

SERRANO WATER DISTRICT

FINANCIAL REPORT

**FOR THE YEARS ENDED
JUNE 30, 2016 AND 2015**



SERRANO WATER DISTRICT

June 30, 2016

Page

DIRECTORS AND ADMINISTRATION	1
ACCOUNTANT'S REPORT	2 - 3
MANAGEMENT DISCUSSION AND ANALYSIS	4
FINANCIAL STATEMENTS	
Statements of Net Position	9
Statements of Revenues, Expenses and Changes in Net Position	11
Statements of Cash Flows.....	13
Schedule of Operations, Comparison Between Budget and Actual, June 2016	14
Budget and Actual, June 2015	15
NOTES TO FINANCIAL STATEMENTS	16

SERRANO WATER DISTRICT

June 30, 2016

TITLE	BOARD OF DIRECTORS	TERM EXPIRATION
PRESIDENT	Frank Bryant	December 2018
VICE-PRESIDENT	Richard A. Freschi	December 2018
DIRECTOR	C.L. "Larry" Pharris, Jr.	December 2020
DIRECTOR	Jerry L. Haight	December 2020
DIRECTOR	Greg Mills	December 2020

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
--	-------------------

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, 2016 and 2015, 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, 2016 and 2015, 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.

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.

LaVine & Associates CPAs, Inc.

Mission Viejo, California
November 28, 2016

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, 2016 and 2015. This information is presented in conjunction with the audited basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2016

The District's net position from normal operations increased by \$165,437 during the fiscal year, although the overall net position decrease by \$413,975 or 3.5% due to the write-off of activity related to SWD Recreation, Inc. (see Note 7).

Total revenues increased by \$101,265 or 1.7 percent from \$5,806,650 to \$5,907,915.

Total expenses increased by \$363,416 or 6.1 percent from \$5,958,474 to \$6,321,890.

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

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

Partial water restrictions were lifted in March 2016.

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

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2015

The District's net position from normal operations decreased by \$151,824 during the fiscal year, although the overall net position decreased by \$1,063,432 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 \$320,296 or 5.7 percent from \$5,638,178 to \$5,958,474.

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

SERRANO WATER DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

reported by the CalPERS Valuation Report.

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, 2016 and 2015. 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
	2016	2015	Dollar Change	Percent Change
Capital Assets	12,050,319	12,079,279	(28,960)	
Current and Other Assets	5,269,714	5,833,053	(563,339)	
Total Assets	17,320,033	17,912,332	(592,299)	-3.3%
Long-term Liabilities	4,380,004	4,756,019	(376,015)	
Other Liabilities	1,404,136	1,206,445	197,691	
Total Liabilities	5,784,140	5,962,464	(178,324)	-3.0%
Net Investment - Capital Assets	8,526,288	8,377,977	148,311	
Unrestricted Net Position	3,009,605	3,571,891	(562,286)	
Total Net Position	11,535,893	11,949,868	(413,975)	-3.5%

SERRANO WATER DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

Condensed Statements of Net Position

Table 1

	2015	2014	Dollar Change	Percent Change
Capital Assets	12,079,279	12,111,440	(32,161)	
Current and Other Assets	5,833,053	6,142,219	(309,166)	
Total Assets	17,912,332	18,253,659	(341,327)	-1.9%
Long-term Liabilities	4,756,019	4,066,800	689,219	
Other Liabilities	1,206,445	1,173,562	32,883	
Total Liabilities	5,962,464	5,240,362	722,102	13.8%
Net Investment - Capital Assets	8,377,977	8,664,068	(286,091)	
Unrestricted Net Position	3,571,891	4,349,232	(777,341)	
Total Net Position	11,949,868	13,013,300	(1,063,432)	-8.2%

As the above tables indicate, total assets decreased by \$622,299 during the fiscal year ended June 30, 2016, and total assets decreased by \$341,327 during the fiscal year ended June 30, 2015.

Total liabilities decreased by \$259,942 during the fiscal year ended June 30, 2016 and total liabilities increased by \$722,102 during the fiscal year ended June 30, 2015.

