

CITRUS HEIGHTS WATER DISTRICT

AUDITED FINANCIAL STATEMENTS

December 31, 2012

CITRUS HEIGHTS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2012 and 2011

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Citrus Heights Water District (the District), which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of revenues, expenses, changes in net position, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the 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 financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2012 and 2011 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.

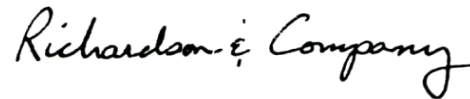
To the Board of Directors
Citrus Heights Water District

Report on Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 3 through 12 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2013 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 and 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* in considering the District's internal control over financial reporting and compliance.



March 25, 2013

CITRUS HEIGHTS WATER DISTRICT

Management's Discussion and Analysis December 31, 2012

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, 2012 (FY2012).

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
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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 FY2012 and its financial position at the close of FY2012:

- ❖ The District's assets exceeded its liabilities at the end of FY2012 by \$50,687,349. About 79.7 percent of the District's net position, \$40,384,388, is 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 \$9,765,994, up from \$9,131,936 at the end of FY2011. This increase is due primarily to revenue generated from increased water sales in FY2012 as compared with FY2011. The increase represents continued progress by the District toward rebuilding 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 position for rate stabilization and/or catastrophic losses, leaving \$8,765,994 for current and future operations and projects.
- ❖ The District's operating revenues for FY2012 were \$10,693,408. About 96 percent of all revenues, \$10,285,029, came from water sales to customers. The District did not adopt a rate increase in 2012, leaving water rates at the level adopted for FY2011.

CITRUS HEIGHTS WATER DISTRICT

Management's Discussion and Analysis December 31, 2012

- ❖ The District's total net long-term liabilities at the end of FY2012, including the 2012 Revenue Refunding bonds, the 2010 Revenue Refunding Certificates of Participation, and compensated absences, is \$6,693,060. This is a decrease of \$579,112 from net long-term liabilities at the end of FY2011, due primarily to a reduction in principal on debt during 2012 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 Balance Sheet.

The Balance Sheet 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, 2012

Balance Sheet

As of December 31, 2012, the total net position of the District was \$50,687,349. The following table summarizes assets, deferred outflows, liabilities, deferred inflows and net assets at December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Current assets, unrestricted	\$ 11,980,467	\$ 11,387,736
Restricted cash and cash equivalents	536,967	731,706
Capital assets, net	46,389,365	44,498,471
Deferred outflows	101,143	114,194
Total Assets and Deferred Outflows	<u>59,007,942</u>	<u>56,732,107</u>
Current liabilities	1,597,036	1,444,963
Long-term liabilities	6,693,060	7,272,172
Deferred Inflows	30,497	
Total Liabilities and Deferred Inflows	<u>8,320,593</u>	<u>8,717,135</u>
Net Position		
Net investment in capital assets	40,384,388	38,151,330
Restricted	536,967	731,706
Unrestricted	9,765,994	9,131,936
Total Net Position	<u>\$50,687,349</u>	<u>\$48,014,972</u>

The District's net position reflects 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 position is unrestricted.

CITRUS HEIGHTS WATER DISTRICT

Management's Discussion and Analysis December 31, 2012

Changes in Net Position

The following table summarizes the changes in net position for the fiscal year ended December 31, 2012 and 2011:

	2012	2011
Operating revenues	\$ 10,693,408	\$ 10,227,212
Operating expenses:		
Customer service, administration and general	2,471,991	2,302,582
Water purchases	2,219,550	2,102,734
Transmission and distribution	1,211,230	1,086,422
Pumping and well maintenance	130,045	162,835
Water demand management	74,923	121,700
Depreciation and amortization	1,778,195	1,801,434
Total operating expenses	7,885,934	7,577,707
Operating income	2,807,474	2,649,505
Net nonoperating revenues (expenses)	(231,542)	919,479
Net income before capital contributions	2,575,932	3,568,984
Capital contributions:		
Contributed (donated) assets	96,445	228,952
Capital grants	-	-
Total capital contributions	96,445	228,952
Change in net position	2,672,377	3,797,936
Net position, beginning of year	48,014,972	44,217,036
Net position, end of year	\$ 50,687,349	\$ 48,014,972

Total net position increased \$2,672,377, or 5.6 percent from the prior year. Operating revenue that exceeded operating expenses by \$2,807,474 accounts for 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 decrease in net nonoperating revenues from 2011 to 2012 was due primarily to reimbursements, which totaled \$1,145,804 in FY2011 and \$0 in FY2102. The FY2011 reimbursements came from San Juan Water District (SJWD) as payment for a reallocation of project costs on a wholesale water meter installation project conducted by SJWD.

