

Santa Margarita Water District

Comprehensive  
**Annual Financial Report**  
Fiscal Year Ended June 30, 2017



Rancho Santa Margarita, California

# ***Santa Margarita Water District***

## **Comprehensive Annual Financial Report**

**For the Fiscal Year Ended June 30, 2017**

Prepared by the Finance Department  
26111 Antonio Parkway, Rancho Santa Margarita, CA 92688 • [www.smwd.com](http://www.smwd.com)

## Contents

### **Introductory Section**

Letter of Transmittal	i
District Boundary Map	xiii
District Organizational Chart	xiv
District Officials	xv
Certificate of Achievement for Excellence in Financial Reporting	xvi

### **Financial Section**

Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Statement of Net Position	11
Statement of Revenues, Expenses and Changes in Net Position	13
Statement of Cash Flows	15
Notes to the Basic Financial Statements	17
Required Supplementary Information:	
Schedule of Changes in the District's Net Pension Liability and Related Ratios	51
Schedule of District Contributions	52

### **Statistical Section**

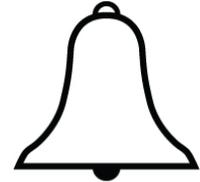
Summary of Statistical Section	53
Financial Trends	54
Revenue Schedules	59
Debt Schedules	63
Demographic and Economic Information	73
Operating Information	75

# **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

December 4, 2017

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 fourth annual Santa Margarita Water District (District) Comprehensive Annual Financial Report (CAFR) for the fiscal year ended on June 30, 2017.

Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the District. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and changes in the financial position of the District. All disclosures necessary to enable the reader to gain an understanding of the District's financial activities have been included.

Included within the accompanying financial statements are all of the organizations activities, and functions controlled by the District's Board of Directors in accordance with the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting. For the purpose of this evaluation, control was determined by the Board's responsibility for: (1) adoption of the budget and rates, (2) taxing authority, and (3) establishment of policies.

An audit of the books, financial records and transactions of the District is conducted annually by independent certified public accountants. The District selected the accounting firm of Vavrinek, Trine, Day & Co., LLP to perform the audit for the year ended June 30, 2017. The auditors' report on the District's basic financial statements and supplementary information is located on page 1 within the financial section of this report. This report renders an unmodified opinion on the District's basic financial statements for the year ended June 30, 2017.

The Management Discussion and Analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

## **Profile of the District**

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 who laid the groundwork for the long-term prosperity of the District and the region. Development began gradually with the first homeowner customers being served in 1974 in what would become the City of Mission Viejo.

In its 53-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 strong financials;
- Providing sustainable water supplies; and
- Supporting the continuing community development as approved by the County of Orange.

The District has a current population of over 165,000; the County of Orange has recently been approving approximately 500 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 continue to be a high priority for the District.

### ***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.

The Board of Directors meets twice monthly and will 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. Meetings are conducted in accordance with the provisions of the Ralph M. Brown Act (California Government Code Section 54950 et seq.).

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, the San Juan Basin Authority, and the Fenner Valley Water Authority and as a San Diego Regional Water Quality Control Board Member.

### ***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.

The District is operated as a single entity and charges common rates by customer class to all customers throughout the District. For the purpose of capital planning and project financing, the District has individual improvement districts (further referenced in the Statistical section “Assessed Value and Assessment Rate by Improvement District”). The District has historically funded capital projects through Community Facility Districts (CFD) bonds, General Obligation (GO) bonds and ongoing user rates. Project costs funded through CFD and GO bonds are allocated to each improvement district based on proportional benefit.

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.

### ***District Services***

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 across 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 treats raw water delivered by MWD or in an emergency, water from Irvine Lake. The Baker Filtration Plant became operational in Fiscal Year 2017 and enhances 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 well and reduced their consumption. The District moved back to Stage 1 on April 21, 2017, following the Governor’s declaration ending the drought. Under Stage 1, customers are encouraged to limit potable water irrigation to three days per week and continue to use water efficiently.

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 resource in the District's current and future water supply portfolio with plans to utilize 100% of the wastewater, which will provide up to 30% of the District's 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 one of the District's three wastewater reclamation plants and stored in the Upper Oso Seasonal Storage Reservoir, as well as other reservoirs throughout the District.

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

In 2017, the District completed the Lake Mission Viejo Advanced Water Treatment Facility, which can produce up to 300 acre feet (AF) of highly treated water for delivery to Lake Mission Viejo. This project is a significant achievement in providing uninterrupted water service to the Lake.

### 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 21 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 and Nichols Plant, are connected to the SOCWA Dana Point Ocean Outfall for disposal of secondary effluent if the water is not recycled.

### ***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.

### ***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: 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 2017 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.

### **Water and Recycled Water Charges**

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 and irrigation 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.

The District began the implementation of a water budget rate structure January 1, 2016 for the Single-Family Residential (SFR) and Irrigation account customers. Under this rate structure, each SFR and Irrigation customer is allocated a budgeted water usage amount and charged for usage based on a five-tiered system. The adopted rate structure also includes a fixed charge by meter size for potable and recycled water and by usage type for wastewater 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 & Local Economy***

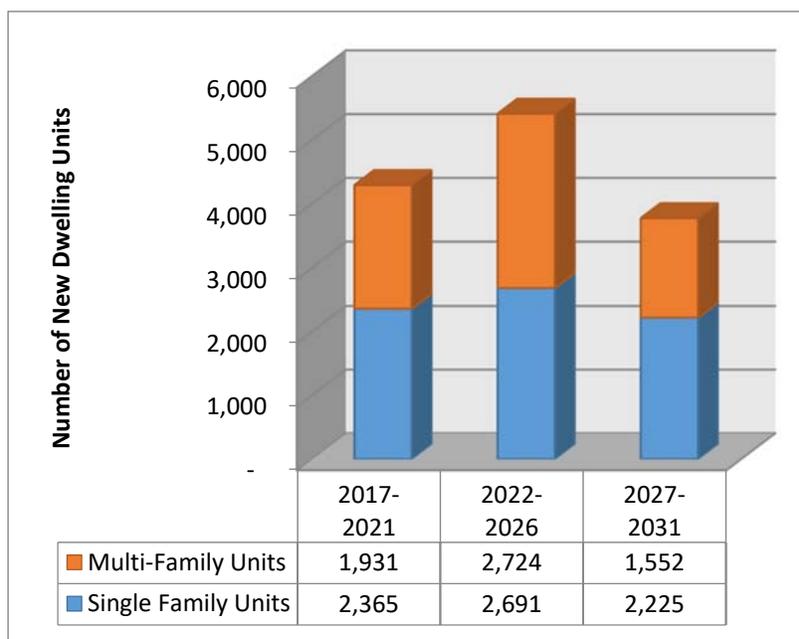
The District serves an affluent area of South Orange County, which enjoys low unemployment and high median household incomes. The effective buying income (EBI) for Orange County is strong at 138% of the national level; however, the median household EBI for the District's service area exceeds 150% of the national level.

The District provides water and wastewater service to developments 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 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 have now started in the second phase of the development. The first phase of Esencia contains 840 new homes, of which 622 had been sold by the end of the fiscal year. The second phase of Esencia contains approximately 878 new homes, of which 122 have been sold.

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 includes provisions for the County of Orange to construct affordable housing units. The County of Orange completed a portion of the 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 graph displays the projected District growth in five-year increments until 2031.



### ***Employees***

As of June 30, 2017, the District had 142 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 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 two-thirds of the District's employees. As of June 30, 2017, the District and SMWDEA had completed the four-year memorandum of understanding (MOU) that along with the District's adopted employee policies, procedures and benefits governs the relationship with management during the fiscal year. A new MOU had not been reached as of the end of the fiscal year.

## **District Controls and Financial Policies**

### ***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.

The Board of Directors annually adopts the operating and capital budget prior to the new fiscal year. as part of this process, each department develops a detailed budget for their area of responsibility. The annual operating budget and capital budget serves as a 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.

### ***Debt Administration***

At June 30, 2017, the District had \$89,565,000 in general obligation bonds outstanding. The District also had \$12,278,010 of loans payable as of June 30, 2017. 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.

### ***Community Facilities Districts***

The District is the lead agency of the Community Facilities District No. 99-1 (Talega) of the Santa Margarita Water District (CFD 99-1) and Community Facilities District No. 2013-1 (Village of Sendero) of the Santa Margarita Water District (CFD 2013-1). These CFDs are considered separate legal entities, established under and governed by the Mello-Roos Community Facilities Act of 1982. Neither the faith and credit nor the taxing power of the District (except to the extent of the special assessment taxes) is pledged to the payment of the CFD bonds.

At June 30, 2017, CFD 99-1 and CFD 2013-1 had a total of \$135,985,000 in Special Tax Bonds outstanding. The CFD bonds outstanding as of June 30, 2017 are not obligations of the District, but are limited obligations payable solely from special assessment taxes. The District removed the CFD debt from its financial statement for fiscal year 2017 and restated net position for fiscal year 2016, which resulted in an increase of approximately \$107 million in the equity value (net position) of the District.

### ***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 Vavrinek, Trine, Day & Co., LLP, conducted this year's audit. Their audit report, which contains an unmodified opinion, is included in the financial section of this report.

## **Major Initiatives**

### ***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, 2017, it had 142 employees while having more than doubled its connections to over 107,000 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; and
- 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.

Over the drought period, 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.

### ***Recycled Water Conversions***

The District has successfully expanded its recycled water program and network. In FY 2017, the District converted the Califa community in the City of Mission Viejo, the community of Coto de Caza (Los Patrones), and new portions of the Palmia community. These three projects alone 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 continues to work with dedicated irrigation customers to identify where cost-effective opportunities exist to convert site to use recycled water. In FY 2017, with the assistance of the District’s HOA’s and the City of Mission Viejo, eight separate recycled conversion projects were completed. This activity represents approximately 70 acre-feet of potable water savings every year going forward. One notable project was converting the Lake Mission Viejo Association’s North Beach and East Beach irrigation meters to recycled water. This, in combination with the Advanced Purified Water the District provides to Lake Mission Viejo to fill the 124-acre man-made lake, means that Lake Mission Viejo Association uses recycled water exclusively for lake-fill and irrigation purposes.



## ***Water Reliability Projects***

### ***Trampas Canyon Recycled Water Seasonal Storage Reservoir***

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 Recycled Water Seasonal Storage 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 is rebuilding the dam to increase the capacity to 5,000 AF. The District has awarded the construction contract and construction has commenced. Funding will be provided with a 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, a joint project, was completed. The new plant was constructed by IRWD on behalf of the District, Moulton Niguel Water District, 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 obtains 13 cubic feet per second (CFS) delivered to the existing South County Pipeline. The

Baker Filtration 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 Water Treatment Facility

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 Water Treatment Facility (AWTF), completed in Fiscal Year 2017, 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 Cadiz 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 coordinated with Cadiz and obtained approval from the Bureau of Land Management for permitting the pipeline across Bureau of Land Management lands.

#### 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.

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 Moulton Niguel Water District. Under the District's management, annual costs have been reduced by approximately \$200,000 and more recycled water has been produced. 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, 2016. 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,



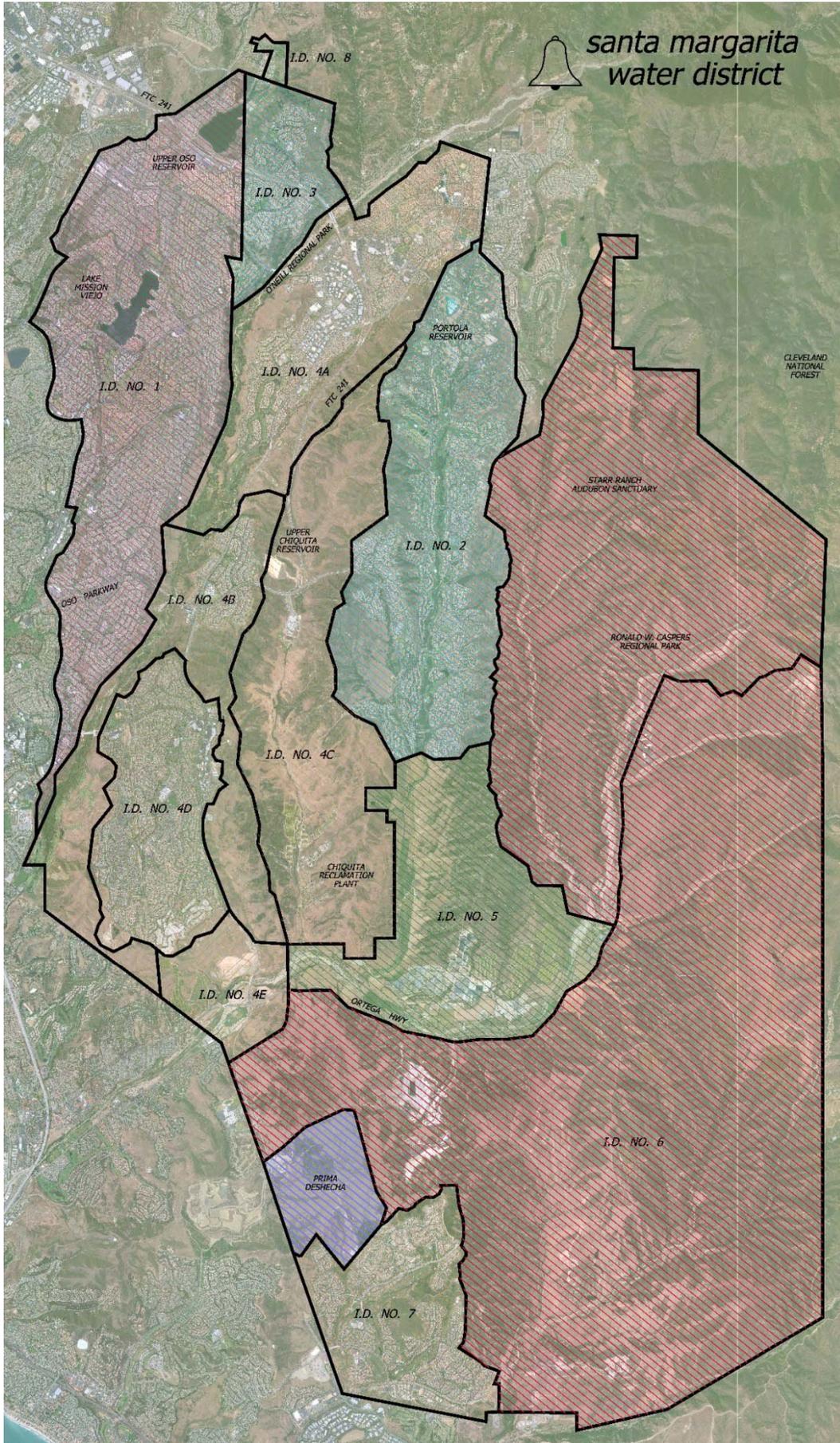
Daniel R. Ferons  
General Manager



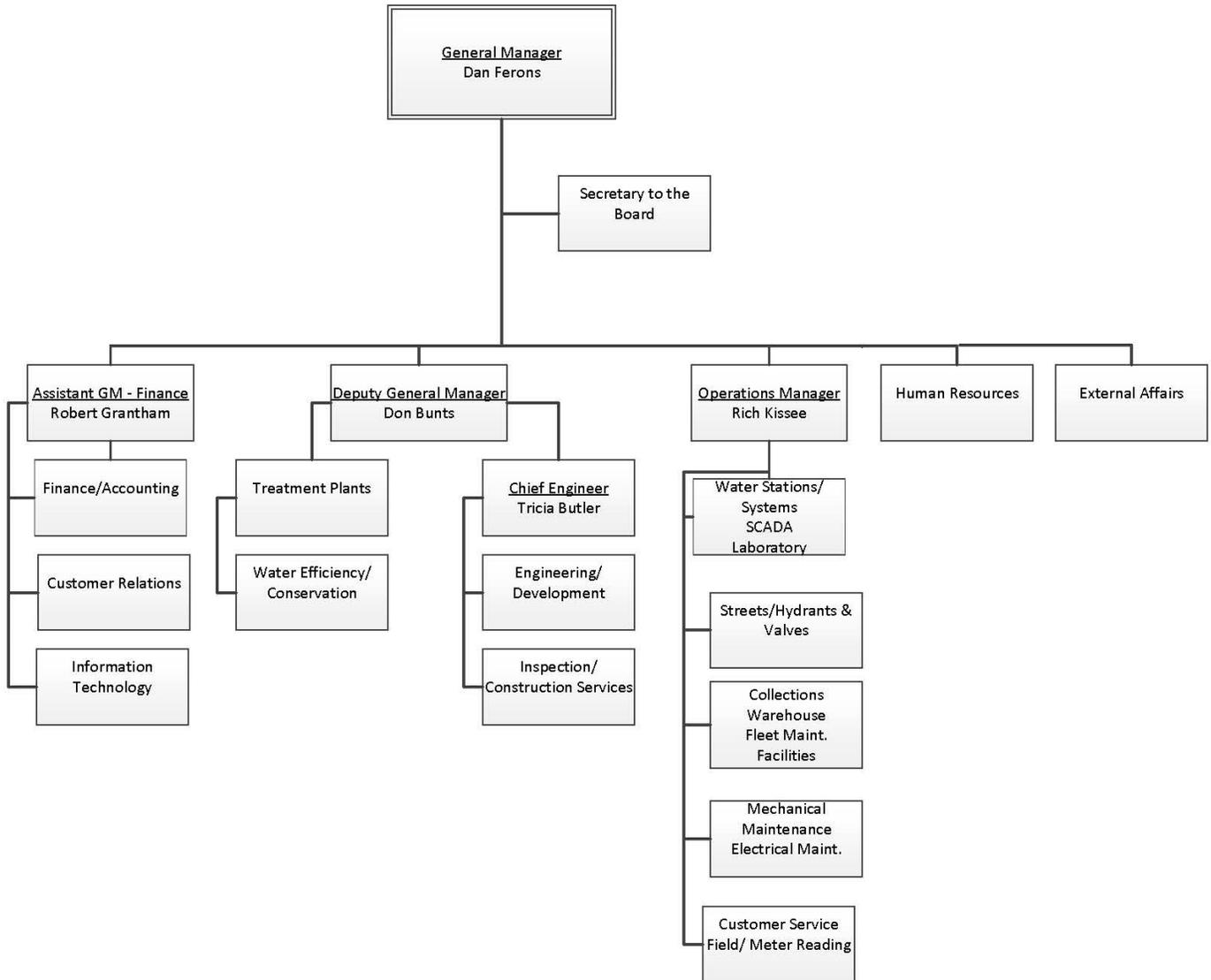
Robert S. Grantham  
Assistant General Manager – Finance



Erica Castillo, CPA  
Controller



# Santa Margarita Water District



## District Officials

Elected/Appointed Board of Directors:

<b>Name</b>	<b>Length of Service</b>	<b>Current Term of Service</b>
<b>Saundra F. Jacobs</b>	21 Years	2012-2018
<b>Betty H. Olson, Ph. D.</b>	23 Years	2016-2020
<b>Charley Wilson</b>	17 Years	2016-2020
<b>Charles T. Gibson</b>	5 Years	2016-2020
<b>Justin McCusker</b>	4 Years	2014-2018

District Management:

<b>Name</b>	<b>Position</b>
<b>Daniel R. Feron</b>	General Manager
<b>Robert Grantham</b>	Assistant General Manager - Finance
<b>Don Bunts</b>	Deputy General Manager
<b>Kelly Radvansky</b>	Secretary to the Board
<b>Tricia Butler</b>	Chief Engineer
<b>Rich Kisse</b>	Operations Manager
<b>Erica Castillo</b>	Controller



Government Finance Officers Association

Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

**Santa Margarita Water District  
California**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2016**

*Christopher P. Morill*

Executive Director/CEO

This page intentionally left blank

## **Financial Section**



**VAVRINEK, TRINE, DAY & CO., LLP**  
Certified Public Accountants

VALUE THE *difference*

## INDEPENDENT AUDITORS' 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 (District), as of and for the year ended June 30, 2017, 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.