Condensed Statements of Revenues, Expenses
and Changes in Net Position

Table 2

	2016	2015	Dollar Change	Percent Change
Operating Revenues	5,640,202	5,518,129	122,073	
Non-Operating Revenues	267,713	288,521	(20,808)	
Total Revenues	5,907,915	5,806,650	101,265	1.7%
Depreciation	463,702	438,051	25,651	
Other Operating Expenses	5,040,918	5,267,032	(226,114)	
Non-Operating Expenses	237,948	253,391	(15,443)	
SWD Recreation Activity	579,322	-	579,322	
Total Expenses	6,321,890	5,958,474	363,416	6.1%
Changes in Net Position	(413,975)	(151,824)	(262,151)	
Beginning Net Position	11,949,868	12,101,692	(151,824)	
Ending Net Position	11,535,893	11,949,868	(413,975)	-3.5%

SERRANO WATER DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

**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	5,267,032	4,913,854	353,178	
Non-Operating Expenses	253,391	304,495	(51,104)	
Total Expenses	5,958,474	5,638,178	320,296	5.7%
Changes in Net Position	(151,824)	908,584	(1,060,408)	
Beginning Net Position	12,101,692	12,104,716	(3,024)	
Ending Net Position	11,949,868	13,013,300	(1,063,432)	-8.2%

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, 2016, total revenues increased by \$101,265. Total expenses increased by \$363,416.

For the fiscal year ended June 30, 2015, total revenues decreased by \$740,112. Total expenses increased by \$320,296.

CAPITAL ASSETS

As of June 30, 2016 and 2015, the District's investment in capital assets totaled \$12,020,319 and \$12,079,279, 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, 2016, the District had \$4,380,004 in outstanding long-term debt, a decrease of \$376,015 from June 30, 2015. 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, 2016 and 2015.

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 \$6,629,900.

ADDITIONAL FINANCIAL INFORMATION

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

SERRANO WATER DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2016 AND 2015

ASSETS

	2016	2015
CAPITAL ASSETS (Note 4)		
Land	\$ 147,790	\$ 147,790
Plant in service - district	20,433,689	20,021,724
Plant in service - contributed	863,915	863,915
Less: accumulated depreciation	(9,395,075)	(8,954,150)
TOTAL CAPITAL ASSETS	12,050,319	12,079,279
CURRENT ASSETS		
Cash	1,988,450	552,254
Cash equivalents (Note 2)	2,153,736	1,645,990
TOTAL CASH	4,142,186	2,198,244
Accounts receivable:		
Water users	613,977	428,345
General (Note 6)	87,408	520,580
Water districts (Note 3)	42,980	233,893
Prepaid expense	49,984	156,814
Inventory of Purchased Water (Note 1)	214,687	1,986,154
Inventory (Note 1)	20,941	20,941
TOTAL CURRENT ASSETS	5,172,163	5,544,971
OTHER ASSETS		
Deferred Outflows of Resources	81,624	132,020
Investment in SWD Recreation, Inc. (Notes 1 and 7)	-	140,135
Deposits	15,927	15,927
TOTAL OTHER ASSETS	97,551	288,082
TOTAL ASSETS	\$ 17,320,033	\$ 17,912,332

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

SERRANO WATER DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2016 AND 2015

LIABILITIES

	2016	2015
LONG-TERM LIABILITIES		
Notes payable (Note 5)	\$ 117,705	\$ 141,458
Installment sale agreement (Note 5)	2,190,908	2,351,352
Installment sale agreement (Note 5)	1,125,418	1,208,492
Less: current portion	(280,277)	(267,272)
Subtotal - Notes payable and Installment agreements	3,153,754	3,434,030
Net pension plan liability (Note 9)	801,069	911,608
Other post-employment benefits payable (Note 11)	425,181	410,381
TOTAL LONG-TERM LIABILITIES	4,380,004	4,756,019
CURRENT LIABILITIES		
Accounts payable	540,031	413,198
Deferred inflow of resources	318,966	250,595
Construction deposits	9,750	20,500
Accrued wages and compensated absences	100,612	103,180
Current portion of long-term liabilities	280,277	267,272
Customer deposits	154,500	151,700
TOTAL CURRENT LIABILITIES	1,404,136	1,206,445
TOTAL LIABILITIES	5,784,140	5,962,464
NET POSITION		
Invested in Capital Assets, Net of Related Debt	8,526,288	8,377,977
Unrestricted	3,009,605	3,571,891
TOTAL NET POSITION	\$ 11,535,893	\$ 11,949,868

