,880. Capitalized interest for the year ended June 30, 2016 was \$3,429,307 which is included in the additions for capital assets.

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

5. Capital Assets (continued)

The following identifies the ten largest remaining commitments on construction projects in fiscal year 2016:

Project Description	Remaining Commitment	Project Expenses to Date
Trampas RW Seasonal Storage Res-Construction	\$ 57,351,860	\$ 2,348,140
Lake Mission Viejo APW	4,525,953	474,047
Phase IV Chiquita WRP	3,375,223	1,892,547
CWRP ILS Overflow Basin	2,977,553	22,447
SCP Turnout No. 6 for back up service to Ladera & PA-1	2,347,394	1,476,206
Tesoro 2 MG Zn B (830) RW Reservoir, acc road & grading	2,126,369	1,323,631
Horno LS Pump 1-8 refurbishment/inlet system redesign	1,998,834	1,166
Tesoro 3 MG Zn II (830) DW Reservoir & access road (PA-2)	1,932,054	1,521,216
SOCWA - Replace/Upgrade existing or new capital facilities	1,801,260	5,565,222
CWRP Odor Control System	1,282,669	217,331
	<u>\$ 79,719,169</u>	<u>\$ 14,841,953</u>

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.

6. Long-Term Liabilities

Long-term liabilities and changes for the year ended June 30, 2016 was as follows:

	Balance at June 30, 2015	Additions	Deletions	Balance at June 30, 2016	Amount Due Within One year	Amount Due Beyond One Year
General Obligation						
Bonds Payable:						
2009 Series A	\$ 34,960,000	\$ -	\$ (780,000)	\$ 34,180,000	\$ 815,000	\$ 33,365,000
2009 Series B	18,970,000	-	(4,310,000)	14,660,000	4,585,000	10,075,000
2014 Series A	65,340,000	-	(8,110,000)	57,230,000	8,845,000	48,385,000
Total GOB Payable	119,270,000	-	(13,200,000)	106,070,000	14,245,000	91,825,000
Community Facilities District						
2007 Series	55,055,000	-	(3,630,000)	51,425,000	2,020,000	49,405,000
2013 Series	57,235,000	-	(95,000)	57,140,000	160,000	56,980,000
2014 Series B	32,810,000	-	(2,105,000)	30,705,000	1,105,000	29,600,000
Total Community Facilities District	145,100,000	-	(5,830,000)	139,270,000	3,285,000	135,985,000
Subtotal Bonds Payable	264,370,000	-	(19,030,000)	245,340,000	17,530,000	227,810,000
Premium / Discount, net	10,430,584	-	(2,331,798)	8,098,786	-	8,098,786
Total Bonds Payable	<u>\$ 274,800,584</u>	<u>\$ -</u>	<u>\$ (21,361,798)</u>	<u>\$ 253,438,786</u>	<u>\$ 17,530,000</u>	<u>\$ 235,908,786</u>

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

6. Long-Term Liabilities (continued)

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 1 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 1 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 1 from 2010 to 2018. The proceeds from the bonds were used to refund the 1997 General Obligation Water Bonds. 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 1 from 2015 to 2043. The bonds were issued to construct water and wastewater facilities for the Village of Sendero development. Additionally, \$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.

2014 Refunding General Obligation Bonds Series A

In July 2014 the District issued \$65,340,000 Refunding General Obligation Bonds 2014 Series A with interest rates from 3.00% to 5.00% that matures annually on August 1 from 2015 to 2032. The proceeds of the bonds were used to refund the 2003 Series A and 2004 Series A bonds (Improvement District Nos. 2, 2A, 3, 3A, 4, 4A & 4B) of the Santa Margarita Water District/Dana Point Authority, which had an interest rate of 1.05% to 5.00%. The final maturity date remains the same, at August 1, 2032. The source of repayment of these bonds is special assessment tax revenues for debt service.

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

6. Long-Term Liabilities (continued)

2014 Special Tax Refunding Bonds Series B

In August 2014 the District issued \$32,810,000 of Special Tax Refunding Bonds 2014 Series B bonds with interest rates from 2.00% to 5.00% that matures annually on September 1 from 2015 to 2038. The proceeds of the bonds were used to refund the 2011 Series A and 2011 Series B Community Facilities District 99-1 (Talega) of the Santa Margarita Water District Special Tax Refunding Bonds, which had an interest rate of 2.00% to 5.875%. The final maturity date remains the same, at September 1, 2038. The previously required debt reserve of approximately \$5.3 million was utilized in the refunding (a debt reserve is no longer required). The source of repayment of these bonds is special assessment tax revenues for debt service.

Future maturities based on the terms of bond indentures are as follows:

General Obligation Bonds Debt Service Schedule:

Year	Principal	Interest	Total
2017	\$ 14,245,000	\$ 4,795,290	\$ 19,040,290
2018	15,185,000	4,154,715	19,339,715
2019	15,940,000	3,413,690	19,353,690
2020	11,565,000	2,750,765	14,315,765
2021	12,420,000	2,156,140	14,576,140
2022-2026	8,155,000	8,258,702	16,413,702
2027-2031	10,500,000	5,902,207	16,402,207
2032-2036	11,015,000	3,141,030	14,156,030
2037-2039	7,045,000	553,932	7,598,932
Total	\$ 106,070,000	\$ 35,126,471	\$ 141,196,471

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

6. Long-Term Liabilities (continued)

Community Facility District Debt Service Schedule:

Year	Principal	Interest	Total
2017	\$ 3,285,000	\$ 6,834,725	\$ 10,119,725
2018	3,620,000	6,702,588	10,322,588
2019	3,855,000	6,549,850	10,404,850
2020	4,235,000	6,380,516	10,615,516
2021	4,625,000	6,186,256	10,811,256
2022-2026	30,465,000	27,088,731	57,553,731
2027-2031	41,065,000	19,203,016	60,268,016
2032-2036	13,765,000	11,584,478	25,349,478
2037-2041	19,540,000	6,986,713	26,526,713
2042-2044	14,815,000	1,292,484	16,107,484
Total	<u>\$ 139,270,000</u>	<u>\$ 98,809,357</u>	<u>\$ 238,079,357</u>

Debt Reserve Requirement

The District is required to hold monies in a reserve fund based on bond covenants. At June 30, 2016 the District held monies in a reserve fund for the debt reserve requirement of \$5,442,611 and \$6,592,023 for the 2013 Series and 2014 Series B bonds, respectively.

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 bonds of a particular district will not result in an event of default with respect to the bond of any other district.

The total principal and interest remaining to be paid on the bonds is \$379,276,828 as of June 30, 2016. For the current year, principal and interest paid on the bonds was \$31,352,519. Total special assessment tax revenues for principal and interest payments received were \$32,385,845.

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

6. Long-Term Liabilities (continued)

Deferred Gain or Loss on Debt Defeasance

The balance for deferred gain on debt defeasance as of June 30, 2016 is as follows:

Issue	Balance at June 30, 2015	Additions	Deletions	Amortization	Balance at June 30, 2016
2014A Series	\$ 258,090	\$ -	\$ -	\$ (61,396)	\$ 196,694

The balance for deferred loss on debt defeasance as of June 30, 2016 is as follows:

Issue	Balance at June 30, 2015	Additions	Deletions	Amortization	Balance at June 30, 2016
2007 Series	\$ 2,434,599	\$ -	\$ (68,412)	\$ (253,479)	\$ 2,112,708
2009B Series	145,989	-	-	(70,064)	75,925
2014B Series	1,485,232	-	(49,755)	(139,024)	1,296,453
	<u>\$ 4,065,820</u>	<u>\$ -</u>	<u>\$ (118,167)</u>	<u>\$ (462,567)</u>	<u>\$ 3,485,086</u>

Loans Payable:

The District has three outstanding loans with the State Water Resources Control Board. The outstanding balance as of June 30, 2016 is as follows:

	Balance at June 30, 2015	Additions	Deletions	Balance at June 30, 2016	Within One Year	Beyond One Year
2003 Loan	\$ 3,521,616	\$ -	\$ (400,263)	\$ 3,121,353	\$ 411,072	\$ 2,710,281
2003 Loan	5,788,294	-	(387,065)	\$ 5,401,229	395,966	5,005,263
2008 Loan	287,515	-	(18,873)	268,642	19,363	249,279
Total	<u>\$ 9,597,425</u>	<u>\$ -</u>	<u>\$ (806,201)</u>	<u>\$ 8,791,224</u>	<u>\$ 826,401</u>	<u>\$ 7,964,823</u>

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, 2016 are as follows:

Year	Principal	Interest	Total
2017	411,072	84,277	495,349
2018	422,170	73,177	495,347
2019	433,569	61,779	495,348
2020	445,275	50,073	495,348
2021	457,298	38,050	495,348
2022-2023	951,969	38,726	990,695
Total	<u>\$ 3,121,353</u>	<u>\$ 346,082</u>	<u>\$ 3,467,435</u>

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

6. Long-Term Liabilities (continued)

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, 2016 are as follows:

Year	Principal	Interest	Service Charge	Total
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	423,921	54,415	41,858	520,194
2021	433,671	48,904	37,618	520,193
2022-2026	2,322,641	157,318	121,013	2,600,972
2027-2028	1,005,567	19,683	15,141	1,040,391
Total	<u>\$ 5,401,229</u>	<u>\$ 475,406</u>	<u>\$ 365,697</u>	<u>\$ 6,242,332</u>

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, 2016 are as follows:

Year	Principal	Interest	Total
2017	19,363	6,985	26,348
2018	19,867	6,481	26,348
2019	20,383	5,965	26,348
2020	20,913	5,435	26,348
2021	21,457	4,891	26,348
2022-2026	115,950	15,791	131,741
2027-2028	50,709	1,986	52,695
Total	<u>\$ 268,642</u>	<u>\$ 47,534</u>	<u>\$ 316,176</u>

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

6. Long-Term Liabilities (continued)

Reimbursement Agreement Advances and Accrued Interest

Funds may be advanced by landowners and developers for planning, design and/or construction of facilities or 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.

