South Orange County Wastewater Authority

Dana Point, California

Financial Statements and Independent Auditors' Report

For the Year Ended June 30, 2017

THE PUN GROUP
ACCOUNTANTS & ADVISORS

South Orange County Wastewater Authority

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THE PUN GROUP
ACCOUNTANTS & ADVISORS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of the South Orange County Wastewater Authority
Dana Point, California

Report on Financial Statements

We have audited the accompanying statement of net position of the South Orange County Wastewater Authority (the "Authority") as of June 30, 2017 and the related statement of revenues, expenses, and change in net position, and cash flows for the year ended June 30, 2017, 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority as of June 30, 2017, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Prior Period Adjustments – Capital Assets

As discussed in Note 10 to the basic financial statements, the Authority recorded prior period adjustments of $9,170,972 to correct capital assets balances as of July 1, 2016 based on the most recent inventory and valuation completed by the Authority. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of the Authority's Proportionate Share of the Net Pension Liability and Related Ratios, and Schedule of Contributions - Pensions, and Schedule of Funding Progress – Other Postemployment Benefits on pages 3 through 17, and 46 through 48 will 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The Other Information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Other Information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

The Pun Group, LLP

Santa Ana, California
December 26, 2017

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MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017

This section of the financial statements of the South Orange County Wastewater Authority (Authority) is management's overview of **"Key/Significant"** items included in the statements and analysis of the Authority's financial activities for the fiscal year ended June 30, 2017. The information here is to be considered in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

	Changes in Net Position Year Ended June 30							
	2017	2016	Capital Assets Review FY 2016	New Assets In Service FY2016	Total Change FY 2016	Restated FY 2016	Dollar Change +/(-)	Percentage Change +/(-)
Net Position	$130,862,189	$108,610,338	$9,289,165	($118,194)	$9,170,972	$117,781,310	$13,080,880	11.1%
Capital Assets:								
Capital Assets Not Depreciated:								
Construction-in-Progress	27,159,497	28,169,309		(8,129,001)	(8,129,001)	20,040,308	7,119,189	25.3%
Land	14,402,224	14,402,224				14,402,224		
Total Capital Assets Not Depreciated	**41,561,721**	**42,571,533**	**-**	**(8,129,001)**	**(8,129,001)**	**34,442,532**	**7,119,189**	20.7%
Depreciable Capital Assets:								
All Classes of Depreciable Capital Assets	280,203,940	215,383,339	52,534,804	8,133,474	60,668,278	276,051,617	4,152,323	1.5%
Accumulated Depreciation	(192,356,990)	(142,697,383)	(43,245,639)	(122,666)	(43,368,305)	(186,065,688)	(6,291,302)	3.4%
Depreciable Capital Assets Net Book Value	**87,846,950**	**72,685,956**	**9,289,165**	**8,010,808**	**17,299,973**	**89,985,929**	**(2,138,979)**	-2.4%
Total Capital Assets Net Book Value	**129,408,671**	**115,257,489**	**9,289,165**	**(118,193)**	**9,170,972**	**124,428,461**	**4,980,210**	**4.0%**
Liabilities:								
Retiree Health-ARC Liability	587,760	745,962				745,962	(158,202)	-21.2%
GASB 68-Net Pension Liability	11,549,944	9,054,535				9,054,535	2,495,409	27.6%
GASB 68-Deferred Outflows	(3,321,291)	(1,712,209)				(1,712,209)	(1,609,082)	94.0%
GASB 68-Deferred Inflows	542,096	1,315,151				1,315,151	(773,055)	-58.8%
Compensated Absences	653,282	684,767				684,767	(31,485)	-4.6%

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The Authority's Net Position increased $13.1 million or 11.1% primarily due to:

A Capital Assets Review, which included a physical inventory and valuation of all depreciable assets which added net book value of $9.3 million which includes:

(in millions)

Asset Class	Net Book Value Change
Infrastructure	$5.6
Machinery & Equipment	5.6
Vehicles	0.1
Computer Software	0.0
Computer Hardware	(0.1)
Building Improvements	(0.2)
Buildings	(1.6)
Total	**$9.3**

The above additions were recorded as a prior period adjustment, a restatement of FY 2015-16 reported assets.

In addition to the Capital Assets Review, the Authority added a record amount of New Assets, $12.3 million, as follows:

(in millions)

Asset Class	Amount
Machinery & Equipment	$9.4
Building Improvements	2.0
Computer Hardware	0.5
Infrastructure	0.2
Vehicles	0.1
Computer Software	0.1
Furniture & Fixtures	0.0
Total	**$12.3**

The above additions were recorded as follows:

- $8.1 million was recorded as a prior period adjustment in FY 2015-16 restated balance; this was recommended by the Capital Assets review consultants.
- $4.1 million was recorded as acquisitions in FY 2016-17.

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Construction-in-Progress increased $7.1 million primarily due to work at:

- Coastal Treatment Plant, PC 15, $1.3 million
- Regional Treatment Plant, PC 17, $4.3 million
- North Coast Interceptor (NCI) PC 23, $1.8 million

There were offsets to the above, $.3 million decrease at JB Latham plant due to near completion of the Aeration/Co-Generation project and various other changes in the remaining project committees.

Coastal facility projects include significant spending on:

- Small Capital, $418 thousand, including:
  - SCADA System, $82 thousand
  - Tow Motor, $42 thousand
  - West Secondary Tanks, $40 thousand
  - Safety System, $29 thousand
- AWT Disinfection System Upgrade, $333 thousand
- Export Sludge System, $204 thousand
- CTP Facility Upgrade, $134 thousand
- Headworks Overflow Pipe, $107 thousand

Regional facility projects include significant spending on:

- Co-Gen System Retrofit, $1.8 million
- Switchgear Upgrade, $1.7 million
- Small capital, $378 thousand including:
  - SCADA System, $42 thousand
  - HRR Pipeline Relocation/By-Pass, $43 thousand
  - HRS Hot Water Line, $38 thousand
  - Safety System, $36 thousand
  - Storm Drain, $35 thousand
  - Business Server hardware, $34 thousand

- JB Latham construction-in-progress decreased by $283 thousand due to the record amount of capital assets placed in service, $3.3 million.

- Retiree Health required ARC liability decreased $158 thousand primarily due to prefunding of the liability via the PARS Trust Fund.

- GASB 68 Pension entries decreased Net Position by $113 thousand due to a net pension liability increase of $2.5 million offset by $2.4 million change in deferred outflows and inflows.

- Compensated Absences, Vacation and Sick Leave earned but not taken or paid out, decreased by $31 thousand primarily due to paid time off (PTO) usage.

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OVERVIEW OF THE FINANCIAL STATEMENTS

The Authority operates as a Joint Powers Authority and is accounted for as an Enterprise Fund, using the full accrual basis of accounting. As an enterprise fund, the Authority's basic financial statements are comprised of two components:

- Financial Statements
- Notes to the Financial Statements.

The report also contains other supplementary information about the Operations and Maintenance (O&M) budgets, in addition to the basic financial statements.

In accordance with GASB Statement No. 34, the Authority's financial statements include:

- Statement of Net Position
- Statement of Revenues, Expenses and Changes in Net Position
- Statement of Cash Flows
- Notes to the Financial Statements.

The statement of revenues, expenses, and changes in net position accounts for the current year's revenues and expenses. This statement reflects the overall activity of the Authority, related to normal operations of all facilities.

NET POSITION

To begin our analysis, a summary of the Authority's Statement of Net position is presented as Chart 1, Chart 2, Chart 3, Table 1, Table 2, Table 3, Table 4 and Table 5.

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The Authority's recorded investment in depreciable capital assets increased $9.3 million based on a capital assets review which included a physical inventory and valuation review. Total assets by type and capital assets class are as follows:

Table 1
SOCWA's Total Capital Assets FY 2016-17

	$ Amount	% Total
Infrastructure	48,412,433	37.4%
Machinery & Equipment	30,695,780	23.7%
Construction-in-Progress	27,159,497	21.0%
Land	14,402,224	11.1%
Building Improvements	4,016,833	3.1%
Buildings	3,650,045	2.8%
Computer Hardware	641,680	0.5%
Computer Software	68,194	0.1%
Vehicles	341,932	0.3%
Furniture and Fixtures	20,052	0.0%
Total Capital Assets	**129,408,671**	**100.0%**

The above assets include Net Book Value for depreciable capital assets.

