

Santa Margarita Water District



COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2020

RANCHO SANTA MARGARITA, CALIFORNIA

Santa Margarita Water District

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2020

Prepared by the Finance Department
26111 Antonio Parkway, Rancho Santa Margarita, CA 92688 • www.smwd.com

SANTA MARGARITA WATER DISTRICT
 Comprehensive Annual Financial Report
 For the Year Ended June 30, 2020

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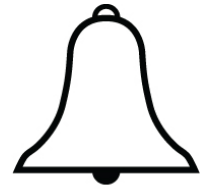
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**INTRODUCTORY SECTION
(UNAUDITED)**

BOARD OF DIRECTORS

BETTY H. OLSON, PH.D
CHARLES T. GIBSON
SAUNDRA F. JACOBS
JUSTIN MCCUSKER
FRANK URY

DANIEL R. FERONS
GENERAL MANAGER



Santa Margarita Water District

November 20, 2020

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 Santa Margarita Water District (District) Comprehensive Annual Financial Report (CAFR) for the fiscal year ended on June 30, 2020. The CAFR was prepared by the District in conformity with United States generally accepted accounting principles and audited in accordance with United States generally accepted auditing standards by a certified public accounting firm.

The focus of this report is on the financial performance and position of the District. The CAFR provides an assessment of the District's finances, discusses the District's services and its strategic plans, highlights the District's major initiatives and offers financial and demographic trend information.

Management Responsibilities

The District is responsible for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures. 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. The necessary disclosures are included to enable the reader to gain an understanding of the District's financial activities.

The accompanying financial statements include all the organization's activities and functions controlled by the District's Board of Directors in accordance with the Governmental Accounting Standards Board (GASB). For the purpose of this evaluation, control was determined by the Board's taxing authority and responsibility to adopt the budget, rates, and to establish policies.

An audit of the financial records and transactions of the District is conducted annually by independent certified public accountants. The District's Board of Directors (Board) selected the accounting firm of Macias Gini & O'Connell LLP (MGO), to perform the audit for the year ended June 30, 2020. The auditor's 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, 2020.

The Management Discussion and Analysis (MD&A) immediately follows the independent auditors' 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.

COVID-19 Responses

Beginning in March 2020, COVID-19 began to have a widespread effect on the United States and created significant economic impacts. Each year, the District develops an annual budget that allows us to provide safe and reliable drinking water, wastewater, and recycled water services to our nearly 170,000 residents. Recognizing that a sustained economic downturn could directly and negatively impact our community and customers, the District made every effort to defer spending to the degree possible without impacting water quality or customer service. The Board of Directors unanimously approved a revised budget with \$1.8 million in reductions for Fiscal Year 2021. With this action, the District also suspended the previously approved rate increase scheduled to be implemented January 2021.

Amidst the pandemic, the District remains committed to its customers, ensuring measures are in place to ease the economic impact of COVID-19. To this end, the Board approved a Customer Assistance Program to support customers during these difficult economic times. Through the end of Fiscal Year 2021, customers may now contact the District to defer paying their bills for up to three months and then repay over a twenty-four-month period for residential customers and twelve month period for non-residential customers.

Profile of the District

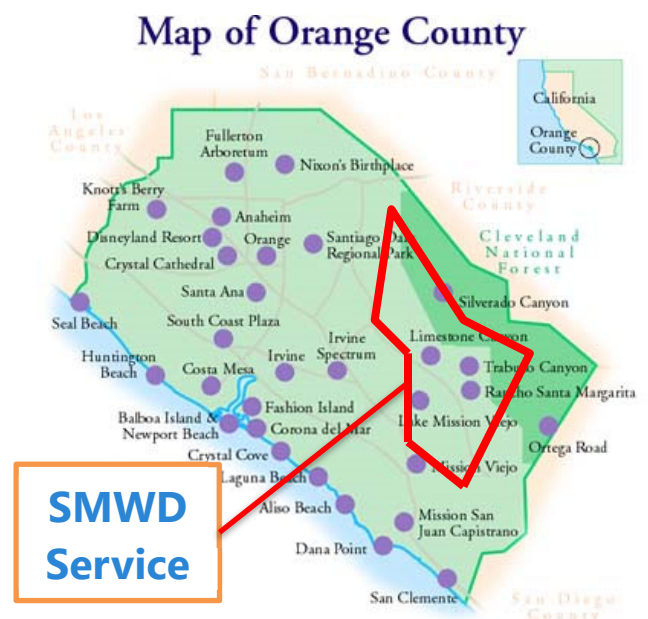
The District was formed in 1964 as a California Water District in the southeast corner of Orange County on a portion of the historic Rancho Mission Viejo (RMV) and other large landholdings. The first Board of Directors was composed of major landowners who laid the groundwork for the long-term prosperity of the District and the region. Development began gradually with the first homeowner customers being served in 1973 in what would become the City of Mission Viejo.

Balancing the need for a sustainable water supply with water use efficiency and accommodating the growth planned for the region continues to be a high priority for the District as our customer base continues to grow. This commitment was exemplified in 2019, the District received the Association of California Water Agencies (ACWA) Clair A. Hill Agency Award for Excellence, which recognizes exemplary programs developed by ACWA member agencies. The 2019 award recognized the District for its innovative use of recycled water from a new advanced water treatment plant developed in cooperation with the City of Mission Viejo and the Lake Mission Viejo Homeowners' Association participation.

Service Area and Customer Base

The District is the second largest retail water agency in Orange County. Its 62,674 acres of service area includes roughly 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, the unincorporated communities of Coto de Caza, Ladera Ranch, Las Flores, and the Villages of Sendero and Esencia.

The District's service area includes the last major residential development areas within South Orange County. The District currently serves over 170,000 residents and is projected to add approximately 38,000 new residents by 2035 as part of The Ranch Plan approved by the County of Orange. The County of Orange has recently been approving the construction of approximately 500 new dwelling units per year in the District's service area.



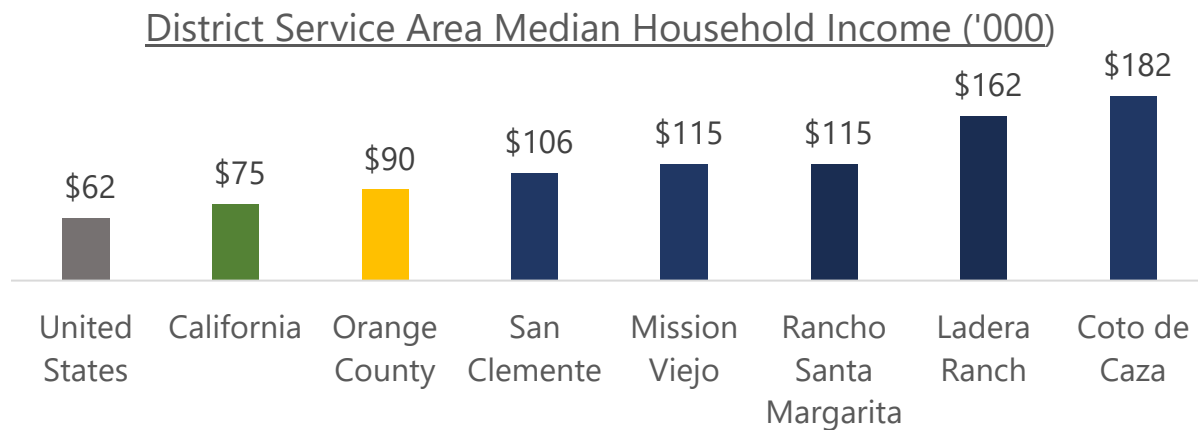
In addition, the District in cooperation with the City of San Juan Capistrano (City) is proposing to annex the City’s water and sewer utilities into the District in early 2021. This acquisition will add another 11,000 households and 35,000 people.

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 General Obligation (GO) bonds, Community Facility Districts (CFD) bonds, and rate revenues. Project costs funded through GO and CFD bonds are allocated amongst the districts either improvement districts and sub improvement districts based on the based on proportional benefit and/or the lands encumbered by the CFD and funded through property taxes assessed to the landowners.

The improvement districts 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.

Local Economy

There are roughly 600,000 residents in South Orange County, of which just under one third are served by the District. The communities within the District’s boundaries are relatively affluent. In general, South Orange County enjoys low unemployment, even relative to the California and national average, and is projected to experience 2% annual economic growth. The household median income (HMI) is strong for the District’s service area, at approximately \$136,000, compared to Orange County’s HMI of approximately \$90,000 and \$75,000 for California.



Source: Median Household Income Data from US Census Bureau. District service area portion of San Clemente (Talega) is higher than City average.

There are many thriving businesses served by the District, particularly in the Rancho Santa Margarita, Ladera Ranch and Mission Viejo areas. Most businesses within South Orange County are smaller with under 50 employees. However, there are also some larger and significant companies within the District’s borders, such as Applied Medical in Rancho Santa Margarita. Future business growth is expected to serve the new areas of the Villages of Esencia and Sendero and the remainder of the Ranch Plan.

Governance

The District is governed by a five-member Board of Directors, all of which five (5) were elected at-large by registered voters within the District boundaries for four-year terms. The Board of Directors is responsible for establishing policy, providing strategic planning oversight, and setting direction and vision to ensure that the District meets its mission, fulfills its obligations and keeps its commitment to its customers.

The Board of Directors meets twice monthly, holds a strategic planning workshop annually, and attend other special meetings as needed. In addition, the Board has three standing committees: Engineering and Operations, Finance and Administration, and Water Quality and Treatment. 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.).

District Services

The District provides the following three core services to the community: Domestic or “Potable” Water, Recycled Water, and Wastewater.

Domestic or “Potable” Water System

Like most water purveyors in South Orange County, the District’s current domestic water supply is imported from northern California via the State Water Project and from the Colorado River via the Metropolitan Water District of Southern California’s (MET) Colorado River Aqueduct. The State Water Project, also known as the 444 mile-long 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.

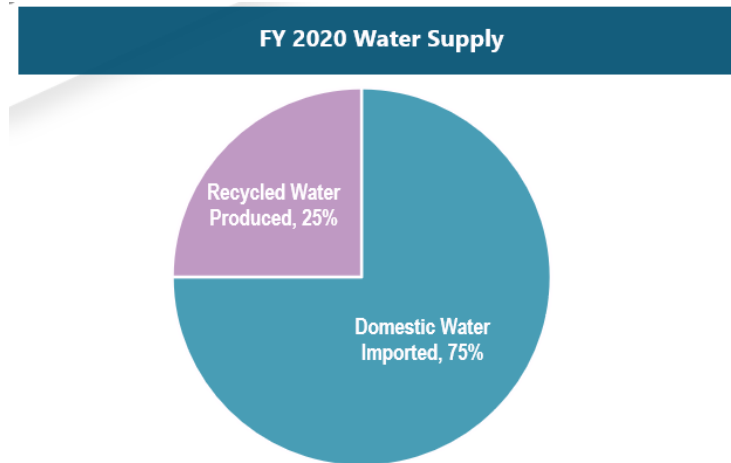
The Municipal Water District of Orange County (MWDOC) wholesales water to the District and to other agencies within Orange County. MWDOC is a member of MET, which wholesales water across southern California. Currently, MET provides the District with treated water from the Robert B. Diemer Filtration Plant. In addition, the District receives raw water from MET via MWDOC which is treated at the Baker Plant in Lake Forest, operated by the Irvine Ranch Water District and delivered to the District.

Major improvements have been made over the last two decades to enhance the reliability of the water supply system. These include the construction of the Upper Chiquita Reservoir, interconnections with the Irvine Ranch Water District (IRWD), purchase of capacity in the El Toro R-6 Reservoir, and participation in the construction of the Baker Water Treatment Plant which treats raw water delivered by MET or, in an emergency, water from Irvine Lake. The Baker Water Treatment Plant became operational in Fiscal Year 2017 and enhances the local reliability by providing a redundant treatment system to MET’s Robert B. Diemer Filtration Plant. The Baker Plant and in addition to the District’s two emergency storage facilities and the interconnection ensure customers with 30 days of average domestic water supply in the event of a failure of the imported water delivery system.

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 requirements. The District operates a certified laboratory to perform most of the testing.

Recycled Water System

Recycled water is an important resource in the District's current and future water supply portfolio. The District plans to recycle and utilize its wastewater to the degree practical, 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 that meets the quality requirements of Title 22 of the California Code of Regulations for outdoor use. 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 the District's two wastewater reclamation plants and stored in the Upper Oso Seasonal Storage Reservoir and the Portola Reservoir, as well as other storage tanks throughout the District.



In 2017, the District completed the Lake Mission Viejo Advanced Water Treatment Facility, which can produce an average of 300-acre feet (AF) per year of highly treated water for delivery to Lake Mission Viejo, a swimmable recreational lake. This project is a significant achievement in providing uninterrupted water service to the Lake and has received several awards from industry organizations, such as the Water Reuse Association. The District most recently received the 2019 Clair A. Hill Agency Award for Excellence presented by the Association of California Water Agencies for its creative and sustainable approach to addressing water reliability challenges.

In 2018, the District broke ground on the construction of the Trampas Canyon Dam & Recycled Water Seasonal Storage Reservoir (Trampas Reservoir) and has had significant construction activity since then. The Trampas Reservoir is expected to provide 5,000 AF of storage and is the first new dam and reservoir in Orange County in over a decade. The Trampas Reservoir was dedicated on October 9th and will begin filling in early 2021.

The Lake Mission Viejo Advanced Water Treatment Facility project and the Trampas Reservoir project have both moved the District towards accomplishing goals for recycling all its wastewater and creating supply locally. Projects to convert certain irrigation systems from using imported drinking water to recycled water also help improve the reliability of supply while progressing toward increased use of locally developed water. Meeting the District's strategic goal of recycling 100% of its wastewater, and providing approximately 30% of the District's water demands.

Wastewater System

The District operates an extensive wastewater collection system as well as three wastewater treatment plants. It is also a member of the South Orange County Wastewater Authority (SOCWA), a Joint Powers Authority, which operates several regional treatment plants. The District has capacity rights in and/or owns and operates the following six wastewater treatment plants:

- Los Alisos Water Reclamation Plant, (owned and operated by IRWD);
- Jay B. Latham Wastewater Treatment Plant, (operated by SOCWA);
- 3A Water Reclamation Plant, (owned and operated by Moulton Niguel Water District);
- Chiquita Water Reclamation Plant, (owned and operated by the District);

- Oso Creek Water Reclamation Plant, (owned and operated by the District); and
- Nichols Water Reclamation Plant, (a specialized small plant operated by the District serving Quest Diagnostics under contract with the District).

Operation of the collection system is a critical activity. The District regularly inspects the sewer collection lines with video equipment to check for blockages and problem areas. It also maintains a fleet of vacuum trucks to clean the system. Because the District’s service area is in a series of hills and valleys, it 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 the treatment plants, except the Nichols Water Reclamation Plant, are connected to the SOCWA Dana Point Ocean Outfall for disposal of secondary effluent if the water is not recycled.

Regional Facilities

In addition to providing reliable potable water, recycled water, and wastewater service to its retail customers, the District currently operates various regional facilities and provides recycled water to adjoining agencies. As such, the District maintains inter-agency coordination and long-range planning to meet future water supply and wastewater treatment needs for its service area.

Major Initiatives & Projects

In its 55-year history, the District has focused on providing reliable, cost-effective water and wastewater service through innovation and the dedication of the Board and the District’s team. Each year, the District reviews the Strategic Plan with long-range goals. The plan includes strategic and core objectives to provide focus and direction to move the District from where we are today to where we need to be for our customers.

Over the next 20 years, the focus will be on:

- Continuing to provide excellent water quality to all our customers;
- Continuing an environmentally responsible quality of life for our customers;
- Providing cost effective services and solutions;
- Providing sustainable water supplies; and
- Supporting community development as approved by the County of Orange and various City authorities within the District’s service area.

Strategic Plan

The District established a strategic plan based on three key objectives:

1. Nominally, recycling 100% of the District’s wastewater;
2. Securing 30% of the domestic water supply from local supplies and up to 50% from sources other than MET by 2030; and
3. Six months of water supply in storage by 2030.

The District’s Strategic Plan, which includes the development of local supplies, is important during these times of changing climate and regulatory conditions, to ensure water supply reliability. The District is comparing the potential benefits of locally controlled projects with possible long-term cost savings to the ongoing increases in imported water costs as part of its resilience portfolio and strategic plan.

Water Supply and Reliability Projects – Overview

The District continues to pursue projects that will strengthen our local reliability and meet our strategic planning goals with the aim of increasing its local water supplies, including recycled water, domestic water, and water in storage as mentioned above.

We are currently working on several programs to expand the recycled water supply and develop local potable water supplies. Each of the programs may have multiple phases or projects and is evaluated for the potential funding sources, cost of the water, and proposed timing. The past several winter seasons continue to highlight Southern California’s extreme variability in weather conditions and corresponding water supply changes from year to year.

Trampas Canyon Dam & Recycled Water Seasonal Storage Reservoir

A key element to establishing long-term reliable water supplies is seasonal storage. The District is currently underway with the construction of the Trampas Canyon Dam & Recycled Water Seasonal Storage Reservoir. Originally constructed in 1973-1975, the District is rebuilding and raising the dam to provide 5,000 AF of storage. This new reservoir will allow the District to produce recycled water year-round and store it during the periods of low demands for use during peak demands.



The District held the dedication ceremony on October 9th and anticipates the operational date in early 2021. The District estimates that the reservoir could be filled to its 1.6 billion gallon capacity by year-end 2022.

Funding is provided through a combination of developer funding and a grant and low-interest loan from the State Water Resources Control Board Clean Water State Revolving Fund, supported by federal disbursements to California as well as local State funds.

City of San Juan Capistrano Annexation and Groundwater Plant Maximization Project

As part of the District’s effort to provide quality customer service and expand local water supplies, the District entered into a Memorandum of Understanding with the City of San Juan Capistrano for the annexation of the City’s water and sewer utilities. The District will offer the City’s water and sewer utilities efficiencies in operations and will undertake maintenance and needed capital projects that had been previously deferred. The District is in the final phases of the transition to integrate the City’s current customers in the District’s service area. The final acquisition is anticipated in early 2021.

Groundwater Recovery Plant Maximization Project. Among the City of San Juan Capistrano’s water system assets is a groundwater desalter facility known as the Groundwater Recovery Plant (GWRP). The District expects to undertake certain capital improvements to wells, pumps, and related infrastructure to

increase the production capacity of the GWRP and to deliver the additional groundwater extracted therefrom to customers within the current boundaries of the District. The approximately \$2.1 million project is anticipated to increase GWRP production by approximately 2,000 AF per year.

Potable Reuse Projects. The annexation will expand the District's service area to include the majority of San Juan Creek watershed. The District continues to study potable reuse opportunities in the watershed, whether direct or indirect. Such opportunities include several potential sources of supply and locations for spreading basins, coupled with some of the naturally occurring groundwater. The timing for any such projects is uncertain, given the State of California is developing water reuse guidelines, may take several years to implement.

Rancho Groundwater Plant

The District is in the planning stages to construct a new water treatment plant to treat certain extracted groundwater to potable water standards, including the removal of iron and manganese and a disinfection process. There is an existing agreement with the RMV Mutual Water Company that allows the District to purchase up to 2,500 AF per year of groundwater, which is currently being used for irrigation purposes only.

The District is planning to change the ultimate use from irrigation to potable use. It is anticipated that this project would be developed in three phases, including the first phase which would be able to treat up to 1,000 AF per year and produce up to 900 AF per year of potable water. Ultimately the project is intended to produce at least 2,250 AF per year of potable water, depending on long term water usage and availability.

Oso Creek Water Reclamation Plant Optimization

The District recently completed its Wastewater Master Plan to determine the wastewater treatment needs of the District and to identify the ultimate recycled water demands. The Plan developed multiple alternatives, and ultimately identified the expansion of the Oso Creek Water Reclamation Plant (OCWRP) as the optimum approach to meeting its future wastewater treatment needs and its goal of recycling the equivalent of 100% of the District's wastewater.

In order to increase the OCWRP's influent flow and subsequent tertiary treatment capacity, it is necessary to demolish and rebuild the existing facility and construct a new remote lift station and force main. The construction of the expanded OCWRP is expected to add approximately 1,350 AF per year of tertiary effluent for use in the District's recycled water system. This expansion will reduce average daily liquid treatment requirements at SOCWA's Jay B. Latham Wastewater Treatment Plant. The expanded OCWRP is expected to be operational during Fiscal Year 2022.

Chiquita Water Reclamation Plant – Final Expansion

The Chiquita Water Reclamation Plant (CWRP), which was most recently expanded in 2005, has a rated capacity of 9 MGD of wastewater and produces up to 6 MGD of tertiary treated water. Based on the expected buildout of District's service area, it has been determined that the treatment capacity of CWRP will need to be expanded to at least 9.5 MGD. The District intends to undertake such expansion in two phases. The first phase, which consists of the construction of additional aeration basins and a secondary clarifier to increase the CWRP's secondary process capacity to 9.5 MGD, is expected to be completed in Fiscal Year 2021. The second phase, which consists of the expansion of the pumping capacity in the lift station, the construction of an additional grit removal system, primary clarifier and tertiary filter and two chlorine contact basins, as well as the addition of a mechanical thickener and rotary screw press, is expected to be completed over the next several years, contingent upon the pace of new development within the District's service area. In connection with the expansion, the District will also rehabilitate or upgrade portions of the existing facility.

Recycled Water Conversion and Conveyance Projects

The District is nearing completion of a series of projects which provide recycled water to the Talega community in the City of San Clemente. The District is also working to implement two key projects which will allow certain existing District irrigation customers to convert to recycled water. By expanding the recycled water distribution system, the District will increase recycled water usage and significantly reduce dependence on imported potable water for irrigation. It will also reduce the amount of treated wastewater discharged into the ocean and enhance overall supply reliability.

Las Flores Area. This project is expected to facilitate the delivery of approximately 209 AF per year of recycled water for irrigation customers. The project involves the construction of approximately 3,800 feet of 16-inch pipe, 5,200 feet of 8-inch pipe, the repurposing of 3,600 feet of force main and the conversion of the Las Flores Lift Station to a recycled water booster pump station. The project is expected to be completed and operational in Fiscal Year 2022 and will be funded by a combination of District Revenue, available bond funds, and federal grants.

