SERRANO WATER DISTRICT

ANNUAL FINANCIAL REPORT

WITH REPORT ON AUDIT
BY INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

FOR THE YEAR ENDED
JUNE 30, 2018

SERRANO WATER DISTRICT
For the Fiscal Year Ended June 30, 2018
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BOARD OF DIRECTORS

TITLE	MEMBER	TERM EXPIRATION
PRESIDENT	Frank Bryant	December 2018
VICE-PRESIDENT	Greg Mills	December 2020
DIRECTOR	Brad Reese	December 2018
DIRECTOR	C.L. “Larry” Pharris, Jr.	December 2020
DIRECTOR	Jerry L. Haight	December 2020

ADMINISTRATION

GENERAL MANAGER/SECRETARY	Jerry Vilander
DEPUTY SECRETARY/TREASURER	Vittorio Roggero
DEPUTY SECRETARY	Laura Helfin
DEPUTY SECRETARY	Joel D. Kuperberg

ATTORNEY

REPRESENTING RUTAN & TUCKER, ATTORNEYS	Joel D. Kuperberg

WHITE NELSON DIEHL EVANS LLP
Certified Public Accountants & Consultants

INDEPENDENT AUDITORS' REPORT

Board of Directors
Serrano Water District
Villa Park, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Serrano Water District (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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Offices located in Orange and San Diego Counties

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Serrano Water District, as of June 30, 2018, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 1c and 12 to the financial statements, the District adopted Governmental Accounting Standards Board's Statement No. 75, *"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"*, which required retrospective application resulting in a reduction of previously reported net position. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the District's June 30, 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 10, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of proportionate share of the net pension liability and the schedule of contributions - CalPERS pension plans - miscellaneous, and the schedule of changes in the net OPEB liability and related ratios, identified as Required Supplementary Information (RSI) in the accompanying table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the RSI because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

White Nelson Diehl Evans LLP

Irvine, California
January 23, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2018

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, 2018. This information is presented in conjunction with the audited basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2018

The District's net position from operating activities increased by $2,160,573 during the fiscal year, although the overall net position decreased by $822,290 or 6.80 percent.

Total revenues increased by $1,137,587 or 18.82 percent from $6,045,914 to $7,183,501.

Total expenses decreased by $332,050 or 6.05 percent from $5,488,404 to $5,156,354.

The District purchased 1,300 acre-feet of water, in the amount of $903,500 to meet the needs of its customers; as of June 30, 2018, 416.7 acre-feet of water is being held in storage for the next fiscal period (related cost of $289,607).

OVERVIEW OF THE FINANCIAL STATEMENTS

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

REQUIRED FINANCIAL STATEMENTS

The Financial Statements of the District report information utilizing the full accrual basis of accounting. The Financial Statements conform to accounting principles which are generally accepted in the United States of America. The Statements of Net Position include information on the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources and provide information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). The Statements of Revenues, Expenses and Changes in Net Position identify the District's revenues and expenses for the fiscal years ended June 30, 2018. These statements provide information on the District's operations over the fiscal year and can be used to determine whether the District has recovered all of its actual and projected costs through user fees and other charges. The third financial statement is the Statements of Cash Flows. These statements provide information on the District's cash receipts, cash payments and changes in cash resulting from operations, investments and financing activities. From the Statements of Cash Flows, the reader can obtain comparative information on the source and use of cash and the change in the cash and cash equivalents balance for fiscal year.

FINANCIAL ANALYSIS OF THE DISTRICT

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

STATEMENTS OF NET POSITION

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

TABLE 1
Condensed Statements of Net Position

	Fiscal Year 2018	Fiscal Year 2017	Dollar Change	Percent Change
Assets:				
Current and other assets	$ 7,557,781	$ 5,662,663	$ 1,895,118	
Capital assets	11,813,450	11,861,283	(47,833)	
Total Assets	19,371,231	17,523,946	1,847,285	10.54%
Deferred Outflows of Resources	425,987	265,894	160,093	60.21%
Liabilities:				
Current liabilities	1,138,234	1,004,534	133,700	
Long-term liabilities	7,144,120	4,428,115	2,716,005	
Total Liabilities	8,282,354	5,432,649	2,849,705	52.46%
Deferred Inflows of Resources	243,751	263,788	(20,037)	-7.60%
Net Position:				
Net investment in capital assets	8,979,232	8,730,947	248,285	
Unrestricted	2,291,881	3,362,456	(1,070,575)	
Total Net Position	$ 11,271,113	$ 12,093,403	$ (822,290)	-6.80%

NET POSITION (CONTINUED)

As the above tables indicate, total assets and deferred outflows of resources increased by $2,007,378 during the fiscal year ended June 30, 2018. This increase was attributed to the Districts overall cash position and an increase in water inventory. Additionally, the district recorded required deferred activity for GASB 68.

