

**SERRANO WATER DISTRICT**  
**ANNUAL FINANCIAL REPORT**  
**WITH REPORT ON AUDIT**  
**BY INDEPENDENT**  
**CERTIFIED PUBLIC ACCOUNTANTS**  
  
**FOR THE YEARS ENDED**  
**JUNE 30, 2017 AND 2016**

# SERRANO WATER DISTRICT

## TABLE OF CONTENTS

June 30, 2017 and 2016

	<u>Page Number</u>
Board of Directors and Administration	1
Independent Auditors' Report	2
Management's Discussion and Analysis (Required Supplementary Information)	4
Basic Financial Statements:	
Statements of Net Position	10
Statements of Revenues, Expenses and Changes in Net Position	12
Statements of Cash Flows	14
Notes to Basic Financial Statements	16
Required Supplementary Information:	
Schedule of Proportionate Share of the Net Pension Liability - CalPERS Pension Plans - Miscellaneous	48
Schedule of Contributions - CalPERS Pension Plans - Miscellaneous	49
Schedule of Funding Progress - Other Post-Employment Benefits Plan	50

SERRANO WATER DISTRICT

BOARD OF DIRECTORS AND ADMINISTRATION

June 30, 2017 and 2016

**BOARD OF DIRECTORS**

<u>TITLE</u>	<u>MEMBER</u>	<u>TERM EXPIRATION</u>
PRESIDENT	Frank Bryant	December 2018
VICE-PRESIDENT	Greg Mills	December 2020
DIRECTOR	Brad Reese	December 2018
DIRECTOR	C.L. "Larry" Pharris, Jr.	December 2020
DIRECTOR	Jerry L. Haight	December 2020

**ADMINISTRATION**

GENERAL MANAGER/SECRETARY	Jerry Vilander
DEPUTY SECRETARY/TREASURER	Ann M. Michel
DEPUTY SECRETARY	Laura Helfin
DEPUTY SECRETARY	Joel D. Kuperberg

**ATTORNEY**

REPRESENTING RUTAN & TUCKER, ATTORNEYS	Joel D. Kuperberg
--	-------------------

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Serrano Water District  
Villa Park, California

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

We have audited the accompanying financial statements of the Serrano Water District (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

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

## **Other Matters**

### *Prior Year Audited Financial Statements*

The financial statements of the District as of and for the year ended June 30, 2016, were audited by other auditors whose opinion dated November 28, 2016 on those statements was qualified because of the departure from accounting principles generally accepted in the United States of America. In the fiscal year ended June 30, 2016, the District had certain transactions with SWD Recreation, Inc., an entity controlled by the same management and Board of Directors as the District. The activity of SWD Recreation, Inc. was not combined with the financial statements of the District for the year ended June 30, 2016.

### *Report on Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of proportionate share of the net pension liability and the schedule of contributions - CalPERS pension plans - miscellaneous, and the schedule of funding progress - other post-employment benefits plan, identified as Required Supplementary Information (RSI) in the accompanying table of contents, 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 RSI 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 the audit of the basic financial statements. We do not express an opinion or provide any assurance on the RSI because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*White Nelson Dick Evans LLP*

Irvine, California  
October 10, 2017

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

SERRANO WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2017 and 2016

This section of the Serrano Water District's annual financial report presents an analysis of the District's financial performance during the fiscal years ended June 30, 2017 and 2016. This information is presented in conjunction with the audited basic financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2017**

The District's net position from operating activities increased by \$707,464 during the fiscal year, although the overall net position increased by \$557,510 or 4.83 percent.

Total revenues increased by \$142,225 or 2.41 percent from \$5,903,689 to \$6,045,914.

Total expenses decreased by \$829,260 or 13.13 percent from \$6,317,664 to \$5,488,404.

The District purchased 2,199 acre-feet of water, in the amount of \$108,831 (on a monthly basis) to meet the needs of its customers; as of June 30, 2017, 217.4 acre-feet of water is being held in storage for the next fiscal period (related cost of \$129,136).

**FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2016**

The District's net position from operating activities increased by \$135,582 during the fiscal year, although the overall net position decrease by \$413,975 or 3.46 percent due to the write-off of activity related to SWD Recreation, Inc. (see Note 7).

Total revenues increased by \$97,039 or 1.67 percent from \$5,806,650 to \$5,903,689.

Total expenses increased by \$359,190 or 6.03 percent from \$5,958,474 to \$6,317,664.

The District purchased 298 acre-feet of water, in the amount of \$173,500 (on a monthly basis) to meet the needs of its customers; as of June 30, 2016, 364 acre-feet of water is being held in storage for the next fiscal period (related cost of \$214,683).

The District's water conservation program was in full effect for the entire fiscal year; penalties (which ended in October 2015) in the amount of \$153,985 were collected during the year ended June 30, 2016.

Partial water restrictions were lifted in March 2016.

The District had a rate increase which took effect August 2015.

# SERRANO WATER DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2017 and 2016

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of the following three parts: Management's Discussion and Analysis, Basic Financial Statements and Other Required Supplementary Information. The Financial Statements include notes which explain in detail some of the information included in the basic financial statements.

### **REQUIRED FINANCIAL STATEMENTS**

The Financial Statements of the District report information utilizing the full accrual basis of accounting. The Financial Statements conform to accounting principles which are generally accepted in the United States of America. The Statements of Net Position include information on the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources and provide information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). The Statements of Revenues, Expenses and Changes in Net Position identify the District's revenues and expenses for the fiscal years ended June 30, 2017 and 2016. These statements provide information on the District's operations over the past two fiscal years and can be used to determine whether the District has recovered all of its actual and projected costs through user fees and other charges. The third financial statement is the Statements of Cash Flows. These statements provide information on the District's cash receipts, cash payments and changes in cash resulting from operations, investments and financing activities. From the Statements of Cash Flows, the reader can obtain comparative information on the source and use of cash and the change in the cash and cash equivalents balance for each of the last two fiscal years.

### **FINANCIAL ANALYSIS OF THE DISTRICT**

The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position provide an indication of the District's financial condition and also indicate that the financial condition of the District improved during the last fiscal year. The District's net position reflects the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. An increase in net position over time typically indicates an improvement in financial condition.



SERRANO WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)

June 30, 2017 and 2016

**STATEMENTS OF NET POSITION**

A summary of the District's Statements of Net Position are presented in Table 1.

**TABLE 1**  
**Condensed Statements of Net Position**

	Fiscal Year 2017	Fiscal Year 2016	Dollar Change	Percent Change
<b>Assets:</b>				
Current and other assets	\$ 5,662,663	\$ 5,188,090	\$ 474,573	
Capital assets	11,861,283	12,050,319	(189,036)	
Total Assets	<u>17,523,946</u>	<u>17,238,409</u>	<u>285,537</u>	1.66%
Deferred Outflows of Resources	<u>265,894</u>	<u>81,624</u>	<u>184,270</u>	225.75%
<b>Liabilities:</b>				
Current liabilities	1,004,534	1,085,170	(80,636)	
Long-term liabilities	4,428,115	4,380,004	48,111	
Total Liabilities	<u>5,432,649</u>	<u>5,465,174</u>	<u>(32,525)</u>	-0.60%
Deferred Inflows of Resources	<u>263,788</u>	<u>318,966</u>	<u>(55,178)</u>	-17.30%
<b>Net Position:</b>				
Net investment in capital assets	8,730,947	8,526,288	204,659	
Unrestricted	<u>3,362,456</u>	<u>3,009,605</u>	<u>352,851</u>	
Total Net Position	<u>\$ 12,093,403</u>	<u>\$ 11,535,893</u>	<u>\$ 557,510</u>	4.83%
	Fiscal Year 2016	Fiscal Year 2015	Dollar Change	Percent Change
<b>Assets:</b>				
Current and other assets	\$ 5,188,090	\$ 5,701,033	\$ (512,943)	
Capital assets	12,050,319	12,079,279	(28,960)	
Total Assets	<u>17,238,409</u>	<u>17,780,312</u>	<u>(541,903)</u>	-3.05%
Deferred Outflows of Resources	<u>81,624</u>	<u>132,020</u>	<u>(50,396)</u>	-38.17%
<b>Liabilities:</b>				
Current liabilities	1,085,170	1,206,445	(121,275)	
Long-term liabilities	4,380,004	4,756,019	(376,015)	
Total Liabilities	<u>5,465,174</u>	<u>5,962,464</u>	<u>(497,290)</u>	-8.34%
Deferred Inflows of Resources	<u>318,966</u>	<u>-</u>	<u>318,966</u>	100.00%
<b>Net Position:</b>				
Net investment in capital assets	8,526,288	8,377,977	148,311	
Unrestricted	<u>3,009,605</u>	<u>3,571,891</u>	<u>(562,286)</u>	
Total Net Position	<u>\$ 11,535,893</u>	<u>\$ 11,949,868</u>	<u>\$ (413,975)</u>	-3.46%

SERRANO WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)

June 30, 2017 and 2016

**NET POSITION (CONTINUED)**

As the above tables indicate, total assets and deferred outflows of resources increased by \$469,807 during the fiscal year ended June 30, 2017. Total assets and deferred outflows of resources decreased by \$592,299 during the fiscal year ended June 30, 2016.

