

South Coast Water District

Laguna Beach, California



Comprehensive Annual Financial Report

With Report on Audit by Independent Certified Public Accountants

For The Year Ended June 30, 2020

Prepared by: Finance Department

SOUTH COAST WATER DISTRICT
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2020
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SOUTH COAST WATER DISTRICT

Partnering With The Community



Board of Directors January 29, 2021
Members of the Board of Directors
South Coast Water District

Dennis Erdman
President

Rick Erkeneff
Vice President

Wayne Rayfield
Director

Doug Erdman
Director

William Green
Director

Introduction

The Comprehensive Annual Financial Report (CAFR) of the South Coast Water District for the fiscal year ended June 30, 2020, is hereby submitted. This report was prepared pursuant to the guidelines set forth by the Governmental Accounting Standards Board (GASB).

District staff prepared this financial report in conjunction with an unmodified opinion issued by the independent audit firm Clifton Larson Allen LLP. The independent auditor's report is located at the front of the Financial Section of this document. The Management's Discussion and Analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

This report consists of management's representations concerning finances of the District. Consequently, management assumes responsibility for the completeness and reliability of information presented in this report. To provide a reasonable basis for making these representations, the District has established a comprehensive internal control framework that is designed to protect assets from loss, theft, or misuse, and to compile sufficient, reliable information for preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP). Because the cost of internal control should not outweigh its benefits, the District's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements will be free from material misstatement. Management asserts that, to the best of our knowledge and belief, this financial report is complete and reliable in all material aspects.

Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to South Coast Water District for its comprehensive annual financial report for the fiscal year ended June 30, 2019. This was the second consecutive year that the government has achieved this prestigious award. To be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

Mailing Address: P.O. Box 30205, Laguna Niguel, CA 92607-0205

Street Address: 31592 West Street, Laguna Beach, CA 92651

Phone: (949)499-4555 **Website:** www.scwd.org

District Structure and Leadership

The District is an independent special district, which operates under the authority of Division 12, Section 30000 *et seq.* of the California Water Code. The District provides water and sewer services to the City of Dana Point and portions of the cities of Laguna Beach, San Juan Capistrano, and San Clemente. The District was formed in 1932 and subsequent mergers have increased the original service area. Since March 2000, the District has been the contract operator for the former Tri-Cities Municipal Water District, now known as the Joint Regional Water Supply System (JRWSS).

The District is governed by a five-member Board of Directors, elected at large from within the District's service area for staggered four-year terms. The General Manager administers the day-to-day operations of the District in accordance with policies and procedures established by the Board of Directors. The District employs a full-time staff of 99 employees, including 5.5 assigned to JRWSS. The Board of Directors meets on the second and fourth Thursdays of each month. Meetings are publicly noticed, and citizens are encouraged to attend. The meetings can also be viewed real-time or on demand via the District's website, www.scwd.org.

The District provides water, sewer, or a combination of both services to residents and businesses within its service area, which includes approximately 5,300 acres of land comprising 8.8 square miles. The District serves a population of approximately 37,000 and currently provides water service through approximately 12,706 residential, commercial, and irrigation connections and 19,143 sewer connections.

District Services

Residential customers make up approximately 89% of the District's customer base for water services and consume approximately 63% of the water provided annually by the District. The District obtained approximately 73% of its water supply from the Metropolitan Water District (MWD) through the Municipal Water District of Orange County (MWD OC), 14% from groundwater within the area, and 13% from recycled water. During Fiscal Year (FY) 2020, the District provided 5,865 acre-feet of water to its customers.

Residential customers make up approximately 97% of the District's customer base for sewer collection services. Treatment services are provided by the South Orange County Wastewater Authority (SOCWA), a joint powers authority. The District is a member agency in SOCWA.

Economic Condition and Outlook

The District's administrative office is located within the City of Laguna Beach in Orange County, California. The service area consists of the City of Dana Point, South Laguna Beach, and portions of the cities of San Juan Capistrano and San Clemente.

The County of Orange has had a consistently strong economic base over time. The unemployment rate was 7.5% in October 2020 compared to 2.5% in October 2019. The large increase in the unemployment rate was due to the impact of the COVID-19 pandemic on businesses. Median income for the City of Dana Point in 2019 was \$99,409 compared to \$80,440 for California. The median property value for the City of Dana Point in 2019 was \$878,300. Median data were obtained from the United States Census Bureau.

Tourism is a major part of the local economy due to the area's harbor, beaches, golf courses, resorts, hotels, and visitor-oriented commercial and retail establishments. Property values are high with a limited availability of space. The service area is mostly built-out, however, there are areas within the District that are experiencing redevelopment of single-family residences, condominiums, townhomes, and commercial areas that resulted in slight increases in water and sewer connections in FY 2020. The economic outlook for the area is positive in the long term based on the above noted activities when considering the ongoing effects of the COVID-19 pandemic.

Water Supply

California's water supply continues to be a concern due to recent drought conditions and State mandates. Conservation efforts continue, which resulted in declining revenues for the District in prior years. In 2016, rates were revised to reflect a revenue base of approximately 60% fixed charges and 40% variable commodity rates. This was done to stabilize revenues and maintain ongoing operational and infrastructure needs. Water usage has not returned to pre-drought levels and is not expected to change in the future.

The District imports most of its potable water from the MWD through the MWDOC. The District purchased 4,470-acre feet of potable water from MWDOC in FY 2020, a decrease of 565-acre feet from the prior fiscal year. The District also pumps potable groundwater from the Groundwater Reclamation Facility (GRF). The GRF produced 847-acre feet of potable water in FY 2020, an increase of 612-acre feet from the prior fiscal year primarily due to the GRF being offline for approximately seven months during FY 2019 due to major repairs and maintenance. The District continues to study the feasibility of building a desalination plant near Doheny State Beach in the City of Dana Point to provide a local source of water and reduce dependency on imported water sources. The District has been awarded a total of \$20 million in grants for the purpose of building a desalination plant, \$8.3 million from the State of California and \$11.7 million from the Federal Government. The Federal Government also approved the opportunity for the District to apply for a Water Infrastructure Finance and Innovation Act (WIFIA) loan. The District submitted the application fee for the WIFIA loan October 2020.

Mission/Vision Statements and Major Initiatives

Activities of the Board and staff of the District are driven by its Mission Statement: "We are entrusted by our community to provide water resources essential for sustaining life," and its Vision Statement: "Recognized as a premier water district unsurpassed in customer service, reliability, environmental stewardship, and organizational excellence." The Mission and Vision Statements dictate the following five core values of the District:

1. Accountability – We are answerable for our behavior, actions, decisions, and producing excellence in all we do.
2. Leadership – We inspire and guide individuals to work together to achieve our goals, attain excellence in our craft, and push the boundaries of innovation.
3. Customer Service – We will demonstrate outstanding customer service through dedication, respect, courteous communication, and timely response.
4. Integrity – We commit to the highest standards of ethics, professionalism, and character in working with each other and the public.

5. Teamwork – We work together collaboratively – where planning, decisions, and actions are accomplished more effectively as a group than individually.

Major Accomplishments and Future Projects

During FY 2020, the District accomplished the following:

- Completed a leadership academy for employees.
- Completed a professional development program for employees.
- Implemented new VOIP Ring Central phone system.
- Completed 95% implementation of new financial software. Remainder of the financial software modules will be completed during FY 2021.
- Started an Asset Management study.
- Selected a document management software and commenced with implementation of the software and scanning District documents.
- Partnered with the Water Emergency Response Organization of Orange County to prepare a risk and resilience assessment and update emergency response plans according to the Americas Water Infrastructure Act. The certified assessment report was submitted to the Environmental Protection Agency in March 2020.
- Finished the Hazard Mitigation Plan update by working with multi regional agencies. The Board of Directors adopted the certified Plan in September 2019.
- Started and worked on preparation of an Infectious Disease Emergency Action plan that will be completed FY 2021.
- Sewer Collections video inspected 123,184 linear feet (LF) of sewer mains (17% of collection system)
- Completed full-length lining rehabilitation of 32-line segments equaling 6,848 LF of pipeline.
- Water Distribution exercised 3,390 potable system isolation valves (103% of potable water system)
- Water Distribution exercised 171 recycled system isolation valves (127% of recycled water system).

Major capital improvement projects in progress during FY 2020 are as follows:

- Completed planning, design and construction for Phase 4 of the Tunnel Project.
- Continued planning, design and construction for Phase 3 of the Tunnel Project.
- Continued to study and plan feasibility of the Doheny Ocean Desalination plant. The District received a \$11.7 million grant for the proposed project from the United States Bureau of Reclamation.
- Continued planning and design the Lift Station 2 Force Replacement project.
- Completed construction for rehabilitation of Lift Station 6 Force Main.
- Completed the construction for the Golden Lantern/Stonehill RW Bottleneck project.

Eight key operating priorities for FY 2021 are noted below:

1. To assure adequate, reliable, and high-quality wastewater services, we will continue to execute the Tunnel Stabilization and Pipeline Replacement Project.

2. To properly appraise effective and efficient business operations, we will further develop and implement the Asset Management Program in-line with the current Asset Management roadmap. This proactive project will become a tool for responsible long-term rate-setting, act as a guide for determining critical projects, and provide a solid basis for data-driven Capital Improvement Program (CIP) decisions and maintenance programs.
3. To plan ahead for high quality, reliable water supplies at all times, we will execute planning and permitting of the Doheny Ocean Desalination Project. Additionally, we will develop an Integrated Resources Plan (IRP) for the District to include such options as the expansion of the hybrid GRF project, ocean water augmentation, and recycled water expansion.
4. To assure continued organizational excellence now and in the future, we will continue to develop and provide effective professional development programs, such as the Leadership Academy, mentoring, and other job-related educational and certification programs.
5. To address proper level of services, safe and efficient operations, regulatory compliance and to meet industry standards along with the needs of employee well-being, we will continue to rehabilitate aging District facilities.
6. Prioritize enterprise resiliency actions including COVID-19 response, cyber security, and information technology to assist in the effort of proper connectivity and strong communications.
7. To ensure financial viability, the District will engage in a comprehensive rate study in accordance with Prop 218 and develop proposed multi-year water, recycled water, and wastewater rates that meet the long-term needs of our customers.
8. Commission a 5-year Strategic Plan, including the re-alignment of the District's Performance Indicators with the American Water Works Association (AWWA) Effective Utility Management handbook for Water/Wastewater Utilities.

FY 2021 estimated revenues are \$45.1 million and budgeted operating expenditures are \$44 million. Capital projects for FY 2021 are budgeted at \$27.4 million and funded by revenues in excess of expenses, undesignated equity, and debt issuance. Major projects include the following:

- Phase 3 of the Tunnel Project (\$12.4 million).
- Lift Station 6 Force Main Replacement (\$1.4million).
- Planning for the Doheny Ocean Desalination Plant (\$1 million).
- Tank recoating at 0.6 MG Reservoir 1A; 0.1 MG Reservoir 2B, 0.6 MG Reservoir 2C; and 0.1 MG Reservoir 3B (\$1 million).
- Contribution to South Orange County Wastewater Authority capital projects \$4.3 million.

Water and Sewer Rates

In 2016, the District approved a five-year rate schedule effective from FY 2017 through FY 2021 in accordance with Proposition 218. The goals of the new rates were to simplify the existing rate structure, cover fixed costs to keep the District financially stable, fairly allocate fixed charges across all services classes, and protect against rate volatility.

During the previous drought, mandatory conservation measures resulted in lower revenues causing the District to struggle to recover fixed costs required to provide water services. In addition, costs increased for imported water, putting further stress on the District's finances. Aging reservoirs, pipelines, and pump stations need rehabilitation or replacement over time and funding for these projects is necessary. The District is also working on an additional future source of water from a desalination facility.

Three components comprise water charges:

- Variable – the price per unit of water which is billed on a monthly basis.
- Fixed – to recover fixed costs that exist without the sale of water, such as repairs, maintenance, and rehabilitation of distribution systems. Fixed charges vary by meter size and are billed annually with property taxes.
- Peak Demand – a new component of the rate structure that is based on a customer's second highest usage month in the previous year. This charge reflects costs incurred to provide, transport, treat, and store water to be able to provide service for all peak demand times throughout the year. Peak demand charges are billed annually with property taxes.

Sewer rates consist of:

- Variable Block – for single family residences, based on calculated winter usage billed annually with property taxes.
- Variable Rate – for multi-family residences, based on water used billed on a monthly basis.
- Fixed – for multi-family residences, based on the number of dwelling units billed annually with property taxes.
- Low/Medium/High Strength – for commercial customers based on water usage and type of use, such as office, mixed use, and restaurants billed on a monthly basis.

During FY 2020, the average monthly water and sewer bill for residential customers using 10 hundred cubic feet (CCF) including fixed charges was \$80.59 (water) and \$61.33 (sewer). The average monthly bill for commercial customers using 66 CCF was \$388.96 (water) and \$550.44 (sewer). The fixed charges include the Peak Demand charge. For residential customers, the average monthly Peak Demand charge was \$22.45 and \$123.48 for commercial customers. The District will be conducting a rate study during FY 2021.

Internal Control Structure

District management is responsible for the establishment and maintenance of an internal control structure that ensures that assets of the District are protected from loss, theft or misuse. The internal control structure also ensures that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The District's internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management.

Budgetary Control

The District Board of Directors adopts an Operating and Capital Budget every fiscal year. The budget authorizes and provides the basis for reporting and control of financial operations and accountability for the District's enterprise operations and capital projects. The budget and reporting treatment applied to the District is consistent with the accrual basis of accounting and financial statement presentation.

Investment Policy

The Board has adopted an Investment Policy that conforms to state law, prudent money management, and the "prudent person" standards. The objectives of the policy are safety, liquidity, and then yield. Currently, funds are invested in various securities as authorized by the policy and are managed by Chandler Asset Management.

Audit and Financial Reporting

State law and bond covenants require the District to obtain annual audits of its financial statements by an independent certified public accountant. The accounting firm of Clifton Larson Allen LLP has conducted the audit of the District's financial statements. Their unmodified (clean) Independent Auditor's Report appears in the Financial Section.

Other References

More information is contained in the Management's Discussion and Analysis and the Notes to the Basic Financial Statements found in the Financial Section of the report.

Acknowledgements

I wish to express my appreciation to the entire Finance and Customer Service Department staff for their contribution to the department during the year. Their efforts are reflected in this report and in other documents resulting from the annual audit process. Special thanks are due to Anna Nguyen C.P.A., Senior Accountant; William Covington C.P.A., Accounting Consultant; Elizabeth Andrew C.P.A., Part-Time Senior Accountant; Cassandra Garcia, Customer Service Manager; Magda Lotolc, Part-Time Senior Accountant; Monica De Cencak, Senior Accounting Technician and Erin Kincade, Senior Accounting Technician. Their significance in preparing final financial documents is reflected in the quality of this report.

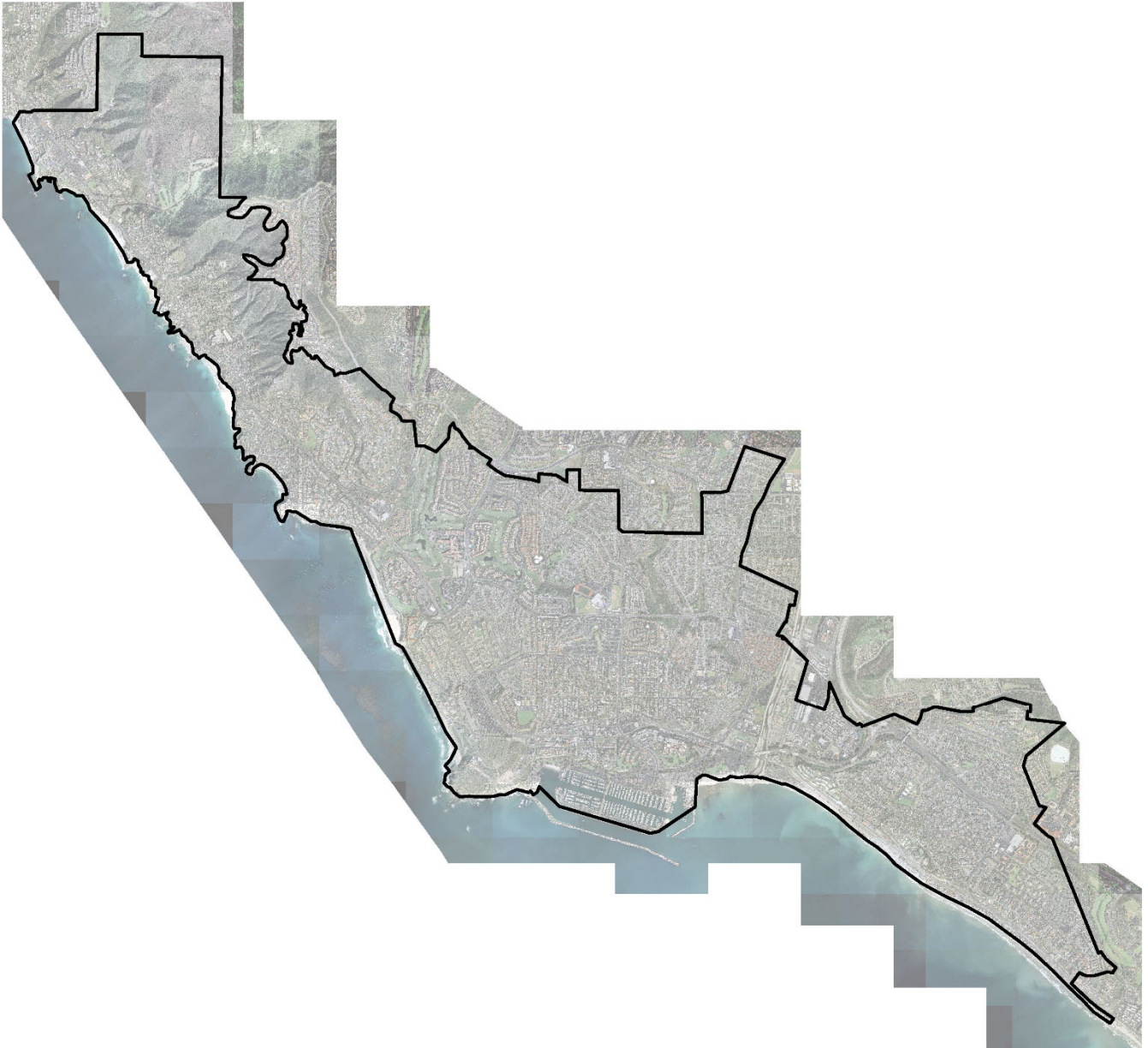
The Board of Directors are to be commended for their interest and support in conducting the financial operations of the District in a responsible and progressive manner.

Respectfully submitted,

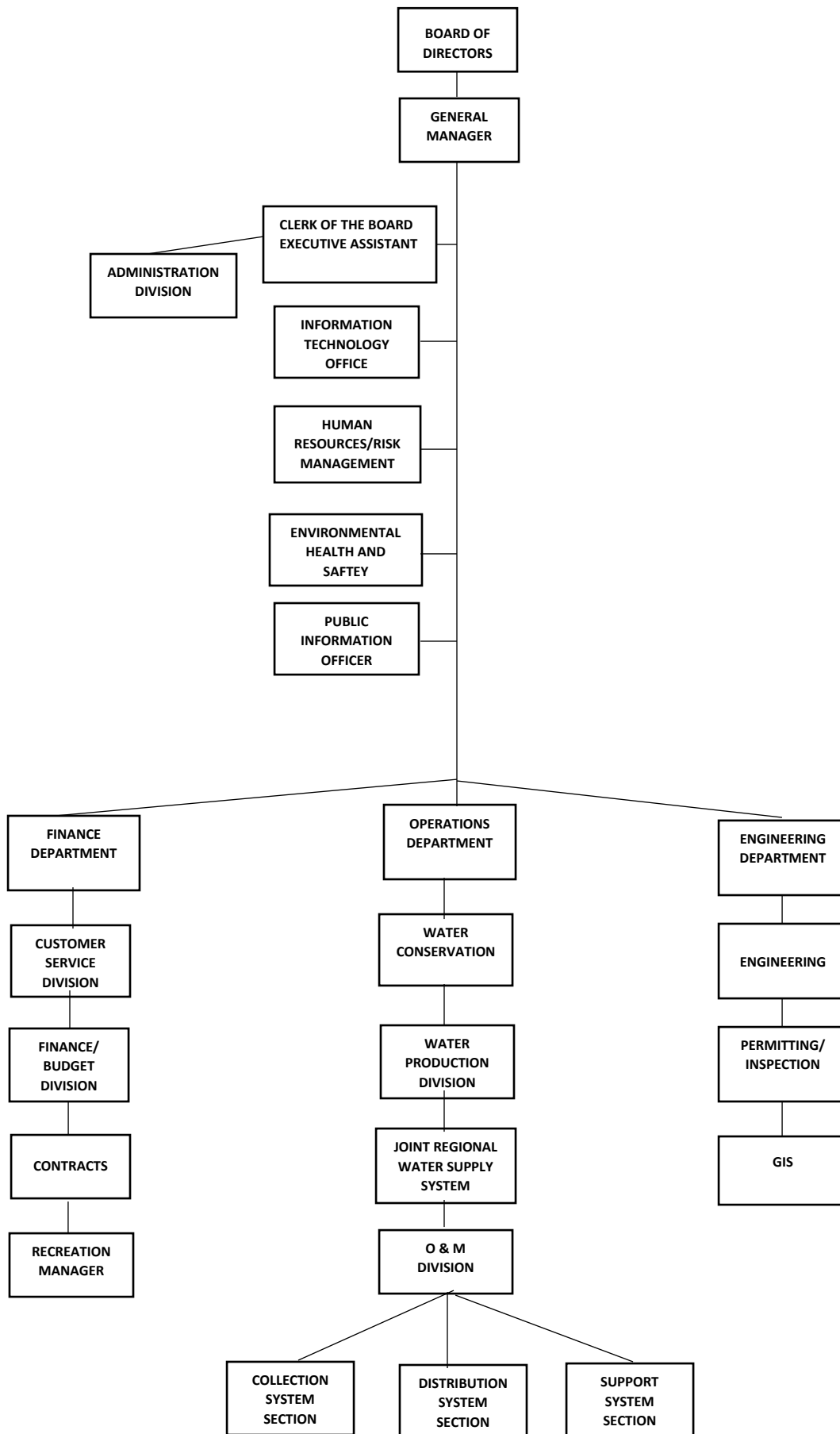


Pamela Arends-King
Chief Financial Officer

SOUTH COAST WATER DISTRICT SERVICE AREA



South Coast Water District – Organization Chart



South Coast Water District

Board of Directors



Dennis Erdman
President



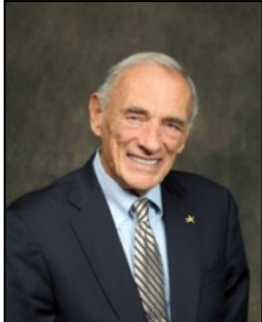
Rick Erkeneff
Vice President



William Green
Director



Douglas Erdman
Director



Wayne Rayfield
Director

Executive Staff

General Manager
Chief Financial Officer
Chief Operations Officer
Chief Engineer

Rick Shintaku
Pamela Arends-King
Joe McDivitt
Marc Serna



Government Finance Officers Association

Certificate of
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for Excellence
in Financial
Reporting

Presented to

**South Coast Water District
California**

For its Comprehensive Annual
Financial Report
For the Fiscal Year Ended

June 30, 2019

Christopher P. Morill

Executive Director/CEO

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INDEPENDENT AUDITORS' REPORT

Board of Directors
South Coast Water District
Laguna Beach, California

Report on the Financial Statements

We have audited the accompanying financial statements of the South Coast 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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 South Coast Water District, as of June 30, 2020, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

In fiscal year 2018-2019, the Joint Regional Water Supply System (JRWSS) was reported as a fiduciary fund. In fiscal year 2019-2020, it was determined that JRWSS is not a fiduciary activity of the District.

