

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019



South Orange County Wastewater Authority

34156 DEL OBISPO, DANA POINT, CALIFORNIA 92629

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South Orange County Wastewater Authority

Comprehensive Annual Financial Report
For the Years Ended June 30, 2020 and 2019

Prepared By:
The Finance Department

34156 Del Obispo Street, Dana Point, CA 92629 www.socwa.com

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**South Orange County Wastewater Authority
Comprehensive Annual Financial Report
For the YEARS Ended June 30, 2020 and 2019**

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INTRODUCTORY SECTION

(UNAUDITED)

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South Orange County Wastewater Authority

December 8, 2020

The Honorable Board of Directors
South Orange County Wastewater Authority
34156 Del Obispo Street
Dana Point, California 92629

Honorable Chairman and Members of the Board of Directors:

We are pleased to present the South Orange County Wastewater Authority's (Authority or SOCWA) Comprehensive Annual Financial Report (CAFR) for the fiscal years ended June 30, 2020 and 2019.

We believe the report presented is accurate in all material respects, that it is presented in a manner designed to fairly set forth the financial position, the changes in financial position and cash flows of the Authority, and that all disclosures necessary to enable the reader to gain the maximum understanding of the Authority's financial position and activity have been included. Additionally, the financial section of the report provides a detailed discussion and analysis of the Authority's financial condition, informs readers about SOCWA services, provides information on capital projects, discusses current issues, and provides financial and demographic trend information. Responsibility for both the accuracy of the presented data and the completeness and the fairness of the presentation, including all disclosures, rest with the Authority.

The CAFR follows the financial reporting requirements established by the Governmental Accounting Standards Board of the United States (GASB).

The Reporting Entity

SOCWA, a public entity, was formed on July 1, 2001 by a Joint Exercise of Powers Agreement ("JPA") amongst:

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

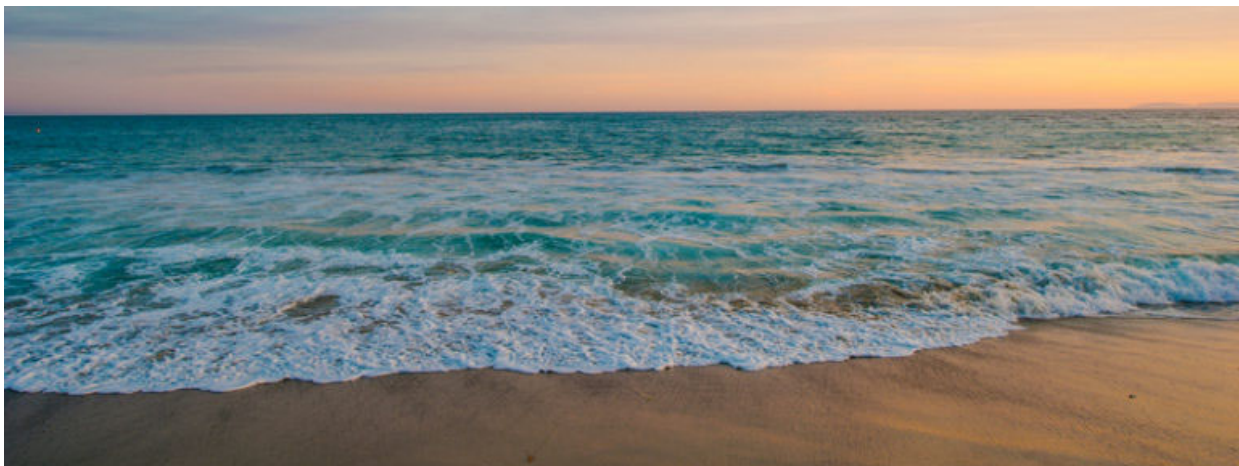
In accordance with the JPA Agreement and State Law, "...[T]he records, and accounts of the Authority shall be audited annually by an independent public accountant and copies of such reports shall be filed with the State Controller, Orange County Auditor and each Member Agency within six (6) months of the end of the Fiscal Year under examination".

The Pun Group, LLP, a certified public accounting firm, performed the financial audits for the Fiscal Years Ended June 30, 2020 and 2019. Their unmodified (clean) opinion has been included as the first component of the financial section of the CAFR.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that has been established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable rather than absolute assurance that the financial statements are free of any material misstatements.

Management's Discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with the letter.

Authority Overview



Mission

South Orange County Wastewater Authority's mission is to collect, treat, beneficially reuse and dispose of wastewater in a manner that protects and respects the environment, maintains the public's health, and meets local, state and federal regulations.

SOCWA's Purpose

SOCWA was created on July 1, 2001 to facilitate and manage the collection, transmission, treatment and disposal of wastewater for more than 500,000 homes and businesses across South Orange County. SOCWA also manages production of recycled water for irrigation and commercial uses, which saves approximately 1.8 billion gallons of domestic water each year, which is equivalent to 5,593 acre feet of water.

SOCWA is a Joint Powers Authority with ten member agencies, consisting of local retail water agencies and cities that provide retail potable water, recycled water and sewer collection system services to their residents. SOCWA operates three treatment plants and two ocean outfalls. Additionally, SOCWA manages multiple programs to meet the needs of its member agencies and the requirements of the Clean Water Act and applicable National Pollutant Discharge Elimination System (NPDES) permits.

SOCWA has no taxing authority. All the funding for SOCWA comes directly from the rates and charges of the member agencies.

Governance

SOCWA is a Joint Powers Authority representing ten member agencies each of whom provides a governing representative to SOCWA's Board of Directors. Although SOCWA agencies vary in size and participation, each agency has one equal vote. The Board works to fulfill SOCWA's purpose and mission, while balancing the interests of their respective agencies. The Board elects two of its members in June of each year to serve one-year terms as Chairman and Vice Chairman. Board of Directors meetings are held the first Thursday of every month at 8:30 a.m. at the SOCWA Administrative Office. SOCWA also receives input from engineering and finance committees, which are comprised of additional representatives from its 10 member agencies.

Budget Process

Annually, the Authority prepares and adopts an Annual Budget. The Budget reflects the Authority's initiatives and priorities for the coming year and beyond. The Budget includes operations and maintenance (O&M) and capital expenditures. The Budget includes the following described tables addressing a one-year operating Budget with an additional four years O&M spending forecast and an additional year of forecasted capital expenditures.

The O&M Budget tables include the following:

- Total O&M Budget by Member Agency
- 5-Year Budget by Member Agency
- 5-Year Budget by Member Agency including details of Administration, Residual Engineering and General Fund Allocation
- 5-Year Total Cost Base & Cost Drivers Prioritized by Major Expenditures
- Guide to Budget Book
- Budget Assumptions
- Summary of Cost Allocations Approaches by Project Committee (Per JPA and Project Committee Agreements)
- Total 5-Year Labor Plan
- Fringe Benefits Pool and Rate FY 2020-21 and Forecast thru FY 2024-25
- Organization Chart
- For each annual period of the Budget, quarterly detail by Project Committee and Member Agency
- For each Project Committee for five years line item detail
- For Administration and General Fund expenses five years line item detail
- For Residual Engineering expenses five years line item detail
- For IT expenses five years line item detail
- For each of SOCWA's ten Project Committees flow and solids loading percentages and distributions of expense by allocation to liquids, solids, common and AWT with distribution shown to each member agency

The Capital Budget tables include one year plus an additional year of forecast for the following:

- Capital Budget Summary with one-year forecast by Member Agency
- Capital Budget with Non-Cap Engineering, Non-Cap Miscellaneous & Small Capital by Member Agency
- Quarterly Capital Projects detail
- Non-Capital Engineering detail and Non-Capital misc.
- Small Capital detail
- Total Capital Projects detail

- Quarterly Capital Projects detail

Each budget serves as the Authority's financial planning and fiscal control mechanism. Budgets are adopted on a basis consistent with governmental GAAP. Budgetary controls are set at the Project Committee level and are maintained to ensure compliance with the Project Committees budgets approved by the Board of Directors. The Authority's budget is a detailed operating plan that identifies estimated costs with member agencies providing revenue to cover costs. Each budget includes the projects, services and activities to be carried out during the fiscal year.

Budget control is maintained by presenting monthly financial reports to internal management and the Board. The Board receives operational performance data and budget vs. actual reporting, as follows:

- Summary of Disbursements
- Schedule of Funds Available for Reinvestment, including Cash and Investments
- Capital Schedule and Capital Project Graph with budget vs. actual expenditures
- Budget vs. Actual for:
 - Operations and Environmental Summary and by Project Committee
 - Residual Engineering, after transfer to Capital
 - Administration
 - Information Technology (IT)

The Budget also represents a process wherein policy decisions made by the Board of Directors are adopted, implemented and controlled. As an example, each budget states: "[a]ll Budgets since inception reflect the costs of direct use and costs allocated by capacity ownership for capital improvements, repairs and replacements necessary to operate within legal compliance requirements and accepted industry standards." The signature authority levels authorized for expenditures are in conformance with SOCWA's Uniform Purchasing Policy and Procedures. Budget approval authorizes staff to contract for services, acquire supplies and pay vendors and expenses within the Functional Departments and Project Committees.

Economic Condition and Outlook

The wastewater industry is presently being shaped by local, regional, national and global issues and trends. These wide ranging economic, regulatory and environmental influences, which will continue in the future, will affect public agencies and their end use customers. Several of these areas are explained in more detail in the following sections:

Cost Pressures

- Covid-19 Impacts: National Association of Clean Water Agencies (NACWA) states the pandemic economic impact nationwide for wastewater entities is estimated at \$12.5 billion and represents a 20% drop in revenue from reduced usage of commercial and industrial dischargers. Locally, SOCWA member agencies have not experienced significant revenue impairment, but most member agencies determined to forego or reduce planned rate increases in anticipation of impacts to ratepayers due to the coronavirus. SOCWA mounted a robust response to the pandemic; adding safe work practices for essential service employees and developed employee tracking, training programs, leave and return to work policies and other administrative and engineered controls to insure increased safety in the work place.
- Infrastructure: The 2019 California ASCE Report Card for California's Infrastructure rated wastewater system investment a grade C+ noting that "[d]ue to the critical nature of treatment facilities and pump stations, they typically receive more frequent maintenance and renewal

when compared with buried systems. Additionally, changing regulatory factors on these vertical assets results in a replacement and renewal period that is generally less than 25 years.”

- **Legislative and regulatory:** Added state mandates continue to drive costs upward with the California Association of Sanitation Agencies noting the 2020 legislative session introduced 50 new bills of interest to wastewater agencies. This year, the Ocean Protection Council Strategic Plan establishing an ambitious vision; “[b]y 2022, based on the latest scientific results, establish interim goals as needed for significantly reducing nutrient loading and/or phasing out coastal wastewater discharge into the ocean. Work with partners to achieve a goal of 80-90% of coastal wastewater recycling that can be put to beneficial use by 2040.”
- **Energy and Resources:** In its July 2020 assessment of Sustainable Water Infrastructure, Energy Efficiency for Water Utilities, EPA reports that “[f]or many municipal governments, drinking water and wastewater plants typically are the largest energy consumers, often accounting for 30 to 40 percent of total energy consumed....” representing 2 percent of energy use. California energy costs are reported as third highest in the nation for commercial electricity pricing as driven by new and continuing regulatory requirements. Climate change initiatives are also impacting cost trends in energy and biosolids management for wastewater agencies.
- **Population Growth:** The population of California is expected to reach 46 million by the year 2037. Population growth will drive a statewide need to treat an additional 720 million gallons per day of wastewater, thus requiring planned system expansions and/ or new plants at various locations throughout the state.
- **Drought and Water Resource Strategies:** Continued demand for water, coupled with ongoing drought conditions, will impact overall water management costs, resulting in a more directed focus on “water resource” strategies across California. Locally, groundwater basin desalination plants have been effective in helping to clean up high saline groundwater supplies. Water managers are building year-round storage for recycled wastewater and studying options for greater recharge, as well as indirect and direct reuse to turn available wastewater into a commodity.
- **Employee Salaries and Benefits:** Strong retirement trends mean that public agency employers must remain competitive against other public or private providers of wastewater services. Recent adjustments in the assumptions used by CalPERS and earnings profiles have created higher employer costs over the last few years. One significant change was the reduction in CalPERS’ “discount rate” (the assumed investment rate of return) from 7.5 percent to 7 percent, meaning that to pay for a defined benefit, employers must contribute more to the fund.
- **Technology:** Improving technology is now a best practice requirement for the wastewater industry. As a result, agencies within the industry should be able to take advantage of evolving technology tools to improve efficiencies, deal with the proliferation of data, mitigate cybersecurity threats, and improve their communications, thereby saving costs and increasing productivity.

Long-term Financial Planning

Because of the nature of its structure and mission, the organization does not have the traditional customer base that characterizes water, sanitation or other special districts. The organization’s customers are limited to the following:

- Each of SOCWA’s ten member agencies is distinguished by membership in one or more Project Committees, or by issues and needs for which the organization provides a level of service or assists in providing a resolution.
- Commercial/industrial or institutional businesses engage with SOCWA under the jurisdiction of the organization’s Pretreatment Program. These businesses may include auto repair shops, some light industrial, dry cleaning establishments and hospitals which obtain permits from

SOCWA. Pretreatment program permittees receive SOCWA inspections and assistance with Best Management Practices as a part of the required permit compliance process.

- SOCWA serves cities and private communities in permitting the diversion of non-point source urban runoff that would otherwise impact our local beach resources.

Internal Controls

SOCWA's management is responsible for establishing and maintaining the internal control structure that protects the assets of the Authority from loss, theft or misuse. The internal control structure ensures adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles.

The Authority's internal control structure is designed to provide reasonable assurances that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and the valuation of costs and benefits requires estimates and judgments by management.

Investment Policy

The Board of Directors annually adopts an Investment Policy that conforms to California State Law, Authority ordinances and resolutions, prudent money management and the "prudent person" standards. The objectives of the Investment Policy are safety, liquidity and yield. SOCWA's funds are routinely invested in the State Treasurer's Local Agency Investment Fund (LAIF).

Independent Audit

In accordance with the JPA Agreement and State Law, "...the records, and accounts of the Authority shall be audited annually by an independent public accountant and copies of such reports shall be filed with the State Controller, Orange County Auditor and each Member Agency within six (6) months of the end of the Fiscal Year under examination".

The Pun Group, LLP, a certified public accounting firm, performed the financial statement audits for the Fiscal Years ended June 30, 2020 and 2019. The audits were conducted in accordance with auditing standards generally accepted in the United States of America. The firm's report has been included in the financial section of this report.

Infrastructure



Guarding the environment and creating new water supplies requires among the most advanced treatment facilities in the State. SOCWA's three primary treatment facilities can treat upwards of 26 million gallons of wastewater per day. Historically, about half of this water is treated for recycled water use. The balance is treated and discharged miles off our coast through two ocean outfalls.

Coastal Treatment Plant



Facts

- Location: 28303 Alicia Parkway, Laguna Niguel, CA 92677 (adjacent to the City of Laguna Beach, CA)
- Receives Flows From: South Coast Water District, City of Laguna Beach and Emerald Bay Services District
- Total Capacity: 6.7 million gallons per day
- Average Capacity Used Today: 2.9 million gallons per day
- Year Built: 1983
- Recycled Water Production: Up to 1.5 million gallons per day

Wastewater Treatment Processes

- Screening
- Grit removal
- Primary clarification
- Secondary treatment
- Secondary clarification
- Tertiary treatment
- Anaerobic digestion
- Thickening

Interesting Facts

- The Coastal Treatment Plant shares a boundary with the County of Orange owned and operated Aliso and Wood Canyon Wilderness Park.
- SOCWA has a responsibility to guard this natural environment and is taking steps to ensure SOCWA's co-existence near the park is protective of the natural environment

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JB Latham Treatment Plant



Facts

- Location: 34156 Del Obispo Street, Dana Point, CA 92629 (adjacent to SOCWA headquarters building)
- Receives Flows From: City of San Juan Capistrano, Moulton Niguel Water District, Santa Margarita Water District, South Coast Water District
- Type of Facility: Conventional activated sludge treatment facility
- Total Capacity: 13 million gallons per day
- Average Capacity Used Today: Approx. 6 million gallons per day
- Year Built: 1964

Wastewater Treatment Plant Processes

- Screening
- Grit removal
- Primary clarification
- Secondary treatment
- Secondary clarification Anaerobic digestion
- Solids dewatering

Interesting Facts

- The JB Latham Plant produces energy that is used on site
- Approximately 40 percent of the power needed is produced from methane gas that is a byproduct of the treatment process
- SOCWA received approximately \$1 million in grant funding for on-site energy production
- Hundreds of students and interested residents tour the facility each year
- JB Latham was awarded best medium-sized plant in the state by the California Water Environment Association in 2017

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Regional Treatment Plant



Facts

- Location: 29201 La Paz Road, Laguna Niguel, CA 92677 (adjacent to County Regional Park)
- Receives Flows Primarily from Moulton Niguel Water District
- Total Capacity:
 - Liquid waste: 12 million gallons per day
 - Solid waste: 20 million gallons per day
- Average Capacity Used Today: 7.3 million gallons per day
- Recycled Water Production: Up to 7.3 million gallons per day
- Year Built: 1982

Wastewater Treatment Plant Processes

- Screening
- Grit removal
- Primary clarification
- Secondary treatment
- Secondary clarification
- Tertiary Treatment
- Anaerobic digestion
- Solids dewatering

Interesting Facts

- The Regional Plant facility produces its own energy to save energy and costs
- Approximately 90 percent of the power needs are produced on-site from methane gas for beneficial reuse that is a byproduct of the treatment process
- SOCWA was awarded approximately \$1.8 million in grant funding for on-site energy production
- Hundreds of students and interested residents tour the facility each year
- Houses the regional laboratory that analyzes over 25,000 compliance, process control, and drinking water samples per fiscal year
- Some of the biosolids from these plants – also known as residual solids – are trucked off-site to a composting facility. Composted biosolids can be land applied to help grow non-food crops such as cotton and alfalfa.

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Aliso Creek Ocean Outfall



The Aliso Creek Outfall discharges highly treated wastewater 1.5 miles off the Orange County coast in accordance with strict State and Federal laws. The San Diego Regional Water Quality Control Board governs this discharge process. SOCWA holds a National Pollution Discharge Elimination System (NPDES) permit, which must be renewed by the Regional Board by application filed every five years.

Interesting Facts

- Year Built: 1979
- Length: 1.5 Miles (8,700') off Aliso Creek Beach at a depth of 195 feet
- Capacity Used Today: 9.3 million gallons per day
- Ocean Water Quality Monitoring Sites: 21
- Ocean Monitoring Frequency: Once per month
- Beach Water Quality Monitoring Sites: 12
- Beach Monitoring Frequency: Weekly
- Annual Water Quality Samples: Nearly 2,200

San Juan Creek Ocean Outfall



The San Juan Creek Ocean Outfall discharges highly treated wastewater 2.2 miles off the Orange County coast in accordance to strict state and federal laws. The Regional Water Quality Control Board

governs this discharge process. SOCWA holds a National Pollution Discharge Elimination System (NPDES) permit, which must be renewed by application to the Regional Board filed every five years.

San Juan Creek Ocean Outfall Continued:

Interesting Facts

- Year Built: 1978
- Length: 2.2 Miles (10,334') off Doheny State Beach at a depth of 100 feet
- Capacity Used Today: 10.5 million gallons per day
- Ocean Water Quality Monitoring Sites: 21
- Ocean Monitoring Frequency: Monthly
- Beach Water Quality Monitoring Sites: 9
- Beach Monitoring Frequency: Weekly
- Annual Water Quality Samples: Nearly 1,700

Capital Projects



SOCWA undertakes large and small capital projects to ensure the reliability of our infrastructure. These improvements protect the environment by allowing for the continued safe treatment and disposal of wastewater. FY 2019-20 was focused on beginning construction of the Capital Improvements designed in 2018-19 and earlier years for all three wastewater treatment plants.

A summary of work now underway and planned for each plant includes:

J.B. Latham Treatment Plant Facility Improvements 2019-20

For the J.B. Latham Treatment Plant, Package B improvements construction began in August 2019 with a value of \$17.3 million. The construction work includes: solids process rehabilitation to dissolved air floatation system including tanks and thickened waste activated sludge pumps; effluent pump station mechanical, electrical and instrumentation modifications including new check valves and valves; primary and secondary sedimentation upgrades (influent and effluent channel & basin improvements, scum skimmer drive electrical and instrumentation modifications); digester 1&2 mixing system upgrades (including building and heating system upgrades); digester 4 replacement of heat exchanger and recirculation pump; boiler replacement with electrical and instrumentation improvements and MCC system upgrades; solids handling building roof and structural seismic improvements and addition of monorail system; concrete repairs and safety improvements throughout plant; and demolition of old lab building.

Coastal Treatment Plant Facility Improvements 2019-20

For the Coastal Treatment Plant, the Facilities Improvement Project kicked off construction on schedule in August 2019 with a value of \$9.2 million. The work underway includes: site improvements (grading and paving); demolition of sodium hypochlorite facility; new piping for drainage pump station; demolition and replacement of ferric chloride containment system with canopy addition & install power and control system for new ferric chloride system; demolition & replacement of equipment and repair of concrete for secondary sedimentation basins including modifications to the RAS channel; upgrades to main switchgear building including improved HVAC system, demolition of old equipment and replacement with new switchgear; improvements to DAF utility building including improved HVAC; construction of new drainage pump station and discharge piping (installation of new power and control system for new drainage pump station); general safety improvements including installation of fall protection equipment; structural improvements to grit chamber; electrical systems improvements in headworks electrical building, operations building, generator building and main switchgear building, north blower electrical building, and DAF control building; instrumentation network modifications; and construction to improve safe access to headworks valve areas.

Additionally, planning for construction of the Sludge Forcemain Improvements proceeded with \$3.7 million in work to upgrade two 4" sewer forcemains to one 6" forcemain for the delivery of wastewater solids from the Coastal Treatment Plant to the Regional Treatment Plant. The project estimated start of construction is January 2021 with bidding set to be received in December 2020.

Regional Treatment Plant Miscellaneous Improvements 2018-19

For the Regional Treatment Plant, the Miscellaneous Improvements 2018 construction work began on schedule in July 2019 with a value of \$4.2 million. The construction underway includes: plant secondary process electrical system improvements; primary gallery improvements (fan room, scum pumps, HVAC systems, coatings, lighting); mechanical improvements to the DAF polymer system and installed polymer metering and recirculation system; for the DAF systems modify compressed air and power supply systems; and energy building improvements including installation of equipment bay platform, access stair and safety improvements, building roof improvements, exhaust fan installation and electrical upgrades.

SOCWA Small Capital Program

SOCWA continued to invest \$1.5 million in small capital improvements in FY 2019-2020 which become a part of capitalized assets. There are two primary benefits to small capital investments. The first benefit is that the Treatment Plants are maintained in a state of readiness. Staff plans for the replacement of ailing equipment and new technologies are installed for improved operations. Additionally, obsolete or unsupported equipment is replaced to avoid catastrophic issues, and safety hazards are mitigated in a timely fashion. Attention to maintenance and operational investment assists SOCWA in right sizing its capital program by keeping critical equipment in good repair. For example, a planned larger capital project to rehabilitate an office building in 5 to 10 years would need to be expedited if the office building's air conditioner failed now. However, with a small capital project to replace the air conditioner now, the larger project can stay scheduled 5 to 10 years out.

SOCWA Member Agencies

SOCWA is a Joint Powers Authority, working to fulfill the wastewater needs of its ten member agencies.



El Toro Water District



Irvine Ranch Water District



City of Laguna Beach



Moulton Niguel Water District



City of San Clemente



South Coast Water District



City of San Juan Capistrano



Santa Margarita Water District



Trabuco Canyon Water District



Emerald Bay Service District

Community Outreach



SOCWA is active in its local communities to help inform residents about the importance and proper use of the sanitary sewer system. Through education and outreach, we can all work together to keep our beaches and communities clean.

Community Events

SOCWA provides information to the public at community events such as the Dana Point Festival of the Whales and annual beach cleanups. This outreach offers the public the opportunity to learn more about SOCWA. Community members engaging with SOCWA staff at community events often follow up with us for guided tours of our treatment facilities and meet staff members.

Other References

More information is contained in the Authority's management discussion and analysis and the notes to the basic financial statements found in the financial section of this report.

CAFR Awards and Acknowledgments

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Authority for its CAFR for the fiscal year ended June 30, 2019.

We appreciate the dedication and professionalism of the Finance Department staff who contributed to the receipt of this award.

Respectfully submitted,

A handwritten signature in blue ink that reads "B. Burnett".

Betty Burnett, General Manager

A handwritten signature in blue ink that reads "Mary Carey".

Mary Carey, Finance Controller



The Government Finance Officers Association of
the United States and Canada

presents this

AWARD OF FINANCIAL REPORTING ACHIEVEMENT

to

Finance Department

South Orange County Wastewater Authority, California



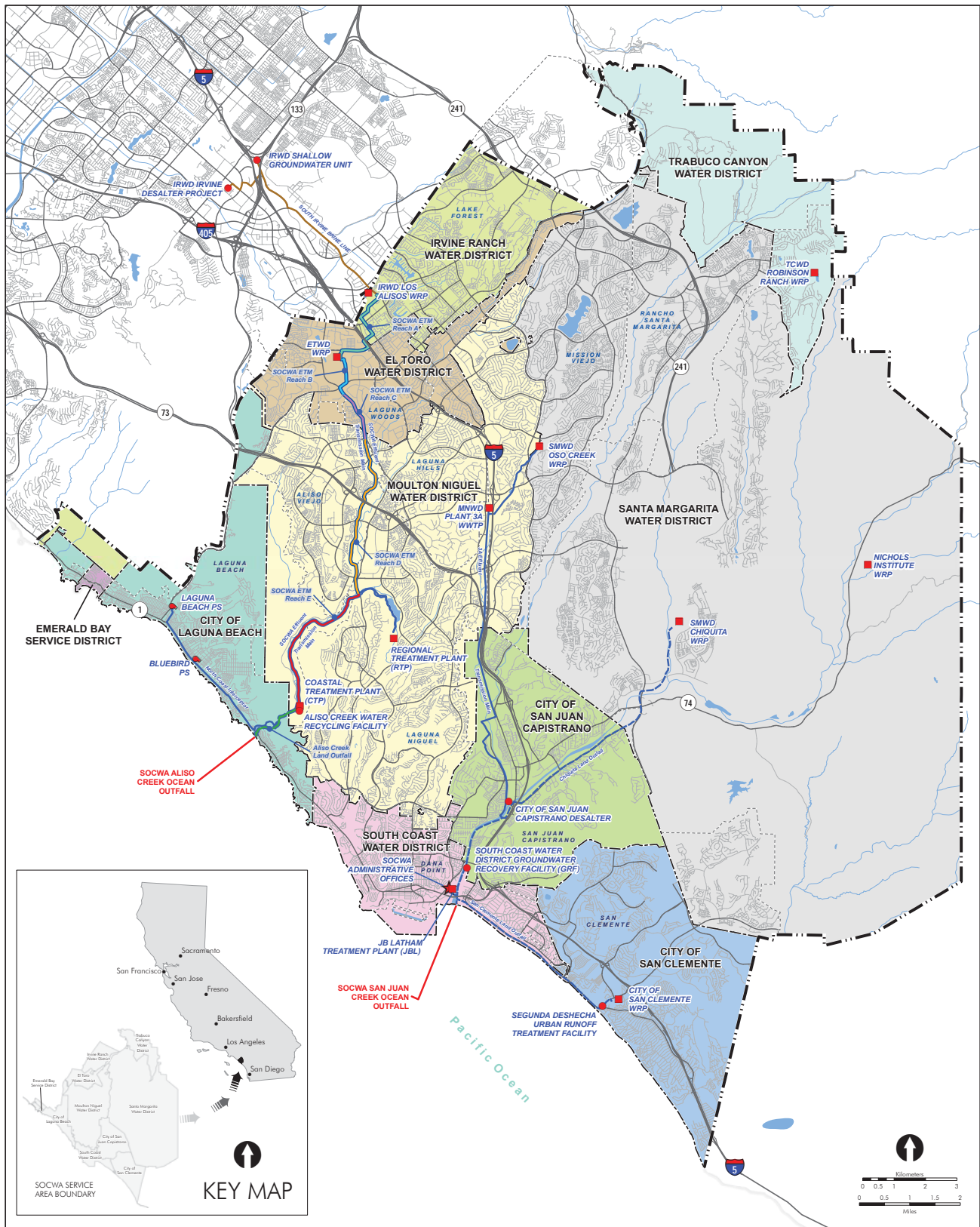
The award of Financial Reporting Achievement is presented by the Government Finance Officers Association to the department or individual designated as instrumental in the government unit achieving a Certificate of Achievement for Excellence in Financial Reporting. A Certificate of Achievement is presented to those government units whose annual financial reports are judged to adhere to program standards and represents the highest award in government financial reporting.