Reimbursable advances by the landowner/developer at June 30, 2016 are as follows:

<u>Landowner/Developer</u>	<u>Balance at June 30, 2015</u>	<u>Additions</u>	<u>Expiration/ Payments</u>	<u>Balance at June 30, 2016</u>
Coto de Caza, Ltd.	\$ 22,019	\$ -	\$ -	\$ 22,019
FN Projects	178,050	-	-	178,050
Quest Diagnostics/Nichols Institute	3,298,854	-	(28,755)	3,270,099
The San Juan Company	181,783	-	-	181,783
Santa Margarita Company	44,500	-	-	44,500
Rancho Mission Viejo, LLC	1,950,315	1,904,393	(3,854,708)	-
Total	\$ 5,675,521	\$ 1,904,393	\$ (3,883,463)	\$ 3,696,451

Reimbursable accrued interest by the landowner/developer at June 30, 2016 is as follows:

<u>Landowner/Developer</u>	<u>Balance at June 30, 2015</u>	<u>Additions</u>	<u>Expiration/ Payments</u>	<u>Balance at June 30, 2016</u>
Coto de Caza, Ltd.	\$ 47,541	\$ 1,325	\$ -	\$ 48,866
FN Projects	202,187	10,712	-	212,899
Quest Diagnostics/Nichols Institute	4,750,823	198,420	(46,392)	4,902,851
The San Juan Company	35,902	1,431	-	37,333
Santa Margarita Company	68,345	2,677	-	71,022
Rancho Mission Viejo, LLC	2,823	9,656	(12,479)	-
Total	\$ 5,107,621	\$ 224,221	\$ (58,871)	\$ 5,272,971

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

7. Compensated Absences

Changes to compensated absences balances for June 30, 2016 are as follows:

Balance at June 30, 2015	Earned	Taken	Balance at June 30, 2016	Amount Due Within One Year	Amount Due Beyond One Year
\$ 1,068,950	\$ 1,157,375	\$ (1,092,028)	\$ 1,134,297	\$ 1,054,896	\$ 79,401

8. Net Investment in Capital Assets

Net investment in capital assets as of June 30, 2016 is as follows:

Capital assets, net of accumulated depreciation	\$ 591,755,182
Less: Outstanding debt attributable to capital assets:	
Bonds payable	(253,438,786)
Loans payable	(8,791,224)
Add:	
Bond proceeds used for capital projects not capitalized by the District	12,441,128
Debt reserves funded by bond proceeds	12,034,634
Unspent bond proceeds	41,449,725
Deferred gains and losses on debt defeasances, net	3,288,392
Total net investment in capital assets	<u>\$ 398,739,051</u>

9. Restricted Net Position

Restricted net position consists of the following:

Special assessments for debt service	23,990,117
Property taxes receivable	793,597
Restricted cash held for others	124,437
Restricted accrued interest receivable	65,953
Less:	
Accrued interest payable	(4,573,620)
Accrued interest payable on reimbursement agreements	(5,272,971)
	<u>\$ 15,127,513</u>

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

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 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. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS’ website at www.calpers.ca.gov.

Benefits Provided

CalPERS provided service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. For employees hired after January 1, 2013, 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). All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is the Basic Death Benefit or the 1959 Survivor Benefit (Level 4). Benefit terms are established and amended through the District’s Board of Directors and facilitated through CalPERS.

The Plans’ provisions and benefits in effect at June 30, 2016, are summarized as follows:

	Hire Date	
	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.7% @ 55	2.0% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	50 – 55	52 – 64 3/4
Monthly benefits, as a % of eligible compensation	2.0% to 2.7%	1.0% to 2.275%
Required employee contribution rates	8.0%	6.25%
Required employer contribution rates	22.240%	22.240%

The cost of living adjustments for each plan are applied as specified by the Public Employees’ Retirement Law.

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

**10. Defined Benefit Pension Plan with California Public Employee’s Retirement System
(continued)**

Employees Covered

At June 30, 2014, the following employees were covered by the benefit terms for the Plan:

Inactive employees or beneficiaries currently receiving benefits	90
Inactive employees entitled to but not yet receiving benefits	74
Active employees	124
Total	288

The table above reflects the most recent CalPERS census information available.

Contributions

Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on July 1 following notice of a change in the rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

The District’s actuarially required employer contribution rate for the year ended June 30, 2016 was 22.240% This rate includes the current employer normal rate of 9.228% and the unfunded rate of 13.192% of annual covered payroll. The contribution requirements of employee participants and the District are established by state statute and may be amended by CalPERS. For the year ended June 30, 2016, the employer contributions totaled \$2,564,395.

For the employees in the 2.7% at 55 years of service plan, employees are required to contribute 8.0% of their annual covered salary. During the year ended June 30, 2016, the employees contributed the full 8.0% 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.

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

The net pension liability of the District at June 30, 2016 is based on the Plan’s measurement date of June 30, 2015, using an actuarial valuation as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined at the valuation date and rolled forward to the measurement date. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

The total pension liabilities in June 30, 2014 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Payroll growth	3.00%
Investment Rate of Return	7.65%

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

**10. Defined Benefit Pension Plan with California Public Employee’s Retirement System,
(continued)**

Mortality rates were based on the 2010 CalPERS Experience Study, which assumed future mortality improvements using Society of Actuaries Scale BB. The experience study can be obtained at the CalPERS website.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class.

The following table reflects the long term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

Asset Class	New Strategic Allocation	Real Return Years 1 – 10 ⁽¹⁾	Real Return Years 11 + ⁽²⁾
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	19.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	10.0	6.83	6.95
Real Estate	10.0	4.50	5.13
Infrastructure and Forestland	2.0	4.50	5.09
Liquidity	2.0	(0.55)	(1.05)

⁽¹⁾ An expected inflation of 2.5% used for this period

⁽²⁾ An expected inflation of 3.0% used for this period

All other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from 1997 to 2007, including updates to salary increases, mortality and retirement rates. The Experience Study report can be obtained at the CalPERS’ website under Forms and Publications.

Discount Rate

The discount rate used to measure the total pension liability was 7.65%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that District contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate. Based on these assumptions, the Plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

**10. Defined Benefit Pension Plan with California Public Employee’s Retirement System,
(continued)**

Changes in the Net Pension Liability

The following table shows the changes in net pension liability:

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at June 30, 2015*	\$ 79,895,405	\$ 56,496,794	\$ 23,398,611
Increase (Decrease) in Pension Liability:			
Service Cost	1,780,457	-	1,780,457
Interest on the Total Pension Liability	5,898,709	-	5,898,709
Change of Assumptions	(1,424,897)	-	(1,424,897)
Differences between Expected and Actual Experience	(778,016)		(778,016)
Contributions from Employer	-	2,250,865	(2,250,865)
Contributions from Employees	-	921,137	(921,137)
Net investment income	-	1,320,631	(1,320,631)
Benefit Payments, including Refunds of Employee Contributions	(2,950,790)	(2,950,790)	-
Administrative Expense	-	(65,221)	65,221
Net changes:	2,525,463	1,476,622	1,048,841
Balance at June 30, 2016*	<u>\$ 82,420,868</u>	<u>\$ 57,937,416</u>	<u>\$ 24,447,452</u>

*Represents the District’s fiscal year-end date

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

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

	Discount Rate -1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)
Net Pension Liability	\$35,379,694	\$24,447,452	\$15,358,584

Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued CalPERS financial reports.

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

**10. Defined Benefit Pension Plan with California Public Employee’s Retirement System,
(continued)**

Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

For the year ended June 30, 2016 the District recognized pension expenses of \$1,546,644. At June 30, 2016 the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
District Contributions made Subsequent to the Measurement Period	\$ 2,564,395	\$ -
Change of Assumptions	-	(1,039,790)
Differences between Expected and Actual Experiences	-	(567,741)
Net Difference between Projected and Actual Earnings on Pension Plan Investments	-	(478,366)
Total	\$ 2,564,395	\$ (2,085,897)

Deferred outflows of resources of \$2,564,395 reported as employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2017. Deferred inflows of resources of \$2,085,887 as described above will be recognized as pension expense as follows:

Measurement Period Ended June 30:	Deferred Inflows of Resources
2016	\$ (954,909)
2017	(954,909)
2018	(776,293)
2019	600,214

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

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, 2015 to defer up to the lesser of \$18,000 or 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, 2016, the employer contributions totaled \$193,780. 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 2016 shall not exceed \$53,000, as adjusted for increases allowed in the Code.

12. Joint Powers Agreements

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, 2016 the District paid \$233,459 to the SJBA for various costs of which the majority related to the development and maintenance of the facilities as well as operating costs. 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 WATER DISTRICT
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

12. Joint Powers Agreement (Continued)

Santa Margarita/Dana Point Authority

The Santa Margarita/Dana Point Authority (SM/DPA) 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 Jay B. Latham treatment plant. In addition, SM/DPA 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. In July 2014 the District issued Refunding General Obligation Bonds 2014 Series A for the purpose of refunding the 2003 Series A and 2004 Series A Bonds (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, 2016 the District paid bond principal payments totaling \$13,200,000 and interest payments totaling \$5,302,752 to SM/DPA 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, 2016 the District paid \$5,403,611 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.

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

13. 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 net position reserve that is designated 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.

14. 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.

15. Commitment to Purchase Water

In July 2012, the District Board of Directors approved certain resolutions relating to the commitment to purchase water. 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.

The Cadiz Project is located in Eastern San Bernardino County. Phase I 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. A series of six lawsuits and appeals were filed on the CEQA finding and on May 10, 2016, the Fourth Appellate District in California's Court of Appeal affirmed all decisions by an Orange County Superior Court validating the District's environmental approvals for the Cadiz Valley Water Conservation, Recovery & Storage Project.

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 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 at the District's option. Costs of transporting the water are undeterminable at this time.

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

15. Commitment to Purchase Water (continued)

Delivery of water is subject to development of agreements and/or permitting by federal and regional agencies, if the project is halted, the District would continue its current practice of purchasing water from MWD. The amount of possible future additional litigation costs associated with this matter are not known.

Delivery of water 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, the District would continue its current practice of purchasing water from MWD. The amount of possible future additional litigation costs associated with this matter are not known.

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Required Supplementary Information

Santa Margarita Water District
Schedule of Changes in the District's Net Pension Liability and Related Ratios
For the Year Ended June 30, 2016

(1) Schedule of Changes in the Net Pension Liability and Related Ratios

	<u>June 30, 2016*</u>	<u>June 30, 2015*</u>
Total Pension Liability		
Service Cost	\$ 1,780,457	\$ 1,781,063
Interest	5,898,709	5,605,583
Changes in Assumptions	(1,424,897)	-
Difference Between Expected and Actual Experience	(778,016)	-
Benefit Payments, Including Refunds of Employee Contributions	(2,950,790)	(2,683,647)
Net Change in Total Pension Liability	2,525,463	4,702,999
Total Pension Liability – Beginning	79,895,405	75,192,406
Total Pension Liability – Ending (a)	<u>\$ 82,420,868</u>	<u>\$ 79,895,405</u>
Plan Fiduciary Net Position		
Contributions – Employer	2,250,865	1,889,301
Contributions – Employee	921,137	955,416
Net Investment Income	1,320,631	8,393,984
Benefit Payments, Including Refunds of Employee Contributions	(2,950,790)	(2,683,647)
Administrative Expense	(65,221)	-
Net Change in Fiduciary Net Position	1,476,622	8,555,054
Plan Fiduciary Net Position – Beginning	56,496,794	47,941,740
Plan Fiduciary Net Position – Ending (b)	<u>\$ 57,973,416</u>	<u>\$ 56,496,794</u>
Plan Net Pension Liability – Ending (a) - (b)	<u>\$ 24,447,452</u>	<u>\$ 23,398,611</u>
* Represents the District's fiscal year-end date		
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	70.34%	70.71%
Covered-Employee Payroll	\$ 10,388,948	\$ 9,993,058
Plan Net Pension Liability as a Percentage of Covered-Employee Payroll	235.32%	234.15%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is completed, the District will only present information for the years for which information is available.

