

**SERRANO WATER DISTRICT
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2021**



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**SERRANO WATER DISTRICT
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YEAR ENDED JUNE 30, 2021**

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**SERRANO WATER DISTRICT
BOARD OF DIRECTORS AND ADMINISTRATION
JUNE 30, 2021**

BOARD OF DIRECTORS

<u>Title</u>	<u>Member</u>	<u>Term Expiration</u>
President	C.L. "Larry" Pharris, Jr.	December 2024
Vice-President	Greg Mills	December 2024
Director	Frank Bryant	December 2022
Director	Jerry L. Haight	December 2024
Director	Brad Reese	December 2022

ADMINISTRATION

General Manager/Secretary	Jerry Vilander
Deputy Secretary/Treasurer	Vittorio Roggero
Deputy Secretary	Laura Helfin
Deputy Secretary	Jeremy Jungreis

ATTORNEY

Representing Rutan & Tucker, Attorneys	Jeremy Jungreis
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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 Serrano Water District (the District) as of and for the year ended June 30, 2021, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Serrano Water District, as of June 30, 2021, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Summarized Prior-Year Comparative Information

The June 30, 2020 financial statements were audited by White Nelson Diehl Evans LLP, whose practice became part of CliftonLarsonAllen LLP as of November 1, 2020, and whose report dated October 6, 2020, expressed an unmodified opinion on the respective financial statements of Serrano Water District from which the prior year summarized financial information was derived.

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 total 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 our 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2021, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Irvine, California
September 27, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

SERRANO WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2021

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, 2021. This information is presented in conjunction with the audited basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2021

The District's net position from operating activities decreased by \$649,947 during the fiscal year, and the overall net position increased by \$754,739 or 5.64 percent.

Total revenues decreased by \$539,124 or 8.61 percent from \$6,259,915 to \$5,720,791.

Total expenses increased by \$189,307 or 3.96 percent from \$4,776,745 to \$4,966,052.

The District purchased 1,393 acre-feet of water, in the amount of \$1,076,383 to meet the needs of its customers; as of June 30, 2021, 368 acre-feet of water is being held in storage for the next fiscal period.

SERRANO WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2021

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, 2021. 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 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 indicate that the financial condition of the District improved during the last fiscal year. The District's net position reflects the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. An increase in net position over time typically indicates an improvement in financial condition.

SERRANO WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

June 30, 2021

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 2021	Fiscal Year 2020	Dollar Change	Percent Change
Assets:				
Current and other assets	\$ 10,005,637	\$ 8,882,807	\$ 1,122,830	
Capital assets	11,027,966	11,184,807	(156,841)	
Total Assets	<u>21,033,603</u>	<u>20,067,614</u>	<u>965,989</u>	4.81%
Deferred Outflows of Resources	<u>196,490</u>	<u>358,587</u>	<u>(162,097)</u>	-45.20%
Liabilities:				
Current liabilities	1,269,106	966,898	302,208	
Long-term liabilities	<u>5,704,029</u>	<u>5,975,230</u>	<u>(271,201)</u>	
Total Liabilities	<u>6,973,135</u>	<u>6,942,128</u>	<u>31,007</u>	0.45%
Deferred Inflows of Resources	<u>115,779</u>	<u>97,633</u>	<u>18,146</u>	18.59%
Net Position:				
Net investment in capital assets	9,171,295	8,983,420	187,875	
Unrestricted	<u>4,969,884</u>	<u>4,403,020</u>	<u>566,864</u>	
Total Net Position	<u>\$ 14,141,179</u>	<u>\$ 13,386,440</u>	<u>\$ 754,739</u>	5.64%

NET POSITION (CONTINUED)

As the above tables indicate, total assets and deferred outflows of resources increased by \$803,892 during the fiscal year ended June 30, 2021. This was attributed to the District's increase in the overall cash position and a decrease in deferred outflow activity for GASB 68&75. Additionally, the District had decreases in various asset items.

Total liabilities and deferred inflows of resources increased by \$49,153 during the fiscal year ended June 30, 2021. This increase was attributed to current liabilities and customer deposits and increase in the net OPEB liability.

SERRANO WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

June 30, 2021

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

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

	Fiscal Year 2021	Fiscal Year 2020	Dollar Change	Percent Change
Revenues:				
Operating revenues	\$ 5,535,277	\$ 6,062,118	\$ (526,841)	
Nonoperating revenues	185,514	197,797	(12,283)	
Total Revenues	<u>5,720,791</u>	<u>6,259,915</u>	<u>(539,124)</u>	-8.61%
Expenses:				
Depreciation	537,717	538,128	(411)	
Other operating expenses	4,347,613	4,144,742	202,871	
Nonoperating expenses	80,722	93,875	(13,153)	
SWD Recreation, Inc. activity	-	-	-	
Total Expenses	<u>4,966,052</u>	<u>4,776,745</u>	<u>189,307</u>	3.96%
Change in Net Position	754,739	1,483,166	(728,427)	
Beginning Net Position	<u>13,386,440</u>	<u>11,903,274</u>	<u>1,483,166</u>	
Ending Net Position	<u>\$ 14,141,179</u>	<u>\$ 13,386,440</u>	<u>\$ 754,739</u>	5.64%

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, 2021, total revenues decreased by \$539,124. Total expenses increased by \$189,307. The decrease in revenue was attributed to lower operating activity. Increased expenses were attributed to the impact of wells being offline and the overall cost of purchasing water.

