

**SERRANO WATER DISTRICT**

**FINANCIAL REPORT**

**FOR THE YEARS ENDED  
JUNE 30, 2014 AND 2013**



# SERRANO WATER DISTRICT

June 30, 2014

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# SERRANO WATER DISTRICT

June 30, 2014

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<b>TITLE</b>	<b>BOARD OF DIRECTORS</b>	<b>TERM EXPIRATION</b>
PRESIDENT	Robert F. Rickerl	December 2016
VICE-PRESIDENT	C.L. "Larry" Pharris, Jr.	December 2016
DIRECTOR	Frank Bryant	December 2014
DIRECTOR	Richard A. Freschi	December 2014
DIRECTOR	Jerry L. Haight	December 2016

## ADMINISTRATION

GENERAL MANAGER	Jerry Vilander
SECRETARY AND TREASURER	Ann M. Michel
ASSISTANT SECRETARY	Laura Heflin

## ATTORNEY

REPRESENTING RUTAN & TUCKER, ATTORNEYS	Joel D. Kuperberg
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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Serrano Water District  
Villa Park, California

We have audited the accompanying financial statements of Serrano Water District as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise Serrano Water 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.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the State Controller's Minimum Audit Requirement for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Serrano Water District as of June 30, 2014 and 2013, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

**Emphasis of Matters**

As described further in Note 1, Serrano Water District has certain transactions with SWD Recreation, Inc., an entity controlled by the same management and Board of Directors as Serrano Water District. The activity of SWD Recreation, Inc. has not been combined with the financial statements of Serrano Water District.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 - 8 and 14 - 15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

A handwritten signature in blue ink that reads "LaVine & Associates CPAs, Inc." The signature is written in a cursive, flowing style.

Mission Viejo, California  
October 29, 2014

# SERRANO WATER DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

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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, 2014 and 2013. This information is presented in conjunction with the audited basic financial statements, which follow this section.

## FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2014

The District's net assets increased by \$908,584 or 7.5 percent from \$12,104,716 to \$13,013,300.

Total revenues increased by \$561,508 or 9.4 percent from \$5,985,254 to \$6,546,762.

Total expenses increased by \$1,564,410 or 38.4 percent from \$4,073,768 to \$5,638,178 mainly due to the continued drought and the necessity to purchase water.

The District purchased 4,034 acre-feet of water, in the amount of \$2,405,272 to meet the needs of its customers; as of June 30, 2014, 2,526 acre-feet of water is being held in storage for the next fiscal period (related cost of \$946,726).

The District hired Jerry Vilander as General Manager in September 2013, replacing the Contract General Manager and an associate general manager, at a considerable savings to the District.

The District completed the improvements to the Walter E. Howiler, Jr. Water Filtration Plant, and start-up was initiated in October 2013. This plant is supplying the customers of the District with a safer, more reliable water supply, and better tasting water.

The District's annual required pension contribution for the current year (and future periods) was reduced due to the payment made to Calpers in the prior year (see below).

## FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2013

The District's net assets increased by \$1,911,486 or 18.8 percent from \$10,193,230 to \$12,104,716.

Total revenues increased by \$507,515 or 9.3 percent from \$5,477,739 to \$5,985,254.

Total expenses increased by \$362,997 or 9.8 percent from \$3,710,771 to \$4,073,768.

The District repaid in full the State of California Department of Water Resources loan in the amount of \$981,748.

The District paid \$526,400 to Calpers in connection with its retirement plan and the District's prior service costs, which will lower its annual required pension contribution in future periods.

The District purchased 501 acre-feet of water, in the amount of \$282,439, to meet the needs of its customers.

# SERRANO WATER DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

## 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 Assets include information on the District's assets and liabilities 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 Assets identify the District's revenues and expenses for the fiscal years ended June 30, 2014 and 2013. This statement provides 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. This statement provides 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 Assets and the Statements of Revenues, Expenses and Changes in Net Assets 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 assets reflect the difference between assets and liabilities. An increase in net assets over time typically indicates an improvement in financial condition.

## NET ASSETS

A summary of the District's Statement of Net Assets is presented below.

	Condensed Statements of Net Assets			Table 1
	2014	2013	Dollar Change	Percent Change
Capital Assets	12,111,440	11,963,330	148,110	
Current and Other Assets	6,142,219	5,422,917	719,302	
<b>Total Assets</b>	<b>18,253,659</b>	<b>17,386,247</b>	867,412	5.0%
Long-term Liabilities	3,701,302	3,932,520	(231,218)	
Other Liabilities	1,539,057	1,349,011	190,046	
<b>Total Liabilities</b>	<b>5,240,359</b>	<b>5,281,531</b>	(41,172)	-0.8%
Net Investment - Capital Assets	8,664,068	8,272,410	391,658	
Unrestricted Net Assets	4,349,232	3,832,306	516,926	
<b>Total Net Assets</b>	<b>13,013,300</b>	<b>12,104,716</b>	908,584	7.5%

# SERRANO WATER DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

Condensed Statements of Net Assets

Table 1

	2013	2012	Dollar Change	Percent Change
Capital Assets	11,963,330	10,785,573	1,177,757	
Current and Other Assets	5,422,917	6,386,301	(963,384)	
<b>Total Assets</b>	<b>17,386,247</b>	<b>17,171,874</b>	<b>214,373</b>	1.2%
Long-term Liabilities	3,932,520	4,873,460	(940,940)	
Other Liabilities	1,349,011	2,105,184	(756,173)	
<b>Total Liabilities</b>	<b>5,281,531</b>	<b>6,978,644</b>	<b>(1,697,113)</b>	-24.3%
Net Investment - Capital Assets	8,272,410	8,309,379	(36,969)	
Unrestricted Net Assets	3,832,306	1,883,851	1,948,455	
<b>Total Net Assets</b>	<b>12,104,716</b>	<b>10,193,230</b>	<b>1,911,486</b>	18.8%

As the above tables indicate, total assets increased by \$867,412 during the fiscal year ended June 30, 2014, and total assets increased by \$214,373 during the fiscal year ended June 30, 2013.

Total liabilities decreased by \$41,172 during the fiscal year ended June 30, 2014 and total liabilities decreased by \$1,697,113 during the fiscal year ended June 30, 2013.

