

CITRUS HEIGHTS WATER DISTRICT

AUDITED FINANCIAL STATEMENTS

December 31, 2011

CITRUS HEIGHTS WATER DISTRICT
AUDITED FINANCIAL STATEMENTS

December 31, 2011 and 2010

TABLE OF CONTENTS

Independent Auditor's Report	1
Management's Discussion and Analysis	2
 <u>Basic Financial Statements</u>	
Balance Sheets	12
Statements of Revenues, Expenses and Changes in Net Assets	13
Statements of Cash Flows.....	14
Notes to the Basic Financial Statements.....	16
 <u>Other Reports</u>	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	31

Richardson & Company

550 Howe Avenue, Suite 210
Sacramento, California 95825

Telephone: (916) 564-8727
FAX: (916) 564-8728

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Citrus Heights Water District
Citrus Heights, California

We have audited the accompanying basic financial statements of the Citrus Heights Water District (the District) as of December 31, 2011 and 2010 and for the years then ended, as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2011 and 2010 and the results of its operations 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2012, 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 2 through 11 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.

Richardson & Company

March 28, 2012

CITRUS HEIGHTS WATER DISTRICT

Management's Discussion and Analysis
December 31, 2011

The management of the Citrus Heights Water District (District) presents this Management Discussion and Analysis to achieve two goals:

1. To comply with the requirements of Governmental Accounting Standards Board Statement 34 (GASB 34) that are designed to provide more and easier-to-understand information about the finances of local government agencies such as the District; and
2. To provide readers with narrative information that may help in understanding and interpreting the information presented in the District's financial statements for the fiscal year ended December 31, 2011 (FY2011).

Questions or comments regarding this Management Discussion and Analysis may be directed to the District Treasurer via the following methods:

Mailing address: Citrus Heights Water District
P.O. Box 286
Citrus Heights, California 95611-0286
Telephone: (916) 725-6873
Facsimile: (916) 725-0345
E-mail: dkane@chwd.org

Financial Highlights

The following items are, in the opinion of District management, among the most significant in assessing the District's overall financial activities during FY2011 and its financial position at the close of FY2011:

- ❖ The District's assets exceeded its liabilities at the end of FY2011 by \$48,014,972. About 79.5 percent of the District's net assets, \$38,151,330, are composed of the capital assets of the District – the water transmission and distribution system, water production facilities, land, buildings and equipment belonging to the District. Unrestricted net assets totaled \$9,131,936, up from \$7,094,709 at the end of FY2010. This increase is due primarily to revenue generated from a water rate increase combined with constrained operating and capital improvement spending in 2011, as well as revenue of about \$893,000 from San Juan Water District (SJWD) as payment for a reallocation of project costs on a wholesale water meter installation project conducted by SJWD. The increase demonstrates a successful effort by the District to continue to rebuild its financial reserves after spending down millions of dollars in reserves between 2000 and 2008 to pay for water meters, groundwater wells and other capital improvements. The District has designated \$1,000,000 from its unrestricted net assets for rate stabilization and/or catastrophic losses, leaving \$8,131,936 for current and future operations and projects.
- ❖ The District's operating revenues for FY2011 were \$10,227,212. About 96 percent of all revenues, \$9,833,125, came from water sales to customers. The District adopted a rate

CITRUS HEIGHTS WATER DISTRICT

Management's Discussion and Analysis December 31, 2011

increase effective January 1, 2011 that resulted in an increase of 2.0 percent in the bi-monthly water bill for a typical District customer.

- ❖ The District's total net long-term liabilities at the end of FY2011, including the 2003 Certificates of Participation, the 2010 Revenue Refunding Certificates of Participation, and compensated absences, is \$7,157,978. This is a decrease of \$493,628, from net long-term liabilities at the end of FY2010, due primarily to a reduction in principal on debt during 2011 resulting from debt service payments during the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts: (1) management's discussion and analysis; and (2) the financial statements, including the notes to financial statements.

The financial statements provide both long-term and short-term information about the District's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

The District's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units on an accrual basis. Under this basis, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of assets is recognized in the Statement of Revenues, Expenses and Changes in Net Assets. All assets and liabilities associated with the operation of the District are included in the Statement of Net Assets.

The Statement of Net Assets presents the financial position of the District on a full accrual historical cost basis and provides information about the nature and amount of resources and obligations at year-end.

CITRUS HEIGHTS WATER DISTRICT

Management's Discussion and Analysis December 31, 2011

Statement of Net Assets

As of December 31, 2011, the total net assets of the District were \$48,014,972. The following table summarizes assets, liabilities and net assets at December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Current assets, unrestricted	\$11,231,364	\$ 8,871,319
Restricted cash and cash equivalents	731,706	741,188
Capital assets, net	44,498,471	43,056,885
Other assets	156,372	171,145
Total Assets	<u>56,617,913</u>	<u>52,840,537</u>
Current liabilities	1,444,963	971,895
Long-term liabilities	7,157,978	7,651,606
Total Liabilities	<u>8,602,941</u>	<u>8,623,501</u>
Net Assets		
Invested in capital assets, net of related debt	38,151,330	36,381,139
Restricted	731,706	741,188
Unrestricted	9,131,936	7,094,709
Total Net Assets	<u>\$48,014,972</u>	<u>\$44,217,036</u>

The District's net assets reflect restrictions imposed as a condition of its Certificates of Participation debt. Funds that the District has collected through Capacity Fees are designated to use for evaluating and constructing capital facilities to benefit District customers. The remaining net assets are unrestricted.

CITRUS HEIGHTS WATER DISTRICT

Management's Discussion and Analysis
December 31, 2011

Changes in Net Assets

The following table summarizes the changes in net assets for the fiscal year ended December 31, 2011 and 2010:

	2011	2010
Operating revenues	\$ 10,227,212	\$ 10,132,776
Operating expenses:		
Customer service, administration and general	2,287,809	2,591,029
Water purchases	2,102,734	1,849,440
Transmission and distribution	1,086,422	1,215,954
Pumping and well maintenance	162,835	192,540
Conservation	121,700	114,751
Depreciation and amortization	1,794,757	1,708,730
Total operating expenses	7,556,257	7,672,444
Operating income	2,670,955	2,460,332
Net nonoperating revenues (expenses)	898,029	(288,256)
Net income before capital contributions	3,568,984	2,172,076
Capital contributions:		
Contributed (donated) assets	228,952	478,747
Capital grants	-	-
Total capital contributions	228,952	478,747
Change in net assets	3,797,936	2,650,823
Net assets, beginning of year	44,217,036	41,566,213
Net assets, end of year	\$ 48,014,972	\$ 44,217,036

Total net assets increased \$3,797,936, or 8.6 percent from the prior year. Operating revenue that exceeded operating expenses by \$2,670,955 accounts for most of the increase in net assets, and most of these funds were expended for the construction of capital improvements or set aside for that purpose. The significant increase in net nonoperating revenues from 2010 to 2011 was due primarily to \$893,000 from San Juan Water District (SJWD) as payment for a reallocation of project costs on a wholesale water meter installation project conducted by SJWD. The receipt of

CITRUS HEIGHTS WATER DISTRICT

Management's Discussion and Analysis
December 31, 2011

\$228,952 in donated assets from private developer additions to the District's water distribution system accounted for about 6 percent of the increase in net assets.

Total operating revenues increased \$94,436 or 0.9 percent from the prior year. Although the District levied a water rate increase of 2.0 percent for the typical residential customer as of January 1, 2011, lower-than-average water sales during 2011 meant that overall revenues increased only slightly from the prior year. This was the third consecutive year of decrease in water demand. While it is not possible to precisely determine the cause of the decreases, District management believes that increased water efficiency practices by customers, a reduced need for outdoor watering because of ample rainfall and weakened economic conditions are all contributing factors to the reduction in demand.