Total liabilities and deferred inflows of resources decreased by \$87,703 during the fiscal year ended June 30, 2017. Total liabilities and deferred inflows of resources decreased by \$178,324 during the fiscal year ended June 30, 2016.

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

TABLE 2  
Condensed Statements of Revenues,  
Expenses and Changes in Net Position

	Fiscal Year 2017	Fiscal Year 2016	Dollar Change	Percent Change
Revenues:				
Operating revenues	\$ 5,979,574	\$ 5,635,976	\$ 343,598	
Nonoperating revenues	66,340	267,713	(201,373)	
Total Revenues	<u>6,045,914</u>	<u>5,903,689</u>	<u>142,225</u>	2.41%
Expenses:				
Depreciation	482,199	463,702	18,497	
Other operating expenses	4,789,911	5,036,692	(246,781)	
Nonoperating expenses	216,294	237,948	(21,654)	
SWD Recreation, Inc. activity	-	579,322	(579,322)	
Total Expenses	<u>5,488,404</u>	<u>6,317,664</u>	<u>(829,260)</u>	-13.13%
Change in Net Position	557,510	(413,975)	971,485	
Beginning Net Position	<u>11,535,893</u>	<u>11,949,868</u>	<u>(413,975)</u>	
Ending Net Position	<u><u>\$ 12,093,403</u></u>	<u><u>\$ 11,535,893</u></u>	<u><u>\$ 557,510</u></u>	4.83%

SERRANO WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)

June 30, 2017 and 2016

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
(CONTINUED)**

TABLE 2  
Condensed Statements of Revenues,  
Expenses and Changes in Net Position

	Fiscal Year 2016	Fiscal Year 2015	Dollar Change	Percent Change
Revenues:				
Operating revenues	\$ 5,635,976	\$ 5,518,129	\$ 117,847	
Nonoperating revenues	267,713	288,521	(20,808)	
Total Revenues	<u>5,903,689</u>	<u>5,806,650</u>	<u>97,039</u>	1.67%
Expenses:				
Depreciation	463,702	438,051	25,651	
Other operating expenses	5,036,692	5,267,032	(230,340)	
Nonoperating expenses	237,948	253,391	(15,443)	
SWD Recreation, Inc. activity	579,322	-	579,322	
Total Expenses	<u>6,317,664</u>	<u>5,958,474</u>	<u>359,190</u>	6.03%
Change in Net Position	(413,975)	(151,824)	(262,151)	
Beginning Net Position	<u>11,949,868</u>	<u>12,101,692</u>	<u>(151,824)</u>	
Ending Net Position	<u>\$ 11,535,893</u>	<u>\$ 11,949,868</u>	<u>\$ (413,975)</u>	-3.46%

The Statements of Revenues, Expenses and Changes in Net Position identify the various revenue and expense items which affect the change in net position. As the information in Table 2 indicates, for the fiscal year ended June 30, 2017, total revenues increased by \$142,225. Total expenses decreased by \$829,260.

For the fiscal year ended June 30, 2016, total revenues increased by \$97,039. Total expenses increased by \$359,190.

## SERRANO WATER DISTRICT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2017 and 2016

#### **CAPITAL ASSETS**

As of June 30, 2017 and 2016, the District's investment in capital assets totaled \$11,861,283 and \$12,050,319, respectively. Additional information on the District's capital assets is provided in Note 4 of the notes to the financial statements.

#### **LONG-TERM DEBT**

As of June 30, 2017, the District had \$4,428,115 in outstanding long-term debt, an increase of \$48,111 from June 30, 2016. Additional information on the District's long-term debt is provided in Notes 5, 9, and 11 of the notes to the financial statements.

#### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The Board of Directors adopted the District's budget for the fiscal year ending June 30, 2018. Operating revenues are projected to be \$6,409,100.

#### **ADDITIONAL FINANCIAL INFORMATION**

This financial report is designed to provide the District's customers, debt holders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding information included in this report or wish to request additional financial information, please contact the Serrano Water District's General Manager at 18021 E. Lincoln Street, Villa Park, CA 92861.

## **BASIC FINANCIAL STATEMENTS**

SERRANO WATER DISTRICT  
STATEMENTS OF NET POSITION

June 30, 2017 and 2016

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>2017</u>	<u>2016</u>
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents (Note 2)	\$ 4,603,739	\$ 4,142,186
Accounts receivable - water users	658,020	613,977
Accounts receivable - general (Note 6)	168,973	87,408
Accounts receivable - water districts (Note 3)	32,237	42,980
Prepaid expenses	16,399	49,984
Inventory of purchased water (Note 1h)	129,136	214,687
Inventory (Note 1h)	54,159	20,941
Deposits	<u>-</u>	<u>15,927</u>
TOTAL CURRENT ASSETS	<u>5,662,663</u>	<u>5,188,090</u>
CAPITAL ASSETS (NOTE 4):		
Not depreciable	147,790	147,790
Depreciable, net of accumulated depreciation	<u>11,713,493</u>	<u>11,902,529</u>
TOTAL CAPITAL ASSETS	<u>11,861,283</u>	<u>12,050,319</u>
TOTAL ASSETS	<u>17,523,946</u>	<u>17,238,409</u>
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred amounts from pension plans	<u>265,894</u>	<u>81,624</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>265,894</u>	<u>81,624</u>

See accompanying notes to basic financial statements.

(Continued)

SERRANO WATER DISTRICT  
STATEMENTS OF NET POSITION  
(CONTINUED)

June 30, 2017 and 2016

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>2017</u>	<u>2016</u>
<b>LIABILITIES:</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 443,587	\$ 540,031
Construction deposits	11,750	9,750
Accrued wages	30,279	23,847
Accrued compensated absences	65,750	76,765
Orange County Water District - note payable - current portion (Note 5)	25,460	24,010
Capital One Bank - installment sale agreement - current portion (Note 5)	178,278	167,900
Bank of America - installment sale agreement - current portion (Note 5)	92,380	88,367
Customer deposits	<u>157,050</u>	<u>154,500</u>
<b>TOTAL CURRENT LIABILITIES</b>	<u>1,004,534</u>	<u>1,085,170</u>
<b>LONG-TERM LIABILITIES (LESS CURRENT PORTION):</b>		
Orange County Water District - note payable (Note 5)	67,653	93,695
Capital One Bank - installment sale agreement (Note 5)	1,821,131	2,023,008
Bank of America - installment sale agreement (Note 5)	945,434	1,037,051
Net pension liability (Note 9)	1,154,013	801,069
Other post-employment benefits obligation (Note 11)	<u>439,884</u>	<u>425,181</u>
<b>TOTAL LONG-TERM LIABILITIES (LESS CURRENT PORTION)</b>	<u>4,428,115</u>	<u>4,380,004</u>
<b>TOTAL LIABILITIES</b>	<u>5,432,649</u>	<u>5,465,174</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>		
Deferred amounts from pension plans	<u>263,788</u>	<u>318,966</u>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>263,788</u>	<u>318,966</u>
<b>NET POSITION:</b>		
Net investment in capital assets	8,730,947	8,526,288
Unrestricted	<u>3,362,456</u>	<u>3,009,605</u>
<b>TOTAL NET POSITION</b>	<u><u>\$ 12,093,403</u></u>	<u><u>\$ 11,535,893</u></u>

See accompanying notes to basic financial statements.

