

SAN JUAN BASIN AUTHORITY

Annual Financial Report

For the Year Ended June 30, 2014

SAN JUAN BASIN AUTHORITY
Annual Financial Report
For the Year Ended June 30, 2014

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Independent Auditor's Report

To the Board of Directors
San Juan Basin Authority
Rancho Santa Margarita, CA

Report on the Financial Statements

We have audited the accompanying financial statements of the San Juan Basin Authority (the Authority), which comprise the statement of net position as of June 30, 2014 and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the San Juan Basin Authority as of June 30, 2014, and the changes in its financial position and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis* on pages 3 to 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

McGladrey LLP

Irvine, CA
October 31, 2014

SAN JUAN BASIN AUTHORITY

Management's Discussion and Analysis

For the Year Ended June 30, 2014

This section of the Authority's annual financial report presents our analysis of the Authority's financial objectives and performance during the fiscal year ended June 30, 2014. Please read it in conjunction with the financial statements and accompanying notes, which follow this section.

Other Information

Mission Statement of the Authority:

To develop and maintain a reliable, high-quality, economical local water supply for residents in the San Juan Basin by maximizing water use through management of local ground and surface water of San Juan Creek and its tributaries, with due consideration for preservation, enhancement, and conservation of the environment, including, but not limited to, the natural resources, fish and wildlife, infrastructure improvements, and the cultural heritage of the area.

Keeping the mission statement in mind, the Authority's major objective has been to obtain a Water Rights Permit from the State Water Resources Control Board ("SWRCB"). This permit that was approved in October 2000, will allow the Authority to secure a right to divert authorized amounts of water from the San Juan Basin that can be used for beneficial purposes in accordance with the Authority's stated mission. The permit contains specific requirements for the monitoring and management of the San Juan Basin Authority.

Annual Operating Budget

The operating budget includes proposed expenses and the means of financing them. The Authority's operating budget remains in effect the entire fiscal year and is not revised. The goal of each year's work effort is to complete the tasks as outlined in the budget and not to accumulate funds for any other purpose.

The total operating budget for the Authority for the fiscal years 2014 and 2013 was \$453,500 and \$361,125, respectively. The funds collected from the member agencies as a result of the annual budget process are used to accomplish certain defined tasks. At the end of the fiscal year, the unexpended funds are normally returned to the member agencies or rolled forward to the next fiscal year and incorporated into the next budget process. Because remaining funds were available from the prior year, no assessments were necessary in fiscal year 2014.

A comparison of member assessments for participation are as follows:

	<u>Year 2014</u>	<u>Year 2013</u>
Total Assessments	\$ -	\$261,125
Assessments Returned	<u>-</u>	<u>-</u>
Net Assessments	<u>\$ -</u>	<u>\$261,125</u>

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Management's Discussion and Analysis

For the Year Ended June 30, 2014

The Authority has prepared and is responsible for the financial statements and related information included in this report. A system of internal accounting controls is maintained to provide assurance that assets are safeguarded and that the records reflect only authorized transactions. The Authority's system of internal accounting controls is evaluated on an ongoing basis by the Authority's internal financial staff. The Authority's independent external auditor also reviews the internal control system in order to determine auditing procedures for the purpose of expressing an opinion on the financial statements.

Financial Highlights

- In 2014, the Authority's net position decreased by \$210,749 from \$374,922 to \$164,173 due primarily to the absence of member assessments.
- In 2014, no member agency assessments were needed, due to an excess of available funds. In 2013, member agency assessments for participation were \$261,125.

Required Financial Statements

- This annual report consists of a series of financial statements. The Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and Statement of Cash Flows provide information about the activities and performance of the Authority using accounting methods similar to those used by private sector companies.
- The Statement of Net Position includes all of the Authority's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing a rate of return, evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority. All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the change in the Authority's net position due to operating and non-operating resources. The final required financial statement is the Statement of Cash Flows, which provides information about the Authority's cash receipts and cash payments during the reporting period. The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis of the Authority

- One of the most important questions asked about the Authority's finances is, "Is the Authority better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the Authority in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.
- These two statements report the Authority's *net position* and the related changes. The Authority's net position – the difference between assets and liabilities – is one way to measure the Authority's financial health, or *financial position*. Over time, *increases or*

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Management's Discussion and Analysis

For the Year Ended June 30, 2014

decreases in the Authority's net position are one indicator of whether its *financial health* is improving or deteriorating. However, one needs to consider other non-financial factors such as changes in economic conditions.