Other Matters

Prior-Year Comparative Information

The financial statements include partial prior-year comparative information. Such information does not include all of the information required for a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2019, from which such partial information was derived.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of proportionate share of the net pension liability, the schedule of contributions - pension, schedule of changes in the net OPEB liability and related ratios, and schedule of contributions - OPEB, identified as Required Supplementary Information (RSI) in the accompanying 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 RSI 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 RSI because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

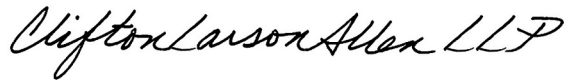
Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The introductory section, supplementary information consisting of the combining schedules, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining schedules are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2021, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Irvine, California
January 29, 2021

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SOUTH COAST WATER DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2020

The following discussion and analysis of the financial performance of the South Coast Water District (District) provides an overview of the District's financial activities for the fiscal year ended June 30, 2020. This section should be read in conjunction with the basic financial statements, notes to the basic financial statements, and the Transmittal Letter in the Introductory Section of this report.

Financial Highlights

- Total assets and deferred outflows of resources exceed total liabilities and deferred inflows of resources by \$172.8 million (net position), consisting of \$127.6 million in net investment in capital assets, \$1.5 million in restricted for debt service/covenants, and \$43.6 million in unrestricted net position. This is an increase of \$2.2 million or 1.3% over the prior fiscal year restated net position of \$170.6 million.
- Total assets are \$285.1 million, an increase of \$28 million, or 10.9%, from the prior fiscal year. The increase in assets is primarily due to the increase in capital assets not being depreciated (construction in progress) for the Tunnel Rehabilitation and Sewer Pipeline Replacement project (Tunnel Project) and the Lift Station 2 Force Main Replacement project.
- Total liabilities are \$115.4 million, an increase of \$24.8 million, or 27.4%, from the prior fiscal year. This increase is primarily due to an increase in funding from the State Resource Funding loan (\$22 million) to fund the Tunnel Project and drawdowns on a line of credit.
- Total operating revenues are \$35.8 million, an increase of \$1.5 million, or 4.4%, from the prior fiscal year. The primarily reason for the increase is due to the implementation of the fourth year of the adopted five-year rate increases.
- Total operating expenses are \$41.7 million, an increase of \$2.2 million, or 5.7%, from the prior fiscal year primarily due to the increase in retirement expenses of \$1.8 million related to actuarial adjustments of net pension liability.
- Net income before capital contributions was \$1.1 million up from \$9,489 in the prior fiscal year. The primary reason for the increase is due to the reduction of loss for the disposal of impaired assets in prior fiscal year of \$2.4 million.

Required Financial Statements

The annual report consists of a series of financial statements. The Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and Statement of Cash Flows provide information about the activities and performance of the District using accounting methods like those used by private sector companies.

The financial statements consist of one fund for the District's activities, combining the Water and Sewer funds. The District maintains its accounting records on an enterprise basis, as it is the intent of the Board of Directors that the costs of providing water and sewer services to customers of the District are financed primarily through user charges.

The Statement of Net Position includes all investments in resources (assets), deferred outflows of resources, obligations to creditors (liabilities), and deferred inflows of resources. This statement also provides the basis for computing a rate of return, evaluating the capital structure of the District, and assessing liquidity and financial flexibility.

The Statement of Revenues, Expenses, and Changes in Net Position accounts for all current year revenues and expenses. This statement measures the performance of operations over the past year and used to determine if the

SOUTH COAST WATER DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2020

District has successfully recovered all its costs through its rates and other charges. Other uses for this statement are to evaluate profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows, which provides information about the District's cash receipts and cash payments during the reporting period by reporting cash receipts, cash payments, and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities. This statement provides answers to such questions as where cash came from, what was cash used for, and what was the change in cash balance during the reporting period.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements are on pages 21 through 52.

Financial Analysis of the District

One of the most important questions asked about District finances is, "Is the District better or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information in a way that helps answer this question. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the *accrual basis of accounting*, which is like the accounting used by most private sector companies. All the current year's revenues and expenses are considered regardless of when the cash is received or paid.

These two statements report *net position* and changes during the fiscal year. You can think of net position (the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources), as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in net position are one indicator of whether its *financial health* is improving or deteriorating. However, one will also need to consider other non-financial factors such as changes in economic conditions, conservation mandates, population growth, zoning, and new or changed government legislation, such as changes in Federal and State water quality standards.

The following condensed schedules contain summary financial information extracted from the basic financial statements to assist general readers in evaluating the District's overall financial position and results of operations as described in this Management's Discussion and Analysis (MD&A). Increases or decreases in these schedules can be used as performance indicators to assess whether overall financial position has improved or deteriorated. Other external factors such as changes in economic conditions, customer growth, and legislative mandates should also be considered as a part of this analysis.

SOUTH COAST WATER DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2020

Financial Position Summary

The Statement of Net Position reflects the District's financial position as of June 30, 2020. This statement includes assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net position represents net worth including, but not limited to, capital contributions and investments in capital assets. A condensed summary of the District's total net position is set forth below:

	<u>2020</u>	<u>2019</u>	<u>\$ Change</u>	<u>% Change</u>
Assets:				
Current assets	\$ 66,578,752	60,049,653	\$ 6,529,099	10.9%
Capital assets:				
Not depreciable	74,421,526	62,640,034	11,781,492	18.8%
Being depreciated (net of accumulated depreciation)	136,170,845	126,449,085	9,721,760	7.7%
Other assets				
Investment in joint venture	7,927,333	7,951,147	(23,814)	-0.3%
Total assets	<u>285,098,456</u>	<u>257,089,919</u>	<u>28,008,537</u>	10.9%
Deferred outflows of resources:				
Deferred amounts on refunding, pension & OPEB	<u>4,524,130</u>	<u>4,922,884</u>	<u>(398,754)</u>	-8.1%
Liabilities:				
Current liabilities	14,020,195	11,465,539	2,554,656	22.3%
Non-current liabilities	<u>101,422,108</u>	<u>79,153,539</u>	<u>22,268,569</u>	28.1%
Total liabilities	<u>115,442,303</u>	<u>90,619,078</u>	<u>24,823,225</u>	27.4%
Deferred inflows of resources:				
Deferred amounts on pension & OPEB	<u>1,426,084</u>	<u>790,558</u>	<u>635,526</u>	80.4%
Net position:				
Net investment in capital assets	127,589,910	134,820,840	(7,230,930)	-5.4%
Restricted for debt service/covenants	1,516,254	563,373	952,881	169.1%
Unrestricted	<u>43,648,035</u>	<u>35,218,954</u>	<u>8,429,081</u>	23.9%
Total net position	<u>\$ 172,754,199</u>	<u>\$ 170,603,167</u>	<u>\$ 2,151,032</u>	1.3%

SOUTH COAST WATER DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2020

As noted earlier, net position may serve as a useful indicator over time of a government's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$172.8 million as of June 30, 2020. The net change between fiscal year (FY) 2020 and 2019 was an increase of \$2.2 million. There are two primary reasons for the increase in net position. The District's operating revenues have increased due to a 5-year rate plan that was adopted and implemented FY 2017. This rate study increased rates over 5 years and stabilized the revenues by increasing fixed charges for both water and sewer to 60% of revenues with commodity charges representing 40% of the revenues. Revenues from operations in addition to the annual property tax revenues received exceeded the operating expenses and non-operating expenses such as debt service. Total revenues exceeded total expenditures \$1.2 million. The other reason for the increase in net position was related to contributed capital of \$1 million for infrastructure built from development of commercial property, single family, and multi-family housing.

Assets increased \$28 million, or 10.9 %, from FY 2019. Current assets increased \$6.5 million primarily due to the net of \$13 million increase in cash and investments and a decrease in cash and investments restricted by debt agreements of \$5.7 million. The increase in cash and investments is due to the District using debt proceeds to fund major capital improvement projects and issuing a line of credit to aid cash flow due to the delay in getting reimbursed for costs expended for the Tunnel Project from the State. The decrease in cash and investments restricted by debt agreements is due to the funding of major capital projects. Capital assets not being depreciated increased \$11.7 million, or 18.8%, from the prior fiscal year due to increased activity on the Tunnel Project. Capital Assets being depreciated (net of accumulated depreciation) increased \$9.7 million from FY 2019 primarily due to the completion of projects such as the Golden Lantern/Stonehill RW Bottleneck Project, the Lift Station 2 Force Main Rehabilitation Project, and the Lift Station 6 Force Main Rehabilitation Project.

Liabilities increased \$24.8 million, or 27.4%, from FY 2019. Current Liabilities increased \$2.6 million primarily due to the issuance of a Line of Credit to alleviate possible cash flow issues from the delay of receiving reimbursement of costs for the Tunnel Project from the State. Non-current Liabilities increased \$22.3 million from prior fiscal year. This is primarily due to the increase in continued funding of the Tunnel Project with a State Resources Funding Loan. Net pension liability increased \$1.3 million, and OPEB liability decreased \$0.9 million, reflecting the Districts on-going funding of required costs.

By far the largest portion of the District's net position (73.9% as of June 30, 2020) reflects investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within its service area; consequently, these assets are *not* available for future spending.

Unrestricted net position of \$43.6 million increased \$8.4 million, or 23.9%, from prior fiscal year. In addition to the \$2.2 increase in net position due to revenues exceeding expenses and contributed capital, the increase is also due to the decrease in net investment in capital assets of \$7.2 million. This decrease is due to the District issuing debt to fund capital projects that have a 20-year life span or more. In the past the District followed the policy to fund capital improvements from cash impacting unrestricted net position and cash flow. The issuance of debt for the construction of assets with a useful life of 20 years or more, allows the District to maintain an adequate unrestricted net position and meet reserve policy requirements.

SOUTH COAST WATER DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2020

Activities and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position summarizes operations during the current fiscal year. A summary of the District's changes in net position for the fiscal year ended June 30, 2020 is included below:

	<u>2020</u>	<u>2019</u>	<u>Change</u>	
Revenues:				
Operating revenues:				
Water sales	\$ 18,482,268	17,518,158	\$ 964,110	5.5%
Sewer service charges	15,202,153	14,702,662	499,491	3.4%
Recycled water	1,855,007	1,770,840	84,167	4.8%
Recreation facilities	244,999	294,177	(49,178)	-16.7%
Total operating revenues	<u>35,784,427</u>	<u>34,285,837</u>	<u>1,498,590</u>	4.4%
Non-operating revenues:				
Investment income	1,556,273	1,412,028	144,245	10.2%
Property taxes - general and bond levy	6,774,772	6,558,495	216,277	3.3%
Rental income (net of expenses)	774,641	832,059	(57,418)	-6.9%
Other revenues	969,321	2,044,497	(1,075,176)	-52.6%
Total non-operating revenues	<u>10,075,007</u>	<u>10,847,079</u>	<u>(772,072)</u>	-7.1%
Total revenues	<u>45,859,434</u>	<u>45,132,916</u>	<u>726,518</u>	1.6%
Expenses:				
Operating expenses:				
Source of supply (purchased water)	5,549,902	6,085,677	(535,775)	-8.8%
Groundwater recovery facility	1,330,142	1,011,303	318,839	31.5%
Recycled water	1,015,881	942,374	73,507	7.8%
Pumping expense	1,169,994	1,111,566	58,428	5.3%
Sewer treatment plant	4,551,238	5,400,627	(849,389)	-15.7%
Transmission and distribution	5,431,867	4,854,330	577,537	11.9%
Operations support	2,612,869	2,932,001	(319,132)	-10.9%
Recreation facilities	277,255	294,565	(17,310)	-5.9%
Engineering and consulting	2,159,615	2,314,667	(155,052)	-6.7%
General and administrative	10,977,290	8,216,031	2,761,259	33.6%
Depreciation	6,583,151	6,259,702	323,449	5.2%
Total operating expenses	<u>41,659,204</u>	<u>39,422,843</u>	<u>2,236,361</u>	5.7%
Non-operating expenses:				
Interest expense	2,786,364	2,294,818	491,546	21.4%
Loss on disposal of capital assets	196,441	2,430,233	(2,233,792)	-91.9%
Share of joint venture expenses	73,606	571,241	(497,635)	-87.1%
Other expenses	2,042	404,292	(402,250)	-99.5%
Total non-operating expenses	<u>3,058,453</u>	<u>5,700,584</u>	<u>(2,642,131)</u>	-46.3%
Total expenses	<u>44,717,657</u>	<u>45,123,427</u>	<u>(405,770)</u>	-0.9%
Income before capital contributions	1,141,777	9,489	1,132,288	11932.6%
Capital contributions	<u>1,009,255</u>	<u>757,263</u>	<u>251,992</u>	33.3%
Change in net position	<u>2,151,032</u>	<u>766,752</u>	<u>1,384,280</u>	180.5%
Net position at beginning of year	170,603,167	170,423,147	180,020	0.1%
Adjustment for restatement	-	(586,732)	586,732	-100.0%
Net position at beginning of year, as restated	<u>170,603,167</u>	<u>169,836,415</u>	<u>766,752</u>	0.5%
Net position at end of year	\$ <u>172,754,199</u>	\$ <u>170,603,167</u>	\$ <u>2,151,032</u>	1.3%

SOUTH COAST WATER DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2020

The Statement of Revenues, Expenses, and Changes of Net Position details how net position changed during the fiscal year. The District's net position increased by \$2.2 million (1.3%) for the fiscal year ended June 30, 2020. A closer examination of the sources of changes in net position reveals that:

- Water sales increased almost \$1 million (5.5%) from the prior fiscal year. The primary reason for the increase in revenue is due to the implementation of the fourth year of a five-year rate increase. Commodity purchases increased slightly, 5,148 CCF, from FY 2019. The COVID pandemic did not impact the residential commodity sales, however, it did impact the commercial customers from March 2020 through June 2020 lowering commercial commodity sales approximately \$0.2 million less than was originally estimated. Fixed service charges increased \$0.4 million and Peak Demand charges increased \$0.1 million from FY 2019.
- Sewer service charges increased almost \$0.5 million (3.4%) from the prior fiscal year. Commercial sewer revenue is based on flow. Due to the COVID pandemic there was a decrease in water usage resulting in a decrease in flow. The total decrease in commercial revenue from usage from FY 2019 was \$0.2 million. Charges for residential customers increased \$0.7 million from FY 2019 due to the implementation of the fourth year of the five-year rate increase.
- Property tax revenues increased \$0.2 million (3.3%) from prior fiscal year. This was the expected percentage increase per information provided from the County of Orange.
- Investment income increased \$0.1 million, or 10.2%, from FY 2019 primarily due to the increase in interest income earned on unspent bond proceeds from the 2019A Revenue Bonds issued February 2019. The average yield the District received on investments in FY 2020 was 1.92% compared to 2.0% in FY 2019.
- Other revenues decreased \$1.1 million (-52.65%) from the prior fiscal year primarily due to the District receiving \$1.3 million in the prior year for reimbursement of legal costs incurred regarding Moulton Niguel Water District (MNWD) vs SOCWA litigation.
- Source of supply (purchased water) expense decreased \$0.6 million or 8.8% from the prior fiscal year. The primary reason for the decrease in purchased water is due to the District producing more water from the Groundwater Recovery Facility. The District purchased 4,470 Acre Feet (AF), 565 AF less than prior fiscal year.
- Groundwater recovery facility (GRF) expense increased \$0.3 million or 31.5% from the prior fiscal year. The primary reason for the increase in expense is the GRF was fully functional FY 2020 and produced 847 AF of water. In FY 2019 it was only functional for part of the year due to repairs and maintenance and only produced 235 AF of water.
- Sewer treatment plant expense decreased \$0.8 million, or 15.7%, from the prior fiscal year. SOCWA's operation and maintenance costs were less in FY 2020 than was expected, therefore the District's share of that cost decreased from FY 2019.
- Transmission and distribution expense increased \$0.6 million or 11.9% from the prior fiscal year. The primary reason for this increase is in repairs and maintenance of water lines and cleaning sewer lines.
- Operations support expense decreased \$0.3 million or 10.9% from the prior fiscal year. The District spent less on outside services for repairs and maintenance than in FY 2019.

SOUTH COAST WATER DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2020

- General and administrative expense increased \$2.8 million or 33.6% from the prior fiscal year. The primary reasons for the increase in general and administrative expenses are due to:
 - a.* An increase in retirement expenses of \$1.8 million for the increase in net pension liability due to actuarial adjustments.
 - b.* An increase of \$0.4 million for legal expenses regarding the feasibility of a desalination plant and negotiations for real property transactions.
 - c.* An increase of \$0.5 for consultant services for the cost analysis, planning, permitting, and acquiring grants for the proposed desalination plant.
 - d.* An increase in consulting services of \$0.2 million for staff leadership training, a classification and compensation study and analysis of core competencies for employee reviews and performance measurement.
- Total labor costs excluding benefits and overtime were \$9.5 million for FY 2020. Labor costs decreased \$0.9 million from FY 2020 primarily due to vacant positions. Employees received a cost-of-living increase of 2.5% based on CPI for FY 2020. The average merit increase was 3%, therefore, the total average salary increase for employees was 5.5%.
- Interest expense increased \$0.5 million or 21.4%, from the prior fiscal year due to 2020 being the first year of full interest expense payments for the 2019A revenue bonds that were issued in February 2019.
- Loss on disposal of capital assets decreased \$2.2 million from FY 2019 due to prior year expensing of construction in progress for the Ground Water Recovery Facility Water Well Head project.
- Share of joint venture expense decreased \$0.5 million or 87.1% from the prior fiscal year. The decrease in expense is due to JRWSS expensing a project that was originally considered construction in progress but then determined to be repairs and maintenance in FY 2019.
- Other expense decreased \$0.4 million or 99.5% from the prior fiscal year. In FY 2019 the District expensed inventory due to the immaterial balance in relation to the amount of staff time needed to maintain it, therefore, departments are now acquiring supplies and parts on an as needed basis.
- Capital contributions increased \$0.3 million or 33.3% from the prior fiscal year due to developers building infrastructure for water and sewer for a major condominium development.

SOUTH COAST WATER DISTRICT
Management’s Discussion and Analysis
For the Fiscal Year Ended June 30, 2020

Capital Assets

Changes in capital asset amounts for FY 2020 were as follows:

	<u>2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>2020</u>
Capital assets:				
Capital assets, not being depreciated	\$ 62,640,034	29,015,992	(17,234,500)	\$ 74,421,526
Capital assets, being depreciated	263,114,772	15,864,617	(581,239)	278,398,150
Less accumulated depreciation	(136,665,687)	(6,583,151)	1,021,533	(142,227,305)
Total capital assets, net	<u>\$ 189,089,119</u>	<u>\$ 38,297,458</u>	<u>\$ (16,794,206)</u>	<u>\$ 210,592,371</u>

At the end of FY 2020, the District’s investment in capital assets was \$210 million (net of accumulated depreciation). This investment in capital assets includes land, treatment systems, transmission and distribution systems, reservoirs, tanks, pumps, buildings and structures, equipment, vehicles, and construction-in-process, etc. Major capital assets projects in fiscal year 2020 include:

- Completion of construction of phase 2 of the Tunnel Project.
- Planning and design for phase 3 of the Tunnel Project.
- Planning, design, and construction for phase 4 of the Tunnel Project
- Completion of construction for the Lift Station 2 Force Main Rehabilitation Project.
- Completion of the construction for the Golden Lantern/Stonehill RW Bottleneck Project.
- Completion of the planning, design, and construction for the Lift Station 6 Force Main Rehabilitation Project.

Additions of \$29 million to capital assets, not being depreciated include \$19.6 million for Phase 2, 3 and 4 of the Tunnel Project and \$2.1 million for the Lift Station 6 Force Main Rehabilitation. The District acquired 1.457 acres of land along Stonehill Drive in San Juan Capistrano in October 2019 for \$2.6 million. This property is adjacent to property the District already owns where the Ground Water Recovery Facility is located and acreage behind Doheny State Beach that the District is currently leasing to tenants. This land will be used for future projects.

Deletions/transfers to capital assets, not being depreciated of \$17.2 million include the District’s share of completed wastewater treatment plant improvements of \$2.7 million; \$3.6 million for the completion of the Golden Lantern/Stonehill RW Bottleneck project; \$4.7 million for the completion of the Lift Station 2 Force Main Rehabilitation Project; reclassification of acquisition of \$1.3 million for land easements for the Tunnel Project to Land and land rights; and \$2.7 million for the completion of the Lift Station 6 Force Main Rehabilitation Project.

The District implemented new finance software that included a capital asset module during Fiscal Year 2020. During the implementation assets were reclassified to new categories and during that process \$1 million capital assets were deemed obsolete.

See Note 3 in the notes to the Basic Financial Statement for additional information regarding capital assets.

SOUTH COAST WATER DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2020

Long-Term Liabilities

Changes in long-term debt amounts for the year ended June 30, 2020 were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
2000 State Revolving Loan	\$ 423,078	\$ -	\$ (423,078)	\$ -
2016 State Revolving Loan (Tunnel Project)	12,523,509	22,878,779	-	35,402,288
Notes Payable	-	3,525,272	-	3,525,272
2016A Refunding Revenue Bonds	10,735,000	-	(880,000)	9,855,000
2019A Revenue Bonds	41,680,000	-	-	41,680,000
Subtotal	65,361,587	26,404,051	(1,303,078)	90,462,560
Add (Less):				
2000 State Revolving Loan Discount	(54,057)	-	54,057	-
2016A Refunding Revenue Bonds Premium	1,835,626	-	(119,390)	1,716,236
2019A Revenue Bonds Premium	3,660,224	-	(123,378)	3,536,846
Total	70,803,380	26,404,051	(1,491,789)	95,715,642
Compensated Absences	1,295,027	1,480,671	(1,221,718)	1,553,980
Total	\$ 72,098,407	\$ 27,884,722	\$ (2,713,507)	\$ 97,269,622

In August 2019, the District issued a line of credit (note payable) not to exceed \$25 million with OPUS Bank. 4 The Tunnel Project is funded through the 2016 State Resources Funding Loan (SRF). As the District spends funds on the Tunnel Project, it submits requests for reimbursement to the State for the project costs. There are delays between requesting the reimbursement for the costs and the actual reimbursement of those costs and this can create a cash flow issue for the District since at least 60% of the Districts revenues are fixed charges and paid twice a year through the ratepayers' property tax bills, therefore, the purpose of issuing the line of credit was to help alleviate any cash flow fluctuations due to the Tunnel Project. As of June 30, 2020, the outstanding amount of the line of credit was \$3.5 million. The SRF increased \$22.9 million due to the reimbursement of costs for the construction of the Tunnel Project and the 2000 State Loan was paid off. All other activity during the fiscal year consisted of scheduled debt payments, amortization, and compensated absence usage and accruals.