Executive Director

Christopher P. Morill

Date: 11/13/2020

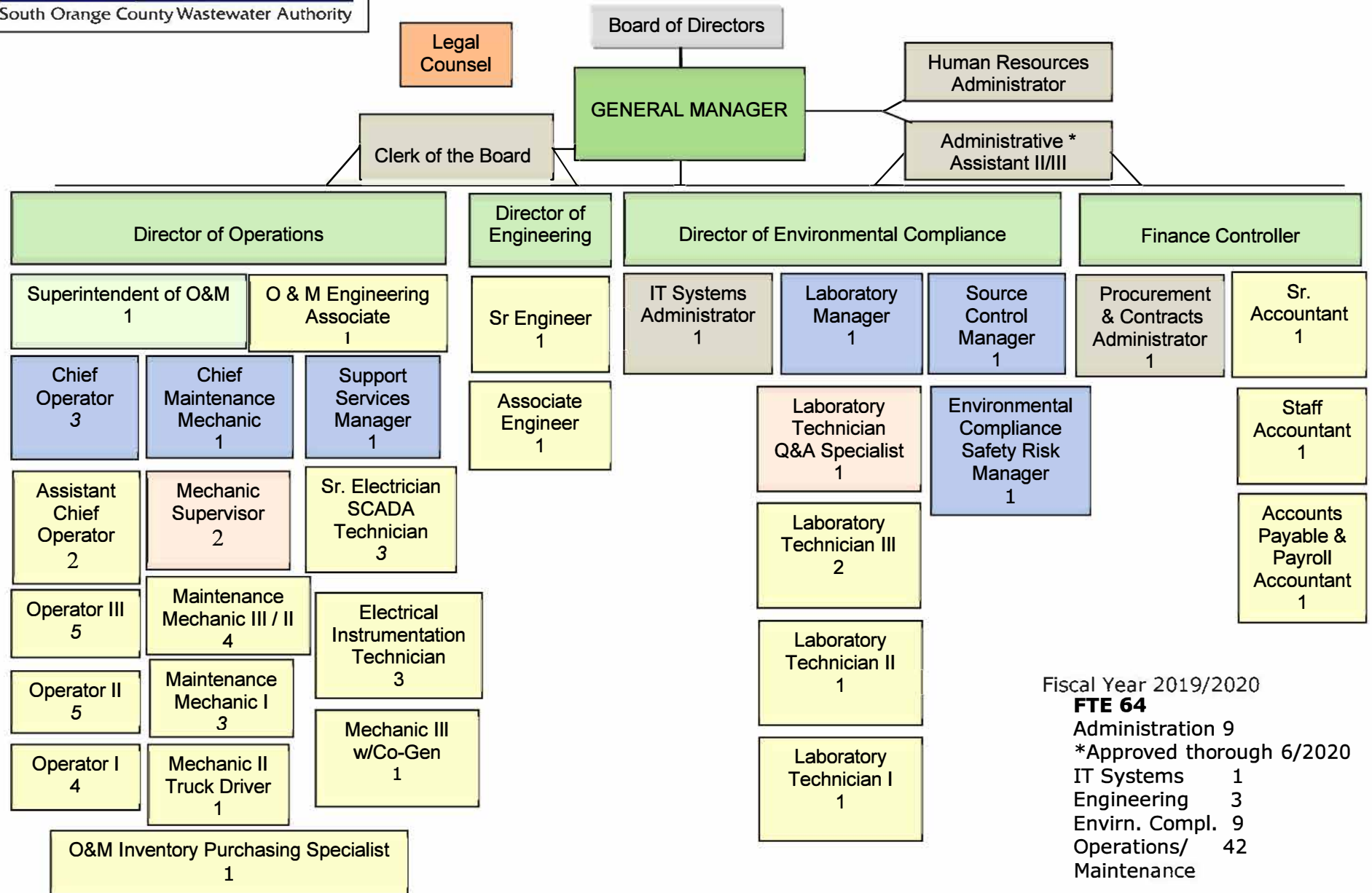
SOCWA SERVICE AREA MAP





FY 2019-20 Organization

(Budgeted Head Count)



Fiscal Year 2019/2020

FTE 64

Administration 9

*Approved thorough 6/2020

IT Systems 1

Engineering 3

Envrn. Compl. 9

Operations/ 42

Maintenance

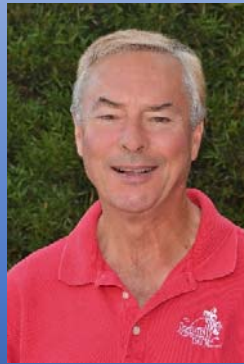
Board of Directors



Dan Ferons
Santa Margarita Water
District
Chairman of the Board



Stephen Dopudja
Trabuco Canyon Water
District
Vice Chairman



Mike Dunbar
Emerald Bay Service
District
Director



Kathryn Freshley
El Toro Water District
Director



Joone Lopez
Moulton Niguel Water
District
Director



Doug Reinhart
Irvine Ranch Water
District
Director



Toni Iseman
City of Laguna Beach
Director



Dennis Erdman
South Coast Water
District
Director



Troy Bourne
City of San Juan
Capistrano
Director



Dave Rebensdorf
City of San Clemente
Director

FINANCIAL SECTION

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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 financial statements of the South Orange County Wastewater Authority (the "Authority") as of and for the years ended June 30, 2020 and 2019, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 audits 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 Authority'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 Authority'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 opinions.

Opinions

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, 2020 and 2019, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of the Authority's Proportionate Share of the Net Pension Liability and Related Ratios, the Schedule of Contributions - Pensions, the Schedule of Changes in Net Other Postemployment Benefits Liability and Related Ratios and the Schedule of Contributions - Other Postemployment Benefits Liability and Related Ratios on pages 3 through 17, and 53 through 58, 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 audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The Introductory and Statistical Sections are presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Introductory and Statistical Sections have 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated Need Date on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's 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 Authority's internal control over financial reporting and compliance.

**South Orange County Wastewater Authority
Management's Discussion and Analysis
For the Years Ended June 30, 2020 and 2019**

This section of South Orange County Wastewater Authority's (Authority or SOCWA) financial statements presents an analysis of the Authority's financial performance during the fiscal year ended June 30, 2020 in comparison to fiscal year ended June 30, 2019. This information is presented in conjunction with the transmittal letter in the Introductory Section, and with the basic financial statements and related notes, which follow this section.

Overview of the Authority's Financial Statements

The financial statements consist of the following two parts: Management's Discussion and Analysis, Basic Financial Statements and related Notes to the Basic Financial Statements.

Basic Financial Statements

The financial statements of the Authority report information utilizing the full accrual basis of accounting. The financial statements conform to accounting principles generally accepted in the United States of America.

The Statement of Net Position includes information on the Authority's assets, deferred outflows of resources, liabilities, and deferred inflows of resources and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Authority's creditors (liabilities).

The Statement of Revenues, Expenses, and Changes in Net Position identify the Authority's revenues and expenses for the fiscal year. This statement provides information on the Authority's operations for the fiscal year and can be used to determine whether the Authority has recovered all its actual and projected costs through user fees and other charges.

The Statement of Cash Flows provides information on the Authority's cash receipts, cash payments and changes in cash resulting from operations, and investments and financing activities. From the Statement of Cash Flows, the reader can obtain information on the source and use of cash and the change in the cash and cash equivalents balance for the fiscal year.

Notes to the Basic Financial Statements

The notes provide additional information that is essential for a full understanding of the data provided in the basic financial statements.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain Required Supplementary Information concerning the Authority's progress in funding its obligation to provide pension benefits and post-employment benefits to its employees.

Financial Analysis of the Authority

The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position provide an indication of the Authority's financial condition and indicate whether the financial condition of the Authority improved over time. The Authority's net position reflects the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. An increase in net position over time typically indicates an improvement in financial condition.

**South Orange County Wastewater Authority
Management's Discussion and Analysis (Continued)
For the Years Ended June 30, 2020 and 2019**

Financial Highlights for Fiscal Years 2020 and 2019

- At June 30, 2020, the Authority's total assets and deferred outflows of resources exceeded the total liabilities and deferred inflows of resources by \$137 million (net position), which is an increase of \$6.5 million or 5.0% over the 2019 fiscal year-end balance of \$131 million.

The increase is primarily due to construction-in-progress (CIP) growth, \$10.9 million or 89%.

The growth represents progress on facilities improvement projects at the Authority's three Treatment Plants, JB Latham, Project Committee (PC) 2, \$5.0 million, Coastal, PC 15, \$2.7 million and Regional, PC 17, secondary electrical system rerouting project, \$2.4 million.

Construction-in-progress (CIP)

2020					
Balance July 1, 2019	Expenditures	Assets in-service	Balance June 30, 2020	Change +/- (-)	% Change
CIP \$12,337,878	12,976,173	(2,041,990)	\$23,272,061	\$10,934,183	88.6%

- Offsetting the increase in the current year CIP is a \$3.9 million or 3.8% decrease in capital assets, depreciable, net. Accumulated depreciation exceeded acquisitions due to schedule changes on completion of capital projects.

Capital Assets, depreciable

2020				
	Balance July 1, 2019	Additions	Balance June 30, 2020	% Change
Capital assets, depreciable	\$309,716,685	\$3,241,494	\$312,958,179	1.0%
Accumulated depreciation	(205,816,199)	(7,162,356)	(212,978,555)	3.5%
Capital assets, depreciable, net	\$103,900,486	(\$3,920,862)	\$99,979,624	-3.8%

- At June 30, 2019, the Authority's total assets and deferred outflows of resources exceeded the total liabilities and deferred inflows of resources by \$131 million (net position), which is an increase of \$3.8 million or 3.0% over the 2018 fiscal year-end balance of \$127.2 million primarily due to an increase in large capital cash for facilities improvement projects, \$6.3 million or 71.4%.
- Offsetting the fiscal year 2019 cash increase is a \$3.2 million or 76% decrease in net receivables due to Moulton Niguel Water District payment, \$1.6 million, and settlement of two years use audit with member agencies, \$1.6 million.
- At June 30, 2020, cash increased \$1.5 million or 7.2% primarily due to COVID-19 related work delays on small capital projects and non-capital tasks.

**South Orange County Wastewater Authority
Management's Discussion and Analysis (Continued)
For the Years Ended June 30, 2020 and 2019**

Non-Capital and Small Capital Cash Year Ended June 30

Type	2020	2019	Change +/- (-)	% Change	Explanation
Non-Capital ¹	\$1,022,081	(\$164,001)	\$1,186,082	-723.2%	COVID-19 related work delays
Small Capital	704,957	404,454	300,503	74.3%	COVID-19 related work delays
Total	<u>\$1,727,038</u>	<u>\$240,453</u>	<u>\$1,486,585</u>	<u>618.2%</u>	

¹Tasks that will not become a capital project, recorded as an operating expense.

- Inventories of standby spare parts were consumed and/or moved to capital based on a fiscal year 2020 technical review that determined:
 - Repairable spare parts are classified as other non-current assets similar to property, plant and equipment, rather than inventory because such parts are repaired and re-used over a long period of time, between three and ten years, the same period over which such parts are amortized.
 - The Authority's purchased spare parts and standby equipment, once installed, will have a service life that exceeds 1 year.
 - The parts are also standalone assets that meet the Authority's capitalization thresholds.

Capital or Inventory Spare Parts Review

Type	2020	2019	Change +/- (-)	% Change	Explanation
Inventories		\$701,387	(\$701,387)	-100.0%	Consumed and/or moved to Capital

- Net Pension Liability increased \$1.2 million or 8.9% in the current year due to:

	<u>\$ Change</u>	<u>% Change</u>
Method Change ¹	\$602,315	51.3%
Non-Asset (Gain)/Loss ²	314,783	26.8%
Asset (Gain)/Loss ³	258,137	22.0%
Assumption Change ⁴	0	0.0%
Total	<u>\$1,175,235</u>	<u>100.0%</u>

¹CalPERS Valuation Software System Change

²Changes not related to Investment Returns; such as, mortality, discount rate, pay increases, etc.

³Financial Market Investment Return Less than Targeted Performance of 7%.

⁴Actuarial Assumptions, 15 years mortality improvement, discount rate 7.15%, 2.5% inflation, salary increases, etc.

**South Orange County Wastewater Authority
Management's Discussion and Analysis (Continued)
For the Years Ended June 30, 2020 and 2019**

Net Pension Liability Fiscal Year Ended June 30					
Description	2020	2019	2018	Change between 2020 and 2019 \$ +/-(-)	% Change
Measurement date	6/30/2019	6/30/2018	6/30/2017		
Total pension liability	(\$55,450,648)	(\$52,230,824)	(\$49,973,230)	(\$3,219,824)	6.2%
Fiduciary net position	41,089,097	39,044,508	36,562,793	2,044,589	5.2%
Net pension (liability)	(\$14,361,551)	(\$13,186,316)	(\$13,410,437)	(\$1,175,235)	8.9%
% Funded	74.1%	74.8%	73.2%	-0.7%	

- At June 30, 2019, the Authority's proportionate share of the net pension liability, \$13,186,316, decreased by \$224 thousand or 1.7% from 2018. The most significant factor was actuarial experience for the year.
- Net OPEB (Retiree Health) Liability increased \$941 thousand or 19.8% in the current year due to:

	\$ Change	% Change
Discount rate reduced from 7% to 6.5%	\$474,796	50.5%
Active Employees accrual for 1 additional year of service	465,794	49.5%
Total	\$940,590	100.0%

Net OPEB (Retiree Health) Liability Fiscal Year Ended June 30					
Description	2020	2019	2018	Change between 2020 and 2019 \$ +/-(-)	% Change
Measurement date	6/30/2020	6/30/2019	6/30/2018		
Total OPEB Liability	(\$10,959,190)	(\$9,885,778)	(\$10,182,408)	(\$1,073,412)	10.9%
Fiduciary net position	5,270,639	5,137,817	4,823,410	132,822	2.6%
Net OPEB (liability)	(\$5,688,551)	(\$4,747,961)	(\$5,358,998)	(\$940,590)	19.8%
% Funded	48.1%	52.0%	47.4%	-3.9%	

- At June 30, 2019, Net OPEB liability, \$4,747,961, decreased by \$611 thousand or 11.4% primarily due to favorable differences in expected vs. actual experiences.
- At June 30, 2020, the Authority's pension related deferred outflows were \$3.4 million and deferred inflows were \$1.2 million.

**South Orange County Wastewater Authority
Management's Discussion and Analysis (Continued)
For the Years Ended June 30, 2020 and 2019**

Deferred Outflows/Inflows Balances at June 30, 2020

	Deferred Outflows of Resources	Deferred Inflows of Resources
■ Differences between expected and actual experience	\$ 997,470	\$ (77,284)
■ Changes of assumptions	684,825	(242,765)
■ Net differences between projected and actual earnings on plan investments	-	(251,084)
■ Change in employer's proportion	232,040	(35,269)
■ Differences between the employer's contributions and the employer's proportionate share of contributions	-	(561,153)
■ Pension contributions subsequent to measurement date	1,441,008	-
■ Total	\$ 3,355,343	(\$1,167,555)

- At June 30, 2020, the Authority's OPEB related deferred outflows were \$647 thousand and deferred inflows were \$411 thousand.

OPEB related Deferred Outflows/Inflows Balances at June 30, 2020

Deferred Inflows of resources - experience
Deferred outflows of resources - changes of assumptions
Deferred outflows of resources - differences projected/actual
Total

Deferred Outflows of Resources	Deferred Inflows of Resources
	(\$411,253)
\$510,207	
136,593	
\$646,800	(\$411,253)

**South Orange County Wastewater Authority
Management's Discussion and Analysis (Continued)
For the Years Ended June 30, 2020 and 2019**

Net Position

A summary of the Authority's Statement of Net Position is presented below.

Condensed Statement of Net Position							
	Fiscal Year 6/30/2020	Fiscal Year 6/30/2019	Fiscal Year 6/30/2018	Change between 2020 and 2019		Change between 2019 and 2018	
				\$ +/-	% Change	\$ +/-	% Change
Current Assets	\$23,520,569	\$22,755,001	\$18,402,205	\$765,569	3.4%	\$4,352,796	23.7%
Non-Current Assets:							
Capital Assets not being depreciated	37,674,285	26,740,102	35,236,026	10,934,183	40.9%	(8,495,924)	-24.1%
Capital Assets, net	99,979,624	103,900,486	96,017,875	(3,920,862)	-3.8%	7,882,611	8.2%
Total Capital Assets	137,653,909	130,640,588	131,253,901	7,013,322	5.4%	(613,313)	-0.5%
Total Assets	161,174,478	153,395,589	149,656,106	7,778,890	5.1%	3,739,483	2.5%
GASB 68-Deferred Outflows	3,355,343	3,475,719	4,069,991	(120,376)	-3.5%	(594,272)	-14.6%
GASB 75-Deferred Outflows	646,800	82,055		564,745	688.3%	82,055	
Current Liabilities	5,783,849	6,041,550	6,746,223	(257,701)	-4.3%	(704,674)	-10.4%
Non-Current Liabilities	20,348,151	18,200,914	18,995,344	2,147,237	11.8%	(794,430)	-4.2%
Total Liabilities	26,132,000	24,242,464	25,741,567	1,889,536	7.8%	(1,499,104)	-5.8%
GASB 68-Deferred Inflows	1,167,555	1,078,306	798,038	89,249	8.3%	280,268	35.1%
GASB 75-Deferred Inflows	411,253	646,185	34,043	(234,932)	-36.4%	612,142	1798.1%
Net Position:							
Net Investment in Capital Assets	137,653,909	130,640,588	131,253,901	7,013,322	5.4%	(613,313)	-0.5%
Unrestricted (deficit)	(188,096)	345,820	(4,101,452)	(533,916)	-154.4%	4,447,272	-108.4%
Total Net Position	\$137,465,813	\$130,986,408	\$127,152,449	\$6,479,405	4.9%	\$3,833,959	3.0%

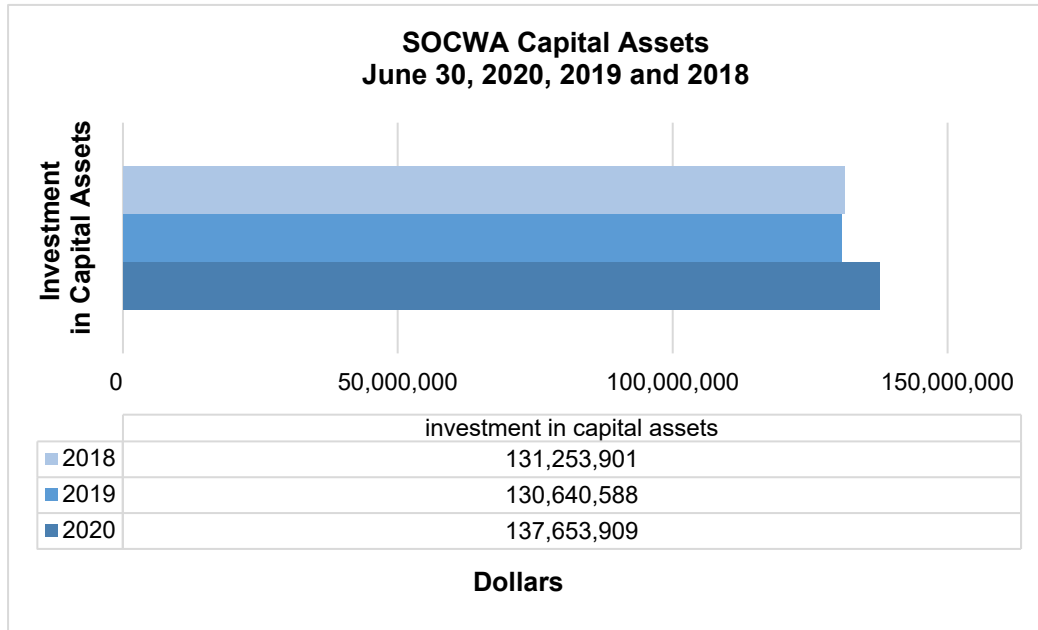
As noted earlier, net position may serve over time as a useful indicator of the Authority's financial position. In the case of the Authority's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$137.5 million, \$131 million and \$127.2 million as of June 30, 2020, 2019 and 2018 respectively.

At the end of fiscal year 2020, the Authority returned to a deficit balance in net position unrestricted, \$188 thousand, primarily due to an increase in non-current liabilities, \$2.1 million or 11.8% as discussed above.

The fiscal year 2018 unrestricted deficit, \$4,101,452, is also due to increased non-current liabilities.

**South Orange County Wastewater Authority
Management's Discussion and Analysis (Continued)
For the Years Ended June 30, 2020 and 2019**

The largest portions of the Authority's net position (100.1%, 99.7% and 103.2% as of June 30, 2020, 2019 and 2018 respectively) reflects the Authority's net investment in capital assets. The Authority uses these capital assets to provide services to Member Agencies communities within the Authority's service area.



**South Orange County Wastewater Authority
Management's Discussion and Analysis (Continued)
For the Years Ended June 30, 2020 and 2019**

	Change in Net Position						
	June 30						
	2020	2019	2018	Change between 2020 and 2019	% Change +/- (-)	Change between 2019 and 2018	% Change +/- (-)
Beginning Net Position, as restated	\$130,986,408	\$127,152,449	\$126,117,487 ¹	\$3,833,959	3.0%	\$1,034,962	0.8%
Income/(Loss) before contributions	(8,301,602)	(7,040,249)	(8,253,929)	(1,261,354)	17.9%	\$1,213,680	-14.7%
Capital contributions	14,781,009	10,874,208	9,288,891	3,906,801	35.9%	1,585,317	17.1%
Change in net position	6,479,405	3,833,959	1,034,962	2,645,446	69.0%	2,798,997	270.4%
Ending Net Position	\$137,465,813	\$130,986,408	\$127,152,449 ¹	\$6,479,405	4.9%	\$3,833,959	3.0%

¹ For the year ended June 30, 2018, the Authority is required to implement GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The adoption of this statement requires retrospective application of previously reported net position at July 1, 2017. Accordingly, net position as of July 1, 2017 was restated as follows:

Beginning net position, as previously reported:	\$130,862,190
Prior period adjustments, GASB 75, OPEB (retiree health) Implementation	(4,744,703)
Beginning net position, as restated	<u>\$126,117,487</u>

**South Orange County Wastewater Authority
Management's Discussion and Analysis (Continued)
For the Years Ended June 30, 2020 and 2019**

Capital Assets

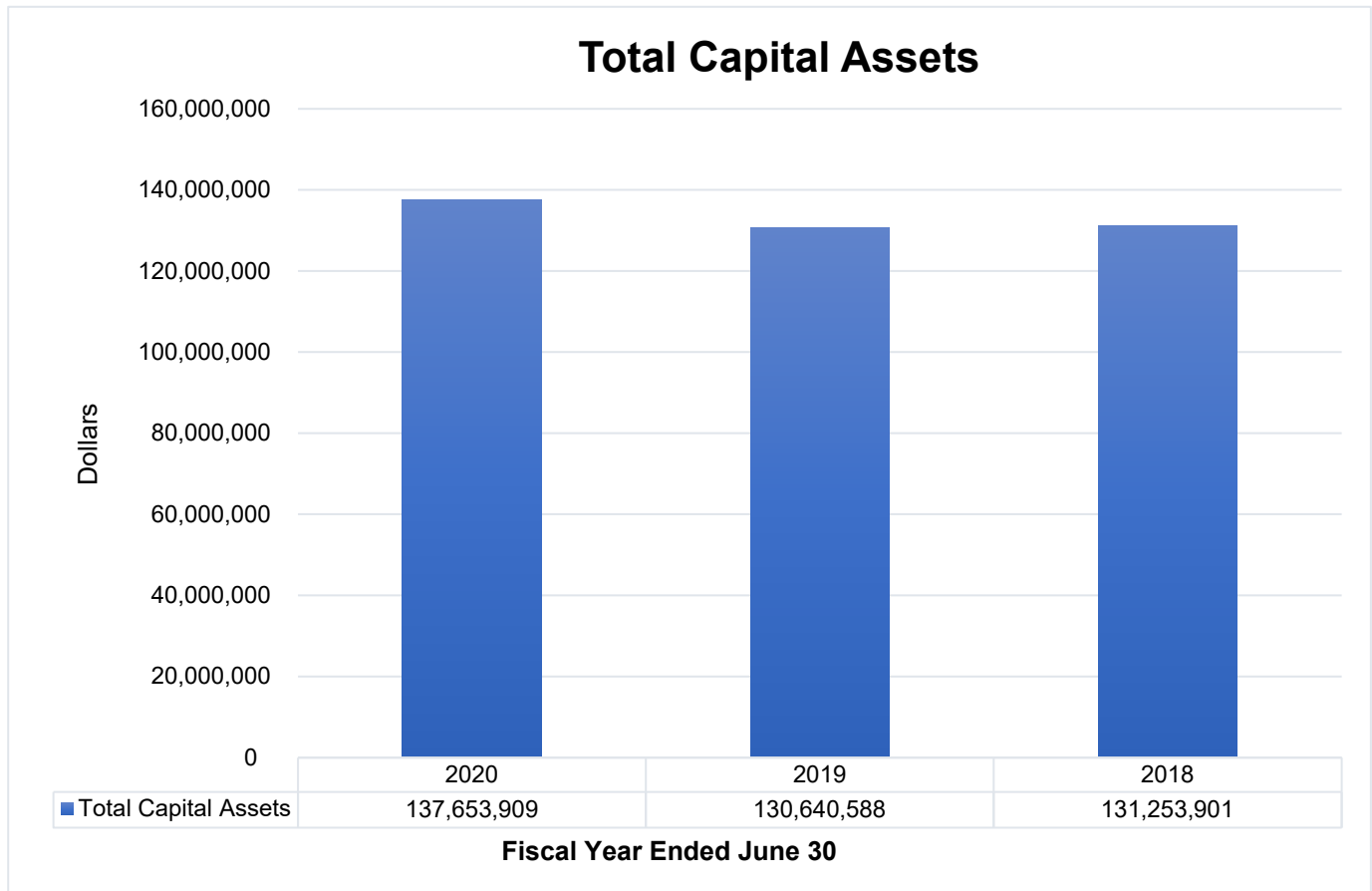
At the end of fiscal years 2020, 2019 and 2018, the Authority's capital assets amounted to \$137.7 million, \$130.6 million and \$131.3 million, respectively, (net of accumulated depreciation). Capital assets include land, construction in progress, buildings, building improvements, computer hardware and software, furniture and fixtures, infrastructure, machinery and equipment and vehicles.