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District, as of June 30, 2017, and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As described in Note 17 to the financial statements, the District restated net position of as July 1, 2016 for amounts related to the Community Facilities Districts' outstanding bonds and related assets, liabilities, and deferred inflows and outflows of resources. The activities of the Community Facilities Districts are further described in Note 13 to the financial statements. Our opinion is not modified with respect to this matter.

Also, as described in Note 1 to the financial statements, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*, as of July 1, 2016. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10, schedule of changes in the District's net pension liability and related ratios on page 51, and schedule of District contributions on page 52, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively 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 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.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2017, on our consideration of the District'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 District's internal control over financial reporting and compliance.

*Yavrinek, Trine, Day & Co., LLP*

Laguna Hills, California  
December 4, 2017

**SANTA MARGARITA WATER DISTRICT**  
***Management's Discussion and Analysis***  
**For the Year Ended June 30, 2017**

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, 2017. 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 \$105.3 million on June 30, 2017 represents a decrease of \$7.6 million (6.7%) compared to the prior year balance of \$112.9 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 \$672.8 million at June 30, 2017 increased \$81.1 million (13.7%) compared with the prior year balance of \$591.8 million. The largest increase in capital assets was in land. The Rancho Mission Viejo company contributed the Trampas land valued at \$56.5 million to the District during fiscal year 2017. Construction in progress decreased and depreciable assets increased primarily due to the completion of several construction projects including: The Baker Pipeline Water Supply Facilities, and Lake Mission Viejo Advanced Purified Water Project.
- In April 2017 there was a draw down on bond proceeds as a result of the issuance of the 2017 Refunding General Obligation Bonds Series A, which partially refunded the 2009 General Obligation Water Bonds Series A. This refunding reduced the District's aggregate debt service payments by almost \$7.4 million over the next 22 years and resulted in an economic gain of \$5.6 million.
- The District's total operating revenues increased \$10.6 million or 18.1% from the prior fiscal year. This is primarily due to increased consumption because of customer response to the lifting of the state drought mandate.
- The District's total operating expenses increased \$2.3 million or 3.8% from the prior fiscal year. This is primarily due to an increase in salary, wages, and related benefits as a result of merit and cost of living adjustments during fiscal year 2017. In addition, water purchases were up due to the lifting of the state drought mandate. Furthermore, customer relations expenses increased primarily due to the reclassification of water use efficiency and drought expenses from administrative expenses to customer relations expense in fiscal year 2017.
- The District's total non-operating revenues increased \$7.6 million or 29.0% primarily due to the expiration of nine developer reimbursement agreements totaling \$8.3 million in fiscal year 2017, which had no impact to cash flows.

**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 and required supplementary information. 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 full accrual basis of accounting.

**SANTA MARGARITA WATER DISTRICT**  
***Management's Discussion and Analysis***  
**For the Year Ended June 30, 2017**

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, 2017. All changes in net position reflect the transactions giving rise to the change.

The Statement of Cash Flows provides information about the District's cash receipts and cash payments during the reporting period. The Statement of Cash Flows reports cash receipts, cash payments and net 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 11 of this document. The statement of Net Position, and the Statement of Revenues, Expenses and Changes in Net Position provide a depiction of the District's financial standing. Over time, increases in the District's net position is a positive indicator of the District's financial health. Additionally, 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, 2017 increased by \$99,170,258, or 18.3%, to \$642,557,355 compared to prior year of \$543,387,097 primarily due to land that was contributed to the District in fiscal year 2017, the expiration of multiple developer reimbursement agreements during fiscal year 2017, and increases in water and wastewater rates adopted through the 2015 Proposition 218 process.

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 17.

**SANTA MARGARITA WATER DISTRICT**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2017**

**Condensed Statement of Net Position**

	Fiscal Year 2017	Fiscal Year 2016, As Restated	Increase (Decrease)	Percent Increase (Decrease)
<b>Assets</b>				
Current Assets	\$ 102,637,051	\$ 103,540,919	\$ (903,868)	-0.9%
Capital Assets, net	672,846,749	591,755,182	81,091,567	13.7%
Non-Current Assets	16,987,654	25,344,744	(8,357,090)	-33.0%
Total assets	<u>792,471,454</u>	<u>720,640,844</u>	<u>71,830,610</u>	<u>10.0%</u>
<b>Deferred Outflows of Resources</b>	<u>-</u>	<u>2,640,319</u>	<u>(2,640,319)</u>	<u>-100.0%</u>
<b>Total Assets and Deferred Outflows of Resources</b>	<u><b>792,471,454</b></u>	<u><b>723,281,164</b></u>	<u><b>69,190,290</b></u>	<u><b>9.6%</b></u>
<b>Liabilities</b>				
Current Liabilities	33,929,203	46,877,539	(12,948,336)	-27.6%
Non-Current Liabilities	121,379,330	130,733,937	(9,354,607)	-7.2%
Total Liabilities	<u>155,308,533</u>	<u>177,611,476</u>	<u>(22,302,943)</u>	<u>-12.6%</u>
<b>Deferred Inflows of Resources</b>	<u>2,319,227</u>	<u>2,282,591</u>	<u>36,636</u>	<u>1.6%</u>
<b>Net Position</b>				
Net Investment in Capital Assets	581,277,740	495,578,552	85,699,188	17.3%
Restricted	13,328,516	8,610,179	4,718,337	54.8%
Unrestricted	47,951,099	39,198,366	8,752,733	22.3%
Total Net Position	<u>642,557,355</u>	<u>543,387,097</u>	<u>99,170,258</u>	<u>18.3%</u>
<b>Total Liabilities, Deferred Inflows of Resources and Net Position</b>	<u><b>\$ 800,185,115</b></u>	<u><b>\$ 723,281,164</b></u>	<u><b>\$ 76,903,951</b></u>	<u><b>10.6%</b></u>

The District's total assets increased \$71,830,610 to \$792,471,454 compared with the prior year of \$720,640,844 primarily due to an increase in capital assets (land) of \$56.5 million.

The District's total liabilities of \$155,308,533 and \$177,611,476 for fiscal years 2017 and 2016, respectively, decreased \$22,302,943, or 12.6%, primarily due to a decrease in current liabilities of \$12,948,336, or 27.6%. The decrease in current liabilities is primarily due to a \$7.9 million, or 95%, decrease in reimbursement agreement advances and accrued interest on reimbursement agreements due within one year. This was a result of the expiration of multiple developer reimbursement agreements during fiscal year 2017. There was also a decrease in accounts payable and accrued expenses of \$10.1 million, or 46%, at the end of fiscal year 2017 due to accruals for Baker, Esencia and Sendero projects that were done at the end of fiscal year 2016 that were not necessary at the end of fiscal year 2017.

Deferred outflows and deferred inflows of resources vary year to year as a significant portion of the net amount is affected by actuarial assumptions as determined by CalPERS, which can fluctuate each year.

Deferred outflows of resources increased by \$5,073,342 or 192.1% to \$7,713,661 compared to the prior year of \$2,640,319 primarily due to an increase in the net difference between projected and actual earnings on pension plan investments, as determined by the CalPERS GASB 68 Accounting Valuation Report.

**SANTA MARGARITA WATER DISTRICT**  
***Management's Discussion and Analysis***  
**For the Year Ended June 30, 2017**

Deferred inflows of resources increased slightly by \$36,636 or 1.6% compared to prior year primarily due to an increase in the differences between expected and actual experiences on pension plan investments, as determined by the CalPERS GASB 68 Accounting Valuation Report.

Net position increased by \$99,170,258, or 18.3%, to \$642,557,355 compared to prior year of \$543,387,097. The largest portion of the District's change in net position (90% as of June 30, 2017 and 91% as of June 30, 2016) reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are not available for future spending.

At the end of fiscal year 2017 and 2016, the District shows a positive balance in its unrestricted net position of \$47,951,099 and \$39,198,366, respectively, to be utilized in future years. Unrestricted net position increased primarily due to land that was contributed to the District and the expiration of multiple developer reimbursement agreements during fiscal year 2017.

**SANTA MARGARITA WATER DISTRICT**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2017**

**Condensed Statement of Revenues, Expenses and Changes in Net Position**

	Fiscal Year 2017	Fiscal Year 2016, As Restated	Increase (Decrease)	Percent Increase (Decrease)
<b>Operating Revenues:</b>				
Water Sales	\$ 36,801,755	\$ 30,957,212	\$ 5,844,543	18.9%
Sanitation Charges	27,036,220	21,473,415	5,562,805	25.9%
Other Charges or Services	5,094,452	5,947,550	(853,098)	-14.3%
<b>Total Operating Revenues</b>	<b>68,932,427</b>	<b>58,378,177</b>	<b>10,554,250</b>	<b>18.1%</b>
<b>Operating Expenses:</b>				
Water and Sanitation Expenses	41,137,143	39,766,300	1,370,843	3.4%
Compensation	17,139,918	16,022,443	1,117,475	7.0%
General and Administrative	5,392,327	5,564,977	(172,650)	-3.1%
<b>Total Operating Expenses before depreciation and amortization</b>	<b>63,669,388</b>	<b>61,353,720</b>	<b>2,315,668</b>	<b>3.8%</b>
Depreciation and Amortization	17,884,061	17,177,880	706,181	4.1%
<b>Operating (loss)</b>	<b>(12,621,022)</b>	<b>(20,153,423)</b>	<b>7,532,401</b>	<b>-37.4%</b>
<b>Non-Operating Revenues (Expenses)</b>				
Special Assessment for Debt Service	17,588,204	19,011,576	(1,423,372)	-7.5%
Other Non-Operating Revenues	17,444,208	11,290,648	6,153,560	54.5%
Interest Expense	(1,021,469)	(2,199,699)	1,178,230	53.6%
Other Non-Operating Expense	(2,616)	(1,742,903)	1,740,287	99.8%
<b>Total Non-operating Revenues(Expenses)</b>	<b>34,008,327</b>	<b>26,359,622</b>	<b>7,648,705</b>	<b>29.0%</b>
<b>Net Income before capital contributions</b>	<b>21,387,305</b>	<b>6,206,199</b>	<b>15,181,106</b>	<b>244.6%</b>
Capital contributions	77,782,953	19,606,545	58,176,408	296.7%
<b>Change in net position</b>	<b>99,170,258</b>	<b>25,812,744</b>	<b>73,357,514</b>	<b>284.2%</b>
Net position beginning of year	543,387,097	517,574,353	25,812,744	5.0%
<b>Net position end of year</b>	<b>\$ 642,557,355</b>	<b>\$ 543,387,097</b>	<b>\$ 99,170,258</b>	<b>18.3%</b>

In 2017 the District's total operating revenues increased by \$10,554,250 or 18.1% primarily due to scheduled rate increases for water and sanitation in January 2017 and an increase in water consumption due to customer response to the lifting of the state drought mandate in fiscal year 2017. Furthermore, the new Esencia development opened in fiscal year 2017 and there were more connections during the fiscal year, resulting in higher revenues.

In fiscal year 2017 the District's total operating expenses before depreciation and amortization increased by \$2,315,668 or 3.8% primarily due to an increase in salary, wages, and related benefits as a result of merit and cost of living adjustments during fiscal year 2017. In addition, there was an increase in customers' water consumption because of the state drought mandate that was lifted in fiscal year 2017, which resulted in an increase in water purchases.

**SANTA MARGARITA WATER DISTRICT**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2017**

Net non-operating revenues increased by \$7,648,705 or 29.0% primarily due to the expiration of nine developer reimbursement agreements in fiscal year 2017, which contributed to the increase of \$6,153,560, or 54.5%, to other non-operating revenues.

In fiscal year 2017 the District's capital contributions increased by \$58,176,408 or 296.7% primarily due to the Trampas land the Rancho Mission Viejo company donated to the District in fiscal year 2017.

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

**Capital Asset Administration**

At the end of fiscal years 2017 and 2016, the District's capital assets amounted to \$672,846,749 and \$591,775,182 (net of accumulated depreciation and amortization), respectively. Water plant assets increased \$61.0 million primarily due to the completion of several projects in fiscal year 2017, including the Canada Gobernador Multi-Purpose Basin, the Middle Chiquita Reservoir, and the Lake Mission Viejo Advanced Treatment Facility. Furthermore, capacity rights increased \$41.6 million in fiscal year 2017. The Baker Pipeline Water Supply Facility was completed in fiscal year 2017 and capacity rights in the facility were capitalized. Capacity rights in SOCWA were also capitalized in fiscal year 2017. Land was the second largest increase during fiscal year 2017 due to \$56.5 million of land that was donated to the District during fiscal year 2017. Additional information regarding the District's capital assets can be found in Note 5 of this report.

	Fiscal Year 2017	Fiscal Year 2016	Increase (Decrease)	Percent Increase (Decrease)
Water plant	\$ 455,596,971	\$ 394,612,202	\$ 60,984,769	15.5%
Sewer plant	219,218,657	205,251,902	13,966,755	6.8%
Contributed facilities	164,918,803	158,827,701	6,091,102	3.8%
Operational equipment	14,946,302	13,343,440	1,602,862	12.0%
Administration building	9,687,807	9,687,807	-	0.0%
Capacity Rights	42,522,192	948,128	41,574,064	4384.9%
Miscellaneous/Master Plan	5,716,412	783,558	4,932,854	629.5%
Total depreciable assets	<u>912,607,144</u>	<u>783,454,738</u>	<u>129,152,406</u>	<u>16.5%</u>
Less accumulated depreciation & amortization:				
Depreciation and Amortization	<u>349,729,978</u>	<u>332,722,315</u>	<u>17,007,663</u>	<u>5.1%</u>
Net depreciable assets	<u>562,877,166</u>	<u>450,732,423</u>	<u>112,144,743</u>	<u>24.9%</u>
Construction in progress	42,061,477	129,614,653	(87,553,176)	-67.5%
Land	64,244,840	7,744,840	56,500,000	729.5%
Land - Administration building	<u>3,663,266</u>	<u>3,663,266</u>	<u>-</u>	<u>0.0%</u>
Total non depreciable assets	<u>109,969,583</u>	<u>141,022,759</u>	<u>(31,053,176)</u>	<u>-22.0%</u>
Total Capital Assets, net	<u>\$ 672,846,749</u>	<u>\$ 591,755,182</u>	<u>\$ 81,091,567</u>	<u>13.7%</u>

**SANTA MARGARITA WATER DISTRICT**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2017**

**Long Term Liabilities**

Debt Administration

In fiscal year 2017 total long-term debt had a net decrease of \$10,591,579 or 8.8% to \$110,022,554 which reflects a bond refunding that occurred in April 2017, two new loans received, the annual debt service payments, and amortization of net premium (discount). The following table summarizes the changes in long-term debt amounts for 2017.

	Balance at June 30, 2016, As Restated	Additions	Transfers/ Deletions	Balance at June 30, 2017	Increase (Decrease)	Percent Increase (Decrease)
Long-Term debt:						
Bonds Payable	\$ 106,070,000	\$ 29,375,000	\$ (45,880,000)	\$ 89,565,000	\$ (16,505,000)	-15.6%
Loans Payable	8,791,224	4,455,000	(968,214)	12,278,010	3,486,786	39.7%
	<u>114,861,224</u>	<u>33,830,000</u>	<u>(46,848,214)</u>	<u>101,843,010</u>	<u>(13,018,214)</u>	<u>-11.3%</u>
Net Premium (Discount)	5,752,909	4,094,331	(1,667,696)	8,179,544	2,426,635	42.2%
Total Long-Term Debt	<u>\$ 120,614,133</u>	<u>\$ 37,924,331</u>	<u>\$ (48,515,910)</u>	<u>\$ 110,022,554</u>	<u>\$ (10,591,579)</u>	<u>-8.8%</u>

Reimbursement Agreements

There were several developer reimbursement agreements that were executed in prior years and expired in fiscal year 2017. Reimbursement agreements occur when developers advance funds for planning, design and/or construction of facilities or systems for an improvement district or community facilities district that has not yet issued bonds. The agreement requires advances to be repaid from the next appropriate bond issue and funds are reimbursed to the developer from bond proceeds, dependent upon approval of the facilities by the District's Board of Directors. Advances accrue interest from the date of the advance until repayment. Once the agreement expires, the District is no longer obligated to reimburse the developer. There were nine developer reimbursement agreements totaling \$8.3 million that expired during fiscal year 2017. The expiration of these reimbursement agreements increased the District's non-operating revenues and decreased the District's current and non-current liabilities during fiscal year 2017.

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

**Defined Benefit Pension Plan**

Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions, and amendment of GASB Statement No. 27 (GASB 68) requires public employers that participate in a defined benefit pension plan, such as CalPERS, to record the net pension liability, pension expense, and deferred outflows/deferred inflows of resources related to pensions in the financial statements.

**SANTA MARGARITA WATER DISTRICT**  
*Management's Discussion and Analysis*  
**For the Year Ended June 30, 2017**

Net pension liability is the plan's total pension liability based on the entry age normal actuarial cost method less the plan's fiduciary net position. The District's net pension liability as of June 30, 2017 was \$27,164,232, an increase of \$2,716,780 (11.1%) from the prior year. This is due to an increase in total pension liability of \$3,067,961, netted with an increase in plan fiduciary net position of \$351,181. The plan's fiduciary net position as a percentage of the total pension liability decreased to 68.22% in fiscal year 2017, compared with 70.34% in fiscal year 2016.

Pension expense is the change in net pension liability from the previous reporting period to the current reporting period less adjustments. Pension expense for the District in fiscal year 2017 totaled \$2,159,014, an increase of \$612,370 (39.6%) from the prior year. This amount is included in the salaries, wages and related benefits operating expense on the Statement of Revenues, Expenses and Changes in Net Position.