SERRANO WATER DISTRICT

STATEMENTS OF REVENUES, EXPENSES  
AND CHANGES IN NET POSITION

For the years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>OPERATING REVENUES:</b>		
Water sales - domestic	\$ 4,631,280	\$ 3,923,590
Water sales - bulk (Note 6)	1,344,617	1,708,986
Water sales - irrigation	<u>3,677</u>	<u>3,400</u>
<b>TOTAL OPERATING REVENUES</b>	<u>5,979,574</u>	<u>5,635,976</u>
<b>OPERATING EXPENSES:</b>		
Source of supply:		
Maintenance and supplies	42,627	61,511
Purchased water	1,511,312	1,970,137
Replenishment assessment	757,649	389,813
Power	322,030	322,639
Water treatment:		
Maintenance, supplies, and analysis	213,829	250,015
Transmission and distribution:		
Salaries	330,129	314,264
Maintenance and supplies	141,922	132,859
Vehicle expenses	28,544	19,472
Uniforms	3,351	5,329
Water conservation	59,465	237,163
Administrative and general:		
Public relations	38,000	36,392
Salaries	389,932	316,033
Office supplies and expenses	13,631	14,537
Telephone and utilities	38,311	38,824
Printing	30,524	36,676
Auto expenses	5,042	13,245
Travel and meetings	4,263	8,381
Dues and subscriptions	9,564	7,014
Security	18,416	17,064
Payroll preparation	9,522	10,067
Legal	57,277	63,634
Audit and accounting	16,935	15,376
Directors	21,300	21,500
Computer and miscellaneous	<u>44,355</u>	<u>57,910</u>
Subtotal - Operating Expenses (Carried Forward)	<u>4,107,930</u>	<u>4,359,855</u>

See accompanying notes to basic financial statements.

(Continued)



SERRANO WATER DISTRICT

STATEMENTS OF REVENUES, EXPENSES  
AND CHANGES IN NET POSITION  
(CONTINUED)

For the years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
OPERATING EXPENSES (CONTINUED):		
Subtotal - Operating Expenses (Brought Forward)	\$ 4,107,930	\$ 4,359,855
Insurance expense:		
Property and liability	18,894	34,382
Workers' compensation	31,934	13,695
Employee benefits:		
Group, medical, dental, and life	412,564	394,374
Pension plans (Note 9)	217,763	216,955
Payroll taxes	53,516	53,164
Less: reimbursed overhead and labor	(52,690)	(35,733)
Depreciation	<u>482,199</u>	<u>463,702</u>
 TOTAL OPERATING EXPENSES	 <u>5,272,110</u>	 <u>5,500,394</u>
 OPERATING INCOME	 <u>707,464</u>	 <u>135,582</u>
NONOPERATING REVENUES (EXPENSES):		
Concession income	-	52,500
Interest income	18,967	8,680
Development and other nonoperating revenues	47,373	206,533
Interest expense	(174,834)	(189,631)
Other nonoperating expenses	<u>(41,460)</u>	<u>(48,317)</u>
 TOTAL NONOPERATING REVENUES (EXPENSES)	 <u>(149,954)</u>	 <u>29,765</u>
 NET INCOME BEFORE EXTRAORDINARY ITEM	 557,510	 165,347
EXTRAORDINARY ITEM:		
SWD Recreation, Inc. activity (Note 7)	<u>-</u>	<u>(579,322)</u>
 CHANGES IN NET POSITION	 557,510	 (413,975)
NET POSITION - BEGINNING OF YEAR	<u>11,535,893</u>	<u>11,949,868</u>
NET POSITION - END OF YEAR	<u>\$ 12,093,403</u>	<u>\$ 11,535,893</u>

See accompanying notes to basic financial statements.

SERRANO WATER DISTRICT  
STATEMENTS OF CASH FLOWS

For the years ended June 30, 2017 and 2016

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from customers	\$ 5,895,632	\$ 6,078,655
Cash payments to suppliers of goods and services	(3,852,974)	(2,829,600)
Cash payments to employees for salaries and wages	(867,724)	(632,865)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>1,174,934</b>	<b>2,616,190</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Acquisition and construction of capital assets	(293,163)	(434,742)
Proceeds from sale of capital assets	19,000	-
Principal paid on long-term liabilities	(281,322)	(267,271)
Interest paid on long-term liabilities	(176,863)	(189,631)
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(732,348)</b>	<b>(891,644)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Sale of investments	-	267,713
Purchase of investments	-	(48,317)
Interest income	18,967	-
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>18,967</b>	<b>219,396</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>461,553</b>	<b>1,943,942</b>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<b>4,142,186</b>	<b>2,198,244</b>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$ 4,603,739</b>	<b>\$ 4,142,186</b>

See accompanying notes to basic financial statements.

(Continued)

SERRANO WATER DISTRICT  
 STATEMENTS OF CASH FLOWS  
 (CONTINUED)

For the years ended June 30, 2017 and 2016

	2017	2016
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 707,464	\$ 135,582
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	482,199	463,702
Development and other nonoperating revenues	47,373	-
Less: gain on sale of capital assets	(19,000)	-
Other nonoperating expenses	(41,460)	-
Less: long-term debt reclassification	(22,373)	-
Changes in operating assets, deferred outflows of resources, operating liabilities and deferred inflows of resources:		
(Increase) decrease in assets and deferred outflows of resources:		
Accounts receivable	(114,865)	438,453
Prepaid expenses	33,585	106,830
Inventory of purchased water	85,551	1,771,467
Inventory	(33,218)	-
Deposits	15,927	-
Deferred outflows of resources from pension plans	(184,270)	-
Increase (decrease) in liabilities and deferred inflows of resources:		
Accounts payable	(94,415)	(291,894)
Construction deposits	2,000	(10,750)
Accrued wages	6,432	-
Accrued compensated absences	(11,015)	-
Customer deposits	2,550	2,800
Net pension liability	352,944	-
Other post-employment benefits obligation	14,703	-
Deferred inflows of resources from pension plans	(55,178)	-
Total adjustments	467,470	2,480,608
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 1,174,934	\$ 2,616,190

See accompanying notes to basic financial statements.

## **NOTES TO BASIC FINANCIAL STATEMENTS**

SERRANO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

a. General Information

Serrano Water District (the District), formerly Serrano Irrigation District, is a special governmental district of the State of California organized under the California Irrigation Law. (State Instrument dated October, 1911). The District was formed on July 25, 1927. It took over Villa Park Mutual Water Company on March 31, 1964. The District's responsibility is to supply water as far as the individual water meters located within the District.

The District services an area of approximately 2,000 acres in Villa Park and Orange. The number of domestic meters in service during the year ended June 30, 2017 was approximately 2,200.

The District's sources of water are native water drawn from Santiago Reservoir (also called Irvine Lake) and three operable water wells. Occasionally, when available, water is drawn from the reservoir at the Villa Park Dam. The District also has three operable water wells, and pumps approximately 74% of its usage for its customers.

The District is one-half owner of the Santiago Dam and Reservoir facilities. The District holds one-fourth of the water rights in water impounded in the Santiago Reservoir under an agreement dated February 26, 1928 with the Irvine Company, which subsequently has been modified and amended on numerous occasions.

Reservoir capacity of the District for treated water is presently 9.0 million gallons.

Willard Smith Reservoir #1	3.0 million gallons
Willard Smith Reservoir #2	3.0 million gallons
Lockett Reservoir	3.0 million gallons

The capacity of the Walter E. Howlier Water Filtration Plant is 4 million gallons per day.

The accompanying financial statements only include the accounts of the District and exclude the accounts of SWD Recreation, Inc. In fiscal year 2015-2016, the District had certain transactions with SWD Recreation, Inc., a non-profit public benefit corporation (see Note 7). Both entities operate under the same management and Board of Directors. Since there was financial activity in SWD Recreation, Inc. in fiscal year 2015-2016, accounting principles generally accepted in the United States of America require that SWD Recreation, Inc. be combined with the District for a complete picture of the financial position and results of operations of the District. In fiscal year 2016-2017, there was no financial activity in SWD Recreation, Inc. Accordingly, there is no departure from accounting principles generally accepted in the United States of America in fiscal year 2016-2017.