CITRUS HEIGHTS WATER DISTRICT

Management's Discussion and Analysis December 31, 2012

The receipt of \$96,445 in donated assets from private developer additions to the District's water distribution system accounted for about 3.6 percent of the increase in net assets.

Total operating revenues increased \$466,196 or 4.6 percent from the prior year. Although the District levied no water rate increase for FY2012, increased water sales during 2012 meant that overall revenues increased from the prior year. FY2012 was the first year of rising water demand after three consecutive years of decrease in FY2009-11. The increased water consumption in FY2012 may have been due to lower-than-average rainfall early in the year which tends to increase the amount of outdoor watering by customers.

Operating expenses increased \$308,277, a 4.0 percent increase from the prior year, due in part to the addition of two new authorized employee positions for the District, one to support water quality activities and one to provide increased support for engineering and project management.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2012, the District's investment in capital assets, net of related debt, was \$40,384,388, 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 aging pipelines and water service connections throughout the District's system represent the majority of the \$3.72 million additions to the District's capital assets in 2012. A number of private development projects resulted in the addition of \$96,445 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 2012 Revenue Refunding bonds that resulted from the refunding of the former Series 2003 COPs in April 2012. Through scheduled debt service payments during 2012, principal on its collective debt was reduced by \$651,097 during the year. The District's total debt from its two COP issuances now stands at approximately \$6.54 million.

Compensated absences, composed of leave hours earned by employees that are payable upon termination or retirement, are valued at \$456,301 at the end of 2012, a reduction of \$18,099 from the 2011 year-end amount of \$474,400. This reduction was due primarily to cash payments for

CITRUS HEIGHTS WATER DISTRICT

Management's Discussion and Analysis
December 31, 2012

accrued leave balances during the year to two retiring employees and to a number of existing District employees.

The accrual for other post-employment benefits increased by \$198,507 in 2012 as a result of the cost of these benefits exceeding the amounts currently paid for premiums.`

Additional information on the District's 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, 2012

ECONOMIC FACTORS AND FUTURE BUDGET CONSIDERATIONS

The District continued to exercise fiscal restraint in budgeting for District operations in FY2013, with an overall increase of 2.35 percent compared with the FY2012 Operating Budget. This budget includes:

- ❖ Maintaining the current level of services and programs for District customers;
- ❖ Continuing increases in regulatory compliance costs such as permitting costs paid to other public agencies and new water quality testing regulations;
- ❖ A reduction of \$26,038 (-3.37%) in debt service costs resulting from the refunding of the former Series 2003 COPs in April 2012, with lower debt service payments under the new 2012 Revenue Refunding bonds.
- ❖ 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 7.67% above 2012 compensation;
- ❖ A total of \$1.898 million in funds allocated to rebuilding financial reserves for capital improvement and employment-related benefits.

For 2013, the District entered its third 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 two years of allocations, about \$218,000 in Field Operations salary and benefits costs have been allocated to an annual 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 2013 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.

The District has rebuilt its financial reserves from their 13-year low of \$3.03 million at the end of FY2008 to a level that will support a higher level of capital investment from reserves. The total capital improvement budget for 2013 is about \$7.17 million compared with \$4.70 million in 2012. This amount includes about \$3.25 million in carry-over projects from 2012, and \$3.92 million in new projects for 2013. Design and partial construction of a new groundwater well, currently identified only as Groundwater Well No. 13, is budgeted at over \$2.46 million in 2013 with an additional \$0.67 million projected for completion in 2014. Replacement of aging water mains on Palm Avenue, Castle Street, Kilborn Drive, Ronne Street and Billie Street are budgeted at \$1.05 million. Preliminary design work of an expansion and other improvements to the District's Administration Building began in 2012, and construction is budgeted in 2013 at about \$299,000. The District has budgeted for over \$603,000 in water service connection replacements during 2013. Also budgeted is the replacement of field operations equipment such as a backhoe