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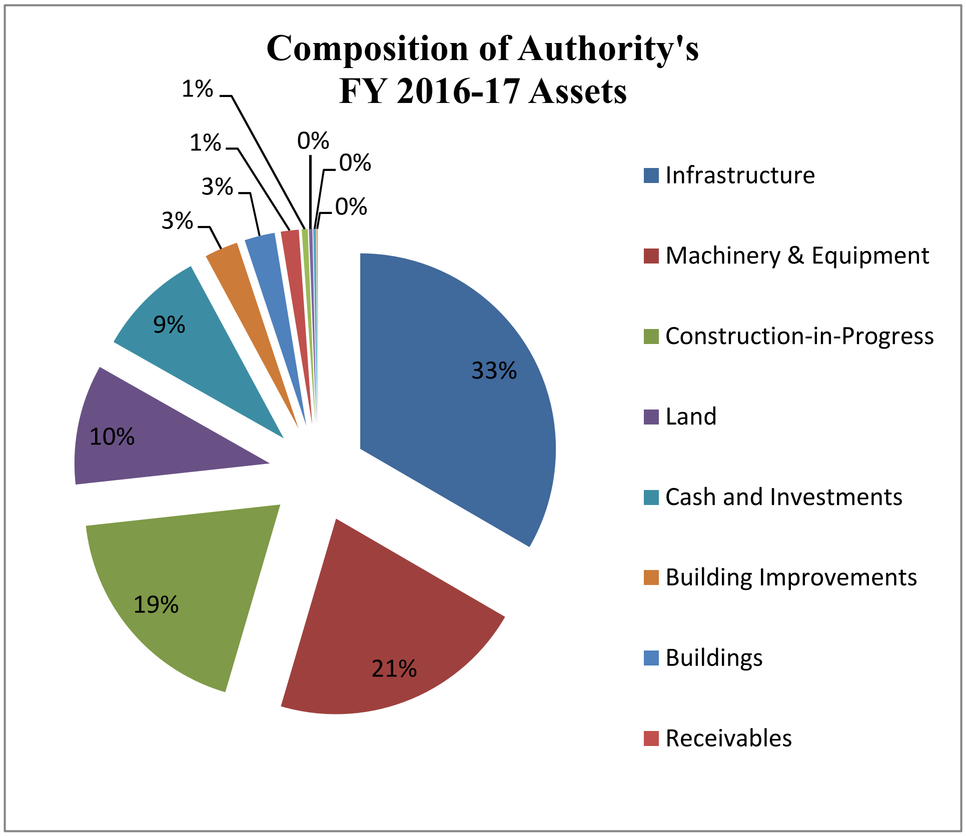
Chart 1



Over 90% of the Authority's assets are as follows:

Infrastructure	33.4%
Machinery & Equipment	21.2%
Construction-in-Progress	18.7%
Land	9.9%
Cash and Investments	8.9%
	92.1%

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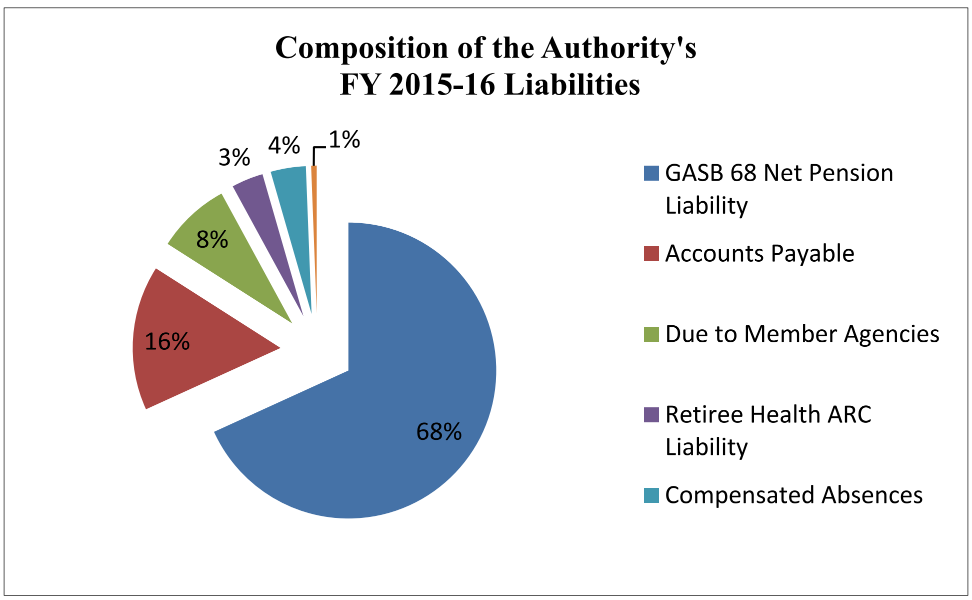
Table 2 SOCWA's Total Liabilities FY 2016-17		
	$ Amount	**% Total**
GASB 68 Net Pension Liability	$11,549,944	68.2%
Accounts Payable	2,682,688	15.8%
Due to Member Agencies	1,358,841	8.0%
Retiree Health ARC Liability	587,760	3.5%
Compensated Absences	653,282	3.9%
Accrued Payroll Liabilities	102,661	0.6%
Total Liabilities	**$16,935,176**	**100.0%**

Chart 2



The Net Pension Liability continues to account for the lion share, 68%, of the Authority's liabilities.

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Table 3
Condensed Statement of Net Position

	Fiscal Year Ending 6/30/2017	Fiscal Year Ending 6/30/2016	Capital Assets Review FY 2016	New Assets In Service FY 2016	Restated FY 2016	Dollar Change +/(-)	Percentage Change +/(-)
Current Assets	$15,609,499	$7,716,490			$7,716,490	$7,893,009	102.3%
Non-Current Assets:							
Capital Asserts not being depreciated	41,561,721	42,571,533		(8,129,001)	34,442,532	7,119,189	20.7%
Capital Assets net of accum. depreciation	87,846,950	72,685,956	9,289,165	8,010,808	89,985,929	(2,138,979)	-2.4%
Total Assets	**145,018,170**	**122,973,979**	**9,289,165**	**(118,193)**	**132,144,951**	**12,873,219**	**9.7%**
GASB 68-Deferred Outflows	3,321,291	1,712,209			1,712,209	1,609,082	94.0%
Current Liabilities	4,458,739	4,534,783			4,534,783	(76,044)	-1.7%
Non-Current Liabilities	12,476,437	10,225,917			10,225,917	2,250,520	22.0%
Total Liabilities	**16,935,176**	**14,760,700**			**14,760,700**	**2,174,476**	**14.7%**
GASB 68-Deferred Inflows	542,096	1,315,151			1,315,151	(773,055)	-58.8%
Net Position:							
Net Investment in Capital Asset	129,408,671	113,998,431	9,289,165	(118,193)	123,169,403	6,239,267	5.1%
Restricted for Project Committees	1,453,519	(5,388,093)			(5,388,093)	6,841,612	-127.0%
Total Net Position	**$130,862,189**	**$108,610,338**	**$9,289,165**	**($118,193)**	**$117,781,310**	**$13,080,879**	**11.1%**

The Authority has total assets of $145 million as of June 30, 2017. This represents an increase of $12.9 million or 9.7%% over FY 2015-16 restated total assets of $132 million at June 30, 2016.

The increase is primarily due to the Capital Assets Review, discussed previously, which added $9.3 million to Total Assets and the change in construction in progress discussed above.

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Construction-in-Progress increased $7.1 million primarily due to work at:

Coastal Treatment Plant, PC 15, $1.3 million
Regional Treatment Plant, PC 17, $4.3 million
North Coast Interceptor (NCI) PC 23, $1.8 million

Depreciable Capital Assets net of accumulated depreciation, decreased $2.1 million due to current year depreciation of $6.3 million which exceeded current year acquisitions of $4.2 million.

Current assets change is a timing difference.

Liabilities

The Authority has $16.9 million in liabilities as of June 30, 2017, an increase of $2.2 million or 14.7% from June 30, 2016 balance of $14.8 million.

The increase is primarily due to Net Pension Liability, $2.5 million increase or 27.6% over FY 2015-16 balance of $9.1 million.

Deferred Outflows and Deferred Inflows

GASB 68 Deferred Outflows and Inflows change was a positive $2.4 million impact on net position.

