

Santa Margarita/Dana Point Authority

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September 14, 2015

Eric H. Woolery
County of Orange
Auditor-Controller
12 Civic Center Plaza, Room 200
Santa Ana, CA 92701

Dear Mr. Woolery,

The Santa Margarita Water District prepares the annual fiscal audit that includes both the General Obligation bonds that are issued by the Santa Margarita/Dana Point Authority (SM/DPA) and Community Facilities District (CFD's) issued by Santa Margarita Water District.

The District internally tracks all bond issues individually although for reporting purposes all financial data includes both the General Obligation Bonds and the Community Facilities District Bonds. The entire SMWD FY2014 audit report is attached for your review. The SMWD audit report includes Note 6, Long Term Liabilities, which is taken from the audit and attached to this letter. Note 6 highlights the bond issue by type as follows:

- On page 26 of the FY2014 audit is Note 6 for Long-Term Liabilities. As noted above all General Obligation Bonds are SM/DPA and CFD's are Santa Margarita Water District. Each bond issue is detailed on pages 26-29, including the amount issued, the date of the bond maturity along with the sources of repayment of these bonds. The anticipated future payments are detailed on page 28, including the reserve requirement for the CFD's only.
- On page 36 and 37 Note 12 defines the Joint Powers Agreement for SM/DPA.
- On page 39 Note 17 details the subsequent events. In FY2015 the SM/DPA refunded the 2003A and 2004A bonds into the 2014A General Obligation Bonds. The refunding did not extend the maturity date.

Please let me know if you would like additional detail.

Thank you,



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CC: *Claire Moynihan*
Toni Smart
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Santa Margarita Water District
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For the Year Ended June 30, 2014

6. Long-Term Liabilities

Long-term liabilities and changes for the year ended June 30, 2014 was as follows:

	Balance at June 30,2013	Additions	Deletions	Balance at June 30,2014	Amount Due Within One year	Amount Due Beyond One Year
General obligation bonds payable:						
1994 Series A	\$ 2,105,000	\$ -	\$ (1,990,000)	\$ 115,000	\$ 115,000	\$ -
1994 Series B	15,580,000	-	(7,400,000)	8,180,000	8,180,000	-
2003 Bonds	13,000,000	-	(660,000)	12,340,000	685,000	11,655,000
2004 Bonds	62,770,000	-	-	62,770,000	-	62,770,000
2009 Series A	36,435,000	-	(725,000)	35,710,000	750,000	34,960,000
2009 Series B	26,780,000	-	(3,775,000)	23,005,000	4,035,000	18,970,000
Total GOB Payable	156,670,000	-	(14,550,000)	142,120,000	13,765,000	128,355,000
Community Facilities District						
2007 Series	58,290,000	-	(1,545,000)	56,745,000	1,690,000	55,055,000
2011 A Series	33,455,000	-	(955,000)	32,500,000	1,035,000	31,465,000
2011 B Series	4,465,000	-	-	4,465,000	-	4,465,000
2013 Series	-	57,420,000	-	57,420,000	185,000	57,235,000
Total Community Facilities District	96,210,000	57,420,000	(2,500,000)	151,130,000	2,910,000	148,220,000
Subtotal Bonds Payable	252,880,000	57,420,000	(17,050,000)	293,250,000	16,675,000	276,575,000
Premium (Discount), net	1,851,091	1,030,908	(910,365)	1,971,634	-	1,971,634
Total Bonds Payable	254,731,091	58,450,908	(17,960,365)	295,221,634	16,675,000	278,546,634

1994 General Obligation Bonds – Series A & B

In 1994, the District issued \$55,415,000 of Consolidated Refunding General Obligation Water Bonds – Series A with an interest rate of 4.25% to 9.50% that matures annually on August 1st from 1995 to 2015. The bonds were issued to refund the 1968 General Obligation Sewer Bonds, the 1968 General Obligation Water Bonds, the 1972 General Obligation Water Bonds, the 1975 General Obligation Sewer Bonds, The 1984 General Obligation Water-Sewer Bonds and the 1987 General Obligation Water-Sewer Bonds. In 1994, the District issued \$55,250,000 of Consolidated Refunding General Obligation Water Bonds – Series B with an interest rate of 7.25% that matures annually on August 1st from 1995 to 2015. The 1994 Series B Bonds refunded the 1997 Series B Bonds. The source of repayment of these bonds is special assessment tax revenues for debt service.