Total liabilities and deferred inflows of resources increased by $2,829,668 during the fiscal year ended June 30, 2018. This increase was attributed to the implementation of GASB 75.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

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

	Fiscal Year 2018	Fiscal Year 2017	Dollar Change	Percent Change
Revenues:				
Operating revenues	$ 7,119,933	$ 5,979,574	$ 1,140,359	
Nonoperating revenues	63,568	66,340	(2,772)	
Total Revenues	7,183,501	6,045,914	1,137,587	18.82%
Expenses:				
Depreciation	486,780	482,199	4,581	
Other operating expenses	4,472,580	4,789,911	(317,331)	
Nonoperating expenses	196,994	216,294	(19,300)	
SWD Recreation, Inc. activity	-	-	-	
Total Expenses	5,156,354	5,488,404	(332,050)	-6.05%
Change in Net Position	2,027,147	557,510	1,469,637	
Beginning Net Position, as restated	9,243,966	11,535,893	(2,291,927)	
Ending Net Position	$ 11,271,113	$ 12,093,403	$ (822,290)	-6.80%

The Statements of Revenues, Expenses and Changes in Net Position identify the various revenue and expense items which affect the change in net position. As the information in Table 2 indicates, for the fiscal year ended June 30, 2018, total revenues increased by $1,137,587. Total expenses decreased by $332,050. The increase in revenue was attributed to higher water demand. The beginning net position for the fiscal year 2018, was reduced by $2,849,437 due to the implementation of GASB 75, which required retrospective application.

CAPITAL ASSETS

As of June 30, 2018, the District's investment in capital assets totaled $11,813,450. 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, 2018, the District had $7,144,120 in outstanding long-term debt, an increase of $2,716,005 from June 30, 2017. The increase was attributed to the recording of the $3,244,327 net OPEB liability GASB 75. Additional information on the District's long-term debt is provided in Notes 5, 9, and 11 of the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Board of Directors adopted the District's budget for the fiscal year ending June 30, 2019. Operating revenues are projected to be $8,190,546.

ADDITIONAL FINANCIAL INFORMATION

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

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BASIC FINANCIAL STATEMENTS

SERRANO WATER DISTRICT

STATEMENT OF NET POSITION

June 30, 2018
(with prior-year comparative totals)

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2018	2017
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents (Note 2)	$ 6,309,493	$ 4,603,739
Accounts receivable - water users	709,262	658,020
Accounts receivable - general (Note 6)	154,737	168,973
Accounts receivable - water districts (Note 3)	43,037	32,237
Interest receivable	14,504	-
Prepaid expenses	37,141	16,399
Inventory of purchased water (Note 1h)	289,607	129,136
Inventory (Note 1h)	-	54,159
TOTAL CURRENT ASSETS	7,557,781	5,662,663
CAPITAL ASSETS (NOTE 4):		
Not depreciable	147,790	147,790
Depreciable, net of accumulated depreciation	11,665,660	11,713,493
TOTAL CAPITAL ASSETS	11,813,450	11,861,283
TOTAL ASSETS	19,371,231	17,523,946
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred amounts from pension plans	425,987	265,894
TOTAL DEFERRED OUTFLOWS OF RESOURCES	425,987	265,894

See accompanying notes to basic financial statements.

SERRANO WATER DISTRICT

STATEMENT OF NET POSITION
(CONTINUED)

June 30, 2018
(with prior-year comparative totals)

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	2018	2017
LIABILITIES:		
CURRENT LIABILITIES:		
Accounts payable	$ 559,364	$ 443,587
Construction deposits	4,000	11,750
Accrued wages	48,159	30,279
Accrued compensated absences	55,560	65,750
Orange County Water District - note payable - current portion (Note 5)	26,359	25,460
Capital One Bank - installment sale agreement - current portion (Note 5)	187,925	178,278
Bank of America - installment sale agreement - current portion (Note 5)	97,417	92,380
Customer deposits	159,450	157,050
TOTAL CURRENT LIABILITIES	1,138,234	1,004,534
LONG-TERM LIABILITIES (LESS CURRENT PORTION):		
Orange County Water District - note payable (Note 5)	41,294	67,653
Capital One Bank - installment sale agreement (Note 5)	1,633,206	1,821,131
Bank of America - installment sale agreement (Note 5)	848,017	945,434
Net pension liability (Note 9)	1,377,276	1,154,013
Net OPEB liability (Note 11)	3,244,327	-
Other post-employment benefits obligation	-	439,884
TOTAL LONG-TERM LIABILITIES (LESS CURRENT PORTION)	7,144,120	4,428,115
TOTAL LIABILITIES	8,282,354	5,432,649
DEFERRED INFLOWS OF RESOURCES:		
Deferred amounts from pension plans	243,751	263,788
TOTAL DEFERRED INFLOWS OF RESOURCES	243,751	263,788
NET POSITION:		
Net investment in capital assets	8,979,232	8,730,947
Unrestricted	2,291,881	3,362,456
TOTAL NET POSITION	$ 11,271,113	$ 12,093,403

See accompanying notes to basic financial statements.