Operating expenses decreased \$116,187, a 1.5 percent decrease from the prior year, due in part to continued cost-cutting measures in District operations, customer service and administration. This decrease, combined with increased operating revenues, is an important part of the District's strategy to rebuild its financial reserves.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2011, the District's investment in capital assets, net of related debt, was \$38,151,330, including: the water transmission and distribution system (underground pipelines, water services, water meters, fire hydrants, and other components); water production facilities (groundwater wells); land; buildings and both mobile and fixed equipment.

Replacement of about 3,000 feet of old 8-inch water main with a new 12-inch water main on Auburn Boulevard in Citrus Heights, with over \$1.07 million invested by the end of 2011, represented the largest addition to the District's capital assets during 2011. Ongoing replacement of water service connections throughout the District's system by District forces collectively added about \$666,000 to the District's capital assets in 2011. Rehabilitation of an old 16-inch water main on Mariposa Avenue in Citrus Heights during 2011 added over \$511,000 to capital assets. A number of private development projects resulted in the addition of \$228,952 in donated capital assets.

Additional information on the District's capital assets can be found in Note C, Capital Assets, of the notes to the basic financial statements.

Debt Administration

The District continues to meet its debt obligations under its 2010 Refunded Certificates of Participation (COPs) and the 2003 Series COPs. Through scheduled debt service payments

CITRUS HEIGHTS WATER DISTRICT

Management's Discussion and Analysis
December 31, 2011

during 2011, principal on its collective debt was reduced by \$433,794 during the year. The District's total debt from its two COP issuances now stands at approximately \$7.08 million.

Compensated absences, composed of leave hours earned by employees that are payable upon termination or retirement, are valued at \$474,400 at the end of 2011, a reduction of \$55,688 from the 2010 year-end amount of \$530,088. This reduction was due to cash payments for accrued leave balances during the year to two retiring employees and to a number of existing District employees.

Additional information on debt activity can be found in Note D, Long-Term Liabilities, of the notes to the basic financial statements.

CITRUS HEIGHTS WATER DISTRICT

Management's Discussion and Analysis
December 31, 2011

ECONOMIC FACTORS AND FUTURE BUDGET CONSIDERATIONS

The District adopted a lean budget for FY2012 with an overall increase of 3.69 percent compared with the FY2011 Operating Budget. This budget includes:

- ❖ Two new authorized employee positions for the District, an engineering aide to support capital project and engineering programs, and a water quality aide to assist in compliance with new regulatory requirements;
- ❖ Other increased regulatory compliance costs such as permitting, NPDES, air quality and water conservation;
- ❖ A slight reduction of \$30,874 (-1.36%,) in the water purchases budget compared with 2011, made possible by no wholesale water rate increase from San Juan Water District for 2012 coupled with an estimated reduction in projected water use from the amount budgeted for 2011;
- ❖ Increases in employee compensation and benefit costs from funds budgeted for cost-of-living adjustments and merit increases, representing a total aggregate compensation increase authorization of 4.6% above 2011 salaries;
- ❖ A total of \$1.855 million in funds allocated to rebuilding financial reserves for capital improvement and employment-related benefits.

For 2012, the District entered its second year of allocating more of its salary and benefit costs to the capital improvement projects that are performed or supported by District staff. Based on information collected during the first year of allocations, nearly \$257,000 in Field Operations salary and benefits costs have been allocated to a project for installing and replacing water service connections. In the past, many of these costs were simply absorbed as an operating cost of the District, instead of being properly identified as a capital expense. A 2012 Operating Budget Summary is included at the conclusion of this Management's Discussion and Analysis to provide an overview of the District's operating budget.

After three years of very restrained spending for capital improvements, the District has rebuilt its financial reserves to a level that will begin to support additional capital investment from reserves. The total capital improvement budget for 2012 is about \$4.7 million compared with \$2.53 million in 2011. This amount includes about \$1.4 million in carry-over projects from 2011, and \$3.3 million in new projects for 2012. Replacement of another large segment of aging water main on Auburn Boulevard from Sylvan Corners to Rusch Park is budgeted at about \$590,000. Design of a new groundwater well, currently identified only as Groundwater Well No. 13, is budgeted at over \$499,000 for property acquisition and design work, with construction of the well to follow in 2013. An expansion and other improvements to the District's Administration Building is budgeted at \$325,000. The District has budgeted for over \$525,000 in water service

CITRUS HEIGHTS WATER DISTRICT

Management's Discussion and Analysis
December 31, 2011

connection replacements during 2012. Also budgeted is the replacement of field operations equipment such as large crew trucks in the amount of about \$191,000. A 2012 Capital Improvement Budget Summary is included at the conclusion of this Management's Discussion and Analysis to provide an overview of the District's capital improvement budget.

A significant portion of the District's budget continues to be the repayment of long-term debt financing in the form of Certificates of Participation issued in 2000 (refunded in 2010) and issued in 2003. The annual debt service for these two issuances is budgeted at \$771,756 for 2012, representing about 8.3 percent of the District's 2012 Operating Budget.

The District's Board of Directors did not seek a water rate increase for 2012. After years of raising rates to keep up with rising operating costs and rebuilding financial reserves, the Board determined that 2012 was a year to give its customers a year with no rate increase. Both the bi-monthly service charge for metered customers and the per-unit cost for water consumed remained at 2011 levels for 2012.

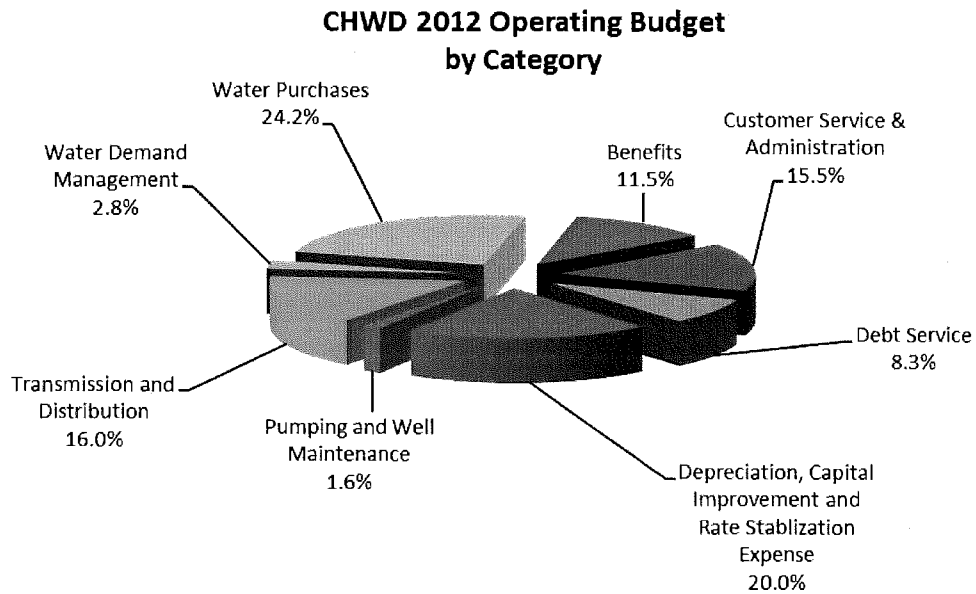
The District anticipates the need for annual water rate increases to fund replacement of portions of the District's 265 miles of underground water mains and to pay the continually-rising operating costs of the District while maintaining financial reserves to comply with debt covenants and to provide funds for emergencies or catastrophic losses.

