



Santa Margarita
Water District

ANNUAL COMPREHENSIVE

FINANCIAL REPORT

For Fiscal Year Ended June 30, 2023



Santa Margarita Water District

Rancho Santa Margarita, California

Santa Margarita Water District

ANNUAL COMPREHENSIVE FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2023

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

SANTA MARGARITA WATER DISTRICT
Annual Comprehensive Financial Report
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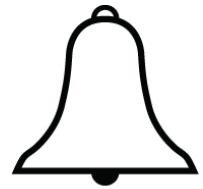
INTRODUCTORY SECTION (UNAUDITED)



BOARD OF DIRECTORS

LAURA FREESE
CHARLES T. GIBSON
SAUNDRA F. JACOBS
BETTY H. OLSON, PH.D
FRANK URY

DANIEL R. FERONS
GENERAL MANAGER



Santa Margarita Water District

December 27, 2023

The Honorable Board of Directors
Santa Margarita Water District
26111 Antonio Parkway
Rancho Santa Margarita, CA 92688

Dear Members of the Board of Directors:

We are pleased to submit the Santa Margarita Water District (SMWD or the District) Annual Comprehensive Financial Report (ACFR) for the fiscal year ended on June 30, 2023. The ACFR was prepared by the District in conformity with accounting principles generally accepted in the United States of America and audited in accordance with auditing standards generally accepted in the United States of America by a certified public accounting firm.

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

Management Responsibilities

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

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

An audit of the financial records and transactions of the District is conducted annually by independent certified public accountants. The District's Board selected the accounting firm of Macias Gini & O'Connell LLP (MGO), to perform the audit for the fiscal year ended June 30, 2023. The auditor's report on the District's basic financial statements is located on page 1 within the financial section of this report. This report renders an unmodified opinion on the District's basic financial statements for the fiscal year ended June 30, 2023.

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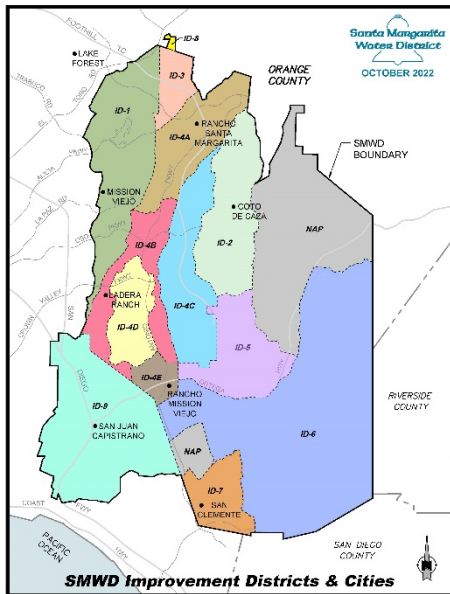
The Management Discussion and Analysis (MD&A) immediately follows the independent auditors' report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

Profile of the District

The District was formed in 1964 as a California Water District in the southeast corner of Orange County on a portion of the historic Rancho Mission Viejo (RMV) and other large landholdings. The first Board was composed of major landowners who laid the groundwork for the long-term prosperity of the District and the region. Development began gradually with the first homeowner customers being served in 1973 in what would become the City of Mission Viejo. In November 2021, the District annexed the City of San Juan Capistrano service area, now known as Improvement District 9. In Fiscal Year 2022 the District incorporated seven and a half months of activity into its financials for Improvement District 9. In Fiscal Year 2023 and beyond the District will have a full twelve months of revenues and expenses.



Service Area and Customer Base



SMWD is a reliable, innovative, and award-winning public agency that provides water, recycled water, and wastewater services to over 200,000 residents. The District is operated as a single entity and establishes various rates by customer class to all customers throughout the District. Incorporated on March 25, 1964, the District is an independent California Special District governed by a five-member Board of Directors. Throughout its 59-year history, the District has emphasized developing innovative solutions and long-term strategic planning and goal setting. The District is the second largest retail water agency in Orange County and serves a relatively affluent area of Southern Orange County including the eastern half of the City of Mission Viejo, the majority of City of Rancho Santa Margarita, the City of San Juan Capistrano, the Talega community

within the City of San Clemente, and the unincorporated communities of Coto de Caza, Ladera Ranch, Las Flores, and the Villages of Sendero, Esencia and Rienda. The District is projected to add approximately 38,000 new residents by 2035 due to new development. All future new

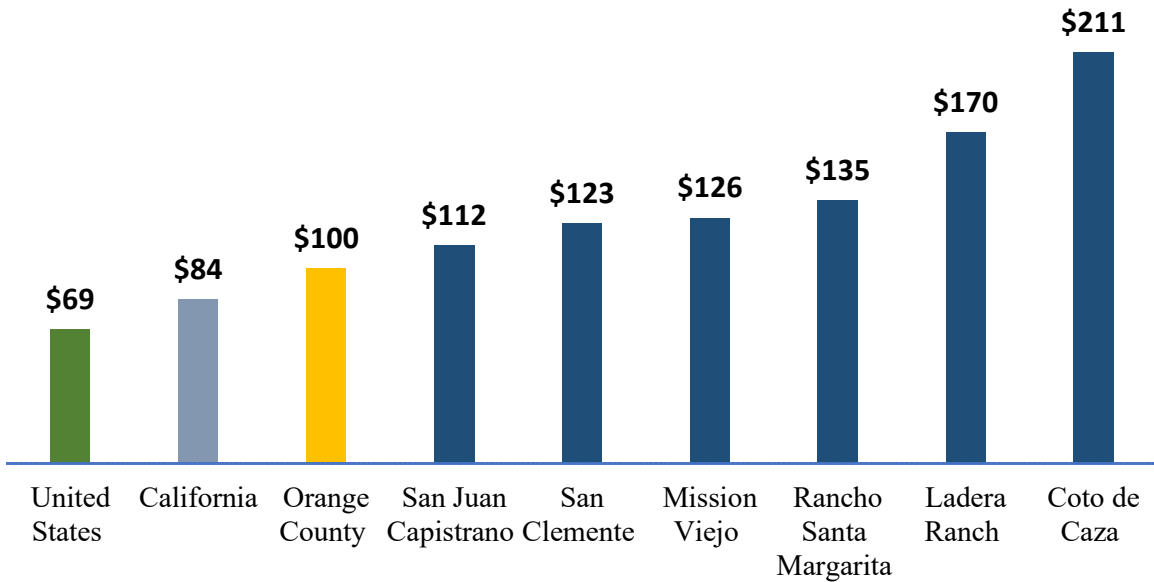
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developments will have a recycled water connection. In addition to providing reliable water, recycled water, and wastewater services to its retail customers, the District currently operates various regional facilities such as the South County Pipeline, the Upper Chiquita Reservoir, the Upper Oso Reservoir and others. The District also provides recycled water from its facilities, such as Trampas Reservoir, to adjoining agencies. As such, the District maintains inter-agency coordination and long-range planning to meet future water supply and wastewater treatment needs for its service area.

Local Economy

There are roughly 600,000 residents in South Orange County, of which just over one third are served by the District. The communities within the District’s boundaries are relatively affluent. In general, South Orange County enjoys low unemployment, even relative to the California and national average. The household median income (HMI) is strong for the District’s service area, at approximately \$146,000, compared to Orange County’s HMI of approximately \$100,000 and \$84,000 for California.

Median Household Income (thousands)



Source: US Census Bureau (most recent data available as of 2022).

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

Governance

The District is governed by a five-member Board, all of which were elected at-large by registered voters within the District boundaries for four-year terms. Effective for the November 2024 General District Election and going forward, Board Members will be elected by division. The District’s boundaries will be separated into five distinct divisions and voters will vote for one Board Member to represent their division. The Board is responsible for recruiting, hiring, and retaining its General Manager, selecting the District’s attorney, approving contracts over one hundred thousand dollars, establishing policy, representing the District, providing strategic planning, and setting direction and vision to ensure that the District meets its mission, fulfills its obligations, and keeps its commitment to its customers.

The Board meets twice monthly, holds a strategic planning workshop annually, and attends other special meetings as needed. In addition, the Board has four standing committees: Engineering and Operations, External and Legislative Affairs, Finance and Administration, and Water Quality and Treatment. The committees provide for detailed review of the applicable subject matter. Meetings are conducted in accordance with the provisions of the Ralph M. Brown Act (California Government Code Section 54950 et seq.).

District Services

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

Domestic or “Potable” Water System

Like most water purveyors in South Orange County, the majority of the District’s current domestic water supply is imported from northern California via the State Water Project and from the Colorado River via the Metropolitan Water District of Southern California’s (MET) Colorado River Aqueduct. The State Water Project, also known as the 444-mile-long California Aqueduct, is the longest aqueduct system in the world; and the Colorado River Aqueduct is a 242-mile water conveyance that brings water from the Colorado River to southern California.

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MET is a wholesaler of water and is the primary source of drinking water throughout southern California. The Municipal Water District of Orange County (MWDOC) is a member of MET and purchases imported water from MET and provides this water to 27 member agencies, including the District. MWDOC provides the District with treated water from the Robert B. Diemer Filtration Plant. In addition, the District receives raw water from MET via MWDOC which is treated at the Baker Plant in Lake Forest, operated by the Irvine Ranch Water District, and delivered to the District. Water purchases are the largest operating expense of the District and account for 36% of the District's total operating expenses in Fiscal Year 2023.

Among the facilities acquired with the annexation of the City of San Juan Capistrano's water system is a domestic water production facility known as the San Juan Groundwater Plant (SJGP). The SJGP provides the District a source of local domestic water to meet a portion of its supply needs.



Major improvements have been made over the last two decades to enhance the reliability of the water supply system. These include capital improvements to the infrastructure of the San Juan Groundwater Plant to increase production capacity, the construction of the Upper Chiquita Reservoir, interconnections with the Irvine Ranch Water District (IRWD), purchase of capacity in the El Toro R-6 Reservoir, and participation in the construction of the Baker Water Treatment Plant which treats raw water delivered by MET or, in an emergency, water from Irvine Lake. The Baker Plant, in addition to the District's two emergency storage facilities and the interconnection with IRWD, ensures customers have an average of 30 days of domestic water supply available in the event of a failure of the imported water delivery system.

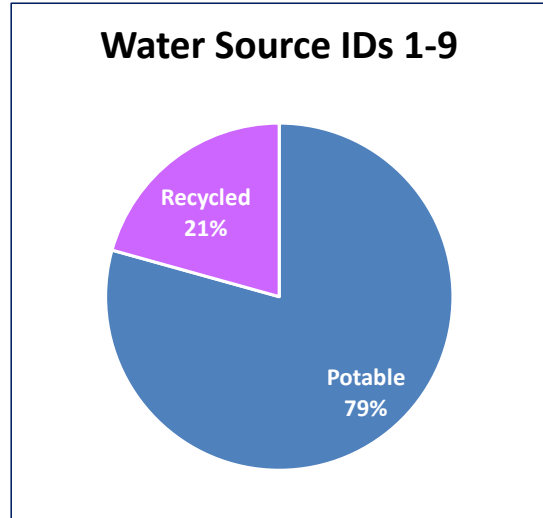
Additionally, the Cadiz Project located in Eastern San Bernardino District has the potential to deliver water to the District in future years upon completion. The District has an agreement with Cadiz, Inc., Fenner Gap Mutual Water Company, and San Bernardino County, wherein the District is guaranteed the ability to purchase 5,000 acre-feet of water annually from the Cadiz Project, with an option to purchase up to an additional 10,000 acre-feet if available. This delivery of water is dependent upon future development of agreements and/or permitting by federal, regional, and local agencies.

The District's water quality meets or exceeds all the Federal and State requirements for drinking water. A Water Quality Report is issued annually that summarizes the testing requirements. The District operates a certified laboratory to perform most of the testing.

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Recycled Water System

Recycled water is an important resource in the District's current and future water supply portfolio. The District plans to recycle and utilize its wastewater to the degree practical, which will provide up to 30% of the District's total water demand. During FY 2023 21% of total water demands from District customers was from recycled water sources. Currently, the District has the capacity to produce up to 7.8 million gallons per day (MGD) of recycled water that meets the quality requirements of Title 22 of the California Code of Regulations for outdoor use. The recycled water supply is from highly treated wastewater and urban return flows and is primarily used for irrigation and construction purposes. Most of the District's recycled water is produced at the District's two



wastewater reclamation plants and is primarily stored in the Upper Oso Seasonal Storage Reservoir and the Trampas Canyon Dam & Recycled Water Seasonal Storage Reservoir (Trampas Reservoir). The District's service area experienced record rainfall in FY 2023 and storage at these reservoirs increased significantly moving the District closer to its goals for recycled water.

The District completed several projects or agreements over the last several years that were significant strides towards recycled water goals and addressing water reliability challenges. The projects below moved the District towards its goals for recycling all its wastewater and creating supply locally.

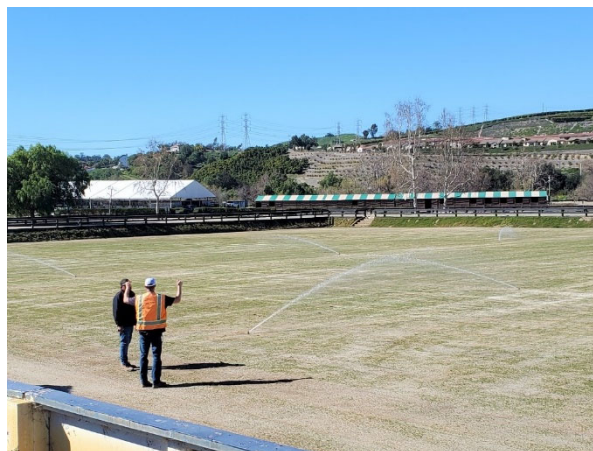
- In 2017, the District completed the Lake Mission Viejo Advanced Water Treatment Facility, which produces an average of 300 acre-feet (AF) per year of highly treated water for delivery to Lake Mission Viejo, a swimmable recreational lake, providing uninterrupted water service to the Lake.

Additionally, in 2021 the District completed construction of the Trampas Reservoir which is an open-air reservoir expected to provide 5,000 AF of storage. This reservoir more than doubled its stored water in Fiscal Year 2023 due to wet weather conditions during the year. At June 30, 2023 the Trampas Reservoir had over 2,500 AF of stored water.

- The District entered into an agreement with the City of San Clemente for capacity in the City's Plant to provide 1,000 AF of recycled water annually to the District. Additionally, the City will have a capacity right in Trampas Reservoir to store 200 AF of recycled water for the City's use to better meet its summer demands. The District's Pico Recycled Water Pump Station facilitates the conveyance of recycled water between the City and the District.

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- In Fiscal Year 2023, the District’s cross-connection team were able to successfully work with the San Juan Riding Park operators to switch the site over to recycled water for irrigation and dust control. This will permanently save over 100 acre-feet of groundwater each year that this site previously used from a well located on an adjacent parcel. Additionally, the District obtained over \$85,000 in rebate funding from Metropolitan Water District to cover the costs of the conversion.



Two of the District’s strategic goals include increasing its recycled water production (to nominally recycle 100% of District wastewater flows) and to increase its water supplies from sources other than MET. By accomplishing these two goals, the District will be less dependent on purchasing imported water from MET, which is currently the District’s highest operating expense annually.

Several projects have been recently completed or are in progress to meet these strategic goals, including the following key projects which are discussed in further detail in the major initiatives and projects section:

- San Juan Groundwater Plant Maximization –
 - This project was recently completed in early FY 2024 and increases local water supplies.
- Oso Creek Water Reclamation Plant (OCWRP) Optimization
 - This project is in progress and will increase capacity to recycle wastewater flows.
- Chiquita Water Reclamation Plant (CWRP) Expansion / Upgrades
 - This project is in progress and will increase capacity to recycle wastewater flows.
- Las Flores Area Conversion to Recycled Water
 - This project is in progress and will connect customers to recycled water.
- Ranch Water Filtration Plant
 - This project is underway, with site work grading complete and the underground utility work in progress. Final design of the treatment facility is currently proceeding and when the plant is completed it will increase local water supplies.

The Oso Creek Water Reclamation Plant (OCWRP) is undergoing construction to expand the plant to help meet the District’s recycled water needs. After construction is complete the new plant is expected to produce approximately 1,350 acre-feet per year of additional tertiary effluent for use in the District’s recycled water system. The District has several agreements with entities such as RMV Mutual Water Company and IRWD to purchase approximately 800-900 AF recycled water

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each year. With the closure of Oso Creek Water Reclamation Plant through FY 2023, a reduction in our recycled water production was supplemented through continued recycled water purchases from these agreements, increasing the total purchase costs for recycled water, partially offset by the reduction in operating expenses from the Oso plant closure. The OCWRP project is discussed in further detail in the major initiatives and projects section below.

Wastewater System

The District operates an extensive wastewater collection system as well as three wastewater treatment plants. It is also a member of the South Orange County Wastewater Authority (SOCWA), a Joint Powers Authority, which operates several regional treatment plants. The District's treatment plants provide treatment of wastewater that can then be put back into use through the District's recycled water system, discussed above. This helps move the District towards its strategic goal of nominally recycling 100% of the District's wastewater flow.

The District has capacity rights in and/or owns or operates the following seven wastewater treatment plants:

- Chiquita Water Reclamation Plant, (owned and operated by the District);
- Oso Creek Water Reclamation Plant, (owned and operated by the District);
 - This treatment plant is currently offline and its current flows are diverted to the Jay B. Latham Wastewater Reclamation Plant.
- Nichols Water Reclamation Plant, (a specialized small plant operated by the District serving Quest Diagnostics under contract with the District);
- Los Alisos Water Reclamation Plant, (owned and operated by IRWD);
- 3A Water Reclamation Plant, (owned and operated by Moulton Niguel Water District);
- Jay B. Latham Wastewater Treatment Plant, (operated by SOCWA); and
- City of San Clemente Wastewater System, (owned and operated by the City of San Clemente).

Operation of the wastewater collection system is a critical activity. The District's video system regularly inspects its pipelines to check for blockages and problem areas. It also maintains a fleet of vacuum trucks to clean the system. Because the District's service area is in a series of hills and valleys, it requires the operation of 23 sewage lift stations to pump wastewater to the various treatment plants. The lift stations are regularly maintained and tested to ensure continuous operation. Back-up power supplies are also maintained by the District in case of outages. All the treatment plants, except the Nichols Water Reclamation Plant, are connected to the SOCWA Dana Point Ocean Outfall for disposal of secondary effluent if the water is not recycled.

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Biosolids at Chiquita Water Reclamation Plant are currently dewatered and hauled off site primarily for disposal. Dewatered biosolid options become more costly and difficult to establish as landfill disposal and land application options are reduced or eliminated. Through a grant received from the Energy Commission in April 2021, the District has been working in partnership with equipment supplier, Gate 5, on an innovative demonstration project to evaluate alternative biosolid technologies for reuse and energy efficiency. This project is testing an emerging technology which may result in a more feasible and cost-effective option for disposal in the future and potentially eliminate the need to transport biosolids for land disposal.

In November 2021 SMWD began providing water and wastewater services to all residents and businesses in the City of San Juan Capistrano. Part of the investment in the San Juan Capistrano service area includes an investment in water and wastewater infrastructure. The District continues to upgrade critical infrastructure throughout San Juan Capistrano. In just the first couple of years, SMWD has invested approximately \$14 million in repairs, maintenance, and improvements.

SMWD has been upgrading over 8,000 feet of buried sewer pipeline in San Juan Capistrano. There are two methods used to upgrade the pipelines based on the age, location, and condition of the pipeline: UV cured in-place liner and dig and replace. The work began during FY 2023 and is expected to be completed in FY 2024.

Major Initiatives & Projects

In its 59-year history, the District has focused on providing reliable, cost-effective water and wastewater service through innovation and the dedication of the Board and the District's team. Each year, the District is instrumental in formulating the Strategic Plan with long-range goals. The plan includes strategic and core objectives to provide focus and direction to move the District from where we are today to where we need to be for our customers.

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

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

Strategic Plan

The District annually reviews its strategic goals and objectives. The District is committed to efficiently providing high-quality, reliable water and wastewater service to its customers, and maintaining a strong financial position to ensure its systems are maintained and that emergencies

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and unforeseen costs will have limited impacts to ratepayers. The District also continues to study, plan, and make progress towards securing local water supplies, water transfers and water storage to reduce its reliance on imported water and meet its strategic goals, which includes the following:

- Nominally, recycle 100% of District wastewater flows;
- Secure 30% of potable water supply from local sources, and up to 50% from sources other than the Metropolitan Water District of Southern California (MET) by 2030; and
- Develop and maintain six months of water supply in storage.

Water Supply and Reliability Projects – Overview

The District’s service area and most of California experience high precipitation during FY 2023, delaying the third year of drought. The full scope of recovery from several years of drought will not be known until the snowpack can be assessed in early 2024 and there is no guarantee that the state will see another wet winter soon. As concerns about water availability in California continue, the District’s Best Management Practices (BMPs) related to water conservation are always in effect and are permanent. The District continues to pursue projects that will strengthen our local reliability and meet our strategic planning goals with the aim of increasing its local water supplies, including recycled water, domestic water, and water in storage.

Each program may have multiple phases or projects and is evaluated for the potential funding sources, cost of the water, and proposed timing.



San Juan Groundwater Plant

This Clearwell project was recently completed in early Fiscal Year 2024. The San Juan Groundwater Plant, which produces drinking water extracted from local groundwater, was acquired with the annexation of the City of San Juan Capistrano’s water system in 2021. The District commenced a \$2 million program of capital improvements to wells, pumps, and related infrastructure to increase the production capacity of the plant. This project was completed in July 2023. The SJGP, under City operation, had been producing approximately 2,000 acre-feet (AF) of drinking water per year. The District expects the production capacity of the plant to increase

to 3,000-4,000 AF per year. At this level, the SJGP will produce local potable water at a lower overall cost than imported water.

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Oso Creek Water Reclamation Plant (OCWRP) – Optimization

This project is currently in progress. The District has identified the expansion of the OCWRP as the optimum approach to meeting future wastewater treatment needs and its goal of recycling the equivalent of 100% of the District’s wastewater. Currently, the project design is substantially complete with the construction contract awarded in October 2023 with work anticipated to start in the coming months. The construction of the expanded OCWRP is expected to result in approximately 1,350 acre-feet per year of additional tertiary effluent for use in the District’s recycled water system and will reduce average daily liquid treatment requirements at SOCWA’s Jay B. Latham Wastewater Treatment Plant. The additional recycled water production capacity at OCWRP is needed to meet the District’s growing recycled water needs, from both new customers in developing areas and the conversion customers currently using more expensive potable water for irrigation purposes.

Chiquita Water Reclamation Plant (CWRP) – Rehab and Capacity Expansion Projects



The CWRP rehab and expansion projects are currently in progress. The CWRP is the District’s largest wastewater treatment and recycled water producing facility. Currently, several significant rehabilitation projects for major components facilities are underway, including the influent lift station and bar screen and digester gas system, as well as more than 40 other smaller repair and replacement projects. Additionally, based on the expected buildout of the District’s service area, the treatment capacity of CWRP will need to be expanded. The District intends to undertake the expansion in two phases. The first phase, which consists of the construction of additional aeration basins and secondary clarifiers to increase the CWRP’s secondary process capacity, was completed in FY 2023. The second phase, which consists of the expansion of the pumping capacity in the lift station, the construction of an additional grit removal system, primary clarifier, and tertiary filter and two chlorine

contact basins, as well as other related improvements, is expected to be completed over the next several years based on the pace of new development within the District’s service area.

Recycled Water Conversion and Conveyance Projects

The District is in the process of expanding its recycled water system, in conjunction with the completion of the Trampas Reservoir, which increased the District’s recycled water storage to facilitate higher peak-demand seasonal usage. Projects underway include converting irrigation customers using potable water to recycled water, such as in the Las Flores area. The District also recently completed several projects in the Talega service area, including the Pico Recycled Water Pump Station, which created a recycled water intertie with the City of San Clemente. As a result

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of the intertie, the District was able to enter into an agreement with the City of San Clemente to improve the City's recycled water plant, which will provide additional recycled water to the District once completed and in turn the District will provide recycled water storage capacity for the City in the Trampas Reservoir.

Ranch Water Filtration Plant

This project is in planning, with site work grading complete and the underground utility work in progress. Design of the treatment facility is currently underway. The Ranch Water Filtration Plant, when complete, will provide the District with another source of local drinking water. The District has an existing agreement with RMV Mutual Water Company to purchase up to 2,500 acre-feet (AF) per year of groundwater produced by RMV. This project will change the ultimate use from irrigation to potable domestic use, by utilizing treatment of the extracted groundwater to potable water standards. The first phase of the project is currently being designed. Preliminary site preparation work, including grading, has commenced and the District has arranged the purchase of certain plant components in advance. Award of contracts for construction of pipelines and construction of the Plant are expected to occur in Fiscal Year 2025. The first phase of the project is intended to treat 2,000 AF of source water into 1,600 AF of drinking water.

Existing Facility Capital Repair and Replacement Projects (CRP)

In addition to strategic projects to enhance local water supplies and system reliability, the District proactively develops plans for the maintenance, replacement, or rehabilitation of our existing infrastructure. The District's FY 2024 Budget includes more than \$50 million of such projects in Improvement Districts 1-8 and \$19 million in Improvement District 9 (San Juan Capistrano).

Commitment to Efficiency

The District is committed to investing in infrastructure and programs that strengthen water resiliency and conserve the State's water resources. The District maintains a progressive Water Conservation Program (Ordinance 2021-05-05) that establishes year-round water conservation best management practices that promote water conservation as a permanent way of life. Additionally, in terms of SBx7-7 compliance (legislative requirement enacted in November 2009 to achieve a 20% per capita reduction in domestic water use by 2020), the District nearly doubled the reduction requirement, achieving a 39% reduction through implementation of cost-effective efficiency programs for its customers, strategic recycled water development and conversions, and a budget-based tiered rate structure.

In 2006 the District served 151,000 residents and required 33,000 acre-feet of imported drinking water. In 2023, the District served just over 200,000 residents and utilized 32,000 acre-feet of imported drinking water. Even though the District has seen over a 30% increase in residents served in over 15 years, it has reduced the total volume of drinking water used. The District remains committed to developing, storing, and distributing recycled water, which sustainably supplies

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about 21% of the District’s total water demands and is used to irrigate landscapes throughout the District’s service area.

Proposed state and federal regulations will significantly increase compliance and reporting requirements of the District in the future, increasing District staff time needed to comply with regulations. One such regulation that is currently in draft form is the *Draft Staff Framework for Making Conservation a California Way of Life* (“Proposed Framework”). A large amount of work has gone into developing, assessing, and refining water conservation standards that make up the Proposed Framework. District staff has actively participated in discussions and provided written comments to ensure that conservation goals are met in the long-term and that water retailers large and small can comply. The District advocates for continued engagement between the SWRCB and water retailers as final regulations are crafted. The District and the water community, through partnerships such as ACWA and the California Water Efficiency Partnership, remain ready and willing to provide input to help develop a framework that will solidify California’s leadership in water conservation into and beyond the next decade.

Financial Planning & Policies

Financial Planning

The District achieves a balanced budget by setting rates and fees to fund ongoing activities and provide reliable water to our customers. As with other utilities throughout the state, the District must address changing State and Federal water policies, laws, and regulations. The District continues to address these issues by investing in local water supplies, maximizing the use of recycled water, and developing local, drought-resilient water resources that will reduce its reliance on imported water. Concurrently, the District also engages State and Federal lawmakers and regulating authorities through direct meetings with legislators, the State Water Resources Control Board (SWRCB) and Department of Water Resources.

The District maintains a long-range financial plan, which forecasts our operational and capital replacement program needs and accounts for changes to the economy, environment, operational requirements, and capital investments. This plan incorporates the District’s other planning documents, including the Integrated Resource Plan, Urban Water Management Plan (UWMP), and Long-Range Water Reliability Plan. As part of its long-range financial planning, in September 2020 the District issued Revenue bonds and anticipates issuing further bonds in the upcoming fiscal years to balance funding for the District’s strategic plan and the impacts to customer rates.

Budgetary Process and Controls

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

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

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

Revenues

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



Financial Policies

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

Reserve Policy

The District has two Reserve Policies effective in FY 2023; one for Improvement Districts 1-8 (IDs 1-8) and one for Improvement District 9 (ID 9). A separate Policy was created for ID 9 based on the future reserve usage needs for needed capital improvements throughout the area. The Reserve Policy identifies funding requirements and goals for several categories, including an Operating Reserve, Capital Emergency, Capital Repairs and Replacement, and new Capital Projects.

SANTA MARGARITA WATER DISTRICT
Annual Comprehensive Financial Report
For the Year Ended June 30, 2023

The District’s current and projected reserve levels for IDs 1-9 meet all the requirements in the FY 2023 reserve policy listed below.

Category	IDs 1-8 Funding Requirement	IDs 1-8 Funding Goal	ID 9 Funding Requirement	ID 9 Funding Goal
Operating Reserve	25% / 3 months of Operating Expenses	42% / 5 months of Operating Expenses	16.7% / 2 months of Operating Expenses	42% / 5 months of Operating Expenses
Capital Reserve - Emergency	2% of Net Depreciable Capital Assets	4% of Net Depreciable Capital Assets	2% of Net Depreciable Capital Assets	4% of Net Depreciable Capital Assets
Capital Reserve- Repair & Replacement	10% of upcoming 5-Year Total	20% of upcoming 5-Year Total	10% of upcoming 5-Year Total	20% of upcoming 5-Year Total
Capital Reserve - New Projects	\$12.5 million	\$12.5 million	None	None

Debt Administration

At June 30, 2023, the District had several types of debt outstanding as detailed below.

- Revenue bonds outstanding of \$76.7 million – Revenue bonds are repaid from the net revenues of the District’s water and wastewater system, which consist of revenues remaining after the payment of operating and maintenance costs.
- General Obligation (GO) bonds outstanding of \$31.6 million – GO bonds are paid from special assessment tax revenues levied upon the assessable land within each district.
- Loans payable of \$92.8 million – Loans payable includes a \$90.7 million loan with the State Water Resources Control Board, which is paid from the District’s net revenues and a \$2.1 million loan with the City of Mission Viejo. The City of Mission Viejo loan is paid through rates assessed to Lake Mission Viejo.

In June 2023 the Community Facility District (CFD) bonds for the Village of Sendero, which had \$52 million outstanding, were refinanced. This refinancing generated savings to taxpayers in the Village of Sendero of over \$1 million per year over the next twenty years. Taxpayers in the CFD will see a 29% savings on their property tax bills in FY 2024, with over 900 single family homeowners saving \$875 per year on average.

SANTA MARGARITA WATER DISTRICT
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Accounting Controls

In developing and evaluating the District's accounting system, consideration is given to the adequacy of internal controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance about the achievement of the District's objectives with regard to: (1) the reliability of financial records for preparing financial statements and maintaining accountability for assets; (2) effectiveness and efficiency of operations; (3) compliance with applicable laws and regulations; and (4) safeguarding of assets against loss from unauthorized acquisition, use or disposition.

The concept of reasonable assurance recognizes that: (1) the costs of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Investment Policy

An Investment Policy, as adopted by the Board, gives guidance to the District in terms of how to invest its funds in instruments permitted by the California Government Code Sections §53601 et seq. The investment objective of the District is to preserve capital, maintain liquidity, and maximize the rate of return while maintaining a balanced portfolio. The policy is reviewed at least annually to ensure it continues to meet the District's future needs.

Section 115 Pension Trust

The District established and funded its Section 115 Pension Trust (115 Trust) during FY 2021. This included developing a new Investment Policy Statement for the 115 Trust. The 115 trust was established with the objective of realizing savings for the District's future pension costs as well as investing the District's funds to obtain higher returns than those funds within the District's general fund. The 115 Trust also provides the District an optional, contingency funding source to cover all or a portion of its annual pension costs. As of June 30, 2023, the 115 Trust had a balance of \$6.2 million.

Annual Audit

The District is required by bond covenants and State statutes to conduct an annual audit of its financial statements by an independent certified public accountant. Based on best practices, the Board requires that the District rotate audit partners at least every five years if not more frequently. The accounting firm of Macias Gini & O'Connell LLP conducted this year's audit. Their audit report, which contains an unmodified opinion, is included in the financial section of this report.

SANTA MARGARITA WATER DISTRICT
Annual Comprehensive Financial Report
For the Year Ended June 30, 2023

Employees

As of June 30, 2023, the District had 186 full time employee equivalents. The employees are highly trained and effectively operate a complex business that delivers a product and service that is vital to the health and safety of the community.

The District, under the direction of the General Manager and executive team, is organized into four primary departments – Administration; Finance; Engineering; and Operations. The General Manager, a thirty-eight-year employee of the District and only the sixth general



manager, reports directly to the Board. The executive team provides day-to-day management and leadership over the four departments. The District provides cross-training opportunities to its employees to support the work efforts across departmental lines and functional teams. The management philosophy is to provide employees with the resources, support, and opportunities necessary to enable performance at a high level, which results in quality services to its customers.

The District aims to strike a harmonious blend of innovation and efficiency in its assessment of staffing strategies and holds its highly skilled workforce in high esteem, as they demonstrate proficiency and expertise in their respective roles within the organization. The District's staff is consistently dedicated to embracing emerging technologies and improving operational efficiencies to stay abreast of evolving industry standards, including the incorporation of cutting-edge technologies like artificial intelligence. Employees are actively exploring avenues to harness these tools effectively in the days and years to come. The District invests in leadership training and coaching as well as other training for employees.