CITRUS HEIGHTS WATER DISTRICT

Management's Discussion and Analysis
December 31, 2012

and two pickup trucks to be replaced with smaller, more fuel-efficient vehicles in 2013 in the amount of about \$193,700. A 2013 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 but declining portion of the District's budget continues to be the repayment of long-term debt financing in the form of Certificates of Participation originally issued in 2000 (refunded in 2010) and Certificates of Participation originally issued in 2003 (refunded as Revenue Refunding Bonds in 2012). The annual debt service for these two issuances is budgeted at \$745,718 for 2013, representing about 7.8 percent of the District's 2013 Operating Budget.

The District's Board of Directors levied a water rate increase of three percent for 2013. The increase will provide additional revenue to offset rising operating costs and the increasing costs of reinvestment in the District's aging water transmission and distribution infrastructure.

The District anticipates the need to consider future 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.

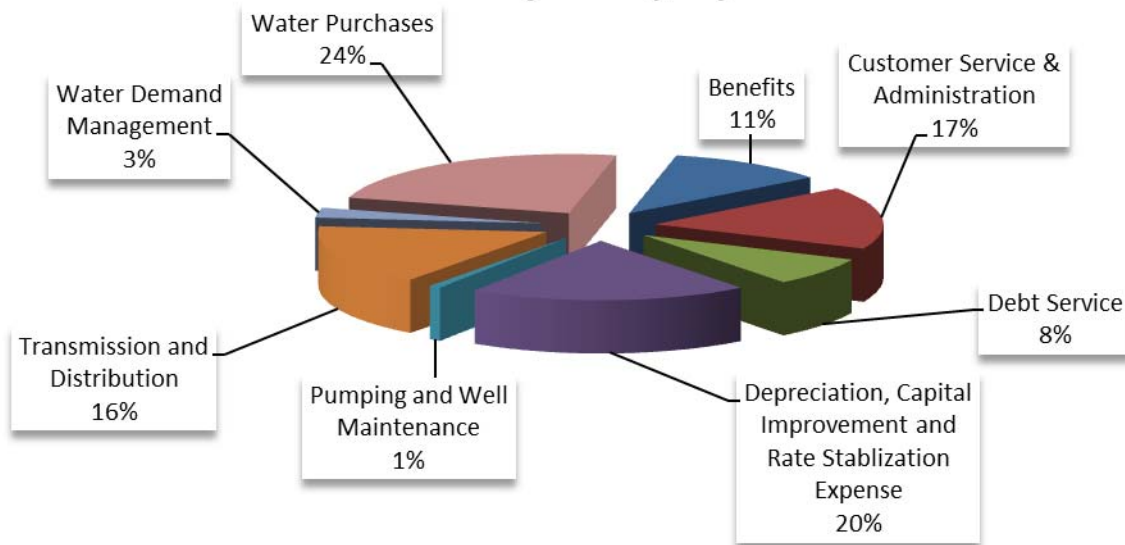
CITRUS HEIGHTS WATER DISTRICT

Management's Discussion and Analysis
December 31, 2012

2013 OPERATING BUDGET SUMMARY

<u>Expense Category</u>	<i>2013 Adopted Budget</i>	<i>% Change 2013 vs. 2012</i>
Benefits	\$ 1,083,317	1.37%
Customer Service & Administration	1,641,943	6.27%
Debt Service	745,718	-3.37%
Depreciation, Capital Improvement and Rate Stabilization Expense	1,898,000	2.32%
Pumping and Well Maintenance	80,978	-45.74%
Transmission and Distribution	1,571,893	6.19%
Water Demand Management	260,565	0.16%
Water Purchases	2,311,473	3.04%
	\$ 9,593,887	2.35%

