

# **Santa Margarita / Dana Point Authority**

## **Annual Financial Report**

**For the Fiscal Year Ended June 30, 2016**

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RSM US LLP

## Independent Auditor's Report

To the Board of Directors  
Santa Margarita/Dana Point Authority  
Rancho Santa Margarita, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the Santa Margarita/Dana Point Authority (the Authority), as of and for the year ended June 30, 2016 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 Santa Margarita/Dana Point Authority as of June 30, 2016 and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters***Required Supplementary Information*

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

*RSM US LLP*

Irvine, California  
November 7, 2016

# **Basic Financial Statements and Accompanying Notes**

**SANTA MARGARITA/DANA POINT AUTHORITY**  
**Statement of Net Position**  
**As of June 30, 2016**

**ASSETS:**

**Current Assets:**

Accrued interest receivable	\$ 2,111,933
Due from Santa Margarita Water District - due within one year (Note 2)	14,245,000
<b>Total Current Assets</b>	<b><u>16,356,933</u></b>

**Non-current Assets:**

Due from Santa Margarita Water District - due in more than one year (Note 2)	91,825,000
<b>Total Non-current Assets</b>	<b><u>91,825,000</u></b>

<b>Total Assets</b>	<b><u>108,181,933</u></b>
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**LIABILITIES:**

**Current Liabilities:**

Accrued interest payable	2,111,933
Bonds payable - due within one year (Note 3)	14,245,000
<b>Total Current Liabilities</b>	<b><u>16,356,933</u></b>

**Non-current Liabilities:**

Bonds payable - due in more than one year (Note 3)	91,825,000
<b>Total Non-current Liabilities</b>	<b><u>91,825,000</u></b>

<b>Total Liabilities</b>	<b><u>108,181,933</u></b>
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**NET POSITION:**

Unrestricted	-
<b>Total Net Position</b>	<b><u><u>\$ -</u></u></b>

See accompanying notes to the basic financial statements.

**SANTA MARGARITA/DANA POINT AUTHORITY**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**For the Year Ended June 30, 2016**

**OPERATING REVENUES:**

Special assessment tax revenues from Santa Margarita Water District	\$ 5,107,585
<b>Total Operating Revenues</b>	<u><b>5,107,585</b></u>

**OPERATING EXPENSES:**

Interest Expense	5,107,585
<b>Total Operating Expenses</b>	<u><b>5,107,585</b></u>

<b>Operating income</b>	-
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<b>Change in net position</b>	<u>-</u>
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Net position, beginning of year	-
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<b>Net position, end of year</b>	<u><u><b>\$ -</b></u></u>
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See accompanying notes to the basic financial statements.

**SANTA MARGARITA/DANA POINT AUTHORITY**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2016**

**Cash flows from non-capital financing activities:**

Cash payment of debt principal	\$ (13,200,000)
Cash payment of interest on debt	<u>(5,302,752)</u>
Net cash (used in) non-capital financing activities	<u>(18,502,752)</u>

**Cash flows from investing activities:**

Cash receipts from special assessment tax revenues for debt and interest payments	<u>18,502,752</u>
Net cash provided by (used in) investing activities	<u>18,502,752</u>

Net increase (decrease) in cash and cash equivalents	-
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Cash and cash equivalents, beginning of year	-
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Cash and cash equivalents, end of year	<u><u>\$ -</u></u>
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**Reconciliation of operating income to net cash provided by operating activities:**

Operating income	\$ -
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**Adjustments to reconcile operating loss to net cash provided by operating activities:**

**Change in assets and liabilities:**

Decrease in assets:	
Accrued Interest Receivable	195,167

(Decrease) in liabilities:	
Accrued interest payable	<u>(195,167)</u>

Total adjustments	<u>-</u>
Net cash provided by operating activities	<u><u>\$ -</u></u>

See accompanying notes to the basic financial statements.

**Santa Margarita/Dana Point Authority**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2016**

**1. Reporting Entity and Summary of Significant Accounting Policies**

Organization

The Santa Margarita/Dana Point Authority (Authority) is a public entity created for the joint exercise of common powers pursuant to a Joint Exercise of Powers Agreement dated August 25, 1987, by and between the Santa Margarita Water District (SMWD) and the Dana Point Sanitary District (DPSD) (collectively, the Members) under the powers granted such Members pursuant to Sections 6500 et seq., Title 1, Division 7 Chapter 5, Article 1 of the California Government Code. Effective January 1, 1999, DPSD was dissolved and the South Coast Water District (SCWD) became the successor entity.

The Authority was created for the primary purpose of selling bonds to finance the acquisition of capacity in the Jay B. Latham treatment plant. Financing for the acquisition of such capacity is provided from the proceeds of the bonds and monies as provided by SCWD.

The powers and functions of the Authority are exercised by the Board of Directors, of which two Directors may be appointed by the Board of Directors of SMWD and three Directors may be appointed by the Board of Directors of SCWD. Currently, each Member appoints two Directors to serve on the Authority's Board of Directors. Each Director holds office until he/she is removed with or without cause, at the sole discretion of such legislative body. A unanimous decision of the Authority's Board of Directors is required to approve the general budget and maintenance and operation budgets. Expenditures in excess of the approved budget must be approved by the Member affected by the requested budget change.

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting and Financial Reporting Standards Codification 2100, *The Financial Reporting Entity*. The Authority is a special purpose governments and there are no other activities or component units required to be included in its financial statements.

