

**Santiago Aqueduct Commission**

Financial Statements

Fiscal Year Ended June 30, 2021

# **Santiago Aqueduct Commission**

## Financial Statements

Fiscal Year Ended June 30, 2021

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## **Independent Auditor's Report**

Board of Directors  
Santiago Aqueduct Commission  
Irvine, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Santiago Aqueduct Commission (the "Commission"), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements.

### ***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.

### ***Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditors' 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 respective financial position of the Commission as of June 30, 2021, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Report on Summarized Comparative Information**

We have previously audited Santiago Aqueduct Commission's financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated November 17, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020 is consistent, in all material respects, with the audited financial statements from which it has been derived.

## **Other Matters**

### *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, 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.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2021 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 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.

*Davis Farr LLP*

Irvine, California  
November 3, 2021

## 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, 2021. 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 \$425,357 (net position), representing \$189,465 investment in capital assets and \$235,892 in unrestricted for water services. This was a decrease of \$34,430 or 7.5 percent from the prior fiscal year net position of \$459,787.
- Total assets were \$505,358, an increase of \$41,560 or 9.0 percent from the prior fiscal year. The increase was due primarily to \$146,747 in capital expenditures for the Baker Pipeline capital project during the current fiscal year. This was partially offset by a decrease in cash and investments of \$103,780. SAC's Board adopted resolutions authorizing the use of existing cash to pay for current fiscal year maintenance related charges of \$52,458 excluding fire damage costs to the SAC pipeline in the Silverado Canyon which was reimbursed from SAC's insurer and capital costs of \$132,599 to pay for the current year costs associated with the Baker Pipeline capital project. This was partially offset by \$75,740 insurance claim reimbursement.
- Current and total liabilities were \$80,001, an increase of \$75,990 or 1,894.5 percent from the prior fiscal year. The increase was due primarily to \$62,572 for repair costs related to the fire damage associated with the SAC pipeline in Silverado Canyon and \$14,148 for capital expenditures for the Baker Pipeline capital project.
- Total revenues increased \$68,664 or 161.6 percent from \$42,480 in the prior fiscal year to \$111,144 in the current fiscal year. The increase was due primarily to a \$75,740 insurance claim reimbursement for fire damage to the SAC pipeline in the Silverado Canyon.
- Total operating expenses were \$145,574, an increase of \$47,968 or 49.1 percent from the prior fiscal year. The increase was due primarily to labor, general and administrative, and repair costs incurred relating to the fire damage of the SAC pipeline in the Silverado Canyon.

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, 2021 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: net investment in capital assets and unrestricted 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 of its costs through operating and non-operating revenues.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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

**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, 2021. 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**

	2021	2020	Increase/(Decrease)	
			Amount	Percentage
<b>Assets</b>				
Current assets	\$ 315,893	\$ 418,076	\$ (102,183)	-24.4%
Noncurrent assets	189,465	45,722	143,743	314.4%
Total assets	505,358	463,798	41,560	9.0%
<b>Liabilities</b>				
Current liabilities	80,001	4,011	75,990	1894.5%
Total liabilities	80,001	4,011	75,990	1894.5%
<b>Net position</b>				
Investment in capital assets	189,465	45,722	143,743	314.4%
Unrestricted for water services	235,892	414,065	(178,173)	-43.0%
Total net position	\$ 425,357	\$ 459,787	\$ (34,430)	-7.5%

