

# **Santa Margarita / Dana Point Authority**

## **Annual Financial Report**

**For the Fiscal Year Ended June 30, 2015**

## Table of Contents

Independent Auditor's Report	1-2
Basic Financial Statements:	
Statement of Net Position	3
Statement of Revenues, Expenses and Changes in Net Position	4
Statement of Cash Flows	5
Notes to the Basic Financial Statements	6 -11



RSM US LLP

## Independent Auditor's Report

To the Board of Directors  
Santa Margarita/Dana Point Authority  
Rancho Santa Margarita, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the Santa Margarita/Dana Point Authority (the Authority), which comprise the statement of net position as of June 30, 2015; the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended; and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Santa Margarita/Dana Point Authority as of June 30, 2015, 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*

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

*RSM US LLP*

Irvine, California  
January 4, 2016

# **Basic Financial Statements and Accompanying Notes**

**SANTA MARGARITA/DANA POINT AUTHORITY**  
**Statement of Net Position**  
**As of June 30, 2015**

**ASSETS:**

**Current Assets:**

Accrued interest receivable	\$ 2,307,100
Due from Santa Margarita Water District - due within one year (Note 2)	13,200,000
<b>Total Current Assets</b>	<b><u>15,507,100</u></b>

**Non-current Assets:**

Due from Santa Margarita Water District - due in more than one year (Note 2)	106,070,000
<b>Total Non-current Assets</b>	<b><u>106,070,000</u></b>

<b>Total Assets</b>	<b><u>121,577,100</u></b>
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**LIABILITIES:**

**Current Liabilities:**

Accrued interest payable	2,307,100
Bonds payable - due within one year (Note 3)	13,200,000
<b>Total Current Liabilities</b>	<b><u>15,507,100</u></b>

**Non-current Liabilities:**

Bonds payable - due in more than one year (Note 3)	106,070,000
<b>Total Non-current Liabilities</b>	<b><u>106,070,000</u></b>

<b>Total Liabilities</b>	<b><u>121,577,100</u></b>
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Commitments and contingencies (Notes 3-5)

**NET POSITION:**

Unrestricted	-
<b>Total Net Position</b>	<b><u>\$ -</u></b>

See accompanying notes to the basic financial statements.

**SANTA MARGARITA/DANA POINT AUTHORITY**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**For the Year Ended June 30, 2015**

**OPERATING REVENUES:**

Special assessment tax revenues from Santa Margarita Water District	\$ 5,903,901
<b>Total Operating Revenues</b>	<u><b>5,903,901</b></u>

**OPERATING EXPENSES:**

Interest Expense	5,903,901
<b>Total Operating Expenses</b>	<u><b>5,903,901</b></u>

<b>Operating income</b>	-
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<b>Change in net position</b>	<u>-</u>
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Net position, beginning of year	-
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<b>Net position, end of year</b>	<u><u><b>\$ -</b></u></u>
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See accompanying notes to the basic financial statements.

**SANTA MARGARITA/DANA POINT AUTHORITY**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2015**

**Cash flows from operating activities:**

Cash receipts from special assessment tax revenues for debt and interest payments	\$ 29,388,109
Proceeds from bond issuance	65,340,000
Payment for refunding bonds	(74,425,000)
Cash payment of debt principal	(13,765,000)
Cash payment of interest on debt	(6,538,109)
Net cash provided by (used in) operating activities	-

Net increase (decrease) in cash and cash equivalents -

Cash and cash equivalents, beginning of year -

Cash and cash equivalents, end of year \$ -

**Reconciliation of operating income to net cash provided by operating activities:**

Operating income \$ -

**Adjustments to reconcile operating loss to net cash provided by operating activities:**

**Change in assets and liabilities:**

Decrease in assets:	
Accrued Interest Receivable	634,208
Due from Santa Margarita Water District	22,850,000
 (Decrease) in liabilities:	
Accrued interest payable	(634,208)
Bonds payable	(22,850,000)
Total adjustments	-
Net cash provided by operating activities	\$ -

See accompanying notes to the basic financial statements.



**Santa Margarita/Dana Point Authority**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2015**

**1. Reporting Entity and Summary of Significant Accounting Policies**

Organization

The Santa Margarita/Dana Point Authority (Authority) is a public entity created for the joint exercise of common powers pursuant to a Joint Exercise of Powers Agreement dated August 25, 1987, by and between the Santa Margarita Water District (SMWD) and the Dana Point Sanitary District (DPSD) (collectively, the Members) under the powers granted such Members pursuant to Sections 6500 et seq., Title 1, Division 7 Chapter 5, Article 1 of the California Government Code. Effective January 1, 1999, DPSD was dissolved and the South Coast Water District (SCWD) became the successor entity. The Authority is a joint venture of SMWD and SCWD.