Notes to Schedule of Changes in the Net Pension Liability and Related Ratio

Benefit Changes: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2014. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit.

Changes of Assumptions: The Discount Rate changed from 7.50% to 7.65%.

Santa Margarita Water District
Schedule of District Contributions
For the Year Ended June 30, 2015

(2) Schedule of Contributions

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is completed, the District will only present information for the years for which information is available.

	June 30, 2016*	June 30, 2015*
Actuarially Determined Contribution	\$ 2,250,965	\$ 1,889,301
Contributions in Relation to the Actuarially Determined Contribution	(2,250,965)	(1,889,301)
Contribution Deficiency (Excess)	\$ -	\$ -
* Represents the District's fiscal year-end date		
Covered-Employee Payroll	\$ 10,388,948	\$ 9,993,058
Contributions as a Percentage of Covered-Employee Payroll	21.67%	18.91%

Notes to Schedule of Contribution:

Valuation date: June 30, 2012

Methods and assumptions used to actuarially determine contributions rates for fiscal year 2015:

Actuarial Cost Method	Entry Age Normal
Amortization Method/Period	Level Percent of Payroll
Asset Valuation Method	15 Year Smoothed Market
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Payroll Growth	3.00%
Investment Rate of Return	7.50% Net of Administrative Expenses
Retirement Age	The probabilities of Retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

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Statistical Section

SANTA MARGARITA WATER DISTRICT
Summary of Statistical Section
For the Year Ended June 30, 2016

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	page 50
Changes in net position	page 51
Operating revenue by source	page 53
Operating expenses by type	page 54

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	page 55
Water and sewer rates	page 56
Ten largest water and sewer customers	page 57
Assessment rate by improvement district	page 58

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	page 59
Debt service coverage ratio	page 66
Outstanding debt by type	page 67
Outstanding debt ratios	page 68

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

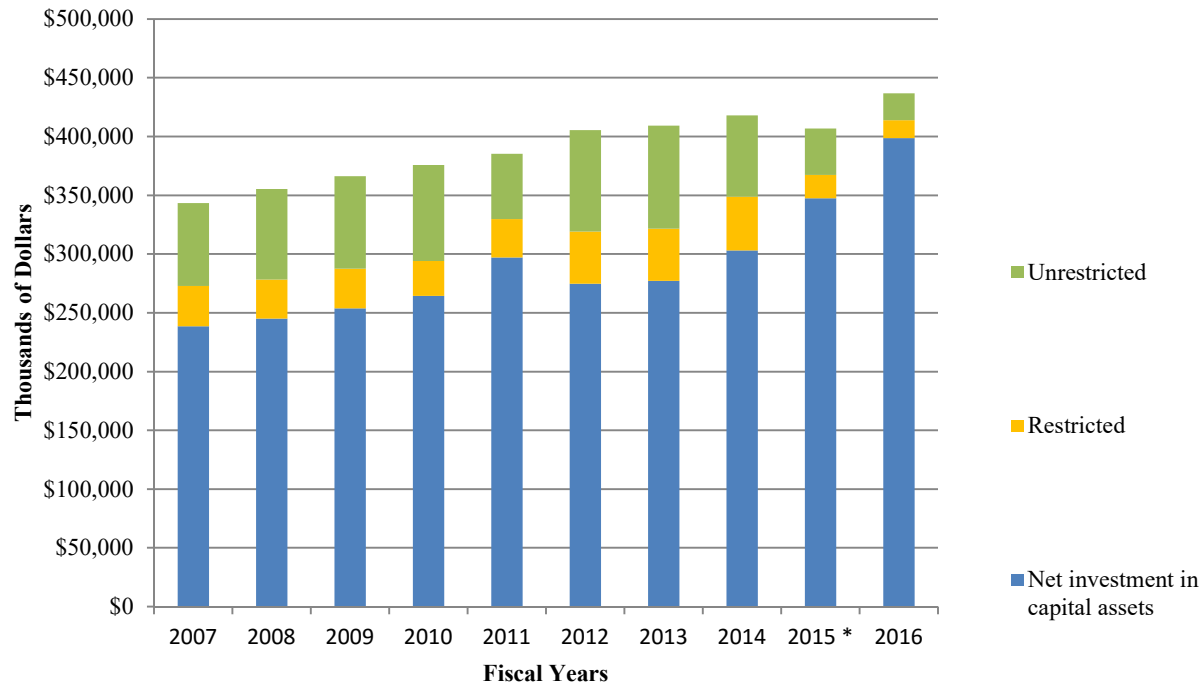
Demographic and economic statistics	page 69
Principal employers	page 70

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	page 71
Capital asset statistics	page 72
Employee information	page 73

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

Net Position	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015 *	2016
Net investment in capital assets	\$ 238,485	\$ 245,168	\$ 253,883	\$ 264,455	\$ 297,117	\$ 274,835	\$ 277,328	\$ 302,967	\$ 347,590	\$ 398,739
Restricted	34,476	32,998	33,699	29,739	32,618	44,180	44,250	45,817	19,620	15,128
Unrestricted	70,460	77,212	78,637	81,693	55,518	86,432	87,714	69,321	39,726	22,871
Total net position	\$343,421	\$355,378	\$366,219	\$375,887	\$385,253	\$405,447	\$409,292	\$418,105	\$ 406,936	\$436,738



* Amounts include restatement of previously reported net position related to the implementation of GASB 68 and GASB 71. Also, certain amounts were reclassified for comparison purposes.

Source: SMWD Basic Financial Statements

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

	<i>Continued</i>			
	Fiscal Year			
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Operating Revenues:				
Water sales	\$ 27,609,051	\$ 26,427,232	\$ 25,457,728	\$ 28,653,367
Sanitation sale service charge	17,654,059	17,059,141	16,669,997	16,693,371
Utility billing charges	577,380	595,892	609,990	709,257
Construction charges	120,548	70,600	117,135	11,065
Other income	3,134,410	3,993,418	3,916,457	3,192,317
Total operating revenues	<u>49,095,448</u>	<u>48,146,283</u>	<u>46,771,307</u>	<u>49,259,377</u>
Operating Expenses:				
Water purchases	18,839,312	18,567,162	19,486,182	21,236,768
Power	4,855,951	4,722,243	4,918,128	4,457,427
Maintenance and operations	662,827	488,112	628,474	400,051
Regional facilities	762,492	923,413	1,312,608	917,472
Sewage treatment	2,444,253	2,541,385	3,063,690	3,047,929
Operating general	2,160,560	1,960,078	2,183,938	1,897,521
Repair and maintenance	2,793,521	2,669,400	2,656,010	4,652,062
Employee cost	11,925,772	12,167,725	12,650,816	12,682,205
Customer relations	757,091	786,075	662,994	419,491
General and administrative	2,072,401	1,896,998	2,027,678	2,351,800
Total operating expenses	<u>47,274,180</u>	<u>46,722,591</u>	<u>49,590,518</u>	<u>52,062,726</u>
Depreciation and amortization	<u>14,408,104</u>	<u>15,397,838</u>	<u>15,720,816</u>	<u>15,920,805</u>
Operating income (loss)	<u>(12,586,836)</u>	<u>(13,974,146)</u>	<u>(18,540,027)</u>	<u>(18,724,154)</u>
Non-operating revenues (expenses)				
Property taxes-ad valorem restricted	25,131,345	23,365,446	23,300,874	27,323,161
Property taxes-ad valorem 1% general	6,057,575	6,597,774	6,473,244	5,590,346
Capacity lease income	844,220	820,119	5,201,528	7,149,921
Investment income	6,707,558	10,165,417	7,930,250	4,531,146
Rental income	-	-	-	-
Other non-operating income	-	-	-	-
Contributions to other agencies	-	-	-	-
Other non-operating expenses	-	-	-	-
Interest expense	<u>(16,462,362)</u>	<u>(17,517,207)</u>	<u>(15,782,326)</u>	<u>(14,826,211)</u>
Total non-operating revenues (expenses)	<u>22,278,336</u>	<u>23,431,549</u>	<u>27,123,570</u>	<u>29,768,363</u>
Income (loss) before contributed capital	<u>9,691,500</u>	<u>9,457,403</u>	<u>8,583,543</u>	<u>11,044,209</u>
Contributed capital	10,265,805	2,417,505	2,258,061	349,875
Contributions from agencies	-	-	-	-
Connection fees	-	-	-	25,500
Jointly owned facilities capital reimb	-	-	-	-
Capital grants	222,027	81,237	-	1,895,388
Change in Net Position	<u>\$ 20,179,332</u>	<u>\$ 11,956,145</u>	<u>\$ 10,841,604</u>	<u>\$ 13,314,972</u>