SOCWA
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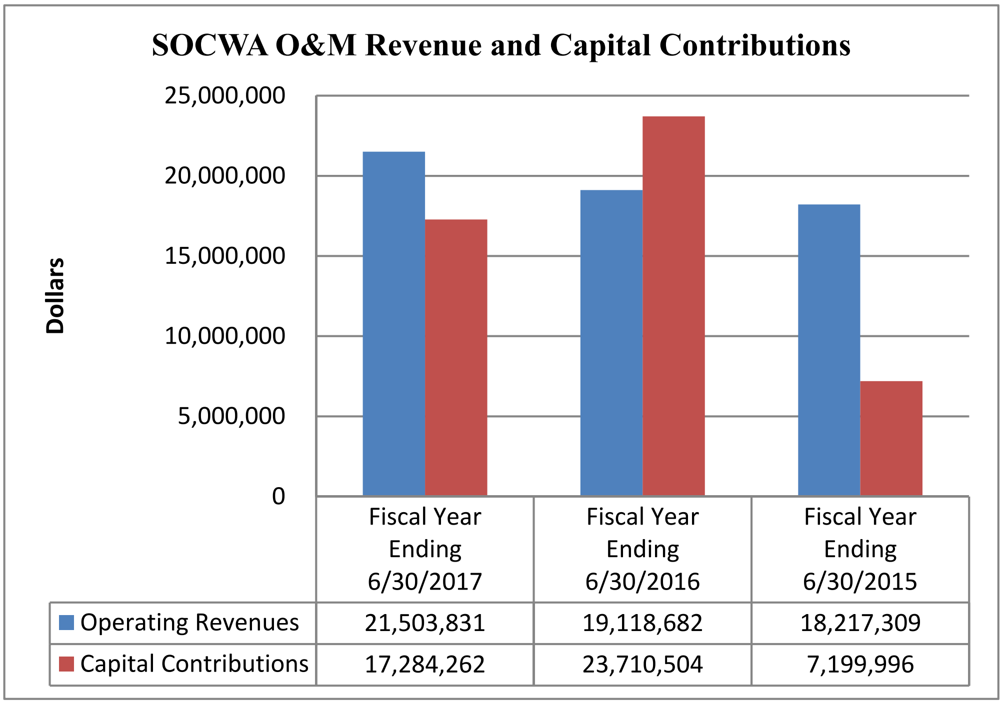
Chart 3

Statement of Revenues, Expenses and Changes in Net Position



	Fiscal Year Ending 6/30/2017	Fiscal Year Ending 6/30/2016	Fiscal Year Ending 6/30/2015
Operating Revenues	21,503,831	19,118,682	18,217,309
Capital Contributions	17,284,262	23,710,504	7,199,996

O&M Revenue requirements increased $2.4 million to $21.5 million over FY 2015-16 revenue of $19.1 million, a 12.5% change, primarily due to North Coast Interceptor (NCI), PC 23, work requirements, $2.3 million.

Capital Contributions declined in FY 2016-17, $6.4 million, due to near completion of the Aeration/Co-Generation project at JB Latham plant.

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Table 4
Condensed Statement of Revenues, Expenses and Changes in Net Position

	Fiscal Year Ending 6/30/2017	Fiscal Year Ending 6/30/2016	Dollar Change +/(-)	Percentage Change +/(-)
Operating Revenues	$21,503,831	$19,118,682	$2,385,149	12.5%
Operating Expenses	19,302,692	18,873,462	$429,230	2.3%
Depreciation Expense	6,291,302	5,846,601	$444,701	7.6%
Non-Operating Expenses/(Income)	113,220	1,563,903	($1,450,683)	
Total Expenses	**25,707,214**	**26,283,966**	**(576,752)**	**-2.2%**
Capital Contributions	17,284,262	23,710,504	($6,426,242)	-27.1%
Current Year Change in Net Position	**13,080,879**	**16,545,220**	**(3,464,341)**	-20.9%
Beginning Net Position (Restated)	117,781,310	92,065,118	25,716,192	27.9%
Add Current Year Change	13,080,879	25,716,192	(12,635,313)	-49.1%
Net Position before extraordinary items	130,862,189	117,781,310	13,080,879	11.1%
Ending Net Position	**130,862,189**	**117,781,310**	**13,080,879**	**11.1%**

While the Statement of Net Position shows the change in Financial Position, the Statement of Revenue, Expenses and Changes in Net Position provides answers as to the nature and source of these changes.

The Authority's Operating Revenue of $21.5 million increased $2.4 million or 12.5% primarily due to North Coast Interceptor work (NCI), PC 23, $2.3 million.

The Authority continue to follow Cost Control Measures implemented by the Management Team.

Some of the Cost Control Measurements are:

- hiring of less senior level personnel in all departments,
- combination of positions,
- implementation of 2% @ 62 pension plan tier
- creation of PARS Trust Fund to help contain OPEB increasing costs.

Capital Contributions decreased $6.4 million or 27.1% primarily due near completion of the JB Latham Plant Aeration Co-Generation project.

FY 2016-17 Operating Results contributed $13.1 million to Net Position.

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Table 5
Condensed Statement of Cash Flows

	Fiscal Year Ending 6/30/2017	Fiscal Year Ending 6/30/2016	Dollar Change +/(-)	Percentage Change +/(-)
Cash Flows from Operating Activities:				
Cash Received from Member Agencies	$20,996,257	$18,383,594	$2,612,663	14.2%
Cash contributed from Other Entities		18,789	(18,789)	-100.0%
Cash payments for operations	(19,703,257)	(22,500,787)	2,797,530	-12.4%
Net cash (used) by operating activities	**1,293,000**	**(4,098,404)**	**5,391,404**	**-131.5%**
Cash Flow from Capital and Related Financing Activities:				
Capital Contributions	17,100,492	22,263,664	(5,163,172)	-23.2%
Acquisition of Capital Assets	(11,271,512)	(21,663,904)	10,392,392	-48.0%
Net cash provided by Capital and related financing activities	**5,828,980**	**599,759**	**5,229,221**	**871.9%**
Cash Flows from Investing Activities:				
Interest Received	50,228	19,653	30,575	155.6%
Net cash provided by investing activities	**50,228**	**19,653**	**30,575**	**155.6%**
Net increase in cash and equivalents	**7,172,208**	**(3,478,992)**	**10,651,200**	**-306.2%**
Beginning of Year Cash & Cash Equivalents	5,777,486	9,256,478	(3,478,992)	-37.6%
End of Year Cash & Cash Equivalents	**12,949,694**	**5,777,486**	**7,172,208**	**124.1%**

Cash Flows

The final required financial statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investments, and changes in policy during the reporting period.

FY 2016-17 Cash Received from Member Agencies was $21 million, an increase of $2.6 million from FY 2015-16 receipts of $18.4 million. The cash receipts are in line with the budget.

Cash payments for Operations decreased by $2.8 million due to timing of expenditures.

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SUPPLEMENTARY INFORMATION

Capital Assets

The Authority's investment in capital assets increased $7,119,189, while $4,152,323 in construction in progress was moved to completed projects during the fiscal year ending June 30, 2017.

Long Term Debt

Long-term debt for SOCWA consists of three items:

1. Compensated absences as of June 30, 2017:
   a. Current Portion, payable within one year, $314,549
   b. Long Term Portion, future benefit, greater than one year, $338,733
   c. Total Liability (Current and Long Term), $653,282.

   SOCWA accrues the liability for unpaid leave that is payable upon an employee's termination. These amounts are adjusted each year.

2. OPEB (Other Post-Employment Benefits)/Retiree Health-ARC as of June 30, 2017:
   a. The annual required contribution (ARC), $587,760, consists of two parts;

      - Estimated normal costs, the amount that needs to be set aside and invested in order to fund future retiree health benefits earned during that year by active employees,

      - An amount estimated to be sufficient to retire existing unfunded liabilities over no more than 30 years.

      The ARC includes the costs necessary to provide each year's benefits to past Retirees-those benefits currently funded under the pay-as-you -go system.

   b. In fiscal year 2016, the Authority Board of Directors approved a $500 thousand annual contribution to a PARS Retiree Health Trust Fund to cover future retiree health costs. The annual contribution reduced the ARC by $158 thousand from fiscal year 2016 ARC of $746 thousand.

   c. The Authority does not have to fund the ARC each year, but choosing to do so allows the Authority to reduce and perhaps even eliminate unfunded liabilities over the long term (thereby lowering long-term costs).

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3. GASB 68 Net Pension Liability as of June 30, 2017:

- The Net Pension Liability is $11,549,944, an increase of $2,495,409 over FY 2016 liability of $9,054,535 due to changes in actuarial assumption.