CHWD 2013 Operating Budget by Category



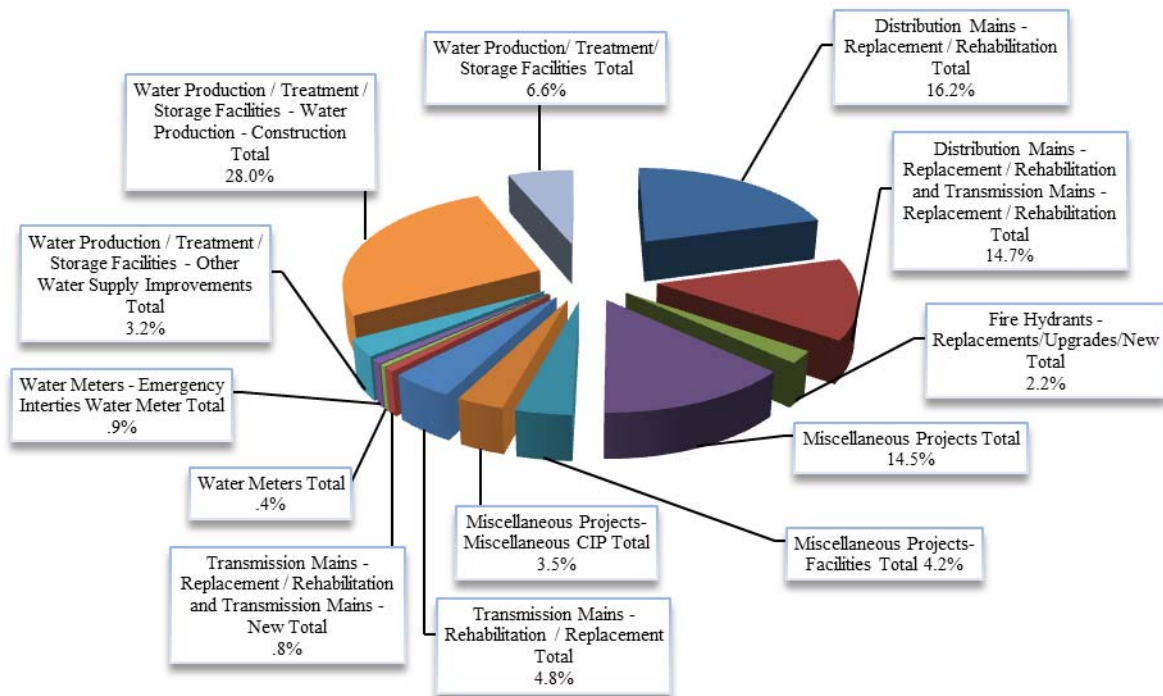
CITRUS HEIGHTS WATER DISTRICT

Management's Discussion and Analysis
December 31, 2012

2013 CAPITAL PROJECTS BUDGET SUMMARY

Category	2013 Adopted
Distribution Mains - New	\$ 1,164,217
Distribution Mains - Replacement / Rehabilitation	1,052,888
Fire Hydrants – Replacement / Upgrades / New	160,966
Miscellaneous Projects - Facilities	298,810
Miscellaneous Projects - Miscellaneous CIP	1,033,488
Transmission Mains - New	341,603
Transmission Mains - Replacement / Rehabilitation	57,307
Water Meters - Emergency Intertie Water Meters	61,948
Water Meters - Residential / Commercial/ Water Meter Replacements	31,433
Water Production / Treatment / Storage Facilities (3 project categories combined)	2,713,095
Project Management & Engineering	252,392
	\$ 7,168,147

