

Santiago Aqueduct Commission

Financial Statements

Fiscal Year Ended June 30, 2015

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Board of Directors
Santiago Aqueduct Commission
Irvine, California

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of the Santiago Aqueduct Commission (SAC), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise SAC'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 respective financial position of SAC as of June 30, 2015, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2016 on our consideration of SAC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.



Irvine, California
March 11, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the financial performance of the Santiago Aqueduct Commission (SAC) provides an overview of SAC's financial activities for the fiscal year ended June 30, 2015. This section should be read in conjunction with the basic financial statements and notes to the basic financial statements, which follow this analysis.

Financial Highlights:

- Total assets exceeded total liabilities by \$436,857 (net position), representing \$66,310 in net investment in capital assets and \$370,547 unrestricted for water services.
- Total current assets are \$1,055,134 representing \$406,260 in cash and \$263,510 in investments (LAIF), and \$385,364 in accounts receivables.
- Total noncurrent assets net of depreciation are \$66,310 consisting of \$5,568 in meters, \$31,804 in a valve and \$28,938 in vault covers.
- Total liabilities are \$684,587 representing \$610,584 due to vendors and \$74,003 due to its member agencies for the cathodic project upgrade.
- Total revenues are \$2,044,283 representing \$2,043,493 in operating revenues and \$790 in non-operating revenues. The operating revenues consist of \$1,625,194 in water sales, \$1,011 in carriage water, \$79,985 in member charges, and \$337,303 in Cathodic protection upgrade revenue. The non-operating revenues consist of \$690 in interest income and \$100 in fair market value adjustment.
- Total expenses are \$2,033,492 representing \$1,595,373 for water purchases, \$40,527 in contract labor, \$36,313 in general and administrative, \$4,698 in depreciation expense, \$370 in Equipment rental, \$18,908 in cathodic protection monitoring and \$337,303 in cathodic protection up-grade.

Overview of the Financial Statements:

The basic financial statements of SAC consist of the financial statements (Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows) and notes to the basic financial statements. The basic financial statements are prepared using the accrual basis of accounting.

Statement of Net Position depicts SAC's financial position at June 30, 2015 the end of SAC's fiscal year. The statement of net position shows all financial assets and liabilities of SAC. Net position represents the SAC's residual interest after liabilities are deducted from assets. Net position is displayed in two components: net investment in capital assets and unrestricted for water services.

Statement of Revenues, Expenses and Changes in Net Position provides information on SAC's operations and can be used to determine whether SAC has recovered all of its costs through operating and non-operating revenues.

Statement of Cash Flows provides information on SAC's cash receipts, cash payments and changes in cash resulting from operations and investments activities.

Notes to the Basic Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Financial Analysis of the District:

The following condensed schedules contain summary financial information extracted from the basic financial statements to assist general readers in evaluating SAC's overall financial position and results of operations as described in this Management's Discussion and Analysis (MD&A).

Financial Position Summary:

The Statement of Net Position reflects SAC's financial position as of June 30, 2015. The statement includes assets and liabilities. The net position represents SAC's net worth including, but not limited to contributions and investments in capital assets. A condensed summary of SAC's total net position at June 30, 2015 is set forth below:

Table 1 - Summary of Net Position

	June 30,2015
Assets	
Current assets	\$ 1,055,134
Noncurrent assets	<u>66,310</u>
Total assets	<u>1,121,444</u>
Liabilities	
Current liabilities	<u>684,587</u>
Total liabilities	<u>684,587</u>
Net position	
Net investment in capital assets	66,310
Unrestricted for water services	<u>370,547</u>
Total net position	<u>\$ 436,857</u>

As shown in Table 1, SAC's total assets are \$1,121,444. Total current assets represent \$1,055,134 which are cash deposits with a financial institution for \$406,260, investments for (LAIF) \$263,510 and receivables of \$385,364. Noncurrent assets net \$66,310 capital assets net of depreciation.