The District has recognized one employee bargaining unit: the Santa Margarita Water District Employee Association (SMWDEA). SMWDEA represents the District's hourly and non-confidential employees, which makes up roughly two-thirds of the District's employees. The District and SMWDEA have a current memorandum of understanding extending through June 30, 2024.

SANTA MARGARITA WATER DISTRICT
Annual Comprehensive Financial Report
For the Year Ended June 30, 2023

Awards and Acknowledgements



The District's Collections Systems Team has a reputation in the community for professionalism. The team was recently recognized for their contribution to the community by their peers and received a third-place award for the Collections System of the Year by the California Water Environment Association (CWEA). The award brings statewide recognition for outstanding maintenance programs, regulatory compliance and safety and training procedures. The Collections System Team leader, the Collection Crew Chief, received the prestigious CWEA's Collection System Person of the Year Gold Award from California Water Environment Association (CWEA) for the

2022-2023 year, recognizing him for innovation and excellence in collection systems maintenance. Additionally, the District's Mechanical Maintenance Team's Crew Chief received the CWEA Mechanic Operator of the Year Award, for his outstanding performance and excellence in mechanics and maintenance.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Report to the District for its Annual Comprehensive Financial Report for the fiscal year ended June 30, 2022. This was the 9th consecutive year that the District has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a governmental entity must publish an easily readable and efficiently organized Annual Comprehensive Financial Report (ACFR). This report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current ACFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.


SANTA MARGARITA WATER DISTRICT
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For the Year Ended June 30, 2023

We would like to express our appreciation to management and all members of the District's staff, particularly the members of the Finance Department, who participated in the preparation of this report. We would also like to thank the Board for their continued interest and support in all aspects of the District's financial management.

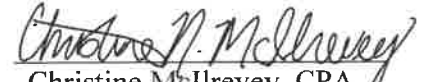
Respectfully submitted,



Donald Bunts
Deputy General Manager



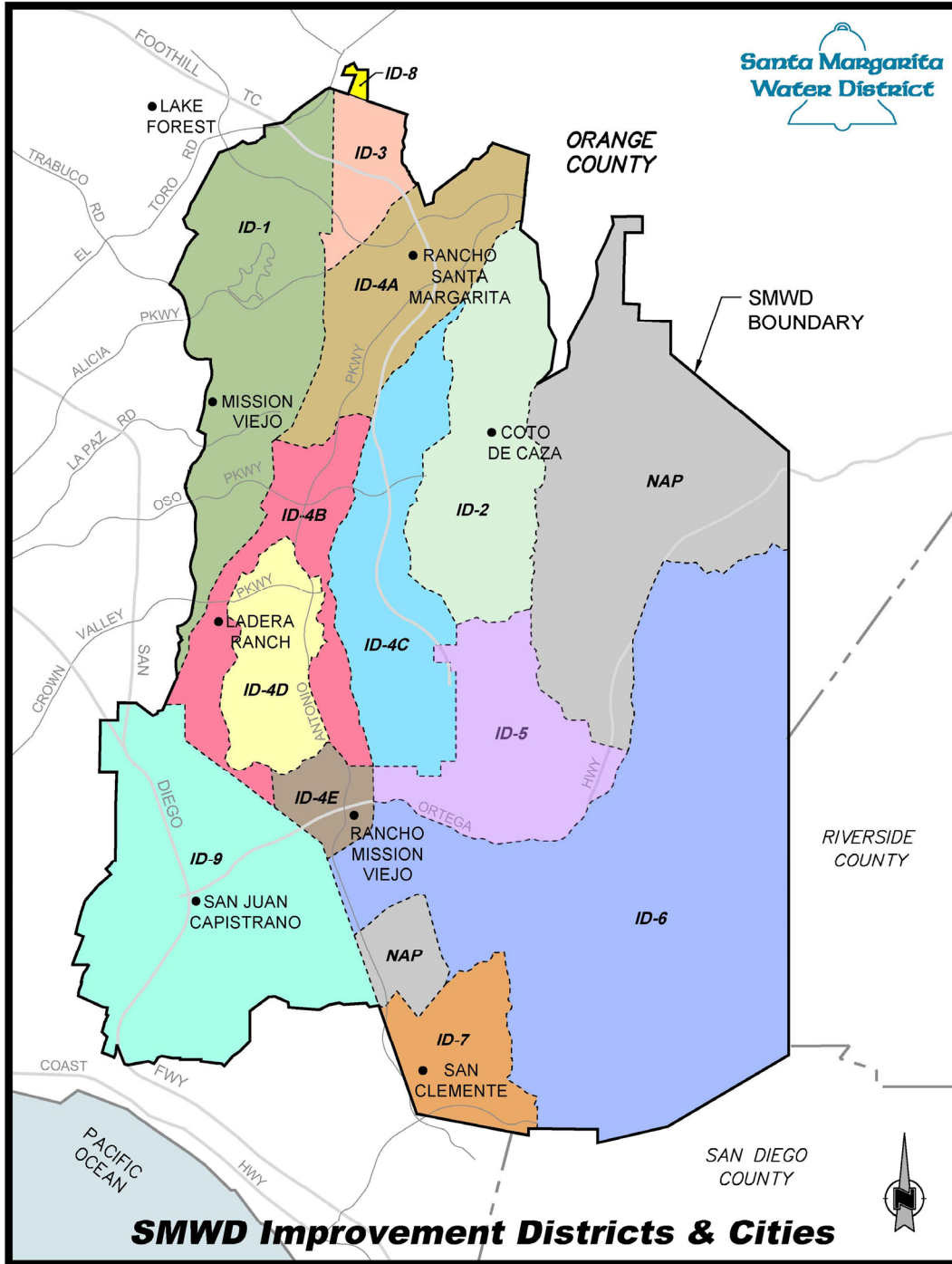
Erica Castillo, CPA
Chief Financial Officer



Christine McIlrevey, CPA
Controller

SANTA MARGARITA WATER DISTRICT
Annual Comprehensive Financial Report
For the Year Ended June 30, 2023

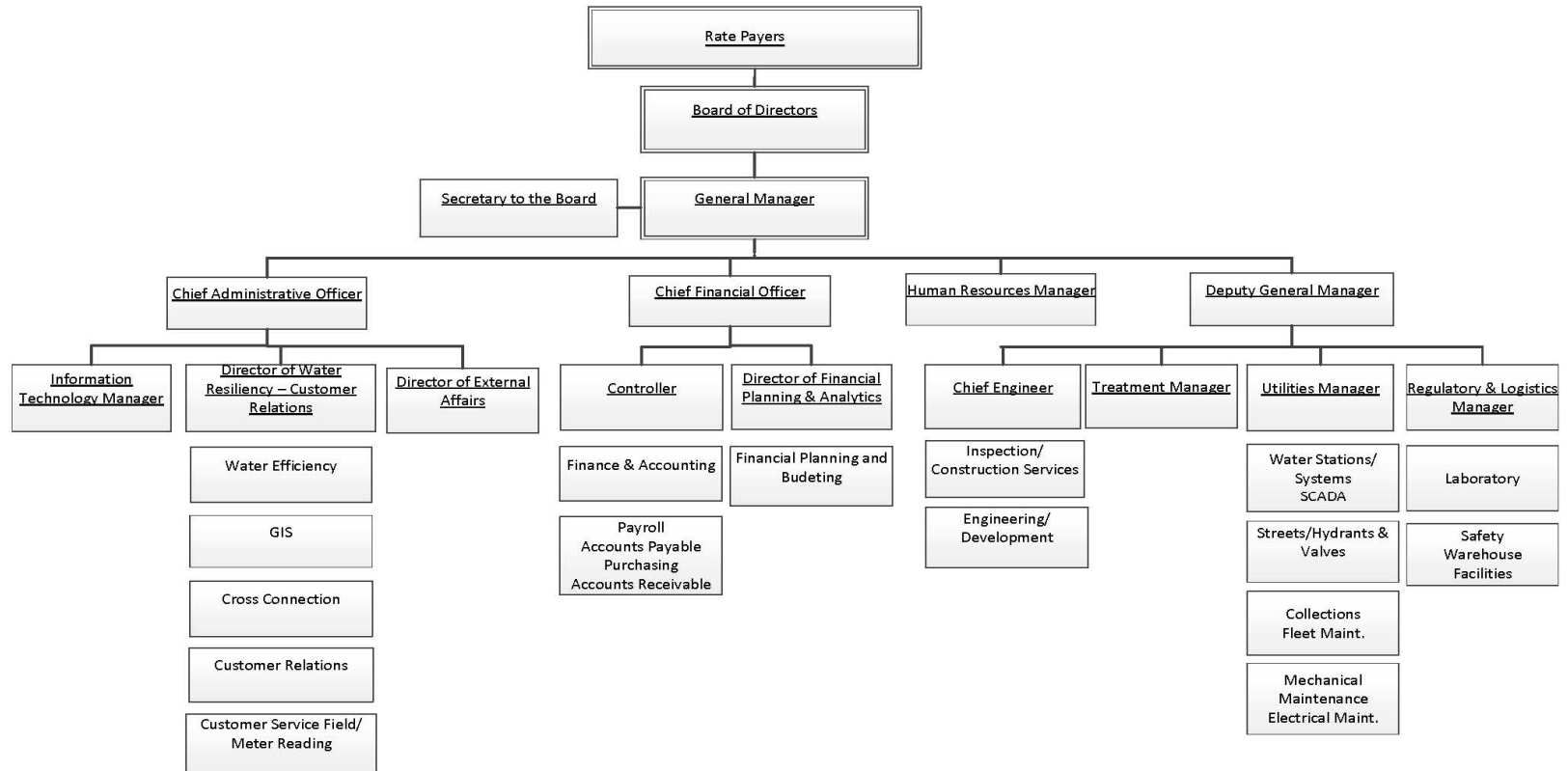
DISTRICT SERVICE AREA MAP



SANTA MARGARITA WATER DISTRICT
 Annual Comprehensive Financial Report
 For the Year Ended June 30, 2023

DISTRICT ORGANIZATIONAL STRUCTURE

Santa Margarita Water District



SANTA MARGARITA WATER DISTRICT
Annual Comprehensive Financial Report
For the Year Ended June 30, 2023

DISTRICT OFFICIALS

Elected Board of Directors:

Name	Length of Service	Current Term of Service
Betty H. Olson, Ph.D.	29 Years	2020-2024
Saundra F. Jacobs	27 Years	2022-2026
Charles T. Gibson	11 Years	2020-2024
Frank Ury	4 Years	2020-2024
Laura Freese	1 Year	2022-2026

District Management:

Name	Position
Daniel R. Ferons	General Manager
Don Bunts	Deputy General Manager
Chip Monaco	Chief Administrative Officer
Erica Castillo	Chief Financial Officer
Tricia Butler	Chief Engineer
Christine McIlrevey	Controller
Kelly Radvansky	Secretary to the Board

SANTA MARGARITA WATER DISTRICT
Annual Comprehensive Financial Report
For the Year Ended June 30, 2023

CERTIFICATE OF ACHIEVEMENT



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**Santa Margarita Water District
California**

For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

June 30, 2022

Christopher P. Morill

Executive Director/CEO

SANTA MARGARITA WATER DISTRICT
Annual Comprehensive Financial Report
For the Year Ended June 30, 2023

GLOSSARY OF TERMS USED

- **Accrual Basis of Accounting** – The basis of accounting by which revenues are recorded when earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place.
- **Accumulated Depreciation** – The amount of a long-term asset’s cost that has been allocated to depreciation expense since the time the asset is placed into service. A contra-asset account to report the accumulation of periodic credits (depreciation expense) made to reflect the expiration of the estimated service life of capital assets.
- **Asset** – Resources with present service capacity that the District presently controls.
- **Capital Assets, net** – Assets including land, operational equipment, infrastructure, and all other tangible or intangible assets that are used in operations with a value of \$5,000 or more and an estimated useful life of more than one year. Capital assets net of accumulated depreciation with the asset value.
- **Compensated Absences** – Paid time off from work for active employees. Includes general leave or sick leave during which no services are required to be rendered.
- **Current Assets** – For accounting and financial reporting purposes, the term current assets are used to designate cash and other assets or resources commonly identified as those that are reasonably expected to be realized in cash or sold or consumed within a year.
- **Current Liabilities** – The term current liabilities are used to designate short-term financial obligations that are due within one year or within a normal operating cycle.
- **Debt Service** – Debt Service is defined as the total annual payment required on bonds, loans, or other forms of indebtedness, including both principal and interest.
- **Deferred Inflow(s) of Resources** – An acquisition of net assets by the District that is applicable to a future reporting period. A deferred inflow of resources has a negative effect on net position, similar to liabilities.
- **Deferred Outflow(s) of Resources** – A consumption of net assets by the government that is applicable to a future reporting period. A deferred outflow of resources has a positive effect on net position, similar to assets.

SANTA MARGARITA WATER DISTRICT
Annual Comprehensive Financial Report
For the Year Ended June 30, 2023

GLOSSARY OF TERMS USED (Continued)

- **Depreciation** – (1) Expiration in the service life of capital assets, attributable to wear and tear, deterioration, the action of the physical elements, inadequacy, and obsolescence. (2) The portion of the cost of a capital asset, charged as an expense during a particular period. In accounting for depreciation, the cost of a capital asset, less any salvage value, is prorated over the estimated service life of such an asset, and each period is charged with a portion of such cost. Through this process, the entire cost of the asset is ultimately charged off as an expense.
- **General Obligation Bonds (GO Bonds)** – Bonds previously issued by the District based on geographically distinct Improvement Districts (see definition below). General Obligation Bonds are repaid by separate charges the District places on property tax bills. The District has not issued any General Obligation Bonds to fund new projects since 2009.
- **Generally Accepted Accounting Principles (GAAP)** – Uniform minimum standards used by state and local governments for accounting and financial reporting that have been established by the Governmental Accounting Standards Board (GASB).
- **Liabilities** – Present obligation to sacrifice resources that the District has little or no discretion to avoid.
- **Net Investment in Capital Assets** – Capital assets, net of accumulated depreciations, reduced by the outstanding balances of bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Net Position** – This residual of assets plus deferred outflows of resources, less liabilities, and less deferred inflows of resources. Net position is displayed in three components: net investment in capital assets, restricted (distinguishing between major categories or restrictions), and unrestricted.
- **Net Revenues** – All District general operating and non-operating revenues, less operating expenditures. Net revenues are pledged to certain District loan obligations and are a measure of operating margin, prior to debt service payments.
- **Non-Current Assets** – The District’s long-term investment for which the full value will not be realized within a year. Assets typically cannot easily be converted into cash.
- **Non-Current Liabilities** – Long-term financial obligations that are not due for more than a year.

SANTA MARGARITA WATER DISTRICT
Annual Comprehensive Financial Report
For the Year Ended June 30, 2023

GLOSSARY OF TERMS USED (Continued)

- **Non-Operating Revenues** – Non-operating revenues are those not considered integral to operating the District’s facilities or providing services. These revenues include property taxes, rental income, and investment income.
- **Operating Expenses** – Operating expenditures are expenses incurred to provide core water and wastewater services of the District. These include expenses such as water purchases, power expenses, salaries and repairs and maintenance.
- **Operating Revenues** – Operating revenues are those received based on providing the core water and wastewater services of the District. Such revenues principally include rates and charges for service, new meter fees, construction plan check fees, and reimbursements by other agencies for operating shared facilities.
- **Revenue Bonds** – Revenue Bonds refer to indebtedness which will be repaid by the Net Revenues of the District’s general operations.
- **Subscription-Based Information Technology Arrangements (SBITAs)** - A SBITA is defined as a contract that conveys control of the right to use another party’s information technology software, alone or in combination with tangible capital assets, as specified in the contract for a period of time in an exchange or exchange-like transaction.

FINANCIAL SECTION


Sustainable
Recycling
for
**DO NOT
DRINK**

Independent Auditor's Report

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

Opinion

We have audited the financial statements of the Santa Margarita Water District (the District), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2023, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Notes 1, 5, and 6 to the basic financial statements, the District implemented Governmental Accounting Standards Board Statement No. 96, *Subscription-Based Information Technology Arrangements*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

The District's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

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

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory and statistical sections and the combining area schedules, as listed in the table of contents, but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Macias Gini & O'Connell LLP

Irvine, California
December 27, 2023

SANTA MARGARITA WATER DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS – REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

This section of the Santa Margarita Water District's (District) annual comprehensive financial report presents Management's Discussion and Analysis (MD&A) of the District's financial performance during the fiscal year ended June 30, 2023 (FY 2023). The MD&A is to be read and considered in conjunction with additional information provided with the letter of transmittal, the basic financial statements, and accompanying notes.

FY 2023 Financial Highlights

- The District's total operating revenues were \$108.9 million in FY 2023, an increase of \$3.8 million or 3.6% from the prior fiscal year. Operations of the City of San Juan Capistrano's water and wastewater system were transferred to the District in November of the prior fiscal year. Prior year operating revenue included seven and a half months of activity, whereas FY 2023 includes an entire year (12 months) of activity resulting in an overall increase in operating revenues compared to prior year. Additionally, total operating revenues increased due to a Board approved customer rate increase effective January 1, 2023, which was equivalent to 4.5% on an annualized basis.
- During FY 2023, the District's service area experienced record wet weather conditions. These conditions lowered demand for irrigation and other water usage during the fiscal year resulting in a decrease of commodity charges for both potable and recycled water compared to the prior fiscal year. The largest decrease was reflected in recycled water sales which had an overall decrease of \$2.2 million or 18.3% compared with prior year. These decreases offset the total operating revenue increases mentioned above.
- Operating expenses increased \$8.0 million or 8.9% from the prior fiscal year (\$97.2 million from \$89.3 million). Water purchases increased \$0.5 million to \$35.4 million, totaling 36.4% of the District's annual expenses. Additionally, maintenance and operations and wastewater treatment both increased by \$1.7 million. General and administrative expenses decreased \$1.3 million compared with prior year.
- Non-operating revenues totaled \$11.8 million in FY 2023, an increase of \$6.9 million or 139.4%. Increases were primarily due to higher investment earnings earned by the District in FY 2023 of \$4.8 million compared to a loss in prior year of \$3.9 million, an increase of \$8.7 million. With rising interest rates during the fiscal year, the District's investments have yielded higher returns. Additionally, the District opened a short-term investment portfolio during the fiscal year and has invested cash in the portfolio earning a higher yield.

SANTA MARGARITA WATER DISTRICT
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2023

- Unrestricted cash and investments increased to \$156.2 million at June 30, 2023, or by \$21.7 million (16.1%) compared to the prior year. This increase was primarily due to reimbursements from bond and loan funds for prior year capital expenditures, helping to ensure the unrestricted cash position remains sufficient to meet planned needs for operations, capital projects, and reserve requirements under the District's financial policies.
- Net capital assets were \$912.4 million at June 30, 2023, an increase of \$30.3 million (3.4%). This increase was primarily due to a net increase in construction in progress of \$33.4 million in the fiscal year related to ongoing District construction projects, offset by an increase in depreciation during the fiscal year.
- The District's total liabilities increased by \$14.8 million to \$272.1 million at June 30, 2023, primarily due to an increase in loans payable to the State Water Resource Control Board for the Trampas Reservoir of \$12.6 million. Increases were primarily offset by bond and loan payments of \$5.9 million and \$2.5 million, respectively. Additionally, the District's net pension liability increased \$13.6 million (64.8%) to \$34.6 million primarily due to a negative difference in the California Public Employees' Retirement System (CalPERS) plan's actual investment losses compared to the investment earnings it had projected for the plan year. See Note 6 and Note 10 in the Notes to the Basic Financial Statements for additional information on the bonds and loans payable and the net pension liability, respectively.
- The District implemented Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*, recording \$133,318 in assets, and \$133,650 in liabilities related to the District's subscription-based IT software. See Note 1 and Note 6 in the Notes to the Basic Financial Statements for more information.

Overview of the Financial Statements

The District is a self-supporting entity that follows enterprise fund accounting and presents its financial statements on the full accrual basis of accounting. As an enterprise fund, the District's basic financial statements are comprised of two components: the financial statements and notes to the basic financial statements. The District's basic financial statements begin on page 15 of this report. The notes to the basic financial statements can be found beginning on page 21 and provide additional information that is essential to a full understanding of the data provided in the basic financial statements. This report also contains required supplementary information in addition to the basic financial statements themselves, which starts on page 66. The District's financial statements offer key, high-level financial information about the District's activities, comprised of the following main statements:

SANTA MARGARITA WATER DISTRICT
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2023

- **The Statement of Net Position** includes information on the District's assets and liabilities and deferred outflows of resources and deferred inflows of resources. Net Position is defined as the District's total assets plus deferred outflows of resources, less total liabilities, and deferred inflows of resources.
- **The Statement of Revenues, Expenses and Change in Net Position** shows changes in the District's net position based on its operating and non-operating revenues, expenses, and capital contributions during the fiscal year ended June 30, 2023.
- **The Statement of Cash Flows** provides the District's changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities and provides information on the sources and uses of the District's cash.

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

SANTA MARGARITA WATER DISTRICT
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2023

Statement of Net Position

Net Position as of June 30, 2023, increased by \$30.3 million, or 3.6%, to \$863.8 million. The largest portion of the District's net position (81%) reflects the District's investment in capital assets, net of accumulated depreciation and amortization and reduced by related outstanding debt.

Condensed Statement of Net Position

	Fiscal Year 2023	Fiscal Year 2022	Increase (Decrease)	Percent Increase (Decrease)
Assets				
Current Assets	\$ 209,664,019	\$ 209,133,732	\$ 530,287	0.3%
Capital Assets, Net	912,447,114	882,171,805	30,275,309	3.4%
Non-Current Assets	3,696,964	3,259,423	437,541	13.4%
Total Assets	<u>1,125,808,097</u>	<u>1,094,564,960</u>	<u>31,243,137</u>	2.9%
Deferred Outflows of Resources	<u>14,794,270</u>	<u>8,787,394</u>	<u>6,006,876</u>	68.4%
Liabilities				
Current Liabilities	32,800,415	33,701,640	(901,225)	(2.7%)
Non-Current Liabilities	239,310,565	223,627,188	15,683,377	7.0%
Total Liabilities	<u>272,110,980</u>	<u>257,328,828</u>	<u>14,782,152</u>	5.7%
Deferred Inflows of Resources	<u>4,643,043</u>	<u>12,524,500</u>	<u>(7,881,457)</u>	(62.9%)
Net Position				
Net Investment in Capital Assets	699,794,720	695,693,035	4,101,685	0.6%
Restricted	19,652,970	20,407,414	(754,444)	(3.7%)
Unrestricted	144,400,654	117,398,577	27,002,077	23.0%
Total Net Position	<u>\$ 863,848,344</u>	<u>\$ 833,499,026</u>	<u>\$ 30,349,318</u>	3.6%

The District's total assets increased \$31.2 million to \$1.1 billion compared with the prior year due to increases in net capital assets. Net capital assets increased \$30.3 million mainly as a result from ongoing construction of capital projects such as the Chiquita Water Reclamation Plant influent lift station screenings/electrical facility upgrades, replacement of the R6 Reservoir floating cover and liner, recycled water conversions in Las Flores, and construction of the Ranch Water Filtration Plant.

The District's total liabilities increased \$14.8 million to \$272.1 million, primarily due to an increase in non-current liabilities of \$15.7 million, or 7.0%. The increase in liabilities is primarily due to an increase in the District's net pension liability from \$21.0 million in prior year to \$34.6 million in FY 2023. The \$13.6 million (64.8%) increase in net pension liability is due to a negative difference in the CalPERS plan's actual investment losses compared to the investment earnings it had projected for the plan year. CalPERS investment returns reflected a 6% loss in FY 2023 compared to a 21% gain in the prior year.

SANTA MARGARITA WATER DISTRICT
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2023

Deferred outflows of resources increased by \$6.0 million, or 68.4%, compared to the prior year, primarily due to various valuation changes and differences between projected and actual earnings in the District's defined benefit pension plan (contained in the annual Governmental Accounting Standards Board (GASB) Statement No. 68 Accounting Valuation Report prepared by CalPERS). The CalPERS pension plan for the District recognized a \$14.2 million decrease between what the plan projected in investment earnings and the actual earnings. This was for a measurement date of June 30, 2022, which is recorded in FY 2023. This difference is recognized over a five-year period. Increases were offset by the amortization of deferred losses on defeasance of the District's General Obligation bonds.

Deferred inflows of resources decreased by \$7.9 million, to \$4.6 million compared to the prior year of \$12.5 million primarily due to the difference between projected and actual investment earnings in the pension plan. In the prior year the CalPERS pension plan for the District recognized an increase while in FY 2023 a decrease was recognized and recorded as a deferred outflow. This was offset by an increase in deferred inflows related to leases. See Note 10 and Note 4 in the Notes to the Basic Financial Statements for more information.

SANTA MARGARITA WATER DISTRICT
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2023

Condensed Statement of Revenues, Expenses and Change in Net Position

	Fiscal Year 2023	Fiscal Year 2022	Increase (Decrease)	Percent Increase (Decrease)
Operating Revenues:				
Potable Water Charges	\$ 64,353,558	\$ 61,422,930	\$ 2,930,628	4.8%
Recycled Water Charges	9,811,495	12,015,309	(2,203,814)	(18.3%)
Wastewater Charges	30,164,880	27,251,110	2,913,770	10.7%
Other Charges or Services	4,591,863	4,478,549	113,314	2.5%
Total Operating Revenues	108,921,796	105,167,898	3,753,898	3.6%
Operating Expenses:				
Water Expenses	42,479,187	41,826,015	653,172	1.6%
Wastewater Treatment	8,012,438	6,339,515	1,672,923	26.4%
Maintenance and Operations	13,420,015	11,672,276	1,747,739	15.0%
Regional Participation	612,175	287,340	324,835	113.0%
Compensation	26,834,568	21,916,600	4,917,968	22.4%
General and Administrative	5,883,697	7,214,289	(1,330,592)	(18.4%)
Total Operating Expenses before Depreciation and Amortization	97,242,080	89,256,035	7,986,045	8.9%
Depreciation and Amortization	28,615,527	26,885,529	1,729,998	6.4%
Operating (Loss)	(16,935,811)	(10,973,666)	(5,962,145)	54.3%
Non-Operating Revenues (Expenses)				
Special Assessment for Debt Service	3,223,643	3,100,584	123,059	4.0%
Property Taxes	10,098,029	9,387,515	710,514	7.6%
Investment Earnings	4,821,962	(3,922,058)	8,744,020	(222.9%)
Other Non-Operating Revenues	(1,746,125)	865,567	(2,611,692)	(301.7%)
Interest Expense	(4,563,786)	(4,489,273)	(74,513)	1.7%
Total Non-Operating Revenues (Expenses)	11,833,723	4,942,335	6,891,388	139.4%
Net Income (Loss) before Capital Contributions and Special Item				
	(5,102,088)	(6,031,331)	929,243	(15.4%)
Capital Contributions	35,451,406	27,853,152	7,598,254	27.3%
Special Item	-	60,193,880	(60,193,880)	(100.0%)
Change in Net Position	30,349,318	82,015,701	(51,666,383)	(63.0%)
Net Position Beginning of Year, as restated	833,499,026	751,483,325	82,015,701	10.9%
Net Position End of Year	\$ 863,848,344	\$ 833,499,026	\$ 30,349,318	3.6%

Statement of Revenues, Expenses and Change in Net Position

In FY 2023, the District's total operating revenues increased by \$3.8 million, or 3.6%. This increase was primarily due to the transfer of the City's water system in November of the prior year. Operating revenues in the prior year included 7 and a half months of operating revenues, whereas FY 2023 included twelve months of revenue. Additionally, there was a rate increase of 4.5% in January 2023 for Improvement District's 1-8. These increases were offset by a decline in water usage due to wet weather conditions in the District's service area in FY 2023. Commodity charges for potable and recycled water decreased \$2.6 million compared to the prior year due to the wet weather.

SANTA MARGARITA WATER DISTRICT
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2023

In FY 2023, the District's total operating expenses, before depreciation and amortization, increased by \$8.0 million, or 8.9%. This increase was partially due to only seven and a half months of expenses for Improvement District 9 (ID 9) included in the prior year and a full year (12 months) of operating expenses for ID 9 included in FY 2023. Increases include increases to maintenance and operations and wastewater treatment of \$1.7 million. Additionally, compensation expenses increased \$4.9 million partially as a result of investment losses applied by CalPERS in FY 2023 to increase the District's net pension liability. This resulted in an increase to pension expense, which is a part of total compensation expense.

Net non-operating revenues increased by \$6.9 million, or 139.4%. The increase was mainly due to a net gain in investment earnings of \$8.7 million (222.9%). During FY 2023, the District earned more in realized interest income and had positive unrealized gains. Rising interest rates and the opening of a short-term investment portfolio in FY 2023 resulted in higher yields compared to the prior year. Increases were offset by a loss on the sale or disposal of capital assets of \$3.2 million, a decrease of \$2.7 million compared to the prior year. This loss was primarily due to the demolition of the Oso Creek Water Reclamation Plant in FY 2023, which is currently undergoing new construction.

Capital contributions increased by \$7.6 million, or 27.3%. The District received \$3.9 million in capital grants in FY 2023, an increase of \$2.6 million or 190.5%. Additionally, connection fees increased by \$4.8 million (271.5%) compared to the prior year due to connection fees collected for new developments.

Capital Assets

The District's net capital assets amounted to \$912.4 million, an increase of \$30.3 million over the prior year. During FY 2023, \$14.9 million of projects were completed during the year and transferred from construction in progress to depreciable assets. This included projects such as the Pico Zone A Pump Station and the South Ranch Lift Station Pump Replacement Surge Tank. Additionally, \$11.1 million of contributed facilities were added to the District's depreciable assets during FY 2023 primarily due to in tract system improvements in new development areas. The District also purchased \$2.6 million of equipment that was added to its capital assets during the year. These increases were offset by the disposal of \$14.4 million of capital assets during the fiscal year primarily related to the demolition of the Oso Creek Water Reclamation Plant.

Construction in progress had a net increase of \$33.4 million due to additions to construction in progress in FY 2023 related to the construction of projects such as the Chiquita Water Reclamation Plant influent lift station screenings/electrical facility upgrades, replacement of the R6 Reservoir floating cover and liner, recycled water conversions in Las Flores, and construction of the Ranch Water Filtration Plant, as well as other capital repair and replacement projects. These increases were offset by projects that were completed and capitalized in FY 2023.

As of June 30, 2023, there were \$27.8 million of capital asset commitments outstanding.

SANTA MARGARITA WATER DISTRICT
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2023

Additional information regarding the District's capital assets and remaining commitments on construction projects can be found in Note 5 to the Basic Financial Statements.

	Fiscal Year 2023	Fiscal Year 2022	Increase (Decrease)	Percent Increase (Decrease)
Water Plant	\$ 712,203,118	\$ 706,485,736	\$ 5,717,382	0.8%
Sewer Plant	258,964,252	266,255,625	(7,291,373)	(2.7%)
Contributed Facilities	234,379,265	223,241,954	11,137,311	5.0%
Operational Equipment	23,489,688	21,205,463	2,284,225	10.8%
Administration Building	11,847,249	11,800,192	47,057	0.4%
Capacity Rights	67,748,233	65,380,463	2,367,770	3.6%
Miscellaneous/Master Plan	14,922,129	14,909,854	12,275	0.1%
Total Depreciable Capital Assets	<u>1,323,553,934</u>	<u>1,309,279,287</u>	<u>14,274,647</u>	1.1%
Less Accumulated Depreciation & Amortization:				
Depreciation and Amortization	557,791,534	540,490,366	17,301,168	3.2%
Net Depreciable Capital Assets	<u>765,762,400</u>	<u>768,788,921</u>	<u>(3,026,521)</u>	(0.4%)
Intangible Asset - Right to Use Leased Asset, Net	24,310	33,966	(9,656)	(28.4%)
Intangible Asset - Subscription Asset, Net	84,839	133,318	(48,479)	(36.4%)
Net Amortized Capital Assets	<u>109,149</u>	<u>167,284</u>	<u>(58,135)</u>	(34.8%)
Construction in Progress	78,515,727	45,155,762	33,359,965	73.9%
Land	64,833,594	64,833,594	-	0.0%
Land - Administration Building	3,226,244	3,226,244	-	0.0%
Total Non-Depreciable Capital Assets	<u>146,575,565</u>	<u>113,215,600</u>	<u>33,359,965</u>	29.5%
Total Capital Assets, Net	<u>\$ 912,447,114</u>	<u>\$ 882,171,805</u>	<u>\$ 30,275,309</u>	3.4%

Long Term Debt

Total long-term debt increased by \$3.1 million or 1.4% to \$213.7 million. Loans payable increased \$12.6 million due to the final reimbursement received in FY 2023 from the State Water Resources Control Board for the Trampas Reservoir project. Construction on this project completed in FY 2021 with remaining reimbursements paid from the SWRCB in FY 2022 and FY 2023. Debt was decreased due to repayment of Revenue and General Obligation bonds, loans, and amortization of net premium (discount). The following table summarizes the changes in long-term debt amounts for FY 2023.