CHWD 2013 Capital Improvement Budget by Category



CITRUS HEIGHTS WATER DISTRICT

BALANCE SHEETS

December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ASSETS AND DEFERRED OUTFLOWS		
CURRENT ASSETS		
Cash and investments	\$ 9,098,231	\$ 8,409,408
Accounts receivable	1,668,619	1,555,584
Due from other governments	190,908	252,804
Accrued interest receivable	5,270	6,216
Inventory	345,208	357,156
Prepaid expenses and other assets	672,231	806,568
TOTAL CURRENT ASSETS	<u>11,980,467</u>	<u>11,387,736</u>
RESTRICTED ASSETS		
Restricted cash and investments	536,967	731,706
CAPITAL ASSETS, NET	46,389,365	44,498,471
TOTAL ASSETS	<u>58,906,799</u>	<u>56,617,913</u>
DEFERRED OUTFLOWS		
Deferred amount from refunding debt	101,143	114,194
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>\$ 59,007,942</u>	<u>\$ 56,732,107</u>
LIABILITIES, DEFERRED INFLOWS, AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	\$ 440,964	\$ 328,554
Accrued payroll	92,962	77,071
Accrued interest payable	78,638	99,212
Deposits payable	244,439	208,516
Current portion of long-term liabilities	740,033	731,610
TOTAL CURRENT LIABILITIES	<u>1,597,036</u>	<u>1,444,963</u>
LONG-TERM LIABILITIES		
Certificates of participation	6,011,944	6,693,041
Accrued other postemployment benefits	434,848	336,341
Compensated absences	246,268	242,790
TOTAL LONG-TERM LIABILITIES	<u>6,693,060</u>	<u>7,272,172</u>
TOTAL LIABILITIES	<u>8,290,096</u>	<u>8,717,135</u>
DEFERRED INFLOWS		
Deferred amount from refunding debt	30,497	
NET POSITION		
Net investment in capital assets	40,384,388	38,151,330
Restricted for debt service	536,967	731,706
Unrestricted	9,765,994	9,131,936
TOTAL NET POSITION	<u>50,687,349</u>	<u>48,014,972</u>
TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION	<u>\$ 59,007,942</u>	<u>\$ 56,732,107</u>

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

CITRUS HEIGHTS WATER DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES		
Water sales	\$ 10,285,029	\$ 9,833,125
Connection and other fees	408,379	394,087
TOTAL OPERATING REVENUES	<u>10,693,408</u>	<u>10,227,212</u>
OPERATING EXPENSES		
Customer service, administration and general	2,471,991	2,302,582
Water purchases	2,219,550	2,102,734
Transmission and distribution	1,211,230	1,086,422
Pumping and well maintenance	130,045	162,835
Conservation	74,923	121,700
Depreciation and amortization	1,778,195	1,801,434
TOTAL OPERATING EXPENSES	<u>7,885,934</u>	<u>7,577,707</u>
NET INCOME FROM OPERATIONS	2,807,474	2,649,505
NON-OPERATING (EXPENSES) REVENUES		
Investment income	24,067	28,618
Miscellaneous income	16,127	10,057
Grant revenue	3,126	22,699
Reimbursements		1,145,804
Interest expense	(243,737)	(257,183)
Loss on disposal of capital assets	(31,125)	(30,516)
TOTAL NON-OPERATING (EXPENSES) REVENUES	<u>(231,542)</u>	<u>919,479</u>
CAPITAL CONTRIBUTIONS		
Contributed assets	96,445	228,952
TOTAL CAPITAL CONTRIBUTIONS	<u>96,445</u>	<u>228,952</u>
CHANGE IN NET POSITION	2,672,377	3,797,936
Net position at beginning of year	<u>48,014,972</u>	<u>44,217,036</u>
NET POSITION AT END OF YEAR	<u><u>\$ 50,687,349</u></u>	<u><u>\$ 48,014,972</u></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, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	\$ 10,616,296	\$ 10,285,991
Cash paid to suppliers for goods and services	(3,901,564)	(3,653,936)
Cash paid to employees for services	(1,851,181)	(1,904,279)
NET CASH PROVIDED BY OPERATING ACTIVITIES	4,863,551	4,727,776
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Receipts from other net nonoperating revenues	81,149	1,358,895
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	81,149	1,358,895
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase or construction of capital assets	(3,625,483)	(3,033,877)
Payments on certificates of participation	(3,115,000)	(410,000)
Proceeds from the issuance of long-term debt	2,542,396	
Interest paid on capital debt	(311,525)	(204,506)
Proceeds from disposal of capital assets	33,983	
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(4,475,629)	(3,648,383)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income received	25,013	27,092
NET CASH PROVIDED BY INVESTING ACTIVITIES	25,013	27,092
NET INCREASE IN CASH AND CASH EQUIVALENTS	494,084	2,465,380
Cash and cash equivalents at beginning of year	9,141,114	6,675,734
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 9,635,198	\$ 9,141,114
Cash and cash equivalents consist of the following:		
Unrestricted	\$ 9,098,231	\$ 8,409,408
Restricted	536,967	731,706
	\$ 9,635,198	\$ 9,141,114