As shown in Table 1, SAC's total assets increased \$41,560 or 9.0 percent during the current fiscal year. Total current assets were \$315,893, a decrease of \$102,183 or 24.4 percent from the prior fiscal year. Cash and investments decreased \$103,780 or 25.3 percent from \$410,347 in the prior fiscal year to \$306,567 in the current fiscal year. This was primarily due to SAC's Board adopted resolution authorizing the use of existing cash to pay for maintenance related charges for the current fiscal year. In addition, during the current fiscal year, the Board approved the use of existing cash to pay for the costs incurred for the Baker Pipeline capital project. Cash payment for maintenance expenses totaled \$52,458 and capital pipeline costs totaled \$132,599 in the current year. This was partially offset by \$75,740 insurance claim reimbursement. Accounts receivable increased \$2,455 or 36.2 percent from \$6,778 in the prior fiscal year to \$9,233 in the current fiscal year. The increase in account receivables is from member agencies and due to an increase in water deliveries of 2,081.4 acre-feet (AF) from 6,162.4 AF at a \$1.10 operating surcharge rate in the prior fiscal year to 8,243.8 AF at a \$1.12 operating surcharge rate in the current year.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Noncurrent assets were \$189,465, an increase of \$143,743 or 314.4 percent from the prior fiscal year. The increase was due to \$146,747 of capital expenditures for the Baker Pipeline capital project. This is offset by \$3,004 current fiscal year depreciation of capital assets.

SAC's total liabilities were \$80,001, an increase of \$75,990 or 1,894.5 percent from \$4,011 in the prior fiscal year. The increase was due primarily to \$62,572 for repair costs incurred relating to the fire damage of the SAC pipeline in Silverado Canyon and \$14,148 for capital expenditures of the Baker Pipeline capital project. In addition, accounts payable included \$3,281 for operating and maintenance charges.

Net position at end of the current fiscal year is \$425,357 representing the excess of total assets over total liabilities. Net position decreased \$34,430 or 7.5 percent from \$459,787 in the prior fiscal year to \$425,357 in the current fiscal year. Net position consists of investment in capital assets of \$189,465 or 44.5 percent and an unrestricted net position for water services of \$235,892 or 55.5 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**

	2021	2020	Increase/(Decrease)	
			Amount	Percentage
<b>Operating revenues</b>				
Water surcharge	\$ 35,068	\$ 31,672	\$ 3,396	10.7%
Other income	176	4,225	(4,049)	-95.8%
Total operating revenues	35,244	35,897	(653)	-1.8%
<b>Non-operating revenues</b>	75,900	6,583	69,317	1053.0%
Total revenues	111,144	42,480	68,664	161.6%
<b>Operating expenses</b>				
Contract labor	29,010	6,789	22,221	327.3%
Equipment usage	370	222	148	66.7%
Utilities	2,447	2,237	210	9.4%
Landscape	9,540	7,650	1,890	24.7%
Cathodic protection monitoring and maintenance	60,456	38,269	22,187	58.0%
Telemetry alarm	2,095	2,083	12	0.6%
General and administrative	38,652	37,352	1,300	3.5%
Depreciation expense	3,004	3,004	-	0.0%
Total operating expenses	145,574	97,606	47,968	49.1%
Changes in net position	(34,430)	(55,126)	20,696	-37.5%
Beginning net Position	459,787	514,913	(55,126)	-10.7%
<b>Ending net position</b>	<b>\$ 425,357</b>	<b>\$ 459,787</b>	<b>\$ (34,430)</b>	<b>-7.5%</b>

### **Revenues:**

As shown in Table 2, SAC's total revenues were \$111,144, an increase of \$68,664 or 161.6 percent from the prior fiscal year. SAC's operating revenues decreased \$653 or 1.8 percent. The decrease was due primarily to a \$4,225 refund from County of Orange in the fiscal year ended June 30, 2020. The decrease was partially offset by an increase of water surcharge of \$3,396 or 10.7 percent from the prior year due to a higher surcharge rate and higher water deliveries. The surcharge rate increased from \$1.10 per acre

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

foot in the prior fiscal year to \$1.12 per acre foot in the current fiscal year. Water deliveries increased from 28,793.2 acre feet in the prior fiscal year to 31,310.6 acre feet in the current fiscal year.

SAC's non-operating revenues increased \$69,317 or 1053.0 percent from the prior fiscal year. The increase was due primarily to a \$75,740 insurance claim reimbursement from SAC's insurer for fire damage of the SAC pipeline in Silverado Canyon. The increase was partially offset by a decrease of \$4,141 in interest income due to lower interest rates and a decrease of \$2,282 in changes in fair value of LAIF investments.