SERRANO WATER DISTRICT

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION

For the year ended June 30, 2018
(with prior-year comparative totals)

	2018	2017
OPERATING REVENUES:		
Water sales - domestic	$ 5,223,973	$ 4,631,280
Water sales - bulk (Note 6)	1,890,175	1,344,617
Water sales - irrigation	5,785	3,677
TOTAL OPERATING REVENUES	7,119,933	5,979,574
OPERATING EXPENSES:		
Source of supply:		
Maintenance and supplies	44,922	42,627
Purchased water	890,914	1,511,312
Replenishment assessment	939,574	757,649
Power	371,168	322,030
Water treatment:		
Maintenance, supplies, and analysis	288,596	213,829
Transmission and distribution:		
Salaries	449,288	330,129
Maintenance and supplies	184,471	141,922
Vehicle expenses	32,432	28,544
Uniforms	3,751	3,351
Water conservation	11,887	59,465
Administrative and general:		
Public relations	38,321	38,000
Salaries	336,155	389,932
Office supplies and expenses	14,653	13,631
Telephone and utilities	25,222	38,311
Printing	16,630	30,524
Auto expenses	5,551	5,042
Travel and meetings	7,705	4,263
Dues and subscriptions	11,071	9,564
Security	13,489	18,416
Retirement plan administrator	-	-
Payroll preparation	5,406	9,522
Legal	65,961	57,277
Audit and accounting	21,480	16,935
Directors	25,084	21,300
Computer and miscellaneous	49,519	44,355
Subtotal - Operating Expenses (Carried Forward)	3,853,250	4,107,930

See accompanying notes to basic financial statements.

SERRANO WATER DISTRICT

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

For the year ended June 30, 2018
(with prior-year comparative totals)

	2018	2017
OPERATING EXPENSES (CONTINUED):		
Subtotal - Operating Expenses (Brought Forward)	$ 3,853,250	$ 4,107,930
Insurance expense:		
Property and liability	36,516	18,894
Workers' compensation	19,951	31,934
Employee benefits:		
Group, medical, dental, and life	407,478	412,564
Pension plans (Note 9)	157,145	217,763
Payroll taxes	64,275	53,516
Less: reimbursed overhead and labor	(66,035)	(52,690)
Depreciation	486,780	482,199
TOTAL OPERATING EXPENSES	4,959,360	5,272,110
OPERATING INCOME	2,160,573	707,464
NONOPERATING REVENUES (EXPENSES):		
Interest income	31,660	18,967
Development and other nonoperating revenues	31,908	47,373
Interest expense	(160,595)	(174,834)
Other nonoperating expenses	(36,399)	(41,460)
TOTAL NONOPERATING REVENUES (EXPENSES)	(133,426)	(149,954)
CHANGES IN NET POSITION	2,027,147	557,510
NET POSITION - BEGINNING OF YEAR	12,093,403	11,535,893
RESTATEMENT (NOTE 12)	(2,849,437)	-
NET POSITION - BEGINNING OF YEAR, AS RESTATED	9,243,966	11,535,893
NET POSITION - END OF YEAR	$ 11,271,113	$ 12,093,403

See accompanying notes to basic financial statements.

SERRANO WATER DISTRICT

STATEMENT OF CASH FLOWS

For the year ended June 30, 2018
(with prior year comparative totals)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	$ 7,106,435	$ 5,895,632
Cash payments to suppliers of goods and services	(3,587,166)	(3,852,974)
Cash payments to employees for salaries and wages	(933,540)	(867,724)
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,585,729	1,174,934
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(438,947)	(293,163)
Proceeds from sale of capital assets	-	19,000
Principal paid on long-term liabilities	(296,118)	(281,322)
Interest paid on long-term liabilities	(162,066)	(176,863)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(897,131)	(732,348)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest income	17,156	18,967
NET CASH PROVIDED BY INVESTING ACTIVITIES	17,156	18,967
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,705,754	461,553
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	4,603,739	4,142,186
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 6,309,493	$ 4,603,739

See accompanying notes to basic financial statements.

SERRANO WATER DISTRICT

STATEMENT OF CASH FLOWS
(CONTINUED)

For the year ended June 30, 2018
(with prior year comparative totals)

	2018	2017
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 2,160,573	$ 707,464
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	486,780	482,199
Development and other nonoperating revenues	31,908	47,373
Less: gain on sale of capital assets	-	(19,000)
Other nonoperating expenses	(36,399)	(41,460)
Less: long-term debt reclassification	-	(22,373)
Changes in operating assets, deferred outflows of resources, operating liabilities and deferred inflows of resources:		
(Increase) decrease in assets and deferred outflows of resources:		
Accounts receivable	(47,806)	(114,865)
Prepaid expenses	(20,742)	33,585
Inventory of purchased water	(160,471)	85,551
Inventory	54,159	(33,218)
Deposits	-	15,927
Deferred outflows of resources from pension plans	(160,093)	(184,270)
Increase (decrease) in liabilities and deferred inflows of resources:		
Accounts payable	117,248	(94,415)
Construction deposits	(7,750)	2,000
Accrued wages	17,880	6,432
Accrued compensated absences	(10,190)	(11,015)
Customer deposits	2,400	2,550
Net pension liability	223,263	352,944
Net OPEB obligation	394,890	-
Other post-employment benefits obligation	(439,884)	14,703
Deferred inflows of resources from pension plans	(20,037)	(55,178)
Total adjustments	425,156	467,470
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 2,585,729	$ 1,174,934

See accompanying notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. General Information

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

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

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

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

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

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

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

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

"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.

c. New Accounting Pronouncements

Current Year Standards

In fiscal year 2017-2018, the District implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses for postemployment benefits other than pension. Accounting changes adopted to conform to the provisions of this statement should be applied retroactively. The result of the implementation of this statement decreased the net position at July 1, 2017 of the governmental activities by $2,849,437.