SERRANO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

b. Measurement Focus, Basis of Accounting, and Financial Statement Presentation:

The District is accounted for as an enterprise fund (proprietary fund type). A fund is an accounting entity with a self-balancing set of accounts established to record the financial position and results of operations of a specific governmental activity. The activities of enterprise funds closely resemble those of ongoing businesses in which the purpose is to conserve and add to basic resources while meeting operating expenses from current revenues. Enterprise funds account for operations that provide services on a continuous basis and are substantially financed by revenues derived from user charges.

“Measurement focus” is a term used to describe *which* transactions are recorded within the various financial statements. “Basis of accounting” refers to *when* transactions are recorded regardless of the measurement focus applied. The accompanying financial statements are reported using the “economic resources measurement focus”, and the “accrual basis of accounting”. Under the economic measurement focus all assets, deferred outflows of resources, liabilities and deferred inflows of resources (whether current or noncurrent) associated with these activities are included on the Statements of Net Position. The Statements of Revenues, Expenses and Changes in Net Position present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

c. New Accounting Pronouncements:

**Current Year Standards:**

GASB 74 - *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, effective for periods beginning after June 15, 2016, and did not impact the District.

GASB 77 - *Tax Abatement Disclosure*, effective for periods beginning after December 15, 2015, and did not impact the District.

GASB 79 - *Certain External Investment Pools and Pool Participants*, contains certain provisions on portfolio quality, custodial credit risk, and shadow pricing, effective for periods beginning after December 15, 2015, and did not impact the District.

GASB 80 - *Blending Requirements for Certain Component Units*, effective for periods beginning after June 15, 2016, and did not impact the District.

SERRANO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

c. New Accounting Pronouncements (Continued):

**Pending Accounting Standards:**

GASB has issued the following statements, which may impact the District's financial reporting requirements in the future:

- GASB 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for periods beginning after June 15, 2017.
- GASB 82 - *Pension Issues*, effective for periods beginning after June 15, 2016, except for certain provisions on selection of assumptions, which are effective in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.
- GASB 84 - *Fiduciary Activities*, effective for periods beginning after December 15, 2018.
- GASB 85 - *Omnibus 2017*, effective for periods beginning after June 15, 2017.
- GASB 86 - *Certain Debt Extinguishment Issues*, effective for periods beginning after June 15, 2017.
- GASB 87 - *Leases*, effective for periods beginning after December 15, 2019.

d. Cash and Cash Equivalents:

For purposes of the statements of cash flows the District considers all investment instruments purchased with a maturity date of three months or less to be cash equivalents.

e. Accounts Receivable - Water Users and General:

The balance shown as a receivable represents the amount of water usage and service charges that have been earned but not yet collected at year end. The District estimates the amounts earned, but not yet billed as of year-end and includes the estimate in this account.

f. Uncollectible Water Sales:

The amount of uncollectible water sales that is written off is determined by direct write-off of individual accounts that have been outstanding for more than one year. The items are usually final bills that are not paid after the user moves from the District. The amount of bad debts each year is extremely low, averaging less than 1% of total sales per year.

SERRANO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

g. Accounts Receivable - Water Districts:

The District maintains water facilities at a location that is shared with another water district. Both water districts share in the maintenance expenses of the facilities. The balance shown as a receivable for water districts represents the other entity's share of the maintenance costs incurred by the District due at year-end.

h. Inventory:

Inventory includes water purchased in storage and general supplies and is stated at the original cost using the first-in, first-out (FIFO) method. The Statements of Revenues, Expenses and Changes in Net Position include the purchased water costs of \$1,511,312 and \$1,970,137 for the years ended June 30, 2017 and 2016, respectively. An estimate for evaporation has been recorded in the amount of \$66,025 and \$208,652 as part of the total purchased water costs as of June 30, 2017 and 2016, respectively.

i. Capital Assets:

Capital assets acquired and/or constructed are capitalized at historical cost. The District's informal policy has set the capitalization threshold for reporting capital assets at \$1,000. Contributed assets are recorded at acquisition value at the date of contribution. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized.

Depreciation is recorded on the straight-line basis over the estimated useful lives of the assets as follows:

Santiago Dam	10 - 100 years
Treatment plant	10 - 50 years
Transmission and distribution	10 - 40 years
Vehicles and equipment	3 - 25 years
Buildings and improvements	15 - 30 years
Wells and reservoirs	20 - 100 years



SERRANO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

j. Deferred Outflows/Inflows of Resources:

In addition to assets, the Statements of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until that time. The District has the following items that qualify for reporting in this category:

- Deferred outflow related to pensions. This amount is equal to employer contributions made after the measurement date of the net pension liability.
- Deferred outflow related to pensions for differences between expected and actual experiences. This amount is amortized over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pensions through the plans, which is 3.7 years.
- Deferred outflow related to pensions resulting from the difference in projected and actual earnings on investments of the pension plans fiduciary net position. This amount is amortized over five years.
- Deferred outflow related to pensions for the changes in proportion and differences between employer contributions and the proportionate share of contributions. This amount is amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the plans, which is 3.7 years.

In addition to liabilities, the Statements of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The District has the following items that qualify for reporting in this category:

- Deferred inflow related to pensions for differences between expected and actual experiences. This amount is amortized over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pensions through the plans, which is 3.7 years.
- Deferred inflow from pensions resulting from changes in assumptions. This amount is amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the plans, which is 3.7 years.
- Deferred inflow related to pensions for the changes in proportion and differences between employer contributions and the proportionate share of contributions. This amount is amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the plans, which is 3.7 years.

SERRANO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

k. Compensated Absences:

The total amount of accrued sick leave hours and vacation pay hours at the end of each year have been reflected in the Statements of Net Position. To discourage excessive absences from work, the employees (excluding management) are paid for unused sick pay hours in excess of 40 hours. The accrued amounts at June 30, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Vacation pay	\$ 50,190	\$ 60,755
Sick pay	<u>15,560</u>	<u>16,010</u>
Total	<u>\$ 65,750</u>	<u>\$ 76,765</u>

l. Net Position:

In the Statements of Net Position, net position is classified in the following categories:

- Net investment in capital assets - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.
- Restricted net position - This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments. As of June 30, 2017 and 2016, the District had no amounts reported in this category.
- Unrestricted net position - This amount is all net position that does not meet the definition of “net investment in capital assets” or “restricted net position”.

The District has the following goals for reserve accounts:

- Water purchase reserve account - an ultimate goal of \$1,800,000 to be used to purchase water whenever the Board determines that insufficient surface water or groundwater supplies are available to meet the reasonably foreseeable demands of its residents, water users, and customers.
- Emergency contingency reserve account - an ultimate goal of \$750,000 to be used to respond to emergency or catastrophic events, such as earthquakes, wildfires, landslides, floods, or major system breaks or outages.
- Capital construction reserve account - an ultimate goal of \$1,500,000 to be used to pay for the repair, rehabilitation or replacement of existing District infrastructure, and the construction of new District facilities approved by the Board.

SERRANO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

l. Net Position (Continued):

The District has the following goals for reserve accounts (continued):

- Well construction reserve account - an ultimate goal of \$1,500,000 to be used to pay for the cost of designing, developing, and constructing one or more groundwater production facilities to be approved by the Board.
- Santiago reservoir dam capital improvement reserve - an ultimate goal of \$4,000,000 to be used to pay for the repair, rehabilitator, improvement or replacement of facilities comprising or related to the Santiago reservoir dam that are approved by the Board.

m. Net Position Flow Assumptions:

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the Statements of Net Position, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the District's practice to consider restricted - net position to have been depleted before unrestricted - net position is applied.

n. Operating Revenues and Expenses:

Operating revenues, such as charges for services (water sales) result from exchange transactions associated with the principal activity of the District. Nonoperating revenues, such as concession income, interest income, and development and other nonoperating revenues, result from nonexchange transactions or ancillary activities in which the District receives value without directly giving equal value in exchange.

Operating expenses include the cost of sales and services, administrative expenses and depreciation on capital assets. All expenses not meeting this definition are reported as nonoperating expenses.

o. Capital Contributions:

Capital contributions represent cash and capital asset additions contributed to the District by property owners or real estate developers desiring services that require capital expenditures or capacity commitment.

