

SERRANO WATER DISTRICT

FINANCIAL REPORT

**FOR THE YEARS ENDED
JUNE 30, 2015 AND 2014**



SERRANO WATER DISTRICT

June 30, 2015

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SERRANO WATER DISTRICT

June 30, 2015

TITLE	BOARD OF DIRECTORS	TERM EXPIRATION
PRESIDENT	C.L. "Larry" Pharris, Jr.	December 2016
VICE-PRESIDENT	Frank Bryant	December 2018
DIRECTOR	Robert F. Rickerl	December 2016
DIRECTOR	Richard A. Freschi	December 2018
DIRECTOR	Jerry L. Haight	December 2016

ADMINISTRATION

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

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, 2015 and 2014, 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 qualified opinion.

Basis for Qualified Opinion

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.

Opinion

In our opinion, except for the effect of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Serrano Water District as of June 30, 2015 and 2014, 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.

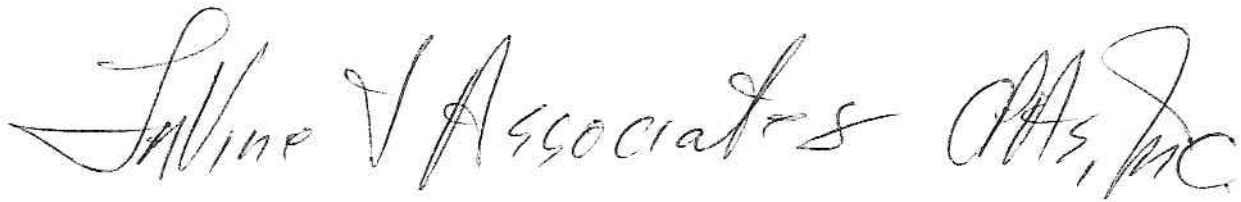
Emphasis of Matters

As discussed in Note 9 to the financial statements, the District adopted Governmental Accounting Standards Board's Statement No. 68, "Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27", and Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68". The adoption of these standards required retrospective application resulting in a \$911,608 reduction of previously reported net position. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 cursive script that reads "LaVine & Associates CPAs, Inc." The signature is written in dark ink and is positioned above the printed name of the firm.

Mission Viejo, California
December 8, 2015

SERRANO WATER DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2015 and 2014. This information is presented in conjunction with the audited basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2015

The District's net position from normal operations increased by \$98,771 during the fiscal year, although the overall net position decreased by \$812,837 or 6.2%, due to the implementation of GASB 68 (see below).

Total revenues decreased by \$740,112 or 11.3 percent from \$6,546,762 to \$5,806,650.

Total expenses increased by \$69,701 or 1.2 percent from \$5,638,178 to \$5,707,879.

The District purchased 4,645 acre-feet of water, in the amount of \$2,719,735 to meet the needs of its customers; as of June 30, 2015, 3,410 acre-feet of water is being held in storage for the next fiscal period (related cost of \$1,986,154).

In response to Governor Jerry Brown's Executive Order mandating broad water use restrictions across the State, the District has enacted tough water conservation measures, including the expansion of its water conservation program, the establishment of a new "Water Conservation Specialist", and the assessments of penalties to water users for violations to the District's water use restrictions, to help ensure the District meets the Governor's standards to avoid penalties of up to \$10,000 per day, if the 36% water use reduction is not met.

The District implemented the Governmental Accounting Standards Board (GASB) No. 68 (Accounting and Financial Reporting for Pensions) during the current fiscal year. The impact of this new reporting requirement was the recording of a prior period adjustment in the amount of \$911,608 as the net pension liability as of June 30, 2014, as reported by the CalPERS Valuation Report.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2014

The District's net position 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.

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 Position 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 Position identify the District's revenues and expenses for the fiscal years ended June 30, 2015 and 2014. 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 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 reflect the difference between assets and liabilities. An increase in net position over time typically indicates an improvement in financial condition.

