

Santiago Aqueduct Commission

Financial Statements

Fiscal Year Ended June 30, 2020

Santiago Aqueduct Commission

Financial Statements

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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, 2020, and the related notes to the financial statements, which collectively comprise the Commission'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.

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, 2020, 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 13, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 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 17, 2020 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 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 17, 2020

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, 2020. 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 \$459,787 (net position), representing \$45,722 investment in capital assets and \$414,065 in unrestricted for water services. This was a decrease of \$55,126 or 10.7 percent from the prior fiscal year net position of \$514,913.
- Total current assets were \$418,076, a decrease of \$93,579 or 18.3 percent from the prior fiscal year. Cash and investments decreased by \$85,397. This was primarily due to SAC's Board adopted resolution in March 2019, authorizing the use of existing cash to pay for maintenance charges for the current fiscal year. In the current fiscal year, SAC did not collect any fees from its member agencies to pay current maintenance expenses.
- Total noncurrent assets were \$45,722, a decrease of \$3,004 or 6.2 percent from the prior fiscal year, representing current year depreciation.
- Total liabilities were \$4,011, a decrease of \$41,457 or 91.2 percent from the prior fiscal year. The decrease was due primarily to landscaping and cathodic protection monitoring invoices which were outstanding at the prior year end, partially offset by an outstanding invoice for operations and maintenance charges due to a member agency at the current fiscal year-end.
- Total revenues decreased \$93,164 or 68.7 percent from \$135,644 in the prior fiscal year to \$42,480 in the current fiscal year. This was due primarily to SAC's Board adopted resolution in March 2019, authorizing the use of existing cash to pay for maintenance charges for the current fiscal year. Therefore, SAC did not charge any maintenance fees to member agencies in the current fiscal year.
- Total operating expenses were \$97,606, an increase of \$561 or 0.6 percent from the prior fiscal year. The increase was due primarily to higher cathodic protection monitoring and maintenance expenses partially offset by lower contract labor.

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, 2020 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.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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

Financial Analysis of SAC:

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

Financial Position Summary:

The Statement of Net Position reflects SAC's financial position as of June 30, 2020. 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

	2020	2019	Increase/(Decrease)	
			Amount	Percentage
Assets				
Current assets	\$ 418,076	\$ 511,655	\$ (93,579)	-18.3%
Noncurrent assets	45,722	48,726	(3,004)	-6.2%
Total assets	463,798	560,381	(96,583)	-17.2%
Liabilities				
Current liabilities	4,011	45,468	(41,457)	-91.2%
Total liabilities	4,011	45,468	(41,457)	-91.2%
Net position				
Investment in capital assets	45,722	48,726	(3,004)	-6.2%
Unrestricted for water services	414,065	466,187	(52,122)	-11.2%
Total net position	\$ 459,787	\$ 514,913	\$ (55,126)	-10.7%

As shown in Table 1, SAC's total assets decreased \$96,583 or 17.2 percent during the current fiscal year. Cash and investments decreased \$85,397 or 17.2 percent from \$495,744 in the prior fiscal year to \$410,347 in the current fiscal year. The decrease of cash and investments was due primarily to SAC's Board adopted resolution in March 2019, authorizing the use of existing cash to pay for maintenance charges for the current fiscal year. Accounts receivable decreased \$7,374 or 52.1 percent from \$14,152 in the prior fiscal year to \$6,778 in the current fiscal year. The decrease in account receivables was primarily attributable to a \$6,245 operating surcharge due at the prior fiscal year end received in the current year and a \$1,129 decrease in the fourth quarter operating surcharge revenues billed but not yet collected at the current fiscal year end.