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, 2016 AND 2015

	2016	2015
OPERATING REVENUE		
Water sales - domestic (Note 1)	\$ 3,927,816	\$ 4,087,690
Water sales - bulk (Note 6)	1,708,986	1,426,468
Water sales - irrigation	3,400	3,971
	5,640,202	5,518,129
OPERATING EXPENSE		
Source of supply:		
Maintenance and supplies	19,279	115,187
Purchased water	1,970,137	1,714,374
Replenishment assessment	389,813	604,552
Maintenance and supplies	42,232	32,003
Power	322,639	467,863
Water treatment:		
Maintenance, supplies and analysis	250,015	179,291
Transmission and distribution:		
Salaries	314,264	343,731
Maintenance and supplies	132,859	173,331
Vehicle expenses	19,472	28,040
Uniforms	5,329	3,407
Administrative and general:		
Public relations	36,392	56,429
Salaries	316,033	368,370
Office supplies and expenses	14,537	15,508
Telephone and utilities	38,824	37,869
Printing	36,676	25,592
Auto expenses	13,245	12,928
Travel and meetings	8,381	12,933
Dues and subscriptions	7,014	6,560
Insurance expense:		
Property and liability	34,382	35,535
Worker's compensation	13,695	15,035
Employee benefits:		
Group, medical, dental and life	394,374	437,182
Pension plan (Note 9)	216,955	302,929
Payroll taxes	53,164	58,805
Uncollectible accounts	4,226	4,487
General operating expense	57,910	47,569
Sub-totals - Operating Expense	4,711,847	5,099,510
(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, 2016 AND 2015

	2016	2015
Sub-totals - Operating Expense (brought forward)	\$ 4,711,847	\$ 5,099,510
Administrative and general (continued):		
Security	17,064	19,036
Retirement plan administrator		-
Payroll preparation	10,067	9,002
Legal	63,634	62,490
Audit and accounting	15,376	11,546
Directors	21,500	32,300
Engineering		-
Water Conservation	237,163	64,097
Less: Reimbursed overhead and labor	(35,733)	(30,949)
Depreciation	463,702	438,051
TOTAL OPERATING EXPENSE	5,504,620	5,705,083
OPERATING INCOME	135,582	(186,954)
NON-OPERATING INCOME		
Concession income	52,500	210,000
Interest income	8,680	7,818
Development/other income	206,533	70,703
TOTAL NON-OPERATING INCOME	267,713	288,521
NON-OPERATING EXPENSE		
Interest expense	(189,631)	(192,374)
Other expenses	(48,317)	(61,017)
TOTAL NON-OPERATING EXPENSE	(237,948)	(253,391)
CHANGE IN NET POSITION	165,347	(151,824)
NET POSITION:		
Beginning	11,949,868	13,013,300
SWD Recreation activity (Note 7)	(579,322)	
Prior Period adjustment of Pension Liability (Note 9)		(911,608)
Restated Net Position- Beginning of the year	11,370,546	12,101,692
Ending	\$ 11,535,893	\$ 11,949,868

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, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 6,078,655	\$ 5,871,605
Payments to suppliers	(2,829,600)	(5,493,449)
Payments to employees	(632,865)	(718,252)
CASH FLOWS (USED) PROVIDED BY OPERATING ACTIVITIES	2,616,190	(340,096)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(434,742)	(405,890)
Other cash receipts	267,713	288,521
Other cash payments	(48,317)	(61,017)
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES	(215,346)	(178,386)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	(267,271)	(253,930)
Interest payments on long-term debt	(189,631)	(192,374)
CASH FLOWS USED BY FINANCING ACTIVITIES	(456,902)	(446,304)
NET (DECREASE) INCREASE IN CASH AND EQUIVALENTS	1,943,942	(964,786)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,198,244	3,163,030
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 4,142,186	\$ 2,198,244
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$ 135,582	\$ 63,641
Adjustments to reconcile operating income to net cash flow from operating activities:		
Depreciation and amortization	463,702	438,051
Activity relating to SWD Recreation, Inc.	-	-
Decrease (Increase) in accounts receivable	438,453	353,476
Decrease in prepaid expenses and other assets	106,830	30,332
(Increase) in Inventory of Purchased Water	1,771,467	(1,039,428)
(Decrease) Increase in construction deposits	(10,750)	(14,000)
(Decrease) Increase in accounts payable and accrued expenses	(291,894)	(173,868)
Increase in customer deposits	2,800	1,700
Net cash provided by operating activities	\$ 2,616,190	\$ (340,096)

