

Santa Margarita / Dana Point Authority

Annual Financial Report

For the Fiscal Year Ended June 30, 2017

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

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the Santa Margarita/Dana Point Authority (Authority), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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. 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 Authority, 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 Notes 2 and 3 to the financial statements, the Authority restated the amounts Due from Santa Margarita Water District, and related Bonds premium/discounts and Deferred gain/loss on debt defeasance of as July 1, 2016. The restatement had \$0 impact to the Authority's net position. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Yavrinek, Trine, Day & Co., LLP

Laguna Hills, California
December 21, 2017

Basic Financial Statements and Accompanying Notes

SANTA MARGARITA/DANA POINT AUTHORITY
Statement of Net Position
As of June 30, 2017

ASSETS:

Current Assets:

Accrued interest receivable	\$ 1,432,725
Due from Santa Margarita Water District - due within one year (Note 2)	15,185,000
Total Current Assets	<u>16,617,725</u>

Non-current Assets:

Due from Santa Margarita Water District - due in more than one year (Note 2)	81,093,653
Total Non-current Assets	<u>81,093,653</u>

Total Assets	<u>97,711,378</u>
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DEFERRED OUTFLOWS OF RESOURCES:

Deferred loss on debt defeasance (Note 3)	1,609,126
Total Deferred Outflows of Resources	<u>1,609,126</u>

TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>99,320,504</u>
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LIABILITIES:

Current Liabilities:

Accrued interest payable	1,432,725
Bonds payable - due within one year (Note 3)	15,185,000
Total Current Liabilities	<u>16,617,725</u>

Non-current Liabilities:

Bonds payable - due in more than one year (Note 3)	82,559,544
Total Non-current Liabilities	<u>82,559,544</u>

Total Liabilities	<u>99,177,269</u>
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DEFERRED INFLOWS OF RESOURCES:

Deferred gain on debt defeasance (Note 3)	143,235
Total Deferred Inflows of Resources	<u>143,235</u>

TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>99,320,504</u>
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NET POSITION:

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

See accompanying notes to the basic financial statements.

SANTA MARGARITA/DANA POINT AUTHORITY
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2017

OPERATING REVENUES:

Special assessment tax revenues from Santa Margarita Water District	\$ 6,442,241
Total Operating Revenues	6,442,241

OPERATING EXPENSES:

Interest Expense	6,442,241
Total Operating Expenses	6,442,241

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

SANTA MARGARITA/DANA POINT AUTHORITY
Statement of Cash Flows
For the Year Ended June 30, 2017

Cash flows from operating activities:

Cash receipts from special assessment tax revenues for debt and interest payments	\$ 19,446,750
Proceeds from bond issuance	29,375,000
Payment for refunding bonds	(31,635,000)
Principal paid for bond debt service	(11,985,000)
Interest paid for debt service	<u>(5,201,750)</u>
Net cash provided by (used in) operating activities	<u>-</u>

Net increase (decrease) in cash and cash equivalents	-
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Cash and cash equivalents, beginning of year	-
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Cash and cash equivalents, end of year	<u><u>\$ -</u></u>
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Reconciliation of operating income to net cash provided by operating activities:

Operating income	\$ -
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Adjustments to reconcile operating loss to net cash provided by operating activities:

Change in assets and liabilities:

Decrease in assets:	
Accrued Interest Receivable	679,208
(Decrease) in liabilities:	
Accrued interest payable	<u>(679,208)</u>
Total adjustments	<u>-</u>
Net cash provided by operating activities	<u><u>\$ -</u></u>

See accompanying notes to the basic financial statements.

Santa Margarita/Dana Point Authority
Notes to the Basic Financial Statements
For the Year Ended June 30, 2017

1. Reporting Entity and Summary of Significant Accounting Policies

Organization

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

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

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

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting and Financial Reporting Standards Codification 2100, *The Financial Reporting Entity*. The Authority is a special purpose government and there are no other activities or component units required to be included in its financial statements.

Basis of Accounting and Measurement Focus

The accounting policies of the Authority's basic financial statements conform to Generally Accepted Accounting Principles in the United States of America (GAAP) applicable to state and local government agencies using pronouncements issued by the Governmental Accounting Standards Board (GASB) and as such, the Authority reports its activities as an enterprise fund. The basic financial statements presented are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recognized in the accounting period in which they are earned, and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

The activity of the Authority consists solely of collection of note receivable and payment of debt which are reported as operating revenues and expenses.

Santa Margarita/Dana Point Authority
Notes to the Basic Financial Statements
For the Year Ended June 30, 2017

1. Reporting Entity and Summary of Significant Accounting Policies, (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts for revenues and expenses for the reporting period. Actual results may differ from those estimates.

Note Receivable

Notes receivable are valued at the unpaid outstanding amount to be collected. There is no current allowance deemed necessary, as repayments are estimated to be paid.

Income Taxes

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

Net Position

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

Santa Margarita/Dana Point Authority
Notes to the Basic Financial Statements
For the Year Ended June 30, 2017

2. Due from Santa Margarita Water District

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

Changes in the amount due from SMWD for the year ended June 30, 2017 are 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
Bonds Payable	\$ 106,070,000	\$ 29,375,000	\$ (45,880,000)	\$ 89,565,000	\$ 15,185,000	\$ 74,380,000
Premium / Discount, net	5,752,909	4,094,331	(1,667,696)	8,179,544	-	8,179,544
Deferred Gain (Loss) on debt defeasance	120,769	(1,584,493)	(2,167)	(1,465,891)	-	(1,465,891)
Due from SMWD	\$ 111,943,678	\$ 31,884,838	\$ (47,549,863)	\$ 96,278,653	\$ 15,185,000	\$ 81,093,653

* The outstanding general obligation bonds premium and discounts and deferred gains and losses on debt defeasance are restated as of July 1, 2016. There is no impact to net position as a result of the restatement.