2003 General Obligation Bonds

In 2003, the District issued \$18,225,000 of Consolidated Revenue Bonds with an interest rate of 1.05% to 4.75% that matures annually on August 1st from 2004 to 2017 and 2004 to 2032. The bonds were issued to construct water and wastewater facilities for Improvement District 4 and the

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development of the Ladera Ranch Project as well as Improvement Districts 2 and 2A. The source of repayment of these bonds is special assessment tax revenues for debt service.

2004 General Obligation Bonds

In 2004, the District issued \$62,770,000 of Consolidated Refunding General Obligation Water Bonds with an interest rate of 5.00% that matures annually on August 1st from 2005 to 2020. The bonds were issued to partially redeem the Santa Margarita/Dana Point Authority Revenue Bonds, Series 1994B for Improvement Districts 3, 3A, 4 and 4A. Principal payments will be made starting in fiscal year 2016. The source of repayment of these bonds is special assessment tax revenue for debt service.

2007 Special Tax Bonds

In 2007, the District issued \$63,480,000 of Special Tax Bonds (Serial \$32,030,000 and term \$31,450,000) with an interest rate of 4.00% to 4.50% that matures annually on September 1st from (serial) 2007 to 2023 and (term) ending in years 2025, 2027 and 2030. The bonds were issued to refund a portion of the outstanding Series 1999 Special Tax bonds and all of the outstanding Series 2003 Special Tax Bonds. The source of repayment of these bonds is special assessment tax revenues for debt service.

2009 General Obligation Bonds Series A & B

In 2009, the District 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 1st from 2010 to 2029. The proceeds from the bonds were used to pay for domestic water supply reliability projects including an interconnection to the South County Water Transmission System, the Upper Chiquita Reservoir and the Baker Regional Water Treatment Plant. In 2009, the district 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 1st from 2010 to 2018. The proceeds from the bonds were used to refund the 2009A General Obligation Water Bonds. The source of repayment of these bonds is special assessment tax revenues for debt service.

2011 Special Tax Bonds Series A & B

In 2011, the District issued \$34,245,000 of Special Tax Bonds – Series A with an interest rate of 2.00% to 5.25% that matures annually on September 1st from 2012 to 2029. The bonds were issued to refund the outstanding Series 1999 Special Tax Bonds. In 2011, the District issued \$4,465,000 of Special Tax Bonds – Series B with an interest rate of 5.375% to 5.625% that matures annually on September 1st from 2023 to 2033. The bonds were issued to construct water and wastewater facilities for the Talega Valley Planned Development with a portion of the bond proceeds being used to finance improvements and modifications to the existing Chiquita Water Reclamation Plant. The source of repayment of these bonds is special assessment tax revenues for debt service.

2013 Special Tax Bonds

In 2013, the District issued \$57,420,000 of Special Tax Bonds with an interest rate of 2.00% to 5.625% that mature annually on September 1st from 2015 to 2043. The bonds were issued to construct water and wastewater facilities for the Sendero Village Development. Additionally,

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\$14,650,344 of the bond funds will be used to construct facilities that will belong to the County of Orange. The source of repayment of these bonds is special assessment tax revenues for debt service.

Anticipated future payments by improvement district and community facilities district for general obligation and special tax bonds payable are as follows:

General Obligation Bonds Debt Service Schedule

Year	Principal	Interest	Total
2015	\$ 13,765,000	\$ 6,640,073	\$ 20,405,073
2016	14,405,000	5,880,019	20,285,019
2017	15,430,000	5,195,531	20,625,531
2018	16,505,000	4,455,606	20,960,606
2019	17,325,000	3,653,747	20,978,747
2020-2024	31,810,000	10,542,253	42,352,253
2025-2029	9,900,000	7,137,527	17,037,527
2030-2034	11,810,000	4,340,456	16,150,456
2035-2039	11,170,000	1,490,142	12,660,142
Total	\$ 142,120,000	\$ 49,335,354	\$ 279,655,732

