

Santiago Aqueduct Commission

Financial Statements

Fiscal Year Ended June 30, 2024

Santiago Aqueduct Commission

Financial Statements

Fiscal Year Ended June 30, 2024

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Independent Auditor's Report

Board of Directors
Santiago Aqueduct Commission
Irvine, California

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the business-type activities of Santiago Aqueduct Commission (the "Commission") as of and for the year June 30, 2024, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the business-type activities of the Commission, as of June 30, 2024, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Commission 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 opinions.

Responsibilities of Management for the Financial Statements

The Commission'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 Commission's ability to continue as a going concern for one year after the date that the financial statements are issued.

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 opinions. 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 Commission'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 Commission'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* 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 auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Summarized Comparative Information

We have previously audited the Commission's 2023 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 6, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2023 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2024 on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Davis Fan" followed by a stylized flourish.

Irvine, California
October 4, 2024

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the financial performance of the Santiago Aqueduct Commission (SAC) provides an overview of SAC's financial activities for the fiscal year ended June 30, 2024. This section should be read in conjunction with the basic financial statements and notes to the basic financial statements, which follow this analysis.

Financial Highlights:

- Total assets exceeded total liabilities by \$1,256,535 (net position), representing \$1,178,326 investment in capital assets and \$78,209 in unrestricted for water services. This was a decrease of \$37,469 or 2.9 percent from the prior fiscal year net position of \$1,294,004.
- Total assets were \$1,263,245, a decrease of \$78,141 or 5.8 percent from the prior fiscal year. The decrease was due primarily to a \$47,839 decrease in cash and investment and a \$33,095 decrease in net capital assets, partially offset by a \$2,793 increase in total receivables.
- Total liabilities were \$6,710, a decrease of \$40,672 or 85.8 percent from the prior fiscal year. The decrease was due primarily to a \$36,588 decrease in landscape costs for the Baker Pipeline Reach 1U, a \$3,938 decrease in administration and cathodic protection system maintenance.
- Total revenues increased \$68,534 or 67.8 percent from \$101,122 in the prior fiscal year to \$169,656 in the current fiscal year. The increase was due primarily to a \$66,899 of the member charges of maintenance and landscape costs for the Baker Pipeline Reach 1U and a \$1,896 increase in water surcharge, partially offset by a \$395 decrease in interest income.
- Total operating expenses were \$207,125, an increase of \$14,554 or 7.6 percent from the prior fiscal year. The increase was due primarily to a \$40,261 increase in landscape costs including the Baker Pipeline Reach 1U and a \$3,363 increase in depreciation expense, partially offset by a \$25,169 decrease in cathodic protection monitoring and maintenance costs and a \$2,633 decrease in contract labor.

A more detailed analysis about the overall SAC's financial position and operations is provided in the following sections.

Overview of the Financial Statements:

The basic financial statements of SAC consist of the financial statements (Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows) and notes to the basic financial statements. The basic financial statements are prepared using the accrual basis of accounting.

Statement of Net Position depicts SAC's financial position at June 30, 2024 the end of SAC's fiscal year. The statement of net position shows all financial assets and liabilities of SAC. Net position represents the SAC's residual interest after liabilities are deducted from assets. Net position is displayed in two components: investment in capital assets and unrestricted net position for water services.

Statement of Revenues, Expenses and Changes in Net Position provides information on SAC's operations and can be used to determine whether SAC has recovered all its costs through operating and non-operating revenues.

Statement of Cash Flows provides information on SAC's cash receipts, cash payments and changes in cash resulting from operations and investments activities.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Notes to the Basic Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Financial Analysis of SAC:

The following condensed schedules contain summary financial information extracted from the basic financial statements to assist general readers in evaluating SAC's overall financial position and results of operations as described in this Management's Discussion and Analysis (MD&A).