Net Position

Management believes that its policies and procedures provide assurance that the Authority's operations are conducted according to a high standard of business ethics. The financial statements present the financial position of the Authority in conformity with Generally Accepted Accounting Principles.

The unmodified opinion of our independent external auditor, McGladrey LLP, is included in this report.

Condensed Statement of Net Position

	2014	2013	Increase (Decrease)
Assets:			
Current assets	\$ 3,586,755	\$ 2,808,892	\$ 777,863
Non-Current assets	20,480,062	22,473,845	(1,993,783)
Capital assets, net	69,974	85,843	(15,869)
Total Assets	<u>24,136,791</u>	<u>25,368,580</u>	<u>(1,231,789)</u>
Liabilities:			
Current Liabilities	1,222,618	1,203,658	18,960
Non-current liabilities	22,750,000	23,790,000	(1,040,000)
Total Liabilities	<u>23,972,618</u>	<u>24,993,658</u>	<u>(1,021,040)</u>
Net Position:			
Net investment in capital assets	69,974	85,843	(15,869)
Unrestricted	94,199	289,079	(194,880)
Total Net position	<u>164,173</u>	<u>374,922</u>	<u>(210,749)</u>
Total Liabilities and Net Position	<u>\$ 24,136,791</u>	<u>\$ 25,368,580</u>	<u>\$ (1,231,789)</u>

The change in both the total assets and liabilities/net position is primarily the result of both a decrease in the lease receivable and a decrease in bonds payable.

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Management's Discussion and Analysis

For the Year Ended June 30, 2014

Condensed Statement of Revenues, Expenses and Changes in Net Position

	<u>2014</u>	<u>2013</u>	Increase (Decrease)
Revenues			
Operating revenues	\$ -	\$ 261,125	\$ (261,125)
Non-operating revenues	<u>1,236,323</u>	<u>1,330,734</u>	<u>(94,411)</u>
Total revenues	<u>1,236,323</u>	<u>1,591,859</u>	<u>(355,536)</u>
Expenses:			
Operating expenses	201,828	186,600	15,228
Depreciation expense	15,869	15,871	(2)
Non-operating expenses	<u>1,229,375</u>	<u>1,327,549</u>	<u>(98,174)</u>
Total expenses	<u>1,447,072</u>	<u>1,530,020</u>	<u>(82,948)</u>
Change in net position	<u>(210,749)</u>	<u>61,839</u>	<u>(272,588)</u>
Net position - beginning of year	<u>374,922</u>	<u>313,083</u>	<u>61,839</u>
Net position - end of year	<u>\$ 164,173</u>	<u>\$ 374,922</u>	<u>\$ (210,749)</u>

The Statement of Revenue, Expenses and Changes in Net Position shows how the government's net position changed during the fiscal year. In the case of the Authority, net position decreased by \$210,749 during the fiscal year ended June 30, 2014. The decrease in operating revenues is due to no additional funds collected from member agencies in fiscal year 2014. Non-operating revenues decreased from fiscal year 2013 due to lower interest payments of \$42,251 from the City of San Juan and \$52,160 in investment income. Non-operating expenses decreased from fiscal year 2013 due to lower investment expenses of \$98,174.

The Authority Consists of Four Member Agencies. The Santa Margarita Water District (SMWD), Moulton Niguel Water District (MNWD), City of San Juan Capistrano (CSJC) and South Coast Water District (SCWD) are member agencies of the Authority. The Authority has several projects that each member agency may participate in based on their own particular needs. The schedules below reflect their individual participation in various Project Committees (PC) as a percentage and the change in member agency individual fund balances.