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, 2016

	Actual	Budget	Variance Favorable (Unfavorable)
OPERATING REVENUE	\$ 5,640,202	\$ 5,658,600	\$ (18,398)
OPERATING EXPENSE			
Source of supply	2,744,100	2,125,800	(618,300)
Pumping	364,871	469,800	104,929
Water treatment	250,015	197,000	(53,015)
Transmission and distribution	471,924	552,000	80,076
Administration and general	1,210,008	1,567,700	357,692
Depreciation and amortization	463,702	432,000	(31,702)
TOTAL OPERATING EXPENSE	5,504,620	5,344,300	(160,320)
OPERATING INCOME	135,582	314,300	(178,718)
Non-operating income	267,713	284,200	(16,487)
Non-operating expense	(237,948)	(297,700)	59,752
NET INCOME	\$ 165,347	\$ 300,800	\$ (135,453)

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	1,541,156	1,460,671	(80,485)
Water Conservation	64,097	27,237	(36,860)
Depreciation and amortization	438,051	432,000	(6,051)
TOTAL OPERATING EXPENSE	5,705,083	5,545,240	(159,843)
OPERATING INCOME	(186,954)	(40,740)	(146,214)
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	\$ (151,824)	\$ (90,403)	\$ (61,421)

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, 2016 AND 2015

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, 2016 was approximately 2,200.

The District's sources of water are native water drawn from Santiago Reservoir (also called "Irvine Lake") and three operable water wells. Occasionally, when available, water is drawn from the reservoir at the Villa Park Dam. The District also has three operable water wells, and pumps approximately seventy-two (72%) of its usage for its customers.

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

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

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

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

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

"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, 2016 AND 2015

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, 2016.

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 \$1,970,137 and \$1,714,374 for the years ended June 30, 2016 and 2015. An estimate for evaporation has been recorded in the amount of \$208,652 and \$210,691 as part of the total purchased water costs as of June 30, 2016 and 2015, respectively.

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, 2016 and 2015 were as follows:

	2016	2015
Vacation Pay	\$ 60,755	\$ 65,063
Sick Pay	16,010	14,270
Accrued Wages	23,847	23,847
Total	\$ 100,612	\$ 103,180

SERRANO WATER DISTRICT
NOTES TO FINANCIAL STATEMENT
FOR YEARS ENDED JUNE 30, 2016 AND 2015

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 \$455,439 and \$262,417 as of June 30, 2016 and 2015, 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.

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, 2016 and 2015.

N. Subsequent Events - The District has evaluated subsequent events through November 28, 2016, 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, 2016 AND 2015

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:

	2016	2015
Unrestricted deposits		
Cash	\$ 1,988,450	\$ 552,254
Cash equivalents	2,153,736	1,645,990
Total unrestricted deposits	4,142,186	2,198,244
Restricted portion	-	-
Total cash and cash equivalents	\$ 4,142,186	\$ 2,198,244

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, 2016 and 2015, 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, 2016 AND 2015

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, 2016 and 2015 was 0.28% and 0.36%, respectively. Included in cash equivalents as of June 30, 2016 and 2015 is \$1,011,423 and \$508,870 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 \$102,123 and \$102,555 was billed to Irvine Ranch Water District for the years ended June 30, 2016 and 2015.

SERRANO WATER DISTRICT
NOTES TO FINANCIAL STATEMENT
FOR YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 4 - CAPITAL ASSETS

Changes in capital assets for the years ended June 30, 2016 and 2015 were as follows:

DESCRIPTION	Balance 2015	Additions/ Transfers	Deletions/ Transfers	Balance 2016
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	232,065	12,275	-	244,340
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	952,274	1,283	-	953,557
Treatment building at Park	4,906	-	-	4,906
Pipeline concrete	54,180	-	-	54,180
Pipeline delivery	3,514,983	-	-	3,514,983
Lemon Street well	1,412,201	209,049	-	1,621,250
Smith Reservoir #1	888,280	119,436	-	1,007,716
Smith Reservoir #2	391,974	-	-	391,974
Lockett Reservoir	954,127	-	-	954,127
Treatment Plant	9,840,998	20,960	-	9,861,958
Vehicles	717,457	62,884	(22,777)	757,564
Building and improvements	219,716	-	-	219,716
Office equipment	367,592	3,238	-	370,830
Tools and equipment	116,050	5,618	-	121,668
Total Depreciable Assets - Purchased	19,960,998	434,743	(22,777)	20,372,964
Total assets transferred from Villa Park Mutual Water Company	60,726	-	-	60,726
Combined total - purchase and transfer	20,021,724	434,743	(22,777)	20,433,690
Contributed by developers - domestic pipelines	863,915	-	-	863,915
Total - All Depreciable Assets	<u>\$ 20,885,639</u>	<u>\$ 434,743</u>	<u>\$ (22,777)</u>	<u>\$ 21,297,605</u>