SERRANO WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

June 30, 2021

CAPITAL ASSETS

As of June 30, 2021, the District's investment in capital assets totaled \$11,027,966. 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, 2021, the District had \$6,166,152 in outstanding long-term debt, a decrease of \$153,794 from June 30, 2020. The decrease was attributed to the reduction of the District's outstanding loans. Additionally, the District's net pension liability GASB 68 increased by \$122,655. 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, 2022. Operating revenues are projected to be \$7,359,755.

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, 2021
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2020)**

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2021	2020
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 7,949,532	\$ 7,585,322
Certificates of Deposit	1,008,471	504,393
Accounts Receivable - Water Users	710,087	620,095
Accounts Receivable - General	3,902	13,421
Accounts Receivable - Water Districts	11,913	50,913
Interest Receivable	8,697	19,094
Prepaid Expenses	27,101	89,569
Inventory of Purchased Water	285,934	-
Total Current Assets	10,005,637	8,882,807
CAPITAL ASSETS		
Not Depreciable	597,603	277,045
Depreciable, Net of Accumulated Depreciation	10,430,363	10,907,762
Total Capital Assets	11,027,966	11,184,807
Total Assets	21,033,603	20,067,614
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Amounts from OPEB Plan	28,408	187,374
Deferred Amounts from Pension Plans	168,082	171,213
Total Deferred Outflows of Resources	196,490	358,587

See accompanying Notes to Basic Financial Statements.

SERRANO WATER DISTRICT
STATEMENT OF NET POSITION (CONTINUED)
JUNE 30, 2021
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2020)

	2021	2020
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
CURRENT LIABILITIES		
Accounts Payable	\$ 477,418	\$ 295,100
Construction Deposits	10,000	12,000
Accrued Wages	12,862	43,107
Accrued Compensated Absences	113,579	105,099
Orange County Water District - Note Payable - Current Portion	-	14,004
Holman Capital - Installment Sale Agreement - Current Portion	343,566	330,712
Total OPEB Liability - Current Portion	118,557	106,988
Customer Deposits	193,124	166,876
Total Current Liabilities	1,269,106	1,073,886
LONG-TERM LIABILITIES (LESS CURRENT PORTION)		
Holman Capital - Installment Sale Agreement	1,513,105	1,856,671
Net Pension Liability	572,092	449,437
Total OPEB Liability	3,618,832	3,562,134
Total Long-Term Liabilities (Less Current Portion)	5,704,029	5,868,242
Total Liabilities	6,973,135	6,942,128
DEFERRED INFLOWS OF RESOURCES		
Deferred Amounts from OPEB Plans	7,472	41,842
Deferred Amounts from Pension Plans	108,307	55,791
Total Deferred Inflows of Resources	115,779	97,633
NET POSITION		
Net Investment in Capital Assets	9,171,295	8,983,420
Unrestricted	4,969,884	4,403,020
Total Net Position	\$ 14,141,179	\$ 13,386,440

See accompanying Notes to Basic Financial Statements.

SERRANO WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2021
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2020)

	2021	2020
OPERATING REVENUES		
Water Sales - Domestic	\$ 5,336,916	\$ 4,714,824
Water Sales - Bulk	195,423	1,343,485
Water Sales - Irrigation	2,938	3,809
Total Operating Revenues	5,535,277	6,062,118
OPERATING EXPENSES		
Source of Supply:		
Maintenance and Supplies	139,700	216,954
Purchased Water	1,006,857	149,648
Replenishment Assessment	2,143	677,050
Power	261,292	389,272
Water Treatment:		
Maintenance, Supplies, and Analysis	339,691	331,696
Transmission and Distribution:		
Salaries	531,515	535,773
Maintenance and Supplies	142,518	124,060
Vehicle Expenses	22,948	29,049
Uniforms	5,262	3,938
Administrative and General:		
Public Relations	2,952	2,892
Salaries	408,628	398,326
Office Supplies and Expenses	10,271	15,297
Telephone and Utilities	32,280	27,853
Printing	36,491	19,197
Auto Expenses	4,735	8,754
Travel and Meetings	6,239	15,315
Dues and Subscriptions	14,561	23,927
Security	9,038	7,614
Payroll Preparation	5,502	5,626
Legal	91,111	111,151
Audit and Accounting	33,477	23,645
Directors	39,400	32,000
Computer and Miscellaneous	210,471	130,248
Subtotal - Operating Expenses (Carried Forward)	3,357,082	3,279,285

See accompanying Notes to Basic Financial Statements.