SERRANO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

p. Pensions:

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

q. Reclassifications:

Certain reclassifications have been made to the prior year amounts to conform to the current year's presentation. There is no effect on the change in net position.

r. Extraordinary Item:

The accompanying financial statements only include the accounts of Serrano Water District. The District had certain transactions with SWD Recreation, Inc., a non-profit public benefit corporation during the fiscal year ended June 30, 2016 (see Note 7). Both entities operated under the same management and Board of Directors. Accounting principles generally accepted in the United States of America required that SWD Recreation, Inc. be combined with the District for a complete picture of the financial position and results of operations of the District for the year ended June 30, 2016. Due to the termination of the recreational activities of the lake in the year ended June 30, 2016, there is no such activity to consider for the year ended June 30, 2017.

s. Use of Estimates:

The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and, accordingly, include amounts that are based on management's best estimates and judgments. Accordingly, actual results could differ from the estimates.

SERRANO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2017 and 2016

2. CASH AND CASH EQUIVALENTS:

**Cash and Cash Equivalents:**

Cash and cash equivalents as of June 30, 2017 and 2016 are reported in the accompanying Statements of Net Position as follows:

	<u>2017</u>	<u>2016</u>
Current Assets:		
Cash and cash equivalents	\$ <u>4,603,739</u>	\$ <u>4,142,186</u>

Cash and cash equivalents as of June 30, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Cash on hand	\$ 250	\$ 250
Deposits with financial institutions	1,931,794	1,988,346
Cash equivalents	<u>2,671,695</u>	<u>2,153,590</u>
Total cash and cash equivalents	\$ <u>4,603,739</u>	\$ <u>4,142,186</u>

**Investments Authorized by the California Government Code and the District's Investment Policy:**

Funds in excess of needs for current operating expenses are invested in various short-term money market and investment funds.

The primary goals of the District's Investment Policy are to assure compliance with all Federal, State, and Local laws governing the investment of funds under the control of the organization, protect the principal of investments entrusted, and generate income under the parameters of such policies.

SERRANO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2017 and 2016

2. CASH AND CASH EQUIVALENTS (CONTINUED):

**Investments Authorized by the California Government Code and the District's Investment Policy (Continued):**

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

This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy. The District has no unspent debt proceeds on hand as of the year ended June 30, 2017 and 2016.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
United States Treasury Obligations	5 years	None	None
United States Government Sponsored Obligations	5 years	30%	None
Preferred Stock	N/A	25%	None
Repurchase Agreements	30 days	10%	None
Commercial Paper	270 days	10%	5%
Money Market Mutual Funds	N/A	20%	10%
Bank Certificates of Deposit	5 years	None	None
Local Agency Investment Fund (LAIF)	N/A	50%	None
Orange County Investment Pool (OCIP)	N/A	50%	None
Passbook Savings	5 years	\$750,000	None

N/A - Not Applicable

SERRANO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2017 and 2016

2. CASH AND CASH EQUIVALENTS (CONTINUED):

**Disclosures Relating to Interest Rate Risk:**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the District's cash equivalents to market interest rate fluctuations is provided by the following table that shows the distribution of the District's cash equivalents by maturity as of June 30, 2017 and 2016.

June 30, 2017

<u>Cash Equivalent Type</u>	Remaining Maturity (in Months) <u>12 Months or Less</u>
LAIF	\$ 1,270,176
OCIP	1,298,933
Money Market Mutual Funds	<u>102,586</u>
	<u>\$ 2,671,695</u>

June 30, 2016

<u>Cash Equivalent Type</u>	Remaining Maturity (in Months) <u>12 Months or Less</u>
LAIF	\$ 1,010,721
OCIP	1,039,618
Money Market Mutual Funds	<u>103,251</u>
	<u>\$ 2,153,590</u>

SERRANO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2017 and 2016

2. CASH AND CASH EQUIVALENTS (CONTINUED):

**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. Presented in the following table are the minimum rating required by (where applicable) the California Government Code, the District's investment policy, and the actual Standard and Poor's credit rating as of June 30, 2017 and 2016 for each cash equivalent type.

June 30, 2017

Cash Equivalent Type	Minimum Legal Rating	Total	Not Rated	AAA
LAIF	N/A	\$ 1,270,176	\$ 1,270,176	\$ -
OCIP	N/A	1,298,933	-	1,298,933
Money Market Mutual Funds	N/A	102,586	-	102,586
		\$ 2,671,695	\$ 1,270,176	\$ 1,401,519

June 30, 2016

Cash Equivalent Type	Minimum Legal Rating	Total	Not Rated	AAA
LAIF	N/A	\$ 1,010,721	\$ 1,010,721	\$ -
OCIP	N/A	1,039,618	-	1,039,618
Money Market Mutual Funds	N/A	103,251	-	103,251
		\$ 2,153,590	\$ 1,010,721	\$ 1,142,869

**Concentration of Credit Risk:**

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Other than external investments pools, the District had no investments that exceeded 5% of the portfolio.



SERRANO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2017 and 2016

2. CASH AND CASH EQUIVALENTS (CONTINUED):

**Custodial Credit Risk:**

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, the District will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, the District will not be able to recover the value of its investment or collateral securities that are in the possession of another party. 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 and OCIP).

The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2017 and 2016, all of the District's deposits with financial institutions were covered by federal depository insurance limits or were held in collateralized accounts.

**District Investments in State Investment Pool and County Investment Pool:**

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. LAIF is overseen by the Local Agency Investment Advisory Board, which consists of five members, in accordance with State statute. The State Treasurer's Office audits the fund annually. The District is also a voluntary participant in the Orange County Investment Pool (OCIP) that is regulated by California Government Code and the Orange County Board of Supervisors under the oversight of the County of Orange Treasury Oversight Committee. The fair value of the District's investments in these pools is reported in the accompanying financial statements at amounts based upon the District's pro rata share of the fair value provided by LAIF and OCIP for each respective portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF and OCIP, which are recorded on an amortized cost basis.

SERRANO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2017 and 2016

2. CASH AND CASH EQUIVALENTS (CONTINUED):

**Fair Value Measurements:**

The District categorizes its fair value measurement within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the relative inputs used to measure the fair value of the investments. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The District's investments in LAIF, OCIP, and money market mutual funds are not subject to the fair value measurement hierarchy.

3. ACCOUNTS RECEIVABLE WATER DISTRICTS:

The District shares expenses for jointly owned facilities with the Irvine Ranch Water District. Expenses from the maintenance and operation of Santiago Dam and Reservoir are shared, three-fourths by Irvine Ranch Water District and one-fourth by the District. The District pays expenses and then charges three-fourths of the expenses to Irvine Ranch Water District. To cover overhead, administrative and general expenses, 90% of direct labor charges are added to the bill. The amount of \$131,782 and \$102,123, respectively, was billed to Irvine Ranch Water District for the years ended June 30, 2017 and 2016. The balance due to the District from Irvine Ranch Water District as of June 30, 2017 and 2016 was \$32,237 and \$42,980, respectively.

SERRANO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2017 and 2016

4. CAPITAL ASSETS:

Changes in capital assets for the year ended June 30, 2017 were as follows:

	Balance <u>June 30, 2016</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2017</u>
Capital assets, not being depreciated:				
Land	\$ 147,790	\$ -	\$ -	\$ 147,790
Total capital assets, not being depreciated	<u>147,790</u>	<u>-</u>	<u>-</u>	<u>147,790</u>
Capital assets, being depreciated:				
Santiago Dam	529,266	167	-	529,433
Treatment plant	10,820,421	-	-	10,820,421
Transmission and distribution	4,503,073	49,106	-	4,552,179
Vehicles and equipment	1,250,062	120,281	(50,247)	1,320,096
Buildings and improvements	219,716	-	-	219,716
Wells and reservoirs	<u>3,975,067</u>	<u>123,609</u>	<u>-</u>	<u>4,098,676</u>
Total capital assets, being depreciated	<u>21,297,605</u>	<u>293,163</u>	<u>(50,247)</u>	<u>21,540,521</u>
Less accumulated depreciation for:				
Santiago Dam	(448,814)	(10,576)	-	(459,390)
Treatment plant	(2,633,765)	(221,786)	-	(2,855,551)
Transmission and distribution	(3,055,039)	(74,560)	-	(3,129,599)
Vehicles and equipment	(1,046,563)	(62,879)	50,247	(1,059,195)
Buildings and improvements	(184,379)	(3,414)	-	(187,793)
Wells and reservoirs	<u>(2,026,516)</u>	<u>(108,984)</u>	<u>-</u>	<u>(2,135,500)</u>
Total accumulated depreciation on capital assets, being depreciated	<u>(9,395,076)</u>	<u>(482,199)</u>	<u>50,247</u>	<u>(9,827,028)</u>
Total capital assets, being depreciated, net	<u>11,902,529</u>	<u>(189,036)</u>	<u>-</u>	<u>11,713,493</u>
Total capital assets, net	<u>\$ 12,050,319</u>	<u>\$ (189,036)</u>	<u>\$ -</u>	<u>\$ 11,861,283</u>