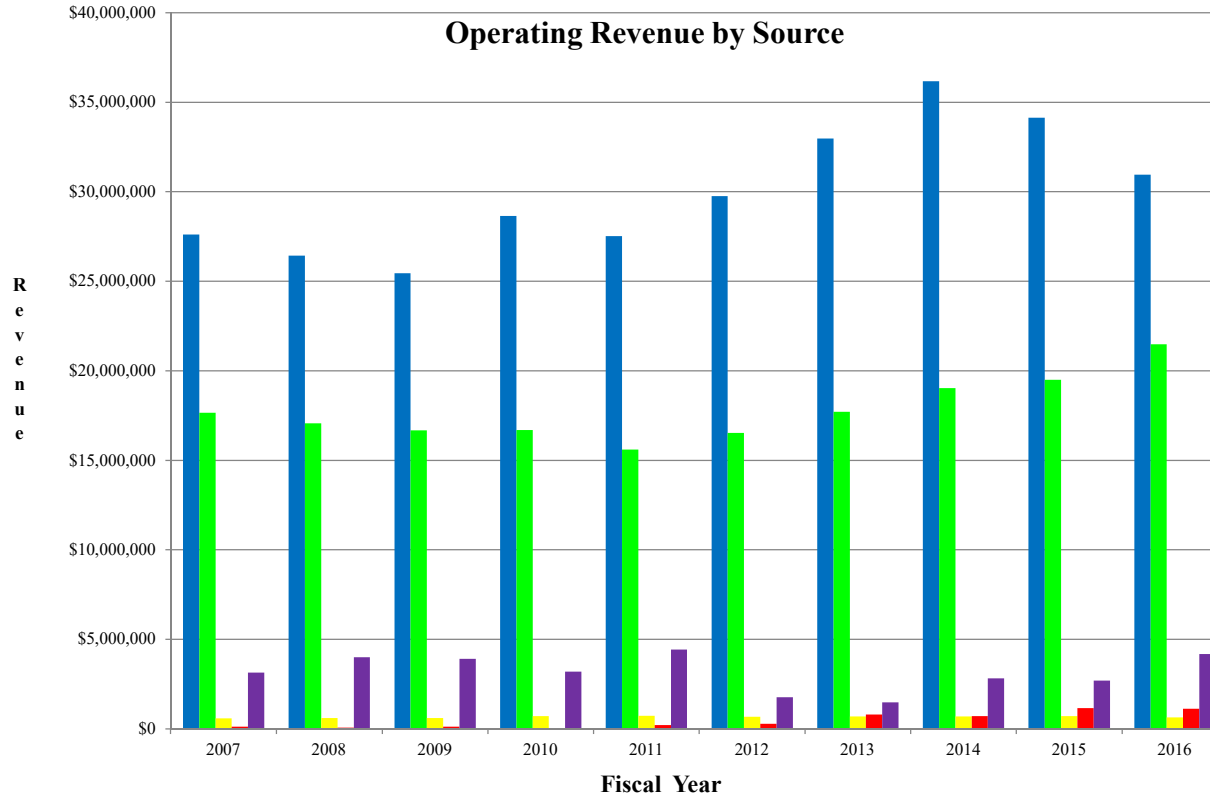
Source: SMWD Basic Financial Statements

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

Fiscal Year					
2011	2012	2013	2014	2015	2016
\$ 27,522,866	\$ 29,764,206	\$ 32,981,298	\$ 36,178,908	\$ 34,142,144	\$ 30,957,212
15,600,334	16,536,155	17,715,923	19,033,220	19,490,718	21,473,415
722,208	681,507	697,052	698,786	715,686	647,657
208,086	276,091	806,665	708,874	1,150,074	1,121,823
4,424,449	1,771,983	1,476,302	2,821,343	2,702,571	4,178,070
<u>48,477,943</u>	<u>49,029,942</u>	<u>53,677,240</u>	<u>59,441,131</u>	<u>58,201,193</u>	<u>58,378,177</u>
21,185,215	23,293,146	26,665,738	28,264,492	24,212,121	23,677,839
4,204,479	4,078,145	4,068,216	4,944,194	5,460,353	5,189,368
440,267	571,337	524,473	622,498	1,138,459	1,184,825
1,257,311	1,205,974	1,191,408	3,076,129	259,134	175,282
3,351,879	2,513,606	2,499,279	2,481,884	2,633,777	2,534,102
1,847,191	2,162,963	1,869,340	2,195,665	2,535,469	2,944,793
3,829,607	3,201,117	3,144,083	3,465,764	3,489,569	4,060,091
13,548,863	14,362,327	14,677,928	14,606,120	15,655,872	16,022,443
431,618	398,792	398,016	448,664	505,067	354,427
2,273,941	2,587,771	2,728,996	3,035,753	3,696,633	5,269,003
<u>52,370,371</u>	<u>54,375,178</u>	<u>57,767,477</u>	<u>63,141,163</u>	<u>59,586,454</u>	<u>61,412,173</u>
<u>15,920,180</u>	<u>15,608,541</u>	<u>17,101,815</u>	<u>16,985,856</u>	<u>17,081,495</u>	<u>17,177,880</u>
<u>(19,812,608)</u>	<u>(20,953,777)</u>	<u>(21,192,052)</u>	<u>(20,685,888)</u>	<u>(18,466,756)</u>	<u>(20,211,876)</u>
25,129,283	24,680,109	26,882,700	29,694,891	23,454,537	32,385,845
5,987,585	5,893,978	5,946,208	6,118,055	6,071,301	7,074,733
805,793	807,066	806,955	809,833	832,103	824,530
2,348,104	2,226,758	370,637	1,577,099	1,430,680	2,420,094
1,116,498	1,174,618	1,188,799	1,199,966	1,107,415	1,087,296
-	1,935,929	2,123,379	5,133,944	4,655,928	-
-	-	-	(3,137,767)	(16,387,047)	(3,318,392)
(890,000)	-	-	(965,681)	(623,934)	(886,397)
<u>(13,979,495)</u>	<u>(13,192,069)</u>	<u>(14,644,444)</u>	<u>(14,566,035)</u>	<u>(9,303,180)</u>	<u>(7,345,905)</u>
<u>20,517,768</u>	<u>23,526,389</u>	<u>22,674,234</u>	<u>25,864,305</u>	<u>11,237,803</u>	<u>32,241,804</u>
<u>705,160</u>	<u>2,572,612</u>	<u>1,482,182</u>	<u>5,178,417</u>	<u>(7,228,953)</u>	<u>12,029,928</u>
8,648,926	17,184,484	488,881	316,913	2,607,632	3,515,481
-	-	-	-	-	11,227,266
-	-	25,500	-	-	-
-	346,862	156,995	83,078	9,553,265	2,064,227
12,994	89,638	1,156,820	3,234,854	9,261,561	963,745
<u>\$ 9,367,080</u>	<u>\$ 20,193,596</u>	<u>\$ 3,310,378</u>	<u>\$ 8,813,262</u>	<u>\$ 14,193,505</u>	<u>\$ 29,800,647</u>

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

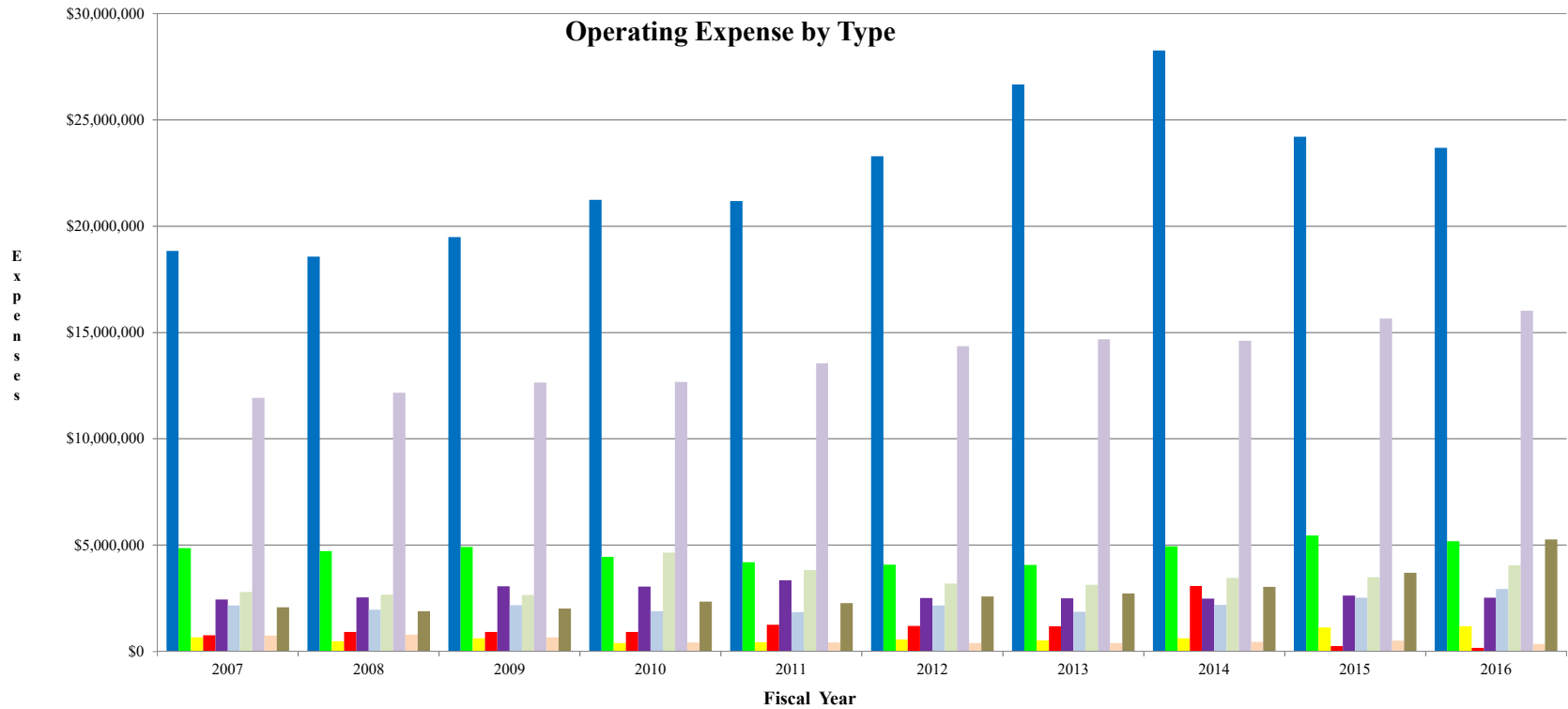
Fiscal Year	Water Sales	Sanitation Sale Service Charge	Utility Billing Charges	Construction Revenue	Other Income	Total Operating Revenue
2007	\$ 27,609,051	\$ 17,654,059	\$ 577,380	\$ 120,548	\$ 3,134,410	\$ 49,095,448
2008	26,427,232	17,059,141	595,892	70,600	3,993,418	48,146,283
2009	25,457,728	16,669,997	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
2015	34,142,144	19,490,718	715,686	1,150,074	2,702,571	58,201,193
2016	30,957,212	21,473,415	647,657	1,121,823	4,178,070	58,378,177



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
2007	\$ 18,839,312	\$ 4,855,951	\$ 662,827	\$ 762,492	\$ 2,444,253	\$ 2,160,560	\$ 2,793,521	\$ 11,925,772	\$ 757,091	\$ 2,072,401	\$ 47,274,180
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	917,472	3,063,690	2,183,938	2,656,010	12,650,816	662,994	2,027,678	49,195,382
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
2015	24,212,121	5,460,353	1,138,459	259,134	2,633,777	2,535,469	3,489,569	15,655,872	505,067	3,696,633	59,586,454
2016	23,677,839	5,189,368	1,184,825	175,282	2,534,102	2,944,793	4,060,091	16,022,443	354,427	5,269,003	61,412,173



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
2015	3,276,908	2,372,798	424,709	181,084	180,804	6,678,883	1,090,957	14,206,143
2016	3,149,572	1,666,895	388,325	22,684	98,920	5,657,044	1,068,891	12,052,331

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

Source: SMWD utility billing system

Santa Margarita Water District
Water and Wastewater Rates

Water Basic Monthly Charge - Residential Single and Multi-Family (per account)

	2007	2008	2009	2010	2011	2012	2013	2014	2015 *	2016 **
3/4" Meter Size	\$ 5.74	\$ 5.74	\$ 5.74	\$ 6.03	\$ 6.03	\$ 6.22	\$ 6.32	\$ 6.41	\$ 8.72	\$ 14.89