Rancho Santa Margarita and Rancho Trabuco Areas. The project, which is currently in initial planning stages, is expected to include new conveyance pipelines, pump stations and connections to the Upper Oso Reservoir and the OCWRP. Approximately 1,150 AF per year of recycled water would be supplied to irrigation customers upon completion. The project, at an estimated cost of approximately \$43 million, is anticipated to be funded through a combination of District revenue including, General Obligation bonds and/or subsidized State or Federal loans, which would be repaid through new direct assessments or charges on the service area only.

Existing Facility Capital Repair and Replacement Projects (CRP)

In addition to our strategic projects to enhance local water supplies and system reliability, the District proactively develops plans for the maintenance, replacement or rehabilitation of our existing infrastructure. The District's FY 2021 Budget included an estimated \$26.7 million of new projects expected to commence in addition to those currently ongoing. For FY 2020, the District expended \$11.6 million on over 50 different such projects.

Technology Projects

The District has spent the last several years replacing the existing billing and financial systems. The District recently launched a new payroll and human resources system. All these systems provide quicker and smoother information across all areas, particularly information for customers during their calls or messages of inquiries. The District is also working towards fully integrating these systems with its Geographic Information System, Supervisory Control and Data Acquisition, and Computer Maintenance Management System. This technology upgrade will allow the District to achieve cost efficiencies, better serve our customers, and provide more robust business metrics.

Financial Planning & Policies

Financial Planning

The District achieves a balanced budget by setting rates and fees to fund ongoing activities and provide reliable water to our customers. As with other utilities throughout the state, the District must address changing State and Federal water policies, laws, and regulations. The impacts of water demand changes and maintaining high-quality customer service. The District continues to address these issues by investing in local water supplies, maximizing the use of recycled water as well as developing local, drought-resilient water resources that will reduce its reliance on imported water. Concurrently, the District also engages State

and Federal law makers and regulating authorities through a variety of advocacy programs and direct meetings.

The District maintains a long-range financial plan, which forecasts our operational and capital replacement program needs and accounts for changes to the economy, environment, operational requirements and capital investments. This plan incorporates the District's other planning documents, including the Integrated Resource Plan, Urban Water Management Plan (UWMP), and Long-Range Water Reliability Plan. As part of its long-range financial planning, the District recently issued revenue bonds and anticipates issuing further bonds in the upcoming fiscal years to balance funding for the District's strategic plan and the impacts to customer rates.

Budgetary Process and Controls

The District's annually adopted budget reflects the strategic goals and direction of the Board of Directors and serves as a key communication tool to its customers and stakeholders. The budget builds upon the District's financial policies and its capital program and utilizes a "zero-based" budgeting approach. This approach analyzes each of the District's activities in the upcoming year and assigns a projected cost to each activity based on need.

Each of the District's four departments developed their operating expense budgets based on normal operating activities, as well as any additional activities or programs that are expected to be implemented during the fiscal year. The District's budget process is highly interactive and is typically a four-month process that enables the District to look at its needs and ways to increase operational efficiencies.

Throughout the fiscal year, the management monitors the budget by department and division. The District presents its Financial Statements to its Finance and Administration Committee (FAC) monthly and quarterly to the Board for review.

Revenues

The District generates operating revenues primarily from charges related to the sale of water, recycled water, and wastewater services. Other revenues are classified as non-operating revenues and include property taxes, lease rental income, and investment income as well as grants and capital contributions. The District's rates recover the cost of delivering water and wastewater services to customers and are composed of two parts: 1) a fixed monthly charge to each customer to fully cover the related fixed costs; and 2) a variable rate based on the volume of water used and the wastewater discharged by each customer.



Financial Policies

The District's Board adopted and periodically reviews a set of financial policies which includes Reserve and Fiscal Policies, the Purchasing Policy, and the Investment Policy ensuring the District's management and governing body consistently adhere to prudent fiscal practices.

The Reserve Policy identifies funding requirements and goals for several categories, including an Operating Reserve of at least 3 months of operating expenses, with a goal of 5 months of operating expenses, which provides funding for rate stabilization. Reserve requirements and goals are also established for Capital Emergency, Capital Repairs and Replacement, and new Capital Projects.

The category requirements are summarized below:

Category	Funding Level – Requirements	Funding Level – Goals
Operating Reserve (including dedicated Rate Stabilization Funds)	25% / 3 months of Operating Expenses	42% / 5 months of Operating Expenses
Capital Reserve - Emergency	2% of Net Depreciable Assets	4% of Net Depreciable Assets
Capital Reserve - Repair & Replacement	10% of upcoming 5-Year Total	20% of upcoming 5-Year Total
Capital Reserve - New Projects	\$12.5 million	\$12.5 million
Restricted Loan / Bond Reserves Held by the District	As per Loan / Bond Documents	As per Loan / Bond Documents

In addition to individual reserve targets and as part of the Fiscal Policy the District strives to maintain reserve levels equivalent to a year of operating expenditures and a debt coverage ratio of 150% of annual debt service.

The current level of reserves as of June 30, 2020, are \$92,733,211, which meet all the minimum funding requirements of our policy as described above.

Debt Administration

At June 30, 2020, the District had \$46,895,000 in General Obligation bonds outstanding. The District also had \$68,456,366 of loans payable as of June 30, 2020. As part of our CRP program noted above. In Fiscal Year 2021, the District issued a \$53,895,000 in revenue bonds to fund our current and upcoming CRP funding needs. This is discussed in Note 16 “Subsequent Events” of the basic financial statements.

Accounting 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.

Investment Policy

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 objective of the District is to preserve capital, maintain liquidity, and maximize the rate of return while maintaining a balanced portfolio.

Section 115 Pension Trust

In 2014, the Board designated \$5 million of the District’s reserves to be used towards additional pension funding needs. On January 17, 2020, the Board approved a new pension funding strategy to apply these reserves to pay down the District’s unfunded pension liabilities, by making three annual payments to CalPERS of \$2 million, \$2 million, \$1 million, in calendar years 2020, 2021, and 2022, respectively.

The Board of Director’s Pension Ad Hoc Committee met in January and March and recommended that the District establish a Section 115 Pension Trust (115 Trust) to implement the District’s overall pension funding strategy. On April 17, 2020, the Board approved establishing a 115 Trust, affirmed the January funding strategy to begin making additional payments to CalPERS totaling \$5 million, and to contribute \$500,000 annually to the 115 Trust, as net cash flows are sufficient. Finally, the Board approved to retain funds in the 115 Trust once the District has achieved a pension funding target of 80% with CalPERS.

The 115 Trust will allow the District to earn higher investment returns compared to maintaining the funds within the District’s general fund. Additionally, the 115 Trust provides the District some investment diversification from CalPERS. Lastly, the 115 Trust will provide some future rate stabilization if the District ever needs to draw from the 115 Trust to make its annual CalPERS payment. As of June 30, 2020, the 115 Trust has not been established.

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 partners at least every five years if not more frequently. The accounting firm of Macias Gini & O’Connell LLP, conducted this year’s audit. Their audit report, which contains an unmodified opinion, is included in the financial section of this report.

Employees

As of June 30, 2020, the District had 146 full time employee equivalents. The employees are highly-trained, effectively operate a complex business that delivers a product and service that is vital to the health and safety of the community.

The District, under the direction of the General Manager and executive team, is organized into four primary divisions – Administration; Finance; Engineering; and Operations. The General Manager, a thirty-five-year employee of the District and only the sixth general manager, reports directly to the Board of Directors. 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 management philosophy is to provide employees the opportunity to perform at the highest responsible level to enhance the work effort and opportunities for everyone.

The District strives for a balance between innovation and efficiency when reviewing staffing plans. The District is proud to employ plant operators that are well-trained in water treatment and can work across many of the District's owned and/or operated facilities.

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 which makes roughly two-thirds of the District's employees. The District and SMWDEA have a current memorandum of understanding extending through June 30, 2021.

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 Years 2014 through 2019. In order to be awarded a Certificate of Achievement, a governmental entity must publish an easily readable and efficiently organized Comprehensive Annual Financial Report (CAFR). 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. We believe that our current CAFR 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.

For the first time the District received the Distinguished Budget Presentation Award: The GFOA awarded a Distinguished Budget Presentation Award to the District for its FY 2020 Annual Budget. The award is the highest form of recognition in governmental budgeting. In order to receive the award, the entity had to satisfy nationally recognized guidelines for effective budget presentation. These guidelines are designed to acknowledge how well an entity's budget serves as a policy document, a financial plan, an operations guide, and a communications device.

We would like to express our appreciation to management and 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. Feron

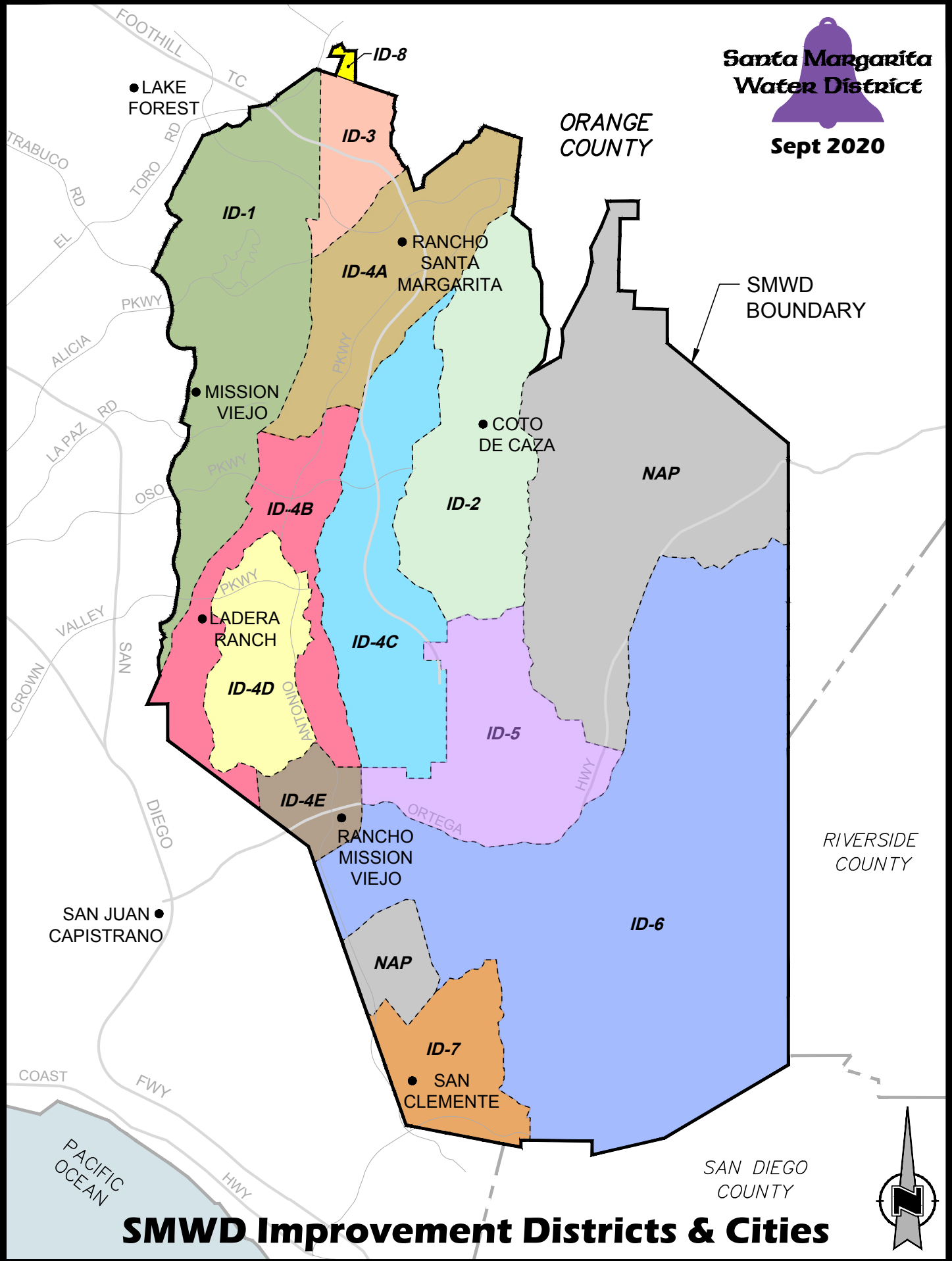
Daniel R. Feron
General Manager

Robert S. Grantham

Robert S. Grantham
Assistant General Manager – Finance

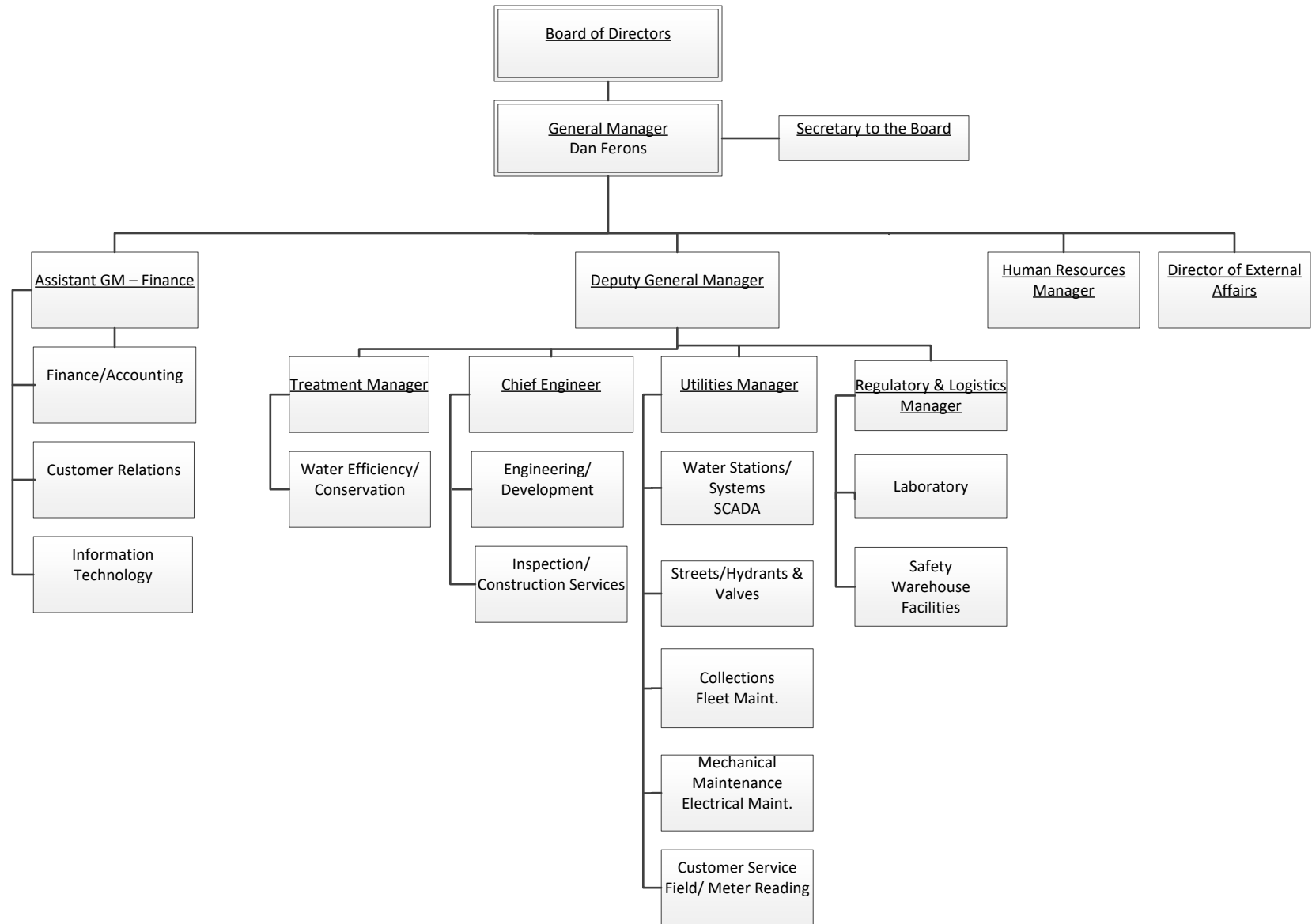
Erica Castillo

Erica Castillo, CPA
Controller



SMWD Improvement Districts & Cities

Santa Margarita Water District



District Officials

Elected/Appointed Board of Directors:

Name	Length of Service	Current Term of Service
Betty H. Olson, Ph. D.	26 Years	2020-2024
Saundra F. Jacobs	24 Years	2018-2022
Charles T. Gibson	8 Years	2020-2024
Justin McCusker	7 Years	2018-2022
Frank Ury	1 Year	2020-2024

District Management:

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



Government Finance Officers Association

Certificate of
Achievement
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Reporting

Presented to

**Santa Margarita Water District
California**

For its Comprehensive Annual
Financial Report
For the Fiscal Year Ended

June 30, 2019

Christopher P. Morill

Executive Director/CEO

FINANCIAL SECTION



Independent Auditor's Report

To the Board of Directors
Santa Margarita Water District
Rancho Santa Margarita, California

We have audited the accompanying financial statements of the Santa Margarita Water District (the District), as of and for the year ended June 30, 2020, 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.

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 District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Santa Margarita Water District, as of June 30, 2020, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Changes in the District's Net Pension Liability and Related Ratios, and Schedule of Contributions, as listed in the table of contents, 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 section and statistical section 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 it.

Macias Gini & O'Connell LLP

Newport Beach, California
November 20, 2020

SANTA MARGARITA WATER DISTRICT

Management's Discussion and Analysis

For the Year Ended June 30, 2020

This section of the Santa Margarita Water District's (District) annual financial report presents the Management's Discussion and Analysis (MD&A) of the District's financial performance during the fiscal year ended June 30, 2020 (FY 2020). The MD&A is to be read and considered in conjunction with additional information provided with the letter of transmittal, the basic financial statements, and accompanying notes.

FY 2020 Financial Highlights

- Operating revenues totaled \$79.6 million in FY 2020, an increase of \$5.8 million or 7.8% from the prior fiscal year. The increase was primarily due to higher water demands, as the District sold 725 acre feet (AF) more potable water and 109 AF more recycled water than in FY 2019. The Board also approved a customer rate increase on January 8, 2020. This rate revenue increase is equivalent to 3.9% on an annualized basis. Construction revenues increased as plan check fees were collected related to new development activity. The District also received a larger refund from South Orange County Wastewater Authority of \$0.8 million, as compared to \$0.3 million in FY 2019.
- Operating expenses increased \$2.0 million or 2.7% from the prior fiscal year (\$73.0 million from \$71.0 million). Water purchases increased \$1.3 million to \$27.2 million, totaling roughly one-third of the District's annual expenses. Additionally, compensation related expense increased by \$2.2 million, of which \$1.6 million was due to pension expenses. Compensation also increased due to a 2.5% cost of living adjustment effective July 1, 2019, and merit increases on November 1, 2019. Increases in these areas were partially offset by a slight decrease in maintenance and operations costs of \$0.7 million. With the sudden and unexpected onset of COVID-19, the District curtailed or deferred operating costs to the extent practical.
- The District's total non-operating revenues increased \$3.6 million, or 14.1%, primarily due to \$2.6 million in capital grants from the California Department of Water Resources Board, for the Trampas Canyon Dam & Recycled Water Seasonal Storage Reservoir (Trampas Reservoir) Project, and the California Office of Emergency Services (CalOES), for storm damages at various sites.
- Unrestricted cash and investments increased to \$90.4 million at June 30, 2020, or by \$11.2 million (14%) compared to the prior year. The increase was primarily due to the higher revenues relative to expenses indicated above, as well as reimbursements from bond and loan funds for prior year capital expenditures. Additionally, the District received \$2.6 million in grant funding during FY 2020. The District's positive net operating position in FY 2020 helped ensure the unrestricted cash position remain sufficient to meet the planned needs for operations, capital projects, and reserve requirements under its financial policies.
- Net capital assets were \$767.1 million at June 30, 2020, an increase of \$45.1 million (6.2%). Construction in progress increased \$42.0 million, primarily due to the construction of the Trampas Reservoir Project, which is set to be completed during FY 2021. The District capitalized an additional \$23.6 million in projects, which was largely offset by \$20.6 million in depreciation expenses.
- The District's long-term liabilities increased by \$26.9 million to \$139.2 million at June 30, 2020, primarily due to an increase of \$39.1 million in loans payable to the State Water Resources Control Board for the Trampas Reservoir Project. This is offset by a \$12.6 million reduction in long-term liabilities as a result of General Obligation Bond and loan payments.

SANTA MARGARITA WATER DISTRICT

Management's Discussion and Analysis

For the Year Ended June 30, 2020

Overview of the Financial Statements

The District is a self-supporting entity that follows enterprise fund accounting and presents its financial statements on the full accrual basis of accounting. This annual financial section consists of two parts – Management's Discussion and Analysis; and the basic financial statements, including notes and required supplementary information. The District's financial statements begin on page 11 of this report. The notes to the basic financial statements can be found on beginning on page 17 and provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The District's financial statements offer key, high-level financial information about the District's activities, comprised of the following main statements:

- **The Statement of Net Position** includes information on the District's assets and liabilities and deferred outflows of resources and deferred inflows of resources. Net Position is defined as the District's total assets plus deferred outflows of resources, less total liabilities, and deferred inflows of resources.
- **The Statement of Revenues, Expenses and Change in Net Position** shows changes in the District's net position based on its operating and non-operating revenues, expenses, and capital contributions during the fiscal year ended June 30, 2020.
- **The Statement of Cash Flows** provides the District's 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.

The Statement of Net Position, and the Statement of Revenues, Expenses and Change in Net Position provide a depiction of the District's financial standing. For example, increases in the District's net position is a positive indicator of the District's financial health.

Statement of Net Position

Net Position as of June 30, 2020, increased by \$24.2 million, or 3.4%, to \$731.0 million, primarily due to an increase in capital activity. The largest portion of the District's change in net position (89%) reflects the District's investment in capital assets (net of accumulated depreciation).