- The Authority has three Benefit Levels as follows:

Benefit Levels			
Benefit Level	**Enroll Effective Date**	**Formula**	**Member Rate**
Tier One	1/16/1978	2.5% @55	8.00%
Tier Two	2/13/2011	2% @ 55	7.00%
Tier Three	1/1/2013	2% @ 62	6.25%

FINANCIAL STATEMENTS

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South Orange County Wastewater Authority
Statement of Net Position
June 30, 2017

ASSETS	
Current assets:	
Cash and investments (Note 3)	$ 12,949,694
Receivables:	
Accounts	1,069,282
Due from Member Agencies	1,069,819
Interest	25,256
Total receivable, net	2,164,357
Inventories	410,866
Deposits	19,500
Prepaid Items	65,082
Total current assets	15,609,499
Noncurrent asset (Note 4):	
Capital assets, nondepreciable	41,561,721
Capital assets, depreciable, net	87,846,950
Total current assets	129,408,671
Total assets	145,018,170
DEFERRED OUTFLOWS OF RESOURCES	
Pensions related deferred outflows of resources	3,321,291
Total deferred outflows of resources	3,321,291
LIABILITIES	
Current liabilities:	
Accounts payable	2,682,688
Due to Member Agencies	1,358,841
Accrued payroll and related liabilities	102,661
Compensated absences - due within one year (Note 5)	314,549
Total current liabilities	4,458,739
Noncurrent liabilities:	
Compensated absences - due in more than one year (Note 5)	338,733
Net other postemployment benefits obligation (Note 6)	587,760
Net pension liability (Note 7)	11,549,944
Total noncurrent liabilities	12,476,437
Total liabilities	16,935,176
DEFERRED INFLOWS OF RESOURCES	
Pensions related deferred inflows of resources	542,096
Total deferred inflows of resources	542,096
NET POSITION	
Net investment in capital assets	129,408,671
Unrestricted	1,453,518
Total net position	$ 130,862,189

See accompanying Notes to the Financial Statements.

South Orange County Wastewater Authority
Statement of Revenues, Expenses, and Change in Net Position
For the Year Ended June 30, 2017

OPERATING REVENUES:		
O&M Member Agency Assessments		
City of Laguna Beach	$	4,256,568
City of San Clemente		148,306
City of San Juan Capistrano		2,010,978
Eemerald Bay Service District		82,404
El Toro Water District		729,960
Irvine Ranch Water District		286,204
Moulton Niguel Water District		8,559,434
South Coast Water District		3,513,544
Santa Margarita Water District		1,893,657
Trabuco Canyon Water District		22,776
Total O&M Member Agency Assessments		21,503,831
Total Operating Revenues		21,503,831
OPERATING EXPENSES:		
O&M, Environmental, Compliance and Safety		17,225,342
Engineering after capital transfer		646,032
Administration		1,431,318
Depreciation and Amortization		6,291,302
Total Operating Expenses		25,593,994
Operating Income/(Loss)		(4,090,163)
NON-OPERATING REVENUES (EXPENSES):		
Interest income		70,550
Other revenues		172,343
Capital donations to other governments		(356,113)
Total Non-Operating Expenses		(113,220)
CAPITAL CONTRIBUTIONS AND TRANSFERS:		
Member Agency Assessments:		
City of Laguna Beach		1,619,449
City of San Clemente		45,521
City of San Juan Capistrano		1,712,604
Eemerald Bay Service District		111,491
El Toro Water District		1,174,974
Irvine Ranch Water District		53,205
Moulton Niguel Water District		7,832,747
South Coast Water District		3,313,938
Santa Margarita Water District		1,420,333
Total Member Agency Assessments		17,284,262
Total Capital Contributions and Transfers		17,284,262
Change in Net Position		13,080,879
NET POSITION:		
Beginning of year, as restated (Note 10)		117,781,310
End of year	$	130,862,189

See accompanying Notes to the Financial Statements.

South Orange County Wastewater Authority
Statement of Cash Flows
For the Year Ended June 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash receipts from Member Agencies	$	20,996,257
Cash payments to suppliers for Operations		(9,622,207)
Cash payments to employees for Services		(8,946,732)
Cash payments for General and Administrative Expenses		(1,134,318)
Net cash (used in) operating activities		1,293,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital Contributions from Member Agencies		17,100,492
Acquisition of capital assets		(11,271,512)
Net cash provided by capital and related financing activities		5,828,980
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest Received		
Net cash provided by investing activities		50,228
Net change in cash and cash equivalents		50,228
CASH AND CASH EQUIVALENTS:		
Beginning of year		5,777,486
End of year	$	12,949,694
RECONCILIATION OF NET OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating (Loss)	$	(4,090,163)
Adjustments to reconcile operating (loss) to net cash (used in) operating activities:		
Depreciation		6,291,302
Changes in operating assets and liabilities:		
Accounts receivable		(752,510)
Due from member agencies		246,436
Inventory		(193,437)
Deposits		(1,500)
Prepaid Items		532
Deferred Outflows		(1,609,082)
Accounts payable		229,610
Due to Member Agencies		(333,558)
Accrued Payroll Liabilities		(27,297)
Compensated Absences		(31,485)
Net Other Postemployment Benefits		(158,202)
Net Pension Liability		2,495,409
Deferred Inflows		(773,055)
Net cash (used in) operating activities	$	1,293,000

There were no significant noncash capital, inverting or financing activites for the year ended June 30, 2017.

See accompanying Notes to the Financial Statements.

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NOTES TO THE FINANCIAL STATEMENTS

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Note 1 – Reporting Entity

Effective July 1, 2001, the Aliso Water Management Agency ("AWMA"), South East Regional Reclamation Authority ("SERRA"), and South Orange County Reclamation Authority ("SOCRA") were consolidated to form the South Orange County Wastewater Authority (the "Authority"). The Authority was formed as a joint exercise of powers agreement under the laws of the State of California. The member agencies of AWMA, SERRA and SOCRA became member agencies of the Authority. Each member agency appoints one representative to the Authority's board of directors. The Authority assumed all assets, obligations, agreements and liabilities of AWMA, SERRA, and SOCRA. The accompanying financial statements present the Authority and its component units for which the Authority is considered to be financially accountable, if any. Currently, there are no such component units.

AWMA was created under a joint exercise of powers agreement dated March 1, 1972. AWMA was formed to enable its members to jointly exercise their common powers regarding the treatment and disposal of wastewater to establish a total water management program for their consolidated service areas.

SERRA was formed by a joint exercise of powers agreement on March 9, 1970. SERRA was formed to coordinate regional planning of wastewater disposal and reclamation of wastewater in the San Juan Basin.

SOCRA was created under a joint exercise of powers agreement dated September 5, 1991. SOCRA was formed to enable its members to jointly exercise their common powers regarding the acquisition and holding of a single water reclamation primary user permit for the San Juan, Aliso Valley and other watershed areas within Region 8 and 9 of the California State Water Resources Control Board.

The Authority is comprised of the following ten member agencies:

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

The Authority is economically dependent upon assessments from the above member agencies.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation

Financial statement presentation follows the recommendations promulgated by the Governmental Accounting Standards Board (“GASB”) commonly referred to as accounting principles generally accepted in the United States of America (“U.S. GAAP”). GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting standards.

Note 2 – Summary of Significant Accounting Policies (Continued)

Deferred Outflows/Inflows of Resources

The Statement of Net Position reports separate sections for Deferred Outflows of Resources, and Deferred Inflows of Resources, when applicable.

Deferred Outflows of Resources represent outflows of resources (consumption of net position) that apply to future periods and that, therefore, will not be recognized as an expense until that time.

Deferred Inflows of Resources represent inflows of resources (acquisition of net position) that apply to future periods and that, therefore, are not recognized as revenue until that time.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Financial Statements (i.e., the statement of net position, the statement of revenues, expenses and changes in net position, and the statement of cash flows) report information on all of the activities of the Authority. The Authority accounts for its operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The financial statements are prepared using the "*economic resources*" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent), and deferred outflows and inflows of resources are included on the Statement of Net Position. The Statement of Revenues, Expenses, and Changes in Net Position presents increases (revenues) and decreases (expenses) in total Net Position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Operating revenues are those revenues that are generated from the primary operations of the Authority. The Authority reports a measure of operations by presenting the change in net position from operations as "operating income" in the statement of revenues, expenses, and changes in net position. Operating activities are defined by the Authority as all activities other than financing and investing activities (interest expense and investment income), grants and subsidies, settlement receivable allowance, and other infrequently occurring transactions of a non-operating nature. Operating revenues consists primarily of member assessments for services. Operating expenses are those expenses that are essential to the primary operations of the Authority. Operating expenses include the cost of services, administrative expenses, and depreciation expense on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Cash, Cash Equivalents, and Investments

Cash and cash equivalents include all highly liquid investments with original maturities of 90 days or less and are carried at cost, which approximates fair value. Investments are reported at fair value. Changes in fair value that occur during the fiscal year are recognized as investment income for that fiscal year.

Note 2 – Summary of Significant Accounting Policies (Continued)

Cash, Cash Equivalents, and Investments (Continued)

The Authority participates in an investment pool managed by the State of California titled Local Agency Investment Fund ("LAIF"), which has invested a portion of the pooled funds in structured notes and asset-backed securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these structured notes and asset-backed securities are subject to market risk and to change in interest rates. The reported value, which is the net asset value, of the pool approximates the fair value of the pool shares.