SERRANO WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (CONTINUED)
YEAR ENDED JUNE 30, 2021
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2020)

	2021	2020
OPERATING EXPENSES (CONTINUED)		
Subtotal - Operating Expenses (Brought Forward)	\$ 3,357,082	\$ 3,279,285
Insurance Expense:		
Property and Liability	51,050	39,761
Workers' Compensation	15,892	17,050
Employee Benefits:		
Group, Medical, Dental, and Life	710,865	642,483
Pension Plans	293,298	292,458
Payroll Taxes	68,914	67,984
Less Reimbursed Overhead and Labor	(149,488)	(194,279)
Depreciation	537,717	538,128
Total Operating Expenses	4,885,330	4,682,870
OPERATING INCOME	649,947	1,379,248
NONOPERATING REVENUES (EXPENSES)		
Recreation Income	52,481	46,519
Interest Income	51,463	107,884
Development and Other Nonoperating Revenues	82,944	37,340
Interest Expense	(80,722)	(93,875)
Other Nonoperating Expenses	(1,374)	6,054
Total Nonoperating Revenues (Expenses)	104,792	103,922
CHANGES IN NET POSITION	754,739	1,483,170
Net Position - Beginning of Year	13,386,440	11,903,270
NET POSITION - END OF YEAR	\$ 14,141,179	\$ 13,386,440

See accompanying Notes to Basic Financial Statements.

**SERRANO WATER DISTRICT
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2021
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2020)**

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	\$ 5,655,477	\$ 6,233,952
Cash Payments to Suppliers of Goods and Services	(3,089,195)	(3,048,068)
Cash Payments to Employees for Salaries and Wages	<u>(952,955)</u>	<u>(936,322)</u>
Net Cash Provided by Operating Activities	<u>1,613,327</u>	<u>2,249,562</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and Construction of Capital Assets	(380,876)	(196,196)
Principal Paid on Long-Term Liabilities	(344,716)	(345,627)
Interest Paid on Long-Term Liabilities	<u>(81,307)</u>	<u>(94,644)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(806,899)</u>	<u>(636,467)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Certificates of Deposit	(504,078)	(504,393)
Interest Income	61,860	120,251
Net Cash Used by Investing Activities	<u>(442,218)</u>	<u>(384,142)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	364,210	1,228,953
Cash and Cash Equivalents - Beginning of Year	<u>7,585,322</u>	<u>6,356,369</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 7,949,532</u></u>	<u><u>\$ 7,585,322</u></u>

See accompanying Notes to Basic Financial Statements.

SERRANO WATER DISTRICT
STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED JUNE 30, 2021
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2020)

	2021	2020
RECONCILIATION OF OPERATING INCOME TO		
NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$ 649,947	\$ 1,379,248
Adjustments to Reconcile Operating Income to		
Net Cash Provided by Operating Activities:		
Depreciation	537,717	538,128
Concession Income	52,481	46,519
Development and Other Nonoperating Revenues	82,944	37,340
Other Nonoperating Expenses	(1,374)	6,054
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	(41,473)	83,799
Prepaid Expenses	62,468	(58,192)
Inventory of Purchased Water	(285,934)	-
Deferred Outflows of Resources from OPEB Plans	158,966	(187,374)
Deferred Outflows of Resources from Pension Plans	3,131	1,167,669
Increase (Decrease) in Liabilities and Deferred Inflows of Resources:		
Accounts Payable	182,903	(151,729)
Construction Deposits	(2,000)	6,000
Accrued Wages	(30,245)	(3,014)
Accrued Compensated Absences	8,480	25,406
Customer Deposits	26,248	4,176
Total OPEB Liability	68,267	288,242
Net Pension Liability	122,655	(896,420)
Deferred Inflows of Resources from OPEB Plans	(34,370)	41,842
Deferred Inflows of Resources from Pension Plans	52,516	(78,132)
Total Adjustments	963,380	870,314
Net Cash Provided by Operating Activities	\$ 1,613,327	\$ 2,249,562

See accompanying Notes to Basic Financial Statements.

NOTES TO BASIC STATEMENTS

**SERRANO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

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, 2021 was approximately 2,270.

The District's sources of water are native water drawn from Santiago Reservoir (also called Irvine Lake) and three operable water wells that are temporarily unable to be utilized due to a change in state legislation. Occasionally, when available, water is drawn from the reservoir at the Villa Park Dam. The District typically pumps approximately 77% 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.

**SERRANO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

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. Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all investment instruments purchased with an original maturity date of three months or less to be cash equivalents.

D. 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.

E. 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. Management considers the amount of uncollectible accounts to be insignificant; no allowance for uncollectible accounts is considered necessary.

F. 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.

**SERRANO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Inventory

Inventory includes water purchased in storage and is stated at the original cost using the first-in, first-out (FIFO) method. As of June 30, 2021, the District has \$285,934 water purchased in storage. The statement of revenues, expenses, and changes in net position include the purchased water costs of \$1,006,857 for the year ended June 30, 2021. An estimate for evaporation has been recorded in the amount of \$16,534 as part of the total purchased water costs as of June 30, 2021.

H. 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 to 100 Years
Treatment Plant	10 to 50 Years
Transmission and Distribution	10 to 40 Years
Vehicles and Equipment	3 to 25 Years
Buildings and Improvements	10 to 30 Years
Wells and Reservoirs	20 to 100 Years

**SERRANO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports 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 actual and expected experiences and changes in proportion and differences between employer contributions and the proportionate share of contributions. These amounts are 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 related to pensions resulting from the difference in projected and actual earnings on investments of the pension plans fiduciary net position. This amount is amortized over five years.
- Deferred outflow related to OPEB for differences between actual and expected experiences and changes in assumptions. These amounts are 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.

In addition to liabilities, the statement of net position reports 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 changes in assumptions and changes in proportion and differences between employer contributions and the proportionate share of contributions. These amounts are 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 related to OPEB for changes in assumptions. 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.