SANTA MARGARITA WATER DISTRICT

Management's Discussion and Analysis

For the Year Ended June 30, 2020

Condensed Statement of Net Position

	Fiscal Year	Fiscal Year	Increase	Percent
	2020	2019	(Decrease)	Increase
				(Decrease)
Assets				
Current Assets	\$ 125,434,867	\$ 115,781,213	\$ 9,653,654	8.3%
Capital Assets, Net	767,076,071	722,022,696	45,053,375	6.2%
Non-Current Assets	4,111,139	3,911,005	200,134	5.1%
Total Assets	<u>896,622,077</u>	<u>841,714,914</u>	<u>54,907,163</u>	6.5%
Deferred Outflows of Resources	<u>7,401,038</u>	<u>7,814,156</u>	<u>(413,118)</u>	(5.3%)
Liabilities				
Current Liabilities	33,436,016	29,336,971	4,099,045	14.0%
Non-Current Liabilities	<u>138,747,705</u>	<u>112,313,484</u>	<u>26,434,221</u>	23.5%
Total Liabilities	<u>172,183,721</u>	<u>141,650,455</u>	<u>30,533,266</u>	21.6%
Deferred Inflows of Resources	<u>883,137</u>	<u>1,123,249</u>	<u>(240,112)</u>	(21.4%)
Net Position				
Net Investment in Capital Assets	652,544,947	633,048,096	19,496,851	3.1%
Restricted	18,695,535	21,955,425	(3,259,890)	(14.8%)
Unrestricted	59,715,775	51,751,845	7,963,930	15.4%
Total Net Position	<u>\$ 730,956,257</u>	<u>\$ 706,755,366</u>	<u>\$ 24,200,891</u>	3.4%

The District's total assets increased \$54.9 million to \$896.6 million compared with the prior year due to an increase in capital assets of \$45.1 million. These capital asset increases are mainly a result from continued construction of the Trampas Reservoir Project, expected to be complete in FY 2021, as well as other capital repair and replacement projects. Secondly, there was an increase of \$11.9 million in current assets primarily due to an increase in cash and investments resulting from increased revenues (operating and non-operating).

The District's total liabilities increased \$30.5 million to \$172.2 million, primarily due to an increase in non-current liabilities of \$26.9 million, or 24%. The increase in non-current liabilities is primarily due to a \$39.1 million increase in loans payable due to additional disbursements received for the Trampas Reservoir Project. Secondly, the District's Net Pension Liability increased by \$2.0 million (6.5%). These increases were offset by scheduled repayments of the District's General Obligation bonds of \$11.5 million and \$1.0 million for loans payable.

Deferred outflows of resources decreased by \$0.4 million, or 5.3%, to \$7.4 million compared to the prior year of \$7.8 million, primarily due to the amortization of various valuation changes in the District's defined benefit pension plan (contained in the annual Governmental Accounting Standards Board (GASB) Statement No. 68 Accounting Valuation Report prepared by CalPERS), as well as the amortization of deferred losses on defeasance of the District's General Obligation bonds.

Deferred inflows of resources decreased by \$0.2 million, or 21.4%, compared to prior year primarily due to the amortization of various valuation changes in the District's defined benefit pension plan, as well as the amortization of deferred gains on defeasance of the District's General Obligation bonds.

SANTA MARGARITA WATER DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2020

Condensed Statement of Revenues, Expenses and Changes in Net Position

	Fiscal Year 2020	Fiscal Year 2019	Increase (Decrease)	Percent Increase (Decrease)
Operating Revenues:				
Potable Water Charges	\$ 43,414,528	\$ 40,935,472	\$ 2,479,056	6.1%
Recycled and Wastewater Charges	7,989,399	7,358,115	631,284	8.6%
Wastewater Charges	23,668,748	21,466,050	2,202,698	10.3%
Other Charges or Services	4,565,318	4,118,757	446,561	10.8%
Total Operating Revenues	79,637,993	73,878,394	5,759,599	7.8%
Operating Expenses:				
Water Expenses	32,220,612	31,058,543	1,162,069	3.7%
Sanitation Expenses	4,195,526	4,552,922	(357,396)	(7.8%)
Maintenance and Operations	8,984,672	9,660,373	(675,701)	(7.0%)
Regional Facilities	121,451	354,919	(233,468)	(65.8%)
Compensation	22,346,607	20,191,877	2,154,730	10.7%
General and Administrative	5,153,821	5,253,092	(99,271)	(1.9%)
Total Operating Expenses before Depreciation and Amortization	73,022,689	71,071,726	1,950,963	2.7%
Depreciation and Amortization	21,652,406	21,337,294	315,112	1.5%
Operating (Loss)	(15,037,102)	(18,530,626)	3,493,524	(18.9%)
Non-Operating Revenues (Expenses)				
Special Assessment for Debt Service	14,249,102	14,246,710	2,392	0.0%
Property Taxes	8,735,175	8,324,301	410,874	4.9%
Investment Earnings	4,086,083	3,699,167	386,916	10.5%
Other Non-Operating Revenues	4,027,424	1,219,121	2,808,303	(230.4%)
Interest Expense	(2,050,123)	(2,027,006)	(23,117)	(1.1%)
Total Non-Operating Revenues(Expenses)	29,047,661	25,462,293	3,585,368	14.1%
Net Income before capital contributions	14,010,559	6,931,667	7,078,892	102.1%
Capital contributions	10,190,332	11,513,856	(1,323,524)	(11.5%)
Change in Net Position	24,200,891	18,445,523	5,755,368	31.2%
Net Position, Beginning of Year	706,755,366	688,309,843	18,445,523	2.7%
Net Position, End of Year	\$ 730,956,257	\$ 706,755,366	\$ 24,200,891	3.4%

Statement of Revenues, Expenses and Change in Net Position

In FY 2020, the District's total operating revenues increased by \$5.8 million, or 7.8%, primarily due to higher customer usage as well as increases in both fixed and commodity rates adopted in March 2019 and January 2020. Additionally, the District's Other Charges or Services included higher construction and joint operating facilities revenues than in FY 2019. Construction revenues mainly consist of plan check fees and meter sales, which increased due to new development activity in the District's service area. Lastly, the South Orange County Wastewater Authority (SOCWA) performs an annual "use audit" to determine if monies are due from or owed to member agencies. For FY 2020, it was determined that the District was owed a refund of \$0.8 million, compared to a \$0.3 million refund in FY 2019.

SANTA MARGARITA WATER DISTRICT

Management's Discussion and Analysis

For the Year Ended June 30, 2020

In FY 2020, the District's total operating expenses, before depreciation and amortization, increased by \$2.0 million, or 2.7%, primarily due to compensation expense. Compensation, including pension expense increased by \$2.2 million, of which pension expense increased by \$1.6 million. In addition, there was an increase in compensation costs as a result of merit and cost of living adjustments during FY 2020. These increases were partially offset by reductions in other expenses such as Repairs and Maintenance and Regional Participation – Repair and Maintenance expenses were \$1.0 million lower compared to FY 2019. The District also capitalized a higher share of its salary costs due to the District's FY 2020 capital construction activities.

Net non-operating revenues increased by \$3.6 million, or 14.1%, primarily due to an increase in capital grant revenues of \$2.6 million. The District received \$1.1 million in Proposition 1 grants from the State Water Resources Control Board for the Trampas Reservoir Project and \$1.5 million from California Department of Emergency Services (CalOES).

Capital Assets

The District's net capital assets amounted to \$767.1 million, an increase of \$45.1 million over the prior year. Depreciable assets increased by \$23.6 million primarily due to \$18.5 million of projects that were completed during the year and transferred from construction in progress to depreciable assets. Some of the projects that were completed during the year include the City of San Clemente's Pico Ave Recycled Water Piping project, Aufdenkamp Relocation project and Los Patrones Recycled Water highline redirect. Additionally, \$4.9 million of contributed facilities were added to the District's depreciable assets during FY 2020 primarily due to in-tract system improvements in new development areas. The District also purchased \$1.4 million of equipment that was added to capital assets during the year. These additions were offset by \$1.2 million of depreciable assets that were disposed of in FY 2020.

Construction in progress had a net increase of \$42.0 million. This was due to \$60.7 million of construction in progress additions, primarily due to the continued construction of the Trampas Reservoir Project throughout FY 2020. These additions were primarily offset by \$18.5 million of completed projects that were transferred to depreciable assets in FY 2020 increase was due to transfers from construction in progress.

As of June 30, 2020, there were \$30.5 million of capital asset commitments outstanding.

Additional information regarding the District's capital assets and remaining commitments on construction projects can be found in Note 4 of this report.

SANTA MARGARITA WATER DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2020

	<u>Fiscal Year 2020</u>	<u>Fiscal Year 2019</u>	<u>Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
Water Plant	\$ 485,246,872	\$ 478,953,582	\$ 6,293,290	1.3%
Sewer Plant	239,988,971	230,848,438	9,140,533	4.0%
Contributed Facilities	189,795,477	182,523,720	7,271,757	4.0%
Operational Equipment	17,692,618	17,460,378	232,240	1.3%
Administration Building	10,406,977	9,730,863	676,114	6.9%
Capacity Rights	43,311,718	43,311,718	-	0.0%
Miscellaneous/Master Plan	10,387,961	10,387,961	-	0.0%
Total Depreciable Assets	<u>996,830,594</u>	<u>973,216,660</u>	<u>23,613,934</u>	<u>2.4%</u>
Less Accumulated Depreciation & Amortization:				
Depreciation and Amortization	411,266,551	390,699,804	20,566,747	5.3%
Net Depreciable Assets	<u>585,564,043</u>	<u>582,516,856</u>	<u>\$ 3,047,187</u>	<u>0.5%</u>
Construction in Progress	113,603,922	71,597,734	42,006,188	58.7%
Land	64,681,862	64,244,840	437,022	0.7%
Land - Administration Building	3,226,244	3,663,266	(437,022)	(11.9%)
Total Non-Depreciable Assets	<u>181,512,028</u>	<u>139,505,840</u>	<u>42,006,188</u>	<u>30.1%</u>
Total Capital Assets, Net	<u>\$ 767,076,071</u>	<u>\$ 722,022,696</u>	<u>\$ 45,053,375</u>	<u>6.2%</u>

Long Term Debt

Total long-term debt increased by \$25.7 million or 27.3% to \$119.8 million, which was primarily due to an increase in the State Water Resources Control Board loan of \$39.1 million. Debt was decreased due to repayment of General Obligation bonds, loans, and amortization of net premium (discount). The following table summarizes the changes in long-term debt amounts for FY 2020. The District continues to construct the Trampas Reservoir Project, which is funded through a loan from the State Water Resources Control Board. This project is scheduled to be completed in FY 2021.

	<u>Balance at June 30, 2019</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance at June 30, 2020</u>	<u>Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
Long-Term Debt:						
Bonds Payable	\$ 58,440,000	\$ -	\$ (11,545,000)	\$ 46,895,000	\$ (11,545,000)	(19.8%)
Loans Payable	30,390,489	39,081,167	(1,015,290)	68,456,366	38,065,877	125.3%
	88,830,489	39,081,167	(12,560,290)	115,351,366	26,520,877	29.9%
Net Premium (Discount)	5,298,857	-	(862,257)	4,436,600	(862,257)	(16.3%)
Total Long-Term Debt	<u>\$ 94,129,346</u>	<u>\$ 39,081,167</u>	<u>\$ (13,422,547)</u>	<u>\$ 119,787,966</u>	<u>\$ 25,658,620</u>	<u>27.3%</u>

Additional information on the District's long-term liabilities can be found in Note 5 of this report.

Defined Benefit Pension Plan

The District offers employees a defined benefit pension plan, which is administered by the California Public Employees Retirement System (CalPERS). Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* (GASB 68) requires public employers that participate in a defined benefit pension plan 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, 2020

The District's net pension liability at June 30, 2020, was \$32.4 million, an increase of \$2.0 million (6.5%) from the prior year. 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 increase was due to an increase in total pension liability of \$6.4 million, netted with an increase in plan fiduciary net position of \$4.4 million. The plan's fiduciary net position as a percentage of the total pension liability remained steady at 69.7% in FY 2020, compared with 69.7% in FY 2019.

Pension expense includes the District's required payments made to CalPERS during the year, plus a recognition of the change in the net pension liability. Pension expense for the District in FY 2020 totaled \$5.7 million, an increase of \$1.6 million (40.0%) from the prior year, primarily due to an increase in the interest on the total pension liability of \$0.4 million and \$1.0 million difference between the projected and actual earnings on investments. 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 and 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 of resources related to pensions decreased in FY 2020 by \$0.3 million. Deferred inflows of resources related to pension decreased in FY 2020 by \$0.2 million.

Additional information on the defined benefit pension plan can be found in Note 9 of this report.

Fiduciary Activities

The District is the fiduciary for funds held on behalf of two Community Facilities Districts (CFD), which are related to outstanding bonds of each CFD. The District's fiduciary activities are reported in the Note 12 to the basic financial statements. The District excludes these activities from its financial statements because the District is not liable under any circumstance for the repayment of the outstanding bonds.

Future Events

The District jointly with the City of San Juan Capistrano are currently still working with LAFCO on the annexation of the City's water and sewer utilities. This annexation is estimated to be completed in early 2021.

The District also issued its inaugural revenue bonds in September 2020 known as the 2020A Revenue Bonds to fund the Districts capital repair and replacement program as well as refund three existing State Revolving Fund Loans.

Lastly, in 2020 COVID-19 has had an economic impact at the national level and the local level. For the District, the full financial impact of COVID-19 remains relatively low, and the District continues to monitor the impact to our customers.

Please see Note 16 of this report for further disclosure.

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 26111 Antonio Parkway, Rancho Santa Margarita, CA 92688.

**BASIC FINANCIAL STATEMENTS
AND ACCOMPANYING NOTES**

SANTA MARGARITA WATER DISTRICT

Statement of Net Position

June 30, 2020

ASSETS:

Current Assets:

Cash and investments (Note 2)	\$	90,454,275
Accrued interest receivable		354,923
Accounts receivable - water and sanitation customers, net of allowance for doubtful accounts of \$8,000		8,787,045
Accounts receivable - other (Note 3)		1,016,553
Water and supplies inventory		3,968,251
Prepaid expenses		591,250
Restricted - cash and investments (Note 2)		19,927,007
Restricted - property taxes receivable		326,533
Restricted - accrued interest receivable		9,030
Total Current Assets		125,434,867

Non-current Assets:

Capital assets - not depreciated (Note 4)		181,512,028
Capital assets, net of accumulated depreciation and amortization (Note 4)		585,564,043
Restricted - unspent bond proceeds (Note 2)		4,111,139
Total Non-current Assets		771,187,210

Total Assets

896,622,077

DEFERRED OUTFLOWS OF RESOURCES:

Deferred outflows related to pension (Note 9)		6,194,043
Deferred outflows - other		12,538
Deferred loss on debt defeasance (Note 5)		1,194,457
Total Deferred Outflows of Resources		7,401,038

(Continued)

See accompanying notes to the basic financial statements.

SANTA MARGARITA WATER DISTRICT

Statement of Net Position (Continued)

June 30, 2020

LIABILITIES:

Current Liabilities:

Accounts payable and accrued expenses	\$	14,150,337
Accrued wages and related payables		833,701
Retentions payable and construction deposits		249,814
Other deposits payable		1,139,189
Unearned revenue		41,288
Accrued interest payable		1,512,881
Advances from others		198,959
Long-term liabilities - due within one year		
Compensated absences (Note 6)		1,386,425
Bonds payable (Note 5)		12,882,658
Loans payable (Note 5)		1,040,764
Total Current Liabilities		33,436,016

Non-current Liabilities:

Long-term liabilities - due in more than one year		
Compensated absences (Note 6)		42,879
Bonds payable (Note 5)		38,448,942
Loans payable (Note 5)		67,415,602
Reimbursement agreement advances (Note 5)		380,037
Accrued interest payable on reimbursement agreements (Note 5)		54,154
Net pension liability (Note 9)		32,406,091
Total Non-current Liabilities		138,747,705

Total Liabilities 172,183,721

DEFERRED INFLOWS OF RESOURCES:

Deferred inflows related to pension (Note 9)		834,383
Deferred gain on debt defeasance (Note 5)		48,754
Total Deferred Inflows of Resources		883,137

NET POSITION:

Net investment in capital assets (Note 7)		652,544,947
Restricted for (Note 8):		
Special assessment for debt service		18,359,972
Other		335,563
Unrestricted		59,715,775
TOTAL NET POSITION	\$	730,956,257

See accompanying notes to the basic financial statements.

SANTA MARGARITA WATER DISTRICT
Statement of Revenues, Expenses and Change in Net Position
For the Year Ended June 30, 2020

OPERATING REVENUES:

Potable water charges:

Potable water commodity charge	\$	22,260,201
Monthly service charge		19,442,131
Transmission charge		1,712,196
Total potable water charges		<u>43,414,528</u>

Recycled water charges:

Recycled water commodity charge		6,165,175
Monthly service charge		1,376,719
Transmission charge		447,505
Total recycled water charges		<u>7,989,399</u>

Wastewater charges:

Wastewater commodity charge		4,805,295
Monthly service charge		18,863,453
Total wastewater charges		<u>23,668,748</u>

Other charges or services:

Jointly operated facilities and other reimbursements		1,429,325
Construction related revenues		730,549
Rebates		301,497
Customer related revenues		606,985
Other revenues		1,496,962
Total other charges or services		<u>4,565,318</u>
Total Operating Revenues		<u>79,637,993</u>

OPERATING EXPENSES:

Source of supply - water purchases		27,224,323
Power		4,996,289
Maintenance and operations		8,984,672
Regional participation		121,451
Wastewater treatment		4,195,526
Salaries, wages and related benefits		22,346,607
General and administrative		5,153,821
Total Operating Expenses before depreciation and amortization expense		<u>73,022,689</u>

Operating income before depreciation and amortization expense		6,615,304
Depreciation and amortization expense		(21,652,406)
Operating (loss)	\$	<u>(15,037,102)</u>

(Continued)

See accompanying notes to the basic financial statements.

SANTA MARGARITA WATER DISTRICT
Statement of Revenues, Expenses and Change in Net Position (Continued)
For the Year Ended June 30, 2020

NON-OPERATING REVENUES (EXPENSES):

Special assessment tax revenues for debt service	\$	14,249,102
Property taxes		8,735,175
Investment earnings		4,086,083
Capacity lease revenue		618
Rental revenue		1,243,965
Gain on sale of capital asset		88,147
Other non-operating revenue		79,118
Capital grants		2,615,576
Interest expense		(2,050,123)
Total non-operating, revenues (expenses)		29,047,661
Income before capital contributions		14,010,559

CAPITAL CONTRIBUTIONS:

Contributions from developer		4,924,149
Contributions from agencies		2,278,209
Jointly-owned facilities capital reimbursements		2,987,974
Total capital contributions		10,190,332
Change in net position		24,200,891
Net position, beginning of year		706,755,366
Net position, end of year	\$	730,956,257

See accompanying notes to the basic financial statements.

SANTA MARGARITA WATER DISTRICT

Statement of Cash Flows For the Year Ended June 30, 2020

Cash flows from operating activities:	
Cash receipts from customers	\$ 74,246,150
Cash receipts from others	4,647,372
Cash paid to employees for salaries and wages	(20,013,326)
Cash paid to vendors and suppliers for materials and services	(49,306,840)
Net cash provided by operating activities	<u>9,573,356</u>
Cash flows from non-capital financing activities:	
Property taxes received	8,684,283
Capacity lease revenue	618
Other payments	79,118
Net cash provided by non-capital financing activities	<u>8,764,019</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(60,017,876)
Capital contributions	3,590,574
Capital grants	2,615,576
Special assessment tax revenues for debt service received	14,249,102
Repayments of advances	398,959
Proceeds from new loans	39,081,167
Principal paid for bond debt service and loans payable	(12,560,290)
Interest paid for debt service	(2,683,589)
Net cash (used in) capital and related financing activities	<u>(15,326,377)</u>
Cash flows from investing activities:	
Proceeds from the sale and maturity of investment securities	56,912,846
Purchase of investment securities	(68,997,039)
Investment earnings	1,751,508
Rental revenues	1,231,427
Net cash (used in) investing activities	<u>(9,101,258)</u>
Net increase (decrease) in cash and cash equivalents	(6,090,260)
Cash and cash equivalents, beginning of year	<u>7,783,516</u>
Cash and cash equivalents, end of year	<u>\$ 1,693,256</u>

(Continued)

See accompanying notes to the basic financial statements.

SANTA MARGARITA WATER DISTRICT

Statement of Cash Flows (Continued)

For the Year Ended June 30, 2020

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	\$ 90,454,275
Restricted - cash and investments	19,927,007
Restricted - unspent bond proceeds	4,111,139
Total cash and investments - per statement of net position	<u>114,492,421</u>

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

Investments	(112,799,165)
Total cash and cash equivalents	<u>\$ 1,693,256</u>

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

Operating (loss)	\$ (15,037,102)
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Adjustments to reconcile operating (loss) to net cash used by operating activities:

Depreciation and amortization expense - capital recovery	21,652,406
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Change in assets and liabilities:

(Increase) decrease in assets:

Accounts receivable - water and sanitation customers	(826,525)
Accounts receivable - other	(326,782)
Water and supplies inventory	(377,346)
Prepaid expenses	56,265

Increase (decrease) in liabilities:

Accounts payable and accrued expenses	1,910,511
Accrued wages and related payables	58,322
Retentions payable and construction deposits	(220,188)
Other deposits payable	409,054
Unearned revenue	(218)
Net pension liability	1,980,064
Deferred outflows/inflows related to pensions	87,506
Compensated absences	207,389

Total adjustments	<u>24,610,458</u>
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Net cash provided by operating activities	<u>\$ 9,573,356</u>
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Supplemental disclosure of non-cash capital and related financing and investing activities:

Amortization of premiums and discounts	\$ 862,257
Amortization of deferred gain/loss on defeasance	(98,038)
Contributed facilities, water plant and sewer plant	6,599,758
Unrealized gain on investments	2,284,310
Gain on disposal of capital assets	88,147

See accompanying notes to the basic financial statements.

SANTA MARGARITA WATER DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The 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 8 with sub-districts, function as a basis for operational and capital planning, as well as the authorization and sale of bonds.