Financial Position Summary:

The Statement of Net Position reflects SAC's financial position as of June 30, 2024. The statement includes assets and liabilities. The net position represents SAC's net worth including, but not limited to contributions and investments in capital assets. A condensed summary of SAC's total net position at June 30 is set forth below:

Table 1 - Summary of Net Position

	2024	2023	Increase/(Decrease)	
			Amount	Percentage
Assets				
Current assets	\$ 84,919	\$ 129,965	\$ (45,046)	-34.7%
Noncurrent assets	1,178,326	1,211,421	(33,095)	-2.7%
Total assets	1,263,245	1,341,386	(78,141)	-5.8%
Liabilities				
Current liabilities	6,710	47,382	(40,672)	-85.8%
Total liabilities	6,710	47,382	(40,672)	-85.8%
Net position				
Investment in capital assets	1,178,326	1,211,421	(33,095)	-2.7%
Unrestricted for water services	78,209	82,583	(4,374)	-5.3%
Total net position	\$ 1,256,535	\$ 1,294,004	\$ (37,469)	-2.9%

As shown in Table 1, SAC's total assets decreased \$78,141 or 5.8 percent during the current fiscal year. Total current assets were \$84,919, a decrease of \$45,046 or 34.7 percent from the prior fiscal year. Cash and investments decreased \$47,839 or 38.5 percent from \$124,215 in the prior fiscal year to \$76,376 in the current fiscal year. The decrease was due primarily to \$52,142 in cash used by operating activities. Accounts receivable increased \$2,943 or 57.3 percent from \$5,139 in the prior fiscal year to \$8,082 in the current fiscal year. The increase in account receivables was due to an increase in water deliveries of 2,224.1 acre-feet (AF) from 5,190.6 AF at a \$0.99 operating surcharge rate in the prior fiscal year to 7,414.7 AF at a \$1.09 operating surcharge rate in the current fiscal year.

Noncurrent assets were \$1,178,326, a decrease of \$33,095 or 2.7 percent from the prior fiscal year. The decrease was due to \$33,095 current fiscal year depreciation of capital assets.

SAC's total liabilities were \$6,710, a decrease of \$40,672 or 85.8 percent from \$47,382 in the prior fiscal year. The decrease was due primarily to a \$36,588 decrease in landscape costs for the Baker Pipeline Reach 1U and a \$3,938 decrease in administration and cathodic protection system maintenance.

Net position at end of the current fiscal year was \$1,256,535 representing the excess of total assets over total liabilities. Net position decreased \$37,469 or 2.9 percent from \$1,294,004 in the prior fiscal year to

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

\$1,256,535 in the current fiscal year. Net position consists of investment in capital assets of \$1,178,326 or 93.8 percent and an unrestricted net position for water services of \$78,209 or 6.2 percent.

Activities and Changes in Net Position:

The Statement of Revenues, Expenses and Changes in Net Position summarizes SAC's operations during the current fiscal year. A Summary of SAC's changes in net position for the fiscal years ended June 30 is included in Table 2 below:

Table 2 - Revenues, Expenses and Changes in Net Position

	2024	2023	Increase/(Decrease)	
			Amount	Percentage
Operating revenues				
Water surcharge	\$ 29,179	\$ 27,283	\$ 1,896	6.9%
Member charges	136,324	69,425	66,899	96.4%
Total operating revenues	165,503	96,708	68,795	71.1%
Non-operating revenues	4,153	4,414	(261)	-5.9%
Total revenues	169,656	101,122	68,534	67.8%
Operating expenses				
Contract labor	4,062	6,695	(2,633)	-39.3%
Equipment usage	113	622	(509)	-81.8%
Utilities	1,679	2,514	(835)	-33.2%
Landscape	93,743	53,482	40,261	75.3%
Cathodic protection monitoring and maintenance	24,047	49,216	(25,169)	-51.1%
Telemetry alarm	2,156	1,759	397	22.6%
General and administrative	48,230	48,551	(321)	-0.7%
Depreciation expense	33,095	29,732	3,363	11.3%
Total operating expenses	207,125	192,571	14,554	7.6%
Change in net Position	(37,469)	(91,449)	53,980	-59.0%
Beginning net Position	1,294,004	1,385,453	(91,449)	-6.6%
Ending net position	\$ 1,256,535	\$ 1,294,004	\$ (37,469)	-2.9%

Revenues:

As shown in Table 2, SAC's total revenues were \$169,656, increase of \$68,534 or 67.8 percent from the prior fiscal year. SAC's operating revenues increased \$68,795 or 71.1 percent. The increase was due primarily to a \$53,709 increase from the member charges for the landscape costs of the Baker Pipeline Reach 1U. The member agencies current fiscal year's maintenance charges increased \$13,190 due primarily to higher maintenance expenses. The surcharge rate increased from \$0.99 per acre foot in the prior fiscal year to \$1.09 per acre foot in the current fiscal year. Water deliveries decreased 788.7 acre feet from 27,558.1 acre feet in the prior fiscal year to 26,769.4 acre feet in the current fiscal year.