NET POSITION

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

	Condensed Statements of Net Position			Table 1
	<u>2015</u>	<u>2014</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Capital Assets	12,079,279	12,111,440	(32,161)	
Current and Other Assets	5,833,053	6,142,219	(309,166)	
Total Assets	<u>17,912,332</u>	<u>18,253,659</u>	<u>(341,327)</u>	-1.9%
Long-term Liabilities	4,756,019	4,066,800	689,219	
Deferred Outflow of Resources	132,020	-	132,020	
Other Liabilities	823,830	1,173,562	(349,732)	
Total Liabilities	<u>5,711,869</u>	<u>5,240,362</u>	<u>471,507</u>	9.0%
Net Investment - Capital Assets	8,377,977	8,664,068	(286,091)	
Unrestricted Net Position	3,822,486	4,349,232	(526,746)	
Total Net Position	<u>12,200,463</u>	<u>13,013,300</u>	<u>(812,837)</u>	-6.2%

SERRANO WATER DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

Condensed Statements of Net Position

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	
Total Assets	18,253,659	17,386,247	867,412	5.0%
Long-term Liabilities	4,066,800	3,932,520	134,280	
Other Liabilities	1,173,562	1,349,011	(175,449)	
Total Liabilities	5,240,362	5,281,531	(41,169)	-0.8%
Net Investment - Capital Assets	8,664,068	8,272,410	391,658	
Unrestricted Net Position	4,349,232	3,832,306	516,926	
Total Net Position	13,013,300	12,104,716	908,584	7.5%

As the above tables indicate, total assets decreased by \$341,327 during the fiscal year ended June 30, 2015, and total assets increased by \$867,412 during the fiscal year ended June 30, 2014.

Total liabilities increased by \$471,507 during the fiscal year ended June 30, 2015 and total liabilities decreased by \$41,169 during the fiscal year ended June 30, 2014.

Condensed Statements of Revenues, Expenses
and Changes in Net Position

Table 2

	2015	2014	Dollar Change	Percent Change
Operating Revenues	5,518,129	6,308,276	(790,147)	
Non-Operating Revenues	288,521	238,486	50,035	
Total Revenues	5,806,650	6,546,762	(740,112)	-11.3%
Depreciation	438,051	419,829	18,222	
Other Operating Expenses	5,016,437	4,913,854	102,583	
Non-Operating Expenses	253,391	304,495	(51,104)	
Total Expenses	5,707,879	5,638,178	69,701	1.2%
Changes in Net Position	98,771	908,584	(809,813)	
Beginning Net Position	12,101,692	12,104,716	(3,024)	
Ending Net Position	12,200,463	13,013,300	(812,837)	-6.2%

SERRANO WATER DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

Condensed Statements of Revenues, Expenses and
Changes in Net Position

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	
Total Revenues	6,546,762	5,985,254	561,508	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)	
Total Expenses	5,638,178	4,073,768	1,564,410	38.4%
Changes in Net Position	908,584	1,911,486	(1,002,902)	
Beginning Net Position	12,104,716	10,193,230	1,911,486	
Ending Net Position	13,013,300	12,104,716	908,584	7.5%

The statements of Revenues, Expenses and Changes in Net Position 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, 2015, total revenues decreased by \$740,112. Total expenses increased by \$145,973.

For the fiscal year ended June 30, 2014, total revenues increased by \$561,508. Total expenses increased by \$1,564,410.

CAPITAL ASSETS

As of June 30, 2015 and 2014, the District's investment in capital assets totaled \$12,079,279 and \$12,111,440, 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, 2015, the District had \$3,434,030 in outstanding debt, a decrease of \$267,272 from June 30, 2014. Additional information on the District's long-term debt is provided in Note 5 of the notes to the financial statements.

BUDGET COMPARISONS

On pages 14 and 15 of the financial statements are comparison of the annual budgets enacted by the Board of Directors to the actual results for the years ended June 30, 2015 and 2014. For the years ended June 30, 2015 and 2014, the overall variances were favorable by \$189,174 and \$755,009, respectively.

SERRANO WATER DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2016. Operating revenues are projected to be \$5,658,600.