Condensed Statements of Revenues, Expenses and  
Changes in Net Assets

Table 2

	2014	2013	Dollar Change	Percent Change
Operating Revenues	6,308,276	5,747,633	560,643	
Non-Operating Revenues	238,486	237,621	865	
<b>Total Revenues</b>	<b>6,546,762</b>	<b>5,985,254</b>	<b>561,508</b>	9.4%
Depreciation	419,829	361,005	58,824	
Other Operating Expenses	4,913,854	3,303,965	1,609,889	
Non-Operating Expenses	304,495	408,798	(104,303)	
<b>Total Expenses</b>	<b>5,638,178</b>	<b>4,073,768</b>	<b>1,564,410</b>	38.4%
Changes in Net Assets	908,584	1,911,486	(1,002,902)	
Beginning Net Assets	12,104,716	10,193,230	1,911,486	
<b>Ending Net Assets</b>	<b>13,013,300</b>	<b>12,104,716</b>	<b>908,584</b>	7.5%



# SERRANO WATER DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

Condensed Statements of Revenues, Expenses  
and Changes in Net Assets

Table 2

	2013	2012	Dollar Change	Percent Change
Operating Revenues	5,747,633	5,241,711	505,922	
Non-Operating Revenues	237,621	236,028	1,593	
<b>Total Revenues</b>	<b>5,985,254</b>	<b>5,477,739</b>	<b>507,515</b>	9.3%
Depreciation	361,005	340,637	20,368	
Other Operating Expenses	3,303,965	2,939,773	364,192	
Non-Operating Expenses	408,798	430,361	(21,563)	
<b>Total Expenses</b>	<b>4,073,768</b>	<b>3,710,771</b>	<b>362,997</b>	9.8%
Changes in Net Assets	1,911,486	1,766,968	144,518	
Beginning Net Assets	10,193,230	8,426,262	1,766,968	
<b>Ending Net Assets</b>	<b>12,104,716</b>	<b>10,193,230</b>	<b>1,911,486</b>	18.8%

The statements of Revenues, Expenses and Changes in Net Assets identify the various revenue and expense items which affect the change in net assets. As the information in Table 2 indicates, for the fiscal year ended June 30, 2014, total revenues increased by \$561,508. Total expenses increased by \$1,564,410.

For the fiscal year ended June 30, 2013, total revenues increased by \$507,515. Total expenses increased by \$362,997.

## CAPITAL ASSETS

As of June 30, 2014 and 2013, the District's investment in capital assets totaled \$12,111,440 and \$11,963,330, respectively.

## LONG-TERM DEBT

As of June 30, 2014, the District had \$3,701,302 in outstanding debt, a decrease of \$231,218 from June 30, 2013. Additional information on the District's long-term debt is provided in Note 6 of the financial statements.

# SERRANO WATER DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The Board of Directors adopted the District's budget for the fiscal year ended June 30, 2015. Operating revenues are projected to be \$6,167,900.

## **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 St., Villa Park, CA 92861.

**SERRANO WATER DISTRICT**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2014 AND 2013**

**ASSETS**

	2014	2013
<b>CAPITAL ASSETS (Note 5)</b>		
Land	\$ 147,790	\$ 147,790
Plant in service - district	19,615,834	19,047,895
Plant in service - contributed	863,915	863,915
Less: accumulated depreciation	(8,516,099)	(8,096,270)
<b>TOTAL CAPITAL ASSETS</b>	<b>12,111,440</b>	<b>11,963,330</b>
<b>CURRENT ASSETS</b>		
Cash	644,268	1,041,254
Cash equivalents (Note 2)	2,518,762	2,351,907
<b>TOTAL CASH</b>	<b>3,163,030</b>	<b>3,393,161</b>
Accounts receivable:		
Water users	842,178	762,391
General (Note 7)	406,966	196,740
Water districts (Note 3)	287,150	209,315
Prepaid expense	316,420	432,202
Inventory of Purchased Water (Note 1)	946,726	-
Inventory (Note 1)	31,924	35,055
<b>TOTAL CURRENT ASSETS</b>	<b>5,994,394</b>	<b>5,028,864</b>
<b>OTHER ASSETS</b>		
Escrow Funds (Note 6)	-	246,228
Investment in SWD Recreation, Inc. (Notes 1 and 8)	140,135	140,135
Deposits	7,690	7,690
<b>TOTAL OTHER ASSETS</b>	<b>147,825</b>	<b>394,053</b>
<b>TOTAL ASSETS</b>	<b>\$ 18,253,659</b>	<b>\$ 17,386,247</b>

The accountant's report and notes are an integral part of these statements.

**SERRANO WATER DISTRICT**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2014 AND 2013**

**LIABILITIES AND FUND EQUITY**

	2014	2013
<b>LONG-TERM LIABILITIES</b>		
Notes payable (Note 6)	\$ 164,401	\$ 186,562
Installment sale agreement (Note 6)	2,503,560	2,625,581
Installment sale agreement (Note 6)	1,287,271	1,361,977
Less: current portion	(253,930)	(241,600)
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>3,701,302</b>	<b>3,932,520</b>
<b>CURRENT LIABILITIES</b>		
Accounts payable	991,296	829,334
Construction deposits	34,500	36,500
Accrued wages and compensated absences	109,331	93,277
Current portion of long-term liabilities	253,930	241,600
Customer deposits	150,000	148,300
<b>TOTAL CURRENT LIABILITIES</b>	<b>1,539,057</b>	<b>1,349,011</b>
<b>TOTAL LIABILITIES</b>	<b>5,240,359</b>	<b>5,281,531</b>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	8,664,068	8,272,410
Unrestricted	4,349,232	3,832,306
<b>TOTAL NET ASSETS</b>	<b>\$ 13,013,300</b>	<b>\$ 12,104,716</b>

The accountant's report and notes are an integral part of these statements.

**SERRANO WATER DISTRICT**  
**STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS**  
**FOR YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013
<b>OPERATING REVENUE</b>		
Water sales - domestic (Note 1)	\$ 4,734,673	\$ 4,502,506
Water sales - bulk (Note 7)	1,567,948	1,240,442
Water sales - irrigation	5,655	4,685
	6,308,276	5,747,633
<b>OPERATING EXPENSE</b>		
Source of supply:		
Maintenance and supplies	13,405	20,701
Purchased water	1,480,363	296,281
Replenishment assessment	635,435	516,439
Maintenance and supplies	29,397	13,454
Power	429,956	315,932
Water treatment:		
Maintenance, supplies and analysis	198,534	152,211
Transmission and distribution:		
Salaries	364,641	394,487
Maintenance and supplies	168,097	123,579
Vehicle expenses	37,275	38,812
Uniforms	6,109	4,722
Administrative and general:		
Public relations	37,580	36,029
Salaries	351,537	358,234
Office supplies and expenses	11,708	11,767
Telephone and utilities	32,337	23,192
Printing	27,014	32,142
Auto expenses	16,658	11,169
Travel and meetings	15,999	11,935
Dues and subscriptions	7,728	9,544
Insurance expense:		
Property and liability	25,120	42,000
Worker's compensation	24,301	44,910
Employee benefits:		
Group, medical, dental and life	430,783	448,916
Pension plan (Note 10)	189,817	216,728
Payroll taxes	77,946	69,398
Uncollectible accounts	1,940	4,198
General operating expense	57,673	38,651
<b>Sub-totals - Operating Expense</b>	<b>4,671,353</b>	<b>3,235,431</b>
(carried forward)		

The accountant's report and notes are an integral part of these statements.