Changes in capital assets were as follows:

	June 30						
	2020	2019	2018	Change between 2020 and 2019	% Change	Change between 2019 and 2018	% Change
Capital assets, not depreciated:							
Land	\$ 14,402,224	\$ 14,402,224	\$ 14,402,224				
Construction in Progress	23,272,061	12,337,878	20,833,802	10,934,183	88.6%	-8,495,924	-40.8%
Total Capital assets, not depreciated	37,674,285	26,740,102	35,236,026	10,934,183	40.9%	-8,495,924	-24.1%
Capital assets, being depreciated:							
Capital Assets, gross	312,958,179	309,716,685	294,970,825	3,241,494	1.0%	14,745,860	5.0%
Accumulated depreciation	-212,978,555	-205,816,199	-198,952,950	-7,162,355	3.5%	-6,863,249	3.4%
Total Capital assets, being depreciated	99,979,624	103,900,486	96,017,875	-3,920,862	-3.8%	7,882,611	8.2%
Total Capital Assets	\$ 137,653,909	\$ 130,640,588	\$ 131,253,901	\$ 7,013,321	5.4%	\$ (613,313)	-0.5%
Accumulated depreciation % Capital Assets, gross	68.1%	66.5%	67.4%				

- The Authority's Capital Assets are two-thirds depreciated; an indication of aging assets.
- Total Capital Assets have remained almost flat during FY's 2018 and 2019, except for 2020 spike due to facilities improvement projects and Export Sludge System project preparations.
- Additional information on the Authority's capital assets is provided in Note 4, Capital Assets, of the financial statements.

**South Orange County Wastewater Authority
Management's Discussion and Analysis (Continued)
For the Years Ended June 30, 2020 and 2019**



**South Orange County Wastewater Authority
Management's Discussion and Analysis (Continued)
For the Years Ended June 30, 2020 and 2019**

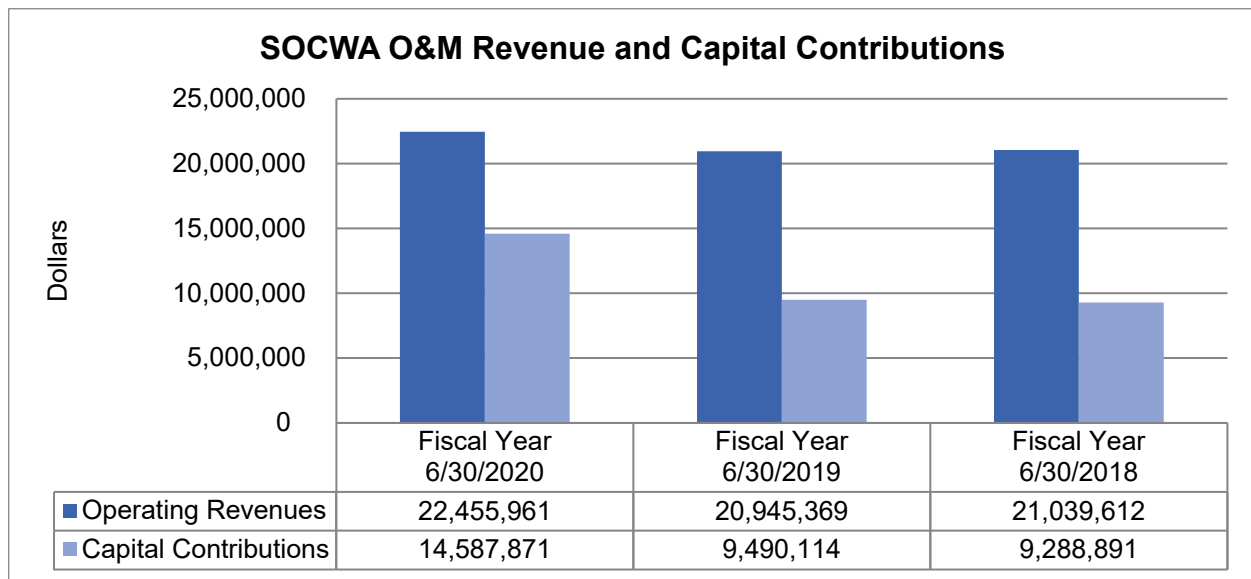
Revenues

The principal operating revenues of SOCWA are charges to the Member Agencies for services. Total operating revenue for fiscal year 2020 was \$22.5 million, up \$1.5 million, or 7.2% from 2019 total operating revenue of \$20.9 million primarily due to normal inflation and some unanticipated operating costs.

Fiscal Year 2019 operating revenues decreased slightly from prior year by \$94 thousand primarily due to delays in hiring O&M personnel and delayed start-up of the Co-Gen engines which impacted maintenance and other related costs compared to costs in 2018.

Fiscal Year 2020 Capital contributions increased \$5.1 million or 53.7% from 2019 contributions of \$9.5 million primarily due to progress on Facilities Improvements projects, and the Export Sludge System project preparations.

Fiscal Year 2019 Capital contributions increased \$201 thousand or 2.2% from 2018 contributions of \$9.3 million primarily due to large capital facilities improvements projects.



**South Orange County Wastewater Authority
Management's Discussion and Analysis (Continued)
For the Years Ended June 30, 2020 and 2019**

	Revenues						
	June 30						
	2020	2019	2018	Change between 2020 and 2019	% Change +/- (-)	Change between 2019 and 2018	% Change +/- (-)
<u>Operating Revenues:</u>							
O&M Member Agency Assessments	\$22,455,961	\$20,945,369	\$21,039,612	\$1,510,591	7.2%	(\$94,243)	-0.4%
<u>Non-Operating Revenues</u>							
Interest Income ¹	488,972	363,429	166,452	125,543	34.5%	\$196,977	118.3%
Other Income ²	35,274	17,858	153,458	17,416	97.5%	(135,600)	-88.4%
Total Non-Operating Revenues	524,246	381,287	319,910	142,959	37.5%	61,377	19.2%
<u>Capital Contributions</u>							
Capital Contributions ³	14,587,871	9,490,114	9,288,891	5,097,758	53.7%	201,223	2.2%
Grant Revenue ⁴	193,138	1,384,094		(1,190,957)	-86.0%	1,384,094	
Total Capital Contributions	14,781,009	10,874,208	9,288,891	3,906,801	35.9%	1,585,317	17.1%
Total Revenues	\$37,761,216	\$32,200,865	\$30,648,413	\$5,560,351	17.3%	\$1,552,451	5.1%

¹LAIF balance increase due to large capital cash on hand for facilities improvement projects.

²FEMA and the State of CA costs reimbursements in 2020, \$25 thousand, and FEMA reimbursements in 2019, \$137 thousand.

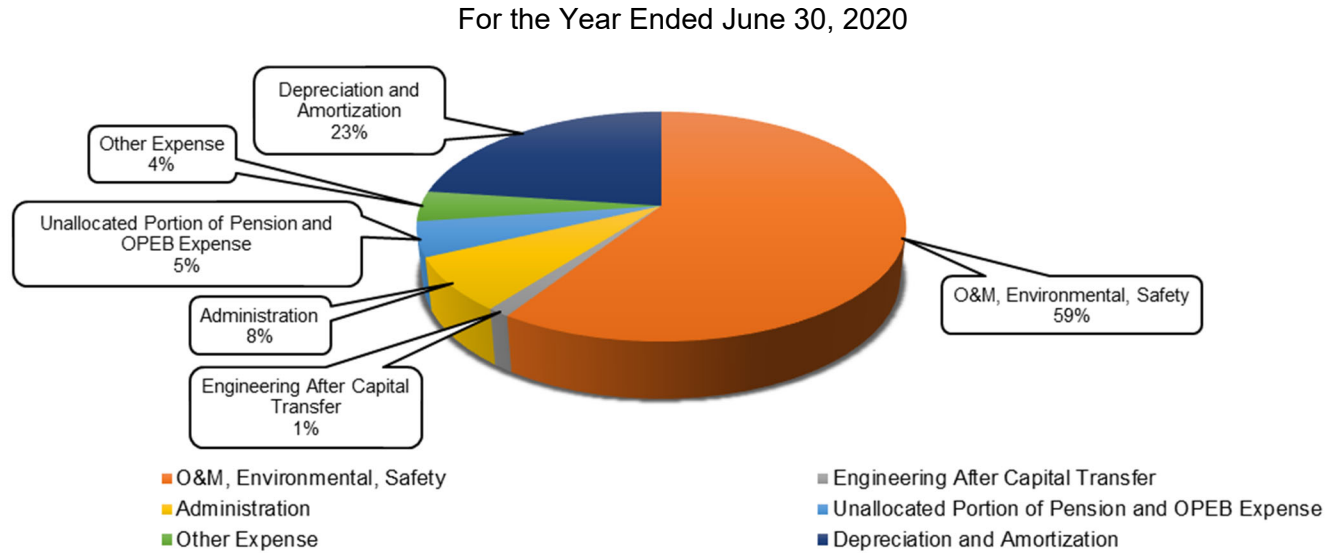
³The \$5.1 million increase in Capital Contributions is primarily due to Coastal Treatment Plant, PC 15, Facilities Improvement work, \$3.8 million, and Export Sludge System project preparations, \$1.4 million, with offsets from other project committees and projects.

³Non-Capital Contributions also contributed to the increase, \$1.2million, primarily due to JB Latham Treatment Plant, PC 2 tasks, \$505 thousand, and the Regional Treatment Plant, PC 17 tasks, \$338 thousand.

⁴So. Calif. Edison and SDG&E grants for Co-Gen projects; energy generation. The amounts vary based on qualified expenditures.

**South Orange County Wastewater Authority
Management's Discussion and Analysis (Continued)
For the Years Ended June 30, 2020 and 2019**

Expenses



	Expenses						
	June 30						
	2020	2019	2018	Change between 2020 and 2019	% Change	Change between 2019 and 2018	% Change
Operating Expenses:							
O&M, Environmental, Safety ¹	\$18,500,935	\$17,558,573	\$18,118,149	\$942,363	5.37%	(\$559,576)	-3.09%
Engineering After Capital	395,760	457,175	414,966	(61,415)	-13.43%	42,209	10.17%
Administration	2,359,762	2,360,182	2,400,967	(421)	-0.02%	(40,785)	-1.70%
Unallocated Portion of Pension and OPEB Expense ²	1,525,773	569,469	1,428,313	956,304	167.93%	(858,844)	-60.13%
Other Expense ³	1,337,225	558,257	655,096	778,968	139.54%	(96,839)	-14.78%
Depreciation and Amortization	7,162,356	6,863,249	6,595,960	299,107	4.36%	267,289	4.05%
Total Operating Expenses	\$31,281,811	\$28,366,905	\$29,613,451	\$2,914,906	10.28%	(\$1,246,546)	-4.21%

¹O&M 2020 increase of \$942 thousand or 5.37% is normal inflation; the 2019 decrease, \$560 thousand, is primarily due to delays in hiring.

²Unallocated portion of Pension and OPEB expense reflects the change in the Unfunded Accrued Pension Liability (UAL) and the Unfunded OPEB Liability.

³Other expense current year increase of \$655 thousand is primarily due to the consumption and/or movement of spare parts Inventories to capital.

**South Orange County Wastewater Authority
Management's Discussion and Analysis (Continued)
For the Years Ended June 30, 2020 and 2019**

Condensed Statement of Revenues, Expenses and Changes in Net Position

	Fiscal Year 6/30/2020	Fiscal Year 6/30/2019	Fiscal Year 6/30/2018	Change between 2020 and 2019		Change between 2019 and 2018	
				\$ +/(-)	% Change	\$ +/(-)	% Change
Operating Revenues							
O&M Member Agency Assessments	\$22,455,961	\$20,945,369	\$21,039,612	\$1,510,592	7.2%	(\$94,243)	-0.4%
Operating Expenses ¹	24,119,455	21,503,657	23,017,491	2,615,798	12.2%	(1,513,835)	-6.6%
Depreciation Expense	7,162,356	6,863,249	6,595,960	299,107	4.4%	267,289	4.1%
Non-Operating Expenses/(Income) ²	(524,246)	(381,288)	(319,910)	(142,958)	37.5%	(61,378)	19.2%
Total Expenses	30,757,564	27,985,617	29,293,541	2,771,947	9.9%	(1,307,924)	-4.5%
Capital Contributions ³	14,781,009	10,874,208	9,288,891	3,906,801	35.9%	1,585,317	17.1%
Current Year Change in Net Position⁴	\$6,479,405	\$3,833,959	\$1,034,962	\$2,645,446	69.0%	\$2,798,997	270.4%
Beginning Net Position (Restated) ⁵	\$130,986,408	\$127,152,449	\$126,117,487	\$3,833,959	3.0%	\$1,034,962	0.8%
Add Current Year Change	6,479,405	3,833,959	1,034,962	2,645,446	69.0%	2,798,997	270.4%
Net Position before extraordinary items	\$137,465,813	\$130,986,408	\$127,152,449	\$6,479,405	4.9%	\$3,833,959	3.0%
Ending Net Position	\$137,465,813	\$130,986,408	\$127,152,449	\$6,479,405	4.9%	\$3,833,959	3.0%

¹Operating expense increased \$2.6 million or 12.2% in the current year primarily due to unallocated Pension and OPEB expenses related to unfunded pension and OPEB, and O&M normal inflation.

²Other Income increase in fiscal year 2020, \$143 thousand or 37.5%, is due to interest income on deposits for large capital projects.

³Capital Contributions increased \$3.9 million or 36% due to facilities improvements projects and export sludge system project preparations in the current year.

⁴Net Position change increase of \$2.6 million or 69% is primarily due to capital contributions discussed above for fiscal year 2020.

⁴In fiscal year 2019, Operating results contributed \$3.8 million to Net Position primarily due to Capital Contributions for facilities improvement projects.

⁵2018 beginning net position was restated due to GASB 75, OPEB implementation, \$4.7 million reduction in net position.

**South Orange County Wastewater Authority
Management's Discussion and Analysis (Continued)
For the Years Ended June 30, 2020 and 2019**

Debt Administration

The Authority does not use debt financing; SOCWA's operating costs, including capital improvements expenditures, are covered by revenue from the ten-member agencies that are served.

Economic Factors and Next Year's Budget

The Board of Directors adopted the Authority's 2020-2021 budget on June 4, 2020. The approval of the budget provides funding for the Authority's operating and capital costs for the 2020-2021 fiscal year.

Each budget states: "[a]ll Budgets since inception reflect the costs of direct use and costs allocated by capacity ownership for capital improvements, repairs and replacements necessary to operate within legal compliance requirements and accepted industry standards. The signature authority levels authorized for expending are in conformity with SOCWA's Uniform Purchasing Policy and Procedures Staff is authorized to contract for services, acquire supplies and pay vendors and expenses within the Functional Departments and Project Committees."

Requests for Information

This financial report is designed to provide the Authority's elected officials, member agencies, employees, creditors and other interested parties with an overview of the Authority's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, an electronic copy of the CAFR can be found on the Authority's website, www.socwa.com. If you have questions about this report or need additional financial information, please contact the Finance Controller, South Orange County Wastewater Authority, 34156 Del Obispo Street, Dana Point, CA 92629.

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FINANCIAL STATEMENTS

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South Orange County Wastewater Authority
Statements of Net Position
June 30, 2020 and 2019

ASSETS	2020	2019
Current assets:		
Cash and investments (Note 3)	\$ 22,361,420	\$ 20,857,094
Receivables:		
Accounts	49,286	14,179
Due from Member Agencies	870,004	856,669
Interest	83,920	113,947
Total receivable, net	<u>1,003,210</u>	<u>984,795</u>
Inventories	-	701,387
Prepaid items	155,939	211,725
Total current assets	<u>23,520,569</u>	<u>22,755,001</u>
Noncurrent asset:		
Capital assets, nondepreciable (Note 4)	37,674,285	26,740,102
Capital assets, depreciable, net (Note 4)	99,979,624	103,900,486
Total non-current assets	<u>137,653,909</u>	<u>130,640,588</u>
Total assets	<u>161,174,478</u>	<u>153,395,589</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pensions related deferred outflows of resources	3,355,343	3,475,719
OPEB related deferred outflows of resources	646,800	82,055
Total deferred outflows of resources	<u>4,002,143</u>	<u>3,557,774</u>
LIABILITIES		
Current liabilities:		
Accounts payable	3,530,550	1,981,080
Due to Member Agencies	1,656,822	3,543,350
Accrued payroll and related liabilities	160,049	100,221
Compensated absences - due within one year (Note 5)	436,428	416,899
Total current liabilities	<u>5,783,849</u>	<u>6,041,550</u>
Noncurrent liabilities:		
Compensated absences - due in more than one year (Note 5)	298,049	266,637
Net other postemployment benefits obligation (Note 6)	5,688,551	4,747,961
Net pension liability (Note 7)	14,361,551	13,186,316
Total noncurrent liabilities	<u>20,348,151</u>	<u>18,200,914</u>
Total liabilities	<u>26,132,000</u>	<u>24,242,464</u>
DEFERRED INFLOWS OF RESOURCES		
Pensions related deferred inflows of resources	1,167,555	1,078,306
OPEB related deferred inflows of resources	411,253	646,185
Total deferred inflows of resources	<u>1,578,808</u>	<u>1,724,491</u>
NET POSITION		
Investment in capital assets	137,653,909	130,640,588
Unrestricted (deficit)	(188,096)	345,820
Total net position	<u>\$ 137,465,813</u>	<u>\$ 130,986,408</u>

South Orange County Wastewater Authority
Statements of Revenues, Expenses, and Change in Net Position
For the Years Ended June 30, 2020 and 2019

	2020	2019
OPERATING REVENUES:		
O&M Member Agency Assessments :		
City of Laguna Beach	\$ 3,712,839	\$ 3,079,457
City of San Clemente	155,766	155,352
City of San Juan Capistrano	2,198,165	2,262,176
Emerald Bay Service District	149,324	147,131
El Toro Water District	937,053	875,388
Irvine Ranch Water District	160,524	163,057
Moulton Niguel Water District	8,993,369	8,895,527
South Coast Water District	3,736,264	3,799,657
Santa Margarita Water District	2,357,682	1,532,719
Trabuco Canyon Water District	54,975	34,905
Total O&M Member Agency Assessments	<u>22,455,961</u>	<u>20,945,369</u>
Total Operating Revenues	<u>22,455,961</u>	<u>20,945,369</u>
OPERATING EXPENSES:		
O&M, Environmental, Compliance and Safety	18,500,935	17,558,573
Engineering after capital transfer	395,760	457,175
Administration	2,359,762	2,360,182
Unallocated portion of pension and OPEB expense	1,525,773	569,469
Other expense	1,337,225	558,257
Depreciation and amortization	7,162,356	6,863,249
Total Operating Expenses	<u>31,281,811</u>	<u>28,366,905</u>
Operating (Loss)	<u>(8,825,850)</u>	<u>(7,421,536)</u>
NON-OPERATING REVENUES (EXPENSES):		
Interest income	488,972	363,429
Other revenues	228,412	1,401,953
Total Non-Operating Revenue	<u>717,384</u>	<u>1,765,382</u>
CAPITAL CONTRIBUTIONS FROM MEMBER AGENCIES:		
Member Agency Assessments:		
City of Laguna Beach	2,037,256	315,736
City of San Clemente	13,298	(1,854)
City of San Juan Capistrano	1,208,118	1,196,079
Emerald Bay Service District	155,641	24,398
El Toro Water District	498,765	178,986
Irvine Ranch Water District	180,705	174,768
Moulton Niguel Water District	6,978,710	4,364,986
South Coast Water District	2,631,719	2,368,447
Santa Margarita Water District	883,659	868,568
Total Member Agency Assessments	<u>14,587,871</u>	<u>9,490,114</u>
Total Capital Contributions from Member Agencies	<u>14,587,871</u>	<u>9,490,114</u>
Change in Net Position	6,479,405	3,833,960
NET POSITION:		
Beginning of year, as restated (Note 10)	130,986,408	127,152,449
End of year	<u>\$ 137,465,813</u>	<u>\$ 130,986,408</u>

South Orange County Wastewater Authority
Statements of Cash Flows
For the Years Ended June 30, 2020 and 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash receipts from Member Agencies	\$ 22,407,519	\$ 24,168,287
Cash payments to vendors and suppliers for operations	(15,686,052)	(14,474,106)
Cash payments to employees for services	(6,376,746)	(7,338,239)
Net cash provided by (used in) operating activities	344,721	2,355,942
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Proceeds from other nonoperating revenue	228,412	1,401,953
Net cash provided by noncapital financing activities	228,412	1,401,953
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital contributions from Member Agencies	14,587,871	9,490,114
Acquisition of capital assets	(14,424,344)	(6,249,936)
Proceed from sale of capital assets	248,667	-
Net cash provided by capital and related financing activities	412,194	3,240,178
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	518,999	301,784
Net cash provided by investing activities	518,999	301,784
Net change in cash and cash equivalents	1,504,326	7,299,857
CASH AND CASH EQUIVALENTS:		
Beginning of year	20,857,094	13,557,237
End of year	\$ 22,361,420	\$ 20,857,094
RECONCILIATION OF NET OPERATING (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Net Operating (Loss)	\$ (8,825,850)	\$ (7,421,536)
Adjustments to reconcile operating (loss) to net cash provided by (used in) operating activities:		
Depreciation	7,162,356	6,863,249
Changes in operating assets and liabilities:		
Accounts receivable	(35,107)	1,646,265
Due from Member Agencies	(13,335)	1,576,652
Inventory	701,387	(207,355)
Deposits	-	-
Prepaid items	55,786	(6,857)
Pensions related deferred outflows of resources	120,376	594,272
OPEB related deferred outflows of resources	(564,745)	(82,055)
Accounts payable	1,549,470	(333,026)
Due to Member Agencies	(1,886,528)	(367,249)
Accrued payroll liabilities	59,828	(27,174)
Compensated absences	50,941	63,504
Net OPEB liability	940,590	(611,037)
Net pension liability	1,175,235	(224,121)
Pensions related deferred inflows of resources	89,249	280,268
OPEB related deferred inflows of resources	(234,932)	612,142
Net cash provided by (used in) operating activities	\$ 344,721	\$ 2,355,942

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Notes to the Financial Statements

South Orange County Wastewater Authority
Notes to the Financial Statements
For the Years Ended June 30, 2020 and 2019

The notes to the financial statements include a summary of significant accounting policies and other information considered essential to fully disclose and fairly present the transactions and financial position of the Authority, as follows:

Note 1 - Reporting Entity

Note 2 - Summary of Significant Accounting Policies

Note 3 - Cash and Investments

Note 4 - Capital Assets

Note 5 - Compensated Absences

Note 6 - Other Postemployment Benefits

Note 7 - Defined Benefit Pension Plan

Note 8 - Risk Management

Note 9 - Commitment and Contingencies

Note 10 - Subsequent Events

South Orange County Wastewater Authority
Notes to the Financial Statements
For the Years Ended June 2020 and 2019

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.

South Orange County Wastewater Authority
Notes to the Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

Note 2 – Summary of Significant Accounting Policies (Continued)

Deferred Outflows of Resources and Deferred 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 "Net Surplus/(Deficit)" 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.

South Orange County Wastewater Authority
Notes to the Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

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 of standby spare parts were consumed and/or moved to capital based on a fiscal year 2020 technical review that determined:

- Repairable spare parts are classified as other non-current assets similar to property, plant and equipment, rather than inventory because such parts are repaired and re-used over a long period of time, between three and ten years, the same period over which such parts are amortized.
- The Authority's purchased spare parts and standby equipment, once installed, will have a service life that exceeds 1 year.
- The parts are also standalone assets that meet the Authority's capitalization thresholds.

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 years. 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:

Buildings	3 to 50 years
Building Improvements	3 to 25 years
Infrastructure	3 to 50 years
Machinery and Equipment	3 to 20 years
Vehicles	3 to 10 years
Computer Hardware	3 to 10 years
Computer Software	3 to 10 years
Furniture and Fixtures	5 to 10 years

South Orange County Wastewater Authority
Notes to the Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

Note 2 – Summary of Significant Accounting Policies (Continued)

Capital Assets (Continued)

Capital expenditures are recorded as construction-in-process (CIP) and capitalized as a Capital Asset once all costs have been recorded and the asset has been placed in service. 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.

Compensated Absences

Employees can accrue vacation leave up to a maximum of 240 hours. Vacation leave accrues at the rate of 80 to 160 a year depending on the number of years of employment. Sick leave accrues at the rate of 80 to 96 hours per year depending on the number of years of employment. When an employee terminates and provides a two weeks' notice, the Authority pays 75% of accumulated sick leave in excess of 176 hours. When an employee retires and provides a two weeks' notice, the Authority pays 75% of accumulated sick leave.

All accumulated vacation and vested sick leave pay are 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:

For the Year Ended	June 30, 2020	June 30, 2019
Valuation Date	June 30, 2018	June 30, 2017
Measurement Date	June 30, 2019	June 30, 2018
Measurement Period	July 1, 2018 to June 30, 2019	July 1, 2017 to June 30, 2018

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.

Other Postemployment Benefits

For purposes of measuring the net other postemployment benefits ("OPEB") liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Authority's Retiree Benefits Plan ("OPEB Plan") and additions to/deductions from OPEB Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan (Note 6). For this purpose, the OPEB Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments, which are reported at amortized cost.

South Orange County Wastewater Authority
Notes to the Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

Note 2 – Summary of Significant Accounting Policies (Continued)

Other Postemployment Benefits (“OPEB”) (continued)

The following timeframes are used for OPEB reporting:

For the Year Ended	June 30, 2020	June 30, 2019
Valuation Date	January 1, 2019	January 1, 2019
Measurement Date	June 30, 2020	June 30, 2019
Measurement Period	July 1, 2019 to June 30, 2020	July 1, 2018 to June 30, 2019

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

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.

South Orange County Wastewater Authority
Notes to the Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

Note 2 – Summary of Significant Accounting Policies (Continued)

Implementation of New GASB Pronouncements

During fiscal year ended June 30, 2020, the Authority implemented the following new GASB pronouncements:

- **GASB Statement No. 95** - In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. Application of this statement is effective immediately and did not have a material effect on Authority's financial statements for the fiscal year ending June 30, 2020.

Note 3 – Cash and Investments

At June 30, 2020 and 2019, the Authority's cash and investments were comprised of the following:

	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Petty cash	\$ 1,600	\$ 1,600
Demand deposits	2,319,429	999,536
Local Agency Investments Fund	20,040,391	19,855,958
Total cash and investments	<u>\$ 22,361,420</u>	<u>\$ 20,857,094</u>

A. Demand Deposits

At June 30, 2020 and 2019, the carrying amount of demand deposit was \$2,319,429 and \$999,536, respectively. Bank balances at that date were \$2,389,289 and \$1,108,685, 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.

South Orange County Wastewater Authority
Notes to the Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

Note 3 – Cash and Investments (Continued)

B. Investments

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:

- **Government Securities 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. The fair value of the Authority's position in the pool is the same as the value of the pool shares.

As of June 30, 2020 and 2019, the Authority had \$20,040,391 and \$19,855,958 invested in LAIF, which had invested 3.37% and 1.77% of the pool investment funds as of June 30, 2020 and 2019, in Government Securities Structured Notes and Asset-Backed Securities. LAIF determines fair value on its investment portfolio based on market quotations for those securities where market quotations are readily available and based on amortized cost or best estimate for those securities where market value is not readily available. The credit quality rating of LAIF is unrated as of June 30, 2020 and 2019.

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, 2020, and 2019, the Authority's investment portfolio consisted of \$20,040,391 and \$19,855,958 invested in the State of California Local Agency Investment Fund, which is "uncategorized" under the fair value hierarchy.

South Orange County Wastewater Authority
Notes to the Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

Note 3 – Cash and Investments (Continued)

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, 2020, and 2019, the Authority's investment portfolio consisted of \$20,040,391 and \$19,855,958 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).