Additional information regarding long-term liabilities can be found in Note 4 in Notes to Basic Financial Statements.

Requests for Information

This financial report is designed to provide the District's funding sources, customers, stakeholders, and other interested parties with an overview of financial operations and condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District at 31592 West Street, Laguna Beach, California 92651 or the Finance Department at (949) 499-4555.

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BASIC FINANCIAL STATEMENTS

SOUTH COAST WATER DISTRICT
Statement of Net Position

June 30, 2020
(with prior year data for comparison purposes only)

	2020	2019
ASSETS		
Current assets:		
Cash and investments	\$ 48,131,590	\$ 34,978,676
Utility accounts receivable	1,848,202	1,947,701
Property taxes receivable	412,936	1,013,938
Accrued interest receivable	176,186	156,796
Other receivables	667,229	925,528
Prepaid expenses	272,992	270,320
Materials and supplies inventory	7,621	7,865
Cash and investments restricted by debt agreements	15,061,996	20,748,829
Total current assets	66,578,752	60,049,653
Noncurrent assets:		
Capital assets:		
Not being depreciated	74,421,526	62,640,034
Being depreciated (net of accumulated depreciation)	136,170,845	126,449,085
Net capital assets	210,592,371	189,089,119
Other assets:		
Investment in joint venture	7,927,333	7,951,147
Total other assets	7,927,333	7,951,147
Total noncurrent assets	218,519,704	197,040,266
Total assets	285,098,456	257,089,919
DEFERRED OUTFLOWS OF RESOURCES		
Deferred refunding charges	1,654,314	1,776,601
Pension contributions subsequent to measurement date	1,273,194	1,053,692
Pension related	1,204,122	1,455,169
OPEB contributions subsequent to measurement date	392,500	637,422
Total deferred outflows of resources	4,524,130	4,922,884

See accompanying notes to the basic financial statements

SOUTH COAST WATER DISTRICT

Statement of Net Position

(Continued)

June 30, 2020

(with prior year data for comparison purposes only)

	<u>2020</u>	<u>2019</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 6,906,851	\$ 7,921,201
Accrued salaries and benefits	559,965	396,191
Advances from developers	44,425	222,728
Customer deposits	228,452	159,197
Accrued interest payable	939,237	768,532
Unearned revenue	25,606	-
Current portion of loans payable, net	3,525,272	423,078
Current portion of bonds payable, net	920,000	880,000
Current portion of compensated absences	870,387	694,612
Total current liabilities	<u>14,020,195</u>	<u>11,465,539</u>
Noncurrent liabilities:		
Loans payable, net	35,402,288	12,469,452
Bonds payable, net	55,868,082	57,030,850
Compensated absences	683,593	600,415
Net pension liability	8,303,488	6,961,317
Net OPEB liability	1,164,657	2,091,505
Total noncurrent liabilities	<u>101,422,108</u>	<u>79,153,539</u>
Total liabilities	<u>115,442,303</u>	<u>90,619,078</u>
DEFERRED INFLOWS OF RESOURCES		
Pension related	689,762	609,782
OPEB related	736,322	180,776
Total deferred inflows of resources	<u>1,426,084</u>	<u>790,558</u>
NET POSITION		
Net investment in capital assets	127,589,910	134,820,840
Restricted for debt service	1,516,254	563,373
Unrestricted	43,648,035	35,218,954
Total net position	<u>\$ 172,754,199</u>	<u>\$ 170,603,167</u>

See accompanying notes to the basic financial statements

SOUTH COAST WATER DISTRICT
Statement of Revenues, Expenses, and Changes in Net Position

For the Year Ended June 30, 2020
(with prior year data for comparison purposes only)

	2020	2019
Operating revenues:		
Water sales	\$ 18,482,268	\$ 17,518,158
Sewer service charges	15,202,153	14,702,662
Recycled water	1,855,007	1,770,840
Recreation facilities	244,999	294,177
Total operating revenues	<u>35,784,427</u>	<u>34,285,837</u>
Operating expenses:		
Source of supply (purchased water)	5,549,902	6,085,677
Groundwater recovery facility	1,330,142	1,011,303
Recycled water	1,015,881	942,374
Pumping expense	1,169,994	1,111,566
Sewer treatment plant	4,551,238	5,400,627
Transmission and distribution	5,431,867	4,854,330
Operations support	2,612,869	2,932,001
Recreation facilities	277,255	294,565
Engineering and consulting	2,159,615	2,314,667
General and administrative	10,977,290	8,216,031
Depreciation	6,583,151	6,259,702
Total operating expenses	<u>41,659,204</u>	<u>39,422,843</u>
Income (Loss) from operations	<u>(5,874,777)</u>	<u>(5,137,006)</u>
Non-operating revenues (expenses):		
Property taxes	6,774,772	6,558,495
Investment income	1,556,273	1,412,028
Other revenues	969,321	2,044,497
Rental income	774,641	832,059
Interest expense	(2,786,364)	(2,294,818)
Gain (loss) on disposal of capital assets	(196,441)	(2,430,233)
Share of joint venture income (expenses)	(73,606)	(571,241)
Other expenses	(2,042)	(404,292)
Total non-operating revenues (expenses)	<u>7,016,554</u>	<u>5,146,495</u>
Income before capital contributions	<u>1,141,777</u>	<u>9,489</u>
Capital contributions:		
Contributed assets	433,036	270,639
Connection fees	576,219	486,624
Total capital contributions	<u>1,009,255</u>	<u>757,263</u>
Change in net position	<u>2,151,032</u>	<u>766,752</u>
Net position at beginning of the year	170,603,167	170,423,147
Prior period adjustment	-	(586,732)
Net position at beginning of the year, as restated	<u>170,603,167</u>	<u>169,836,415</u>
Net position at end of the year	<u>\$ 172,754,199</u>	<u>\$ 170,603,167</u>

See accompanying notes to the basic financial statements

SOUTH COAST WATER DISTRICT
Statement of Cash Flows

For the Year Ended June 30, 2020
(with prior year data for comparison purposes only)

	2020	2019
Cash flows from operating activities:		
Cash received from customers	\$ 36,237,086	\$ 33,920,305
Cash payments to suppliers for goods and services	(26,563,536)	(19,434,529)
Cash payments to employees for services	(7,779,252)	(10,444,693)
Rental income received	774,641	832,059
Other expenses	(2,042)	(404,292)
Other operating revenues	969,321	2,044,497
Net cash provided by operating activities	3,636,218	6,513,347
Cash flows from noncapital financing activities:		
Proceeds from property taxes	7,375,774	5,613,728
Net cash provided by noncapital financing activities	7,375,774	5,613,728
Cash flows from capital and related financing activities:		
Acquisitions and construction of capital assets	(27,849,808)	(32,359,603)
Proceeds from sale of capital assets	-	17,585
Proceeds from bond issuance	-	45,381,351
Proceeds from loan	25,905,374	1,325,635
Repayment of loans and bonds	(1,303,078)	(1,273,078)
Payment made to refunding escrow agent	-	(20,036,131)
Interest paid	(2,183,406)	(1,656,900)
Receipt of interest subsidy	-	208,330
Payments for cost of bond issuance	-	(325,314)
Water and sewer connection fees received	576,219	486,624
Receipts (return) of customer deposits and developer advances	(178,303)	26,944
Net cash used for capital and related financing activities	(5,033,002)	(8,204,557)
Cash flows from investing activities:		
Investment redemptions and sales	8,297,313	6,591,703
Investment purchases	(5,670,435)	(4,592,004)
Interest income received	1,067,291	955,563
Payments to joint venture	(49,792)	(303,101)
Net cash provided by investing activities	3,644,377	2,652,161
 Total increase in cash and cash equivalents	9,623,367	6,574,679
Cash and cash equivalents at beginning of year	34,672,194	28,097,515
Cash and cash equivalents at end of year	\$ 44,295,561	\$ 34,672,194

See accompanying notes to the basic financial statements

SOUTH COAST WATER DISTRICT

Statement of Cash Flows

(Continued)

For the Year Ended June 30, 2020

(with prior year data for comparison purposes only)

	2020	2019
Reconciliation of loss from operations to net cash provided by operating activities:		
Loss from operations	\$ (5,874,777)	\$ (5,137,006)
Adjustments to reconcile loss from operations to net cash provided by operating activities:		
Operating activities:		
Depreciation	6,583,151	6,259,702
Rental income received	774,641	832,059
Other revenues (expenses)	967,279	1,640,205
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:		
Decrease (increase) in utility accounts receivable	99,499	79,766
Decrease (increase) in other receivables	258,299	(446,033)
Decrease (increase) in prepaid expenses	(2,672)	144,366
Decrease (increase) in inventory	244	493,458
Decrease (increase) in deferred outflows of resources	276,467	1,081,361
Increase (decrease) in accounts payable	(1,014,350)	3,058,969
Increase (decrease) in accrued salaries and benefits	163,774	22,275
Increase (decrease) in customer deposits	69,255	735
Increase (decrease) in unearned revenue	25,606	-
Increase (decrease) in compensated absences	258,953	93,104
Increase (decrease) in net pension liability	1,342,171	(547,647)
Increase (decrease) in net OPEB liability	(926,847)	(312,758)
Increase (decrease) in deferred inflows of resources	635,526	(749,209)
Net cash provided by operating activities	\$ 3,636,219	\$ 6,513,347
Reconciliation of cash and cash equivalents to statement of net position:		
Cash and investments	\$ 48,131,590	\$ 34,978,676
Cash and investments restricted by debt agreements	15,061,996	20,748,829
Less investments with maturities greater than 3 months	(18,898,025)	(21,055,311)
Cash and cash equivalents	\$ 44,295,561	\$ 34,672,194
Supplemental disclosure of noncash capital and related financing and investing activities:		
Share of joint venture revenues (expenses)	\$ (73,606)	\$ (571,241)
Contributed assets from developers	\$ 433,036	\$ 270,639
Gain (loss) on disposal of capital assets	\$ (196,441)	\$ (2,447,818)

See accompanying notes to the basic financial statements

SOUTH COAST WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2020

NOTE 1 - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Description of Reporting Entity

South Coast Water District (the District) was formed in 1932 under the California Water Code. The District serves an area of approximately 8.8 square miles, encompassing the City of Dana Point, and portions of the Cities of Laguna Beach, San Clemente, and San Juan Capistrano.

Effective July 1, 1976, the District was designated as successor to the South Laguna Sanitary District for the purpose of succeeding to all rights, duties and obligations of the South Laguna Sanitary District under Orange County Reorganization No. 31. These functions are performed by the District under the title of the South Coast Water District Improvement District No. 1-S. The Improvement District serves an area of approximately 2,750 acres located within the water operation boundaries.

In February 1997, the District entered into an agreement for the District-served Laguna Sur/Monarch Point Community to be annexed by the Moulton Niguel Water District (the Reorganization RO 96-05). This reorganization was effective July 1, 1997.

In June 1998, the District was the primary filing applicant in a request for consolidation filed with the Local Agency Formation Commission of Orange County (LAFCO). In October 1998, LAFCO adopted resolution RO 97-18, effective January 1, 1999, which provided for the consolidation of the District and Capistrano Beach Water District, and the dissolution of the Dana Point Sanitary District. The District was the successor agency to this consolidation.

Following the consolidation, the District established four separate financial zones, each separately accounting for assets, reserves, bond obligations and operations. Rates, charges and assessments for water and sewer services varied between financial zones. Based on a Financial Equalization Study, completed in 2002, the District implemented an Asset Equalization Charge and no longer maintained separate accounting by service area.

On July 1, 1999, a portion of the service area of the District that is within the City of Laguna Beach was annexed by the City for delivery of services. The agreement between the District and the City of Laguna Beach provides for the District to continue to provide both water and sewer service to this area for several years. The agreement provides for annual extensions of services unless terminated by either party.

The District's water supply is purchased from the Metropolitan Water District through the Municipal Water District of Orange County.

The financial statements present the District and its component units. The District is the primary government unit. Component units are those entities which are financially accountable to the primary government, either because the District appoints a voting majority on the component unit's board, or because the component unit will provide a financial benefit or impose a financial burden on the District.

***NOTE 1 - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)***

A. Organization and Description of Reporting Entity (Continued)

The District's reporting entity includes the South Coast Water District Financing Authority (the Financing Authority), a California nonprofit public benefit corporation, formed for the purpose of providing financial assistance to the District. Although the District and the Financing Authority are legally separate entities, the District's Board of Directors is financially responsible for the Financing Authority and, therefore, the accompanying financial statements include the accounts and records of the Financing Authority using the blending method as required by accounting principles generally accepted in the United States of America. There are no separate financial statements for the Financing Authority.

The South Coast Water District owns and operates the Dana Hills Tennis Center (Tennis Center). The Tennis Center operates tennis courts and related facilities, charging fees to the public.

B. Basis of Accounting, Measurement Focus, and Financial Statement Presentation

Proprietary Fund

The District's activities are reported in an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to business enterprises, where the intent of providing goods and services to the general public on a continuing basis is financed or recovered primarily through user charges.

The basic financial statements are prepared using the *economic resource measurement focus* and the *accrual basis of accounting*. Under the economic resources measurement focus all assets, deferred outflows of resources, liabilities, and deferred inflows of resources (whether current or noncurrent) associated with the District's activities are included on the Statement of Net Position. The Statement of Revenues, Expenses, and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized when earned while expenses are recognized when the liability is incurred regardless of the timing of cash flow.

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services, delivering water, and collecting, treating and disposing of wastewater in connection with the District's principal ongoing operations. The District's principal operating revenues are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Capital contributions are reported as a separate line item in the Statement of Revenues, Expenses, and Changes in Net Position.

During fiscal year 2019-2020, the District segregated the water and sewer operations into separate funds, which is disclosed in the supplementary information section.

***NOTE 1 - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)***

C. Joint Powers Agreements

The District is a participant in both the South Orange County Wastewater Authority (SOCWA) and the San Juan Basin Authority (SJBA) for the purposes of (1) operating and maintaining wastewater delivery, treatment and disposal facilities and (2) management of regional groundwater and recycled water facilities.

South Orange County Wastewater Authority (a California Joint Powers Authority)

The District is a member of SOCWA, which collects, treats, beneficially reuses and disposes of wastewater in South Orange County. SOCWA operates four wastewater treatment plants (WWTP) in the region. SOCWA has ten member agencies, including three cities, six water districts, and one community services district, which appoints representatives to the Board of Directors. The Board of Directors controls the operations of SOCWA, including selection of management and approval of the annual budget. SOCWA has project committees through which member agencies participate in financially supporting operations and capital investment at various levels, depending on their capacity rights. Each WWTP is a project, as well as various other physical facilities such as outfall pipelines.

The District deposits money with SOCWA to cover its share of operations and for capital in the project committees in which it participates. The District has no equity interest in SOCWA and does not receive a share of operating results. Construction deposits made to SOCWA for capital projects are recorded as capital assets. To obtain complete financial information from SOCWA please contact SOCWA's Finance Controller at 34156 Del Obispo Street, Dana Point, CA 92629.

San Juan Basin Authority (a California Joint Powers Authority)

The District is also a member of the SJBA, which is a joint powers authority formed to secure and develop water rights for its member agencies. It currently has permits for usage of the San Juan Groundwater Basin as an underground storage reservoir. Its Board of Directors consists of representatives from member agencies that govern SJBA. The Board of Directors oversees contracts and approves the annual budget. SJBA has project committees that member agencies participate in financially at various levels based upon ownership or usage. The District deposits money with SJBA to cover its share of costs in the respective projects.

The District has no equity interest in SJBA and does not receive a share of operating results. Construction deposits made to SJBA for capital projects are recorded as capital assets. To obtain complete financial information from SJBA contact South Coast Water District's Chief Financial Officer.

D. New Accounting Pronouncements

Current Year Standards

In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authority Guidance*, which was effective immediately. This Statement provided temporary relief to governments and other stakeholders in light of the COVID-19 pandemic and postponed the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. The District implemented Statement No. 95 and postponed the implementation of the provisions in Statements and Implementation Guides that were previously required to be implemented for fiscal year 2019-2020.

NOTE 1 - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

D. New Accounting Pronouncements (Continued)

Current Year Standards (Continued)

In June 2020, GASB issued 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. Paragraph 4 of this Statement requires that for purposes of determining whether a primary government is financially accountable for a potential component unit, except for a potential component unit that is a defined contribution pension plan, a defined contribution OPEB plan, or an other employee benefit plan (for example, certain Section 457 plans), the absence of a governing board should be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform.

Paragraph 5 of this Statement also requires that the financial burden criterion in paragraph 7 of Statement No. 84, *Fiduciary Activities*, be applicable to only defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement No. 67, *Financial Reporting for Pension Plans*, or paragraph 3 of Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, respectively. The requirements of these paragraphs did not impact the District.

Pending Accounting Standards

The District is currently evaluating the impact of the requirements of the below Statements on the presentation of its financial statements.

In January 2017, GASB issued Statement No. 84 – *Fiduciary Activities*. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements.

This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019, early application is encouraged.

NOTE 1 - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

D. New Accounting Pronouncements (Continued)

Pending Accounting Standards (Continued)

In June 2017, GASB issued Statement No. 87 – *Leases*. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset for leases with a term of more than 12 months. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. For leases with a term of 12 months or less, lessees and lessors should recognize short-term lease payments as outflows of resources or inflows of resources, respectively, based on the payment provisions of the lease contract. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021, early application is encouraged.

In May 2020, GASB issued Statement No. 96 – *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Early application is encouraged. Assets and liabilities resulting from SBITAs should be recognized and measured using the facts and circumstances that existed at the beginning of the fiscal year in which this Statement is implemented.

In June 2020, GASB issued 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. Paragraph 6 through 9 of this Statement requires that a Section 457 plan be classified as either a pension plan or an other employee benefit plan depending on whether the plan meets the definition of a pension plan and clarifies that Statement 84, as amended, should be applied to all arrangements organized under IRC Section 457 to determine whether those arrangements should be reported as fiduciary activities. The requirements of paragraph 6 through 9 of this Statement are effective for fiscal years beginning after June 15, 2021. Earlier application of these requirements is encouraged and permitted.

This Statement supersedes the remaining provisions of Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, as amended, regarding investment valuation requirements for Section 457 plans. As a result, investments of all Section 457 plans should be measured as of the end of the plan's reporting period in all circumstances. The requirements of paragraph 3 of this Statement are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted.

E. Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

SOUTH COAST WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2020

NOTE 1 - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

F. Cash and Investments

Investments are carried at fair value. In the financial statements, changes in fair value that occur during a fiscal year are recognized as *investment income* reported for the fiscal year. *Investment income* includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

G. Materials and Supplies Inventory

Inventories of materials and supplies are valued at the lower of cost or market using the first-in, first-out method.

H. Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

I. Allowance for Doubtful Accounts

An allowance for doubtful accounts has not been established for utility accounts receivable, as District management believes all amounts are collectible. Accounts having balances outstanding over 60 days are not significant for the fiscal year ended June 30, 2020.

J. Revenue Recognition

Revenues are recognized when earned and recorded as meters are read. Metered water accounts are read and billed bi-monthly on 30-day cycles. Residential wastewater customers fixed charges are included on their property tax bills. Commercial wastewater customers fixed charges are billed on a monthly basis. In certain areas of the District, the wastewater billing is handled by another water utility agency but is estimated and accrued as revenues by the District each month. These third-party collections are forwarded to the District monthly, based on actual receipts. Unbilled water and wastewater charges are accrued for the period from the last meter reading through year-end and are included in accounts receivable. Unbilled accounts receivable amounted to \$786,032 at June 30, 2020, which is included in utility accounts receivable in the accompanying statement of net position.

K. Compensated Absences

The District has a policy whereby employees can accumulate sick leave and vacation. The sick leave is to be used for extended periods of sickness. Upon an employee's termination or retirement, a portion of the earned and accrued benefits will be paid out in cash. Upon completion of employment, employees with three years or more service will be paid for 50% of the then unused sick leave at regular payroll rates in effect at the date of the termination. The District has accounted for these future benefits by accruing the following unused sick leave and vacation costs, which are included in compensated absences in the accompanying statement of net position:

Unused sick leave	\$	745,595
Unused vacation		808,385
	\$	<u>1,553,980</u>

SOUTH COAST WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2020

NOTE 1 - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

L. Capital Assets

Capital assets are stated at cost with an initial cost of \$5,000 or more. Contributed capital assets are recorded at acquisition value as of date received and consist primarily of potable water, recycled water, and sewer systems contributed by real estate developers. Costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of capital assets as follows:

Tract facilities, reservoirs, transmission connections, recreation facilities, collection lines, and administrative building	40-50 years
Conservation facilities, reclamation terminals, intangible plant, source of supply, pumping plants, and sewer connections	30-40 years
Groundwater recovery facility	30-40 years
Collection system	30-40 years
Meters	12-20 years
Power operated equipment, office furniture, and automotive	5-10 years
Tools and computer hardware	5 years
Computer software	3-5 years

M. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until that time. The District has the following items that qualify for reporting in this category:

- Deferred outflows related to the deferred charge on refunding of long-term debt. Deferred charges on refunding result from the difference between the carrying value of the refunded debt and its reacquisition price. These amounts are deferred and amortized over the shorter of the life of the refunded debt or the new issuance.
- Deferred outflows related to the pension and OPEB plans equal to employer contributions made after the measurement date of the net pension liability and net OPEB liability, respectively.
- Deferred outflows related to the pension plan resulting from changes in assumptions, for differences between expected and actual experience, and for changes in proportion and differences between employer contributions and the proportionate share of contributions. These amounts are amortized over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pensions through the plan.

SOUTH COAST WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2020

NOTE 1 - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

M. Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The District has the following items that qualify for reporting in this category:

- Deferred inflows related to the pension and OPEB plans resulting from changes in assumptions and for differences between expected and actual experience. These amounts are amortized over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pensions through the plan.
- Deferred inflows related to the pension plan for the changes in proportion and differences between employer contributions and the proportionate share of contributions. These amounts are amortized over a closed period equal to the average expected remaining services lives of all employees that are provided with pensions through the plans.
- Deferred inflows related to the pension and OPEB plans resulting from the difference in projected and actual earnings on plan investments. These amounts are amortized over five years.

N. Net Position Flow Assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

O. Property Taxes

Property tax in California is levied in accordance with Article XIIA of the State Constitution at 1% of countywide assessed valuations. Property taxes collected by the levying agency are placed in a pool, and then allocated to the local governmental units. Property tax revenue is recognized in the fiscal year in which taxes are levied.