Deferred outflows/deferred inflows of resources related to pensions are certain changes in total pension liability and fiduciary net position that are to be recognized in future pension expense systematically over time. These amounts can fluctuate from year to year due to actuarial methods and assumptions determined by CalPERS, such as normal entry age, discount rate, mortality and inflation. Deferred outflows/deferred inflows of resources related to pensions increased in fiscal year 2017 by \$3,540,140 and \$90,095, respectively.

Additional information on the defined benefit pension plan can be found in Note 10 of this report.

#### **Fiduciary Activities**

The District is the fiduciary for funds held on behalf of others, such as special tax assessments collected on behalf of Community Facility Districts (CFD) for the repayment of debt. The District's fiduciary activities are reported in the Note 13 to the basic financial statements. The District excludes these activities from its other financial statements because the District is not liable under any circumstance for the repayment of this debt, should the property owners default.

The District restated the prior period financial statements for fiscal year ended June 30, 2016 to comply with GASB 6, *Accounting and Financial Reporting for Special Assessments*. This restatement excludes the CFD's from the District's financial statements because the bonds are not obligations of the District. Please see Note 17 for additional information on the restatement.

#### **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.

This page intentionally left blank

**Basic Financial Statements and  
Accompanying Notes**

**SANTA MARGARITA WATER DISTRICT**  
**Statement of Net Position**  
**June 30, 2017**

**ASSETS:**

**Current Assets:**

Cash and investments (Note 2)	\$ 73,440,602
Accrued interest receivable	251,255
Accounts receivable - water and sanitation customers	7,485,981
Accounts receivable - other, net (Note 3)	3,082,964
Property taxes receivable	329,139
Water and supplies inventory	1,792,869
Prepaid expenses	495,954
Restricted - cash and investments (Note 2)	14,822,501
Restricted - accrued interest receivable	31,739
Loan receivable - due within one year (Note 4)	904,047
<b>Total Current Assets</b>	<b><u>102,637,051</u></b>

**Acquisition and construction of capital assets**

Capital assets - not depreciated (Note 5)	109,969,583
Capital assets, net of accumulated depreciation & amortization (Note 5)	562,877,166
Restricted - unspent bond proceeds (Note 2)	16,987,654
<b>Total Non-current Assets</b>	<b><u>689,834,403</u></b>

<b>Total Assets</b>	<b><u>792,471,454</u></b>
---------------------	---------------------------

**DEFERRED OUTFLOWS OF RESOURCES:**

Deferred outflow related to net pension liability (Note 10)	6,104,535
Deferred loss on debt defeasance (Note 6)	1,609,126
<b>Total Deferred Outflows of Resources</b>	<b><u>7,713,661</u></b>

<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b><u>800,185,115</u></b>
--	---------------------------

See accompanying notes to the basic financial statements.

**SANTA MARGARITA WATER DISTRICT**  
**Statement of Net Position (continued)**  
**June 30, 2017**

**LIABILITIES:**

**Current Liabilities:**

Accounts payable and accrued expenses	\$ 11,957,956
Accrued wages and related payables	716,708
Retentions payable and construction deposits	872,031
Other deposits payable	751,369
Unearned revenue	16,420
Accrued interest payable	1,582,113
Advances from others	400,269
Long-term liabilities - due within one year	
Compensated absences (Note 7)	1,110,461
Bonds payable (Note 6)	15,185,000
Loans payable (Note 6)	936,151
Reimbursement agreement advances (Note 6)	178,050
Accrued interest payable on reimbursement agreements (Note 6)	222,675
<b>Total Current Liabilities</b>	<b>33,929,203</b>

**Non-current Liabilities:**

Long-term liabilities - due in more than one year	
Compensated absences (Note 7)	83,583
Bonds payable (Note 6)	82,559,544
Loans payable (Note 6)	11,341,859
Reimbursement agreement advances (Note 6)	180,037
Accrued interest payable on reimbursement agreements (Note 6)	50,075
Net pension liability (Note 10)	27,164,232
<b>Total Non-current Liabilities</b>	<b>121,379,330</b>

<b>Total Liabilities</b>	<b>155,308,533</b>
--------------------------	--------------------

**DEFERRED INFLOWS OF RESOURCES:**

Deferred inflow related to net pension liability (Note 10)	2,175,992
Deferred gain on debt defeasance (Note 6)	143,235
<b>Total Deferred Inflows of Resources</b>	<b>2,319,227</b>

<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	<b>157,627,760</b>
--	--------------------

**NET POSITION:**

Net investment in capital assets (Note 8)	581,277,740
Restricted for (Note 9):	
Special assessment for debt service	12,967,638
Other	360,878
Unrestricted	47,951,099
<b>Total Net Position</b>	<b>\$ 642,557,355</b>

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, 2017**

**OPERATING REVENUES:**

**Water sales:**

Water commodity charge	\$ 19,644,419
Monthly service charge	15,398,446
Transmission charge	1,758,890
<b>Total water sales</b>	<b><u>36,801,755</u></b>

**Sanitation services charges:**

Sanitation service charge	11,736,967
Monthly service charge	14,867,768
Transmission charge	431,485
<b>Total sanitation service charges</b>	<b><u>27,036,220</u></b>

**Other charges or services:**

Jointly operated facilities and other reimbursements	2,538,975
Construction related revenues	1,030,082
Rebates	206,435
Customer related revenues	766,205
Other revenues	552,755
<b>Total other charges or services</b>	<b><u>5,094,452</u></b>
<b>Total Operating Revenues</b>	<b><u>68,932,427</u></b>

**OPERATING EXPENSES:**

Source of supply - water purchases	24,333,744
Power	5,371,920
Transmission and distribution	8,562,643
Regional facilities	253,717
Sewage treatment	2,615,119
Salaries, wages and related benefits	17,139,918
Customer relations	1,043,790
General and administrative	4,348,537
<b>Total Operating Expenses</b>	<b><u>63,669,388</u></b>

<b>Operating income (loss) before depreciation and amortization expense</b>	<b>5,263,039</b>
Depreciation and amortization expense	(17,884,061)
<b>Operating income (loss)</b>	<b><u>\$ (12,621,022)</u></b>

See accompanying notes to the basic financial statements.

**SANTA MARGARITA WATER DISTRICT**  
**Statement of Revenues, Expenses and Changes in Net Position (continued)**  
**For the Year Ended June 30, 2017**

**NON-OPERATING REVENUES (EXPENSES):**

Special assessment tax revenues for debt service	\$ 17,588,204
Property taxes	7,481,907
Investment earnings	87,522
Capacity lease revenue	5,434
Rental revenue	1,204,530
Gain on sale of capital asset	19,420
Other non-operating revenue	8,645,395
Interest expense	(1,021,469)
Contributions to other agencies	(2,616)
<b>Total non-operating, revenues (expenses)</b>	<b>34,008,327</b>
<b>Income before capital contributions</b>	<b>21,387,305</b>

**CAPITAL CONTRIBUTIONS:**

Contributed land from developer	62,591,102
Contributions from agencies	13,345,089
Jointly-owned facilities capital reimbursements	646,897
Capital grants	1,199,865
Total capital contributions	77,782,953
<b>Change in net position</b>	<b>99,170,258</b>
Net position, beginning of year, as restated	543,387,097
<b>Net position, end of year</b>	<b>\$ 642,557,355</b>

See accompanying notes to the basic financial statements.

**SANTA MARGARITA WATER DISTRICT**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2017**

<b>Cash flows from operating activities:</b>	
Cash receipts from customers	\$ 62,398,489
Cash receipts from others	9,316,032
Cash paid to employees for salaries and wages	(17,741,742)
Cash paid to vendors and suppliers for materials and services	(54,238,161)
Net cash (used in) operating activities	(265,382)
 <b>Cash flows from non-capital financing activities:</b>	
Property taxes received	7,841,798
Loan receivable payment received	1,133,145
Capacity lease revenue	5,434
Contributions to other agencies	(2,616)
Net cash provided by non-capital financing activities	8,977,761
 <b>Cash flows from capital and related financing activities:</b>	
Acquisition and construction of capital assets	(32,805,132)
Capital contributions	12,839,887
Special assessment tax revenues for debt service received	17,588,204
Proceeds from issuance of bonds	35,307,198
Proceeds from new loans	4,455,000
Payment for refunding bonds	(31,635,000)
Principal paid for bond debt service and loans payable	(10,852,073)
Interest paid for debt service	(12,535,310)
Net cash (used in) capital and related financing activities	(17,637,226)
 <b>Cash flows from investing activities:</b>	
Proceeds from the sale and maturity of investment securities	120,869,789
Purchase of investment securities	(106,679,215)
Investment earnings	31,166
Rental revenues	1,204,530
Net cash provided by investing activities	15,426,270
Net increase (decrease) in cash and cash equivalents	6,501,423
Cash and cash equivalents, beginning of year	4,182,814
Cash and cash equivalents, end of year	\$ 10,684,237

Continued on next page

See accompanying notes to the basic financial statements.

**SANTA MARGARITA WATER DISTRICT**  
**Statement of Cash Flows (continued)**  
**For the Year Ended June 30, 2017**

**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	73,440,602
Restricted - cash and investments	14,822,501
Restricted - unspent bond proceeds	16,987,654
Total cash and investments - per statement of net position	105,250,757

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

Investments	(94,566,520)
Total cash and cash equivalents	10,684,237

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

Operating (loss) (12,621,022)

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

Depreciation and amortization expense - capital recovery 17,884,061

**Change in assets and liabilities:**

(Increase) decrease in assets:

Accounts receivable - water and sanitation customers	(1,439,486)
Accounts receivable - other	2,028,985
Water and supplies inventory	(113,563)
Prepaid expenses	(44,985)

Increase (decrease) in liabilities:

Accounts payable and accrued expenses	(5,352,898)
Accrued wages and related payables	71,694
Retentions payable and construction deposits	(206,256)
Other deposits payable	201,606
Net pension liability	(733,265)
Compensated absences	59,747

Total adjustments 12,355,640

Net cash provided by operating activities \$ (265,382)

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

Amortization of premiums and discounts	\$ 1,667,695
Contributed land	62,591,102
Disposal of capital assets	(2,067,846)
Capital assets acquired by construction payables	3,181,393
Unrealized gain on investments	81,315

See accompanying notes to the basic financial statements.

**SANTA MARGARITA WATER DISTRICT**  
*Notes to the Basic Financial Statements*  
**For the Year Ended June 30, 2017**

**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, 2017**

**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, deferred inflows and outflows, 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 or paid to transfer a liability. 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, including quoted prices for similar assets in active markets and quoted prices for identical assets in markets that are not yet active, 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, 2017**

**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 the life of the asset or the term of the agreement, whichever is less.

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 full accrual basis. 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	January 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, 2017**

**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, 2017 totaled \$3,440,347 and \$2,418,878 respectively, and net interest expense is \$1,021,469. 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, 2017**

**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. Restricted net position is used before unrestricted net position if expenses are incurred for purposes where both restricted and unrestricted net position are available. 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. 83, *Certain Asset Retirement Obligations*. Effective for the District’s fiscal year June 30, 2019.

GASB Statement No. 84, *Fiduciary Activities*. Effective for the District’s fiscal year ending June 30, 2020.

GASB Statement No. 85, *Omnibus 2017*. Effective for the District’s fiscal year ending June 30, 2018.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*. Effective for the District’s fiscal year ending June 30, 2018.

GASB Statement No. 87, *Leases*. Effective for the District’s fiscal year ending June 30, 2021.

**SANTA MARGARITA WATER DISTRICT**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**1. Summary of Significant Accounting Policies (continued)**

Accounting Changes

For the year ended June 30, 2017, the District implemented the provisions of GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*. The statement changed the measure of payroll that is required to be presented in required supplementary information from covered-employee payroll to covered payroll. Accordingly, payroll amounts presented in the pension plan schedules and related ratios for prior periods have been restated.

**2. Cash and Investments**

Cash and investments as of June 30, 2017 are classified in the accompanying financial statements as follows:

Cash and investments	\$ 73,440,602
Restricted - cash and investments	
Special assessments for debt service	14,822,501
Bond proceeds for capital projects in non-current	16,987,654
Total cash and investments	<u>\$ 105,250,757</u>
Cash and cash equivalents	<u>\$ 10,684,237</u>
Money market funds	32,963,165
Investments	<u>61,603,355</u>
Total investments	<u>94,566,520</u>
Total cash and investments	<u>\$ 105,250,757</u>

**SANTA MARGARITA WATER DISTRICT**  
*Notes to the Basic Financial Statements*  
**For the Year Ended June 30, 2017**

**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, 2017:

- U.S. Treasury securities of \$18.8 million are valued using quoted market prices for similar assets (Level 2 inputs).
- U.S. Agency securities of \$15.3 million are valued using quoted prices for similar assets (Level 2 inputs).
- Supranationals of \$1.1 million are valued using quoted prices for similar assets (Level 2 inputs).
- Municipal Bonds of \$0.5 million are valued using quoted prices for similar assets (Level 2 inputs).
- Medium-term Corporate Notes of \$10.2 million are valued institutional quotes based on various market and industry inputs (Level 2 inputs).
- Negotiable Certificates of Deposit of \$10.2 million are valued using quoted prices for similar assets (Level 2 inputs).
- Asset-backed securities of \$5.4 million are valued using quoted prices for similar assets (Level 2 inputs).
- Money Market Mutual Funds of \$33.0 million\*

\*Money market mutual funds are recorded at NAV (or basis of \$1 in and out), and not at fair value. Accordingly, the fair value measurements are based on uncategorized inputs not defined as level 1, 2 or 3.

**SANTA MARGARITA WATER DISTRICT**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**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	5 years	80%	80%
Federal Agency	Yes	5 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, 2017**

**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	\$ 18,779,659	\$ -	\$ -	\$ 18,779,659
Federal Agency	15,306,383	399,404	4,216,337	10,690,642
Supranationals	1,142,711	-	1,142,711	-
Municipal Bonds	525,100	-	525,100	-
Medium-Term Corporate Notes	10,226,303	-	1,129,855	9,096,448
Negotiable Certificates of Deposit	10,218,728	3,300,493	6,918,235	-
Asset-Backed Securities	5,404,471	-	586,133	4,818,338
Money Market Mutual Funds	32,963,165	32,963,165	-	-
<b>Total Investments</b>	<b>\$ 94,566,520</b>	<b>\$ 36,663,062</b>	<b>\$ 14,518,371</b>	<b>\$ 43,385,087</b>

**SANTA MARGARITA WATER DISTRICT**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**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. The District uses Standard & Poor's ratings, if available. A Moody's rating is used if there is no Standard & Poor rating available. Presented below is the actual rating as of year-end for each investment type, and the minimum rating required by (where applicable) the California Government Code, the District investment policy, or debt agreements.

Investment Type	Total	Minimum Legal Rating*	Rating as of Year Ended June 30, 2017				
			AAA to AAAm	AA+	AA to AA-	A+ to A-	A-1 to A-1+
U.S. Treasury	\$ 18,779,659	N/A	\$ -	\$ 18,779,659	\$ -	\$ -	\$ -
Federal Agency	15,306,383	N/A	-	15,306,383	-	-	-
Supranationals	1,142,711	AAA	1,142,711	-	-	-	-
Municipal Bonds	525,100	N/A	-	-	-	525,100	-
Medium-Term Corporate Notes	10,226,303	A	352,569	-	1,936,833	7,936,901	-
Negotiable Certificates of Deposit	10,218,728	N/A	-	-	1,506,284	7,061,233	1,651,211
Asset-Backed Securities	5,404,471	AA	5,404,471	-	-	-	-
Money Market Funds	32,963,165	AAAm	32,963,165	-	-	-	-
<b>Totals</b>	<b>\$ 94,566,520</b>		<b>\$ 39,862,916</b>	<b>\$ 34,086,042</b>	<b>\$ 3,443,117</b>	<b>\$ 15,523,234</b>	<b>\$ 1,651,211</b>

\* Minimum legal ratings per the California Government Code or the District's investment policy (whichever is more restrictive) from any rating NRSRO.

**SANTA MARGARITA WATER DISTRICT**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**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, 2017 that represented 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>
Federal Agency	Fannie Mae	\$ 7,544,079	8.0%
Federal Agency	Federal Home Loan Bank	\$ 7,391,773	7.8%

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, 2017**

**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	\$ 18,868
Center for Sustainable Energy	50,257
City of San Juan Capistrano	18,170
City of San Clemente	15,849
County of Orange	1,686,433
State of California - Proposition 84 IRWM Grant	25,923
Irvine Ranch Water District	27,347
Moulton Niguel Water District	524,129
Quest Diagnostics/Nichols Institute	103,656
Rancho Mission Viejo, LLC - misc.	105,735
San Juan Basin Authority	10,533
South County Pipeline Receivables	44,473
South Coast/JRWSS	9,999
Trabuco Canyon Water District	411,642
Other Various	45,950
Subtotal Accounts Receivable - Other	<u>\$ 3,098,964</u>
Allowance for Doubtful Accounts - Other	<u>(16,000)</u>
Total Accounts Receivable - Misc., Net	<u><u>\$ 3,082,964</u></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.

As of June 30, 2017, the outstanding principal and interest was \$702,133 and \$201,914, respectively, totaling \$904,047. Installment payment terms for the loan were confirmed 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, 2017**

**5. Capital Assets**

Capital assets as of June 30, 2017 consist of the following:

	Balance at June 30, 2016	Additions	Transfers	Dispositions/ Retirements	Balance at June 30, 2017
Water plant	\$ 394,612,202	\$ -	\$ 60,985,009	\$ (240)	\$ 455,596,971
Sewer plant	205,251,902	38,666	13,928,089	-	219,218,657
Contributed facilities	158,827,701	6,091,102	-	-	164,918,803
Operational equipment	13,343,440	2,085,539	415,117	(897,794)	14,946,302
Administration building	9,687,807	-	-	-	9,687,807
Capacity Rights	948,128	-	41,574,064	-	42,522,192
Miscellaneous/Master Plan	783,558	-	4,932,854	-	5,716,412
Total depreciable assets	<u>783,454,738</u>	<u>8,215,307</u>	<u>121,835,133</u>	<u>(898,034)</u>	<u>912,607,144</u>
Less accumulated depreciation & amortization:					
Water plant	(136,410,640)	(7,774,043)	-	240	(144,184,443)
Sewer plant	(101,780,265)	(4,761,423)	-	-	(106,541,688)
Contributed facilities	(76,251,650)	(3,933,540)	-	-	(80,185,190)
Administration building	(6,885,416)	(349,510)	-	-	(7,234,926)
Operational equipment	(10,109,720)	(891,443)	-	876,158	(10,125,005)
Capacity Rights	(948,128)	(72,299)	-	-	(1,020,427)
Miscellaneous/Master Plan	(336,496)	(101,803)	-	-	(438,299)
Total depreciation & amortization	<u>(332,722,315)</u>	<u>(17,884,061)</u>	<u>-</u>	<u>876,398</u>	<u>(349,729,978)</u>
Net depreciable assets	<u>450,732,423</u>	<u>(9,668,754)</u>	<u>121,835,133</u>	<u>(21,636)</u>	<u>562,877,166</u>
Capital Assets Not Being Depreciated:					
Construction in progress	129,614,653	35,451,769	(121,835,133)	(1,169,812)	42,061,477
Land	7,744,840	56,500,000	-	-	64,244,840
Land - Administration building	3,663,266	-	-	-	3,663,266
Total non depreciable assets	<u>141,022,759</u>	<u>91,951,769</u>	<u>(121,835,133)</u>	<u>(1,169,812)</u>	<u>109,969,583</u>
Total Assets	<u>\$ 591,755,182</u>	<u>\$ 82,283,015</u>	<u>\$ -</u>	<u>\$ (1,191,448)</u>	<u>\$ 672,846,749</u>

Depreciation and amortization expense for the year ended June 30, 2017 was \$17,884,061. The District's capitalized interest for the year ended June 30, 2017 was \$2,418,878 which is included in the additions for capital assets. Community Facilities District (CFD) 99-1 and Community Facilities District 2013-1 had a total of \$2,351,963 in capitalized interest for fiscal year 2017, which is included in the District's capital assets contributed by the CFDs.