CITRUS HEIGHTS WATER DISTRICT

Management's Discussion and Analysis
December 31, 2011

2012 OPERATING BUDGET SUMMARY

<u>Expense Category</u>	<i>2012 Adopted Budget</i>	<i>% Change 2012 vs. 2011</i>
Benefits	\$ 1,068,686	2.67%
Customer Service & Administration	1,441,825	-9.04%
Debt Service	771,756	0.59%
Depreciation, Capital Improvement and Rate Stablization Expense	1,855,000	42.69%
Pumping and Well Maintenance	149,252	4.37%
Transmission and Distribution	1,485,741	-5.65%
Water Demand Management	260,137	-0.13%
Water Purchases	2,243,355	-1.36%
	\$ 9,275,752	3.69%



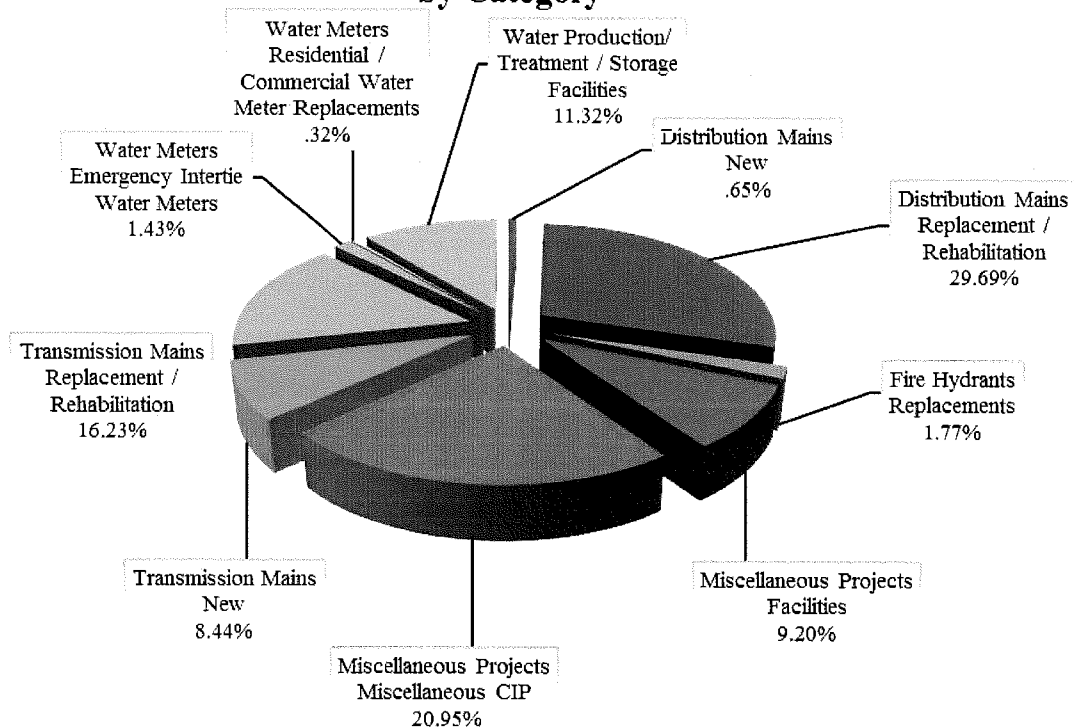
CITRUS HEIGHTS WATER DISTRICT

Management's Discussion and Analysis
December 31, 2011

2012 CAPITAL PROJECTS BUDGET SUMMARY

Category	2012 Adopted
Distribution Mains - New	\$ 29,860
Distribution Mains - Replacement / Rehabilitation	1,356,867
Fire Hydrants - Replacement	80,880
Miscellaneous Projects - Facilities	420,243
Miscellaneous Projects - Miscellaneous CIP	1,083,474
Transmission Mains - New	385,466
Transmission Mains - Replacement / Rehabilitation	741,537
Water Meters - Emergency Intertie Water Meters	65,389
Water Meters - Residential / Commercial/ Water Meter Replacements	14,453
Water Production / Treatment / Storage Facilities	<u>517,442</u>
	<u>\$ 4,695,610</u>

**CHWD 2012 Capital Improvement Budget
by Category**



CITRUS HEIGHTS WATER DISTRICT

BALANCE SHEETS

December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
CURRENT ASSETS		
Cash and investments	\$ 8,409,408	\$ 5,934,546
Accounts receivable	1,555,584	1,606,660
Due from other governments	252,804	433,139
Accrued interest receivable	6,216	4,690
Inventory	357,156	320,041
Prepaid expenses and other assets	650,196	572,243
TOTAL CURRENT ASSETS	<u>11,231,364</u>	<u>8,871,319</u>
RESTRICTED ASSETS		
Restricted cash and investments	731,706	741,188
CAPITAL ASSETS, NET	44,498,471	43,056,885
OTHER NONCURRENT ASSETS		
Deferred bond issuance costs	<u>156,372</u>	<u>171,145</u>
TOTAL ASSETS	<u>\$ 56,617,913</u>	<u>\$ 52,840,537</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 328,554	\$ 56,185
Accrued payroll	77,071	76,689
Accrued interest payable	99,212	39,858
Deposits payable	208,516	200,813
Current portion of long-term liabilities	731,610	598,350
TOTAL CURRENT LIABILITIES	<u>1,444,963</u>	<u>971,895</u>
LONG-TERM LIABILITIES		
Certificates of participation	6,578,847	7,089,590
Accrued other postemployment benefits	336,341	220,278
Compensated absences	242,790	341,738
TOTAL LONG-TERM LIABILITIES	<u>7,157,978</u>	<u>7,651,606</u>
TOTAL LIABILITIES	8,602,941	8,623,501
NET ASSETS		
Invested in capital assets, net of related debt	38,151,330	36,381,139
Restricted for debt service	731,706	741,188
Unrestricted	9,131,936	7,094,709
TOTAL NET ASSETS	<u>48,014,972</u>	<u>44,217,036</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 56,617,913</u>	<u>\$ 52,840,537</u>

The accompanying notes are an integral part of these financial statements.

CITRUS HEIGHTS WATER DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
OPERATING REVENUES		
Water sales	\$ 9,833,125	\$ 9,687,869
Connection and other fees	394,087	444,907
TOTAL OPERATING REVENUES	<u>10,227,212</u>	<u>10,132,776</u>
OPERATING EXPENSES		
Customer service, administration and general	2,287,809	2,591,029
Water purchases	2,102,734	1,849,440
Transmission and distribution	1,086,422	1,215,954
Pumping and well maintenance	162,835	192,540
Conservation	121,700	114,751
Depreciation and amortization	1,794,757	1,708,730
TOTAL OPERATING EXPENSES	<u>7,556,257</u>	<u>7,672,444</u>
NET INCOME FROM OPERATIONS	2,670,955	2,460,332
NON-OPERATING (EXPENSES) REVENUES		
Investment income	28,618	29,612
Miscellaneous income	10,057	41,470
Grant revenue	22,699	32,884
Reimbursements	1,145,804	
Interest expense	(278,633)	(370,035)
Loss on disposal of capital assets	(30,516)	(22,187)
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>898,029</u>	<u>(288,256)</u>
CAPITAL CONTRIBUTIONS		
Contributed assets	228,952	478,747
TOTAL CAPITAL CONTRIBUTIONS	<u>228,952</u>	<u>478,747</u>
CHANGE IN NET ASSETS	3,797,936	2,650,823
Net assets at beginning of year	<u>44,217,036</u>	<u>41,566,213</u>
NET ASSETS AT END OF YEAR	<u>\$ 48,014,972</u>	<u>\$ 44,217,036</u>

The accompanying notes are an integral part of these financial statements.