SANTA MARGARITA WATER DISTRICT
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2023

	Balance at June 30, 2022	Additions	Transfers/ Deletions	Balance at June 30, 2023	Increase (Decrease)	Percent Increase (Decrease)
Long-Term Debt:						
Bonds Payable	\$ 114,208,117	\$ -	\$ (5,875,854)	\$ 108,332,263	\$ (5,875,854)	(5.1%)
Loans Payable	82,806,534	12,585,736	(2,546,135)	92,846,135	10,039,601	12.1%
	197,014,651	12,585,736	(8,421,989)	201,178,398	4,163,747	2.1%
Net Premium (Discount)	13,661,309	-	(1,109,177)	12,552,132	(1,109,177)	(8.1%)
Total Long-Term Debt	<u>\$ 210,675,960</u>	<u>\$ 12,585,736</u>	<u>\$ (9,531,166)</u>	<u>\$ 213,730,530</u>	<u>\$ 3,054,570</u>	<u>1.4%</u>

Additional information on the District's long-term liabilities can be found in Note 6 to the Basic Financial Statements.

Defined Benefit Pension Plan

The District offers employees a defined benefit pension plan, which is administered by the California Public Employees Retirement System (CalPERS). Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* (GASB 68) requires public employers that participate in a defined benefit pension plan to record the net pension liability, pension expense, and deferred outflows/deferred inflows of resources related to pensions in the financial statements.

The District's net pension liability at June 30, 2023, was \$34.6 million, an increase of \$13.6 million (64.8%) from the prior year. Net pension liability is the plan's total pension liability based on the entry age normal actuarial cost method less the plan's fiduciary net position. The increase was due to a decrease in plan fiduciary net position of \$5.9 million and an increase in total pension liability of \$7.7 million. The plan's fiduciary net position as a percentage of the total pension liability decreased from 82.2% in FY 2022 to 72.5% in FY 2023.

Pension expense includes the District's required payments made to CalPERS during the year, plus a recognition of the change in the net pension liability. Pension expense for the District in FY 2023 totaled \$5.0 million, an increase of \$3.2 million (168.6%) from the prior year, primarily due to an increase in the recognized changes of assumptions and projected earnings on pension plan investments. Pension expense is included in the salaries, wages and related benefits operating expense on the Statement of Revenues, Expenses and Changes in Net Position.

Deferred outflows and deferred inflows of resources related to pensions are certain changes in total pension liability and fiduciary net position that are to be recognized in future pension expense systematically over time. These amounts can fluctuate from year to year due to actuarial methods and assumptions determined by CalPERS, such as normal entry age, discount rate, mortality, and inflation. Deferred outflows of resources related to pensions increased in FY 2023 by \$6.1 million and deferred inflows of resources related to pension decreased by \$8.3 million due to the amortization of the various actuarial methods and assumptions made by CalPERS. The primary reason for the change in FY 2023 is due to losses recognized on pension plan investments for the period compared to CalPERS' earnings projections for the year.

SANTA MARGARITA WATER DISTRICT
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2023

Additional information on the defined benefit pension plan can be found in Note 10 to the Basic Financial Statements.

Fiduciary Activities

The District is the fiduciary for funds held on behalf of two Community Facilities Districts (CFD), which are related to outstanding bonds of each CFD. The District's fiduciary activities are reported in Note 13 to the basic financial statements. The District excludes these activities from its financial statements because the District is not liable under any circumstance for the repayment of the outstanding bonds.

Requests for Information

This financial report is designed to provide our customers, investors, and creditors with an overview of the District's financial operations and condition. If you have questions about this report or need additional information you may contact the District's Controller at 26111 Antonio Parkway, Rancho Santa Margarita, CA 92688.

BASIC FINANCIAL STATEMENTS



SANTA MARGARITA WATER DISTRICT
Statement of Net Position
June 30, 2023

ASSETS:

Current Assets:

Cash and investments (Note 2)	\$	156,249,664
Accrued interest receivable		322,266
Accounts receivable - water and sanitation customers, net of allowance for doubtful accounts of \$1,069,403		12,840,794
Accounts receivable - other (Note 3)		3,735,188
Leases receivable, current (Note 4)		219,489
Water and supplies inventory		5,655,390
Prepaid expenses		1,137,894
Restricted - cash and investments (Note 2)		20,756,852
Restricted - unspent bond proceeds (Note 2)		8,389,444
Restricted - property taxes receivable		252,520
Restricted - accrued interest receivable		104,518
Total Current Assets		<u>209,664,019</u>

Non-current Assets:

Leases receivable, noncurrent (Note 4)		3,696,964
Capital assets, intangible asset - right to use leased asset (Note 4 and 5)		24,310
Capital assets, intangible asset - subscription asset (Note 5)		84,839
Capital assets - not depreciated (Note 5)		146,575,565
Capital assets, net of accumulated depreciation and amortization (Note 5)		765,762,400
Total Non-current Assets		<u>916,144,078</u>

Total Assets		<u>1,125,808,097</u>
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DEFERRED OUTFLOWS OF RESOURCES:

Deferred outflows related to pension (Note 10)		13,743,440
Deferred loss on debt defeasance (Note 6)		1,050,830
Total Deferred Outflows of Resources		<u>14,794,270</u>

(Continued)

SANTA MARGARITA WATER DISTRICT
Statement of Net Position (continued)
June 30, 2023

LIABILITIES:

Current Liabilities:

Accounts payable and accrued expenses	\$	17,375,086
Accrued wages and related payables		535,136
Retentions payable and construction deposits		1,463,158
Other deposits payable		602,287
Unearned revenue		91,335
Accrued interest payable		1,402,803
Long-term liabilities - due within one year		
Lease liabilities (Note 4)		9,076
Subscription liabilities (Note 6)		48,717
Compensated absences (Note 7)		1,160,088
Bonds payable (Note 6)		6,722,457
Loans payable (Note 6)		3,390,272
Total Current Liabilities		32,800,415

Non-current Liabilities:

Long-term liabilities - due in more than one year		
Lease liabilities (Note 4)		15,234
Subscription liabilities (Note 6)		37,187
Compensated absences (Note 7)		601,500
Bonds payable (Note 6)		114,161,938
Loans payable (Note 6)		89,455,863
Reimbursement agreement advances (Note 6)		380,037
Accrued interest payable on reimbursement agreements (Note 6)		58,117
Net pension liability (Note 10)		34,600,689
Total Non-current Liabilities		239,310,565

Total Liabilities		272,110,980
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DEFERRED INFLOWS OF RESOURCES:

Deferred inflows related to pension (Note 10)		690,605
Deferred gain on debt defeasance (Note 6)		28,535
Deferred inflows related to leases (Note 4)		3,923,903
Total Deferred Inflows of Resources		4,643,043

NET POSITION:

Net investment in capital assets (Note 8)		699,794,720
Restricted for (Note 9):		
Special assessment for debt service		13,141,196
Other		6,511,774
Unrestricted		144,400,654
TOTAL NET POSITION	\$	863,848,344

See accompanying notes to the basic financial statements.

SANTA MARGARITA WATER DISTRICT
Statement of Revenues, Expenses and Change in Net Position
For the Year Ended June 30, 2023

OPERATING REVENUES:

Potable water charges:

Potable water commodity charge	\$	37,074,349
Monthly service charge		26,332,830
Transmission charge		946,379
Total potable water charges		64,353,558

Recycled water charges:

Recycled water commodity charge		7,687,564
Monthly service charge		1,748,720
Transmission charge		375,211
Total recycled water charges		9,811,495

Wastewater charges:

Wastewater commodity charge		5,839,505
Monthly service charge		24,325,375
Total wastewater charges		30,164,880

Other charges or services:

Jointly owned facilities		1,292,168
Construction related revenues		716,621
Rebates		593,163
Customer related revenues		1,061,622
Other revenues		928,289
Total other charges or services		4,591,863
Total Operating Revenues		108,921,796

OPERATING EXPENSES:

Source of supply - water purchases		35,356,741
Power		7,122,446
Maintenance and operations		13,420,015
Regional participation		612,175
Wastewater treatment		8,012,438
Salaries, wages and related benefits		26,834,568
General and administrative		5,883,697
Total Operating Expenses before depreciation and amortization expense		97,242,080

Operating income before depreciation and amortization expense		11,679,716
Depreciation and amortization expense (Note 5)		(28,615,527)
Operating loss		\$ (16,935,811)

(Continued)

SANTA MARGARITA WATER DISTRICT
Statement of Revenues, Expenses and Change in Net Position (Continued)
For the Year Ended June 30, 2023

NON-OPERATING REVENUES (EXPENSES):

Special assessment tax revenues for debt service	\$	3,223,643
Property taxes		10,098,029
Investment earnings		4,821,962
Capacity lease revenue		163
Rental revenue		1,376,798
Loss on sale of capital assets		(3,185,799)
Other non-operating revenue		62,713
Interest expense		(4,563,786)
Total non-operating revenues (expenses)		11,833,723
Loss before capital contributions		(5,102,088)

CAPITAL CONTRIBUTIONS:

Capital grants		3,941,758
Contributions from developer		11,137,310
Connection fees		6,666,537
Contributions from agencies		13,273,608
Jointly owned facilities capital reimbursements		432,193
Total capital contributions		35,451,406

Change in net position **30,349,318**

Net position, beginning of year, as restated (Note 1)		833,499,026
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Net position, end of year	\$	863,848,344
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SANTA MARGARITA WATER DISTRICT
Statement of Cash Flows
For the Year Ended June 30, 2023

Cash flows from operating activities:	
Cash receipts from customers	\$ 106,248,103
Cash receipts from others	3,716,780
Cash paid to employees for salaries and wages	(28,272,312)
Cash paid to vendors and suppliers for materials and services	(73,501,413)
Net cash provided by operating activities	8,191,158
 Cash flows from non-capital financing activities:	
Property taxes received	10,072,316
Capacity lease revenue	163
Net cash provided by non-capital financing activities	10,072,479
 Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(49,482,850)
Capital contributions	12,254,175
Capital grants	3,941,758
Proceeds from sale of capital assets	2,375
Special assessment tax revenues for debt service received	3,223,643
Proceeds from connection fees	6,666,537
Repayments of advances	(42,382)
Proceeds from new loans	12,585,736
Principal paid for bond debt service and loans payable	(8,421,989)
Interest paid for debt service	(5,536,565)
Lease and subscription payments	(57,402)
Net cash (used in) capital and related financing activities	(24,866,963)
 Cash flows from investing activities:	
Proceeds from the sale and maturity of investment securities	86,763,953
Purchase of investment securities	(87,109,660)
Investment earnings	4,661,149
Rental revenues	1,094,559
Lease receipts	289,689
Net cash provide by investing activities	5,699,690
Net decrease in cash and cash equivalents	(903,636)
Cash and cash equivalents, beginning of year	2,687,745
Cash and cash equivalents, end of year	\$ 1,784,109

(Continued)

See accompanying notes to the basic financial statements.

SANTA MARGARITA WATER DISTRICT
Statement of Cash Flows (Continued)
For the Year Ended June 30, 2023

Reconciliation of cash and cash equivalents to amounts reported on the statement of net position:

Reported on the Statement of Net Position:

Cash and investments	\$ 156,249,664
Restricted - cash and investments	20,756,852
Restricted - unspent bond proceeds	8,389,444
Total cash and investments - per statement of net position	185,395,960

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

Investments	(183,611,851)
Total cash and cash equivalents	\$ 1,784,109

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

Operating loss	\$ (16,935,811)
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Adjustments to reconcile operating loss to net cash provided by operating activities:

Depreciation and amortization expense	28,615,527
Other revenue	62,713

Change in assets and liabilities:

(Increase) decrease in assets:

Accounts receivable - water and sanitation customers	1,918,170
Accounts receivable - other	(911,118)
Water and supplies inventory	(1,886,668)
Prepaid expenses	(53,562)

Increase (decrease) in liabilities:

Accounts payable and accrued expenses	(1,328,717)
Accrued wages and related payables	(663,633)
Retentions payable and construction deposits	175,046
Other deposits payable	(36,025)
Unearned revenue	9,347
Net pension liability	13,608,553
Deferred outflows/inflows related to pensions	(14,425,582)
Compensated absences	42,918
Total adjustments	25,126,969
Net cash provided by operating activities	\$ 8,191,158

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

Amortization of premiums and discounts	\$ 1,109,177
Amortization of deferred gain/loss on defeasance	(116,522)
Contributed facilities, water plant and sewer plant	12,588,936
Loss on disposal of capital assets	(3,188,174)
Terminated capital projects	(233,506)
Unrealized gain on investments	7,225

See accompanying notes to the basic financial statements.

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2023

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Santa Margarita Water District (District) was established on December 23, 1964, under provisions of the California Water District Law (Section §34000, et seq. of the California Water Code). At the time of its formation, the District encompassed approximately 41,400 acres. Its area has been expanded to approximately 71,250 acres through a series of annexations (and one de-annexation). Individual improvement districts, of which there are presently 9 with sub-districts, function as a basis for operational and capital planning, as well as the authorization and sale of bonds.

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

The criteria used in determining the scope of the financial reporting entity is based on the provisions of the GASB. The District is a special-purpose governmental unit based on the foundation of a separate governing board that is elected by the citizens in a general popular election. There are no component units associated with the District. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable if it appoints a voting majority of the organization's governing body and 1) it is able to impose its will on that organization, or 2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

Basis of Accounting and Measurement Focus

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

Operating revenues and expenses result from providing potable water, wastewater and recycled water services associated with the principal activity of the District. Operating revenues include potable water, wastewater and recycled water service charges. Operating expenses include water purchases and wastewater disposal costs, salaries and benefits and depreciation on capital assets.

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

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

Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses. Non-operating revenues and expenses, such as special assessments, property taxes, investment income and interest expense, result from non-exchange transactions. Non-exchange transactions are when the District gives (receives) value without directly receiving (giving) value in exchange.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, deferred inflows and outflows of resources, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts for revenues and expenses for the reporting period. Actual results may differ from those estimates.

Cash Equivalents and Investments

The District has adopted an investment policy directing the Treasurer to deposit funds in financial institutions.

Substantially all the District's cash is invested in interest bearing cash accounts and is recorded at cost. The District considers all highly liquid investments purchased with maturities of three months or less to be cash equivalents.

The District records investments at fair value and changes in fair value are recorded as unrealized gains or losses. All demand deposits and certificates of deposit held by a bank are entirely insured or collateralized with securities having a fair value of at least 10% in excess of the total amount of funds on deposit. Investment income is comprised of interest earnings, changes in fair value, and any gains or losses realized upon the liquidation on or sale of investments.

Restricted Section 115 Pension Trust Cash and Investments

All assets in the Section 115 Pension Trust (Trust) are irrevocably dedicated to funding obligations of the District's pension beneficiaries or costs of administering the Trust. The funds are not considered plan assets of the pension plan and are therefore considered restricted assets of the District.

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

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

Fair Value

The District measures investments at fair value, or the price that would be received to sell an asset or paid to transfer a liability. Valuations are obtained by using quotations obtained from independent published sources. The District values its assets by using the market approach, cost approach or income approach, as appropriate. The District values its investments into 3 categories: level 1, quoted prices for identical assets in active markets; level 2, other than quoted prices included in level 1, including quoted prices for similar assets in active markets and quoted prices for identical assets in markets that are not active; and level 3, unobservable inputs for an asset or liability. Note 2 contains additional information on permissible investments per the California Government Code and District Investment Policy.

Restricted Assets

Amounts shown as restricted assets are to be used for specified purposes, such as servicing general obligation bond debt and the construction of capital assets. Such assets have been restricted by either bond indenture, law or contractual obligation.

Concentration

The District currently purchases most of its potable water from the Metropolitan Water District of Southern California (MET) and is paid through the Municipal Water District of Orange County (MWDOC). The District also acquired the San Juan Groundwater Plant through the annexation of the City of San Juan Capistrano's water and wastewater system, which provides access to groundwater for the District. Additionally, the District has a contract with the Irvine Ranch Water District to purchase water from Irvine Lake in select circumstances. However, this amount of water is currently insignificant.

Inventories

Inventories consist of purchased water and groundwater held in reservoirs, recycled water held in reservoirs, and supplies inventory including water meters, pipe, meter boxes and other materials required to maintain the District's water and sewer system. Non-water related inventories are recorded at historical cost. Water inventory is valued at average cost per acre-foot through the MWDOC. Recycled water inventory is calculated at average cost per acre-foot to produce recycled water.

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

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

Capital Assets

Capital assets are stated at historical cost or the estimated historical cost if actual cost is not available. Donated assets which consist of land, tract facilities and other capital assets contributed by developers are recorded as contributed facilities based on acquisition value at date of donation. Depreciation of capital assets is charged as an expense against operations. Depreciation is recorded using the straight-line method based on estimated lives which range from 3 to 100 years, consisting primarily of operational equipment over 5 to 15 years; water plant, power plant and administrative building over 40 years; mains and other conduits over 60 to 75 years; and reservoirs over 100 years. Capital outlays that cost \$5,000 or more and that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

The District also owns intangible assets which include capacity rights, intangible right-to-use lease assets and right-to-use subscription assets. Capacity rights are amounts for acquiring rights to water in pipelines owned and maintained by other agencies. The value of capacity rights is equal to the amounts spent for the construction of capital assets, such as pipelines, pumping facilities and storage facilities, and are amortized over the life of the asset or the term of the agreement, whichever is less. Intangible right-to-use lease assets are based on the underlying leased asset in accordance with GASB Statement No. 87, *Leases*. The intangible right-to-use lease asset is amortized each year for the term of the lease. Intangible right-to-use subscription assets are based on the underlying IT software used by the District in accordance with GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*. Subscription assets are amortized using the straight line method over the shorter of the subscription term or the useful life of the underlying IT asset, unless the subscription contains a purchase option that the District has determined is reasonably certain of being exercised. In this case, the subscription asset is amortized for the useful life of the underlying IT asset.

Accounts Receivable Uncollectible Accounts

The District extends credit to customers in the normal course of operations. The District maintains an allowance for doubtful accounts for amounts outstanding more than 45 days and amounts over \$50 are sent first to collections and are written off once no further amounts are recovered.

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

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

Property Taxes and Special Assessments

The County of Orange Assessor’s Office assesses all real and personal property within the County each year. The County of Orange Tax Collector’s Office bills and collects the District’s share of property taxes and special assessments. The County of Orange Treasurer’s Office remits current and delinquent tax collections to the District throughout the year. Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent (1%) of countywide assessed valuations. Secured property tax revenues are recognized on a full accrual basis. At year-end an accrual for the remaining unpaid taxes levied for the tax year is recorded. Ad valorem 1% general property taxes are the secondary pledge to the General Obligation Bonds based on the bond covenants.

Property taxes receivable at year-end are related to property taxes and special assessments collected by the County of Orange pertaining to the current tax year, which have not been remitted to the District as of June 30. The property tax calendar is as follows:

Lien date	January 1
Levy date	July 1
Due dates	November 1 and March 1
Delinquent dates	December 10 and April 10

Prepaid Expenses and Other Deposits

Certain payments to vendors reflect costs or deposits applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.

Deferred Gain or Loss on Debt Defeasance

The advance refunding of certain bonds resulted in refunding gains or losses. Losses are included as deferred outflows of resources and gains are included as deferred inflows of resources on the accompanying Statement of Net Position and are amortized over the shorter of maturity of the refunding debt or the remaining maturity of the refunded debt.

Interest Expense

The District incurs interest charges on bonds and notes payable. Interest expense during the year ended June 30, 2023, totaled \$4,563,786. Bond premiums and discounts and deferred gains and losses on refunded debt are deferred and amortized over the life of the bonds using the effective interest method.

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

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

Compensated Absences

The District’s personnel policies provide for the accumulation of general leave for vacation and sick time. Full-time employees earn from 140 to 272 hours per year, depending on their length of employment. General leave may be accumulated to a maximum of twice the employee’s annual entitlement or 400 hours, whichever occurs first. Eligible part-time employees accrue general leave on a pro-rata based on the number of hours worked in a regular workweek divided by 40 hours. All accrued and unused general leave is paid to the employee upon termination of employment or retirement. The District’s policies also provide the option to employees of earning compensatory time off in lieu of overtime pay, up to a maximum of 80 hours. Unused compensatory time off is paid to the employee in December of each year. The cost of vested or accumulated general leave and compensatory time off is accrued as an expense as benefits are incurred to the employee.

Net Pension Liability

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to the net pension liability, and pension expenses, information about the fiduciary net position of the California Public Employees’ Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans’ fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Deferred outflows of resources and deferred inflows of resources represent the effects on the net pension liability that have occurred after the liability was measured or differences between amounts based on the assumptions versus actual results. These amounts are amortized between a one and five-year period.

GASB requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2021
Measurement Date	June 30, 2022
Measurement Period	July 1, 2021 to June 30, 2022

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

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

Net Position

Net position consists of the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources. Restricted net position is used before unrestricted net position if expenses are incurred for purposes where both restricted and unrestricted net position are available. Net position is categorized as follows:

Net Investment in Capital Assets – This component of net position consists of capital assets, net of accumulated depreciation and amortization and reduced by any debt outstanding used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows or resources that are attributable to the acquisition, construction or improvement of those assets or related debt are included in this component of net position.

Restricted – This component of net position consists of assets that have limitations imposed on their use through external restrictions imposed by creditors or other state and federal government regulatory agencies. These are then reduced by liabilities related to those assets.

Unrestricted – This component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the net investment in capital assets or restricted net position.

New Accounting Pronouncements

Adopted in the Current Year

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. Effective for the District’s fiscal year ended June 30, 2023. There was no impact to the District.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*. Effective for the District’s fiscal year ended June 30, 2023. 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. Implementation of the Statement did not have a significant effect on the District’s financial statements for the year ended June 30, 2023. Upon implementation of this Statement, the District recognized subscription liabilities and subscription assets. The adoption of Statement No. 96 resulted in an increase in capital assets of \$133,318 and liabilities of \$133,650 as of July 1, 2022.

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

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

Beginning net position was restated to retroactively adopt the provisions of GASB Statement No. 96 as follows:

Net position at June 30, 2022, as previously reported	\$ 833,499,358
Add capital assets, intangible asset - subscription asset under GASB Statement No. 96 at July 1, 2022	133,318
Less subscription liabilities under GASB Statement No. 96 at July 1, 2022	<u>(133,650)</u>
Net position at July 1, 2022, as restated	<u><u>\$ 833,499,026</u></u>

GASB Statement No. 99, *Omnibus 2022*. Effective for the District’s fiscal year ended June 30, 2023. There was no impact to the District.

Effective in Future Years

The GASB has issued pronouncements that may impact future financial presentations. Management has not currently determined the impact, if any, of the newly issued pronouncements.

GASB Statement No. 100, *Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62*. Effective for the District’s fiscal year ending June 30, 2024.

GASB Statement No. 101, *Compensated Absences*. Effective for the District’s fiscal year ending June 30, 2025.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments as of June 30, 2023, are classified in the accompanying financial statements as follows:

Cash and investments	\$ 156,249,664
Restricted - cash and investments	
Special assessments for debt service	14,602,116
Investments for Section 115 Pension Trust	6,154,736
Bond proceeds for capital projects in non-current	8,389,444
Total cash and investments	<u><u>\$ 185,395,960</u></u>
Cash and cash equivalents	<u>\$ 1,784,109</u>
Money market mutual funds	8,328,942
Investments	<u>175,282,909</u>
Total investments	<u>183,611,851</u>
Total cash and investments	<u><u>\$ 185,395,960</u></u>

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

NOTE 2 – CASH AND INVESTMENTS (Continued)

Fair Value Measurement

The District categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs, which includes quoted prices for similar assets in active markets, quoted prices for identical assets in markets that are not active, or inputs other than quoted prices that are observable for the asset such as, interest rates and yield curves observable at commonly quoted intervals, implied volatilities, and credit spreads; and Level 3 inputs are significant unobservable inputs.

The District has the following recurring fair value measurements as of June 30, 2023:

	Fair Value Measurement			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Treasury	\$ 42,133,517	\$ 42,133,517	\$ -	\$ -
Federal Agency	9,203,664	-	9,203,664	-
Remics and Other Govt Paydowns	3,179,329	-	3,179,329	-
Supranationals	636,123	-	636,123	-
Municipal Bonds	3,350,920	-	3,350,920	-
Commercial Paper	2,964,011	-	2,964,011	-
Corporate Bonds	16,983,078	-	16,983,078	-
Asset-Back Securities	4,618,534	-	4,618,534	-
Section 115 Pension Trust:				
Mutual Funds - Bonds	3,595,311	3,595,311	-	-
Mutual Funds - Equities	2,546,030	2,546,030	-	-
Mutual Funds - Other	13,395	13,395	-	-
Sub-Total	\$ 89,223,912	\$ 48,288,253	\$ 40,935,659	\$ -

Investments Not Subject to Fair Value Hierarchy:

Joint Powers Authority Investment Pool*	\$ 76,940,794
Local Agency Investment Fund*	9,118,203
Money Market Mututal Funds*	4,061,345
Held by Fiscal Agent:	
Money Market Mutual Funds*	4,267,597
Total	\$ 183,611,851

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

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

NOTE 2 – CASH AND INVESTMENTS (Continued)

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

The table below identifies the investment types that are authorized for the District by the California Government Code and the District’s investment policy. The table also identifies certain provisions of the California Government Code (or the District’s investment policy, if more restrictive) that address interest rate risk and concentration of credit risk. This table does not address investment of debt proceeds held by bond trustee that are governed by the provisions of the debt agreements of the District, rather than the general provisions of the California Government Code or the District’s investment policy

Investment Types Authorized by State Law	Authorized By Investment Policy	*Maximum Maturity	*Maximum Percentage of Portfolio	*Maximum Investment in One Issuer
U.S. Treasury	Yes	5 years	80% *	80% *
Federal Agency	Yes	5 years	80% *	80% *
Municipal Bonds	Yes	5 years	30% *	10% *
Medium-Term Corporate Notes***	Yes	5 years	30%	30%
Supranationals	Yes	5 years	30%	30%
Banker's Acceptances***	Yes	180	40%	30% *
Negotiable Certificates of Deposit	Yes	5 years	20%**	20% *
Placement Service Deposits	Yes	5 years	20%**	20% *
Non-negotiable Certificates of Commercial Paper***	Yes	270	25% *	25% *
Collateralized Securities	No	N/A	N/A	N/A
Asset-Backed Securities	Yes	5 years	20%	20%
Repurchase Agreements	Yes	1 year	100%	100%
Reverse Repurchase Agreements	No	N/A	N/A	N/A
Mutual Funds	No	N/A	N/A	N/A
Money Market Mutual Funds	Yes	N/A	20%	10% *
County Pooled Investment Funds	No	N/A	N/A	N/A
Local Agency Investment Fund (LAIF)	Yes	N/A	100%	Up to \$75 million *
JPA Pools (other investment pools)	Yes	N/A	20% *	20% *

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

** The combined maximum cannot exceed 30%.

*** Only allowed if managed externally.

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

NOTE 2 – CASH AND INVESTMENTS (Continued)

Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District’s investment policy. The table below identifies the investment types that are authorized for investments held by the bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Allowed	Maximum Investment in One Issuer
U.S. Treasury	None	100%	100%
Federal Agency	None	100%	100%
Municipal Bonds	None	100%	100%
Banker's Acceptances	1 year	100%	100%
Negotiable Certificates of Deposit	365 days	100%	100%
Commercial Paper	270 days	100%	100%
Investment Contracts	None	100%	100%
Repurchase Agreements	None	100%	100%
Money Market Mutual Funds	N/A	100%	100%
Local Agency Investment Fund (LAIF)	None	100%	100%

Investments Authorized by Section 115 Pension Trust

The District has established a Section 115 Pension Trust (Trust). The Trust is intended to provide funding for the District’s retirement benefits provided by the California Public Employees Retirement System (CalPERS). Investments of the Trust are governed by the provisions of the Trust’s investment policy, rather than the general provisions of the California Government Code or the District’s investment policy. The following table identifies the investment types that are authorized by the Trust’s Investment Policy

Asset Class	Minimum Percentage Allowed	Maximum Percentage Allowed
<i>Total Growth Assets</i>	<i>20%</i>	<i>60%</i>
Equities – Domestic	6%	46%
Equities – International	0%	34%
Other	0%	10%
<i>Total Income Assets</i>	<i>40%</i>	<i>80%</i>
Fixed Income	40%	80%
Other	0%	10%
<i>Real Return Assets</i>	<i>0%</i>	<i>10%</i>
<i>Cash Equivalents</i>	<i>0%</i>	<i>20%</i>

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

NOTE 2 – CASH AND INVESTMENTS (Continued)

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. Information about the sensitivity of the fair values of the District investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the District investments by maturity:

	<u>Total</u>	<u>Remaining Maturity in Months</u>		
		<u>12 Months or Less</u>	<u>13 to 24 months</u>	<u>25 to 60 months</u>
U.S. Treasury	\$ 42,133,517	\$ 10,710,165	\$ 4,633,655	\$ 26,789,697
Federal Agency	9,203,664	3,945,169	4,409,135	849,360
Federal Agency MBS	3,179,329	351,785	642,007	2,185,537
Supranationals	636,123	-	636,123	-
Municipal Bonds	3,350,920	-	2,030,482	1,320,438
Medium-Term Corporate Notes	16,983,078	1,938,835	6,732,604	8,311,639
Asset-Backed Securities	4,618,534	62,946	201,286	4,354,302
Commercial Paper	2,964,011	2,964,011	-	-
JPA Investment Pool	76,940,794	76,940,794	-	-
Local Agency Investment Fund	9,118,203	9,118,203	-	-
Money Market Mutual Funds	4,061,345	4,061,345	-	-
Section 115 Pension Trust:				
Mutual Funds - Bonds	3,595,311	3,595,311	-	-
Mutual Funds - Equities	2,546,030	2,546,030	-	-
Mutual Funds - Other	13,395	13,395	-	-
Held by Fiscal Agent:				
Money Market Mutual Funds	4,267,597	4,267,597	-	-
Total	\$ 183,611,851	\$ 120,515,586	\$ 19,285,292	\$ 43,810,973

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

NOTE 2 – CASH AND INVESTMENTS (Continued)

Disclosures Related to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District uses Standard & Poor’s ratings, if available. A Moody Investment Service’s rating is used if there is no Standard & Poor’s rating available. Presented below is the actual rating as of year-end for each investment type, and the minimum rating required by (where applicable) the California Government Code, the District investment policy, or debt agreements.

Investment Type	Total	Minimum Legal Rating*	Rating as of Year Ended June 30, 2023					
			Not Rated	AAA to AAAm	AA+	AA to AA-	A+ to A-	A-1 to A-1+
U.S. Treasury	\$ 42,133,517	N/A	\$ -	\$ -	35,883,039	\$ -	\$ -	\$ 6,250,478
Federal Agency	9,203,664	N/A	-	-	5,705,725	-	-	3,497,939
Federal Agency CMO	3,179,329	N/A	-	-	3,179,329	-	-	-
Supranationals	636,123	AA	-	636,123	-	-	-	-
Municipal Bonds	3,350,920	N/A	-	1,225,553	761,711	1,363,656	-	-
Medium-Term Corporate Notes	16,983,078	A	-	-	641,064	3,994,844	12,347,170	-
Commercial Paper	2,964,011	A	-	-	-	-	-	2,964,012
Asset-Backed Securities	4,618,534	AA	-	4,618,534	-	-	-	-
Joint Powers Authority Pool:								
CAMP	76,940,794	N/A	76,940,794	-	-	-	-	-
Local Agency Investment Fund	9,118,203	N/A	9,118,203	-	-	-	-	-
Money Market Mutual Fund	4,061,345	AAA	-	4,061,345	-	-	-	-
Section 115 Pension Trust:								
Mutual Funds - Bonds	3,595,311	N/A	-	3,595,311	-	-	-	-
Mutual Funds - Equities	2,546,030	N/A	-	2,546,030	-	-	-	-
Mutual Funds - Other	13,395	N/A	-	13,395	-	-	-	-
Held by Fiscal Agent:								
Money Market Mutual Funds	4,267,597	AAA	-	4,267,597	-	-	-	-
Total	\$ 183,611,851		\$ 86,058,997	\$ 20,963,888	\$ 46,170,868	\$ 5,358,500	\$ 12,347,170	\$ 12,712,429

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

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

NOTE 2 – CASH AND INVESTMENTS (Continued)

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Custodial credit risk generally applies only to direct investment in marketable securities. Custodial credit risk does not apply to a local government's indirect investment securities through the use of mutual funds or government investment pools (such as LAIF). The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provisions for deposits:

- The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit).
- The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies.
- California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

For investments held by bond trustee, the bond trustee selects the investments under the terms of the applicable trust agreement, acquires the investment, and holds the investment on behalf of the District in a third-party safe keeping account at either Bank of New York, Computershare, Principal or U.S. Bank.

Joint Powers Authority Pool

The District is a voluntary participant in a Joint Powers Authority (JPA), the California Asset Management Program (CAMP), which is a permitted investment under California Government Code §53601(p). CAMP is directed by a Board of Trustees, which is made up of experienced local government finance directors and treasurers. CAMP determines fair value on its investment portfolio based on amortized cost. The District measures the value of its CAMP investment at the fair value amount provided by CAMP. At June 30, 2023, CAMP had a total portfolio of approximately \$16 billion of which all was invested in non-derivative financial products. The average maturity of CAMP investments was 26 days as of June 30, 2023. As of June 30, 2023, the District's total investment in CAMP was \$76,940,794.