Water Volumetric Charges - Residential Single Family and Multi-Family (per ccf)

	2007	2008	2009	2010	2011	2012	2013	2014	2015 *	2016 **
Tier 1	\$ 1.38	\$ 1.38	\$ 1.38	\$ 1.61	\$ 1.61	\$ 1.66	\$ 1.69	\$ 1.71	\$ 2.04	\$ 1.86
Tier 2	1.56	1.56	1.56	1.73	1.73	1.78	1.81	1.84	2.29	2.11
Tier 3	2.05	2.05	2.05	2.18	2.18	2.25	2.29	2.32	2.77	2.61
Tier 4	2.46	2.46	2.46	2.67	2.67	2.75	2.79	2.83	3.28	3.12
Tier 5				3.49	3.49	3.60	3.66	3.71	4.50	4.67
MWDOC Surcharge				0.28	0.28	0.39	0.51	0.62	-	0.04

Water Volumetric Charges - Domestic Irrigation (Domestic Water) (per ccf)

	2007	2008	2009	2010	2011	2012	2013	2014	2015 *	2016 **
	\$ 1.74	\$ 1.74	\$ 1.74	\$ 1.77	\$ 1.77	\$ 1.83	\$ 1.86	\$ 1.89	\$ 2.51	\$ 2.23
MWDOC Surcharge	-	-	-	0.28	0.28	0.39	0.51	0.62	-	0.04

Recycled Water Volumetric Charges - Irrigation (Non-Domestic/Blended Water) (per ccf)

	2007	2008	2009	2010	2011	2012	2013	2014	2015 *	2016 **
	\$ 1.74	\$ 1.74	\$ 1.74	\$ 1.77	\$ 1.77	\$ 1.79	\$ 1.82	\$ 1.85	\$ 2.47	\$ 2.24
MWDOC Surcharge				0.28	0.28	0.39	0.51	0.62	-	-

Recycled Water Volumetric Charges - Irrigation (Non-Domestic Water) (per ccf)

	2007	2008	2009	2010	2011	2012	2013	2014	2015 *	2016 **
	\$ 1.74	\$ 1.74	\$ 1.74	\$ 1.74	\$ 1.74	\$ 1.79	\$ 1.82	\$ 1.85	\$ 1.85	\$ 1.83

Wastewater Monthly Charge - Single Family and Multi-Family

	2007	2008	2009	2010	2011	2012	2013	2014	2015 *	2016 **
Fixed Base Charge (per meter)	\$ 8.25	\$ 8.25	\$ 8.25	\$ 8.72	\$ 8.72	\$ 8.99	\$ 9.13	\$ 9.26	\$ 12.92	\$ 20.30
Volumetric Charge (per ccf)	\$ 0.88	\$ 0.88	\$ 0.88	\$ 1.00	\$ 1.00	\$ 1.03	\$ 1.05	\$ 1.06	\$ 1.03	\$ 1.03

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

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 **
	\$ 28.06	\$ 28.06	\$ 28.06	\$ 31.26	\$ 31.26	\$ 32.20	\$ 32.75	\$ 33.23	\$ 41.57	\$ 45.04

* 2015 Rates effective March 10, 2015

** 2016 Rates effective January 1, 2016

Source: SMWD Water, Recycled Water & Wastewater Service Fees

Santa Margarita Water District
Ten Largest Water and Wastewater Customers

2016 Top Ten Water Customers			2007 Top Ten Water Customers		
Customer	Annual Revenue	% of Total	Customer	Annual Revenue	% of Total
1 LARMAC	\$ 1,500,752	4.8%	1 LARMAC	\$ 1,606,456	6.1%
2 CITY OF MISSION VIEJO	907,124	2.9%	2 CITY OF MISSION VIEJO	1,107,914	4.2%
3 CZ MASTER ASSOCIATION	785,125	2.5%	3 SAMLARC	1,005,643	3.8%
4 SAMLARC	759,133	2.5%	4 CZ MASTER ASSOCIATION	987,237	3.7%
5 CASTA DEL SOL HOA	630,698	2.0%	5 CASTA DEL SOL HOA	838,373	3.2%
6 TALEGA MAINT CORP	602,386	1.9%	6 TALEGA MAINTENANCE CORP	556,413	2.1%
7 COTO DE CAZA GOLF & RACQUET	513,261	1.7%	7 M.V. ENVIRONMENTAL ASSN	446,315	1.7%
8 LAPEYRE INDUSTRIAL SANDS	360,358	1.2%	8 COTO DE CAZA GOLF & RACQUET	403,325	1.5%
9 COLORSPOT NURSERIES	281,924	0.9%	9 OSO VALLEY GREENBELT ASSN	358,774	1.4%
10 M.V. ENVIRONMENTAL ASSN	270,934	0.9%	10 MBK HOMES (BRIAR ROSE)	354,286	1.3%
Total	\$ 6,611,695	21.3%	Total	\$ 7,664,737	29.0%
TOTAL WATER SALES	\$ 30,957,212		TOTAL WATER SALES	\$ 26,427,232	

Top Ten Wastewater Customers			Top Ten Wastewater Customers		
Customer	Annual Revenue	% of Total	Customer	Annual Revenue	% of Total
1 UDR/PACIFIC LOS ALISOS, L.P.	\$ 55,445	0.3%	1 VILLA LA PAZ	\$ 49,496	0.3%
2 SOUTH COUNTY APTS (TOWNSHIP)	41,080	0.2%	2 AVILA APARTMENTS	47,686	0.3%
3 VILLA LA PAZ	41,077	0.2%	3 ARCHSTONE COMMUNITIES	46,360	0.3%
4 WESTERN NATIONAL PROP.	37,380	0.2%	4 LADERA WNG, LLC	43,112	0.3%
5 22751 EL PRADO, LLC	35,315	0.2%	5 WESTERN NATIONAL PROP.	43,094	0.3%
6 AVALON BAY COMMUNITIES, INC.	34,969	0.2%	6 AVALON BAY COMMUNITIES, INC.	42,353	0.2%
7 IRVINE COMPANY	31,790	0.1%	7 SOUTH COUNTY APARTMENTS	31,003	0.2%
8 LADERA WNG, LLC	30,677	0.1%	8 EQUITY RESIDENTIAL PROPERTIES	30,657	0.2%
9 EQUITY RESIDENTIAL PROPERTIES	21,526	0.1%	9 CAPO U.S.D.	27,477	0.2%
10 BRE PROPERTIES INC	19,872	0.1%	10 BRE PROPERTIES INC	26,048	0.2%
Total	\$ 349,130	1.6%	Total	\$ 387,285	2.3%
TOTAL WASTEWATER SALES	\$ 21,473,415		TOTAL WASTEWATER SALES	\$ 17,059,141	

Data prior to 2007 is not available

Source: SMWD utility billing system

Santa Margarita Water District
Assessed Value and Assessment Rate by Improvement District

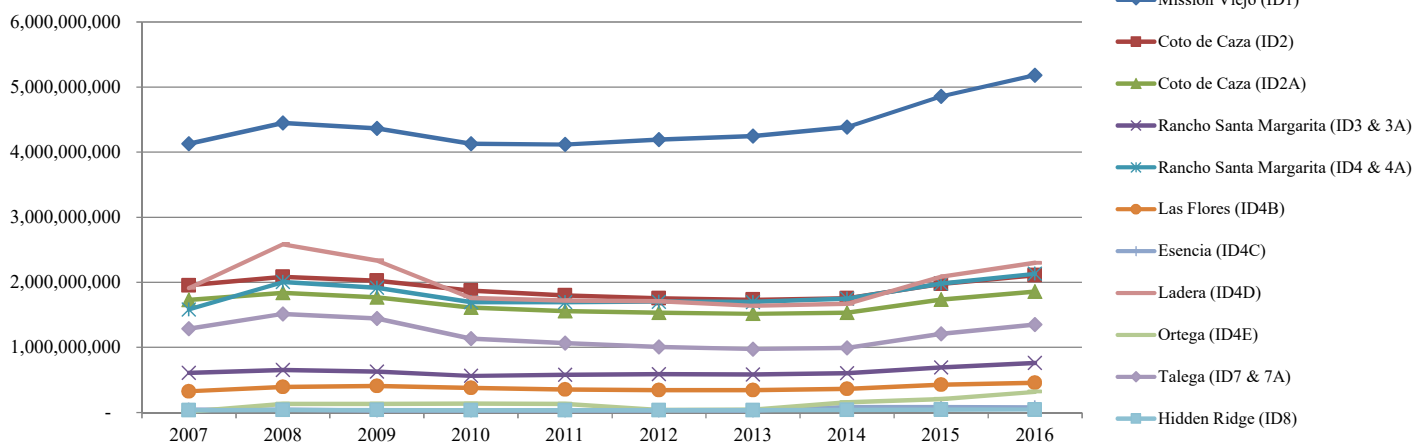
Assessed Value by Improvement District

Fiscal Year	Mission Viejo (ID1)	Coto de Caza (ID2)	Coto de Caza (ID2A)	Rancho Santa		Las Flores (ID4B)	Esencia (ID4C)	Ladera (ID4D)	Ortega (ID4E)	Talega (ID7 & 7A)	Hidden Ridge (ID8)
				Margarita (ID3 & 3A)	Margarita (ID4 & 4A)						
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
2015	4,858,429,328	1,974,367,170	1,736,599,316	690,726,758	1,978,850,692	428,287,773	83,039,022	2,089,347,724	205,352,480	1,209,751,858	42,333,665
2016	5,181,106,961	2,106,488,806	1,857,064,409	760,888,289	2,131,183,735	457,208,660	76,475,832	2,297,357,223	317,526,846	1,353,148,665	45,492,946

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

Fiscal Year	Mission Viejo (ID1)	Coto de Caza (ID2)	Coto de Caza (ID2A)	Rancho Santa		Las Flores (ID4B)	Esencia (ID4C)	Ladera (ID4D)	Ortega (ID4E)	Talega (ID7 & 7A)	Hidden Ridge (ID8)
				Margarita (ID3 & 3A)	Margarita (ID4 & 4A)						
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	0.6910	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	0.4076	0.2841	0.3591	1.1457	0.4070	0.1684	*	0.3017
2015	0.0000	0.0211	0.0000	0.3187	0.2193	0.2441	1.1571	0.0299	0.1323	*	0.0000
2016	0.0000	0.0211	0.0000	0.3013	0.3381	0.3369	0.3958	0.1216	0.1575	*	0.0000

Assessed Value by Improvement District



* ID-7 assessment rates are calculated for each individual parcel
Source: Benefit Analysis Study Fiscal Year 2015-2016

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

Overlapping District	FY 2016-17 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	\$112,727,311	\$163,578	0.1451%	\$92,865,000	\$134,756
County of Orange CFD No. 87-8	\$1,243,713	\$1,243,713	100.0000%	\$4,485,000	\$4,485,000
Capistrano Unified School District SFID No. 1 Series B and 2012 Refunding	\$4,521,097	\$101,493	2.2449%	\$27,212,966	\$610,899
				ESTIMATED SHARE OF OVERLAPPING DEBT	\$5,230,655
Santa Margarita Water District ID No. 2					\$5,645,000 [2]
Santa Margarita Water District ID No. 2A					\$155,000 [2]
				TOTAL DIRECT AND OVERLAPPING DEBT	\$11,030,655
				TOTAL LAND ASSESSED VALUE [3]	\$2,236,076,361
				VALUE-TO-LIEN RATIO	202.715

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

[1] Based on principal payments as of September 2, 2016. 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 2016-2017 land value provided by County of Orange Auditor-Controller.