GASB 82 - *Pension Issues*, effective for periods beginning after June 15, 2016, except for certain provisions on selection of assumptions, which are effective in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017, and did not impact the District.

GASB 85 - *Omnibus 2017*, effective for periods beginning after June 15, 2017, and did not impact the District.

GASB 86 - *Certain Debt Extinguishment Issues*, effective for periods beginning after June 15, 2017, and did not impact the District.

Pending Accounting Standards

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

- GASB 83 - *Certain Asset Retirement Obligations*, effective for periods beginning after June 15, 2018.
- GASB 84 - *Fiduciary Activities*, effective for periods beginning after December 15, 2018.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. New Accounting Pronouncements (Continued):

Pending Accounting Standards (Continued)

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

- GASB 87 - *Leases*, effective for periods beginning after December 15, 2019.
- GASB 88 - *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, effective for periods beginning after June 15, 2018.
- GASB 89 - *Accounting for Interest Cost Incurred before the End of a Construction Period*, effective for periods beginning after December 15, 2019.
- GASB 90 - *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*, effective for periods beginning after December 15, 2018.

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. Accounts Receivable - Water Users and General

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

f. Uncollectible Water Sales

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

g. Accounts Receivable - Water Districts

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h. Inventory

Inventory includes water purchased in storage and general supplies and is stated at the original cost using the first-in, first-out (FIFO) method. The Statement of Revenues, Expenses and Changes in Net Position include the purchased water costs of $890,914 and $1,511,312 for the years ended June 30, 2018 and 2017, respectively. An estimate for evaporation has been recorded in the amount of $25,298 and $66,025 as part of the total purchased water costs as of June 30, 2018 and 2017, respectively.

i. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. The District's policy has set the capitalization threshold for reporting capital assets at the following:

Land	$1
Infrastructure	10,000
All other assets	5,000

Contributed assets are recorded at acquisition value at the date of contribution. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized.

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j. Deferred Outflows/Inflows of Resources

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k. Compensated Absences

The total amount of accrued sick leave hours and vacation pay hours at the end of each year have been reflected in the Statement of Net Position. To discourage excessive absences from work, the employees (excluding management) are paid for unused sick pay hours in excess of 40 hours. The accrued amounts at June 30, 2018 and 2017 were as follows:

	2018	2017
Vacation pay	$ 35,818	$ 50,190
Sick pay	19,742	15,560
Total	$ 55,560	$ 65,750

l. Net Position

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

- Net investment in capital assets - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.
- Restricted net position - This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments. As of June 30, 2018 and 2017, the District had no amounts reported in this category.
- Unrestricted net position - This amount is all net position that does not meet the definition of "net investment in capital assets" or "restricted net position".

The District has the following goals for reserve accounts:

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l. Net Position (Continued)

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

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

m. Net Position Flow Assumptions

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

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

n. Operating Revenues and Expenses

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

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

o. Capital Contributions

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

p. Pensions

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

q. Use of Estimates

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

r. Prior Year Data

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the government's prior year financial statements, from which this selected financial data was derived.

NOTE 2 - CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents

Cash and cash equivalents as of June 30, 2018 and 2017 are reported in the accompanying Statement of Net Position as follows:

	2018	2017
Current Assets:		
Cash and cash equivalents	$ 6,309,493	$ 4,603,739

Cash and cash equivalents as of June 30, 2018 and 2017 consisted of the following:

	2018	2017
Cash on hand	250	250
Deposits with financial institutions	1,440,893	1,931,794
Cash equivalents	4,868,350	2,671,695
Total cash and cash equivalents	$ 6,309,493	$ 4,603,739

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

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

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

NOTE 2 - CASH AND CASH EQUIVALENTS (CONTINUED)

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

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

This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy. The District has no unspent debt proceeds on hand as of the year ended June 30, 2018 and 2017.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
United States Treasury Obligations	5 years	None	None
Unites States Government Sponsored Obligations	5 years	30%	None
Repurchase Agreements	30 days	10%	None
Commercial Paper	270 days	25%	10%
Money Market Mutual Funds	N/A	20%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Local Agency Investment Fund (LAIF)	N/A	50%	None
Orange County Investment Pool (OCIP)	N/A	50%	None
Passbook Savings	5 years	$2,000,000	None

N/A - Not Applicable

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
United States Treasury Obligations	5 years	None	None
Unites States Government Sponsored Obligations	5 years	30%	None
Repurchase Agreements	30 days	10%	None
Commercial Paper	270 days	25%	10%
Money Market Mutual Funds	N/A	20%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Local Agency Investment Fund (LAIF)	N/A	50%	None
Orange County Investment Pool (OCIP)	N/A	50%	None
Passbook Savings	5 years	$2,000,000	None

N/A - Not Applicable

NOTE 2 - CASH AND CASH EQUIVALENTS (CONTINUED)

Disclosures Relating to Interest Rate Risk

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

Information about the sensitivity of the fair values of the District's cash equivalents to market interest rate fluctuations is provided by the following table that shows the distribution of the District's cash equivalents by maturity as of June 30, 2018 and 2017.