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

NOTE 2 – CASH AND INVESTMENTS (Continued)

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section §16429 under the oversight of the Treasurer of the State of California. The fair value of the District’s investment in this pool is reported in the accompanying financial statements at amounts based upon the District’s pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. LAIF is part of the California Pooled Money Investment Account (PMIA): included in LAIF’s investment portfolio are mortgage-backed and other asset-backed securities, loans to certain state funds, securities with interest rates that vary according to changes in rates greater than a one-for-one basis, and structured notes. At June 30, 2023, LAIF had a total portfolio of approximately \$177.0 billion. The average maturity of PMIA investments was 260 days as of June 30, 2023. The amounts invested in LAIF are recorded as cash and investments. As of June 30, 2023, the District’s total investment in LAIF was \$9,118,204, which included investments of debt proceeds held by bond trustees of \$ 9,116,741.

NOTE 3 – ACCOUNTS RECEIVABLE, OTHER

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

Department of Water Resources	\$ 1,777,701
County of Orange	691,774
Rancho Mission Viejo, LLC	503,845
Moulton Niguel Water District	176,141
Quest Diagnostics/Nichols Institute	135,926
Trabuco Canyon Water District	121,271
Municipal Water District of Orange County	78,132
South Coast Water District	77,908
Verizon	33,152
City of San Clemente	30,565
Sprint	30,144
Fenner Valley Water Authority	27,552
Ritchie Bros Auctioneers, Inc.	23,560
Department of Community Services and Development	9,086
Other Various	18,431
Total Accounts Receivable - Other, net	\$ 3,735,188

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

NOTE 4 – LEASES

The District has several leasing arrangements, summarized below:

Lessee:

The District entered into lease agreements in prior years to lease three digital copier machines. These are non-cancelable for a period of 5 years each. Under the terms of these leases, the District pays an amount between \$101 and \$467 each month over the life of the agreement. At June 30, 2023, the District recognized right to use assets of \$15,936 and lease liabilities of \$15,936 related to these agreement. During the fiscal year, the District recorded \$7,211 in amortization expense and \$1,260 in interest expense for the right to use the copier equipment. The District used an incremental discount rate of 0.5281%, based on the implicit interest rate in one of the agreements.

The District has an agreement to lease a postage machine. This is a non-cancelable lease for a period of sixty-three months with an automatic extension on a quarter-by-quarter basis. Under the terms of this lease, the District pays \$255 each month over the life of the agreement. At June 30, 2023, the District has recognized a right to use asset of \$8,374 and a lease liability of \$8,374 related to this agreement. During the fiscal year, the District recorded \$2,445 in amortization expense and \$615 in interest expense for the right to use the postage meter. The District used an incremental discount rate of 0.5281%, based on the interest rate for similar lease agreements.

Remaining obligations associated with these leases are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2024	\$ 9,076	\$ 1,264	\$ 10,340
2025	7,923	738	8,661
2026	7,268	226	7,494
2027	43	-	43
Total	<u>\$ 24,310</u>	<u>\$ 2,228</u>	<u>\$ 26,538</u>

The District amortized the right to use lease assets as follows during the fiscal year:

	Balance at June 30, 2022	Additions	Deletions	Balance at June 30, 2023
Digital copiers	\$ 23,147	\$ -	\$ (7,211)	\$ 15,936
Mail postage machine	10,819	-	(2,445)	8,374
Total, lease assets	<u>\$ 33,966</u>	<u>\$ -</u>	<u>\$ (9,656)</u>	<u>\$ 24,310</u>

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

NOTE 4 – LEASES (Continued)

Lessor:

The District licenses (leases) a portion of its land for cellular tower antenna sites. These cell site leases either have a cancelable or non-cancelable right to use the land. Those that have a cancelable right to use are not subject to GASB 87 and are leases in which either the District or the lessee can cancel the lease within 30 days. These lease payments are recognized as rental revenue when payments are received. Non-cancelable leases are subject to GASB 87 and are those that the District leases the land for a period of between 5 to 10 years, with additional renewal periods of 5 years each. The District believes the licensees of these leases will exercise the renewal options with reasonable certainty. These agreements allow for 3% annual increases to the license payments and, at termination, lessees must remove all equipment and restore the site to its original state. During the fiscal year, the District had \$702,967 of total lease additions which were related to one new cell site lease with AT&T and equipment added at four existing cell site lease sites. The District recognized \$214,234 in lease revenue and \$137,770 in interest income related to its eight non-cancelable cell site lease agreements. At June 30, 2023, the District recorded \$3,775,506 in lease receivables and deferred inflows of resources for these arrangements. The District used an annual interest rate of between 2.76% and 5.05% based on the rates available to finance real estate or machinery and equipment over the same time periods.

The District leased a portion of its headquarters for office space use during fiscal year 2023. This lease was non-cancelable for a period of 10 years, with two additional renewal periods of 5 years each. The initial lease term ended in fiscal year 2023 and the tenant did not exercise the renewal option, terminating the lease. During the fiscal year, the District recognized \$58,266 in lease revenue and \$636 in interest income related to this agreement. At June 30, 2023, the District had no lease receivables and deferred inflows of resources for this arrangement.

The District leases a portion of its land and facilities at Upper Oso Reservoir for use by the Boy Scouts of America. This lease is non-cancelable for a period of 25 years, with an option to extend an additional 15 years. The District is not reasonably certain that the renewal period will be exercised. The agreement is for an agreed upon fixed annual payment to be paid monthly. During the fiscal year, the District recognized \$10,693 in lease revenue and \$8,807 in interest income related to these agreements. At June 30, 2023, the District recorded \$140,947 in lease receivables and deferred inflows of resources for these arrangements. The District used an annual interest rate of 6.00% based on the rate explicit in the lease agreement.

	Balance at June 30, 2022	Additions	Deletions	Balance at June 30, 2023
License agreements	\$ 3,293,270	\$ 702,967	\$ (220,731)	\$ 3,775,506
Headquarters office lease agreement	58,266	-	(58,266)	-
Upper Oso Reservoir lease agreement	151,639	-	(10,692)	140,947
Total leases receivable	<u>\$ 3,503,175</u>	<u>\$ 702,967</u>	<u>\$ (289,689)</u>	<u>\$ 3,916,453</u>

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

NOTE 4 – LEASES (Continued)

Remaining amounts to be received associated with these leases are as follows:

Fiscal Year Ended June 30,	Lease Revenue	Interest	Total
2024	\$ 219,489	\$ 132,057	\$ 351,546
2025	236,937	125,444	362,381
2026	255,298	118,262	373,560
2027	206,997	110,886	317,883
2028	134,410	106,068	240,478
2029-2033	856,354	455,102	1,311,456
2034-2038	1,142,396	282,437	1,424,833
2039-2042	864,572	61,820	926,392
Total	<u>\$ 3,916,453</u>	<u>\$ 1,392,076</u>	<u>\$ 5,308,529</u>

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

NOTE 5 – CAPITAL ASSETS

For fiscal year ended June 30, 2023, capital assets activity, including lease assets and subscription assets, for the District was as follows:

	Balance at June 30, 2022 ⁽¹⁾	Additions	Transfers	Dispositions/ Retirements	Balance at June 30, 2023
Depreciable capital assets:					
Water plant	\$ 706,485,736	\$ 24,583	\$ 5,783,123	\$ (90,324)	\$ 712,203,118
Sewer plant	266,255,625	-	6,450,350	(13,741,723)	258,964,252
Contributed facilities	223,241,954	11,137,311	-	-	234,379,265
Operational equipment	21,205,463	2,616,593	279,982	(612,350)	23,489,688
Administration building	11,800,192	-	47,057	-	11,847,249
Capacity Rights	65,380,463	-	2,367,770	-	67,748,233
Miscellaneous/Master Plan	14,909,854	-	12,275	-	14,922,129
Total depreciable capital assets	<u>1,309,279,287</u>	<u>13,778,487</u>	<u>14,940,557</u>	<u>(14,444,397)</u>	<u>1,323,553,934</u>
Less accumulated depreciation:					
Water plant	(251,761,803)	(13,854,758)	-	60,619	(265,555,942)
Sewer plant	(135,641,704)	(6,000,875)	-	10,597,694	(131,044,885)
Contributed facilities	(116,059,153)	(4,866,181)	-	-	(120,925,334)
Operational equipment	(14,471,665)	(1,335,712)	-	597,911	(15,209,466)
Administration building	(8,925,894)	(363,538)	-	-	(9,289,432)
Capacity Rights	(10,960,819)	(1,424,457)	-	-	(12,385,276)
Miscellaneous/Master Plan	(2,669,328)	(711,871)	-	-	(3,381,199)
Total accumulated depreciation	<u>(540,490,366)</u>	<u>(28,557,392)</u>	<u>-</u>	<u>11,256,224</u>	<u>(557,791,534)</u>
Net depreciable capital assets	<u>768,788,921</u>	<u>(14,778,905)</u>	<u>14,940,557</u>	<u>(3,188,173)</u>	<u>765,762,400</u>
Amortized capital assets:					
Intangible asset - right to use leased asset	43,030	-	-	-	43,030
Intangible asset - subscription asset	145,438	-	-	-	145,438
Total amortized capital assets	<u>188,468</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>188,468</u>
Less accumulated amortization:					
Intangible asset - right to use leased asset	(9,064)	(9,656)	-	-	(18,720)
Intangible asset - subscription asset	(12,120)	(48,479)	-	-	(60,599)
Total accumulated amortization	<u>(21,184)</u>	<u>(58,135)</u>	<u>-</u>	<u>-</u>	<u>(79,319)</u>
Net amortized capital assets	<u>167,284</u>	<u>(58,135)</u>	<u>-</u>	<u>-</u>	<u>109,149</u>
Capital Assets Not Being Depreciated:					
Construction in progress	45,155,762	48,534,028	(14,940,557)	(233,506)	78,515,727
Land	64,833,594	-	-	-	64,833,594
Land - Administration building	3,226,244	-	-	-	3,226,244
Total capital assets - not depreciated	<u>113,215,600</u>	<u>48,534,028</u>	<u>(14,940,557)</u>	<u>(233,506)</u>	<u>146,575,565</u>
Total Capital Assets	<u>\$ 882,171,805</u>	<u>\$ 33,696,988</u>	<u>\$ -</u>	<u>\$ (3,421,679)</u>	<u>\$ 912,447,114</u>

⁽¹⁾ Restated to retroactively adopt the provisions of GASB Statement No. 96 (See Note 1).

Depreciation and amortization expense for the year ended June 30, 2023, was \$28,615,527 based on straight-line depreciation.

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

NOTE 5 – CAPITAL ASSETS (Continued)

The following identifies the District’s remaining commitments on construction projects as of June 30, 2023:

Project Description	Remaining Commitment	Project Expenses to Date
R6 Reservoir - Replace Cover	\$ 6,651,155	\$ 6,828,680
Oso Creek Water Reclamation Plant Optimization/Improvement	3,396,223	3,231,304
Potable Water Plano Z4 Reservoir Resurface Tanks A&B	2,786,730	2,135,715
Chiquita Water Reclamation Plant Upgrade Bar Screen Facility	1,752,842	9,901,714
Ranch Water Filtration Plant Phase I	1,682,849	5,516,007
Las Flores Recycled Water Conversions	1,368,602	5,421,946
Potable Water Estado Z4 Reservoir Resurface Tank	959,261	54,308
Chiquita Water Reclamation Plant Generator & Control System Upgrades	830,794	956
Recycled Water Zone A Modifications	778,588	820,541
Potable Water Sacarama Pump Station Rehab	667,205	296,592
Various Other Projects	6,957,248	175,539,865
	<u>\$ 27,831,497</u>	<u>\$ 209,747,628</u>

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

NOTE 6 – LONG TERM LIABILITIES

Bonds payable and changes for the year ended June 30, 2023, was as follows:

	Balance at June 30, 2022	Additions	Reductions	Balance at June 30, 2023	Amount Due Within One Year	Amount Due Beyond One Year
Revenue Bonds Payable:						
2020 Series A	\$ 50,570,000	\$ -	\$ (1,730,000)	\$ 48,840,000	\$ 1,345,000	\$ 47,495,000
2014A Water Refunding (ID 9)	12,334,942	-	(741,287)	11,593,655	769,686	10,823,969
2014 Lease Revenue (ID 9)	11,403,175	-	(1,489,567)	9,913,608	1,548,915	8,364,693
2017 Water Refunding (ID 9)	6,810,000	-	(430,000)	6,380,000	445,000	5,935,000
Total Revenue Bonds						
Bonds Payable	81,118,117	-	(4,390,854)	76,727,263	4,108,601	72,618,662
Premium / Discount, net	10,197,005	-	(660,987)	9,536,018	633,485	8,902,534
Total Revenue Bonds Payable	<u>91,315,122</u>	<u>-</u>	<u>(5,051,841)</u>	<u>86,263,281</u>	<u>4,742,086</u>	<u>81,521,196</u>
General Obligation (GO) Bonds Payable:						
2014 Series A	6,550,000	-	(460,000)	6,090,000	485,000	5,605,000
2017 Series A	26,540,000	-	(1,025,000)	25,515,000	1,075,000	24,440,000
Total General Obligations						
Bonds Payable	33,090,000	-	(1,485,000)	31,605,000	1,560,000	30,045,000
Premium / Discount, net	3,464,304	-	(448,190)	3,016,114	420,371	2,595,742
Total GO Bonds Payable	<u>36,554,304</u>	<u>-</u>	<u>(1,933,190)</u>	<u>34,621,114</u>	<u>1,980,371</u>	<u>32,640,742</u>
Total Bonds Payable	<u>\$ 127,869,426</u>	<u>\$ -</u>	<u>\$ (6,985,031)</u>	<u>\$ 120,884,395</u>	<u>\$ 6,722,457</u>	<u>\$ 114,161,938</u>

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

NOTE 6 – LONG TERM LIABILITIES (Continued)

2020 Revenue Bonds Series A

In September 2020, the District issued \$53,895,000 of Water and Wastewater Revenue Bonds, Series 2020A (2020A Bonds). The proceeds of the bonds were used to finance the acquisition and construction of certain improvements to the District's water and wastewater system, to prepay three State Water Resources Control Board contracts, and to pay costs incurred in connection with the issuance of the bonds. The 2020A Bonds have interest rates from 3.00% to 5.00% that mature annually on June 1 from 2021 to 2050. The final maturity date is June 1, 2050. The source of repayment of these bonds is from the net revenues of the District's water and wastewater system, which consist of revenues remaining after the payment of operation and maintenance costs of the District's water and wastewater system. All net revenues are irrevocably pledged to the payment of these bonds.

2014A Water Refunding Bonds

The District annexed the City of San Juan Capistrano's (City) water and wastewater system on November 15, 2021, and assumed the obligation of the 2014A Water Refunding Bonds. On November 14, 2014, the City issued \$19,922,771 of Water Refunding Bonds, Series 2014A (2014A Bonds) through a private placement agreement with GE Government Finance, Inc. Proceeds from the issuance were used to refund the 2002 and 2004 Certificates of Participation and pay the cost of issuing the bonds. The 2014A Bonds bear interest at a fixed rate of 3.68% per year payable on June 1 and December 1 of each year commencing on June 1, 2015. The 2014A Bonds mature annually in installments ranging from \$744,000 and \$1,215,000. The source of repayment of these bonds is from the net revenues of the District's Improvement District 9 (ID 9) water system, which consists of revenues remaining after the payment of operation and maintenance costs of ID 9.

2014 Lease Revenue Bonds

The District assumed the obligation of the 2014 Lease Revenue Bonds on November 15, 2021 when it annexed the City's water and wastewater system. In November 2014, the San Juan Basin Authority issued \$20,361,090 in Lease Revenue Bonds (2014 Bonds) with a fixed interest rate of 3.85%. The proceeds of the bonds were used for the refunding of the City's 2002 Lease Revenue Bonds, which had an average interest rate of 5.03%. The final maturity date of the bonds remained the same, at December 2034. The source of repayment of these bonds is from the revenues of the District's ID 9 water system.

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

NOTE 6 – LONG TERM LIABILITIES (Continued)

2017 Water Refunding Bonds

The District assumed the obligation of the 2017 Water Refunding Bonds (2017 Bonds) on November 15, 2021 when it annexed the City's water and wastewater system. On December 1, 2017, the City entered into an installment purchase agreement with City National Bank for \$8,410,000 to defease the remaining \$8,410,000 of the 2009 Certificates of Participation. The 2017 Bonds bear interest at a fixed rate of 3.2% per year payable on June 1 and December 1 of each year commencing on June 1, 2018 and maturing on December 1, 2034. The 2017 Bonds mature annually in installments ranging from \$644,000 to \$653,654. The source of repayment of these bonds is from the net revenues of the District's ID 9 water system, which consists of revenues remaining after the payment of operation and maintenance costs of ID 9.

2014 Refunding General Obligation Bonds Series A

In July 2014, the District issued \$65,340,000 of Refunding General Obligation Bonds 2014 Series A with interest rates from 3.00% to 5.00% that matures annually on August 1 from 2015 to 2032. The proceeds of the bonds were used to refund the 2003 Series A and 2004 Series A bonds (Improvement District Nos. 2, 2A, 3, 3A, 4, 4A & 4B) of the Santa Margarita Water District/Dana Point Authority, which had an interest rate of 1.05% to 5.00%. The final maturity date remains the same, at August 1, 2032. The source of repayment of these bonds is special assessment tax revenues for debt service, which is secured by land.

2017 Refunding General Obligation Bonds Series A

In April 2017, the District issued \$29,375,000 of Refunding General Obligation Bonds 2017 Series A with interest rates from 3.00% to 5.00% that matures annually on August 1 from 2019 to 2038. The proceeds of the bonds were used to partially refund the 2009 Series A bonds (Improvement District Nos. 2, 2A, 3, 3A, 4, 4A & 4B) of the Santa Margarita Water District/Dana Point Authority, which had an interest rate of 2.00% to 5.25%. This refunding legally defeased \$31,635,000 of the 2009 Series A bonds in the year ended June 30, 2017. The final maturity date remains the same, at August 1, 2038. The source of repayment of these bonds is special assessment tax revenues for debt service, which is secured by land.

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

NOTE 6 – LONG TERM LIABILITIES (Continued)

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

Revenue Bonds Debt Service Schedule:

Year	Principal	Interest	Total
2024	\$ 4,108,601	\$ 2,953,782	\$ 7,062,383
2025	4,278,333	2,782,394	7,060,727
2026	3,355,667	2,625,000	5,980,667
2027	3,497,216	2,482,072	5,979,288
2028	3,652,063	2,332,829	5,984,892
2029-2033	17,948,198	9,450,220	27,398,418
2034-2038	13,322,185	6,118,337	19,440,522
2039-2043	9,615,000	4,515,100	14,130,100
2044-2048	11,625,000	2,496,400	14,121,400
2049-2050	5,325,000	321,600	5,646,600
Total	<u>\$ 76,727,263</u>	<u>\$ 36,077,734</u>	<u>\$ 112,804,997</u>

General Obligation Bonds Debt Service Schedule:

Year	Principal	Interest	Total
2024	\$ 1,560,000	\$ 1,413,126	\$ 2,973,126
2025	1,640,000	1,333,126	2,973,126
2026	1,725,000	1,249,001	2,974,001
2027	1,815,000	1,160,501	2,975,501
2028	1,900,000	1,067,626	2,967,626
2029-2033	11,055,000	3,811,640	14,866,640
2034-2038	9,715,000	1,452,575	11,167,575
2039	2,195,000	43,900	2,238,900
Total	<u>\$ 31,605,000</u>	<u>\$ 11,531,495</u>	<u>\$ 43,136,495</u>

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

NOTE 6 – LONG TERM LIABILITIES (Continued)

Source of Repayment

The District’s revenue bonds are payable solely from net revenues of the District’s water and wastewater system, which consist of revenues remaining after the payment of operation and maintenance costs of the District’s water and wastewater system. All revenues and all amounts on deposit in the revenue fund have been irrevocably pledged to the payment of the revenue bonds. The revenues will not be used for any other purpose while revenue bond installment payments remain unpaid, provided that out of the revenues there may be an apportioned sum for purposes such as payment of operation and maintenance costs of the water and wastewater system. Such pledge constitutes a first lien on revenues. The District is not required to advance any moneys derived from any source of income other than the revenues and the revenue fund for the payment of installment amounts due. The obligation of the District is a special limited obligation of the District payable solely from net revenues of the District’s water and wastewater system and does not constitute a debt of the District in contravention of any constitutional or statutory debt limitation or restriction.

The District’s general obligation bonds are general obligations of the improvement districts of the District. These bonds are payable from annual ad-valorem assessments levied upon the assessable land within each district based on the assessed value of such land but not the improvements thereon. As additional security for repayment of the bonds, the District has established liens on the following funds received from or attributable to the improvement districts for which the bonds are issued to the extent such funds are received by each district: (i) standby charges, (ii) connection charges, (iii) that district’s share of property taxes or special taxes received from Orange County, California, (iv) proceeds from the foreclosure of property to the extent necessary to pay delinquent ad valorem assessments or standby charges and (v) investment earnings, if any, thereon. Generally, the bonds represent several (and not joint) obligations of each district. An event of default with respect to the bonds of a particular improvement district will not result in an event of default with respect to the bond of any other improvement district.

Deferred Gain or Loss on Debt Defeasance

The balance for deferred gain on debt defeasance as of June 30, 2023, is as follows:

General Obligation Bonds	Balance at June 30, 2022	Additions	Reductions	Amortization	Balance at June 30, 2023
2014A Series	\$ 34,766	\$ -	\$ -	\$ (6,231)	\$ 28,535

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

NOTE 6 – LONG TERM LIABILITIES (Continued)

The balance for deferred loss on debt defeasance as of June 30, 2023, is as follows:

General Obligation and Revenue Bonds	Balance at June 30, 2022	Additions	Reductions	Amortization	Balance at June 30, 2023
2017A Series	\$ 969,069	\$ -	\$ -	\$ (106,281)	\$ 862,788
2017 Water Refunding Bonds	204,513	-	-	(16,471)	188,042
Total	\$ 1,173,582	\$ -	\$ -	\$ (122,752)	\$ 1,050,830

Loans Payable:

The District has one outstanding loan with the State Water Resources Control Board and one outstanding loan with the City of Mission Viejo. The outstanding balance of both loans as of June 30, 2023, is as follows:

	Balance at June 30, 2022	Additions	Reductions	Balance at June 30, 2023	Amount Due Within One Year	Amount Due Beyond One Year
2017 City of Mission Viejo Loan	\$ 2,231,901	\$ -	\$ (134,898)	\$ 2,097,004	\$ 103,404	\$ 1,993,600
2017 State Water Resources Control Board Loan	80,574,633	12,585,736	(2,411,238)	90,749,131	3,286,868	87,462,263
Total	\$ 82,806,534	\$ 12,585,736	\$ (2,546,135)	\$ 92,846,135	\$ 3,390,272	\$ 89,455,863

2017 City of Mission Viejo

In fiscal year 2016, the District entered into a loan agreement with the City of Mission Viejo to provide \$3,000,000 for the design and construction of the Lake Mission Viejo Advanced Water Treatment Facility. The full loan amount was disbursed in fiscal year 2017. This loan is to be repaid over 20 years and accrues interest at a rate of 2.5%. The remaining debt service payments as of June 30, 2023, are as follows:

Year	Principal	Interest	Total
2024	\$ 103,404	\$ 38,675	\$ 142,079
2025	140,911	48,526	189,437
2026	144,467	44,970	189,437
2027	148,113	41,324	189,437
2028	151,850	37,587	189,437
2029-2033	818,703	128,482	947,185
2034-2037	589,556	26,114	615,670
Total	\$ 2,097,004	\$ 365,678	\$ 2,462,682

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

NOTE 6 – LONG TERM LIABILITIES (Continued)

2017 State Water Resources Control Board Loan

In fiscal year 2017, the District entered into a loan agreement with the State Water Resources Control Board to provide a loan up to \$47,012,000 for the Trampas Canyon Recycled Water Seasonal Storage Reservoir Project under Proposition 1 of the Water Quality, Supply, and Infrastructure Improvement Act of 2014 and the Clean Water State Revolving Fund. In fiscal year 2018, the total loan agreement was increased up to \$96,663,515. This loan is disbursed through installment payments and interest accrues at a rate of 1.0% beginning with each disbursement. The remaining debt service payments as of June 30, 2023, are as follows:

Year	Principal	Interest	Total
2024	\$ 3,286,869	\$ 923,471	\$ 4,210,340
2025	2,837,759	874,623	3,712,382
2026	2,866,137	846,245	3,712,382
2027	2,894,798	817,584	3,712,382
2028	2,923,746	788,636	3,712,382
2029-2033	15,063,185	3,498,725	18,561,910
2034-2038	15,831,559	2,730,351	18,561,910
2039-2033	16,639,127	1,922,783	18,561,910
2034-2048	17,487,890	1,074,020	18,561,910
2049-2051	10,918,061	219,085	11,137,146
Total	<u>\$ 90,749,131</u>	<u>\$ 13,695,523</u>	<u>\$ 104,444,654</u>

Reimbursement Agreement Advances and Accrued Interest

Funds may be advanced by landowners and developers for planning, design and/or construction of facilities or systems for which an improvement district or community facilities district has not yet issued bonds. Such funds are advanced to the District under a reimbursement agreement between the landowner/developer and the District providing that the advances shall be repaid from the next appropriate bond issue. Reimbursement from bond proceeds is dependent upon approval of the facilities by the District’s Board of Directors. The reimbursement agreement advances accrue interest, based on the terms of the agreement, from the date of the advance until the repayment date.

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

NOTE 6 – LONG TERM LIABILITIES (Continued)

Reimbursable advances by the landowner/developer at June 30, 2023, are as follows:

Landowner/Developer	Balance at June 30, 2022	Additions	Expiration/ Payments	Balance at June 30, 2023	Amount Due Within One Year	Amount Due Beyond One Year
Coto de Caza, Ltd.	\$ 22,019	\$ -	\$ -	\$ 22,019	\$ -	\$ 22,019
The San Juan Company	158,018	-	-	158,018	-	158,018
RMV PA3 Development, LLC	200,000	-	-	200,000	-	200,000
Total	\$ 380,037	\$ -	\$ -	\$ 380,037	\$ -	\$ 380,037

Reimbursable accrued interest by the landowner/developer at June 30, 2023, is as follows:

Landowner/Developer	Balance at June 30, 2022	Additions	Expiration/ Payments	Balance at June 30, 2023	Amount Due Within One Year	Amount Due Beyond One Year
Coto de Caza, Ltd.	\$ 56,796	\$ 1,321	\$ -	\$ 58,117	\$ -	\$ 58,117

Subscription Liability

The District has entered into a subscription-based information technology arrangement (SBITA) for administrative and operational purposes. This subscription includes a service related to cloud-based software application, data storage, and management services. Under the terms of this arrangement, the District does not take possession of the software at any time and the vendor provides ongoing services for the software's operation. The subscription period is 3 years, with an initial non-cancellable term of 3 years. The calculated interest rate used was 2.015%, which was the incremental borrowing rate based on market conditions as of the most recent quarter end as compared to the agreement's commencement date.

As of June 30, 2023, the capitalized right-to-use asset related to SBITA was \$84,839 and the total subscription liability was \$85,904, of which \$48,717 is classified as a current liability representing the portion due within the next fiscal year.

For the year ended June 30, 2023, the District recognized \$2,254 of interest expense related to this arrangement. Principal and interest payments to maturity are as follows:

Year	Principal	Interest	Total
2024	\$ 48,717	\$ 1,283	\$ 50,000
2025	37,187	313	37,500
Total	\$ 85,904	\$ 1,596	\$ 87,500

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

NOTE 7 – COMPENSATED ABSENCES

Changes to compensated absences balances for June 30, 2023, are as follows:

Balance at June 30, 2022	Earned	Taken	Balance at June 30, 2023	Amount Due Within One Year	Amount Due Beyond One Year
\$ 1,718,670	\$ 1,597,401	\$ (1,554,483)	\$ 1,761,588	\$ 1,160,088	\$ 601,500

NOTE 8 – NET INVESTMENTS IN CAPITAL ASSETS

Net investment in capital assets as of June 30, 2023, is as follows:

Capital assets, net of accumulated depreciation	\$ 912,447,114
Less: Outstanding debt attributable to capital assets:	
Bonds payable	(120,884,395)
Loans payable	(92,846,135)
Accounts payable and accrued expenses	(6,946,914)
Retentions payable	(1,276,475)
Subscription liabilities	(85,904)
Lease liabilities	(24,310)
Add:	
Unspent bond proceeds	8,389,444
Deferred gains and losses on debt defeasances, net	1,022,295
Total net investment in capital assets	<u>\$ 699,794,720</u>

NOTE 9 – RESTRICTED NET POSITION

Restricted net position as of June 30, 2023, consists of the following:

Special assessments for debt service	\$ 14,602,116
Investments for section 115 pension trust	6,154,736
Property taxes receivable	252,520
Restricted accrued interest receivable	104,518
Less:	
Accrued interest payable	(1,402,803)
Accrued interest payable on reimbursement agreements	(58,117)
	<u>\$ 19,652,970</u>

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

NOTE 9 – RESTRICTED NET POSITION (Continued)

On June 5, 2019, the District adopted Resolution 2019-06-01 which established the funding level requirements for operating reserves equivalent to 3 months of operating expenses (25% of the previous fiscal year's operating expenses), emergency capital reserves equivalent to 2% of net depreciable capital assets, repair and replacement capital reserves equivalent to 10% of the forecasted 5-year total capital repair and replacement expenditures, new projects capital reserves equivalent to a fixed amount of \$12.5 million and restricted loan/bond reserves as required by bond and loan legal requirements. At June 30, 2023, the District was in compliance with Resolution 2019-06-01.

NOTE 10 – DEFINED BENEFIT PENSION PLAN WITH CALIFORNIA PUBLIC EMPLOYEE'S RETIREMENT SYSTEM

Plan Description

The District contributes to the California Public Employees' Retirement System (CalPERS), an agent multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions of all other requirements are established by state statute and the District. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS' website at www.calpers.ca.gov.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. For employees hired after January 1, 2013, who generally have not already been a member of a pension system are subject to the California Public Employees' Pension Report Act of 2013 (PEPRA). All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is the Basic Death Benefit or the 1959 Survivor Benefit (Level 4). Benefit terms are established and amended through the District's Board of Directors and facilitated through CalPERS.

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

NOTE 10 – DEFINED BENEFIT PENSION PLAN WITH CALIFORNIA PUBLIC EMPLOYEE’S RETIREMENT SYSTEM (Continued)

The Plans’ provisions and benefits in effect at June 30, 2023, are summarized as follows:

	Hire Date	
	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.7% @ 55	2.0% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	50 - 55	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.7%	1.0% to 2.5%
Required employee contribution rates	8.0%	6.25%
Required employer contribution rates	31.85%	31.85%

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

Employees Covered

At the June 30, 2022 measurement date for the fiscal year ended June 30, 2023, the following employees were covered by the benefit terms for the Plan:

Inactive employees or beneficiaries currently receiving benefits	140
Inactive employees entitled to but not yet receiving benefits	114
Active employees	146
Total	400

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

Contributions

Section §20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on July 1 following notice of a change in the rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

NOTE 10 – DEFINED BENEFIT PENSION PLAN WITH CALIFORNIA PUBLIC EMPLOYEE’S RETIREMENT SYSTEM (Continued)

The District’s actuarially required employer contribution rate for the year ended June 30, 2023, was 31.85%. This rate includes the current employer normal rate of 10.80% and the unfunded rate of 21.05% of annual covered payroll. The contribution requirements of employee participants and the District are established by state statute and may be amended by CalPERS. For the year ended June 30, 2023, the normal cost rate and unfunded accrued liability (UAL) employer contributions were \$1,893,717 and \$2,943,158, respectively. Additionally, the District contributed a lump sum amount of \$1,000,000 to reduce the UAL.

For the employees in the 2.7% at 55 years of service plan, employees are required to contribute 8.0% of their annual covered salary. During the year ended June 30, 2023, the employees contributed the full 8.0% as determined by the memorandum of understanding (MOU) with the employees. For the employees in the 2.0% at 62 years of service the employees paid the full 6.25% contribution rate.

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

The net pension liability of the District at June 30, 2023, is based on the Plan’s measurement date of June 30, 2022, using an actuarial valuation as of June 30, 2021. The total pension liability used to calculate the net pension liability was determined at the valuation date and rolled forward to the measurement date. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

The actuarially determined contributions for the June 30, 2021 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Price Inflation	2.3%
Wage Inflation	2.8%
Payroll Growth	2.8%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	6.8%

Mortality rates were based on the 2021 CalPERS Experience Study, which assumed future mortality improvements using Society of Actuaries Scale MP-2020. The Experience Study can be obtained at the CalPERS website.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class.

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

NOTE 10 – DEFINED BENEFIT PENSION PLAN WITH CALIFORNIA PUBLIC EMPLOYEE’S RETIREMENT SYSTEM (Continued)

The following table reflects the long term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

Asset Class	New Strategic Allocation	Real Return
Global Equity - Cap-weighted	30.0%	4.54%
Global Equity - Non-Cap-weighted	12.0%	3.84%
Private Equity	13.0%	7.28%
Treasury	5.0%	0.27%
Mortgage-backed Securities	5.0%	0.50%
Investment Grade Corporates	10.0%	1.56%
High Yield	5.0%	2.27%
Emerging Market Debt	5.0%	2.48%
Private Debt	5.0%	3.57%
Real Assets	15.0%	3.21%
Leverage	-5.0%	-0.59%

All other actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period from 2000 to 2019, including updates to salary increases, mortality and retirement rates. The Experience Study report can be obtained at the CalPERS’ website under Forms and Publications.

Changes of Assumptions

For the June 30, 2022 measurement date, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2021. Additionally, the discount rate was changed from 7.15% to 6.90%.