The property tax calendar is as follows:

Lien date:	January 1
Levy date:	July 1
Due date:	First installment - November 10 Second installment - February 10
Delinquent date:	First installment - December 10 Second installment - April 11

SOUTH COAST WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2020

NOTE 1 - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

P. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions and pension expense, information about the fiduciary net position of the District's 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.

Q. Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability and deferred outflows/inflows of resources related to the District's OPEB and OPEB expense, information about the fiduciary net position of its OPEB plan and additions to/deductions from the OPEB plan's fiduciary net position has been determined on the same basis as they are reported by the plan. For this purpose, the District's OPEB plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value.

R. Use of Estimates

The financial statements are prepared in accordance with generally accepted accounting principles in the United States and, accordingly, include amounts that are based on management's best estimates and judgments. Actual results could differ from those estimates.

S. Prior Year Data

Certain amounts presented in the prior year financial statements have been reclassified in order to be consistent with current year's presentation. Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the government's prior year financial statements, from which this selected financial data was derived.

SOUTH COAST WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2020

NOTE 2 - CASH AND INVESTMENTS

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

Statement of Net Position:	
Cash and investments	\$ 48,131,590
Restricted cash and investments	15,061,996
Total cash and investments	<u>\$ 63,193,586</u>

Cash and investments as of June 30, 2020 consist of the following:

Cash on hand	\$ 1,600
Deposits with financial institutions	2,174,801
Investments	45,955,189
Investments held by bond fiscal agents	15,061,996
Total cash and investments	<u>\$ 63,193,586</u>

Investments Authorized by the California Government Code and the District's Investment Policy

The table on the following page identifies investment types available to the District as authorized by the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. The District's investment policy also contains certain allocation goals or targets that are viewed to be general guidelines to promote diversification, rather than restrictions. The District determines conformity to any percentage limitations or guidelines contained in its investment policy, or the California Government Code, by comparing the specified investment balance as of a given date to the total par value of the District's cash and investment portfolio as of the beginning of the fiscal year containing that date.

This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District rather than the general provisions of the California Government Code or the District's investment policy.

SOUTH COAST WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2020

NOTE 2 - CASH AND INVESTMENTS (CONTINUED)

Investments Authorized by the California Government Code and the District's Investment Policy (Continued)

Investment Types Authorized by State Law or the District's Investment Policy	Maximum Maturity*	Maximum Percentage of Portfolio*	Maximum Investment in One Issuer*
Municipal Bonds	5 years	30%	5%
U.S. Treasury Obligations	5 years	None	None
Federal Agency Securities	5 years	None	25%
Banker's Acceptances	180 days	40%	5%
Commercial Paper	270 days	25%	5%
Negotiable Certificates of Deposit	5 years	30%***	5%**
Certificates of Deposit Placement Service	5 years	30%***	N/A
Repurchase Agreements	1 year	None	None
Local Agency Investment Fund (LAIF)	N/A	None	\$75,000,000
Medium-Term Corporate Notes	5 years	30%	5%
Mortgage Pass-Through Securities	5 years	20%	5%
Money Market Mutual Funds	N/A	20%	None
Supranational Securities	5 years	30%	10%
Local Government Investment Pools (CAMP)	N/A	None	None

* Based on state law requirements or investment policy requirement, whichever is more restrictive.

** Allowed up to FDIC limit.

***The 30% maximum percentage of portfolio is applicable to negotiable certificates of deposit and certificates of deposit placement service in aggregate.

N/A - Not Applicable

Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustees are governed by the provisions of debt agreements, rather than the general provisions of the California Government Code or the District's investment policy. Investments authorized for funds held by bond trustees include, US Treasury Obligations, US Government-Sponsored Agency Securities, Certificates of Deposits, Banker's Acceptance, Commercial Paper, Money Market Mutual Funds, Prefunded Municipal Bonds, Investment Agreements, Local Agency Investment Funds, and Local Government Investment Pools. There are no limitations on the maximum amount that can be invested in one issuer, maximum percentage allowed, or the maximum maturity of an investment, except for the maturity of Commercial Paper, which are limited to 270 days.

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 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.

SOUTH COAST WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2020

NOTE 2 - CASH AND INVESTMENTS (CONTINUED)

Disclosures Relating to Interest Rate Risk (Continued)

Information about the sensitivity of the fair values of the District's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table, which shows the distribution of the District's investments by maturity as of June 30, 2020.

Investment Type	Remaining Maturity (in Months)				Total
	6 Months or Less	7 to 12 Months	13 to 24 Months	25 to 60 Months	
Money Market Mutual Funds	\$ 759,278	\$ -	\$ -	\$ -	\$ 759,278
U.S. Treasury Obligations	1,506,235	1,008,145	1,945,977	1,799,800	6,260,157
Medium-Term Corporate Notes	1,155,720	1,183,669	643,146	1,564,303	4,546,838
Federal Agency Securities	451,602	916,640	1,542,605	4,038,972	6,949,819
Supranational Securities		858,778	282,433		1,141,211
CAMP	3,159,559	-	-	-	3,159,559
LAIF	23,138,327	-	-	-	23,138,327
Held by Bond Trustee:					
Money Market Mutual Funds	15,061,996	-	-	-	15,061,996
Total	<u>\$ 45,232,717</u>	<u>\$ 3,967,232</u>	<u>\$ 4,414,161</u>	<u>\$ 7,403,075</u>	<u>\$ 61,017,185</u>

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by, where applicable, the California Government Code, the District's investment policy, or debt agreements and Standard and Poor's actual rating as of year-end for each investment type:

Investment Type	Total	Minimum Legal Rating	Minimum Rating			Not Rated/ Exempt
			AAA	AA +/-	A +/-	
Money Market Mutual Funds	\$ 759,278	AAA	\$ 759,278	\$ -	\$ -	\$ -
U.S. Treasury Obligations	6,260,157	N/A	-	-	-	6,260,157
Medium-Term Corporate Notes	4,546,838	A	-	606,435	3,940,403	-
Federal Agency Securities	6,949,819	N/A	-	6,949,819	-	-
Supranational Securities	1,141,211	N/A	1,141,211	-	-	-
CAMP	3,159,559	N/A	3,159,559	-	-	-
LAIF	23,138,327	N/A	-	-	-	23,138,327
Held by Bond Trustee:						
Money Market Mutual Funds	15,061,996	AAA	15,061,996	-	-	-
Total	<u>\$ 61,017,185</u>		<u>\$ 20,122,044</u>	<u>\$ 7,556,254</u>	<u>\$ 3,940,403</u>	<u>\$ 29,398,484</u>

SOUTH COAST WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2020

NOTE 2 - CASH AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments are as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Amount</u>
Federal Home Loan Bank	Federal Agency Securities	\$ 3,735,350

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. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government’s indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF and CAMP).

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 provision 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 market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. At June 30, 2020, all of the District’s deposits were insured or collateralized as required by California Law.

For investments identified herein as held by bond trustee, the bond trustee selects the investment under the terms of the applicable trust agreement, acquires the investment, and holds the investment on behalf of the District.

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of 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.

Investment in California Asset Management Program (CAMP)

The District invests in CAMP, an investment trust, which is similar to a money market mutual fund. The fund invests, primarily, in certificates of deposit, commercial paper, and U.S. Government and Agency obligations. The District is a voluntary participant in the investment pool.

SOUTH COAST WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2020

NOTE 2 - CASH AND INVESTMENTS (CONTINUED)

Investment in California Asset Management Program (CAMP) (Continued)

The CAMP Cash Reserve Portfolio (the Pool) is exempt from registration with the Securities and Exchange Commission (SEC) under the Investment Company Act of 1940, but operates in a manner consistent with SEC Rule 2a-7, “Money Market Funds”, of that Act. Accordingly, the Pool meets the definition of a “2a7-like pool” set forth in GASB Statement No. 31, “Accounting and Financial Reporting for Certain Investments and External Investment Pools”. While the Pool itself is exempt from SEC registration, the Pool’s investment advisor and administrator, PFM Asset Management, LLC, is registered with the SEC as an investment advisor under the Investment Advisors Act of 1940. PFM Asset Management, LLC has also filed a notice with the California Department of Corporations, as well as various other states, as an investment advisor under state securities laws.

In addition, the Pool also meets the definition of “Municipal Fund Security” outlined by Municipal Securities Rulemaking Board (MSRB) Rule 0-12. Contracts with prospective investors relating to shares of the Pool are entered into through PFM Asset Management’s wholly-owned subsidiary, PFMAM, Inc., a broker-dealer which is registered with the SEC and MSRB, and is a member of the National Association of Securities Dealers. The Pool also files an income tax return annually with the Internal Revenue Service, though the net income of the Pool is generally exempt from federal income tax.

Fair Value Measurement

The District categorizes its fair value measurement of investments utilizing the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of each asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the assets and liabilities through corroboration with market data; and Level 3 inputs are significant unobservable inputs.

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

	Fair Value	Quoted Prices Level 1	Observable Inputs Level 2	Unobservable Inputs Level 3
Investment Type (Subject to Hierarchy):				
U.S. Treasury Obligations	\$ 6,260,157	\$ -	\$ 6,260,157	\$ -
Medium-Term Corporate Notes	4,546,838	-	4,546,838	-
Federal Agency Securities	6,949,819	-	6,949,819	-
Supranational	1,141,211	-	1,141,211	-
Total Subject to Hierarchy	<u>18,898,025</u>	<u>\$ -</u>	<u>\$ 18,898,025</u>	<u>\$ -</u>
Uncategorized (Not Subject to Hierarchy):				
Money Market Mutual Funds	759,278			
LAIF	23,138,327			
CAMP	3,159,559			
Held by Bond Trustee:				
Money Market Mutual Funds	15,061,996			
Total Investment Portfolio	<u>\$ 61,017,185</u>			

SOUTH COAST WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2020

NOTE 3 - CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2020 were as follows:

	Balance at June 30, 2019	Reclassification of Asset Categories	Reclassified Balance at June 30, 2019	Additions	Deletions/ Transfers	Balance at June 30, 2020
Capital assets, not depreciated:						
Land and land rights	\$ 2,053,609	\$ (500,926)	\$ 1,552,683	\$ 3,873,017	\$ (138,678)	\$ 5,287,022
Construction in progress	60,586,425	-	60,586,425	25,142,975	(16,594,896)	69,134,504
Total capital assets, not depreciated	62,640,034	(500,926)	62,139,108	29,015,992	(16,733,574)	74,421,526
Capital assets, being depreciated:						
Intangible plant	36,102,380	(36,102,380)	-	-	-	-
Source of supply	21,700,775	(21,700,775)	-	-	-	-
Pumping plant	17,914,408	(17,914,408)	-	-	-	-
Treatment plants	46,533,340	36,870,794	83,404,134	2,732,332	-	86,136,466
Transmission and distribution	77,640,954	(77,296,542)	344,412	-	(344,412)	-
Sewer collection system	41,561,668	(41,561,668)	-	-	-	-
General plant	20,386,385	(20,386,385)	-	-	-	-
Recreation facilities	1,274,862	(1,274,862)	-	-	-	-
Buildings and structures	-	7,241,504	7,241,504	-	(170,996)	7,070,508
Infrastructure	-	154,973,411	154,973,411	12,421,650	-	167,395,061
Machinery and equipment	-	12,512,192	12,512,192	275,222	(566,757)	12,220,657
Vehicles	-	5,140,045	5,140,045	435,413	-	5,575,458
Total capital assets, being depreciated	263,114,772	500,926	263,615,698	15,864,617	(1,082,165)	278,398,150
Less accumulated depreciation for:						
Intangible plant	(29,985,246)	29,985,246	-	-	-	-
Source of supply	(15,210,660)	15,210,660	-	-	-	-
Pumping plant	(7,110,312)	7,110,312	-	-	-	-
Treatment plants	(13,754,531)	(30,746,785)	(44,501,316)	(1,737,358)	-	(46,238,674)
Transmission and distribution	(33,763,102)	33,763,102	-	-	-	-
Sewer collection system	(19,777,949)	19,777,949	-	-	-	-
General plant	(16,152,979)	16,152,979	-	-	-	-
Recreation facilities	(910,908)	910,908	-	-	-	-
Buildings and structures	-	(4,980,448)	(4,980,448)	(341,213)	93,607	(5,228,054)
Infrastructure	-	(74,342,149)	(74,342,149)	(3,795,541)	293,799	(77,843,891)
Machinery and equipment	-	(9,360,474)	(9,360,474)	(397,627)	558,923	(9,199,178)
Vehicles	-	(3,481,300)	(3,481,300)	(311,412)	75,204	(3,717,508)
Total accumulated depreciation	(136,665,687)	-	(136,665,687)	(6,583,151)	1,021,533	(142,227,305)
Total capital assets, being depreciated, net	126,449,085	500,926	126,950,011	9,281,466	(60,632)	136,170,845
Capital Assets, net	\$ 189,089,119	\$ -	\$ 189,089,119	\$ 38,297,458	\$ (16,794,206)	\$ 210,592,371

Depreciation expense for the depreciable capital assets was \$6,583,151 for the fiscal year ended June 30, 2020.

SOUTH COAST WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2020

NOTE 4 - LONG-TERM DEBT

The following is a summary of long-term debt at June 30, 2020:

	Balance June 30, 2019	Additions	Deletions	Balance June 30, 2020	Due Within One Year
Direct Borrowings:					
2000 State revolving loan	\$ 423,078	\$ -	\$ (423,078)	\$ -	\$ -
Less: Unamortized discount	(54,057)	-	54,057	-	-
State revolving loan - tunnel project	12,523,509	22,878,779	-	35,402,288	-
Notes payable	-	3,525,272	-	3,525,272	3,525,272
Bonds payable	52,415,000	-	(880,000)	51,535,000	920,000
Plus: Unamortized premium	5,495,850	-	(242,768)	5,253,082	-
Compensated absences	1,295,027	1,480,671	(1,221,718)	1,553,980	870,387
Totals	<u>\$ 72,098,407</u>	<u>\$ 27,884,722</u>	<u>\$ (2,713,507)</u>	<u>\$ 97,269,622</u>	<u>\$ 5,315,659</u>

2000 State Revolving Loan

On December 2, 1998, the District entered into a loan agreement with the State of California, acting by and through the State Water Resources Control Board for the District purchase of and improvements to the Victoria Wastewater Treatment Plant. On December 21, 2000, the District received the first phase of funding in the amount of \$3,650,192. On November 18, 2004, the District received its final payment of \$2,720,860. The loan bears no interest with an annual principal payment of \$423,078 and matured on June 30, 2020.

State Revolving Loan - Tunnel Project

In November 2016, the District entered into an agreement with the State Water Resources Control Board for the construction of the Tunnel Stabilization and Pipeline Replacement project. The District may borrow up to the lesser of \$102,560,000 or the eligible costs of the project. At June 30, 2020, the State Water Resources Control Board had disbursed \$34,644,843 under the loan contract and added \$757,445 of accrued interest to the principal. The loan has an interest rate of 1.7% with a repayment period of 30 years after project completion. The outstanding balance totaled \$35,402,288 as of June 30, 2020. The District is also required to have a reserve of one year's debt service. The District's reserve of \$1,516,254 as of June 30, 2020, included in the sewer system's operating reserves meets this requirement. The annual requirements to service the outstanding balance at June 30, 2020 are as follows:

Year Ending June 30,	Principal	Interest	Total Payment
2021	\$ -	\$ -	\$ -
2022	-	-	-
2023	914,415	601,839	1,516,254
2024	929,960	586,294	1,516,254
2025	945,769	570,485	1,516,254
2026-2030	4,975,555	2,605,715	7,581,270
2031-2035	5,413,103	2,168,167	7,581,270
2036-2040	5,889,129	1,692,141	7,581,270
2041-2045	6,407,016	1,174,254	7,581,270
2046-2050	6,970,446	610,823	7,581,269
2051-2055	2,956,895	75,613	3,032,508
	<u>\$ 35,402,288</u>	<u>\$ 10,085,331</u>	<u>\$ 45,487,619</u>

SOUTH COAST WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2020

NOTE 4 - LONG-TERM DEBT (CONTINUED)

Notes Payable

In July 2019, the District entered into a credit agreement with Opus Bank not to exceed \$25 million outstanding at any one time by the issuance of short-term promissory notes solely for the purpose of funding all or a portion of the costs of the Tunnel Project. The credit agreement contains a pledge of wastewater system revenues to repay the notes and allows the District to borrow funds under the note on a revolving basis. The notes bear interest at 1.98% per annum and mature on December 1, 2020. The credit agreement also requires the District to fix and prescribe rates and charges for the wastewater service provided by the wastewater system to be at least sufficient to yield net revenues during each fiscal year equal to 125% of debt service payable in such fiscal year. At June 30, 2020, notes payable have a remaining outstanding balance of \$3,525,272.

2016A Refunding Revenue Bonds

In October 2016, the District issued \$13,325,000 of Refunding Revenue Bonds, Series 2016A (2016A Bonds). The 2016A Bonds were issued to provide funds (1) to advance refund all of the outstanding South Coast Water District Financing Authority Refunding Revenue Bonds, Series 2010A (2010A Bonds); and (2) to pay costs of issuance of the 2016A Bonds. The 2016A Bonds proceeds were invested in an escrow fund with a trustee to pay interest and principal on the 2010A Bonds until February 1, 2020. The 2010A Bonds were redeemed in full on February 1, 2020.

The reacquisition price exceeded the net carrying amount of the old debt by \$668,860 and is amortized as interest expense over the remaining life of the 2016A Bonds. The remaining balance at June 30, 2020, is \$581,342.

The 2016A Bonds repayments include principal installments due in varying amounts from \$880,000 to \$1,295,000 annually from February 1, 2017 to February 1, 2029 with interest ranging from 2.0% to 5.0%.

Total 2016A Bonds outstanding as of June 30, 2020, net of unamortized premium is as follows:

Principal outstanding at June 30, 2020	\$ 9,855,000
Plus: unamortized premium	1,716,236
Net bonds outstanding at June 30, 2020	<u>11,571,236</u>

The annual requirements to service the outstanding Bonds at June 30, 2020 are as follows:

Year Ending June 30,	Principal	Interest	Total Payment
2021	\$ 920,000	\$ 426,700	\$ 1,346,700
2022	955,000	389,900	1,344,900
2023	995,000	351,700	1,346,700
2024	1,030,000	311,900	1,341,900
2025	1,085,000	260,400	1,345,400
2026-2029	4,870,000	508,950	5,378,950
	<u>\$ 9,855,000</u>	<u>\$ 2,249,550</u>	<u>\$ 12,104,550</u>

SOUTH COAST WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2020

NOTE 4 - LONG-TERM DEBT (CONTINUED)

2019A Revenue Bonds

In February 2019, the South Coast Water District Financing Authority, on behalf of the District, issued \$41,680,000 of Revenue Bonds, Series 2019A (2019A Bonds). The 2019A Bonds were issued to provide funds (1) to finance the acquisition and construction of certain improvements to the District's Water System and Wastewater System; (2) to refund all of the South Coast Water District Financing Authority Revenue Bonds, Series 2010B (2010B Bonds); (3) to pay costs of issuance of the 2019A Bonds. The 2019A Bonds proceeds were invested in an escrow fund with a trustee to pay interest and principal on the 2010B Bonds until February 1, 2020. The 2010B Bonds were redeemed in full on February 1, 2020.

The reacquisition price exceeded the net carrying amount of the old debt by \$1,146,131 and is amortized as interest expense over the remaining life of the 2010B Bonds. The remaining balance at June 30, 2020, is \$1,072,972

The 2019A Bonds repayments include principal installments due in varying amounts from \$1,335,000 to \$3,015,000 annually from February 1, 2030 to February 1, 2049 with interest ranging from 3.5% to 5.0% subject to mandatory sinking fund redemption requirements.

Total 2019A Bonds outstanding as of June 30, 2020, net of unamortized premium, is as follows:

Principal outstanding at June 30, 2020	\$ 41,680,000
Plus: unamortized premium	<u>3,536,846</u>
Net bonds outstanding at June 30, 2020	<u><u>45,216,846</u></u>

The annual requirements to service the outstanding Bonds at June 30, 2020 are as follows:

Year Ending June 30,	Principal	Interest	Total Payment
2021	\$ -	\$ 1,801,375	\$ 1,801,375
2022	-	1,801,375	1,801,375
2023	-	1,801,375	1,801,375
2024	-	1,801,375	1,801,375
2025	-	1,081,375	1,081,375
2026-2030	1,335,000	9,006,875	10,341,875
2031-2035	7,745,000	7,950,875	15,695,875
2036-2040	9,515,000	6,180,125	15,695,125
2041-2045	11,705,000	3,986,500	15,691,500
2046-2049	11,380,000	1,171,450	12,551,450
	<u>\$ 41,680,000</u>	<u>\$ 36,582,700</u>	<u>\$ 78,262,700</u>

SOUTH COAST WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2020

NOTE 5 - PLEDGED REVENUES

The District has pledged its revenues, net of specified operating expenses, to repay \$35,402,288 in state revolving loan, \$3,525,272 in notes payable, \$13.3 million in water refunding revenue bonds issued in 2016 and \$41.7 million in water revenue bonds issued in 2019. The loan, notes and bonds are payable from District net revenues and are payable through 2055. Coverage of net revenues for annual principal and interest payments in future years are expected to approximate that of the current year (see below).

Debt service paid and net revenues for the year ended June 30, 2020 are as follows:

Gross revenues	\$ 46,868,689
Less: excluded revenues	<u>(1,009,255)</u>
Includable revenues	<u>45,859,434</u>
All expenses	44,717,657
Less: excludable expenses	<u>(9,369,515)</u>
Includable expenses	<u>35,348,142</u>
Net revenues	<u>\$ 10,511,292</u>
Debt service	5,573,492
Coverage percentage	189%
Required coverage percentage	125%

NOTE 6 - INVESTMENT IN JOINT VENTURE

The District is a member in the Joint Regional Water Supply System (JRWSS), a joint venture providing potable water to its members. There are eight other members who participate in JRWSS. In a series of restructuring and consolidations, initiated in March 2000, JRWSS was formed to succeed two water districts, Tri-Cities Municipal Water District and the Costal Municipal Water District, with substantially all assets and liabilities of predecessor districts transferred to JRWSS. The District's participation in JRWSS is accounted for as a joint venture with an equity interest and is reflected on the statement of net position as "investment in joint venture" in the amount of \$7,927,333 at June 30, 2020.

Financial information for the operation of JRWSS for the fiscal year ended June 30, 2020, is as follows:

Total assets	<u>\$ 32,704,713</u>
Total liabilities	<u>\$ 3,728,305</u>
Total net position	<u>\$ 28,976,408</u>
Total revenues	\$ 4,214,019
Total expenses	<u>3,782,329</u>
Change in net position	<u>\$ 431,690</u>

Since March 2000, the District has been responsible for the administration and operations of JRWSS. Separate financial statements of JRWSS may be obtained at South Coast Water District, 31592 West Street, Laguna Beach, CA 92651.