June 30, 2018

Cash Equivalent Type	Remaining Maturity (in Months) 12 Months or Less
LAIF	2,382,043
OCIP	2,402,398
Money Market Mutual Funds	83,909
Subtotal	$ 4,868,350

June 30, 2017

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

NOTE 2 - CASH AND CASH EQUIVALENTS (CONTINUED)

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented in the following table are the minimum rating required by (where applicable) the California Government Code, the District's investment policy, and the actual Standard and Poor's credit rating as of June 30, 2018 and 2017 for each cash equivalent type.

June 30, 2018

Cash Equivalent Type	Minimum Legal Rating	Total	Not Rated	AAA
LAIF	N/A	2,382,043	2,382,043	-
OCIP	N/A	2,402,398	-	2,402,398
Money Market Mutual Funds	N/A	83,909	-	83,909
Subtotal		$ 4,868,350	$ 2,382,043	$ 2,486,307

June 30, 2017

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

Concentration of Credit Risk

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

NOTE 2 - CASH AND CASH EQUIVALENTS (CONTINUED)

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, the District will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, the District will not be able to recover the value of its investment or collateral securities that are in the possession of another party. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF and OCIP).

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

As of June 30, 2018 and 2017, all of the District's deposits with financial institutions were covered by federal depository insurance limits or were held in collateralized accounts.

District Investments in State Investment Pool and County Investment Pool

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

NOTE 2 - CASH AND CASH EQUIVALENTS (CONTINUED)

Fair Value Measurements

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

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

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 $159,667 and $131,782, respectively, was billed to Irvine Ranch Water District for the years ended June 30, 2018 and 2017. The balance due to the District from Irvine Ranch Water District as of June 30, 2018 and 2017 was $43,037 and $32,237, respectively.

NOTE 4 - CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2018 were as follows:

	Balance June 30, 2017	Additions/ Transfers	Deletions/ Transfers	Balance June 30, 2018
Capital assets, not being depreciated:				
Land	$ 147,790	$ -	$ -	$ 147,790
Total capital assets, not being depreciated	147,790	-	-	147,790
Capital assets, being depreciated:				
Santiago Dam	529,433	-	-	529,433
Treatment plan	10,820,421	13,082	-	10,833,503
Transmission and distribution	4,552,179	19,739	-	4,571,918
Vehicles and equipment	1,320,096	46,389	(22,847)	1,343,638
Buildings and improvements	219,716	-	-	219,716
Wells and reservoirs	4,098,676	359,737	-	4,458,413
Total capital assets, being depreciated	21,540,521	438,947	(22,847)	21,956,621
Less accumulated depreciation for:				
Santiago Dam	(459,390)	(9,976)	-	(469,366)
Treatment plan	(2,855,551)	(216,030)	-	(3,071,581)
Transmission and distribution	(3,129,599)	(75,358)	-	(3,204,957)
Vehicles and equipment	(1,059,195)	(58,715)	22,847	(1,095,063)
Buildings and improvements	(187,793)	(3,418)	-	(191,211)
Wells and reservoirs	(2,135,500)	(123,283)	-	(2,258,783)
Total accumulated depreciation on capital asset, being depreciated	(9,827,028)	(486,780)	22,847	(10,290,961)
Total capital assets, being depreciated, net	11,713,493	(47,833)	-	11,665,660
Total capital assets, net	$ 11,861,283	$ (47,833)	$ -	$ 11,813,450

NOTE 4 - CAPITAL ASSETS (CONTINUED)

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

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

NOTE 5 - LONG-TERM LIABILITIES

Changes in long-term liabilities for the year ended June 30, 2018 were as follows:

	Balance June 30, 2017	Additions	Reductions	Balance June 30, 2018	Due Within One Year	Due in More Than One Year
Orange County Water District						
Note Payable	$ 93,113	$ -	$ (25,460)	$ 67,653	$ 26,359	$ 41,294
Capital One Bank						
Installment Sale Agreement	1,999,409	-	(178,278)	1,821,131	187,925	1,633,206
Bank of America						
Installment Sale Agreement	1,037,814	-	(92,380)	945,434	97,417	848,017
Total	$ 3,130,336	$ -	$ (296,118)	$ 2,834,218	$ 311,701	$ 2,522,517

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

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

Orange County Water District - Note Payable

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

The annual debt service requirements for the outstanding balance at June 30, 2018 are as follows:

Year Ending	Principal	Interest	Total
2019	$ 26,359	$ 2,139	$ 28,498
2020	27,290	1,208	28,498
2021	14,004	245	14,249
	$ 67,653	$ 3,592	$ 71,245

NOTE 5 - LONG-TERM LIABILITIES (CONTINUED)

Capital One Bank - Installment Sale Agreement

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

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

The annual debt service requirements for the outstanding balance at June 30, 2018 are as follows:

Year Ending	Principal	Interest	Total
2019	$ 187,925	$ 94,773	$ 282,698
2020	198,094	84,604	282,698
2021	208,814	73,884	282,698
2022	220,113	62,585	282,698
2023	232,024	50,674	282,698
2024 - 2026	774,161	73,933	848,094
Total Payments	$ 1,821,131	$ 440,453	$ 2,261,584