SERRANO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2017 and 2016

4. CAPITAL ASSETS (CONTINUED):

Changes in capital assets for the year ended June 30, 2016 were as follows:

	Balance <u>June 30, 2015</u>	Additions	Deletions	Balance <u>June 30, 2016</u>
Capital assets, not being depreciated:				
Land	\$ 147,790	\$ -	\$ -	\$ 147,790
Total capital assets, not being depreciated	<u>147,790</u>	<u>-</u>	<u>-</u>	<u>147,790</u>
Capital assets, being depreciated:				
Santiago Dam	516,991	12,275	-	529,266
Treatment plant	10,798,178	22,243	-	10,820,421
Transmission and distribution	4,503,073	-	-	4,503,073
Vehicles and equipment	1,201,099	71,740	(22,777)	1,250,062
Buildings and improvements	219,716	-	-	219,716
Wells and reservoirs	<u>3,646,582</u>	<u>328,485</u>	<u>-</u>	<u>3,975,067</u>
Total capital assets, being depreciated	<u>20,885,639</u>	<u>434,743</u>	<u>(22,777)</u>	<u>21,297,605</u>
Less accumulated depreciation for:				
Santiago Dam	(438,860)	(9,954)	-	(448,814)
Treatment plant	(2,411,991)	(221,774)	-	(2,633,765)
Transmission and distribution	(2,981,093)	(73,946)	-	(3,055,039)
Vehicles and equipment	(1,012,079)	(57,261)	22,777	(1,046,563)
Buildings and improvements	(181,152)	(3,227)	-	(184,379)
Wells and reservoirs	<u>(1,928,975)</u>	<u>(97,541)</u>	<u>-</u>	<u>(2,026,516)</u>
Total accumulated depreciation on capital assets, being depreciated	<u>(8,954,150)</u>	<u>(463,703)</u>	<u>22,777</u>	<u>(9,395,076)</u>
Total capital assets, being depreciated, net	<u>11,931,489</u>	<u>(28,960)</u>	<u>-</u>	<u>11,902,529</u>
Total capital assets, net	<u>\$ 12,079,279</u>	<u>\$ (28,960)</u>	<u>\$ -</u>	<u>\$ 12,050,319</u>

SERRANO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2017 and 2016

5. LONG-TERM LIABILITIES:

Changes in long-term liabilities for the year ended June 30, 2017 were as follows:

	Balance			Balance			Due in
	June 30, 2016	Additions	Reductions	June 30, 2017	Due Within	More Than	One Year
					One Year	One Year	
Orange County Water							
District -note payable	\$ 117,705	\$ -	\$ (24,592)	\$ 93,113	\$ 25,460	\$ 67,653	
Capital One Bank -							
installment sale agreement	2,190,908	-	(191,499)	1,999,409	178,278	1,821,131	
Bank of America -							
Installment sale agreement	<u>1,125,418</u>	<u>-</u>	<u>(87,604)</u>	<u>1,037,814</u>	<u>92,380</u>	<u>945,434</u>	
Total	<u>\$ 3,434,031</u>	<u>\$ -</u>	<u>\$ (303,695)</u>	<u>\$ 3,130,336</u>	<u>\$ 296,118</u>	<u>\$ 2,834,218</u>	

Changes in long-term liabilities for the year ended June 30, 2016 were as follows:

	Balance			Balance			Due in
	June 30, 2015	Additions	Reductions	June 30, 2016	Due Within	More Than	One Year
					One Year	One Year	
Orange County Water							
District -note payable	\$ 141,459	\$ -	\$ (23,754)	\$ 117,705	\$ 24,010	\$ 93,695	
Capital One Bank -							
installment sale agreement	2,351,351	-	(160,443)	2,190,908	167,900	2,023,008	
Bank of America -							
Installment sale agreement	<u>1,208,492</u>	<u>-</u>	<u>(83,074)</u>	<u>1,125,418</u>	<u>88,367</u>	<u>1,037,051</u>	
Total	<u>\$ 3,701,302</u>	<u>\$ -</u>	<u>\$ (267,271)</u>	<u>\$ 3,434,031</u>	<u>\$ 280,277</u>	<u>\$ 3,153,754</u>	

**Orange County Water District - Note Payable:**

In January 1998, the District entered into a note payable agreement with the Orange County Water District for the construction of a well facility. The note bears interest at a rate of 3.5%, and the \$14,249 installment is payable semiannually on February 1 and August 1. The note matures in August 2020.

SERRANO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2017 and 2016

5. LONG-TERM LIABILITIES (CONTINUED):

**Orange County Water District - Note Payable (Continued):**

The annual debt service requirements for the outstanding balance at June 30, 2017 are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 25,460	\$ 3,038	\$ 28,498
2019	26,359	2,139	28,498
2020	27,290	1,208	28,498
2021	<u>14,004</u>	<u>245</u>	<u>14,249</u>
	<u>\$ 93,113</u>	<u>\$ 6,630</u>	<u>\$ 99,743</u>

**Capital One Bank - Installment Sale Agreement:**

In June 2006, the District entered into an installment sale agreement with Capital One Bank. The loan proceeds of \$3,448,786 were obtained on June 30, 2006, and used for modifications to the treatment plant facility and construction of new wells. The loan bears interest at a rate of 5.34%, and the \$141,349 installment is payable semiannually on June 30 and December 31. The loan matures in June 2026.

The installment sale agreement requires the District to fix, prescribe and collect rates and charges for the water service which will be at least sufficient to yield during each fiscal year net revenues equal to 110% of the debt service for such fiscal year.

The annual debt service requirements for the outstanding balance at June 30, 2017 are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 178,278	\$ 104,420	\$ 282,698
2019	187,925	94,773	282,698
2020	198,094	84,604	282,698
2021	208,814	73,884	282,698
2022	220,113	62,585	282,698
2023 - 2026	<u>1,006,185</u>	<u>124,607</u>	<u>1,130,792</u>
	<u>\$ 1,999,409</u>	<u>\$ 544,873</u>	<u>\$ 2,544,282</u>

SERRANO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2017 and 2016

5. LONG-TERM LIABILITIES (CONTINUED):

**Bank of America - Installment Sale Agreement:**

In April 2011, the District entered into an installment sale agreement with Bank of America for \$1,500,000. The loan proceeds were used to make improvements to the Walter E. Howlier, Jr. Water Filtration Plant. The loan bears interest at a rate of 5.38%, and the \$73,494 installment is payable semiannually on October 22 and April 22. The loan matures in April 2026.

The installment sale agreement requires the District to fix, prescribe and collect rates and charges for the water service which will be at least sufficient to yield during each fiscal year net revenues equal to 110% of the debt service for such fiscal year.

The annual debt service requirements for the outstanding balance at June 30, 2017 are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 92,380	\$ 54,609	\$ 146,989
2019	97,417	49,572	146,989
2020	102,729	44,260	146,989
2021	108,330	38,659	146,989
2022	114,236	32,753	146,989
2023 - 2026	<u>522,722</u>	<u>65,232</u>	<u>587,954</u>
	<u>\$ 1,037,814</u>	<u>\$ 285,085</u>	<u>\$ 1,322,899</u>

6. WATER SALES IN ACRE FEET:

During the years ended June 30, 2017 and 2016, 1,549 and 2,036 acre feet of bulk water was sold to the City of Orange for a total sales price of \$1,344,617 and \$1,708,986, respectively. The accounts receivable - general of \$168,973 and \$87,408, relates to the sale of water to the City of Orange as of June 30, 2017 and 2016, respectively.