**SERRANO WATER DISTRICT**  
**STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS**  
**FOR YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013
<b>Sub-totals - Operating Expense</b> (brought forward)	\$ 4,671,353	\$ 3,235,431
Administrative and general (continued):		
Security	18,891	15,007
Retirement plan administrator	-	1,525
Payroll preparation	10,774	7,985
Legal	35,579	74,308
Audit and accounting	13,474	11,694
Directors	29,300	37,800
Engineering	167,787	11,660
Less: Reimbursed overhead and labor	(33,304)	(91,445)
Depreciation	419,829	361,005
<b>TOTAL OPERATING EXPENSE</b>	<b>5,333,683</b>	<b>3,664,970</b>
<b>OPERATING INCOME</b>	<b>974,593</b>	<b>2,082,663</b>
<b>NON-OPERATING INCOME</b>		
Concession income	210,000	210,000
Interest income	8,964	8,818
Development/other income	19,522	18,803
<b>TOTAL NON-OPERATING INCOME</b>	<b>238,486</b>	<b>237,621</b>
<b>NON-OPERATING EXPENSE</b>		
Interest expense	(239,373)	(361,583)
Other expenses	(65,122)	(47,215)
<b>TOTAL NON-OPERATING EXPENSE</b>	<b>(304,495)</b>	<b>(408,798)</b>
<b>INCREASE IN NET ASSETS</b>	<b>908,584</b>	<b>1,911,486</b>
<b>NET ASSETS:</b>		
Beginning	12,104,716	10,193,230
Ending	<b>\$ 13,013,300</b>	<b>\$ 12,104,716</b>

The accountant's report and notes are an integral part of these statements.

**SERRANO WATER DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**FOR YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 5,940,428	\$ 5,494,425
Payments to suppliers	(4,863,827)	(2,995,515)
Payments to employees	(700,124)	(801,047)
<b>CASH FLOWS PROVIDED BY OPERATING ACTIVITIES</b>	376,477	1,697,863
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of fixed assets	(567,939)	(1,538,762)
Escrow Funds	246,228	2,121,722
Other cash receipts	238,486	237,621
Other cash payments	(65,122)	(47,215)
<b>CASH FLOWS PROVIDED BY INVESTING ACTIVITIES</b>	(148,347)	773,366
<b>CASH FLOWS PROVIDED BY FINANCING ACTIVITIES</b>		
Principal payments on long-term debt	(218,888)	(1,200,368)
Interest payments on long-term debt	(239,373)	(361,583)
<b>CASH FLOWS USED BY INVESTING ACTIVITIES</b>	(458,261)	(1,561,951)
<b>NET (DECREASE) INCREASE IN CASH AND EQUIVALENTS</b>	(230,131)	909,278
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	3,393,161	2,483,883
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	\$ 3,163,030	\$ 3,393,161
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating Income	\$ 974,593	\$ 2,082,663
Adjustments to reconcile operating income to net cash flow from operating activities:		
Depreciation and amortization	419,829	361,005
(Increase) in accounts receivable	(367,848)	(253,208)
(Decrease) Increase in prepaid expenses and other assets	118,913	4,148
(Increase) in Inventory of Purchased Water	(946,726)	-
(Decrease) Increase in construction deposits	(2,000)	4,000
Increase (Decrease) in accounts payable and accrued expenses	178,016	(503,745)
Increase in customer deposits	1,700	3,000
<b>Net cash provided by operating activities</b>	\$ 376,477	\$ 1,697,863

The accountant's report and notes are an integral part of these statements.

**SERRANO WATER DISTRICT**  
**SCHEDULE OF OPERATIONS**  
**COMPARISON BETWEEN BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2014**

	Actual	Budget	Variance Favorable (Unfavorable)
<b>OPERATING REVENUE</b>	\$ 6,308,276	\$ 5,616,185	\$ 692,091
<b>OPERATING EXPENSE</b>			
Source of supply	2,129,203	2,267,480	138,277
Pumping	459,353	459,000	(353)
Water treatment	198,534	208,000	9,466
Transmission and distribution	576,122	536,900	(39,222)
Administration and general	1,550,642	1,614,214	63,572
Depreciation and amortization	419,829	292,116	(127,713)
<b>TOTAL OPERATING EXPENSE</b>	5,333,683	5,377,710	44,027
<b>OPERATING INCOME</b>	974,593	238,475	736,118
Non-operating income	238,486	234,200	4,286
Non-operating expense	(304,495)	(319,100)	14,605
<b>NET INCOME</b>	\$ 908,584	\$ 153,575	\$ 755,009

The accountant's report and notes are an integral part of these statements.



**SERRANO WATER DISTRICT**  
**SCHEDULE OF OPERATIONS**  
**COMPARISON BETWEEN BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2013**

	Actual	Budget	Variance Favorable (Unfavorable)
<b>OPERATING REVENUE</b>	\$ 5,747,633	\$ 5,514,700	\$ 232,933
<b>OPERATING EXPENSE</b>			
Source of supply	833,421	865,500	32,079
Pumping	329,386	385,400	56,014
Water treatment	152,211	193,000	40,789
Transmission and distribution	561,600	584,600	23,000
Administration and general	1,427,347	1,469,900	42,553
Depreciation and amortization	361,005	292,116	(68,889)
<b>TOTAL OPERATING EXPENSE</b>	3,664,970	3,790,516	125,546
<b>OPERATING INCOME</b>	2,082,663	1,724,184	358,479
Non-operating income	237,621	232,800	4,821
Non-operating expense	(408,798)	(354,500)	(54,298)
<b>NET INCOME</b>	\$ 1,911,486	\$ 1,602,484	\$ 309,002

The accountant's report and notes are an integral part of these statements.