Receivables and Allowance For Doubtful Accounts

Accounts receivable consist of amounts owed by member agencies rendered in the regular course of business operations. Receivables are shown net of allowances for doubtful accounts. Uncollectable accounts are based on prior experience and management's assessment of the collectability of existing accounts.

Inventories

Inventories consist of materials and supplies which are valued at cost on a first-in, first-out basis. Inventories are recorded as an expense when consumed for financial statement purposes but recorded as inventory when purchased for determining member agencies' allocations.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond the fiscal year ended are recorded as prepaid items.

Capital Assets

Capital assets are valued at historical cost, or estimated historical cost, if actual historical cost was not available. Donated capital assets are valued at their estimated acquisition value on the date donated. The Authority policy has set the capitalization threshold for reporting capital assets at $5,000, all of which must have an estimated useful life in excess of three year. The original completed joint construction project costs of all original facilities constructed or acquired by AWMA and SERRA were transferred to the Authority and are reflected in the accompanying financial statements as capital assets owned by the Authority. Depreciation is recorded on a straight-line basis over estimated useful lives of the assets as follows:

Plant equipment	3 to 58 years
Facilities and improvements	5 to 50 years
Machinery and equipment	5-10 years
Collection, Treatment and Disposal Facilities	10-40 years

Major outlays for capital assets are capitalized as projects are constructed, and repairs and maintenance costs are expensed. Interest accrued during capital assets construction, if any, is capitalized as part of the asset cost, net of interest income on construction bond proceeds.

Note 2 – Summary of Significant Accounting Policies (Continued)

Compensated Absences

Employees can accrue vacation leave up to a maximum of 240 hours. Vacation leave accrues at the rate of 96 to 160 a year depending on the number of years of employment. Sick leave accrued at the rate of 8 hours per month up to a maximum of 240 hours. Upon termination, the Authority pays 75% of accumulated sick leave in excess of 176 hours.

All accumulated vacation and vested sick leave pay is recorded as an expense and a liability at the time the benefit is earned.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the plans and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by the plans (Note 7). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value. The following timeframes are used for pension reporting:

Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Measurement Period	June 30, 2015 to June 30, 2016

Gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time. The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense. The amortization period differs depending on the source of the gain or loss. The difference between projected and actual earnings is amortized using the straight-line method over five (5) years. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period.

Net Position

Net position represents the difference between all other elements in the statement of net position and should be displayed in the following three components:

Investment in Capital Assets – This component of net position consists of capital assets, net of accumulated depreciation.

Restricted – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

Unrestricted – This component of net position is the amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

When both restricted and unrestricted resources are available for use, it is the Authority policy to use restricted resources first, then unrestricted resources as they are needed.

Note 2 – Summary of Significant Accounting Policies (Continued)

Basis for Member Assessments

Member assessments are determined based on each member's participation in project committee costs, Costs are allocated to member agencies based on usage.

Use of Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the certain reported amounts and disclosure. Accordingly, actual results could differ from those estimates.

The accompanying basic financial statements reflect management's best estimate of balances pertaining to capital costs due to/from member agencies for various capital projects. Periodically, this information is subjected to further reconciliation. Adjustments pertaining to the accounting estimates associated with capital costs received from member agencies are recognized as the information for such adjustments becomes available.

Implementation of New GASB Pronouncements

GASB has issued Statement No. 77, *Tax Abatement Disclosure*. This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements: 1) Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients. 2) The gross dollar amount of taxes abated during the period 3) Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement. This statement became effective for periods beginning after June 15, 2016 and did not have a significant impact on the Authority's financial statements for the year ended June 30, 2017.

GASB has issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. This statement became effective for periods beginning after June 15, 2016 and did not have a significant impact on the Authority's financial statements for the year ended June 30, 2017.

GASB has issued Statement No. 80, *Blending Requirements for Certain Component Units*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, Determining Whether Certain Organizations Are Component Units. This statement became effective for periods beginning after June 15, 2016, and should be applied retroactively. This statement did not have a significant impact on the Authority's financial statements for the year ended June 30, 2017.

Note 2 – Summary of Significant Accounting Policies (Continued)

Implementation of New GASB Pronouncements (Continued)

GASB has issued Statement No. 82, *Pension Issues*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This statement became effective for periods beginning after June 15, 2016, and should be applied retroactively. This statement did not have a significant impact on the Authority's financial statements for the year ended June 30, 2017.

Note 3 – Cash and Investments

At June 30, 2017, the Authority's cash and investments were comprised of the following:

Petty cash	$	1,600
Demand deposits		1,249,026
Local Agency Investments Fund		11,699,068
Total cash and investments	$	12,949,694

A. Demand Deposits

At June 30, 2017, the carrying amount of cash deposit was $1,249,026 at June 30, 2017. Bank balances at that date were $1,355,140, the total amount of which was fully insured and/or collateralized with securities held by the pledging financial institutions in the Authority's name as discussed below.

The California Government Code requires California banks and savings and loan associations to secure the Authority's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the Authority's name.

The fair value of pledged securities must equal at least 110% of the Authority's cash deposits. California law also allows institutions to secure the Authority's deposits by pledging first trust deed mortgage notes having a value of 150% of the Authority's total cash deposits. The Authority may waive collateral requirements for cash deposits, which are fully insured up to $250,000 by the Federal Deposit Insurance Corporation. The Authority, however, has not waived the collateralization requirements.

Note 3 – Cash and Investments (Continued)

B. Investment

The table below identifies the investment types that are authorized for the Authority by the California Government Code and the Authority's investment policy. The table also identifies certain provisions of the California Government Code (or the Authority's investment policy, if more restrictive) that addresses interest rate risk and concentration of credit risk.

Authorized Investment Type	Maximum Maturity*	Maximum Percentage of Portfolio*	Maximum Investments In One Issuer*
U.S. Treasury Obligations	5 years	None	None
Negotiable Certificates of Deposit	5 years	30%	None
Local Agency Investment Fund ("LAIF")	N/A	None	None
JPA Pools	N/A	None	None

* Based on state law requirements or investment policy requirements, whichever is more restrictive

C. Investment in Local Agency Investment Fund

The Authority's investments with Local Agency Investment Fund (LAIF) include a portion of the pooled funds invested in Structured Notes and Asset-Backed Securities. These investments include the following:

- **Structured Notes** - debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.
  Asset-Backed Securities - the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as CMO's) or credit card receivables.

LAIF is overseen by the Local Agency Investment Advisory Board, which consists of five members, in accordance with State statute.

As of June 30, 2017, the Authority had $11,696,068 invested in LAIF, which had invested 2.89% of the pooled investment funds in Structured Notes and Asset-Backed Securities, respectively**.** LAIF is reported at net asset value at June 30, 2017.

Note 3 – Cash and Investments (Continued)

D. Fair Value Measurement

The Authority categorizes its fair value measurements within the fair value hierarchy established by U.S. GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. As of June 30, 2017, the Authority's investment portfolio consisted of $11,696,069 invested in the State of California Local Agency Investment Fund, which is "uncategorized" under the fair value hierarchy.

E. Risk Disclosures

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 its fair value will be to changes in market interest rates. In accordance with the Authority's Investment Policy, the Authority manages its exposure to interest rate risks by placing all deposits of member agency funds in passbook savings account demand deposits that are federally insured and additionally in the State of California Local Agency Investment Fund ("LAIF") for deposits up to $40 million where investments may be made by the State Treasurer in accordance with the above guidelines. For any held funds over $40 million, investments may be made in negotiable certificates of deposits, U.S. Treasury Notes and other JPA Investment Programs allowable under State statute.

Information about the sensitivity of the fair values of the Authority's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Authority's investments by maturity.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. As of June 30, 2017, the Authority's investment portfolio consisted of $11,696,068 invested in the State of California Local Agency Investment Fund, which is not rated.