The District recovers uniform monthly user rates across all improvement districts. Debt obligations and annual assessments for general obligation bonds vary by improvement district. The District maintains separate internal debt service accounts for the purposes of complying with applicable legal provisions, Board of Directors' resolutions and other requirements, as well as to ensure that the bond proceeds benefit those improvement districts on which the debt is levied.

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Standards Board (GASB). The District is a special-purpose governmental unit based on the foundation of a separate governing board that is elected by the citizens in a general popular election. There are no component units associated with the District. 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 Accounting Principles Generally Accepted in the United States of America (GAAP) applicable to state and local government agencies using pronouncements issued by the 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 potable water, wastewater and recycled water services associated with the principal activity of the District. Operating revenues include potable water, wastewater and recycled water 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, investment income and interest expense, result from non-exchange transactions. Non-exchange transactions are when the District gives (receives) value without directly receiving (giving) value in exchange.

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, deferred inflows and outflows of resources, 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 on 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 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 practically all of its potable water from the Metropolitan Water District of Southern California (MET) and is paid through the Municipal Water District of Orange County (MWDOC). The District has a contract with the Irvine Ranch Water District to purchase water from Irvine Lake in select circumstances. However, this amount of water is currently insignificant.

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories consist of purchased water held in reservoirs, recycled 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. Recycled water inventory is calculated at average cost per acre-foot to produce recycled water.

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. 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 10 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. The value of capacity rights is equal to the amounts spent for the construction of capital assets, such as pipelines, pumping facilities and storage facilities, and 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 and Special Assessments

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. Ad valorem 1% general property taxes are the secondary pledge to the General Obligation Bonds based on the bond covenants.

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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
Delinquent dates	December 10 and April 10

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 or 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. Interest incurred during the year ended June 30, 2020, totaled \$2,050,123. 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 (Continued)
For the Year Ended June 30, 2020

NOTE 1 – REPORTING ENTITY AND 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 related to those assets.

Unrestricted – This component of net position is the net amount of the assets, deferred outflows of 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

Adopted in the Current Year

GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. Effective immediately upon issuance in May 2020.

Effective in Future Years

The 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. 84, *Fiduciary Activities*. Effective for the District’s fiscal year ending June 30, 2021.

GASB Statement No. 87, *Leases*. Effective for the District’s fiscal year ending June 30, 2022.

GASB Statement No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*. Effective for the District’s fiscal year ending June 30, 2021.

GASB Statement No. 91, *Conduit Debt Obligations*. Effective for the District’s fiscal year ending June 30, 2022.

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB Statement No. 92, *Omnibus 2020*. Effective upon issuance for the requirements related to the effective date of GASB Statement No. 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments. The other requirements will be effective for the District’s fiscal year ending June 30, 2022.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. Effective for the District’s fiscal year ending June 30, 2023.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. Effective for the District’s fiscal year ending June 30, 2023.

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. Effective for the District’s fiscal year ending June 30, 2022.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments as of June 30, 2020, are classified in the accompanying financial statements as follows:

Cash and investments	\$ 90,454,275
Restricted - cash and investments	
Special assessments for debt service	19,927,007
Bond proceeds for capital projects in non-current	4,111,139
Total cash and investments	\$ 114,492,421
Cash and cash equivalents	\$ 1,693,256
Money market mutual funds	18,577,692
Investments	94,221,473
Total investments	112,799,165
Total cash and investments	\$ 114,492,421

Fair Value Measurement

The District categorizes its fair value measurements within the fair value hierarchy established by GAAP. 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.

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 2 – CASH AND INVESTMENTS (Continued)

The District has the following recurring fair value measurements as of June 30, 2020:

	Total	Fair Value Measurement		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Treasury	\$ 24,707,349	\$ 24,707,349	\$ -	\$ -
Federal Agency	12,016,106	-	12,016,106	-
Supranationals	1,730,444	-	1,730,444	-
Municipal Bonds	2,808,665	-	2,808,665	-
Medium-Term Corporate Notes	16,846,434	-	16,846,434	-
Negotiable Certificates of Deposit	5,070,690	-	5,070,690	-
Asset-Backed Securities	4,259,472	-	4,259,472	-
Sub-Total	67,439,160	\$ 24,707,349	\$ 42,731,811	\$ -

Investments Not Subject to Fair Value Hierarchy:

Joint Powers Authority Investment Pool*	1,963
Local Agency Investment Fund*	26,780,350
Money Market Mutual Funds*	18,577,692
Total	\$ 112,799,165

* Fair value measurement is based on pricing received from the District's third party vendors. Investments in money market mutual funds are priced using amortized cost which approximates fair value, with a net asset value of \$1.00 (in absolute dollar amounts) per share, and per GASB Statement No. 72 are not subject to the fair value hierarchy. Additionally, the Local Agency Investment Fund is not subject to the fair value hierarchy.

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.

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 2 – CASH AND INVESTMENTS (Continued)

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	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	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	Yes	N/A	50% **	Up to \$65 million
JPA Pools (other investments pools)	Yes	N/A	20% *	20% *

* Represents restriction in which the District's investment policy is more restrictive than the California Government Code.

** The combined maximum cannot exceed 30%.

*** Only allowed if managed externally.

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 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.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Allowed	Maximum Investment in One Issuer
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:

	Total	Remaining Maturity in Months		
		12 Months or Less	13 to 24 months	25 to 60 months
U.S. Treasury	\$ 24,707,349	\$ -	\$ 4,269,969	\$ 20,437,380
Federal Agency	12,016,106	-	1,807,213	10,208,893
Supranationals	1,730,444	-	1,026,327	704,117
Municipal Bonds	2,808,665	300,508	-	2,508,157
Medium-Term Corporate Notes	16,846,434	4,798,763	2,756,881	9,290,790
Negotiable Certificates of Deposit	5,070,690	2,424,574	684,223	1,961,893
Asset-Backed Securities	4,259,472	-	12,411	4,247,061
JPA Investment Pool	1,963	1,963	-	-
Local Agency Investment Fund	26,780,350	26,780,350	-	-
Money Market Mutual Funds	2,234,407	2,234,407	-	-
Held by Fiscal Agent:				
Money Market Mutual Funds	16,343,285	16,343,285	-	-
Total	\$ 112,799,165	\$ 52,883,850	\$ 10,557,024	\$ 49,358,291

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 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, 2020					
			Not Rated	AAA to AAAm	AA+	AA to AA-	A+ to A-	A-1 to A-1+
U.S. Treasury	\$ 24,707,349	N/A	\$ -	\$ -	\$ 24,707,349	\$ -	\$ -	\$ -
Federal Agency	12,016,106	N/A	-	-	12,016,106	-	-	-
Supranationals	1,730,444	AAA	-	1,730,444	-	-	-	-
Municipal Bonds	2,808,665	N/A	564,710	204,612	1,221,785	698,832	118,726	-
Medium-Term Corporate Notes	16,846,435	A	-	1,920,269	447,561	3,353,325	11,125,280	-
Negotiable Certificates of Deposit	5,070,688	N/A	-	-	-	1,250,790	1,395,324	2,424,574
Asset-Backed Securities	4,259,473	AA	959,632	2,915,121	384,720	-	-	-
Joint Powers Authority Pool:								
CAMP	1,963	N/A	1,963	-	-	-	-	-
Local Agency Investment Fund	26,780,350	N/A	26,780,350	-	-	-	-	-
Money Market Mutual Fund	2,234,407	AAA	2,234,407	-	-	-	-	-
Held by Fiscal Agent:								
Money Market Mutual Funds	16,343,285	AAA	-	16,343,285	-	-	-	-
Total	\$ 112,799,165		\$ 30,541,062	\$ 23,113,731	\$ 38,777,521	\$ 5,302,947	\$ 12,639,330	\$ 2,424,574

* Minimum legal ratings per the California Government Code or the District's investment policy (when the policy is more restrictive) from any rating NRSRO. Amounts held by Fiscal Agent are governed by its corresponding bond indenture.

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 (Continued)
For the Year Ended June 30, 2020

NOTE 2 – CASH AND INVESTMENTS (Continued)

Joint Powers Authority Pool

The District is a voluntary participant in a Joint Powers Authority (JPA), the California Asset Management Program (CAMP), which is a permitted investment under California Government Code §53601(p). CAMP is directed by a Board of Trustees, which is made up of experienced local government finance directors and treasurers. CAMP determines fair value on its investment portfolio based on amortized cost. The District measures the value of its CAMP investment at the fair value amount provided by CAMP. At June 30, 2020, CAMP had a total portfolio of approximately \$6.5 billion of which all was invested in non-derivative financial products. The average maturity of CAMP investments was 53 days as of June 30, 2020. As of June 30, 2020, the District's total investment in CAMP was \$1,963.

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section §16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. LAIF is part of the California Pooled Money Investment Account (PMIA): included in LAIF's investment portfolio are mortgage-backed securities, other asset-backed securities, loans to certain state funds, securities with interest rates that vary according to changes in rates greater than a one-for-one basis, and structured notes. At June 30, 2020, LAIF had a total portfolio of approximately \$101.8 billion. The average maturity of PMIA investments was 191 days as of June 30, 2020. The amounts invested in LAIF are recorded as cash and investments. As of June 30, 2020, the District's total investment in LAIF was \$26,780,350.

NOTE 3 – ACCOUNTS RECEIVABLE, OTHER

Accounts receivables - other consists of outstanding billings to other agencies for joint-owned facilities, and charges for customer connections to the District sewer system as follows:

	<u>2020</u>
Trabuco Canyon Water District	\$ 210,521
Esencia Draw	191,603
Quest Diagnostics/Nichols Institute	125,731
Moulton Niguel Water District	101,767
City of San Juan Capistrano	94,264
Rancho Mission Viejo, LLC - Misc.	88,878
South County Pipeline	59,334
UCR FEMA Claim	38,504
Municipal Water District of Orange County	37,205
County of Orange	22,288
San Juan Basin Authority	19,520
Fenner Valley Water Authority	7,333
City of San Clemente	6,585
South Coast/JRWSS	6,493
Other Various	6,527
Total Accounts Receivable - Other	<u>\$ 1,016,553</u>

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 4 – CAPITAL ASSETS

Capital assets as of June 30, 2020, consist of the following:

	Balance at June 30, 2019	Additions	Transfers	Dispositions/ Retirements	Balance at June 30, 2020
Water plant	\$ 478,953,582	\$ -	\$ 6,293,290	\$ -	\$ 485,246,872
Sewer plant	230,848,438	-	9,140,533	-	239,988,971
Contributed facilities	182,523,720	4,924,149	2,347,608	-	189,795,477
Operational equipment	17,460,378	1,415,189	-	(1,182,949)	17,692,618
Administration building	9,730,863	-	676,114	-	10,406,977
Capacity Rights	43,311,718	-	-	-	43,311,718
Miscellaneous/Master Plan	10,387,961	-	-	-	10,387,961
Total depreciable assets	<u>973,216,660</u>	<u>6,339,338</u>	<u>18,457,545</u>	<u>(1,182,949)</u>	<u>996,830,594</u>
Less accumulated depreciation & amortization:					
Water plant	(161,946,941)	(9,135,974)	-	-	(171,082,915)
Sewer plant	(116,176,553)	(5,102,662)	-	-	(121,279,215)
Contributed facilities	(88,524,451)	(4,481,910)	-	-	(93,006,361)
Administration building	(7,909,509)	(332,144)	-	-	(8,241,653)
Operational equipment	(12,004,417)	(1,293,832)	-	1,085,659	(12,212,590)
Capacity Rights	(3,120,378)	(881,695)	-	-	(4,002,073)
Miscellaneous/Master Plan	(1,017,555)	(424,189)	-	-	(1,441,744)
Total depreciation & amortization	<u>(390,699,804)</u>	<u>(21,652,406)</u>	<u>-</u>	<u>1,085,659</u>	<u>(411,266,551)</u>
Net depreciable assets	<u>582,516,856</u>	<u>(15,313,068)</u>	<u>18,457,545</u>	<u>(97,290)</u>	<u>585,564,043</u>
Capital Assets Not Being Depreciated:					
Construction in progress	71,597,734	60,654,435	(18,457,545)	(190,702)	113,603,922
Land	64,244,840	-	437,022	-	64,681,862
Land - Administration building	3,663,266	-	(437,022)	-	3,226,244
Total capital assets - not depreciated	<u>139,505,840</u>	<u>60,654,435</u>	<u>(18,457,545)</u>	<u>(190,702)</u>	<u>181,512,028</u>
Total Assets	<u>\$ 722,022,696</u>	<u>\$ 45,341,367</u>	<u>\$ -</u>	<u>\$ (287,992)</u>	<u>\$ 767,076,071</u>

Depreciation and amortization expense for the year ended June 30, 2020, was \$21,652,406 based on straight-line depreciation.

The following identifies the District's remaining commitments on construction projects in fiscal year 2020:

Project Description	Remaining Commitment	Project Expenses to Date
Trampas Reservoir	\$ 14,893,613	\$ 83,279,441
CWRP Second Treatment Expansion	3,363,925	23,846
Pico Zone A Recycled Water Pump Station	2,093,987	173,979
Trampas Reservoir Pump Station	1,886,244	1,475,191
TERP Program: HR and GIS	1,347,839	1,344,755
CWRP Upgrade Bar Screen Facility	927,051	37,665
Talega Zone A PSV & Pico Pipe Con	682,357	409,244
Rienda Lift Station	650,593	99,784
Plano Lift Station Odor Control Sewer Reroute	591,815	578,351
Talega Lift Station Pump Replace And Mods	542,883	296,762
Various Other Projects	3,545,536	27,519,387
	<u>\$ 30,525,843</u>	<u>\$ 115,238,405</u>

Project costs reflect only the District's portion of the cost of the facilities that are shared with other agencies.

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 5 – LONG TERM LIABILITIES

Long-term liabilities and changes for the year ended June 30, 2020, was as follows:

	Balance at June 30, 2019	Additions	Deletions	Balance at June 30, 2020	Amount Due Within One year	Amount Due Beyond One Year
General Obligation Bonds Payable:						
2014 Series A	\$ 29,065,000	\$ -	\$ (10,635,000)	\$ 18,430,000	\$ 11,440,000	\$ 6,990,000
2017 Series A	29,375,000	-	(910,000)	28,465,000	945,000	27,520,000
Total General Obligations						
Bonds Payable	58,440,000	-	(11,545,000)	46,895,000	12,385,000	34,510,000
Premium / Discount, net	5,298,857	-	(862,257)	4,436,600	497,658	3,938,942
Total Bonds Payable	<u>\$ 63,738,857</u>	<u>\$ -</u>	<u>\$ (12,407,257)</u>	<u>\$ 51,331,600</u>	<u>\$ 12,882,658</u>	<u>\$ 38,448,942</u>

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 the year ended June 30, 2017. 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.

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

General Obligation Bonds Debt Service Schedule:

Year	Principal	Interest	Total
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	1,640,000	1,333,126	2,973,126
2026-2030	9,540,000	5,314,880	14,854,880
2031-2035	10,595,000	2,791,763	13,386,763
2036-2039	8,270,000	678,600	8,948,600
Total	<u>\$46,895,000</u>	<u>\$ 16,465,198</u>	<u>\$ 63,360,198</u>

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 5 – LONG TERM LIABILITIES (Continued)

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.

Deferred Gain or Loss on Debt Defeasance

The balance for deferred gain on debt defeasance as of June 30, 2020, is as follows:

General Obligation Bonds	Balance at June 30, 2019	Additions	Deletions	Amortization	Balance at June 30, 2020
2014A Series	\$ 68,606	\$ -	\$ -	\$ (19,852)	\$ 48,754

The balance for deferred loss on debt defeasance as of June 30, 2020, is as follows:

General Obligation Bonds	Balance at June 30, 2019	Additions	Deletions	Amortization	Balance at June 30, 2020
2017A Series	\$ 1,312,347	\$ -	\$ -	\$ (117,890)	\$ 1,194,457

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. The outstanding balance of all loans as of June 30, 2020, is as follows:

	Balance at June 30, 2019	Additions	Deletions	Balance at June 30, 2020	Amount Due Within One Year	Amount Due Beyond One Year
2003 Loan	\$ 1,854,543	\$ -	\$ (445,276)	\$ 1,409,267	\$ 457,297	\$ 951,970
2003 Loan	4,185,798	-	(423,921)	3,761,877	433,671	3,328,206
2008 Loan	209,029	-	(20,913)	188,116	21,457	166,659
2017 Loan	2,616,997	-	(125,180)	2,491,817	128,339	2,363,478
2017 Loan	21,524,122	39,081,167	-	60,605,289	-	60,605,289
Total	\$ 30,390,489	\$ 39,081,167	\$ (1,015,290)	\$ 68,456,366	\$ 1,040,764	\$ 67,415,602

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 5 – 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, 2020, are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 457,297	\$ 38,051	\$ 495,348
2022	469,645	25,703	495,348
2023	482,325	13,023	495,348
Total	<u>\$ 1,409,267</u>	<u>\$ 76,777</u>	<u>\$ 1,486,044</u>

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 §13999.10. Principal payments are being made in fiscal years 2009 through 2028 and accrue interest 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, 2020, are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Service Charge</u>	<u>Total</u>
2021	\$ 433,671	\$ 48,904	\$ 37,619	\$ 520,194
2022	443,646	43,267	33,282	520,195
2023	453,850	37,499	28,846	520,195
2024	464,288	31,599	24,307	520,194
2025	474,967	25,564	19,665	520,196
2026-2028	1,491,455	39,071	30,055	1,560,581
Total	<u>\$ 3,761,877</u>	<u>\$ 225,904</u>	<u>\$ 173,774</u>	<u>\$ 4,161,555</u>

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 §13999.10. 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, 2020, are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 21,457	\$ 4,891	\$ 26,348
2022	22,015	4,333	26,348
2023	22,587	3,761	26,348
2024	23,174	3,173	26,347
2025	23,777	2,571	26,348
2026-2028	75,106	3,939	79,045
Total	<u>\$ 188,116</u>	<u>\$ 22,668</u>	<u>\$ 210,784</u>

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 5 – LONG TERM LIABILITIES (Continued)

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, 2020, are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 95,953	\$ 46,124	\$ 142,077
2022	130,760	58,677	189,437
2023	134,060	55,377	189,437
2024	137,443	51,994	189,437
2025	140,911	48,526	189,437
2026-2030	759,723	187,462	947,185
2031-2035	860,547	86,639	947,186
2036-2037	232,420	4,376	236,796
Total	<u>\$ 2,491,817</u>	<u>\$ 539,175</u>	<u>\$ 3,030,992</u>

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. In fiscal year 2018, the total loan agreement was increased up to \$76,315,000. This loan will be disbursed through installment payments and interest will accrue at a rate of 1.0% beginning with each disbursement. The outstanding loan balance as of June 30, 2020, is \$60,605,289. Loan payments will begin one year after completion or start of operations, whichever is sooner. Payments are estimated to begin in fiscal year 2021 and will be fully amortized by fiscal year 2049.

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. The reimbursement agreement advances accrue interest, based on the terms of the agreement, from the date of the advance until the repayment date.

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 5 – LONG TERM LIABILITIES (Continued)

Reimbursable advances by the landowner/developer at June 30, 2020, are as follows:

<u>Landowner/Developer</u>	<u>Balance at June 30, 2019</u>	<u>Additions</u>	<u>Expiration/ Payments</u>	<u>Balance at June 30, 2020</u>	<u>Amount Due Within One Year</u>	<u>Amount Due Beyond One Year</u>
Coto de Caza, Ltd.	\$ 22,019	\$ -	\$ -	\$ 22,019	\$ -	\$ 22,019
The San Juan Company	158,018	-	-	158,018	-	158,018
RMV PA3 Development, LLC	-	200,000	-	200,000	-	200,000
Total	<u>\$ 180,037</u>	<u>\$ 200,000</u>	<u>\$ -</u>	<u>\$ 380,037</u>	<u>\$ -</u>	<u>\$ 380,037</u>

Reimbursable accrued interest by the landowner/developer at June 30, 2020, is as follows:

<u>Landowner/Developer</u>	<u>Balance at June 30, 2019</u>	<u>Additions</u>	<u>Expiration/ Payments</u>	<u>Balance at June 30, 2020</u>	<u>Amount Due Within One Year</u>	<u>Amount Due Beyond One Year</u>
Coto de Caza, Ltd.	\$ 52,829	\$ 1,325	\$ -	\$ 54,154	\$ -	\$ 54,154
Total	<u>\$ 52,829</u>	<u>\$ 1,325</u>	<u>\$ -</u>	<u>\$ 54,154</u>	<u>\$ -</u>	<u>\$ 54,154</u>

NOTE 6 – COMPENSATED ABSENCES

Changes to compensated absences balances for June 30, 2020, are as follows:

<u>Balance at June 30, 2019</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance at June 30, 2020</u>	<u>Amount Due Within One Year</u>	<u>Amount Due Beyond One Year</u>
\$ 1,221,915	\$ 1,315,512	\$ (1,108,123)	\$ 1,429,304	\$ 1,386,425	\$ 42,879

NOTE 7 – NET INVESTMENTS IN CAPITAL ASSETS

Net investment in capital assets as of June 30, 2020, is as follows:

Capital assets, net of accumulated depreciation	\$ 767,076,071
Less: Outstanding debt attributable to capital assets:	
Bonds payable	(51,331,600)
Loans payable	(68,456,366)
Add:	
Unspent bond proceeds	4,111,139
Deferred gains and losses on debt defeasances, net	1,145,703
Total net investment in capital assets	<u>\$ 652,544,947</u>

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 8 – RESTRICTED NET POSITION

Restricted net position as of June 30, 2020, consists of the following:

Special assessments for debt service	\$ 19,927,007
Property taxes receivable	326,533
Restricted accrued interest receivable	9,030
Less:	
Accrued interest payable	(1,512,881)
Accrued interest payable on reimbursement agreements	(54,154)
	\$ 18,695,535

On June 5, 2019, the District adopted Resolution 2019-06-01 which established the funding level requirements for operating reserves equivalent to 3 months of operating expenses (25% of the previous fiscal year’s operating expenses), emergency capital reserves equivalent to 2% of net capital assets, repair and replacement capital reserves equivalent to 10% of the forecasted 5-year total capital repair and replacement expenditures, new projects capital reserves equivalent to a fixed amount of \$12.5 million and restricted loan/bond reserves as required by bond and loan legal requirements. At June 30, 2020, the District had cash and investment reserves of \$107,013,821 pursuant to Resolution 2019-06-01.