South Orange County Wastewater Authority
Notes to the Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

Note 4 – Capital Assets

The summary of changes in capital assets for the year ended June 30, 2020 was as follows:

	Balance July 1, 2019	Additions	Deletions	Transfer	Balance June 30, 2020
Capital assets, not depreciated					
Land	\$ 14,402,224	\$ -	\$ -		\$ 14,402,224
Construction in progress	12,337,878	12,976,173	(248,667)	(1,793,323)	23,272,061
Total capital assets, not depreciated	<u>26,740,102</u>	<u>12,976,173</u>	<u>(248,667)</u>	<u>(1,793,323)</u>	<u>37,674,285</u>
Capital assets, being depreciated					
Buildings	10,727,125	-	-	-	10,727,125
Buildings Improvements	8,442,981	-	-	116,287	8,559,268
Computer Hardware	1,488,606	-	-	60,091	1,548,697
Computer Software	299,703	-	-	-	299,703
Furniture and Fixtures	160,036	-	-	-	160,036
Infrastructure	160,102,669	121,277	-	747,587	160,971,533
Machinery and Equipment	127,244,391	1,326,894	-	791,608	129,362,893
Vehicles	1,251,174	-	-	77,750	1,328,924
Total capital assets, being depreciated	<u>309,716,685</u>	<u>1,448,171</u>	<u>-</u>	<u>1,793,323</u>	<u>312,958,179</u>
Less accumulated depreciation					
Buildings	(7,227,137)	(170,366)	-	-	(7,397,503)
Buildings Improvements	(3,498,031)	(309,533)	-	-	(3,883,424)
Computer Hardware	(853,680)	(165,089)	-	-	(1,018,769)
Computer Software	(127,595)	(25,359)	-	-	(152,954)
Furniture and Fixtures	(125,861)	(110,036)	-	-	(160,036)
Infrastructure	(113,400,764)	(2,999,531)	-	-	(116,400,295)
Machinery and Equipment	(79,788,143)	(3,309,520)	-	-	(83,097,663)
Vehicles	(794,988)	(72,922)	-	-	(867,910)
Total accumulated depreciation	<u>(205,816,199)</u>	<u>(7,162,356)</u>	<u>-</u>	<u>-</u>	<u>(212,978,555)</u>
Total capital assets, being depreciated, net	<u>103,900,486</u>	<u>(5,714,185)</u>	<u>-</u>	<u>1,793,323</u>	<u>99,979,624</u>
Total capital assets, net	<u>\$ 130,640,588</u>	<u>\$ 7,261,988</u>	<u>\$ (248,667)</u>	<u>\$ -</u>	<u>\$ 137,653,909</u>

Depreciation expense for the year ended June 30, 2020 was \$7,162,356.

South Orange County Wastewater Authority
Notes to the Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

Note 4 – Capital Assets (Continued)

The summary of changes in capital assets for the year ended June 30, 2019 was as follows:

	Balance July 1, 2018	Additions	Deletions	Transfer	Balance June 30, 2019
Capital assets, not depreciated					
Land	\$ 14,402,224	\$ -	\$ -	\$ -	\$ 14,402,224
Construction in progress	20,833,802	6,249,936	-	(14,745,860)	12,337,878
Total capital assets, not depreciated	35,236,026	6,249,936	-	(14,745,860)	26,740,102
Capital assets, being depreciated					
Buildings	10,727,125	-	-	-	10,727,125
Buildings Improvements	8,371,288	-	-	71,693	8,442,981
Computer Hardware	1,416,210	-	-	72,396	1,488,606
Computer Software	259,911	-	-	39,792	299,703
Furniture and Fixtures	160,036	-	-	-	160,036
Infrastructure	159,140,282	-	-	962,387	160,102,669
Machinery and Equipment	113,737,856	-	-	13,506,535	127,244,391
Vehicles	1,158,117	-	-	93,057	1,251,174
Total capital assets, being depreciated	294,970,825	-	-	14,745,860	309,716,685
Less accumulated depreciation					
Buildings	(7,053,772)	(173,365)	-	-	(7,227,137)
Buildings Improvements	(3,191,640)	(306,391)	-	-	(3,498,031)
Computer Hardware	(685,544)	(168,136)	-	-	(853,680)
Computer Software	(105,220)	(22,375)	-	-	(127,595)
Furniture and Fixtures	(121,490)	(4,371)	-	-	(125,861)
Infrastructure	(110,392,265)	(3,008,499)	-	-	(113,400,764)
Machinery and Equipment	(76,658,194)	(3,129,949)	-	-	(79,788,143)
Vehicles	(744,825)	(50,163)	-	-	(794,988)
Total accumulated depreciation	(198,952,950)	(6,863,249)	-	-	(205,816,199)
Total capital assets, being depreciated, net	96,017,875	(6,863,249)	-	14,745,860	103,900,486
Total capital assets, net	\$ 131,253,901	\$ (613,313)	\$ -	\$ -	\$ 130,640,588

Depreciation expense for the year ended June 30, 2019 was and \$6,863,249.

Note 5 – Compensated Absences

The summary of changes in compensated absences for the year ended June 30, 2020 was as follows:

	Balance July 1, 2019	Additions	Deletions	Balance June 30, 2020	Classification	
					Current	Long-term
Compensated absences	\$ 683,536	\$ 305,615	\$ (254,674)	\$ 734,477	\$ 436,428	\$ 298,049

South Orange County Wastewater Authority
Notes to the Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

Note 5 – Compensated Absences (Continued)

The summary of changes in compensated absences for the year ended June 30, 2019 was as follows:

	Balance July 1, 2018	Additions	Deletions	Balance June 30, 2019	Classification	
					Current	Long-term
Compensated absences	\$ 620,032	\$ 414,659	\$ (351,155)	\$ 683,536	\$ 416,899	\$ 266,637

Note 6 – Other Postemployment Benefits (“OPEB”)

General Information about the OPEB

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. (Authority service for employees hired after October 5, 2007). Eligible employees must retire (commence pension payment) with CalPERS within 120 days of separation from service. Eligible retirees receive a similar contribution towards benefits as active employees. Retiree benefits are paid for the lifetime of the retiree, spouse or surviving spouse and to age 26 for dependents. 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.

All permanent full-time and part-time employees working at least half-time are offered a choice of medical (including prescription drug coverage) plans through the CalPERS Health Program under the Public Employees' Medical and Hospital Care Act (PEMHCA). SOCWA currently pays an amount each year that is based on a percentage of the average of all health plans (excluding the PERS Care Plan) made available to SOCWA employees through the CalPERS Health Program. Any premium costs above this amount are paid for by the employee. Alternatively, the employee may elect a cash-in-lieu option of \$300/month but opt back into the health plan at any time before retirement during an enrollment period. SOCWA offers the same medical plans to eligible retirees except once retirees are eligible for Medicare, the retiree must join a Medicare HMO or Supplement Plan with Medicare being the primary payer. Employees hired on or after July 1, 2017 are only eligible for the PEMHCA minimum contribution (\$136.00 for 2019) and an HSA contribution. For the purposes of GASB 75, only the PEMHCA minimum contribution will be valued for these employees.

Employees Covered by Benefit Terms

At the January 1, 2019, valuation date, the following employees were covered by the benefit terms under the OPEB Plan:

	2019
Active employees	62
Inactive employees or beneficiaries currently receiving benefits	42
Inactive employees entitled to, but not yet receiving benefits	-
	<u>104</u>

South Orange County Wastewater Authority
Notes to the Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

Note 6 – Other Postemployment Benefits (“OPEB”) (Continued)

General Information about the OPEB (Continued)

Contribution

The Authority currently finances benefits on a pay-as-you-go basis.

Net OPEB Liability

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

The January 1, 2019 valuation was rolled forward to determine the June 30, 2020 and 2019 total OPEB liability based on the following actuarial methods and assumptions

Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	6.50% Per annum. The fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.
Inflation	2.75% per annum
Salary increases	3.00% per annum, in aggregate
Pre-retirement Turnover	According to termination rates under the most recent CalPERS pension plan valuation
Pre-retirement and Post-retirement Mortality;	According to pre-retirement and post-retirement mortality rates and retirement
Retirement Rates	rates under the most recent CalPERS pension plan valuation.
Dependent Coverage	Not explicitly valued
Healthcare Tread Rate	2019 - PPO: Actual; HMO: Actual
	2020 - PPO: 6.5%; HMO: 6.0%
	2021 - PPO: 6.0%; HMO: 5.5%
	2022 - PPO: 5.5%; HMO: 5.0%
	2023+ - PPO: 5.0%; HMO: 5.0%

Change of Assumption

In 2020, the discount rate reduced from 7.00 percent to 6.50 percent.

Total OPEB Liability

Long-Term Expected Rate of Return

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan's target asset allocation as of June 30, 2020 and 2019, the measurement dates, are summarized in the following table:

South Orange County Wastewater Authority
Notes to the Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

Note 6 – Other Postemployment Benefits (“OPEB”) (Continued)

Total OPEB Liability (Continued)

Long-Term Expected Rate of Return (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Fixed Income	35%	1.50%
Equities	60%	5.75%
Cash	5%	0.00%
Total	100%	

Long-term expected rate of return as of June 30, 2020 and 2019, the measurement date, is 7.00%

Discount Rate

The discount rate used to measure the 2020 and 2019 total OPEB liability were 7.00 percent and 6.50 percent respectively.

Change in the Net OPEB Liability

The following table shows the changes in net OPEB liability recognized over the measurement period of July 1, 2019 to June 30, 2020.

	2020		
	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (c)=(a)-(b)
Balance at June 30, 2019	\$ 9,885,778	\$ 5,137,817	\$ 4,747,961
Changes Recognized for the Measurement Period:			
Service Cost	231,479	-	231,479
Interest on the total OPEB liability	692,192	-	692,192
Changes in benefit terms	-	-	-
Difference between expected and actual experience	-	-	-
Changes in assumptions	607,338	-	607,338
Contribution from the employer	-	457,597	(457,597)
Net investment income	-	163,035	(163,035)
Administrative expenses	-	(30,213)	30,213
Benefit payments	(457,597)	(457,597)	-
Net changes during July 1, 2019 to June 30, 2020	1,073,412	132,822	940,590
Balance at June 30, 2020 (Measurement Date)	\$ 10,959,190	\$ 5,270,639	\$ 5,688,551

South Orange County Wastewater Authority
Notes to the Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

Note 6 – Other Postemployment Benefits (“OPEB”) (Continued)

Change in the Net OPEB Liability (Continued)

The following table shows the changes in net OPEB liability recognized over the measurement period of July 1, 2018 to June 30, 2019.

	2019		
	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (c)=(a)-(b)
Balance at June 30, 2018	\$ 10,182,408	\$ 4,823,410	\$ 5,358,998
Changes Recognized for the Measurement Period:			
Service Cost	274,847	-	274,847
Interest on the total OPEB liability	713,467	-	713,467
Changes in benefit terms	(42,119)	-	(42,119)
Difference between expected and actual experience	(822,505)	-	(822,505)
Changes in assumptions	109,406	-	109,406
Contribution from the employer	-	529,726	(529,726)
Net investment income	-	341,412	(341,412)
Administrative expenses	-	(27,005)	27,005
Benefit payments	(529,726)	(529,726)	-
Net changes during July 1, 2018 to June 30, 2019	(296,630)	314,407	(611,037)
Balance at June 30, 2019 (Measurement Date)	\$ 9,885,778	\$ 5,137,817	\$ 4,747,961

Sensitivity of the Net OPEB Liability to Changes in Discount Rate

The following presents the net OPEB liability of the Authority, as well as what the Authority's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.50 percent) or 1-percentage-point higher (7.50 percent) than the current discount rate, for the measurement period ended June 30, 2020:

Measurement Date	Plan's Net OPEB Liability		
	Discount Rate -1%	Current Discount Rate	Discount Rate +1%
	(5.50%)	(6.50%)	(7.50%)
June 30, 2020	\$ 7,559,992	\$ 5,688,551	\$ 4,879,506

The following presents the net OPEB liability of the Authority, as well as what the Authority's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00 percent) or 1-percentage-point higher (8.00 percent) than the current discount rate, for the measurement period ended June 30, 2019:

Measurement Date	Plan's Net OPEB Liability		
	Discount Rate -1%	Current Discount Rate	Discount Rate +1%
	(6.00%)	(7.00%)	(8.00%)
June 30, 2019	\$ 5,963,005	\$ 4,747,961	\$ 3,741,403

South Orange County Wastewater Authority
Notes to the Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

Note 6 – Other Postemployment Benefits (“OPEB”) (Continued)

Change in the Net OPEB Liability (Continued)

Sensitivity of the Net OPEB Liability to Changes in Health Care Cost Trend Rates

The following presents the net OPEB liability of the Authority, as well as what the Authority's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (5.5 percent) or 1-percentage-point higher (7.5 percent) than the current healthcare cost trend rates, for the measurement period ended June 30, 2020:

Measurement Date	Plan's Net OPEB Liability		
	Trend -1%	Current Trend Rate	Trend +1%
	5.50% decreasing to 3.5%	6.50% decreasing to 4.5%	7.50% decreasing to 5.5%
June 30, 2020	\$ 4,355,562	\$ 5,688,551	\$ 7,316,452

The following presents the net OPEB liability of the Authority, as well as what the Authority's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (5.0 percent for HMO plans and 5.5 percent for PPO plans) or 1-percentage-point higher (7.0 percent for HMO plans and 7.5 percent for PPO plans) than the current healthcare cost trend rates, for the measurement period ended June 30, 2019:

Measurement Date	Plan's Net OPEB Liability		
	Trend -1%	Current Trend Rate	Trend +1%
	5.0% HMO/5.5% PPO decreasing to 4.0% HMO/4.0% PPO	6.0% HMO/6.5% PPO decreasing to 5.0% HMO/5.0% PPO	7.0% HMO/7.5% PPO decreasing to 6.0% HMO/6.0% PPO
June 30, 2019	\$ 3,648,760	\$ 4,747,961	\$ 6,078,845

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the years ended June 30, 2020 and 2019, the Authority recognized OPEB expense in the amounts of \$598,510 and \$448,776, respectively. The Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources

	2020		2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Change of assumptions	\$ 510,207	\$ -	\$ 82,055	\$ -
Difference between projected and actual experience in measurement of the Total OPEB Liability	-	(411,253)	-	(616,879)
Differences between projected and actual earnings on OPEB plan investments	136,593	-	-	(29,306)
Total	<u>\$ 646,800</u>	<u>\$ (411,253)</u>	<u>\$ 82,055</u>	<u>\$ (646,185)</u>

South Orange County Wastewater Authority
Notes to the Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

Note 6 – Other Postemployment Benefits (“OPEB”) (Continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

The difference between projected OPEB plan investment earnings and actual earnings is amortized over a five-year period. The remaining gains and losses are amortized over the expected average remaining service life. Amount reported as deferred inflows of resources related to OPEB will be recognized as future OPEB expense as follows:

2020		2019	
Year Ending June 30	Deferred Outflows/(Inflows) of Resources	Year Ending June 30	Deferred Outflows/(Inflows) of Resources
2021	\$ 3,216	2020	\$ (187,730)
2022	3,218	2021	(187,730)
2023	190,002	2022	(187,728)
2024	39,111	2023	(942)
2025	-	2024	-
Thereafter	-	Thereafter	-
Total	<u>\$ 235,547</u>	Total	<u>\$ (564,130)</u>

Note 7 – Defined Benefit Pension Plan

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, 2018 and 2017 Annual Actuarial Valuation Reports. These reports and CalPERS’ audited financial statements are publicly available reports that can be obtained at CalPERS’ website under Forms and Publications.

Employees Covered by Benefit Terms

At June 30, 2018 and 2017 valuation dates, the following employees were covered by the benefit terms:

	2018			2017		
	Tier 1	Tier 2	PEPRA	Tier 1	Tier 2	PEPRA
Active employees	24	8	32	31	7	21
Transferred and terminated employees	32	1	2	36	1	1
Separated	20	0	5	20	0	3
Retired Employees and Beneficiaries	71	0	0	64	0	0
Total	<u>147</u>	<u>9</u>	<u>39</u>	<u>151</u>	<u>8</u>	<u>25</u>

South Orange County Wastewater Authority
Notes to the Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

Note 7 – Defined Benefit Pension Plan

General Information about the Pension Plan (Continued)

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, 2020, are summarized as follows:

	2020		
	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 compensatic	2.000%	2.000%	1.000 % to 2.500%
Require employee contribution rates	8.000%	7.000%	6.750%
Required employer contribution rates	11.432%	10.221%	6.985%

The Plans' provisions and benefits in effect at June 30, 2019, are summarized as follows:

	2019		
	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	10.609%	9.409%	6.842%

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.

South Orange County Wastewater Authority
Notes to the Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

Note 7 – Defined Benefit Pension 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, 2018 and 2017 valuations were rolled forward to determine the June 30, 2019 and 2018 total pension liabilities, based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirement of GASB Statement No. 68
Actuarial Assumption:	
Discount Rate	7.15%
Inflation	2.50
Salary Increase	Varies by Entry Age and Service
Mortality Rate Table ¹	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	The lesser of contract COLA up to 2.50% until Purchasing Power Protection

¹The mortality table used was developed based on CalPERS-specific data. The probabilities of mortality are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015. Pre-retirement and Post-retirement mortality rates include 15 years of projected mortality improvement using 90% of Scale MP-2016 published by the Society of Actuaries. For more details on this table, please refer to the CalPERS Experience Study and Review of Actuarial Assumptions report from December 2017 that can be found on the CalPERS website.

Change of Assumption

In 2019, there were no changes of assumptions. In 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. There were no changes in the discount rate.

Long-Term Expected Rate of Return

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 pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ 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 fund. The expected rate of return was set by calculating the rounded 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 adjusted to account for assumed administrative expenses.

South Orange County Wastewater Authority
Notes to the Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

Note 7 – Defined Benefit Pension Plan (Continued)

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

Long-Term Expected Rate of Return (Continued)

The expected real rates of return by asset class are as followed:

Asset Class ¹	New Strategic Allocation	Real Return Years 1-10 ²	Real Return Years 11+ ³
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	19.00%	99.00%	2.43%
Inflation 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 Forestland	2.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
Total	100.00%		

¹ In the CalPERS' CAFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term Investments;

² An expected inflation of 2.00% used for this period

³ an expected inflation of 2.92% used for this period

Discount Rate

The discount rate used to measure the June 30, 2019 and 2018 total pension liability was 7.15%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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, 2019 and 2018, calculated using the discount rate of 7.15%, 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 (6.15%) or 1 percentage-point higher (8.15%) than the current rate:

Measurement Date	Plan's Aggregate Net Pension Liability/(Asset)		
	Discount Rate -1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate +1% (8.15%)
June 30, 2019	\$ 21,819,832	\$ 14,361,551	\$ 8,205,266
June 30, 2018	20,251,641	13,186,316	7,354,006

South Orange County Wastewater Authority
Notes to the Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

Note 7 – Defined Benefit Pension Plan (Continued)

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

Pension Plan Fiduciary Net Position

Detail information about the plan's fiduciary net position is available in the separately issued CalPERS financial reports 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 periods:

	Increase (Decrease)		
	Total Pension Liability	Fiduciary Net Position	Net Pension Liability/(Asset)
Balance at: 6/30/18 (Valuation date)	\$ 52,230,824	\$ 39,044,508	\$ 13,186,316
Balance at: 6/30/19 (Measurement date)	55,450,648	41,089,097	14,361,551
Net Changes during 2018-2019	3,219,824	2,044,589	1,175,235
Balance at: 6/30/17 (Valuation date)	\$ 49,973,230	\$ 36,562,793	\$ 13,410,437
Balance at: 6/30/18 (Measurement date)	52,230,824	39,044,508	13,186,316
Net Changes during 2017-2018	2,257,594	2,481,715	(224,121)

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 periods ended June 30, 2019 and 2018, 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, 2018 and 2017). 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, 2018 and 2017). 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, 2019 and 2018 less the sum of all additional side fund (or unfunded liability) contributions made by all employers during the measurement period (2018-2019 and 2017-2018).
- (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.

South Orange County Wastewater Authority
Notes to the Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

Note 7 – Defined Benefit Pension 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)

- (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 was as follows:

2020		2019	
<u>Measurement Date</u>		<u>Measurement Date</u>	
June 30, 2018	0.13684%	June 30, 2017	0.13522%
June 30, 2019	0.14015%	June 30, 2018	0.13684%
Change - Increase		Change - Increase	
(Decrease)	0.00331%	(Decrease)	0.00162%

For the year ended June 30, 2020 and 2019, the Authority recognized pension expense in the amounts of \$2,825,868 and \$1,947,765, respectively

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, 2019 and 2018 are both 3.8 years, which was obtained by dividing the total service years of 530,470 and 516,147 (the sum of remaining service lifetimes of the active employees) by 140,593 and 135,474 (the total number of participants: active, inactive, and retired), respectively.

South Orange County Wastewater Authority
Notes to the Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

Note 7 – Defined Benefit Pension 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, 2020 and 2019, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2020		2019	
	Deferred outflows of Resources	Deferred inflows of Resources	Deferred outflows of Resources	Deferred inflows of Resources
Pension contribution after measurement date	\$ 1,441,008	\$ -	\$ 1,297,346	\$ -
Changes of assumptions	684,825	(242,765)	1,503,279	(172,167)
Difference between expected and actual experience	997,470	(77,284)	505,936	(368,425)
Projected earnings on pension plan investments				
under/(in excess of) actual earnings	-	(251,084)	65,190	-
Adjustment due to differences in proportions	232,040	(35,269)	103,968	(54,862)
Employer's actual contributions in excess of/(under)				
employer's proportionate share of contribution	-	(561,153)	-	(482,852)
Total	<u>\$ 3,355,343</u>	<u>\$ (1,167,555)</u>	<u>\$ 3,475,719</u>	<u>\$ (1,078,306)</u>

Deferred outflows of resources related to pensions resulting from the Authority's contributions made subsequent to the measurement date in the amount of \$1,441,008 and \$1,297,346 will be recognized as a reduction of the collective net pension liability in the years ending June 30, 2021 and 2020, respectively.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

2020		2019	
Year Ending June 30,	Deferred Outflows/ (Inflows) of Resources Miscellaneous	Year Ending June 30,	Deferred Outflows/ (Inflows) of Resources Miscellaneous
2021	\$ 846,997	2020	\$ 1,138,700
2022	(244,839)	2021	571,613
2023	93,886	2022	(491,643)
2024	50,736	2023	(118,603)
2025	-	2024	-
Thereafter	-	Thereafter	-
	<u>\$ 746,780</u>		<u>\$ 1,100,067</u>

South Orange County Wastewater Authority
Notes to the Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

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, 2020, the Authority's participation in the insurance with California Sanitation Risk Management Authority, CSRMA, a pooled liability program, was as follows:

- Workers' Compensation – the Authority is self-insured through the CSRMA up to \$750,000 per occurrence 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 insured through the CSRMA at first layer coverage of \$500,000 (\$100,000 for EPL) with a \$25,000 deductible (\$2,500 for E&O). Excess insurance is purchased by CSRMA at two levels: \$10,000,000 and \$15,500,000 per occurrence.

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.

For property and pooled liability insurance, the premiums paid fiscal year ended June 30, 2020 and 2019 totaled \$261,406 and \$203,645, respectively. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 9 – Commitment and Contingencies

A. Commitments

The Authority had several outstanding or planned construction and other projects as of June 30, 2020 and 2019. These projects are evidenced by contractual commitments within engineering related services and the outstanding balance as of June 30, 2020 and 2019 was \$28,898,000 and \$30,101,822, respectively.

South Orange County Wastewater Authority
Notes to the Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

Note 9 – Commitment and Contingencies (Continued)

B. Contingencies

COVID-19 Pandemic. In December 2019, a novel strain of coronavirus has spread around the world resulting in business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. The operations and business results of Authority could potentially be adversely affected by this global pandemic. The extent to which the coronavirus may impact business activity or investment results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions required to contain the coronavirus. The ultimate financial impact and duration cannot be estimated at this time.

Note 10 – Subsequent Events

No Subsequent Events.

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REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)

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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, 2020 and 2019

Last Ten Fiscal Years

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

For the measurement date:	<u>June 30, 2018</u>
Authority's proportion of the net pension liability/(asset)	<u>0.14015%</u>
Authority's proportionate share of the net pension liability/(asset)	<u>\$ 14,361,551</u>
Authority's covered payroll	<u>\$ 6,331,043</u>
Authority's proportionate share of the net pension liability/(asset) as a percentage of covered employee payroll	<u>226.84%</u>
Plan's proportionate share of the fiduciary net position as a percentage of the total pension liability	<u>75.26%</u>

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**South Orange County Wastewater Authority
Required Supplementary Information (Unaudited)
Schedule of the Authority's Contributions
For the Year Ended June 30, 2020 and 2019**

Last Ten Fiscal Years

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

Fiscal year end	2013-14 ¹	2015-16	2015-16	2016-17	2017-18
Actuarially determined contribution ²	\$ 759,739	\$ 780,373	\$ 495,877	\$ 521,940	\$ 1,094,606
Contribution in relation to the actuarially determined contribution ²	(759,739)	(780,373)	(1,121,220)	(1,019,645)	(1,094,606)
Contribution deficiency/(excess)	\$ -	\$ -	\$ (625,343)	\$ (497,705)	\$ -
Authority's covered payroll	\$ 5,215,673	\$ 5,452,666	\$ 5,616,113	\$ 5,784,596	\$ 6,083,399
Contributions as a percentage of covered payroll	14.57%	14.31%	19.96%	17.63%	17.99%

¹ Historical information is presented only for measurement periods for which GASB 68 is applicable. Additional years' information will be displayed as it becomes available.

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: There were no changes to benefit terms.

Changes of Assumptions: In 2019, there were no changes. In 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. There were no changes in the discount rate. In 2017, the accounting discount rate reduced from 7.65 percent to 7.15 percent. In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense.) In 2014, amounts reported were based on the 7.5 percent discount rate.

South Orange County Wastewater Authority
Required Supplementary Information (Unaudited)
Schedule of the Authority's Contributions
For the Year Ended June 30, 2020 and 2019

Last Ten Fiscal Years

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

For the year:	2018-19	2019-20
Actuarially determined contribution	\$ 1,297,346	\$ 1,441,008
Contribution in relation to the actuarially determined contribution ²	(1,297,346)	(1,441,008)
Contribution deficiency/(excess)	\$ -	\$ -
Authority's covered payroll	\$ 6,331,043	\$ 6,456,681
Contributions as a percentage of covered payroll	20.49%	22.32%

Notes to Schedule

Change in Benefit Terms: There were no changes to benefit terms.

Changes of Assumptions: In 2019, there were no changes. In 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. There were no changes in the discount rate. In 2017, the accounting discount rate reduced from 7.65 percent to 7.15 percent. In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense.) In 2014, amounts reported were based on the 7.5 percent discount rate.

South Orange County Wastewater Authority
Required Supplementary Information (Unaudited)
Schedule of Changes in Net OPEB Liability and Related Ratios
For the Years Ended June 30, 2020 and 2019

Last Ten Fiscal Years

Other Postemployment Benefits ("OPEB")

Measurement period	2017-2018 ¹	2018-2019	2019-2020
Total OPEB Liability:			
Service Cost	\$ 256,866	\$ 274,847	\$ 231,479
Interest	677,737	713,467	692,192
Changes of benefit terms	-	(42,119)	-
Differences between expected and actual experience	-	(822,505)	-
Changes of assumptions	-	109,406	607,338
Benefit payments, including refunds of member contributions	(354,582)	(529,726)	(457,597)
Net change in Total OPEB Liability	580,021	(296,630)	1,073,412
Beginning of Year	9,602,387	10,182,408	9,885,778
End of Year	\$ 10,182,408	\$ 9,885,778	\$ 10,959,190
Plan Fiduciary Net Position:			
Employer contribution	\$ 585,582	\$ 529,726	\$ 457,597
Employee contributions	-	-	-
Contributions - nonemployer contributing member	-	-	-
Net investment income	348,619	341,412	163,035
Benefit payments	(354,582)	(529,726)	(457,597)
Administrative expenses	(26,133)	(27,005)	(30,213)
Other	-	-	-
Net changes in Fiduciary Net Position	553,486	314,407	132,822
Beginning of Year	4,269,924	4,823,410	5,137,817
End of Year	\$ 4,823,410	\$ 5,137,817	\$ 5,270,639
Net OPEB Liability	\$ 5,358,998	\$ 4,747,961	\$ 5,688,551
Fiduciary Net Position as a % of Total OPEB Liability	47.37%	51.97%	48.09%
Covered Payroll²	N/A	N/A	N/A
Net OPEB Liability as a % of Payroll	N/A	N/A	N/A

¹Historical information is presented only for measurement periods for which GASB 75 is applicable. Additional years' information will be displayed as it becomes available.