CITRUS HEIGHTS WATER DISTRICT

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	\$ 10,285,991	\$ 10,195,131
Cash paid to suppliers for goods and services	(3,639,163)	(3,726,335)
Cash paid to employees for services	(1,904,279)	(1,878,493)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>4,742,549</u>	<u>4,590,303</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Receipts from other net nonoperating revenues	1,358,895	78,990
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>1,358,895</u>	<u>78,990</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Bond issuance costs paid		(126,493)
Purchase or construction of capital assets	(3,033,877)	(1,578,186)
Payments on certificates of participation	(410,000)	(5,760,000)
Proceeds from the issuance of long-term debt		5,369,494
Interest paid on capital debt	(219,279)	(399,608)
Proceeds from disposal of capital assets		10,644
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(3,663,156)</u>	<u>(2,484,149)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income received	27,092	28,890
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>27,092</u>	<u>28,890</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,465,380	2,214,034
Cash and cash equivalents at beginning of year	<u>6,675,734</u>	<u>4,461,700</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 9,141,114</u>	<u>\$ 6,675,734</u>
Cash and cash equivalents consist of the following:		
Unrestricted	\$ 8,409,408	\$ 5,934,546
Restricted	<u>731,706</u>	<u>741,188</u>
	<u>\$ 9,141,114</u>	<u>\$ 6,675,734</u>

(Continued)

CITRUS HEIGHTS WATER DISTRICT

STATEMENTS OF CASH FLOWS (Continued)

For the Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
RECONCILIATION OF NET INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net income from operations	\$ 2,670,955	\$ 2,460,332
Adjustments to reconcile net income from operations to net cash provided by operating activities:		
Depreciation and amortization	1,794,757	1,708,730
Changes in assets and liabilities:		
Accounts receivable	51,076	30,510
Due from other governments		51,089
Inventory	(37,115)	12,294
Prepaid expenses and other assets	(77,953)	213,544
Accounts payable	272,369	(61,442)
Accrued payroll	382	6,032
Deposits payable	7,703	(19,327)
Accrued other postemployment benefits	116,063	110,578
Compensated absences	(55,688)	77,963
	<u>4,742,549</u>	<u>4,590,303</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 4,742,549</u>	<u>\$ 4,590,303</u>
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES		
Receipt of contributed assets	\$ 228,952	\$ 478,747

The accompanying notes are an integral part of these financial statements.

CITRUS HEIGHTS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2011 and 2010

NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Citrus Heights Water District (District) have been prepared in conformity with generally accepted accounting principles as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. As allowed by the GASB, the District has elected not to apply to its proprietary activities Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedures issued after November 30, 1989. The more significant of the District's accounting policies are described below.

Reporting Entity: The District was established on October 25, 1920 as an irrigation district under Division 11 of the Act of Legislature of the State of California. The District constructs and maintains waterworks and supplies domestic water in an area of approximately 12 square miles to 19,547 connections in Sacramento and Placer counties with an estimated population of 66,000. The District is governed by a Board of Directors consisting of three directors elected by residents of the District. The accompanying basic financial statements present the District and its component unit. The component unit discussed below is included in the District's reporting entity because of the significance of its operational and financial relationship with the District.

The District has created the Citrus Heights Water District Financing Corporation (the Corporation) to provide assistance to the District in the issuance of debt. Although legally separate from the District, the Corporation is reported as if it were part of the primary government because it shares a common Board of Directors with the District and its sole purpose is to provide financing to the District under the debt issuance documents of the District. Debt issued by the Corporation is reflected as debt of the District in these financial statements. The Corporation has no other transactions and does not issue separate financial statements.

Basis of Presentation – Fund Accounting: The District's resources are allocated to and accounted for in these basic financial statements as an enterprise fund type of the proprietary fund group. The enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other policies. Net assets for the enterprise fund represent the amount available for future operations.

Basis of Accounting: The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The enterprise fund type is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the balance sheet. Net assets are segregated into amounts invested in capital assets, net of related debt, amounts restricted and amounts unrestricted. Enterprise fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

The District uses the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Grant revenue is recognized when program expenditures are incurred in accordance with program guidelines. When such funds are received they are recorded as deferred revenues until earned. Earned but unbilled water services are accrued as revenue. Water lines are constructed by private developers and then dedicated to the District, which is then responsible for their future maintenance. These lines are recorded as capital contributions when they pass inspection by the District and the estimated costs are capitalized as donated pipelines.

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Non-operating revenues and expense consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or ancillary activities.

CITRUS HEIGHTS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2011 and 2010

NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, then unrestricted resources as they are needed.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents: For purposes of the statement of cash flows, the District considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Cash and cash equivalents held include bank deposits and restricted and unrestricted investments in money market mutual funds and LAIF.

Restricted Assets: Certain proceeds of the District’s long-term debt are classified as restricted investments on the balance sheet because their use is limited by applicable debt covenants.

Investments: Investments are stated at their fair value, which represents the quoted or stated market value. Investments that are not traded on a market, such as investments in external pools, are valued based on the stated fair value as represented by the external pool.

Inventory: Inventory consists primarily of materials used in the construction and maintenance of the water distribution facilities and is valued on a first-in, first-out basis.

Capital Assets: Capital assets are recorded at historical cost. Donated assets are valued at estimated fair value on the date received. Self-constructed assets are recorded based on the amount of direct labor, material, and certain overhead charged to the asset construction. Depreciation is calculated using the straight-line method over the following estimated useful lives:

Description	Estimated Life
Pipeline and infrastructure	20-40 years
Equipment and machinery	5-10 years
Buildings	15-40 years
Well improvements	40 years
Donated pipelines	40 years
Improvements	40 years

Depreciation expense aggregated \$1,790,727 and \$1,708,813 for the years ended December 31, 2011 and 2010, respectively, and is included with depreciation and amortization expense.

Maintenance and repairs are charged to operations when incurred. It is the District’s policy to capitalize all capital assets with a cost of more than \$1,000 for tangible personal property and \$3,000 for infrastructure, building or improvements. Costs of assets sold or retired (and the related amounts of accumulated depreciation) are eliminated from the balance sheet in the year of sale or retirement, and the resulting gain or loss is recognized in operations.

Bond Premiums and Deferred Bond Issuance Costs: Bond premiums, as well as issuance costs, are deferred and amortized over the lives of the bonds. Long-term liabilities are reported net of the applicable bond premiums. Bond issuance costs are reported as a component of Other Noncurrent Assets.

Compensated Absences: The District’s policy allows employees to accumulate earned but unused annual leave, management leave and compensatory time-off which will be paid to employees upon separation from the District’s service. The cost of annual leave, management leave and compensatory time-off is recognized in the period earned.

CITRUS HEIGHTS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2011 and 2010

NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Upon death while employed by the District or retirement from the District, employees are paid one-third of their accumulated sick leave time. This amount is also recognized in the period earned.

NOTE B – CASH AND INVESTMENTS

Cash and investments as December 31, 2011 and 2010 are classified in the accompanying financial statements as follows:

	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$ 8,409,408	\$ 5,934,546
Restricted cash and investments	<u>731,706</u>	<u>741,188</u>
Total cash and investments	<u>\$ 9,141,114</u>	<u>\$ 6,675,734</u>

Cash and investments as of December 31, 2011 and 2010 consisted of the following:

	<u>2011</u>	<u>2010</u>
Cash on hand	\$ 550	\$ 550
Deposits with financial institutions	<u>1,838,817</u>	<u>486,395</u>
Total cash	<u>1,839,367</u>	<u>486,945</u>
Certificates of deposit	103,486	106,129
Investments in Local Agency Investment Fund (LAIF)	6,466,555	5,341,472
Held by fiscal agent:		
Money market mutual fund	731,706	640,695
U.S. Agency securities		<u>100,493</u>
Total investments	<u>7,301,747</u>	<u>6,188,789</u>
Total cash and investments	<u>\$ 9,141,114</u>	<u>\$ 6,675,734</u>

Investment Policy: California statutes authorize districts to invest idle, surplus or reserve funds in a variety of credit instruments as provided for in the California Government Code, Section 53600, Chapter 4 - Financial Affairs. 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) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by the 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. During the year ended December 31, 2011, the District's permissible investments included the following instruments:

CITRUS HEIGHTS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2011 and 2010

NOTE B – CASH AND INVESTMENTS (Continued)

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio*	Maximum Investment in One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
State of California obligations	5 years	None	None
Bankers Acceptances	180 days	40%	30%
Commercial Paper	270 days	40%	10%
Negotiable Certificates of Deposits	5 years	30%	None
Repurchase Agreements	92 days	20%	None
Medium Term Corporate Notes	5 years	30%	None
Money Market Mutual Funds	N/A	20%	10%
Mortgage pass-through securities	5 years	20%	None
LAIF	N/A	None	None

*Excluding amounts held by the bond trustee that are not subject to California Government Code restrictions.

The District complied with the provisions of the California Government Code (or the District's investment policy, where more restrictive) pertaining to the types of investments held, the institutions in which deposits were made and the security requirements. The District will continue to monitor compliance with applicable statutes pertaining to public deposits and investments.