SERRANO WATER DISTRICT
NOTES TO FINANCIAL STATEMENT
FOR YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 4 - CAPITAL ASSETS (Continued)

DESCRIPTION	Balance 2015	Additions/ Transfers	Deletions/ Transfers	Balance 2016
Accumulated Depreciation:				
Santiago Dam appurtenances	(205,620)	(5,338)	-	(210,958)
Santiago Dam	(172,035)	(2,085)	-	(174,120)
Santiago Lateral extension	(25,772)	-	-	(25,772)
Lagoon	(35,433)	(2,531)	-	(37,964)
Submerged equipment	(1,643)	-	-	(1,643)
Irvine Park meter	(5,722)	(763)	-	(6,485)
Water treatment plant	(357,368)	(17,003)	-	(374,371)
Treatment building at Park	(4,906)	-	-	(4,906)
Pipeline concrete	(54,180)	-	-	(54,180)
Pipeline delivery	(2,014,687)	(71,660)	-	(2,086,347)
Lemon Street well	(726,385)	(56,863)	-	(783,248)
Smith Reservoir #1	(625,795)	(23,298)	-	(649,093)
Smith Reservoir #2	(309,645)	(7,839)	-	(317,484)
Lockett Reservoir	(267,150)	(9,541)	-	(276,691)
Treatment Plant	(2,049,717)	(204,771)	-	(2,254,488)
Vehicles	(671,113)	(35,535)	22,777	(683,871)
Building and improvements	(181,152)	(3,227)	-	(184,379)
Office equipment	(241,528)	(18,151)	-	(259,679)
Tools and equipment	(99,438)	(3,575)	-	(103,013)
Total Assets Purchased	(8,049,289)	(462,180)	22,777	(8,488,692)
Total assets transferred from Villa Park Mutual Water Company	(60,726)	-	-	(60,726)
Combined total - purchase and transfer	(8,110,015)	(462,180)	22,777	(8,549,418)
Contributed by developers - domestic pipelines	(844,135)	(1,523)	-	(845,658)
Total Accumulated Depreciation	(8,954,150)	(463,703)	22,777	(9,395,076)
Total Depreciable Assets, Net	11,931,489	-	\$ -	11,902,529
Total Capital Assets, Net	\$ 12,079,279	-	-	\$ 12,050,319

SERRANO WATER DISTRICT
NOTES TO FINANCIAL STATEMENT
FOR YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 4 - CAPITAL ASSETS (Continued)

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	-	-	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	34,912	-	952,274
Treatment building at Park	4,906	-	-	4,906
Pipeline concrete	54,180	-	-	54,180
Pipeline delivery	3,440,240	26,079	-	3,514,983
Lemon Street well	1,285,259	77,737	-	1,412,201
Smith Reservoir #1	749,483	28,502	-	888,280
Smith Reservoir #2	391,974	-	-	391,974
Lockett Reservoir	954,127	-	-	954,127
Treatment Plant	9,840,998	376,623	-	9,840,998
Vehicles	717,457	-	-	717,457
Building and improvements	219,716	5,631	-	219,716
Office equipment	317,682	17,144	-	367,592
Tools and equipment	108,547	1,311	-	116,050
Total Depreciable Assets - Purchased	19,555,108	567,939	-	19,960,998
Total assets transferred from Villa Park Mutual Water Company	60,726	-	-	60,726
Combined total - purchase and transfer	19,615,834	567,939	-	20,021,724
Contributed by developers - domestic pipelines	863,915	-	-	863,915
Total - All Depreciable Assets	<u>\$ 20,479,749</u>	<u>\$ 567,939</u>	<u>\$ -</u>	<u>\$ 20,885,639</u>

SERRANO WATER DISTRICT
NOTES TO FINANCIAL STATEMENT
FOR YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 4 - CAPITAL ASSETS (Continued)