### **Expenses:**

As shown in Table 2, SAC's operating expenses increased \$47,968 or 49.1 percent from \$97,606 in the prior fiscal year to \$145,574 in the current fiscal year. Contract labor and general and administrative expenses increased \$23,521 and contributed 46.5 percent of the total current fiscal year's operating expenses. Cathodic protection related expenses increased \$22,187 and contributed 41.5 percent of the total operating expenses. Landscape maintenance increased \$1,890 and contributed 6.6 percent of the total operating expenses. Total other expenses increased \$370 and contributed 3.4 percent of the total operating expenses. Depreciation expense contributed 2.0 percent of the total operating expenses. Contract labor expenses increased primarily due to the fire damage of the SAC pipeline in the Silverado Canyon. Cathodic protection related expenses increased primarily due to the fire damage of the SAC pipeline in the Silverado Canyon.

### **Capital Assets:**

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

**Table 3 - Capital Assets, Net of Depreciation**

	2021	2020	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%
Less: accumulated depreciation	(128,222)	(125,218)	(3,004)	2.4%
Construction in progress	146,747	-	146,747	100.0%
<b>Total</b>	<b>\$ 189,465</b>	<b>\$ 45,722</b>	<b>\$ 143,743</b>	<b>314.4%</b>

Capital assets, net of depreciation increased \$143,743 or 314.4 percent in the current fiscal year. Construction in Progress added \$146,747 to capital expenditures for the Baker Pipeline capital project during the current fiscal year. Accumulated depreciation increased by \$3,004 for depreciation expense in the current fiscal year. 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, 2021  
(with comparative data as of June 30, 2020)

	2021	2020
<b>ASSETS</b>		
Current assets:		
Cash and investments (note 2)	\$ 306,567	\$ 410,347
Receivables:		
Accounts receivable	9,233	6,778
Interest receivable	93	951
Total receivables	9,326	7,729
Total current assets	315,893	418,076
Noncurrent assets:		
Capital assets, net of accumulated depreciation (note 3)	42,718	45,722
Capital assets, not being depreciated (note 3)	146,747	-
Total noncurrent assets	189,465	45,722
<b>TOTAL ASSETS</b>	505,358	463,798
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	80,001	4,011
<b>TOTAL LIABILITIES</b>	80,001	4,011
<b>NET POSITION</b>		
Investment in capital assets	189,465	45,722
Unrestricted for water services	235,892	414,065
<b>TOTAL NET POSITION</b>	\$ 425,357	\$ 459,787

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, 2021

(with comparative data for the Fiscal Year Ended June 30, 2020)

	2021	2020
<b>OPERATING REVENUES</b>		
Water surcharge	\$ 35,068	\$ 31,672
Other income	176	4,225
Total operating revenues	35,244	35,897
<b>OPERATING EXPENSES</b>		
Contract labor	29,010	6,789
Equipment usage	370	222
Utilities	2,447	2,237
Landscape	9,540	7,650
Cathodic protection monitoring and maintenance	60,456	38,269
Telemetry alarm	2,095	2,083
General and administrative:		
Audit	5,000	5,100
Insurance	6,397	7,148
Legal	3,851	2,816
Administration management	22,200	21,600
Other	1,204	688
Depreciation	3,004	3,004
Total operating expenses	145,574	97,606
Operating income (loss)	(110,330)	(61,709)
<b>NONOPERATING REVENUES</b>		
Interest income	1,529	5,670
Increase (decrease) in fair value of investments	(1,369)	913
Other income	75,740	-
Total nonoperating revenues	75,900	6,583
Increase (decrease) in net position	(34,430)	(55,126)
<b>NET POSITION AT BEGINNING OF YEAR</b>	459,787	514,913
<b>NET POSITION AT END OF YEAR</b>	\$ 425,357	\$ 459,787

See accompanying notes to the basic financial statements.