(Continued)

CITRUS HEIGHTS WATER DISTRICT

STATEMENTS OF CASH FLOWS (Continued)

For the Years Ended December 31, 2012 and 2011

	2012	2011
RECONCILIATION OF NET INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net income from operations	\$ 2,807,474	\$ 2,649,505
Adjustments to reconcile net income from operations to net cash provided by operating activities:		
Depreciation and amortization	1,778,195	1,801,434
Changes in assets and liabilities:		
Accounts receivable	(113,035)	51,076
Inventory	11,948	(37,115)
Prepaid expenses and other assets	134,337	(77,953)
Accounts payable	112,410	272,369
Accrued payroll	15,891	382
Deposits payable	35,923	7,703
Accrued other postemployment benefits	98,507	116,063
Compensated absences	(18,099)	(55,688)
	\$ 4,863,551	\$ 4,727,776
 SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES		
Receipt of contributed assets	\$ 96,445	\$ 228,952
Deferred amount on bond refunding	\$ 31,279	

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

CITRUS HEIGHTS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2012 and 2011

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. The District is accounted for as an enterprise fund and applies all applicable Governmental Accounting Standards Board (GASB) pronouncements in its accounting and reporting. In addition, the District follows Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. 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 position 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, deferred outflows, liabilities, and deferred inflows associated with the operation of this fund are included on the balance sheet. Net position is 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 position.

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 outflows 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, 2012 and 2011

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 \$1,765,926 and \$1,790,727 for the years ended December 31, 2012 and 2011, 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 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 recognized as an expense in the period incurred.

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, 2012 and 2011

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.

New Pronouncements: Effective January 1, 2012, the District implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows and inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as consumptions of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. This Statement amends the net assets reporting requirements of Statement No. 34 and other pronouncements by incorporating deferred inflows and outflows into the definitions of the required components of residual measure and be renaming that measure as net position, rather than net assets.

Effective January 1, 2012, the District implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows or inflows of resources, certain items that were previously reported as assets and liabilities. The unrestricted net position at December 31, 2012 decreased by \$186,049 due to the implementation of GASB 65. Previous to GASB 65, bond issuance costs were classified as an asset and amortized over the life of the related debt issuance. Under GASB 65, bond issuance costs are now classified as a current-period outflow of resources and expensed.

In June 2012, the GASB approved Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement requires governments providing defined benefit pension plans to recognize their long-term obligation for pension benefits as a liability on the statement of net position and to more comprehensively and comparably measure the annual costs of pension benefits. This Statement also requires revised and new note disclosures and required supplementary information (RSI) to be reported by employers. The implementation of this GASB Statement will have a significant impact on the District’s financial statements and is effective for the District’s December 31, 2015 financial statements.

NOTE B – CASH AND INVESTMENTS

Cash and investments as December 31, 2012 and 2011 are classified in the accompanying financial statements as follows:

	2012	2011
Cash and cash equivalents	\$ 9,098,231	\$ 8,409,408
Restricted cash and investments	536,967	731,706
Total cash and investments	\$ 9,635,198	\$ 9,141,114

CITRUS HEIGHTS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

December 31, 2012 and 2011

NOTE B – CASH AND INVESTMENTS (Continued)

Cash and investments as of December 31, 2012 and 2011 consisted of the following:

	<u>2012</u>	<u>2011</u>
Cash on hand	\$ 550	\$ 550
Deposits with financial institutions	2,607,293	1,838,817
Total cash	<u>2,607,843</u>	<u>1,839,367</u>
Certificates of deposit		103,486
Investments in Local Agency Investment Fund (LAIF)	6,490,388	6,466,555
Held by fiscal agent:		
Money market mutual fund	536,967	731,706
Total investments	<u>7,027,355</u>	<u>7,301,747</u>
Total cash and investments	<u>\$ 9,635,198</u>	<u>\$ 9,141,114</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, 2012, the District's permissible investments included the following instruments:

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio*</u>	<u>Maximum Investment in One Issuer</u>
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.