**SERRANO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. 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.

K. 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, 2021, 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’s unrestricted net position contains the following reserves:

Capital Construction Reserve	\$	2,473,554
Emergency and Water Purchases Reserve		2,500,000
Unreserved		-
Total Unrestricted Net Position	<u>\$</u>	<u>4,973,554</u>

L. 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.

**SERRANO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. 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.

N. 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. The District had no capital contributions for the fiscal year ended June 30, 2021

O. 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.

P. 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.

Q. Prior Year Data and Reclassification

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. Certain amounts in the June 30, 2020 have been reclassified for comparative purposes to conform to the presentation of the June 30, 2021 financial statements. There was not change in reported net income or net position related to these reclassifications.

**SERRANO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 2 CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents

Cash and cash equivalents as of June 30, 2021 are reported in the accompanying statement of net position as follows:

Current Assets:	
Cash and Cash Equivalents	\$ 7,949,532
Certificates of Deposit	1,008,471
Total Cash and Certificates of Deposit	<u>\$ 8,958,003</u>

Cash and cash equivalents as of June 30, 2021 consisted of the following:

Cash on Hand	\$ 250
Deposits with Financial Institutions, Including Certificates of Deposit	1,696,807
Cash Equivalents	7,260,946
Total Cash and Certificates of Deposit	<u>\$ 8,958,003</u>

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

Funds in excess of needs for current operating expenses are invested in various short-term money market and investment funds. The primary goals of the District's Investment Policy are to assure compliance with all 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 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, 2021.

**SERRANO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 2 CASH AND CASH EQUIVALENTS (CONTINUED)

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
United States Treasury Obligations	5 Years	None	None
United 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

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, 2021.

<u>Cash Equivalent Type</u>	<u>Remaining Maturity (in Months) 12 Months or Less</u>
LAIF	\$ 2,519,243
OCIP	4,653,058
Money Market Mutual Funds	88,645
Total	<u>\$ 7,260,946</u>

**SERRANO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

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, 2021 for each cash equivalent type.

<u>Cash Equivalent Type</u>	<u>Minimum Legal Rating</u>	<u>Total</u>	<u>Not Rated</u>	<u>AAA</u>
LAIF	N/A	\$ 2,519,243	\$ 2,519,243	\$ -
OCIP	N/A	4,653,058	-	4,653,058
Money Market Mutual Funds	N/A	88,645	-	88,645
Total		<u>\$ 7,260,946</u>	<u>\$ 2,519,243</u>	<u>\$ 4,741,703</u>

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.

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).

**SERRANO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 2 CASH AND CASH EQUIVALENTS (CONTINUED)

Custodial Credit Risk (Continued)

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, 2021, all of the District's deposits with financial institutions were covered by federal depository insurance limits or were held in collateralized accounts.

District Investments in State Investment Pool and County Investment Pool

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

**SERRANO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

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 \$149,488 was billed to Irvine Ranch Water District for the year ended June 30, 2021. The balance due to the District from Irvine Ranch Water District as of June 30, 2021 was \$11,913.

**SERRANO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 4 CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2021 were as follows:

	Balance June 30, 2020	Additions/ Transfers	Deletions/ Transfers	Balance June 30, 2021
Capital Assets, Not Being Depreciated:				
Land	\$ 147,790	\$ -	\$ -	\$ 147,790
Construction in Progress	*	320,558	-	449,813
 Total Capital Assets, Not Being Depreciated	 277,045	 320,558	 -	 597,603
Capital Assets, Being Depreciated:				
Santiago Dam	*	-	-	529,433
Treatment Plan	10,923,222	-	-	10,923,222
Transmission and Distribution	4,650,960	24,094	-	4,675,054
Vehicles and Equipment	1,409,313	-	-	1,409,313
Buildings and Improvements	235,379	-	-	235,379
Wells and Reservoirs	4,510,672	36,224	-	4,546,896
 Total Capital Assets, Being Depreciated	 22,258,979	 60,318	 -	 22,319,297
Less Accumulated Depreciation for:				
Santiago Dam	(487,426)	(7,290)	-	(494,716)
Treatment Plan	(3,518,146)	(228,610)	-	(3,746,756)
Transmission and Distribution	(3,359,287)	(79,472)	-	(3,438,759)
Vehicles and Equipment	(1,231,439)	(61,795)	-	(1,293,234)
Buildings and Improvements	(199,277)	(4,980)	-	(204,257)
Wells and Reservoirs	(2,555,642)	(155,570)	-	(2,711,212)
 Total Accumulated Depreciation on Capital Assets, Being Depreciated	 (11,351,217)	 (537,717)	 -	 (11,888,934)
 Total Capital Assets, Being Depreciated, Net	 10,907,762	 (477,399)	 -	 10,430,363
 Total Capital Assets, Net	 \$ 11,184,807	 \$ (156,841)	 \$ -	 \$ 11,027,966

* Presents a reclassification in asset category.