Basis of Accounting and Measurement Focus

The accounting policies of the Authority's basic financial statements conform to Generally Accepted Accounting Principles in the United States of America (GAAP) applicable to state and local government agencies using pronouncements issued by the Governmental 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.

The activity of the Authority consists solely of collection of note receivable and payment of debt which are reported as operating revenues and expenses.

**Santa Margarita/Dana Point Authority**  
***Notes to the Basic Financial Statements***  
**For the Year Ended June 30, 2016**

**1. Reporting Entity and Summary of Significant Accounting Policies, (Continued)**

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 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.

Note Receivable

Notes receivable are valued at the unpaid outstanding amount to be collected. There is no current allowance deemed necessary, as repayments are estimated to be paid.

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.

Net Position

The financial statements utilize a net position presentation. Net position consists of the difference between assets and liabilities. Unrestricted net position is the net amount of the assets and liabilities that are not included in the determination of the net investment in capital assets or restricted net position.

**Santa Margarita/Dana Point Authority**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2016**

**2. Due from Santa Margarita Water District**

The SMWD places a special assessment levy annually on property tax bills for property tax owners in improvement districts in order to yield an amount equal to the principal and interest on the long-term debt due in the ensuing year. Interest has been imputed on the amount receivable in an amount equal to the interest payable on long-term debt.

Changes in the amount due from SMWD for the year ended June 30, 2016 are as follows:

	<u>Balance at June 30, 2015</u>	<u>Additions</u>	<u>Receipts</u>	<u>Balance at June 30, 2015</u>	<u>Amount Due Within One Year</u>	<u>Amount Due Beyond One Year</u>
Due from SMWD	\$119,270,000	\$ -	\$(13,200,000)	\$106,070,000	\$14,245,000	\$91,825,000

Anticipated future receipts from SMWD for bond principal and interest payments are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 14,245,000	\$ 4,795,290	\$ 19,040,290
2018	15,185,000	4,154,715	19,339,715
2019	15,940,000	3,413,690	19,353,690
2020	11,565,000	2,750,765	14,315,765
2021	12,420,000	2,156,140	14,576,140
2022-2026	8,155,000	8,258,702	16,413,702
2027-2031	10,500,000	5,902,207	16,402,207
2032-2036	11,015,000	3,141,030	14,156,030
2037-2039	7,045,000	553,932	7,598,932
Total	\$ 106,070,000	\$ 35,126,471	\$ 141,196,471
Current	14,245,000		
Long-term	\$ 91,825,000		

**Santa Margarita/Dana Point Authority**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2016**

**3. Long-Term Liabilities**

Long-term liabilities and changes for the year ended June 30, 2016 are as follows:

	<u>Balance at June 30, 2015</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance at June 30, 2016</u>	<u>Amount Due Within One Year</u>	<u>Amount Due Beyond One Year</u>
General Obligation Bonds Payable:						
2009 Series A	\$34,960,000	\$ -	\$(780,000)	\$34,180,000	\$815,000	\$33,365,000
2009 Series B	18,970,000	-	(4,310,000)	14,660,000	4,585,000	10,075,000
2014 Series A	65,340,000	-	(8,110,000)	57,230,000	8,845,000	48,385,000
Total Bonds Payable	<u>\$119,270,000</u>	<u>\$ -</u>	<u>\$(13,200,000)</u>	<u>\$106,070,000</u>	<u>\$14,245,000</u>	<u>\$91,825,000</u>

***2009 General Obligation Bonds Series A & B***

In 2009, the Authority issued \$38,490,000 of General Obligation Water Bonds – Series A with an interest rate of 2.00% to 5.25% that matures annually on August 1 from 2010 to 2038. In 2009, the Authority issued \$36,205,000 of Consolidated Refunding General Obligation Water Bonds – Series B with an interest rate from 2.00% to 5.00% that matures annually on August 1 from 2010 to 2018.

Principal and interest payments for the 2009 bonds are payable from, and secured by, a pledge of all amounts received from SMWD, in connection with the Authority’s issuance of the 2009 Bonds. As additional security for the repayment of the bonds, the Authority has established liens on the following funds received from or attributable to the 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. As of June 30, 2016, the outstanding balances were \$34,180,000 and \$14,660,000, for the 2009 Series A and 2009 Series B, respectively.

***2014 Refunding General Obligation Bonds Series A***

In July 2014 the Authority issued \$65,340,000 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. The final maturity date remains the same, at August 1, 2032.

Principal and interest payments on the 2014 Bonds are payable from, and secured by a pledge of all amounts received from SMWD, in connection with the Authority's issuance of the 2014 SMWD Refunding Bonds. As of June 30, 2016, the outstanding balance was \$57,230,000.

**Santa Margarita/Dana Point Authority**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2016**

**3. Long-Term Liabilities, (Continued)**

Future maturities of general obligation bonds payable are as follows at June 30, 2016:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 14,245,000	\$ 4,795,290	\$ 19,040,290
2018	15,185,000	4,154,715	19,339,715
2019	15,940,000	3,413,690	19,353,690
2020	11,565,000	2,750,765	14,315,765
2021	12,420,000	2,156,140	14,576,140
2022-2026	8,155,000	8,258,702	16,413,702
2027-2031	10,500,000	5,902,207	16,402,207
2032-2036	11,015,000	3,141,030	14,156,030
2037-2039	7,045,000	553,932	7,598,932
Total	<u>\$ 106,070,000</u>	<u>\$ 35,126,471</u>	<u>\$ 141,196,471</u>
Current	<u>14,245,000</u>		
Long-term	<u>\$ 91,825,000</u>		