Discount Rate

The discount rate used to measure the total pension liability was 6.90%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that District contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate. Based on these assumptions, the Plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

NOTE 10 – DEFINED BENEFIT PENSION PLAN WITH CALIFORNIA PUBLIC EMPLOYEE’S RETIREMENT SYSTEM (Continued)

Changes in the Net Pension Liability

The following table shows the changes in net pension liability:

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at June 30, 2022*	\$ 118,238,040	\$ 97,245,904	\$ 20,992,136
Increase (Decrease) in Pension Liability:			
Service Cost	2,717,411	-	2,717,411
Interest on the Total Pension Liability	8,239,772	-	8,239,772
Changes of Assumptions	3,762,976	-	3,762,976
Differences between Expected and Actual Experience	(913,381)	-	(913,381)
Contributions from Employer	-	6,493,115	(6,493,115)
Contributions from Employees	-	1,170,069	(1,170,069)
Net Investment Income	-	(7,404,381)	7,404,381
Benefit Payments, including Refunds of Employee Contributions	(6,058,739)	(6,058,739)	-
Administrative Expense	-	(60,578)	60,578
Net changes:	7,748,039	(5,860,514)	13,608,553
Balance at June 30, 2023*	\$ 125,986,079	\$ 91,385,390	\$ 34,600,689

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

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

The following presents the net pension liability of the District, calculated using the discount rate of 6.90% for the Plan, as well as what the District’s net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (5.90%) or 1-percentage point higher (7.90%) than the current rate:

	Discount Rate -1% (5.90%)	Current Discount Rate (6.90%)	Discount Rate +1% (7.90%)
Net Pension Liability	\$ 51,256,810	\$ 34,600,689	\$ 20,841,822

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

NOTE 10 – DEFINED BENEFIT PENSION PLAN WITH CALIFORNIA PUBLIC EMPLOYEE’S RETIREMENT SYSTEM (Continued)

Pension Plan Fiduciary Net Position

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

Funding of CalPERS Plan and Section 115 Pension Trust

The District established a Section 115 Pension Trust (Trust) in 2021 to provide funding of the District’s retirement benefits provided by CalPERS for eligible employees. The Trust provides the District with an alternative to CalPERS that allows for investments in accordance with the Trust’s investment policy. The Trust holds the funding contributions for the District pending future remittance to CalPERS pension trust fund which will pay all retiree benefit payments to employees associated with the plan. Future contributions will be transferred from the Trust to CalPERS at the District’s discretion.

The total value of the assets in the Trust as of June 30, 2023 was \$6,154,736. The following schedule shows the District’s total pension liability, CalPERS assets, Trust assets, and the relationship of the total pension liability (in thousands):

Fiscal Year ⁽¹⁾	Total Pension Liability	CalPERS Assets	Net Pension Liability / (Asset)	Section 115 Pension Trust (Trust)	CalPERS Assets as a Percentage of the Total Pension Liability	Trust Assets as a Percentage of the Total Pension Liability	Total Pension Assets as a Percentage of the Total Pension Liability
6/30/2023	\$ 125,986,079	\$ 91,385,390	\$ 34,600,689	\$ 6,154,736	72.5%	4.9%	77.4%

⁽¹⁾ As of the measurement date June 30, 2022.

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

NOTE 10 – DEFINED BENEFIT PENSION PLAN WITH CALIFORNIA PUBLIC EMPLOYEE’S RETIREMENT SYSTEM (Continued)

Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

For the year ended June 30, 2023, the District recognized pension expenses of \$5,019,846. At June 30, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
District Contributions made Subsequent to the Measurement Period ⁽¹⁾	\$ 5,836,874	\$ -
Change of Assumptions ⁽²⁾	2,845,177	-
Differences between Expected and Actual Experiences ⁽²⁾	419,958	(690,605)
Net Difference between Projected and Actual Earnings on Pension Plan Investments ⁽³⁾	<u>4,641,431</u>	<u>-</u>
Net changes:	<u>\$ 13,743,440</u>	<u>\$ (690,605)</u>

⁽¹⁾ District contributions made after the measurement period but before the end of the District’s financial reporting period will be recognized as a reduction of the net pension liability in the subsequent fiscal period rather than in the current fiscal period.

⁽²⁾ The expected average remaining service life (EARSL) for the measurement periods ending June 30, 2019, June 30, 2020, June 30, 2021, and June 30, 2022 was 4.0, 4.3, 4.1 and 4.1 years, respectively. This recognition period determines the number of years the deferred outflows and deferred inflows of resources are amortized over.

⁽³⁾ The recognition period of the net difference between projected and actual earnings on pension plan investments for the measurement periods ending June 30, 2018, June 30, 2019, June 30, 2020, June 30, 2021 and June 30, 2022 was 5.0 years. This recognition period determines the number of years the deferred outflows and deferred inflows of resources are amortized over.

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

NOTE 10 – DEFINED BENEFIT PENSION PLAN WITH CALIFORNIA PUBLIC EMPLOYEE’S RETIREMENT SYSTEM (Continued)

Deferred outflows of resources of \$5,836,874 reported as employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2023. Deferred outflows of resources of \$7,906,566 and deferred inflows of resources of \$690,605 as described above will be recognized as pension expense as follows:

<u>Measurement Period Ended June 30</u>	<u>Deferred Outflows/ (Inflows) of Resources</u>
2023	\$ 1,739,509
2024	1,506,765
2025	1,067,205
2026	2,902,482

NOTE 11 – DEFERRED COMPENSATION PLANS

Employees of the District may participate in the District’s deferred compensation plan organized under Section §457 of the Internal Revenue Code (457 Plan). The plan is administered by Voya as of September 2019. The plan had previously been administered by Mass Mutual. The plan allows the employees to defer or postpone receipt of income. Such income deferral provides tax advantages and a savings plan for the employees. The plan, available to all District employees, permits employees, as of January 1, 2023, to defer up to the lesser of \$22,500 or 100% of includible compensation, as defined until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

In 2001, the District adopted a deferred compensation plan organized under Section §401(a) of the Internal Revenue Code (401(a) Plan). The 401(a) Plan, in conjunction with the 457 Plan allows employees to shelter matching contributions by the District from income taxes. All employees are eligible to participate up to the maximum employer contribution of \$1,740 per year. Withdrawals can be made upon retirement, disability or termination, but not later than 70 ½. For the year ended June 30, 2023, the employer contributions totaled \$223,774. The maximum contribution rate is included in the MOU and can be amended in the MOU and approved by the Board of Directors.

In 2003, the District adopted a deferred compensation plan organized under Section §414(h) of the Internal Revenue Code. Contract “at will” employee(s) may contribute one-time bonus money stipulated by the Board of Directors. Regular earned compensation may not be deferred into the 414(h) account and Contract “at will” employees will not have the option of receiving such amount directly instead of having the District contribute it to the plan. The annual addition that may be contributed or allocated to the participant’s individual account under the plan for 2023 shall not exceed \$66,000, as adjusted for increases allowed in the Code.

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

NOTE 12 – JOINT POWERS AGREEMENTS

San Juan Basin Authority

The District is a member of the San Juan Basin Authority (SJBA) which operates under a joint powers agreement with the member agencies consisting of:

Santa Margarita Water District
South Coast Water District

Moulton Niguel Water District withdrew from SJBA in fiscal year 2023. The general purpose of the SJBA is to acquire, construct, use, operate and maintain facilities to supply water for irrigation, domestic, and municipal purposes, provide for the development and conservation of water supplies, and to coordinate regional management of the San Juan Creek basin and its tributary waters.

During the year ended June 30, 2023, the District paid \$570,710 to the SJBA for various costs of which the majority related to the development and maintenance of the facilities as well as operating costs. Copies of SJBA annual financial statements can be obtained at the District: San Juan Basin Authority c/o Santa Margarita Water District, 26111 Antonio Parkway, Rancho Santa Margarita, CA 92688.

Santa Margarita/Dana Point Authority

The Santa Margarita/Dana Point Authority (SM/DPA) was created on August 25, 1987, between the Santa Margarita Water District and the Dana Point Sanitary District for the purpose of selling bonds to finance the acquisition of capacity in the Jay B. Latham treatment plant. In addition, SM/DPA issued revenue bonds, Series A and Series B dated July 15, 1994, and Series 1997A dated October 1, 1997 for the purpose of acquiring the 1994 and 1997 refunding Bonds, respectively, issued by the District. In July 2014 the District issued Water and Wastewater Refunding General Obligation Bonds 2014 Series A for the purpose of refunding the 2003 Series A and 2004 Series A Bonds. In April 2017 the District issued Refunding General Obligation Bonds 2017 Series A for the purpose of refunding the 2009 Series A Bonds. In September 2020 the District issued Revenue Bonds for the purpose of financing the acquisition and construction of certain improvements to the District's water and wastewater system and to prepay three State Water Resources Control Board contracts (Note 6). During 1999, the Dana Point Sanitary District was dissolved and the South Coast Water District became the successor agency. The financial statements can be obtained at the Orange County Auditor-Controller website: <https://acdcweb01.ocgov.com/>.

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

NOTE 12 – JOINT POWERS AGREEMENTS (Continued)

Each member is responsible for the debt service of SM/DPA debt to the extent that the member benefits from the use of the debt proceeds. SM/DPA issuances for which the District is responsible for debt service have been accounted for as a bond payable liability in the financial statements. During the year ended June 30, 2023, the District paid bond principal payments totaling \$3,215,000 and interest payments totaling \$3,568,151 to SM/DPA to service all the District's general obligation bonds and revenue bonds.

South Orange County Wastewater Authority

The District is a member of the South Orange County Wastewater Authority (SOCWA), formerly the South East Regional Reclamation Authority, which operates under a joint powers agreement with member agencies consisting of:

- City of Laguna Beach (CLB)
- City of San Clemente (CSC)
- City of San Juan Capistrano (CSJC)
- El Toro Water District (ETWD)
- Emerald Bay Services District (EBSD)
- Irvine Ranch Water District (IRWD)
- Moulton Niguel Water District (MNWD)
- Santa Margarita Water District (SMWD)
- South Coast Water District (SCWD)
- Trabuco Canyon Water District (TCWD)

The general purpose of SOCWA is to plan for, acquire, construct, maintain, repair, manage, operate and control facilities for the collection, transmission, treatment and disposal of wastewater, the reclamation of wastewater and the use of reclaimed wastewater for any beneficial purpose. Revenues and expenses are allocated to each member agency based on its participation in the various projects.

During the year ended June 30, 2023, the District paid \$5,371,704 and \$2,732,170 to SOCWA for plant operating costs and capital costs, respectively. Copies of SOCWA's annual financial statements can be obtained by contacting SOCWA at 34156 Del Obispo Street, Dana Point, California 92629.

Fenner Valley Water Authority

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

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

NOTE 12 – JOINT POWERS AGREEMENTS (Continued)

Currently, Cadiz is funding all activities of the Fenner Valley Water Authority. The District incurred no costs during the year ended June 30, 2023. Copies of FVWA's annual financial statements can be obtained at the District: Fenner Valley Water Authority c/o Santa Margarita Water District, 26111 Antonio Parkway, Rancho Santa Margarita, California 92688.

NOTE 13 – COMMUNITY FACILITIES DISTRICTS

The District is the lead agency of the Community Facilities District No. 99-1 (Talega) of the Santa Margarita Water District (CFD 99-1) and Community Facilities District No. 2013-1 (Village of Sendero) of the Santa Margarita Water District (CFD 2013-1). These Community Facilities Districts (CFDs) are considered separate legal entities. The CFDs assets, including the unspent bond proceeds, are held by the Bank of New York Mellon Trust Company, N.A. (BNYM) as the Trustee, and are not reported in the District's basic financial statements as of June 30, 2023.

Both CFDs are established under and governed by the Mello-Roos Community Facilities Act of 1982, as amended, and resolutions adopted by the Board of Directors of the District, acting as the legislative body of the CFDs. The source of repayment of the bonds issued by the CFDs is special assessment tax revenues for debt service, which is secured by land. Neither the faith and credit nor the taxing power of the District (except to the extent of the special assessment taxes) is pledged to the payment of the CFD bonds. The CFD bonds outstanding as of June 30, 2023, are not obligations of the District, but are limited obligations payable solely from the special assessment taxes.

Community Facilities District No. 99-1 (Talega)

CFD 99-1 was formed to finance the acquisition or construction of various public improvements and facilities located in or serving the CFD as part of the Talega Valley Planned Development. In 1999, the owners of the property within the boundaries of CFD 99-1 authorized the CFD to incur a bonded indebtedness in an amount not to exceed \$109,000,000, to be levied on parcels within the CFD through a special tax assessment. CFD 99-1 has two special tax refunding bonds as of June 30, 2023: Series 2014B and Series 2017A.

Series 2014B Special Tax Refunding Bonds

In August 2014, CFD 99-1 issued \$32,810,000 of Special Tax Refunding Bonds (Serial \$30,295,000 and term \$2,515,000) with interest rates from 2.00% to 5.00% that matures annually on September 1 from (serial) 2015 to 2033 and (term) ending in 2038. The proceeds of the bonds were used to refund the Series 2011A and Series 2011B Special Tax Refunding Bonds, which had an interest rate of 2.00% to 5.875%. The final maturity date remains the same, at September 1, 2038. The previously required debt reserve of approximately \$5.3 million was utilized in the refunding. The outstanding balance (before deferred bond charges) of this bond at June 30, 2023, is \$20,930,000.

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

NOTE 13 – COMMUNITY FACILITIES DISTRICTS (Continued)

Series 2017A Special Tax Refunding Bonds

In August 2017, CFD 99-1 issued \$37,250,000 of Special Tax Refunding Bonds with interest rates from 3.00% to 5.00% that matures annually on September 1 from 2018 to 2030. The bonds were issued to refund the Series 2007 Special Tax Refunding Bonds, which had an interest rate of 4.00% to 4.75%. The final maturity date remains the same, at September 1, 2030. The outstanding balance (before deferred bond charges) of this bond at June 30, 2023, is \$26,820,000.

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

CFD 2013-1 was formed to finance certain public facilities to meet the needs of new development within the CFD. In 2013, the owners of the property within the boundaries of CFD 2013-1 authorized the CFD to incur a bonded indebtedness in an amount not to exceed \$70,000,000, to be levied on parcels within the CFD through a special tax assessment. CFD 2013-1 has one special tax bond as of June 30, 2023: Series 2013.

Series 2013 Special Tax Bonds

In 2013, CFD 2013-1 issued \$57,420,000 of Special Tax Bonds (Serial \$8,090,000 and term \$49,330,000) with an interest rate of 2.00% to 5.625% that mature annually on September 1 from (serial) 2014 to 2027 and (term) ending in years 2029, 2032, 2036 and 2043. The bonds were issued to construct water and wastewater facilities for the Village of Sendero development. Additionally, \$14,650,344 of the bond funds were allocated to construct facilities belonging to the County of Orange. During the fiscal year ended June 30, 2023, these bonds were refunded with the issuance of the Series 2023A Special Tax Refunding Bonds. This refunding legally defeased \$52,185,000 of the Series 2013 Special Tax Bonds in fiscal year ended June 30, 2023.

Series 2023A Special Tax Refunding Bonds

In June 2023 CFD 2013-1 issued \$41,680,000 of Special Tax Refunding Bonds (Serial \$34,240,000 and term \$7,440,000) with an interest rate of 4.00% to 5.00% that mature annually on September 1 from (serial) 2024 to 2040, (term) 2041 to 2042 and (serial) ending in 2043. The proceeds of the bonds were used to refund the Series 2013 Special Tax Bonds of CFD 2013-1, which had an interest rate of 2.00% to 5.625%. This refunding legally defeased \$52,185,000 of the Series 2013 Special Tax Bonds. In addition, although the refunding resulted in recognition of a deferred loss of \$402,872, the CFD in effect reduced its aggregate debt service payments by \$23.4 million over the next 20 years and obtained net present value savings of \$12.3 million. The final maturity date remains the same, on September 1, 2043.

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

NOTE 13 – COMMUNITY FACILITIES DISTRICTS (Continued)

CFD Financial Statement Summary

A summary of the June 30, 2023, Community Facilities Districts' financial statements are as follows:

Community Facilities District 99-1	
Assets	\$ 8,652,297
Deferred outflows of resources	1,525,040
Liabilities	52,042,870
Revenues	7,185,297
Expenses	1,830,352
Net position - beginning	(47,220,478)
Net position - ending	(41,865,533)

Community Facilities District 2013-1	
Assets	\$ 750,396
Deferred outflows of resources	741,463
Liabilities	46,855,029
Revenues	3,954,857
Expenses	3,717,908
Net position - beginning	(45,600,119)
Net position - ending	(45,363,170)

TOTAL	
Community Facilities District	
Assets	\$ 9,402,693
Deferred outflows of resources	2,266,503
Liabilities	98,897,899
Revenues	11,140,154
Expenses	5,548,260
Net position - beginning	(92,820,597)
Net position - ending	(87,228,703)

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

NOTE 13 – COMMUNITY FACILITIES DISTRICTS (Continued)

Community Facility District Debt Service Schedule:

Year	Principal	Interest	Total
2024	\$ 4,545,000	\$ 3,685,019	\$ 8,230,019
2025	5,515,000	3,982,613	9,497,613
2026	6,095,000	3,706,962	9,801,962
2027	6,595,000	3,404,313	9,999,313
2028	7,185,000	3,059,812	10,244,812
2029-2033	24,945,000	10,402,375	35,347,375
2034-2038	13,245,000	6,715,531	19,960,531
2039-2043	17,200,000	2,953,150	20,153,150
2044	4,105,000	102,625	4,207,625
	\$ 89,430,000	\$ 38,012,400	\$ 127,442,400

The CFDs are required to hold monies in a reserve fund based on bond covenants. At June 30, 2023, the BNYM held monies in a reserve fund for the debt reserve requirement of \$2,081,720 and \$23,187 for the 2014 Series B/2017 Series A CFD bonds and the 2013 Series bonds, respectively. Additionally, CFD 2013-1 purchased a Municipal Bond Debt Service Reserve Insurance Policy for the 2023A Series bonds.

NOTE 14 – RISK MANAGEMENT

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

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

NOTE 14 – RISK MANAGEMENT (Continued)

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

The District promotes safety in the workplace through an extensive safety program. Management believes that the insurance policies and reserve funds are adequate to cover the cost of claims incurred to date. However, such liabilities are, by necessity, based upon estimates and there can be no assurance that the ultimate cost will not exceed such estimates.

NOTE 15 – CONTINGENCIES

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

NOTE 16 – COMMITMENT TO PURCHASE WATER

In July 2012, the District Board of Directors approved certain resolutions relating to the commitment to purchase water. Resolution No. 2012-07-02 states the District certification of the Final Environmental Impact Report (FEIR) for the Cadiz Project. Resolution No. 2012-07-03 adopts the California Environmental Quality Act (CEQA) findings, a mitigation monitoring and reporting program, a statement of overriding considerations, approved the water purchases and sale agreements, and approved the updated groundwater management, monitoring and mitigation plan with regard to phase I of the Cadiz Valley Water Conservation, Recovery and Storage Project.

The Cadiz Project is located in Eastern San Bernardino County. Phase 1 of this project would pump an average of 50,000 acre-feet per year of water from the groundwater basin underlying the Cadiz and Fenner Valleys and the adjacent Bristol Valley over a 50-year period and deliver the water to Project participants. Phase II of the Cadiz Project, the Imported Water Storage Component, if considered and approved, would construct spreading basins to recharge surface water into the groundwater basin and convey stored water back to project participants.

SANTA MARGARITA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

NOTE 16 – COMMITMENT TO PURCHASE WATER (Continued)

Once the project starts delivering water, the District would be required to purchase on an annual take-or-pay basis 5,000 acre-feet of water from the project (to the extent such quantities are available). Management's estimate of the annual cost for this allocation of water is approximately \$6 million per year. This estimate is based upon projections of uncertain future costs, including the cost to be incurred by Cadiz, Inc. to construct the related facilities and the cost to operate and maintain, the facilities to provide the procured water. An additional optional annual allocation of 10,000 acre-feet of water is available to the District at the District's option. Costs of transporting the water are undeterminable at this time.

Delivery of water is subject to development of agreements and/or permitting by federal, regional, and local agencies. If the project is halted, the District would continue its current practice of purchasing water from MET, identified sources, or both.

**REQUIRED
SUPPLEMENTARY
INFORMATION
(UNAUDITED)**



SANTA MARGARITA WATER DISTRICT
Schedule of Changes in the Net Pension Liability and Related Ratios
For the Year Ended June 30, 2023

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

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is completed, the District will only present information for the years for which information is available.

	Measurement Date June 30, 2022	Measurement Date June 30, 2021	Measurement Date June 30, 2020	Measurement Date June 30, 2019	Measurement Date June 30, 2018	Measurement Date June 30, 2017	Measurement Date June 30, 2016	Measurement Date June 30, 2015	Measurement Date June 30, 2014
Total Pension Liability									
Service Cost	\$ 2,717,411	\$ 2,440,773	\$ 2,394,472	\$ 2,231,253	\$ 2,247,163	\$ 2,163,764	\$ 1,848,648	\$ 1,780,457	\$ 1,781,063
Interest	8,239,772	7,985,089	7,620,633	7,209,736	6,765,594	6,398,444	6,127,743	5,898,709	5,605,583
Changes in Assumptions	3,762,976	-	-	-	(629,452)	5,244,977	-	(1,424,897)	-
Difference Between Expected and Actual Experience	(913,381)	221,029	1,014,632	1,464,166	941,393	(527,866)	(1,579,501)	(778,016)	-
Benefit Payments, Including Refunds of Employee Contributions	(6,058,739)	(5,293,978)	(5,030,069)	(4,550,760)	(3,963,586)	(3,598,196)	(3,328,929)	(2,950,790)	(2,683,647)
Net Change in Total Pension Liability	7,748,039	5,352,913	5,999,668	6,354,395	5,361,112	9,681,123	3,067,961	2,525,463	4,702,999
Total Pension Liability – Beginning	118,238,040	112,885,127	106,885,459	100,531,064	95,169,952	85,488,829	82,420,868	79,895,405	75,192,406
Total Pension Liability – Ending (a)	\$ 125,986,079	\$ 118,238,040	\$ 112,885,127	\$ 106,885,459	\$ 100,531,064	\$ 95,169,952	\$ 85,488,829	\$ 82,420,868	\$ 79,895,405
Plan Fiduciary Net Position									
Net Plan to Plan Resource Movement	\$ -	\$ -	\$ -	\$ -	\$ (163)	\$ -	\$ -	\$ -	\$ -
Contributions – Employer	6,493,115	5,967,303	3,610,515	3,277,051	2,854,890	2,892,279	2,564,395	2,250,865	1,889,301
Contributions – Employee	1,170,069	1,016,170	1,034,315	1,036,211	954,280	924,284	883,963	921,137	955,416
Net Investment Income	(7,404,381)	17,941,095	3,703,793	4,661,877	5,565,499	6,530,660	267,084	1,320,631	8,393,984
Benefit Payments, Including Refunds of Employee Contributions	(6,058,739)	(5,293,978)	(5,030,069)	(4,550,760)	(3,963,586)	(3,598,196)	(3,328,929)	(2,950,790)	(2,683,647)
Administrative Expense	(60,578)	(77,610)	(104,998)	(50,028)	(101,268)	(86,112)	(35,332)	(65,221)	-
Other Miscellaneous Expense	-	-	-	163	(192,310)	-	-	-	-
Net Change in Fiduciary Net Position	(5,860,514)	19,552,980	3,213,556	4,374,514	5,117,342	6,662,915	351,181	1,476,622	8,555,054
Plan Fiduciary Net Position – Beginning	97,245,904	77,692,924	74,479,368	70,104,854	64,987,512	58,324,597	57,973,416	56,496,794	47,941,740
Plan Fiduciary Net Position – Ending (b)	\$ 91,385,390	\$ 97,245,904	\$ 77,692,924	\$ 74,479,368	\$ 70,104,854	\$ 64,987,512	\$ 58,324,597	\$ 57,973,416	\$ 56,496,794
Plan Net Pension Liability – Ending (a) - (b)	\$ 34,600,689	\$ 20,992,136	\$ 35,192,203	\$ 32,406,091	\$ 30,426,210	\$ 30,182,440	\$ 27,164,232	\$ 24,447,452	\$ 23,398,611
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.54%	82.25%	68.82%	69.68%	69.73%	68.29%	68.22%	70.34%	70.71%
Covered Payroll	\$ 15,672,119	\$ 13,825,243	\$ 13,517,009	\$ 13,683,339	\$ 12,205,854	\$ 11,917,733	\$ 11,283,721	\$ 10,499,276	\$ 9,194,758
Plan Net Pension Liability as a Percentage of Covered Payroll	220.78%	151.84%	260.35%	236.83%	249.28%	253.26%	240.74%	232.85%	254.48%

Notes to Schedule of Changes in the Net Pension Liability and Related Ratio

Benefit Changes: The figures above generally include any liability impact that may have resulted from voluntary benefit changes which occurred on or before the Measurement Date. However, offers of Two Years Additional Service Credit that occurred after the Valuation Date are not included in the figures above, unless the liability impact is deemed material by the plan actuary.

Changes of Assumptions: In 2022, the discount rate was reduced from 7.15% to 6.90%. In addition, demographic assumptions and the inflation rate assumption were changed in accordance with the 2021 CalPERS Experience Study and Review of Actuarial Assumptions. No changes of assumptions in 2019, 2020 or 2021. In 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Assumptions December 2017. There were no changes in the discount rate. In 2017, the discount rate was reduced from 7.65 percent to 7.15 percent. In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense). In 2014, amounts reported were based on the 7.5 percent discount rate.

SANTA MARGARITA WATER DISTRICT
Schedule of Contributions
For the Year Ended June 30, 2023

(2) Schedule of Contributions

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is completed, the District will only present information for the years for which information is available.

	Fiscal Year End June 30, 2023	Fiscal Year End June 30, 2022	Fiscal Year End June 30, 2021	Fiscal Year End June 30, 2020	Fiscal Year End June 30, 2019	Fiscal Year End June 30, 2018	Fiscal Year End June 30, 2017	Fiscal Year End June 30, 2016	Fiscal Year End June 30, 2015
Actuarially Determined Contribution	\$ 4,836,875	\$ 4,408,625	\$ 3,966,792	\$ 3,610,515	\$ 3,277,051	\$ 2,855,073	\$ 2,892,279	\$ 2,564,395	\$ 2,250,865
Contributions in Relation to the Actuarially Determined Contribution	(5,836,875)	(6,493,625)	(5,966,792)	(3,610,515)	(3,277,051)	(2,855,073)	(2,892,279)	(2,564,395)	(2,250,865)
Contribution Deficiency (Excess)	\$ (1,000,000)	\$ (2,085,000)	\$ (2,000,000)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
* Represents the District's fiscal year-end date									
Covered Payroll [1]	\$ 15,672,701	\$ 15,672,119	\$ 15,672,119	\$ 13,517,009	\$ 13,683,339	\$ 12,205,854	\$ 11,917,733	\$ 11,283,721	\$ 10,499,276
Contributions as a Percentage of Covered Payroll	37.24%	41.43%	38.07%	26.71%	23.95%	23.39%	24.27%	22.73%	21.44%

Notes to Schedule of Contribution:

Valuation date: June 30, 2021

Methods and assumptions used to actuarially determine contribution rates for fiscal year 2023:

Actuarial Cost Method	Entry Age Normal
Amortization Method/Period	Level Dollar Amount
Asset Valuation Method	15 Year Smoothed Fair Value
Price Inflation	2.3%
Wage Inflation	2.8%
Salary Increases	Varies by Entry Age and Service
Payroll Growth	2.8%
Investment Rate of Return	6.8% Net of Pension Plan Investment and Administrative Expenses
Retirement Age	The probabilities of retirement are based on the 2021 CalPERS Experience Study for the period from 2000 to 2019.
Mortality	The probabilities of mortality are based on the 2021 CalPERS Experience Study for the period from 2000 to 2019. Pre-retirement and Post-retirement mortality rates are for 2017 and are projected generationally for future years using 80% of Scale MP-2020 published by the Society of Actuaries.

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

OTHER INFORMATION (UNAUDITED)



SANTA MARGARITA WATER DISTRICT
Combining Area Schedule of Net Position
June 30, 2023

	Improvement District's 1-8	Improvement District 9	Totals
ASSETS:			
Current Assets:			
Cash and investments	\$ 132,993,085	\$ 23,256,579	\$ 156,249,664
Accrued interest receivable	322,266	-	322,266
Accounts receivable - water and sanitation customers, net of allowance for doubtful accounts of \$1,069,403	10,236,477	2,604,317	12,840,794
Accounts receivable - other	3,687,970	47,218	3,735,188
Leases receivable, current	219,489	-	219,489
Water and supplies inventory	5,248,292	407,098	5,655,390
Prepaid expenses	1,130,217	7,677	1,137,894
Restricted - cash and investments	20,173,918	582,934	20,756,852
Restricted - unspent bond proceeds	8,389,444	-	8,389,444
Restricted - property taxes receivable	252,520	-	252,520
Restricted - accrued interest receivable	104,518	-	104,518
Total Current Assets	182,758,196	26,905,823	209,664,019
Non-current Assets:			
Leases receivable, noncurrent	3,696,964	-	3,696,964
Capital assets, intangible asset - right to use leased asset	24,310	-	24,310
Capital assets, intangible asset - subscription asset	71,265	13,574	84,839
Capital assets - not depreciated	141,491,832	5,083,733	146,575,565
Capital assets, net of accumulated depreciation and amortization	699,501,789	66,260,611	765,762,400
Total Non-current Assets	844,786,160	71,357,918	916,144,078
Total Assets	1,027,544,356	98,263,741	1,125,808,097
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred outflows related to pension	13,743,440	-	13,743,440
Deferred loss on debt defeasance	862,788	188,042	1,050,830
Total Deferred Outflows of Resources	14,606,228	188,042	14,794,270

(Continued)

SANTA MARGARITA WATER DISTRICT
Combining Area Schedule of Net Position (continued)
June 30, 2023

	Improvement District's 1-8	Improvement District 9	Totals
LIABILITIES:			
Current Liabilities:			
Accounts payable and accrued expenses	\$ 14,514,507	\$ 2,860,579	\$ 17,375,086
Accrued wages and related payables	528,765	6,371	535,136
Retentions payable and construction deposits	1,251,117	212,041	1,463,158
Other deposits payable	508,778	93,509	602,287
Unearned revenue	91,335	-	91,335
Accrued interest payable	1,318,430	84,373	1,402,803
Long-term liabilities - due within one year			
Lease liabilities	9,076	-	9,076
Subscription liabilities	40,922	7,795	48,717
Compensated absences	1,125,355	34,733	1,160,088
Bonds payable	3,958,856	2,763,601	6,722,457
Loans payable	3,390,272	-	3,390,272
Total Current Liabilities	26,737,413	6,063,002	32,800,415
Non-current Liabilities:			
Long-term liabilities - due in more than one year			
Lease liabilities	15,234	-	15,234
Subscription liabilities	31,237	5,950	37,187
Compensated absences	576,549	24,951	601,500
Bonds payable	89,038,276	25,123,662	114,161,938
Loans payable	89,455,863	-	89,455,863
Reimbursement agreement advances	380,037	-	380,037
Accrued interest payable on reimbursement agreements	58,117	-	58,117
Net pension liability	34,600,689	-	34,600,689
Total Non-current Liabilities	214,156,002	25,154,563	239,310,565
Total Liabilities	240,893,415	31,217,565	272,110,980
DEFERRED INFLOWS OF RESOURCES:			
Deferred inflows related to pension	690,605	-	690,605
Deferred gain on debt defeasance	28,535	-	28,535
Deferred inflows related to leases	3,923,903	-	3,923,903
Total Deferred Inflows of Resources	4,643,043	-	4,643,043
NET POSITION:			
Net investment in capital assets	657,249,276	42,545,444	699,794,720
Restricted for:			
Special assessment for debt service	12,642,635	498,561	13,141,196
Other	6,511,774	-	6,511,774
Unrestricted	120,210,441	24,190,213	144,400,654
TOTAL NET POSITION	\$ 796,614,126	\$ 67,234,218	\$ 863,848,344

SANTA MARGARITA WATER DISTRICT
Combining Area Schedule of Revenues, Expenses and Change in Net Position
For the Year Ended June 30, 2023

	Improvement District's 1-8	Improvement District 9	Totals
OPERATING REVENUES:			
Potable water charges:			
Potable water commodity charge	\$ 24,950,282	\$ 12,124,067	\$ 37,074,349
Monthly service charge	21,280,828	5,052,002	26,332,830
Transmission charge	946,379	-	946,379
Total potable water charges	47,177,489	17,176,069	64,353,558
Recycled water charges:			
Recycled water commodity charge	6,847,330	840,234	7,687,564
Monthly service charge	1,662,638	86,082	1,748,720
Transmission charge	375,211	-	375,211
Total recycled water charges	8,885,179	926,316	9,811,495
Wastewater charges:			
Wastewater commodity charge	5,235,075	604,430	5,839,505
Monthly service charge	20,978,750	3,346,625	24,325,375
Total wastewater charges	26,213,825	3,951,055	30,164,880
Other charges or services:			
Jointly owned facilities	1,292,168	-	1,292,168
Construction related revenues	608,708	107,913	716,621
Rebates	529,196	63,967	593,163
Customer related revenues	801,289	260,333	1,061,622
Other revenues	431,812	496,477	928,289
Total other charges or services	3,663,173	928,690	4,591,863
Total Operating Revenues	85,939,666	22,982,130	108,921,796
OPERATING EXPENSES:			
Source of supply - water purchases	27,051,077	8,305,664	35,356,741
Power	6,688,616	433,830	7,122,446
Maintenance and operations	11,299,820	2,120,195	13,420,015
Regional participation	398,259	213,916	612,175
Wastewater treatment	5,539,386	2,473,052	8,012,438
Salaries, wages and related benefits	23,361,896	3,472,672	26,834,568
General and administrative	4,710,615	1,173,082	5,883,697
Total Operating Expenses before depreciation and amortization expense	79,049,669	18,192,411	97,242,080
Operating income before depreciation and amortization expense	6,889,997	4,789,719	11,679,716
Depreciation and amortization expense	(24,556,185)	(4,059,342)	(28,615,527)
Operating income (loss)	\$ (17,666,188)	\$ 730,377	\$ (16,935,811)

(Continued)

SANTA MARGARITA WATER DISTRICT
Combining Area Schedule of Revenues, Expenses and Change in Net Position (Continued)
For the Year Ended June 30, 2023

	Improvement District's 1-8	Improvement District 9	Totals
NON-OPERATING REVENUES (EXPENSES):			
Special assessment tax revenues for debt service	\$ 3,223,643	\$ -	\$ 3,223,643
Property taxes	10,098,029	-	10,098,029
Investment earnings	3,981,393	840,569	4,821,962
Capacity lease revenue	163	-	163
Rental revenue	1,376,798	-	1,376,798
Loss on sale of capital assets	(3,185,799)	-	(3,185,799)
Other non-operating revenue (expense)	147,970	(85,257)	62,713
Interest expense	(3,814,156)	(749,630)	(4,563,786)
Total non-operating revenues (expenses)	11,828,041	5,682	11,833,723
Income (loss) before capital contributions	(5,838,147)	736,059	(5,102,088)
CAPITAL CONTRIBUTIONS:			
Capital grants	3,912,373	29,385	3,941,758
Contributions from developer	10,990,470	146,840	11,137,310
Connection fees	4,204,091	2,462,446	6,666,537
Contributions from agencies	13,273,608	-	13,273,608
Jointly owned facilities capital reimbursements	432,193	-	432,193
Total capital contributions	32,812,735	2,638,671	35,451,406
Change in net position	26,974,588	3,374,730	30,349,318
Net position, beginning of year, as restated	771,781,380	61,717,646	833,499,026
Net position, end of year	\$ 798,755,968	\$ 65,092,376	\$ 863,848,344

A scenic view of a golf course pond. In the foreground, there is a circular concrete area with a central circular patch, surrounded by a grassy area and a concrete curb. The pond is in the middle ground, reflecting the blue sky and surrounding trees. The background shows a golf course with green grass and trees under a clear blue sky.