**SERRANO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 5 LONG-TERM LIABILITIES

Changes in long-term liabilities for the year ended June 30, 2021 were as follows:

	Balance			Due in		
	June 30, 2020	Additions	Reductions	Balance June 30, 2021	Due Within One Year	More Than One Year
Direct Borrowings:						
Orange County Water District						
Note Payable	\$ 14,004	\$ -	\$ (14,004)	\$ -	\$ -	\$ -
Holman Capital						
Installment Sale Agreement	2,187,383	-	(330,712)	1,856,671	343,566	1,513,105
Compensated Absences	105,099	77,353	(68,873)	113,579	113,579	-
Total	<u>\$ 2,306,486</u>	<u>\$ 77,353</u>	<u>\$ (413,589)</u>	<u>\$ 1,970,250</u>	<u>\$ 457,145</u>	<u>\$ 1,513,105</u>

Orange County Water District – Note Payable

In January 1998, the District entered into a note payable agreement with the Orange County Water District for the construction of a well facility. The note bears interest at a rate of 3.5%, and the \$14,249 installment is payable semiannually on February 1 and August 1. The note matured in August 2020 and was fully paid as of June 30, 2021.

Holman Capital Corporation – Installment Sale Agreement

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 proceeds were utilized to fully repay these installment sale agreements. 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.

Holman Capital Corporation – Installment Sale Agreement (Continued)

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's ratio of net revenues to debt service was 334% for the year ended June 30, 2021. The District pledged all net water revenues to secure this debt until the loan has been repaid in full. For the year ended June 30, 2021, net revenues of \$1,376,848 were pledged for debt service payments totaling \$411,773 (\$330,712 of principal and \$81,061 of interest).

The annual debt service requirements for the outstanding balance at June 30, 2021 are as follows:

Year Ending	Principal	Interest	Total
2022	\$ 343,566	\$ 68,207	\$ 411,773
2023	356,921	54,852	411,773
2024	370,795	40,978	411,773
2025	385,208	26,565	411,773
2026	400,181	11,592	411,773
Total Payments	<u>\$ 1,856,671</u>	<u>\$ 202,194</u>	<u>\$ 2,058,865</u>

**SERRANO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

Compensated Absences

The District has compensated absences as discussed in Note 1J as follows as of June 30, 2021:

Vacation Pay	\$ 91,011
Sick Pay	22,568
Total	<u>\$ 113,579</u>

NOTE 6 WATER SALES IN ACRE FEET

During the year ended June 30, 2021, 198 acre feet of bulk water was sold to the City of Orange for a total sales price of \$195,423. The Accounts Receivable – General of \$3,902, relates to the sale of water to the City of Orange as of June 30, 2021.

Water Sales (Acre Feet):	
Domestic Water	2,764
Bulk Sale	232
Irrigation Water	5
Total	<u>3,001</u>

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 nonprofit 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 and is still dormant and inactive as of June 30, 2021 and was not utilized in the agreement discussed below.

Beginning in the fiscal year ending June 30, 2019 and through June 30, 2021, the District leased the shoreline fishing recreation rights directly to the county of Orange for the greater of (a) \$4,500 per month or (b) 25% of the county's net proceeds obtained from the recreational activities. There are portions of the agreement term where fishing was not allowed due to COVID-19 restrictions. For the fiscal year ended June 30, 2021, the total revenue earned related to this agreement was \$52,481, which is included in recreation income in the statement of revenues, expenses, and changes in net position.

**SERRANO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

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, 2021, the District participated in the self-insurance programs of the Insurance Authority as follows:

Property Loss

Insured up to replacement value with deductibles ranging from \$1,000 to \$10,000 per occurrence depending on the type of equipment. 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 \$13,273,071.

General, Auto, and Public Officials Liability

Total risk financing self-insurance limits of \$5 million, combined single limit at \$55 million per occurrence. The Authority purchases additional excess coverage for layers: \$55 million for general, auto, and public officials' liability, except for terrorism, communicable disease, subsidence, lead, and mold, with have limits of \$5 million, \$10 million, \$35 million, \$35 million, and \$35 million, respectively. These increase the limits on the insurance coverage noted above.

Public Official Bond

\$100,000 total insurance.

Crime

\$100,000 total insurance subject to a \$1,000 deductible.

Boiler and Machinery

Coverage for the replacement cost up to \$100 million per occurrence limited to insurable value, subject to a \$25,000 deductible per occurrence with the exception of turbine units and associated equipment for which the deductible is \$50,000.

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 \$4 million and has purchased excess insurance to the statutory limit.

**SERRANO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 8 RISK MANAGEMENT (CONTINUED)

Self-Insurance Programs of the Insurance Authority (Continued)

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 2021 and 2020. 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, 2021.

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 nonindustrial disability benefits after five (5) years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

**SERRANO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 9 PENSION PLANS (CONTINUED)

A. General Information About the Pension Plans (Continued)

Benefits Provided (Continued)

The Plans' provisions and benefits in effect at the measurement date ended June 30, 2021, are summarized as follows:

	Miscellaneous	
	Prior to January 1, 2013	On or After January 1, 2013
Hire Date		
Benefit Formula	2%@60	2%@62
Benefit Vesting Schedule	5 Years of Service	5 Years of Service
Benefit Payments	Monthly for Life	Monthly for Life
Retirement Age	50 - 62	52 - 67
Monthly Benefits, as a Percent of Eligible Compensation	1.092% to 2.418%	1.0% to 2.5%
Required Employee Contribution Rates	7%	6.75%
Required Employer Contribution Rates:		
Normal Cost Rate	9.281%	7.732%