²Covered payroll not available

South Orange County Wastewater Authority
Required Supplementary Information (Unaudited)
Schedule of the Authority's Contributions - OPEB
For the Years Ended June 30, 2020 and 2019

Last Ten Fiscal Years

Other Postemployment Benefits ("OPEB")

Fiscal year end	<u>2016-2017¹</u>	<u>2017-2018</u>	<u>2018-2019</u>	<u>2019-2020</u>
Actuarially Determined Employer Contribution	\$ 747,925	\$ 585,582	\$ 613,218	\$ 631,614
Contributions in relation to the actuarially determined contribution	(747,925)	(585,582)	(529,726)	(457,597)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 83,492</u>	<u>\$ 174,017</u>
Covered Payroll ²	N/A	N/A	N/A	N/A
Contributions as a percentage of covered-employee payroll	N/A	N/A	N/A	N/A

¹ Historical information is presented only for measurement periods for which GASB 75 is applicable. Additional years' information will be displayed as it becomes available.

² Covered payroll not available

Notes to Schedule

Valuation date January 1, 2019

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method: Entry age actuarial cost method

Asset Return: 7.00% per annum; assumes the SOCWA invests in PARS Balanced HighMark Plus asset allocation.

Inflation: 2.75% per annum

Salary increases: 3.0% per annum, in aggregate

Pre-retirement Turnover According to termination rates under the most recent CalPERS pension plan valuation.

Pre-retirement and Post-retirement Mortality; Retirement Rates According to pre-retirement and post-retirement mortality rates and retirement rates under the most recent CalPERS pension plan valuation.

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STATISTICAL SECTION

(UNAUDITED)

South Orange County Wastewater Authority
Comprehensive Annual Financial Report
For the Year Ended June 30, 2020

This section of the Authority's Comprehensive Annual Financial Report presents a historical view of the Authority's financial information over time to assist the reader in understanding what the information in the financial statements, note disclosures, and supplementary information says about SOCWA's overall financial condition.

Statistical Section

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Debt Capacity

The Authority does not use debt financing; SOCWA's operating costs, including capital improvements expenditures, are covered by revenue from the ten member agencies that are served.

Demographic Information

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South Orange County Wastewater Authority
Net Position by Component
Last Ten Fiscal Years

Assets:	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Current Assets	\$6,588,134	\$6,729,937	\$7,647,253	\$8,936,134	\$10,463,647	\$7,716,490	\$15,609,499	\$18,402,205	\$22,755,001	\$23,520,569
Non-Current Assets: ¹										
Capital Assets not being depreciated	8,129,707	7,843,519	4,061,363	3,651,753	24,535,630	34,442,532	41,561,721	35,236,026	26,740,102	37,674,285
Capital Assets net of accum. depreciation	41,822,732	43,052,065	51,923,277	55,136,928	74,636,169	89,985,929	87,846,950	96,017,875	103,900,486	99,979,624
Total Capital Assets	49,952,439	50,895,584	55,984,640	58,788,681	99,171,799	124,428,461	129,408,671	131,253,901	130,640,588	137,653,909
Total Assets	56,540,573	57,625,521	63,631,893	67,724,815	109,635,446	132,144,951	145,018,170	149,656,106	153,395,589	161,174,478
Deferred Outflows of Resources:²										
GASB 68-Deferred Outflows					813,449	1,712,209	3,321,291	4,069,991	3,475,719	3,355,343
GASB 75-Deferred Outflows									82,055	646,800
Liabilities:										
Current Liabilities	3,467,522	3,171,131	3,532,893	4,159,458	7,707,754	4,534,783	4,458,739	6,746,223	6,041,550	5,783,848
Non-Current Liabilities	999,869	1,356,251	1,346,388	1,339,077	8,266,057	10,225,917	12,476,437	18,995,344	18,200,914	20,348,151
Total Liabilities	4,467,391	4,527,382	4,879,281	5,498,535	15,973,811	14,760,700	16,935,176	25,741,567	24,242,464	26,132,000
Deferred Inflows of Resources:²										
GASB 68-Deferred Inflows					2,409,966	1,315,151	542,096	798,038	1,078,306	1,167,555
GASB 75-Deferred Inflows								34,043	646,185	411,253
Net Position:³										
Investment in capital assets	49,927,459	50,895,584	55,984,640	58,788,681	99,171,799	124,428,461	129,408,671	131,253,901	130,640,588	137,653,909
Unrestricted (deficit)	2,145,723	2,202,555	2,767,972	3,437,599	(7,106,681)	(6,647,151)	1,453,519	(4,101,452)	345,820	(188,096)
Total Net Position²	\$52,073,182	\$53,098,139	\$58,752,612	\$62,226,280	\$92,065,118	\$117,781,310	\$130,862,190	\$127,152,449	\$130,986,408	\$137,465,813

¹ Member Agencies jointly constructed capital assets were added to the Authority's financial records in fiscal years 2015 and 2016, \$39 million and \$9.3 million respectively. The \$39 million included addition of land, \$13.7 million, for the Coastal and Regional Treatment Plants.

² GASB 65 modified the presentation of the statement of net position. Deferred Outflows of resources and Deferred Inflows of resources are reported prospectively from fiscal year 2015.

³ Beginning net position was restated for fiscal years 2016, 2017 and 2018 for the addition of the assets (discussed above) in 2015 and 2016 and GASB 75 implementation July 1, 2017, adding \$4.7 million in long term liabilities (OPEB) to the statement.

Source: South Orange County Wastewater Authority Audited Financial Statements.

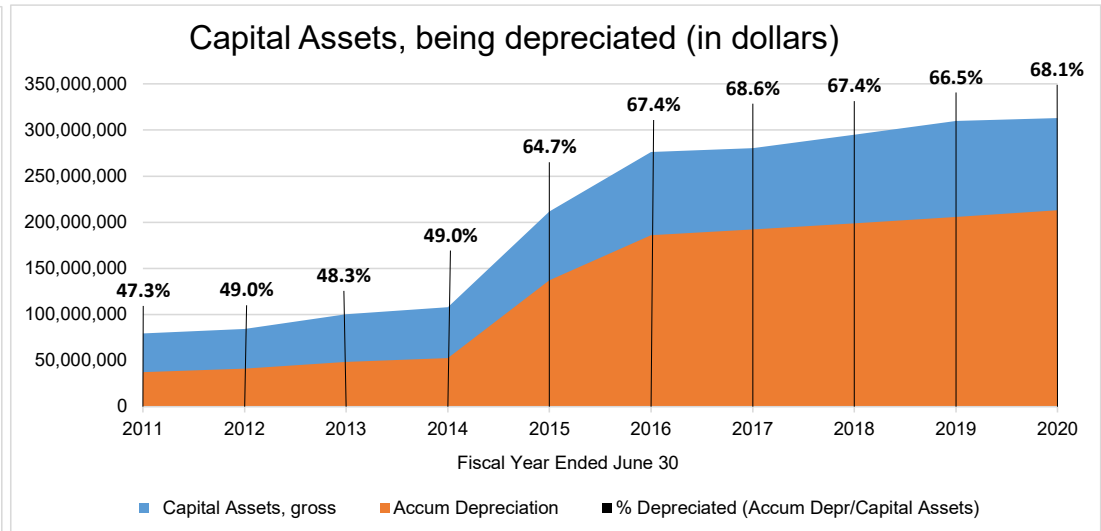
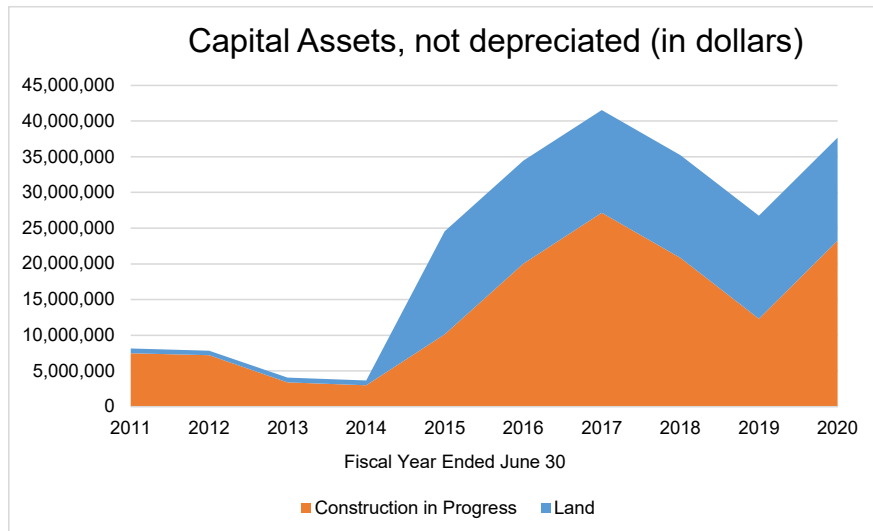
**South Orange County Wastewater Authority
Capital Assets by Component
Last Ten Fiscal Years**

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Capital assets, not depreciated										
Land ¹	\$653,224	\$653,224	\$653,224	\$653,224	\$14,402,224	\$14,402,224	\$14,402,224	\$14,402,224	\$14,402,224	\$14,402,224
Construction in Progress	7,476,483	7,190,295	3,408,139	2,998,529	10,133,406	20,040,308	27,159,497	20,833,802	12,337,878	23,272,061
Total Capital assets, not depreciated	8,129,707	7,843,519	4,061,363	3,651,753	24,535,630	34,442,532	41,561,721	35,236,026	26,740,102	37,674,285
Capital assets, being depreciated¹										
Capital Assets, gross	79,391,498	84,498,158	100,480,234	108,025,409	211,676,952	276,051,617	280,203,940	294,970,825	309,716,685	312,958,179
Accum. depreciation	(37,568,766)	(41,446,093)	(48,556,957)	(52,888,481)	(137,040,783)	(186,065,688)	(192,356,990)	(198,952,950)	(205,816,199)	(212,978,555)
Total Capital assets, being depreciated	41,822,732	43,052,065	51,923,277	55,136,928	74,636,169	89,985,929	87,846,950	96,017,875	103,900,486	99,979,624
Total Capital Assets	\$49,952,439	\$50,895,584	\$55,984,640	\$58,788,681	\$99,171,799	\$124,428,461	\$129,408,671	\$131,253,901	\$130,640,588	\$137,653,909
Accumulated depreciation % Capital Assets , gross²	47.3%	49.0%	48.3%	49.0%	64.7%	67.4%	68.6%	67.4%	66.5%	68.1%

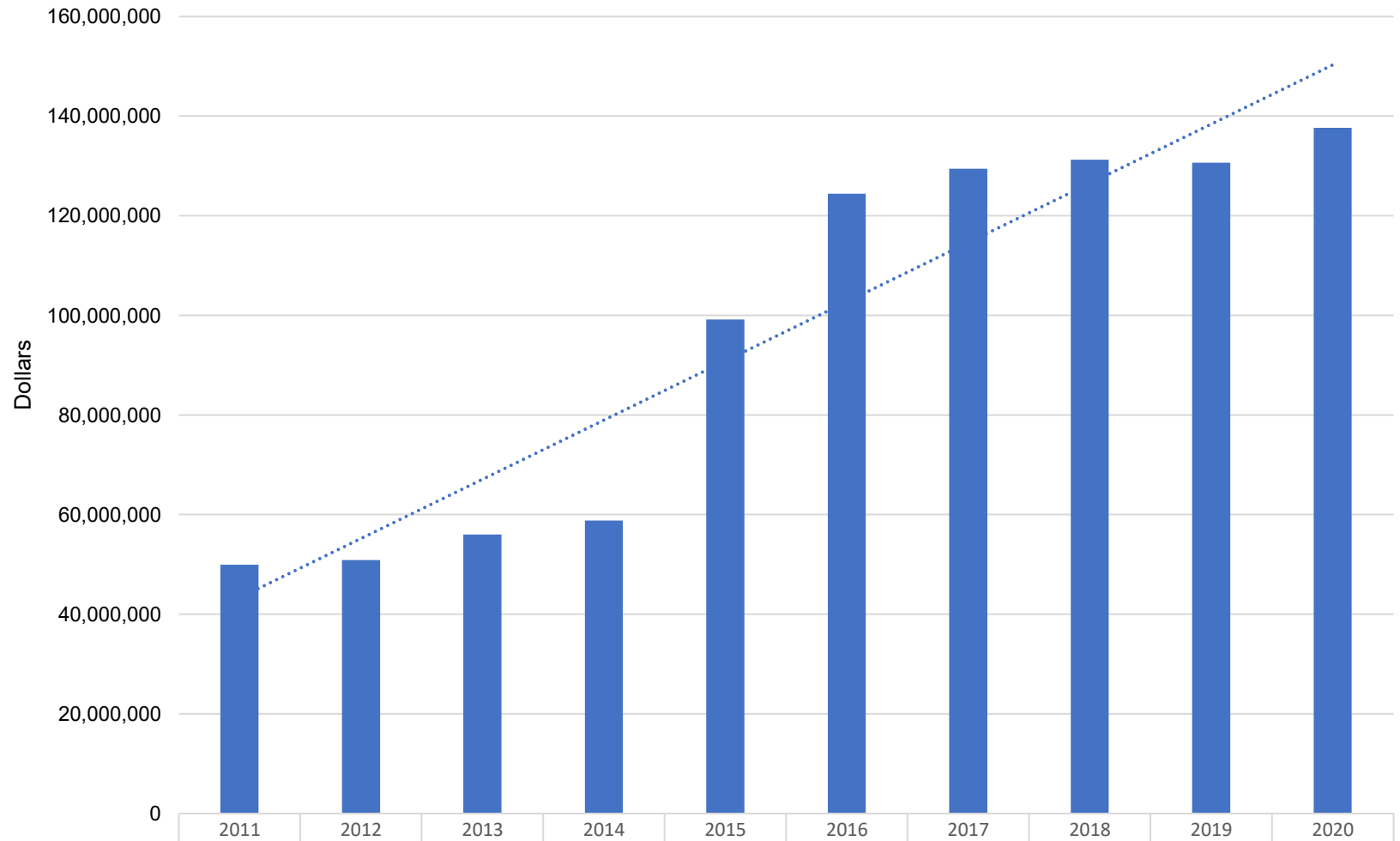
¹ Member Agencies jointly constructed capital assets were added to the Authority's financial records in fiscal years 2015 and 2016, \$39 million and \$9.3 million respectively. The \$39 million included addition of land, \$13.7 million, for the Coastal and Regional Treatment Plants.

² SOCWA's capital assets averaged 49% depreciated prior to FY 2015; addition of jointly constructed assets in fiscal years 2015 and 2016 increased the average to 67% due to age of the assets.

Source: South Orange County Wastewater Authority Audited Financial Statements.



Net Investment in Capital Assets (Last Ten Fiscal Years)



■ Net Investment in Capital Assets (10 Years)	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	49,952,439	50,895,584	55,984,640	58,788,681	99,171,799	124,428,461	129,408,671	131,253,901	130,640,588	137,653,909

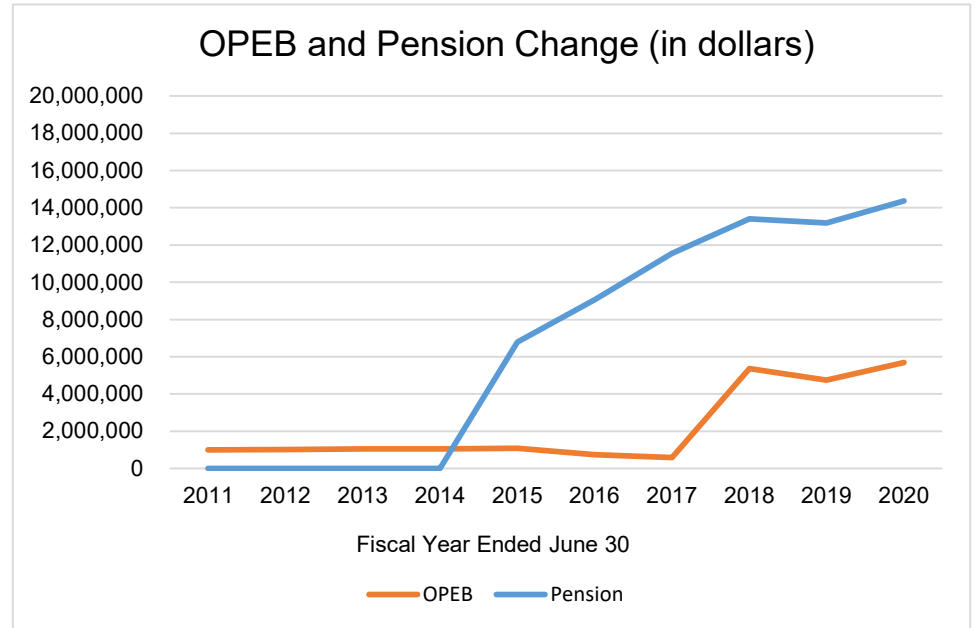
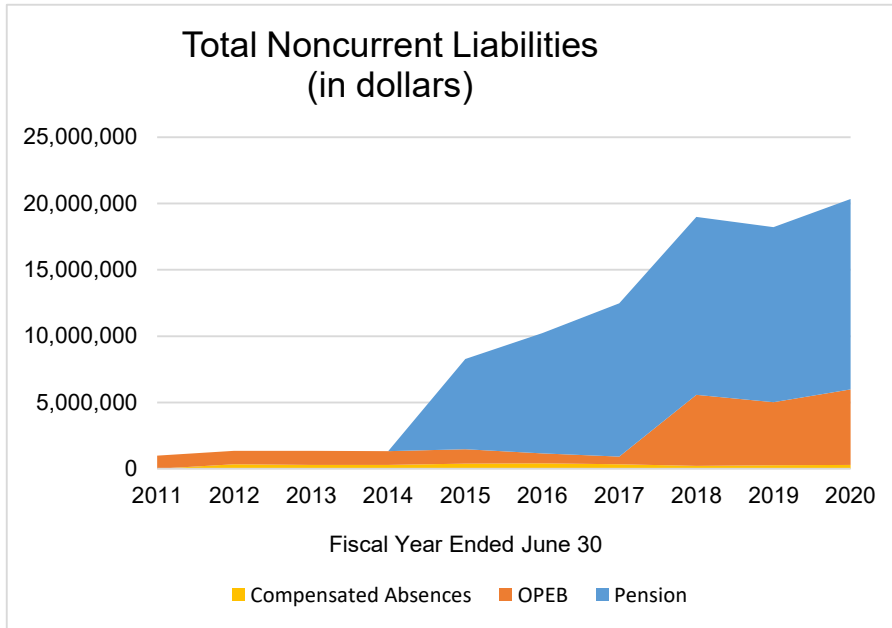
South Orange County Wastewater Authority Long Term Liabilities by Component Last Ten Fiscal Years

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Non-Current Liabilities										
Compensated absences-due in more than one year	-	\$332,172	\$298,944	\$286,758	\$387,876	\$425,420	\$338,733	\$225,909	\$266,637	\$298,049
Net other postemployment benefits obligation (OPEB) ¹	999,869	1,024,079	1,047,444	1,052,319	1,083,904	745,962	587,760	5,358,998	4,747,961	5,688,551
Net pension liability ²	-	-	-	-	6,794,277	9,054,535	11,549,944	13,410,437	13,186,316	14,361,551
Total noncurrent liabilities³	\$999,869	\$1,356,251	\$1,346,388	\$1,339,077	\$8,266,057	\$10,225,917	\$12,476,437	\$18,995,344	\$18,200,914	\$20,348,151

¹ GASB 75 implementation July 1, 2017, recorded full long term OPEB obligation, an additional \$4.7 million.

² GASB 68 implementation in 2015, recorded long term Pension obligation, \$6.8 million.

³ Current year increase of \$2.1 million is due to CalPERS pension method change, assets and non-assets loss, \$1.2 million, and OPEB assumptions change and normal costs accruals, \$941 thousand.



Source: South Orange County Wastewater Authority Audited Financial Statements.

South Orange County Wastewater Authority
Net Pension (CalPERS) Liability by Member Agency
Last Six Fiscal Years¹

	2015	2016	2017	2018	2019	2020
<u>Net Pension Liability</u>						
City of Laguna Beach	\$707,518	\$950,501	\$1,216,301	\$1,424,347	\$1,409,954	\$1,534,919
City of San Clemente	47,198	61,300	77,311	90,008	88,503	96,580
City of San Juan Capistrano	703,507	936,034	1,193,586	1,385,379	1,370,129	1,497,375
Emerald Bay Service District	31,672	41,975	53,337	61,839	60,806	65,469
El Toro Water District	244,130	324,911	414,375	478,930	466,984	503,652
Irvine Ranch Water District	53,099	69,383	88,286	103,279	100,812	109,341
Moulton Niguel Water District	3,077,442	4,124,557	5,251,583	6,070,714	5,953,985	6,443,537
South Coast Water District	1,245,892	1,644,626	2,108,568	2,462,306	2,432,546	2,676,449
Santa Margarita Water District	683,820	901,247	1,145,985	1,332,256	1,301,158	1,431,672
Trabuco Canyon Water District			613	1,378	1,439	2,555
Total	<u>\$6,794,277</u>	<u>\$9,054,535</u>	<u>\$11,549,944</u>	<u>\$13,410,437</u>	<u>\$13,186,316</u>	<u>\$14,361,551</u>

% Change Year-Over-Year²		33.27%	27.56%	16.11%	-1.67%	8.91%
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Net Pension Liability Allocation

%'s³

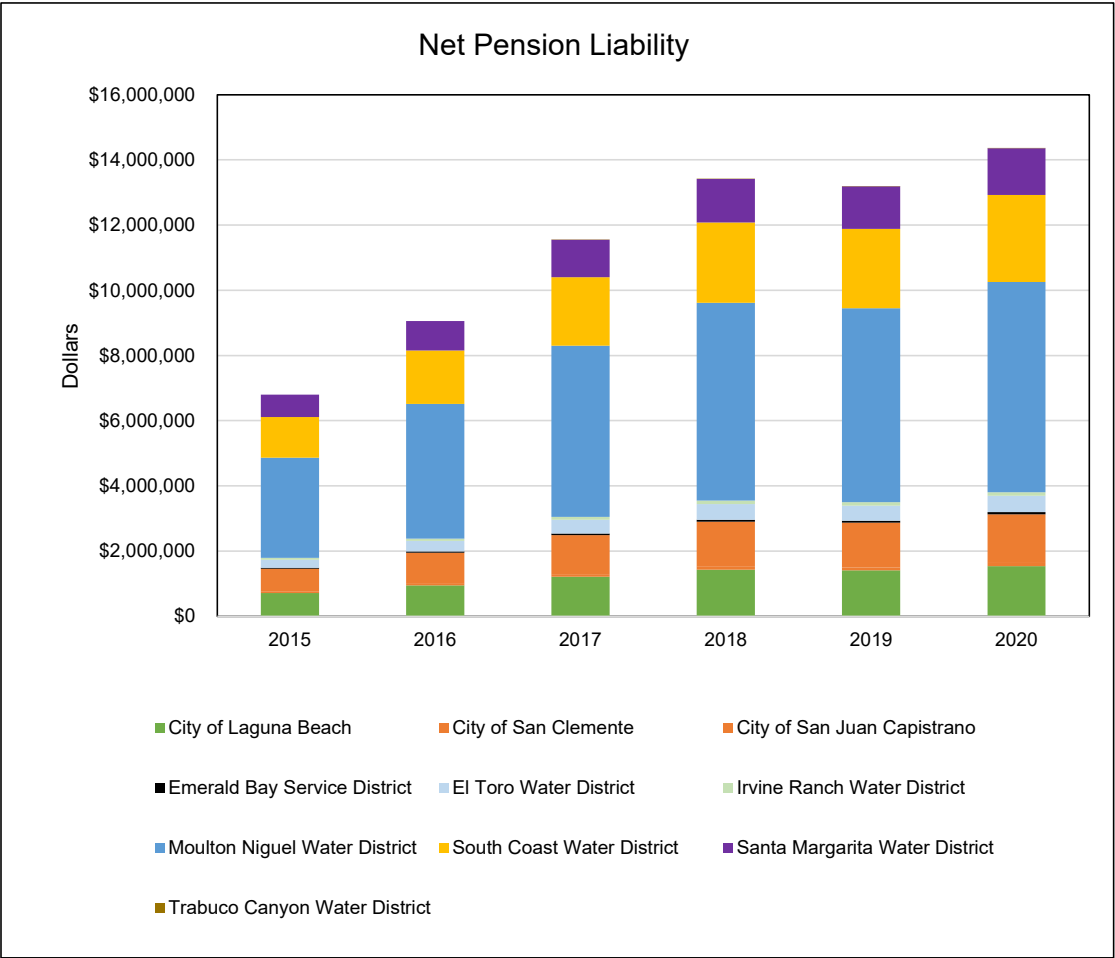
City of Laguna Beach	10.41%	10.50%	10.53%	10.62%	10.69%	10.69%
City of San Clemente	0.69%	0.68%	0.67%	0.67%	0.67%	0.67%
City of San Juan Capistrano	10.35%	10.34%	10.33%	10.33%	10.39%	10.43%
Emerald Bay Service District	0.47%	0.46%	0.46%	0.46%	0.46%	0.46%
El Toro Water District	3.59%	3.59%	3.59%	3.57%	3.54%	3.51%
Irvine Ranch Water District	0.78%	0.77%	0.76%	0.77%	0.76%	0.76%
Moulton Niguel Water District	45.29%	45.55%	45.47%	45.27%	45.15%	44.87%
South Coast Water District	18.34%	18.16%	18.26%	18.36%	18.45%	18.64%
Santa Margarita Water District	10.06%	9.95%	9.92%	9.93%	9.87%	9.97%
Trabuco Canyon Water District			0.01%	0.01%	0.01%	0.02%
Total	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

¹Prior to GASB 68 Implementation, FY 2015, the pension liability was not reported in the Statement of Net Position, the annual required contribution was included in the Notes to the Financial Statements.

²The year-over-year changes are due to changes in CalPERS methodology in 2016, financial market returns less than 7.65% in 2017 and the discount rate decrease from 7.65% to 7.15% in 2018. The current year increase, \$1.2 million, is due to CalPERS method change, assets and non-assets loss.

³Distribution by Member Agency is based on a Board Approved Actuarial Methodology.