SOUTH COAST WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2020

NOTE 7 - DEFINED BENEFIT PENSION PLAN

A. General Information about the Pension Plan

Plan Description

All qualified permanent and probationary employees are eligible to participate in the District's Miscellaneous Employee Pension Plan, a cost-sharing multiple employer defined benefit pension plan administered by CalPERS. Benefit provisions under the Plan are established by State statute and Local Government resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefits provisions, assumptions and membership information that can be found on the CalPERS website.

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 to 62 with statutorily reduced benefits. All members are eligible for non-industrial disability benefits after five years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for the plan are applied as specified by the Public Employees' Retirement Law.

The plan provisions and benefits in effect as of the measurement date ended June 30, 2019, are summarized as follows:

	Miscellaneous	
	Prior to January 1, 2013	On or After January 1, 2013
Hire Date		
Benefit Formula	2%@55	2%@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	1.426% to 2.0%	1.0% to 2.5%
Required Employee Contribution Rates	7%	6.25%
Required Employer Contribution Rates:		
Normal Cost Rate	9.409%	6.842%
Payment of Unfunded Liability	\$ 287,599	\$ 5,135

SOUTH COAST WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2020

NOTE 7 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

A. General Information about the Pension Plan (Continued)

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. 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. District contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contributions requirements are classified as plan member contributions.

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pension

As of June 30, 2020, the District reported a net pension liability of \$8,303,488 for its proportionate share of the net pension liability of the CalPERS administered miscellaneous plan.

The District's net pension liability for the plan is measured as the proportionate share of the net pension liability of the CalPERS administered miscellaneous plan. The net pension liability of the plan is measured as of June 30, 2019, and the total pension liability of the plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018, rolled forward to June 30, 2019, using standard update procedures. The District's proportionate share of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

The District's proportionate share of the net pension liability for the plan as of the measurement dates ended June 30, 2018 and 2019 were as follows:

	<u>Miscellaneous</u>
Proportion - June 30, 2018	0.18471%
Proportion - June 30, 2019	0.20735%
Change - Increase (Decrease)	0.02264%

SOUTH COAST WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2020

NOTE 7 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pension (Continued)

For the year ended June 30, 2020, the District recognized pension expense of \$2,726,891. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 1,273,194	\$ -
Differences between actual and expected experience	576,712	(44,684)
Change in assumptions	395,949	(140,361)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	231,461	(359,546)
Net differences between projected and actual earnings on plan investments	-	(145,171)
Total	<u>\$ 2,477,316</u>	<u>\$ (689,762)</u>

\$1,273,194 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2021.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as a reduction to pension expense as follows:

Year Ending June 30,	Amount
2021	\$ 530,015
2022	(47,075)
2023	2,087
2024	29,333
2025	-
Thereafter	-

SOUTH COAST WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2020

NOTE 7 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pension (Continued)

Actuarial Assumptions

The total pension liability for the June 30, 2019 measurement period was determined by an actuarial valuation as of June 30, 2018, with update procedures used to roll forward the total pension liability to June 30, 2019. The total pension liability was based on the following assumptions:

	<u>Miscellaneous</u>
Valuation Date	June 30, 2018
Measurement Date	June 30, 2019
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Salary Increases	(1)
Mortality	(2)
Post Retirement Benefit Increase	(3)

(1) Varies by entry age and service.

(2) The mortality table used was developed based on CalPERS-specific data. The probabilities of mortality are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015. Pre-retirement and Post-retirement mortality rates includes 15 years of projected mortality improvement using 90% of Scale MP-2016 published by the Society of Actuaries. For more details on this table, please refer to the CalPERS Experience Study and Review of Actuarial Assumptions report from December 2017 that can be found on the CalPERS website.

(3) The lesser of contract COLA or 2.50% until Purchasing Power Protection Allowance Floor on purchasing power applies, 2.50% thereafter.

SOUTH COAST WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2020

NOTE 7 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pension (Continued)

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

The expected real rates of return by asset class are as follows:

Asset Class (a)	Assumed Asset Allocation	Real Return Years 1 - 10 (b)	Real Return Years 11+ (c)
Global Equity	50.00%	4.80%	5.98%
Fixed Income	28.00%	1.00%	2.62%
Inflation Assets	0.00%	0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%
Real Assets	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	-0.92%
Total	100.00%		

- (a) In the CalPERS CAFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities
- (b) An expected inflation of 2.0% used for this period
- (c) An expected inflation of 2.92% used for this period

SOUTH COAST WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2020

NOTE 7 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pension (Continued)

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 contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. 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.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension liability for the plan, calculated using the discount rate for the plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>Miscellaneous</u>
1% Decrease	6.15%
Net Pension Liability	\$ 16,355,858
Current Discount Rate	7.15%
Net Pension Liability	\$ 8,303,488
1% Increase	8.15%
Net Pension Liability	\$ 1,656,826

Pension Plans Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

C. Payable to the Pension Plan

At June 30, 2020, the District had no outstanding amount of contributions to the pension plans due for the year ended June 30, 2020.

SOUTH COAST WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2020

NOTE 8 - OTHER POST-EMPLOYMENT BENEFITS (OPEB)

A. General Information about the OPEB Plan

Plan Description

The District provides an agent multiple-employer defined post-employment health care plan that provides post-employment health care benefits to retirees with requirements depending on the retiree’s initial employment date. The plan is managed through the California Employers’ Retiree Benefit Trust (CERBT).

For employees of record as of May 18, 1988, five years of full-time continuous employment with the District is required. The employee must be at least 50 years of age and have participated in the CalPERS plan for at least five years as well as receiving service retirement benefits pursuant to the terms and conditions of the District CalPERS plan. The District provides medical insurance for the retired employee and employee’s eligible spouse from the date of retirement until both become eligible to receive Medicare benefits. The obligation of the District is to provide the plan of insurance, and the specific terms and conditions may vary from time to time. Thereafter, the District pays the full premium cost of Medicare supplemental coverage. Certain retirees, who were participants in legacy benefit plans, also receive dental coverage (retiree only) for life.

For employees commencing employment subsequent to May 18, 1988, 20 years of full-time continuous employment is required. The employee must be at least 50 years of age and have participated in CalPERS for at least five years as well as receiving service retirement benefits pursuant to CalPERS plan requirements. The District provides medical insurance for the retired employee from the date of retirement until the retired employee is eligible to receive Medicare benefits. The obligation of the District is to provide the plan of insurance, and the specific terms and conditions may vary from time to time. Thereafter, Medicare supplement insurance is provided at the District’s expense. A separate financial report is not prepared for the plan.

Employees Covered

As of measurement date June 30, 2019, the following numbers of participants were covered by the benefit terms under the plan:

Inactive employees or beneficiaries currently receiving benefits	36
Active employees	<u>82</u>
Total	<u><u>118</u></u>

Contributions

The contribution requirements of the District are established and may be amended annually by the Board of Directors. Currently, contributions are not required from plan members. The annual contribution is based on the actuarially determined contributions. For the measurement date ended June 30, 2019, the District contributed \$605,000 to the trust, paid \$303,626 for retiree premiums, received \$320,204 of reimbursements from the trust for benefit payments and the estimated implied subsidy was \$49,000, resulting in net contributions of \$637,422.

SOUTH COAST WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2020

NOTE 8 - OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

B. Total OPEB Liability

The District's net OPEB liability was measured as of June 30, 2019 and was determined by an actuarial valuation as of June 30, 2019. A summary of the principal assumptions and methods used to determine the total OPEB liability is shown below.

Actuarial Assumptions

The total OPEB liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless other specified:

Valuation Date	June 30, 2019
Measurement Date	June 30, 2019
Actuarial Cost Method	Entry age normal, level percentage of payroll
Actuarial Assumptions:	
Discount Rate	6.75% at June 30, 2019 and 2018
Long-Term Expected	
Rate of Return on Investments	6.75%, net of investment expenses
Inflation	2.75%
Projected Salary Increase	Aggregate - 3% annually
	Merit increase - CalPERS 1997-2015 experience study
Medical Trend	Non-Medicare - 7.25% for 2021, decreasing to 4.0% in 2076
	Medicare - 6.3% for 2021, decreasing to 4.0% in 2076
Mortality, Disability, Termination, Retirement	CalPERS 1997-2015 Experience Study
Mortality Improvement	Pose-retirement mortality projected fully generational with Scale MP-2019

The actuarial assumptions used in the June 30, 2019, valuation were based on a standard set of assumptions the actuary has used for similar valuations, modified as appropriate for the District.

SOUTH COAST WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2020

NOTE 8 - OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

B. Total OPEB Liability (Continued)

Long-term Expected Rate of Return

The long-term expected rate of return was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan's target asset allocation as of June 30, 2019 are summarized in the following table:

Asset Class	Target Allocation CERBT - Strategy 1	Long-Term Expected Real Rate of Return
CERBT		
Global Equity	59.00%	4.82%
Fixed Income	25.00%	1.47%
TIPS	5.00%	1.29%
Commodities	3.00%	0.84%
REITs	8.00%	3.76%
Total	100.00%	

Discount Rate

The discount rate used to measure the total OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that the District's contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on the OPEB plan investments was applied to all periods of the projected benefit payments to determine the total OPEB liability.

SOUTH COAST WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2020

NOTE 8 - OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

C. Changes in the Net OPEB Liability

The changes in the net OPEB liability are as follows:

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability (Asset)
Balance at June 30, 2018 (Measurement Date)	\$ 7,835,222	\$ 5,743,717	\$ 2,091,505
Changes in the Year:			
Service cost	252,517	-	252,517
Interest on the total OPEB liability	534,021	-	534,021
Changes in assumptions	(56,574)	-	(56,574)
Differences between actual and expected experience	(645,038)	-	(645,038)
Contribution - employer	-	637,422	(637,422)
Net investment income	-	375,599	(375,599)
Benefit payments	(352,626)	(352,626)	-
Administrative expenses	-	(1,247)	1,247
Net Changes	<u>(267,700)</u>	<u>659,148</u>	<u>(926,848)</u>
Balance at June 30, 2019 (Measurement Date)	<u>\$ 7,567,522</u>	<u>\$ 6,402,865</u>	<u>\$ 1,164,657</u>

Change of Assumptions

From measurement date June 30, 2018, to June 30, 2019, the mortality improvement scale was updated to Scale MP-2019 from MP-2017 and the healthcare trend changed from 7.50% non-medicare and 6.50% medicare to 7.25% non-medicare and 6.30% medicare.

Change of Benefit Terms

There were no changes of benefit terms.

Subsequent Events

There were no subsequent events that would materially affect the results presented in this disclosure.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate:

	1% Decrease (5.75%)	Discount Rate (6.75%)	1% Increase (7.75%)
Net OPEB Liability	\$ 2,098,735	\$ 1,164,657	\$ 382,438

SOUTH COAST WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2020

NOTE 8 - OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

C. Changes in the Net OPEB Liability (Continued)

Sensitivity of the Net OPEB Liability to Changes in the Health-Care Cost Trend Rates

The following presents the net OPEB liability of the District as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current healthcare cost trend rates:

	1% Decrease (6.25%/5.3%) <u>decreasing to 3.0%</u>	Current Healthcare Cost Trend Rates (7.25%/6.3%) <u>decreasing to 4.0%</u>	1% Increase (8.25%/7.3%) <u>decreasing to 5.0%</u>
Net OPEB Liability	\$ 285,411	\$ 1,164,657	\$ 2,240,152

D. OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended June 30, 2020, the District recognized OPEB expense of \$266,120. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to the OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	\$ 392,500	\$ -
Differences between actual and expected experience	-	(574,925)
Change in assumptions	-	(50,425)
Differences between projected and actual earnings	-	(110,972)
Total	<u>\$ 392,500</u>	<u>\$ (736,322)</u>

An amount of \$392,500 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

Year Ending June 30,	Amount
2021	\$ (128,697)
2022	(128,697)
2023	(85,837)
2024	(72,789)
2025	(76,262)
Thereafter	(244,040)

E. Payable to the OPEB Plan

At June 30, 2020, the District had no outstanding amount of contributions to the OPEB plan required for the year ended June 30, 2020.

SOUTH COAST WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2020

NOTE 9 - DEFERRED COMPENSATION

The District offers a 457 deferred compensation plan to employees. Nationwide Retirement Solutions, Inc. acts as the third party administrative services provider for the defined contribution plan. Employees can contribute up to the IRS determined limits to the plan. The District will match contributions up a certain amount as determined by the District's Board of Directors. Distributions under the plan may generally not be made prior to the earlier of the employees' attainment of age 70½ or the employees' termination of employment. Total District contributions to the plan during fiscal year 2019-2020 were \$107,404.

NOTE 10 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft, damage to and destructions of assets, errors and omissions, injuries to employees and natural disasters. In an effort to manage its risk exposure, the District is a member of the Association of California Water Agencies Joint Powers Insurance Authority (Insurance Authority). The Insurance Authority is a risk-pooling self-insurance authority, created under provisions of California Government Code Section 6500 et seq. The purpose of the Insurance Authority is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage. At June 30, 2020, the District participated in the self-insurance programs of the Insurance Authority as follows:

Property Loss - The Insurance Authority has pooled self-insurance up to \$100,000 per occurrence and has purchased excess insurance coverage up to \$500,000,000 (total insurable value of \$24,003,666). The District has the following deductibles: \$1,000 for real and personal property, mobile equipment, and licensed vehicles and trailers; \$25,000 for boiler and machinery or \$50,000 for turbine or power generation equipment; 5% of total insurable value for earthquake; and \$100,000 for flood.

General and Auto Liability - The Insurance Authority has pooled self-insurance up to \$5,000,000 per occurrence and has purchased excess insurance coverage up to \$55,000,000. The District has no deductible.

Public Official's Errors and Omissions - The Insurance Authority has pooled self-insurance up to \$5,000,000 per occurrence and has purchased excess insurance coverage up to \$55,000,000. The District has no deductible.

Underground Storage Tank Pollution Liability - The Insurance Authority has pooled self-insurance up to \$500,000 per occurrence and has purchased excess insurance coverage up to \$3,000,000. The District has a \$10,000 deductible.

Crime - The Insurance Authority has pooled self-insurance up to \$100,000 per occurrence. The District has a \$1,000 deductible.

Workers' Compensation - The Insurance Authority has pooled self-insurance up to \$2,000,000 and excess insurance coverage has been purchased up to the statutory limit with a \$4,000,000 program aggregate limit for Employer's Liability. The District has no deductible.

Dam Failure Liability - The Insurance Authority has purchased insurance coverage up to \$5,000,000 per occurrence with a \$50,000 retention.

Cyber Liability - The Insurance Authority has purchased insurance coverage up to \$3,000,000 per occurrence and up to \$5,000,000 in aggregate. The retention is based on annual revenue.

The District pays annual premiums for coverage. There have been no settlements that exceeded the District's insurance coverage and no reduction in the District insurance coverage for the past three years.

SOUTH COAST WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2020

NOTE 11 - CONTINGENCIES AND COMMITMENTS

Lawsuits - The District is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the District's management that resolution of these matters will not have a material adverse effect on the financial condition of the District.

Contract Commitments - The District had \$42,982,726 outstanding contract commitments at June 30, 2020. The three largest contracts outstanding include:

Project Description	Contract Amount	Balance to Complete
Tunnel Stabilization and Sewer Pipeline Replacement	\$ 42,535,800	\$ 32,110,547
Ocean Desalinization Development Project Manager	3,292,619	2,301,342
Lift Station No. 2 Replacement Project	1,503,302	1,049,786

NOTE 12 - OPERATING LEASES

As of June 30, 2020, the District has operating leases with various companies to rent space on District owned property. The operating leases are on a month-to-month basis with the District receiving monthly lease payments totaling \$100,298. The capital assets included in these operating leases consist of a portion of the District's general plant that cannot be readily determined.

NOTE 14 - SUBSEQUENT EVENTS

In October 2020, the District (through the South Coast Water District Financing Authority) issued \$32,845,000 of Revenue Bonds, Series 2020A (2020A Bonds) to finance the acquisition and construction of certain improvements to the District's water system and wastewater system. 2020A Bonds are payable from pledged net revenues; principal is due in amounts ranging from \$545,000 to \$1,145,000 from 2021 through 2040 with interest rates varying from 3% to 5%, subject to redemption prior to maturity date as whole or in part on any date on or after February 1, 2029, at par plus accrued interest to the date fixed for redemption, without premium.

REQUIRED SUPPLEMENTARY INFORMATION

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SOUTH COAST WATER DISTRICT

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Last Ten Fiscal Years*

Fiscal year ended	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Measurement period	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Plan's proportion of the net pension liability	0.20735%	0.18471%	0.19048%	0.31882%	0.29779%	0.12543%
Plan's proportionate share of the net pension liability	\$ 8,303,488	\$ 6,961,317	\$ 7,508,964	\$ 11,075,496	\$ 8,170,473	\$ 7,805,073
Plan's covered payroll	\$ 8,817,816	\$ 8,547,122	\$ 8,688,674	\$ 7,022,391	\$ 6,941,886	\$ 7,086,467
Plan's proportionate share of the net pension liability as percentage of its covered payroll	94.17%	81.45%	86.42%	157.72%	117.70%	110.14%
Plan's proportionate share of the fiduciary net position as a percentage of the Plan's total pension liability	75.26%	75.26%	73.31%	74.06%	78.40%	83.03%
Plan's proportionate share of aggregate employer contributions	\$ 2,136,610	\$ 1,895,122	\$ 1,744,136	\$ 1,422,678	\$ 1,340,851	\$ 1,032,582

Notes to Schedule:

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

From fiscal year June 30, 2015 to June 30, 2016:

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

From fiscal year June 30, 2016 to June 30, 2017:

There were no changes in assumptions.

From fiscal year June 30, 2017 to June 30, 2018:

The discount rate was reduced from 7.65% to 7.15%

From fiscal year June 30, 2018 to June 30, 2019:

There were no significant changes in assumptions.

From fiscal year June 30, 2019 to June 30, 2020:

There were no changes in assumptions.

* Fiscal year 2015 was the 1st year of implementation, therefore only six years are shown.

SOUTH COAST WATER DISTRICT

SCHEDULE OF CONTRIBUTIONS - PENSION

Last Ten Fiscal Years*

Fiscal year ended	<u>June 30, 2019</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution (actuarially determined)	\$ 1,273,193	\$ 1,053,692	\$ 1,436,610	\$ 1,075,499	\$ 934,063	\$ 937,929
Contributions in relation to the actuarially determined contributions	<u>(1,273,193)</u>	<u>(1,053,692)</u>	<u>(1,436,610)</u>	<u>(6,075,499)</u>	<u>(934,063)</u>	<u>(937,929)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (5,000,000)</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 9,095,601	\$ 8,817,816	\$ 8,547,122	\$ 8,688,674	\$ 7,022,391	\$ 6,941,886
Contributions as a percentage of covered payroll	14.00%	11.95%	16.81%	69.92%	13.30%	13.51%

Notes to Schedule:

Valuation Date	6/30/2017	6/30/2016	6/30/2015	6/30/2014	6/30/2013	6/30/2012
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Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age	Entry age	Entry age	Entry age	Entry age	Entry age
Amortization method	(1)	(1)	(1)	(1)	(1)	(1)
Asset valuation method	Fair Value	Fair Value	Fair Value	Fair Value	Fair Value	15 Year Smoothed Market Method
Inflation	2.625%	2.75%	2.75%	2.75%	2.75%	2.75%
Salary increases	(2)	(2)	(2)	(2)	(2)	(2)
Investment rate of return	7.25% (3)	7.375% (3)	7.50% (3)	7.50% (3)	7.50% (3)	7.50% (3)
Retirement age	(4)	(4)	(4)	(4)	(4)	(4)
Mortality	(5)	(5)	(5)	(5)	(5)	(5)

- (1) Level percentage of payroll, closed
- (2) Depending on age, service, and type of employment
- (3) Net of pension plan investment expense, including inflation
- (4) 2% @ 55 and 2% @ 62
- (5) Mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board.

* Fiscal year 2015 was the 1st year of implementation, therefore only six years are shown.

SOUTH COAST WATER DISTRICT

SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS

Last Ten Fiscal Years*

Fiscal year ended	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Measurement period	June 30, 2019	June 30, 2018	June 30, 2017
Total OPEB Liability:			
Service cost	\$ 252,517	\$ 245,162	\$ 238,021
Interest on total OPEB liability	534,021	506,612	479,880
Changes of assumptions	(56,574)	-	-
Differences between expected and actual experience	(645,038)	-	-
Benefit payments	<u>(352,626)</u>	<u>(353,515)</u>	<u>(304,511)</u>
Net Change in Total OPEB Liability	(267,700)	398,259	413,390
Total OPEB Liability - Beginning of Year	<u>7,835,222</u>	<u>7,436,963</u>	<u>7,023,573</u>
Total OPEB Liability - End of Year (a)	<u>7,567,522</u>	<u>7,835,222</u>	<u>7,436,963</u>
Plan Fiduciary Net Position:			
Contributions - employer	637,422	665,097	596,000
Net investment income	375,599	408,823	509,829
Benefit payments	(352,626)	(353,515)	(304,511)
Administrative expenses	<u>(1,247)</u>	<u>(9,388)</u>	<u>(2,461)</u>
Net Change in Plan Fiduciary Net Position	659,148	711,017	798,857
Plan Fiduciary Net Position - Beginning of Year	<u>5,743,717</u>	<u>5,032,700</u>	<u>4,233,843</u>
Plan Fiduciary Net Position - End of Year (b)	<u>6,402,865</u>	<u>5,743,717</u>	<u>5,032,700</u>
Net OPEB Liability - Ending (a)-(b)	<u>\$ 1,164,657</u>	<u>\$ 2,091,505</u>	<u>\$ 2,404,263</u>
Plan fiduciary net position as a percentage of the total OPEB liability	84.61%	73.31%	67.67%
Covered - employee payroll	\$ 9,899,581	\$ 9,811,343	\$ 8,688,674
Net OPEB liability as percentage of covered - employee payroll	11.76%	21.32%	27.67%

Notes to Schedule:

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

From fiscal year June 30, 2018 to June 30, 2019:

There were no changes in assumptions

From fiscal year June 30, 2019 to June 30, 2020:

The mortality improvement scale was updated to Scale MP-2019 from MP-2017. The healthcare trend changed from 7.50% non-medicare and 6.50% medicare to 7.25% non-medicare and 6.30% medicare.

* Fiscal year 2018 was the first year of implementation; therefore, only three years are shown.