SAC's total liabilities are \$684,587 which includes \$610,584 of accounts payable due to vendors and \$74,003 in deposits payable to its member agencies. Account payables include the Irvine Ranch Water District \$344,924 for the Baker Pipeline cathodic protection and water purchases, to the Municipal Water District of Orange County \$260,378 for water purchases, consulting fee \$5,086 to (Michael Baker for corrosion engineering services for the monitoring of the cathodic protection system), and Southern California Edison \$196 for electricity bill. The deposits are the balances remaining from the cathodic protection upgrade from the member agencies for \$74,003 which consist of the County of Orange \$1,675, East Orange County Water District \$2,667, Santa Margarita Water District \$23,034, the Irvine Company \$662, Trabuco County Water District \$14,174, El Toro Water District \$8,829 and Moulton Niguel Water District \$22,962.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Net position at end of the current fiscal year is \$436,857 representing the excess of total assets of \$1,121,444 over total liabilities of \$684,587. Net position consists of net investment in capital assets and unrestricted net position. The net investment in capital assets reflects \$66,310 capital assets, net of accumulated depreciation. Unrestricted net position for water services are \$370,547 of total net position.

Activities and Changes in Net Position:

The Statement of Revenues, Expenses and Changes in Net Position summarizes SAC's operations during the current fiscal year. A Summary of SAC's changes in net position for the fiscal year ended June 30 is included in Table 2 below:

Table 2 - Revenues, Expenses and Changes in Net Position

	June 30, 2015
Operating revenues	
Water sales	\$ 1,625,194
Irvine Lake - carriage water	1,011
Member charges	79,985
Cathodic protection upgrade revenue	337,303
Total operating revenues	2,043,493
 Non-operating revenues	
Interest income	690
Increase (decrease) in fair value of investments	100
Total non-operating revenues	790
 Total revenues	 2,044,283
 Operating expenses	
Water purchase	1,594,779
Carriage water Irvine lake	594
Contract labor	40,527
General and administrative	36,313
Depreciation expense	4,698
Equipment rental	370
Cathodic protection monitoring	18,908
Cathodic protection upgrade expense	337,303
Total operating expenses	2,033,492
 Changes in net position	 10,791
Beginning Net Position	426,066
Ending Net Position	\$ 436,857

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Revenues:

As shown in Table 2, SAC's operating revenues total \$2,043,493. Water sales to SAC's member agencies Irvine Ranch Water District for 232.7 A/F and Trabuco County Water District for 2,532.8 A/F contribute 80 percent of total operating revenues. Cathodic protection upgrade which is a technique used to prevent the pipelines from corrosion contributes 17 percent of total operating revenues. In addition, member contributions used for standby charges ensure that funds are available when needed contribute 3 percent of total operating revenues.

Expenses:

As shown in Table 2, SAC's operating expenses total \$2,033,492. Water purchases from the Municipal Water District of Orange County contributes 78 percent of total operating expenses, cathodic protection contributes 18 percent of total operating expenses, contract labor contributes 2 percent of total operating expenses, general and administrative contributes 2 percent of total operating expenses.

Capital Assets:

SAC's investment in capital assets net of depreciation as of June 30, 2015:

	Cost	Accumulated Depreciation	Net Balance
Meters	\$ 50,788	\$ 45,220	\$ 5,567
Bypass valve	63,609	31,805	31,804
Vault covers	56,543	27,605	28,939
Total	\$ 170,940	\$ 104,630	\$ 66,310

Capital assets net of accumulated depreciation are \$66,310. Additional information on SAC's capital assets can be found in Note 3 of the Notes to the Basic Financial Statements.

Contacting the District's Financial Management:

This financial report is designed to provide our member agencies with a general review of SAC's finances to show SAC's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Treasurer at the Santiago Aqueduct Commission, 15600 Sand Canyon Avenue, Irvine, California 92618-7500.