	<u>2017</u>	<u>2016</u>
Water Sales (acre feet):		
Domestic water	2,524	2,067
Bulk sale	1,549	2,036
Irrigation water	<u>6</u>	<u>6</u>
	<u>4,079</u>	<u>4,109</u>

SERRANO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2017 and 2016

7. IRVINE LAKE/SANTIAGO RESERVOIR OPERATIONS:

Irvine Ranch Water District (IRWD) and the District co-manage the daily reservoir operations.

The recreational rights at Irvine Lake are jointly owned by The Irvine Company and the District. The District is the manager of the recreational activities through a non-profit public benefit corporation, SWD Recreation, Inc., which was formed in 1997.

During the year ended June 30, 2016, SWD Recreation, Inc. suspended operations due to the termination of this agreement. Activity in the amount of \$579,322 has been written off and recorded in the Statements of Revenue, Expenses and Changes in Net Position of the District for the year ended June 30, 2016. For the fiscal year ended June 30, 2017 there is no activity due to the termination of the agreement.

8. RISK MANAGEMENT:

**Description of the Insurance Authority:**

The District is a member of the Association of California Water Agencies Joint Powers Insurance Authority (Insurance Authority). The Insurance Authority is a risk-pooling self-insurance authority, created under provisions of California Government Code Sections 6500 et. seq. The purpose of the Insurance Authority is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage.

**Self-Insurance Programs of the Insurance Authority:**

At June 30, 2017 and 2016, the District participated in the self-insurance programs of the Insurance Authority as follows:

Property Loss - Insured up to replacement value with \$25,000 deductible per occurrence with the exception of turbine units and associated equipment for which the deductible is \$50,000; the Insurance Authority is self-insured up to \$100,000 per occurrence and has purchased excess insurance coverage up to \$150 million limited to insurable value of \$12,345,535.

General, Auto, and Public Officials Liability - Total risk financing self-insurance limits of \$5 million, combined single limit at \$5 million per occurrence. The Authority purchases additional excess coverage for layers: \$60 million for general, auto, and public officials liability, which increases the limits on the insurance coverage noted above.

Public Official Bond - \$100,000 total insurance.

Crime - \$100,000 total insurance.



SERRANO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2017 and 2016

8. RISK MANAGEMENT (CONTINUED):

**Self-Insurance Programs of the Insurance Authority (Continued):**

Boiler and Machinery - Coverage for the replacement cost up to \$150 million per occurrence limited to insurable value, subject to various deductible depending on the type of equipment.

Workers' Compensation - Compensation insurance up to California statutory limits for all work related injuries/illnesses covered by California law. The Insurance Authority is self-insured to \$2 million and has purchased excess insurance to the statutory limit.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the years ended 2017, 2016, and 2015. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no claims payable as of June 30, 2017, 2016, and 2015.

9. PENSION PLANS:

a. General Information about the Pension Plans:

**Plan Descriptions:**

All qualified permanent and probationary employees are eligible to participate in the District's Miscellaneous Plans, cost-sharing defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

**Benefits 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. Members with five years of total service are eligible to retire at age 50 to 62 with statutorily reduced benefits. All members are eligible for non-industrial disability benefits after five (5) years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

SERRANO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2017 and 2016

9. PENSION PLANS (CONTINUED):

a. General Information about the Pension Plans (Continued):

**Benefits Provided (Continued):**

The Plans' provisions and benefits in effect at June 30, 2017, are summarized as follows:

	Miscellaneous	
	Prior to January 1, 2013	On or After January 1, 2013
Hire date		
Benefit formula	2% @60	2% @62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 62	52 - 67
Monthly benefits, as a % of eligible compensation	1.092% to 2.418%	1.0% to 2.5%
Required employee contribution rates	7%	6.25%
Required employer contribution rates:		
Normal cost rate	7.612%	6.555%
Payment of unfunded liability	\$ 37,644	\$ 95

**Contributions:**

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are 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 actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. District contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contributions requirements are classified as plan member contributions.

SERRANO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2017 and 2016

9. PENSION PLANS (CONTINUED):

b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions:

As of June 30, 2017, the District reported net pension liabilities for its proportionate share of the net pension liability of all Plans as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous	<u>\$ 1,154,013</u>

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2016, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. The District's proportionate share of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

The District's proportionate share of the net pension liability for each Plan as of the measurement date ended June 30, 2015 and 2016 was as follows:

	<u>Miscellaneous</u>
Proportion - June 30, 2015	0.02920%
Proportion - June 30, 2016	0.03322%
Change - Increase (Decrease)	0.00402%

SERRANO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2017 and 2016

9. PENSION PLANS (CONTINUED):

b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued):

For the year ended June 30, 2017, the District recognized pension expense of \$201,561. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 88,065	\$ -
Differences between actual and expected experience	2,789	(639)
Change in assumptions	-	(26,384)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	37,720	(236,765)
Net differences between projected and actual earnings on plan investments	137,320	-
Total	<u>\$ 265,894</u>	<u>\$ (263,788)</u>

\$88,065 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2018	\$ (85,409)
2019	(95,285)
2020	59,166
2021	35,569
2022	-
Thereafter	-

SERRANO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2017 and 2016

9. PENSION PLANS (CONTINUED):

- b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued):

**Actuarial Assumptions:**

For the measurement period ended June 30, 2016 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2015 total pension liability determined in the June 30, 2015 actuarial accounting valuation. The June 30, 2016 total pension liability was based on the following actuarial methods and assumptions:

	<u>Miscellaneous</u>
Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Projected Salary Increase	(1)
Mortality	(3)
Post Retirement Benefit Increase	(3)

- (1) Depending on age, service and type of employment
- (2) The mortality table used was developed based on CalPERS-specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the April 2014 experience study report (based on CalPERS demographic data from 1997 to 2011) available on the CalPERS website.
- (3) Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter.

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

SERRANO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2017 and 2016

9. PENSION PLANS (CONTINUED):

- b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued):

**Change of Assumptions:**

There were no changes of assumptions during the measurement period June 30, 2016. Deferred inflows of resources for changes of assumptions presented in the financial statements represent the unamortized portion of the changes of assumptions related to prior measurement periods.

**Discount Rate:**

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

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

SERRANO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2017 and 2016

9. PENSION PLANS (CONTINUED):

- b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued):

**Discount Rate (Continued):**

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

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	20.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	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	1.00%	-0.55%	-1.05%
Total	100.00%		

(a) An expected inflation of 2.5% used for this period

(b) An expected inflation of 3.0% used for this period

SERRANO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2017 and 2016

9. PENSION PLANS (CONTINUED):

- b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued):

**Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate:**

The following presents the District's proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>Miscellaneous</u>
1% Decrease	6.65%
Net Pension Liability	\$ 1,916,166
Current Discount Rate	7.65%
Net Pension Liability	\$ 1,154,013
1% Increase	8.65%
Net Pension Liability	\$ 524,132

**Pension Plan Fiduciary Net Position:**

Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

**Subsequent Events:**

In December 2016, CalPERS' Board of Directors voted to lower the discount rate used in its actuarial valuations from 7.5% to 7.0% over three fiscal years, beginning in fiscal year 2018. The change in the discount rate will affect the contribution rates for employers beginning in fiscal year 2019, and result in increases to employers' normal costs and unfunded actuarial liabilities. For the GASB Statement 68 accounting valuations, the discount rate will move straight to 7% starting with the June 30, 2017 measurement date reports and will result in an increase to employer's total pension liabilities.

- c. Payable to the Pension Plan:

At June 30, 2017, the District had no outstanding amount of contributions to the pension plan required for the year ended June 30, 2017.



SERRANO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2017 and 2016

10. DEFERRED COMPENSATION PLAN:

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all full-time employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The assets in the plan are held in trust for the exclusive benefit of the participants and their beneficiaries, and are therefore not reported in the financial statements of the District.

11. OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN:

**Plan Description:**

The District, through a single employer defined benefit plan, provides post-employment health care benefits. Specifically, the District provides health (medical, dental and vision) insurance for its retired employees and directors, their dependent spouses (if married and covered on the District's plan at the time of retirement), or survivors in accordance with Board resolutions. Coverage is provided for eligible retired employees who have a minimum of 20 years of service with the District and directors who have a minimum of 12 years of service with the District. The District pays 100% of the premium for the retiree and spouse. This plan was closed to new entrants in 1997. The plan does not provide a publicly available financial report.