SAC's non-operating revenues decreased \$261 or 5.9 percent from the prior fiscal year. The decrease was due primarily to a \$395 decrease in interest income offset by a \$134 increase in changes in fair value investments.

MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)

Expenses:

As shown in Table 2, SAC’s operating expenses increased \$14,554 or 7.6 percent from \$192,571 in the prior fiscal year to \$207,125 in the current fiscal year. Landscape maintenance increased \$40,261 and contributed 45.3 percent of the total operating expenses. The increase was primarily due to a \$53,709 increase in landscape costs for the Baker Pipeline Reach 1U. Depreciation expenses increased \$3,364 and contributed 16.0 percent of the total operating expenses. Cathodic protection related expenses decreased \$25,169 and contributed 11.6 percent of the total operating expenses. Contract labor and general and administrative expenses decreased \$2,954 and contributed 25.2 percent of the total operating expenses. Total other expenses decreased \$947 and contributed 1.9 percent of the total operating expenses.

Capital Assets:

As shown in Table 3, SAC’s capital assets, net of depreciation consists of the following as of June 30:

Table 3 - Capital Assets, Net of Depreciation

	2024	2023	Increase/(Decrease)	
			Amount	Percentage
Meters	\$ 50,788	\$ 50,788	\$ -	0.0%
Bypass valve	63,609	63,609	-	0.0%
Vault covers	56,543	56,543	-	0.0%
Pipeline	1,203,641	1,203,641	-	0.0%
Less : accumulated depreciation	(196,255)	(163,160)	(33,095)	20.3%
Total	\$ 1,178,326	\$ 1,211,421	\$ (33,095)	-2.7%

Capital assets, net of depreciation decreased \$33,095 or 2.7 percent in the current fiscal year. Accumulated depreciation increased by \$33,095 for depreciation expense in the current fiscal year. The increase was primarily due to depreciation of the Baker Pipeline capital assets. Additional information on SAC’s capital assets can be found in Note 3 of the Notes to the Basic Financial Statements.

Contacting the District’s Financial Management:

This financial report is designed to provide a general review of SAC’s finances. If you have questions about this report or need additional financial information, contact the Treasurer at the Santiago Aqueduct Commission, 15600 Sand Canyon Avenue, Irvine, California 92618-7500.

Santiago Aqueduct Commission
Statement of Net Position
June 30, 2024
(with comparative data as of June 30, 2023)

	2024	2023
ASSETS		
Current assets:		
Cash and investments (note 2)	\$ 76,376	\$ 124,215
Receivables:		
Accounts receivable	8,082	5,139
Interest receivable	461	611
Total receivables	8,543	5,750
Total current assets	84,919	129,965
Noncurrent assets:		
Capital assets, net of accumulated depreciation (note 3)	1,178,326	1,211,421
Total noncurrent assets	1,178,326	1,211,421
TOTAL ASSETS	1,263,245	1,341,386
LIABILITIES		
Current liabilities:		
Accounts payable	6,710	47,382
TOTAL LIABILITIES	6,710	47,382
NET POSITION		
Investment in capital assets	1,178,326	1,211,421
Unrestricted for water services	78,209	82,583
TOTAL NET POSITION	\$ 1,256,535	\$ 1,294,004

See accompanying notes to the basic financial statements.

Santiago Aqueduct Commission
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2024
(with comparative data for the Fiscal Year Ended June 30, 2023)

	2024	2023
OPERATING REVENUES		
Water surcharge	\$ 29,179	\$ 27,283
Member charges	136,324	69,425
Total operating revenues	165,503	96,708
OPERATING EXPENSES		
Contract labor	4,062	6,695
Equipment usage	113	622
Utilities	1,679	2,514
Landscape	93,743	53,482
Cathodic protection monitoring and maintenance	24,047	49,216
Telemetry alarm	2,156	1,759
General and administrative:		
Audit	5,750	5,000
Insurance	7,858	7,568
Legal	511	3,378
Administration management	32,400	30,800
Other	1,711	1,805
Depreciation	33,095	29,732
Total operating expenses	207,125	192,571
Operating income (loss)	(41,622)	(95,863)
NONOPERATING REVENUES		
Interest income	2,972	3,367
Increase (decrease) in fair value of investments	1,181	1,047
Total nonoperating revenues	4,153	4,414
Increase (decrease) in net position	(37,469)	(91,449)
NET POSITION AT BEGINNING OF YEAR	1,294,004	1,385,453
NET POSITION AT END OF YEAR	\$ 1,256,535	\$ 1,294,004

See accompanying notes to the basic financial statements.