SAC's total liabilities decreased \$41,457 or 91.2 percent from \$45,468 in the prior fiscal year to \$4,011 in the current fiscal year. The decrease was due primarily to landscape and cathodic protection expenses of \$34,447 and \$9,401, respectively, not paid by the prior fiscal year end, partially offset by a \$2,505 increase of operations and maintenance charges outstanding due to a member agency at the current fiscal year end.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Net position at end of the current fiscal year is \$459,787 representing the excess of total assets over total liabilities. Net position decreased \$55,126 or 10.7 percent from \$514,913 in the prior fiscal year to \$459,787 in the current fiscal year. Net position consists of investment in capital assets of \$45,722 or 9.9 percent and an unrestricted net position for water services of \$414,065 or 90.1 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

	2020	2019	Increase/(Decrease)	
			Amount	Percentage
Operating revenues				
Water surcharge	\$ 31,672	\$ 34,355	\$ (2,683)	-7.8%
Member charges	-	93,725	(93,725)	-100.0%
Other income	4,225	-	4,225	100.0%
Total operating revenues	35,897	128,080	(92,183)	-72.0%
Non-operating revenues				
Total revenues	6,583	7,564	(981)	-13.0%
Operating expenses				
Contract labor	6,789	12,325	(5,536)	-44.9%
Equipment usage	222	287	(65)	-22.6%
Utilities	2,237	2,934	(697)	-23.8%
Landscape	7,650	8,190	(540)	-6.6%
Cathodic protection monitoring and maintenance	38,269	30,251	8,018	26.5%
Telemetry alarm	2,083	2,083	-	0.0%
General and administrative	37,352	37,482	(130)	-0.3%
Depreciation expense	3,004	3,493	(489)	-14.0%
Total operating expenses	97,606	97,045	561	0.6%
Changes in net position	(55,126)	38,599	(93,725)	-242.8%
Beginning net Position	514,913	504,516	10,397	2.1%
Prior period adjustments	-	(28,202)	28,202	-100.0%
Ending net position	\$ 459,787	\$ 514,913	\$ (55,126)	-10.7%

Revenues:

As shown in Table 2, SAC's operating revenues decreased \$92,183 or 72.0 percent. This is due primarily to SAC's Board adopted resolution in March 2019 authorizing the use of existing cash to pay for maintenance charges for the current fiscal year. SAC applied existing cash to pay for the member charges in the current fiscal year. The water surcharge revenue contributed 88.2 percent of total operating revenues. The water surcharge decreased by \$2,683 from the prior year due to a lower surcharge rate of \$1.10 per acre foot on 28,156 acre feet of sales in the current fiscal year compared to \$1.12 per acre

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

feet on 31,674 acre feet of sales in the prior fiscal year. The decrease was partially offset by other operating income representing a refund of \$4,225 from the County of Orange for the prior three years' property taxes payments. SAC is exempt from property taxes as a government agency.

Expenses:

As shown in Table 2, SAC's operating expenses increased \$561 or 0.6 percent from \$97,045 in the prior fiscal year to \$97,606 in the current fiscal year. Contract labor and general and administrative expenses decreased \$5,666 and contributed 45.2 percent of the total FY 2020 operating expenses. Cathodic protection related expenses increased \$8,018 and contributed 39.2 percent of the total operating expenses. Landscape maintenance decreased \$540 and contributed 7.8 percent of the total operating expenses. Total other expenses decreased \$762 and contributed 4.7 percent of the total operating expenses. Depreciation expense decreased \$489 due to a fully depreciated asset in the prior year and contributed 3.1 percent of the total operating expenses.

Capital Assets:

SAC's investment in capital assets, net of depreciation as of June 30 were as follows:

Table 3 - Capital Assets, Net of Depreciation

	2020	2019	Increase/(Decrease)	
			Amount	Percentage
Bypass valve	\$ 23,852	\$ 25,443	\$ (1,591)	-6.3%
Vault covers	21,870	23,283	(1,413)	-6.1%
Total	<u>\$ 45,722</u>	<u>\$ 48,726</u>	<u>\$ (3,004)</u>	<u>-6.2%</u>

Capital assets, net of depreciation decreased \$3,004 or 6.2 percent in the current fiscal year primarily due to current fiscal year's depreciation expense. 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 design to provide member agencies with a general review of SAC's finances to show SAC's accountability for the money it receives. 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, 2020
(with comparative data as of June 30, 2019)