CITRUS HEIGHTS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

December 31, 2012 and 2011

NOTE B – CASH AND INVESTMENTS (Continued)

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.

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
LAIF	\$ 6,490,388	\$ 6,490,388
Held by bond trustee:		
Money market mutual funds	<u>536,967</u>	<u>536,967</u>
Total	<u>\$ 7,027,355</u>	<u>\$ 7,027,355</u>

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.

CITRUS HEIGHTS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

December 31, 2012 and 2011

NOTE B – CASH AND INVESTMENTS (Continued)

	Minimum Legal Rating	Total	Ratings as of Year End AAA	Not Rated
LAIF	N/A	\$ 6,490,388		\$ 6,490,388
Held by bond trustee:				
Money market mutual funds	AAA	<u>536,967</u>	<u>\$ 536,967</u>	
		<u>\$ 7,027,355</u>	<u>\$ 536,967</u>	<u>\$ 6,490,388</u>

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.

At December 31, 2012, the carrying amount of the District’s deposits were \$2,607,293 and the balances in financial institutions were \$3,133,113. Of the balance in financial institutions, \$780,272 was covered by federal depository insurance and \$2,352,841 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, 2012, 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	\$ 536,967

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 \$63,196,977,710 managed by the State Treasurer. Of that amount, 1.87% 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, 2012 and 2011

NOTE C – CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2012 and 2011 are as follows:

	Balance January 1, 2012	Additions	Deletions	Transfers	Balance December 31, 2012
Capital assets not being depreciated:					
Land	\$ 824,210				\$ 824,210
Right of ways	26,080				26,080
Construction in progress	1,217,151	\$ 1,495,104	\$ (3,599)	\$ (1,204,637)	1,504,019
Total capital assets, not being depreciated	<u>2,067,441</u>	<u>1,495,104</u>	<u>(3,599)</u>	<u>(1,204,637)</u>	<u>2,354,309</u>
Capital assets being depreciated:					
Capacity entitlements	5,615,262	21,449			5,636,711
Improvements	55,847				55,847
Pipelines and infrastructure	38,775,005	1,871,639	(194,611)	1,197,642	41,649,675
Equipment and machinery	2,643,804	221,152	(182,757)	6,995	2,689,194
Buildings and improvements	1,452,041	9,105			1,461,146
Well improvements	4,711,687	7,034			4,718,721
Donated pipelines	15,837,937	96,445			15,934,382
Total capital assets, being depreciated	<u>69,091,583</u>	<u>2,226,824</u>	<u>(377,368)</u>	<u>1,204,637</u>	<u>72,145,676</u>
Less accumulated depreciation for:					
Capacity entitlements	(1,684,579)				(1,684,579)
Improvements	(33,962)	(783)			(34,745)
Pipelines and infrastructure	(13,727,016)	(1,070,468)	103,481		(14,694,003)
Equipment and machinery	(2,237,095)	(126,435)	212,342		(2,151,188)
Buildings	(582,274)	(37,388)			(619,662)
Well improvements	(801,179)	(121,181)	36		(922,324)
Donated pipelines	(7,594,448)	(409,671)			(8,004,119)
Total accumulated depreciation	<u>(26,660,553)</u>	<u>(1,765,926)</u>	<u>315,859</u>		<u>(28,110,620)</u>
Total capital assets, being depreciated, net	<u>42,431,030</u>	<u>460,898</u>	<u>(61,509)</u>	<u>1,204,637</u>	<u>44,035,056</u>
Capital assets, net	<u>\$ 44,498,471</u>	<u>\$ 1,956,002</u>	<u>\$ (65,108)</u>	<u>\$ -</u>	<u>\$ 46,389,365</u>

CITRUS HEIGHTS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

December 31, 2012 and 2011

NOTE C – CAPITAL ASSETS (Continued)

	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>

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, 2012 and 2011

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. In April 2012, the District refunded the 2003 Certificates of Participation with the 2012 Revenue Refunding Bonds.

