

Santa Margarita / Dana Point Authority

Annual Financial Report

For the Fiscal Year Ended June 30, 2019

Table of Contents

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



Independent Auditor's 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, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of June 30, 2019, 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.

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.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Laguna Hills, California
December 30, 2019

Basic Financial Statements and Accompanying Notes

SANTA MARGARITA/DANA POINT AUTHORITY
Statement of Net Position
As of June 30, 2019

ASSETS:

Current Assets:

Accrued interest receivable	\$ 1,144,346
Due from Santa Margarita Water District - due within one year (Note 2)	12,407,257
Total Current Assets	<u>13,551,603</u>

Non-current Assets:

Due from Santa Margarita Water District - due in more than one year (Note 2)	50,087,859
Total Non-current Assets	<u>50,087,859</u>

Total Assets	<u>63,639,462</u>
---------------------	--------------------------

DEFERRED OUTFLOWS OF RESOURCES:

Deferred loss on debt defeasance (Note 3)	1,312,347
Total Deferred Outflows of Resources	<u>1,312,347</u>

TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>64,951,809</u>
--	--------------------------

LIABILITIES:

Current Liabilities:

Accrued interest payable	1,144,346
Bonds payable - due within one year (Note 3)	12,407,257
Total Current Liabilities	<u>13,551,603</u>

Non-current Liabilities:

Bonds payable - due in more than one year (Note 3)	51,331,600
Total Non-current Liabilities	<u>51,331,600</u>

Total Liabilities	<u>64,883,203</u>
--------------------------	--------------------------

DEFERRED INFLOWS OF RESOURCES:

Deferred gain on debt defeasance (Note 3)	68,606
Total Deferred Inflows of Resources	<u>68,606</u>

TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>64,951,809</u>
--	--------------------------

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, 2019

OPERATING REVENUES:

Special assessment tax revenues from Santa Margarita Water District	\$ 1,691,201
Total Operating Revenues	<u><u>1,691,201</u></u>

OPERATING EXPENSES:

Interest Expense	1,691,201
Total Operating Expenses	<u><u>1,691,201</u></u>

Change in net position	-
-------------------------------	---

Net position, beginning of year	-
---------------------------------	---

Net position, end of year	<u><u>\$ -</u></u>
----------------------------------	--------------------

See accompanying notes to the basic financial statements.

SANTA MARGARITA/DANA POINT AUTHORITY
Statement of Cash Flows
For the Year Ended June 30, 2019

Cash flows from operating activities:

Cash receipts from special assessment tax revenues for debt and interest payments	\$ 19,060,225
Principal paid for bond debt service	(15,940,000)
Interest paid for debt service	<u>(3,120,225)</u>
Net cash provided by (used in) operating activities	<u>-</u>

Net increase (decrease) in cash and cash equivalents -

Cash and cash equivalents, beginning of year -

Cash and cash equivalents, end of year \$ -

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

Operating income \$ -

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

Change in assets and liabilities:

Decrease/(Increase) in assets:
Accrued Interest Receivable 312,332

(Decrease)/Increase in liabilities:
Accrued interest payable (312,332)

Total adjustments -
Net cash provided by operating activities \$ -

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

Amortization of (premiums) discounts \$ (1,205,268)
Deferred (gain) loss on debt defeasance 88,576

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, 2019

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 amounts due from Santa Margarita Water District 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, 2019

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.

Due from Santa Margarita Water District

Amounts due 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. 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, 2019

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, 2019 are as follows:

	Balance at June 30, 2018	Additions	Deletions	Balance at June 30, 2019	Amount Due Within One Year	Amount Due Beyond One Year
Bonds Payable	\$ 74,380,000	\$ -	\$ (15,940,000)	\$ 58,440,000	\$ 11,545,000	\$ 46,895,000
Premium / Discount, net	6,504,125	-	(1,205,268)	5,298,857	862,257	4,436,600
Deferred Gain (Loss) on debt defeasance, net	(1,332,317)	-	88,576	(1,243,741)	-	(1,243,741)
Due from SMWD	<u>\$ 79,551,808</u>	<u>\$ -</u>	<u>\$ (17,056,692)</u>	<u>\$ 62,495,116</u>	<u>\$ 12,407,257</u>	<u>\$ 50,087,859</u>