Investments Authorized by Debt Agreements: Investment of debt proceeds held by the bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy. The Certificates of Participation debt agreements contain certain provisions that address interest rate risk and credit risk, but not concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	None	None	None
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Bankers Acceptances	1 year	None	None
Commercial Paper	None	None	None
Certificates of Deposits	None	None	None
Investment Agreements	None	None	None
Repurchase Agreements	None	None	None

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 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 evenly over time as necessary to provide the cash flow and liquidity needed for operations.

CITRUS HEIGHTS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2011 and 2010

NOTE B – CASH AND INVESTMENTS (Continued)

Information about the sensitivity of the fair values of the District’s investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the District’s investments by maturity:

	Remaining Maturity (in Months)		
	Total	12 Months or Less	One to five years
LAIF	\$ 6,466,555	\$ 6,466,555	
Certificates of deposit	103,486	103,486	
Held by bond trustee:			
Money market mutual funds	731,706	731,706	
Total	\$ 7,301,747	\$ 7,301,747	\$ -

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 below is the minimum rating required by (where applicable) the California Government Code, the District’s investment policy, or debt agreements, and the actual rating as of year end for each investment type.

	Minimum Legal Rating	Total	Ratings as of Year End	Not Rated
			AAA	
LAIF	N/A	\$ 6,466,555		\$ 6,466,555
Certificates of deposit		103,486	\$ 103,486	
Held by bond trustee:				
Money market mutual funds	AAA	731,706	731,706	
		\$ 7,301,747	\$ 835,192	\$ 6,466,555

Concentration of Credit Risk: The investment policy of the District limits the amount that can be invested in any one issuer to the lesser of the amount stipulated by the California Government Code or 50% of total investments, with the exception of U.S. Treasury obligations, U.S. Agency Securities and LAIF. There are no investments in any one issuer (other than mutual funds and external investment pools) that represent 5% or more of total District investments.

Custodial Credit Risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government 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, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. 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, 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 public agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

CITRUS HEIGHTS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2011 and 2010

NOTE B – CASH AND INVESTMENTS (Continued)

At December 31, 2011, the carrying amount of the District’s deposits were \$1,838,817 and the balances in financial institutions were \$2,509,444. Of the balance in financial institutions, \$675,670 was covered by federal depository insurance and \$1,833,774 was collateralized as required by State law (Government Code Section 53630), by the pledging financial institution with assets held in a common pool for the District and other governmental agencies, but not in the name of the District. As of December 31, 2011, District investments in the following investment types were held by the same broker-dealer (counterparty) that was used by the District to buy the securities:

<u>Reported Investment Type</u>	<u>Amount</u>
Money market mutual funds	\$ 731,706

Investment in LAIF: LAIF is stated at amortized cost, which approximates fair value. The LAIF is a special fund of the California State Treasury through which local governments may pool investments. The total fair value amount invested by all public agencies in LAIF is \$67,876,317,377 managed by the State Treasurer. Of that amount, 3.0% is invested in structured notes and asset-back securities. No amounts were invested in derivative financial products. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. The fair value of the District’s investment in this pool is reported in the accompanying financial statements at amounts based upon the District’s pro-rata 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.

CITRUS HEIGHTS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2011 and 2010

NOTE C – CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2011 and 2010 are as follows:

	Balance January 1, 2011	Additions	Deletions	Transfers	Balance December 31, 2011
Capital assets not being depreciated:					
Land	\$ 824,210				\$ 824,210
Right of ways	26,080				26,080
Construction in progress	256,218	\$ 1,292,189		\$ (331,256)	1,217,151
Total capital assets, not being depreciated	<u>1,106,508</u>	<u>1,292,189</u>		<u>(331,256)</u>	<u>2,067,441</u>
Capital assets being depreciated:					
Capacity entitlements	5,615,262				5,615,262
Improvements	55,847				55,847
Pipelines and infrastructure	37,246,568	1,641,785	\$ (113,348)		38,775,005
Equipment and machinery	2,550,717	93,087			2,643,804
Buildings and improvements	1,119,109	6,816		326,116	1,452,041
Well improvements	4,706,547			5,140	4,711,687
Donated pipelines	15,608,985	228,952			15,837,937
Total capital assets, being depreciated	<u>66,903,035</u>	<u>1,970,640</u>	<u>(113,348)</u>	<u>331,256</u>	<u>69,091,583</u>
Less accumulated depreciation for:					
Capacity entitlements	(1,684,579)				(1,684,579)
Improvements	(33,180)	(782)			(33,962)
Pipelines and infrastructure	(12,684,729)	(1,124,948)	82,661		(13,727,016)
Equipment and machinery	(2,129,577)	(107,585)	67		(2,237,095)
Buildings	(549,336)	(33,042)	104		(582,274)
Well improvements	(681,234)	(119,945)			(801,179)
Donated pipelines	(7,190,023)	(404,425)			(7,594,448)
Total accumulated depreciation	<u>(24,952,658)</u>	<u>(1,790,727)</u>	<u>82,832</u>		<u>(26,660,553)</u>
Total capital assets, being depreciated, net	<u>41,950,377</u>	<u>179,913</u>	<u>(30,516)</u>	<u>331,256</u>	<u>42,431,030</u>
Capital assets, net	<u>\$ 43,056,885</u>	<u>\$ 1,472,102</u>	<u>\$ (30,516)</u>	<u>\$ -</u>	<u>\$ 44,498,471</u>

CITRUS HEIGHTS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2011 and 2010

NOTE C – CAPITAL ASSETS (Continued)

	Balance January 1, 2010	Additions	Deletions	Transfers	Balance December 31, 2010
Capital assets not being depreciated:					
Land	\$ 824,210				\$ 824,210
Right of ways	26,080				26,080
Construction in progress	1,783,169	\$ 239,951		\$ (1,766,902)	256,218
Total capital assets, not being depreciated	<u>2,633,459</u>	<u>239,951</u>		<u>(1,766,902)</u>	<u>1,106,508</u>
Capital assets being depreciated:					
Capacity entitlements	5,615,262				5,615,262
Improvements	55,847				55,847
Pipelines and infrastructure	36,084,450	1,277,605	\$ (115,487)		37,246,568
Equipment and machinery	2,525,336	45,188	(19,807)		2,550,717
Buildings and improvements	1,116,879	2,230			1,119,109
Well improvements	2,926,433	13,212		1,766,902	4,706,547
Donated pipelines	15,130,238	478,747			15,608,985
Total capital assets, being depreciated	<u>63,454,445</u>	<u>1,816,982</u>	<u>(135,294)</u>	<u>1,766,902</u>	<u>66,903,035</u>
Less accumulated depreciation for:					
Capacity entitlements	(1,684,579)				(1,684,579)
Improvements	(32,397)	(783)			(33,180)
Pipelines and infrastructure	(11,715,705)	(1,051,680)	82,656		(12,684,729)
Equipment and machinery	(2,024,591)	(124,793)	19,807		(2,129,577)
Buildings	(520,796)	(28,540)			(549,336)
Well improvements	(563,289)	(117,945)			(681,234)
Donated pipelines	(6,804,951)	(385,072)			(7,190,023)
Total accumulated depreciation	<u>(23,346,308)</u>	<u>(1,708,813)</u>	<u>102,463</u>		<u>(24,952,658)</u>
Total capital assets, being depreciated, net	<u>40,108,137</u>	<u>108,169</u>	<u>(32,831)</u>	<u>1,766,902</u>	<u>41,950,377</u>
Capital assets, net	<u>\$ 42,741,596</u>	<u>\$ 348,120</u>	<u>\$ (32,831)</u>	<u>\$ -</u>	<u>\$ 43,056,885</u>

Capacity Entitlements: From 1993 through 1998, the District participated with four other water agencies in a cooperative transmission pipeline project for the construction of additional transmission pipeline facilities. The District's share of these pipeline costs totaled \$5,615,262. The Capacity Entitlements asset represents the capacity rights the District has purchased in the cooperative transmission pipeline project owned by San Juan Water District. The asset will be amortized over the pipeline estimated useful life of forty years.