Disclosures Relating to Custodial Credit Risk

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 and the Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

Note 4 – Capital Assets

The summary of changes in capital assets for the year ended June 30, 2017 was as follows:

	Balance July 1, 2016	Prior Period Adjustments	Additions	Deletions	Balance June 30, 2017
Capital assets, not depreciated					
Land	$ 14,402,224	$ -	$ -	$ -	$ 14,402,224
Construction in progress	28,169,309	(8,129,001)	7,119,189		27,159,497
Total capital assets, not depreciated	42,571,533	(8,129,001)	7,119,189	-	41,561,721
Capital assets, being depreciated					
Buildings	7,921,504	2,286,902	324,645	-	10,533,051
Buildings Improvements	10,042,279	(3,449,234)	315,059	-	6,908,104
Computer Hardware	2,369,250	(1,644,487)	456,189	-	1,180,952
Computer Software	109,714	200	54,531	-	164,445
Furniture and Fixtures	116,326	-	21,033	-	137,359
Infrastructure	135,407,985	20,291,765	199,297	-	155,899,047
Machinery and Equipment	58,750,579	42,974,314	2,639,469		104,364,362
Vehicles	665,702	208,818	142,100	-	1,016,620
Total capital assets, being depreciated	215,383,339	60,668,278	4,152,323	-	280,203,940
Less accumulated depreciation					
Buildings	(5,769,420)	(926,163)	(187,423)	-	(6,883,006)
Buildings Improvements	(7,558,119)	4,973,004	(306,156)	-	(2,891,271)
Computer Hardware	(1,996,522)	2,485,327	(1,028,077)	-	(539,272)
Computer Software	(83,008)	2,850	(16,093)	-	(96,251)
Furniture and Fixtures	(116,326)	-	(981)	-	(117,307)
Infrastructure	(86,472,827)	(19,010,528)	(1,978,227)	-	(107,461,582)
Machinery and Equipment	(40,213,656)	(30,741,915)	(2,738,042)		(73,693,613)
Vehicles	(487,505)	(150,880)	(36,303)	-	(674,688)
Total accumulated depreciation	(142,697,383)	(43,368,305)	(6,291,302)	-	(192,356,990)
Total capital assets, being depreciated, ı	72,685,956	17,299,973	(2,138,979)	-	87,846,950
Total capital assets, net	$ 115,257,489	$ 9,170,972	$ 4,980,210	$ -	$ 129,408,671

Depreciation expense for the year ended June 30, 2017 was $6,291,302.

Note 5 – Compensated Absences

The summary of changes in compensated absences for the year ended June 30, 2017 was as follows:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017	Classification Current	Classification Long-trem
Compensated absences	$ 684,767	$ 2,342,647	$ (2,374,132)	$ 653,282	$ 314,549	$ 338,733

Note 6 – Other Postemployment Benefits

Plan Description and Eligibility

The Authority provides post-retirement health care benefits to employees who retire from PERS on or after age 50 with at least 5 years of service with the Authority and PERS. The Authority's plan is a single employer plan that provides post-retirement health care benefits in accordance with the Public Employee's Medical and Hospital Care Act through the PERS health program. The Authority's contribution for each retiree is the amount necessary to pay the cost of his/her enrollment per month in the health benefits plan up to a maximum of the average of all plans available, plus administrative fees and Contingency Reserve Fund assessments. The Authority's contribution for each annuitant will be from 84% to 100% based on the health plan selected by the employee.

For the fiscal year ended June 30, 2017, the total contribution made was $888,936, which was comprised of $504,000 contributed to the Public Agency Retirement Services ("PARS") irrevocable trust and $384,936 on the pay-as-you-go basis. There were 34 retired employees who received health care benefits during the fiscal year.

Annual OPEB Cost and Net OPEB Obligation

The Authority's annual Other Postemployment Benefits ("OPEB") cost (expense) is calculated based on the Annual Required Contribution of the Employer ("ARC"), an amount actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excesses) over a period not to exceed thirty years.

The following table shows the components of the Authority's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Authority's net OPEB obligation to the plan:

Annual required contribution	$ 747,925
Interest on net OPEB obligation	44,758
Adjustment to annual required contribution	(61,949)
Annual OPEB Cost (expense)	730,734
Contribution made to trust	(504,000)
Benefit payments	(384,936)
Increase in net OPEB obligation	(158,202)
Net OPEB Obligation (Asset), Beginning of Year	745,962
Net OPEB Obligation (Asset), End of Year	$ 587,760

Note 6 – Other Postemployment Benefits

Annual OPEB Cost and Net OPEB Obligation (Continued)

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Annual Contributed	Percentage of Annual OPEB cost Contributed	Net OPEB Obligation (Asset
June 30, 2015	$ 633,385	$ 601,800	95.0%	$ 1,083,904
June 30, 2016	633,850	971,792	153.3%	745,962
June 30, 2017	730,734	888,936	124.3%	587,760

Funded Status and Funding Progress

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts, and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan, and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presented below presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time related to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members), and include the types of benefits provided at the time of each valuation, and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, and are consistent with the long-term perspective of the calculations.

In the July 1, 2017 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions include a 6.0% investment rate of return which is based on the expected return on funds invested by the Authority, and an annual healthcare cost trend rates of 7.0% initially and reduced to an ultimate rate of 5.0% thereafter. Inflation of 2.75% per annum and an aggregate payroll increase of 3.00% were used in the actuarial valuation. The UAAL is being amortized as level percentage of projected payroll over a 30 year closed period. The remaining amortization period at January 1, 2017 was 22 years.

Note 7 – Pension Plans

Defined Benefit Plan

At June 30, 2017, net pension liabilities and related deferred outflows/inflows of resources are as follows:

		Miscellaneous Plan
Deferred outflows of resources:		
Pension contribution after measurement date	$	1,019,645
Difference between expected and actual experience		25,463
Difference between projected and actual earning on pension plan investments		1,626,531
Adjustment due to differences in proportions		649,652
Total deferred outflows of resources	$	3,321,291
Aggregate Net pension liabilities:		
Miscellaneous plan	$	11,549,944
Total net pension liabilities	$	11,549,944
Deferred inflows of Resources:		
Changes of assumptions	$	312,513
Difference between actual contributions and proportionate share of contributions		229,583
Total deferred inflows of Resources	$	542,096
Pension expenses:	$	2,294,957

General Information about the Pension Plan

Plan Description

The Authority contributes to the California Public Employees' Retirement System ("CalPERS"), a cost-sharing multiple-employer defined benefit pension plan. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. A full description of the pension plan, benefit provisions, assumptions (for funding, but not accounting purposes), and membership information are listed in the June 30, 2015 Annual Actuarial Valuation Report. This report and CalPERS' audited financial statements are publicly available reports that can be obtained at CalPERS' website under Forms and Publications.

Note 7 – Pension Plans (Continued)

Defined Benefit Plan (Continued)

Employees Covered by Benefit Terms

At June 30, 2015 valuation date, the following employees were covered by the benefit terms:

	Miscellaneous Plans		
	Tier 1	Tier 2	PEPRA
Active employees	42	4	11
Transferred and terminated employees	47	1	0
Separated	20	0	1
Retired Employees and Beneficiaries	51	0	0
Total	160	5	12

Benefit Provided

CalPERS provides service retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. The Plans' provisions and benefits in effect at June 30, 2016, are summarized as follows:

	Miscellaneous		
	Tier 1	Tier 2	PEPRA
Hire date	Prior to January 1, 2013	On or after January 1, 2013	On or after January 1, 2013
Benefit Formula	2.5% @ 55	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5 years of service	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50-55	50-55	52-67
Monthly benefits, as a % of eligible compensation	2.000%	2.000%	1.000 % to 2.500%
Require employee contribution rates	8.000%	7.000%	6.250%
Required employer contribution rates	9.671%	8.512%	6.237%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law ("PERL") requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The Public agency cost-sharing plans covered by the miscellaneous risk pools, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

Note 7 – Pension Plans (Continued)

Defined Benefit Plan (Continued)

Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

The June 30, 2015 valuation was rolled forward to determine June 30, 2016 (measurement date) total pension liability based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal
Actuarial Assumption:	
Discount Rate	7.65%
Inflation	2.75%
Salary Increase	Varies by Entry Age and Service
Mortality Rate Table[1]	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

[1]The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to 2014 experience study report.

All other actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

Change of Assumption

There were no changes of assumptions for June 30, 2016 measurement date.

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent. To determine whether the municipal bond rate should be used in the calculation of the discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. The tests revealed the assets would not run out. Therefore, the current 7.65 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.65 percent is applied to all plans in the Public Employees' Retirement Fund ("PERF"). The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS website under the GASB 68 section.

Note 7 – Pension Plans (Continued)

Defined Benefit Plan (Continued)

Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (Continued)

Discount Rate (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected PERF pension fund cash flows. Taking into account historical returns of all the Public Employees Retirement Funds' asset classes (which includes the agent plan and two cost-sharing plans or PERF A, B, and C funds), expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each PERF fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the Board effective on July 1, 2015.