Contributions

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

**SERRANO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 9 PENSION PLANS (CONTINUED)

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

As of June 30, 2021, the District reported net pension liabilities for its proportionate share of the net pension liability of all Plans as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous	<u>\$ 572,092</u>

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2020. 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, 2019 and 2020 was as follows:

	<u>Miscellaneous</u>
Proportion - June 30, 2019	0.01122%
Proportion - June 30, 2020	0.01356%
Change - Increase (Decrease)	0.00234%

For the year ended June 30, 2021, the District recognized pension expense of \$282,083. At June 30, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension Contributions Subsequent to Measurement Date	\$ 103,781	\$ -
Differences Between Actual and Expected Experience	29,481	-
Changes in Assumptions	-	(4,080)
Change in Employer's Proportion and Differences Between the Employer's Contributions and the Employer's Proportionate Share of Contributions	17,825	(104,227)
Net Differences Between Projected and Actual Earnings on Plan Investments	16,995	-
Total	<u>\$ 168,082</u>	<u>\$ (108,307)</u>

**SERRANO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 9 PENSION PLANS (CONTINUED)

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

\$103,781 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, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2022	\$ (24,509)
2023	(11,812)
2024	(15,837)
2025	8,152
2026	-
Thereafter	-

Actuarial Assumptions

The total pension liability for the June 30, 2020 measurement period was determined by an actuarial valuation as of June 30, 2019, with standard update procedures used to roll forward the total pension liability to June 30, 2020. The total pension liability was based on the following assumptions:

	<u>Miscellaneous</u>
Valuation Date	June 30, 2019
Measurement Date	June 30, 2020
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Projected Salary Increase	(1)
Mortality	(2)
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 probabilities of mortality are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015. Pre-retirement and Post-retirement mortality rates includes 15 years of projected mortality improvement using 90% of Scale MP-2016 published by the Society of Actuaries. For more details on this table, please refer to the CalPERS Experience Study and Review of Actuarial Assumptions report from December 2017 that can be found on the CalPERS website.
- (3) The less of contract COLA or 2.50% until Purchasing Power Protection Allowance Floor on purchasing power applies, 2.50% thereafter.

**SERRANO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 9 PENSION PLANS (CONTINUED)

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

Long-Term Expected Rate of Return

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 cash flows. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short term (first 10 years) and the long term (11+ 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 rounded 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 equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

The expected real rates of return by asset class are as follows:

Asset Class (a)	Assumed Asset Allocation	Real Return Years 1 - 10 (b)	Real Return Years 11+ (c)
Global Equity	50.00%	4.80%	5.98%
Fixed Income	28.00%	1.00%	2.62%
Inflation Assets	0.00%	0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%
Real Assets	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	-0.92%
Total	<u>100.00%</u>		

(a) In the CalPERS CAFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities

(b) An expected inflation of 2.0% used for this period

(c) An expected inflation of 2.92% used for this period

**SERRANO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 9 PENSION PLANS (CONTINUED)

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

Discount Rate

The discount rate used to measure the total pension liability was 7.15%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

	<u>Miscellaneous</u>
1% Decrease	6.15%
Net Pension Liability	\$ 1,569,160
Current Discount Rate	7.15%
Net Pension Liability	\$ 572,092
1% Increase	8.15%
Net Pension Liability (Asset)	\$ (251,754)

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, 2021, the District had no outstanding amount of contributions to the pension plan required for the year ended June 30, 2021.

**SERRANO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

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 postemployment 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 as of January 1, 2008. 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.

2020	Blue Cross PPO	Blue Cross HMO
Employee Only	\$ 896	\$ 860
Employee Plus One	1,793	1,719
Medicare Employee Only	571	604
Medicare Employee and Spouse	1,143	1,207
2021	Blue Cross PPO	Blue Cross HMO
Employee Only	\$ 894	\$ 925
Employee Plus One	1,790	1,850
Medicare Employee Only	570	651
Medicare Employee and Spouse	1,140	1,299
2020	Delta Dental	
Employee Only	\$ 46	
Employee Plus One	94	
2021	Delta Dental	
Employee Only	\$ 46	
Employee Plus One	94	

**SERRANO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

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

Plan Description (Continued)

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.

Employees Covered

As of the June 30, 2021 measurement date, the following current and former employees were covered by the benefit terms under the plan:

Inactive Employees or Beneficiaries Currently	
Receiving Benefits	7
Active Employees	4
Total	<u><u>11</u></u>

Total OPEB Liability

The District's total OPEB liability of \$3,737,389 was measured as of June 30, 2021, and was determined by an actuarial valuation as of June 30, 2020.

Actuarial Assumptions and Other Inputs

The total OPEB liability as of June 30, 2020 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, 2020
Measurement Date	June 30, 2021
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	2.16%
Long-Term Expected	
Rate of Return on Investments	N/A
Inflation	2.75%
Payroll Increases	2.75%
Health Care Trend	4.00%
Mortality Factors	According to the pre-retirement mortality rates under the most recent CalPERS pension plan valuation (2017).
Retirement Rates	According to the retirement rates under the most recent CalPERS pension plan valuation (2017). According to the following retirement tables: Miscellaneous Tier 1: 2.0% @ 60

**SERRANO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

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

Actuarial Assumptions and Other Inputs (Continued)

The discount rate utilized is based on whether the plan assets are projected to be sufficient to make future payments. Since there are no plan assets held in trust, the discount rate was based on a high-quality 20-year tax-exempt general obligation municipal bond yield or index rate. "High-quality" is defined as being rated AA or higher (or an equivalent rating). The municipal bond rate utilized was 2.16% and was determined using the Bond Buyer 20 Bond Index as of June 30, 2021.