NOTE 9 – 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 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.

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 9 – DEFINED BENEFIT PENSION PLAN WITH CALIFORNIA PUBLIC EMPLOYEE’S RETIREMENT SYSTEM (Continued)

Benefits Provided

CalPERS provides 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, 2020, are summarized as follows:

	Hire Date	
	Prior to January 1, 2013	On or after January 1, 2013
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	27.686%	27.686%

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

Employees Covered

At the June 30, 2019 measurement date for the fiscal year ended June 30, 2020, the following employees were covered by the benefit terms for the Plan:

Inactive employees or beneficiaries currently receiving benefits	120
Inactive employees entitled to but not yet receiving benefits	99
Active employees	142
Total	361

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

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 9 – 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, 2020, was 27.686%. This rate includes the current employer normal rate of 10.357% and the unfunded rate of 17.329% 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, 2020, the employer contributions totaled \$1,401,844.

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, 2020, 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, 2020, is based on the Plan’s measurement date of June 30, 2019, using an actuarial valuation as of June 30, 2018. 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 actuarially determined contributions for the June 30, 2018 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Payroll Growth	3.00%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.375%

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 (Continued)
For the Year Ended June 30, 2020

NOTE 9 – 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 ⁽¹⁾	Real Return Years 11 + ⁽²⁾
Global Equity	50.0%	4.80%	5.98%
Fixed Income	28.0	1.00	2.62
Inflation Assets	0.0	0.77	1.81
Private Equity	8.0	6.30	7.23
Real Assets	13.0	3.75	4.93
Liquidity	1.0	0.00	(0.92)

⁽¹⁾ An expected inflation of 2.00% used for this period.

⁽²⁾ An expected inflation of 2.92% used for this period.

All other actuarial assumptions used in the June 30, 2018 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.

Changes of Assumptions

For the June 30, 2019 measurement date, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017.

Discount Rate

The discount rate used to measure the total pension liability was 7.15%. 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 (Continued)
For the Year Ended June 30, 2020

NOTE 9 – 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, 2019*	\$ 100,531,064	\$ 70,105,037	\$ 30,426,027
Increase (Decrease) in Pension Liability:			
Service Cost	2,231,253	-	2,231,253
Interest on the Total Pension Liability	7,209,736	-	7,209,736
Differences between Expected and Actual Experience	1,464,166	-	1,464,166
Contributions from Employer	-	3,277,051	(3,277,051)
Contributions from Employees	-	1,036,211	(1,036,211)
Net Investment Income	-	4,661,877	(4,661,877)
Benefit Payments, including Refunds of Employee Contributions	(4,550,760)	(4,550,760)	-
Administrative Expense	-	(50,048)	50,048
Net changes:	6,354,395	4,374,331	1,980,064
Balance at June 30, 2020*	\$ 106,885,459	\$ 74,479,368	\$ 32,406,091

*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 7.15% 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 (6.15%) or 1-percentage point higher (8.15%) than the current rate:

	Discount Rate -1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate +1% (8.15%)
Net Pension Liability	\$ 46,476,753	\$ 32,406,091	\$ 20,741,922

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 (Continued)
For the Year Ended June 30, 2020

NOTE 9 – 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, 2020, the District recognized pension expenses of \$5,678,085. At June 30, 2020, 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	\$ 3,610,514	\$ -
Change of Assumptions*	992,294	(329,712)
Differences between Expected and Actual Experiences*	1,591,235	(99,868)
Net Difference between Projected and Actual Earnings on Pension Plan Investments	-	(404,803)
Net changes:	\$ 6,194,043	\$ (834,383)

*The expected average remaining service life (EARSL) for the measurement periods ending June 30, 2015, June 30, 2016, June 30, 2017, June 30, 2018 and June 30, 2019 is 3.7, 3.8, 3.7, 4.2, and 4.0 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 \$3,610,514 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, 2020. Deferred outflows of resources of \$2,583,529 and deferred inflows of resources of \$834,383 as described above will be recognized as pension expense as follows:

Measurement Period Ended June 30:	Deferred Outflows/ (Inflows) of Resources
2020	\$ 1,573,018
2021	(152,183)
2022	260,739
2023	67,572

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 10 – 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 Voya as of September 2019. The plan had previously been 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, 2020, to defer up to the lesser of \$19,500 or 100% of includible 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 (401(a) Plan). 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, 2020, the employer contributions totaled \$207,399. 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 2020 shall not exceed \$57,000, as adjusted for increases allowed in the Code.

NOTE 11 – 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, 2020, the District paid \$94,218 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, 26111 Antonio Parkway, Rancho Santa Margarita, CA 92688.

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 11 – 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 5). During 1999, the Dana Point Sanitary District was dissolved and the South Coast Water District became the successor agency. The financial statements can be obtained at the Orange County Auditor-Controller website: <https://acdcweb01.ocgov.com/>.

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, 2020, the District paid bond principal payments totaling \$11,545,000 and interest payments totaling \$2,466,900 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) | Irvine Ranch Water District (IRWD) |
| City of San Clemente (CSC) | Moulton Niguel Water District (MNWD) |
| City of San Juan Capistrano (CSJC) | Santa Margarita Water District (SMWD) |
| El Toro Water District (ETWD) | South Coast Water District (SCWD) |
| Emerald Bay Services District (EBSD) | 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, 2020, the District paid \$2,210,540 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 (Continued)
For the Year Ended June 30, 2020

NOTE 11 – JOINT POWERS AGREEMENTS (Continued)

Fenner Valley Water Authority

The Fenner Valley Water Authority (FVWA) was created on November 14, 2014, between the Santa Margarita Water District and the Fenner Valley Mutual Water Company for the purpose of operating the Cadiz Valley Water Conservation, Recovery and Storage Project and implementing the Project's Groundwater Monitoring, Mitigation and Management Plan. Once completed, the Authority will lease the Project Facilities from Cadiz, which will be used to extract, treat and transport water.

Currently, Cadiz is funding all activities of the Fenner Valley Water Authority. The District incurred no costs during the year ended June 30, 2020. Copies of FVWA's annual financial statements can be obtained at the District: Fenner Valley Water Authority c/o Santa Margarita Water District, 26111 Antonio Parkway, Rancho Santa Margarita, California 92688.

NOTE 12 – 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 Community Facilities Districts (CFDs) are considered separate legal entities. The CFDs assets, including the unspent bond proceeds, are held by the Bank of New York Mellon Trust Company, N.A. (BNYM) as the Trustee, and are not reported in the District's basic financial statements as of June 30, 2020.

Both CFDs 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, 2020, 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, 2020: Series 2014B and Series 2017A.

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, 2020, is \$25,785,000.

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 12 – COMMUNITY FACILITIES DISTRICTS (Continued)

Series 2017A Special Tax Refunding Bonds

In August 2017, CFD 99-1 issued \$37,250,000 of Special Tax Refunding Bonds with interest rates from 3.00% to 5.00% that matures annually on September 1 from 2018 to 2030. The bonds were issued to refund the Series 2007 Special Tax Refunding Bonds, which had an interest rate of 4.00% to 4.75%. The final maturity date remains the same, at September 1, 2030. The outstanding balance (before deferred bond charges) of this bond at June 30, 2020, is \$33,595,000.

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, 2020: 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, 2020, was \$53,805,000.

CFD Financial Statement Summary

A summary of the June 30, 2020, Community Facilities Districts' financial statements are as follows:

	Community Facilities District 99-1
Assets	\$ 10,450,479
Deferred outflows of resources	2,604,112
Liabilities	66,944,688
Revenues	6,644,003
Expenses	4,247,986
Net position - beginning	(56,286,115)
Net position - ending	(53,890,097)

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 12 – COMMUNITY FACILITIES DISTRICTS (Continued)

Community Facilities District 2013-1	
Assets	\$ 8,525,560
Liabilities	54,499,418
Revenues	5,732,187
Expenses	5,404,178
Net position - beginning	(46,301,867)
Net position - ending	(45,973,858)

TOTAL Community Facilities Districts	
Assets	\$ 18,976,039
Deferred outflows of resources	2,604,112
Liabilities	112,444,106
Revenues	12,376,190
Expenses	9,652,164
Net position - beginning	(102,587,981)
Net position - ending	(99,863,955)

Community Facility District Debt Service Schedule:

Year	Principal	Interest	Total
2021	3,985,000	5,698,619	9,683,619
2022	4,400,000	5,514,800	9,914,800
2023	4,840,000	5,311,806	10,151,806
2024	5,275,000	5,086,881	10,361,881
2025	5,750,000	4,824,456	10,574,456
2026-2030	37,515,000	19,136,294	56,651,294
2031-2035	15,270,000	11,934,666	27,204,666
2036-2040	17,870,000	7,733,095	25,603,095
2041-2044	18,280,000	2,154,657	20,434,657
	\$ 113,185,000	\$ 67,395,274	\$ 180,580,274

The CFDs are required to hold monies in a reserve fund based on bond covenants. At June 30, 2020, the BNYM held monies in a reserve fund for the debt reserve requirement of \$2,552,490 and \$5,492,454 for the 2013 Series and 2014 Series B/2017 Series A CFD bonds, respectively.

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 13 – 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 (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 \$50,000,000.

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

NOTE 14 – 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.

NOTE 15 – 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 Environmental Impact Report (FEIR) for the Cadiz Project. Resolution No. 2012-07-03 adopts the California Environmental Quality Act (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 1 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.

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 15 – COMMITMENT TO PURCHASE WATER (Continued)

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 \$6 million 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, regional, and local agencies. If the project is halted, the District would continue its current practice of purchasing water from MET, identified sources, or both.

NOTE 16 – SUBSEQUENT EVENTS

The District has entered into a Memorandum of Understanding with the City of San Juan Capistrano (City) for the annexation of the City's water and sewer utilities. The District will be forming an additional improvement district (ID 9), which will isolate operating and non-operating revenues and expenditures and loan obligations. The impact to the current District is assumed to be negligible. The District will offer the City's water and sewer utilities efficiencies in operations and will undertake deferred maintenance and needed capital projects.

In March 2020, the World Health Organization (WHO) declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, customers, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible to predict the duration or magnitude of the adverse results of the outbreak and its effects on the District at this time. The District continues to monitor customer payments and has not experienced a material change. It is not possible to predict whether the District will experience an increase in doubtful accounts due to an extended economic downturn.

In August 2020, the SM/DPA issued the 2020A Revenue Bond for \$53,895,000. Proceeds of this issuance will finance the acquisition and construction of improvements to the District's water and wastewater system; and to prepay three District loans payable to the State Water Resources Control Board (SWRCB); and to pay for costs incurred with the issuance of the bond. Three loans prepaid are as follows: 2003 SWRCB Loan, 2003 SWRCB Loan and 2008 SWRCB Loan (Note 5).

REQUIRED SUPPLEMENTARY INFORMATION

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SANTA MARGARITA WATER DISTRICT
Schedule of Changes in the Net Pension Liability and Related Ratios
For the Year Ended June 30, 2020

(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.

	Measurement Date June 30, 2019	Measurement Date June 30, 2018	Measurement Date June 30, 2017	Measurement Date June 30, 2016	Measurement Date June 30, 2015	Measurement Date June 30, 2014
Total Pension Liability						
Service Cost	\$ 2,231,253	\$ 2,247,163	\$ 2,163,764	\$ 1,848,648	\$ 1,780,457	\$ 1,781,063
Interest	7,209,736	6,765,594	6,398,444	6,127,743	5,898,709	5,605,583
Changes in Assumptions	-	(629,452)	5,244,977	-	(1,424,897)	-
Difference Between Expected and Actual Experience	1,464,166	941,393	(527,866)	(1,579,501)	(778,016)	-
Benefit Payments, Including Refunds of Employee Contributions	(4,550,760)	(3,963,586)	(3,598,196)	(3,328,929)	(2,950,790)	(2,683,647)
Net Change in Total Pension Liability	6,354,395	5,361,112	9,681,123	3,067,961	2,525,463	4,702,999
Total Pension Liability – Beginning	100,531,064	95,169,952	85,488,829	82,420,868	79,895,405	75,192,406
Total Pension Liability – Ending (a)	\$ 106,885,459	\$ 100,531,064	\$ 95,169,952	\$ 85,488,829	\$ 82,420,868	\$ 79,895,405
Plan Fiduciary Net Position						
Net Plan to Plan Resource Movement	\$ -	\$ (163)	\$ -	\$ -	\$ -	\$ -
Contributions – Employer	3,277,051	2,855,073	2,892,279	2,564,395	2,250,865	1,889,301
Contributions – Employee	1,036,211	954,280	924,284	883,963	921,137	955,416
Net Investment Income	4,661,877	5,565,499	6,530,660	267,084	1,320,631	8,393,984
Benefit Payments, Including Refunds of Employee Contributions	(4,550,760)	(3,963,586)	(3,598,196)	(3,328,929)	(2,950,790)	(2,683,647)
Administrative Expense	(50,048)	(101,268)	(86,112)	(35,332)	(65,221)	-
Other Miscellaneous Expense	-	(192,310)	-	-	-	-
Net Change in Fiduciary Net Position	4,374,331	5,117,525	6,662,915	351,181	1,476,622	8,555,054
Plan Fiduciary Net Position – Beginning	70,105,037	64,987,512	58,324,597	57,973,416	56,496,794	47,941,740
Plan Fiduciary Net Position – Ending (b)	74,479,368	70,105,037	64,987,512	58,324,597	57,973,416	56,496,794
Plan Net Pension Liability – Ending (a) - (b)	\$ 32,406,091	\$ 30,426,027	\$ 30,182,440	\$ 27,164,232	\$ 24,447,452	\$ 23,398,611
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.68%	69.73%	68.29%	68.22%	70.34%	70.71%
Covered Payroll	\$ 13,683,339	\$ 12,205,854	\$ 11,917,733	\$ 11,283,721	\$ 10,499,276	\$ 9,194,758
Plan Net Pension Liability as a Percentage of Covered Payroll	236.83%	249.27%	253.26%	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, 2018. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit.

Changes of Assumptions: None in 2019. In 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Assumptions December 2017. There were no changes in the discount rate. In 2017, the discount rate was reduced from 7.65 percent to 7.15 percent. In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense). In 2014, amounts reported were based on the 7.5 percent discount rate.

SANTA MARGARITA WATER DISTRICT
 Schedule of Contributions
 For the Year Ended June 30, 2020

(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.

	<u>Fiscal Year End June 30, 2020</u>	<u>Fiscal Year End June 30, 2019</u>	<u>Fiscal Year End June 30, 2018</u>	<u>Fiscal Year End June 30, 2017</u>	<u>Fiscal Year End June 30, 2016</u>	<u>Fiscal Year End June 30, 2015</u>
Actuarially Determined Contribution	\$ 3,610,514	\$ 3,277,051	\$ 2,855,073	\$ 2,892,279	\$ 2,564,395	\$ 2,250,865
Contributions in Relation to the Actuarially Determined Contribution	(3,610,514)	(3,277,051)	(2,855,073)	(2,892,279)	(2,564,395)	(2,250,865)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
* Represents the District's fiscal year-end date						
Covered Payroll [1]	\$ 13,517,009	\$ 13,683,339	\$ 12,205,854	\$ 11,917,733	\$ 11,283,721	\$ 10,499,276
Contributions as a Percentage of Covered Payroll	26.71%	23.95%	23.39%	24.27%	22.73%	21.44%

Notes to Schedule of Contribution:

Valuation date: June 30, 2018

Methods and assumptions used to actuarially determine contributions rates for fiscal year 2020:

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	7.375% Net of Administrative Expenses
Retirement Age	The probabilities of retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011 The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. Pre-retirement and Post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB
Mortality	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.

**STATISTICAL SECTION
(UNAUDITED)**

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SANTA MARGARITA WATER DISTRICT
Summary of Statistical Section
For the Year Ended June 30, 2020

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 55
Changes in Net Position	Page 56
Operating Revenue by Source	Page 58
Operating Expenses by Type	Page 59

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 61
Historical Water System Sales Revenues	Page 62
Water and Wastewater Rates	Page 63
Ten Largest Water and Wastewater Customers	Page 64
Assessed Value and Assessment Rate by Improvement District	Page 65

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 Debt Summary	Page 67
Debt Service Coverage Ratio	Page 74
Outstanding Debt by Type	Page 75
Outstanding Debt Ratios	Page 76

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 77
Principal Employers	Page 78

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 79
Water and Wastewater Connections	Page 80
Employee Information	Page 81

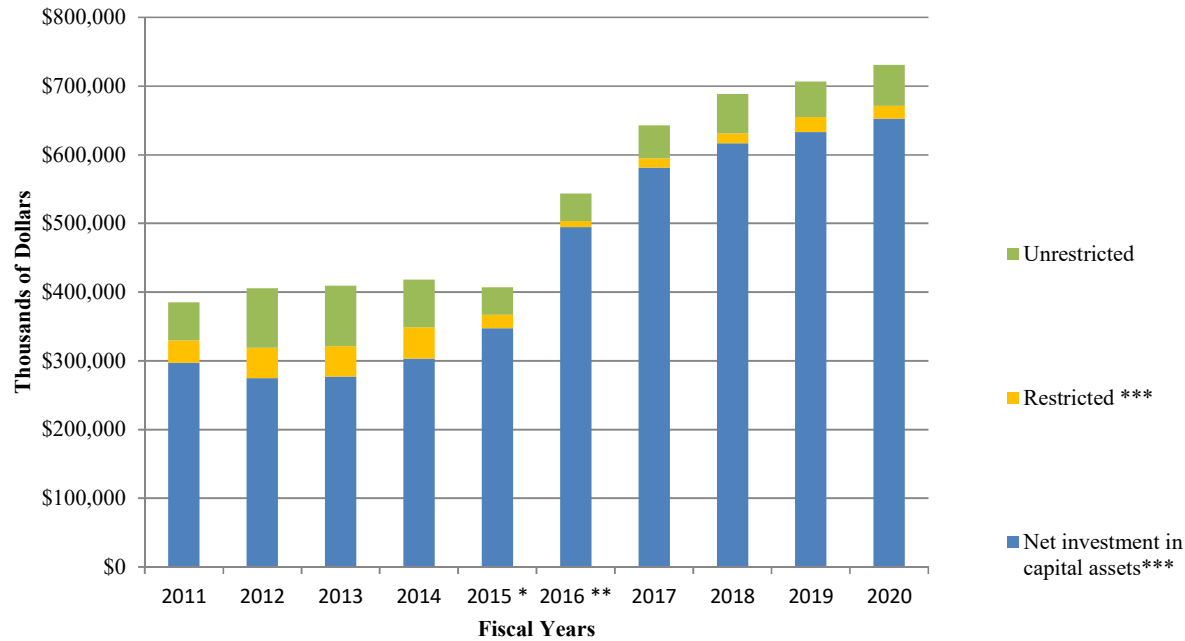
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SANTA MARGARITA WATER DISTRICT

Net Position
(Thousands of Dollars)
Last Ten Fiscal Years

Net Position

	Fiscal Year									
	2011	2012	2013	2014	2015 *	2016 **	2017	2018	2019	2020
Net investment in capital assets***	\$ 297,117	\$ 274,835	\$ 277,328	\$ 302,967	\$ 347,590	\$ 494,624	\$ 581,278	\$ 616,456	\$ 633,048	\$ 652,545
Restricted ***	32,618	44,180	44,250	45,817	19,620	8,931	13,329	14,408	21,955	18,695
Unrestricted	55,518	86,432	87,714	69,321	39,726	39,832	47,951	57,446	51,752	59,716
Total net position	\$ 385,253	\$ 405,447	\$ 409,292	\$ 418,105	\$ 406,936	\$ 543,387	\$ 642,558	\$ 688,310	\$ 706,755	\$ 730,956



* 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.