**SERRANO WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENT**  
**FOR YEARS ENDED JUNE 30, 2014 AND 2013**

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**NOTE 1 - 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, 2014 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 seventy-two (72%) 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. Howler Water Filtration Plant is 4 million gallons per day.

**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.

The District utilizes the accrual basis of accounting. The District applies all applicable GASB pronouncements in accounting and reporting for proprietary operations as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradicts GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB's) of the Committee on Accounting Procedures.

**SERRANO WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENT**  
**FOR YEARS ENDED JUNE 30, 2014 AND 2013**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with water and sewer operations. The principal operating revenues of the District are charges to customers for sales and services. Operating expenses include cost of sales and services, general and administrative expenses and depreciation of capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District's basic financial statements are presented in conformance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, "*Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments*" (GASB No. 34). This statement established revised financial reporting requirements for state and local governments throughout the United States for the purpose of enhancing the understandability and usefulness of financial reports. GASB No. 34 and its related GASB pronouncements provide for a revised view of financial information and restructure the format of financial information provided prior to its adoption. A statement of net assets replaces the balance sheet and reports assets, liabilities, and the difference between them as net assets, not equity. A statement of revenues, expenses and changes in net assets replaces both the income statement and the statement of changes in retained earnings and contributed capital. GASB No. 34 also requires that the statement of cash flows be prepared using the direct method. Under the direct method, cash flows from operating activities are presented by major categories.

**C. Capital Assets** - Capital assets are recorded at cost. Depreciation is recorded using a straight-line method on fixed assets with useful lives from three to one hundred years. See supplementary information for schedules of depreciable assets and depreciation for the year ended June 30, 2014.

**D. Inventory** - Inventory includes water purchased in storage and is stated at the original cost using the first-in, first-out (FIFO) method.

**E. 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 body of the statement. 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, 2014 and 2013 were as follows:

	2014	2013
Vacation Pay	\$ 77,213	\$ 61,289
Sick Pay	16,398	18,963
Accrued Wages	15,720	13,025
Total	\$ 109,331	\$ 93,277

**SERRANO WATER DISTRICT  
NOTES TO FINANCIAL STATEMENT  
FOR YEARS ENDED JUNE 30, 2014 AND 2013**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**F. Water Sales** - Water users are billed every month for their water usage for that period plus the service charge for the same period. The amount of water used but unbilled at year-end can only be approximated. The total amount included for used but unbilled water sales was \$333,300 and \$246,250 as of June 30, 2014 and 2013, respectively.

**G. Accounts Receivable - Water Users** - 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.

**H. 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.

**I. Use of Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**J. Basis of Presentation** – The accompanying financial statements only include the accounts of Serrano Water District. The District has had certain transactions with SWD Recreation, Inc., a non-profit public benefit corporation (see Note 8). Both entities operate under the same management and Board of Directors. Generally accepted accounting principles requires that SWD Recreation be combined with the District for a complete picture of the financial position and results of operations of the District. As of June 30, 2014, if SWD Recreation had been combined with the District, the investment in SWD Recreation would decrease by \$140,135, revenues would have increased by \$2,608,452, expenses would have increased by \$2,809,791, and net income would have decreased by \$201,339. As of June 30, 2013, if SWD Recreation had been combined with the District, the investment in SWD Recreation would decrease by \$140,135, revenue would have increased by \$2,954,110, expenses would have increased by \$2,959,929 and net income would have decreased by \$5,819. For the years ended June 20, 2014 and July 1, 2013, SWD Recreation, Inc. recorded rent in the amount of \$210,000 to Serrano Water District during each fiscal period.

**K. Subsequent Events** - The District has evaluated subsequent events through October 29, 2014, which is the date the basic financial statements were available to be issued.

**SERRANO WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENT**  
**FOR YEARS ENDED JUNE 30, 2014 AND 2013**

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**NOTE 2 - CASH AND CASH EQUIVALENTS**

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.

The District's investment policy and state statutes authorize the District to invest in obligations of the U.S. Treasury, its agencies and instrumentalities, certificates of deposit with national and state-licensed or chartered banks or federal or state savings and loan associations, money market and mutual funds whose portfolios consist of one or more of the foregoing investments, and the Local Agency Investment Fund.

A summary of cash and cash equivalents is as follows at June 30:

	2014	2013
Unrestricted deposits		
Cash	\$ 644,268	\$ 1,041,254
Cash equivalents	2,518,762	2,351,907
Total unrestricted deposits	3,163,030	3,393,161
Restricted portion	-	-
Total cash and cash equivalents	\$ 3,163,030	\$ 3,393,161

The Federal Deposit Insurance Corporation provides deposit insurance for all banks at which the District's deposits are held. The standard insurance amount is \$250,000 per depositor, per insured bank, for each account ownership category, except that, from December 31, 2010 through December 31, 2012, at all FDIC-insured institutions, deposits held in noninterest-bearing transaction accounts are fully insured regardless of the amount in the account.

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

For June 30, 2014 and 2013, 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 trustee 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.

**SERRANO WATER DISTRICT  
NOTES TO FINANCIAL STATEMENT  
FOR YEARS ENDED JUNE 30, 2014 AND 2013**

Authorized Investments	Maximum maturity	Maximum percentage of portfolio	Maximum investment in issuer
Local Agency Investment Fund (LAIF)	N/A	None	None
U.S. Treasury (bills, notes, and bonds)	36 months	None	None
Bank Certificates of Deposit	36 months	20%	None
Money Market Mutual Funds	N/A	20%	None

*Local Agency Investment Fund (LAIF)*

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. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon District's prorated share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost-basis.

LAIF is a special fund of the California State Treasury through which local governments may pool investments. Investments in LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest. Investments with LAIF are secured by the full faith and credit of the State of California. The yield of LAIF during the years ended June 30, 2014 and 2013 was 0.36% and 0.45%, respectively. Included in cash equivalents as of June 30, 2014 and 2013 is \$886,426 and \$1,125,296 respectively, invested in LAIF.

**NOTE 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 \$49,847 and \$122,060 was billed to Irvine Ranch Water District for the years ended June 30, 2014 and 2013.

**NOTE 4 - DEFERRED CHARGES**

Deferred charges are related to the 2002 defeasance costs of the LaSalle National Bank loan refunding. These costs were being amortized over a 14 year period (remaining debt service years on the 2002 LaSalle Refunding) beginning in 2002. Since this loan was paid in full during the year ended June 30, 2013, the balance of \$106,279 has been recorded as an expense to interest during the year ended June 30, 2013.