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 POSITION
JUNE 30, 2015 AND 2014

ASSETS

	2015	2014
CAPITAL ASSETS (Note 4)		
Land	\$ 147,790	\$ 147,790
Plant in service - district	20,021,724	19,615,834
Plant in service - contributed	863,915	863,915
Less: accumulated depreciation	(8,954,150)	(8,516,099)
TOTAL CAPITAL ASSETS	12,079,279	12,111,440
CURRENT ASSETS		
Cash	552,254	644,268
Cash equivalents (Note 2)	1,645,990	2,518,762
TOTAL CASH	2,198,244	3,163,030
Accounts receivable:		
Water users	428,345	842,178
General (Note 6)	520,580	406,966
Water districts (Note 3)	233,893	287,150
Prepaid expense	156,814	316,420
Inventory of Purchased Water (Note 1)	1,986,154	946,726
Inventory (Note 1)	20,941	31,924
TOTAL CURRENT ASSETS	5,544,971	5,994,394
OTHER ASSETS		
Deferred Outflows of Resources	132,020	-
Investment in SWD Recreation, Inc. (Notes 1 and 7)	140,135	140,135
Deposits	15,927	7,690
TOTAL OTHER ASSETS	288,082	147,825
TOTAL ASSETS	\$ 17,912,332	\$ 18,253,659

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

SERRANO WATER DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2015 AND 2014

	2015	2014
LONG-TERM LIABILITIES		
Notes payable (Note 5)	\$ 141,458	\$ 164,401
Installment sale agreement (Note 5)	2,351,352	2,503,560
Installment sale agreement (Note 5)	1,208,492	1,287,271
Less: current portion	(267,272)	(253,930)
Subtotal - Notes payable and Installment agreements	3,434,030	3,701,302
Net pension plan liability (Note 9)	911,608	-
Other post-employment benefits payable (Note 11)	410,381	365,498
TOTAL LONG-TERM LIABILITIES	4,756,019	4,066,800
CURRENT LIABILITIES		
Accounts payable	413,198	625,801
Construction deposits	20,500	34,500
Accrued wages and compensated absences	103,180	109,331
Current portion of long-term liabilities	267,272	253,930
Customer deposits	151,700	150,000
TOTAL CURRENT LIABILITIES	955,850	1,173,562
TOTAL LIABILITIES	5,711,869	5,240,362
NET POSITION		
Invested in Capital Assets, Net of Related Debt	8,377,977	8,664,068
Unrestricted	3,822,486	4,349,232
TOTAL NET POSITION	\$ 12,200,463	\$ 13,013,300

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

SERRANO WATER DISTRICT
STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
FOR YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
OPERATING REVENUE		
Water sales - domestic (Note 1)	\$ 4,087,690	\$ 4,734,673
Water sales - bulk (Note 6)	1,426,468	1,567,948
Water sales - irrigation	3,971	5,655
	5,518,129	6,308,276
OPERATING EXPENSE		
Source of supply:		
Maintenance and supplies	115,187	13,405
Purchased water	1,714,374	1,480,363
Replenishment assessment	604,552	635,435
Maintenance and supplies	32,003	29,397
Power	467,863	429,956
Water treatment:		
Maintenance, supplies and analysis	179,291	198,534
Transmission and distribution:		
Salaries	343,731	364,641
Maintenance and supplies	173,331	168,097
Vehicle expenses	28,040	37,275
Uniforms	3,407	6,109
Administrative and general:		
Public relations	56,429	37,580
Salaries	368,370	351,537
Office supplies and expenses	15,508	11,708
Telephone and utilities	37,869	32,337
Printing	25,592	27,014
Auto expenses	12,928	16,658
Travel and meetings	12,933	15,999
Dues and subscriptions	6,560	7,728
Insurance expense:		
Property and liability	35,535	25,120
Worker's compensation	15,035	24,301
Employee benefits:		
Group, medical, dental and life	437,182	430,783
Pension plan (Note 9)	52,334	189,817
Payroll taxes	58,805	77,946
Uncollectible accounts	4,487	1,940
General operating expense	47,569	57,673
Sub-totals - Operating Expense	4,848,915	4,671,353
(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 POSITION
FOR YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
Sub-totals - Operating Expense (brought forward)	\$ 4,848,915	\$ 4,671,353
Administrative and general (continued):		
Security	19,036	18,891
Retirement plan administrator	-	-
Payroll preparation	9,002	10,774
Legal	62,490	35,579
Audit and accounting	11,546	13,474
Directors	32,300	29,300
Engineering	-	167,787
Water Conservation	64,097	-
Less: Reimbursed overhead and labor	(30,949)	(33,304)
Depreciation	438,051	419,829
TOTAL OPERATING EXPENSE	5,454,488	5,333,683
OPERATING INCOME	63,641	974,593
NON-OPERATING INCOME		
Concession income	210,000	210,000
Interest income	7,818	8,964
Development/other income	70,703	19,522
TOTAL NON-OPERATING INCOME	288,521	238,486
NON-OPERATING EXPENSE		
Interest expense	(192,374)	(239,373)
Other expenses	(61,017)	(65,122)
TOTAL NON-OPERATING EXPENSE	(253,391)	(304,495)
CHANGE IN NET POSITION	98,771	908,584
NET POSITION:		
Beginning	13,013,300	12,104,716
<i>Prior Period adjustment of Pension Liability (Note 9)</i>	(911,608)	-
<i>Restated Net Position- Beginning of the year</i>	12,101,692	12,104,716
Ending	\$ 12,200,463	\$ 13,013,300