SOUTH COAST WATER DISTRICT
SCHEDULE OF CONTRIBUTIONS - OPEB

Last Ten Fiscal Years*

Fiscal year ended	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Actuarially determined contribution	\$ 623,000	\$ 605,000	\$ 573,000
Contributions in relation to the actuarially determined contributions	<u>(392,500)</u>	<u>(637,422)</u>	<u>(665,097)</u>
Contribution deficiency (excess)	<u>\$ 230,500</u>	<u>\$ (32,422)</u>	<u>\$ (92,097)</u>
Covered - employee payroll	\$ 9,023,421	\$ 9,899,581	\$ 9,811,343
Contributions as a percentage of covered - employee payroll	4.35%	6.44%	6.78%

Notes to Schedule:

Valuation Date	6/30/2017	6/30/2017	6/30/2015
Methods and Assumptions Used to Determine Contribution Rates:			
Actuarial cost method	Entry age	Entry age	Entry age
Amortization method	(1)	(1)	(1)
Amortization period	7-year average fixed	8-year average fixed	10-year average fixed
Asset valuation method	(2)	(2)	(2)
Discount rate	6.75%	6.75%	7.25%
Inflation	2.75%	2.75%	3.00%
Medical Trend	(4)	(4)	(3)
Mortality	(6)	(6)	(5)

- (1) Level percentage of payroll
- (2) Investment gain and losses spread over 5-year rolling period
- (3) Non-Medicare - 7.0% for 2017, decreasing to 5.0% in 2021 and later.
Medicare - 7.2% for 2017, decreasing to 5.0% in 2021 and later.
- (4) Non-Medicare - 7.5% for 2019, decreasing to 4.0% in 2076 and later.
Medicare - 6.5% for 2019, decreasing to 4.0% in 2076 and later.
- (5) CalPERS 1997-2011 experience study
- (6) CalPERS 1997-2015 experience study

* Fiscal year 2018 was the first year of implementation; therefore, only three years are shown.

SUPPLEMENTARY INFORMATION

SOUTH COAST WATER DISTRICT
Combining Schedule of Net Position

June 30, 2020

	Water	Sewer	Total
ASSETS			
Current assets:			
Cash and investments	\$ 12,061,498	\$ 36,070,092	\$ 48,131,590
Utility accounts receivable	908,831	939,371	1,848,202
Property taxes receivable	190,683	222,253	412,936
Accrued interest receivable	46,836	129,350	176,186
Other receivables	325,716	341,513	667,229
Prepaid expenses	137,078	135,914	272,992
Materials and supplies inventory	7,621	-	7,621
Cash and investments restricted by debt agreements	4,819,866	10,242,130	15,061,996
Total current assets	18,498,129	48,080,623	66,578,752
Noncurrent assets:			
Capital assets:			
Not being depreciated	4,432,202	69,989,324	74,421,526
Being depreciated (net of accumulated depreciation)	67,797,545	68,373,300	136,170,845
Net capital assets	72,229,747	138,362,624	210,592,371
Other assets:			
Investment in joint venture	7,927,333	-	7,927,333
Total other assets	7,927,333	-	7,927,333
Total noncurrent assets	80,157,080	138,362,624	218,519,704
Total assets	98,655,209	186,443,247	285,098,456
DEFERRED OUTFLOWS OF RESOURCES			
Deferred refunding charges	827,157	827,157	1,654,314
Pension contributions subsequent to measurement date	636,597	636,597	1,273,194
Pension related	602,061	602,061	1,204,122
OPEB contributions subsequent to measurement date	196,250	196,250	392,500
Total deferred outflows of resources	2,262,065	2,262,065	4,524,130

SOUTH COAST WATER DISTRICT
Combining Schedule of Net Position
(Continued)

June 30, 2020

	Water	Sewer	Total
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 3,344,100	\$ 3,562,751	\$ 6,906,851
Accrued salaries and benefits	318,042	241,923	559,965
Advances from developers	44,425	-	44,425
Customer deposits	181,691	46,761	228,452
Accrued interest payable	402,933	536,304	939,237
Unearned revenue	25,606	-	25,606
Current portion of loans payable, net	-	3,525,272	3,525,272
Current portion of bonds payable, net	460,000	460,000	920,000
Current portion of compensated absences	546,800	323,587	870,387
Total current liabilities	5,323,597	8,696,598	14,020,195
Noncurrent liabilities:			
Loans payable, net	-	35,402,288	35,402,288
Bonds payable, net	24,407,127	31,460,955	55,868,082
Compensated absences	446,571	237,022	683,593
Net pension liability	4,151,744	4,151,744	8,303,488
Net OPEB liability	582,329	582,328	1,164,657
Total noncurrent liabilities	29,587,771	71,834,337	101,422,108
Total liabilities	34,911,368	80,530,935	115,442,303
DEFERRED INFLOWS OF RESOURCES			
Pension related	344,881	344,881	689,762
OPEB related	368,161	368,161	736,322
Total deferred inflows of resources	713,042	713,042	1,426,084
NET POSITION			
Net investment in capital assets	53,362,143	74,227,767	127,589,910
Restricted for debt service	-	1,516,254	1,516,254
Unrestricted	11,930,721	31,717,314	43,648,035
Total net position	\$ 65,292,864	\$ 107,461,335	\$ 172,754,199

SOUTH COAST WATER DISTRICT
Combining Schedule of Revenues, Expenses, and Changes in Net Position

For the Year Ended June 30, 2020

	Water	Sewer	Total
Operating revenues:			
Water sales	\$ 18,482,268	\$ -	\$ 18,482,268
Sewer service charges	-	15,202,153	15,202,153
Recycled water	1,855,007	-	1,855,007
Recreation facilities	244,999	-	244,999
Total operating revenues	<u>20,582,274</u>	<u>15,202,153</u>	<u>35,784,427</u>
Operating expenses:			
Source of supply (purchased water)	5,549,902	-	5,549,902
Groundwater recovery facility	1,330,142	-	1,330,142
Recycled water	1,015,881	-	1,015,881
Pumping expense	420,858	749,136	1,169,994
Sewer treatment plant	-	4,551,238	4,551,238
Transmission and distribution	3,217,654	2,214,213	5,431,867
Operations support	1,816,537	796,332	2,612,869
Recreation facilities	277,255	-	277,255
Engineering and consulting	1,626,337	533,278	2,159,615
General and administrative	6,753,656	4,223,634	10,977,290
Depreciation	3,994,185	2,588,966	6,583,151
Total operating expenses	<u>26,002,407</u>	<u>15,656,797</u>	<u>41,659,204</u>
Income (Loss) from operations	<u>(5,420,133)</u>	<u>(454,644)</u>	<u>(5,874,777)</u>
Non-operating revenues (expenses):			
Property taxes – general and bond levy	2,922,633	3,852,139	6,774,772
Investment income	420,443	1,135,830	1,556,273
Other revenues	288,589	680,732	969,321
Rental income	774,641	-	774,641
Interest expense	(964,002)	(1,822,362)	(2,786,364)
Gain (loss) on disposal of capital assets	(91,270)	(105,171)	(196,441)
Share of joint venture income (expenses)	(73,606)	-	(73,606)
Other expenses	(2,042)	-	(2,042)
Total non-operating revenues (expenses)	<u>3,275,386</u>	<u>3,741,168</u>	<u>7,016,554</u>
Income before transfers and capital contributions	<u>(2,144,747)</u>	<u>3,286,524</u>	<u>1,141,777</u>
Transfers in	3,321	1,584,392	1,587,713
Transfers out	(1,584,392)	(3,321)	(1,587,713)
Capital contributions:			
Contributed assets	276,883	156,153	433,036
Connection fees	391,308	184,911	576,219
Change in net position	<u>(3,057,627)</u>	<u>5,208,659</u>	<u>2,151,032</u>
Net position at beginning of the year	<u>68,350,491</u>	<u>102,252,676</u>	<u>170,603,167</u>
Net position at end of the year	<u>\$ 65,292,864</u>	<u>\$ 107,461,335</u>	<u>\$ 172,754,199</u>

SOUTH COAST WATER DISTRICT
Combining Schedule of Cash Flows

For the Year Ended June 30, 2020

	Water	Sewer	Total
Cash flows from operating activities:			
Cash received from customers	\$ 21,473,951	\$ 14,763,135	\$ 36,237,086
Cash payments to suppliers for goods and services	(15,755,338)	(10,808,198)	(26,563,536)
Cash payments to employees for services	(5,103,006)	(2,676,246)	(7,779,252)
Rental income received	774,641	-	774,641
Other expenses	(2,042)	-	(2,042)
Other operating revenues	288,589	680,732	969,321
Net cash provided by operating activities	<u>1,676,795</u>	<u>1,959,423</u>	<u>3,636,218</u>
Cash flows from noncapital financing activities:			
Proceeds from property taxes	3,302,713	4,073,061	7,375,774
Cash transfers in (out) between funds	(1,581,071)	1,581,071	-
Net cash provided by noncapital financing activities	<u>1,721,642</u>	<u>5,654,132</u>	<u>7,375,774</u>
Cash flows from capital and related financing activities:			
Acquisitions and construction of capital assets	(3,062,721)	(24,787,087)	(27,849,808)
Proceeds from loan		25,905,374	25,905,374
Repayment of loans and bonds	(440,000)	(863,078)	(1,303,078)
Interest paid	(950,918)	(1,232,488)	(2,183,406)
Water and sewer connection fees received	391,308	184,911	576,219
Receipts (return) of customer deposits and developer advances	(148,232)	(30,071)	(178,303)
Net cash used for capital and related financing activities	<u>(4,210,563)</u>	<u>(822,439)</u>	<u>(5,033,002)</u>
Cash flows from investing activities:			
Investment redemptions and sales	3,193,925	5,103,388	8,297,313
Investment purchases	(1,514,785)	(4,155,650)	(5,670,435)
Interest income received	227,080	840,211	1,067,291
Payments to joint venture	(49,792)	-	(49,792)
Net cash provided by investing activities	<u>1,856,428</u>	<u>1,787,949</u>	<u>3,644,377</u>
Total increase in cash and cash equivalents	1,044,302	8,579,065	9,623,367
Cash and cash equivalents at beginning of year	<u>10,788,695</u>	<u>23,883,499</u>	<u>34,672,194</u>
Cash and cash equivalents at end of year	<u>\$ 11,832,997</u>	<u>\$ 32,462,564</u>	<u>\$ 44,295,561</u>

SOUTH COAST WATER DISTRICT
Combining Schedule of Cash Flows
(Continued)

For the Year Ended June 30, 2020

	Water	Sewer	Total
Reconciliation of loss from operations to net cash provided by operating activities:			
Loss from operations	\$ (5,420,133)	\$ (454,644)	\$ (5,874,777)
Adjustments to reconcile loss from operations to net cash provided by operating activities:			
Operating activities:			
Depreciation	3,994,185	2,588,966	6,583,151
Rental income received	774,641	-	774,641
Other revenues (expenses)	286,547	680,732	967,279
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:			
Decrease (increase) in utility accounts receivable	517,966	(418,467)	99,499
Decrease (increase) in other receivables	325,611	(67,312)	258,299
Decrease (increase) in prepaid expenses	4,413	(7,085)	(2,672)
Decrease (increase) in inventory	244	-	244
Decrease (increase) in deferred outflows of resources	138,233	138,234	276,467
Increase (decrease) in accounts payable	15,757	(1,030,107)	(1,014,350)
Increase (decrease) in accrued salaries and benefits	119,947	43,827	163,774
Increase (decrease) in customer deposits	22,494	46,761	69,255
Increase (decrease) in unearned revenue	25,606	-	25,606
Increase (decrease) in compensated absences	345,858	(86,905)	258,953
Increase (decrease) in net pension liability	671,086	671,085	1,342,171
Increase (decrease) in net OPEB liability	(463,423)	(463,424)	(926,847)
Increase (decrease) in deferred inflows of resources	317,763	317,763	635,526
Net cash provided by operating activities	<u>\$ 1,676,795</u>	<u>\$ 1,959,424</u>	<u>\$ 3,636,219</u>
Reconciliation of cash and cash equivalents to statement of net position:			
Cash and investments	\$ 12,061,498	\$ 36,070,092	48,131,590
Cash and investments restricted by debt agreements	4,819,866	10,242,130	15,061,996
Less investments with maturities greater than 3 months	(5,048,367)	(13,849,658)	(18,898,025)
Cash and cash equivalents	<u>\$ 11,832,997</u>	<u>\$ 32,462,564</u>	<u>\$ 44,295,561</u>
Supplemental disclosure of noncash capital and related financing and investing activities:			
Share of joint venture revenues (expenses)	<u>\$ (73,606)</u>	<u>\$ -</u>	<u>\$ (73,606)</u>
Contributed assets from developers	<u>\$ 276,883</u>	<u>\$ 156,153</u>	<u>\$ 433,036</u>
Gain (loss) on disposal of capital assets	<u>\$ (91,270)</u>	<u>\$ (105,171)</u>	<u>\$ (196,441)</u>

STATISTICAL SECTION
(UNAUDITED)

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SOUTH COAST WATER DISTRICT
Description of Statistical Section Contents
June 30, 2020

This part of the District’s comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements and the note disclosures say about the government’s overall financial health.

Contents:	<u>Pages</u>
<u>Financial Trends</u> - these schedules contain trend information to help the reader understand how the District’s financial performance and well-being have changed over time.	68-71
<u>Revenue Capacity</u> - these schedules contain information to help the reader assess the District’s most significant revenue source from water and sewer commodity and fixed charges.	72-80
<u>Debt Capacity</u> - 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.	81-88
<u>Demographic and Economic Information</u> - these schedules offer demographic and economic indicators to help the reader understand the environment within which the District’s financial activities take place.	89-90
<u>Operating Information</u> - these schedules contain service and infrastructure data to help the reader understand how the information in the District’s financial report relates to the services the District provides and the activities it performs.	91-100

**South Coast Water District
Net Position
Last Ten Fiscal Years**

Net Position:	Fiscal Year			
	2020	2019	2018	2017
Assets :				
Current Assets	\$ 66,578,752	\$ 60,049,653	\$ 54,344,998	\$ 50,040,724
Noncurrent Assets:				
Restricted Assets	-	-	-	-
Net Capital Assets	210,592,371	189,089,119	165,166,397	155,831,742
Other Assets	7,927,333	7,951,147	8,219,287	8,630,100
Total Assets	<u>285,098,456</u>	<u>257,089,919</u>	<u>227,730,682</u>	<u>214,502,566</u>
Deferred Outflows of Resources:				
Deferred Refunding Charges	1,654,314	1,776,601	716,800	784,529
Pension Contributions Subsequent to Measurement Date	1,273,194	1,053,692	1,436,610	6,075,499
Pension Related	1,204,122	1,455,169	2,760,767	1,675,168
Other Post-Employment Benefits Contributions Subsequent to Measurement Date	392,500	637,422	617,000	-
Total Deferred Outflows of Resource	<u>4,524,130</u>	<u>4,922,884</u>	<u>5,531,177</u>	<u>8,535,196</u>
Liabilities:				
Current Liabilities	14,020,195	11,465,539	8,026,333	7,811,739
Noncurrent Liabilities	101,422,108	79,153,539	53,272,612	44,726,428
Total Liabilities	<u>115,442,303</u>	<u>90,619,078</u>	<u>61,298,945</u>	<u>52,538,167</u>
Deferred Inflows of Resources:				
Deferred Refunding Charges	-	-	-	-
Pension Related	689,762	609,782	1,368,335	1,355,999
Other Post-Employment Benefits Related	736,322	180,776	171,432	-
Total Deferred Inflows of Resources	<u>1,426,084</u>	<u>790,558</u>	<u>1,539,767</u>	<u>1,355,999</u>
Net Position:				
Net Investment in Capital Assets	127,589,910	134,820,840	121,807,991	122,393,683
Restricted for Debt Service/Covenants	1,516,254	563,373	457	573,681
Unrestricted	43,648,035	35,218,954	48,614,699	46,176,232
Total Net Position	<u>\$ 172,754,199</u>	<u>\$ 170,603,167</u>	<u>\$ 170,423,147</u>	<u>\$ 169,143,596</u>

NOTES:

N/A - information not available.

Source: District Audited Financial Statements

	Fiscal Year				
2016	2015	2014	2013	2012	2011
\$ 63,046,515	\$ 67,720,317	\$ 66,760,139	\$ 63,144,117	\$ 61,655,469	\$ 44,733,935
-	-	-	-	-	15,988,035
144,780,028	142,637,218	138,716,648	134,750,686	134,010,305	131,719,185
8,822,497	8,489,128	8,009,295	9,114,558	9,443,359	9,914,528
<u>216,649,040</u>	<u>218,846,663</u>	<u>213,486,082</u>	<u>207,009,361</u>	<u>205,109,133</u>	<u>202,355,683</u>
-	-	-	-	-	-
934,063	937,929	-	-	-	-
86,953	41,748	-	-	-	-
-	-	-	-	-	-
<u>1,021,016</u>	<u>979,677</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
6,214,723	7,421,520	6,483,160	4,982,384	5,358,504	5,019,375
42,029,933	43,496,920	37,949,615	39,738,249	41,445,270	43,575,394
<u>48,244,656</u>	<u>50,918,440</u>	<u>44,432,775</u>	<u>44,720,633</u>	<u>46,803,774</u>	<u>48,594,769</u>
508,116	536,748	573,331	609,913	632,839	-
2,078,899	2,755,478	-	-	-	-
-	-	-	-	-	-
<u>2,587,015</u>	<u>3,292,226</u>	<u>573,331</u>	<u>609,913</u>	<u>632,839</u>	<u>-</u>
109,822,913	107,007,231	101,766,953	101,642,108	103,930,761	103,930,777
784,475	770,667	777,667	7,589,319	12,309,367	15,964,209
56,230,997	57,537,776	66,710,674	52,447,388	53,741,759	33,865,928
<u>\$ 166,838,385</u>	<u>\$ 165,315,674</u>	<u>\$ 169,255,294</u>	<u>\$ 161,678,815</u>	<u>\$ 169,981,887</u>	<u>\$ 153,760,914</u>

(Continued)

**South Coast Water District
Changes in Net Position
Last Ten Fiscal Years**

Changes in Net Position:	Fiscal Year			
	2020	2019	2018	2017
Operating Revenues				
Water Sales	\$ 18,482,268	\$ 17,518,158	\$ 16,415,394	\$ 14,133,228
Sewer Service Charges	15,202,153	14,702,662	13,839,953	12,421,268
Recycled Water	1,855,007	1,770,840	1,907,580	1,640,610
Recreation Facilities	244,999	294,177	291,564	215,069
Operating Expenses				
Source of Supply (Purchased Water)	5,549,902	6,085,677	5,804,144	5,616,206
Groundwater Recovery Facility	1,330,142	1,011,303	686,714	570,996
Recycled Water	1,015,881	942,374	621,481	1,082,906
Pumping Expense	1,169,994	1,111,566	1,101,671	1,043,175
Sewer Treatment Plant	4,551,238	5,400,627	4,421,065	3,169,418
Transmission and Distribution	5,431,867	4,854,330	4,217,828	4,727,882
Operations Support	2,612,869	2,932,001	2,409,490	-
Recreation Facilities	277,255	294,565	365,952	453,661
Engineering and Consulting	2,159,615	2,314,667	2,577,966	1,515,371
General and Administrative	10,977,290	8,216,031	7,058,374	9,109,631
Depreciation	6,583,151	6,259,702	6,384,604	6,639,471
Income From Operations	<u>(5,874,777)</u>	<u>(5,137,006)</u>	<u>(3,194,798)</u>	<u>(5,518,542)</u>
Nonoperating Revenues (Expenses)				
Property Taxes-General and Bond Levy	6,774,772	6,558,495	6,332,296	6,021,573
Connection Fees	-	-	-	-
Standby Charges	-	-	1,605	10,601
Investment Income	1,556,273	1,412,028	353,704	358,885
Other Revenues	969,321	2,044,497	819,595	572,107
Rental Income	774,641	832,059	782,842	788,711
Grant Revenue	-	-	-	-
Interest Expense	(2,786,364)	(2,294,818)	(1,337,020)	(825,110)
Gain (Loss) on Disposal of Capital Asset	(196,441)	(2,430,233)	(12,354)	(57,550)
Share of Joint Venture Income (Expense)	(73,606)	(571,241)	(393,387)	(282,950)
Other Expenses	<u>(2,042)</u>	<u>(404,292)</u>	<u>(124,755)</u>	<u>(121,012)</u>
Total Nonoperating Revenues (Expenses)	<u>7,016,554</u>	<u>5,146,495</u>	<u>6,422,526</u>	<u>6,465,255</u>
Income Before Capital Contributions	1,141,777	9,489	3,227,728	946,713
Capital Contributions	<u>1,009,255</u>	<u>757,263</u>	<u>745,969</u>	<u>1,358,498</u>
Change in Net Position	<u><u>\$ 2,151,032</u></u>	<u><u>\$ 766,752</u></u>	<u><u>\$ 3,973,697</u></u>	<u><u>\$ 2,305,211</u></u>

Source: District Audited Financial Statements

	Fiscal Year				
2016	2015	2014	2013	2012	2011
\$ 14,105,212	\$ 16,236,389	\$ 17,439,450	\$ 16,449,127	\$ 15,358,678	\$ 13,827,107
12,070,688	12,812,048	12,210,786	11,836,935	11,613,650	10,804,991
1,358,360	1,439,432	1,411,162	1,168,678	987,297	817,270
208,811	251,604	261,269	193,791	207,224	197,185
5,579,348	5,934,856	6,172,350	5,446,549	5,126,492	4,269,521
437,110	531,460	565,177	480,325	453,641	836,429
1,024,908	1,101,808	716,697	624,700	557,969	618,786
956,397	1,124,003	1,067,834	1,184,480	1,020,494	907,314
2,592,137	2,084,904	2,125,949	2,349,903	2,282,163	2,484,828
4,249,310	4,561,273	3,861,885	3,963,150	3,763,766	3,227,376
-	-	-	-	-	-
316,364	317,364	256,403	289,591	267,048	264,366
-	-	-	-	-	-
8,523,132	8,191,511	9,083,167	8,995,989	8,491,943	8,905,471
7,367,975	7,315,469	7,077,400	7,443,391	6,961,724	6,280,800
<u>(3,303,610)</u>	<u>(423,175)</u>	<u>395,805</u>	<u>(1,129,547)</u>	<u>(758,391)</u>	<u>(2,148,338)</u>
6,128,107	5,626,192	5,376,662	5,328,828	5,048,357	5,140,051
-	-	521,160	138,450	113,697	108,461
8,976	8,904	9,141	11,456	7,942	11,605
290,475	194,283	115,022	140,586	140,810	239,624
624,843	795,491	516,430	584,798	603,055	992,718
785,393	759,253	638,688	595,759	699,450	573,456
-	204,593	-	-	-	-
(900,665)	(604,012)	(831,515)	(1,097,746)	(1,339,602)	(1,548,082)
26,438	77,542	34,869	13,492	5,634	45,025
183,361	(233,290)	(153,024)	(538,699)	(81,570)	2,003,116
<u>(3,188,858)</u>	<u>(98,819)</u>	<u>(365,817)</u>	<u>(108,731)</u>	<u>(649,530)</u>	<u>(2,009,974)</u>
3,958,070	6,730,137	5,861,616	5,068,193	4,548,243	5,556,000
654,460	6,306,962	6,257,421	3,938,646	3,789,852	3,407,662
868,251	340,665	1,319,058	67,649	588,785	8,089,777
<u>\$ 1,522,711</u>	<u>\$ 6,647,627</u>	<u>\$ 7,576,479</u>	<u>\$ 4,006,295</u>	<u>\$ 4,378,637</u>	<u>\$ 11,497,439</u>

(Continued)

**South Coast Water District
Water Sold By Type of Customer (in Acre Feet)
Last Ten Fiscal Years**

Customer Type	Fiscal Year				
	2020	2019	2018	2017	2016
Single Family Residential	2,734	2,679	2,798	2,504	2,350
Multi-Family Residential	957	952	971	960	961
Commercial/Industrial	814	902	928	914	917
Irrigation/Other	1,329	1,332	1,640	1,385	1,402
Total	5,834	5,865	6,337	5,763	5,630

Source: District Billing System

Fiscal Year				
2015	2014	2013	2012	2011
3,103	3,185	3,095	3,066	2,937
1,137	1,153	1,164	1,173	1,145
1,115	1,089	1,054	1,037	992
1,953	1,980	1,753	1,582	1,500
<u>7,308</u>	<u>7,407</u>	<u>7,066</u>	<u>6,858</u>	<u>6,574</u>

(Continued)

**South Coast Water District
Water Rates
Last Ten Fiscal Years**

Description	Fiscal Year				
	2020	2019	2018	2017	2016¹
Potable Water:					
Single Family Residence (Variable)					
Tier 1	\$ 3.10	\$ 2.93	\$ 2.74	\$ 2.54	\$ 2.25
Tier 2	3.28	3.09	2.89	2.68	4.18
Tier 3	3.46	3.27	3.05	2.83	6.27
Tier 4	-	-	-	-	8.36
Tier 5	-	-	-	-	10.45
Multi-Family (Variable)	3.13	2.95	2.76	2.56	4.13
Commercial (Variable)	3.36	3.17	2.96	2.75	4.13
Irrigation (Variable)					
Tier 1	3.49	3.29	3.08	2.85	4.18
Tier 2	-	-	-	-	6.27
Tier 3	-	-	-	-	8.36
Fixed Charges ²					
3/4"	314.85	297.25	278.05	257.70	294.20
1"	524.75	495.40	463.40	429.50	529.56
1 1/2"	1,049.45	990.80	926.80	859.00	1,182.69
2"	1,679.10	1,585.25	1,482.85	1,374.35	2,100.69
3"	3,673.00	3,467.70	3,243.70	3,006.40	4,727.83
4"	6,611.35	6,241.85	5,838.65	5,411.50	8,399.48
6"	13,642.50	12,880.00	12,048.00	11,166.55	18,896.62
Peak Demand Charges (Fixed) ^{2/3}	22.45	21.15	19.80	18.35	-
Recycled Water:					
Variable Charges	4.51	4.35	4.16	3.94	3.72
Fixed Charges ²					
3/4"	314.85	297.25	278.05	257.70	-
1"	524.75	495.40	463.40	429.50	-
1 1/2"	1,049.45	990.80	926.80	859.00	-
2"	1,679.10	1,585.25	1,482.85	1,374.35	-
3"	3,673.00	3,467.70	3,243.70	3,006.40	-
4"	6,611.35	6,241.85	5,838.65	5,411.50	-
6"	13,642.50	12,880.00	12,048.00	11,166.55	-

NOTES:

¹ In general, variable rates for water service decreased after 2016 due to the transfer of some costs to Fixed and Peak Demand Charges in the new rate structure. Variable rates are based on usage by centum cubic feet (CCF). One CCF equals 100 cubic feet or 748 gallons.