Changes in Actuarial Assumptions

The discount rate decreased from 2.20% for the measurement period ended June 30, 2020 to 2.16% for the measurement period ended June 30, 2021.

Changes in Total OPEB Liability

The change in total OPEB liability are as follows:

	Total OPEB Liability
Balance at June 30, 2020 (Measurement Date)	\$ 3,669,122
Changes in the Year:	
Service Cost	80,196
Interest on the Total OPEB Liability	80,349
Differences Between Actual and Expected Experience	(7,006)
Changes in Assumptions	21,716
Contributions - Employer	-
Benefit Payments	(106,988)
Net Changes	68,267
Balance at June 30, 2021 (Measurement Date)	\$ 3,737,389

**SERRANO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

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, 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 (1.20%)	Discount Rate (2.20%)	1% Increase (3.20%)
Total OPEB Liability	\$ 4,314,136	\$ 3,737,389	\$ 3,265,489

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 health care cost trend rates that are 1-percentage point lower or 1-percentage point higher than the current health care cost trend rates:

	1% Decrease (3.0%)	Current Healthcare Cost Trend Rates (4.0%)	1% Increase (5.0%)
Total OPEB Liability	\$ 3,186,864	\$ 3,737,389	\$ 4,427,419

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

For the year ended June 30, 2021, the District recognized OPEB expense of \$299,850. At June 30, 2021, the District reported deferred outflows of resources or deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Actual and Expected Experience	\$ 17,033	\$ (3,670)
Changes in Assumptions	11,375	(3,802)
Total	\$ 28,408	\$ (7,472)

**SERRANO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

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

**OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB
(Continued)**

The differences between actual and expected experience and changes in assumptions are amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with OPEB benefits through the plan, which is 2.1 years as of June 30, 2021. Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2022	\$ 19,903
2023	1,034
2024	-
2025	-
2026	-
Thereafter	-

NOTE 12 CONTINGENCIES

On January 30, 2020, the World Health Organization (WHO) announced a global health emergency because of an outbreak of a new strain of coronavirus (the COVID-19 outbreak) and the risks that is posed to the international community as the virus spread globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the District's financial condition, liquidity, and future results of operations. Management is actively monitoring the impact of the global situation on the District's financial condition, liquidity, operations and workforce. The District cannot estimate the length or gravity of the impact of the COVID-19 outbreak at this time; however, if the pandemic continues, it may have a material effect on the District's results of future operations and financial position in fiscal year 2022.

REQUIRED SUPPLEMENTARY INFORMATION

**SERRANO WATER DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY –
CALPERS PENSION PLANS – MISCELLANEOUS
LAST 10 FISCAL YEARS***

Fiscal Year Ended	Miscellaneous	
	June 30, 2021	June 30, 2020
Measurement Period	June 30, 2020	June 30, 2019
Plan's Proportion of the Net Pension Liability	0.01356%	0.00439%
Plan's Proportionate Share of the Net Pension Liability	\$ 572,092	\$ 449,437
Plan's Covered Payroll	\$ 828,706	\$ 777,175
Plan's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	69.03%	57.83%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	0.01%	0.01%

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%.

From Fiscal Year June 30, 2018 to June 30, 2019:

There were no significant changes in assumptions.

From Fiscal Year June 30, 2019 to June 30, 2020:

There were no changes in assumptions.

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

**SERRANO WATER DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY –
CALPERS PENSION PLANS – MISCELLANEOUS (CONTINUED)
LAST 10 FISCAL YEARS***

Fiscal Year Ended	Miscellaneous				
	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Measurement Period	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Plan's Proportion of the Net Pension Liability	0.03571%	0.03494%	0.03322%	0.03902%	0.03689%
Plan's Proportionate Share of the Net Pension Liability	\$ 1,345,857	\$ 1,377,276	\$ 1,154,013	\$ 801,069	\$ 911,608
Plan's Covered Payroll	\$ 755,529	\$ 694,392	\$ 719,781	\$ 681,864	\$ 706,402
Plan's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	178.13%	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	0.04%	0.03%	0.03%	0.03%	0.03%

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%.

From Fiscal Year June 30, 2018 to June 30, 2019:

There were no significant changes in assumptions.

From Fiscal Year June 30, 2019 to June 30, 2020:

There were no changes in assumptions.