**South Orange County Wastewater Authority
 Net Pension (CalPERS) Liability by Member Agency
 Last Six Fiscal Years¹**



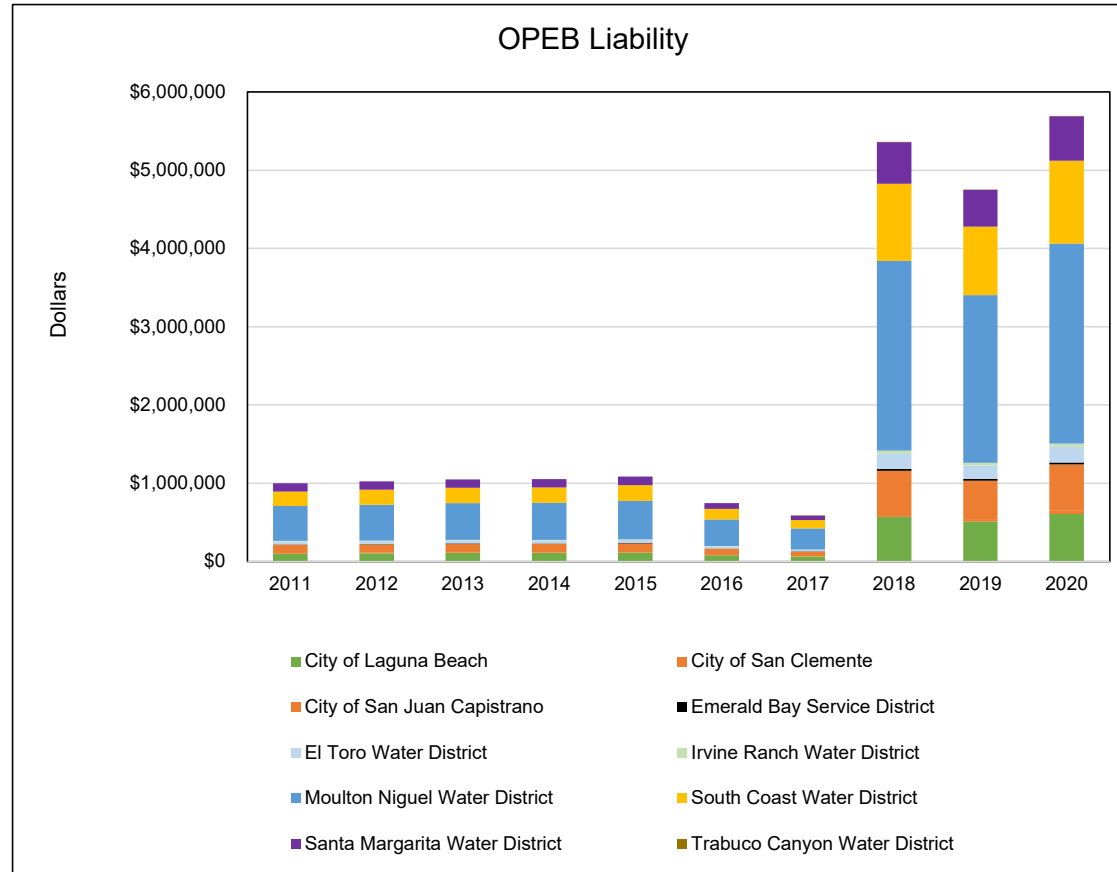
**South Orange County Wastewater Authority
OPEB (Retiree Health) Liability by Member Agency
Last Ten Fiscal Years¹**

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<u>OPEB Liability</u>										
City of Laguna Beach	\$101,290	\$102,735	\$106,591	\$108,208	\$112,872	\$78,307	\$61,896	\$569,189	\$507,678	\$607,975
City of San Clemente	7,430	7,504	7,558	7,449	7,530	5,050	3,934	35,969	31,867	38,255
City of San Juan Capistrano	105,371	107,873	109,765	109,758	112,232	77,116	60,740	553,617	493,339	593,104
Emerald Bay Service District	4,742	4,751	4,879	4,920	5,053	3,458	2,714	24,712	21,894	25,932
El Toro Water District	35,389	36,790	37,400	37,653	38,946	26,768	21,087	191,387	168,146	199,495
Irvine Ranch Water District	7,451	7,540	8,151	8,218	8,471	5,716	4,493	41,272	36,299	43,309
Moulton Niguel Water District	446,109	459,369	470,790	474,017	490,950	339,804	267,246	2,425,942	2,143,835	2,552,258
South Coast Water District	187,271	191,807	195,137	195,200	198,760	135,493	107,302	983,972	875,880	1,060,131
Santa Margarita Water District	104,816	105,711	107,174	106,898	109,091	74,250	58,318	532,388	468,504	567,080
Trabuco Canyon Water District							31	551	518	1,012
Total	\$999,869	\$1,024,079	\$1,047,444	\$1,052,319	\$1,083,904	\$745,962	\$587,760	\$5,358,998	\$4,747,961	\$5,688,551
<u>% Change Year-Over-Year</u>										
		2.42%	2.28%	0.47%	3.00%	-31.18%	-21.21%	811.77%	-11.40%	19.81%
<u>OPEB Liability Allocation %'s²</u>										
City of Laguna Beach	10.13%	10.03%	10.18%	10.28%	10.41%	10.50%	10.53%	10.62%	10.69%	10.69%
City of San Clemente	0.74%	0.73%	0.72%	0.71%	0.69%	0.68%	0.67%	0.67%	0.67%	0.67%
City of San Juan Capistrano	10.54%	10.53%	10.48%	10.43%	10.35%	10.34%	10.33%	10.33%	10.39%	10.43%
Emerald Bay Service District	0.47%	0.46%	0.47%	0.47%	0.47%	0.46%	0.46%	0.46%	0.46%	0.46%
El Toro Water District	3.54%	3.59%	3.57%	3.58%	3.59%	3.59%	3.59%	3.57%	3.54%	3.51%
Irvine Ranch Water District	0.75%	0.74%	0.78%	0.78%	0.78%	0.77%	0.76%	0.77%	0.76%	0.76%
Moulton Niguel Water District	44.62%	44.86%	44.95%	45.04%	45.29%	45.55%	45.47%	45.27%	45.15%	44.87%
South Coast Water District	18.73%	18.73%	18.63%	18.55%	18.34%	18.16%	18.26%	18.36%	18.45%	18.64%
Santa Margarita Water District	10.48%	10.32%	10.23%	10.16%	10.06%	9.95%	9.92%	9.93%	9.87%	9.97%
Trabuco Canyon Water District							0.01%	0.01%	0.01%	0.02%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

¹ Prior to GASB 75 implementation, FY 2018, only a portion of the OPEB liability was recorded in the Net Position Statement, Net OPEB Obligation, GASB 75 required the recognition of the Full OPEB Liability. The decreases in FY's 2016 and 2017 are primarily due to \$500k contributions to the PARS Trust each year. FY 2019 decrease is due to Asset Gains. Fiscal year 2020 increase, \$941 thousand, is due to assumptions change and normal costs accruals.

² Distribution by Member Agency is based on a Board Approved Actuarial Methodology.

**South Orange County Wastewater Authority
OPEB (Retiree Health) Liability by Member Agency
Last Ten Fiscal Years¹**



South Orange County Wastewater Authority
Long-Term Compensated Absences Liability by Member Agency
Last Nine Fiscal Years¹

	2012	2013	2014	2015	2016	2017	2018	2019	2020
<u>Compensated Absences Liability</u>									
City of Laguna Beach	\$34,162	\$31,156	\$30,541	\$44,404	\$48,768	\$38,635	\$25,906	\$30,978	\$34,160
City of San Clemente	2,119	1,902	1,786	2,294	2,311	1,808	1,300	1,716	2,050
City of San Juan Capistrano	35,178	30,441	29,159	38,277	42,168	33,858	23,119	28,373	32,429
Emerald Bay Service District	1,510	1,324	1,294	1,832	1,944	1,495	995	1,199	1,272
El Toro Water District	12,705	11,233	10,528	13,944	15,493	12,267	7,867	8,849	9,266
Irvine Ranch Water District	2,391	2,479	2,486	3,507	3,108	2,392	1,635	2,016	2,224
Moulton Niguel Water District	152,606	138,683	132,131	180,293	201,539	159,079	102,026	115,337	124,882
South Coast Water District	62,461	54,861	51,947	67,000	71,307	58,332	41,698	52,781	61,129
Santa Margarita Water District	29,040	26,865	26,885	36,326	38,782	30,785	21,245	25,222	30,399
Trabuco Canyon Water District				-	-	81	118	167	236
Total	\$332,172	\$298,944	\$286,758	\$387,876	\$425,420	\$338,733	\$225,909	\$266,637	\$298,049

% Change Year-Over-Year²		-10.00%	-4.08%	35.26%	9.68%	-20.38%	-33.31%	18.03%	11.78%
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<u>Compensated Absences Liability Allocation %'s³</u>									
City of Laguna Beach	10.28%	10.42%	10.65%	11.45%	11.46%	11.41%	11.47%	11.62%	11.46%
City of San Clemente	0.64%	0.64%	0.62%	0.59%	0.54%	0.53%	0.58%	0.64%	0.69%
City of San Juan Capistrano	10.59%	10.18%	10.17%	9.87%	9.91%	10.00%	10.23%	10.64%	10.88%
Emerald Bay Service District	0.45%	0.44%	0.45%	0.47%	0.46%	0.44%	0.44%	0.45%	0.43%
El Toro Water District	3.82%	3.76%	3.67%	3.59%	3.64%	3.62%	3.48%	3.32%	3.11%
Irvine Ranch Water District	0.72%	0.83%	0.87%	0.90%	0.73%	0.71%	0.72%	0.76%	0.75%
Moulton Niguel Water District	45.94%	46.39%	46.08%	46.48%	47.37%	46.96%	45.16%	43.26%	41.90%
South Coast Water District	18.80%	18.35%	18.12%	17.27%	16.76%	17.22%	18.46%	19.79%	20.51%
Santa Margarita Water District	8.74%	8.99%	9.38%	9.37%	9.12%	9.09%	9.40%	9.46%	10.20%
Trabuco Canyon Water District						0.02%	0.05%	0.06%	0.08%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

¹No long-term compensated absences reported in 2011.

²Paid time off (PTO) is earned based on the Authority's Memorandum of Understanding (MOU).

²The year-over-year change is based on current year accruals, time taken and accumulated sick pay and vacation termination pay.

³Distribution by Member Agency is based on a Board Approved Actuarial Methodology.

South Orange County Wastewater Authority

Changes in Net Position

Last Ten Fiscal Years

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
OPERATING REVENUES:										
O & M Member Agency Assessments:										
City of Laguna Beach	\$1,824,732	\$1,986,435	\$2,011,737	\$2,228,378	\$2,189,193	\$2,669,450	\$4,256,568	\$3,777,716	\$3,079,457	\$3,712,839
City of San Clemente	133,875	146,737	126,824	157,434	159,023	96,253	148,306	156,322	155,352	155,766
City of San Juan Capistrano	1,610,158	1,761,525	1,799,811	1,710,710	1,862,939	1,868,009	2,010,978	2,158,791	2,262,176	2,198,165
Emerald Bay Service District	97,296	108,675	106,030	119,130	98,927	85,067	82,404	125,522	147,131	149,324
El Toro Water District	638,646	767,898	890,544	743,418	710,624	731,459	729,960	804,371	875,388	937,053
Irvine Ranch Water District	198,137	236,238	312,098	203,745	171,629	127,723	286,204	167,911	163,057	160,524
Moulton Niguel Water District	8,049,001	8,343,653	8,257,670	8,256,502	8,555,725	8,393,893	8,559,434	8,501,212	8,895,527	8,993,369
South Coast Water District	2,729,988	2,772,188	2,615,366	2,501,605	2,625,103	3,317,016	3,513,544	3,394,390	3,799,657	3,736,264
Santa Margarita Water District	1,779,737	1,925,396	1,926,333	1,829,807	1,798,366	1,808,872	1,893,657	1,897,223	1,532,718	2,357,682
Trabuco Canyon Water District	19,864	19,585	37,848	6,253	18,938	20,940	22,776	56,154	34,905	54,975
Total	17,081,434	18,068,330	18,084,261	17,756,982	18,190,467	19,118,682	21,503,831	21,039,612	20,945,369	22,455,961
YOY Change %		5.8%	0.1%	-1.8%	2.4%	5.1%	12.5%	-2.2%	-0.4%	7.2%
OPERATING EXPENSES¹:										
O&M & Environmental, Compliance & Safety	17,324,171	17,611,768	18,354,026	18,116,350	18,891,983	16,437,673	16,587,654	18,118,149	17,558,573	18,500,935
Engineering After Capital Transfer						199,826	344,018	414,966	457,175	395,760
Administration						1,739,067	1,997,037	2,400,967	2,360,182	2,359,762
Unallocated portion of pension and OPEB expense						496,896	412,761	1,428,313	569,469	1,525,773
Other expense							(38,779)	655,096	558,258	1,337,225
Depreciation and amortization	3,512,258	3,877,327	4,012,104	4,379,786	4,176,643	5,846,601	6,291,302	6,595,960	6,863,249	7,162,356
Total Operating Expenses	20,836,429	21,489,095	22,366,130	22,496,136	23,068,626	24,720,063	25,593,994	29,613,451	28,366,905	31,281,811
Operating Income/(Loss)	(3,754,995)	(3,420,765)	(4,281,869)	(4,739,154)	(4,878,159)	(5,601,381)	(4,090,163)	(8,573,839)	(7,421,536)	(8,825,850)

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South Orange County Wastewater Authority **Changes in Net Position** **Last Ten Fiscal Years**

NON-OPERATING REVENUES (EXPENSES):

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Interest Income	36,076	23,589	18,740	12,365	15,563	24,587	70,550	166,452	363,429	488,972
Other revenues (expenses)	893,557	33,136	635,963	2,452,726	(83,810)	(1,588,490)	(183,770)	153,458	1,401,953	228,412
Total Non-Operating Revenues (Expenses)	929,633	56,725	654,703	2,465,091	(68,247)	(1,563,903)	(113,220)	319,910	1,765,382	717,384

CAPITAL CONTRIBUTIONS:

Member Agency Assessments:										
City of Laguna Beach	470,470	501,863	1,290,500	1,184,967	449,398	1,003,741	1,619,449	1,221,424	315,736	2,037,256
City of San Clemente						33,240	45,521	2,556	(1,854)	13,298
City of San Juan Capistrano	266,324	338,690	335,125	484,573	1,055,676	4,019,148	1,712,604	973,822	1,196,079	1,208,118
Emerald Bay Service District	36,152	36,005	100,381	92,521	32,966	64,516	111,491	93,615	24,398	155,641
El Toro Water District	79,926	231,564	87,165	43,387	164,962	1,034,636	1,174,974	266,044	178,986	498,765
Irvine Ranch Water District						16,440	53,205	83,500	174,768	180,705
Moulton Niguel Water District	3,019,611	2,271,920	2,211,482	2,068,320	3,510,937	9,854,276	7,832,747	3,825,793	4,364,986	6,978,710
South Coast Water District	621,376	735,530	1,368,064	1,586,074	1,230,279	4,085,001	3,313,938	2,119,393	2,368,447	2,631,719
Santa Margarita Water District	182,771	273,425	234,188	287,889	755,778	3,599,506	1,420,333	702,744	868,568	883,659
Total Capital Contributions	4,676,630	4,388,997	5,626,905	5,747,731	7,199,996	23,710,504	17,284,262	9,288,891	9,490,114	14,587,871
YOY Change %		-6.2%	28.2%	2.1%	25.3%	229.3%	-27.1%	-46.3%	2.2%	53.7%
Change in Net Position²	1,851,268	1,024,957	1,999,739	3,473,668	2,253,590	16,545,220	13,080,880	1,034,962	3,833,959	6,479,405

NET POSITION

Beginning of year, as restated ³	50,221,914	52,073,182	56,752,873	58,752,612	89,811,528	101,236,090	117,781,310	126,117,487	127,152,449	130,986,408
End of year	\$52,073,182	\$53,098,139	\$58,752,612	\$62,226,280	\$92,065,118	\$117,781,310	\$130,862,190	\$127,152,449	\$130,986,408	\$137,465,813

¹O&M Operating Expenses were not reported by functional department (O&M, Admin and Engineering) prior to FY 2016.

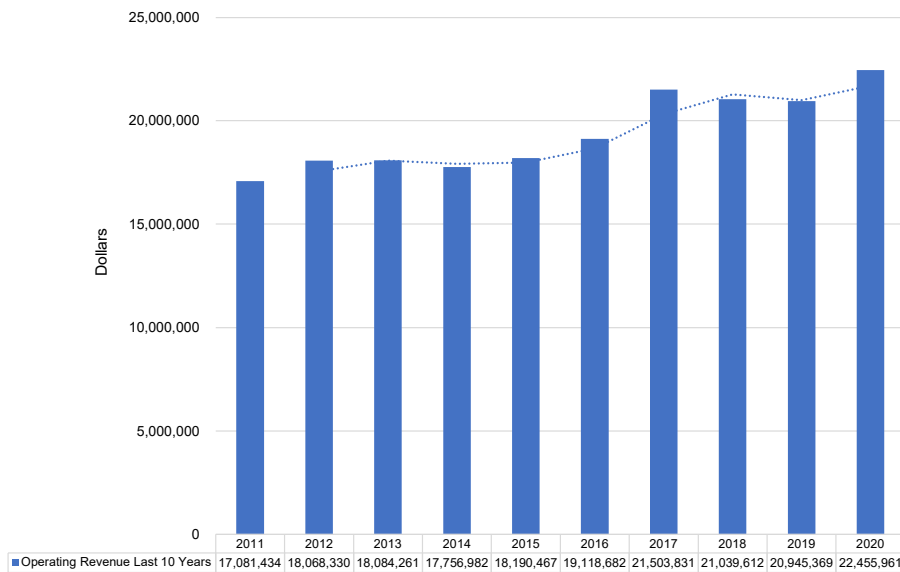
²The current year net position change, \$6.5 million, is primarily due to Capital Contributions for facilities improvements and export sludge system project preparations.

³Beginning net position was restated for fiscal years 2016, 2017 and 2018, for the addition of member agencies jointly constructed assets in 2015 and 2016, \$39 million and 9.3 million respectively. GASB 75 was implemented July 1, 2017, adding \$4.7 million in long term liabilities to the statement.

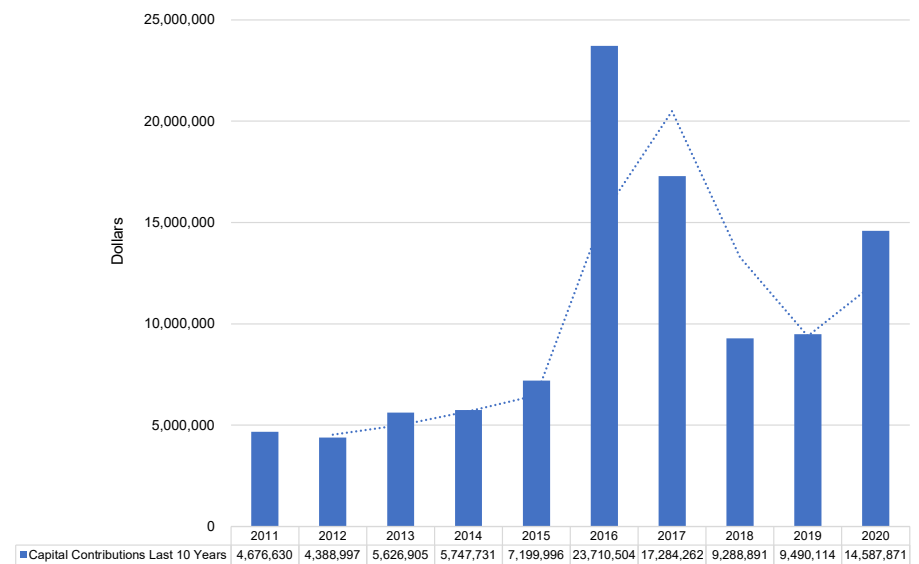
Source: South Orange County Wastewater Authority Audited Financial Statements.

**South Orange County Wastewater Authority
Operating Revenue and Capital Contributions
Last Ten Fiscal Years**

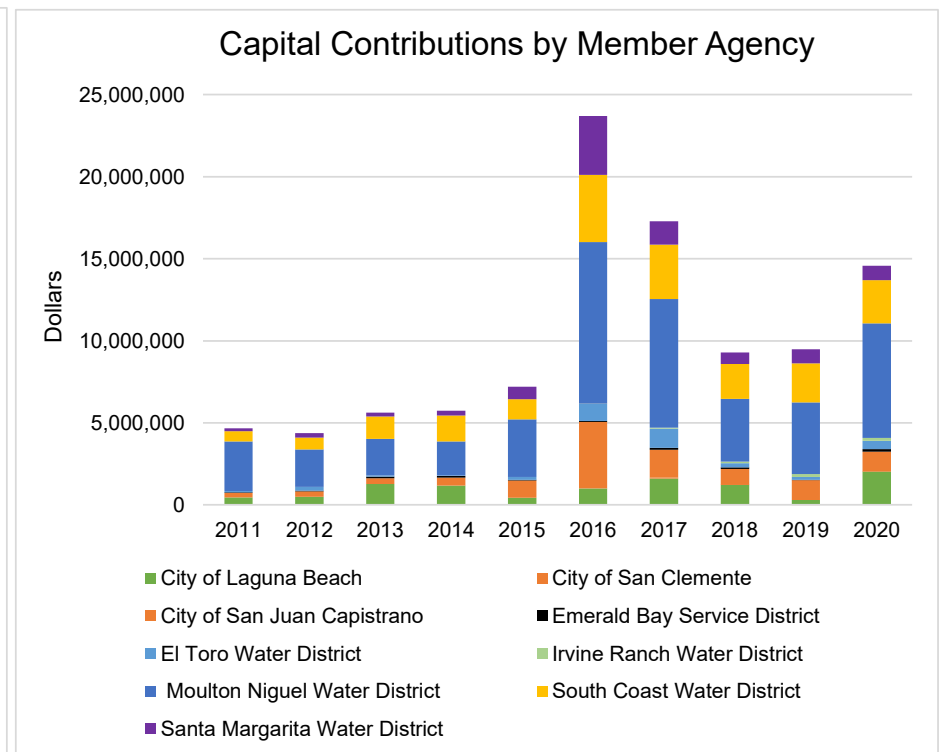
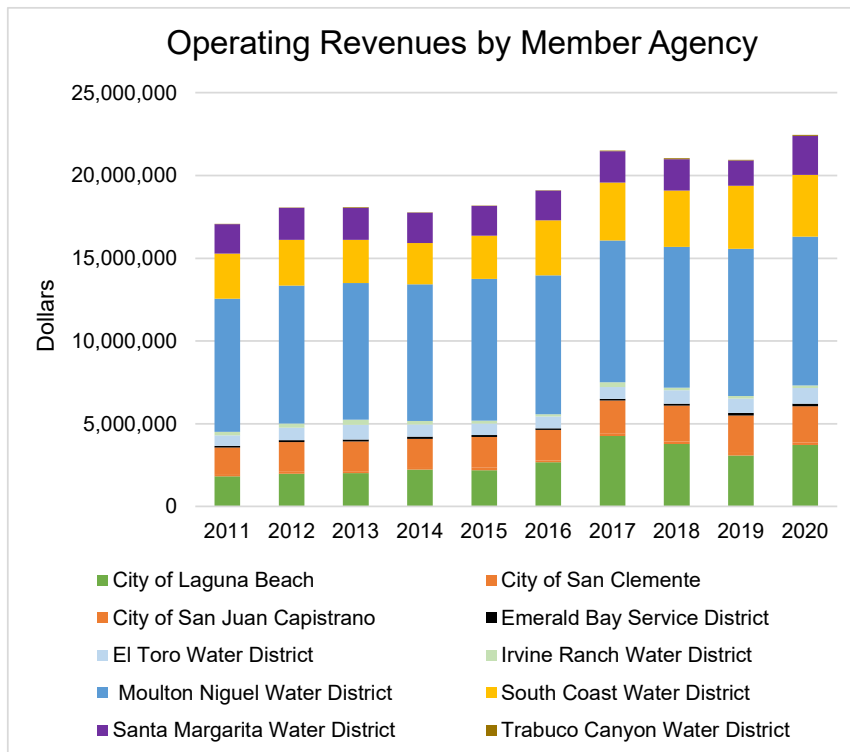
Operating Revenue Last Ten Fiscal Years



Capital Contributions Last Ten Fiscal Years



South Orange County Wastewater Authority Operating Revenue & Capital Contributions by Principal Users Last Ten Fiscal Years



**South Orange County Wastewater Authority
Grant Revenue
Last Six Fiscal Years¹**

Source of Funds	2013	2014	2015	2017	2019	2020	Total
Southern California Edison Co-Gen Projects ²	\$ -	\$ -	\$ -	\$ -	\$1,384,094	\$193,138	\$1,577,232
CA Environment Assoc.				1,500			1,500
Proposition 84 Funds	220,470	12,110	25,842				258,422
Prop 50 Funds-Export Sludge	397,619	2,427,081					2,824,700
Total Grant Revenue	\$618,089	\$2,439,191	\$25,842	\$1,500	\$1,384,094	\$193,138	\$4,661,854

¹Grant funds were received in six of the last ten years.

²Fiscal years 2019 and 2020 grants are incentive payments from Southern California Edison and SDG&E, electricity providers, through their Self-Generation Incentive Program (SGIP); the Authority invested in capital projects that enabled in-house production of energy.

**South Orange County Wastewater Authority
Demographic and Economic Statistics
Last Ten Fiscal Years**

Fiscal Year	Population	Median Age	Per Capita Income	Median Household Income	Unemployment Rate
2010	581,755	35.7	\$46,813	\$71,735	9.7
2011	591,076	36.0	49,740	70,727	9.1
2012	601,105	36.2	51,469	72,046	7.9
2013	609,461	36.4	55,296	71,866	6.6
2014	621,706	36.7	54,594	73,827	5.5
2015	632,435	37.1	57,110	76,061	4.5
2016	643,742	37.3	61,178	78,002	4.0
2017	656,021	37.5	62,763	81,642	3.5
2018	663,978	37.5	65,400	86,031	2.9
2019	847,313	37.9	66,708	87,752	2.8

Sources: South Orange County Wastewater Authority used data from FYE 2010 - 2019 CAFRs for the cities served by the Authority. This is a representative segment of communities SOCWA serves: Lake Forest, Mission Viejo, Rancho Santa Margarita, Laguna Beach, Dana Point, Aliso Viejo, San Juan Capistrano, San Clemente, Laguna Niguel, and Laguna Hills.

**South Orange County Wastewater Authority
Employment by Industry
Current Fiscal Year and Nine Years Ago**

FY 2019

<u>Rank</u>	<u>Employer</u>	<u>Operating City</u> ¹	<u>Number of Employees</u> ²	<u>Percent of Each City's Employment</u> ²
1	Capistrano Unified School District	City of San Juan Capistrano	3,841	22.5%
2	Saddleback College	City of Mission Viejo	2,752	5.49%
3	Applied Medical	City of Rancho Santa Margarita	2,700	8.62%
4	Mission Hospital Regional Medical Center	City of Mission Viejo	2,600	5.19%
5	United States Government	City of Laguna Niguel	2,200	6.38%
6	Capistrano Unified School District	Cities of Mission Viejo, Laguna Niguel, Aliso Viejo	1,677	1.32%
7	Northwest Lake Forest Hospital	City of Lake Forest	1,510	7.79%
8	Saddleback Valley Unified School District	Cities of Mission Viejo, Laguna Hills	1,136	1.68%
9	Ritz-Carlton	City of Laguna Beach	1,078	6.06%
10	Monarch Beach Resort (Former St. Regis)	City of Laguna Beach	1,062	5.97%

FY 2010

<u>Rank</u>	<u>Employer</u>	<u>Operating City</u> ¹	<u>Number of Employees</u> ²	<u>Percent of Each City's Employment</u> ²
1	Capistrano Unified School District	City of San Juan Capistrano	4,228	25.0%
2	Saddleback College	City of Mission Viejo	2,196	3.95%
3	Northwest Lake Forest Hospital	City of Lake Forest	1,760	8.15%
4	Hospira Inc	City of Lake Forest	1,400	6.48%
5	Mission Hospital Regional Medical Center	City of Mission Viejo	1,349	2.43%
6	Applied Medical	City of Rancho Santa Margarita	1,249	4.28%
7	O'Connell Landscape	City of Rancho Santa Margarita	1,090	3.73%
8	Unisys Corporation	City of Mission Viejo	1,000	1.80%
9	Fluor Industrial Services, Inc.	City of Aliso Viejo	1,000	6.07%
10	US Technology Resources LLC	City of Aliso Viejo	1,000	6.07%

¹ Principal Employers represent blended most recent available data from cities that South Orange County Wastewater Authority Serves; Lake Forest, Mission Viejo, Rancho Santa Margarita, Laguna Beach, Dana Point Aliso Viejo, San Juan Capistrano, San Clemente, Laguna Niguel, and Laguna Hills.