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

SERRANO WATER DISTRICT
STATEMENTS OF CASH FLOWS
FOR YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 5,871,605	\$ 5,940,428
Payments to suppliers	(5,493,449)	(4,863,827)
Payments to employees	(718,252)	(700,124)
CASH FLOWS (USED) PROVIDED BY OPERATING ACTIVITIES	(340,096)	376,477
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(405,890)	(567,939)
Escrow Funds	-	246,228
Other cash receipts	288,521	238,486
Other cash payments	(61,017)	(65,122)
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES	(178,386)	(148,347)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	(253,930)	(218,888)
Interest payments on long-term debt	(192,374)	(239,373)
CASH FLOWS USED BY FINANCING ACTIVITIES	(446,304)	(458,261)
NET (DECREASE) INCREASE IN CASH AND EQUIVALENTS	(964,786)	(230,131)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	3,163,030	3,393,161
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 2,198,244	\$ 3,163,030
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$ 63,641	\$ 974,593
Adjustments to reconcile operating income to net cash flow from operating activities:		
Depreciation and amortization	438,051	419,829
Decrease (Increase) in accounts receivable	353,476	(367,848)
Decrease in prepaid expenses and other assets	30,332	118,913
(Increase) in Inventory of Purchased Water	(1,039,428)	(946,726)
(Decrease) Increase in construction deposits	(14,000)	(2,000)
(Decrease) Increase in accounts payable and accrued expenses	(173,868)	178,016
Increase in customer deposits	1,700	1,700
Net cash provided by operating activities	\$ (340,096)	\$ 376,477

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, 2015

	Actual	Budget	Variance Favorable (Unfavorable)
OPERATING REVENUE	\$ 5,518,129	\$ 5,504,500	\$ 13,629
OPERATING EXPENSE			
Source of supply	2,434,113	2,372,840	(61,273)
Pumping	499,866	475,800	(24,066)
Water treatment	179,291	197,000	17,709
Transmission and distribution	548,509	579,692	31,183
Administration and general	1,290,561	1,460,671	170,110
Water Conservation	64,097	27,237	(36,860)
Depreciation and amortization	438,051	432,000	(6,051)
TOTAL OPERATING EXPENSE	5,454,488	5,545,240	90,752
OPERATING INCOME	63,641	(40,740)	104,381
Non-operating income - Penalties	49,547	27,237	22,310
Non-operating income	238,974	234,200	4,774
Non-operating expense	(253,391)	(311,100)	57,709
NET INCOME	\$ 98,771	\$ (90,403)	\$ 189,174

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)
OPERATING REVENUE	\$ 6,308,276	\$ 5,616,185	\$ 692,091
OPERATING EXPENSE			
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)
TOTAL OPERATING EXPENSE	5,333,683	5,377,710	44,027
OPERATING INCOME	974,593	238,475	736,118
Non-operating income	238,486	234,200	4,286
Non-operating expense	(304,495)	(319,100)	14,605
NET INCOME	\$ 908,584	\$ 153,575	\$ 755,009

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, 2015 AND 2014

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, 2015 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. Howiler 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.

"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 Statement of Net Position. The Statement 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.

SERRANO WATER DISTRICT
NOTES TO FINANCIAL STATEMENT
FOR YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. New Accounting Pronouncements:

Current Year Standards:

In fiscal year 2014-2015, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27" and GASB Statement No. 71 – "Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68". These Statements establish standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. For defined benefit pension plans, these Statements identify the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Accounting changes adopted to conform to the provisions of these statements should be applied retroactively. The result of the implementation of these standards decreased the net position at July 1, 2014 by \$911,608.