CITRUS HEIGHTS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2011 and 2010

NOTE D – LONG-TERM LIABILITIES

Long-term liabilities consist of the following:

2003 Certificates of Participation: The District entered into an agreement with San Juan Water District in December 2003, concerning the sale and delivery of Certificates of Participation in the aggregate principal amount of \$27,215,000 with interest ranging from 3.00% to 4.25%. The District's portion of the principal amount is \$3,220,000. These 2003 Certificates of Participation were issued to finance the cost of certain capital improvements to the District's water system. Annual principal payments, ranging from \$80,000 to \$185,000 are due on February 1 through February 1, 2033 and semi-annual interest payments, ranging from \$8,788 to \$59,178 are due on February 1 and August 1 through February 1, 2033.

2010 Certificates of Participation: In 2010, the District issued \$5,155,000 of Revenue Certificates of Participation (Certificates) with interest ranging from 2.00% to 4.00%. These 2010 Certificates were issued to refund certificates to finance certain capital improvements to the District's water system. The District is required to collect rates and charges from its water system that will be sufficient to yield net revenues equal to 110% of debt service payments on any future debt issued and to deposit the net revenues in a revenue fund pledged for such future debt service payments. Annual principal payments, ranging from \$420,000 to \$545,000 are due on September 28 through September 28, 2020 and semi-annual interest payments, ranging from \$10,900 to \$76,700 are due on March 28 and September 28 through September 28, 2020.

The activity of the District's long-term liabilities during the years ended December 31, 2011 and 2010 was as follows:

	Balance January 1, 2011	Additions	(Reductions)	Balance December 31, 2011	Due Within One Year
2003 Certificates of Participation	\$ 2,695,000			\$ 2,695,000	\$ 80,000
2010 Certificates of Participation	4,670,000		\$ (410,000)	4,260,000	420,000
Less: Deferred amount on refunding	(127,245)	\$ 13,051		(114,194)	
Unamortized premium	261,835		(23,794)	238,041	
	<u>7,499,590</u>	<u>13,051</u>	<u>(433,794)</u>	<u>7,078,847</u>	<u>500,000</u>
Accrued other postemployment benefits (OPEB)	220,278	116,063		336,341	
Compensated absences	530,088	43,260	(98,948)	474,400	231,610
	<u>\$ 8,249,956</u>	<u>\$ 172,374</u>	<u>\$ (532,742)</u>	<u>\$ 7,889,588</u>	<u>\$ 731,610</u>

CITRUS HEIGHTS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2011 and 2010

NOTE D – LONG-TERM LIABILITIES (Continued)

	Balance January 1, 2010	Additions	(Reductions)	Balance December 31, 2010	Due Within One Year
2000 Certificates of Participation	\$ 5,200,000		\$ (5,200,000)		
2003 Certificates of Participation	2,770,000		(75,000)	\$ 2,695,000	
2010 Certificates of Participation		\$ 5,155,000	(485,000)	4,670,000	\$ 410,000
Less: Deferred amount on refunding		(130,508)	3,263	(127,245)	
Unamortized premium	55,045	214,494	(7,704)	261,835	
	<u>8,025,045</u>	<u>5,238,986</u>	<u>(5,764,441)</u>	<u>7,499,590</u>	<u>410,000</u>
Accrued other postemployment benefits (OPEB)	109,700	119,500	(8,922)	220,278	
Compensated absences	452,125	77,963		530,088	188,350
	<u>\$ 8,586,870</u>	<u>\$ 5,436,449</u>	<u>\$ (5,773,363)</u>	<u>\$ 8,249,956</u>	<u>\$ 598,350</u>

The annual requirements to amortize the outstanding debt as of December 31, 2011 are as follows:

For the Year Ended December 31:	2003 Certificates of Participation			2010 Certificates of Participation		
	Principal	Interest	Total	Principal	Interest	Total
2012	\$ 80,000	\$ 59,178	\$ 139,178	\$ 420,000	\$ 153,400	\$ 573,400
2013	80,000	115,556	195,556	425,000	145,000	570,000
2014	85,000	112,356	197,356	435,000	132,250	567,250
2015	85,000	108,956	193,956	450,000	119,200	569,200
2016	90,000	105,981	195,981	470,000	101,200	571,200
2017-2021	505,000	473,106	978,106	2,060,000	210,000	2,270,000
2022-2026	625,000	359,461	984,461			
2027-2031	780,000	201,400	981,400			
2032-2034	365,000	26,125	391,125			
	<u>\$ 2,695,000</u>	<u>\$ 1,562,119</u>	<u>\$ 4,257,119</u>	<u>\$ 4,260,000</u>	<u>\$ 861,050</u>	<u>\$ 5,121,050</u>

Pledged Revenue: The District pledged future water system revenues, net of specified expenses, to repay the 2003 Certificates of Participation in the original amount of \$3,220,000. Proceeds of the Certificates of Participation funded the acquisition and construction of certain facilities, as indicated above. The Certificates of Participation are payable solely from water customer net revenues and are payable through February, 2033. Annual principal and interest payments on the Certificates of Participation are expected to require less than 80% of net revenues. Total principal and interest remaining to be paid on the Certificates of Participation was \$4,257,119 and \$4,376,602 December 31, 2011 and 2010, respectively.

The District pledged future water system revenues, net of specified expenses, to repay the 2010 Certificates of Participation in the original amount of \$5,155,000. Proceeds of the Certificates of Participation funded the acquisition and construction of certain facilities, as indicated above. The Certificates of Participation are payable solely from water customer net revenues and are payable through September, 2020. Annual principal and interest payments on the Certificates of Participation are expected to require less than 80% of net revenues. Total principal and interest remaining to be paid on the Certificates of Participation was \$5,121,050 and \$5,692,650 at December 31, 2011 and 2010, respectively.

CITRUS HEIGHTS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2011 and 2010

NOTE D – LONG-TERM LIABILITIES (Continued)

Total principal and interest paid on all debt payable from net revenues was \$687,906 and \$990,035 and the total water system net revenues were \$4,494,330 and \$4,198,674 for the years ended December 31, 2011 and 2010, respectively. At December 31, 2011 and 2010, the District's net revenues were 653% and 424% of debt service payments, respectively.

NOTE E – ARBITRAGE REBATE LIABILITY

Section 148(f) of the Internal Revenue Code requires issuers of tax-exempt state and local bonds to remit to the federal government amounts equal to (a) the excess of the actual amounts earned on all "Non-purpose Investments" allocable to "Gross Proceeds" of an issue of municipal obligations less the amount that would have been earned if the investments bore a rate equal to the amount that would have been earned if the investments bore a rate equal to the yield on the issue, plus (b) all income attributable to the excess. Issuers must make rebate payments at least once every five years and upon final retirement or redemption of the bonds. There was no arbitrage liability at December 31, 2011 and 2010.

NOTE F – NET ASSETS

Restrictions: Restricted net assets consist of constraints placed on net asset use through external requirements imposed by creditors (such as through debt covenants), grantors, contributors, or laws and regulations of other governments or constraints by law through constitutional provisions or enabling legislation. Restricted net assets consisted of the following at December 31:

	2011	2010
Debt service reserve on 2003 Certificates of Participation	\$ 194,742	\$ 195,740
Debt service reserve on 2010 Certificates of Participation	536,964	545,448
Total restricted net assets	\$ 731,706	\$ 741,188

The restrictions represent debt service and other reserves required by the related debt covenants.