*** Current year net position is calculated in note 7 of the financial statements.

Source: SMWD Basic Financial Statements

SANTA MARGARITA WATER DISTRICT

Changes in Net Position

Last Ten Fiscal Years

	Fiscal Year				
	2011	2012	2013	2014	2015
Operating Revenues:					
Potable water charges	\$ 27,522,866	\$ 29,764,206	\$ 32,981,298	\$ 36,178,908	\$ 34,142,144
Recycled water charges	4,470,341	5,068,688	6,023,082	6,929,490	7,219,456
Wastewater charges	11,129,993	11,467,467	11,692,841	12,103,730	12,271,262
Utility billing charges	722,208	681,507	697,052	698,786	715,686
Construction charges	208,086	276,091	806,665	708,874	1,150,074
Other income	4,424,449	1,771,983	1,476,302	2,821,343	2,702,571
Total operating revenues	48,477,943	49,029,942	53,677,240	59,441,131	58,201,193
Operating Expenses:					
Water purchases	21,185,215	23,293,146	26,665,738	28,264,492	24,212,121
Power	4,204,479	4,078,145	4,068,216	4,944,194	5,460,353
Maintenance and operations	440,267	571,337	524,473	622,498	1,138,459
Regional participation	1,257,311	1,205,974	1,191,408	3,076,129	259,134
Sewage treatment	3,351,879	2,513,606	2,499,279	2,481,884	2,633,777
Operating general	1,847,191	2,162,963	1,869,340	2,195,665	2,535,469
Repair and maintenance	3,829,607	3,201,117	3,144,083	3,465,764	3,489,569
Employee cost	13,548,863	14,362,327	14,677,928	14,606,120	15,655,872
Customer relations	431,618	398,792	398,016	448,664	505,067
General and administrative	2,273,941	2,587,771	2,728,996	3,035,753	3,696,633
Total operating expenses	52,370,371	54,375,178	57,767,477	63,141,163	59,586,454
Depreciation and amortization	15,920,180	15,608,541	17,101,815	16,985,856	17,081,495
Operating income (loss)	(19,812,608)	(20,953,777)	(21,192,052)	(20,685,888)	(18,466,756)
Non-operating revenues (expenses)					
Property taxes-ad valorem restricted	25,129,283	24,680,109	26,882,700	29,694,891	23,454,537
Property taxes-ad valorem 1% general	5,987,585	5,893,978	5,946,208	6,118,055	6,071,301
Capacity lease income	805,793	807,066	806,955	809,833	832,103
Investment income	2,348,104	2,226,758	370,637	1,577,099	1,430,680
Rental income	1,116,498	1,174,618	1,188,799	1,199,966	1,107,415
Gain (loss) on sale of capital asset	-	-	-	-	-
Other non-operating income	-	1,935,929	2,123,379	5,133,944	4,655,928
Contributions to other agencies	-	-	-	(3,137,767)	(16,387,047)
Other non-operating expenses	(890,000)	-	-	(965,681)	(623,934)
Interest revenue (expense)	(13,979,495)	(13,192,069)	(14,644,444)	(14,566,035)	(9,303,180)
Total non-operating revenues (expenses)	20,517,768	23,526,389	22,674,234	25,864,305	11,237,803
Income (loss) before contributed capital	705,160	2,572,612	1,482,182	5,178,417	(7,228,953)
Contributed capital	8,648,926	17,184,484	488,881	316,913	2,607,632
Contributions from agencies	-	-	-	-	-
Connection fees	-	-	25,500	-	-
Jointly owned facilities capital reimb	-	346,862	156,995	83,078	9,553,265
Capital grants	12,994	89,638	1,156,820	3,234,854	9,261,561
Change in Net Position	\$ 9,367,080	\$ 20,193,596	\$ 3,310,378	\$ 8,813,262	\$ 14,193,505

Source: SMWD Basic Financial Statements

SANTA MARGARITA WATER DISTRICT

Changes in Net Position (Continued)

Last Ten Fiscal Years

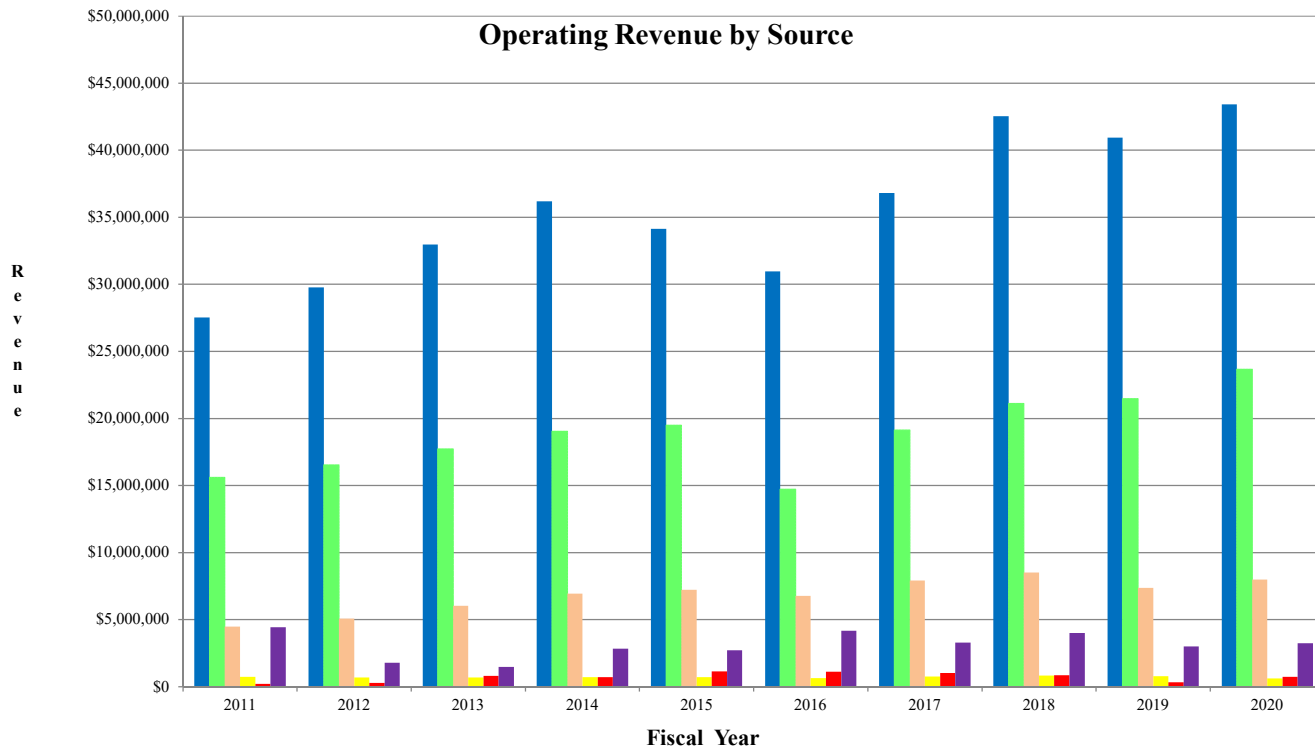
	Fiscal Year				
	2016 *	2017	2018	2019	2020
Operating Revenues:					
Potable water charges	\$ 30,957,212	\$ 36,801,755	\$ 42,532,641	\$ 40,935,472	\$ 43,414,528
Recycled water charges	6,766,438	7,917,181	8,518,568	7,358,115	7,989,399
Wastewater charges	14,706,977	19,119,039	21,111,651	21,466,050	23,668,748
Utility billing charges	647,657	766,205	821,386	789,675	606,985
Construction charges	1,121,823	1,030,082	855,453	327,665	730,549
Other income	4,178,070	3,298,165	4,003,968	3,001,417	3,227,784
Total operating revenues	<u>58,378,177</u>	<u>68,932,427</u>	<u>77,843,667</u>	<u>73,878,394</u>	<u>79,637,993</u>
Operating Expenses:					
Water purchases	23,677,839	24,333,744	24,823,991	25,874,531	27,224,323
Power	5,189,368	5,371,920	5,698,926	5,184,012	4,996,289
Maintenance and operations	1,184,825	733,064	1,000,939	251,842	412,129
Regional participation	175,282	253,717	261,819	354,919	121,451
Sewage treatment	2,534,102	2,615,119	3,205,993	4,552,922	4,195,526
Operating general	2,944,793	3,306,865	4,452,531	3,290,440	4,153,245
Repair and maintenance	4,060,091	4,522,714	6,190,383	6,118,091	4,419,298
Employee cost	16,022,443	17,139,918	19,338,871	20,191,877	22,346,607
Customer relations	354,427	1,043,790	1,093,631	909,760	-
General and administrative	5,210,550	4,348,537	3,791,832	4,343,332	5,153,821
Total operating expenses	<u>61,353,720</u>	<u>63,669,388</u>	<u>69,858,916</u>	<u>71,071,726</u>	<u>73,022,689</u>
Depreciation and amortization	<u>17,177,880</u>	<u>17,884,061</u>	<u>20,546,739</u>	<u>21,337,294</u>	<u>21,652,406</u>
Operating income (loss)	<u>(20,153,423)</u>	<u>(12,621,022)</u>	<u>(12,561,988)</u>	<u>(18,530,626)</u>	<u>(15,037,102)</u>
Non-operating revenues (expenses)					
Property taxes-ad valorem restricted	19,011,576	17,588,204	17,647,908	14,246,710	14,249,102
Property taxes-ad valorem 1% general	7,074,733	7,481,907	7,949,869	8,324,301	8,735,175
Capacity lease income	824,530	5,434	1,516	1,438	618
Investment income	2,304,089	87,522	265,970	3,699,167	4,086,083
Rental income	1,087,296	1,204,530	1,204,707	1,242,157	1,243,965
Gain (loss) on sale of capital asset	-	-	18,149	(732,355)	88,147
Other non-operating income	-	8,664,815	1,073,576	707,881	2,694,694
Contributions to other agencies	(944,238)	(2,616)	(1,062)	-	-
Other non-operating expenses	(798,665)	-	-	-	-
Interest revenue (expense)	(228,423)	(1,021,469)	(333,729)	(2,027,006)	(2,050,123)
Total non-operating revenues (expenses)	<u>28,330,898</u>	<u>34,008,327</u>	<u>27,826,904</u>	<u>25,462,293</u>	<u>29,047,661</u>
Income (loss) before contributed capital	<u>8,177,475</u>	<u>21,387,305</u>	<u>15,264,916</u>	<u>6,931,667</u>	<u>14,010,559</u>
Contributed capital	3,515,481	62,591,102	12,660,109	7,292,210	4,924,149
Contributions from agencies	11,227,266	13,345,089	5,622,463	116,472	2,278,209
Connection fees	-	-	-	-	-
Jointly owned facilities capital reimb	2,064,227	646,897	892,811	4,105,174	2,987,974
Capital grants	828,296	1,199,865	11,312,189	-	-
Change in Net Position	<u>\$ 25,812,745</u>	<u>\$ 99,170,258</u>	<u>\$ 45,752,488</u>	<u>\$ 18,445,523</u>	<u>\$ 24,200,891</u>

* 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

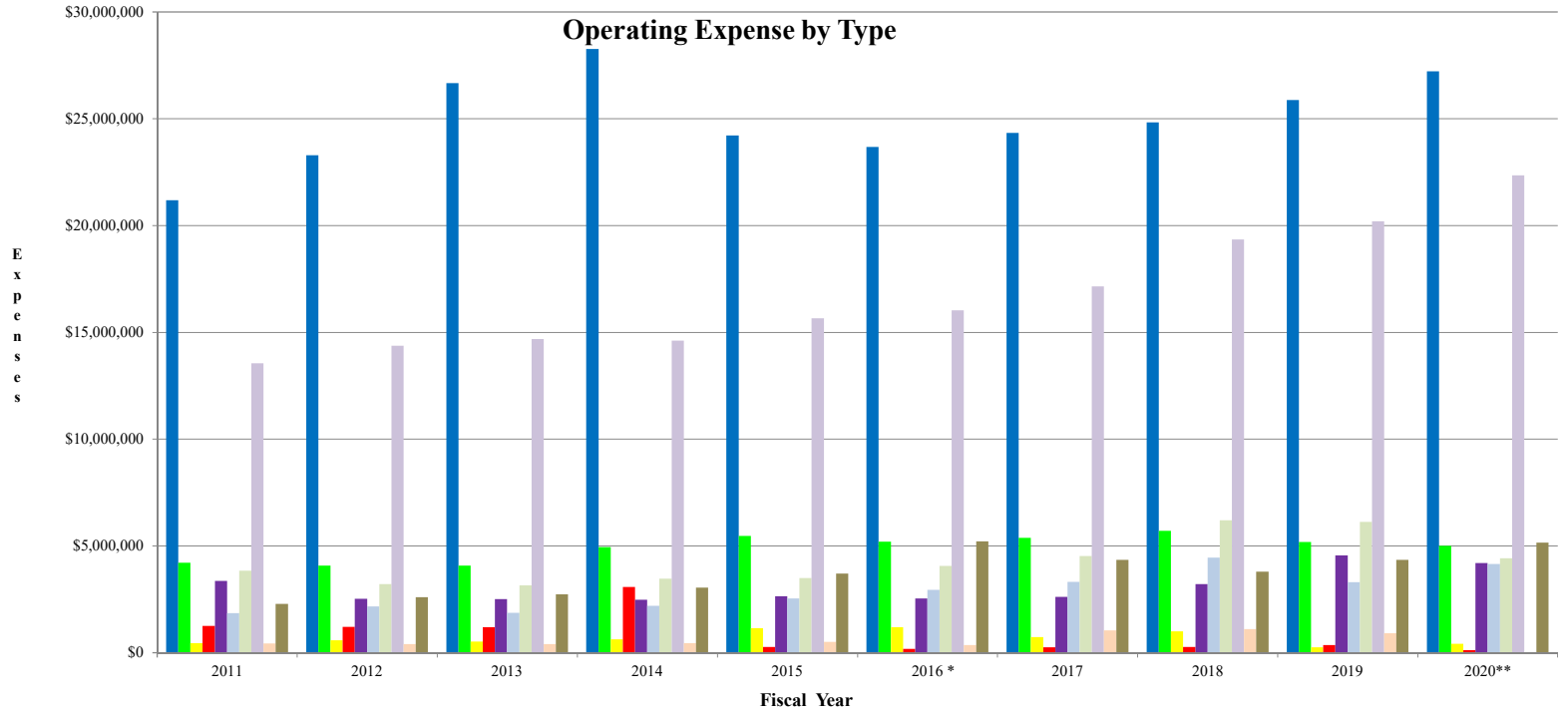
Fiscal Year	Water Sales	Sanitation Sale Service Charge	Recycled Water Service Charge	Utility Billing Charges	Construction Revenue	Other Income	Total Operating Revenue
2011	27,522,866	15,600,334	4,470,341	722,208	208,086	4,424,449	52,948,284
2012	29,764,206	16,536,155	5,068,688	681,507	276,091	1,771,983	54,098,630
2013	32,981,298	17,715,923	6,023,082	697,052	806,665	1,476,302	59,700,322
2014	36,178,908	19,033,220	6,929,490	698,786	708,874	2,821,343	66,370,621
2015	34,142,144	19,490,718	7,219,456	715,686	1,150,074	2,702,571	65,420,649
2016	30,957,212	14,706,977	6,766,438	647,657	1,121,823	4,178,070	58,378,177
2017	36,801,755	19,119,039	7,917,181	766,205	1,030,082	3,298,165	68,932,427
2018	42,532,641	21,111,651	8,518,568	821,386	855,453	4,003,968	77,843,667
2019	40,935,472	21,466,050	7,358,115	789,675	327,665	3,001,417	73,878,394
2020	43,414,528	23,668,748	7,989,399	606,985	730,549	3,227,784	79,637,993



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 participation	Sewage treatment	Operating general	Repair and maintenance	Employee cost	Customer relations	General and administrative	Total Operating Expense
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
2018	24,823,991	5,698,926	1,000,939	261,819	3,205,993	4,452,531	6,190,383	19,338,871	1,093,631	3,791,832	69,858,916
2019	25,874,531	5,184,012	251,842	354,919	4,552,922	3,290,440	6,118,091	20,191,877	909,760	4,343,332	71,071,726
2020**	27,224,323	4,996,289	412,129	121,451	4,195,526	4,153,245	4,419,298	22,346,607	-	5,153,821	73,022,689



* 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.

** Certain amounts were reclassified in FY 2020

Source: SMWD Finance Department

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SANTA MARGARITA WATER DISTRICT
Water Sales by Customer Class
Last Ten Fiscal Years

Water Consumption by Customer Class by Acre Feet (AF)

Fiscal Year	Outdoor Irrigation		Business/ Commercial	Construction	Lakefill	Residential Single Family	Residential Multi Family	Total Sales
	Recycled Water	Potable Water						
2011	5,115	4,637	1,007	51	154	15,210	2,571	28,745
2012	5,626	5,063	988	19	233	15,869	2,603	30,403
2013	6,506	5,797	1,022	53	221	16,237	2,572	32,408
2014	7,382	6,238	1,056	112	314	16,914	2,565	34,581
2015	7,523	5,447	975	416	415	15,333	2,504	32,613
2016	7,230	3,834	891	52	227	12,987	2,454	27,675
2017	7,826	4,279	924	81	224	13,315	2,454	29,103
2018	8,015	5,122	1,028	260	391	14,667	2,497	31,980
2019	6,341	4,021	1,052	116	242	13,579	2,466	27,817
2020	6,324	4,162	1,002	188	292	14,106	2,595	28,668

1 AF = 325,851 gallons

Potable is water that is treated to drinking water standards

Recycled 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
Historical Water System Sales Revenues
Last Ten Fiscal Years

Fiscal Year	Historical Water System Sales Revenue					% Increase / Decrease
	Residential	Irrigation (Domestic)	Commercial/Con struction/Fire Service	Recycled	Total	
2011	21,109,733	5,421,578	2,122,055	5,424,530	34,077,896	N/A
2012	22,231,843	5,376,214	2,156,149	5,068,688	34,832,894	2.22%
2013	24,132,217	6,580,983	2,334,636	6,023,082	39,070,918	12.17%
2014	26,195,274	7,396,809	2,654,246	6,929,490	43,175,819	10.51%
2015	24,632,082	6,533,805	3,049,011	7,219,456	41,434,354	-4.03%
2016	22,904,340	4,922,383	3,130,489	6,766,438	37,723,650	-8.96%
2017	27,197,173	5,475,203	4,129,379	7,917,181	44,718,936	18.54%
2018	31,283,866	6,425,895	4,822,880	8,518,568	51,051,209	14.16%
2019	30,531,822	5,287,438	5,116,212	7,358,115	48,293,587	-5.40%
2020	55,905,005	6,081,224	5,097,047	7,989,399	75,072,675	55.45%

Source: SMWD utility billing system

SANTA MARGARITA WATER DISTRICT

Water and Wastewater Rates

Water Basic Monthly Charge - Residential Single and Multi-Family (per account)

	2011	2012	2013	2014	2015 *	2016 **	2017 **	2018 **	2019 ***	2020 **
3/4" Meter Size	\$ 6.03	\$ 6.22	\$ 6.32	\$ 6.41	\$ 8.72	\$ 14.89	\$ 21.79	\$ 23.05	\$ 23.05	\$ 23.13

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

	2011	2012	2013	2014	2015 *	2016 **	2017 **	2018 **	2019 ***	2020 **
Tier 1	\$ 1.61	\$ 1.66	\$ 1.69	\$ 1.71	\$ 2.04	\$ 1.86	\$ 1.67	\$ 1.67	\$ 1.67	\$ 2.20
Tier 2	1.73	1.78	1.81	1.84	2.29	2.11	1.94	1.94	1.94	2.57
Tier 3	2.18	2.25	2.29	2.32	2.77	2.61	2.44	2.45	2.45	3.36
Tier 4	2.67	2.75	2.79	2.83	3.28	3.12	2.95	2.96	2.96	5.53
Tier 5	3.49	3.60	3.66	3.71	4.50	4.67	4.84	4.85	4.85	-
MWDOC Surcharge	0.28	0.39	0.51	0.62	-	0.04	0.10	0.19	0.29	-

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

	2011	2012	2013	2014	2015 *	2016 **	2017 **	2018 **	2019 ***	2020 **
Tier 1	\$ 1.77	\$ 1.83	\$ 1.86	\$ 1.89	\$ 2.51	\$ 2.23	\$ 1.67	\$ 1.67	\$ 1.67	\$ 2.57
Tier 2	1.77	1.83	1.86	1.89	2.51	2.32	1.94	1.94	1.94	3.56
Tier 3	1.77	1.83	1.86	1.89	2.51	2.49	2.44	2.45	2.45	5.64
Tier 4	1.77	1.83	1.86	1.89	2.51	2.66	2.95	2.96	2.96	-
Tier 5	1.77	1.83	1.86	1.89	2.51	3.29	4.84	4.85	4.85	-
MWDOC Surcharge	0.28	0.39	0.51	0.62	-	0.04	0.10	0.19	0.29	-

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

	2011	2012	2013	2014	2015 *	2016 **	2017 **	2018 **	2019 ***	2020 **
Tier 1	\$ 1.77	\$ 1.79	\$ 1.82	\$ 1.85	\$ 2.47	\$ 2.24	\$ 1.78	\$ 1.82	\$ 1.82	\$ 2.21
Tier 2	1.77	1.79	1.82	1.85	2.47	2.43	2.34	2.39	2.39	2.62
Tier 3	1.77	1.79	1.82	1.85	2.47	2.44	2.38	2.44	2.44	4.90
Tier 4	1.77	1.79	1.82	1.85	2.47	2.51	2.60	2.66	2.66	-
Tier 5	1.77	1.79	1.82	1.85	2.47	3.38	5.21	5.32	5.32	-
MWDOC Surcharge	0.28	0.39	0.51	0.62	-	-	-	-	-	-

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

	2011	2012	2013	2014	2015 *	2016 **	2017 **	2018 **	2019 ***	2020 **
Tier 1	\$ 1.74	\$ 1.79	\$ 1.82	\$ 1.85	\$ 1.85	\$ 1.83	\$ 1.78	\$ 1.82	\$ 1.82	\$ 2.21
Tier 2	1.74	1.79	1.82	1.85	1.85	2.01	2.34	2.39	2.39	2.62
Tier 3	1.74	1.79	1.82	1.85	1.85	2.03	2.38	2.44	2.44	4.90
Tier 4	1.74	1.79	1.82	1.85	1.85	2.10	2.60	2.66	2.66	-
Tier 5	1.74	1.79	1.82	1.85	1.85	2.97	5.21	5.32	5.32	-

Wastewater Monthly Charge - Single Family and Multi-Family

	2011	2012	2013	2014	2015 *	2016 **	2017 **	2018 **	2019 ***	2020 **
Fixed Base Charge (per meter)										
Single Family Residential	\$ 8.72	\$ 8.99	\$ 9.13	\$ 9.26	\$ 12.92	\$ 20.30	\$ 25.51	\$ 25.51	\$ 29.38	\$ 29.10
Multi-Family Residential (Single Meter)	8.72	8.99	9.13	9.26	12.92	20.30	25.51	25.51	29.38	25.96
Multi-Family Residential (Common Meter)	42.98	44.33	45.04	45.67	12.92	20.30	25.51	25.51	29.38	11.43
Multi-Family Residential (Dwelling Unit)	-	-	-	-	-	-	-	-	-	14.53
C1-Med-Low Strength	42.98	44.33	45.04	45.67	12.92	20.30	25.51	25.51	29.38	27.79
C2-Med-Low Strength	42.98	44.33	45.04	45.67	12.92	20.30	25.51	25.51	29.38	85.62
C3-Med-High Strength	42.98	44.33	45.04	45.67	12.92	20.30	25.51	25.51	29.38	88.15
C4-High Strength	42.98	44.33	45.04	45.67	12.92	20.30	25.51	25.51	29.38	92.07
Recreational	42.98	44.33	45.04	45.67	12.92	20.30	25.51	25.51	29.38	27.77

Volumetric Charge (per ccf)