DESCRIPTION	Balance 2014	Additions/ Transfers	Deletions/ Transfers	Balance 2015
Accumulated Depreciation:				
Santiago Dam appurtenances	(201,217)	(3,871)	-	(205,620)
Santiago Dam	(169,950)	(2,085)	-	(172,305)
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)	(16,506)	-	(357,368)
Treatment building at Park	(4,835)	(164)	-	(4,906)
Pipeline concrete	(54,180)	-	-	(54,180)
Pipeline delivery	(1,943,962)	(69,465)	-	(2,014,687)
Lemon Street well	(677,922)	(43,346)	-	(726,385)
Smith Reservoir #1	(608,813)	(12,800)	-	(625,795)
Smith Reservoir #2	(301,806)	(7,839)	-	(309,645)
Lockett Reservoir	(257,609)	(9,541)	-	(267,150)
Treatment Plant	(1,852,897)	(193,054)	-	(2,049,717)
Vehicles	(634,273)	(36,840)	-	(671,113)
Building and improvements	(177,925)	(3,227)	-	(181,152)
Office equipment	(225,388)	(13,581)	-	(241,528)
Tools and equipment	(96,304)	(2,693)	-	(99,438)
Total Assets Purchased	(7,612,761)	(418,306)	-	(8,049,289)
Total assets transferred from Villa Park Mutual Water Company	(60,726)	-	-	(60,726)
Combined total - purchase and transfer	(7,673,487)	(418,306)	-	(8,110,015)
Contributed by developers - domestic pipelines	(842,612)	(1,523)	-	(844,135)
Total Accumulated Depreciation	(8,516,099)	(419,829)	-	(8,954,150)
Total Depreciable Assets, Net	\$ 11,963,650	\$ 148,110	\$ -	\$ 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, 2016 AND 2015

NOTE 5 - LONG-TERM LIABILITIES

The following is a summary of the District's long-term liabilities as of June 30, 2016 and June 30, 2015:

	Balance 2015	Additions	Payments/ Retirements	Balance 2016
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%.	\$ 141,459	\$ -	\$ (23,754)	\$ 117,705
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%.	2,351,351	-	(160,443)	2,190,908
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%	1,208,492	-	(83,074)	1,125,418
Total Long-term Liabilities	3,701,302	<u>\$ -</u>	<u>\$ (267,271)</u>	3,434,031
Less: Current Portion	<u>(267,272)</u>			<u>(280,277)</u>
Total Non-Current	<u>\$ 3,434,030</u>			<u>\$ 3,153,754</u>

SERRANO WATER DISTRICT
NOTES TO FINANCIAL STATEMENT
FOR YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 5 - LONG-TERM LIABILITIES

	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	-	(22,161)	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	-	(122,021)	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	-	(74,706)	1,208,492
Total Long-term Liabilities	3,955,232	<u>\$ -</u>	<u>\$ (218,888)</u>	3,701,302
Less: Current Portion	(253,930)			(267,272)
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, 2016 AND 2015

NOTE 5 - LONG-TERM LIABILITIES (Continued)

Annual debt service requirements on the long-term liabilities as of June 30, 2016 are as follows:

	<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Orange County Water District				
	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		<u>117,704</u>	<u>\$ 11,746</u>	<u>\$ 129,450</u>
Less Current Portion		(24,010)		
Total Long Term		<u>\$ 93,694</u>		
Capital One				
	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	208,814	73,884	282,698
	2022 - 2026	1,249,897	163,591	1,413,488
Total		<u>2,190,908</u>	<u>\$ 636,070</u>	<u>\$ 2,826,978</u>
Less Current Portion		(167,900)		
Total Long Term		<u>\$ 2,023,008</u>		
Bank of America				
	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	108,330	38,659	146,989
	2022 - 2026	633,710	101,233	734,943
Total		<u>1,125,418</u>	<u>\$ 344,470</u>	<u>\$ 1,469,888</u>
Less Current Portion		(88,367)		
Total Long Term		<u>\$ 1,037,051</u>		

SERRANO WATER DISTRICT
NOTES TO FINANCIAL STATEMENT
FOR YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 6 - WATER SALES IN ACRE FEET

During the year ended June 30, 2016 and 2015, two thousand thirty six (2,036) and one thousand seven hundred fifty eight (1,758) acre feet of bulk water was sold to the City of Orange for a total sales price of \$1,708,986 and \$1,426,468, respectively. Included in Accounts Receivable - General are \$87,408 and \$145,270, relating to the sale of water to the City of Orange as of June 30, 2016 and 2015, respectively.