**SANTA MARGARITA WATER DISTRICT**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**5. Capital Assets (continued)**

The following identifies the ten largest remaining commitments on construction projects in fiscal year 2017:

Project Description	Remaining Commitment	Project Expenses to Date
Trampas RW Seasonal Storage Res-Construction	\$ 56,815,167	\$ 2,884,833
RSM Retrofits	13,000,000	-
3A WRP Tertiary Expansion	4,955,358	44,642
PA-1 Master Dev. & Intract Sewer Facilities	3,630,000	-
PA2 Esencia Lift Station at SC-6 TO site along Cow Camp Road (1)	3,531,914	3,266
Las Flores RW Retrofit	3,213,200	-
CRWP ILS Overflow Basin	2,977,440	22,560
PA-1 Master Dev. & Intract Domestic Water Facilities	2,720,000	-
Phase IV Chiquita WRP Expansion	2,633,334	2,634,436
Zone A RWPS Compl. At Site 3 PRS/RWPS & in Antonio Pkwy	2,615,000	-
	<u>\$ 96,091,413</u>	<u>\$ 5,589,737</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, 2017 was as follows:

	Balance at June 30, 2016, As Restated	Additions	Deletions	Balance at June 30, 2017	Amount Due Within One year	Amount Due Beyond One Year
<u>General Obligation Bonds</u>						
<u>Payable:</u>						
2009 Series A	\$ 34,180,000	\$ -	\$ (32,450,000)	\$ 1,730,000	\$ 845,000	\$ 885,000
2009 Series B	14,660,000	-	(4,585,000)	10,075,000	4,880,000	5,195,000
2014 Series A	57,230,000	-	(8,845,000)	48,385,000	9,460,000	38,925,000
2017 Series A	-	29,375,000	-	29,375,000	-	29,375,000
Total GOB Payable	<u>106,070,000</u>	<u>29,375,000</u>	<u>(45,880,000)</u>	<u>89,565,000</u>	<u>15,185,000</u>	<u>74,380,000</u>
Premium / Discount, net	5,752,909	4,094,331	(1,667,696)	8,179,544	-	8,179,544
Total Bonds Payable	<u>\$ 111,822,909</u>	<u>\$ 33,469,331</u>	<u>\$ (47,547,696)</u>	<u>\$ 97,744,544</u>	<u>\$ 15,185,000</u>	<u>\$ 82,559,544</u>

**SANTA MARGARITA WATER DISTRICT**  
*Notes to the Basic Financial Statements*  
**For the Year Ended June 30, 2017**

**6. Long-Term Liabilities (continued)**

**2009 General Obligation Bonds Series A**

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 2038. 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. The source of repayment of these bonds is special assessment tax revenues for debt service, which is secured by land. During the fiscal year ended June 30, 2017, these bonds were partially refunded with the issuance of the 2017 Refunding General Obligation Bonds Series A. This refunding legally defeased \$31,635,000 of the 2009 General Obligation Water Bonds – Series A in fiscal year ended June 30, 2017.

**2009 General Obligation Bonds Series B**

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, which is secured by land.

**2014 Refunding General Obligation Bonds Series A**

In July 2014 the District issued \$65,340,000 of 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, which is secured by land.

**2017 Refunding General Obligation Bonds Series A**

In April 2017 the District issued \$29,375,000 of Refunding General Obligation Bonds 2017 Series A with interest rates from 3.00% to 5.00% that matures annually on August 1 from 2019 to 2038. The proceeds of the bonds were used to partially refund the 2009 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 2.00% to 5.25%. This refunding legally defeased \$31,635,000 of the 2009 Series A bonds. In addition, although the refunding resulted in the recognition of a deferred loss of \$1,584,493, the District in effect reduced its aggregate debt service payments by almost \$7.4 million over the next 22 years and obtained an economic gain of \$5.6 million. The final maturity date remains the same, at August 1, 2038. The source of repayment of these bonds is special assessment tax revenues for debt service, which is secured by land.

**SANTA MARGARITA WATER DISTRICT**  
*Notes to the Basic Financial Statements*  
**For the Year Ended June 30, 2017**

**6. Long-Term Liabilities (continued)**

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

General Obligation Bonds Debt Service Schedule:

Year	Principal	Interest	Total
2018	\$ 15,185,000	\$ 3,543,541	\$ 18,728,541
2019	15,940,000	3,121,226	19,061,226
2020	11,545,000	2,466,901	14,011,901
2021	12,385,000	1,887,476	14,272,476
2022	1,420,000	1,556,976	2,976,976
2023-2027	8,225,000	6,645,005	14,870,005
2028-2032	10,530,000	4,329,085	14,859,085
2033-2037	10,030,000	1,872,756	11,902,756
2038-2039	4,305,000	173,900	4,478,900
Total	\$ 89,565,000	\$ 25,596,866	\$ 115,161,866

Source of Repayment

The District's general obligation bonds are general obligations of the improvement 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 improvement 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 improvement district will not result in an event of default with respect to the bond of any other improvement district.

**SANTA MARGARITA WATER DISTRICT**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**6. Long-Term Liabilities (continued)**

Deferred Gain or Loss on Debt Defeasance

The balance for deferred gain on debt defeasance as of June 30, 2017 is as follows:

General Obligation Bonds	Balance at June 30, 2016	Additions	Deletions	Amortization	Balance at June 30, 2017
2014A Series	\$ 196,694	\$ -	\$ -	\$ (53,459)	\$ 143,235

The balance for deferred loss on debt defeasance as of June 30, 2017 is as follows:

General Obligation Bonds	Balance at June 30, 2016, As Restated	Additions	Deletions	Amortization	Balance at June 30, 2017
2009B Series	\$ 75,925	\$ -	\$ -	\$ (51,292)	\$ 24,633
2017A Series	-	1,584,493	-	-	1,584,493
	<u>\$ 75,925</u>	<u>\$ 1,584,493</u>	<u>\$ -</u>	<u>\$ (51,292)</u>	<u>\$ 1,609,126</u>

Loans Payable:

The District has four outstanding loans with the State Water Resources Control Board and one outstanding loan with the City of Mission Viejo. During fiscal year 2017 the District borrowed \$3,000,000 from the City of Mission Viejo and \$1,455,000 from the State Water Resources Control Board. The outstanding balance of all loans as of June 30, 2017 is as follows:

	Balance at June 30, 2016	Additions	Deletions	Balance at June 30, 2017	Amount Due Within One Year	Amount Due Beyond One Year
2003 Loan	\$ 3,121,353	\$ -	\$ (411,071)	\$ 2,710,282	\$ 422,170	\$ 2,288,112
2003 Loan	5,401,229	-	(395,968)	5,005,261	405,073	4,600,188
2008 Loan	268,642	-	(19,363)	249,279	19,867	229,412
2017 Loan	-	3,000,000	(141,812)	2,858,188	89,041	2,769,147
2017 Loan	-	1,455,000	-	1,455,000	-	1,455,000
Total	<u>\$ 8,791,224</u>	<u>\$ 4,455,000</u>	<u>\$ (968,214)</u>	<u>\$ 12,278,010</u>	<u>\$ 936,151</u>	<u>\$ 11,341,859</u>

**SANTA MARGARITA WATER DISTRICT**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**6. Long-Term Liabilities (continued)**

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, 2017 are as follows:

2003 Series			
Year	Principal	Interest	Total
2018	422,170	73,178	495,348
2019	433,569	61,779	495,348
2020	445,275	50,073	495,348
2021	457,298	38,050	495,348
2022	469,645	25,703	495,348
2023	482,325	13,023	495,348
Total	\$ 2,710,282	\$ 261,806	\$ 2,972,088

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, 2017 are as follows:

Year	Principal	Interest	Service Charge	Total
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	37,619	520,194
2022	443,646	43,267	33,282	520,195
2023-2027	2,376,062	127,123	97,788	2,600,973
2028	508,498	6,610	5,085	520,193
Total	\$ 5,005,261	\$ 405,189	\$ 311,687	\$ 5,722,137

**SANTA MARGARITA WATER DISTRICT**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**6. Long-Term Liabilities (continued)**

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, 2017 are as follows:

Year	Principal	Interest	Total
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	22,015	4,333	26,348
2023-2027	118,963	12,776	131,739
2028	25,681	668	26,349
Total	<u>\$ 249,279</u>	<u>\$ 40,549</u>	<u>\$ 289,828</u>

2017 City of Mission Viejo

In fiscal year 2016, the District entered into a loan agreement with the City of Mission Viejo to provide \$3,000,000 for the design and construction of the Lake Mission Viejo Advanced Water Treatment Facility. The full loan amount was disbursed in fiscal year 2017. This loan is to be repaid over 20 years, and accrues interest at a rate of 2.5%. The remaining debt service payments as of June 30, 2017 are as follows:

Year	Principal	Interest	Total
2018	89,041	53,037	142,078
2019	121,340	68,097	189,437
2020	124,402	65,035	189,437
2021	127,541	61,896	189,437
2022	130,760	58,677	189,437
2023-2027	704,994	242,191	947,185
2028-2032	798,552	148,633	947,185
2033-2037	761,558	43,549	805,107
Total	<u>\$ 2,858,188</u>	<u>\$ 741,115</u>	<u>\$ 3,599,303</u>

**SANTA MARGARITA WATER DISTRICT**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**6. Long-Term Liabilities (continued)**

2017 State Water Resources Control Board Loan

In fiscal year 2017, the District entered into a loan agreement with the State Water Resources Control Board to provide a loan up to \$47,012,000 for the Trampas Canyon Recycled Water Seasonal Storage Reservoir Project under Proposition 1 the Water Quality, Supply, and Infrastructure Improvement Act of 2014 and the Clean Water State Revolving Fund. This loan will be disbursed through installment payments and interest will accrue at a rate of 1.0% beginning with each disbursement. Loan payments will begin one year after completion of construction and will be fully amortized by fiscal year 2049. During fiscal year 2017, the District borrowed \$1,455,000 in planning and design. Construction has not commenced as of fiscal year 2017. Payments are estimated to begin in fiscal year 2020 and a final payment schedule will be provided upon completion of construction.

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, 2017 are as follows:

Landowner/Developer	Balance at		Expiration/ Payments	Amount Due		
	June 30, 2016	Additions		June 30, 2017	Within One Year	Beyond One Year
Coto de Caza, Ltd.	\$ 22,019	\$ -	\$ -	\$ 22,019	\$ -	\$ 22,019
FN Projects	178,050	-	-	178,050	178,050	-
Quest Diagnostics/Nichols Institute	3,270,099	-	(3,270,099)	-	-	-
The San Juan Company	181,783	-	(23,765)	158,018	-	158,018
Santa Margarita Company	44,500	-	(44,500)	-	-	-
<b>Total</b>	<b>\$ 3,696,451</b>	<b>\$ -</b>	<b>\$ (3,338,364)</b>	<b>\$ 358,087</b>	<b>\$ 178,050</b>	<b>\$ 180,037</b>

Reimbursable accrued interest by the landowner/developer at June 30, 2017 is as follows:

Landowner/Developer	Balance at		Expiration/ Payments	Amount Due		
	June 30, 2016	Additions		June 30, 2017	Within One Year	Beyond One Year
Coto de Caza, Ltd.	\$ 48,866	\$ 1,209	\$ -	\$ 50,075	-	50,075
FN Projects	212,899	9,776	-	222,675	222,675	-
Quest Diagnostics/Nichols Institute	4,902,851	106,148	(5,008,999)	-	-	-
The San Juan Company	37,333	1,069	(38,402)	-	-	-
Santa Margarita Company	71,022	790	(71,812)	-	-	-
<b>Total</b>	<b>\$ 5,272,971</b>	<b>\$ 118,992</b>	<b>\$ (5,119,213)</b>	<b>\$ 272,750</b>	<b>\$ 222,675</b>	<b>\$ 50,075</b>

**SANTA MARGARITA WATER DISTRICT**  
*Notes to the Basic Financial Statements*  
**For the Year Ended June 30, 2017**

**7. Compensated Absences**

Changes to compensated absences balances for June 30, 2017 are as follows:

Balance at June 30, 2016	Earned	Taken	Balance at June 30, 2017	Amount Due Within One Year	Amount Due Beyond One Year
\$ 1,134,297	\$ 1,218,498	\$ (1,158,751)	\$ 1,194,044	\$ 1,110,461	\$ 83,583

**8. Net Investment in Capital Assets**

Net investment in capital assets as of June 30, 2017 is as follows:

Capital assets, net of accumulated depreciation	\$ 672,846,749
Less: Outstanding debt attributable to capital assets:	
Bonds payable	(97,744,544)
Loans payable	(12,278,010)
Add:	
Unspent bond proceeds	16,987,654
Deferred gains and losses on debt defeasances, net	1,465,891
Total net investment in capital assets	<u>\$ 581,277,740</u>

**9. Restricted Net Position**

Restricted net position as of June 30, 2017 consists of the following:

Special assessments for debt service	14,822,501
Property taxes receivable	329,139
Restricted accrued interest receivable	31,739
Less:	
Accrued interest payable	(1,582,113)
Accrued interest payable on reimbursement agreements	(272,750)
	<u>\$ 13,328,516</u>

**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

**SANTA MARGARITA WATER DISTRICT**  
*Notes to the Basic Financial Statements*  
**For the Year Ended June 30, 2017**

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

participating public entities within the State of California. Benefit provisions of all other requirements are established by state statute and the District. 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](http://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, 2017, are summarized as follows:

	<u>Hire Date</u>	
	<u>Prior to January 1, 2013</u>	<u>On or after January 1, 2013</u>
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 – 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.7%	1.0% to 2.5%
Required employee contribution rates	8.0%	6.25%
Required employer contribution rates	23.926%	23.926%

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

Employees Covered

At June 30, 2015, the following employees were covered by the benefit terms for the Plan:

Inactive employees or beneficiaries currently receiving benefits	100
Inactive employees entitled to but not yet receiving benefits	78
Active employees	<u>133</u>
Total	<u>311</u>

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

**SANTA MARGARITA WATER DISTRICT**  
*Notes to the Basic Financial Statements*  
**For the Year Ended June 30, 2017**

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

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, 2017 was 23.926%. This rate includes the current employer normal rate of 9.808% and the unfunded rate of 14.118% 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, 2017, the employer contributions totaled \$2,892,279.

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, 2017, 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, 2017 is based on the Plan’s measurement date of June 30, 2016, using an actuarial valuation as of June 30, 2015. 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, 2015 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%

Mortality rates were based on the 2014 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.

**SANTA MARGARITA WATER DISTRICT**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

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

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 <sup>(1)</sup>	Real Return Years 11 + <sup>(2)</sup>
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	20.0	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	1.0	(0.55)	(1.05)

<sup>(1)</sup> An expected inflation of 2.5% used for this period

<sup>(2)</sup> An expected inflation of 3.0% used for this period

All other actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, 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, 2017**

**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, 2016*	\$ 82,420,868	\$ 57,973,416	\$ 24,447,452
Increase (Decrease) in Pension Liability:			
Service Cost	1,848,648	-	1,848,648
Interest on the Total Pension Liability	6,127,743	-	6,127,743
Changes of Assumptions	-	-	-
Differences between Expected and Actual Experience	(1,579,501)	-	(1,579,501)
Contributions from Employer	-	2,564,395	(2,564,395)
Contributions from Employees	-	883,963	(883,963)
Net Investment Income	-	267,084	(267,084)
Benefit Payments, including Refunds of Employee Contributions	(3,328,929)	(3,328,929)	-
Administrative Expense	-	(35,332)	35,332
Net changes:	3,067,961	351,181	2,716,780
Balance at June 30, 2017*	\$ 85,488,829	\$ 58,324,597	\$ 27,164,232

\*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	\$38,371,028	\$27,164,232	\$17,841,689

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, 2017**

**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, 2017 the District recognized pension expenses of \$2,159,014. At June 30, 2017 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	\$ 2,892,279	\$ -
Change of Assumptions*	-	(654,683)
Differences between Expected and Actual Experiences*	-	(1,521,309)
Net Difference between Projected and Actual Earnings on Pension Plan Investments	3,212,256	-
Net changes:	\$ 6,104,535	\$ (2,175,992)

\*The expected average remaining service lifetime (EARSL) for the measurement periods ending June 30, 2015 and June 30, 2016 is 3.7 and 3.8 years, respectively. This recognition period determines the number of years the deferred outflows and deferred inflows of resources are amortized over.

Deferred outflows of resources of \$2,892,279 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, 2018. Deferred outflows of resources of \$3,212,256 and deferred inflows of resources of \$2,175,992 as described above will be recognized as pension expense as follows:

Measurement Period Ended June 30:	Deferred Outflows / (Inflows) of Resources
2017	\$ (537,793)
2018	(359,177)
2019	1,100,461
2020	832,773

**SANTA MARGARITA WATER DISTRICT**  
*Notes to the Basic Financial Statements*  
**For the Year Ended June 30, 2017**

**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, 2017, the employer contributions totaled \$207,289. 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 2017 shall not exceed \$54,000, 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, 2017 the District paid \$229,956 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, 2017**

**12. Joint Powers Agreements (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. In April 2017 the District issued Refunding General Obligation Bonds 2017 Series A for the purpose of refunding the 2009 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, 2017 the District paid bond principal payments totaling \$14,245,000 and interest payments totaling \$5,201,750 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, 2017 the District paid \$1,881,532 to SOCWA for plant operating costs. Copies of SOCWA's annual financial statements can be obtained by contacting SOCWA at 34156 Del Obispo Street, Dana Point, California 92629.