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	1,485,000	1,489,251	2,974,251
2024	1,560,000	1,413,126	2,973,126
2025-2029	9,080,000	5,780,380	14,860,380
2030-2034	10,830,000	3,291,289	14,121,289
2035-2039	10,135,000	1,046,700	11,181,700
Total	<u>\$ 58,440,000</u>	<u>\$ 18,932,099</u>	<u>\$ 77,372,099</u>
Current	<u>11,545,000</u>		
Long-Term	<u>\$ 46,895,000</u>		

Santa Margarita/Dana Point Authority
Notes to the Basic Financial Statements
For the Year Ended June 30, 2019

3. Long-Term Liabilities

Long-term liabilities and changes for the year ended June 30, 2019 are as follows:

	Balance at June 30, 2018	Additions	Deletions	Balance at June 30, 2019	Amount Due Within One Year	Amount Due Beyond One Year
General Obligation Bonds Payable:						
2009 Series A	\$ 885,000	\$ -	\$ (885,000)	\$ -	\$ -	\$ -
2009 Series B	5,195,000	-	(5,195,000)	-	-	-
2014 Series A	38,925,000	-	(9,860,000)	29,065,000	10,635,000	18,430,000
2017 Series A	29,375,000	-	-	29,375,000	910,000	28,465,000
Total GOB Payable	74,380,000	-	(15,940,000)	58,440,000	11,545,000	46,895,000
Premium / Discount, net	6,504,125	-	(1,205,268)	5,298,857	862,257	4,436,600
Total Bonds Payable	<u>\$ 80,884,125</u>	<u>\$ -</u>	<u>\$ (17,145,268)</u>	<u>\$ 63,738,857</u>	<u>\$ 12,407,257</u>	<u>\$ 51,331,600</u>

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 and are discussed in further detail in the Santa Margarita Water District’s Comprehensive Annual Financial Report.

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, with the remaining debt service paid in the year ended June 30, 2019.

Santa Margarita/Dana Point Authority
Notes to the Basic Financial Statements
For the Year Ended June 30, 2019

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 and are discussed in further detail in the Santa Margarita Water District's Comprehensive Annual Financial Report.

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. The remaining debt service was paid in the year ended June 30, 2019.

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 and are discussed in further detail in the Santa Margarita Water District's Comprehensive Annual Financial Report. As of June 30, 2019, the outstanding balance was \$29,065,000.

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%. The refunding resulted in the recognition of a deferred loss of \$1,584,493, which will be amortized over the remaining term of the bond. 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 and are discussed in further detail in the Santa Margarita Water District's Comprehensive Annual Financial Report. As of June 30, 2019, the outstanding balance was \$29,375,000.

Santa Margarita/Dana Point Authority
Notes to the Basic Financial Statements
For the Year Ended June 30, 2019

3. Long-Term Liabilities, (Continued)

Future maturities of general obligation bonds payable are as follows at June 30, 2019:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	1,485,000	1,489,251	2,974,251
2024	1,560,000	1,413,126	2,973,126
2025-2029	9,080,000	5,780,380	14,860,380
2030-2034	10,830,000	3,291,289	14,121,289
2035-2039	10,135,000	1,046,700	11,181,700
Total	<u>\$ 58,440,000</u>	<u>\$ 18,932,099</u>	<u>\$ 77,372,099</u>
Current	<u>11,545,000</u>		
Long-Term	<u>\$ 46,895,000</u>		

Deferred Gain or Loss on Debt Defeasance

The balance for deferred gain on debt defeasance as of June 30, 2019 is as follows:

<u>General Obligation Bonds</u>	<u>Balance at June 30, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Amortization</u>	<u>Balance at June 30, 2019</u>
2014A Series	<u>\$ 100,389</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (31,783)</u>	<u>\$ 68,606</u>

The balance for deferred loss on debt defeasance as of June 30, 2019 is as follows:

<u>General Obligation Bonds</u>	<u>Balance at June 30, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Amortization</u>	<u>Balance at June 30, 2019</u>
2017A Series	<u>\$ 1,432,706</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (120,359)</u>	<u>\$ 1,312,347</u>