**SERRANO WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENT**  
**FOR YEARS ENDED JUNE 30, 2014 AND 2013**

**NOTE 5 - CAPITAL ASSETS**

Changes in capital assets for the years ended June 30, 2014 and 2013 were as follows:

DESCRIPTION	Balance 2013	Additions/ Transfers	Deletions/ Transfers	Balance 2014
Non-Depreciable Assets:				
Land	\$ 147,790	\$ -	\$ -	\$ 147,790
Total Non-Depreciable Assets	<u>147,790</u>	<u>-</u>	<u>-</u>	<u>147,790</u>
Depreciable Assets:				
Santiago Dam appurtenances	225,654	-	-	225,654
Santiago Dam	208,537	-	-	208,537
Santiago Lateral extension	25,772	-	-	25,772
Lagoon	50,617	-	-	50,617
Submerged equipment	1,643	-	-	1,643
Irvine Park Meter	7,626	-	-	7,626
Water treatment plant	915,598	34,912	-	950,510
Treatment building at Park	4,906	-	-	4,906
Pipeline concrete	54,180	-	-	54,180
Pipeline delivery	3,414,161	26,079	-	3,440,240
Lemon Street well	1,207,522	77,737	-	1,285,259
Smith Reservoir #1	720,981	28,502	-	749,483
Smith Reservoir #2	391,974	-	-	391,974
Lockett Reservoir	954,127	-	-	954,127
Treatment Plant	9,464,375	376,623	-	9,840,998
Vehicles	717,457	-	-	717,457
Building and improvements	214,085	5,631	-	219,716
Office equipment	300,718	17,144	-	317,862
Tools and equipment	107,236	1,311	-	108,547
Total Depreciable Assets - Purchased	18,987,169	567,939	-	19,555,108
Total assets transferred from Villa Park Mutual Water Company	<u>60,726</u>	<u>-</u>	<u>-</u>	<u>60,726</u>
Combined total - purchase and transfer	19,047,895	567,939	-	19,615,834
Contributed by developers - domestic pipelines	<u>863,915</u>	<u>-</u>	<u>-</u>	<u>863,915</u>
Total - All Depreciable Assets	<u>\$ 19,911,810</u>	<u>\$ 567,939</u>	<u>\$ -</u>	<u>\$ 20,479,749</u>

**SERRANO WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENT**  
**FOR YEARS ENDED JUNE 30, 2014 AND 2013**

**NOTE 5 - CAPITAL ASSETS (Continued)**

DESCRIPTION	Balance 2013	Additions/ Transfers	Deletions/ Transfers	Balance 2014
Accumulated Depreciation:				
Santiago Dam appurtenances	(197,346)	(3,871)	-	(201,217)
Santiago Dam	(167,865)	(2,085)	-	(169,950)
Santiago Lateral extension	(25,772)	-	-	(25,772)
Lagoon	(30,371)	(2,531)	-	(32,902)
Submerged equipment	(1,643)	-	-	(1,643)
Irvine Park Meter	(4,196)	(763)	-	(4,959)
Water treatment plant	(323,898)	(16,506)	-	(340,404)
Treatment building at Park	(4,671)	(164)	-	(4,835)
Pipeline concrete	(54,180)	-	-	(54,180)
Pipeline delivery	(1,874,497)	(69,465)	-	(1,943,962)
Lemon Street well	(634,576)	(43,346)	-	(677,922)
Smith Reservoir #1	(596,013)	(12,800)	-	(608,813)
Smith Reservoir #2	(293,967)	(7,839)	-	(301,806)
Lockett Reservoir	(248,068)	(9,541)	-	(257,609)
Treatment Plant	(1,659,843)	(193,054)	-	(1,852,897)
Vehicles	(597,433)	(36,840)	-	(634,273)
Building and improvements	(174,698)	(3,227)	-	(177,925)
Office equipment	(211,807)	(13,581)	-	(225,388)
Tools and equipment	(93,611)	(2,693)	-	(96,304)
Total Assets Purchased	(7,194,455)	(418,306)	-	(7,612,761)
Total assets transferred from Villa Park Mutual Water Company	(60,726)	-	-	(60,726)
Combined total - purchase and transfer	(7,255,181)	(418,306)	-	(7,673,487)
Contributed by developers - domestic pipelines	(841,089)	(1,523)	-	(842,612)
Total Accumulated Depreciation	(8,096,270)	(419,829)	-	(8,516,099)
Total Depreciable Assets, Net	\$ 11,815,540	\$ 148,110	\$ -	\$ 11,963,650
Total Capital Assets, Net	\$ 11,963,330			\$ 12,111,440



**SERRANO WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENT**  
**FOR YEARS ENDED JUNE 30, 2014 AND 2013**

**NOTE 5 - CAPITAL ASSETS (Continued)**

DESCRIPTION	Balance 2012	Additions/ Transfers	Deletions/ Transfers	Balance 2013
<b>Non-Depreciable Assets:</b>				
Land	\$ 147,790	\$ -	\$ -	\$ 147,790
Total Non-Depreciable Assets	<u>147,790</u>	<u>-</u>	<u>-</u>	<u>147,790</u>
<b>Depreciable Assets:</b>				
Santiago Dam appurtenances	221,410	4,244	-	225,654
Santiago Dam	208,537	-	-	208,537
Santiago Lateral extension	25,772	-	-	25,772
Lagoon	50,617	-	-	50,617
Submerged equipment	1,643	-	-	1,643
Irvine Park meter	7,626	-	-	7,626
Water treatment plant	890,127	25,471	-	915,598
Treatment building at Park	4,906	-	-	4,906
Pipeline concrete	54,180	-	-	54,180
Pipeline delivery	3,368,462	45,699	-	3,414,161
Lemon Street well	1,180,502	27,020	-	1,207,522
Smith Reservoir #1	707,630	13,351	-	720,981
Smith Reservoir #2	391,974	-	-	391,974
Lockett Reservoir	954,127	-	-	954,127
Treatment Plant	8,055,550	1,408,825	-	9,464,375
Vehicles	717,457	-	-	717,457
Building and improvements	203,607	10,478	-	214,085
Office equipment	297,044	3,674	-	300,718
Tools and equipment	107,236	-	-	107,236
Total Depreciable Assets - Purchased	17,448,407	1,538,762	-	18,987,169
<b>Total assets transferred from Villa Park</b>				
Mutual Water Company	60,726	-	-	60,726
Combined total - purchase and transfer	17,509,133	1,538,762	-	19,047,895
Contributed by developers - domestic pipelines	863,915	-	-	863,915
Total - All Depreciable Assets	<u>\$ 18,373,048</u>	<u>\$ 1,538,762</u>	<u>\$ -</u>	<u>\$ 19,911,810</u>