Bank of America - Installment Sale Agreement

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

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

NOTE 5 - LONG-TERM LIABILITIES (CONTINUED)

Bank of America - Installment Sale Agreement (Continued)

The annual debt service requirements for the outstanding balance at June 30, 2018 are as follows:

Year Ending	Principal	Interest	Total
2019	$ 97,417	$ 49,572	$ 146,989
2020	102,729	44,260	146,989
2021	108,330	38,659	146,989
2022	114,236	32,753	146,989
2023	120,465	26,524	146,989
2024 - 2026	402,257	38,710	440,967
Total Payments	$ 945,434	$ 230,478	$ 1,175,912

NOTE 6 - WATER SALES IN ACRE FEET

During the years ended June 30, 2018 and 2017, 2,109 and 1,549 acre feet of bulk water was sold to the City of Orange for a total sales price of $1,890,175 and $1,344,617, respectively. The accounts receivable - general of $154,737 and $168,973, relates to the sale of water to the City of Orange as of June 30, 2018 and 2017, respectively.

	2018	2017
Water Sales (acre feet):		
Domestic water	2,792	2,524
Bulk sale	2,109	1,549
Irrigation water	10	6
	4,911	4,079

NOTE 7 - IRVINE LAKE/SANTIAGO RESERVOIR OPERATIONS

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

The recreational rights at Irvine Lake are jointly owned by The Irvine Company and the District. The District is the manager of the recreational activities through a non-profit public benefit corporation, SWD Recreation, Inc., which was formed in 1997. During the year ended June 30, 2016, SWD Recreation, Inc. suspended operations due to the termination of this agreement. For the fiscal years ended June 30, 2018 and 2017, there is no activity due to the termination of this agreement.

NOTE 8 - RISK MANAGEMENT

Description of the Insurance Authority

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

Self-Insurance Programs of the Insurance Authority

At June 30, 2018 and 2017, the District participated in the self-insurance programs of the Insurance Authority as follows:

Property Loss - Insured up to replacement value with $25,000 deductible per occurrence with the exception of turbine units and associated equipment for which the deductible is $50,000; the Insurance Authority is self-insured up to $100,000 per occurrence and has purchased excess insurance coverage up to $500 million limited to insurable value of $12,699,867.

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

Public Official Bond - $100,000 total insurance.

Crime - $100,000 total insurance.

Boiler and Machinery - Coverage for the replacement cost up to $500 million per occurrence limited to insurable value, subject to various deductible depending on the type of equipment.

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

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the years ended 2018, 2017, and 2016. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no claims payable as of June 30, 2018 and 2017.

NOTE 9 - PENSION PLANS

a. General Information about the Pension Plans

Plan Descriptions

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

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 to 62 with statutorily reduced benefits. All members are eligible for non-industrial disability benefits after five (5) years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at June 30, 2018, are summarized as follows:

	Miscellaneous	
Hire date	Prior to January 1, 2013	On or After January 1, 2013
Benefit formula	2%@60	2%@62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 62	52 - 67
Monthly benefits, as a % of eligible compensation	1.092% to 2.418%	1.0% to 2.5%
Required employee contribution rates	7%	6.25%
Required employer contribution rates:		
Normal cost rate	7.653%	6.533%
Payment of unfunded liability	$ 48,693	$ 107

NOTE 9 - PENSION PLANS (CONTINUED)

a. General Information about the Pension Plans (Continued)

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. District contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contributions requirements are classified as plan member contributions.

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

As of June 30, 2018, the District reported net pension liabilities for its proportionate share of the net pension liability of all Plans as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous	$ 1,377,276

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2017, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. The District's proportionate share of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

The District's proportionate share of the net pension liability for each Plan as of the measurement date ended June 30, 2016 and 2017 was as follows:

	Miscellaneous
Proportion - June 30, 2016	0.03322%
Proportion - June 30, 2017	0.03494%
Change - Increase (Decrease)	0.00172%

NOTE 9 - PENSION PLANS (CONTINUED)

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

For the year ended June 30, 2018, the District recognized pension expense of $148,079. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 104,947	$ -
Differences between actual and expected experience	2,096	(30,034)
Change in assumptions	260,116	(19,834)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	-	(193,883)
Net differences between projected and actual earnings on plan investments	58,828	-
Total	$ 425,987	$ (243,751)

$104,947 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. 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
2019	$ (72,437)
2020	118,301
2021	66,352
2022	(34,927)
2023	-
Thereafter	-

NOTE 9 - PENSION PLANS (CONTINUED)

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

Actuarial Assumptions

For the measurement period ended June 30, 2017 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2016 total pension liability determined in the June 30, 2016 actuarial accounting valuation. The June 30, 2017 total pension liability was based on the following actuarial methods and assumptions:

	Miscellaneous
Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Projected Salary Increase	(1)
Mortality	(3)
Post Retirement Benefit Increase	(3)

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

All other actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at the CalPERS website under Forms and Publications.