Water Sales:	2016	2015
Domestic water	2,067	2,613
Bulk sale	2,036	1,758
Irrigation water	6	7
Total Sold	4,109	4,378

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.

During the fiscal year ended June 30, 2016, SWD Recreation, Inc. suspended operations due to the termination of this agreement. Activity in the amount of \$579,322 has been written off and recorded in the Statement of Revenue, Expenses and Changes in Net Position of the District as of June 30, 2016.

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, 2016 AND 2015

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, 2015 and 2014:

	2015	2014
ASSETS		
Current assets	\$ 72,465,623	\$ 69,901,479
Noncurrent assets	122,935,127	125,682,527
Total Assets	195,400,750	195,584,006
LIABILITIES		
Current liabilities	55,874,099	53,163,043
Noncurrent liabilities	58,592,833	54,463,790
Total Liabilities	114,466,932	107,626,833
NET POSITION	\$ 80,933,818	\$ 87,957,173

(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, 2016 AND 2015

NOTE 8 – JOINT VENTURE (Continued)

	2015	2014
OPERATING REVENUES		
Members premiums	\$ 154,042,184	\$ 152,994,168
Retrospective premium adjustments	3,619,551	(10,979,765)
Total Operating Revenues	157,661,735	142,014,403
OPERATING EXPENSES		
Claims expense	100,989,254	89,145,942
Excess insurance	7,817,928	8,111,217
Benefit premiums	45,699,936	44,511,197
Other expenses	9,688,310	7,915,833
Total Operating Expenses	164,195,428	149,684,189
OPERATING INCOME (LOSS)	(6,533,693)	(7,669,786)
NONOPERATING REVENUES		
Investment income and investment fair value	2,738,962	1,111,191
CHANGE IN NET POSITION	(3,794,731)	(6,558,595)
NET POSITION, BEGINNING OF YEAR	84,728,549	94,515,768
NET POSITION, END OF YEAR	\$ 80,933,818	\$ 87,957,173

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, 2016 AND 2015

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 7.163% for the fiscal year ended June 30, 2016, and was estimated to be 7.612% 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)

Discount Rate:

The discount rate used to measure the total pension liability was 7.65% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, 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 7.65% 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 7.65% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. 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
FOR YEARS ENDED JUNE 30, 2016 AND 2015

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, 2015	\$ 911,608
Balance at June 30, 2016	\$ 801,069

SERRANO WATER DISTRICT
NOTES TO FINANCIAL STATEMENT
FOR YEARS ENDED JUNE 30, 2016 AND 2015

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:

	<u>Miscellaneous</u>
1% Decrease	6.65%
Net Pension Liability	\$ 1,525,892
Current Discount Rate	7.65%
Net Pension Liability	\$ 801,069
1% Increase	8.65%
Net Pension Liability	\$ 202,644

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, 2016 as of July 1, 2015. 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
NOTES TO FINANCIAL STATEMENT
FOR YEARS ENDED JUNE 30, 2016 AND 2015

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	\$	133,766
Interest on net OPEB obligation	\$	20,519
Adjustment to annual required contribution	\$	(22,719)
Annual OPEB cost (expense)	\$	131,566
Contributions made	\$	116,766
Increase in net OPEB obligation	\$	14,800
Net OPEB obligation - beginning of year	\$	410,381
Net OPEB obligation - end of year	\$	425,181

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, 2014	\$134,020	25%	\$365,498
June 30, 2015	\$134,020	25%	\$410,380
June 30, 2016	\$134,020	89%	\$425,181

Funding Status and Funding Progress

As of July 1, 2015, the actuarial accrued liability (AAL) for benefits was \$2,063,106, 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, 2016 AND 2015

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.

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, 2016 AND 2015

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%
7/1/2015	\$ 2,063,106	\$ -	\$ 2,063,106	0.00%	\$ 351,395	587.10%

NOTE 12 - PRIOR PERIOD ADJUSTMENT

In connection with the GASB 68 reporting in 2015, an amount relating to deferred inflows and outflows of resources in the amount of \$250,595, in connection with a valuation done during the current period, was recorded in the prior fiscal year.

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 75 – *“Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions”*, effective for periods beginning after June 15, 2017.