	2020	2019
ASSETS		
Current assets:		
Cash and investments (note 2)	\$ 410,347	\$ 495,744
Receivables:		
Accounts receivable	6,778	14,152
Interest receivable	951	1,759
Total receivables	7,729	15,911
Total current assets	418,076	511,655
Noncurrent assets:		
Capital assets, net of depreciation (note 3)	45,722	48,726
Total noncurrent assets, net	45,722	48,726
TOTAL ASSETS	463,798	560,381
 LIABILITIES		
Current liabilities:		
Account payable	4,011	45,468
TOTAL LIABILITIES	4,011	45,468
 NET POSITION		
Investment in capital assets	45,722	48,726
Unrestricted for water services	414,065	466,187
TOTAL NET POSITION	\$ 459,787	\$ 514,913

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, 2020

(with comparative data for the Fiscal Year Ended June 30, 2019)

	2020	2019
OPERATING REVENUES		
Water surcharge	\$ 31,672	\$ 34,355
Member charges	-	93,725
Other income	4,225	-
Total operating revenues	35,897	128,080
OPERATING EXPENSES		
Contract labor	6,789	12,325
Equipment usage	222	287
Utilities	2,237	2,934
Landscape	7,650	8,190
Cathodic protection monitoring and maintenance	38,269	30,251
Telemetry alarm	2,083	2,083
General and administrative:		
Audit	5,100	5,000
Insurance	7,148	7,104
Legal	2,816	2,721
Property taxes	-	1,409
Administration management	21,600	20,500
Other	688	748
Depreciation	3,004	3,493
Total operating expenses	97,606	97,045
Operating income (loss)	(61,709)	31,035
NONOPERATING REVENUES		
Interest income	5,670	6,589
Increase (decrease) in fair value of investments	913	975
Total nonoperating revenues	6,583	7,564
Increase (decrease) in net position	(55,126)	38,599
NET POSITION AT BEGINNING OF YEAR	514,913	504,516
Prior period adjustment	-	(28,202)
NET POSITION AT END OF YEAR	\$ 459,787	\$ 514,913

See accompanying notes to the basic financial statements.

Santiago Aqueduct Commission
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2020
(with comparative data for the Fiscal Year Ended June 30, 2019)

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from member agencies	\$ 43,271	\$ 131,820
Cash paid to suppliers of goods and services	(136,059)	(102,888)
Net cash provided by (used for) operating activities	(92,788)	28,932
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	7,391	7,083
Net cash provided by investing activities	7,391	7,083
Net increase (decrease) in cash and cash equivalents	(85,397)	36,015
Cash and cash equivalents at beginning of year	495,744	459,729
Cash and cash equivalents at end of year	\$ 410,347	\$ 495,744
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
Operating income (loss)	\$ (61,709)	\$ 31,035
Depreciation	3,004	3,493
(Increase) decrease in accounts receivable	7,374	3,740
Increase (decrease) in accounts payable	(41,457)	(9,336)
Net cash provided by (used for) operating activities	\$ (92,788)	\$ 28,932
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Fair value of investments adjustment	\$ 913	\$ 975

See accompanying notes to the basic financial statements.

Santiago Aqueduct Commission

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2020

(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, 2020

(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, 2020

(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, 2020 consist of the following:

Deposits with financial institution	\$ 127,152
Local Agency Investment Fund	<u>283,195</u>
Total cash and investments	<u><u>\$ 410,347</u></u>

Santiago Aqueduct Commission

Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2020

(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, 2020

(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, 2020 is as follows:

	Balance at <u>June 30, 2019</u>	<u>Additions</u>	<u>Deletions</u>	Balance at <u>June 30, 2020</u>
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	(38,166)	(1,591)	-	(39,757)
Vault covers	(33,260)	(1,413)	-	(34,673)
Sub-total	<u>(122,214)</u>	<u>(3,004)</u>	<u>-</u>	<u>(125,218)</u>
Total capital assets, net	<u>\$ 48,726</u>	<u>\$ (3,004)</u>	<u>\$ -</u>	<u>\$ 45,722</u>