D. Cash and Cash Equivalents – For purposes of the statement of cash flows the District considers all investment instruments purchased with a maturity date of three months or less to be cash equivalents.

E. 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, 2015.

F. Inventory - Inventory includes water purchased in storage and is stated at the original cost using the first-in, first-out (FIFO) method. The Statement of Revenues, Expenses and Changes in Net Position includes the purchased water costs of \$1,714,374 and \$1,480,363 for the years ended June 30, 2015 and 2014. An estimate for evaporation has been recorded in the amount of \$210,691 as part of the total purchased water costs as of June 30, 2015.

G. 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, 2015 and 2014 were as follows:

	2015	2014
Vacation Pay	\$ 65,063	\$ 77,213
Sick Pay	14,270	16,398
Accrued Wages	23,847	15,720
Total	\$ 103,180	\$ 109,331

SERRANO WATER DISTRICT
NOTES TO FINANCIAL STATEMENT
FOR YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. 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 \$262,417 and \$333,300 as of June 30, 2015 and 2014, respectively.

I. 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.

J. 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.

K. 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.

L. 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 7). 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, 2015, if SWD Recreation had been combined with the District, the investment in SWD Recreation would decrease by \$140,135, revenues would have increased by \$2,302,151, expenses would have increased by \$2,450,542, and net position would have decreased by \$148,391. As of June 30, 2014, if SWD Recreation had been combined with the District, the investment in SWD Recreation would decrease by \$140,135, revenue would have increased by \$2,608,452, expenses would have increased by \$2,809,791 and net position would have decreased by \$201,339. For the years ended June 30, 2015 and June 30, 2014, SWD Recreation, Inc. recorded rent in the amount of \$210,000 to Serrano Water District during each fiscal period.

M. Budgetary Policies - The District adopts an annual non-appropriated budget for planning, control, and evaluation purposes. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses with planned revenues and expenses for the period. Pages 14 and 15 contain the budget to actual comparisons for the years ended June 30, 2015 and 2014.

N. Subsequent Events - The District has evaluated subsequent events through December 8, 2015, 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, 2015 AND 2014

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:

	2015	2014
Unrestricted deposits		
Cash	\$ 552,254	\$ 644,268
Cash equivalents	1,645,990	2,518,762
Total unrestricted deposits	2,198,244	3,163,030
Restricted portion	-	-
Total cash and cash equivalents	\$ 2,198,244	\$ 3,163,030

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, 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, 2015 and 2014, 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, 2015 AND 2014

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, 2015 and 2014 was 0.28% and 0.36%, respectively. Included in cash equivalents as of June 30, 2015 and 2014 is \$508,870 and \$886,426 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 \$102,555 and \$49,847 was billed to Irvine Ranch Water District for the years ended June 30, 2015 and 2014.

SERRANO WATER DISTRICT
NOTES TO FINANCIAL STATEMENT
FOR YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 4 - CAPITAL ASSETS

Changes in capital assets for the years ended June 30, 2015 and 2014 were as follows:

DESCRIPTION	Balance 2014	Additions/ Transfers	Deletions/ Transfers	Balance 2015
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	6,411	-	232,065
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	950,510	1,764	-	952,274
Treatment building at Park	4,906	-	-	4,906
Pipeline concrete	54,180	-	-	54,180
Pipeline delivery	3,440,240	74,743	-	3,514,983
Lemon Street well	1,285,259	126,942	-	1,412,201
Smith Reservoir #1	749,483	138,797	-	888,280
Smith Reservoir #2	391,974	-	-	391,974
Lockett Reservoir	954,127	-	-	954,127
Treatment Plant	9,840,998	-	-	9,840,998
Vehicles	717,457	-	-	717,457
Building and improvements	219,716	-	-	219,716
Office equipment	317,862	49,730	-	367,592
Tools and equipment	108,547	7,503	-	116,050
Total Depreciable Assets - Purchased	19,555,108	405,890	-	19,960,998
Total assets transferred from Villa Park				
Mutual Water Company	60,726	-	-	60,726
Combined total - purchase and transfer	19,615,834	405,890	-	20,021,724
Contributed by developers - domestic pipelines				
	863,915	-	-	863,915
Total - All Depreciable Assets	<u>\$ 20,479,749</u>	<u>\$ 405,890</u>	<u>\$ -</u>	<u>\$ 20,885,639</u>