**Funding Policy:**

The contribution requirements of plan members and the District are established and may be amended by the District, District's Board of Directors, and/or the employee associations. Currently, contributions are not required from plan members. The District has not established a trust to fund future OPEB benefits. The District funds the plan on a pay-as-you-go basis and records a liability for the difference between pay-as-you-go and the actuarially determined OPEB cost.

**Annual OPEB Cost and Net OPEB Obligation:**

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded liabilities of the plan over a period not to exceed thirty years.

SERRANO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2017 and 2016

11. OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED):

**Annual OPEB Cost and Net OPEB Obligation (Continued):**

The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the Retiree Health Plan as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Annual required contribution (ARC)	\$ 133,766	\$ 133,766
Interest on Net OPEB obligation	21,259	20,519
Adjustment to ARC	<u>(25,538)</u>	<u>(22,719)</u>
Annual OPEB cost	129,487	131,566
Contributions made	<u>(114,784)</u>	<u>(116,766)</u>
Increase in Net OPEB obligation	14,703	14,800
Beginning Net OPEB obligation	<u>425,181</u>	<u>410,281</u>
Ending Net OPEB obligation	<u>\$ 439,884</u>	<u>\$ 425,181</u>

**Three Year Trend Information:**

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended June 30, 2017, 2016 and 2015 were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Costs Contributed</u>	<u>Net OPEB Obligation</u>
6/30/15	\$ 134,020	25.00%	\$ 410,380
6/30/16	131,566	88.75%	425,181
6/30/17	129,487	88.65%	439,884

**Funded Status and Funding Progress:**

As of July 1, 2015, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$2,063,106, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,063,106. Assets were valued using a five year smoothing formula with a 20% corridor around market value. The covered payroll (annual payroll of active employees covered by the plan) was \$351,395 and the ratio of the UAAL to the covered payroll was 587.12%.

SERRANO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2017 and 2016

11. OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED):

**Funded Status and Funding Progress (Continued):**

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about rates of employee turnover, retirement, mortality, as well as economic assumptions regarding claim costs per retiree, healthcare inflation and interest rates. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the basic financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**Actuarial Methods and Assumptions:**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the July 1, 2015 actuarial valuation, the alternative measurement method was used.

In the July 1, 2015 actuarial valuation, the alternative measurement method was used and the following simplifying assumptions were made:

Retirement Age for Active Employees - Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 65, or at the first subsequent year in which the member would qualify for benefits.

Mortality - Life expectancies at the calculation date are based on the most recent mortality tables published by the National Center for Health Statistics website ([www.cdc.gov](http://www.cdc.gov)). The calculation of OPEB liability for each year is based on the assumption that all participants will live until their expected age as displayed in the mortality tables.

Turnover - The probability that an employee will remain employed until the assumed retirement age was determined using non-group-specific age-based turnover data provided in Table 1 in paragraph 35 of GASB Statement No. 45. In addition the expected future working lifetimes of employees were determined using Table 2 in paragraph 35c of GASB Statement No. 45.

SERRANO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2017 and 2016

11. OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED):

**Actuarial Methods and Assumptions (Continued):**

Healthcare Cost Trend Rates - Healthcare cost trend rates were selected based on a combination of national and state trend surveys as well as professional judgment. The ultimate trend rate was 4.0%.

Health Insurance Premiums - 2015 health insurance premiums for retirees were used as a basis for calculation of the present value of total benefits to be paid. An employee is assumed to continue with the same medical plan upon retirement. If an employee waived medical coverage, then such waiver is assumed to continue into retirement.

Medicare Coordination - Medicare was assumed as the primary payer for current and future retirees when both the retiree and spouse reach age 65.

Payroll Increase - Changes in the payroll for current employees are expected to increase at a rate of approximately 1.0% annually.

Discount Rate - The calculation uses an annual discount rate of 5%. This is based on the assumed long-term return on plan assets or employer assets.

Actuarial Cost Method - The entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll over a thirty year period on a closed basis.

12. SUBSEQUENT EVENTS:

Events occurring after June 30, 2017, have been evaluated for possible adjustments to the financial statements or disclosure as of October 10, 2017, which is the date these financial statements were available to be issued.

**REQUIRED SUPPLEMENTARY INFORMATION**

SERRANO WATER DISTRICT

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
CalPERS PENSION PLANS

Last Ten Fiscal Years\*

Fiscal year ended	Miscellaneous		
	June 30, 2017	June 30, 2016	June 30, 2015
Measurement period	June 30, 2016	June 30, 2015	June 30, 2014
Plan's proportion of the net pension liability	0.03322%	0.03902%	0.03689%
Plan's proportionate share of the net pension liability	\$ 1,154,013	\$ 801,069	\$ 911,608
Plan's covered - employee payroll	\$ 719,781	\$ 681,864	\$ 706,402
Plan's proportionate share of the net pension liability as a percentage of covered - employee payroll	160.33%	117.48%	129.05%
Plan's proportionate share of the fiduciary net position as a percentage of the Plan's total pension liability	79.61%	84.95%	83.03%
Plan's proportionate share of aggregate employer contributions	\$ 167,838	\$ 156,392	\$ 119,053

Notes to Schedule:

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

From fiscal year June 30, 2015 to June 30, 2016:

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

From fiscal year June 30, 2016 to June 30, 2017:

There were no changes in assumptions.

\* - Fiscal year 2015 was the 1st year of implementation, therefore only three years are shown.

SERRANO WATER DISTRICT  
 SCHEDULE OF CONTRIBUTIONS  
 CalPERS PENSION PLANS

Last Ten Fiscal Years\*

Fiscal year ended	Miscellaneous		
	June 30, 2017	June 30, 2016	June 30, 2015
Contractually required contribution (actuarially determined)	\$ 88,065	\$ 78,051	\$ 55,748
Contributions in relation to the actuarially determined contributions	<u>(88,065)</u>	<u>(78,051)</u>	<u>(55,748)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered - employee payroll	\$ 694,392	\$ 719,781	\$ 681,864
Contributions as a percentage of covered - employee payroll	12.68%	10.84%	8.18%

Notes to Schedule:

Valuation Date                      6/30/2014

Methods and Assumptions Used to Determine Contribution Rates:

Single and agent employers	Entry age**
Amortization method	Level percentage of payroll, closed**
Asset valuation method	Market Value***
Inflation	2.75% **
Salary increases	Depending on age, service, and type of employment**
Investment rate of return	7.50%, net of pension plan investment expense, including inflation**
Retirement age	50 for all plans with the exception of 52 for Miscellaneous PEPR 2% @62**
Mortality	Mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board.**

\* - Fiscal year 2015 was the 1st year of implementation, therefore only three years are shown.

\*\* - The valuation for June 30, 2012 and 2013 (applicable to fiscal years ended June 30, 2015 and 2016, respectively) included the same actuarial assumptions.

\*\*\* - The valuation for June 30, 2012 (applicable to fiscal year ended June 30, 2015) valued assets using a 15 Year Smoothed Market method. The market value asset valuation method was utilized for the June 30, 2013 and 2014 valuations (applicable to fiscal years ended June 30, 2016 and 2017, respectively).

SERRANO WATER DISTRICT

SCHEDULE OF FUNDING PROGRESS  
OTHER POST-EMPLOYMENT BENEFITS PLAN

For the year ended June 30, 2017

**Retiree Health Plan**

Actuarial Valuation Date	Actuarial Accrued Liability (AAL) (a)	Actuarial Value of Assets (AVA) (b)	Unfunded Actuarial Accrued Liability (UAAL) (a) - (b)	Funded Ratio (b)/(a)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(a)-(b)]/(c)
07/01/2009	\$ 1,332,087	\$ -	\$ 1,332,087	0.00%	\$ 814,314	163.58%
07/01/2012	\$ 2,361,973	\$ -	\$ 2,361,973	0.00%	\$ 922,718	255.98%
07/01/2015	\$ 2,063,106	\$ -	\$ 2,063,106	0.00%	\$ 351,395	587.12%