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

**SERRANO WATER DISTRICT
SCHEDULE OF CONTRIBUTIONS – CALPERS PENSION PLANS –
MISCELLANEOUS
LAST 10 FISCAL YEARS***

	Miscellaneous	
Fiscal Year Ended	June 30, 2021	June 30, 2020
Contractually Required Contribution (Actuarially Determined)	\$ 103,781	\$ 90,838
Contributions in Relation to the Actuarially Determined contributions	(103,781)	(90,838)
Contribution Deficiency (Excess)	\$ -	\$ -
Covered Payroll	\$ 858,011	\$ 828,706
Contributions as a Percentage of Covered Payroll	12.10%	10.96%
Valuation Date	6/30/2018	6/30/2017
Methods and Assumptions Used to Determine Contribution Rates:		
Actuarial Cost Method	Entry age	Entry age
Amortization Method	(1)	(1)
Asset Valuation Method	Market Value	Market Value
Inflation	2.500%	2.625%
Salary Increases	(2)	(2)
Investment Rate of Return	7.00% (3)	7.25% (3)
Retirement Age	(4)	(4)
Mortality	(5)	(5)

- (1) Level percentage of payroll, closed
- (2) Depending on age, service, and type of employment
- (3) Net of pension plan investment expense, including inflation
- (4) 50 for all plans with the exception of 52 for Miscellaneous PEPRA 2%@62
- (5) Mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board.

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

**SERRANO WATER DISTRICT
SCHEDULE OF CONTRIBUTIONS – CALPERS PENSION PLANS –
MISCELLANEOUS (CONTINUED)
LAST 10 FISCAL YEARS***

Fiscal Year Ended	Miscellaneous				
	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Contractually Required Contribution (Actuarially Determined)	\$ 1,127,160	\$ 104,947	\$ 88,065	\$ 78,051	\$ 55,748
Contributions in Relation to the Actuarially Determined contributions	<u>(127,160)</u>	<u>(104,947)</u>	<u>(88,065)</u>	<u>(78,051)</u>	<u>(55,748)</u>
Contribution Deficiency (Excess)	<u>\$ 1,000,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 777,175	\$ 755,529	\$ 694,392	\$ 719,781	\$ 681,864
Contributions as a Percentage of Covered Payroll	16.36%	13.89%	12.68%	10.84%	8.18%
Valuation Date	6/30/2016	6/30/2015	6/30/2014	6/30/2013	6/30/2012
Methods and Assumptions Used to Determine Contribution Rates:					
Actuarial Cost Method	Entry age	Entry age	Entry age	Entry age	Entry age
Amortization Method	(1)	(1)	(1)	(1)	(1)
Asset Valuation Method	Market Value	Market Value	Market Value	Market Value	15 Year Smoothed Market Method
Inflation	2.75%	2.75%	2.75%	2.75%	2.75%
Salary Increases	(2)	(2)	(2)	(2)	(2)
Investment Rate of Return	7.375% (3)	7.50% (3)	7.50% (3)	7.50% (3)	7.50% (3)
Retirement Age	(4)	(4)	(4)	(4)	(4)
Mortality	(5)	(5)	(5)	(5)	(5)

- (1) Level percentage of payroll, closed
(2) Depending on age, service, and type of employment
(3) Net of pension plan investment expense, including inflation
(4) 50 for all plans with the exception of 52 for Miscellaneous PEPRA 2%@62
(5) Mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board.

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

**SERRANO WATER DISTRICT
SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS
LAST 10 FISCAL YEARS***

Fiscal Year-End	<u>6/30/2021</u>	<u>6/30/2020</u>	<u>6/30/2019</u>	<u>6/30/2018</u>
Measurement Date	<u>6/30/2021</u>	<u>6/30/2020</u>	<u>6/30/2019</u>	<u>6/30/2018</u>
Total Pension Liability:				
Service Cost	\$ 80,196	\$ 30,235	\$ 29,354	\$ 29,231
Interest	80,349	104,792	111,919	110,405
Changes of Assumptions	21,716	(49,882)	147,251	(41,934)
Differences Between Expected and Actual Experience	(7,006)	357,715	-	-
Benefit Payments, Including Refunds of Employee Contributions	(106,988)	(124,618)	(151,971)	(142,696)
Net Change in Total OPEB Liability	<u>68,267</u>	<u>318,242</u>	<u>136,553</u>	<u>(44,994)</u>
Total OPEB Liability - Beginning of Year	<u>3,699,122</u>	<u>3,380,880</u>	<u>3,244,327</u>	<u>3,289,321</u>
Total OPEB Liability - End of Year (a)	<u>\$ 3,767,389</u>	<u>\$ 3,699,122</u>	<u>\$ 3,380,880</u>	<u>\$ 3,244,327</u>
Covered Payroll	\$ 266,009	\$ 301,853	\$ 128,743	\$ 116,377
Total OPEB Liability as Percentage of Covered Payroll	1416.26%	1225.47%	2626.07%	2787.77%

Notes to Schedule:

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

From 6/30/2018 to 6/30/2019:

The discount rate utilized for June 30, 2018 was 3.50% as compared to 3.15% utilized for June 30, 2019.

From 6/30/2019 to 6/30/2020:

The discount rate utilized for June 30, 2019 was 3.15% as compared to 2.20% utilized for June 30, 2020.

The healthcare trend rate was changed from 6.5% decreasing to 5.0% by 0.5% per years for June 30, 2018 and 2019 to 4.0% for June 30, 2020. Also, mortality and retirement rates were updated from the 2014 CalPERS pension plan valuation used in June 30, 2018 and June 30, 2019 to the 2017 CalPERS pension plan valuation used in June 30, 2020.

From 6/30/2020 to 6/30/2021:

The discount rate utilized for June 30, 2020 was 2.20% as compared to 2.16% utilized for June 30, 2021.

* Fiscal year 2018 was the first year of implementation; therefore, only four years are shown.

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