NOTE 9 - PENSION PLANS (CONTINUED)

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

Change of Assumptions

In fiscal year 2017-2018, the financial reporting discount rate was reduced from 7.65% to 7.15%. Deferred outflows of resources and deferred inflows of resources for changes of assumptions represent the unamortized portion of this assumption change and the unamortized portion of the changes of assumptions related to prior measurement periods.

Discount Rate

The discount rate used to measure the total pension liability was 7.15% for each Plan and reflects the long-term expected rate of return for the each Plan net of investment expenses and without reduction for administrative expenses. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the Plans, the tests revealed the assets would not run out. Therefore, the current 7.15% discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long term expected discount rate of 7.15% is applied to all plans in the Public Employees Retirement Fund (PERF). The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained from the CalPERS website under the GASB 68 section.

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

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

NOTE 9 - PENSION PLANS (CONTINUED)

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

Discount Rate (Continued)

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the CalPERS Board effective on July 1, 2014.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
Global Equity	47.00%	4.90%	5.38%
Global Fixed Income	19.00%	0.80%	2.27%
Inflation Sensitive	6.00%	0.60%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Estate	11.00%	2.80%	5.21%
Infrastructure and Forestland	3.00%	3.90%	5.36%
Liquidity	2.00%	-0.40%	-0.90%
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

NOTE 9 - PENSION PLANS (CONTINUED)

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

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

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

	Miscellaneous
1% Decrease	6.15%
Net Pension Liability	$ 2,234,694
Current Discount Rate	7.15%
Net Pension Liability	$ 1,377,276
1% Increase	8.15%
Net Pension Liability	$ 667,147

Pension Plan Fiduciary Net Position

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

c. Payable to the Pension Plan

At June 30, 2018, the District had no outstanding amount of contributions to the pension plan required for the year ended June 30, 2018.

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 - OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN

Plan Description

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

The District participates in the Association of California Water Agencies (ACWA) health program for its medical coverage. In general, the plans provided through ACWA are based on the experience or risk profile of the entire group of employers within a region. The following table summarizes the monthly funding rates for health coverages that are primarily applicable to current retired employees. For pre-65 medical coverage, the retiree premiums are the same as the active premiums. All premiums are monthly and are effective for the calendar year.

2018	Blue Cross PPO	Blue Cross HMO
Employee only	$ 887.44	$ 789.88
Employee plus one	1,808.87	1,569.85
Medicare employee only	555.78	554.58
Medicare employee and spouse	1,111.56	1,099.32

2019	Blue Cross PPO	Blue Cross HMO
Employee only	$ 895.35	$ 789.88
Employee plus one	1,825.09	1,569.85
Medicare employee only	570.67	554.58
Medicare employee and spouse	1,159.50	1,099.32

2018	Delta Dental
Employee only	$ 46.23
Employee plus one	94.11

2019	Delta Dental
Employee only	$ 46.23
Employee plus one	94.11

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

NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED)

Employees Covered

As of the June 30, 2018 actuarial valuation, the following current and former employees were covered by the benefit terms under the plan:

Inactive employees or beneficiaries currently receiving benefits	8
Active employees	2
	10

Total OPEB Liability

The District's OPEB liability of $3,244,327 was measured as of June 30, 2018, and was determined by an actuarial valuation as of June 30, 2018.

Actuarial Assumptions and Other Inputs

The total OPEB liability as of June 30, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Valuation Date	June 30, 2018
Measurement Date	June 30, 2018
Actuarial Cost Method	Entry age normal
Actuarial Assumptions:	
Discount Rate	3.50%
Inflation	2.75%
Payroll Increases	3.00%
Health Care Trend	6.50% in 2019, decreasing by decrements of 0.50% until reaching 5.00% in 2022
Mortality Factors	According to the pre-retirement mortality rates under the most recent CalPERS pension plan valuation (2014).
Retirement Rates	According to the retirement rates under the most recent CalPERS pension plan valuation (2014). According to the following retirement tables: Miscellaneous Tier 1: 2.0% @ 60

The discount rate is the average, rounded to five basis points, of the range of 3-20 year municipal bond rate indices: S&P Municipal Bond 20 Year High Grade Rate Index, Bond Buyer 20-Bond GO index, and Fidelity GO AA 20 Year Bond Index.

NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED)

Changes in total OPEB Liability

The change in total OPEB liability are as follows:

	Increase (Decrease) Total OPEB Liability
Balance at June 30, 2017 (Measurement Date)	$ 3,289,321
Changes in the Year:	
Service cost	29,231
Interest on the total OPEB liability	110,405
Changes in assumptions	(41,934)
Contributions - employer	-
Benefit payments	(142,696)
Net Changes	(44,994)
Balance at June 30, 2018 (Measurement Date)	$ 3,244,327

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

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

	1% Decrease (2.5%)	Discount Rate (3.5%)	1% Increase (4.5%)
Net OPEB Liability	$ 3,703,381	$ 3,244,327	$ 2,866,432

NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED)

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower (5.50% HMO/5.50% PPO decreasing to 4.00% HMO/4.00% PPO) or 1-percentage point higher (7.50% HMO/7.50% PPO decreasing to 6.00% HMO/6.00% PPO) than the current healthcare cost trend rates:

	1% Decrease (5.5% decreasing to 4.0%)	Current Healthcare Cost Trend Rates (6.5% decreasing to 5.0%)	1% Increase (7.5% decreasing to 6.0%)
Net OPEB Liability	$ 2,860,078	$ 3,244,327	$ 3,708,846

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

For the year ended June 30, 2018, the District recognized OPEB expense of $97,702. At June 30, 2018, the District had no deferred outflows of resources or deferred inflows of resources related to OPEB.