	2011	2012	2013	2014	2015 *	2016 **	2017 **	2018 **	2019 ***	2020 **
Single Family Residential	\$ 1.00	\$ 1.03	\$ 1.05	\$ 1.06	\$ 1.03	\$ 1.03	\$ 1.03	\$ 1.03	\$ 0.95	\$ 1.05
Multi-Family Residential (Single Meter)	1.00	1.03	1.05	1.06	1.03	1.03	1.03	1.03	0.95	1.05
Multi-Family Residential (Common Meter)	1.00	1.03	1.05	1.06	1.03	1.03	1.03	1.03	0.95	1.05
C1-Med-Low Strength	1.19	1.23	1.25	1.27	0.87	0.87	0.87	0.87	0.80	0.88
C2-Med-Low Strength	1.46	1.51	1.53	1.55	1.03	1.03	1.03	1.03	0.95	1.05
C3-Med-High Strength	1.96	2.02	2.05	2.08	1.49	1.49	1.49	1.49	1.35	1.47
C4-High Strength	3.51	3.62	3.68	3.73	2.19	2.19	2.19	2.19	2.32	2.34
Recreational	1.19	1.23	1.25	1.27	0.84	0.84	0.84	0.84	0.72	0.82

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

	2011	2012	2013	2014	2015 *	2016 **	2017 **	2018 **	2019 ***	2020 **
	\$ 35.46	\$ 38.05	\$ 40.40	\$ 42.53	\$ 40.82	\$ 44.89	\$ 49.96	\$ 52.57	\$ 54.07	\$ 58.35

* 2015 Rates effective March 10, 2015

** Rates effective January 1st of each fiscal year

*** 2019 Rates effective May 1, 2019

Source: SMWD Water, Recycled Water & Wastewater Service Fees, Prop 218 Notice

SANTA MARGARITA WATER DISTRICT
Ten Largest Water and Wastewater Customers

2020
Top Ten Domestic Water Customers

Customer	Annual Revenue	% of Total
1 SAMLARC	\$ 1,098,097	2.5%
2 CZ MASTER ASSOCIATION	415,180	1.0%
3 CASTA DEL SOL	413,992	1.0%
4 CAPISTRANO UNIFIED SCHOOL DISTRICT	264,679	0.6%
5 LARMAC	261,557	0.6%
6 CITY OF MISSION VIEJO	246,091	0.6%
7 APPLIED MEDICAL	203,042	0.5%
8 LAS FLORES MAINT.	173,975	0.4%
9 SAMCORP	163,939	0.4%
10 WESTERN NATIONAL PROP	147,803	0.3%
Total	\$ 3,388,355	7.9%
TOTAL DOMESTIC WATER SALES	\$ 43,414,528	

Top Ten Recycled Water Customers

Customer	Annual Revenue	% of Total
1 LARMAC	\$ 1,124,344	14.1%
2 CITY OF MISSION VIEJO	830,388	10.4%
3 LAKE MISSION VIEJO ASSOC.	682,817	8.5%
4 TALEGA MAINTENANCE CORP.	564,782	7.1%
5 RANCHO MISSION VIEJO	540,219	6.8%
6 CZ MASTER ASSOCIATION	527,081	6.6%
7 CASTA DEL SOL HOA	365,682	4.6%
8 COTO DE CAZA GOLF & RACQUET	303,150	3.8%
9 CITY OF SAN JUAN CAPISTRANO	240,554	3.0%
10 OSO VALLEY GREENBELT ASSOC.	231,032	2.9%
Total	\$ 5,410,049	67.8%
TOTAL RECYCLED WATER SALES	\$ 7,989,399	

Top Ten Wastewater Customers

Customer	Annual Revenue	% of Total
1 WESTERN NATIONAL PROP.	\$ 86,895	0.6%
2 GREYSTAR REAL ESTATE MGMT	75,201	0.5%
3 VILLA LA PAZ	73,028	0.5%
4 IRVINE COMPANY	72,948	0.5%
5 LADERA WING	67,680	0.5%
6 AVALON BAY COMMUNITES	49,511	0.4%
7 BRE PROPERTIES	44,869	0.3%
8 EQUITY RESIDENTIAL PROP	43,721	0.3%
9 SENDERO GATEWEAY	42,737	0.3%
10 UDR/PACIFIC LOS ALISOS, L.P.	37,651	0.3%
Total	\$ 594,241	4.2%
TOTAL WASTEWATER SALES	\$ 23,668,748	

2011
Top Ten Domestic Water Customers

Customer	Annual Revenue	% of Total
1 SAMLARC	\$ 702,133	2.6%
2 CZ MASTER HOA	308,841	1.1%
3 CASTA DEL SOL HOA	298,991	1.1%
4 CITY OF MISSION VIEJO	274,240	1.0%
5 LADERA RANCH MAINTENANCE	177,577	0.6%
6 LAS FLORES MAINTENANCE	167,707	0.6%
7 CAPISTRANO UNIFIED SCHOOL DIST	157,709	0.6%
8 LAKE MISSION VIEJO	157,397	0.6%
9 VILLA LA PAZ APARTMENTS	156,853	0.6%
10 SOUTH COUNTY APARTMENTS	111,895	0.4%
Total	\$ 2,513,343	9.2%
TOTAL DOMESTIC WATER SALES	\$ 27,522,866	

Top Ten Recycled Water Customers

Customer	Annual Revenue	% of Total
1 LADERA RANCH MAINTENACE	\$ 969,038	21.7%
2 CZ MASTER HOA	505,371	11.3%
3 CITY OF MISSION VIEJO	471,769	10.6%
4 TALEGA MAINTENANCE	461,344	10.3%
5 COTO DE CAZA GOLF & RACQUET	262,022	5.9%
6 CASTA DEL SOL HOA	261,157	5.8%
7 TALEGA GOLF CLUB	197,315	4.4%
8 MISSION VIEJO ENVIRONMENTAL HOA	140,187	3.1%
9 CANYON ESTATES HOA	120,903	2.7%
10 OSO VALLEY GREENBELT HOA	114,745	2.6%
Total	\$ 3,503,851	78.4%
TOTAL RECYCLED WATER SALES	\$ 4,470,341	

Top Ten Wastewater Customers

Customer	Annual Revenue	% of Total
1 SOUTH COUNTY APARTMENTS	\$ 64,656	0.6%
2 22751 EL PRADO, LLC	51,907	0.5%
3 VILLA LA PAZ APARTMENTS	51,673	0.5%
4 LADERA WNG, LLC	48,020	0.4%
5 WESTERN NATIONAL APARTMENTS	43,424	0.4%
6 VONS GROCERY STORES	35,026	0.3%
7 RALPH GROCERY STORES	34,616	0.3%
8 EQUITY RESIDENTIAL PROPERTIES	32,857	0.3%
9 CAPISTRANO UNIFIED SCHOOL DIST	28,210	0.3%
10 BRE PROPERTIES	27,974	0.3%
Total	\$ 418,363	3.8%
TOTAL WASTEWATER SALES	\$ 11,129,993	

Source: SMWD utility billing system

SANTA MARGARITA WATER DISTRICT

Assessed Value and Assessment Rate by Improvement District

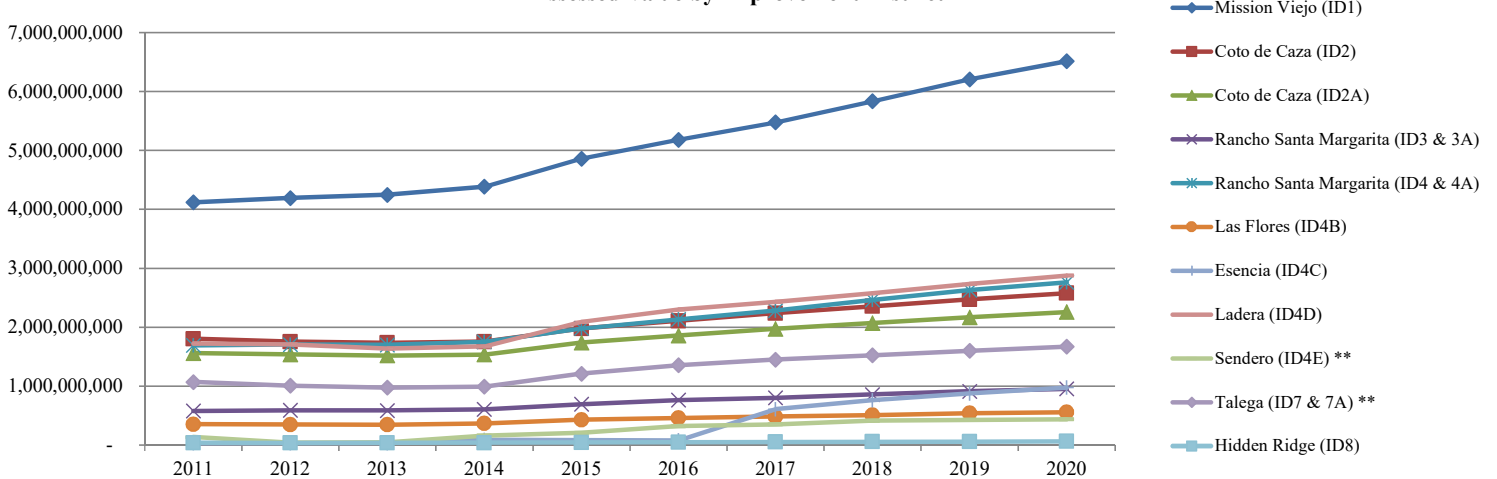
Assessed Value by Improvement District

Fiscal Year	Assessed Value by Improvement District										
	Mission Viejo (ID1)	Coto de Caza (ID2)	Coto de Caza (ID2A)	Rancho Santa Margarita (ID3 & 3A)	Rancho Santa Margarita (ID4 & 4A)	Las Flores (ID4B)	Esencia (ID4C)	Ladera (ID4D)	Sendero (ID4E) **	Talega (ID7 & 7A) **	Hidden Ridge (ID8)
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
2018	5,835,619,000	2,353,363,465	2,068,939,915	855,449,272	2,461,320,493	507,360,592	758,305,815	2,574,216,450	411,061,467	1,520,468,757	54,348,170
2019	6,206,022,832	2,468,385,147	2,166,690,140	909,999,028	2,627,290,567	539,485,697	871,604,033	2,733,192,659	423,486,062	1,597,001,961	56,495,273
2020	6,513,755,308	2,578,149,407	2,255,589,923	952,794,717	2,762,516,961	554,200,175	973,371,722	2,874,614,434	434,559,628	1,668,988,719	60,549,330

Assessment Rate by Improvement District per \$100 of Assessed Value

Fiscal Year	Assessment Rate by Improvement District per \$100 of Assessed Value										
	Mission Viejo (ID1)	Coto de Caza (ID2)	Coto de Caza (ID2A)	Rancho Santa Margarita (ID3 & 3A)	Rancho Santa Margarita (ID4 & 4A)	Las Flores (ID4B)	Esencia (ID4C)	Ladera (ID4D)	Sendero (ID4E) **	Talega (ID7 & 7A) **	Hidden Ridge (ID8)
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
2018	0.0000	0.0110	0.0000	0.2811	0.2979	0.3496	0.13036	0.1225	0.1605	*	0.0000
2019	0.0000	0.0110	0.0000	0.2224	0.2411	0.2110	0.0938	0.0929	0.1157	*	0.0000
2020	0.0000	0.0110	0.0000	0.217	0.2336	0.2090	0.0889	0.0894	0.1127	*	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 2019-2020

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SANTA MARGARITA WATER DISTRICT
Improvement District NO. 2/2A
Direct and Overlapping Debt Summary

Overlapping District	FY 2020-21 Total Levy	Amount of Levy on Parcels in the District	Percent of Levy on Parcels in the District	Total Debt Outstanding [1]	District Share of Total Debt Outstanding
Metropolitan Water District G.O. Bond	\$153,026,056	\$186,892	0.1221%	\$32,230,000	\$39,363
County of Orange CFD No. 87-8	\$0	\$0	0.0000%	\$0	\$0
Capistrano Unified School District SFID No. 1 Series B and 2012 Refunding	\$5,008,478	\$105,251	2.1015%	\$16,013,396	\$336,515
				ESTIMATED SHARE OF OVERLAPPING DEBT	\$375,878
Santa Margarita Water District ID No. 2					\$4,555,000 [2]
Santa Margarita Water District ID No. 2A					\$0 [2,3]
				TOTAL DIRECT AND OVERLAPPING DEBT	\$4,930,878
				TOTAL LAND ASSESSED VALUE [4]	\$2,661,681,436
				VALUE-TO-LIEN RATIO	539.799

Sources: DTA; Santa Margarita Water District; Metropolitan Water District; County Of Orange

[1] Based on principal payments as of September 2, 2020. 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 2020-2021 land value provided by County of Orange Auditor-Controller

SANTA MARGARITA WATER DISTRICT

Improvement District No. 2A
Direct and Overlapping Debt Summary

Overlapping District	FY 2020-21 Total Levy	Amount of Levy on Parcels in the District	Percent of Levy on Parcels in the District	Total Debt Outstanding [1]	District Share of Total Debt Outstanding
Metropolitan Water District G.O. Bond	\$153,026,056	\$162,459	0.1062%	\$32,230,000	\$34,217
Santa Margarita Water District ID No. 2	\$292,785	\$256,646	87.6568%	\$4,555,000	\$3,992,768
County of Orange CFD No. 87-8	\$0	\$0	0.0000%	\$0	\$0
Capistrano Unified School District SFID No. 1 Series B and 2012 Refunding	\$5,008,478	\$52,475	1.0477%	\$16,013,396	\$167,776
				ESTIMATED SHARE OF OVERLAPPING DEBT	\$4,194,761
Santa Margarita Water District ID No. 2A					\$0 [2,3]
				TOTAL DIRECT AND OVERLAPPING DEBT	\$4,194,761
				TOTAL LAND ASSESSED VALUE [4] VALUE-TO-LIEN RATIO	\$2,333,145,112 556.205

Sources: DTA; Santa Margarita Water District; Metropolitan Water District; County Of Orange

[1] Based on principal payments as of September 2, 2020. 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 2020-2021 land value provided by County of Orange Auditor-Controller.

SANTA MARGARITA WATER DISTRICT

Improvement District NO. 3/3A
Direct and Overlapping Debt Summary

Overlapping District	FY 2020-21 Total Levy	Amount of Levy on Parcels in the District	Percent of Levy on Parcels in the District	Total Debt Outstanding [1]	District Share of Total Debt Outstanding
Metropolitan Water District G.O. Bond	\$153,026,056	\$61,096	0.0399%	\$32,230,000	\$12,868
County of Orange CFD No. 87-5B	\$0	\$0	0.0000%	\$0	\$0
County of Orange CFD No. 87-5C	\$0	\$0	0.0000%	\$0	\$0
County of Orange CFD No. 87-5D	\$0	\$0	0.0000%	\$0	\$0
Capistrano Unified School District SFID No. 1 Series B and 2012 Refunding	\$5,008,478	\$91	0.0018%	\$16,013,396	\$290
Saddleback Valley Unified School District G.O. Bond Series 2016 Refunding	\$2,963,623	\$102,358	3.4538%	\$26,845,000	\$927,178
Saddleback Valley Unified School District G.O. Bond Series 2013 Refunding	\$2,460,115	\$84,968	3.4538%	\$18,490,000	\$638,613
Saddleback Valley Unified School District G.O. Bond Series 2013A / 2019 Refunding	\$4,346,058	\$150,105	3.4538%	\$45,900,000	\$1,585,302
Saddleback Valley Unified School District G.O. Bond Series 2016A	\$547,674	\$18,916	3.4539%	\$8,630,000	\$298,067
Saddleback Valley Unified School District CFD No. 89-2	\$0	\$0	0.0000%	\$0	\$0
Saddleback Valley Unified School District CFD No. 89-3	\$0	\$0	0.0000%	\$0	\$0
CA HERO Program [4]	NA	NA	NA	NA	\$248,805
					ESTIMATED SHARE OF OVERLAPPING DEBT
					\$3,711,123
Santa Margarita Water District ID No. 3/3A					\$3,025,000 [2]
					TOTAL DIRECT AND OVERLAPPING DEBT
					\$6,736,123
					TOTAL LAND ASSESSED VALUE [3]
					\$996,508,563
					VALUE-TO-LIEN RATIO
					147.935

Sources: DTA; Santa Margarita Water District; Metropolitan Water District; Saddleback Valley USD; County Of Orange

[1] Based on principal payments as of September 2, 2020. 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 2020-2021 land value provided by County of Orange Auditor-Controller.

[4] A total of 13 property owners are participating in the CA HERO Program as of June 30, 2020. DTA is not aware of any property owners in ID No. 3/3A that are participating in other active PACE programs.

SANTA MARGARITA WATER DISTRICT

Improvement District No. 4/4A/4B

Direct and Overlapping Debt Summary

Overlapping District	FY 2020-21 Total Levy	Amount of Levy on Parcels in the District	Percent of Levy on Parcels in the District	Total Debt Outstanding [1]	District Share of Total Debt Outstanding
Metropolitan Water District G.O. Bond	\$153,026,056	\$526,786	0.3442%	\$32,230,000	\$110,950
County of Orange CFD No. 87-5A	\$0	\$0	0.0000%	\$0	\$0
County of Orange CFD No. 87-5B	\$0	\$0	0.0000%	\$0	\$0
County of Orange CFD No. 99-1	\$1,510,130	\$1,510,130	100.0000%	\$11,340,000	\$11,340,000
County of Orange CFD No. 2000-1	\$1,905,717	\$1,905,717	100.0000%	\$14,840,000	\$14,840,000
County of Orange CFD No. 2001-1	\$2,023,219	\$2,023,219	100.0000%	\$19,135,000	\$19,135,000
County of Orange CFD No. 2002-1	\$4,392,264	\$4,392,264	100.0000%	\$46,925,000	\$46,925,000
County of Orange CFD No. 2003-1	\$3,463,393	\$3,463,393	100.0000%	\$39,150,000	\$39,150,000
County of Orange CFD No. 2004-1	\$4,866,775	\$4,866,775	100.0000%	\$55,790,000	\$55,790,000
County of Orange CFD No. 2015-1	\$4,999,523	\$4,999,523	100.0000%	\$85,765,000	\$85,765,000
County of Orange CFD No. 2016-1	\$5,073,986	\$5,073,986	100.0000%	\$90,585,000	\$90,585,000
County of Orange CFD No. 2017-1, IA No. 1	\$4,252,495	\$4,252,495	100.0000%	\$76,285,000	\$76,285,000
County of Orange CFD No. 2017-1, IA No. 2	\$243,167	\$243,167	100.0000%	\$21,565,000	\$21,565,000
Capistrano Unified School District CFD No. 92-1	\$1,961,655	\$1,961,655	100.0000%	\$3,600,000	\$3,600,000
Capistrano Unified School District CFD No. 98-2	\$7,233,488	\$7,233,488	100.0000%	\$77,792,404 [5]	\$77,792,404
Capistrano Unified School District SFID No. 1 Series B and 2012 Refunding	\$5,008,478	\$237,466	4.7413%	\$16,013,396	\$759,239
Saddleback Valley Unified School District G.O. Bond Series 2016 Refunding	\$2,963,623	\$189,327	6.3884%	\$26,845,000	\$1,714,953
Saddleback Valley Unified School District G.O. Bond Series 2013 Refunding	\$2,460,115	\$157,161	6.3884%	\$18,490,000	\$1,181,206
Saddleback Valley Unified School District G.O. Bond Series 2013A / 2019 Refunding	\$4,346,058	\$277,642	6.3884%	\$45,900,000	\$2,932,254
Saddleback Valley Unified School District G.O. Bond Series 2016A	\$547,674	\$34,987	6.3884%	\$8,630,000	\$551,317
Saddleback Valley Unified School District CFD No. 88-1	\$0	\$0	0.0000%	\$0	\$0
City of San Juan Capistrano G.O. Bond Series 2017 Refunding	\$1,830,453	\$0 [6]	0.0000%	\$25,365,000	\$0
Santa Margarita Water District CFD No. 2013-1	\$3,628,823	\$3,628,823	100.0000%	\$53,355,000	\$53,355,000
CA HERO Program [7]	NA	NA	NA	NA	\$572,827
ESTIMATED SHARE OF OVERLAPPING DEBT					\$603,950,150
Santa Margarita Water District ID No. 4					\$19,940,000 [2]
Santa Margarita Water District ID No. 4A					\$0 [2,3]
Santa Margarita Water District ID No. 4B					\$6,990,000 [2]
TOTAL DIRECT AND OVERLAPPING DEBT					\$630,880,150
TOTAL LAND ASSESSED VALUE [4]					\$7,884,998,181
VALUE-TO-LIEN RATIO					12.498

Sources: DTA; Santa Margarita Water District; Metropolitan Water District; Saddleback Valley USD; County Of Orange

[1] Based on principal payments as of September 2, 2020. 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 4A were fully paid off in 2020.

[4] Based on FY 2020-2021 land value provided by County of Orange Auditor-Controller.

[5] Principal amount for the outstanding capital appreciation bonds determined by applying accreted value as of September 1, 2020.

[6] For FY 2020-2021, no parcels in District are considered taxable.

[7] A total of 44 property owners are participating in the CA HERO Program as of June 30, 2020. DTA is not aware of any property owners in ID No. 4 that are participating in other active PACE programs.

SANTA MARGARITA WATER DISTRICT
Improvement District NO. 4A
Direct and Overlapping Debt Summary

Overlapping District	FY 2020-21 Total Levy	Amount of Levy on Parcels in the District	Percent of Levy on Parcels in the District	Total Debt Outstanding [1]	District Share of Total Debt Outstanding
Metropolitan Water District G.O. Bond	\$153,026,056	\$176,338	0.1152%	\$32,230,000	\$37,140
Santa Margarita Water District ID No. 4	\$1,750,674 [5]	\$789,477 [6]	45.0956%	\$19,940,000	\$8,992,067
County of Orange CFD No. 87-5A	\$0	\$0	0.0000%	\$0	\$0
County of Orange CFD No. 87-5B	\$0	\$0	0.0000%	\$0	\$0
Capistrano Unified School District SFID No. 1 Series B and 2012 Refunding	\$5,008,478	\$23,313	0.4655%	\$16,013,396	\$74,539
Saddleback Valley Unified School District G.O. Bond Series 2016 Refunding	\$2,963,623	\$189,327	6.3884%	\$26,845,000	\$1,714,953
Saddleback Valley Unified School District G.O. Bond Series 2013 Refunding	\$2,460,115	\$157,161	6.3884%	\$18,490,000	\$1,181,206
Saddleback Valley Unified School District G.O. Bond Series 2013A / 2019 Refunding	\$4,346,058	\$277,642	6.3884%	\$45,900,000	\$2,932,254
Saddleback Valley Unified School District G.O. Bond Series 2016A	\$547,674	\$34,987	6.3884%	\$8,630,000	\$551,317
Saddleback Valley Unified School District CFD No. 88-1	\$0	\$0	0.0000%	\$0	\$0
CA HERO Program [7]	NA	NA	NA	NA	\$572,827
ESTIMATED SHARE OF OVERLAPPING DEBT					\$16,056,303
Santa Margarita Water District ID No. 4A					\$0 [2,3]
TOTAL DIRECT AND OVERLAPPING DEBT					\$16,056,303
TOTAL LAND ASSESSED VALUE [4]					\$2,891,858,883
VALUE-TO-LIEN RATIO					180.107

Sources: DTA; Santa Margarita Water District; Metropolitan Water District; Saddleback Valley USD; County Of Orange

[1] Based on principal payments as of September 2, 2020. 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 4A were fully paid off in 2020.