Project Committee Participation
For the Year Ended June 30, 2014

	<u>General</u>	<u>PC1</u>	<u>PC4</u>	<u>PC9</u>	<u>PC10</u>	<u>PC11</u>	<u>PC13</u>	<u>PC14</u>
SMWD	25%	50%	25%	50%	25%	25%	25%	25%
MNWD	25%	0%	25%	0%	25%	25%	25%	25%
CSJC	25%	50%	25%	50%	25%	25%	25%	25%
SCWD	<u>25%</u>	<u>0%</u>	<u>25%</u>	<u>0%</u>	<u>25%</u>	<u>25%</u>	<u>25%</u>	<u>25%</u>
Totals	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

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Management's Discussion and Analysis

For the Year Ended June 30, 2014

Member Agency Net Position

For the Year Ended June 30, 2014

	<u>SMWD</u>	<u>MNWD</u>	<u>City of SJC</u>	<u>SCWD</u>	<u>TOTAL</u>
Assessments received	\$ -	\$ -	\$ -	\$ -	\$ -
Investment Income	5	5	1,236,308	5	1,236,323
Operating Expenses	(50,456)	(50,457)	(50,457)	(50,457)	(201,827)
Interest Expense	-	-	(1,229,375)	-	(1,229,375)
Depreciation Expense	(7,935)	-	(7,935)	-	(15,870)
Change in Net Position	(58,386)	(50,452)	(51,459)	(50,452)	(210,749)
Net Position - Beginning of Year	\$ 149,075	\$ 100,806	\$ 47,601	\$ 77,440	\$ 374,922
Net Position - End of Year	\$ 90,689	\$ 50,354	\$ (3,858)	\$ 26,988	\$ 164,173

Member Agency Net Position

For the Year Ended June 30, 2013

	<u>SMWD</u>	<u>MNWD</u>	<u>City of SJC</u>	<u>SCWD</u>	<u>TOTAL</u>
Assessments received	\$ 65,281	\$ 65,281	\$ 65,282	\$ 65,281	\$ 261,125
Investment Income	5	5	1,330,719	5	1,330,734
Operating Expenses	(46,650)	(46,650)	(1,374,198)	(46,650)	(1,514,148)
Depreciation Expense	(7,936)	-	(7,935)	-	(15,871)
Change in Net Position	10,700	18,636	13,868	18,636	61,840
Net Position - Beginning of Year	\$ 138,375	\$ 82,170	\$ 33,734	\$ 58,803	\$ 313,082
Net Position - End of Year	\$ 149,075	\$ 100,806	\$ 47,602	\$ 77,439	\$ 374,922

The Authority Adopts an Annual Operating Budget. The Operating Budget includes proposed expenses and the means of financing them. The Authority's operating budget remains in effect the entire year and is not revised.

Contacting the Authority's Financial Management. The Authority's basic financial statements are designed to demonstrate the Authority's accountability. If you have any questions about the report or need additional information, please contact the Authority's Treasurer at P.O. Box 7005, Mission Viejo, California 92690-7005.

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Statement of Net Position

As of June 30, 2014

ASSETS

Current Assets

Cash and investments (note 2)	\$ 224,797
Restricted - cash and cash equivalents (note 2)	22,210
Restricted - investments (note 2)	2,299,748
City of San Juan Capistrano lease receivable - current (note 3)	1,040,000
Total Current Assets	<u>3,586,755</u>

Non-current Assets

Restricted - City of San Juan Capistrano lease receivable - non-current (note 3)	20,480,062
Capital assets, net of accumulated depreciation (note 4)	69,974
Total Non-current Assets	<u>20,550,036</u>

Total Assets

\$ 24,136,791

LIABILITIES

Current Liabilities:

Accounts payable and accrued liabilities	\$ 31,266
Accrued interest payable	151,352
Bonds payable - current (note 5)	1,040,000
Total Current Liabilities	<u>1,222,618</u>

Non-current Liabilities:

Bonds payable, less current portion (note 5)	22,750,000
Total Non-current Liabilities	<u>22,750,000</u>

Total Liabilities

23,972,618

CONTINGENCIES (notes 7 & 8)

NET POSITION

Net investment in capital assets	69,974
Unrestricted	94,199
Total net position	<u>\$ 164,173</u>

See accompanying notes to the basic financial statements.