NOTE 12 - RESTATEMENT OF NET POSITION

Beginning balances of net position as of July 1, 2017 have been restated as follows:

Net position at July 1, 2017, as originally reported	$ 12,093,403
Implementation of GASB Statement 75 to record the net OPEB liability as of the beginning of the year	(2,849,437)
Net position at July 1, 2017, as restated	$ 9,243,966

NOTE 13 - SUBSEQUENT EVENTS

On September 18, 2018, the Board of Directors approved a $1,000,000 payment to CalPERS for funding of the District's net pension liability.

On December 19, 2018, the District entered into an installment purchase agreement with Holman Capital Corporation for $2,660,394 to refinance the existing installment sales agreements with Capital One Bank and Bank of America. The loan bears interest at a rate of 3.85% and the $205,887 installment is payable on June 19 and December 19. The loan matures in June 2026. The installment sale agreement requires the District to fix, prescribe and collect rates and charges for the water service, which will be at least sufficient to yield during each fiscal year net revenues equal to 110% of the debt service for such fiscal year. The District pledged all net water revenues to secure this debt.

Other events occurring after June 30, 2018, have been evaluated for possible adjustments to the financial statements or disclosure as of January 23, 2019, which is the date these financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

SERRANO WATER DISTRICT

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

Last Ten Fiscal Years*

	Miscellaneous			
Fiscal year ended	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Measurement period	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Plan's proportion of the net pension liability	0.03494%	0.03322%	0.03902%	0.03689%
Plan's proportionate share of the net pension liability	$ 1,377,276	$ 1,154,013	$ 801,069	$ 911,608
Plan's covered - employee payroll	$ 694,392	$ 719,781	$ 681,864	$ 706,402
Plan's proportionate share of the net pension liability as a percentage of covered - employee payroll	198.34%	160.33%	117.48%	129.05%
Plan's proportionate share of the fiduciary net position as a percentage of the Plan's total pension liability	77.91%	79.61%	84.95%	83.03%
Plan's proportionate share of aggregate employer contributions	$ 183,747	$ 167,838	$ 156,392	$ 119,053

Notes to Schedule:

Benefit Changes:
There were no changes in benefits.

Changes in Assumptions:
From fiscal year June 30, 2015 to June 30, 2016:
GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

From fiscal year June 30, 2016 to June 30, 2017:
There were no changes in assumptions.

From fiscal year June 30, 2017 to June 30, 2018:
The discount rate was reduced from 7.65% to 7.15%.

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

SERRANO WATER DISTRICT

SCHEDULE OF CONTRIBUTIONS
CalPERS PENSION PLANS

Last Ten Fiscal Years*

	Miscellaneous			
Fiscal year ended	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Contractually required contribution (actuarially determined)	$ 104,947	$ 88,065	$ 78,051	$ 55,748
Contributions in relation to the actuarially determined contributions	(104,947)	(88,065)	(78,051)	(55,748)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Covered - employee payroll	$ 755,529	$ 694,392	$ 719,781	$ 681,864
Contributions as a percentage of covered - employee payroll	13.89%	12.68%	10.84%	8.18%

Notes to Schedule:

Valuation Date	6/30/2015	6/30/2014	6/30/2013	6/30/2012

Methods and Assumptions Used to Determine Contribution Rates:

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

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

** - The valuation for June 30, 2012, 2013, 2014, and 2015 (applicable to fiscal years ended June 30, 2015, 2016, 2017, and 2018 respectively) included the same actuarial assumptions.

*** - The valuation for June 30, 2012 (applicable to fiscal year ended June 30, 2015) valued assets using a 15 Year Smoothed Market method. The market value asset valuation method was utilized for the June 30, 2013, 2014, and 2015 valuations (applicable to fiscal years ended June 30, 2016, 2017, and 2018 respectively).

SERRANO WATER DISTRICT

SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS

Last Ten Fiscal Years*

Fiscal year end	6/30/2018
Measurement date	6/30/2018
Total Pension Liability:	
Service cost	$ 29,231
Interest	110,405
Changes of assumptions	(41,934)
Differences between expected and actual experience	-
Benefit payments, including refunds of employee contributions	(142,696)
Net Change in Total OPEB Liability	(44,994)
Total OPEB Liability - Beginning of Year	3,289,321
Total OPEB Liability - End of Year (a)	3,244,327
Plan fiduciary net position as a percentage of the total OPEB liability	0.00%
Covered - employee payroll	$ 116,377
Net OPEB liability as percentage of covered - employee payroll	2787.77%

Notes to Schedule:

Benefit Changes:
There were no changes in benefits.

Changes in Assumptions:
The fiscal year ended June 30, 2018 is the first year of implementation; therefore, there are no previous GASB 75 actuarial reports for comparison.

* Fiscal year 2018 was the first year of implementation; therefore, only one year is shown.