**SANTA MARGARITA WATER DISTRICT**  
*Notes to the Basic Financial Statements*  
**For the Year Ended June 30, 2017**

**13. Community Facilities Districts**

The District is the lead agency of the Community Facilities District No. 99-1 (Talega) of the Santa Margarita Water District (CFD 99-1) and Community Facilities District No. 2013-1 (Village of Sendero) of the Santa Margarita Water District (CFD 2013-1). These CFDs are considered separate legal entities.

Both Community Facilities Districts are established under and governed by the Mello-Roos Community Facilities Act of 1982, as amended, and resolutions adopted by the Board of Directors of the District, acting as the legislative body of the CFDs. The source of repayment of the bonds issued by the CFDs is special assessment tax revenues for debt service, which is secured by land. Neither the faith and credit nor the taxing power of the District (except to the extent of the special assessment taxes) is pledged to the payment of the CFD bonds. The CFD bonds outstanding as of June 30, 2017 are not obligations of the District, but are limited obligations payable solely from the special assessment taxes.

Community Facilities District No. 99-1 (Talega)

CFD 99-1 was formed to finance the acquisition or construction of various public improvements and facilities located in or serving the CFD as part of the Talega Valley Planned Development. In 1999, the owners of the property within the boundaries of CFD 99-1 authorized the CFD to incur a bonded indebtedness in an amount not to exceed \$109,000,000, to be levied on parcels within the CFD through a special tax assessment. CFD 99-1 has two special tax refunding bonds as of June 30, 2017: Series 2007 and Series 2014B.

*Series 2007 Special Tax Refunding Bonds*

In 2007, CFD 99-1 issued \$63,480,000 of Special Tax Refunding Bonds (Serial \$32,030,000 and term \$31,450,000) with an interest rate of 4.00% to 4.75% that matures annually on September 1 from (serial) 2008 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 outstanding balance (before deferred bond charges) of this bond at June 30, 2017, is \$49,405,000.

*Series 2014B Special Tax Refunding Bonds*

In August 2014, CFD 99-1 issued \$32,810,000 of Special Tax Refunding Bonds (Serial \$30,295,000 and term \$2,515,000) with interest rates from 2.00% to 5.00% that matures annually on September 1 from (serial) 2015 to 2033 and (term) ending in 2038. The proceeds of the bonds were used to refund the Series 2011A and Series 2011B 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. The outstanding balance (before deferred bond charges) of this bond at June 30, 2017, is \$29,600,000.

**SANTA MARGARITA WATER DISTRICT**  
*Notes to the Basic Financial Statements*  
**For the Year Ended June 30, 2017**

**13. Community Facilities Districts (continued)**

Community Facilities District No. 2013-1 (Village of Sendero)

CFD 2013-1 was formed to finance certain public facilities to meet the needs of new development within the CFD. In 2013, the owners of the property within the boundaries of CFD 2013-1 authorized the CFD to incur a bonded indebtedness in an amount not to exceed \$70,000,000, to be levied on parcels within the CFD through a special tax assessment. CFD 2013-1 has one special tax bond as of June 30, 2017: Series 2013.

*Series 2013 Special Tax Bonds*

In 2013, CFD 2013-1 issued \$57,420,000 of Special Tax Bonds (Serial \$8,090,000 and term \$49,330,000) with an interest rate of 2.00% to 5.625% that mature annually on September 1 from (serial) 2014 to 2027 and (term) ending in years 2029, 2032, 2036 and 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 were allocated to construct facilities belonging to the County of Orange. The outstanding balance (before deferred bond charges) of this bond at June 30, 2017, was \$56,980,000.

**SANTA MARGARITA WATER DISTRICT**  
*Notes to the Basic Financial Statements*  
**For the Year Ended June 30, 2017**

**13. Community Facilities Districts (continued)**

CFD Financial Statement Summary

A summary of the June 30, 2017, Community Facilities Districts' financial statements are as follows:

**Community Facilities District 99-1**

Assets	\$	21,922,253
Deferred outflows of resources	\$	3,028,661
Liabilities	\$	82,713,675
Revenues	\$	7,144,804
Expenses	\$	4,520,789
Net position - beginning	\$	(60,386,776)
Net position - ending	\$	(57,762,761)

**Community Facilities District 2013-1**

Assets	\$	12,077,036
Liabilities	\$	57,647,738
Revenues	\$	5,487,703
Expenses	\$	4,795,616
Net position - beginning	\$	(46,262,789)
Net position - ending	\$	(45,570,702)

**TOTAL**

**Community Facilities Districts**

Assets	\$	33,999,289
Deferred outflows of resources	\$	3,028,661
Liabilities	\$	140,361,413
Revenues	\$	12,632,507
Expenses	\$	9,316,405
Net position - beginning	\$	(106,649,565)
Net position - ending	\$	(103,333,463)

**SANTA MARGARITA WATER DISTRICT**  
*Notes to the Basic Financial Statements*  
**For the Year Ended June 30, 2017**

**13. Community Facilities Districts (continued)**

Community Facility District Debt Service Schedule:

Year	Principal	Interest	Total
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	5,080,000	5,963,719	11,043,719
2023-2027	33,135,000	25,605,613	58,740,613
2028-2032	35,620,000	16,386,353	52,006,353
2033-2037	14,970,000	10,841,847	25,811,847
2038-2042	20,595,000	5,865,734	26,460,734
2043-2044	10,250,000	587,531	10,837,531
Total	<u>\$ 135,985,000</u>	<u>\$ 91,070,007</u>	<u>\$ 227,055,007</u>

The CFDs are required to hold monies in a reserve fund based on bond covenants. At June 30, 2017 the District held monies in a reserve fund for the debt reserve requirement of \$5,516,883 and \$6,619,557 for the 2013 Series and 2007/2014 Series B CFD bonds, respectively.

**14. Risk Management**

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The District is a member of the California Sanitation Risk Management Authority and through the Authority the District participates in several of its programs including liability, property, and worker's compensation insurance. There were no significant settlements or reductions in insurance coverage from settlements for the past three years. The Authority is responsible for all insurance claims and the District is responsible for the deductibles subject to the types of claims as outlined in its insurance policy. The District's risk of loss is limited to its deductible amounts, which includes the following:

The District maintains \$15,500,000, per occurrence, combined for bodily injury, property damage, personal injury and/or public entity errors and omissions with a \$50,000 deductible for general liability insurance and a \$2,500 deductible for errors and omissions. The District's employment related practices insurance and automobile medical payment insurance provides for up to \$15,500,000 and \$25,000 coverage per occurrence, respectively. The District's deductible for employment related practices insurance is \$25,000 and the deductible for automobile medical payments is \$2,500. The District also maintains insurance with a maximum coverage limit of \$15,500,000 per occurrence for dam failure, with a deductible of \$250,000. In addition, excess liability coverage is maintained for \$10,000,000 per occurrence or wrongful act plus an annual pooled aggregate coverage of \$20,000,000.

**SANTA MARGARITA WATER DISTRICT**  
*Notes to the Basic Financial Statements*  
**For the Year Ended June 30, 2017**

**14. Risk Management (continued)**

The District promotes safety in the workplace through an extensive safety program. The District also 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.

**15. Contingencies**

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

**16. Commitment to Purchase Water**

In 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.

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.

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.

**SANTA MARGARITA WATER DISTRICT**  
*Notes to the Basic Financial Statements*  
**For the Year Ended June 30, 2017**

**16. Commitment to Purchase Water (continued)**

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.

**17. Restatement of Prior Year Financial Statements**

GASB Statement No. 6, *Accounting and Financial Reporting for Special Assessments*, requires special assessment debt for which the District is not obligated in any manner to be excluded from the District's financial statements. The District has three Community Facilities District (CFD) Special Tax Bonds that are not backed by the full faith and credit of the District, and are not backed by any type of general District commitment. The District is not liable under any circumstance for the repayment of this debt, should the property owners default.

The District inadvertently included the District's CFD debt in its prior year financial statements. This is corrected and applied retroactively in fiscal year 2017 by restating the net position as of the beginning of the fiscal year. The restatement of CFD debt resulted in an increase to net position at July 1, 2016 as follows:

Net Position, July 1, 2016	\$ 436,737,531
Prior Period Adjustment	<u>106,649,566</u>
Net Position, July 1, 2016, As Restated	<u>\$ 543,387,097</u>

Furthermore, the change in net position for Fiscal Year 2016 would have been \$25,812,745 had the net position been restated in Fiscal Year 2016 based upon the changes above.

**18. Subsequent Events**

On August 23, 2017, the District issued the Community Facilities District No. 99-1 (Talega) Series 2017A Special Tax Refunding Bonds totaling \$37,250,000, which refunded the remaining outstanding debt of the 2007 Special Tax Refunding Bond District Bonds totaling \$49,405,000.

This page intentionally left blank

## **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, 2017**

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

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.

	<b>Measurement Date June 30, 2016</b>	<b>Measurement Date June 30, 2015</b>	<b>Measurement Date June 30, 2014</b>
<b>Total Pension Liability</b>			
Service Cost	\$ 1,848,648	\$ 1,780,457	\$ 1,781,063
Interest	6,127,743	5,898,709	5,605,583
Changes in Assumptions	-	(1,424,897)	-
Difference Between Expected and Actual Experience	(1,579,501)	(778,016)	-
Benefit Payments, Including Refunds of Employee Contributions	(3,328,929)	(2,950,790)	(2,683,647)
Net Change in Total Pension Liability	3,067,961	2,525,463	4,702,999
Total Pension Liability – Beginning	82,420,868	79,895,405	75,192,406
<b>Total Pension Liability – Ending (a)</b>	<b>\$ 85,488,829</b>	<b>\$ 82,420,868</b>	<b>\$ 79,895,405</b>
<b>Plan Fiduciary Net Position</b>			
Contributions – Employer	2,564,395	2,250,865	1,889,301
Contributions – Employee	883,963	921,137	955,416
Net Investment Income	267,084	1,320,631	8,393,984
Benefit Payments, Including Refunds of Employee Contributions	(3,328,929)	(2,950,790)	(2,683,647)
Administrative Expense	(35,332)	(65,221)	-
Net Change in Fiduciary Net Position	351,181	1,476,622	8,555,054
Plan Fiduciary Net Position – Beginning	57,973,416	56,496,794	47,941,740
<b>Plan Fiduciary Net Position – Ending (b)</b>	<b>\$ 58,324,597</b>	<b>\$ 57,973,416</b>	<b>\$ 56,496,794</b>
<b>Plan Net Pension Liability – Ending (a) - (b)</b>	<b>\$ 27,164,232</b>	<b>\$ 24,447,452</b>	<b>\$ 23,398,611</b>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	68.22%	70.34%	70.71%
Covered Payroll [1]	\$ 11,283,721	\$ 10,499,276	\$ 9,194,758
Plan Net Pension Liability as a Percentage of Covered Payroll	240.74%	232.85%	254.48%

**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, 2015. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit.

**Changes of Assumptions:** There were no changes in fiscal year 2017. In fiscal year 2016, the Discount Rate changed from 7.50% to 7.65%.

[1] In accordance with GASB Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73*, we have restated to show covered payroll based on pensionable earnings.

**Santa Margarita Water District  
Schedule of District Contributions  
For the Year Ended June 30, 2017**

**(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.

	<b>Fiscal Year End June 30, 2017</b>	<b>Fiscal Year End June 30, 2016</b>	<b>Fiscal Year End June 30, 2015</b>
Actuarially Determined Contribution	\$ 2,892,279	\$ 2,564,395	\$ 2,250,865
Contributions in Relation to the Actuarially Determined Contribution	(2,892,279)	(2,564,395)	(2,250,865)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -

\* Represents the District's fiscal year-end date

Covered Payroll [1]	\$ 11,917,733	\$ 11,283,721	\$ 10,499,276
Contributions as a Percentage of Covered Payroll	24.27%	22.73%	21.44%

Notes to Schedule of Contribution:

Valuation date: June 30, 2014

Methods and assumptions used to actuarially determine contributions rates for fiscal year 2017:

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.

[1] In accordance with GASB Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73*, we have restated to show covered payroll based on pensionable earnings.

This page intentionally left blank

## **Statistical Section**

SANTA MARGARITA WATER DISTRICT  
*Summary of Statistical Section*  
For the Year Ended June 30, 2017

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 54
Changes in net position	page 55
Operating revenue by source	page 57
Operating expenses by type	page 58

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 59
Water and wastewater rates	page 60
Ten largest water and wastewater customers	page 61
Assessed value and assessment rate by improvement district	page 62

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 63
Debt service coverage ratio	page 70
Outstanding debt by type	page 71
Outstanding debt ratios	page 72

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

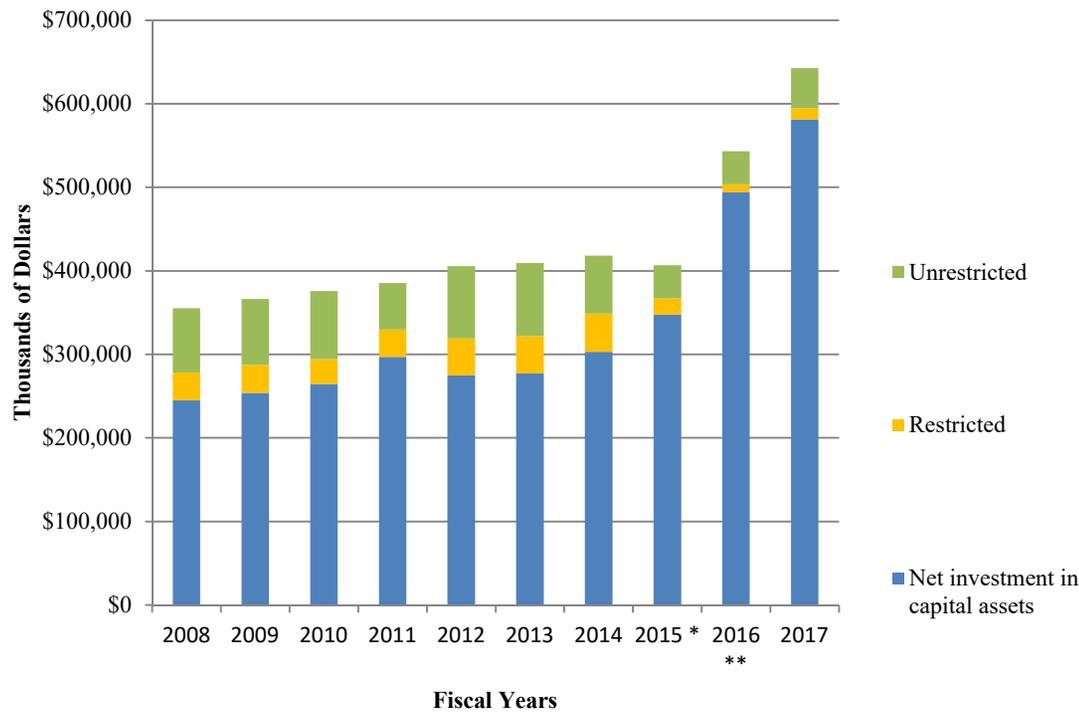
Demographic and economic statistics	page 73
Principal employers	page 74

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

Capital asset statistics	page 75
Water and wastewater connections	page 76
Employee information	page 77

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

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015 *	2016 **	2017
<b>Net Position</b>										
Net investment in capital assets	\$245,168	\$253,883	\$264,455	\$297,117	\$274,835	\$277,328	\$302,967	\$347,590	\$494,624	\$581,278
Restricted	32,998	33,699	29,739	32,618	44,180	44,250	45,817	19,620	8,931	13,329
Unrestricted	77,212	78,637	81,693	55,518	86,432	87,714	69,321	39,726	39,832	47,951
<b>Total net position</b>	<u>\$355,378</u>	<u>\$366,219</u>	<u>\$375,887</u>	<u>\$385,253</u>	<u>\$405,447</u>	<u>\$409,292</u>	<u>\$418,105</u>	<u>\$406,936</u>	<u>\$543,387</u>	<u>\$642,558</u>



\* 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.

\*\* Amounts include restatement of previously reported net position related to the removal of Community Facilities District 99-1 and 2013-1 from the District's financial statements.

Source: SMWD Basic Financial Statements

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

	<b>Fiscal Year</b>				
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
<b>Operating Revenues:</b>					
Water sales	\$ 26,427,232	\$ 25,457,728	\$ 28,653,367	\$ 27,522,866	\$ 29,764,206
Sanitation sale service charge	17,059,141	16,669,997	16,693,371	15,600,334	16,536,155
Utility billing charges	595,892	609,990	709,257	722,208	681,507
Construction charges	70,600	117,135	11,065	208,086	276,091
Other income	3,993,418	3,916,457	3,192,317	4,424,449	1,771,983
<b>Total operating revenues</b>	<b>48,146,283</b>	<b>46,771,307</b>	<b>49,259,377</b>	<b>48,477,943</b>	<b>49,029,942</b>
<b>Operating Expenses:</b>					
Water purchases	18,567,162	19,486,182	21,236,768	21,185,215	23,293,146
Power	4,722,243	4,918,128	4,457,427	4,204,479	4,078,145
Maintenance and operations	488,112	628,474	400,051	440,267	571,337
Regional facilities	923,413	1,312,608	917,472	1,257,311	1,205,974
Sewage treatment	2,541,385	3,063,690	3,047,929	3,351,879	2,513,606
Operating general	1,960,078	2,183,938	1,897,521	1,847,191	2,162,963
Repair and maintenance	2,669,400	2,656,010	4,652,062	3,829,607	3,201,117
Employee cost	12,167,725	12,650,816	12,682,205	13,548,863	14,362,327
Customer relations	786,075	662,994	419,491	431,618	398,792
General and administrative	1,896,998	2,027,678	2,351,800	2,273,941	2,587,771
<b>Total operating expenses</b>	<b>46,722,591</b>	<b>49,590,518</b>	<b>52,062,726</b>	<b>52,370,371</b>	<b>54,375,178</b>
Depreciation and amortization	15,397,838	15,720,816	15,920,805	15,920,180	15,608,541
<b>Operating income (loss)</b>	<b>(13,974,146)</b>	<b>(18,540,027)</b>	<b>(18,724,154)</b>	<b>(19,812,608)</b>	<b>(20,953,777)</b>
<b>Non-operating revenues (expenses)</b>					
Property taxes-ad valorem restricted	23,365,446	23,300,874	27,323,161	25,129,283	24,680,109
Property taxes-ad valorem 1% general	6,597,774	6,473,244	5,590,346	5,987,585	5,893,978
Capacity lease income	820,119	5,201,528	7,149,921	805,793	807,066
Investment income	10,165,417	7,930,250	4,531,146	2,348,104	2,226,758
Rental income	-	-	-	1,116,498	1,174,618
Other non-operating income	-	-	-	-	1,935,929
Contributions to other agencies	-	-	-	-	-
Other non-operating expenses	-	-	-	(890,000)	-
Interest revenue (expense)	(17,517,207)	(15,782,326)	(14,826,211)	(13,979,495)	(13,192,069)
<b>Total non-operating revenues (expenses)</b>	<b>23,431,549</b>	<b>27,123,570</b>	<b>29,768,363</b>	<b>20,517,768</b>	<b>23,526,389</b>
<b>Income (loss) before contributed capital</b>	<b>9,457,403</b>	<b>8,583,543</b>	<b>11,044,209</b>	<b>705,160</b>	<b>2,572,612</b>
Contributed capital	2,417,505	2,258,061	349,875	8,648,926	17,184,484
Contributions from agencies	-	-	-	-	-
Connection fees	-	-	25,500	-	-
Jointly owned facilities capital reimb	-	-	-	-	346,862
Capital grants	81,237	-	1,895,388	12,994	89,638
<b>Change in Net Position</b>	<b>\$ 11,956,145</b>	<b>\$ 10,841,604</b>	<b>\$ 13,314,972</b>	<b>\$ 9,367,080</b>	<b>\$ 20,193,596</b>