The Authority was created for the primary purpose of selling bonds to finance the acquisition of capacity in the Jay B. Latham treatment plant. Financing for the acquisition of such capacity is provided from the proceeds of the bonds and monies as provided by SCWD.

The powers and functions of the Authority are exercised by the Board of Directors, of which two Directors may be appointed by the Board of Directors of SMWD and three Directors may be appointed by the Board of Directors of SCWD. Currently, each Member appoints two Directors to serve on the Authority's Board of Directors. Each Director holds office until a successor is removed at any time, with or without cause, at the sole discretion of such legislative body. A unanimous decision of the Authority's Board of Directors is required to approve the general budget and maintenance and operation budgets. Expenditures in excess of the approved budget must be approved by the Member affected by the requested budget change.

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 Authority is the primary governmental unit based on the foundation of a separate governing board that is elected by the voters in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government unit are financially accountable. The Authority 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 Authority'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 Authority 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 exchange transactions associated with the principal activity of the Authority. Exchange transactions are those in which each party receives and gives up essentially equal values. The Authority recognizes revenues from interest earnings when they are earned and considers interest earned to be operating revenue. Interest expense is considered an operating expense.

**Santa Margarita/Dana Point Authority**  
***Notes to the Basic Financial Statements***  
**For the Year Ended June 30, 2015**

**1. Reporting Entity and 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.

Economic Dependence

The Authority provides financial assistance to its Members for the primary purpose of acquiring wastewater treatment capacity in the Jay B. Latham treatment plant for ultimate sale to SCWD. Financing for the acquisition of such capacity is provided from the proceeds of the bonds and monies as provided by SCWD.

Income Taxes

As a governmental entity, the Authority is exempt from income taxation under provisions of the Internal Revenue Code and related state statutes; accordingly, no provision for income taxes has been provided in the financial statements.

Net Position

The financial statements utilize a net position presentation. Net position consists of the difference between assets and liabilities. Unrestricted net position is the net amount of the assets and liabilities that are not included in the determination of the net investment in capital assets or restricted net position.

New Accounting Pronouncements

The GASB has issued pronouncements that will impact future financial presentations. Management has not currently determined the specific amounts or impact, if any, of the newly issued pronouncements.

GASB No. 76, The Hierarchy of General Accepted Accounting Principles for State and Local Governments fiscal year ending June 30, 2016.

**Santa Margarita/Dana Point Authority**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2015**

**2. Due from Santa Margarita Water District**

The SMWD places a special assessment levy annually on property tax bills for property tax owners in improvement districts in order to yield an amount equal to the principal and interest on the long-term debt due in the ensuing year. Interest has been imputed on the amount receivable in an amount equal to the interest payable on long-term debt.

Amounts due from SMWD and changes for the principle portion of the debt service for the year ended June 30, 2015 are as follows:

	<u>Balance at June 30, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2015</u>	<u>Amount Due Within One Year</u>	<u>Amount Due Beyond One Year</u>
Due from SMWD	\$142,120,000	\$65,340,000	\$(88,190,000)	\$119,270,000	\$13,200,000	\$106,070,000

Anticipated future receipts from SMWD for bond principle and interest payments are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 13,200,000	\$ 5,302,752	\$ 18,502,752
2017	14,245,000	4,795,290	19,040,290
2018	15,185,000	4,154,715	19,339,715
2019	15,940,000	3,414,690	19,354,690
2020	11,565,000	2,750,765	14,315,765
2021-2025	18,775,000	8,932,515	27,707,515
2026-2030	9,980,000	6,418,745	16,398,745
2031-2035	11,220,000	3,691,565	14,911,565
2036-2039	9,160,000	969,186	10,129,186
Total	\$ 119,270,000	\$ 40,430,223	\$ 159,700,223
Current	13,200,000		
Long-term	\$ 106,070,000		

**Santa Margarita/Dana Point Authority**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2015**

**3. Long-Term Liabilities**

Long-term liabilities and changes for the year ended June 30, 2015 are as follows:

	<u>Balance at June 30, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2015</u>	<u>Amount Due Within One Year</u>	<u>Amount Due Beyond One Year</u>
General Obligation Bonds Payable:						
1994 Series A	\$ 115,000	\$ -	\$ (115,000)	\$ -	\$ -	\$ -
1994 Series B	8,180,000	-	(8,180,000)	-	-	-
2003 Bonds	12,340,000	-	(12,340,000)	-	-	-
2004 Bonds	62,770,000	-	(62,770,000)	-	-	-
2009 Series A	35,710,000	-	(750,000)	34,960,000	780,000	34,180,000
2009 Series B	23,005,000	-	(4,035,000)	18,970,000	4,310,000	14,660,000
2014 Series A	-	65,340,000	-	65,340,000	8,110,000	57,230,000
Total Bonds Payable	<u>\$142,120,000</u>	<u>\$65,340,000</u>	<u>\$(88,190,000)</u>	<u>\$119,270,000</u>	<u>\$13,200,000</u>	<u>\$106,070,000</u>

***1994 General Obligation Bonds – Series A & B***

In 1994, the Authority issued \$55,415,000 of Consolidated Refunding General Obligation Water Bonds – Series A with an interest rate of 4.25% to 9.50% that mature annually on August 1 from 1995 to 2015. The bonds were issued to refund certain general obligation bond issues by SMWD. In 1994, the Authority issued \$55,250,000 of Consolidated Refunding General Obligation Water Bonds – Series B with an interest rate of 7.25% that mature annually on August 1 from 1995 to 2015. The 1994 Series B Bonds refunded the certain general obligation bond issues by SMWD.

Principal and interest payments on the 1994 Revenue Bonds are payable from, and secured by a pledge of all amounts received from SMWD, in connection with the Authority's investment in the 1994 SMWD Refunding Bonds. During the fiscal year ended June 30, 2015, these bonds were paid off in full.

***2003 General Obligation Bonds***

In 2003, the Authority issued \$18,225,000 of Consolidated Revenue Bonds with an interest rate of 1.05% to 4.75% that mature annually on August 1 from 2004 to 2017 and 2004 to 2032. The bonds were issued to refund certain general obligation bond issues by SMWD.

Principal and interest payments for the 2003 bonds are payable from, and secured by, a pledge of all amounts received from SMWD, in connection with the Authority's investment in the 2003 Bonds. During the fiscal year ended June 30, 2015, these bonds were refunded and paid off in full with the issuance of the 2014 Refunding General Obligation Bonds Series A.

**Santa Margarita/Dana Point Authority**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2015**

**3. Long-Term Liabilities, (Continued)**

***2004 General Obligation Bonds***

In 2004, the Authority issued \$62,770,000 of Consolidated Refunding General Obligation Water Bonds with an interest rate of 5.00% that matures annually on August 1 from 2005 to 2020. The bonds were issued to partially redeem the Authority's Revenue Bonds, Series 1994B.

Principal and interest payments for the 2004 bonds are payable from, and secured by, a pledge of all amounts received from SMWD, in connection with the Authority's investment in the 2004 SMWD Bonds. During the fiscal year ended June 30, 2015, these bonds were refunded and paid off in full with the issuance of the 2014 Refunding General Obligation Bonds Series A.

***2009 General Obligation Bonds Series A & B***

In 2009, the Authority 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. In 2009, the Authority 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.

Principal and interest payments for the 2009 bonds are payable from, and secured by, a pledge of all amounts received from SMWD, in connection with the Authority's investment in the 2009 Bonds. As additional security for the repayment of the bonds, the Authority 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. As of June 30, 2015, the outstanding balances were \$34,960,000 and \$18,970,000, for the 2009 Series A and 2009 Series B, respectively.

***2014 Refunding General Obligation Bonds Series A***

In July 2014 the Authority 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, which had an interest rate of 1.05% to 5.00%. The final maturity date remains the same, at August 1, 2032.

Principal and interest payments on the 2014 Bonds are payable from, and secured by a pledge of all amounts received from SMWD, in connection with the Authority's investment in the 2014 SMWD Refunding Bonds. As of June 30, 2015, the outstanding balance was \$65,340,000.

**Santa Margarita/Dana Point Authority**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2015**

**3. Long-Term Liabilities, (Continued)**

Anticipated future payments for general obligation bonds payable are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 13,200,000	\$ 5,302,752	\$ 18,502,752
2017	14,245,000	4,795,290	19,040,290
2018	15,185,000	4,154,715	19,339,715
2019	15,940,000	3,414,690	19,354,690
2020	11,565,000	2,750,765	14,315,765
2021-2025	18,775,000	8,932,515	27,707,515
2026-2030	9,980,000	6,418,745	16,398,745
2031-2035	11,220,000	3,691,565	14,911,565
2036-2039	9,160,000	969,186	10,129,186
Total	<u>\$ 119,270,000</u>	<u>\$ 40,430,223</u>	<u>\$ 159,700,223</u>
Current	<u>13,200,000</u>		
Long-term	<u>\$ 106,070,000</u>		

**4. Contingencies**

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