**SERRANO WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENT**  
**FOR YEARS ENDED JUNE 30, 2014 AND 2013**

**NOTE 5 - CAPITAL ASSETS (Continued)**

DESCRIPTION	Balance 2012	Additions/ Transfers	Deletions/ Transfers	Balance 2013
Accumulated Depreciation:				
Santiago Dam appurtenances	(191,114)	(6,232)	-	(197,346)
Santiago Dam	(165,780)	(2,085)	-	(167,865)
Santiago Lateral extension	(25,772)	-	-	(25,772)
Lagoon	(27,840)	(2,531)	-	(30,371)
Submerged equipment	(1,643)	-	-	(1,643)
Irvine Park meter	(3,433)	(763)	-	(4,196)
Water treatment plant	(308,147)	(15,751)	-	(323,898)
Treatment building at Park	(4,507)	(164)	-	(4,671)
Pipeline concrete	(54,180)	-	-	(54,180)
Pipeline delivery	(1,805,929)	(68,568)	-	(1,874,497)
Lemon Street well	(593,848)	(40,728)	-	(634,576)
Smith Reservoir #1	(586,475)	(9,538)	-	(596,013)
Smith Reservoir #2	(286,128)	(7,839)	-	(293,967)
Lockett Reservoir	(238,527)	(9,541)	-	(248,068)
Treatment Plant	(1,516,159)	(143,684)	-	(1,659,843)
Vehicles	(564,120)	(33,313)	-	(597,433)
Building and improvements	(172,634)	(2,064)	-	(174,698)
Office equipment	(197,820)	(13,987)	-	(211,807)
Tools and equipment	(90,917)	(2,694)	-	(93,611)
Total Assets Purchased	(6,834,973)	(359,482)	-	(7,194,455)
Total assets transferred from Villa Park Mutual Water Company	(60,726)	-	-	(60,726)
Combined total - purchase and transfer	(6,895,699)	(359,482)	-	(7,255,181)
Contributed by developers - domestic pipelines	(839,566)	(1,523)	-	(841,089)
Total Accumulated Depreciation	(7,735,265)	(361,005)	-	(8,096,270)
Total Depreciable Assets, Net	10,637,783	\$ 1,177,757	\$ -	11,815,540
Total Capital Assets, Net	\$ 10,785,573			\$ 11,963,330

**SERRANO WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENT**  
**FOR YEARS ENDED JUNE 30, 2014 AND 2013**

**NOTE 6 - LONG-TERM LIABILITIES**

	Balance 2013	Additions	Payments/ Retirements	Balance 2014
Orange County Water District - for the construction of a well facility, with semi-annual installments of \$14,249, due August 2020, at a rate of 3.5%.	186,563	-	(22,161)	164,402
Capital One Bank - loan proceeds obtained June 30, 2006 for modifications to the treatment plant facility and construction of new wells, due June 2026, payable in semi-annual installments of \$141,349, which includes interest at 5.34%.	2,625,580	-	(122,021)	2,503,559
Bank of America - loan proceeds obtained for improvements to the Walter E. Howler, Jr. Water Filtration Plant, due April 2026, payable in semi-annual installments of \$73,494, which includes interest at 5.38%	1,361,977	-	(74,706)	1,287,271
Total Long-term Liabilities	4,174,120	\$ -	\$ (218,888)	3,955,232
Less: Current Portion	(241,600)			(253,930)
Total Non-Current	\$ 3,932,520			\$ 3,701,302

**SERRANO WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENT**  
**FOR YEARS ENDED JUNE 30, 2014 AND 2013**

**NOTE 6 - LONG-TERM LIABILITIES**

	Balance 2012	Additions	Payments/ Retirements	Balance 2013
Orange County Water District - for the construction of a well facility, with semi-annual installments of \$14,249, due August 2020, at a rate of 3.5%.	\$ 197,358	\$ -	\$ (10,795)	\$ 186,563
Capital One Bank - loan proceeds obtained June 30, 2006 for modifications to the treatment plant facility and construction of new wells, due June 2026, payable in semi-annual installments of \$141,349, which includes interest at 5.34%.	2,762,562	-	(136,982)	2,625,580
State of California Department of Water Resources - Funding Agreement, for the defeasance of the LaSalle National Bank treatment plant facility note, due January 2016, payable in semi-annual installments of \$147,387, which includes interest at 2.5132%. Paid in full during 2013.	981,748	-	(981,748)	-
Bank of America - loan proceeds obtained for improvements to the Walter E. Howler, Jr. Water Filtration Plant, due April 2026, payable in semi-annual installments of \$73,494, which includes interest at 5.38%	1,432,820	-	(70,843)	1,361,977
Total Long-term Liabilities	5,374,488	<u>\$ -</u>	<u>\$ (1,200,368)</u>	4,174,120
Less: Current Portion	<u>(501,028)</u>			<u>(241,600)</u>
Total Non-Current	<u>\$ 4,873,460</u>			<u>\$ 3,932,520</u>

**SERRANO WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENT**  
**FOR YEARS ENDED JUNE 30, 2014 AND 2013**

**NOTE 6 - LONG-TERM LIABILITIES (Continued)**

On June 30, 2006, the District entered into two new loan agreements as discussed above with LaSalle Bank. (Now the loans are with Capital One). An existing loan with LaSalle was refinanced, a loan was retired (the bond issuance in connection with the former Safe Drinking Water Bond Loan), and a new loan was established to make modifications to the District's treatment plant and well facilities. On June 30, 2006, the District opened an escrow funding account with loan proceeds in the amount of \$3,150,000, pending construction of the capital improvements. In April 2011, the District obtained additional financing in the amount of \$1,500,000 to facilitate the construction of improvements to the Walter E. Howiler Water Filtration Plant. Capital improvements were completed during the current fiscal year.