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

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
Current	15,185,000		
Long-term	\$ 74,380,000		

Santa Margarita/Dana Point Authority
Notes to the Basic Financial Statements
For the Year Ended June 30, 2017

3. Long-Term Liabilities

Long-term liabilities and changes for the year ended June 30, 2017 are 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
General Obligation Bonds Payable:						
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
Subtotal GOB Payable	106,070,000	29,375,000	(45,880,000)	89,565,000	15,185,000	74,380,000
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>

* The outstanding general obligation bonds premium and discounts are restated as of July 1, 2016. There is no impact to net position as a result of the restatement.

2009 General Obligation Bonds Series A

In 2009, the Authority issued \$38,490,000 of General Obligation Water Bonds – Series A with an interest rate of 2.00% to 5.25% that matures annually on August 1 from 2010 to 2038. These bonds were issued by the Authority to purchase General Obligation Bonds of the Santa Margarita Water District.

Principal and interest payments for the 2009 bonds are payable from, and secured by, a pledge of all amounts received from SMWD, in connection with the Authority's issuance of the 2009 Bonds. As additional security for the repayment of the bonds, the Authority has established liens on the following funds received from or attributable to the districts for which the bonds are issued, to the extent such funds are received by each district: (i) standby charges, (ii) connection charges, (iii) that district's share of property taxes or special taxes received from Orange County, California, (iv) proceeds from the foreclosure of property to the extent necessary to pay delinquent ad valorem assessments or standby charges, and (v) investment earnings, if any, thereon. During the fiscal year ended June 30, 2017, these bonds were refunded and partially paid off 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 2017. As of June 30, 2017, the outstanding balance was \$1,730,000 for the 2009 Series A.

Santa Margarita/Dana Point Authority
Notes to the Basic Financial Statements
For the Year Ended June 30, 2017

3. Long-Term Liabilities, (Continued)

2009 General Obligation Bonds Series B

In 2009, the Authority issued \$36,205,000 of Consolidated Refunding General Obligation Water Bonds – Series B with an interest rate from 2.00% to 5.00% that matures annually on August 1 from 2010 to 2018. These bonds were issued by the Authority to purchase General Obligation Bonds of the Santa Margarita Water District.

Principal and interest payments for the 2009 bonds are payable from, and secured by, a pledge of all amounts received from SMWD, in connection with the Authority's issuance of the 2009 Bonds. As additional security for the repayment of the bonds, the Authority has established liens on the following funds received from or attributable to the districts for which the bonds are issued, to the extent such funds are received by each district: (i) standby charges, (ii) connection charges, (iii) that district's share of property taxes or special taxes received from Orange County, California, (iv) proceeds from the foreclosure of property to the extent necessary to pay delinquent ad valorem assessments or standby charges, and (v) investment earnings, if any, thereon. As of June 30, 2017, the outstanding balance was \$10,075,000, for the 2009 Series B.

2014 Refunding General Obligation Bonds Series A

In July 2014 the Authority issued \$65,340,000 Refunding General Obligation Bonds 2014 Series A (Serial \$63,210,000 and term \$2,130,000) with interest rates from 3.00% to 5.00% that matures annually on August 1 from (serial) 2015 to 2029 and (term) ending in 2032. The proceeds of the bonds were used to refund the 2003 Series A and 2004 Series A bonds. The final maturity date remains the same, at August 1, 2032.

Principal and interest payments on the 2014 Bonds are payable from, and secured by a pledge of all amounts received from SMWD, in connection with the Authority's issuance of the 2014 SMWD Refunding Bonds. As of June 30, 2017, the outstanding balance was \$48,385,000.

2017 Refunding General Obligation Bonds Series A

In April 2017 the Authority issued \$29,375,000 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), which had an interest rate of 2.00% to 5.25%. Although the refunding resulted in the recognition of a deferred loss of \$1,584,493, the Authority 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.

Principal and interest payments on the 2017 Bonds are payable from, and secured by a pledge of all amounts received from SMWD, in connection with the Authority's issuance of the 2017 SMWD Refunding Bonds. As of June 30, 2017, the outstanding balance was \$29,375,000.

Santa Margarita/Dana Point Authority
Notes to the Basic Financial Statements
For the Year Ended June 30, 2017

3. Long-Term Liabilities, (Continued)

Future maturities of general obligation bonds payable are as follows at June 30, 2017:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	<u>\$ 89,565,000</u>	<u>\$ 25,596,866</u>	<u>\$ 115,161,866</u>
Current	<u>15,185,000</u>		
Long-term	<u>\$ 74,380,000</u>		

Deferred Gain or Loss on Debt Defeasance

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

<u>General Obligation Bonds</u>	<u>Balance at June 30, 2016, As Restated *</u>	<u>Additions</u>	<u>Deletions</u>	<u>Amortization</u>	<u>Balance at June 30, 2017</u>
2014A Series	\$ 196,694	\$ -	\$ -	\$ (53,459)	\$ 143,235

* The outstanding general obligation bonds deferred gains and losses on debt defeasance are restated as of July 1, 2016. There is no impact to net position as a result of the restatement.

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

<u>General Obligation Bonds</u>	<u>Balance at June 30, 2016, As Restated *</u>	<u>Additions</u>	<u>Deletions</u>	<u>Amortization</u>	<u>Balance at June 30, 2017</u>
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>

* The outstanding general obligation bonds deferred gains and losses on debt defeasance are restated as of July 1, 2016. There is no impact to net position as a result of the restatement.