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

Overlapping District	FY 2016-17 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	\$112,727,311	\$142,725	0.1266%	\$92,865,000	\$117,577
Santa Margarita Water District ID No. 2	\$453,924	\$399,700	88.0544%	\$5,645,000	\$4,970,674
County of Orange CFD No. 87-8	\$1,243,713	\$1,243,713	100.0000%	\$4,485,000	\$4,485,000
Capistrano Unified School District SFID No. 1 Series B and 2012 Refunding	\$4,521,097	\$51,267	1.1339%	\$27,212,966	\$308,580
				ESTIMATED SHARE OF OVERLAPPING DEBT	\$9,881,830
Santa Margarita Water District ID No. 2A					\$155,000 [2]
				TOTAL DIRECT AND OVERLAPPING DEBT	\$10,036,830
				TOTAL LAND ASSESSED VALUE [3]	\$1,968,964,693
				VALUE-TO-LIEN RATIO	196.174

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

[1] Based on principal payments as of September 2, 2016. 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 2016-2017 land value provided by County of Orange Auditor-Controller.

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

Overlapping District	FY 2016-17 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	\$112,727,311	\$52,532	0.0466%	\$92,865,000	\$43,276
County of Orange CFD No. 87-5B	\$983,124	\$182,268	18.5396%	\$1,833,317	\$339,891
County of Orange CFD No. 87-5C	\$668,790	\$668,790	100.0000%	\$2,120,000	\$2,120,000
County of Orange CFD No. 87-5D	\$550,903	\$550,903	100.0000%	\$1,700,000	\$1,700,000
Capistrano Unified School District SFID No. 1 Series B and 2012 Refunding	\$4,521,097	\$94	0.0021%	\$27,212,966	\$563
Saddleback Valley Unified School District G.O. Bond Series 2007 and 2016 Refunding	\$3,061,818	\$115,015	3.7564%	\$35,140,000	\$1,320,009
Saddleback Valley Unified School District G.O. Bond Series 2013 Refunding	\$5,256,818	\$197,469	3.7564%	\$65,760,000	\$2,470,230
Saddleback Valley Unified School District G.O. Bond Series 2013A	\$363,503	\$13,655	3.7564%	\$7,685,000	\$288,677
Saddleback Valley Unified School District G.O. Bond Series 2016A	\$713,026	\$26,784	3.7564%	\$10,000,000	\$375,640
Saddleback Valley Unified School District CFD No. 89-2	\$1,724,532	\$1,724,532	100.0000%	\$2,651,602	\$2,651,602
Saddleback Valley Unified School District CFD No. 89-3	\$1,205,177	\$1,205,177	100.0000%	\$1,518,718	\$1,518,718
WRCOG CA HERO Program	NA	NA	NA	NA	\$337,343
				ESTIMATED SHARE OF OVERLAPPING DEBT	\$13,165,948
Santa Margarita Water District ID No. 3/3A					\$10,860,000 [2]
				TOTAL DIRECT AND OVERLAPPING DEBT	\$24,025,948
				TOTAL LAND ASSESSED VALUE [3]	\$799,168,581
				VALUE-TO-LIEN RATIO	33.263

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, 2016. 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 2016-2017 land value provided by County of Orange Auditor-Controller.

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

Overlapping District	FY 2016-17 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	\$112,727,311	\$394,853	0.3503%	\$92,865,000	\$325,281
County of Orange CFD No. 86-1	\$2,132,349	\$2,132,349	100.0000%	\$2,650,000	\$2,650,000
County of Orange CFD No. 86-2	\$0	\$0	0.0000%	\$1,570,000	\$0
County of Orange CFD No. 87-5A	\$0	\$0	0.0000%	\$165,000	\$0
County of Orange CFD No. 87-5B	\$983,124	\$800,858	81.4605%	\$1,833,317	\$1,493,430
County of Orange CFD No. 87-5E	\$1,081,262	\$1,081,262	100.0000%	\$2,090,000	\$2,090,000
County of Orange CFD No. 99-1	\$1,583,923	\$1,583,923	100.0000%	\$17,005,000	\$17,005,000
County of Orange CFD No. 2000-1	\$1,973,102	\$1,973,102	100.0000%	\$22,030,000	\$22,030,000
County of Orange CFD No. 2001-1	\$2,183,482	\$2,183,482	100.0000%	\$26,505,000	\$26,505,000
County of Orange CFD No. 2002-1	\$4,144,666	\$4,144,666	100.0000%	\$54,040,000	\$54,040,000
County of Orange CFD No. 2003-1	\$3,234,582	\$3,234,582	100.0000%	\$44,340,000	\$44,340,000
County of Orange CFD No. 2004-1	\$4,652,347	\$4,652,347	100.0000%	\$63,955,000	\$63,955,000
County of Orange CFD No. 2015-1	\$4,843,802	\$4,843,802	100.0000%	\$89,730,000	\$89,730,000
Capistrano Unified School District CFD No. 92-1	\$2,183,767	\$2,183,767	100.0000%	\$10,040,000	\$10,040,000
Capistrano Unified School District CFD No. 98-2	\$8,276,620	\$8,276,620	100.0000%	\$101,679,482 [4]	\$101,679,482
Capistrano Unified School District SFID No. 1 Series B and 2012 Refunding	\$4,521,097	\$93,805	2.0748%	\$27,212,966	\$564,625
Saddleback Valley Unified School District G.O. Bond Series 2007 and 2016 Refunding	\$3,061,818	\$207,620	6.7809%	\$35,140,000	\$2,382,822
Saddleback Valley Unified School District G.O. Bond Series 2013 Refunding	\$5,256,818	\$356,462	6.7809%	\$65,760,000	\$4,459,150
Saddleback Valley Unified School District G.O. Bond Series 2013A	\$363,503	\$24,649	6.7809%	\$7,685,000	\$521,110
Saddleback Valley Unified School District G.O. Bond Series 2016A	\$713,026	\$48,350	6.7809%	\$10,000,000	\$678,094
Saddleback Valley Unified School District CFD No. 88-1	\$996,080	\$996,080	100.0000%	\$3,945,000	\$3,945,000
Santa Margarita Water District CFD No. 2013-1	\$3,477,795	\$3,477,795	100.0000%	\$56,980,000	\$56,980,000
WRCOG CA HERO Program	NA	NA	NA	NA	\$967,825
ESTIMATED SHARE OF OVERLAPPING DEBT					\$506,381,820
Santa Margarita Water District ID No. 4					\$56,250,000 [2]
Santa Margarita Water District ID No. 4A					\$10,285,000 [2]
Santa Margarita Water District ID No. 4B					\$18,510,000 [2]
TOTAL DIRECT AND OVERLAPPING DEBT					\$591,426,820
TOTAL LAND ASSESSED VALUE [3]					\$6,142,821,201
VALUE-TO-LIEN RATIO					10.386

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, 2016. 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 2016-2017 land value provided by County of Orange Auditor-Controller.

[4] Principal amount for the outstanding capital appreciation bonds determined by applying accreted value as of September 1, 2016.

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

Overlapping District	FY 2016-17 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	\$112,727,311	\$149,054	0.1322%	\$92,865,000	\$122,791
Santa Margarita Water District ID No. 4	\$9,881,669 [4]	\$4,270,451 [5]	43.2159%	\$56,250,000	\$24,308,940
County of Orange CFD No. 86-1	\$2,132,349	\$2,132,349	100.0000%	\$2,650,000	\$2,650,000
County of Orange CFD No. 86-2	\$0	\$0	0.0000%	\$1,570,000	\$0
County of Orange CFD No. 87-5A	\$0	\$0	0.0000%	\$165,000	\$0
County of Orange CFD No. 87-5B	\$983,124	\$800,858	81.4605%	\$1,833,317	\$1,493,430
County of Orange CFD No. 87-5E	\$1,081,262	\$1,081,262	100.0000%	\$2,090,000	\$2,090,000
Capistrano Unified School District SFID No. 1 Series B and 2012 Refunding	\$4,521,097	\$21,836	0.4830%	\$27,212,966	\$131,431
Saddleback Valley Unified School District G.O. Bond Series 2007 and 2016 Refunding	\$3,061,818	\$207,620	6.7809%	\$35,140,000	\$2,382,822
Saddleback Valley Unified School District G.O. Bond Series 2013 Refunding	\$5,256,818	\$356,462	6.7809%	\$65,760,000	\$4,459,150
Saddleback Valley Unified School District G.O. Bond Series 2013A	\$363,503	\$24,649	6.7809%	\$7,685,000	\$521,110
Saddleback Valley Unified School District G.O. Bond Series 2016A	\$713,026	\$48,350	6.7809%	\$10,000,000	\$678,094
Saddleback Valley Unified School District CFD No. 88-1	\$996,080	\$996,080	100.0000%	\$3,945,000	\$3,945,000
WRCOG CA HERO Program	NA	NA	NA	NA	\$967,825
				ESTIMATED SHARE OF OVERLAPPING DEBT	\$43,750,594
Santa Margarita Water District ID No. 4A					\$10,285,000 [2]
				TOTAL DIRECT AND OVERLAPPING DEBT	\$54,035,594
				TOTAL LAND ASSESSED VALUE [3]	\$2,278,789,469
				VALUE-TO-LIEN RATIO	42.172

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, 2016. 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 2016-2017 land value provided by County of Orange Auditor-Controller.

[4] Includes FY 2016-2017 levy for ID 4, 4A, 4B, 4C, and 4E attributable to ID 4 debt only.

[5] Based on FY 2016-2017 ID 4 rate of \$0.1074/\$100 and ID 4A rate of \$0.080/\$100 attributable to ID 4 debt only.