² South Orange County Wastewater Authority used data from FYE 2010 - 2019 CAFRs for a representative group of cities served: Lake Forest, Mission Viejo, Rancho Santa Margarita, Laguna Beach, Dana Point, Aliso Viejo, San Juan Capistrano, San Clemente, Laguna Niguel, and Laguna Hills.

**South Orange County Wastewater Authority
Personnel Trends by Department
Last Five Fiscal Years**

Actual Headcount					
Department	2016	2017	2018	2019	2020
Operations	40	39	42	39	37
Environmental Compliance & Safety	10	10	9	9	9
Engineering	2	3	3	3	3
Administration	7	7	9	9	9
IT	1	1	1	1	1
Total	<u>60</u>	<u>60</u>	<u>64</u>	<u>61</u>	<u>59</u>

Source: South Orange County Wastewater Authority Payroll Department.

The Authority did not report headcount information by department prior to FY 2016

**South Orange County Wastewater Authority
O&M Cost Drivers - Last Five Fiscal Years
Cost Drivers Prioritized by Major Expenditures
(SOCWA's Total Cost Base)**

Expenses/Costs:	2016		2017		2018		2019		2020		Total 5 Years	
	Amount	Mix %	Amount	Mix %	Amount	Mix %	Amount	Mix %	Amount	Mix %	Amount	Mix %
Payroll Costs Including Fringe Benefits ¹	\$9,043,135	49.2%	\$9,721,033	51.4%	\$9,613,475	49.9%	\$9,961,588	49.6%	\$10,017,958	48.1%	\$48,357,189	49.6%
Chemicals ²	1,497,173	8.1%	1,381,568	7.3%	1,500,539	7.8%	1,567,210	7.8%	1,697,189	8.1%	7,643,679	7.8%
Utilities ³	1,410,964	7.7%	1,663,124	8.8%	1,996,791	10.4%	1,679,008	8.4%	1,569,259	7.5%	8,319,146	8.5%
Biosolids Hauling and Disposal	1,477,697	8.0%	1,481,192	7.8%	1,322,804	6.9%	1,381,075	6.9%	1,466,713	7.0%	7,129,481	7.3%
Maintenance - Equip. & Facilities ⁴	1,250,934	6.8%	1,111,944	5.9%	1,439,933	7.5%	1,917,785	9.6%	2,046,663	9.8%	7,767,260	8.0%
IT	600,405	3.3%	540,227	2.9%	610,194	3.2%	544,825	2.7%	640,077	3.1%	2,935,728	3.0%
Environmental & Safety	917,282	5.0%	970,609	5.1%	724,059	3.8%	934,829	4.7%	1,094,494	5.3%	4,641,273	4.8%
Engineering Misc	321,482	1.7%	103,820	0.5%	44,434	0.2%	34,824	0.2%	848	0.0%	505,408	0.5%
Management Support Services	300,550	1.6%	312,617	1.7%	296,315	1.5%	367,347	1.8%	423,130	2.0%	1,699,959	1.7%
IT Direct			296,159	1.6%	500	0.0%	2,216		12,672	0.1%	311,546	0.3%
Contract Services - Misc	286,078	1.6%	204,068	1.1%	282,098	1.5%	302,907	1.5%	283,191	1.4%	1,358,341	1.4%
Audit & Legal ⁵	233,694	1.3%	264,840	1.4%	360,983	1.9%	372,347	1.9%	335,332	1.6%	1,567,195	1.6%
Facilities	208,757	1.1%	238,640	1.3%	195,862	1.0%	251,002	1.3%	277,115	1.3%	1,171,376	1.2%
Insurance	144,644	0.8%	160,192	0.8%	208,092	1.1%	203,645	1.0%	261,406	1.3%	977,978	1.0%
Grit Hauling	141,376	0.8%	120,132	0.6%	121,142	0.6%	114,827	0.6%	138,647	0.7%	636,123	0.7%
Engineering transfer to Capital	(330,338)	-1.8%	(297,202)	-1.6%	(320,695)	-1.7%	(330,809)	-1.6%	(377,921)	-1.8%	(1,656,964)	-1.7%
Other Miscellaneous	\$872,734	4.7%	\$655,745	3.5%	\$857,147	4.5%	\$759,166	3.8%	\$955,424	4.6%	\$4,100,216	4.2%
Total SOCWA Cost Base	\$18,376,566	100.0%	\$18,928,708	100.0%	\$19,253,672	100.0%	\$20,063,792	100.0%	\$20,842,196	100.0%	\$97,464,934	100.0%
Cost Drivers	16,819,622		17,286,134		17,548,544		18,388,492		18,956,332		88,999,123	
% Total Cost Base	91.5%		91.3%		91.1%		91.7%		91.0%		91.3%	

Over 90% of SOCWA's Cost Base (Total Costs) are in the above highlighted group.

¹ Payroll costs including fringe benefits are 50% of the Authority's Total Cost Base.

² Chemicals increased due to unanticipated operating requirements.

³ Utilities Costs declined in 2019 and 2020 due to installation of new Co-Gen engines.

⁴ Maintenance costs increases are primarily due to maintenance contracts and services for the new CO-Gen engines.

⁵ Audit and Legal costs increases include start-up costs for new general counselor in 2019 and a shift downward in 2020 as expected.

South Orange County Wastewater Authority
¹O&M Expenditures by Project Committee Fiscal Year 2020

	PC 02	PC 12	PC 05	PC 15	PC 17	PC 21	PC 23	PC 24	PC 08	SOCWA
Salary and Fringe										
Regular Salaries-O&M	\$1,590,035	\$57,080	\$116,561	\$837,478	\$1,586,774	\$4,740	\$-	\$105,861	\$86,084	\$4,384,614
Overtime Salaries-O&M	43,304	-	759	15,049	36,546	2,851	-	942	-	99,451
Scheduled Holiday Work	15,594	-	195	4,846	16,032	-	-	466	-	37,133
Comp Time - O&M	14,732	-	-	3,129	6,693	-	-	68	335	24,956
Fringe Benefits IN to PC's & Depts.	1,179,578	42,346	86,471	621,289	1,177,159	3,517	-	78,533	63,862	3,252,755
Standby Pay	25,745	-	-	9,917	32,607	-	-	-	-	68,268
Total Payroll Costs	2,868,988	99,426	203,985	1,491,709	2,855,810	11,108	-	185,870	150,282	7,867,178
Other Expenses										
Electricity	571,023	-	-	248,532	420,779	-	-	-	-	1,240,334
Natural Gas	101,819	-	-	2,529	140,468	-	-	-	-	244,816
Potable & Reclaimed Water	24,557	-	-	25,778	33,774	-	-	-	-	84,108
Co-generation Power Credit	-	-	-	-	(618,118)	-	-	-	-	(618,118)
Chlorine/Sodium Hypochlorite	5,511	-	-	72,032	365,562	-	-	-	-	443,105
Polymer Products	231,537	-	-	-	388,191	-	-	-	-	619,728
Ferric Chloride	164,084	-	-	42,800	281,621	-	-	-	-	488,505
Odor Control Chemicals	18,719	-	-	42,473	38,850	-	-	-	-	100,042
Laboratory Services	7,215	-	-	9,978	12,886	-	11,200	-	-	41,279
Grit Hauling	59,735	-	-	24,555	54,357	-	-	-	-	138,647
Landscaping	51,084	-	-	26,893	91,134	-	-	-	-	169,111
Engineering - Misc.	-	-	-	-	-	848	-	-	-	848
Management Support Services	42,794	166,440	14,062	19,405	37,857	6,350	16,011	5,050	-	307,969
Legal Fees	2,488	34	2,569	6,466	59,928	-	1,800	-	906	74,189
Public Notices/ Public Relations	-	-	-	-	-	-	-	-	277	277
Contract Services Misc.	72,225	-	-	93,146	112,371	157	-	-	-	277,898
Small Vehicle Expense	6,278	-	-	2,161	9,204	-	-	-	43	17,686
Miscellaneous Expense	8,733	-	-	1,647	5,218	-	-	-	-	15,597
Office Supplies - All	20,331	-	-	8,847	10,430	-	-	-	-	39,609
Petroleum Products	8,990	-	-	1,999	34,820	-	-	-	-	45,809
Uniforms	27,220	-	-	9,875	28,924	-	-	-	-	66,018
Small Vehicle Fuel	8,185	-	-	1,774	6,433	-	-	-	529	16,921
Insurance - Property/Liability	88,375	2,970	7,621	43,196	107,778	872	-	7,937	2,656	261,406
Small Tools & Supplies	23,529	-	-	15,144	25,532	-	-	-	1,486	65,691
Trash Disposal	3,567	-	-	2,030	1,916	-	-	-	-	7,514
Safety Program & Supplies	47,697	-	140	21,279	65,403	-	-	-	197	134,715
Equipment Rental	3,942	-	-	3,514	-	-	-	-	-	7,456
Recruitment	710	-	-	1,255	971	-	-	-	-	2,936
Travel Expense/Tech. Conferences	10,200	88	2,790	5,847	17,238	-	-	2,790	671	39,624
Training Expense	13,646	-	110	13,171	12,656	-	-	3,000	1,615	44,198
Laboratory Supplies	14,118	-	24,849	15,373	20,118	-	-	25,021	-	99,479
Office Equipment	24,444	-	-	3,212	4,336	-	-	-	-	31,992
Permits	20,129	20,708	222,884	9,176	29,771	-	-	193,466	-	496,135
Membership Dues/Fees	5,135	-	2,091	8,397	10,365	-	-	2,091	741	28,821
Offshore Monitoring	-	-	21,481	-	-	-	-	31,561	-	53,042
Effluent Chemistry	-	-	15,917	-	-	-	-	11,612	-	27,530
Access Road Expenses	-	-	-	34,686	-	-	-	-	-	34,686
Storm Damage	-	-	-	549	-	-	-	-	-	549
Biosolids Disposal	632,579	-	-	-	834,134	-	-	-	-	1,466,713
Contract Services Generators	11,086	-	-	3,923	3,715	-	-	-	-	18,724
Janitorial Services	47,582	-	-	15,161	37,748	-	-	-	-	100,490
Contract Serv - Digester Cleaning - 29E	10,226	-	-	-	-	-	-	-	-	10,226
Diesel Truck Maint	22,027	-	-	637	26,054	-	-	-	-	48,718
Diesel Truck Fuel	2,661	-	-	-	5,254	-	-	-	-	7,916
Maintenance Equip. & Facilities (Solids)	132,101	-	-	-	201,311	-	-	-	-	333,411
Maintenance Equip. & Facilities (Liquids)	154,607	-	-	174,249	235,101	-	-	-	-	563,956

South Orange County Wastewater Authority
¹O&M Expenditures by Project Committee Fiscal Year 2020

	PC 02	PC 12	PC 05	PC 15	PC 17	PC 21	PC 23	PC 24	PC 08	SOCWA
Maintenance Equip. & Facilities (Common)	44,448	-	-	7,763	26,362	-	-	-	-	78,573
Maintenance Equip. & Facilities (Co-Gen)	299,680	-	-	-	683,049	-	-	-	-	982,729
Maintenance Equip. & Facilities (AWT)	-	-	-	17,235	70,760	-	-	-	-	87,994
Mileage	793	-	-	591	965	-	-	-	-	2,349
MNWD Potable Water Supplies & Svcs.	-	-	-	-	23,757	-	-	-	-	23,757
Misc-Capital-Dilution & Metering Study	-	-	16,345	-	-	-	-	12,005	-	28,350
Education Reimbursement	-	-	-	1,014	311	-	-	-	-	1,325
SCADA Infrastructure	698	-	-	-	-	-	-	-	-	698
IT Direct	6,294	-	-	3,140	3,239	-	-	-	-	12,672
Co-Generation Power Credit - Offset	-	-	-	-	618,118	-	-	-	-	618,118
Group Insurance Waiver	3,636	-	-	3,635.54	7,271	-	-	-	-	14,542
Medicare Tax Payments for Employees	1,598	-	-	1,857	-	-	-	-	-	3,456
Operating Leases	23,343	-	-	-	-	-	-	-	-	23,343
Monthly Car Allowance	18,953	-	-	4,242	8,483	-	-	-	-	31,678
Zephyr Wall Costs Share - O&M	(28,579)	-	-	-	-	-	-	-	-	(28,579)
IT Allocations in to PC's & Depts.	212,604	4,848	14,105	131,836	248,281	-	-	13,758	12,756	638,188
Total Other Expenses	3,284,355	195,088	344,965	1,183,000	4,844,684	8,227	29,010	308,292	21,877	10,219,497
Sub-Total Expenses	6,153,343	294,514	548,950	2,674,709	7,700,494	19,335	29,010	494,162	172,158	18,086,675
PC 23, NCI							414,260			414,260
Total O&M	\$6,153,343	\$294,514	\$548,950	\$2,674,709	\$7,700,494	\$19,335	\$443,271	\$494,162	\$172,158	\$18,500,935

¹Totals include O&M only. Does not include Administration and Residual Engineering.

South Orange County Wastewater Authority
¹O&M Expenditures by Project Committee Fiscal Year 2019

	PC 02	PC 12	PC 05	PC 15	PC 17	PC 21	PC 23	PC 24	PC 08	SOCWA
Salary and Fringe										
Regular Salaries-O&M	\$1,400,693	\$42,893	\$76,170	\$777,137	\$1,659,825	\$356	\$ -	\$76,205	\$76,334	\$4,109,613
Overtime Salaries-O&M	65,199	-	713	32,497	86,465	-	-	1,312	-	186,185
Scheduled Holiday Work	12,733	-	126	3,470	11,467	-	-	78	-	27,874
Comp Time - O&M	10,940	-	-	869	5,379	-	-	-	3,027	20,215
Fringe Benefits IN to PC's & Depts.	1,057,849	32,394	57,526	586,919	1,253,553	269	-	57,553	57,650	3,103,713
Standby Pay	27,750	-	-	6,138	33,563	-	-	-	-	67,452
Total Payroll Costs	2,575,164	75,287	134,534	1,407,029	3,050,253	625	-	135,148	137,011	7,515,052
Other Expenses										
Electricity	500,758	-	-	220,842	590,624	-	-	-	-	1,312,224
Natural Gas	138,976	-	-	2,830	107,049	-	-	-	-	248,855
Potable & Reclaimed Water	24,337	-	-	26,452	25,967	-	-	-	-	76,756
Co-generation Power Credit	-	-	-	-	(423,049)	-	-	-	-	(423,049)
Chlorine/Sodium Hypochlorite	-	-	-	59,277	479,944	-	-	-	-	539,221
Polymer Products	184,645	-	-	-	340,149	-	-	-	-	524,794
Ferric Chloride	133,363	-	-	65,924	162,463	-	-	-	-	361,750
Odor Control Chemicals	31,481	-	-	40,365	44,513	-	-	-	-	116,360
Laboratory Services	6,968	-	-	7,935	12,959	-	-	-	1,100	28,961
Grit Hauling	49,214	-	-	21,200	44,413	-	-	-	-	114,827
Landscaping	55,167	-	-	42,255	76,205	-	-	-	-	173,627
Engineering - Misc.	19,413	-	1,508	5,618	6,433	1,852	-	-	-	34,824
Management Support Services	50,473	53,779	10,203	5,412	16,562	-	-	8,020	906	145,354
Legal Fees	1,177	1,872	1,108	56,479	6,320	-	10,743	474	16,206	94,380
Public Notices/ Public Relations	-	-	-	-	-	-	-	-	178	178
Contract Services Misc.	79,455	-	-	96,967	120,626	937	-	-	-	297,985
Small Vehicle Expense	12,628	-	-	12,317	8,458	-	-	-	12	33,416
Miscellaneous Expense	7,704	-	94	4,509	13,842	-	-	-	-	26,150
Office Supplies - All	16,275	-	-	7,936	10,810	-	-	-	-	35,020
Petroleum Products	7,986	-	-	5,304	11,796	-	-	-	-	25,086
Uniforms	20,651	-	-	7,478	22,485	-	-	-	-	50,613
Small Vehicle Fuel	11,551	-	-	1,219	7,016	-	-	-	81	19,868
Insurance - Property/Liability	67,983	1,833	4,837	31,993	90,040	41	128	4,740	2,050	203,645
Small Tools & Supplies	45,262	-	-	12,300	35,327	-	-	-	840	93,729
Trash Disposal	1,656	-	-	1,489	1,392	-	-	-	-	4,537
Safety Program & Supplies	44,970	-	-	32,974	40,806	-	-	-	-	118,750
Equipment Rental	1,834	-	-	172	-	-	-	-	-	2,006
Recruitment	976	-	-	-	642	-	-	-	-	1,618
Travel Expense/Tech. Conferences	22,559	58	4,902	6,348	12,659	-	-	4,416	2,823	53,765
Training Expense	38,347	-	3,000	8,382	29,957	-	-	3,000	1,152	83,837
Laboratory Supplies	13,737	-	19,190	9,631	19,660	-	-	20,889	-	83,107
Office Equipment	9,672	-	-	10,098	21,681	-	-	-	-	41,450
Permits	24,536	16,347	172,815	6,045	21,252	-	-	165,126	-	406,121
Membership Dues/Fees	6,479	-	-	1,688	5,175	-	-	-	430	13,771
Offshore Monitoring	-	-	17,144	-	-	-	-	17,144	-	34,289
Effluent Chemistry	-	-	25,690	-	-	-	-	28,905	-	54,595
Access Road Expenses	-	-	-	32,960	-	-	-	-	-	32,960
Storm Damage	-	-	-	139,435	-	-	-	-	-	139,435
Biosolids Disposal	494,633	-	-	-	886,442	-	-	-	-	1,381,075
Contract Services Generators	11,136	-	-	2,604	4,865	-	-	-	-	18,604

South Orange County Wastewater Authority
¹O&M Expenditures by Project Committee Fiscal Year 2019

	PC 02	PC 12	PC 05	PC 15	PC 17	PC 21	PC 23	PC 24	PC 08	SOCWA
Janitorial Services	35,142	-	-	11,196	26,501	-	-	-	-	72,838
Diesel Truck Maint	13,072	-	-	115	24,035	-	-	-	-	37,222
Diesel Truck Fuel	4,221	-	-	72	6,093	-	-	-	-	10,386
Maintenance Equip. & Facilities (Solids)	207,501	-	-	-	206,523	-	-	-	-	414,025
Maintenance Equip. & Facilities (Liquids)	263,603	-	-	161,448	217,926	-	-	-	-	642,977
Maintenance Equip. & Facilities (Common)	39,486	-	587	12,031	35,826	-	-	2,118	-	90,048
Maintenance Equip. & Facilities (Co-Gen)	270,982	-	-	-	441,121	-	-	-	-	712,103
Maintenance Equip. & Facilities (AWT)	-	-	-	11,098	47,536	-	-	-	-	58,633
Mileage	1,214	-	-	286	832	-	-	-	-	2,332
MNWD Potable Water Supplies & Svcs.	-	-	-	-	41,172	-	-	-	-	41,172
Misc-Capital-Dilution & Metering Study	-	-	1,500	-	-	-	-	-	-	1,500
SCADA Infrastructure	306	-	-	-	-	-	-	-	-	306
IT Direct	1,153	-	-	1,063	-	-	-	-	-	2,216
Co-Generation Power Credit - Offset	-	-	-	-	423,049	-	-	-	-	423,049
Group Insurance Waiver	3,592	-	-	3,592	7,184	-	-	-	-	14,368
Medicare Tax Payments for Employees	2,793	-	-	1,912	39	-	-	-	-	4,743
Operating Leases	22,202	-	-	-	-	-	-	-	-	22,202
Monthly Car Allowance	15,757	-	-	4,191	8,543	-	-	-	-	28,491
Zephyr Wall Costs Share - O&M	(14,142)	-	-	-	-	-	-	-	-	(14,142)
Shipping/Freight	176	-	-	22	296	-	-	-	-	494
IT Allocations in to PC's & Depts.	179,318	6,069	12,571	109,035	232,735	-	-	11,412	10,786	561,926
Total Other Expenses	3,182,378	79,959	275,150	1,302,498	4,574,890	2,829	10,871	266,244	36,564	9,731,383
Sub-Total Expenses	5,757,542	155,246	409,684	2,709,527	7,625,143	3,454	10,871	401,392	173,575	17,246,435
PC 23, NCI							312,138			312,138
Total O&M	\$5,757,542	\$155,246	\$409,684	\$2,709,527	\$7,625,143	\$3,454	\$323,009	\$401,392	\$173,575	\$17,558,573

¹Totals include O&M only. Does not include Administration and Residual Engineering.

South Orange County Wastewater Authority
¹O&M Expenditures/Operating Revenue by Project Committee and Member Agency Fiscal Year 2020

	City of Laguna Beach	City of San Clemente	City of San Juan Capistrano	El Toro Water District	Emerald Bay Service District	Irvine Ranch Water District	Moulton Niguel Water District	Santa Margarita Water District	South Coast Water District	Trabuco Canyon Water District	Total
USE AUDIT (Actual Costs) by Project Committee & Member Agency											
Project Committee											
PC 2 - Jay B. Latham Plant	\$ -	\$ -	\$2,072,861	\$ -	\$ -	\$ -	\$1,365,015	\$1,925,115	\$1,698,926	\$ -	\$7,061,917
PC 5 - San Juan Creek Ocean Outfall	-	126,962	70,139	-	-	-	96,453	280,018	78,676	-	652,248
PC 8 - Pretreatment Program	7,196	28,804	15,616	6,920	4,475	26,342	43,967	45,955	32,005	-	211,282
PC 12 SO- Water Reclamation Permits	-	-	39,549	-	-	-	104,488	106,593	45,777	54,975	351,382
PC 15 - Coastal Treatment Plant/AWT	1,383,252	-	-	-	99,940	-	204,432	-	1,428,941	-	3,116,565
PC 17 - Joint Regional Wastewater	612,362	-	-	825,814	37,644	-	6,929,685	-	382,023	-	8,787,528
PC 21 Effluent Transmission Main	-	-	-	9,384	-	12,447	3,861	-	-	-	25,693
PC 23 North Coast Interceptor	33,498	-	-	-	-	-	-	-	-	-	33,498
PC 24 - Aliso Creek Ocean Outfall	62,766	-	-	94,935	7,265	121,734	245,467	-	69,915	-	602,083
Sub-Total	2,099,074	155,766	2,198,165	937,053	149,324	160,524	8,993,369	2,357,682	3,736,264	54,975	20,842,196
PC 23, NCI	1,613,764										1,613,764
Total O&M	\$3,712,839	\$155,766	\$2,198,165	\$937,053	\$149,324	\$160,524	\$8,993,369	\$2,357,682	\$3,736,264	\$54,975	\$22,455,961

¹ SOCWA's operating expenses are covered by its ten Member Agencies, therefore, Operating Revenue is equal to Operating Expenses before PC 23 (NCI), unallocated portion of pension and OPEB, other expenses and depreciation and amortization.

South Orange County Wastewater Authority
¹O&M Expenditures/Operating Revenue by Project Committee and Member Agency Fiscal Year 2019

	City of Laguna Beach	City of San Clemente	City of San Juan Capistrano	El Toro Water District	Emerald Bay Service District	Irvine Ranch Water District	Moulton Niguel Water District	Santa Margarita Water District	South Coast Water District	Trabuco Canyon Water District	Total
USE AUDIT (Actual Costs) by Project Committee & Member Agency											
Project Committee											
PC 2 - Jay B. Latham Plant	\$ -	\$ -	\$2,144,881	\$ -	\$ -	\$ -	\$1,444,760	\$1,273,475	\$1,814,763	\$ -	\$6,677,879
PC 5 - San Juan Creek Ocean Outfall		116,027	76,055				77,430	160,174	66,091		495,776
PC 8 - Pretreatment Program	7,543	39,325	19,961	5,037	6,705	29,314	37,294	41,548	31,195		217,922
PC 12 SO- Water Reclamation Permits			21,278				57,341	57,522	23,020	34,905	194,066
PC 15 - Coastal Treatment Plant/AWT	1,434,248				98,525		265,508		1,380,434		3,178,715
PC 17 - Joint Regional Wastewater	686,501			774,697	36,506		6,843,479		440,552		8,781,736
PC 21 Effluent Transmission Main				1,687		2,186	711				4,584
PC 23 North Coast Interceptor	12,121				836						12,958
PC 24 - Aliso Creek Ocean Outfall	57,467			93,966	4,558	131,557	169,004		43,603		500,155
Sub-Total	2,197,880	155,352	2,262,176	875,388	147,131	163,057	8,895,527	1,532,718	3,799,657	34,905	20,063,792
PC 23, NCI	881,577										881,577
Total O&M	\$3,079,457	\$155,352	\$2,262,176	\$875,388	\$147,131	\$163,057	\$8,895,527	\$1,532,718	\$3,799,657	\$34,905	\$20,945,369

¹ SOCWA's operating expenses are covered by its ten Member Agencies, therefore, Operating Revenue is equal to Operating Expenses before PC 23 (NCI), unallocated portion of pension and OPEB, other expenses and depreciation and amortization.