Santiago Aqueduct Commission
Statement of Net Position
June 30, 2015

ASSETS

Current assets:

Cash and investments (note 2) \$ 669,770

Receivables:

Accounts receivable water 287,980

Accounts receivable standby 5,544

Accounts receivable Irvine Lake capacity lease 91,840

Total receivables 385,364

Total current assets 1,055,134

Noncurrent assets:

Capital assets, net of depreciation (note 3) 66,310

Total noncurrent assets, net 66,310

TOTAL ASSETS 1,121,444

LIABILITIES

Current liabilities:

Account payable 610,584

Deposits cathodic project upgrade 74,003

TOTAL LIABILITIES 684,587

NET POSITION

Net investment in capital assets 66,310

Unrestricted for water services 370,547

TOTAL NET POSITION \$ 436,857

See accompanying notes to the basic financial statements.

Santiago Aqueduct Commission
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2015

OPERATING REVENUES:

Water sales	\$ 1,625,194
Irvine Lake - carriage water	1,011
Member charges	79,985
Cathodic protection upgrade revenue	337,303
Total operating revenues	<u>2,043,493</u>

OPERATING EXPENSES:

Cost of sales:	
Water purchases	1,594,779
Carriage water Irvine Lake	594
Contract labor	40,527
General and administrative	36,313
Depreciation expense	4,698
Equipment rental	370
Cathodic protection monitoring	18,908
Cathodic protection upgrade expense	337,303
Total operating expenses	<u>2,033,492</u>
Operating income (loss)	<u>10,001</u>

NONOPERATING REVENUES:

Interest Income	690
Increase (decrease) in fair value of investments	100
Total nonoperating revenues	<u>790</u>
Increase (decrease) in net position	10,791

NET POSITION AT BEGINNING OF YEAR	<u>426,066</u>
NET POSITION AT END OF YEAR	<u><u>\$ 436,857</u></u>

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See accompanying notes to the basic financial statements.

Santiago Aqueduct Commission
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from member agencies	\$ 1,944,106
Cash paid to suppliers of goods and services	<u>(1,767,290)</u>
Net cash provided by (used for) operating activities	<u>176,816</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest income	<u>790</u>
Net cash provided by investing activities	<u>790</u>
Net increase (decrease) in cash and cash equivalents	177,606
Cash and cash equivalents at beginning of year	<u>492,164</u>
Cash and cash equivalents at end of year	<u><u>\$ 669,770</u></u>

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES

Operating income (loss)	\$ 10,001
Depreciation	4,698
(Increase) decrease in accounts receivables	(99,387)
Increase (decrease) in accounts payable	187,501
Increase (decrease) in deposits payable	<u>74,003</u>
Net cash provided by (used for) operating activities	<u><u>\$ 176,816</u></u>

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

There were no significant noncash activities for the year ended June 30, 2015.

See accompanying notes to the basic financial statements.

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The Santiago Aqueduct Commission (SAC) was formed in September 1961 as a multi-agency joint powers agency under the California Government Code section 6500. SAC was formed to finance, construct and maintain the Baker Pipeline which was designed to bring imported untreated water from the Metropolitan Water District of Southern California (MWD) to South Orange County. The Baker Pipeline which was completed in 1962 extended the MWD Santiago Lateral by 15 miles. SAC's members include the County of Orange, East Orange County Water District, Irvine Ranch Water District, Santa Margarita Water District, Trabuco County Water District, The Irvine Company, El Toro Water District and Moulton Niguel Water District.

B. Basis of Accounting and Measurement Focus

SAC's financial activities are accounted as an enterprise fund. A fund is an accounting entity with a self-balancing set of accounts established to record the financial position and results of operations of a specific governmental activity. The activities of enterprise funds closely resemble those of ongoing businesses in which the purpose is to conserve and add to basic resources while meeting operating expenses from current revenues. Enterprise funds account for operations that provide services on a continuous basis and are substantially financed by revenues derived from water sales and member charges. Revenues and expenses are recognized on the accrual basis. 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 flow takes place.