Santiago Aqueduct Commission
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2024
(with comparative data for the Fiscal Year Ended June 30, 2023)

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from member agencies and others	\$ 162,560	\$ 93,973
Cash paid to suppliers of goods and services	(214,702)	(145,687)
Net cash provided by (used for) operating activities	(52,142)	(51,714)
CASH FLOWS FROM CAPITAL ACTIVITIES		
Construction of capital assets	-	(146,715)
Net cash provided by (used for) capital activities	-	(146,715)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	3,122	3,025
Net cash provided by (used for) investing activities	3,122	3,025
Net increase (decrease) in cash and cash equivalents	(49,020)	(195,404)
Cash and cash equivalents at beginning of year	125,547	320,951
Cash and cash equivalents at end of year	\$ 76,527	\$ 125,547
Reconciliation of cash and cash equivalents to amounts reported on the Statements of Net Position:		
Cash and investments	\$ 76,376	\$ 124,215
Less fair value adjustment	151	1,332
Cash and cash equivalents at end of year	\$ 76,527	\$ 125,547
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
Operating income (loss)	\$ (41,622)	\$ (95,863)
Depreciation	33,095	29,732
(Increase) decrease in accounts receivable	(2,943)	(2,735)
Increase (decrease) in accounts payable	(40,672)	17,152
Net cash provided by (used for) operating activities	\$ (52,142)	\$ (51,714)
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Fair value of investments adjustment	\$ 1,181	\$ 1,047

See accompanying notes to the basic financial statements.

Santiago Aqueduct Commission

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2024

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The Santiago Aqueduct Commission (SAC) was formed in September 1961 as a multi-agency joint powers agency under the California Government Code section 6500. SAC was formed to finance, construct and maintain the Baker Pipeline designed to bring imported untreated water from the Metropolitan Water District of Southern California (MWD) to South Orange County. The Baker Pipeline was completed in 1962 and extended the MWD Santiago Lateral by 15 miles. SAC's member agencies include East Orange County Water District, Irvine Ranch Water District, Santa Margarita Water District, Trabuco County Water District, El Toro Water District and Moulton Niguel Water District.

B. Basic Financial Statements

The basic financial statements are comprised of the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, the Statement of Cash Flows, and the Notes to the Basic Financial Statements.

C. Basis of Accounting and Measurement Focus

SAC's financial activities are accounted for as an enterprise fund. A fund is an accounting entity with a self-balancing set of accounts established to record the financial position and results of operations of a specific governmental activity. The activities of enterprise funds closely resemble those of ongoing businesses in which the purpose is to conserve and add to basic resources while meeting operating expenses from current revenues. Enterprise funds account for operations that provide services on a continuous basis and are substantially financed by revenues derived from surcharges and member charges. Revenues and expenses are recognized on the accrual basis. 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 flow takes place.

SAC's operating revenues and expenses generally result from providing pipeline capacity and operations and maintenance services to member agencies in connection with water operations. The principal operating revenues of SAC are member charges to cover operation and maintenance expenses. Operating expenses include operations and maintenance expenses associated with the pipeline, general and administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, SAC uses restricted resources and then unrestricted resources.

D. Cash and Investments

Cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash or so near to their maturity that they present insignificant risk of changes in value because of changes in interest rates and have an original maturity date of 12 months or less. Investments are reported at fair value.

Santiago Aqueduct Commission

Notes to the Basic Financial Statements, Continued

For the Fiscal Year Ended June 30, 2024

(1) Reporting Entity and Summary of Significant Accounting Policies (continued)

D. Cash and Investments (Continued)

Changes in fair value that occur during the fiscal year are recognized as an increase (decrease) in fair value of investments reported for that fiscal year. Interest income includes interest earnings on SAC's investments.

E. Accounts Receivable

SAC's accounts receivable is from its member agencies in the normal course of operations. Management has evaluated the accounts and believes they are collectible.