Community Facility District Debt Service Schedule

Year	Principal	Interest	Total
2015	\$ 2,910,000	\$ 7,385,056	\$ 10,295,056
2016	3,055,000	7,285,063	10,340,063
2017	3,395,000	7,168,988	10,563,988
2018	3,740,000	7,032,800	10,772,800
2019	4,120,000	6,872,263	10,992,263
2020-2024	27,240,000	31,173,175	58,413,175
2025-2029	41,315,000	23,206,046	64,521,046
2030-2034	24,380,000	13,812,532	38,192,532
2035-2039	18,035,000	9,170,552	27,205,552
2040-2044	22,940,000	5,310,985	28,250,985
Total	\$ 151,130,000	\$ 118,417,460	\$ 486,130,750

Debt Reserve Requirement

The District is required to hold monies in a reserve fund based on bond covenants. At June 30, 2014 the district had \$7,145,414 for the 2011 Series A & B bonds payable which is the reserve requirement for both 2011 series issues and \$5,348,771 for the 2013 Series.

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Source of Repayment

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

Deferred Loss on Debt Defeasance

The balance for deferred loss on debt defeasance as of June 30, 2014 is as follows:

<u>Issue</u>	<u>Balance at June 30, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2014</u>
2004A Series	1,643,509	-	(348,990)	1,294,519
2007 Series	3,009,664	-	(306,857)	2,702,807
2009B Series	407,271	-	(168,514)	238,757
2011A Series	522,705	-	(57,712)	464,993
Total	\$ 5,583,149	\$ -	\$ (882,073)	\$ 4,701,076

Notes Payable:

The District has three outstanding loans with the State Water Resources Control Board. The outstanding balance as of June 30, 2014 is as follows:

	<u>Balance at June 30, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2014</u>	<u>Amount Due Within One Year</u>	<u>Amount Due Beyond One Year</u>
2003 Loan	\$ 4,290,853	\$ -	\$ (379,495)	\$ 3,911,358	\$ 389,741	\$ 3,521,617
2003 Loan	6,536,510	-	(369,855)	6,166,655	378,361	5,788,294
2008 Loan	323,837	-	(17,928)	305,909	18,394	287,515
Total	\$11,151,200	\$ -	\$ (767,278)	\$ 10,383,922	\$ 786,496	\$ 9,597,426

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100% of includable compensation, as defined until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

In 2001, the District adopted a deferred compensation plan organized under section 401(a) of the Internal Revenue Code. The 401(a) plan, in conjunction with the 457 Plan allows employees to shelter matching contributions by the District from income taxes. All employees are eligible to participate up to the maximum employer contribution of \$1,740 per year. Withdrawals can be made upon retirement, disability or termination, but not later than 70 ½. For the year ended June 30, 2014, the employer contributions totaled \$180,284. The maximum contribution rate is included in the MOU and can be amended in the MOU and approved by the Board of Directors.

In 2003, the district adopted a deferred compensation plan organized under section 414(h) of the Internal Revenue Code. Contract “at will” employee(s) may contribute one-time bonus money stipulated by the Board of Directors. Regular earned compensation may not be deferred into the 414(h) account and Contract “at will” employees will not have the option of receiving such amount directly instead of having the District contribute it to the Plan. The annual addition that may be contributed or allocated to the participant’s individual account under the plan for 2014 shall not exceed \$49,000, as adjusted for increases allowed in the Code.

12. Joint Powers Agreement

San Juan Basin Authority

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

Santa Margarita Water District
South Coast Water District
Moulton Niguel Water District
City of San Juan Capistrano

The general purpose of the SJBA is to acquire, construct, use, operate and maintain facilities to supply water for irrigation, domestic, and municipal purposes, provide for the development and conservation of water supplies, and to coordinate regional management of the San Juan Creek basin and its tributary waters.