Source: SMWD Basic Financial Statements

Santa Margarita Water District  
Changes in Net Position (continued)  
Last Ten Fiscal Years

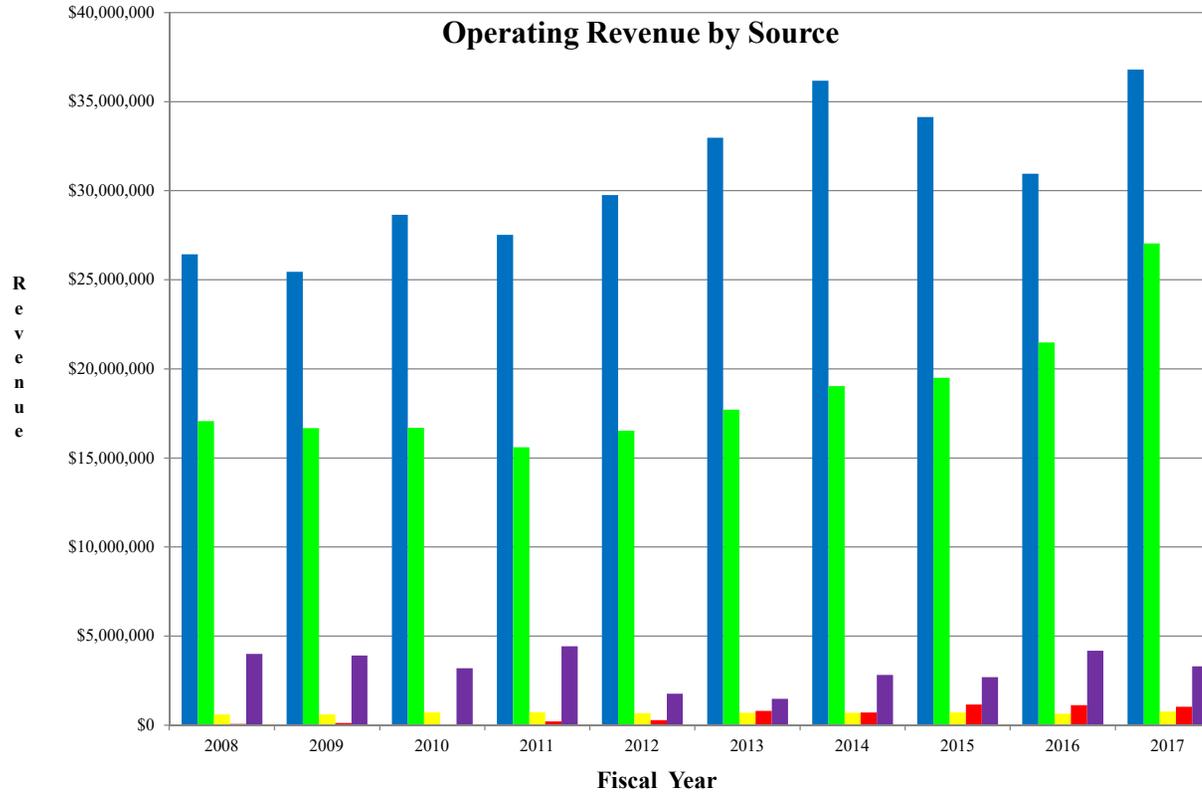
	Fiscal Year				
	2013	2014	2015	2016 *	2017
<b>Operating Revenues:</b>					
Water sales	\$ 32,981,298	\$ 36,178,908	\$ 34,142,144	\$ 30,957,212	\$ 36,801,755
Sanitation sale service charge	17,715,923	19,033,220	19,490,718	21,473,415	27,036,220
Utility billing charges	697,052	698,786	715,686	647,657	766,205
Construction charges	806,665	708,874	1,150,074	1,121,823	1,030,082
Other income	1,476,302	2,821,343	2,702,571	4,178,070	3,298,165
<b>Total operating revenues</b>	<b>53,677,240</b>	<b>59,441,131</b>	<b>58,201,193</b>	<b>58,378,177</b>	<b>68,932,427</b>
<b>Operating Expenses:</b>					
Water purchases	26,665,738	28,264,492	24,212,121	23,677,839	24,333,744
Power	4,068,216	4,944,194	5,460,353	5,189,368	5,371,920
Maintenance and operations	524,473	622,498	1,138,459	1,184,825	733,064
Regional facilities	1,191,408	3,076,129	259,134	175,282	253,717
Sewage treatment	2,499,279	2,481,884	2,633,777	2,534,102	2,615,119
Operating general	1,869,340	2,195,665	2,535,469	2,944,793	3,306,865
Repair and maintenance	3,144,083	3,465,764	3,489,569	4,060,091	4,522,714
Employee cost	14,677,928	14,606,120	15,655,872	16,022,443	17,139,918
Customer relations	398,016	448,664	505,067	354,427	1,043,790
General and administrative	2,728,996	3,035,753	3,696,633	5,210,550	4,348,537
<b>Total operating expenses</b>	<b>57,767,477</b>	<b>63,141,163</b>	<b>59,586,454</b>	<b>61,353,720</b>	<b>63,669,388</b>
Depreciation and amortization	17,101,815	16,985,856	17,081,495	17,177,880	17,884,061
<b>Operating income (loss)</b>	<b>(21,192,052)</b>	<b>(20,685,888)</b>	<b>(18,466,756)</b>	<b>(20,153,423)</b>	<b>(12,621,022)</b>
<b>Non-operating revenues (expenses)</b>					
Property taxes-ad valorem restricted	26,882,700	29,694,891	23,454,537	19,011,576	17,588,204
Property taxes-ad valorem 1% general	5,946,208	6,118,055	6,071,301	7,074,733	7,481,907
Capacity lease income	806,955	809,833	832,103	824,530	5,434
Investment income	370,637	1,577,099	1,430,680	2,304,089	87,522
Rental income	1,188,799	1,199,966	1,107,415	1,087,296	1,204,530
Other non-operating income	2,123,379	5,133,944	4,655,928	-	8,664,815
Contributions to other agencies	-	(3,137,767)	(16,387,047)	(944,238)	(2,616)
Other non-operating expenses	-	(965,681)	(623,934)	(798,665)	-
Interest revenue (expense)	(14,644,444)	(14,566,035)	(9,303,180)	(228,423)	(1,021,469)
<b>Total non-operating revenues (expenses)</b>	<b>22,674,234</b>	<b>25,864,305</b>	<b>11,237,803</b>	<b>28,330,898</b>	<b>34,008,327</b>
<b>Income (loss) before contributed capital</b>	<b>1,482,182</b>	<b>5,178,417</b>	<b>(7,228,953)</b>	<b>8,177,475</b>	<b>21,387,305</b>
Contributed capital	488,881	316,913	2,607,632	3,515,481	62,591,102
Contributions from agencies	-	-	-	11,227,266	13,345,089
Connection fees	25,500	-	-	-	-
Jointly owned facilities capital reimb	156,995	83,078	9,553,265	2,064,227	646,897
Capital grants	1,156,820	3,234,854	9,261,561	828,296	1,199,865
<b>Change in Net Position</b>	<b>\$ 3,310,378</b>	<b>\$ 8,813,262</b>	<b>\$ 14,193,505</b>	<b>\$ 25,812,745</b>	<b>\$ 99,170,258</b>

\* Amounts include restatement of previously reported change in net position related to the removal of Community Facilities District 99-1 and 2013-1 from the District's financial statements.

Source: SMWD Basic Financial Statements

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

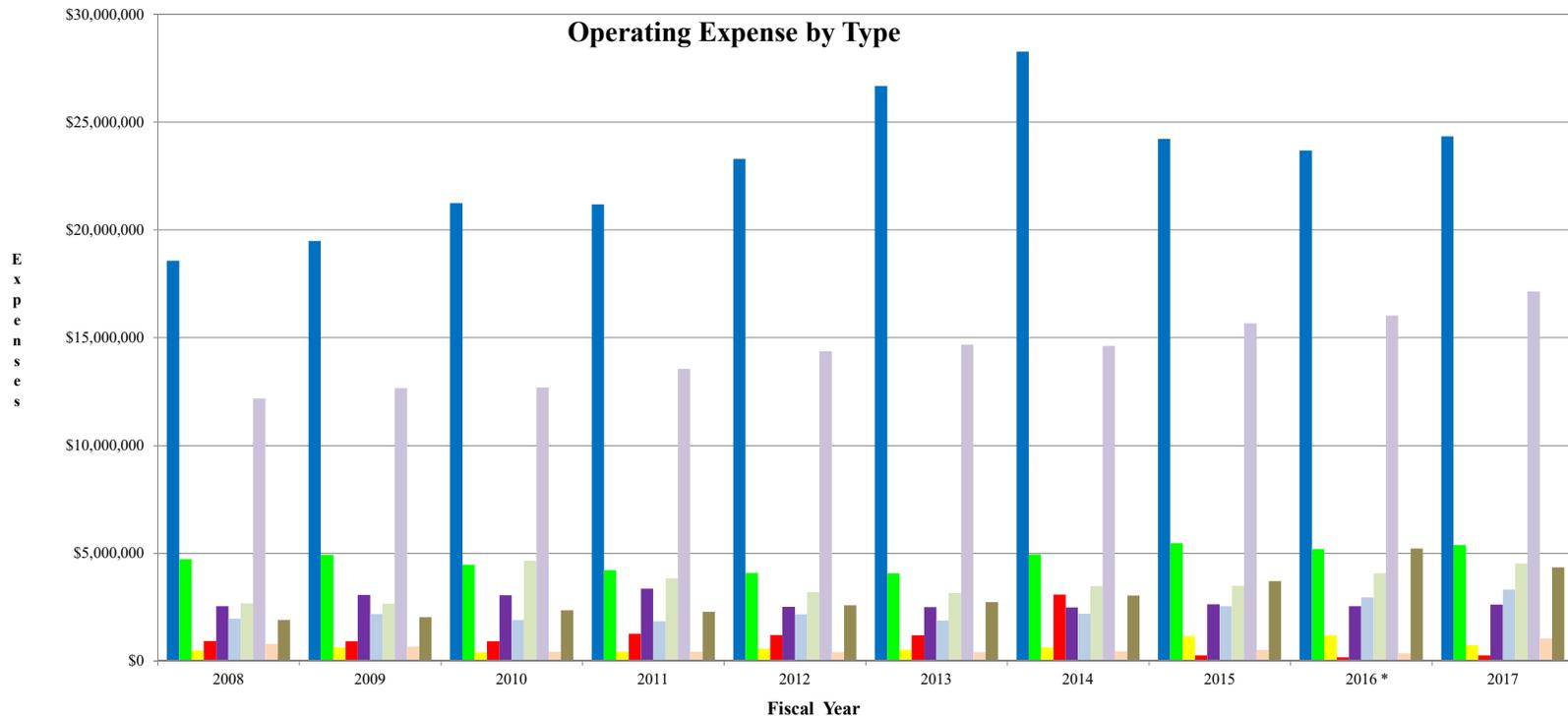
Fiscal Year	Water Sales	Sanitation Sale Service Charge	Utility Billing Charges	Construction Revenue	Other Income	Total Operating Revenue
2008	\$ 26,427,232	\$ 17,059,141	\$ 595,892	\$ 70,600	\$ 3,993,418	\$ 48,146,283
2009	25,457,728	16,669,997	609,990	117,135	3,916,457	46,771,307
2010	28,653,367	16,693,371	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
2017	36,801,755	27,036,220	766,205	1,030,082	3,298,165	68,932,427



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
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	5,210,550	61,353,720
2017	24,333,744	5,371,920	733,064	253,717	2,615,119	3,306,865	4,522,714	17,139,918	1,043,790	4,348,537	63,669,388



\* Amounts include restatement of previously reported operating expenses related to the removal of Community Facilities District 99-1 and 2013-1 from the District's financial statements.

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	
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	1,669,895	388,325	22,684	98,920	5,657,044	1,068,891	12,055,331
2017	3,408,993	1,863,834	402,388	35,439	97,430	5,800,009	1,068,959	12,677,052

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)**

	2008	2009	2010	2011	2012	2013	2014	2015 *	2016 **	2017 ***
3/4" Meter Size	\$ 5.74	\$ 5.74	\$ 6.03	\$ 6.03	\$ 6.22	\$ 6.32	\$ 6.41	\$ 8.72	\$ 14.89	\$ 21.79

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

	2008	2009	2010	2011	2012	2013	2014	2015 *	2016 **	2017 ***
Tier 1	\$ 1.38	\$ 1.38	\$ 1.61	\$ 1.61	\$ 1.66	\$ 1.69	\$ 1.71	\$ 2.04	\$ 1.86	\$ 1.67
Tier 2	1.56	1.56	1.73	1.73	1.78	1.81	1.84	2.29	2.11	1.94
Tier 3	2.05	2.05	2.18	2.18	2.25	2.29	2.32	2.77	2.61	2.44
Tier 4	2.46	2.46	2.67	2.67	2.75	2.79	2.83	3.28	3.12	2.95
Tier 5			3.49	3.49	3.60	3.66	3.71	4.50	4.67	4.84
MWDOC Surcharge			0.28	0.28	0.39	0.51	0.62	-	0.04	0.10

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

	2008	2009	2010	2011	2012	2013	2014	2015 *	2016 **	2017 ***
	\$ 1.74	\$ 1.74	\$ 1.77	\$ 1.77	\$ 1.83	\$ 1.86	\$ 1.89	\$ 2.51	\$ 2.23	\$ 1.67
MWDOC Surcharge	-	-	0.28	0.28	0.39	0.51	0.62	-	0.04	0.10

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

	2008	2009	2010	2011	2012	2013	2014	2015 *	2016 **	2017 ***
	\$ 1.74	\$ 1.74	\$ 1.77	\$ 1.77	\$ 1.79	\$ 1.82	\$ 1.85	\$ 2.47	\$ 2.24	\$ 1.78
MWDOC Surcharge			0.28	0.28	0.39	0.51	0.62	-	-	-

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

	2008	2009	2010	2011	2012	2013	2014	2015 *	2016 **	2017 ***
	\$ 1.74	\$ 1.74	\$ 1.74	\$ 1.74	\$ 1.79	\$ 1.82	\$ 1.85	\$ 1.85	\$ 1.83	\$ 1.78

**Wastewater Monthly Charge - Single Family and Multi-Family**

	2008	2009	2010	2011	2012	2013	2014	2015 *	2016 **	2017 ***
Fixed Base Charge (per meter)	\$ 8.25	\$ 8.25	\$ 8.72	\$ 8.72	\$ 8.99	\$ 9.13	\$ 9.26	\$ 12.92	\$ 20.30	\$ 25.51
Volumetric Charge (per ccf)	\$ 0.88	\$ 0.88	\$ 1.00	\$ 1.00	\$ 1.03	\$ 1.05	\$ 1.06	\$ 1.03	\$ 1.03	\$ 1.03

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

	2008	2009	2010	2011	2012	2013	2014	2015	2016 **	2017 ***
	\$ 28.06	\$ 28.06	\$ 31.26	\$ 31.26	\$ 32.20	\$ 32.75	\$ 33.23	\$ 41.57	\$ 45.04	\$ 49.27

\* 2015 Rates effective March 10, 2015

\*\* 2016 Rates effective January 1, 2016

\*\*\* 2017 Rates effective January 1, 2017

Source: SMWD Water, Recycled Water & Wastewater Service Fees

Santa Margarita Water District  
Ten Largest Water and Wastewater Customers

2017 Top Ten Water Customers			2007 Top Ten Water Customers		
Customer	Annual Revenue	% of Total	Customer	Annual Revenue	% of Total
1 LARMAC	\$ 1,714,409	4.7%	1 LARMAC	\$ 1,606,456	6.1%
2 CITY OF MISSION VIEJO	1,050,127	2.9%	2 CITY OF MISSION VIEJO	1,107,914	4.2%
3 SAMLARC	931,263	2.5%	3 SAMLARC	1,005,643	3.8%
4 CZ MASTER ASSOCIATION	910,455	2.5%	4 CZ MASTER ASSOCIATION	987,237	3.7%
5 CASTA DEL SOL HOA	702,763	1.9%	5 CASTA DEL SOL HOA	838,373	3.2%
6 TALEGA MAINT CORP	653,386	1.8%	6 TALEGA MAINTENANCE CORP	556,413	2.1%
7 COTO DE CAZA GOLF & RACQUET	542,602	1.5%	7 M.V. ENVIRONMENTAL ASSN	446,315	1.7%
8 RANCHO MISSION VIEJO	366,456	1.0%	8 COTO DE CAZA GOLF & RACQUET	403,325	1.5%
9 CAPISTRANO U.S.D.	322,602	0.9%	9 OSO VALLEY GREENBELT ASSN	358,774	1.4%
10 LAS FLORES MAINTENANCE	293,502	0.8%	10 MBK HOMES (BRIAR ROSE)	354,286	1.3%
<b>Total</b>	<b>\$ 7,487,565</b>	<b>20.5%</b>	<b>Total</b>	<b>\$ 7,664,737</b>	<b>29.0%</b>
TOTAL WATER SALES	\$ 36,801,755		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 SOUTH COUNTY APARTMENTS	\$ 50,834	0.2%	1 VILLA LA PAZ	\$ 49,496	0.3%
2 VILLA LA PAZ	44,905	0.2%	2 AVILA APARTMENTS	47,686	0.3%
3 WESTERN NATIONAL PROP.	40,679	0.2%	3 ARCHSTONE COMMUNITIES	46,360	0.3%
4 22751 EL PRADO, LLC	40,122	0.1%	4 LADERA WNG, LLC	43,112	0.3%
5 AVALON BAY COMMUNITIES, INC.	38,522	0.1%	5 WESTERN NATIONAL PROP.	43,094	0.3%
6 LADERA WNG, LLC	36,899	0.1%	6 AVALON BAY COMMUNITIES, INC.	42,353	0.2%
7 IRVINE COMPANY	35,923	0.1%	7 SOUTH COUNTY APARTMENTS	31,003	0.2%
8 EQUITY RESIDENTIAL PROPERTIES	24,712	0.1%	8 EQUITY RESIDENTIAL PROPERTIES	30,657	0.2%
9 ALTA FINISTERRA HOA	23,201	0.1%	9 CAPO U.S.D.	27,477	0.2%
10 BRE PROPERTIES INC	22,739	0.1%	10 BRE PROPERTIES INC	26,048	0.2%
<b>Total</b>	<b>\$ 358,536</b>	<b>1.3%</b>	<b>Total</b>	<b>\$ 387,285</b>	<b>2.3%</b>
TOTAL WASTEWATER SALES	\$ 27,036,220		TOTAL WASTEWATER SALES	\$ 17,059,141	