Designations: Designations of unrestricted net assets may be imposed by the Board of Directors to reflect future spending plans or concerns about the availability of future resources. Designations may be modified, amended or removed by Board action. Designations included the following as of December 31:

	2011	2010
Rate stabilization	\$ 1,000,000	\$ 800,000
Operating reserve	2,524,860	2,518,299
Depreciation reserve capital improvements	3,010,816	3,925,555
Capital improvement reserve	(1,088,326)	(2,036,913)
Fleet equipment reserve	505,716	405,716
Employment-related benefits reserve	365,887	335,185
Total	\$ 6,318,953	\$ 5,947,842

CITRUS HEIGHTS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2011 and 2010

NOTE F – NET ASSETS (Continued)

The designations are for the following:

Designated for rate stabilization represents the amount to be used to ensure financial and customer rate stability in responding to certain conditions.

Designated for operating reserve is maintained for operating funds collected in advance for the following year, accrued leave reserve, self-insurance reserve, unanticipated operating expenses, unanticipated economic shortfall and unallocated funds.

Designated for depreciation reserve represents amounts set aside to replace or rehabilitate capital facilities at the end of their useful life.

Designated for capital improvement reserve represents amounts set aside for use in evaluating and constructing new capital facilities to benefit existing District customers. This reserve has a negative balance due to large capital expenditures in recent years, including the meter retrofit program and well construction.

Designated for fleet equipment reserve represents amounts set aside to replace fleet equipment at the end of its useful life.

Designated for employment-related benefits reserve represents amounts set aside to pay the costs of employment-related benefits for existing and retired District employees.

NOTE G – DEFINED BENEFIT PENSION PLAN

Plan Description: The District contributes to the California Public Employees Retirement System (PERS), a cost sharing multiple-employer public employee defined benefit pension plan. The District participates in the miscellaneous 2% at 55 risk pool. 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 employers within the State of California. CalPERS require agencies with less than 100 active members in the plan to participate in the risk pool. All full and part-time 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 the monthly average salary of their highest twelve consecutive months full-time equivalent monthly pay. A menu of benefit provisions as well as other requirements is established by State statutes within the Public Employees' Retirement Law. The Plan selects optional benefit provisions from the benefit menu by contract with PERS and adopts those benefits through District resolution. PERS issues a separate comprehensive annual financial report. Copies of the PERS' annual financial report may be obtained from the PERS Executive Office - 400 P Street - Sacramento, California 95814.

Funding Policy: Active plan members are required to contribute 7% of their annual covered salary. The District makes the contributions required of District employees on their behalf and for their account. The amount paid by the District on behalf of the employees was \$143,063 during 2011 and \$140,870 during 2010. The District is required to contribute at an actuarially determined rate. The required employer contribution rate for 2009/10 was 16.476%, for 2010/11 was 16.8% and for 2011/12 was 17.593%. The contribution requirements of the plan members and the District are established and may be amended by PERS. The District's contributions for the years December 31, 2011, 2010 and 2009 were \$363,868, \$328,028, \$302,705, respectively, which were equal to the required contributions each year.

CITRUS HEIGHTS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2011 and 2010

NOTE H – OTHER POST-RETIREMENT BENEFITS

Plan Description: The District administers a single-employer defined benefit other postemployment healthcare (OPEB) plan providing health plan coverage to eligible retired employees and their eligible dependents. The District offers retirees the option to obtain coverage under the same medical plans as its active employees if such coverage is offered by the health insurer. Employees become eligible to retire and receive healthcare benefits with at least 20 years of service to the District. The OPEB Plan does not issue a publicly available financial report.

Funding Policy: The contribution requirements of plan members and the District are established and may be amended by the Board of Directors. The required contribution is based on projected pay-as-you-go financing requirements. For 2011 and 2010, the District contributed \$8,737 and \$8,922, respectively, to the plan.

Annual OPEB Cost and Net OPEB Obligation: The District’s annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District’s annual OPEB cost for 2011 and 2010, the amount actually contributed to the plan, and changes in the District’s net OPEB obligation to the OPEB plan:

	2011	2010
Normal cost	\$ 52,468	\$ 50,200
Amortization of unfunded AAL	71,632	68,600
Annual required contribution	124,100	118,800
Interest and amortization of net OPEB obligation	700	700
Contributions made (premium payments made)	(8,737)	(8,922)
Change in net OPEB obligation	116,063	110,578
Net OPEB obligation, beginning of year	220,278	109,700
Net OPEB obligation, end of year	\$ 336,341	\$ 220,278

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 and 2010 were as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2010	\$ 118,800	7.51%	\$ 220,278
December 31, 2011	124,100	7.04%	336,341

Funded Status and Funding Progress: As of December 31, 2009, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$1,449,500, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$2,154,000, and the ratio of the UAAL to the covered payroll was 67.29%.

CITRUS HEIGHTS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2011 and 2010

NOTE H – OTHER POST-RETIREMENT BENEFITS (Continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are 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, presented as required supplementary information below, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the 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 actuarial 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 perspective of the calculations.

In the December 31, 2009 actuarial valuation, the projected unit credit actuarial method was used. The actuarial assumptions included a 4.25% investment rate of return (net of administrative expenses), which is based on the District's own investments. The annual healthcare-cost trend rates are as follows: for medical premiums, 6.50% per year; for dental premiums, 4.00% per year. The assumptions also include a 4.00% annual increase in covered payroll and a 3% inflationary factor. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2009, was 30 years.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Simplified Entry Age (b)	Unfunded AAL (Uaal) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of /Covered Payroll ((b-a)/c)
December 31, 2009	-	\$ 1,449,500	\$ 1,449,500	-	\$ 2,154,000	67.29%

NOTE I – COMMITMENTS AND CONTINGENCIES

Various claims have been filed against the District. In the opinion of the District's management and legal counsel, the claims will not have a material impact on the basic financial statements.

The District has received state and federal grants for specific purposes that are subject to review and audit by the state and federal government. Although such audits could result in expenditure disallowances under grant terms, any required reimbursements are not expected to be material.

The District has capital project commitments as of December 31, 2011 of \$448,836 related to construction work on the Mariposa Avenue pipeline and a phone system update.

NOTE J – ECONOMIC DEPENDENCY

During 2011 and 2010, the District purchased 92.74% and 88.6%, respectively, of its water supply from the San Juan Water District (SJWD). Total purchases for the year ended December 31, 2011 and 2010 was \$2,102,734 and \$1,849,440. In addition, the District owns water transmission capacity entitlements through the cooperative transmission pipeline project owned and operated by SJWD.

CITRUS HEIGHTS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2011 and 2010

NOTE K – INSURANCE

The District participates in the Association of California Water Agencies Joint Powers Insurance Authority (ACWA/JPIA) a public entity risk pool of California water agencies, for general and auto liability, public officials liability, property damage, fidelity insurance and workers compensation liability. ACWA/JPIA provides insurance through the pool up to a certain level, beyond which group purchased commercial excess insurance is obtained.

The District pays an annual premium to ACWA/JPIA that includes its pro-rata share of excess insurance premiums, charges for the pooled risk, claims adjusting and legal costs, and administrative and other costs to operate the ACWA/JPIA. The District’s deductibles and maximum coverage are as follows:

Coverage	ACWA/JPIA	Commercial Insurance	Deductible
General and Auto Liability (Includes Public Officials Liability)	\$ 2,000,000	\$ 58,000,000	None
Property Damage	50,000	100,000,000	\$ 1,000 - 25,000
Fidelity	100,000	None	1,000
Workers Compensation Liability	2,000,000	Statutory	None
Employers Liability	2,000,000	Statutory	None

The District continues to carry commercial insurance for all other risks of loss to cover all claims for risk of loss to which the District is exposed. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Richardson & Company

550 Howe Avenue, Suite 210
Sacramento, California 95825

Telephone: (916) 564-8727
FAX: (916) 564-8728

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Citrus Heights Water District
Citrus Heights, California

We have audited the financial statements of the Citrus Heights Water District (the District) as of and for the year ended December 31, 2011 and have issued our report thereon dated March 28, 2012. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, the prior year auditor identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of prior year findings that the prior year auditor considers to be significant deficiencies in internal control over financial reporting as item 2009-1. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To the Board of Directors
Citrus Heights Water District

We noted certain other matters that we reported to management of the District in separate letter dated March 28, 2012.