Annual debt service requirements on the long-term liabilities as of June 30, 2014 are as follows:

	<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Orange County Water District	2015	22,943	5,555	28,498
	2016	23,754	4,744	28,498
	2017	24,010	3,906	28,498
	2018	25,065	3,038	28,498
	2019	26,359	3,932	28,498
	2020	42,270	477	42,747
Total		<u>164,401</u>	<u>\$ 21,652</u>	<u>\$ 186,053</u>
Less Current Portion		<u>(22,943)</u>		
Total Long Term		<u>\$ 141,458</u>		
Capital One	2015	152,208	130,490	282,698
	2016	160,444	122,254	282,698
	2017	167,900	114,798	282,698
	2018	178,278	104,420	282,698
	2019	187,925	104,420	282,698
	2020 - 2026	1,656,805	322,079	2,262,808
Total		<u>2,503,560</u>	<u>\$ 898,461</u>	<u>\$ 3,402,021</u>
Less Current Portion		<u>(152,208)</u>		
Total Long Term		<u>\$ 2,351,352</u>		
Bank of America	2015	78,779	68,210	146,989
	2016	83,074	63,915	146,989
	2017	88,367	58,622	146,989
	2018	94,865	52,124	146,989
	2019	97,417	49,572	146,989
	2020 - 2026	844,769	184,152	1,028,921
Total		<u>1,287,271</u>	<u>\$ 476,595</u>	<u>\$ 1,763,866</u>
Less Current Portion		<u>(78,779)</u>		
Total Long Term		<u>\$ 1,208,492</u>		

**SERRANO WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENT**  
**FOR YEARS ENDED JUNE 30, 2014 AND 2013**

**NOTE 7 - WATER SALES IN ACRE FEET**

During the year ended June 30, 2014 and 2013, one thousand nine hundred ninety seven (1,997) and one thousand six hundred seventy six (1,676) acre feet of bulk water was sold to the City of Orange for a total sales price of \$1,567,948 and \$1,240,442, respectively. Included in Accounts Receivable - General are \$145,270 and \$117,762, relating to the sale of water to the City of Orange as of June 30, 2014 and 2013, respectively.

Water Sales:	2014	2013
Domestic water	3,178	3,083
Bulk sale	1,997	1,676
Irrigation water	10	8
Total Sold	5,185	4,767

**NOTE 8 - IRVINE LAKE OPERATIONS**

Irvine Ranch Water District (IRWD) and the District co-manages the daily lake 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.

**NOTE 9 - JOINT VENTURE**

The District is a member of the Association of California Water Agencies Joint Powers Insurance Authority (Authority). The following joint venture disclosures are made in compliance with GASB Code Section J50.103:

**A. Description of the Authority** - The Authority is a risk-pooling self insurance authority, created under provisions of California Government Code Sections 6500 et. seq. The purpose of the Authority is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage.

**B. Self-Insurance Programs of the Authority** - The District participated in the self-insurance programs of the Authority as follows:

**SERRANO WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENT**  
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**NOTE 9 – JOINT VENTURE (Continued)**

Property Loss - Insured up to replacement value with \$25,000 deductible per occurrence; the Authority is self-insured up to \$10,000 per occurrence and has purchased excess insurance coverage.

General Liability - Insured up to \$35,000,000 per occurrence with \$2,500 deductible; the Authority is self-insured up to \$500,000 and excess insurance coverage has been purchased.

Auto Liability - Insured up to \$35,000,000 per occurrence; the Authority is self-insured up to \$500,000 per occurrence with \$2,500 deductible for property damage and has purchased excess insurance coverage.

Public Officials' and Employees' Errors and Omissions - Insured up to \$20,000,000 per occurrence, the Authority is self-insured up to \$500,000 and excess insurance coverage has been purchased. In addition to the preceding, the Authority also has purchased insurance coverage as follows:

Fidelity Bonds - \$100,000 total insurance.

Boiler and Machinery - \$1,000 deductible

**C. Condensed Financial Information of the Authority** - Noted below are condensed audited financial statements of the Authority for the years ended September 30, 2013 and 2012:

	2012	2011
<b>ASSETS</b>		
Current assets	\$ 76,819,567	\$ 47,799,175
Noncurrent assets	111,214,183	78,970,791
Total Assets	188,033,750	126,769,966
<b>LIABILITIES</b>		
Current liabilities	60,219,720	41,867,839
Noncurrent liabilities	40,450,696	37,590,083
Total Liabilities	100,670,416	79,457,922
<b>NET ASSETS</b>	<b>\$ 87,363,334</b>	<b>\$ 47,312,044</b>

(1) The Authority does not show in its records the separate equity of each individual district.

**SERRANO WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENT**  
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**NOTE 9 – JOINT VENTURE (Continued)**

	2012	2011
<b>OPERATING REVENUES</b>		
Members premiums	\$ 60,219,073	\$ 32,175,664
Retrospective premium adjustments	(1,782,760)	(4,026,190)
Total Operating Revenues	58,436,313	28,149,474
<b>OPERATING EXPENSES</b>		
Claims expense	30,804,349	11,880,268
Excess insurance	17,301,864	8,507,507
Other expenses	6,964,898	5,898,455
Total Operating Expenses	55,071,111	26,286,230
<b>OPERATING INCOME (LOSS)</b>	3,365,202	1,863,244
<b>NONOPERATING REVENUES</b>		
Investment income and investment fair value	1,699,881	1,446,926
Net Assets acquired from merger	34,986,207	-
<b>INCREASE IN NET ASSETS</b>	40,051,290	3,310,170
<b>NET ASSETS, BEGINNING OF YEAR, AS RESTATED</b>	47,312,044	44,001,874
<b>NET ASSETS, END OF YEAR</b>	\$ 87,363,334	\$ 47,312,044

**NOTE 10 - RETIREMENT PLAN**

Plan Description: The District contributes to the California Public Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public employees within the State of California. All permanent District employees working at least 1,000 hours per year are eligible to participate in PERS. Under PERS, benefits vest after five years of service. Upon retirement, participants are entitled to an annual retirement benefit, payable for life, in an amount equal to a benefit factor times their highest average monthly salary over twelve consecutive months of employment. Copies of the PERS annual financial report may be obtained from their Executive Office, 400 P Street, Sacramento, CA 95814.



**SERRANO WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENT**  
**FOR YEARS ENDED JUNE 30, 2014 AND 2013**

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**NOTE 10 - RETIREMENT PLAN (Continued)**

Funding Policy: Active plan members are required to contribute 7% of their annual covered salary. The District is required to contribute at an actuarially determined rate, which was 8.486% for the fiscal year ended June 30, 2014, and was estimated to be 8.435% for the next fiscal year. The contribution requirements of plan members and the District are established and may be amended by PERS.

Annual Pension Cost: For the year ending June 30, 2014, the District incurred an annual pension cost of \$189,817 which includes the amortized side fund cost of \$125,283 (see below).