² Fixed charges for single family residences are billed on an annual basis and collected with property tax payments.

³ This new fee is based on the second highest demand month during the preceding fiscal year.

Source: District records

Fiscal Year				
2015	2014	2013	2012	2011
\$ 2.25	\$ 2.16	\$ 2.01	\$ 1.91	\$ 1.52
4.18	4.07	3.85	3.71	3.04
6.27	6.10	5.77	5.56	4.56
8.36	8.13	7.69	7.42	6.08
10.45	10.16	9.61	9.27	7.60
4.13	4.02	3.72	3.58	3.42
4.13	4.02	3.72	3.58	3.42
4.18	4.07	3.85	3.71	3.04
6.27	6.10	5.77	5.56	4.56
8.36	8.13	7.69	7.42	6.08
294.20	284.62	284.62	257.65	235.95
529.56	512.31	512.31	463.77	589.87
1,182.69	1,144.17	1,144.17	1,035.75	1,179.75
2,100.69	2,032.18	2,032.18	1,839.61	1,887.59
4,727.83	4,573.82	4,573.82	4,140.41	3,539.24
8,399.48	8,125.87	8,125.87	7,355.87	7,078.48
18,896.62	18,281.07	18,281.07	16,548.77	11,797.47
-	-	-	-	-
3.72	3.62	3.34	3.58	3.42
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-

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**South Coast Water District
Ten Largest Water Customers
Current and Nine Years Ago**

FY 2019/2020

	<u>Customer Name</u>	<u>Business Type</u>	<u>Annual Revenues</u>	<u>% of Total Revenues</u>
1	Monarch Beach Golf Links	Golf Course	\$ 392,117	1.93%
2	City of Dana Point	Government	339,118	1.67%
3	MMB Management LLC	Residential Properties	223,202	1.10%
4	Niguel Shores Community Association	Homeowners' Association	171,111	0.84%
5	County of Orange	Government	157,712	0.78%
6	Laguna Beach Golf & Bungalow Village,	Hotel/Golf Course	148,162	0.73%
7	Laguna Beach Resorts-LLC	Hotel	141,231	0.70%
8	Niguel Beach Terrace	Homeowners' Association	117,096	0.58%
9	Ritz Carlton	Hotel	115,290	0.57%
10	Seascape Homeowners' Association	Homeowners' Association	110,608	0.55%
			<u>\$ 1,915,647</u>	<u>9.44%</u>

FY 2010/2011 ¹

	<u>Customer Name</u>	<u>Business Type</u>	<u>Annual Revenues</u>	<u>% of Total Revenues</u>
1	Monarch Beach Golf Links	Golf Course	\$ 284,052	1.94%
2	City of Dana Point	Government	272,733	1.86%
3	County of Orange	Government	216,137	1.48%
4	Monarch Beach Resort and Spa	Hotel	190,513	1.30%
5	Ritz Carlton	Hotel	184,253	1.26%
7	Laguna Beach Resorts-LLC	Hotel	151,518	1.03%
6	Headlands Reserve-LLC	Real Estate	147,506	1.01%
8	Seascape Homeowners' Association	Homeowners' Association	128,084	0.87%
9	Niguel Beach Terrace	Homeowners' Association	127,993	0.87%
10	St Joseph Health Mission Hospital	Homeowners' Association	119,791	0.82%
			<u>\$ 1,822,580</u>	<u>12.45%</u>

¹ Does not include assessments received through property taxes.

Source: District Billing System

**South Coast Water District
Sewer Rates
Last Ten Fiscal Years**

Description	Fiscal Year				
	2020	2019	2018	2017	2016
Single Family Residence ¹					
Fixed	\$ -	\$ -	\$ -	\$ -	\$ 446.46
Variable Block Rate (Fixed) ²					
Tier 1 - 0-5 CCF	676.00	638.00	597.00	554.00	-
Tier 2 - 6-10 CCF	736.00	695.00	650.00	603.00	-
Tier 3 - 11+ CCF	843.00	796.00	744.00	690.00	-
Variable	-	-	-	-	1.20
Multi-Family					
Variable	1.26	1.19	1.11	1.03	1.20
Fixed	440.00	415.25	388.25	360.00	-
Duplex	-	-	-	-	296.53
Triplex	-	-	-	-	309.89
Fourplex	-	-	-	-	314.19
Multi-Plex	-	-	-	-	231.91
Commercial					
Variable					
Low Strength	8.34	7.87	7.36	6.83	-
Medium Strength	9.46	8.93	8.35	7.74	-
High Strength	12.22	11.53	10.78	9.99	-
Various Business Types	-	-	-	-	6.54 to 8.31
Fixed	-	-	-	-	446.46

NOTES:

¹ Fixed charges for single family residences are billed on an annual basis and collected with property tax payments. All variable rates are based on usage by centum cubic feet (CCF). One CCF equals 100 cubic feet or 748 gallons.

² This new rate includes both variable and fixed charges based on a winter quarter average (average of prior year usage during December, January, and February).

Source: District records

Fiscal Year				
2015	2014	2013	2012	2011
\$ 446.46	\$ 418.44	\$ 453.37	\$ 443.13	\$ 436.44
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
1.20	1.20	0.97	0.91	0.77
1.20	1.20	0.97	0.91	0.77
-	-	-	-	-
296.53	277.69	265.45	259.46	256.32
309.89	290.21	266.90	260.87	257.58
314.19	294.23	257.35	251.54	249.95
231.91	217.18	197.02	192.57	208.60
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
6.54 to 8.31	6.05 to 8.38	5.61 to 7.54	5.43 to 7.37	4.65 to 6.60
446.46	418.44	453.37	443.13	436.44

(Continued)

**South Coast Water District
Ten Largest Sewer Customers
Current and Nine Years Ago**

FY 2019/2020

	<u>Customer Name</u>	<u>Business Type</u>	<u>Annual Revenues</u>	<u>% of Total Revenues</u>
1	Monarch Beach Resort and Spa	Hotel	\$ 289,766	1.91%
2	Ritz Carlton	Hotel	269,722	1.77%
3	Laguna Beach Resorts-LLC	Hotel	253,838	1.67%
4	Beachwood Mobile Home Park	Mobile Home Park	166,692	1.10%
5	Capistrano Unified School District	Government	139,732	0.92%
6	MMB Management LLC	Residential Properties	119,311	0.78%
7	Hometown Laguna Terrace LLC	Homeowners' Association	113,302	0.75%
8	St Joseph Health Mission Hospital	Hospital	109,236	0.72%
9	Laguna Cliffs Resort	Hotel	92,386	0.61%
10	ERGS AIRM Hotel Realty LLC	Hotel	83,371	0.55%
			<u>\$ 1,637,356</u>	<u>10.77%</u>

FY 2010/2011 ¹

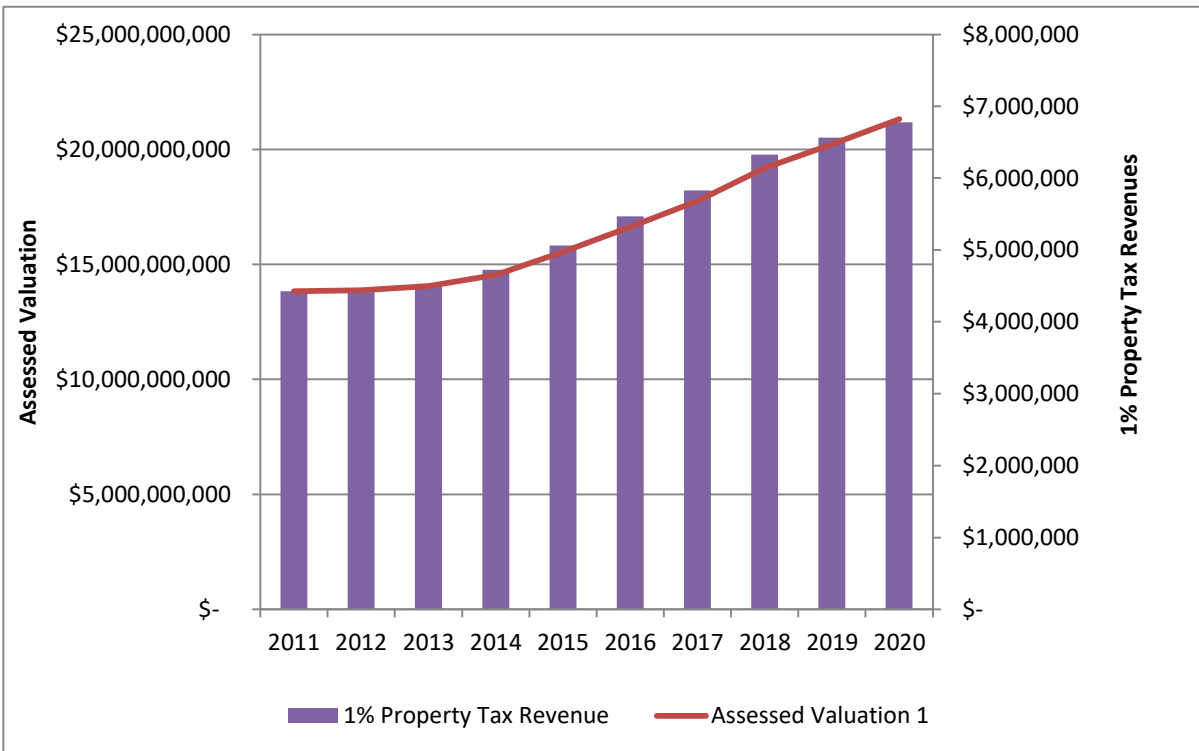
	<u>Customer Name</u>	<u>Business Type</u>	<u>Annual Revenues</u>	<u>% of Total Revenues</u>
1	Monarch Beach Resort and Spa	Hotel	\$ 225,039	2.08%
2	Ritz Carlton	Hotel	207,748	1.92%
3	St Joseph Health Mission Hospital	Hospital	164,100	1.52%
4	Laguna Beach Resorts-LLC	Hotel	164,439	1.52%
5	Capo Unified School District	Government	71,662	0.66%
6	Laguna Cliffs Resort	Hotel	125,869	1.16%
7	Beachwood Mobile Home Park	Homeowners' Association	68,482	0.63%
8	County of Orange	Homeowners' Association	59,810	0.55%
9	Riviera Beach & Spa Resort	Hotel	55,353	0.51%
10	ERGS AIRM Hotel Realty LLC	Hotel	50,232	0.46%
			<u>\$ 1,192,734</u>	<u>11.04%</u>

¹ Does not include assessments received through property taxes.

Source: District Billing System and Finance Department

South Coast Water District
Assessed Valuation and Estimated Actual Value of Taxable Property and 1% Property Tax Revenue
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Assessed Valuation ¹</u>	<u>1% Property Tax Revenue</u>
2011	\$ 13,835,800,514	\$ 4,426,688
2012	13,874,423,076	4,409,265
2013	14,053,005,762	4,527,397
2014	14,539,050,008	4,724,730
2015	15,532,963,472	5,059,693
2016	16,621,482,278	5,465,332
2017	17,759,225,858	5,826,837
2018	19,187,754,184	6,328,065
2019	20,220,387,463	6,561,125
2020	21,318,051,681	6,774,773



NOTES:

¹ Estimated market values for the assessed valuation are not available.

Source: California Municipal Statistics, Inc.
 County of Orange
 District Finance Department

**South Coast Water District
 Typical Tax Rates Per \$100 Assessed Value
 Fiscal Year Ended June 30, 2020**

Tax Rate Area 5-031	Rate
General Tax Rate	1.00000
Laguna Beach Unified School District	0.01266
Metropolitan Water District	0.00350
Total Tax Rate	1.01616

Tax Rate Area 28-114	Rate
General Tax Rate	1.00000
Capistrano Unified School District SFID No. 1	0.00745
Metropolitan Water District	0.00350
	1.01095

NOTES:

The District includes 76 Tax Rate Areas. Tax Rate Areas 5-031 and 28-114 are among the largest within the District (in terms of assessed valuation) for fiscal year 2019-20. Combined, the two Tax Rate Areas account for 17.36% of the total assessed valuation of the District in fiscal year 2019-20.

Source: California Municipal Statistics, Inc.

**South Coast Water District
Direct and Overlapping Property Tax Rates
Current and Nine Years Ago**

FY 2019/2020

Agency/District	Rate
Direct Rate:	
South Coast Water District	\$0.00000
Overlapping Rates:	
Capistrano Unified School District SFID No. 1	\$0.00745
Laguna Beach Unified School District	\$0.01266
Metropolitan Water District	\$0.00350

FY 2010/2011

Agency/District	Rate
Direct Rate:	
South Coast Water District	\$0.00910
Overlapping Rates:	
City of Laguna Beach	\$0.01187
Capistrano Unified School District SFID No. 1	\$0.01105
Laguna Beach Unified School District	\$0.01582
Metropolitan Water District	\$0.00370

Source: California Municipal Statistics, Inc.

**South Coast Water District
Principal Property Taxpayers
Current and Nine Years Ago**

FY 2019/2020

	<u>Property Owner Name</u>	<u>Business Type</u>	<u>Assessed Valuation ¹</u>	<u>Percent of Total Assessed Value</u>
1	World Award Group LLC	Hotel	\$ 397,347,485	1.90%
2	Monroe MBR LLC	Hotel	324,962,039	1.55%
3	MMB Management LLC	Residential Properties	234,108,735	1.12%
4	Regency Laguna LP	Hotel	191,048,352	0.91%
5	Villa San Clemente	Outlet Stores	152,878,019	0.73%
6	Marblehead Development Partners LLC	Residential Properties	58,654,547	0.28%
7	Fountains Sea Bluffs Owner NT-HCI LLC	Commercial	58,648,753	0.28%
8	27 DBV Owner LLC	Planned Residential Development	54,540,810	0.26%
9	Kenneth L. Wagner Jr. Trust	Residential	45,942,885	0.22%
10	Erik and Karen Perkowski	Residential	44,426,770	0.21%
			<u>\$ 1,562,558,395</u>	<u>7.46%</u>

FY 2010/2011

	<u>Property Owner Name</u>	<u>Business Type</u>	<u>Assessed Valuation ¹</u>	<u>Percent of Total Assessed Value</u>
1	MMB Management LLC	Residential Properties	\$ 307,414,442	2.28%
2	SHC Laguna Niguel 1 LLC	Hotel	210,421,664	1.56%
3	Regency Laguna LP	Hotel	188,176,747	1.39%
4	CPH Monarch Hotel LLC	Golf Resort	166,604,207	1.23%
5	Headlands Reserve LLC	Commercial	46,983,971	0.35%
6	St. Apartments LLC	Apartments	25,789,467	0.19%
7	Sunrise IV Sea Bluffs SL LP	Commercial	24,337,777	0.18%
8	Theresa C. Morrison	Commercial	22,845,837	0.17%
9	Felcor Suites Ltd.	Hotel	21,695,069	0.16%
10	Doheny Estates LLC	Commercial	17,841,512	0.13%
			<u>\$ 1,032,110,693</u>	<u>7.65%</u>

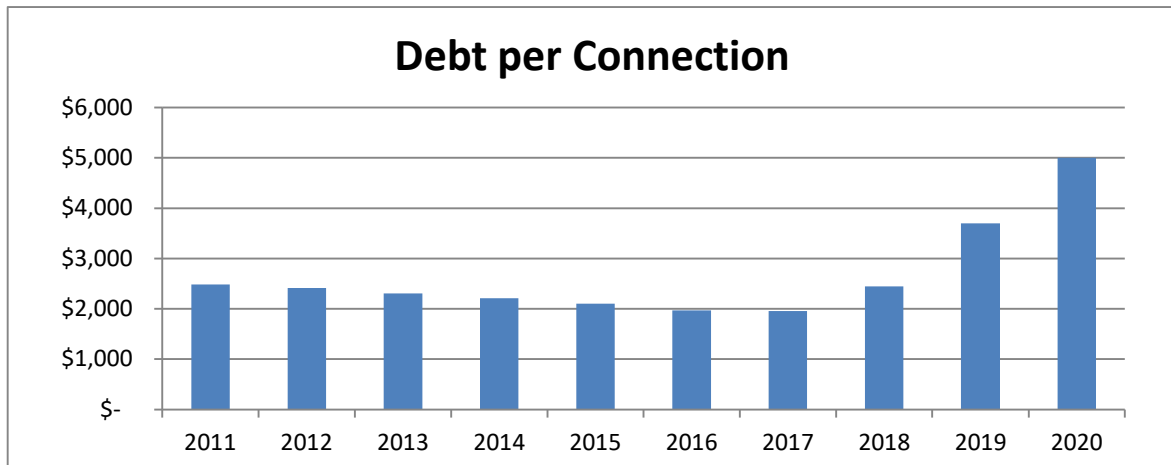
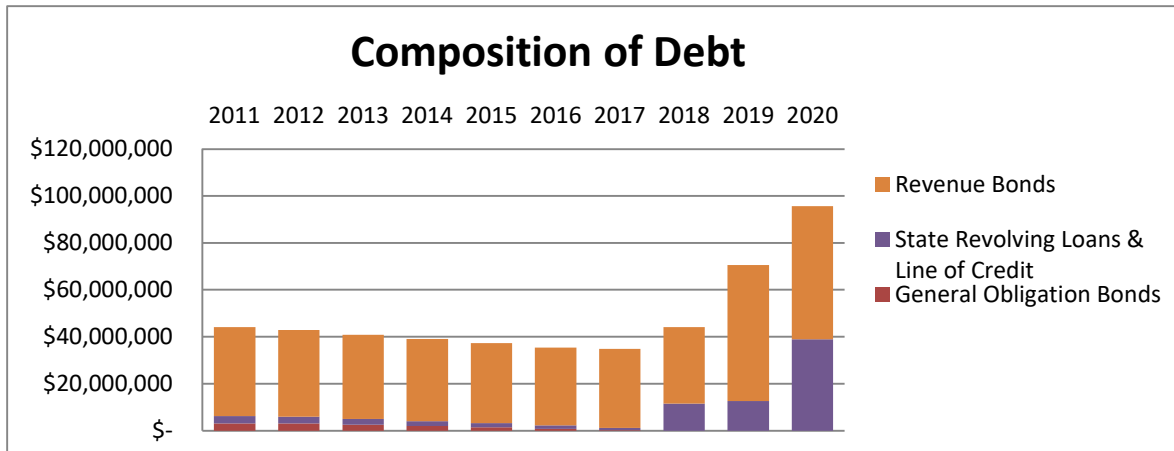
NOTES:

¹ Local secured assessed valuations

Source: California Municipal Statistics, Inc.