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Statement of Revenue, Expenses and Changes in Net Position

For the Fiscal Year Ended June 30, 2014

Operating revenues:	
Member Agency assessments	\$ <u>-</u>
Operating expenses:	
Accounting (note 6)	10,541
Engineering	164,125
Legal	21,011
Management support	800
Depreciation	15,869
Other	5,351
Total Operating expenses	<u>217,697</u>
Operating (loss)	<u>(217,697)</u>
Non-operating revenues (expenses)	
Interest expense	(1,229,375)
Investment income	108,015
Investment income - lease	1,128,308
Total Non-operating revenues	<u>6,948</u>
Change in net position	(210,749)
Net position - beginning of year	<u>374,922</u>
Net position - end of year	<u>\$ 164,173</u>

See accompanying notes to the basic financial statements.

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Statement of Cash Flows

For the Fiscal Year Ended June 30, 2014

Cash flow from operating activities:

Cash receipts from member agency assessments	\$ -
Cash payments to suppliers and vendors	<u>(226,681)</u>
Net cash used in operating activities	<u>(226,681)</u>

Cash flows from non-capital and related financing activities:

City of San Juan Capistrano lease receipts	953,783
Principal paid on bonds payable	(990,000)
Interest paid on bonds payable	(1,235,562)
Interest income - lease receivable	<u>1,128,308</u>
Net cash used in capital and related financing activities	<u>(143,471)</u>

Cash flows from investing activities:

Investment income	<u>105,162</u>
Net cash provided by investing activities	<u>105,162</u>

Net (decrease) in cash and cash equivalents (264,990)

Cash and cash equivalents at June 30, 2013	<u>505,706</u>
Cash and cash equivalents at June 30, 2014	<u><u>\$ 240,716</u></u>

Reconciliation of cash and cash equivalents:

Cash and cash equivalents	218,506
Restricted - cash and cash equivalents	<u>22,210</u>
Total cash and cash equivalents	<u><u>\$ 240,716</u></u>

Reconciliation of operating loss to net cash used in operating activities:

Operating (loss)	<u>\$ (217,697)</u>
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	15,869
Change in assets - (increase)decrease:	
Prepaid and other assets	-
Change in liabilities - increase(decrease):	
Accounts payable and accrued liabilities	<u>(24,853)</u>
Total adjustments	<u>(8,984)</u>
Net cash used in operating activities	<u><u>\$ (226,681)</u></u>

See accompanying notes to the basic financial statements.

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Notes to Financial Statements

For the Fiscal Year Ended June 30, 2014

1. Organization and Summary of Significant Accounting Policies

Reporting Entity

The San Juan Basin Authority (Authority) is a public entity created for the joint exercise of common powers pursuant to a Joint Exercise of Powers Agreement dated November 22, 1972 by and between the member agencies: Capistrano Beach County Water District (CBWD) (predecessor of Capistrano Beach Water District), Capistrano Valley Water District (CVWD) and the Santa Margarita Water District (SMWD). Moulton Niguel Water District (MNWD) and Trabuco Canyon Water District (TCWD) were subsequently admitted as members to the Authority. Capistrano Beach Water District (CBWD) and TCWD withdrew as member agencies effective April 5, 1989 and June 30, 1997, respectively. Effective in 1997, the City of San Juan Capistrano (CSJC) became the successor Agency of the CVWD. Effective April 7, 1998, CBWD was readmitted as a member to the Authority. Effective January 1, 1999, CBWD was dissolved and the South Coast Water District (SCWD) became the successor entity. The Authority was formed under the powers granted to the member agencies pursuant to Article 1, Chapter 5, Division 7, Title 1 of the California Government Code. The Authority is a joint venture of the member agencies - SMWD, MNWD, CSJC and SCWD.