F. Capital Assets

Capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical costs exist. SAC capitalizes all assets with a historical cost of at least \$5,000 and a useful life of at least three years. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Depreciation is recorded on a straight-line basis over the following estimated useful lives:

Meters	30 years
Valves	40 years
Vault Covers	40 years
Pipeline	40 years

G. Fair Value Measurements

Certain assets and liabilities are required to be reported at fair value. The fair value framework provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly and fair value is determined through the use of models or other valuation methodologies including:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in markets that are inactive;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement. These unobservable inputs reflect SAC's own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). These unobservable inputs are developed based on the best information available in the circumstances and may include the SAC's own data.

Santiago Aqueduct Commission

Notes to the Basic Financial Statements, Continued

For the Fiscal Year Ended June 30, 2024

(1) Reporting Entity and Summary of Significant Accounting Policies (continued)

H. Net Position

The financial statements utilize a net position presentation. Net position is categorized as follows:

- **Net Investment in Capital Assets** – This component of net position consists of capital assets, net of accumulated depreciation reduced by any debt outstanding against the acquisition, construction or improvement of those assets.
- **Restricted Net Position** – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted Net Position** – This component of net position consists of net position that does not meet the definition of restricted or net investment in capital assets.

I. Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

J. Comparative Financial Statements and Reclassifications

The information included in the accompanying financial statements for the prior year has been presented for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Certain amounts presented in the prior year financial statements have been reclassified in order to be consistent with the current year's presentation.

(2) Cash and Investments

Cash and investments as of June 30, 2024 consist of the following:

Deposits with financial institution	\$ 35,648
Local Agency Investment Fund	<u>40,728</u>
Total cash and investments	<u>\$ 76,376</u>

Santiago Aqueduct Commission

Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2024

(2) Cash and Investments (continued)

Investments Authorized by the California Government Code

The following table identifies the investment types that are authorized for SAC by the California Government Code. The table also identifies certain provisions of the California Government Code that address interest rate risk and concentration of credit risk. This table does not address investments of debt proceeds held by a bond trustee governed by the provisions of debt agreements of SAC, rather than the general provisions of the California Government Code.

<u>Authorized Investment type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment In One Issuer</u>
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base value	None
Medium-Term Notes	5 years	30%	None
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
Orange County Treasury Pool	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

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

Disclosure Relating to Credit Risk

Generally, credit risk is the risk that the issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by assignment of a rating by a nationally recognized statistical rating organization.

Santiago Aqueduct Commission

Notes to the Basic Financial Statements, Continued

For the Fiscal Year Ended June 30, 2024

(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 is to changes in market interest rates. The remaining maturity of SAC's LAIF investment is 12 months or less.

Investment in State Investment Pool

SAC is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of SAC's investment in this pool is reported in the accompanying financial statements at amounts based upon SAC'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. SAC categorizes its fair value investments within the fair value hierarchy established by generally accepted accounting principles. The LAIF investment is not subject to the fair value measurement classification.

(3) Capital Assets

Capital asset activity for the fiscal year ended June 30, 2024 is as follows:

	Balance at June 30, 2023	Additions	Deletions	Balance at June 30, 2024
Capital assets, being depreciated:				
Meters	\$ 50,788	\$ -	\$ -	\$ 50,788
Bypass valve	63,609	-	-	63,609
Vault covers	56,543	-	-	56,543
Pipeline	1,203,641	-	-	1,203,641
Sub-total	<u>1,374,581</u>	<u>-</u>	<u>-</u>	<u>1,374,581</u>
Less accumulated depreciation:				
Meters	(50,788)	-	-	(50,788)
Bypass valve	(44,527)	(1,590)	-	(46,117)
Vault covers	(38,914)	(1,414)	-	(40,328)
Pipeline	(28,931)	(30,091)	-	(59,022)
Sub-total	<u>(163,160)</u>	<u>(33,095)</u>	<u>-</u>	<u>(196,255)</u>
Total capital assets, net	<u>\$ 1,211,421</u>	<u>\$ (33,095)</u>	<u>\$ -</u>	<u>\$ 1,178,326</u>

(4) Related Party

SAC and the Irvine Ranch Water District (IRWD) entered into an agreement for maintenance and operation of the Baker Pipeline on January 1, 2001. In addition, IRWD provides accounting and administration services to SAC. It is agreed that IRWD is an independent contractor to SAC. As of June 30, 2024, the outstanding payable to IRWD was \$6,710.