During the year ended June 30, 2014 the District paid \$0 to the SJBA for various costs of which the majority related to the development and maintenance of the facilities. In Fiscal Year 2014 the SJBA choose to use reserves to pay for their operating costs. Payments to SJBA are charged by the District to maintenance and operations expense. Copies of SJBA annual financial statements can be obtained at the District: San Juan Basin Authority c/o Santa Margarita Water District, P.O. Box 7005, Mission Viejo, California 92690-7005.

Santa Margarita/Dana Point Authority

The Santa Margarita/Dana Point Authority (SMDP) was created on August 25, 1987 between the Santa Margarita Water district and the Dana Point Sanitary District for the purpose of selling bonds to finance the acquisition of capacity in the JayB. Latham treatment plant. In addition, SMDP issued revenue bonds, Series A and Series B dated July 15, 1994, and Series 1997A dated October 1, 1997 for the purpose of acquiring the 1994 and 1997 refunding Bonds, respectively, issued by the District

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(Note 6). During 1999, the Dana Point Sanitary District was dissolved and the South Coast Water District became the successor agency.

Each member is responsible for the debt service of Authority debt to the extent that the member benefits from the use of the debt proceeds. Authority issuances for which the district is responsible for debt service have been accounted for as a bond payable liability in the financial statements. During the year ended June 30, 2014 the District paid bond principal payments totaling \$14,550,000 and interest payments totaling \$7,496,925 to SMDP to service all of the District's general obligation debt.

South Orange County Wastewater Authority

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

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

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

During the year ended June 30, 2014 the District paid \$2,417,842 to SOCWA for various costs, the majority of which related to the plant operating costs. Copies of SOCWA's annual financial statements can be obtained by contacting SOCWA at 34156 Del Obispo Street, Dana Point, CA 92629.

13. Operating Lease

Allen-McCulloch Pipeline/Santiago Aqueduct Parallel System

The District is a participant in subleases with the Municipal Water District of Orange County (MWDOC) in a project known as the Allen-McCulloch Pipeline/Santiago Aqueduct Parallel System. Under the terms of the subleases, the District makes annual lease payments equal to an allocated portion of the annual debt service requirements of the nonprofit corporation bonds sold by Municipal Water District of Orange County Public Facilities Corporation to finance the project. In fiscal year 1995 MWDOC sold the pipeline to the Metropolitan Water District (MWD). Under the terms of the sale agreement, MWD assumed a portion of the debt service obligations of MWDOC related to the nonprofit corporation bonds. The future payment commitments of the District were reduced by the allocated portion of the debt service obligations assumed by MWD. The 1996 Refunding Certificates

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due to this litigation, the District would continue its current practice of purchasing water from Metropolitan Water District of Southern California. The amount of possible future litigation costs associated with this matter are not known. Cadiz, Inc. has agreed to indemnify the District for such costs.

In July 2012, the board approved certain resolutions relating to these agreements. Resolution No. 2012-07-02 states the District certification of the Final EIR for the Cadiz Project. Resolution No. 2012-07-03 adopts the CEQA findings, a mitigation monitoring and reporting program, a statement of overriding considerations, approved the water purchases and sale agreements, and approved the updated groundwater management, monitoring and mitigation plan with regard to phase I of the Cadiz Valley Water Conservation, Recovery and Storage Project.

17. Subsequent Events

2014A Refunding General Obligation Bonds

In July 2014 the District issued \$65,340,000 Refunding General Obligation Bonds Series 2014A with interest rates from 3.00% to 5.00% that matures annually on August 1 from 2015 to 2029. The proceeds of the bonds were used to refund the 2003A and 2004A (Improvement District Nos. 2, 2A, 3, 3A, 4, 4A & 4B) of the Santa Margarita Water District/Dana Point Authority. The source of repayment of these bonds is special assessment tax revenues for debt service.

2014B Refunding General Obligation Bonds

In August 2014 the District issued \$32,810,000 of Special Tax Refunding Bonds series 2014B with interest rates from 2.00% to 5.00% that matures annually on September 1 from 2015 to 2033. The proceeds of the bonds were used to refund the 2011A and 2011B Community Facilities District 99-1 (Talega) of the Santa Margarita Water District Special Tax Refunding Bonds. The source of repayment of these bonds is special assessment tax revenues for debt service.