[4] Based on FY 2020-2021 land value provided by County of Orange Auditor-Controller.

[5] Includes FY 2020-2021 levy for ID 4, 4A, 4B, 4C, 4D, and 4E attributable to ID 4 debt only.

[6] Based on FY 2020-2021 ID 4 rate of \$0.0000/\$100 and ID 4A rate of \$0.0273/\$100 attributable to ID 4 debt only.

[7] A total of 44 property owners are participating in the CA HERO Program as of June 30, 2020. DTA is not aware of any property owners in ID No. 4A that are participating in other active PACE programs.

SANTA MARGARITA WATER DISTRICT

Improvement District NO. 4B [6]

Direct and Overlapping Debt Summary

Overlapping District	FY 2020-21 Total Levy	Amount of Levy on Parcels in the District	Percent of Levy on Parcels in the District	Total Debt Outstanding [1]	District Share of Total Debt Outstanding
Metropolitan Water District G.O. Bond	\$153,026,056	\$283,785	0.1854%	\$32,230,000	\$59,770
Santa Margarita Water District ID No. 4	\$1,750,674 [4]	\$773,269 [5]	44.1698%	\$19,940,000	\$8,807,453
County of Orange CFD No. 99-1	\$1,510,130	\$1,510,130	100.0000%	\$11,340,000	\$11,340,000
County of Orange CFD No. 2000-1	\$1,905,717	\$1,905,717	100.0000%	\$14,840,000	\$14,840,000
County of Orange CFD No. 2001-1	\$2,023,219	\$2,023,219	100.0000%	\$19,135,000	\$19,135,000
County of Orange CFD No. 2002-1	\$4,392,264	\$4,392,264	100.0000%	\$46,925,000	\$46,925,000
County of Orange CFD No. 2003-1	\$3,463,393	\$3,463,393	100.0000%	\$39,150,000	\$39,150,000
County of Orange CFD No. 2004-1	\$4,866,775	\$4,866,775	100.0000%	\$55,790,000	\$55,790,000
Capistrano Unified School District CFD No. 92-1	\$1,961,655	\$1,961,655	100.0000%	\$3,600,000	\$3,600,000
Capistrano Unified School District CFD No. 98-2	\$7,233,488	\$7,233,488	100.0000%	\$77,792,404 [7]	\$77,792,404
Capistrano Unified School District SFID No. 1 Series B and 2012 Refunding	\$5,008,478	\$70,159	1.4008%	\$16,013,396	\$224,316
City of San Juan Capistrano G.O. Bond Series 2017 Refunding	\$1,830,453	\$0 [8]	0.0000%	\$25,365,000	\$0
Santa Margarita Water District CFD No. 2013-1	\$3,628,823	\$3,628,823	100.0000%	\$53,355,000	\$53,355,000
ESTIMATED SHARE OF OVERLAPPING DEBT					\$331,018,943
Santa Margarita Water District ID No. 4B					\$6,990,000 [2]
TOTAL DIRECT AND OVERLAPPING DEBT					\$338,008,943
TOTAL LAND ASSESSED VALUE [3]					\$3,985,475,493
VALUE-TO-LIEN RATIO					11.791

Sources: DTA; Santa Margarita Water District; Metropolitan Water District; County Of Orange

[1] Based on principal payments as of September 2, 2020. 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 2020-2021 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 2020-2021 levy for ID 4, 4A, 4B, 4C, and 4E attributable to ID 4 debt only.

[5] Based on FY 2020-2021 ID 4 rate of \$0.0000/\$100 for property in ID 4B, ID 4D, and ID 4E. Also includes ID 4B rate of \$0.0024/\$100, ID 4D rate of \$0.0216/\$100, and ID 4E rate of \$0.0269/\$100 attributable to ID

[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, 2020.

[8] For FY 2020-2021, no parcels in District are considered taxable.

SANTA MARGARITA WATER DISTRICT
Community Facilities District NO. 99-1 (Talega)
Overlapping Debt Summary

Overlapping District	FY 2020-2021 Total Levy	Amount of Levy on Parcels in District	Percent of Levy on Parcels in District	Total Debt Outstanding [1]	District Share of Total Debt Outstanding
Capistrano Unified School District CFD No. 90-2	\$2,529,423	\$2,529,423	100.0000%	\$27,000,000	\$27,000,000
Capistrano Unified School District CFD No. 90-2 IA No. 2002-1	\$3,431,020	\$3,431,020	100.0000%	\$33,300,000	\$33,300,000
Metropolitan Water District	\$153,026,056	\$114,455	0.0748%	\$32,230,000	\$24,106
PACE Programs [3]	NA	NA	NA	NA	\$264,413
Estimated Share of Overlapping Debt Allocable to the District					\$60,588,519
Plus CFD No. 99-1 Refunding Bonds Series 2014 [2]					\$24,300,000
Plus CFD No. 99-1 Refunding Bonds Series 2017 [2]					\$31,520,000
Estimated Share of Direct and Overlapping Debt Allocable to the District					\$116,408,519

[1] As of September 2, 2020.

[2] As of September 2, 2020. Reflects bond call of \$25,000 on September 1, 2020.

[3] A total of 11 property owners are participating in the CA HERO Program as of June 30, 2020. DTA is not aware of any property owners in CFD No. 99-1 that are participating in other active PACE programs.

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	
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
2018**	88,154,782	69,858,916	18,295,866	966,203	262,799	1,229,002	14.89
2019**	86,643,647	71,071,726	15,571,921	990,440	240,887	1,231,327	12.65
2020**	80,667,264	73,022,689	7,644,575	1,015,290	216,038	1,231,328	6.21

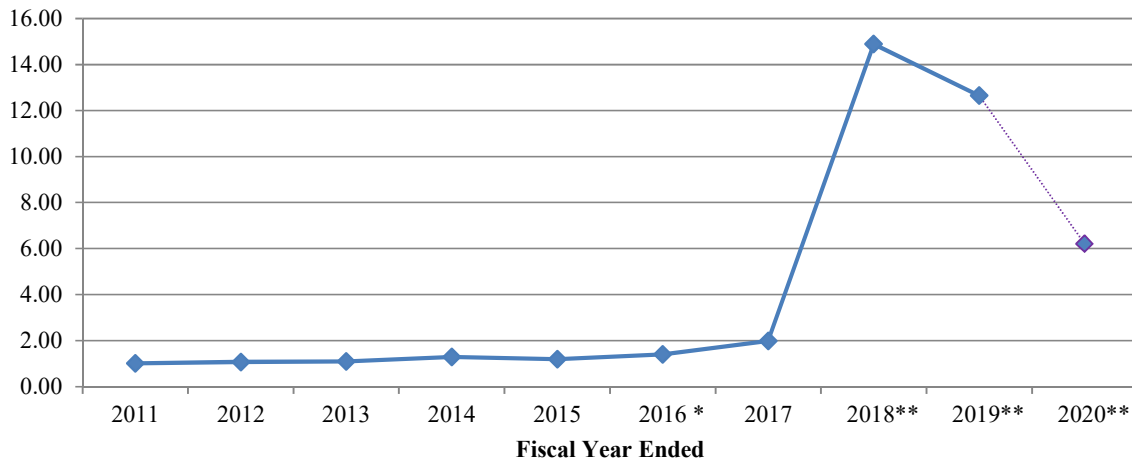
[1] Total Revenues includes total operating revenues, ad-valorem general tax receipts, investment income, investment income (excluding income related to General Obligation Bonds in fiscal year 2020), capacity lease revenue, connection fees, rental income and other non-operating income

[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.

** The District entered into a State Revolving Fund (SRF) loan for the construction of the Trampas Reservoir, which began in fiscal year 2018. There is a debt coverage requirement as part of the loan agreement, which the District did not have in prior years. Therefore, beginning in fiscal year 2018 debt service coverage excludes the District's General Obligation Bonds as they are a secondary pledge for the District. This is not applied retroactively. The debt service coverage for fiscal year 2009 through 2017 includes the General Obligation Bonds for presentation purposes only but does not represent a legal requirement.

Debt Service Coverage Ratio



Source: SMWD Finance Department

SANTA MARGARITA WATER DISTRICT

Outstanding Debt by Type

Fiscal Year Ended	General Obligation Bonds	Notes Payable	El Toro R-6 Reservoir Capacity Obligation	Total	CFD Bonds *
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
2018	80,884,125	11,311,807	-	92,195,932	130,327,956
2019	63,738,857	30,390,489	-	94,129,346	126,000,984
2020	51,331,600	68,456,366	-	119,787,966	119,080,410

* 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.

Increase in Notes Payable in 2019 is due to additional loan disbursements received from the 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
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
2018 *	92,195,932	19,400,453,396	0.48%	54,922	1,679	574
2019 *	94,129,346	20,599,653,399	0.46%	55,555	1,694	579
2020 *	119,787,966	21,629,090,324	0.55%	57,132	2,097	731

Fiscal Year	Amount Levied	Amount Collected [1]	Percent Collected
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%
2018 *	25,761,237	25,604,243	99.4%
2019 *	22,707,282	22,378,767	98.6%
2020*	23,199,407	22,988,944	99.1%

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 through Fiscal Year 2020 also exclude 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
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	8.1%
2013	152,245	48,550	34.6	94,824	42.0	64,542	40.0	168,966,400	54,827	6.7%
2014	153,385	48,834	34.7	95,334	43.0	64,874	40.0	177,412,900	56,973	5.4%
2015	156,949	48,823	35.2	96,652	43.6	65,399	40.0	185,500,000	58,933	4.0%
2016	158,747	48,516	35.8	96,701	43.7	66,245	41.0	190,978,000	59,999	4.4%
2017	160,601	48,602	36.7	95,985	44.2	65,975	38.0	199,492,000	62,458	4.2%
2018	162,454	48,602	36.8	95,987	44.8	65,543	42.0	215,479,000	66,896	3.1%
2019	163,927	48,960	37.0	96,434	44.8	65,405	43.0	230,180,000	71,429	3.0%

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

2020 data was not available at the time the report was prepared

[1] Personal income information is not available by city

Sources:

County of Orange CAFR

City of Rancho Santa Margarita CAFR

City of Mission Viejo CAFR

City of San Clemente CAFR

SANTA MARGARITA WATER DISTRICT

Principal Employers (Current and Ten Years Ago)

Employer	2019		2010	
	Number of Employees	Percentage of Employment	Number of Employees	Percentage of Employment
City of Rancho Santa Margarita				
Applied Medical	2,700	8.62%	1,249	4.28%
O'Connell Landscape	1,000	3.19%	1,090	3.73%
Saddleback Valley School District	288	0.92%	550	1.88%
Target Corporation	255	0.81%	240	0.82%
Lucas & Mercier Construction	250	0.80%	567	1.94%
Capistrano Unified School District	215	0.69%	200	0.68%
Control Components Inc.	200	0.64%	370	1.27%
PADI	180	0.57%	170	0.58%
Santa Margarita Catholic H.S.	175	0.56%	200	0.68%
Car Sound Exhaust System Inc.	150	0.48%	210	0.72%
	5,413	17.28%	4,846	16.58%
City of Mission Viejo				
Saddleback College	1,210	2.42%	2,196	4.31%
Mission Hospital Regional Medical Center	2,600	5.21%	1,349	2.65%
Saddleback Valley Unified School District	914	1.83%	400	0.78%
Coldwell Banker	740	1.48%	410	0.80%
Capistrano Unified School District	690	1.38%	n/a	n/a
James Hardie Building Products	400	0.80%	n/a	n/a
Target Corporation	320	0.64%	n/a	n/a
South Coast Children's Society	315	0.63%	n/a	n/a
Nordstrom	300	0.60%	300	0.59%
Franchise Services	300	0.60%	n/a	n/a
Unisys Corporation	n/a	n/a	1,000	1.96%
Quest Diagnostics	n/a	n/a	500	0.98%
Macy's	n/a	n/a	275	0.54%
City of Mission Viejo	n/a	n/a	261	0.51%
Bristol Farms	n/a	n/a	250	0.49%
	7,789	15.59%	6,941	13.61%
City of San Clemente				
Capistrano Unified School District	906	2.85%	553	2.97%
Fisherman's Restaurants	265	0.83%	195	1.05%
Ralphs	255	0.80%	266	1.43%
ICU Medical	243	0.76%	400	2.15%
Glaukos Corp	276	0.87%	n/a	n/a
City of San Clemente	198	0.62%	306	1.64%
Target Retail Store	218	0.69%	n/a	n/a
Walmart	195	0.61%	190	1.02%
Albertsons	180	0.57%	249	1.34%
Metro One Development Inc.	175	0.55%	n/a	n/a
Cross Section Ventures	n/a	n/a	300	1.61%
Ethical Nutrients	n/a	n/a	280	1.50%
Inspirational Films	n/a	n/a	180	0.97%
	2,911	9.15%	2,919	15.68%

Sources: City of Rancho Santa Margarita CAFR, City of Mission Viejo CAFR, City of San Clemente CAFR
SMWD service area also includes unincorporated portions of the County of Orange
Certain Businesses in Mission Viejo are not within the District's boundaries.

SANTA MARGARITA WATER DISTRICT
Capital Asset Statistics

	Fiscal Years Ended									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Domestic System										
Miles of Water Mains	595	595	595	595	615	615	626	626	634	638
Maximum Storage Capacity (Acre-feet)	1,197	1,197	1,197	1,197	1,210	1,210	1,222	1,222	1,222	1,222
Number of Storage Tanks	32	32	32	32	33	33	34	34	34	34
Number of Pump Stations	21	21	21	21	21	21	21	21	21	21
Non-Domestic System										
Miles of Water Mains	116	116	116	116	125	125	129	129	133	133
Number of Storage Tanks	6	6	6	6	7	7	8	8	8	8
Number of Open Reservoirs	2	2	2	2	2	2	2	2	2	2
Maximum Storage Capacity (Acre-feet)	4,535	4,535	4,535	4,535	4,547	4,547	4,566	4,566	4,566	4,566
Number of Pump Stations	12	12	12	12	13	14	14	14	14	14
Sewer System										
Miles of Sewer Line	605	605	605	605	620	620	630	624	632	637
Number of Lift Stations	17	17	17	17	19	19	21	21	21	20
Treatment Plants	2	2	2	2	2	2	2	2	2	2
Treatment Capacity (MGD)	9	9	9	9	9	9	9	9	9	9
Average Flows (MGD)	8	8	8	8	8	8	9	9	9	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

Source: SMWD Engineering and Operations Departments

SANTA MARGARITA WATER DISTRICT

Water and Wastewater Connections

Water Connections by Customer Class

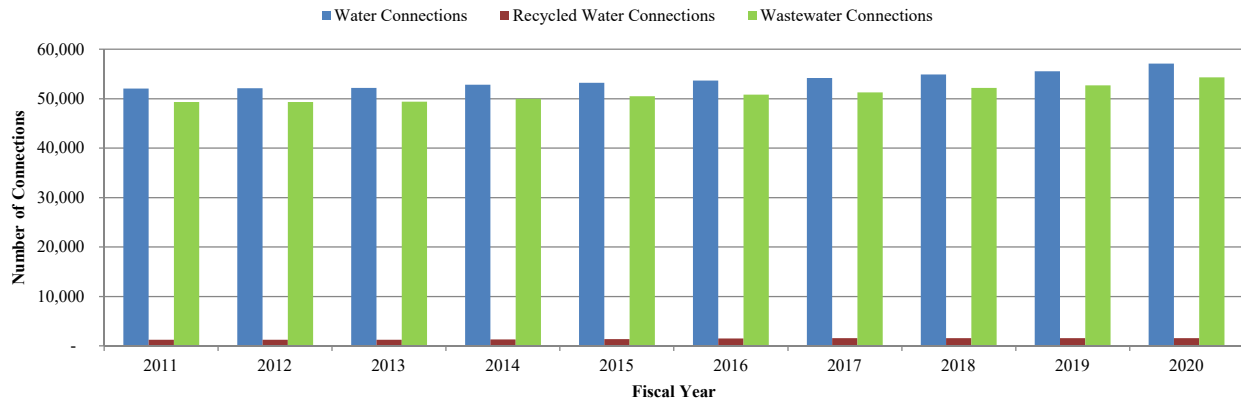
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Commercial	2,157	2,162	2,169	2,205	2,212	2,225	2,244	2,301	2,306	2,291
Domestic Irrigation	1,483	1,484	1,486	1,495	1,498	1,435	1,396	1,390	1,380	1,449
Construction	26	35	42	46	39	44	49	45	31	32
Lakefill	2	2	2	2	2	2	2	1	1	1
Residential Single Family	35,659	35,676	35,715	36,022	36,138	36,299	36,626	37,068	37,497	38,535
Residential Multi Family	12,745	12,746	12,789	13,064	13,377	13,670	13,897	14,117	14,340	14,824
Total Water Connections	52,072	52,105	52,203	52,834	53,266	53,675	54,214	54,922	55,555	57,132

Recycled Water Connections by Customer Class

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Non-domestic Irrigation	1,219	1,218	1,257	1,283	1,318	1,416	1,479	1,524	1,522	1,536
Commercial	5	5	5	7	8	9	9	9	10	2
Construction				5	27	37	46	25	14	14
Total Recycled Water Connections	1,224	1,223	1,262	1,295	1,353	1,462	1,534	1,558	1,546	1,552

Wastewater Connections by Customer Class

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Commercial	934	939	938	948	993	903	912	1,024	957	926
Residential Single Family	35,653	35,670	35,709	36,016	36,132	36,292	36,544	37,060	37,439	38,378
Residential Multi Family	12,745	12,746	12,789	13,064	13,377	13,670	13,813	14,117	14,304	15,039
Total Wastewater Connections	49,332	49,355	49,436	50,028	50,502	50,865	51,269	52,201	52,700	54,343



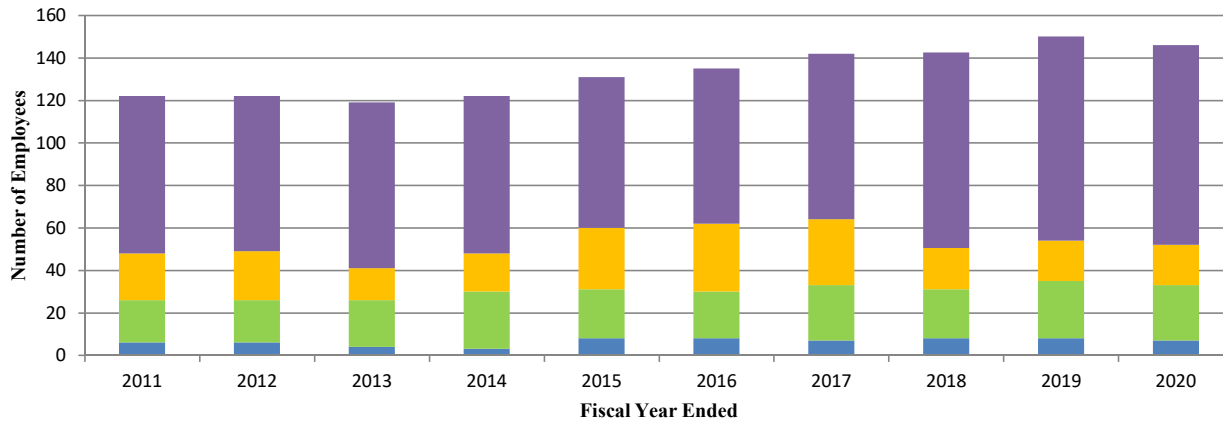
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Water Revenue per Water Connection \$	529	571	633	686	642	577	679	774	737	760
Recycled Revenue per Recycled Connection \$	3,652	4,144	4,773	5,351	5,336	4,628	4,706	5,468	4,759	5,148
Wastewater Revenue per Wastewater Connection \$	226	232	237	242	243	289	373	404	407	436

Source: SMWD utility billing system

SANTA MARGARITA WATER DISTRICT
Employee Information

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Administration	6	6	4	3	8	8	7	8	8	7
Finance	20	20	22	27	23	22	26	23	27	26
Engineering	22	23	15	18	29	32	31	19.5	19	19
Operations	74	73	78	74	71	73	78	92	96	94
Total	122	122	119	122	131	135	142	142.5	150	146

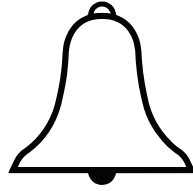
Number of Employees by Department



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Water Connections per Employee	427	427	239	433	407	395	378	385	370	381
Recycled Water Connections per Employee	10	10	11	11	10	10	10	11	10	11
Wastewater Connections per Employee	404	405	415	410	386	374	358	366	351	361
Total Revenues per Employee	\$ 687,420	\$ 702,856	\$ 764,672	\$ 852,253	\$ 730,940	\$ 656,892	\$ 732,147	\$ 618,630	\$ 577,624	\$ 552,516

Excludes the elected Board of Directors

Source: SMWD payroll records



Santa Margarita Water District

BOARD OF DIRECTORS

BETTY H. OLSON, PH.D

PRESIDENT AND WATER QUALITY AND TREATMENT CHAIR

CHARLES T. GIBSON

VICE PRESIDENT AND ENGINEERING AND OPERATIONS COMMITTEE CHAIR

JUSTIN MCCUSKER

DIRECTOR

FRANK URY

DIRECTOR

SAUNDRA F. JACOBS

DIRECTOR AND FINANCE AND ADMINISTRATION COMMITTEE CHAIR

GENERAL MANAGER

DANIEL R. FERONS

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