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

Overlapping District	FY 2016-17 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	\$112,727,311	\$240,764	0.2136%	\$92,865,000	\$198,342
Santa Margarita Water District ID No. 4	\$9,881,669 [4]	\$4,821,592 [5]	48.7933%	\$56,250,000	\$27,446,226
County of Orange CFD No. 99-1	\$1,583,923	\$1,583,923	100.0000%	\$17,005,000	\$17,005,000
County of Orange CFD No. 2000-1	\$1,973,102	\$1,973,102	100.0000%	\$22,030,000	\$22,030,000
County of Orange CFD No. 2001-1	\$2,183,482	\$2,183,482	100.0000%	\$26,505,000	\$26,505,000
County of Orange CFD No. 2002-1	\$4,144,666	\$4,144,666	100.0000%	\$54,040,000	\$54,040,000
County of Orange CFD No. 2003-1	\$3,234,582	\$3,234,582	100.0000%	\$44,340,000	\$44,340,000
County of Orange CFD No. 2004-1	\$4,652,347	\$4,652,347	100.0000%	\$63,955,000	\$63,955,000
Capistrano Unified School District CFD No. 92-1	\$2,183,767	\$2,183,767	100.0000%	\$10,040,000	\$10,040,000
Capistrano Unified School District CFD No. 98-2	\$8,276,620	\$8,276,620	100.0000%	\$101,679,482 [7]	\$101,679,482
Capistrano Unified School District SFID No. 1 Series B and 2012 Refunding	\$4,521,097	\$59,601	1.3183%	\$27,212,966	\$358,743
Santa Margarita Water District CFD No. 2013-1	\$3,477,795	\$3,477,795	100.0000%	\$56,980,000	\$56,980,000
				ESTIMATED SHARE OF OVERLAPPING DEBT	\$424,577,793
Santa Margarita Water District ID No. 4B					\$18,510,000 [2]
				TOTAL DIRECT AND OVERLAPPING DEBT	\$443,087,793
				TOTAL LAND ASSESSED VALUE [3]	\$3,257,571,226
				VALUE-TO-LIEN RATIO	7.352

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

[1] Based on principal payments as of September 2, 2016. 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 2016-2017 land value provided by County of Orange Auditor-Controller. Includes land value for property in ID 4B, ID 4D, and ID 4E.

[4] Includes FY 2016-2017 levy for ID 4, 4A, 4B, 4C, and 4E attributable to ID 4 debt only.

[5] Based on FY 2016-2017 ID 4 rate of \$0.1074/\$100 for property in ID 4B, ID 4D, and ID 4E. Also includes ID 4B rate of \$0.2311/\$100, ID 4D rate of \$0.0000/\$100, and ID 4E rate of \$0.0604/\$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).

[7] Principal amount for the outstanding capital appreciation bonds determined by applying accreted value as of September 1, 2016.

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

Overlapping District	FY 2016-2017 Total Levy	Amount of Levy on Parcels in District	Percent of Levy on Parcels in District	Total Debt Outstanding [1]	District Share of Total Debt Outstanding
Capistrano Unified School District CFD No. 90-2	\$2,576,325	\$2,576,325	100.0000%	\$33,020,000	\$33,020,000
Capistrano Unified School District CFD No. 90-2 IA No. 2002-1	\$3,500,170	\$3,500,170	100.0000%	\$39,590,000	\$39,590,000
Metropolitan Water District	\$112,727,311	\$104,740	0.0929%	\$92,865,000	\$86,285
WRCOG CA HERO Program [3]	NA	NA	NA	NA	\$378,720
CSCDA CaliforniaFIRST Program [4]	NA	NA	NA	NA	\$38,079
Estimated Share of Overlapping Debt Allocable to the District					\$73,113,084
Plus CFD No. 99-1 Refunding Bonds Series 2007 [2]					\$49,405,000
Plus CFD No. 99-1 Refunding Bonds Series 2014 [2]					\$29,600,000
Estimated Share of Direct and Overlapping Debt Allocable to the District					\$152,118,084

[1] As of September 2, 2016.

[2] As of September 2, 2016. Reflects bond call of \$2,885,000 on September 1, 2015.

[3] The WRCOG CA HERO Program is a Property Assessed Clean Energy (PACE) program under AB 811. A total of 11 property owners are participating in the program as of June 30, 2016.

[4] The CSCDA CaliforniaFIRST Program is a Property Assessed Clean Energy (PACE) program under AB 811. One property owner is participating in the program as of June 30, 2016

Santa Margarita Water District
Debt Service Coverate Ratio

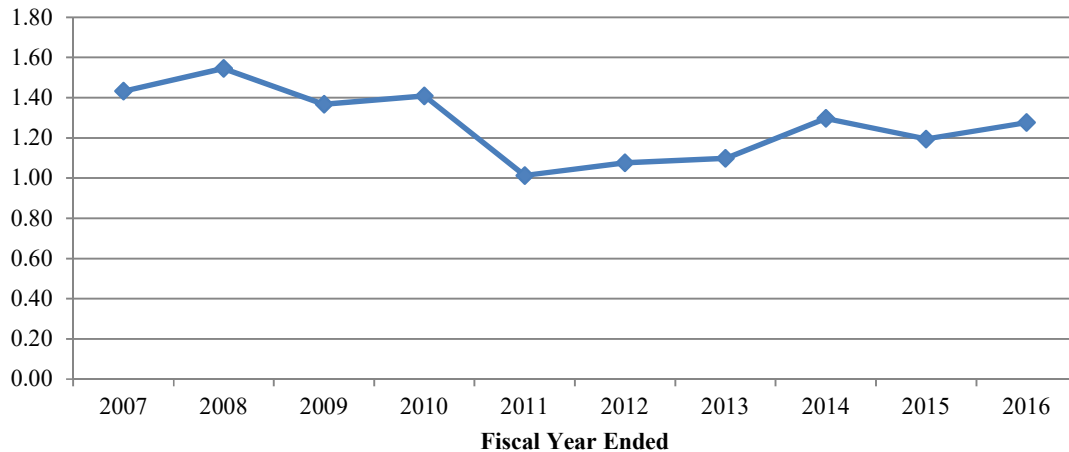
Annual Debt Service

Fiscal Year	Total Revenues [1]	Operating Expenses [2]	Net Available Revenues	Principal	Interest	Total	Coverage Ratio
2007	87,706,065	47,274,180	40,431,885	11,247,461	16,972,117	28,219,578	1.43
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	93,853,951	52,062,726	41,791,225	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	85,748,400	54,375,178	31,373,222	15,601,752	13,555,395	29,157,147	1.08
2013	90,995,918	57,767,477	33,228,441	15,803,677	14,450,735	30,254,412	1.10
2014	103,974,919	63,141,163	40,833,756	17,817,278	13,673,314	31,490,592	1.30
2015	95,753,157	59,586,454	36,166,703	17,461,497	12,820,879	30,282,376	1.19
2016	102,170,675	61,412,173	40,758,502	19,836,201	12,086,829	31,923,030	1.28

[1] Total Revenues includes total operating revenues, ad-valorem tax receipts, investment income, capacity lease revenue, connection fees, rental income and other non-operating income

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

Debt Service Coverage Ratio



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
2007	\$ 189,710,000	\$ 103,035,000	\$ 12,664,857	\$ 3,996,426	\$ 309,406,283
2008	179,610,000	102,285,000	13,348,472	3,416,229	298,659,701
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	158,521,091	96,210,000	11,150,200	-	265,881,291
2014	144,091,634	151,130,000	10,383,922	-	305,605,556
2015	126,973,190	147,827,394	9,597,425	-	284,398,009
2016	111,822,909	141,615,877	8,791,224	-	262,230,010

Final payment for the El Toro R-6 Reservoir was in Fiscal Year 2012.

Increase in CFD Bonds in 2014 is due to the issuance of the 2013-1 CFD Bonds.

Decrease in General Obligation Bonds in 2015 is due to a bond refinancing and issuance of the 2014 Refunding Bonds Series A and Series B.

Source: SMWD financial statements

Santa Margarita Water District
Outstanding Debt Ratios

Fiscal Year	Total Outstanding Debt	Taxable Assessed Valuation	Percentage of Assessed Valuation to Debt	Total Water Connections	Outstanding Debt per Water Connection	Debt Service Per Capita
2007	\$ 309,406,283	\$ 13,619,356,231	2.27%	51,716	\$ 5,983	\$ 2,119
2008	298,659,701	15,730,166,207	1.90%	51,934	5,751	2,014
2009	326,393,931	15,085,699,099	2.16%	52,018	6,275	2,187
2010	309,445,263	13,342,409,282	2.32%	52,050	5,945	2,069
2011	294,231,334	13,085,934,962	2.25%	52,072	5,650	1,961
2012	279,840,001	12,931,477,373	2.16%	52,105	5,371	1,856
2013	265,881,291	12,845,128,419	2.07%	52,203	5,093	1,756
2014	305,605,556	13,331,122,822	2.29%	52,834	5,784	2,007
2015	284,398,009	15,297,085,786	1.86%	53,266	5,339	1,854
2016	262,230,010	16,583,942,372	1.58%	53,675	4,886	1,671

Fiscal Year	Amount Levied	Amount Collected [1]	Percent Collected
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	35,845,766	98.4%
2015	34,428,547	33,763,411	98.1%
2016	37,390,900	36,552,630	97.8%

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 and adjustments for comparison purposes

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

Santa Margarita Water District
Demographic and Economic Information

Fiscal Year Ended	SMWD Population	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) [1]	Per Capita Personal Income [1]	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	133,031,819	44,453	3.8%
2006	146,047	48,969	31.9	98,165	38.1	66,077	38.0	143,949,044	48,209	3.4%
2007	148,317	49,306	31.9	98,030	38.4	66,833	38.0	153,446,600	49,529	3.8%
2008	149,214	49,501	31.9	99,781	39.6	67,549	38.0	155,068,400	49,681	5.7%
2009	149,533	49,643	31.9	100,122	40.5	68,234	40.0	148,372,600	47,267	9.6%
2010	150,043	49,945	32.7	93,297	40.8	68,763	39.0	153,098,600	48,350	9.6%
2011	150,762	48,278	33.5	93,483	41.5	63,743	39.0	159,007,100	52,822	8.6%
2012	151,411	48,079	34.1	94,196	41.6	64,208	39.0	166,345,500	54,436	7.7%
2013	152,245	48,550	34.6	94,824	42.0	64,542	40.0	168,966,400	54,827	6.2%
2014	153,385	48,834	34.7	95,334	42.0	64,874	40.0	177,412,900	56,973	5.4%
2015	156,949	48,823	35.2	96,652	43.0	65,399	40.0	185,500,000	58,933	4.4%

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

* Data is not available

2016 data was not available at the time the report was prepared

[1] Personal income information is not available by city

Sources:

County of Orange

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
Principal Employers
(Current and Nine Years Ago)