**Santiago Aqueduct Commission**  
Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2021  
(with comparative data for the Fiscal Year Ended June 30, 2020)

	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from member agencies and others	\$ 32,789	\$ 43,271
Cash paid to suppliers of goods and services	(80,728)	(136,059)
Net cash provided by (used for) operating activities	(47,939)	(92,788)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Insurance reimbursement	75,740	-
Net cash provided by (used for) noncapital financing activities	75,740	-
<b>CASH FLOWS FROM CAPITAL ACTIVITIES</b>		
Construction of capital assets	(132,599)	-
Net cash provided by (used for) capital activities	(132,599)	-
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	1,018	7,391
Net cash provided by investing activities	1,018	7,391
Net increase (decrease) in cash and cash equivalents	(103,780)	(85,397)
Cash and cash equivalents at beginning of year	410,347	495,744
Cash and cash equivalents at end of year	\$ 306,567	\$ 410,347
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>		
Operating income (loss)	\$ (110,330)	\$ (61,709)
Depreciation	3,004	3,004
(Increase) decrease in accounts receivable	(2,455)	7,374
Increase (decrease) in accounts payable	61,842	(41,457)
Net cash provided by (used for) operating activities	\$ (47,939)	\$ (92,788)
<b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES</b>		
Fair value of investments adjustment	\$ (1,369)	\$ 913

See accompanying notes to the basic financial statements.

# Santiago Aqueduct Commission

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2021

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## (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, 2021

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## (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 receivables are 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

### 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, 2021

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## (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, 2021 consist of the following:

Deposits with financial institution	\$ 122,354
Local Agency Investment Fund	<u>184,213</u>
Total cash and investments	<u><u>\$ 306,567</u></u>

## Santiago Aqueduct Commission

Notes to the Basic Financial Statements, Continued

For the Fiscal Year Ended June 30, 2021

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### (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 deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The 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 an 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, 2021

### (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, 2021 is as follows:

	Balance at June 30, 2020	Additions	Deletions	Balance at June 30, 2021
Capital assets, being depreciated:				
Meters	\$ 50,788	\$ -	\$ -	\$ 50,788
Bypass valve	63,609	-	-	63,609
Vault covers	56,543	-	-	56,543
Sub-total	<u>170,940</u>	<u>-</u>	<u>-</u>	<u>170,940</u>
Less accumulated depreciation:				
Meters	(50,788)	-	-	(50,788)
Bypass valve	(39,757)	(1,591)	-	(41,348)
Vault covers	(34,673)	(1,413)	-	(36,086)
Sub-total	<u>(125,218)</u>	<u>(3,004)</u>	<u>-</u>	<u>(128,222)</u>
Total depreciable capital assets, net	45,722	(3,004)	-	42,718
Capital assets, non-depreciable:				
Construction in progress	-	146,747	-	146,747
Total capital assets, net	<u>\$ 45,722</u>	<u>\$ 143,743</u>	<u>\$ -</u>	<u>\$ 189,465</u>



## **Santiago Aqueduct Commission**

Notes to the Basic Financial Statements, continued  
For the Fiscal Year Ended June 30, 2021

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### **(3) Capital Assets (continued)**

Construction in progress is a capital project for designing and constructing a section of the Baker Pipeline. The current section of the Baker Pipeline is exposed through Santiago Creek in Irvine Regional Park (Baker Pipeline capital project). The Baker Pipeline was constructed in 1961 and initially was designed with approximately six feet of cover across Santiago Creek. Since that time, the creek has widened by approximately 50 feet and scoured more than seven feet in depth, which has resulted in the exposure of approximately 35 linear feet of the upper portion of the pipeline. To address the existing pipeline exposure and to minimize the potential for future exposure of additional portions of the pipeline, The Baker Pipeline capital project will lower the depth of the Baker Pipeline by 10 feet along its current alignment for approximately 300 feet across the width of Santiago Creek. During the current fiscal year, the Baker Pipeline capital project incurred \$146,747 primarily for the design phase of the project. The Baker Pipeline capital project is expected to be completed during the fiscal year ending June 30, 2022.