STATISTICAL SECTION (UNAUDITED)

SANTA MARGARITA WATER DISTRICT
Summary of Statistical Section
For the Fiscal Year Ended June 30, 2023

SUMMARY OF STATISTICAL SECTION

This section of the Santa Margarita Water District’s Annual Comprehensive Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the District’s overall financial health.

Financial Trends Schedules – These schedules contain trend information to help the reader understand how the District’s financial performance and well-being have changed over time.

Net position	page 76
Changes in net position	page 77
Operating revenue by source	page 79
Operating expenses by type	page 80

Revenue Schedules – These schedules contain information to help the reader assess the factors affecting the District’s ability to generate its sales and property taxes.

Water sales by customer class	page 81
Water and wastewater rates	page 83
Ten largest water and wastewater customers	page 85
Assessed value and assessment rate by improvement district	page 87

Debt Schedules – These schedules present information to help the reader assess the affordability of the District’s current levels of outstanding debt and the District’s ability to issue additional debt in the future.

Direct and overlapping property tax rates	page 88
Debt service coverage ratio	page 95
Outstanding debt by type	page 97
Outstanding debt ratios	page 98

Demographic and Economic Information – These schedules offer demographic and economic indicators to help the reader understand the environment within which the District’s financial activities take place and to help make comparisons over time and with other governments.

Demographic and economic statistics	page 99
Principal employers	page 100

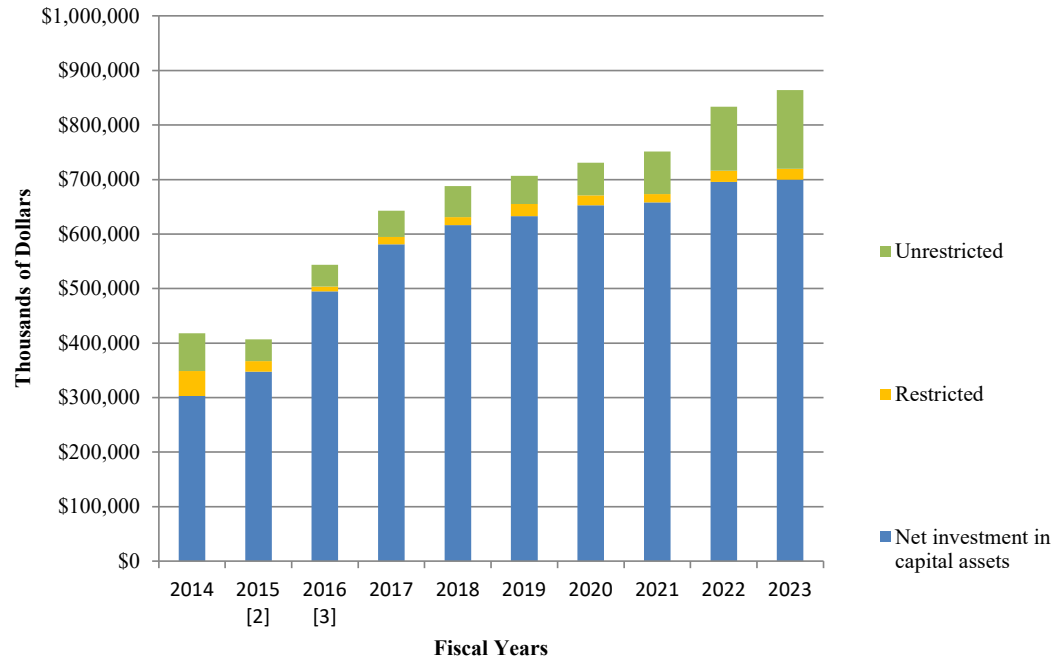
SANTA MARGARITA WATER DISTRICT
Summary of Statistical Section (Continued)
For the Year Ended June 30, 2023

Operating Information – These schedules contain information about the District’s operations and resources to help the reader understand how the District’s financial information relates to the services the District provides and the activities it performs.

Capital asset statistics	page 101
Water and wastewater connections	page 102
Employee information	page 104

SANTA MARGARITA WATER DISTRICT
 Net Position
 (Thousands of Dollars)
 Last Ten Fiscal Years

	Fiscal Year									
	2014	2015 ^[2]	2016 ^[3]	2017	2018	2019	2020	2021	2022	2023
Net Position ^[1]										
Net investment in capital assets	\$ 302,967	\$ 347,590	\$ 494,624	\$ 581,278	\$ 616,456	\$ 633,048	\$ 652,545	\$ 657,883	\$ 695,693	\$ 699,880
Restricted	45,817	19,620	8,931	13,329	14,408	21,955	18,695	15,229	20,407	19,653
Unrestricted	69,321	39,726	39,832	47,951	57,446	51,752	59,716	78,371	117,399	144,315
Total net position	\$ 418,105	\$ 406,936	\$ 543,387	\$ 642,558	\$ 688,310	\$ 706,755	\$ 730,956	\$ 751,483	\$ 833,499	\$ 863,848



[1] Current year net position is calculated in notes 8 and 9 to the basic financial statements.

[2] Amounts include restatement of previously reported net position related to the implementation of GASB 68 and GASB 71. Also, certain amounts were reclassified for comparison purposes.

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

Source: SMWD Basic Financial Statements

SANTA MARGARITA WATER DISTRICT
Changes in Net Position (continued)
Last Ten Fiscal Years

	Fiscal Year				
	2014	2015	2016 ^[1]	2017	2018
Operating Revenues:					
Potable water charges	\$ 36,178,908	\$ 34,142,144	\$30,957,212	\$ 36,801,755	\$ 42,532,641
Recycled water charges	6,929,490	7,219,456	6,766,438	7,917,181	8,518,568
Wastewater charges	12,103,730	12,271,262	14,706,977	19,119,039	21,111,651
Customer related revenues	698,786	715,686	647,657	766,205	821,386
Construction charges	708,874	1,150,074	1,121,823	1,030,082	855,453
Other income	2,821,343	2,702,571	4,178,070	3,298,165	4,003,968
Total operating revenues	59,441,131	58,201,193	58,378,177	68,932,427	77,843,667
Operating Expenses:					
Water purchases	28,264,492	24,212,121	23,677,839	24,333,744	24,823,991
Power	4,944,194	5,460,353	5,189,368	5,371,920	5,698,926
Maintenance and operations	622,498	1,138,459	1,184,825	733,064	1,000,939
Regional participation	3,076,129	259,134	175,282	253,717	261,819
Wastewater treatment	2,481,884	2,633,777	2,534,102	2,615,119	3,205,993
Operating general	2,195,665	2,535,469	2,944,793	3,306,865	4,452,531
Repair and maintenance	3,465,764	3,489,569	4,060,091	4,522,714	6,190,383
Employee cost	14,606,120	15,655,872	16,022,443	17,139,918	19,338,871
Customer relations	448,664	505,067	354,427	1,043,790	1,093,631
General and administrative	3,035,753	3,696,633	5,210,550	4,348,537	3,791,832
Total operating expenses before depreciation and amortization expenses	63,141,163	59,586,454	61,353,720	63,669,388	69,858,916
Depreciation and amortization	16,985,856	17,081,495	17,177,880	17,884,061	20,546,739
Operating income (loss)	(20,685,888)	(18,466,756)	(20,153,423)	(12,621,022)	(12,561,988)
Non-operating Revenues (Expenses)					
Property taxes-ad valorem restricted	29,694,891	23,454,537	19,011,576	17,588,204	17,647,908
Property taxes-ad valorem 1% general	6,118,055	6,071,301	7,074,733	7,481,907	7,949,869
Capacity lease income	809,833	832,103	824,530	5,434	1,516
Investment income (loss)	1,577,099	1,430,680	2,304,089	87,522	265,970
Rental income	1,199,966	1,107,415	1,087,296	1,204,530	1,204,707
Gain (loss) on sale of capital asset	-	-	-	-	18,149
Other non-operating income	5,133,944	4,655,928	-	8,664,815	1,073,576
Contributions to other agencies	(3,137,767)	(16,387,047)	(944,238)	(2,616)	(1,062)
Other non-operating expenses	(965,681)	(623,934)	(798,665)	-	-
Interest revenue (expense)	(14,566,035)	(9,303,180)	(228,423)	(1,021,469)	(333,729)
Total non-operating revenues (expenses)	25,864,305	11,237,803	28,330,898	34,008,327	27,826,904
Income (loss) before contributed capital	5,178,417	(7,228,953)	8,177,475	21,387,305	15,264,916
Capital Contributions					
Capital grants	3,234,854	9,261,561	828,296	1,199,865	11,312,189
Contributions from developer	316,913	2,607,632	3,515,481	62,591,102	12,660,109
Contributions from agencies	-	-	11,227,266	13,345,089	5,622,463
Connection fees	-	-	-	-	-
Jointly owned facilities capital reimbursements	83,078	9,553,265	2,064,227	646,897	892,811
Special Item					
Annexed operations from the City of San Juan Capistrano's water system	-	-	-	-	-
Change in Net Position	\$ 8,813,262	\$ 14,193,505	\$25,812,745	\$ 99,170,258	\$ 45,752,488

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

Source: SMWD Basic Financial Statements

SANTA MARGARITA WATER DISTRICT

Changes in Net Position (continued)

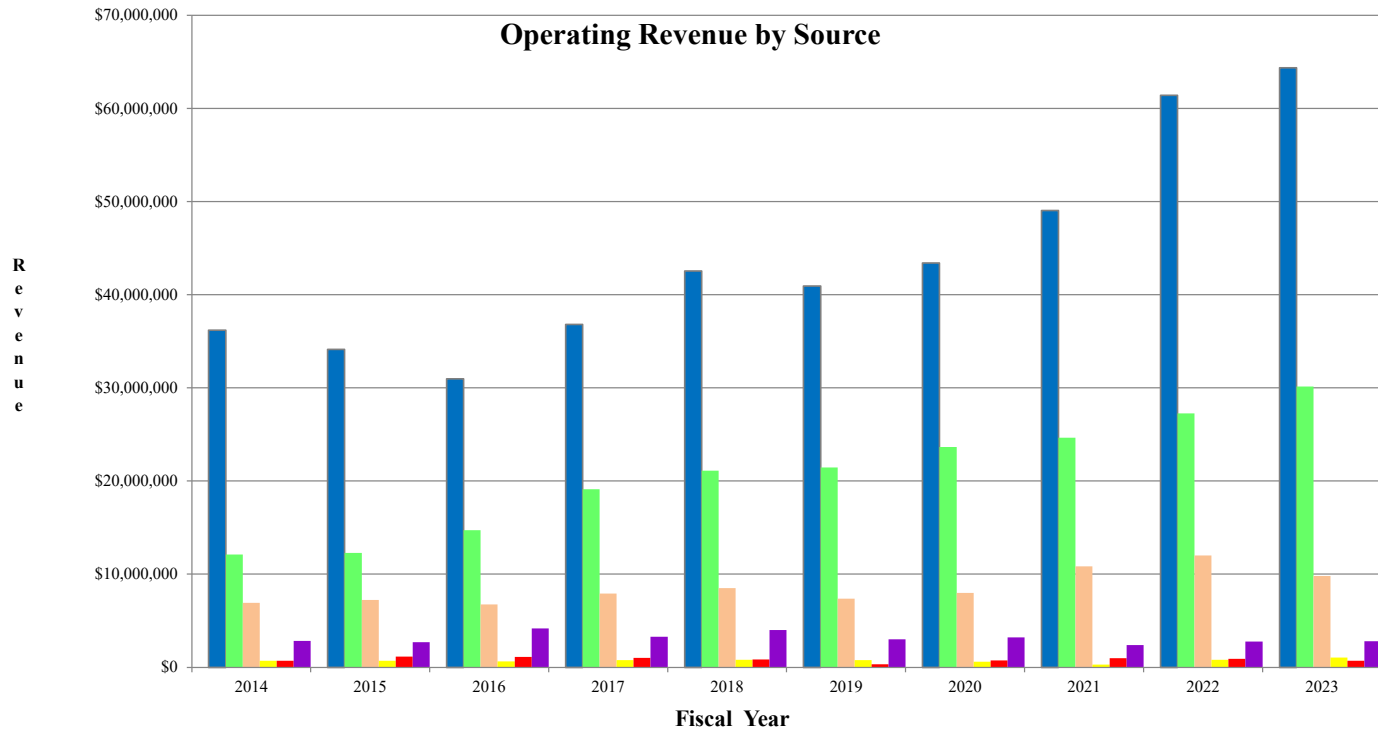
Last Ten Fiscal Years

	Fiscal Year				
	2019	2020	2021	2022	2023
Operating Revenues:					
Potable water charges	\$ 40,935,472	\$ 43,414,528	\$ 49,026,077	\$ 61,422,930	\$ 64,353,558
Recycled water charges	7,358,115	7,989,399	10,846,821	12,015,309	9,811,495
Wastewater charges	21,466,050	23,668,748	24,652,362	27,251,110	30,164,880
Customer related revenues	789,675	606,985	277,823	812,916	1,061,622
Construction charges	327,665	730,549	991,250	895,192	716,621
Other income	3,001,417	3,227,784	2,373,234	2,770,441	2,813,620
Total operating revenues	73,878,394	79,637,993	88,167,567	105,167,898	108,921,796
Operating Expenses:					
Water purchases	25,874,531	27,224,323	30,500,238	34,894,204	35,356,741
Power	5,184,012	4,996,289	5,705,482	6,931,811	7,122,446
Maintenance and operations	251,842	412,129	9,342,810	11,684,776	13,420,015
Regional participation	354,919	121,451	264,610	287,340	612,175
Wastewater treatment	4,552,922	4,195,526	3,910,239	6,339,515	8,012,438
Operating general	3,290,440	4,153,245	-	-	-
Repair and maintenance	6,118,091	4,419,298	-	-	-
Employee cost	20,191,877	22,346,607	23,048,950	21,916,600	26,834,568
Customer relations	909,760	-	-	-	-
General and administrative	4,343,332	5,153,821	4,733,643	7,214,289	5,883,697
Total operating expenses before depreciation and amortization expenses	71,071,726	73,022,689	77,505,972	89,268,535	97,242,080
Depreciation and amortization	21,337,294	21,652,406	22,215,916	26,873,410	28,615,527
Operating income (loss)	(18,530,626)	(15,037,102)	(11,554,321)	(10,974,047)	(16,935,811)
Non-operating Revenues (Expenses)					
Property taxes-ad valorem restricted	14,246,710	14,249,102	3,339,826	3,100,584	3,223,643
Property taxes-ad valorem 1% general	8,324,301	8,735,175	9,095,334	9,387,515	10,098,029
Capacity lease income	1,438	618	6,961	209	163
Investment income (loss)	3,699,167	4,086,083	577,079	(3,922,058)	4,821,962
Rental income	1,242,157	1,243,965	1,303,167	1,280,134	1,376,798
Gain (loss) on sale of capital asset	(732,355)	88,147	21,516	(521,438)	(3,185,799)
Other non-operating income	707,881	79,118	78,069	106,662	62,713
Contributions to other agencies	-	-	-	-	-
Other non-operating expenses	-	-	-	-	-
Interest revenue (expense)	(2,027,006)	(2,050,123)	(3,659,245)	(4,488,560)	(4,563,786)
Total non-operating revenues (expenses)	25,462,293	26,432,085	10,762,707	4,943,048	11,833,723
Income (loss) before contributed capital	6,931,667	11,394,983	(791,614)	(6,030,999)	(5,102,088)
Capital Contributions					
Capital grants	-	2,615,576	3,095,713	1,356,906	3,941,758
Contributions from developer	7,292,210	4,924,149	3,753,058	10,772,002	11,137,310
Contributions from agencies	116,472	2,278,209	13,841,205	13,654,484	12,794,287
Connection fees	-	-	171,061	1,794,663	6,666,537
Jointly owned facilities capital reimbursements	4,105,174	2,987,974	457,645	275,097	911,514
Special Item					
Annexed operations from the City of San Juan Capistrano's water system	-	-	-	60,193,880	-
Change in Net Position	\$ 18,445,523	\$ 24,200,891	\$ 20,527,068	\$ 82,016,033	\$ 30,349,318

Source: SMWD Basic Financial Statements

SANTA MARGARITA WATER DISTRICT
Operating Revenue by Source
Last Ten Fiscal Years

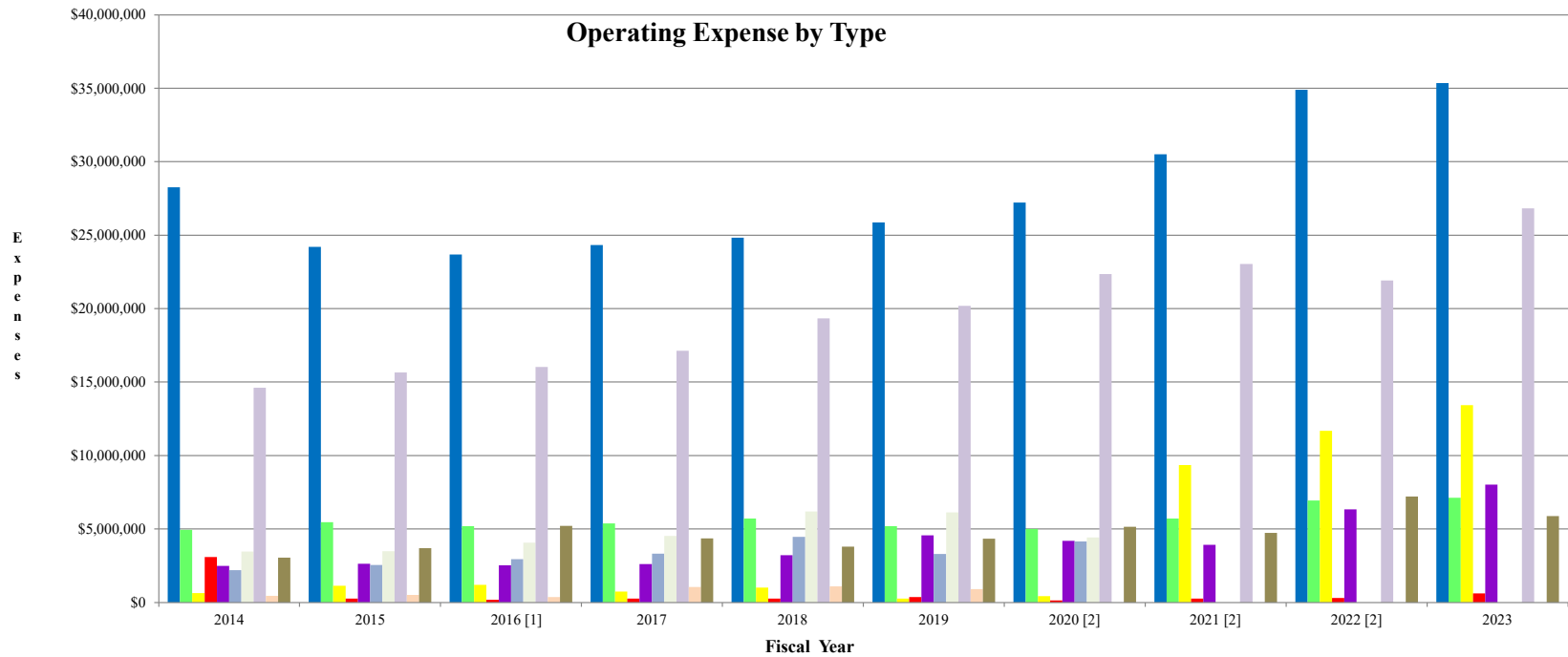
Fiscal Year	Potable Water Charges	Wastewater Charges	Recycled Water Charges	Customer Related Revenues	Construction Charges	Other Income	Total Operating Revenues
2014	\$ 36,178,908	\$ 12,103,730	\$ 6,929,490	\$ 698,786	\$ 708,874	\$ 2,821,343	\$ 59,441,131
2015	34,142,144	12,271,262	7,219,456	715,686	1,150,074	2,702,571	58,201,193
2016	30,957,212	14,706,977	6,766,438	647,657	1,121,823	4,178,070	58,378,177
2017	36,801,755	19,119,039	7,917,181	766,205	1,030,082	3,298,165	68,932,427
2018	42,532,641	21,111,651	8,518,568	821,386	855,453	4,003,968	77,843,667
2019	40,935,472	21,466,050	7,358,115	789,675	327,665	3,001,417	73,878,394
2020	43,414,528	23,668,748	7,989,399	606,985	730,549	3,227,784	79,637,993
2021	49,026,077	24,652,362	10,846,821	277,823	991,250	2,373,234	88,167,567
2022	61,422,930	27,251,110	12,015,309	812,916	895,192	2,770,441	105,167,898
2023	64,353,558	30,164,880	9,811,495	1,061,622	716,621	2,813,620	108,921,796



Source: SMWD Finance Department

SANTA MARGARITA WATER DISTRICT
Operating Expenses by Type
Last Ten Fiscal Years

Fiscal Year	Water purchases	Power	Maintenance and operations	Regional participation	Wastewater treatment	Operating general	Repair and maintenance	Employee cost	Customer relations	General and administrative	Total Operating Expense
2014	28,264,492	4,944,194	622,498	3,076,129	2,481,884	2,195,665	3,465,764	14,606,120	448,664	3,035,753	63,141,163
2015	24,212,121	5,460,353	1,138,459	259,134	2,633,777	2,535,469	3,489,569	15,655,872	505,067	3,696,633	59,586,454
2016 ^[1]	23,677,839	5,189,368	1,184,825	175,282	2,534,102	2,944,793	4,060,091	16,022,443	354,427	5,210,550	61,353,720
2017	24,333,744	5,371,920	733,064	253,717	2,615,119	3,306,865	4,522,714	17,139,918	1,043,790	4,348,537	63,669,388
2018	24,823,991	5,698,926	1,000,939	261,819	3,205,993	4,452,531	6,190,383	19,338,871	1,093,631	3,791,832	69,858,916
2019	25,874,531	5,184,012	251,842	354,919	4,552,922	3,290,440	6,118,091	20,191,877	909,760	4,343,332	71,071,726
2020 ^[2]	27,224,323	4,996,289	412,129	121,451	4,195,526	4,153,245	4,419,298	22,346,607	-	5,153,821	73,022,689
2021 ^[2]	30,500,238	5,705,482	9,342,810	264,610	3,910,239	-	-	23,048,950	-	4,733,643	77,505,972
2022 ^[2]	34,894,204	6,931,811	11,684,776	287,340	6,339,515	-	-	21,916,600	-	7,214,289	89,268,535
2023	35,356,741	7,122,446	13,420,015	612,175	8,012,438	-	-	26,834,568	-	5,883,697	97,242,080



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

[2] Certain amounts, such as customer relations and repairs and maintenance, were reclassified in FY 2020 through FY 2022.

Source: SMWD Finance Department

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

Water Consumption by Customer Class by Acre Feet (AF)

Improvement Districts 1 to 8

Potable Water ^[1]					Recycled Water ^[2]			Total Water	
	Res (SF)	Res (MF)	Dom Irr	Comm/Other	Total PW	Irrigation	All other ^[3]	Total RW	Total Water
2014	16,914	2,565	6,238	1,482	27,199	6,675	707	7,382	34,581
2015	15,333	2,504	5,447	1,806	25,090	6,803	720	7,523	32,613
2016	12,987	2,454	3,834	1,171	20,445	6,538	692	7,230	27,675
2017	13,315	2,454	4,279	1,229	21,277	7,077	749	7,826	29,103
2018	14,667	2,497	5,122	1,142	23,428	7,597	744	8,341	31,769
2019	13,579	2,466	4,021	1,071	21,138	6,159	518	6,676	27,814
2020	14,106	2,595	4,162	1,000	21,862	6,041	744	6,785	28,648
2021	15,483	2,681	5,415	1,079	24,659	7,705	971	8,677	33,335
2022	14,561	2,570	5,104	920	23,155	7,721	769	8,490	31,645
2023	12,645	2,555	3,873	1,084	20,158	5,718	514	6,232	26,390

Improvement District 9

Potable Water ^[1]					Recycled Water ^[2]			Total Water	
	Res (SF)	Res (MF)	Dom Irr	Comm/Other	Total PW	Irrigation	All other	Total RW	Total Water
2022 ^[4]	1,961	621	721	554	3,857	358	-	358	4,215
2023	2,952	963	1,091	816	5,822	537	-	537	6,359

[1] Potable is water that is treated to drinking water standards

[2] Recycled water is water that is not of drinking water quality, but which may still be used for many other purposes

[3] Includes lakefill (Lake MV) and construction

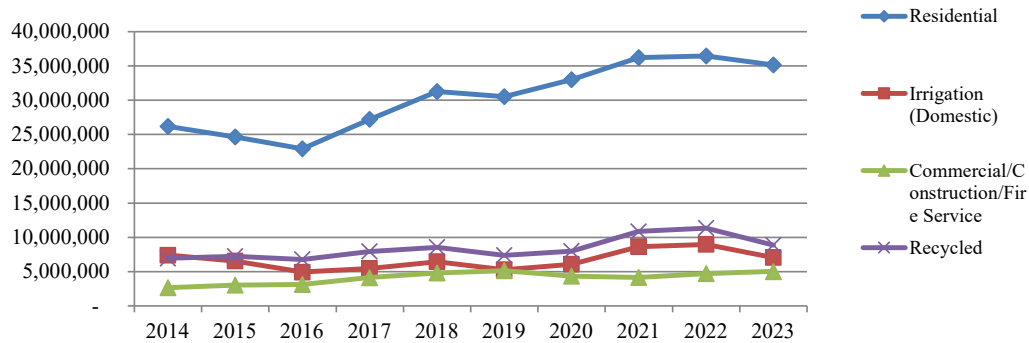
[4] The District assumed the City of San Juan Capistrano's water and wastewater system obligations on November 15, 2021. Water sales by customer class reflect seven and a half months (62.5%) of activity for the fiscal year ended June 30, 2022.

Source: SMWD utility billing system

SANTA MARGARITA WATER DISTRICT
Historical Water System Sales Revenues
Last Ten Fiscal Years

Improvement Districts 1 to 8

Fiscal Year	Residential	Irrigation (Domestic)	Commercial/Construction/Fire Service	Recycled	Total	% Increase / Decrease
2014	26,195,274	7,396,809	2,654,246	6,929,490	43,175,818	10.51%
2015	24,632,082	6,533,805	3,049,011	7,219,456	41,434,354	-4.03%
2016	22,904,340	4,922,383	3,130,489	6,766,438	37,723,650	-8.96%
2017	27,197,173	5,475,203	4,129,379	7,917,181	44,718,936	18.54%
2018	31,283,866	6,425,895	4,822,880	8,518,568	51,051,209	14.16%
2019	30,531,822	5,287,438	5,116,212	7,358,115	48,293,587	-5.40%
2020	33,016,704	6,081,224	4,316,601	7,989,399	51,403,927	6.44%
2021	36,233,706	8,651,496	4,140,875	10,846,821	59,872,898	16.48%
2022	36,443,885	8,959,164	4,708,408	11,346,669	61,458,126	2.65%
2023	35,128,940	7,033,241	5,015,308	8,885,179	56,062,668	-8.78%



Improvement District 9

Fiscal Year	Residential	Irrigation (Domestic)	Commercial/Construction/Fire Service	Recycled	Total	% Increase / Decrease
2022 ^[1]	\$ 7,357,826	\$ 2,159,025	\$ 1,794,623	\$ 668,639	\$ 11,980,113	N/A
2023	\$ 11,465,372	\$ 3,134,646	\$ 2,576,051	\$ 926,316	\$ 18,102,385	51.10%

[1] The District assumed the City of San Juan Capistrano's water and wastewater system obligations on November 15, 2021. Water system sales revenues reflect seven and a half months (62.5%) of activity for the fiscal year ended June 30, 2022.