The following is a summary of the actuarial assumptions and methods:

Valuation Date	June 30, 2013
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Average remaining Period	5 years as of the Valuation Date
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	7.50% (net of administrative expenses)
Projected Salary Increases	3.30% to 14.20 % depending on age, service, and type of employment
Inflation	3.00%
Payroll Growth	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%.

For each of the fiscal years shown below, the District has contributed at the actuarially determined rate provided by PERS' actuaries. Under GASB 27, an employer reports an annual pension cost (APC) equal to the annual required contributions (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contribution for the year. The cumulative difference is called the net pension obligation (NPO). The District's rate also includes a contribution to fund pension costs relating to prior service. As of October 2012, the District's side fund owed to the PERS pool was \$526,400; the District opted to pay off this amount, which will reduce the required contributions in future periods. The District is amortizing this amount over the remaining amortization period (ending in 2017).

**SERRANO WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENT**  
**FOR YEARS ENDED JUNE 30, 2014 AND 2013**

**NOTE 10 - RETIREMENT PLAN (Continued)**

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. The District presents the most recent available three-year Annual Pension Cost (APC) information for the plan, along with required supplementary information as follows:

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2011-2012	\$142,261	100%	-
2012-2013	\$216,728	100%	-
2013-2014	\$189,817	100%	-

Funding History: The Funding History below shows the actuarial accrued liability, the actuarial value of assets, the market value of assets, funded ratios and the annual covered payroll. The actuarial value of assets is used to establish funding requirements and the funded ratio on this basis represents the progress toward fully funding future benefits for current plan participants. The funded ratio based on the market value of assets is an indicator of the short-term solvency of the plan.

Valuation date	Accrued Liability	Market Value of Assets (MVA)	Unfunded Liability	MVA	Annual Covered Payroll
6/30/2011	\$ 4,691,687	\$ 3,395,523	\$ 1,296,164	72.4%	\$ 654,252
6/30/2012	\$ 4,702,938	\$ 3,310,540	\$ 1,392,398	70.4%	\$ 738,124
6/30/2013	\$ 4,862,028	\$ 4,099,450	\$ 762,578	84.3%	\$ 641,879

**NOTE 11 - 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.

**NOTE 12 - RETIREE MEDICAL BENEFITS**

During fiscal year ended June 30, 2010, the District implemented the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes uniform financial reporting standards for employers providing postemployment benefits other than pensions (OPEB). The provisions of this statement are applied prospectively and do not affect prior year's financial statements. Based on the number of plan participants, GASB Statement 45 requires the District to examine the existing liability for retiree benefits as well as future annual expected premium costs triennially. The District's Actuarial Study of Retiree Health Liabilities was last prepared on November 19, 2013 as of July 1, 2012. Required disclosures are presented below.

**SERRANO WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENT**  
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**NOTE 12 - RETIREE MEDICAL BENEFITS (Continued)**

Plan Description

The District provides a defined benefit healthcare plan (the "Retiree Health Plan"). The retiree Health Plan provides lifetime healthcare insurance for eligible retirees, which covers both active and retired members. Benefit provisions are established by the Board of Directors.

Funding Policy

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 ARC cost.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The District has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than one hundred total plan members. 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 actuarial liabilities (or funding excess) over the remaining period of 30 years. 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 its net OPEB obligation to the Retiree Health Plan:

Annual required Contribution	\$	134,020
Interest on net OPEB obligation	\$	15,892
Adjustment to annual required contribution	\$	(13,810)
Annual OPEB cost (expense)	\$	136,102
Contributions made	\$	(88,436)
Increase in net OPEB obligation	\$	47,666
Net OPEB obligation - beginning of year	\$	317,832
Net OPEB obligation - end of year	\$	365,498

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the current fiscal year is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2012	\$109,081	25%	\$246,687
June 30, 2013	\$156,904	25%	\$317,832
June 30, 2014	\$134,020	25%	\$365,498

**SERRANO WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENT**  
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**NOTE 12 - RETIREE MEDICAL BENEFITS (Continued)**

Funding Status and Funding Progress

As of July 1, 2013, the actuarial accrued liability (AAL) for benefits was \$2,187,730, all of which was unfunded.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrences of events far into the future. Examples include assumptions about future employment, mortality and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer as 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 presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and 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 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 prospective of the calculations.

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.

*Healthcare cost trend rate* - 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* - 2012-2013 health insurance premiums for retirees were used as a basis for calculation of the present value of total benefits to be paid.

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

*Dental and vision benefits* - Employees without dental and vision benefits are assumed to continue without those benefits upon retirement.

**SERRANO WATER DISTRICT  
NOTES TO FINANCIAL STATEMENT  
FOR YEARS ENDED JUNE 30, 2014 AND 2013**

**NOTE 12 - RETIREE MEDICAL BENEFITS (Continued)**

*Payroll increase* - Changes in the payroll for current employees are expected to increase at a rate of approximately 3.0% 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.

Plan for Funding

On an ongoing basis, the District will be reviewing its assumptions, comparing them against actual experience and recalculating the needed funding with the goal of paying for postemployment benefits out of interest earned on designated funds.

Required Supplementary information: Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Accrued Liability (AAL) Entry Age (a)	Actuarial Value of Assets (b)	Unfunded Liability (UAAL) (a-b)	Funded Status (b/a)	Annual Covered Payroll (c)	UAL as a % of Payroll ((a-b)/c)
7/1/2009	\$ 1,332,087	\$ -	\$ 1,332,087	0.00%	\$ 814,314	163.60%
7/1/2012	\$ 2,361,973	\$ -	\$ 2,361,973	0.00%	\$ 922,718	256.00%

**NOTE 13 – CONTRACT GENERAL MANAGER AGREEMENT**

In December 2010, the District entered into a contract management consultant agreement with David H. Noyes, the former general manager who retired in December 2010. The agreement is for a one year term and compensation is \$3,660 per month.

On January 1, 2012, the District entered into an agreement to extend the terms to June 30, 2012. After this period, the terms were month to month at a monthly fee of \$3,571. For the years ended June 30, 2014 and 2013, the District paid \$21,667 and \$10,065 in connection with these agreements.

**NOTE 14 – FUTURE GOVERNMENT ACCOUNTING STANDARDS BOARD (GASB) STATEMENTS**

GASB Statement No. 68 listed below will be implemented in future financial statements:

Statement No. 68	Accounting and Financial Reporting for Pension Plans-an amendment of GASB Statement No. 27	The provisions of the Statement are effective for periods beginning after June 15, 2014.
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