SERRANO WATER DISTRICT
NOTES TO FINANCIAL STATEMENT
FOR YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 4 - CAPITAL ASSETS (Continued)

DESCRIPTION	Balance 2014	Additions/ Transfers	Deletions/ Transfers	Balance 2015
Accumulated Depreciation:				
Santiago Dam appurtenances	(201,217)	(4,403)	-	(205,620)
Santiago Dam	(169,950)	(2,085)	-	(172,035)
Santiago Lateral extension	(25,772)	-	-	(25,772)
Lagoon	(32,902)	(2,531)	-	(35,433)
Submerged equipment	(1,643)	-	-	(1,643)
Irvine Park meter	(4,959)	(763)	-	(5,722)
Water treatment plant	(340,404)	(16,964)	-	(357,368)
Treatment building at Park	(4,835)	(71)	-	(4,906)
Pipeline concrete	(54,180)	-	-	(54,180)
Pipeline delivery	(1,943,962)	(70,725)	-	(2,014,687)
Lemon Street well	(677,922)	(48,463)	-	(726,385)
Smith Reservoir #1	(608,813)	(16,982)	-	(625,795)
Smith Reservoir #2	(301,806)	(7,839)	-	(309,645)
Lockett Reservoir	(257,609)	(9,541)	-	(267,150)
Treatment Plant	(1,852,897)	(196,820)	-	(2,049,717)
Vehicles	(634,273)	(36,840)	-	(671,113)
Building and improvements	(177,925)	(3,227)	-	(181,152)
Office equipment	(225,388)	(16,140)	-	(241,528)
Tools and equipment	(96,304)	(3,134)	-	(99,438)
Total Assets Purchased	(7,612,761)	(436,528)	-	(8,049,289)
Total assets transferred from Villa Park Mutual Water Company	(60,726)	-	-	(60,726)
Combined total - purchase and transfer	(7,673,487)	(436,528)	-	(8,110,015)
Contributed by developers - domestic pipelines	(842,612)	(1,523)	-	(844,135)
Total Accumulated Depreciation	(8,516,099)	(438,051)	-	(8,954,150)
Total Depreciable Assets, Net	11,963,650	\$ (32,161)	\$ -	11,931,489
Total Capital Assets, Net	\$ 12,111,440			\$ 12,079,279

SERRANO WATER DISTRICT
NOTES TO FINANCIAL STATEMENT
FOR YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 4 - CAPITAL ASSETS (Continued)

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	60,726	-	-	60,726
Combined total - purchase and transfer	19,047,895	567,939	-	19,615,834
Contributed by developers - domestic pipelines				
	863,915	-	-	863,915
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, 2015 AND 2014

NOTE 4 - 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, 2015 AND 2014

NOTE 5 - LONG-TERM LIABILITIES

The following is a summary of the District's long-term liabilities as of June 30, 2015 and June 30, 2014:

	Balance 2014	Additions	Payments/ Retirements	Balance 2015
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%.	\$ 164,402	\$ -	\$ (22,943)	\$ 141,459
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%.	2,503,559	-	(152,208)	2,351,351
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%	1,287,271	-	(78,779)	1,208,492
Total Long-term Liabilities	3,955,232	<u>\$ -</u>	<u>\$ (253,930)</u>	3,701,302
Less: Current Portion	<u>(253,930)</u>			<u>(267,272)</u>
Total Non-Current	<u>\$ 3,701,302</u>			<u>\$ 3,434,030</u>

SERRANO WATER DISTRICT
NOTES TO FINANCIAL STATEMENT
FOR YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 5 - 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	<u>\$ -</u>	<u>\$ (218,888)</u>	3,955,232
Less: Current Portion	<u>(241,600)</u>			<u>(253,930)</u>
Total Non-Current	<u>\$ 3,932,520</u>			<u>\$ 3,701,302</u>

SERRANO WATER DISTRICT
NOTES TO FINANCIAL STATEMENT
FOR YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 5 - LONG-TERM LIABILITIES (Continued)

Annual debt service requirements on the long-term liabilities as of June 30, 2015 are as follows:

	<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Orange County Water District	2016	23,754	4,744	28,498
	2017	24,010	4,488	28,498
	2018	25,065	3,433	28,498
	2019	26,359	2,139	28,498
	2020	27,289	1,209	28,498
	2021	14,981	477	15,458
	Total		141,458	\$ 16,490
Less Current Portion		(23,754)		
Total Long Term		<u>\$ 117,704</u>		
Capital One	2016	160,444	122,254	282,698
	2017	167,900	114,798	282,698
	2018	178,278	104,420	282,698
	2019	187,925	94,773	282,698
	2020	198,094	84,604	282,698
	2021 - 2026	1,458,711	237,475	1,696,186
	Total		2,351,352	\$ 758,324
Less Current Portion		(160,444)		
Total Long Term		<u>\$ 2,190,908</u>		
Bank of America	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	102,729	44,260	146,989
	2021 - 2026	742,040	139,892	881,932
	Total		1,208,492	\$ 408,385
Less Current Portion		(83,074)		
Total Long Term		<u>\$ 1,125,418</u>		

SERRANO WATER DISTRICT
NOTES TO FINANCIAL STATEMENT
FOR YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 6 - WATER SALES IN ACRE FEET

During the year ended June 30, 2015 and 2014, one thousand seven hundred fifty eight (1,758) and one thousand nine hundred ninety seven (1,997) acre feet of bulk water was sold to the City of Orange for a total sales price of \$1,426,468 and \$1,567,948, 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, 2015 and 2014, respectively.

Water Sales:	2015	2014
Domestic water	2,613	3,178
Bulk sale	1,758	1,997
Irrigation water	7	10
Total Sold	4,378	5,185

NOTE 7 - 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 8 - 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
FOR YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 8 – 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, 2014 and 2013:

ASSETS		
Current assets	\$ 69,901,479	\$ 88,718,697
Noncurrent assets	125,682,527	106,104,907
Total Assets	<u>195,584,006</u>	<u>194,823,604</u>
LIABILITIES		
Current liabilities	53,163,043	52,189,011
Noncurrent liabilities	54,463,790	48,118,825
Total Liabilities	<u>107,626,833</u>	<u>100,307,836</u>
NET POSITION	<u>\$ 87,957,173</u>	<u>\$ 94,515,768</u>

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

SERRANO WATER DISTRICT
NOTES TO FINANCIAL STATEMENT
FOR YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 8 – JOINT VENTURE (Continued)

	2014	2013
OPERATING REVENUES		
Members premiums	\$ 152,994,168	\$ 147,247,532
Retrospective premium adjustments	(10,979,765)	(6,957,472)
Total Operating Revenues	142,014,403	140,290,060
OPERATING EXPENSES		
Claims expense	89,145,942	78,442,870
Excess insurance	8,111,217	9,023,118
Benefit premiums	44,511,197	38,312,872
Other expenses	7,915,833	7,521,114
Total Operating Expenses	149,684,189	133,299,974
OPERATING INCOME (LOSS)	(7,669,786)	6,990,086
NONOPERATING REVENUES		
Investment income and investment fair value	1,111,191	162,348
CHANGE IN NET POSITION	(6,558,595)	7,152,434
NET POSITION, BEGINNING OF YEAR	94,515,768	87,363,334
NET POSITION, END OF YEAR	\$ 87,957,173	\$ 94,515,768

NOTE 9 - 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, 2015 AND 2014

NOTE 9 - 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 8.435% for the fiscal year ended June 30, 2016, and was estimated to be 7.163% for the next fiscal year. The contribution requirements of plan members and the District are established and may be amended by PERS.

Net Pension Liability:

The District's net pension liability for each Plan is measure as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of each of the Plans is measured as of June 30, 2014, using an annual actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

Actuarial Assumptions:

The total pension liabilities were determined using the following actuarial assumptions:

	<u>Miscellaneous</u>
Valuation Date	June 30, 2013 rolled forward to June 30, 2014
Measurement Date	June 30, 2014
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.50%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	3.3% - 14.2% (1)
Investment Rate of Return	7.5% (2)
Mortality	Derived using CalPERS' Membership Data for all Funds

(1) Depending on age, service and type of employment

(2) Net of pension plan investment expenses, including inflation

NOTE 9 - RETIREMENT PLAN (Continued)

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website.