Asset Class	New Strategic Allocation	Real Return Years 1-10[1]	Real Return Years 11+[2]
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Infaltion Sensitive	6.00%	45.00%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Foresland	2.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%

(1) An expected inflation of 2.5% used for this period
(2) an expected inflation of 3.0% used for this period

Note 7 – Pension Plans (Continued)

Defined Benefit Plan (Continued)

Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (Continued)

Sensitivity of the Authority's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Authority's proportionate share of the net pension liability of the Plan as of the measurement date at June 30, 2016, calculated using the discount rate of 7.65%, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.65%) or 1 percentage-point higher (8.65%) than the current rate:

	Discount Rate		
Measurement Date	-1% (6.5%)	Current (7.65%)	+1% (6.5%)
June 30, 2016	$ 17,994,510	$ 11,549,944	$ 6,223,830

Pension Plan Fiduciary Net Position

Detail information about the plan's fiduciary net position is available in the separately issued CalPERS financial report and can be obtained from CalPERS' website under Forms and Publications.

Proportionate Share of Net Pension Liability and Pension Expense

The following table shows the plan's proportionate share of the risk pool collective net pension liability over the measurement period:

	Increase (Decrease)		
	Plan Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Miscellaneous			
Balance at: 6/30/15 (Valuation date)	$ 41,977,344	$ 32,922,809	$ 9,054,535
Balance at: 6/30/16 (Measurement date)	44,672,109	33,122,165	11,549,944
Net Changes during 2015-2016	2,694,765	199,356	2,495,409

The following is the approach established by the plan actuary to allocate the net pension liability and pension expense to the individual employers within the risk pool for the measurement period ended June 30, 2016, respectively.

(1) In determining a cost-sharing plan's proportionate share, total amounts of liabilities and assets are first calculated for the risk pool as a whole on the valuation date (June 30, 2015). The risk pool's fiduciary net position ("FNP") subtracted from its total pension liability ("TPL") determines the net pension liability ("NPL") at the valuation date.

(2) Using standard actuarial roll forward methods, the risk pool TPL is then computed at the measurement date (June 30, 2016). Risk pool FNP at the measurement date is then subtracted from this number to compute the NPL for the risk pool at the measurement date. For purposes of FNP in this step and any later reference thereto, the risk pool's FNP at the measurement date denotes the aggregate risk pool's FNP at June 30, 2016 less the sum of all additional side fund (or unfunded liability) contributions made by all employers during the measurement period (2015-2016).

Note 7 – Pension Plans (Continued)

Defined Benefit Plan (Continued)

Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (Continued)

<u>*Proportionate Share of Net Pension Liability and Pension Expense (Continued)*</u>

(3) The individual plan's TPL, FNP and NPL are also calculated at the valuation date. TPL is allocated based on the rate plan's share of the actuarial accrued liability. FNP is allocated based on the rate plan's share of the market value assets.

(4) Two ratios are created by dividing the plan's individual TPL and FNP as of the valuation date from (3) by the amounts in step (1), the risk pool's total TPL and FNP, respectively.

(5) The plan's TPL as of the measurement date is equal to the risk pool TPL generated in (2) multiplied by the TPL ratio generated in (4). The plan's FNP as of the Measurement Date is equal to the FNP generated in (2) multiplied by the FNP ratio generated in (4) plus any additional side fund (or unfunded liability) contributions made by the employer on behalf of the plan during the measurement period.

(6) The plan's NPL at the measurement date is the difference between the TPL and FNP calculated in (5).

Deferred outflows of resources, deferred inflows of resources, and pension expense is allocate based on the Authority's share of contributions during measurement period.

The Authority's proportionate share of the net pension liability was as follows:

	Miscellaneous
Proportion - June 30, 2015	0.13192%
Proportion - June 30, 2016	0.13348%
Change - Increase (Decrease)	0.00156%

For the year ended June 30, 2017, the Authority recognized pension expense in the amounts of $2,294,957.

The amortization period differs depending on the source of the gain or loss. The difference between projected and actual earnings is amortized over 5-years straight line. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive and retired) as of the beginning of the measurement period.

The Expected Average Remaining Service Lifetime ("EARSL") is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired) in the risk pool. The EARSL for risk pool for the measurement date ended June 30, 2016 are 3.7, which was obtained by dividing the total service year of 475,689 (the sum of remaining service lifetimes of the active employees) by 127,009 (the total number of participants: active, inactive, and retired).

Note 7 – Pension Plans (Continued)

Defined Benefit Plan (Continued)

Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (Continued)

Proportionate Share of Net Pension Liability and Pension Expense (Continued)

At June 30, 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Miscellaneous	
	Deferred outflows of Resources	Deferred inflows of Resources
Pension contribution after measurement date	$ 1,019,645	$ -
Difference between expected and actual experience	25,463	-
Changes of assumptions	-	(312,513)
Difference between projected and actual earning on pension plan investments	1,626,531	-
Adjustment due to differences in proportions	649,652	-
Difference between actual contributions and proportionate share of contributions	-	(229,583)
Total	$ 3,321,291	$ (542,096)

Deferred outflows of resources related to pensions resulting from the Authority's contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Measurement Period Ended June 30,	Deferred Outflows/ (Inflows) of Resources Miscellaneous
2017	$ 300,366
2018	271,650
2019	766,243
2020	421,291
2021	-
Thereafter	-
	$ 1,759,550

Note 8 – Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority has joined the California Sanitation Risk Management Authority ("CSRMA"), a public entity risk pool currently operating as a common risk management and insurance program for 62-member sanitation districts. The Authority pays an annual premium to CSRMA for its general insurance coverage. The agreement for formation of the CSRMA provides that CSRMA will be self-sustaining through member premiums and will provide specific excess insurance through commercial companies. The CSRMA is allowed to make additional assessments to its members based on a retrospective premium adjustment process.

At June 30, 2017, the Authority's participation in the self-insurance programs of the CSRMA was as follows:

- Workers' Compensation – the Authority is self-insured through the CSRMA up to $750,000 with a $0 deductible. Excess insurance up to the statutory limits per occurrence has been purchased. Excess insurance of $1,000,000 for employer's liability has also been purchased.

- General Liability (including errors and omissions ("E&O") and employment practices liability ("EPL")) -the Authority is self-insured through the CSRMA for up to $500,000 ($100,000 for EPL) with a $25,000 deductible ($2,500 for E&O). Excess insurance of $15,000,000 per occurrence has also been purchased.

In addition to the above, the Authority has also purchased insurance coverage for property loss including auto, employees' dishonesty bonds, pollution and remediation liability and employee health and accident. The Authority is not insured against earthquake damage.

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The premiums paid during the fiscal year were $174,167. There were no accrued claims liabilities at June 30, 2017.

Note 9 – Commitment and Contingencies

A. Commitments

The Authority had several outstanding or planned construction and other projects as of June 30, 2017. These projects are evidenced by contractual commitments within engineering related services and the outstanding balance as of June 30, 2017 was $1,429,214.

B. Contingencies

The Authority is a defendant in a number of lawsuits, which have arisen in the normal course of business. While substantial damages are alleged in some of these actions, their outcome cannot be predicted with certainty.

Note 10 – Prior Period Adjustment

Net position as of July 1, 2016 was restated due to the following:

	Amounts
Beginning net position, as previously reported	$ 108,610,338
Prior period adjustments:	
Overstatement of capital assets, nondepreciable	(8,129,001)
Understatement of capital assets, depreciable, net	17,299,973
Beginning net position, as restated	$ 117,781,310

REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)

South Orange County Wastewater Authority
Required Supplementary Information (Unaudited)
Schedule of the Authority's Proportionate Share of the Net Pension Liability and Related Ratios
For the Year Ended June 30, 2017

Last Ten Fiscal Years

California Public Employees' Retirement System ("CalPERS") Miscellaneous Plan

	June 30, 2014[1]	June 30, 2015	June 30, 2016
Authority's proportion of the net pension liability/(asset)	0.10903%	0.13190%	0.13350%
Authority's proportionate share of the net pension liability/(asset)	$ 6,794,277	$ 9,054,535	$ 11,549,944
Authority's covered payroll	$ 5,215,673	$ 5,452,666	$ 5,616,113
Authority's proportionate share of the net pension liability/(asset) as a percentage of covered employee payroll	130.27%	166.06%	205.66%
Plan's proportionate share of the fiduciary net position as a percentage of the total pension liability	83.03%	78.43%	74.15%

[1] Historical information is required only for measurement periods for which GASB 68 is applicable.

South Orange County Wastewater Authority
Required Supplementary Information (Unaudited)
Schedule of the Authority's Contributions
For the Year Ended June 30, 2017

Last Ten Fiscal Years

California Public Employees' Retirement System ("CalPERS") Miscellaneous Plan

	2013-14[1]	2014-15	2015-16	2016-17
Actuarially determined contribution[2]	$ 759,739	$ 780,373	$ 495,877	$ 521,940
Contribution in relation to the actuarially determined contribution[2]	(759,739)	(780,373)	(1,121,220)	(1,019,645)
Contribution deficiency/(excess)	$ -	$ -	$ (625,343)	$ (497,705)
Authority's covered payroll	$ 5,215,673	$ 5,452,666	$ 5,616,113	$ 5,784,596
Contributions as a percentage of covered payroll	14.57%	14.31%	19.96%	17.63%

[1] Historical information is required only for measurement periods for which GASB 68 is applicable.