Source: SMWD utility billing system

SANTA MARGARITA WATER DISTRICT
Water and Wastewater Rates
Last Ten Fiscal Years

Improvement Districts 1 to 8

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

	2014	2015 ^[1]	2016 ^[2]	2017 ^[2]	2018 ^[2]	2019 ^[3]	2020 ^[2]	2021 ^[4]	2022 ^[2]	2023 ^[2]
3/4" Meter Size	\$ 6.41	\$ 8.72	\$ 14.89	\$ 21.79	\$ 23.05	\$ 23.05	\$ 23.13	\$ 23.46	\$ 24.51	\$ 25.16

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

	2014	2015 ^[1]	2016 ^[2]	2017 ^[2]	2018 ^[2]	2019 ^[3]	2020 ^[2]	2021 ^[4]	2022 ^[2]	2023 ^[2]
Tier 1	\$ 1.71	\$ 2.04	\$ 1.86	\$ 1.67	\$ 1.67	\$ 1.67	\$ 2.20	\$ 2.38	\$ 2.46	\$ 2.56
Tier 2	1.84	2.29	2.11	1.94	1.94	1.94	2.57	2.79	2.86	2.95
Tier 3	2.32	2.77	2.61	2.44	2.45	2.45	3.36	3.64	3.76	3.81
Tier 4	2.83	3.28	3.12	2.95	2.96	2.96	5.53	6.06	6.17	6.22
Tier 5	3.71	4.50	4.67	4.84	4.85	4.85	-	-	-	-
MWDOC Surcharge	0.62	-	0.04	0.10	0.19	0.29	-	-	-	-

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

	2014	2015 ^[1]	2016 ^[2]	2017 ^[2]	2018 ^[2]	2019 ^[3]	2020 ^[2]	2021 ^[4]	2022 ^[2]	2023 ^[2]
Tier 1	\$ 1.89	\$ 2.51	\$ 2.23	\$ 1.67	\$ 1.67	\$ 1.67	\$ 2.57	\$ 2.87	\$ 2.95	\$ 3.02
Tier 2	1.89	2.51	2.32	1.94	1.94	1.94	3.56	3.86	4.01	4.06
Tier 3	1.89	2.51	2.49	2.44	2.45	2.45	5.64	6.18	6.59	6.63
Tier 4	1.89	2.51	2.66	2.95	2.96	2.96	-	-	-	-
Tier 5	1.89	2.51	3.29	4.84	4.85	4.85	-	-	-	-
MWDOC Surcharge	0.62	-	0.04	0.10	0.19	0.29	-	-	-	-

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

	2014	2015 ^[1]	2016 ^[2]	2017 ^[2]	2018 ^[2]	2019 ^[3]	2020 ^[2]	2021 ^[4]	2022 ^[2]	2023 ^[2]
Tier 1	\$ 1.85	\$ 2.47	\$ 2.24	\$ 1.78	\$ 1.82	\$ 1.82	\$ 2.21	\$ 2.41	\$ 2.47	\$ 2.48
Tier 2	1.85	2.47	2.43	2.34	2.39	2.39	2.62	2.87	3.28	3.25
Tier 3	1.85	2.47	2.44	2.38	2.44	2.44	4.90	5.22	5.45	5.65
Tier 4	1.85	2.47	2.51	2.60	2.66	2.66	-	-	-	-
Tier 5	1.85	2.47	3.38	5.21	5.32	5.32	-	-	-	-
MWDOC Surcharge	0.62	-	-	-	-	-	-	-	-	-

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

	2014	2015 ^[1]	2016 ^[2]	2017 ^[2]	2018 ^[2]	2019 ^[3]	2020 ^[2]	2021 ^[4]	2022 ^[2]	2023 ^[2]
Tier 1	\$ 1.85	\$ 1.85	\$ 1.83	\$ 1.78	\$ 1.82	\$ 1.82	\$ 2.21	\$ 2.41	\$ 2.47	\$ 2.48
Tier 2	1.85	1.85	2.01	2.34	2.39	2.39	2.62	2.87	3.28	3.25
Tier 3	1.85	1.85	2.03	2.38	2.44	2.44	4.90	5.22	5.45	5.65
Tier 4	1.85	1.85	2.10	2.60	2.66	2.66	-	-	-	-
Tier 5	1.85	1.85	2.97	5.21	5.32	5.32	-	-	-	-

Wastewater Monthly Charge - Single Family and Multi-Family

	2014	2015 ^[1]	2016 ^[2]	2017 ^[2]	2018 ^[2]	2019 ^[3]	2020 ^[2]	2021 ^[4]	2022 ^[2]	2023 ^[2]
Fixed Base Charge (per meter)										
Single Family Residential	\$ 9.26	\$ 12.92	\$ 20.30	\$ 25.51	\$ 25.51	\$ 29.38	\$ 29.10	\$ 29.18	\$ 30.33	\$ 32.21
Multi-Family Residential (Single Meter)	9.26	12.92	20.30	25.51	25.51	29.38	25.96	26.01	27.21	29.06
Multi-Family Residential (Common Meter)	45.67	12.92	20.30	25.51	25.51	29.38	11.43	11.33	12.76	14.41
Multi-Family Residential (Dwelling Unit)	-	-	-	-	-	-	14.53	14.68	14.45	14.65
C1-Med-Low Strength	45.67	12.92	20.30	25.51	25.51	29.38	27.79	27.86	29.03	30.90
C2-Med-Low Strength	45.67	12.92	20.30	25.51	25.51	29.38	85.62	86.30	86.57	89.20
C3-Med-High Strength	45.67	12.92	20.30	25.51	25.51	29.38	88.15	88.85	89.08	91.74
C4-High Strength	45.67	12.92	20.30	25.51	25.51	29.38	92.07	92.81	92.98	95.69
Recreational	45.67	12.92	20.30	25.51	25.51	29.38	27.77	27.84	29.01	30.88
Volumetric Charge (per ccf)										
Single Family Residential	\$ 1.06	\$ 1.03	\$ 1.03	\$ 1.03	\$ 1.03	\$ 0.95	\$ 1.05	\$ 1.08	\$ 1.08	\$ 1.12
Multi-Family Residential (Single Meter)	1.06	1.03	1.03	1.03	1.03	0.95	1.05	1.08	1.08	1.12
Multi-Family Residential (Common Meter)	1.06	1.03	1.03	1.03	1.03	0.95	1.05	1.08	1.08	1.12
C1-Med-Low Strength	1.27	0.87	0.87	0.87	0.87	0.80	0.88	0.90	0.95	0.99
C2-Med-Low Strength	1.55	1.03	1.03	1.03	1.03	0.95	1.05	1.08	1.16	1.22
C3-Med-High Strength	2.08	1.49	1.49	1.49	1.49	1.35	1.47	1.51	1.48	1.54
C4-High Strength	3.73	2.19	2.19	2.19	2.19	2.32	2.34	2.41	2.59	2.71
Recreational	1.27	0.84	0.84	0.84	0.84	0.72	0.82	0.84	0.56	0.59

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

	2014	2015 ^[1]	2016 ^[2]	2017 ^[2]	2018 ^[2]	2019 ^[3]	2020 ^[2]	2021 ^[4]	2022 ^[2]	2023 ^[2]
	\$ 42.53	\$ 40.82	\$ 44.89	\$ 49.96	\$ 52.57	\$ 54.07	\$ 58.35	\$ 61.62	\$ 63.81	\$ 65.90

[1] 2015 Rates effective March 10, 2015
[2] Rates effective January 1st of the Fiscal Year indicated
[3] 2019 Rates effective May 1, 2019
[4] 2021 Rates effective March 1, 2021

SANTA MARGARITA WATER DISTRICT
Water and Wastewater Rates
Last Two Fiscal Years

Improvement District 9

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

	2022 ^[1]		2023
3/4" Meter Size	\$ 26.82	\$	26.8

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

	2022 ^[1]		2023
Tier 1	\$ 3.66	\$	3.6
Tier 2	5.79		5.7
Tier 3	6.28		6.2
Tier 4	6.28		6.2

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

	2022 ^[1]		2023
Tier 1	\$ 3.53	\$	3.5
Tier 2	3.53		3.5
Tier 3	4.20		4.2
Tier 4	4.20		4.2

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

	2022 ^[1]		2023
Tier 1	\$ 3.53	\$	3.5
Tier 2	3.53		3.5
Tier 3	4.20		4.2
Tier 4	4.20		4.2

Wastewater Monthly Charge - Single Family and Multi-Family

	2022 ^[1]		2023
<i>Fixed Base Charge (per meter)</i>			
Single Family Residential	\$ 25.56	\$	25.5
Multi-Family Residential	19.83		19.8
Commercial	11.37		11.3
Pool - Small	43.70		43.7
Pool - Large (Over 850 Sq Ft Surface Area)	108.42		108.4
Mobile Homes	14.10		14.1

Volumetric Charge (per ccf)

Commercial	\$ 2.52	\$	2.5
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Average Single Family Residential Monthly Potable Water Bill (based on 3/4" meter and 15 units (ccf) of water)

	2022 ^[1]		2023
	\$ 94.50	\$	94.5

[1] City of San Juan Capistrano's water and wastewater system was annexed into the Santa Margarita Water District's service area effective November 15, 2021.

Source: San Juan Rate Card

SANTA MARGARITA WATER DISTRICT
Ten Largest Water and Wastewater Customers
Current Fiscal Year and Nine Years Ago

Improvement Districts 1 to 8

2023			2014		
Top Ten Domestic Water Customers			Top Ten Domestic Water Customers		
Customer	Annual Revenue	% of Total	Customer	Annual Revenue	% of Total
1 SAMLARC	\$ 1,188,920	2.5%	1 SAMLARC	\$ 1,311,603	3.6%
2 CZ MASTER ASSOCIATION	541,963	1.1%	2 CASTA DEL SOL HOA	501,920	1.4%
3 CASTA DEL SOL	431,165	0.9%	3 CZ MASTER ASSOCIATION	409,781	1.1%
4 LARMAC	368,018	0.8%	4 CITY OF MISSION VIEJO	373,482	1.0%
5 CAPISTRANO UNIFIED SCHOOL DISTRICT	310,110	0.7%	5 LAKE MISSION VIEJO	340,001	0.9%
6 APPLIED MEDICAL	284,969	0.6%	6 LAS FLORES MAINTENANCE	268,194	0.7%
7 CITY OF MISSION VIEJO	280,850	0.6%	7 LADERA RANCH MAINTENANCE	251,941	0.7%
8 LAS FLORES MAINTENANCE	197,810	0.4%	8 CAPISTRANO UNIFIED SCHOOL DIST	215,443	0.6%
9 WESTERN NATIONAL PROPERTY	177,951	0.4%	9 VILLA LA PAZ APARTMENTS	171,938	0.5%
10 GREYSTAR REAL ESTATE MGMT	168,353	0.4%	10 CALIFIA HOA	148,947	0.4%
Total	\$ 3,950,111	8.4%	Total	\$ 3,993,251	10.9%
TOTAL DOMESTIC WATER SALES	\$ 47,177,489		TOTAL DOMESTIC WATER SALES	\$ 36,178,908	

Top Ten Recycled Water Customers			Top Ten Recycled Water Customers		
Customer	Annual Revenue	% of Total	Customer	Annual Revenue	% of Total
1 LARMAC	\$ 1,337,792	15.1%	1 LADERA RANCH MAINTENANCE	\$ 1,425,040	20.6%
2 LAKE MISSION VIEJO ASSOCIATION	966,133	10.9%	2 CITY OF MISSION VIEJO	726,970	10.5%
3 CITY OF MISSION VIEJO	947,976	10.7%	3 CZ MASTER HOA	714,610	10.3%
4 RANCHO MISSION VIEJO	779,933	8.8%	4 TALEGA MAINTENANCE	658,457	9.5%
5 TALEGA MAINTENANCE CORPORATION	776,110	8.7%	5 COTO DE CAZA GOLF & RACQUET	556,433	8.0%
6 CZ MASTER ASSOCIATION	558,816	6.3%	6 CASTA DEL SOL HOA	397,403	5.7%
7 CASTA DEL SOL HOA	398,356	4.5%	7 TALEGA GOLF COURSE	290,797	4.2%
8 COTO DE CAZA GOLF & RACQUET	395,180	4.4%	8 MISSION VIEJO ENVIRONMENTAL HOA	217,366	3.1%
9 MISSION VIEJO ENVIRONMENTAL ASSN	275,650	3.1%	9 OSO VALLEY GREENBELT HOA	199,796	2.9%
10 TALEGA GOLF CLUB	267,971	3.0%	10 STONERIDGE @ MISSION VIEJO HOA	172,943	2.5%
Total	\$ 6,703,917	75.5%	Total	\$ 5,359,815	77.3%
TOTAL RECYCLED WATER SALES	\$ 8,885,179		TOTAL RECYCLED WATER SALES	\$ 6,929,490	

Top Ten Wastewater Customers			Top Ten Wastewater Customers		
Customer	Annual Revenue	% of Total	Customer	Annual Revenue	% of Total
1 WESTERN NATIONAL PROPERTY	\$ 152,922	0.6%	1 SOUTH COUNTY APARTMENTS	\$ 64,745	0.5%
2 GREYSTAR REAL ESTATE MGMT	145,141	0.6%	2 22751 EL PRADO, LLC	56,049	0.5%
3 IRVINE COMPANY	122,030	0.5%	3 VILLA LA PAZ APARTMENTS	52,340	0.4%
4 VILLA LA PAZ	120,216	0.5%	4 IRVINE COMPANY	52,150	0.4%
5 LADERA WING	112,338	0.4%	5 WESTERN NATIONAL APARTMENTS	48,266	0.4%
6 AVALON BAY COMMUNITES	77,449	0.3%	6 LADERA WNG, LLC	46,159	0.4%
7 REATA GLEN CCRC, LLC	77,165	0.3%	7 RALPH GROCERY STORES	39,429	0.3%
8 UDR/PACIFIC LOS ALISOS, L.P.	75,635	0.3%	8 VONS GROCERY STORES	39,324	0.3%
9 BRE PROPERTIES	75,189	0.3%	9 EQUITY RESIDENTIAL PROPERTIES	35,177	0.3%
10 SENDERO GATEWEAY	71,001	0.3%	10 APPLIED MEDICAL	34,420	0.3%
Total	\$ 1,029,086	4.1%	Total	\$ 468,059	3.8%
TOTAL WASTEWATER SALES	\$ 26,213,825		TOTAL WASTEWATER SALES	\$ 12,103,730	

Source: SMWD utility billing system

SANTA MARGARITA WATER DISTRICT
Ten Largest Water and Wastewater Customers
Current Fiscal Year and One Year Ago

Improvement District 9

2023

Top Ten Domestic Water Customers

Customer	Annual Revenue	% of Total
1 CAPO VILLAS I-III	\$ 618,223	3.6%
2 CITY OF SAN JUAN CAPISTRANO	587,108	3.4%
3 PACIFICA SAN JUAN	218,071	1.3%
4 CAPISTRANO UNIFIED SCHOOL DISTRICT	176,725	1.0%
5 BLENHEIM FACILITY MANAGEMENT, LLC	155,694	0.9%
6 MARBELLA GOLF & COUNTRY CLUB	136,790	0.8%
7 CASA DE CAPISTRANO HOA	133,238	0.8%
8 VILLAGE SAN JUAN HOA	129,881	0.8%
9 COSTCO WHOLESALE CORP	89,410	0.5%
10 THE ECOLOGY CENTER	88,021	0.5%
Total	\$ 2,333,162	13.6%
TOTAL DOMESTIC WATER SALES	\$ 17,176,069	

Top Ten Recycled Water Customers

Customer	Annual Revenue	% of Total
1 MARBELLA GOLF & COUNTRY CLUB	\$ 404,268	43.6%
2 CITY OF SAN JUAN CAPISTRANO	102,442	11.1%
3 SUNHOLLOW HOA	38,453	4.2%
4 RANCHO MADRINA HOA	32,794	3.5%
5 RANCHO MADRINA COMM ASSOC	32,035	3.5%
6 SAN JUAN HILLS HOA	30,905	3.3%
7 SAN JUAN MESA VERDE HOA	28,250	3.0%
8 SAN JUAN CREEK HOA	25,889	2.8%
9 CAPISTRANO UNIFIED SCHOOL DISTRICT	23,508	2.5%
10 CALTRANS	19,801	2.1%
Total	\$ 738,344	79.6%
TOTAL RECYCLED WATER SALES	\$ 926,316	

Top Ten Wastewater Customers

Customer	Annual Revenue	% of Total
1 CAPO VILLAS I-III	\$ 196,408	5.0%
2 CASA DE CAPISTRANO HOA	59,111	1.5%
3 SAN JUAN MOBILE ESTATES	52,790	1.3%
4 CASITAS DE ALIPAZ HOA	41,410	1.0%
5 COSTCO WHOLESALE CORP	37,131	0.9%
6 CAPISTRANO VALLEY MOBILE ESTATES	35,673	0.9%
7 J SERRA HIGH SCHOOL	33,173	0.8%
8 RANCHO DEL AVION	28,933	0.7%
9 SAN JUAN CAPISTRANO HOUSING INV	26,652	0.7%
10 CAPISTRANO TERRACE ORG	25,718	0.7%
Total	\$ 536,999	13.5%
TOTAL WASTEWATER SALES	\$ 3,951,055	

2022

Top Ten Domestic Water Customers

Customer	Annual Revenue	% of Total
1 CAPO VILLAS I-III	\$ 425,218	3.8%
2 CITY OF SAN JUAN CAPISTRANO	377,051	3.3%
3 CAPISTRANO UNIFIED SCHOOL DISTRICT	113,883	1.0%
4 MARBELLA GOLF & COUNTRY CLUB	103,344	0.9%
5 CASA DE CAPISTRANO HOA	98,653	0.9%
6 PACIFICA SAN JUAN	98,613	0.9%
7 COSTCO WHOLESALE CORP	73,586	0.7%
8 THE ECOLOGY CENTER	69,144	0.6%
9 VILLAS SAN JUAN	68,035	0.6%
10 SAN JUAN HILLS ESTATES HOA	63,081	0.6%
Total	\$ 1,490,609	13.3%
TOTAL DOMESTIC WATER SALES	\$ 11,311,474	

Top Ten Recycled Water Customers

Customer	Annual Revenue	% of Total
1 MARBELLA GOLF & COUNTRY CLUB	\$ 304,047	45.5%
2 CITY OF SAN JUAN CAPISTRANO	55,897	8.4%
3 SUNHOLLOW HOA	25,158	3.8%
4 RANCHO MADRINA COMM ASSOC	21,236	3.2%
5 SAN JUAN HILLS HOA	18,506	2.8%
6 CALTRANS	17,801	2.7%
7 SAN JUAN MESA VERDE HOA	16,095	2.4%
8 SAN JUAN CREEK HOA	15,434	2.3%
9 J SERRA HIGH SCHOOL	12,407	1.9%
10 ASRV, LLC DBA CAPISTRANO SR LIVING	11,041	1.7%
Total	\$ 497,621	74.7%
TOTAL RECYCLED WATER SALES	\$ 668,639	

Top Ten Wastewater Customers

Customer	Annual Revenue	% of Total
1 CAPO VILLAS I-III	\$ 131,148	5.5%
2 CASA DE CAPISTRANO HOA	39,407	1.7%
3 SAN JUAN MOBILE ESTATES	35,194	1.5%
4 CASITAS DE ALIPAZ HOA	27,636	1.2%
5 CAPISTRANO VALLEY MOBILE ESTATES	25,944	1.1%
6 COSTCO WHOLESALE CORP	20,718	0.9%
7 J SERRA HIGH SCHOOL	18,885	0.8%
8 SAN JUAN CAPISTRANO HOUSING INV	17,768	0.8%
9 EL NIDO ESTATES, LLC	17,597	0.7%
10 CAPISTRANO TERRACE ORG	17,146	0.7%
Total	\$ 351,442	14.9%
TOTAL WASTEWATER SALES	\$ 2,367,525	

Source: SMWD utility billing system

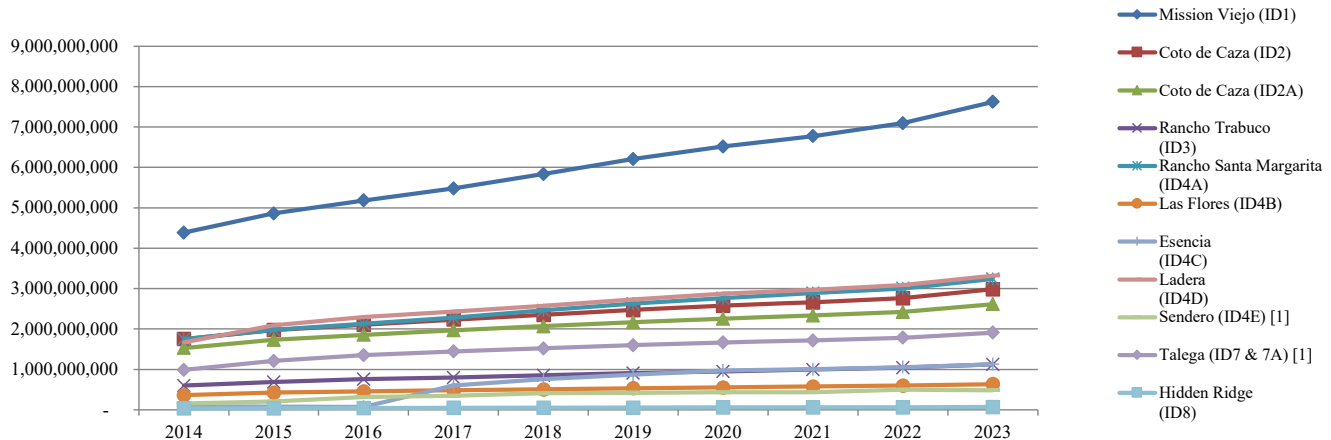
SANTA MARGARITA WATER DISTRICT
Assessed Value and Assessment Rate by Improvement District
Last Ten Fiscal Years

Assessed Value by Improvement District

Fiscal Year	Assessed Value by Improvement District											
	Mission Viejo (ID1)	Coto de Caza (ID2)	Coto de Caza (ID2A)	Rancho Trabuco (ID3)	Rancho Santa Margarita (ID4A)	Las Flores (ID4B)	Esencia (ID4C)	Ladera (ID4D)	Sendero (ID4E) [1]	Talega (ID7 & 7A) [1]	Hidden Ridge (ID8)	
2014	4,385,604,517	1,753,304,514	1,533,937,230	602,615,493	1,749,594,903	364,559,743	84,468,220	1,671,307,674	158,159,741	990,509,069	37,061,718	
2015	4,858,429,328	1,974,367,170	1,736,599,316	690,726,758	1,978,850,692	428,287,773	83,039,022	2,089,347,724	205,352,480	1,209,751,858	42,333,665	
2016	5,181,106,961	2,106,488,806	1,857,064,409	760,888,289	2,131,183,735	457,208,660	76,475,832	2,297,357,223	317,526,846	1,352,148,665	45,492,946	
2017	5,477,312,584	2,236,076,361	1,968,964,693	799,168,581	2,278,789,469	481,335,895	606,398,602	2,427,571,835	348,663,496	1,447,257,074	50,459,381	
2018	5,835,619,000	2,353,363,465	2,068,939,915	855,449,272	2,461,320,493	507,360,592	758,305,815	2,574,216,450	411,061,467	1,520,468,757	54,348,170	
2019	6,206,022,832	2,468,385,147	2,166,690,140	909,999,028	2,627,290,567	539,485,697	871,604,033	2,733,192,659	423,486,062	1,597,001,961	56,495,273	
2020	6,513,755,308	2,578,149,407	2,255,589,923	952,794,717	2,762,516,961	554,200,175	973,371,722	2,874,614,434	434,559,628	1,668,988,719	60,549,330	
2021	6,772,455,877	2,661,681,436	2,333,145,112	996,508,563	2,891,858,883	577,659,884	1,007,596,801	2,967,874,629	439,940,980	1,719,994,947	63,350,181	
2022	7,095,600,157	2,760,800,111	2,421,400,455	1,045,190,121	3,004,048,103	600,966,101	1,055,947,523	3,086,362,584	500,295,188	1,784,706,029	65,876,586	
2023	7,621,747,672	2,983,918,670	2,617,210,011	1,126,900,385	3,239,098,526	639,282,757	1,128,048,832	3,320,776,369	487,492,771	1,913,166,069	72,651,946	

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

Fiscal Year	Assessment Rate by Improvement District per \$100 of Assessed Value											
	Mission Viejo (ID1)	Coto de Caza (ID2)	Coto de Caza (ID2A)	Rancho Trabuco (ID3)	Rancho Santa Margarita (ID4A)	Las Flores (ID4B)	Esencia (ID4C)	Ladera (ID4D)	Sendero (ID4E) [1]	Talega (ID7 & 7A) [1] [2]	Hidden Ridge (ID8)	
2014	0.0000	0.0243	0.0000	0.4076	0.2841	0.3591	1.1457	0.4070	0.1684	N/A	0.3017	
2015	0.0000	0.0211	0.0000	0.3187	0.2193	0.2441	1.1571	0.0299	0.1323	N/A	0.0000	
2016	0.0000	0.0211	0.0000	0.3013	0.3381	0.3369	0.3958	0.1216	0.1575	N/A	0.0000	
2017	0.0000	0.0203	0.0000	0.2963	0.3103	0.3644	0.13036	0.1316	0.1937	N/A	0.0000	
2018	0.0000	0.0110	0.0000	0.2811	0.2979	0.3496	0.13036	0.1225	0.1605	N/A	0.0000	
2019	0.0000	0.0110	0.0000	0.2224	0.2411	0.2110	0.0938	0.0929	0.1157	N/A	0.0000	
2020	0.0000	0.0110	0.0000	0.217	0.2336	0.2090	0.0889	0.0894	0.1127	N/A	0.0000	
2021	0.0000	0.0110	0.0000	0.0263	0.0273	0.0215	0.0188	0.0407	0.0460	N/A	0.0000	
2022	0.0000	0.0110	0.0000	0.0244	0.0255	0.0198	0.0174	0.0378	0.0406	N/A	0.0000	
2023	0.0000	0.0109	0.0000	0.0225	0.0236	0.0187	0.0166	0.0353	0.0395	N/A	0.0000	



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

[2] ID-7 assessment rates are calculated for each individual parcel

Source: Benefit Analysis Study Fiscal Year 2022-2023

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

Overlapping District	FY 2023-24 Total Levy	Amount of Levy on Parcels in the District	Percent of Levy on Parcels in the District	Total Debt Outstanding [1]	District Share of Total Debt Outstanding
Metropolitan Water District G.O. Bond	\$196,001,141	\$212,383	0.1084%	\$19,215,000	\$20,821
County of Orange CFD No. 87-8	\$0	\$0	0.0000%	\$0	\$0
Capistrano Unified School District SFID No. 1 Series B and 2022 Refunding	\$4,931,712	\$100,697	2.0418%	\$6,712,860	\$137,065
				ESTIMATED SHARE OF OVERLAPPING DEBT	\$157,886
Santa Margarita Water District ID No. 2					\$4,045,000 [2]
Santa Margarita Water District ID No. 2A					\$0 [2,3]
				TOTAL DIRECT AND OVERLAPPING DEBT	\$4,202,886
				TOTAL LAND ASSESSED VALUE [4]	\$3,195,913,364
				VALUE-TO-LIEN RATIO	760.409

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

[1] Based on principal payments as of September 2, 2023. All districts shown make principal payments on September 1 except for MWD which makes principal payments on March 1

[2] Based on information provided by the Santa Margarita Water District.

[3] Bonds issued by ID 2A were fully paid off in 2017

[4] Based on FY 2023-2024 land value provided by County of Orange Auditor-Controller

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

Overlapping District	FY 2023-24 Total Levy	Amount of Levy on Parcels in the District	Percent of Levy on Parcels in the District	Total Debt Outstanding [1]	District Share of Total Debt Outstanding
Metropolitan Water District G.O. Bond	\$196,001,141	\$184,702	0.0942%	\$19,215,000	\$18,107
Santa Margarita Water District ID No. 2	\$348,355	\$305,388	87.6659%	\$4,045,000	\$3,546,085
County of Orange CFD No. 87-8	\$0	\$0	0.0000%	\$0	\$0
Capistrano Unified School District SFID No. 1 Series B and 2022 Refunding	\$4,931,712	\$50,633	1.0267%	\$6,712,860	\$68,920
				ESTIMATED SHARE OF OVERLAPPING DEBT	\$3,633,112
Santa Margarita Water District ID No. 2A					\$0 [2,3]
				TOTAL DIRECT AND OVERLAPPING DEBT	\$3,633,112
				TOTAL LAND ASSESSED VALUE [4]	\$2,801,725,380
				VALUE-TO-LIEN RATIO	771.164

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

- [1] Based on principal payments as of September 2, 2023. All districts shown make principal payments on September 1 except for MWD which makes principal payments on March 1.
[2] Based on information provided by the Santa Margarita Water District.
[3] Bonds issued by ID 2A were fully paid off in 2017.
[4] Based on FY 2023-2024 land value provided by County of Orange Auditor-Controller.

SANTA MARGARITA WATER DISTRICT
Improvement District NO. 3/3A
Direct and Overlapping Debt Summary

Overlapping District	FY 2023-24 Total Levy	Amount of Levy on Parcels in the District	Percent of Levy on Parcels in the District	Total Debt Outstanding [1]	District Share of Total Debt Outstanding
Metropolitan Water District G.O. Bond	\$196,001,141	\$69,612	0.0355%	\$19,215,000	\$6,824
County of Orange CFD No. 87-5B	\$0	\$0	0.0000%	\$0	\$0
County of Orange CFD No. 87-5C	\$0	\$0	0.0000%	\$0	\$0
County of Orange CFD No. 87-5D	\$0	\$0	0.0000%	\$0	\$0
Capistrano Unified School District SFID No. 1 Series B and 2022 Refunding	\$4,931,712	\$80	0.0016%	\$6,712,860	\$109
Saddleback Valley Unified School District G.O. Bond Series 2016 Refunding	\$2,813,995	\$94,875	3.3715%	\$19,855,000	\$669,421
Saddleback Valley Unified School District G.O. Bond Series 2013 Refunding	\$4,860,067	\$163,859	3.3715%	\$5,305,000	\$178,860
Saddleback Valley Unified School District G.O. Bond Series 2013A / 2019 Refunding	\$2,205,842	\$74,371	3.3715%	\$41,895,000	\$1,412,508
Saddleback Valley Unified School District G.O. Bond Series 2016A	\$618,460	\$20,852	3.3715%	\$7,315,000	\$246,629
Saddleback Valley Unified School District CFD No. 89-2	\$0	\$0	0.0000%	\$0	\$0
Saddleback Valley Unified School District CFD No. 89-3	\$0	\$0	0.0000%	\$0	\$0
CA HERO Program [4]	NA	NA	NA	NA	\$105,052
				ESTIMATED SHARE OF OVERLAPPING DEBT	\$2,619,402
Santa Margarita Water District ID No. 3/3A					\$2,680,000 [2]
				TOTAL DIRECT AND OVERLAPPING DEBT	\$5,299,402
				TOTAL LAND ASSESSED VALUE [3]	\$1,201,024,683
				VALUE-TO-LIEN RATIO	226.634

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

[1] Based on principal payments as of September 2, 2023. All districts shown make principal payments on September 1 except for MWD which makes principal payments on March 1.

[2] Based on information provided by the Santa Margarita Water District.

[3] Based on FY 2023-2024 land value provided by County of Orange Auditor-Controller.

[4] A total of six property owners are participating in the CA HERO Program as of June 30, 2023. DTA is not aware of any property owners in ID No. 3/3A that are participating in other active PACE programs.

SANTA MARGARITA WATER DISTRICT
Improvement District No. 4/4A/4B
Direct and Overlapping Debt Summary

Overlapping District	FY 2023-24 Total Levy	Amount of Levy on Parcels in the District	Percent of Levy on Parcels in the District	Total Debt Outstanding [1]	District Share of Total Debt Outstanding
Metropolitan Water District G.O. Bond	\$196,001,141	\$600,657	0.3065%	\$19,215,000	\$58,885
County of Orange CFD No. 87-5A	\$0	\$0	0.0000%	\$0	\$0
County of Orange CFD No. 87-5B	\$0	\$0	0.0000%	\$0	\$0
County of Orange CFD No. 99-1	\$1,611,585	\$1,611,585	100.0000%	\$8,365,000	\$8,365,000
County of Orange CFD No. 2000-1	\$1,964,895	\$1,964,895	100.0000%	\$11,160,000	\$11,160,000
County of Orange CFD No. 2001-1	\$2,168,656	\$2,168,656	100.0000%	\$15,555,000	\$15,555,000
County of Orange CFD No. 2002-1	\$4,050,265	\$4,050,265	100.0000%	\$39,735,000	\$39,735,000
County of Orange CFD No. 2003-1	\$3,183,959	\$3,183,959	100.0000%	\$33,860,000	\$33,860,000
County of Orange CFD No. 2004-1	\$4,797,077	\$4,797,077	100.0000%	\$47,890,000	\$47,890,000
County of Orange CFD No. 2015-1	\$5,143,607	\$5,143,607	100.0000%	\$83,130,000	\$83,130,000
County of Orange CFD No. 2016-1	\$5,379,502	\$5,379,502	100.0000%	\$88,205,000	\$88,205,000
County of Orange CFD No. 2017-1, IA No. 1	\$4,439,708	\$4,439,708	100.0000%	\$74,595,000	\$74,595,000
County of Orange CFD No. 2017-1, IA No. 2	\$1,093,380	\$1,093,380	100.0000%	\$21,235,000	\$21,235,000
Capistrano Unified School District CFD No. 92-1	\$0	\$0	0.0000%	\$0 [5]	\$0
Capistrano Unified School District CFD No. 98-2	\$7,714,871	\$7,714,871	100.0000%	\$66,822,632 [6]	\$66,822,632
Capistrano Unified School District SFID No. 1 Series B and 2022 Refunding	\$4,931,712	\$231,161	4.6872%	\$6,712,860	\$314,648
Saddleback Valley Unified School District G.O. Bond Series 2016 Refunding	\$2,813,995	\$174,179	6.1897%	\$19,855,000	\$1,228,970
Saddleback Valley Unified School District G.O. Bond Series 2013 Refunding	\$4,860,067	\$300,825	6.1897%	\$5,305,000	\$328,365
Saddleback Valley Unified School District G.O. Bond Series 2013A / 2019 Refunding	\$2,205,842	\$136,536	6.1897%	\$41,895,000	\$2,593,191
Saddleback Valley Unified School District G.O. Bond Series 2016A	\$618,460	\$38,281	6.1897%	\$7,315,000	\$452,780
Saddleback Valley Unified School District CFD No. 88-1	\$0	\$0	0.0000%	\$0	\$0
City of San Juan Capistrano G.O. Bond Series 2017 Refunding	\$1,863,048	\$0 [7]	0.0000%	\$22,530,000	\$0
Santa Margarita Water District CFD No. 2013-1	\$2,681,474	\$2,681,474	100.0000%	\$41,680,000	\$41,680,000
CA HERO Program [8]	NA	NA	NA	NA	\$157,956
				ESTIMATED SHARE OF OVERLAPPING DEBT	\$537,367,428
Santa Margarita Water District ID No. 4					\$17,715,000 [2]
Santa Margarita Water District ID No. 4A					\$0 [2,3]
Santa Margarita Water District ID No. 4B					\$5,605,000 [2]
				TOTAL DIRECT AND OVERLAPPING DEBT	\$560,687,428
				TOTAL LAND ASSESSED VALUE [4]	\$9,414,994,649
				VALUE-TO-LIEN RATIO	16.792

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

- [1] Based on principal payments as of September 2, 2023. All districts shown make principal payments on September 1 except for MWD which makes principal payments on March 1.
- [2] Based on information provided by the Santa Margarita Water District.
- [3] Bonds issued by ID 4A were fully paid off in 2020.
- [4] Based on FY 2023-2024 land value provided by County of Orange Auditor-Controller.
- [5] Bonds issued by Capistrano Unified School District CFD No. 92-1 were fully paid off in 2022.
- [6] Principal amount for the outstanding capital appreciation bonds determined by applying accreted value as of September 1, 2023.
- [7] For FY 2023-2024, no parcels in District are considered taxable.
- [8] A total of 14 property owners are participating in the CA HERO Program as of June 30, 2023. DTA is not aware of any property owners in ID No. 4 that are participating in other active PACE programs.