Employer	2015		2006	
	Number of Employees	Percentage of Employment	Number of Employees	Percentage of Employment
City of Rancho Santa Margarita				
Applied Medical	2,500	7.98%	1,200	4.11%
Cox Communications	1,200	3.83%	985	3.37%
O'Connell Landscape	980	3.13%	1,100	3.77%
Saddleback Valley School District	606	1.93%	572	1.96%
Lucas & Mercier Construction	553	1.77%	567	1.94%
Control Components Inc.	370	1.18%	370	1.27%
Target Corporation	247	0.79%	230	0.79%
Car Sound Exhaust System Inc.	207	0.66%	210	0.72%
Capistrano Unified School District	215	0.69%	200	0.68%
Santa Margarita Catholic H.S.	211	0.67%	200	0.68%
PADI	200	0.64%	200	0.68%
	7,289	23.27%	5,834	20.0%
City of Mission Viejo				
Mission Hospital Regional Medical Center	2,443	4.83%	1349	2.50%
Saddleback College	1,748	3.45%	2130	3.94%
Saddleback Valley Unified School District	1,208	2.39%	640	1.19%
Capistrano Unified School District	695	1.37%	n/a	n/a
Nordstrom	400	0.79%	300	0.56%
Target Corporation	305	0.60%	n/a	n/a
City of Mission Viejo	257	0.51%	475	0.88%
Macy's Department Store	250	0.49%	n/a	n/a
Vocational Visions	215	0.42%	n/a	n/a
U.S. Post Office	202	0.40%	249	0.46%
Unisys Corporation	n/a	n/a	1000	1.85%
Coldwell Banker	n/a	n/a	410	0.76%
Quest Diagnostics	n/a	n/a	300	0.56%
Bristol Farms	n/a	n/a	250	0.46%
	7,723	15.25%	7,103	13.15%
City of San Clemente				
Capistrano Unified School District	554	1.73%	n/a	n/a
Walmart	252	0.79%	235	0.83%
Ralphs	225	0.70%	n/a	n/a
Saddleback Memorial Medical Center	207	0.65%	320	1.13%
City of San Clemente	192	0.60%	191	0.67%
Target Retail Store	180	0.56%	n/a	n/a
Fisherman's Restaurant	175	0.55%	195	0.69%
US Post Office	150	0.47%	n/a	n/a
Lowe's Home Improvement	147	0.46%	n/a	n/a
ICU Medical	130	0.41%	604	2.13%
Don Roberto Jewelers	n/a	n/a	550	1.94%
San Juan Capistrano Fiesta	n/a	n/a	265	0.93%
Campus Crusade for Christ	n/a	n/a	210	0.74%
Inspirational Films	n/a	n/a	180	0.63%
Albertson's Grocery	n/a	n/a	110	0.39%
	2,212	6.92%	2,860	10.1%

Sources: City of Rancho Santa Margarita CAFR, City of Mission Viejo CAFR, City of San Clemente CAFR

FY 2015 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 from 2016 was not available at time of preparation of this report

Santa Margarita Water District
Water and Wastewater Connections

Water Connections by Customer Class

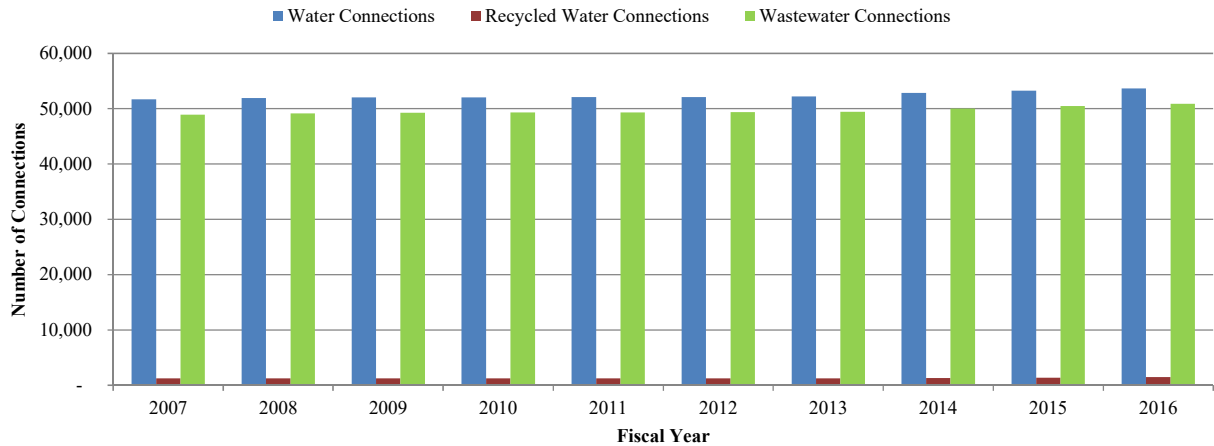
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Commercial	2,131	2,146	2,155	2,157	2,157	2,162	2,169	2,205	2,212	2,225
Domestic Irrigation	1,494	1,494	1,496	1,488	1,483	1,484	1,486	1,495	1,498	1,435
Construction	57	37	26	21	26	35	42	46	39	44
Lakefill	2	2	2	2	2	2	2	2	2	2
Residential Single Family	35,303	35,512	35,593	35,637	35,659	35,676	35,715	36,022	36,138	36,299
Residential Multi Family	12,729	12,743	12,746	12,745	12,745	12,746	12,789	13,064	13,377	13,670
Total Water Connections	51,716	51,934	52,018	52,050	52,072	52,105	52,203	52,834	53,266	53,675

Recycled Water Connections by Customer Class

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Non-domestic Irrigation	1,204	1,210	1,213	1,214	1,219	1,218	1,257	1,283	1,318	1,416
Commercial	5	5	5	5	5	5	5	7	8	9
Construction								5	27	37
Total Recycled Water Connections	1,209	1,215	1,218	1,219	1,224	1,223	1,262	1,295	1,353	1,462

Wastewater Connections by Customer Class

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Commercial	912	923	929	930	934	939	938	948	993	903
Residential Single Family	35,294	35,503	35,583	35,627	35,653	35,670	35,709	36,016	36,132	36,292
Residential Multi Family	12,729	12,743	12,746	12,745	12,745	12,746	12,789	13,064	13,377	13,670
Total Wastewater Connections	48,935	49,169	49,258	49,302	49,332	49,355	49,436	50,028	50,502	50,865



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Water Revenue per										
Water Connection	\$ 534	\$ 509	\$ 489	\$ 550	\$ 529	\$ 571	\$ 633	\$ 686	\$ 642	\$ 577
Recycled Revenue per										
Recycled Connection	\$ 5,427	\$ 4,972	\$ 4,672	\$ 4,450	\$ 3,652	\$ 4,144	\$ 4,773	\$ 5,351	\$ 5,336	\$ 4,938
Wastewater Revenue per										
Wastewater Connection	\$ 227	\$ 224	\$ 223	\$ 229	\$ 226	\$ 232	\$ 237	\$ 242	\$ 243	\$ 223

Source: SMWD utility billing system

Santa Margarita Water District
Capital Asset Statistics

Fiscal Years Ended

	2010	2011	2012	2013	2014	2015	2016
Domestic System							
Miles of Water Mains	595	595	595	595	595	615	615
Maximum Storage Capacity (Acre-feet)	927	1,197	1,197	1,197	1,197	1,210	1210
Number of Storage Tanks	31	32	32	32	32	33	33
Number of Pump Stations	20	21	21	21	21	21	21
Non-Domestic System							
Miles of Water Mains	116	116	116	116	116	125	125
Number of Storage Tanks	6	6	6	6	6	7	7
Number of Open Reservoirs	2	2	2	2	2	2	2
Maximum Storage Capacity (Acre-feet)	4,535	4,535	4,535	4,535	4,535	4,547	4547
Number of Pump Stations	12	12	12	12	12	13	14
Sewer System							
Miles of Sewer Line	605	605	605	605	605	620	620
Number of Lift Stations	17	17	17	17	17	19	19
Treatment Plants	2	2	2	2	2	2	2
Treatment Capacity (MGD)	9	9	9	9	9	9	9
Average Flows (MGD)	8.4	8.3	8.1	8.1	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

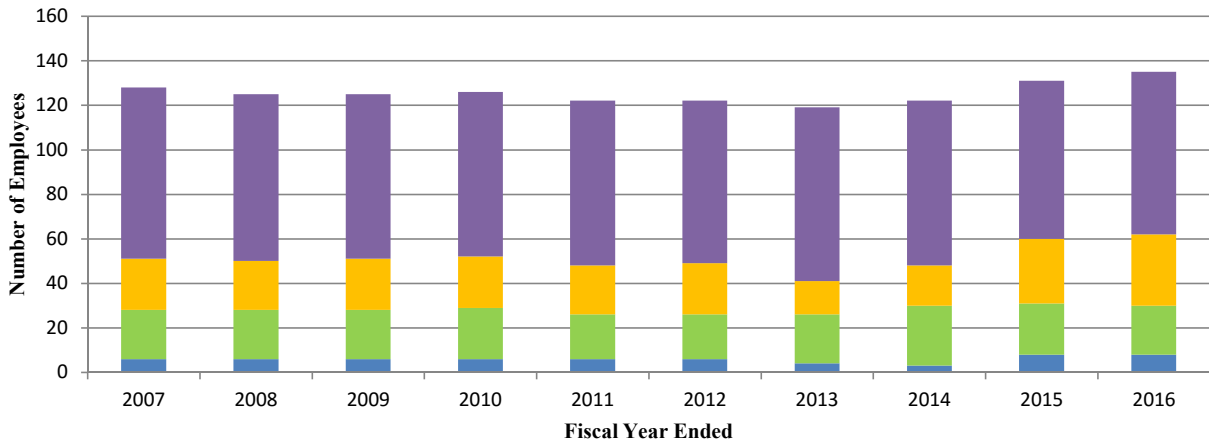
Information prior to FY2010 is not available

Source: SMWD Engineering and Operations Departments

Santa Margarita Water District
Employee Information

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Administration	6	6	6	6	6	6	4	3	8	8
Finance	22	22	22	23	20	20	22	27	23	22
Engineering	23	22	23	23	22	23	15	18	29	32
Operations	77	75	74	74	74	73	78	74	71	73
Total	128	125	125	126	122	122	119	122	131	135

Number of Employees by Department



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Water Connections per Employee	404	416	416	413	427	427	239	433	407	398
Recycled Water Connections per Employee	9	10	10	10	10	10	11	11	10	11
Wastewater Connections per Employee	382	393	394	391	404	405	415	410	386	377
Total Revenues per employee	\$ 700,603	\$ 750,832	\$ 670,922	\$ 680,543	\$ 745,868	\$ 852,253	\$ 804,648	\$ 837,465	\$ 730,940	\$ 756,820

Excludes the elected Board of Directors

Source: SMWD payroll records



Santa Margarita Water District

Board of Directors

Charley Wilson
President

Charles T. Gibson
Vice President

Betty Olson, Ph.D.
Director

Sandra F. Jacobs
Director

Justin McCusker
Director

Daniel R. Feron
General Manager

26111 Antonio Parkway
Rancho Santa Margarita, California 92688
949.459.6420 www.smwd.com