Discount Rate:

The discount rate used to measure the total pension liability was 7.50% 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, none of the tested plans run out of assets. Therefore, the current 7.50% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50% will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65%. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-2018 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time a change in methodology occurs.

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound 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 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 FINANCIAL STATEMENT
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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. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
Global Equity	47.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	12.00%	6.83%	6.95%
Real Estate	11.00%	4.50%	5.13%
Infrastructure and Forestland	3.00%	4.50%	5.09%
Liquidity	2.00%	-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

Changes in the Net Pension Liability:

The changes in the net pension liability for the Miscellaneous Plans are as follows:

	Increase (Decrease) Net Pension Liability (Asset)
Balance at June 30, 2014	\$ 911,608
Changes in the Year:	
Service cost	97,286
Interest on the total pension liability	377,395
Differences between actual and expected experience	(76,586)
Changes in assumptions	6,868
Contribution - employer	(55,748)
Contribution - employee	(46,177)
Net investment income	(285,046)
Benefit payments, including refunds of employee contributions	(150,012)
Net Changes	(132,020)
Balance at June 30, 2015	\$ 779,588

SERRANO WATER DISTRICT
NOTES TO FINANCIAL STATEMENT
FOR YEARS ENDED JUNE 30, 2015 AND 2014

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

The following presents the net pension liability of the District for each Plan, calculated using the discount rate for each Plan, as well as what the District's 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:

		Miscellaneous
1% Decrease		6.50%
Net Pension Liability	\$	1,624,203
Current Discount Rate		7.50%
Net Pension Liability	\$	911,608
1% Increase		8.50%
Net Pension Liability	\$	320,221

Pension Plan Fiduciary Net Position:

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

d. Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions:

For the year ended June 30, 2015, the District recognized pension expense of \$52,334. At June 30, 2015, the District reported net deferred outflows of resources in the amount of \$132,020.

The \$132,020 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 ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ending June 30,		Amount
2016	\$	69,718
2017		69,718
2018		69,718
2019		69,718
2020		-
Thereafter		-

SERRANO WATER DISTRICT
NOTES TO FINANCIAL STATEMENT
FOR YEARS ENDED JUNE 30, 2015 AND 2014

e. Payable to the Pension Plan:

At June 30, 2015, the District had no outstanding payable to the pension plan.

NOTE 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.

NOTE 11 - 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.

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.

SERRANO WATER DISTRICT
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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	\$	18,275
Adjustment to annual required contribution	\$	(15,881)
Annual OPEB cost (expense)	\$	136,414
Contributions made	\$	(91,531)
Increase in net OPEB obligation	\$	44,883
Net OPEB obligation - beginning of year	\$	365,498
Net OPEB obligation - end of year	\$	410,381

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, 2013	\$156,904	25%	\$317,832
June 30, 2014	\$134,020	25%	\$365,498
June 30, 2015	\$134,020	25%	\$410,380

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.

SERRANO WATER DISTRICT
NOTES TO FINANCIAL STATEMENT
FOR YEARS ENDED JUNE 30, 2015 AND 2014

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). 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.

NOTE 11 - 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.

SERRANO WATER DISTRICT
NOTES TO FINANCIAL STATEMENT
FOR YEARS ENDED JUNE 30, 2015 AND 2014

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%
7/1/2013	\$ 2,187,730	\$ -	\$ 2,187,730	0.00%	\$ 922,718	256.00%

NOTE 12 – 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 year ended June 30, 2014, the District paid \$21,667 in connection with this agreement. No amounts were paid during the year ended June 30, 2015, and this agreement is no longer in force.

NOTE 13 – FUTURE GOVERNMENT ACCOUNTING STANDARDS BOARD (GASB) STATEMENTS

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

- GASB 72 – *“Fair Value Measurement and Application”*, effective for periods beginning after June 15, 2015.
- GASB 73 – *“Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68”*, effective for periods beginning after June 15, 2015 – except for those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for periods beginning after June 15, 2016.
- GASB 74 – *“Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans”*, effective for periods beginning after June 15, 2016.
- GASB 75 – *“Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions”*, effective for periods beginning after June 15, 2017.
- GASB 76 – *“The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments”*, effective for periods beginning after June 15, 2015.