Source: SMWD utility billing system

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

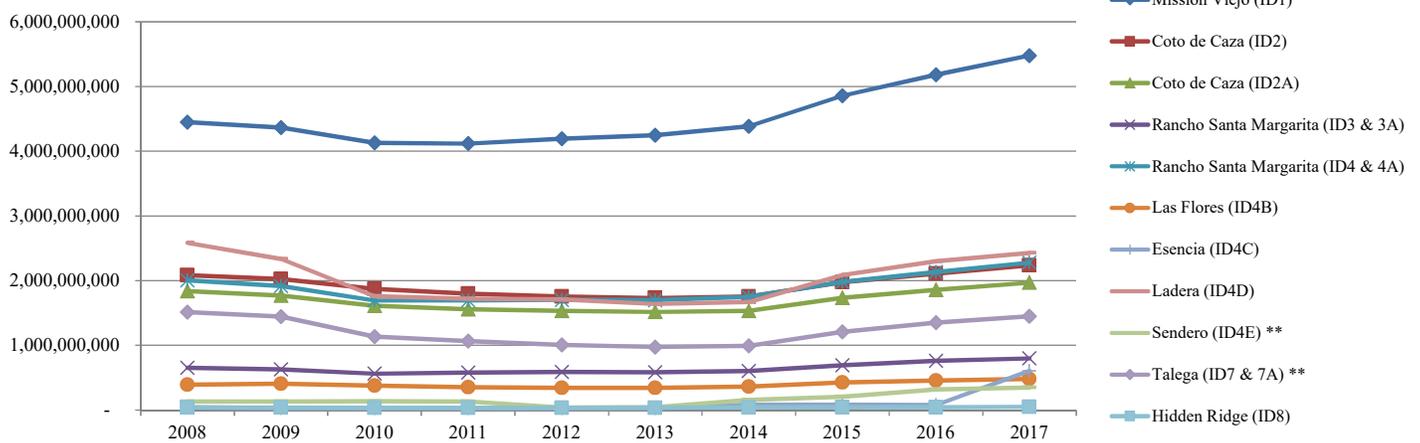
**Assessed Value by Improvement District**

Fiscal Year	Mission Viejo (ID1)	Coto de Caza (ID2)	Coto de Caza (ID2A)	Rancho Santa Margarita		Las Flores (ID4B)	Esencia (ID4C)	Ladera (ID4D)	Sendero (ID4E) **	Talega (ID7 & 7A) **	Hidden Ridge (ID8)
				(ID3 & 3A)	(ID4 & 4A)						
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	1,352,148,665	45,492,946
2017	5,477,312,584	2,236,076,361	1,968,964,693	799,168,581	2,278,789,469	481,335,895	606,398,602	2,427,571,835	348,663,496	1,447,257,074	50,459,381

**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 Margarita		Las Flores (ID4B)	Esencia (ID4C)	Ladera (ID4D)	Sendero (ID4E) **	Talega (ID7 & 7A) **	Hidden Ridge (ID8)
				(ID3 & 3A)	(ID4 & 4A)						
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
2017	0.0000	0.0203	0.0000	0.2963	0.3103	0.3644	0.13036	0.1316	0.1937	*	0.0000

**Assessed Value by Improvement District**



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

\*\* Sendero (ID4E) and Talega (ID7 & 7A) are both Community Facilities Districts, separate legal entities. This is a fiduciary activity for the District.

Source: Benefit Analysis Study Fiscal Year 2016-2017

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

<b>Overlapping District</b>	<b>FY 2017-18 Total Levy</b>	<b>Amount of Levy on Parcels in the District</b>	<b>Percent of Levy on Parcels in the District</b>	<b>Total Debt Outstanding [1]</b>	<b>District Share of Total Debt Outstanding</b>
Metropolitan Water District G.O. Bond	\$121,647,024	\$169,817	0.1396%	\$74,905,000	\$104,566
County of Orange CFD No. 87-8	\$902,688	\$902,688	100.0000%	\$3,040,000	\$3,040,000
Capistrano Unified School District SFID No. 1 Series B and 2012 Refunding	\$4,570,245	\$100,400	2.1968%	\$24,498,787	\$538,196
				<b>ESTIMATED SHARE OF OVERLAPPING DEBT</b>	<b>\$3,682,762</b>
Santa Margarita Water District ID No. 2					\$5,005,000 [2]
Santa Margarita Water District ID No. 2A					\$0 [3]
				<b>TOTAL DIRECT AND OVERLAPPING DEBT</b>	<b>\$8,687,762</b>
				<b>TOTAL LAND ASSESSED VALUE [4]</b>	<b>\$2,353,363,465</b>
				<b>VALUE-TO-LIEN RATIO</b>	<b>270.883</b>

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

[1] Based on principal payments as of September 2, 2017. 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] Bonds issued by ID 2A were fully paid off in 2017

[4] Based on FY 2017-2018 land value provided by County of Orange Auditor-Controller

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

<b>Overlapping District</b>	<b>FY 2017-18 Total Levy</b>	<b>Amount of Levy on Parcels in the District</b>	<b>Percent of Levy on Parcels in the District</b>	<b>Total Debt Outstanding [1]</b>	<b>District Share of Total Debt Outstanding</b>
Metropolitan Water District G.O. Bond	\$121,647,024	\$147,906	0.1216%	\$74,905,000	\$91,074
Santa Margarita Water District ID No. 2	\$258,870	\$227,583	87.9142%	\$5,005,000	\$4,400,104
County of Orange CFD No. 87-8	\$902,688	\$902,688	100.0000%	\$3,040,000	\$3,040,000
Capistrano Unified School District SFID No. 1 Series B and 2012 Refunding	\$4,570,245	\$50,318	1.1010%	\$24,498,787	\$269,728
				<b>ESTIMATED SHARE OF OVERLAPPING DEBT</b>	<b>\$7,800,906</b>
Santa Margarita Water District ID No. 2A					\$0 [2,3]
				<b>TOTAL DIRECT AND OVERLAPPING DEBT</b>	<b>\$7,800,906</b>
				<b>TOTAL LAND ASSESSED VALUE [4]</b>	<b>\$2,068,939,915</b>
				<b>VALUE-TO-LIEN RATIO</b>	<b>265.218</b>

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

[1] Based on principal payments as of September 2, 2017. 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] Bonds issued by ID 2A were fully paid off in 2017

[4] Based on FY 2017-2018 land value provided by County of Orange Auditor-Controller

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

<b>Overlapping District</b>	<b>FY 2017-18 Total Levy</b>	<b>Amount of Levy on Parcels in the District</b>	<b>Percent of Levy on Parcels in the District</b>	<b>Total Debt Outstanding [1]</b>	<b>District Share of Total Debt Outstanding</b>
Metropolitan Water District G.O. Bond	\$121,647,024	\$54,851	0.0451%	\$74,905,000	\$33,775
County of Orange CFD No. 87-5B	\$0	\$0	0.0000%	\$590,000 [4]	\$0
County of Orange CFD No. 87-5C	\$576,722	\$576,722	100.0000%	\$1,445,000	\$1,445,000
County of Orange CFD No. 87-5D	\$400,448	\$400,448	100.0000%	\$1,155,000	\$1,155,000
Capistrano Unified School District SFID No. 1 Series B and 2012 Refunding	\$4,570,245	\$91	0.0020%	\$24,498,787	\$485
Saddleback Valley Unified School District G.O. Bond Series 2007 and 2016 Refunding	\$2,867,804	\$106,279	3.7059%	\$33,055,000	\$1,224,994
Saddleback Valley Unified School District G.O. Bond Series 2013 Refunding	\$5,310,061	\$196,786	3.7059%	\$63,080,000	\$2,337,687
Saddleback Valley Unified School District G.O. Bond Series 2013A	\$569,860	\$21,119	3.7059%	\$7,530,000	\$279,055
Saddleback Valley Unified School District G.O. Bond Series 2016A	\$3,700	\$137	3.7102%	\$9,700,000	\$359,888
Saddleback Valley Unified School District CFD No. 89-2	\$1,758,950	\$1,758,950	100.0000%	\$1,996,476	\$1,996,476
Saddleback Valley Unified School District CFD No. 89-3	\$1,229,298	\$1,229,298	100.0000%	\$1,126,322	\$1,126,322
CA HERO Program	NA	NA	NA	NA	\$535,510
				ESTIMATED SHARE OF OVERLAPPING DEBT	\$10,494,192
Santa Margarita Water District ID No. 3/3A					\$8,625,000 [2]
				TOTAL DIRECT AND OVERLAPPING DEBT	\$19,119,192
				TOTAL LAND ASSESSED VALUE [3]	\$855,449,272
				VALUE-TO-LIEN RATIO	44.743

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, 2017. 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 2017-2018 land value provided by County of Orange Auditor-Controller

[4] County of Orange has funds on hand to pay for remaining bonds and will no longer require a levy moving forward

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

<b>Overlapping District</b>	<b>FY 2017-18 Total Levy</b>	<b>Amount of Levy on Parcels in the District</b>	<b>Percent of Levy on Parcels in the District</b>	<b>Total Debt Outstanding [1]</b>	<b>District Share of Total Debt Outstanding</b>
Metropolitan Water District G.O. Bond	\$121,647,024	\$444,840	0.3657%	\$74,905,000	\$273,913
County of Orange CFD No. 86-1	\$0	\$0	0.0000%	\$0 [4]	\$0
County of Orange CFD No. 86-2	\$0	\$0	0.0000%	\$0 [4]	\$0
County of Orange CFD No. 87-5A	\$0	\$0	0.0000%	\$115,000 [5]	\$0
County of Orange CFD No. 87-5B	\$0	\$0	0.0000%	\$590,000 [5]	\$0
County of Orange CFD No. 87-5E	\$411,479	\$411,479	100.0000%	\$1,075,000	\$1,075,000
County of Orange CFD No. 99-1	\$1,652,027	\$1,652,027	100.0000%	\$16,225,000	\$16,225,000
County of Orange CFD No. 2000-1	\$2,051,688	\$2,051,688	100.0000%	\$21,060,000	\$21,060,000
County of Orange CFD No. 2001-1	\$2,263,546	\$2,263,546	100.0000%	\$25,605,000	\$25,605,000
County of Orange CFD No. 2002-1	\$4,213,196	\$4,213,196	100.0000%	\$52,490,000	\$52,490,000
County of Orange CFD No. 2003-1	\$3,277,458	\$3,277,458	100.0000%	\$43,220,000	\$43,220,000
County of Orange CFD No. 2004-1	\$4,653,172	\$4,653,172	100.0000%	\$62,145,000	\$62,145,000
County of Orange CFD No. 2015-1	\$5,119,938	\$5,119,938	100.0000%	\$89,425,000	\$89,425,000
County of Orange CFD No. 2016-1	\$4,888,626	\$4,888,626	100.0000%	\$91,865,000	\$91,865,000
Capistrano Unified School District CFD No. 92-1	\$2,003,617	\$2,003,617	100.0000%	\$8,505,000	\$8,505,000
Capistrano Unified School District CFD No. 98-2	\$7,725,642	\$7,725,642	100.0000%	\$98,603,542 [6]	\$98,603,542
Capistrano Unified School District SFID No. 1 Series B and 2012 Refunding	\$4,570,245	\$165,540	3.6221%	\$24,498,787	\$887,375
Saddleback Valley Unified School District G.O. Bond Series 2007 and 2016 Refunding	\$2,867,804	\$194,920	6.7968%	\$33,055,000	\$2,246,690
Saddleback Valley Unified School District G.O. Bond Series 2013 Refunding	\$5,310,061	\$360,914	6.7968%	\$63,080,000	\$4,287,424
Saddleback Valley Unified School District G.O. Bond Series 2013A	\$569,860	\$38,732	6.7968%	\$7,530,000	\$511,800
Saddleback Valley Unified School District G.O. Bond Series 2016A	\$3,700	\$251	6.7791%	\$9,700,000	\$657,572
Saddleback Valley Unified School District CFD No. 88-1	\$1,021,611	\$1,021,611	100.0000%	\$3,080,000	\$3,080,000
City of San Juan Capistrano G.O. Bond Series 2017 Refunding	\$2,600,576	\$110	0.0042%	\$28,030,000	\$1,182
Santa Margarita Water District CFD No. 2013-1	\$3,547,506	\$3,547,506	100.0000%	\$56,750,000	\$56,750,000
CA HERO Program	NA	NA	NA	NA	\$1,420,226
<b>ESTIMATED SHARE OF OVERLAPPING DEBT</b>					<b>\$580,334,724</b>
Santa Margarita Water District ID No. 4					\$44,510,000 [2]
Santa Margarita Water District ID No. 4A					\$7,995,000 [2]
Santa Margarita Water District ID No. 4B					\$8,245,000 [2]
<b>TOTAL DIRECT AND OVERLAPPING DEBT</b>					<b>\$641,084,724</b>
<b>TOTAL LAND ASSESSED VALUE [3]</b>					<b>\$6,712,327,958</b>
<b>VALUE-TO-LIEN RATIO</b>					<b>10.470</b>

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, 2017. 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 2017-2018 land value provided by County of Orange Auditor-Controller

[4] Bonds issued by County of Orange CFD Nos. 86-1 and 86-2 were fully paid off in 2017

[5] County of Orange has funds on hand to pay for remaining bonds and will no longer require a levy moving forward

[6] Principal amount for the outstanding capital appreciation bonds determined by applying accreted value as of September 1, 2017

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

<b>Overlapping District</b>	<b>FY 2017-18 Total Levy</b>	<b>Amount of Levy on Parcels in the District</b>	<b>Percent of Levy on Parcels in the District</b>	<b>Total Debt Outstanding [1]</b>	<b>District Share of Total Debt Outstanding</b>
Metropolitan Water District G.O. Bond	\$121,647,024	\$156,478	0.1286%	\$74,905,000	\$96,352
Santa Margarita Water District ID No. 4	\$10,320,474 [4]	\$4,528,830 [5]	43.8820%	\$44,510,000	\$19,531,875
County of Orange CFD No. 86-1	\$0	\$0	0.0000%	\$0 [6]	\$0
County of Orange CFD No. 86-2	\$0	\$0	0.0000%	\$0 [6]	\$0
County of Orange CFD No. 87-5A	\$0	\$0	0.0000%	\$115,000 [7]	\$0
County of Orange CFD No. 87-5B	\$0	\$0	0.0000%	\$590,000 [7]	\$0
County of Orange CFD No. 87-5E	\$411,479	\$411,479	100.0000%	\$1,075,000	\$1,075,000
Capistrano Unified School District SFID No. 1 Series B and 2012 Refunding	\$4,570,245	\$21,322	0.4665%	\$24,498,787	\$114,296
Saddleback Valley Unified School District G.O. Bond Series 2007 and 2016 Refunding	\$2,867,804	\$194,920	6.7968%	\$33,055,000	\$2,246,690
Saddleback Valley Unified School District G.O. Bond Series 2013 Refunding	\$5,310,061	\$360,914	6.7968%	\$63,080,000	\$4,287,424
Saddleback Valley Unified School District G.O. Bond Series 2013A	\$569,860	\$38,732	6.7968%	\$7,530,000	\$511,800
Saddleback Valley Unified School District G.O. Bond Series 2016A	\$3,700	\$251	6.7791%	\$9,700,000	\$657,572
Saddleback Valley Unified School District CFD No. 88-1	\$1,021,611	\$1,021,611	100.0000%	\$3,080,000	\$3,080,000
CA HERO Program	NA	NA	NA	NA	\$1,420,226
				<b>ESTIMATED SHARE OF OVERLAPPING DEBT</b>	<b>\$33,021,235</b>
Santa Margarita Water District ID No. 4A					\$7,995,000 [2]
				<b>TOTAL DIRECT AND OVERLAPPING DEBT</b>	<b>\$41,016,235</b>
				<b>TOTAL LAND ASSESSED VALUE [3]</b>	<b>\$2,461,320,493</b>
				<b>VALUE-TO-LIEN RATIO</b>	<b>60.008</b>

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, 2017. 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 2017-2018 land value provided by County of Orange Auditor-Controller

[4] Includes FY 2017-2018 levy for ID 4, 4A, 4B, 4C, and 4E attributable to ID 4 debt only

[5] Based on FY 2017-2018 ID 4 rate of \$0.1000/\$100 and ID 4A rate of \$0.084/\$100 attributable to ID 4 debt only

[6] Bonds issued by County of Orange CFD Nos. 86-1 and 86-2 were fully paid off in 2017

[7] County of Orange has funds on hand to pay for remaining bonds and will no longer require a levy moving forward

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

<b>Overlapping District</b>	<b>FY 2017-18 Total Levy</b>	<b>Amount of Levy on Parcels in the District</b>	<b>Percent of Levy on Parcels in the District</b>	<b>Total Debt Outstanding [1]</b>	<b>District Share of Total Debt Outstanding</b>
Metropolitan Water District G.O. Bond	\$121,647,024	\$252,710	0.2077%	\$74,905,000	\$155,608
Santa Margarita Water District ID No. 4	\$10,320,474 [4]	\$4,801,058 [5]	46.5197%	\$44,510,000	\$20,705,937
County of Orange CFD No. 99-1	\$1,652,027	\$1,652,027	100.0000%	\$16,225,000	\$16,225,000
County of Orange CFD No. 2000-1	\$2,051,688	\$2,051,688	100.0000%	\$21,060,000	\$21,060,000
County of Orange CFD No. 2001-1	\$2,263,546	\$2,263,546	100.0000%	\$25,605,000	\$25,605,000
County of Orange CFD No. 2002-1	\$4,213,196	\$4,213,196	100.0000%	\$52,490,000	\$52,490,000
County of Orange CFD No. 2003-1	\$3,277,458	\$3,277,458	100.0000%	\$43,220,000	\$43,220,000
County of Orange CFD No. 2004-1	\$4,653,172	\$4,653,172	100.0000%	\$62,145,000	\$62,145,000
Capistrano Unified School District CFD No. 92-1	\$2,003,617	\$2,003,617	100.0000%	\$8,505,000	\$8,505,000
Capistrano Unified School District CFD No. 98-2	\$7,725,642	\$7,725,642	100.0000%	\$98,603,542 [7]	\$98,603,542
Capistrano Unified School District SFID No. 1 Series B and 2012 Refunding	\$4,570,245	\$62,728	1.3725%	\$24,498,787	\$336,253
City of San Juan Capistrano G.O. Bond Series 2017 Refunding	\$2,600,576	\$110	0.0042%	\$28,030,000	\$1,182
Santa Margarita Water District CFD No. 2013-1	\$3,547,506	\$3,547,506	100.0000%	\$56,750,000	\$56,750,000
				<b>ESTIMATED SHARE OF OVERLAPPING DEBT</b>	<b>\$405,802,522</b>
Santa Margarita Water District ID No. 4B					<b>\$8,245,000 [2]</b>
				<b>TOTAL DIRECT AND OVERLAPPING DEBT</b>	<b>\$414,047,522</b>
				<b>TOTAL LAND ASSESSED VALUE [3]</b>	<b>\$3,492,638,509</b>
				<b>VALUE-TO-LIEN RATIO</b>	<b>8.435</b>

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

[1] Based on principal payments as of September 2, 2017. 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 2017-2018 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 2017-2018 levy for ID 4, 4A, 4B, 4C, and 4E attributable to ID 4 debt only

[5] Based on FY 2017-2018 ID 4 rate of \$0.1000/\$100 for property in ID 4B, ID 4D, and ID 4E. Also includes ID 4B rate of \$0.2271/\$100, ID 4D rate of \$0.0000/\$100, and ID 4E rate of \$0.0380/\$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, 2017

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

<b>Overlapping District</b>	<b>FY 2017-2018 Total Levy</b>	<b>Amount of Levy on Parcels in District</b>	<b>Percent of Levy on Parcels in District</b>	<b>Total Debt Outstanding [1]</b>	<b>District Share of Total Debt Outstanding</b>
Capistrano Unified School District CFD No. 90-2	\$2,391,444	\$2,391,444	100.0000%	\$31,685,000	\$31,685,000
Capistrano Unified School District CFD No. 90-2 IA No. 2002-1	\$3,275,977	\$3,275,977	100.0000%	\$38,175,000	\$38,175,000
Metropolitan Water District	\$121,647,024	\$104,184	0.0856%	\$74,905,000	\$64,152
PACE Programs [3]	N/A	N/A	N/A	N/A	\$585,255
Estimated Share of Overlapping Debt Allocable to the District					\$70,509,407
Plus CFD No. 99-1 Refunding Bonds Series 2014 [2]					\$28,400,000
Plus CFD No. 99-1 Refunding Bonds Series 2017 [1]					\$37,250,000
Estimated Share of Direct and Overlapping Debt Allocable to the District					\$136,159,407

[1] As of September 2, 2017.