**South Coast Water District
Ratio of Outstanding Debt
Last Ten Fiscal Years**

Fiscal Year	State Revolving Loans & Line of Credit	General Obligation Bonds	Revenue Bonds	Totals		
				Total Debt	Per Connection	Per Capita
2011	\$ 3,180,750	\$ 3,153,542	\$ 37,744,698	\$ 44,078,990	\$ 2,482	\$ 1,163
2012	2,829,284	3,122,118	36,967,223	42,918,625	2,416	1,154
2013	2,477,818	2,584,310	35,699,038	40,761,166	2,308	1,118
2014	2,126,351	2,020,737	34,884,045	39,031,133	2,210	1,092
2015	1,774,884	1,442,164	34,026,532	37,243,580	2,104	1,064
2016	1,423,419	843,590	33,133,378	35,400,387	1,970	1,000
2017	1,071,952	220,000	33,501,237	34,793,189	1,955	971
2018	11,659,593	-	32,416,070	44,075,663	2,448	1,216
2019	12,633,761	-	57,910,851	70,544,612	3,701	1,925
2020	38,927,560	-	56,788,082	95,715,642	5,000	2,583



Sources: District Audited Financial Statements
District billing system
Demographics data

**South Coast Water District
Direct and Overlapping Debt**

2019-2020 Assessed Valuation: \$11,844,670,875

	<u>Total Debt</u> <u>6/30/20</u>	<u>% Applicable</u> <u>(1)</u>	<u>District's</u> <u>Share of Debt</u> <u>6/30/20</u>
<u>Direct and Overlapping Tax and Assessment Debt:</u>			
Metropolitan Water District	\$ 37,300,000.00	0.383%	\$ 142,859
Capistrano Unified School District School Facilities Improvement District No. 1	18,925,885	11.555	2,186,886
Laguna Beach Unified School District	20,005,000	19.412	3,883,371
South Coast Water District	-	100.00	-
Dana Point Community Facilities District No. 2006-1	39,770,000	99.049	39,391,787
City of Laguna Beach 1915 Act Bonds (Estimated)	4,780,000	14.159-100.000	4,325,043
Total Direct and Overlapping Tax and Assessment Debt			<u>\$ 49,929,946</u>
<u>Overlapping General Fund Debt:</u>			
Orange County General Fund Obligations	\$ 386,745,000	1.893%	\$ 7,321,083
Orange County Pension Obligation Bonds	466,863,754	1.893	8,837,731
Orange County Board of Education Certificates of Participation	12,930,000	1.893	244,765
Capistrano Unified School District School District Certificates of Participation	27,010,000	8.0004	2,161,880
Moulton-Niguel Water District Certificates of Participation	57,170,000	1.748	999,332
Total Overlapping General Fund Debt			<u>19,564,791</u>
Total Direct Debt			\$ -
Total Overlapping Debt			\$ 69,494,737
Combined Total Debt			\$ 69,494,737

- (1) The percentage of overlapping debt applicable to the District is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the District divided by the overlapping district's total taxable assessed value.
- (2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations. Qualified Zone Academy Bonds are included based on principal due at maturity.

Ratios to 2019-2020 Assessed Valuation:

Direct Debt	0.00%
Total Direct and Overlapping Tax and Assessment Debt	0.42%
Combined Total Debt	0.59%

Source: California Municipal Statistics, Inc.

**South Coast Water District
Debt Coverage
Last Ten Fiscal Years**

Fiscal Year	Revenues	Operating & Maint. Costs ¹	Net Revenues	Debt Service			Coverage Ratio
				Principal	Interest	Total	
2011	\$ 25,646,553	\$ 21,514,091	\$ 4,132,462	\$ 1,103,398	\$ 1,036,733	\$2,140,131	1.93
2012	34,082,981	22,613,046	11,469,935	1,179,038	1,669,152	2,848,190	4.03
2013	35,278,450	23,443,418	11,835,032	1,721,558	1,686,131	3,407,689	3.47
2014	37,872,355	24,368,303	13,504,052	1,757,198	1,679,104	3,436,302	3.93
2015	38,071,049	24,410,343	13,660,706	1,814,718	1,618,378	3,433,096	3.98
2016	35,440,172	26,867,564	8,572,608	1,870,358	1,561,255	3,431,613	2.50
2017	36,150,005	27,496,480	8,653,525	2,094,758	1,310,775	3,405,533	2.54
2018	40,740,301	29,795,181	10,945,120	1,630,398	1,319,362	2,949,760	3.71
2019	45,132,916	35,392,699	9,740,217	1,273,078	2,028,192	3,301,270	2.95
2020	45,859,434	35,348,142	10,511,292	2,720,733	2,852,759	5,573,492	1.89

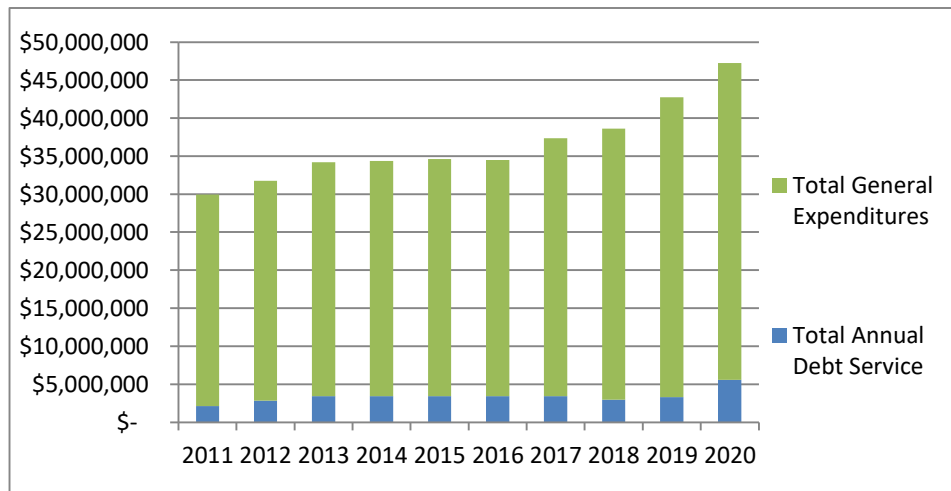
NOTES:

¹ Excludes depreciation and debt service payments

Source: Audited Financial Statements
District Finance Department

**South Coast Water District
Ratio of Annual Debt Service Expenditures to Total General Expenditures
Last Ten Fiscal Years**

Fiscal Year	Total Annual Debt Service	Total General Expenditures	Ratio of Total Annual Debt Service to Total General Expenditures
2011	\$ 2,140,130	\$ 27,794,891	7.7%
2012	2,848,190	28,925,240	9.8%
2013	3,407,688	30,778,078	11.1%
2014	3,436,302	30,926,862	11.1%
2015	3,433,095	31,162,648	11.0%
2016	3,431,613	31,046,681	11.1%
2017	3,405,533	33,928,717	10.0%
2018	2,949,760	35,649,289	8.3%
2019	3,301,270	39,422,843	8.4%
2020	5,573,492	41,659,204	13.4%



Source: District Finance Department
District Audited Financial Statements

**South Coast Water District
Demographics
Last Ten Fiscal Years**

South Coast Water District

Year	Estimated District Population	City of Dana Point Population ¹	City of Dana Point Personal Income (in Millions) ¹	Personal Income per Capita ¹
2011	37,914	35,109	\$ 1,816	\$ 47,898
2012	37,187	33,054	1,663	44,720
2013	36,460	33,398	1,723	47,257
2014	35,732	33,625	1,699	47,548
2015	35,004	33,710	1,649	47,109
2016	35,415	34,264	1,743	49,216
2017	35,828	34,902	1,811	50,547
2018	36,240	34,619	1,841	50,800
2019	36,651	34,359	1,927	52,577
2020	37,062	33,146 ⁴		

County of Orange

Year	Population	Unemployment Rate	Personal Income (in Thousands)	Personal Income per Capita
2011 ^{2/3}	3,192,916	8.7%	\$ 155,323,766	\$ 50,480
2012 ²	3,182,171	7.9%	160,637,055	50,480
2013 ²	3,055,792	8.5%	160,072,905	52,383
2014	3,081,804	6.2%	168,966,068	54,827
2015	3,113,991	5.4%	177,412,900	56,973
2016	3,132,681	4.6%	169,792,810	54,200
2017	3,194,024	3.2%	172,509,495	54,010
2018	3,221,103	3.1%	215,479,000	66,896
2019	3,222,498	3.0%	230,180,000	71,429
2020	3,194,332 ⁴	13.6%		

NOTES: ¹ City of Dana Point information has been used since approximately 90% of the District's customers are within its borders.

² No personal income data was available for the County of Orange, so used State of California data.

³ No population data was available for County of Orange, used State of California data.

⁴ Department of Finance data for January 1, 2020

⁵ Information not available.

Sources: District Infrastructure Master Plan Update 2017
City of Dana Point Comprehensive Annual Financial Reports
County of Orange Comprehensive Annual Financial Reports
State of California, Employment Development Department
State of California, Department of Finance

**South Coast Water District
Ten Largest Employers
2020 and Nine Years Ago**

Rank	Employer	2020 ¹		2011 ²	
		Employees	% of Total Labor Force	Employees	% of Total Labor Force
1	Capistrano Unified School District	3,841	32.34%	4,228	33.46%
2	Ritz-Carlton-Laguna Niguel	970	8.17%	970	7.68%
3	Monarch Beach Resort (Former St. Regis)	800	6.74%	800	6.33%
4	Montage Laguna Beach	599	5.04%	780	6.17%
5	Ritz-Carlton Hotel Co LLC	404	3.40%	-	0.00%
6	Mission Hospital	311	2.62%	565	4.47%
7	Marriott-Laguna Cliffs Resort	250	2.11%	250	1.98%
8	Dana Hills High School	200	1.68%	200	1.58%
9	Harpoon Henry's Seafood Restaurant	150	1.26%	150	1.19%
10	Wind & Sea Restaurant	150	1.26%	125	0.99%
	Total	<u>7,675</u>	<u>64.63%</u>	<u>8,068</u>	<u>63.85%</u>

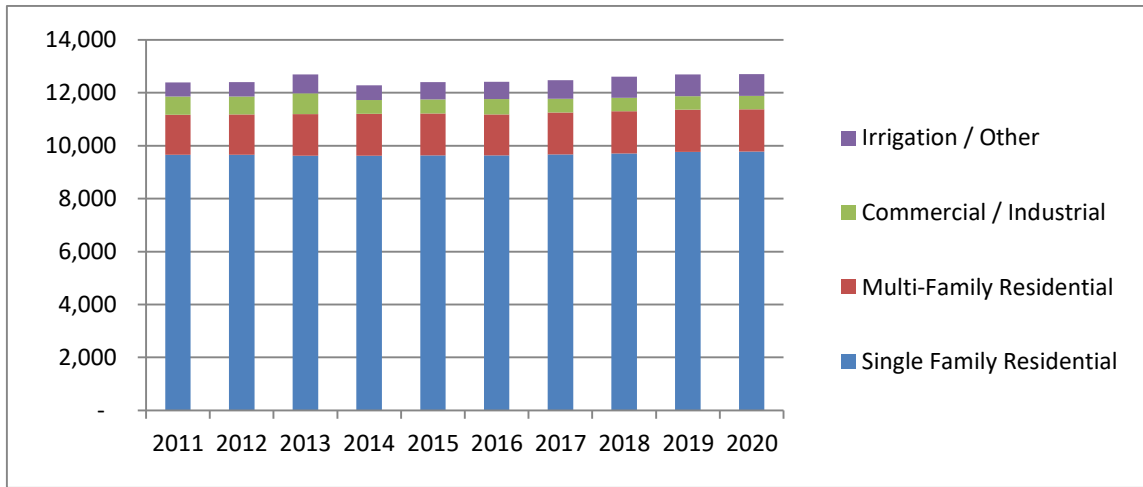
NOTES: ¹ Most current available data is from 2019 Comprehensive Annual Financial Reports of cities noted below. Labor force consists of the City of Dana Point employment information

² Data shown above for 2011 consists of information available for Fiscal Year 2019 top 10 employers only. Oldest available data is from 2014 for Montage Laguna Beach, Mission Hospital, and Dana Hills High School. Only included employers reported in 2019 Comprehensive Annual Financial Reports of the cities listed below.

Sources: City of Laguna Beach Comprehensive Annual Financial Reports
City of Dana Point Comprehensive Annual Financial Reports
City of San Juan Capistrano Comprehensive Annual Financial Reports
City of San Clemente Comprehensive Annual Financial Reports

**South Coast Water District
Number of Water Connections
Last Ten Fiscal Years**

Fiscal Year	Single Family Residential	Multi-Family Residential	Commercial / Industrial	Irrigation / Other	Total Connections
2011	9,658	1,518	679	541	12,396
2012	9,663	1,519	682	541	12,405
2013	9,627	1,572	778	716	12,693
2014	9,627	1,579	525	548	12,279
2015	9,636	1,588	526	654	12,404
2016	9,637	1,544	579	651	12,411
2017	9,673	1,584	513	704	12,474
2018	9,712	1,588	513	801	12,614
2019	9,767	1,591	510	822	12,690
2020	9,777	1,593	515	821	12,706

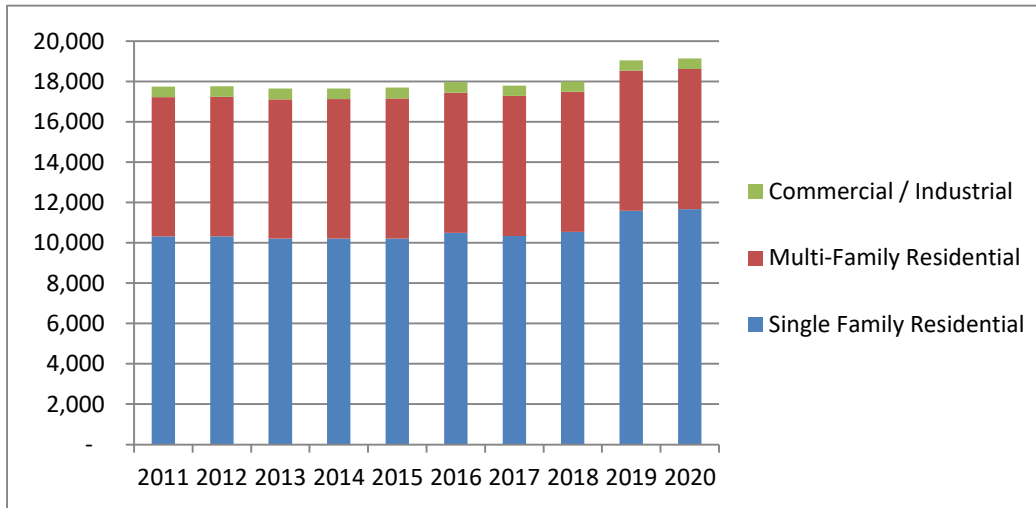


Source: District Billing System

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**South Coast Water District
Number of Sewer Connections
Last Ten Fiscal Years**

Fiscal Year	Single Family Residential	Multi-Family Residential	Commercial / Industrial	Total Connections
2011	10,318	6,915	525	17,758
2012	10,323	6,915	526	17,764
2013	10,205	6,917	536	17,658
2014	10,208	6,917	537	17,662
2015	10,209	6,953	540	17,702
2016	10,500	6,952	514	17,966
2017	10,336	6,951	514	17,801
2018	10,542	6,951	513	18,006
2019	11,591	6,958	510	19,059
2020	11,664	6,964	515	19,143



Source: District Billing System

**South Coast Water District
Average Monthly Usage (in CCF)
Last Ten Fiscal Years**

<u>Customer Type</u>	<u>Fiscal Year</u>				
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Water:					
Single Family Residential	10	10	10	9	12
Multi-Family Residential	22	22	22	22	23
Commercial/Industrial	53	64	66	64	58
Irrigation/Other	59	80	98	99	111
Total	<u>144</u>	<u>176</u>	<u>196</u>	<u>194</u>	<u>204</u>
Recycled Water:					
Irrigation/Other	150	143	177	155	160
Total	<u>150</u>	<u>143</u>	<u>177</u>	<u>155</u>	<u>160</u>

(Continued)

Source: District Billing System

Fiscal Year				
2015	2014	2013	2012	2011
12	12	12	12	11
26	27	27	28	27
77	75	49	55	53
150	191	169	155	147
<u>265</u>	<u>305</u>	<u>257</u>	<u>250</u>	<u>238</u>
198	184	167	143	130
<u>198</u>	<u>184</u>	<u>167</u>	<u>143</u>	<u>130</u>

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South Coast Water District
Source of Supply and Water Deliveries/Sales in Acre Feet
Last Ten Fiscal Years

Source of Supply (in Acre Feet)

Fiscal Year	Imported	Groundwater	Recycled	Total Supply
2011	5,081	657	631	6,369
2012	5,467	933	694	7,094
2013	5,658	907	780	7,345
2014	6,067	764	891	7,722
2015	5,714	178	861	6,753
2016	4,892	-	822	5,715
2017	4,881	272	822	5,975
2018	4,860	727	943	6,530
2019	5,035	235	775	6,045
2020	4,470	847	802	6,119

Water Deliveries/Sales (in Acre Feet)

Fiscal Year	Potable Water	Recycled Water	Total
2011	5,963	631	6,594
2012	6,182	694	6,876
2013	6,296	780	7,076
2014	6,543	891	7,434
2015	5,788	861	6,649
2016 ²	4,814	822	5,636
2017	4,947	822	5,769
2018	5,394	943	6,337
2019	5,078	775	5,853
2020	5,063	802	5,865

NOTES: ¹ The Groundwater Recovery Facility was not in operation during fiscal year 2015-2016 due a lack of precipitation that resulted in low groundwater levels in the San Juan groundwater basin.

² Decreases beginning in 2016 reflect the impact of mandatory conservation measures.

Sources: District records

**South Coast Water District
Capital Asset Statistics
Last Ten Fiscal Years**

Description	Fiscal Year				
	2020	2019	2018	2017	2016
Potable System					
Miles of Water Line	159	158	158	158	158
Number of Storage Tanks	13	13	13	13	13
Maximum Storage (MG)	21.9	21.6	21.6	21.6	21.6
Capacity (MG)	50.0	50.0	50.0	50.0	50.0
Number of Pumping Plants	9	9	9	9	9
Number of Wells	1	1	1	1	1
Well Production Capacity (MGD)	0.85	0.85	0.85	0.85	0.85
Potable Treatment Plants	1	1	1	1	1
Non-Potable and Recycled Systems					
Miles of Recycled Line	21	17	17	17	17
Number of Storage Tanks	3	3	3	3	3
Maximum Storage (MG)	3.7	3.7	3.7	3.7	3.7
Capacity (MG)	4.7	4.7	4.7	4.7	4.7
Number of Pumping Plants	3	3	3	3	3
Sewer System					
Miles of Sewer Line	141	141	141	141	141
Number of Lift Stations	13	13	13	13	13

(Continued)

NOTES:

MG - Million Gallons

MGD - Million Gallons per Day

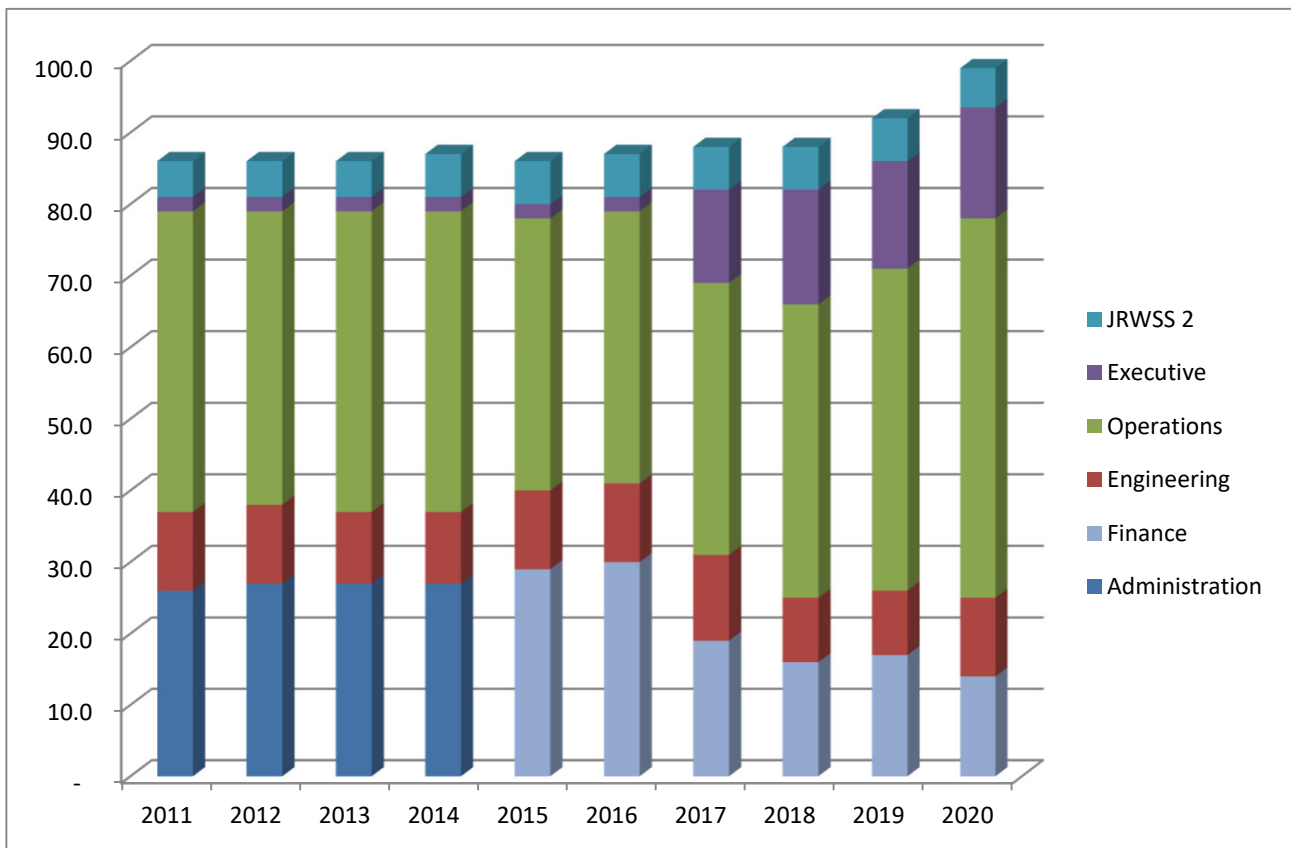
Source: District Records

Fiscal Year				
2015	2014	2013	2012	2011
158	158	158	158	158
13	13	13	13	13
21.6	21.6	21.6	21.6	21.6
50.0	50.0	50.0	50.0	31.4
9	9	9	9	9
1	1	1	1	1
0.85	0.85	0.85	0.85	0.85
1	1	1	1	1
16	15	15	15	15
3	3	3	3	3
3.7	3.7	3.7	3.7	3.7
4.7	4.7	4.7	4.7	4.7
3	3	3	3	3
140	140	140	140	140
13	14	14	14	14

**South Coast Water District
Number of Employees
Last Ten Fiscal Years**

Full Time Equivalent Employees by Department ¹

Fiscal Year	Department						Total
	Administration	Executive	Finance	Engineering	Operations	JRWSS ²	
2011	26.0	2.0	-	11.0	42.0	5.0	86.0
2012	27.0	2.0	-	11.0	41.0	5.0	86.0
2013	27.0	2.0	-	10.0	42.0	5.0	86.0
2014	27.0	2.0	-	10.0	42.0	6.0	87.0
2015	-	2.0	29.0	11.0	38.0	6.0	86.0
2016	-	2.0	30.0	11.0	38.0	6.0	87.0
2017	-	13.0	19.0	12.0	38.0	6.0	88.0
2018	-	16.0	16.0	9.0	41.0	6.0	88.0
2019	-	15.0	17.0	9.0	45.0	6.0	92.0
2020	-	15.5	14.0	11.0	53.0	5.5	99.0



NOTE: ¹ Number of employees in each department consist of authorized positions.

² Joint Regional Water Supply System personnel are employees of the District. Reimbursements are received from JRWSS.

Source: District Annual Budgets