The Authority was created to plan, acquire, construct, maintain, repair, operate and control facilities to supply the inhabitants and lands within each of the member agencies' boundaries with water and provide for the development and conservation of water supplies.

The Authority currently has eight project committees to administer and develop various projects for the benefit of the member agencies. Member agencies may elect to participate in each of the Authority's project committees and are assessed annually for the estimated costs to be incurred related to each project committee based upon ownership or usage. There were no member agency assessments for the year ended June 30, 2014 as directed by the Board of Directors due to the Authority's accumulated net position through June 30, 2013.

The powers and functions of the Authority are exercised by a Board of Directors, of which one Director may be appointed by each of the Board of Directors of the member agencies. Each Director holds office until a successor Director is appointed, serves at the pleasure of the legislative body of the appointing member agency and may be removed at any time, with or without cause, at the sole discretion of such legislative body.

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Notes to Financial Statements

For the Fiscal Year Ended June 30, 2014

1. Organization and Summary of Significant Accounting Policies, (continued)

Basis of Accounting

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures as of June 30, 2014, and revenues and expenses for the year then ended. Actual results could materially differ from those estimates in the near term.

Budgets and Budgetary Accounting

An annual budget is adopted by the Board of Directors using a basis consistent with generally accepted accounting principles. The budget is used for operating management and internal accounting control but has not been presented in the accompanying financial statements, which is consistent with GAAP.

Cash and Cash Equivalents and Investments

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

Substantially all of the Authority's cash is invested in interest bearing cash accounts and is recorded at cost. The Authority considers all highly liquid investments purchased with maturities of three months or less to be cash equivalents. All demand deposits and certificates of deposit held by a bank are entirely insured or collateralized with securities having a market value of at least 10% in excess of the total amount of funds on deposit.

The Authority records investments at fair value and changes in fair value are recorded as unrealized gains or losses. Investment income is comprised of interest earnings, changes in market value, and any gain or loss realized upon the liquidation or sale of investments.

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Notes to Financial Statements

For the Fiscal Year Ended June 30, 2014

1. Organization and Summary of Significant Accounting Policies, (continued)

City of San Juan Capistrano Lease Agreement

On December 1, 2002, a lease agreement was executed (referred to in Notes 3 and 5) related to the lease payments to be made by the CVWD and later assigned to CSJC to service the bond debt. The note receivable was originally in the amount of \$29,302,462. CSJC makes the lease agreement payments from pledged revenues to the bond fiscal agent to make the bond debt service payments. The Authority recorded the full lease receivable as an asset at the time that the bonds payable were recorded. When the lease payments are received from CSJC, the asset is reduced. When the debt service payments are made twice a year, the bond payable is reduced and applicable interest is expensed.

Capital Assets

Capital assets are valued at historical cost or estimated historical cost if actual cost is not available. Contributed assets which consist mainly of pipelines, wells and pump stations are recorded as contributed facilities based on cost information furnished by member agencies or other contributors. Depreciation on contributed facilities are charged the same as on purchased assets, using the straight-line method based on estimated lives which range from 10 to 40 years, consisting primarily of diversion structure over 20 years, wells over 25 years, and pump stations and pipelines over 40 years. Equipment that has been determined to have no useful life or value is removed from the records when such determination has been made by management.

Member Agencies Net Position

Costs are applied directly against deposits received from member agencies. Costs are allocated between member agencies based on ownership or usage. Interest earned on member agency deposits is allocated to the member agencies on a monthly basis in accordance with their relative deposit balances. At the end of each fiscal year, operating surplus balances are refunded to member agencies or added to their net position as determined by the Board of Directors.

SAN JUAN BASIN AUTHORITY

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2014

1. Organization and Summary of Significant Accounting Policies, (continued)

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 and reduced by any debt outstanding against the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt is included in this component of net position.
- Restricted Net Position – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. The Authority has no restricted net position at June 30, 2014.
- Unrestricted Net Position – This component of net position is the net amount of 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 component of net position.