[2] Employers are assumed to make contributions equal to the actuarially determined contributions. However, some employers may choose to make additional contributions towards their side fund or their unfunded liability. Employer contributions for such plans exceed the actuarially determined contributions. CalPERS has determined that employer obligations referred to as “side funds” are not considered separately financed specific liabilities.

Notes to Schedule

Change in Benefit Terms: The figures above do not include any liability impact that may have resulted from plan changes which occurred after the June 30, 2015 valuation date. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes of Assumptions: No changes were noted.

South Orange County Wastewater Authority
Required Supplementary Information (Unaudited)
Schedule of Funding Progress – Other Postemployment Benefits
For the Year Ended June 30, 2017

The Schedule of funding progress for the past three actuarial valuations is presented below:

Actuarial Valuation Date	Acturial Value of Assets	Entry Age Actuarial Accrued Liability	Unfunded Acturial Acctrued Liability	Funded Ratio	Annual Covered Payroll	Unfunded Actuarial Liability as Percentage of Covered Payroll
January 1, 2010	$ 212,094	$ 6,973,032	$ 6,760,938	3.04%	$ 5,269,432	128.30%
January 1, 2013	1,337,155	8,184,615	6,847,460	16.34%	4,873,758	140.50%
January 1, 2017	3,672,393	10,584,815	6,912,422	34.69%	5,367,440	128.78%

OTHER INFORMATION

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South Orange County Wastewater Authority
Other Information
Project Committees
For the Year Ended June 30, 2017

The following is a description of Project Committee ("PC") activity during the fiscal year ended June 30, 2017:

Project Committee No. 2 ("PC 2") and Project Committee No. 2 Rehabilitation ("PC 2R")

PC 2 was formed for the acquisition, use, operation, maintenance and expansion of the J.B. Latham Sewage Treatment Plant. Operations and maintenance expenses are allocated to participating member agencies on the basis of ownership and usage of the facilities. Standby charges are based on unused capacity. On June 30, 2017, the capacity ownership of the PC 2 members in the J.B Latham Sewage Treatment Plant, excluding the Advanced Wastewater Treatment ("AWT') project, was as follows:

Members	Liquid Capacity		Solids Handling Capacity	
	(MGD)	Percentage	(MGD)	Percentage
CSJC	4.00	30.77%	5.55	30.00%
MNWD	3.00	23.08%	4.00	21.62%
SCWD	3.75	28.84%	3.70	20.00%
SMWD	2.25	17.31%	5.25	28.38%
Total	13.00	100.00%	18.50	100.00%

MGD = Million gallons per day average dry weather flow rate

On June 29, 2000, the members entered into Amendment 2 to the PC 2 agreement to provide for the design and construction of the AWT project at the J.B. Latham Sewage Treatment Plant. The PC 2 members who funded, and therefore have capacity interest in the AWT project, are CSJC, MNWD, and SCWD.

Project Committee No. 2(S0) ("PC 2(S0)")

PC 2(SO) was formed in order to obtain a permit to discharge reclaimed water. The Authority is to hold a single producer/primary user permit and maintain waste discharge permit requirements for the production, distribution and use of reclaimed water. A portion of the costs are split equally among each member agency part of the costs are allocated to member agencies based on non-potable water production in Region 9, and permit costs are allocated based on region. CSJC, ETWD, IRWD, MNWD, SCWD, SMWD, and TCWD are members of PC 2(SO).

Project Committee No. 3A (''PC 3A ") and Project Committee No. 3A Rehabilitation ("PC 3A(R)")

The Authority provides contract operation and maintenance services for the PC 3A wastewater treatment plant and related reclamation facilities for the benefit of MNWD and SMWD. An amendment to the original agreement extended the contract to the fiscal year ending June 30, 2012. The agreement provides for subsequent extensions.

Project Committee No. 5 ("PC 5")

PC 5 was formed for the purpose of planning, designing, constructing, operating and maintaining the San Juan Creek Ocean Outfall. On June 30, 2017, the capacity ownership of the PC 5 members in the San Juan Creek Ocean Outfall was as follows:

Members	MGD	Percentage
CSC	13.30	16.62%
CSJC	8.86	11.08%
MNWD	12.41	15.51%
SCWD	9.97	12.47%
SMWD	35.46	44.32%
Total	80.00	100.00%

MGD = Million gallons per day average dry weather flow rate

Project Committee No. 15 ("PC 15") and Project Committee No. 15 Rehabilitation ("PC 15R")

PC 15 caused construction of facilities known as the Coastal Wastewater Treatment Facility to receive and treat wastewater. Operations and maintenance expenses are allocated to participating member agencies on the basis of ownership and usage of the facilities. PC 15R is used to account for rehabilitation and construction projects for the Coastal Treatment Plant. On June 30, 2017, the capacity ownership of the PC 15 members in the Coastal Treatment Plant was as follows:

Members	MGD	Percentage
CLB	2.54	37.91%
EBSD	0.20	2.99%
SCWD	2.00	29.85%
MNWD	1.96	29.25%
Total	6.70	100.00%

MGD = Million gallons per day average dry weather flow rate

Project Committee No. 17 ("PC 17") and Project Committee No. 17 Rehabilitation ("PC 17(R)")

PC 17 is for the operations and maintenance of the facilities known as the Regional Wastewater Treatment, Reclamation and Solids Handling Facilities ("Joint Regional Treatment Plant"). The Joint Regional Treatment Plant treats and reclaims wastewater and handles solid waste. Operations and maintenance expenses are allocated to participating member agencies on the basis of ownership and of usage of the facilities. PC 17(R) is used to account for rehabilitation and construction projects for the Joint Regional Treatment Plant. On June 30, 2017, the capacity ownership of the PC 17 members in the Joint Regional Treatment Plant was as follows:

Members	Liquid Capacity		Solids Handling Capacity	
	(MGD)	Percentage	Pounds	Percentage
CLB	-	0.00%	5,605	11.22%
EBSD	-	0.00%	295	0.59%
ETWD	-	0.00%	10,200	20.41%
MNWD	12.00	100.00%	29,395	58.82%
SCWD	-	0.00%	4,480	8.96%
Total	12.00	100.00%	49,975	100.00%

MGD = Million gallons per day average dry weather flow rate
Pounds = Loadings are shown in pounds per day

Project Committee No. 21 ("PC 21")

PC 21 is for the operation and maintenance of the Effluent Transmission Main. Expenses are allocated to participating members on the basis of ownership of the facilities as follows:

Members	Reach B/C	Reach D	Reach E
ETWD	50.00%	50.00%	23.29%
IRWD	50.00%	50.00%	23.29%
MNWD	0.00%	0.00%	53.42%
Total	100.00%	100.00%	100.00%

On October 7, 1999, the title to Reach A of the Effluent Transmission Main was transferred to Los Aliso Water District (now part of IRWD) and the El Toro Pump Station was transferred to ETWD. The Alicia Parkway Pump Station is owned and operated by MNWD.

Project Committee No. 23 ("PC 23")

PC 23 is for the operations and maintenance of the North Coast Interceptor and the Laguna Beach and Bluebird pump stations. Operations and maintenance expenses are allocated to participating member agencies on the basis of ownership and usage of the facilities. The City of Laguna Beach operates and maintains the facility. Ownership of the facilities at June 30, 2017 was as follows:

Members	Percentage
CLB	95.88%
EBSD	4.12%
Total	100.00%

Project Committee No. 24 ("PC 24")

PC 24 is for the operations and maintenance of the facilities known as the Aliso Creek Land and Ocean Outfall which disposes of treated wastewater. Operations and maintenance expenses are allocated to participating member agencies on the basis of ownership and usage of the facilities. On June 30,2017, the capacity ownership in the Aliso Creek Ocean Outfall was as follows:

Members	MGD	Percentage
CLB	5.50	11.00%
EBSD	0.39	0.78%
ETWD	8.15	16.30%
IRWD	7.88	15.76%
MNWD	21.92	43.85%
SMWD	6.16	12.31%
Total	50.00	100.00%

MGD = Million gallons per day average dry weather flow rate

Pre-Treatment Program

The Pre-Treatment Program was established in compliance with the Environmental Protection Agency ("EPA") to monitor the contents of industrial waste flowing from industries within the areas served by several of the member agencies.