[2] As of September 2, 2017. Reflects bond call of \$2,885,000 on September 1, 2015.

[3] A total of 17 property owners are participating in the CA HERO Program as of June 30, 2017. In addition, there is one property owner participating in the CaliforniaFIRST Program as of June 30, 2017.

\* CFD Bonds are not direct obligations of Santa Margarita Water District. They are fiduciary activities of the District.

Santa Margarita Water District  
Debt Service Coverage Ratio

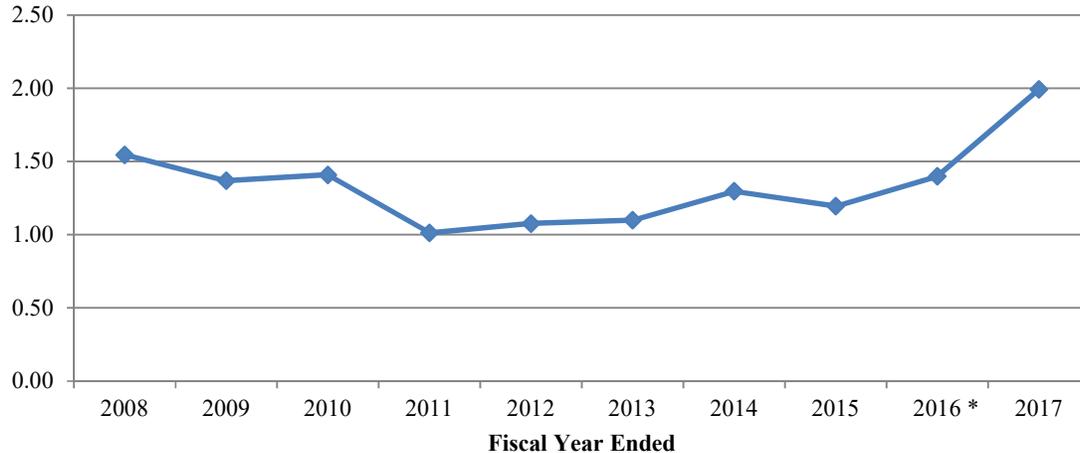
Fiscal Year	Total Revenues [1]	Operating Expenses [2]	Net Available Revenues	Annual Debt Service			Coverage Ratio
				Principal	Interest	Total	
2008	89,095,039	46,722,591	42,372,448	11,644,358	15,772,177	27,416,535	1.55
2009	89,677,203	49,590,518	40,086,685	13,394,718	15,918,998	29,313,716	1.37
2010	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 *	88,680,401	61,353,720	27,326,681	14,006,201	5,538,441	19,544,642	1.40
2017	103,964,839	63,669,388	40,295,451	15,213,214	5,010,779	20,223,993	1.99

[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

\* Amounts include restatement of previously reported revenues, operating expenses and debt service related to the removal of Community Facilities District 99-1 and 2013-1 from the District's financial statements.

### Debt Service Coverage Ratio



Source: SMWD Finance Department

Santa Margarita Water District  
Outstanding Debt by Type

Fiscal Year Ended	El Toro R-6			Total	CFD Bonds *
	General Obligation Bonds	Notes Payable	Reservoir Capacity Obligation		
2008	\$ 179,610,000	\$ 13,348,472	\$ 3,416,229	\$ 196,374,701	\$ 102,285,000
2009	207,635,000	14,404,809	2,804,122	224,843,931	101,550,000
2010	193,735,000	13,461,914	2,158,349	209,355,263	100,090,000
2011	181,498,000	12,831,276	1,477,058	195,806,334	98,425,000
2012	168,705,000	11,976,705	758,296	181,440,001	98,400,000
2013	158,521,091	11,150,200	-	169,671,291	96,210,000
2014	144,091,634	10,383,922	-	154,475,556	151,130,000
2015	126,973,190	9,597,425	-	136,570,615	147,827,394
2016	111,822,909	8,791,224	-	120,614,133	141,615,877
2017	97,744,544	12,278,010	-	110,022,554	138,064,068

\* CFD Bonds are not direct obligations of Santa Margarita Water District. This is a fiduciary activity for the District.

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.

Decrease in General Obligation Bonds in 2017 is due to a bond refinancing and issuance of the 2017 Refunding Bonds Series A.

Increase in Notes Payable in 2017 is due to two new loans in 2017:

City of Mission Viejo and State Water Resources Control Board.

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
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 *	120,614,133	16,582,942,372	0.73%	53,675	2,247	768
2017 *	110,022,554	18,121,997,971	0.61%	54,214	2,029	693

Fiscal Year	Amount Levied	Amount Collected [1]	Percent Collected
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 *	27,049,698	26,168,710	96.7%
2017 *	25,222,843	24,784,692	98.3%

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

\* Amounts include restatement of previously reported revenues, operating expenses and debt service related to the removal of Community Facilities District (CFD) 99-1 and 2013-1 from the District's financial statements. Fiscal Year 2016 outstanding debt is restated and excludes CFD debt. Fiscal Year 2017 also excludes CFD debt.

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%
2016	158,747	48,516	35.8	96,701	43.6	66,245	41.0	190,978,000	59,999	4.4%

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

\* Data is not available

2017 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	2016		2007	
	Number of Employees	Percentage of Employment	Number of Employees	Percentage of Employment
City of Rancho Santa Margarita				
Applied Medical	1,304	4.16%	1,100	3.77%
O'Connell Landscape	980	3.13%	1,000	3.42%
Saddleback Valley School District	606	1.93%	572	1.96%
Lucas & Mercier Construction	553	1.77%	567	1.94%
Control Components Inc.	200	0.64%	400	1.37%
Target Corporation	247	0.79%	300	1.03%
Car Sound Exhaust System Inc.	150	0.48%	210	0.72%
Capistrano Unified School District	215	0.69%	200	0.68%
PADI	180	0.57%	200	0.68%
Santa Margarita Catholic H.S.	175	0.56%	200	0.68%
Cox Communications	n/a	n/a	940	3.22%
	4,610	14.72%	5,689	19.5%
City of Mission Viejo				
Saddleback College	3,033	5.89%	2130	3.76%
Mission Hospital Regional Medical Center	2,200	4.27%	1349	2.38%
Saddleback Valley Unified School District	1,200	2.33%	640	1.13%
Capistrano Unified School District	691	1.34%	n/a	n/a
Nordstrom	409	0.79%	300	0.53%
Macy's Department Store	320	0.62%	475	0.84%
Target Corporation	300	0.58%	n/a	n/a
City of Mission Viejo	269	0.52%	n/a	n/a
Vocational Visions	211	0.41%	n/a	n/a
Ensign Group, Inc.	125	0.24%	n/a	n/a
Unisys Corporation	n/a	n/a	1000	1.77%
Coldwell Banker	n/a	n/a	410	0.72%
Quest Diagnostics	n/a	n/a	300	0.53%
Bristol Farms	n/a	n/a	250	0.44%
U.S. Post Office	n/a	n/a	249	0.44%
	8,758	16.99%	7,103	13.15%
City of San Clemente				
Capistrano Unified School District	814	2.55%	n/a	n/a
Fisherman's Restaurant	260	0.82%	195	0.69%
Ralphs	243	0.76%	n/a	n/a
Walmart	200	0.63%	235	0.83%
City of San Clemente	197	0.62%	191	0.67%
Target Retail Store	150	0.47%	n/a	n/a
US Post Office	150	0.47%	n/a	n/a
Lowe's Home Improvement	147	0.46%	n/a	n/a
ICU Medical	115	0.36%	604	2.13%
Don Roberto Jewelers	n/a	n/a	550	1.94%
San Clemente Memorial Hospital	n/a	n/a	320	1.13%
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%
	2,276	7.14%	2,860	10.1%

Sources: City of Rancho Santa Margarita CAFR, City of Mission Viejo CAFR, City of San Clemente CAFR  
FY 2016 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 2017 was not available at time of preparation of this report

Santa Margarita Water District  
Capital Asset Statistics

	Fiscal Years Ended							
	2010	2011	2012	2013	2014	2015	2016	2017
<b>Domestic System</b>								
Miles of Water Mains	595	595	595	595	595	615	615	626
Maximum Storage Capacity (Acre-feet)	927	1,197	1,197	1,197	1,197	1,210	1210	1222
Number of Storage Tanks	31	32	32	32	32	33	33	34
Number of Pump Stations	20	21	21	21	21	21	21	21
<b>Non-Domestic System</b>								
Miles of Water Mains	116	116	116	116	116	125	125	129
Number of Storage Tanks	6	6	6	6	6	7	7	8
Number of Open Reservoirs	2	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	4566
Number of Pump Stations	12	12	12	12	12	13	14	14
<b>Sewer System</b>								
Miles of Sewer Line	605	605	605	605	605	620	620	630
Number of Lift Stations	17	17	17	17	17	19	19	21
Treatment Plants	2	2	2	2	2	2	2	2
Treatment Capacity (MGD)	9	9	9	9	9	9	9	9
Average Flows (MGD)	8.4	8.3	8.1	8.1	8.1	8.1	8.1	9

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  
Water and Wastewater Connections

**Water Connections by Customer Class**

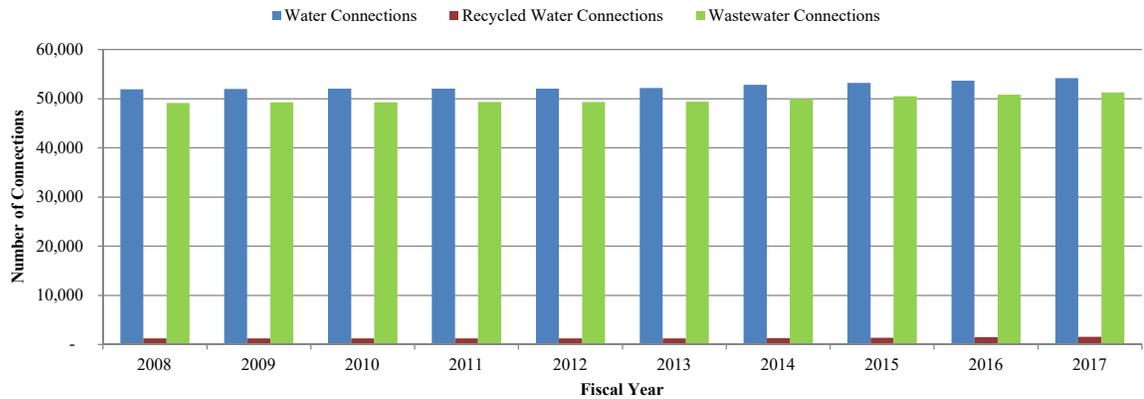
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Commercial	2,146	2,155	2,157	2,157	2,162	2,169	2,205	2,212	2,225	2,244
Domestic Irrigation	1,494	1,496	1,488	1,483	1,484	1,486	1,495	1,498	1,435	1,396
Construction	37	26	21	26	35	42	46	39	44	49
Lakefill	2	2	2	2	2	2	2	2	2	2
Residential Single Family	35,512	35,593	35,637	35,659	35,676	35,715	36,022	36,138	36,299	36,626
Residential Multi Family	12,743	12,746	12,745	12,745	12,746	12,789	13,064	13,377	13,670	13,897
<b>Total Water Connections</b>	<b>51,934</b>	<b>52,018</b>	<b>52,050</b>	<b>52,072</b>	<b>52,105</b>	<b>52,203</b>	<b>52,834</b>	<b>53,266</b>	<b>53,675</b>	<b>54,214</b>

**Recycled Water Connections by Customer Class**

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Non-domestic Irrigation	1,210	1,213	1,214	1,219	1,218	1,257	1,283	1,318	1,416	1,479
Commercial	5	5	5	5	5	5	7	8	9	9
Construction							5	27	37	46
<b>Total Recycled Water Connections</b>	<b>1,215</b>	<b>1,218</b>	<b>1,219</b>	<b>1,224</b>	<b>1,223</b>	<b>1,262</b>	<b>1,295</b>	<b>1,353</b>	<b>1,462</b>	<b>1,534</b>

**Wastewater Connections by Customer Class**

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Commercial	923	929	930	934	939	938	948	993	903	912
Residential Single Family	35,503	35,583	35,627	35,653	35,670	35,709	36,016	36,132	36,292	36,544
Residential Multi Family	12,743	12,746	12,745	12,745	12,746	12,789	13,064	13,377	13,670	13,813
<b>Total Wastewater Connections</b>	<b>49,169</b>	<b>49,258</b>	<b>49,302</b>	<b>49,332</b>	<b>49,355</b>	<b>49,436</b>	<b>50,028</b>	<b>50,502</b>	<b>50,865</b>	<b>51,269</b>



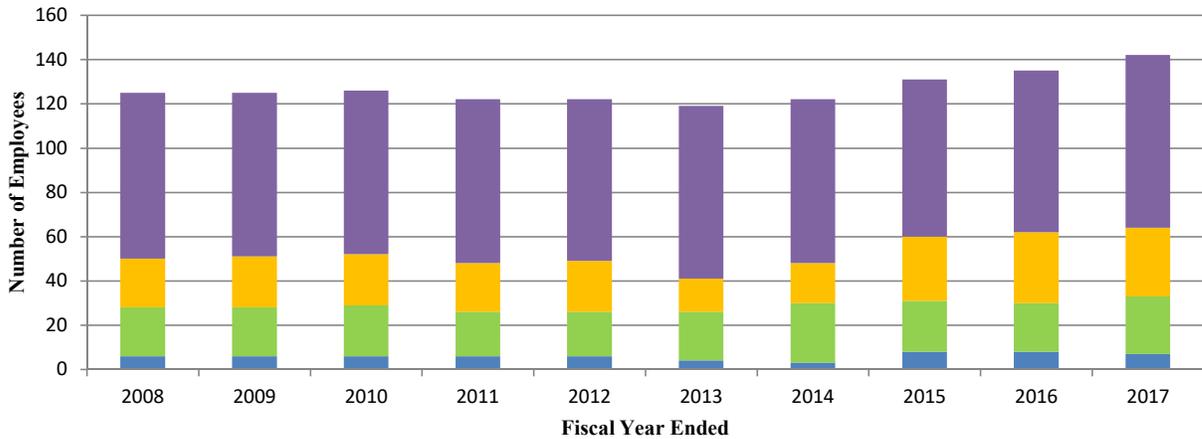
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Water Revenue per Water Connection	\$ 509	\$ 489	\$ 550	\$ 529	\$ 571	\$ 633	\$ 686	\$ 642	\$ 577	\$ 571
Recycled Revenue per Recycled Connection	\$ 4,972	\$ 4,672	\$ 4,450	\$ 3,652	\$ 4,144	\$ 4,773	\$ 5,351	\$ 5,336	\$ 4,938	\$ 4,706
Wastewater Revenue per Wastewater Connection	\$ 224	\$ 223	\$ 229	\$ 226	\$ 232	\$ 237	\$ 242	\$ 243	\$ 223	\$ 222

Source: SMWD utility billing system

Santa Margarita Water District  
Employee Information

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Administration	6	6	6	6	6	4	3	8	8	7
Finance	22	22	23	20	20	22	27	23	22	26
Engineering	22	23	23	22	23	15	18	29	32	31
Operations	75	74	74	74	73	78	74	71	73	78
<b>Total</b>	<b>125</b>	<b>125</b>	<b>126</b>	<b>122</b>	<b>122</b>	<b>119</b>	<b>122</b>	<b>131</b>	<b>135</b>	<b>142</b>

### Number of Employees by Department



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Water Connections per Employee	416	416	413	427	427	239	433	407	395	382
Recycled Water Connections per Employee	10	10	10	10	10	11	11	10	10	11
Wastewater Connections per Employee	393	394	391	404	405	415	410	386	374	361
Total Revenues per employee	\$ 750,832	\$ 670,922	\$ 680,543	\$ 745,868	\$ 852,253	\$ 804,648	\$ 852,171	\$ 730,940	\$ 15	\$ 732,147

Excludes the elected Board of Directors

Source: SMWD payroll records



## **Board of Directors**

Charles T. Gibson, President

Justin McCusker, Vice President

Saundra F. Jacobs, Director

Betty Olson, PhD, Director

Charley Wilson, Director

Daniel R. Feron, General Manager



26111 Antonio Parkway  
Rancho Santa Margarita, California 92688  
949.459.6420 | [www.smwd.com](http://www.smwd.com)