Income Taxes

As a governmental entity, the Authority is exempt from income taxation under provisions of the Internal Revenue Code and related state statutes; accordingly, no provision for income taxes has been provided in the financial statements.

Investments Authorized by the California Government Code

The Authority has not adopted its own investment policy and is therefore subject to the constraints of the California Government Code.

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Notes to Financial Statements

For the Fiscal Year Ended June 30, 2014

2. Cash and Investments

Cash and investments as of June 30, 2014 are classified in the accompanying financial statements as follows:

Current assets:	
Cash and investments	\$ 224,797
Restricted - cash and investments	<u>2,321,958</u>
Total cash and investments	<u>\$ 2,546,755</u>
Cash	\$ 218,506
Money market funds	<u>22,210</u>
Cash and cash equivalents	<u>240,716</u>
U.S. Federal Agency	2,299,748
California Local Agency Investment Pool (LAIF)	<u>6,291</u>
Investments	<u>2,306,039</u>
Total cash and investments	<u>\$ 2,546,755</u>

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

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Notes to Financial Statements

For the Fiscal Year Ended June 30, 2014

2. Cash and Investments, (continued)

The California Government Code and the Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by a state or local government 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 Authority deposits by pledging first trust deed mortgages noted having a value of 150% of the secured public deposits. Of the bank balances, the federally insured amount is limited up to \$250,000 per bank, and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the Authority's name.

Investments Authorized by Debt Agreements

Investment 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 investment policy. The table below identifies the investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Investment In One Issuer</u>
U.S. Treasury Obligations	None	No Limit	None
U.S. Agency Securities	None	No Limit	None
Banker's Acceptances	180 days	No Limit	None
Commercial Paper	270 days	No Limit	None
Money Market Mutual Funds	N/A	No Limit	None
Investment Contracts	30 years	No Limit	None
CA Local Agency Investment Fund	Code 16429.1	No Limit	None

SAN JUAN BASIN AUTHORITY

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2014

2. Cash and Investments, (continued)

Investment in State Investment Fund

The Authority is a voluntary participant in the CA Local Agency Investment Fund (LAIF) that is regulated by the California Government Code, under the oversight of the Treasurer of the State of California. The fair value of the Authority's investment in this pool is reported in the accompanying financial statements at amounts based upon the Authority'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 the amortized cost basis.

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 Authority 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 Authority's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the Authority's investments by maturity:

<u>Investment Type</u>	<u>Total</u>	<u>Remaining Maturity (in Months)</u>			
		<u>3 Months or Less</u>	<u>4 to 6 Months</u>	<u>7 to 9 Months</u>	<u>10 to 12 Months</u>
State investment pool (LAIF)	\$ 6,291	\$ 6,291	\$ -	\$ -	\$ -
U.S. Federal Agency	2,299,748	2,299,748	-	-	-
	<u>\$ 2,306,039</u>	<u>\$2,306,039</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

SAN JUAN BASIN AUTHORITY

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2014

2. Cash and Investments, (continued)

Disclosures Relating to Credit Risk

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

<u>Investment Type</u>	<u>Total</u>	Minimum Legal <u>Rating</u>	<u>Rating as of Year End</u>	
			<u>AA+</u>	<u>Not Rated</u>
State investment pool (LAIF)	\$ 6,291	N/A	\$ -	\$ 6,291
U.S. Federal Agency	<u>2,299,748</u>	AA+	<u>2,299,748</u>	-
	<u>\$ 2,306,039</u>		<u>\$ 2,299,748</u>	<u>\$ 6,291</u>

3. City of San Juan Capistrano Lease Receivable

On December 1, 2002 the Authority entered into a direct financing lease agreement with the CSJC in conjunction with the issuance and payment of the 2002 Lease Revenue Bonds for the construction of the Desalter Treatment Plant. The lease payments are equal to the principal portion of the debt service coming due on the bonds. The outstanding balance at June 30, 2014, net of reserve cash held with fiscal agent, was \$21,520,062.