South Orange County Wastewater Authority Operating and Capacity Indicators Last Ten Fiscal Years

Performance Indicators

Facility/Indicator	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Wastewater Flow (mgd) ¹										
JB Latham Treatment Plant	9.61	9.42	8.70	9.24	8.51	6.83	6.64	6.06	6.51	6.58 *
Coastal Treatment Plant	3.45	3.26	3.29	3.23	3.13	2.98	3.00	2.77	2.91	2.71 *
Regional Treatment Plant	9.62	9.23	8.98	8.71	8.11	7.63	7.75	7.77	7.72	7.78 *
Recycled Water Production (AF/d)										
Coastal Treatment Plant	2.59	2.65	2.69	2.91	3.14	3.25	3.29	3.43	2.23	
Regional Treatment Plant	15.22	16.41	18.01	19.50	18.86	14.75	14.51	16.69	13.81	
Ocean Outfall Discharges (mgd)										
San Juan Creek Ocean Outfall	17.30	17.69	17.61	15.92	13.40	11.51	11.33	10.73	12.34	13.41
Aliso Creek Ocean Outfall	16.78	13.92	12.40	11.99	10.28	11.40	10.71	9.13	10.94	10.95

¹ mgd = million gallons per day

* = projected mgd flow based on prior 3 years average

Source: South Orange County Wastewater Authority Operations Department

South Orange County Wastewater Authority
Member Agency Flows and Solids Trend (Cost Allocation %)
(O&M Costs Distribution by Member Agencies Percentages based on Actual Usage)
Last Ten Fiscal Years

Treatment Facilities ¹	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
PC 2 JB Latham										
Liquids										
City of San Juan Capistrano	34.86%	34.42%	34.56%	33.44%	34.81%	31.77%	31.96%	36.57%	35.38%	32.37%
Moulton Niguel Water District	16.79%	15.47%	17.22%	21.29%	21.52%	20.50%	21.10%	23.64%	23.92%	21.30%
Santa Margarita Water District ²	22.32%	22.74%	23.71%	23.06%	20.99%	21.96%	21.31%	12.13%	11.81%	21.74%
South Coast Water District	26.03%	27.37%	24.52%	22.21%	22.67%	25.77%	25.63%	27.66%	28.89%	24.59%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Solids										
City of San Juan Capistrano	25.71%	28.28%	29.86%	30.00%	32.44%	24.48%	24.54%	23.90%	29.65%	26.23%
Moulton Niguel Water District	18.30%	18.43%	19.97%	19.98%	21.46%	26.33%	18.70%	21.06%	20.05%	17.25%
Santa Margarita Water District	26.70%	29.93%	30.16%	30.30%	27.97%	27.19%	33.82%	36.96%	23.37%	32.96%
South Coast Water District	29.29%	23.36%	20.01%	19.72%	18.13%	22.00%	22.94%	18.08%	26.92%	23.56%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
PC 15 Coastal										
Liquids										
City of Laguna Beach	57.36%	57.55%	59.88%	60.20%	60.15%	59.16%	59.00%	57.72%	60.23%	60.90%
Emerald Bay Service District	2.14%	2.29%	2.13%	1.90%	1.83%	1.71%	1.67%	1.78%	1.88%	2.18%
Moulton Niguel Water District	-	-	-	-	-	-	-	-	-	-
South Coast Water District	40.50%	40.16%	37.99%	37.91%	38.03%	39.13%	39.33%	40.50%	37.89%	36.91%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
PC 17 Regional										
Liquids										
City of Laguna Beach	0.14%	0.16%	0.16%	0.17%	0.23%	0.16%	0.16%	0.80%	0.11%	0.10%
El Toro Water District	0.17%	0.21%	0.20%	0.21%	0.19%	0.18%	0.18%	0.27%	0.92%	0.20%
Emerald Bay Service District	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.00%	0.02%	0.00%	0.00%
Moulton Niguel Water District	99.58%	99.51%	99.54%	99.51%	99.55%	99.55%	99.55%	98.36%	98.92%	99.67%
South Coast Water District	0.10%	0.11%	0.10%	0.10%	0.02%	0.10%	0.10%	0.56%	0.04%	0.04%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Solids										
City of Laguna Beach	13.88%	13.15%	13.65%	13.11%	13.13%	12.30%	12.48%	16.06%	15.34%	12.87%
El Toro Water District	15.73%	16.76%	17.00%	15.70%	15.28%	14.18%	13.99%	14.90%	15.15%	16.11%
Emerald Bay Service District	0.52%	0.52%	0.49%	0.41%	0.40%	0.36%	0.38%	0.50%	0.48%	0.46%
Moulton Niguel Water District	60.08%	60.39%	60.21%	62.53%	62.90%	65.04%	64.52%	58.06%	59.40%	62.78%
South Coast Water District	9.80%	9.18%	8.66%	8.25%	8.30%	8.12%	8.62%	10.48%	9.64%	7.79%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

¹ Flows and Solids costs fluctuate by member agencies based on annual usage, a member agency's assessments will increase if their usage exceeds budget or a refund is provided to member agencies if flows are below budget. O&M costs are of a fixed nature, therefore, if there are significant reductions in usage by an agency, the remaining agencies individual assessments will be increased to absorb the costs. Budget vs. Actual usage is reported in the annual Use Audit Report.

² Santa Margarita Water District's Flows to JB Latham have increased to 22% in current Fiscal Year compared to 12% average for the previous two years.

³ Moulton Niguel Water District has owned capacity in the Coastal treatment Plant but does not send flows to the facility.

South Orange County Wastewater Authority
Member Agency Flows and Solids Trend (MGD)
Last Ten Fiscal Years

JB Latham Plant (JBL) Flows (MGD) By Member Agency - PC2

Fiscal Year	CSJC	MNWD	SCWD	SMWD
2011	3.430	1.490	2.450	2.240
2012	3.310	1.320	2.550	2.240
2013	3.070	1.400	2.060	2.170
2014	3.136	1.936	1.937	2.231
2015	3.031	1.805	1.824	1.849
2016	2.170	1.400	1.760	1.500
2017	2.121	1.400	1.701	1.414
2018	2.166	1.400	1.639	0.718
2019	2.070	1.400	1.690	0.691
2020	2.128	1.400	1.616	1.429

Coastal Treatment Plant (CTP) Flows (MGD) By Member Agency - PC15

Fiscal Year	CLB	EBSD	MNWD	SCWD
2011	1.978	0.074	-	1.397
2012	1.873	0.075	-	1.307
2013	1.970	0.070	-	1.250
2014	1.943	0.061	-	1.224
2015	1.882	0.057	-	1.190
2016	1.760	0.051	-	1.164
2017	1.770	0.050	-	1.180
2018	1.596	0.049	-	1.120
2019	1.620	0.050	-	1.019
2020	1.652	0.059	-	1.001

Regional Treatment Plant (RTP) Flows (MGD) By Member Agency - PC17

Fiscal Year	CLB	EBSD	ETWD	MNWD	SCWD
2011	0.014	0.001	0.016	9.622	0.010
2012	0.015	0.001	0.020	9.225	0.010
2013	0.014	0.001	0.018	8.975	0.009
2014	0.015	0.001	0.018	8.713	0.009
2015	0.019	0.001	0.015	8.112	0.002
2016	0.014	0.000	0.016	7.629	0.010
2017	0.012	0.000	0.014	7.750	0.008
2018	0.062	0.000	0.020	7.730	0.043
2019	0.009	0.000	0.014	7.607	0.003
2020	0.014	0.000	0.014	0.055	0.009

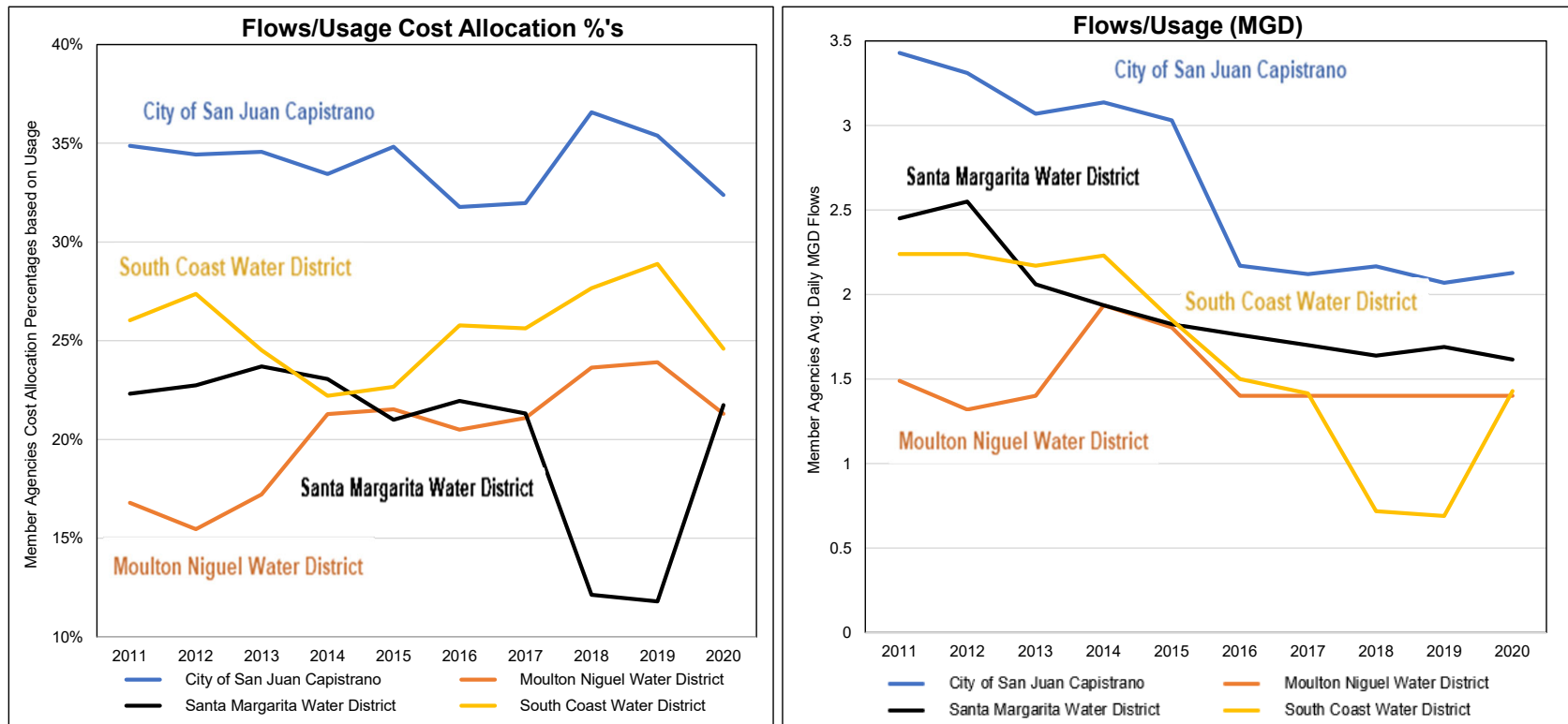
JB Latham Plant (JBL) Solids By Member Agency - PC2 (lbs/day)

Fiscal Year	CSJC	MNWD	SCWD	SMWD
2011	7,741	5,413	9,343	8,119
2012	8,663	5,467	7,444	9,321
2013	8,040	5,301	5,395	8,217
2014	8,526	5,589	5,589	8,712
2015	8,847	5,769	4,792	7,509
2016	5,722	6,155	5,143	6,352
2017	5,767	6,142	5,391	6,203
2018	5,815	5,124	4,399	8,992
2019	5,706	3,859	5,181	4,497
2020	5,914	3,890	5,311	7,431

Regional Treatment Plant (RTP) Solids By Member Agency - PC17 (lbs/day)

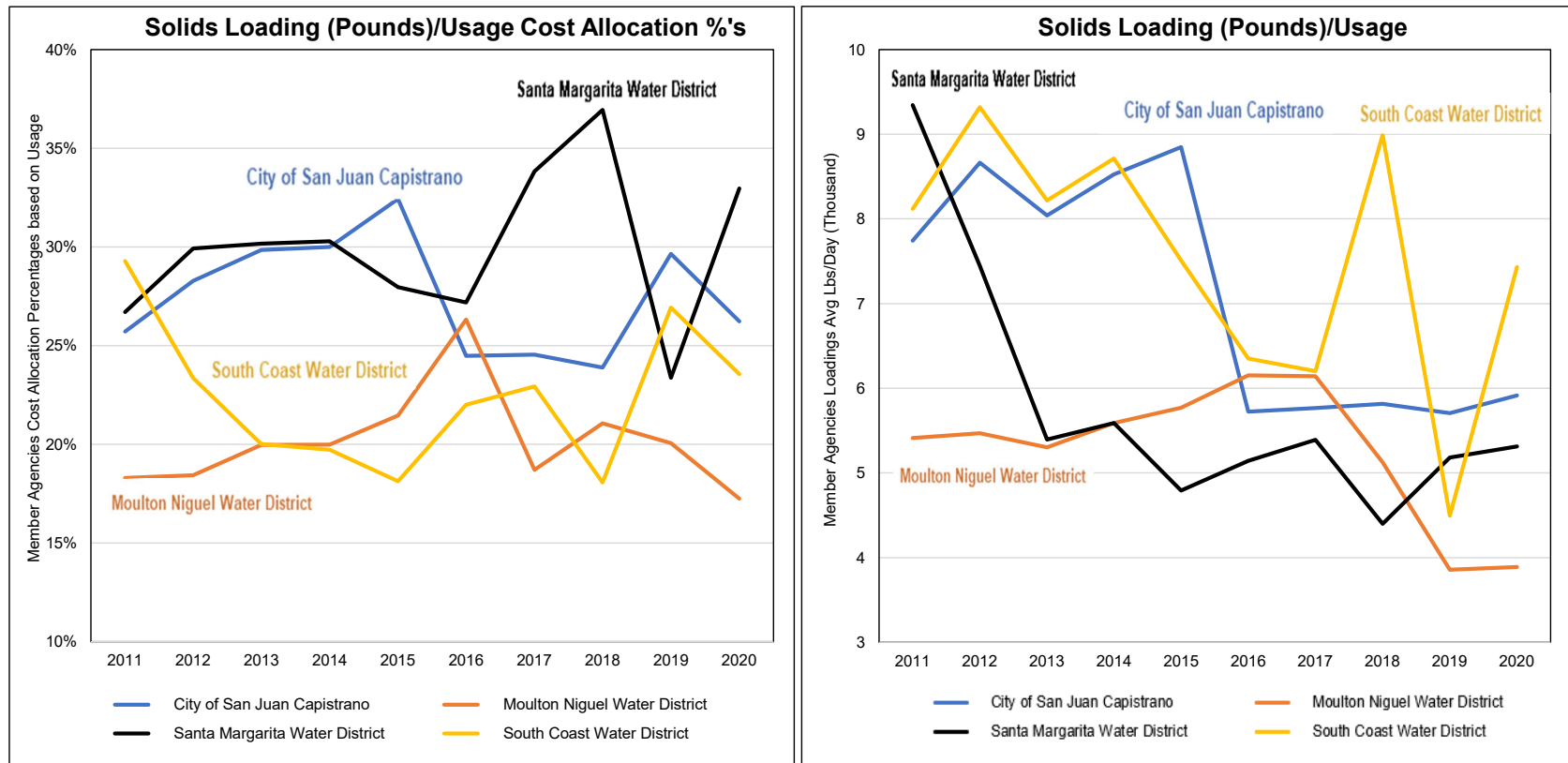
Fiscal Year	CLB	EBSD	ETWD	MNWD	SCWD
2011	5,135	191	5,992	22,890	3,626
2012	4,659	186	6,117	22,045	3,251
2013	4,557	162	5,845	20,700	2,892
2014	4,635	146	5,717	22,776	2,919
2015	4,924	150	5,915	24,350	3,113
2016	5,605	295	10,200	29,395	4,480
2017	5,133	158	5,755	26,532	3,546
2018	6,368	196	5,909	23,024	4,157
2019	5,770	180	5,701	22,346	3,626
2020	4,632	166	5,799	22,598	2,803

**South Orange County Wastewater Authority
PC 2 JB Latham Flows from Member Agencies ¹
Actual Cost Allocation Percentages and MGD by Member Agency
Last Ten Fiscal Years**



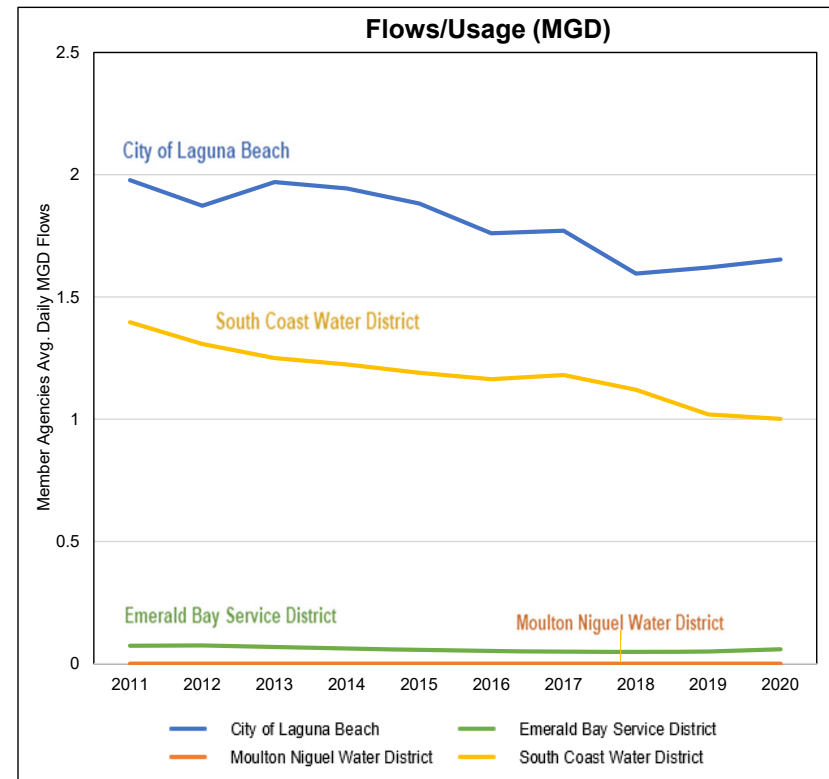
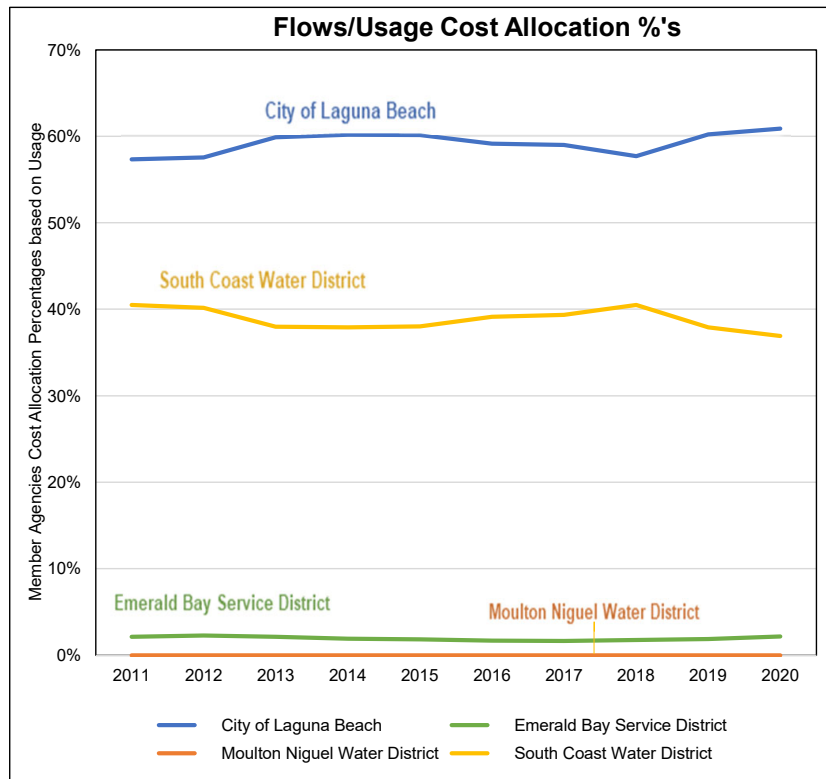
¹ Flows sent to PC 2 J B Latham Plant on average have been gradually reducing over the past ten years. This is due to an overall climate change, drought, and water conservation in California.

**South Orange County Wastewater Authority
PC 2 JB Latham Solids Loading (Pounds) from Member Agencies ¹
Actual Cost Allocation Percentages and Loadings by Member Agency
Last Ten Fiscal Years**



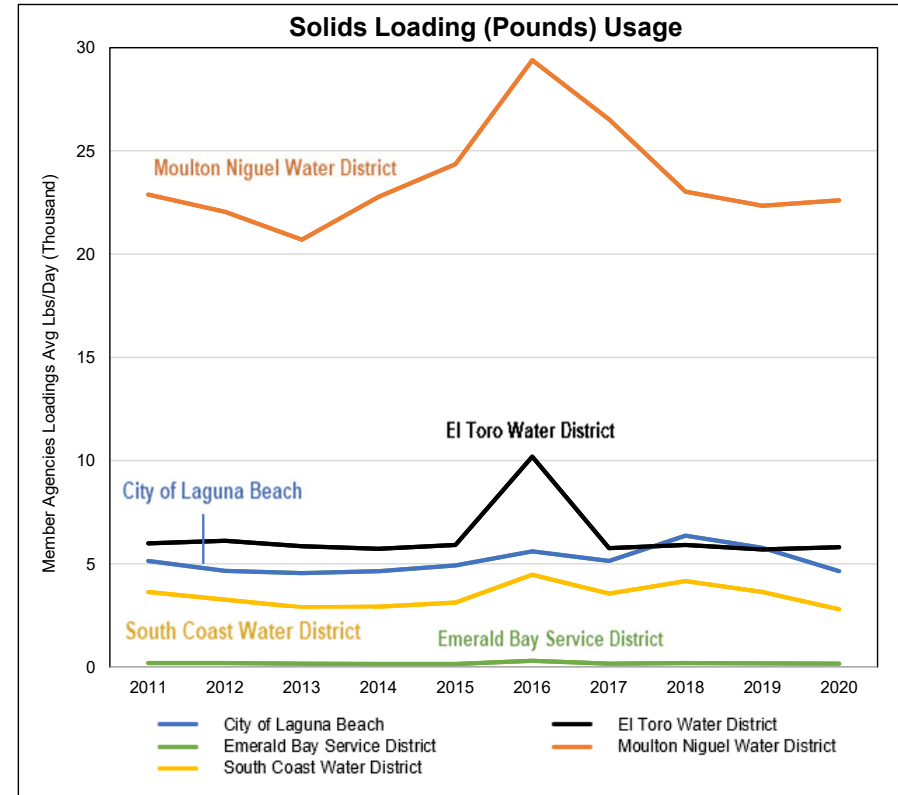
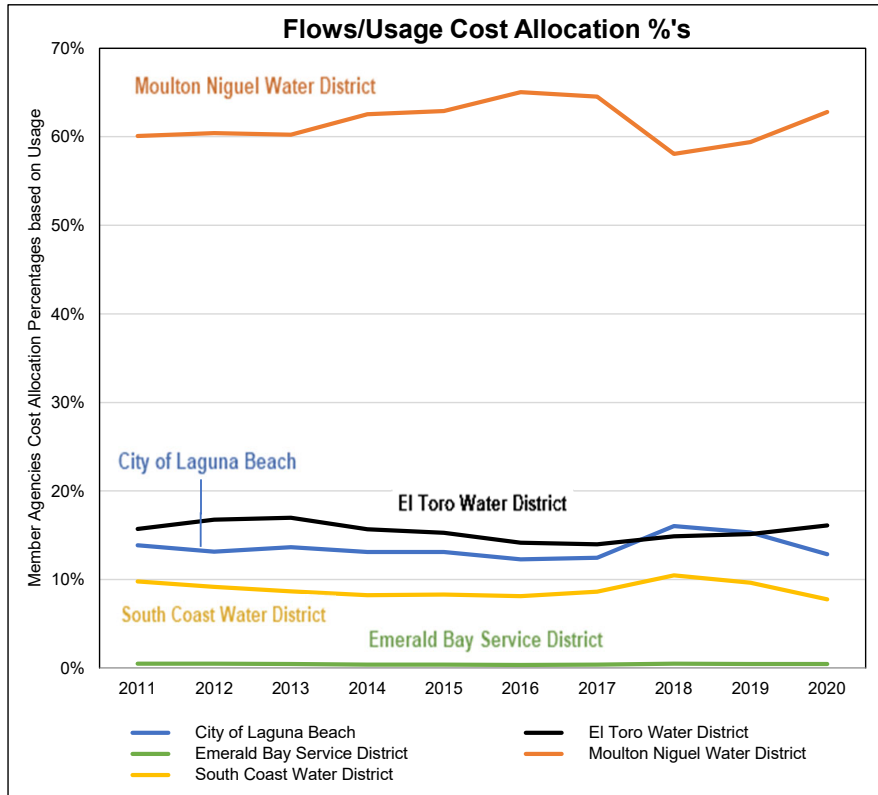
¹ Overall, loadings at PC 2 J B Latham Plant have been stable, on average, for the past ten years. This is due to a constant population, the number of households and businesses served by J B Latham Plant did not change in prior years.

**South Orange County Wastewater Authority
PC 15 Coastal Treatment Plant Flows from Member Agencies ¹
Actual Cost Allocation Percentages and MGD
Last Ten Fiscal Years**



¹ Flows sent to PC 15 Coastal Treatment Plant on average have been gradually reducing over the past ten years. This is due to an overall climate change, drought, and water conservation in California.

South Orange County Wastewater Authority
PC 17 Regional Treatment Plant Solids Loading (Pounds) from Member Agencies ¹
Actual Cost Allocation Percentages and MGD
Last Ten Fiscal Years



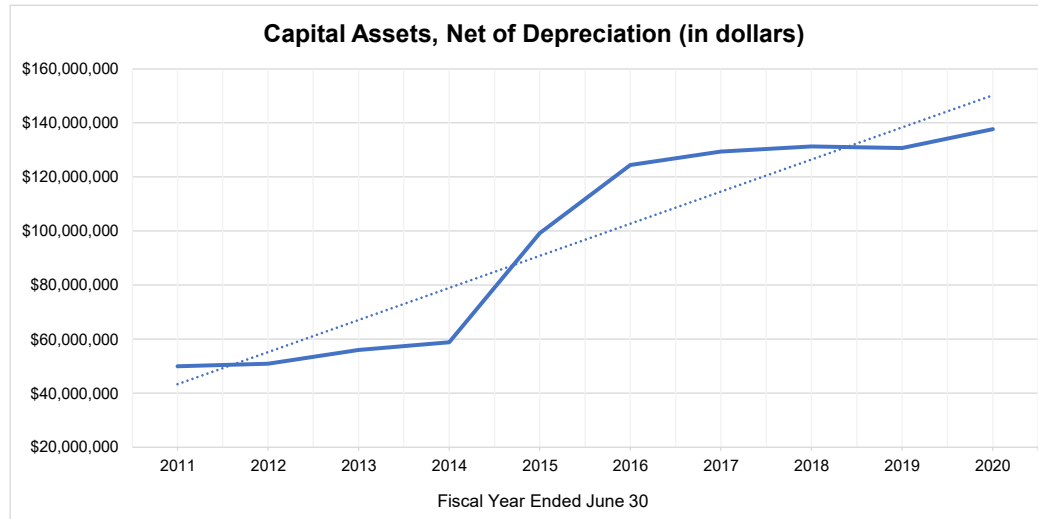
¹ On average, solids loadings at PC 17 Regional Treatment Plant have been stable for the past ten years. This is due to constant population, the number of households and businesses did not change in prior years.

**South Orange County Wastewater Authority
Capital Assets, net of depreciation
Last Ten Fiscal Years
(In Dollars)**

	Facilities & Improvements	Buildings	Building Improvements	Computer Hardware	Computer Software	Furniture and Fixtures	Infrastructure	Machinery & Equipment	Vehicles	Not Being Depreciated		Capital Assets, Net of Depreciation
										Land	Construction in Progress	
2011	33,686,490							8,136,242		653,224	7,476,483	49,952,439
2012	34,651,823							8,400,242		653,224	7,190,295	50,895,584
2013	44,106,897							7,816,380		653,224	3,408,139	55,984,640
2014	47,860,250							7,228,416		653,224	3,046,791	58,788,681
2015		2,353,781	2,855,317	303,400	23,022	315	50,949,009	18,134,894	16,431	14,402,224	10,133,406	99,171,799
2016		6,901,703	4,007,930	1,213,568	29,756	-	46,827,515	30,769,322	236,135	14,402,224	20,040,308	124,428,461
2017		3,650,045	4,016,833	641,680	68,195	20,052	48,412,433	30,695,780	341,932	14,402,224	27,159,497	129,408,671
2018		3,673,353	5,179,648	730,665	154,691	38,547	48,779,298	37,055,331	406,342	14,402,224	20,833,802	131,253,901
2019		3,499,987	4,944,951	634,925	172,107	34,176	46,701,904	47,456,249	456,186	14,402,224	12,337,878	130,640,588
2020		3,329,621	4,675,844	529,927	146,750	-	44,571,238	46,265,231	461,014	14,402,224	23,272,061	137,653,909

¹ 2015 capital assets were restated due to the addition of \$39 million in member agencies jointly constructed assets, including land, \$13.7 million, for Coastal and Regional Treatment Plants.

² 2016 capital assets were restated due to further work on adding member agencies jointly constructed assets, \$9.3 million. The Authority completed a full capital assets review conducted by staff and Carollo Engineers, Inc.



Other Report

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Independent Auditors' Report

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

We have audited, in accordance with the 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, the financial statements of the South Orange County Wastewater Authority (the "Authority"), as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated **Need Date**.

Internal Control over Financial Reporting

In planning and performing our audits of the financial statements, we considered the Authority's internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Santa Ana, California
Need Date

DRAFT 11.23.2020