This report is intended solely for the information and use of the Board of Directors, management and the State of California and is not intended to be and should not be used by anyone other than these specified parties.

Richardson & Company

March 28, 2012

CITRUS HEIGHTS WATER DISTRICT
SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES

December 31, 2011 and 2010

Finding 2009 – 1

Controls Over Financial Reporting

Reporting Requirement: Significant Deficiency

Criteria: Statement on Auditing Standard No. 112, *Communicating Internal Control Related Matters Identified in an Audit* (SAS 112) applies to the District's internal control over preparation of the financial statements. The standard provides guidance to the auditor in evaluating an entity's internal controls over financial reporting.

External auditors cannot be part of an entity's internal controls, including controls over the preparation of the financial statements, and are prohibited from auditing their own work as doing so impairs their independence. Under SAS 112, an entity's inability to draft its own financial statements is an indication of a potential significant deficiency or material weakness.

The District should have the capacity to prepare full disclosure financial statements in accordance with generally accepted accounting principles (GAAP). To carry out this responsibility, an entity must have proper internal controls over financial reporting in place. Proper internal controls over financial reporting include, but are not limited to, internal controls that identify misstatements in the financial records, ensuring staff in financial reporting and related oversight roles (or outside consultants who fill reporting roles) are equipped with the necessary knowledge and abilities, and adequate design of internal control over the preparation of the financial statements.

Condition: Currently, the District relies on the external auditors to ensure its financial statements are in accordance with GAAP. In addition, the District relies on the external auditors to ensure that all necessary disclosures are included in the notes to the financial statements.

Cause: Prior to the issuance of SAS 112, the District was able to rely on the external auditors to assist with preparation of the financial statements and related notes without being subject to control deficiencies.

Effect or Potential Effect: The risk of misstatement in the financial statements increases when management is not able to apply GAAP in recording the entity's financial transactions or preparing its financial statements, including the related notes. Also, by relying on the external auditors to ensure its financial statements are in accordance with GAAP, the District is considering the external auditors a part of its internal controls over the preparation of the financial statements.

Recommendation: The District may consider the following possible actions:

- Provide training opportunities for its staff that would enable them to become more familiar with the requirements for financial statements prepared using GAAP.
- Hire an external professional experienced in preparing governmental type financial statements to confirm that the accounting records, financial statements and related disclosures are in accordance with GAAP.
- Take no action. The District may find that the costs outweigh the benefits to adhere to this standard. No action will result in a significant deficiency (or material weakness, depending on magnitude) in the District's internal controls over the preparation of the financial statements.

Management Response: The District first became aware of Statement on Auditing Standard No. 112 (SAS112) in February 2007 during the audit for FY 2006. SAS 112 imposes a new standard that fundamentally changes the approach that Citrus Heights Water District (and thousands of other small public entities across the United States) has used for decades – having its independent auditor also prepare its financial statements. Although this Auditing Standard suggests that an entity's inability to draft its own financial statements may be a material weakness or significant deficiency.

CITRUS HEIGHTS WATER DISTRICT

SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES (Continued)

December 31, 2011 and 2010

Management is confident that its internal controls are sound and that the approach used to prepare its FY 2011 financial statements is as fundamentally sound as it has been for many years before SAS 112 was issued.

Management has evaluated approaches that it can employ to comply with SAS 112. The Independent Auditor's Recommendation cites providing training opportunities for its accounting staff to enable preparation of the financial statements by District staff as one possible approach. However, by design, District financial and accounting staff members are generalists in nature. Each staff member has a broad array of functional responsibilities and as such they have never been expected to have the expertise to prepare full disclosure financial statements in accordance with generally accepted accounting principles. It is the position of Management that the level of training needed in order to attain this level of expertise is beyond what the District wishes to have its staff members undergo.

Contracting for preparation of the financial statements by a Certified Public Accountant or other qualified persons separate from the Independent Auditor has also been considered as a possible approach to comply with SAS 112. It appears that this approach would satisfy SAS 112. However, this approach also involves significant additional expense for the District to employ another individual or firm separate from the Independent Auditor to prepare its financial statements. It has been the recommendation of Management, supported by the District's Board of Directors, that the District not incur this significant additional expense simply to satisfy SAS 112.

As stated in the Recommendation for this finding, taking no action is a possible alternative to compliance with SAS 112. The District has elected to continue to employ this alternative in the preparation of its financial statements for FY 2011, and believes that this course of action best serves the District, its Board of Directors and its customers.

Richardson & Company

550 Howe Avenue, Suite 210
Sacramento, California 95825

Telephone: (916) 564-8727
FAX: (916) 564-8728

To the Board of Directors
Citrus Heights Water District
Citrus Heights, California

We have audited the financial statements of the Citrus Heights Water District for the year ended December 31, 2011, and have issued our report thereon dated March 28, 2012. Professional standards require that we provide you with the information about our responsibilities under generally accepted auditing standards and, if applicable, *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards (GAAS) and *Government Auditing Standards*

As stated in our engagement letter dated November 29, 2010, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope previously communicated to you in our engagement letter dated November 29, 2010.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transaction entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were: depreciable lives and method used to depreciate capital assets and the accrual for postemployment benefits. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole. The accrual for postemployment benefits was determined by an actuarial valuation, which is required to be performed every three years.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole. Adjustments brought to the attention of management were addressed timely.

Disagreements With Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 28, 2012.

Management Consultations With Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and management of the District and is not intended to be and should not be used by anyone other than these specified parties.

Richardson & Company

March 28, 2012

Richardson & Company

550 Howe Avenue, Suite 210
Sacramento, California 95825

Telephone: (916) 564-8727
FAX: (916) 564-8728

To the Board of Directors and Management
Citrus Heights Water District
Citrus Heights, California

In planning and performing our audit of the financial statements of the Citrus Heights Water District (the District) as of and for the year ended December 31, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

However, during our audit, we became aware of the following matters that have been included in this letter for your consideration:

Retentions Payable

We recommend the District develop procedures to record retentions payable. While an adjustment was made to record the retention payable to a contractor at December 31, 2011 as part of the audit, the District should ensure that contractor invoices are recorded as construction in progress at the gross amount, with the difference between the amount paid and total invoice being recorded as a retention payable.

Management's Response: District Management agrees with the Auditor's recommendation. The District will develop and implement a procedure to ensure proper recording of retentions payable for contracts that include a retention amount.

Prepaid 2003 COP Debt Service Charge

Five quarterly payments for the 2003 COP Debt Service charge paid to San Juan Water District were expensed in 2011. We recommend that the District develop procedures to ensure that the payment for the 2003 COP Debt Service charge due in December is recorded as a prepaid expense to prevent overstating water purchase expense as of year-end.

Management's Response: District Management agrees with the Auditor's recommendation. The District will develop and implement a procedure to ensure that the payment for the 2003 COP Debt Service charge due in December, which is a component of San Juan Water District's quarterly invoice to Citrus Heights Water District, is recorded as a prepaid expense for the next fiscal year.

OPEB Actuarial Valuation

GASB 45 requires an actuarial study be performed 36 months before the beginning of the first year of the period for which the valuation provides the annual required contribution for entities with fewer than 200 employees. As the previous OPEB actuarial study obtained by the District is as of December 31, 2009, the District is required to obtain a new study for fiscal year 2012.

Management's Response: District Management acknowledges the need to obtain a new OPEB actuarial study for fiscal year 2012. It is Management's intention to contract with a qualified actuarial to complete a new OPEB actuarial study before December 31, 2012.

The following items represent additional work performed in accordance with District policy:

Report on Cash and Investments

In conformity with our contract with the District for audit services, we confirmed the District's cash and investment account balances and tested the reconciliation of those balance to the District's records, and determined that the balance agreed. In accordance with the District Investment Policy, we verified compliance with the policies and procedures. We noted the District is in compliance with the policies and procedures.

* * * * *

We would like to take this opportunity to acknowledge the courtesy and assistance extended to us during the course of the examination. This report is intended solely for the information and use of the Board of Directors, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Richardson & Company

March 28, 2012