4. Capital Assets

A summary of changes in capital assets is as follows:

	<u>Balance at July 1, 2013</u>	<u>Additions</u>	<u>Retirements/ Dispositions</u>	<u>Balance at June 30, 2014</u>
Facilities, wells and pipelines	\$1,171,719	\$ -	\$ -	\$1,171,719
Accumulated depreciation	<u>(1,085,876)</u>	<u>(15,869)</u>	<u>-</u>	<u>(1,101,745)</u>
Net capital assets	<u>\$ 85,843</u>	<u>\$(15,869)</u>	<u>\$ -</u>	<u>\$ 69,974</u>

Depreciation expense for the year ended June 30, 2014 was \$15,869.

SAN JUAN BASIN AUTHORITY

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2014

5. Bonds Payable

The activity relating to the bonds payable was as follows:

	<u>Balance at</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at</u> <u>June 30, 2014</u>	<u>Amount Due</u> <u>Within</u> <u>One Year</u>	<u>Amount Due</u> <u>Beyond</u> <u>One Year</u>
Lease revenue bonds	\$24,780,000	\$ -	\$(990,000)	\$23,790,000	\$ 1,040,000	\$22,750,000

On December 11, 2002, the Authority issued lease revenue bonds (Bonds) in the amount of \$31,555,000 for the Ground Water Recovery Project. The Bonds are special limited obligations of the Authority payable solely from the trustee estate, including lease payments to be made by the CJSJ to the Authority solely from revenues of the CSJC Water Enterprise Fund pursuant to the lease agreement between the CSJC and the Authority. The Authority uses the annual lease payments received from CSJC to make the debt service payments as they come due.

The proceeds of the Bonds were applied to finance and reimburse the costs of the design, development, acquisition and construction of a groundwater recovery plant and related improvements and facilities, fund a debt service reserve fund securing the Bonds, fund capitalized interest through June 1, 2004 and pay certain costs of issuance of the Bonds.

The annual interest rates and principal debt service payments range from 3.0% and \$755,000 to 5.250% and \$1,720,000. As of June 30, 2014, the outstanding principal of these Bonds totaled \$23,790,000.

Anticipated future payments by the Authority for the Bonds payable are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 1,040,000	\$ 1,183,512	\$ 2,223,512
2016	1,095,000	1,127,469	2,222,469
2017	1,150,000	1,068,537	2,218,537
2018	1,210,000	1,006,588	2,216,588
2019	1,275,000	941,356	2,216,356
2020-2024	7,440,000	3,619,231	11,059,231
2025-2039	4,755,000	1,963,625	6,718,625
2030-2034	4,730,000	888,000	5,618,000
2035	1,095,000	27,375	1,122,375
	\$ 23,790,000	\$ 11,825,693	\$ 35,615,693

SAN JUAN BASIN AUTHORITY

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2014

6. Related Party Transactions

SMWD provides accounting services based on an hourly rate for the Authority. The total expenses incurred for services for the year ended June 30, 2014, was \$5,541 which is included in accounting expenses on the Statement of Revenues, Expenses and Changes in Net Position.

7. Commitments and Contingencies

In the ordinary course of operations, the Authority and its member agencies are subject to claims and litigation from outside parties. The Authority is a defendant in a lawsuit that was filed on August 28, 2014 whereby the plaintiff is claiming that the Authority, and another defendant, violated certain rights of the plaintiff. Currently, no demands have been made by the plaintiff but they are expected to be in excess of \$150,000. Management plans to vigorously defend itself in this matter. The Authority feels a loss is not likely. As of June 30, 2014 the Authority has not recorded a liability related to this matter. In the opinion of the Authority's Counsel, the Authority had no material claims which would require loss provisions in the financial statements.

8. Risk Management

The Authority has commercial general liability coverage. The Authority believes there are no existing matters which will have a material adverse effect on the Authority's financial position. There were no significant settlements, or reductions in insurance coverage from settlements, for the past three years.