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

Overlapping District	FY 2023-24 Total Levy	Amount of Levy on Parcels in the District	Percent of Levy on Parcels in the District	Total Debt Outstanding [1]	District Share of Total Debt Outstanding
Metropolitan Water District G.O. Bond	\$196,001,141	\$199,258	0.1017%	\$19,215,000	\$19,534
Santa Margarita Water District ID No. 4	\$1,675,473 [5]	\$766,438 [6]	45.7446%	\$17,715,000	\$8,103,650
County of Orange CFD No. 87-5A	\$0	\$0	0.0000%	\$0	\$0
County of Orange CFD No. 87-5B	\$0	\$0	0.0000%	\$0	\$0
Capistrano Unified School District SFID No. 1 Series B and 2022 Refunding	\$4,931,712	\$21,121	0.4283%	\$6,712,860	\$28,749
Saddleback Valley Unified School District G.O. Bond Series 2016 Refunding	\$2,813,995	\$174,179	6.1897%	\$19,855,000	\$1,228,970
Saddleback Valley Unified School District G.O. Bond Series 2013 Refunding	\$4,860,067	\$300,825	6.1897%	\$5,305,000	\$328,365
Saddleback Valley Unified School District G.O. Bond Series 2013A / 2019 Refunding	\$2,205,842	\$136,536	6.1897%	\$41,895,000	\$2,593,191
Saddleback Valley Unified School District G.O. Bond Series 2016A	\$618,460	\$38,281	6.1897%	\$7,315,000	\$452,780
Saddleback Valley Unified School District CFD No. 88-1	\$0	\$0	0.0000%	\$0	\$0
CA HERO Program [7]	NA	NA	NA	NA	\$157,956
				ESTIMATED SHARE OF OVERLAPPING DEBT	\$12,913,196
Santa Margarita Water District ID No. 4A					\$0 [2,3]
				TOTAL DIRECT AND OVERLAPPING DEBT	\$12,913,196
				TOTAL LAND ASSESSED VALUE [4]	\$3,452,422,444
				VALUE-TO-LIEN RATIO	267.356

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

[1] Based on principal payments as of September 2, 2023. All districts shown make principal payments on September 1 except for MWD which makes principal payments on March 1

[2] Based on information provided by the Santa Margarita Water District.

[3] Bonds issued by ID 4A were fully paid off in 2020

[4] Based on FY 2023-2024 land value provided by County of Orange Auditor-Controller

[5] Includes FY 2023-2024 levy for ID 4A, 4B, 4C, 4D, and 4E attributable to ID 4 debt only

[6] Based on FY 2023-2024 ID 4 rate of \$0.0000/\$100 and ID 4A rate of \$0.0222/\$100 attributable to ID 4 debt only

[7] A total of 14 property owners are participating in the CA HERO Program as of June 30, 2023. DTA is not aware of any property owners in ID No. 4A that are participating in other active PACE program;

SANTA MARGARITA WATER DISTRICT
Improvement District NO. 4B [6]
Direct and Overlapping Debt Summary

Overlapping District	FY 2023-24 Total Levy	Amount of Levy on Parcels in the District	Percent of Levy on Parcels in the District	Total Debt Outstanding [1]	District Share of Total Debt Outstanding
Metropolitan Water District G.O. Bond	\$196,001,141	\$322,344	0.1645%	\$19,215,000	\$31,601
Santa Margarita Water District ID No. 4	\$1,675,473 [4]	\$721,746 [5]	43.0771%	\$17,715,000	\$7,631,116
County of Orange CFD No. 99-1	\$1,611,585	\$1,611,585	100.0000%	\$8,365,000	\$8,365,000
County of Orange CFD No. 2000-1	\$1,964,895	\$1,964,895	100.0000%	\$11,160,000	\$11,160,000
County of Orange CFD No. 2001-1	\$2,168,656	\$2,168,656	100.0000%	\$15,555,000	\$15,555,000
County of Orange CFD No. 2002-1	\$4,050,265	\$4,050,265	100.0000%	\$39,735,000	\$39,735,000
County of Orange CFD No. 2003-1	\$3,183,959	\$3,183,959	100.0000%	\$33,860,000	\$33,860,000
County of Orange CFD No. 2004-1	\$4,797,077	\$4,797,077	100.0000%	\$47,890,000	\$47,890,000
Capistrano Unified School District CFD No. 92-1	\$0	\$0	0.0000%	\$0 [7]	\$0
Capistrano Unified School District CFD No. 98-2	\$7,714,871	\$7,714,871	100.0000%	\$66,822,632 [8]	\$66,822,632
Capistrano Unified School District SFID No. 1 Series B and 2022 Refunding	\$4,931,712	\$67,065	1.3599%	\$6,712,860	\$91,287
City of San Juan Capistrano G.O. Bond Series 2017 Refunding	\$1,863,048	\$0 [9]	0.0000%	\$22,530,000	\$0
Santa Margarita Water District CFD No. 2013-1	\$2,681,474	\$2,681,474	100.0000%	\$41,680,000	\$41,680,000
ESTIMATED SHARE OF OVERLAPPING DEBT					\$272,821,636
Santa Margarita Water District ID No. 4B					\$5,605,000 [2]
TOTAL DIRECT AND OVERLAPPING DEBT					\$278,426,636
TOTAL LAND ASSESSED VALUE [3]					\$4,754,195,926
VALUE-TO-LIEN RATIO					17.075

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

[1] Based on principal payments as of September 2, 2023. All districts shown make principal payments on September 1 except for MWD which makes principal payments on March 1.

[2] Based on information provided by the Santa Margarita Water District.

[3] Based on FY 2023-2024 land value provided by County of Orange Auditor-Controller. Includes land value for property in ID 4B, ID 4D, and ID 4E.

[4] Includes FY 2023-2024 levy for ID 4A, 4B, 4C, 4D, and 4E attributable to ID 4 debt only.

[5] Based on FY 2023-2024 ID 4 rate of \$0.0000/\$100 for property in ID 4B, ID 4D, and ID 4E. Also includes ID 4B rate of \$0.0014/\$100, ID 4D rate of \$0.0169/\$100, and ID 4E rate of \$0.0213/\$100 attributable to ID 4 debt only.

[6] Includes property that pays for ID 4B debt (i.e., ID 4B, ID 4D, and ID 4E).

[7] Bonds issued by Capistrano Unified School District CFD No. 92-1 were fully paid off in 2022.

[8] Principal amount for the outstanding capital appreciation bonds determined by applying accreted value as of September 1, 2023.

[9] For FY 2023-2024, no parcels in District are considered taxable.

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

Overlapping District	FY 2023-2024 Total Levy	Amount of Levy on Parcels in District	Percent of Levy on Parcels in District	Total Debt Outstanding [1]	District Share of Total Debt Outstanding
Capistrano Unified School District CFD No. 90-2	\$2,717,481	\$2,716,130	99.9503% [4]	\$21,515,000	\$21,504,297
Capistrano Unified School District CFD No. 90-2 IA No. 2002-1	\$3,226,043	\$3,223,329	99.9159% [4]	\$24,430,000	\$24,409,448
Metropolitan Water District	\$196,001,141	\$128,542	0.0656%	\$19,215,000	\$12,602
PACE Programs [3]	NA	NA	NA	NA	\$174,376
Estimated Share of Overlapping Debt Allocable to the District					\$46,100,722
Plus CFD No. 99-1 Refunding Bonds Series 2014 [2]					\$19,025,000
Plus CFD No. 99-1 Refunding Bonds Series 2017 [2]					\$24,180,000
Estimated Share of Direct and Overlapping Debt Allocable to the District					\$89,305,722

[1] As of September 2, 2023.

[2] As of September 2, 2023. Reflects bond call of \$25,000 on September 1, 2020.

[3] A total of three property owners are participating in the CA HERO Program as of June 30, 2023. In addition, there is one property owner participating in the PACEFunding Program as of June 30, 2023. DTA is not aware of any property owners in CFD No. 99-1 that are participating in other active PACE programs.

[4] Reflects one parcel that prepaid the Santa Margarita Water District CFD No. 99-1 special tax in full. Such parcel is still subject to the Capistrano Unified School District CFD special taxes.

SANTA MARGARITA WATER DISTRICT
Debt Service Coverage Ratio
Last Ten Fiscal Years

Improvement Districts 1 to 8

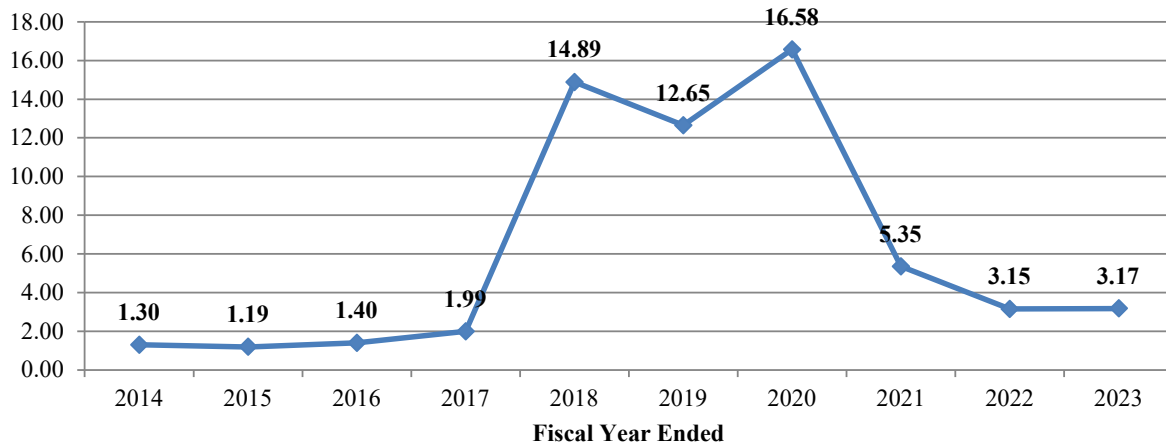
Fiscal Year	Total Revenues ^[1]	Operating Expenses ^[2]	Net Available Revenues	Annual Debt Service ^[3]			Coverage Ratio
				Principal	Interest	Total	
2014	\$ 103,974,919	\$ 63,141,163	\$ 40,833,756	\$ 17,817,278	\$ 13,673,314	\$ 31,490,592	1.30
2015	95,753,157	59,586,454	36,166,703	17,461,497	12,820,879	30,282,376	1.19
2016	88,680,401	61,353,720	27,326,681	14,006,201	5,538,441	19,544,642	1.40
2017	103,964,839	63,669,388	40,295,451	15,213,214	5,010,779	20,223,993	1.99
2018	88,154,782	69,858,916	18,295,866	966,203	262,799	1,229,002	14.89
2019	86,643,647	71,071,726	15,571,921	990,440	240,887	1,231,327	12.65
2020	91,365,187	70,955,119	20,410,068	1,015,290	216,038	1,231,328	16.58
2021	100,050,093	75,562,791	24,487,302	2,698,378	1,874,671	4,573,049	5.35
2022	102,605,626	80,897,021	21,708,605	3,974,936	2,908,793	6,883,729	3.15
2023	101,766,554	78,866,698	22,899,856	4,276,136	2,936,627	7,212,763	3.17

[1] Total Revenues include total operating revenues, ad-valorem general tax receipts, investment income (excluding income related to General Obligation Bonds), connection fees, rental income and other non-operating income.

[2] Operating expenses exclude depreciation and amortization and interest expense.

[3] Fiscal Years 2014 - 2015: Includes Community Facilities District No. 99-1 and No. 2013-1 Bonds.
(Community Facility Districts were removed from the District's consolidated financial statements in 2016).
Fiscal Years 2014 - 2017: Includes District General Obligation Bonds.
(General Obligation Bonds were removed from the table in 2018 so reported coverage would conform with external loan definitions).
Fiscal Years 2014 - 2023: Includes State Revolving Fund Loans.
Fiscal Year 2021: 2020A Revenue Bonds were added.
Fiscal Years 2022 and 2023: State Revolving Fund Loan for Trampas Reservoir was added.

Debt Service Coverage Ratio - IDs 1-8



Source: SMWD Finance Department

SANTA MARGARITA WATER DISTRICT
Debt Service Coverage Ratio
Last Two Years

Improvement District 9

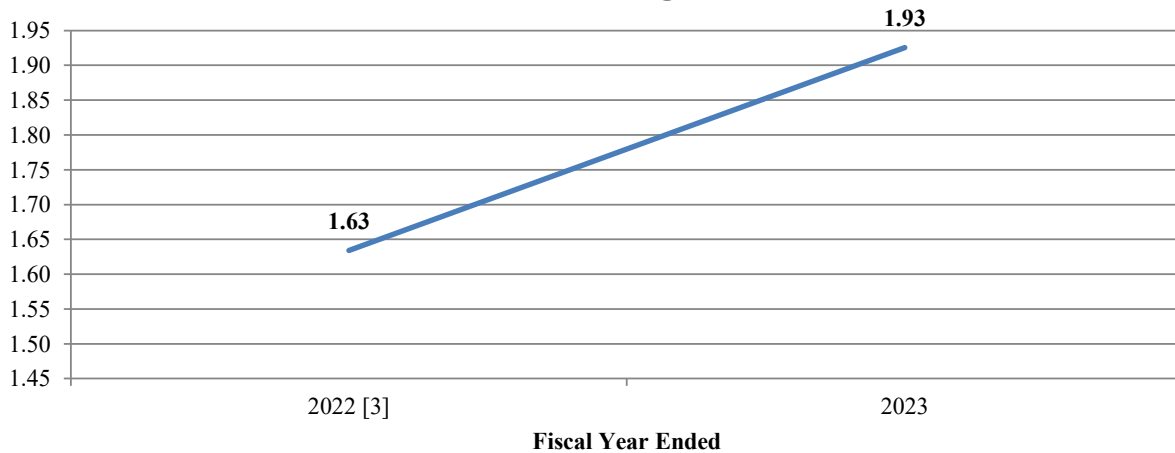
Fiscal Year	Total Revenues ^[1]	Operating Expenses ^[2]	Net Available Revenues	Annual Debt Service			Coverage Ratio
				Principal	Interest	Total	
2022 ^[3]	\$ 15,055,559	\$ 10,736,722	\$ 4,318,837	\$ 1,913,446	\$ 729,639	\$ 2,643,085	1.63
2023	25,359,319	18,192,411	7,166,908	2,660,854	1,061,674	3,722,528	1.93

[1] Total Revenues include total operating revenues, ad-valorem general tax receipts, investment income (excluding income related to General Obligation Bonds), connection fees, rental income and other non-operating income.

[2] Operating expenses exclude depreciation and amortization and interest expense.

[3] Fiscal Year 2022: The District assumed the City of San Juan Capistrano's water and wastewater system obligations on November 15, 2021. Net available revenues and annual debt service reflect seven and a half months (62.5%) of activity for the fiscal year ended June 30, 2022.

Debt Service Coverage Ratio - ID 9



Source: SMWD Finance Department

SANTA MARGARITA WATER DISTRICT
Outstanding Debt by Type
Last Ten Fiscal Years

Fiscal Year Ended	ID 1-8 Revenue Bonds	ID 1-8 General Obligation Bonds	ID 1-8 Notes Payable	ID 1-8 Total	ID 9 Water Fund Revenue Bonds	CFD Bonds *
2014 ^[1]	\$ -	\$ 144,091,634	\$ 10,383,922	\$ 154,475,556	\$ -	\$ 151,130,000
2015 ^[2]	-	126,973,190	9,597,425	136,570,615	-	147,827,394
2016	-	111,822,909	8,791,224	120,614,133	-	141,615,877
2017 ^[3] ^[4]	-	97,744,544	12,278,010	110,022,554	-	138,064,068
2018	-	80,884,125	11,311,807	92,195,932	-	130,327,956
2019 ^[5]	-	63,738,857	30,390,489	94,129,346	-	126,000,984
2020 ^[5]	-	51,331,600	68,456,366	119,787,966	-	119,080,410
2021 ^[5] ^[6]	63,088,985	38,448,942	71,842,360	173,380,287	-	114,123,020
2022 ^[5] ^[7]	60,767,005	36,554,304	82,806,534	180,127,843	30,548,117	108,835,272
2023 ^[5]	58,376,018	34,621,114	92,846,135	185,843,267	27,887,263	103,170,491

* CFD Bonds are not direct obligations of Santa Margarita Water District. This is a fiduciary activity for the District and was removed from the District's consolidated financial statements in 2016.

[1] Increase in CFD Bonds in 2014 is due to the issuance of the 2013-1 CFD Bonds.

[2] Decrease in General Obligation Bonds in 2015 is due to a bond refinancing and issuance of the 2014 Refunding Bonds Series A and Series B.

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

[4] Increase in Notes Payable in 2017 is due to two new loans in 2017: City of Mission Viejo and State Water Resources Control Board.

[5] Increase in Notes Payable in 2019 to 2023 is due to additional loan disbursements received from the State Water Resources Control Board.

[6] The District issued 2020A Revenue Bonds in Fiscal Year 2021.

[7] San Juan Water District annexation effective November 15, 2021.

SANTA MARGARITA WATER DISTRICT
Outstanding Debt Ratios
Last Ten Fiscal Years

Improvement Districts 1 to 8

Fiscal Year	Total Outstanding Debt	Taxable Assessed Valuation	Percentage of Assessed Valuation to Debt	Total Water Connections	Outstanding Debt per Water Connection	Debt Service Per Capita
2014	\$ 305,605,556	\$ 13,331,122,822	2.29%	52,834	\$ 5,784	\$ 2,007
2015	284,398,009	15,297,085,786	1.86%	53,266	5,339	1,854
2016 *	120,614,133	16,582,942,372	0.73%	53,675	2,247	768
2017 *	110,022,554	18,121,997,971	0.61%	54,214	2,029	693
2018 *	92,195,932	19,400,453,396	0.48%	54,922	1,679	574
2019 *	94,129,346	20,599,653,399	0.46%	55,555	1,694	579
2020 *	119,787,966	21,629,090,324	0.55%	56,422	2,123	731
2021 *	173,380,287	22,432,067,293	0.77%	56,464	3,071	1,056
2022 *	180,127,843	23,421,192,958	0.77%	56,523	3,187	1,096
2023 *	185,843,267	25,150,294,008	0.74%	56,586	3,284	1,123

Fiscal Year	Amount Levied	Amount Collected ^[1]	Percent Collected
2014	\$ 36,436,003	\$ 35,845,766	98.4%
2015	34,428,547	33,763,411	98.1%
2016 *	27,049,698	26,168,710	96.7%
2017 *	25,222,843	24,784,692	98.3%
2018 *	25,761,237	25,604,243	99.4%
2019 *	22,707,282	22,378,767	98.6%
2020 *	23,199,407	22,988,944	99.1%
2021 *	12,432,517	12,420,009	99.9%
2022 *	12,426,154	12,370,421	99.6%
2023 *	13,089,189	13,342,427	101.9%

Tax receipts are the second largest revenue source

The amounts levied and collected are based on the County tax year which is from August 1 - July 31

[1] Amount collected may include amounts levied in prior years and adjustments for comparison purposes

* Amounts include restatement of previously reported revenues, operating expenses and debt service related to the removal of Community Facilities District (CFD) 99-1 and 2013-1 from the District's financial statements. Fiscal Year 2016 outstanding debt is restated and excludes CFD debt. Fiscal Year 2017 through Fiscal Year 2023 also exclude CFD debt.

Improvement District 9

Fiscal Year	Total Outstanding Debt	Total Water Connections	Outstanding Debt per Water Connection	Debt Service Per Capita
2022	\$ 30,548,117	10,979	\$ 2,782	\$ 874
2023	27,887,263	11,170	2,497	807

Santa Margarita Water District
Demographic and Economic Information
Last Ten Fiscal Years

Fiscal Year Ended	SMWD IDs 1-8 Population	City of Rancho Santa Margarita		City of Mission Viejo		City of San Clemente		County of Orange		
		Population	Median Age	Population	Median Age	Population	Median Age	Personal Income (thousands of dollars)	Per Capita Personal Income	Unemployment Rate
2013	152,245	48,550	34.6	94,824	42.0	64,542	40.0	168,966,400	54,827	6.7%
2014	153,385	48,834	34.7	95,334	43.0	64,874	40.0	177,412,900	56,973	5.4%
2015	156,949	48,823	35.2	96,652	43.6	65,399	40.0	185,500,000	58,933	4.0%
2016	158,747	48,516	35.8	96,701	43.7	66,245	41.0	190,978,000	59,999	4.4%
2017	160,601	48,602	36.7	95,985	44.2	65,975	38.0	199,492,000	62,458	4.2%
2018	162,454	48,602	36.8	95,987	44.8	65,543	42.0	215,479,000	66,896	3.1%
2019	163,927	48,960	37.0	96,434	45.0	65,405	43.0	230,180,000	71,429	3.0%
2020	164,205	48,793	37.6	94,267	45.0	64,581	44.0	226,531,000	70,917	12.3%
2021	164,304	48,183	38.5	94,119	45.0	64,065	44.0	258,933,000	82,103	6.3%
2022	165,556	47,279	39.2	92,515	45.3	63,380	44.0	267,143,000	84,479	2.8%

Fiscal Year Ended	SMWD ID 9 Population	City of San Juan Capistrano	
		Population	Median Age
2021	34,955	34,955	41.5
2022	34,548	34,548	44.8

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

2023 data was not available at the time the report was prepared

Sources:

County of Orange ACFR

City of Rancho Santa Margarita ACFR

City of Mission Viejo ACFR

City of San Clemente ACFR

SANTA MARGARITA WATER DISTRICT

Principal Employers

Current Fiscal Year and Nine Years Ago

Employer	Fiscal Year 2022		Fiscal Year 2013	
	Number of Employees	Percentage of Employment	Number of Employees	Percentage of Employment
City of Rancho Santa Margarita				
Applied Medical	2,400	7.66%	1,698	10.49%
O'Connell Landscape	1,000	3.19%	1,033	6.38%
Control Components Inc. (CCI)	365	1.17%	268	1.66%
Saddleback Valley School District	288	0.92%	344	2.13%
Target Corporation	255	0.81%	200	1.24%
Lucas & Mercier Construction	250	0.80%	300	1.85%
Capistrano Unified School District	215	0.69%	n/a	n/a
PADI	180	0.57%	200	1.24%
Santa Margarita Catholic H.S.	175	0.56%	207	1.28%
Car Sound Exhaust System Inc.	150	0.48%	207	1.28%
Cox Communications	n/a	n/a	783	4.84%
Kohls	n/a	n/a	n/a	n/a
	5,278	16.85%	5,240	32.39%
City of Mission Viejo				
Mission Hospital Regional Medical Center	2,764	5.68%	2,500	4.44%
Saddleback College	1,429	2.93%	1,877	3.33%
Saddleback Valley Unified School District	917	1.88%	1,245	2.21%
Target Corporation	513	1.05%	250	0.44%
James Hardie Building Products	436	0.90%	n/a	n/a
Capistrano Unified School District	432	0.89%	537	0.95%
Nordstrom Department Store	362	0.74%	400	0.71%
Amazon Delivery Station	266	0.55%	n/a	n/a
Macy's Department Store	263	0.54%	250	0.44%
City of Mission Viejo	250	0.51%	261	0.46%
U.S. Post Office	n/a	n/a	194	0.34%
Vocational Visions	n/a	n/a	175	0.31%
	7,632	15.67%	7,689	13.63%
City of San Clemente				
Capistrano Unified School District (CUSD)	635	2.04%	573	1.94%
Ralphs	239	77.00%	n/a	n/a
Target Retail Store	226	0.72%	130	0.44%
ICU Medical	224	0.72%	146	0.49%
Albertsons	209	0.67%	181	0.61%
Walmart Superstore	195	0.63%	204	0.69%
City of San Clemente	192	0.62%	215	0.73%
Glaukos Corp	181	0.58%	n/a	n/a
Fisherman's Restaurants	172	0.55%	187	0.63%
Lowe's	160	0.51%	150	0.51%
Saddleback Memorial Medical Center	n/a	n/a	299	1.01%
Quest Diagnostics	n/a	n/a	116	0.39%
	2,433	84.04%	2,201	7.44%
City of San Juan Capistrano				
Capistrano Unified School District (CUSD)	3,992	23.35%	n/a	n/a
St. Margaret's Episcopal School	429	2.51%	429	2.38%
Costco Wholesale	340	1.99%	250	1.39%
Ensign Services	185	1.08%	n/a	n/a
Junipero Serra Catholic High School	145	0.85%	124	0.69%
Fluidmaster Inc HQ	130	0.76%	130	0.72%
ASRV, LLC	124	0.73%	n/a	n/a
Inn at the Mission San Juan Capistrano	118	0.69%	n/a	n/a
Marbella Country Club	106	0.62%	106	0.59%
Capistrano Connections Academy	100	0.58%	n/a	n/a
Meggitt, Inc.	n/a	n/a	307	1.71%
24 Hour Fitness	n/a	n/a	193	1.07%
Emeritus at San Juan Capistrano	n/a	n/a	154	0.86%
Color Spot Nurseries	n/a	n/a	135	0.75%
San Juan Hills Golf Club	n/a	n/a	95	0.53%
	5,669	33.16%	1,923	10.69%

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

SANTA MARGARITA WATER DISTRICT
Capital Asset Statistics
Last Ten Fiscal Years

	Fiscal Years Ended									
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Domestic System										
Miles of Water Mains	595	615	615	626	626	634	638	642	845	824
Maximum Storage Capacity (Acre-feet)	1,197	1,210	1,210	1,222	1,222	1,222	1,222	1,222	1,150	1,146
Number of Storage Tanks	32	33	33	34	34	34	34	34	43	40
Number of Pump Stations	21	21	21	21	21	21	21	21	29	29
Non-Domestic System										
Miles of Water Mains	116	125	125	129	129	133	133	133	145	170
Number of Storage Tanks	6	7	7	8	8	8	8	8	9	9
Number of Open Reservoirs	2	2	2	2	2	2	2	3	4	5
Maximum Storage Capacity (Acre-feet)	3,535	3,547	3,547	3,566	3,566	3,566	3,566	8,566	8,460	8,470
Number of Pump Stations	12	13	14	14	14	14	14	15	17	17
Sewer System										
Miles of Sewer Line	605	620	620	630	624	632	637	643	641	624
Number of Lift Stations	17	19	19	21	21	21	20	20	22	23
Treatment Plants	2	2	2	2	2	2	2	2	2	3
Treatment Capacity (MGD)	9	9	9	9	9	9	9	9	18	18
Average Flows (MGD)	8	8	8	9	9	9	9	9	12	12

MGD = million gallons per day

An Acre-foot of water is enough to cover 1 acre of land 1 foot deep and is equivalent to 325,851 gallons

Source: SMWD Engineering and Operations Departments

SANTA MARGARITA WATER DISTRICT
Water and Wastewater Connections
Last Ten Fiscal Years

Improvement Districts 1 to 8

Water Connections by Customer Class

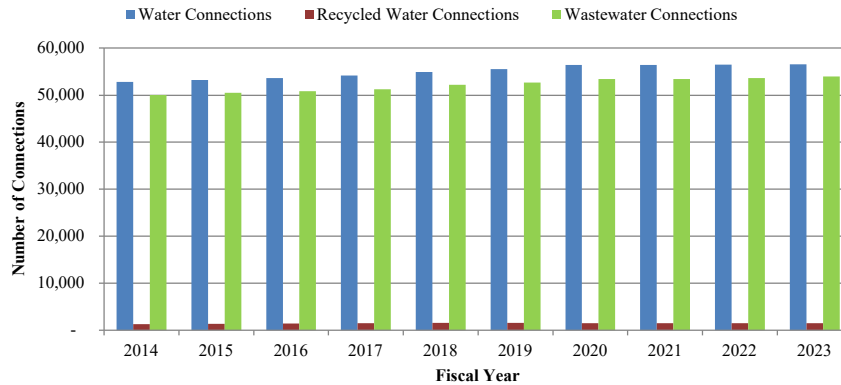
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Commercial	2,205	2,212	2,225	2,244	2,301	2,306	2,255	2,278	2,257	2,233
Domestic Irrigation	1,495	1,498	1,435	1,396	1,390	1,380	1,430	1,445	1,435	1,438
Construction	46	39	44	49	45	31	31	27	28	53
Lakefill	2	2	2	2	1	1	1	1	1	1
Residential Single Family	36,022	36,138	36,299	36,626	37,068	37,497	38,031	38,056	38,038	38,026
Residential Multi Family	13,064	13,377	13,670	13,897	14,117	14,340	14,674	14,657	14,764	14,835
Total Water Connections	52,834	53,266	53,675	54,214	54,922	55,555	56,422	56,464	56,523	56,586

Recycled Water Connections by Customer Class

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Non-domestic Irrigation	1,283	1,318	1,416	1,479	1,524	1,522	1,498	1,458	1,464	1,504
Commercial	7	8	9	9	9	10	2	3	3	4
Construction	5	27	37	46	25	14	13	12	7	10
Total Recycled Water Connections	1,295	1,353	1,462	1,534	1,558	1,546	1,513	1,473	1,474	1,518

Wastewater Connections by Customer Class

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Commercial	948	993	903	912	1,024	957	911	921	911	915
Residential Single Family	36,016	36,132	36,292	36,544	37,060	37,439	37,877	37,953	37,990	38,109
Residential Multi Family	13,064	13,377	13,670	13,813	14,117	14,304	14,627	14,583	14,739	14,973
Total Wastewater Connections	50,028	50,502	50,865	51,269	52,201	52,700	53,415	53,457	53,640	53,997



	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Water Revenue per Water Connection \$	686	642	577	679	774	737	769	868	887	834
Recycled Revenue per Recycled Connection \$	5,351	5,336	4,628	5,161	5,468	4,759	5,281	7,364	7,698	5,853
Wastewater Revenue per Wastewater Connection \$	242	243	289	373	404	407	443	461	464	485

Source: SMWD utility billing system

SANTA MARGARITA WATER DISTRICT
Water and Wastewater Connections
Last Two Fiscal Year

Improvement District 9

Water Connections by Customer Class

	2022	2023
Commercial	464	469
Construction	28	25
Fire Service	201	197
Domestic Irrigation	521	524
Residential Single Family	6,735	6,910
Residential Multi Family	3,015	3,029
Master Meter	15	16
Total Water Connections	10,979	11,170

Recycled Water Connections by Customer Class

	2022	2023
Non-domestic Irrigation	80	79
Total Recycled Water Connections	80	79

Wastewater Connections by Customer Class

	2022	2022
Commercial	426	468
Residential Single Family	6,460	6,454
Residential Multi Family	3,051	3,154
Total Wastewater Connections	9,937	10,076

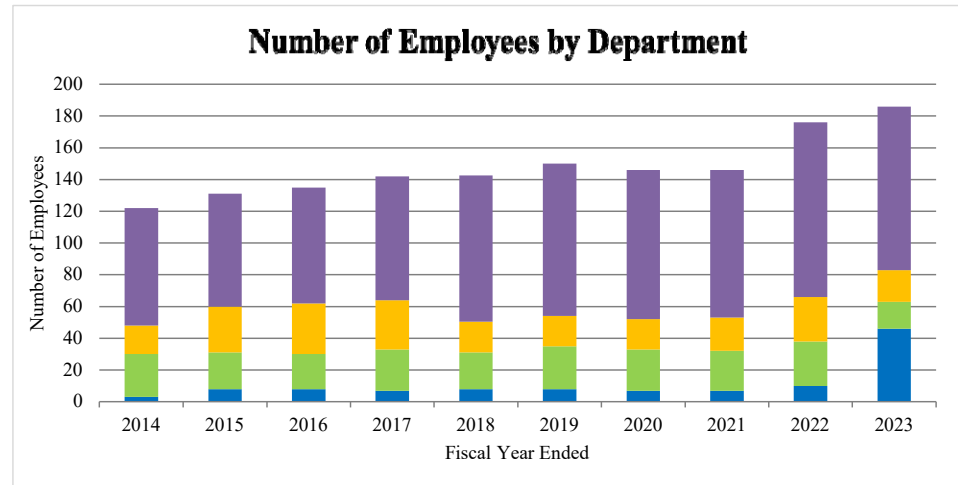
	2022 ^[1]	2023
Water Revenue per Water Connection	\$ 1,030	\$ 1,538
Recycled Revenue per Recycled Connection	\$ 8,358	\$ 11,726
Wastewater Revenue per Wastewater Connection	\$ 238	\$ 392

[1] The District assumed the City of San Juan Capistrano's water and wastewater system obligations on November 15, 2021. Revenues used reflect seven and a half months (62.5%) of activity for the fiscal year ended June 30, 2022.

Source: SMWD utility billing system

SANTA MARGARITA WATER DISTRICT
Employee Information
Last Ten Fiscal Years

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Administration	3	8	8	7	8	8	7	7	10	46
Finance	27	23	22	26	23	27	26	25	28	17
Engineering	18	29	32	31	19.5	19	19	21	28	20
Operations	74	71	73	78	92	96	94	93	110	103
Total	122	131	135	142	142.5	150	146	146	176	186



	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Water Connections per Employee	433	407	398	382	385	370	386	387	384	364
Recycled Water Connections per Employee	11	10	11	11	11	10	10	10	9	9
Wastewater Connections per Employee	410	386	377	361	366	351	366	366	361	344
Total Revenues per Employee \$	\$ 852,253	\$ 730,940	\$ 656,892	\$ 732,147	\$ 618,630	\$ 577,624	\$ 625,789	\$ 685,275	\$ 668,529	\$ 683,472

Excludes the elected Board of Directors

Source: SMWD payroll records