SAC's operating revenues and expenses generally result from providing services and producing and delivering goods in connection with water operations. The principal operating revenues of SAC are charges to customers for water sales. Operating expenses include cost of sales and services, general and administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, SAC uses restricted resources and then unrestricted resources.

C. Assets, Liabilities and Net Position

1. Use of Estimates

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

2. Cash and Investments

For the purposes of the statement of cash flows, cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash or so near to their maturity that they present insignificant risk of changes in value because of changes in interest rates and have an original maturity date of 3 months or less. Investments are reported at fair value.

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

C. Assets, Liabilities and Net Position (continued)

Changes in fair value that occur during the fiscal year are recognized as increase (decrease) in fair value of investments reported for that fiscal year. Interest income includes interest earnings on SAC's investments.

3. Accounts Receivables

SAC's accounts receivables are from its member agencies in the normal course of operations. Management has evaluated the accounts and believes they are all collectible.

4. Deposits

The deposits for the cathodic protection pipeline from corrosion project upgrade are the amounts payable to SAC's member agencies.

5. Capital Assets

Capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical costs exist. SAC capitalizes all assets with a historical cost of at least \$5,000 and a useful life of at least three years. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Depreciation is recorded on a straight-line basis over the following estimated useful lives:

Meters	30 years
Valves	40 years
Vault Covers	40 years

6. Net Position

The financial statements utilize a net position presentation. Net position is categorized as follows:

- **Net Investment in Capital Assets** – This component of net position consists of capital assets, net of accumulated depreciation reduced by any debt outstanding against the acquisition, construction or improvement of those assets.
- **Restricted Net Position** – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted Net Position** – This component of net position consists of net position that does not meet the definition of restricted or net investment in capital assets.

(2) Cash and Investments

Cash and investments as of June 30, 2015 consist of the following:

Deposits with financial institution	\$ 406,260
Investments	<u>263,510</u>
Total cash and investments	<u>\$ 669,770</u>

Investments Authorized by the California Government Code

The following table identifies the investment types that are authorized for SAC by the California Government Code. The table also identifies certain provisions of the California Government Code that address interest rate risk and concentration of credit risk. This table does not address investments of debt proceeds held by a bond trustee governed by the provisions of debt agreements of SAC, rather than the general provisions of the California Government Code.

<u>Authorized Investment type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment In One Issuer</u>
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base value	None
Medium-Term Notes	5 years	30%	None
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
Orange County Treasury Pool	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

Custodial Credit Risk

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

(2) Cash and Investments (continued)

Disclosure Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by assignment of a rating by a nationally recognized statistical rating organization.

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 is to changes in market interest rates.

Information about the sensitivity of the fair values of SAC's investments to market interest rate fluctuations is provided by the following table that shows the distribution of SAC's investments by maturity:

<u>Remaining Maturity</u>		
<u>Investment</u>	<u>Amount</u>	<u>12 Months Or Less</u>
Local Agency Investment Fund*	\$ 263,510	\$ 263,510

* The local agency investment fund is not rated.

Investment in State Investment Pool

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

(3) Capital Assets

Capital asset activity for SAC for the fiscal year ended June 30, 2015:

	Balance at <u>June 30,</u> <u>2014</u>	<u>Additions</u>	<u>Deletions</u>	Balance at <u>June 30,</u> <u>2015</u>
Capital assets, being depreciated:				
Meters	\$ 50,788	\$ -	\$ -	\$ 50,788
Valve	63,609	-	-	63,609
Vault Covers	56,543	-	-	56,543
Sub-total	<u>170,940</u>	-	-	<u>170,940</u>
Less accumulated depreciation:				
Meters	(43,527)	(1,693)	-	(45,220)
Valve	(30,215)	(1,590)	-	(31,805)
Vault Covers	(26,190)	(1,415)	-	(27,605)
Sub-total	<u>(99,932)</u>	<u>(4,698)</u>	-	<u>(104,630)</u>
Total capital assets, net	<u>\$ 71,008</u>	<u>\$ (4,698)</u>	<u>\$ -</u>	<u>\$ 66,310</u>