2010 Certificates of Participation: In 2010, the District issued \$5,155,000 of Revenue Certificates of Participation (Certificates) with interest ranging from 3.00% 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 \$425,000 to \$545,000 are due on September 28 through September 28, 2020 and semi-annual interest payments, ranging from \$10,900 to \$72,500 are due on March 28 and September 28 through September 28, 2020.

2012 Revenue Refunding Bonds: In April 2012, the District issued \$2,275,000 of Revenue Refunding Bonds with interest ranging from 3.00% to 5.25%. These 2012 Revenue Refunding Bonds were issued to refund the 2003 Certificates of Participation (described above). 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 \$70,000 to \$160,000 are due on February 1 through February 1, 2033 and semi-annual interest payments, ranging from \$4,200 to \$49,400 are due on February 1 and August 1 through February 1, 2033.

The activity of the District's long-term liabilities during the years ended December 31, 2012 and 2011 was as follows:

	Balance January 1, 2012	Additions	(Reductions)	Balance December 31, 2012	Due Within One Year
2003 Certificates of Participation	\$ 2,695,000		\$ (2,695,000)		
2010 Certificates of Participation	4,260,000		(420,000)	\$ 3,840,000	\$ 425,000
2012 Revenue Refunding Bonds		\$ 2,275,000		2,275,000	105,000
Less: Unamortized premiums	238,041	267,396	(78,493)	426,944	
	<u>7,193,041</u>	<u>2,542,396</u>	<u>(3,193,493)</u>	<u>6,541,944</u>	<u>530,000</u>
Accrued other postemployment benefits (OPEB)	336,341	120,078	(21,571)	434,848	
Compensated absences	474,400	3,478	(21,577)	456,301	210,033
	<u>\$ 8,003,782</u>	<u>\$ 2,665,952</u>	<u>\$ (3,236,641)</u>	<u>\$ 7,433,093</u>	<u>\$ 740,033</u>

CITRUS HEIGHTS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

December 31, 2012 and 2011

NOTE D – LONG-TERM LIABILITIES (Continued)

	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: Unamortized premiums	261,835		(23,794)	238,041	
	<u>7,626,835</u>		<u>(433,794)</u>	<u>7,193,041</u>	<u>500,000</u>
Accrued other postemployment benefits (OPEB)	220,278	\$ 124,800	(8,737)	336,341	
Compensated absences	530,088	43,260	(98,948)	474,400	231,610
	<u>\$ 8,377,201</u>	<u>\$ 168,060</u>	<u>\$ (541,479)</u>	<u>\$ 8,003,782</u>	<u>\$ 731,610</u>

The annual requirements to amortize the outstanding debt as of December 31, 2012 are as follows:

For the Year Ended December 31:	2010 Certificates of Participation			2012 Revenue Refunding Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 425,000	\$ 145,000	\$ 570,000	\$ 105,000	\$ 99,313	\$ 204,313
2014	435,000	132,250	567,250	75,000	98,038	173,038
2015	450,000	119,200	569,200	70,000	96,238	166,238
2016	470,000	101,200	571,200	75,000	94,063	169,063
2017	485,000	82,400	567,400	80,000	91,338	171,338
2018-2022	1,575,000	127,600	1,702,600	450,000	402,688	852,688
2023-2027				560,000	291,056	851,056
2028-2032				700,000	137,288	837,288
2033				160,000	4,200	164,200
	<u>\$ 3,840,000</u>	<u>\$ 707,650</u>	<u>\$ 4,547,650</u>	<u>\$ 2,275,000</u>	<u>\$ 1,314,222</u>	<u>\$ 3,589,222</u>

Pledged Revenue: The District pledged future water system revenues, net of specified expenses, to repay the 2012 Revenue Refunding Bonds in the original amount of \$2,275,000. Proceeds of the Revenue Refunding Bonds were used to refund the 2003 Certificates of Participation to finance capital improvements to the District's water system. The Revenue Refunding Bonds are payable solely from water customer net revenues and are payable through February, 2033. Annual principal and interest payments on the Bonds are expected to require less than 80% of net revenues. Total principal and interest remaining to be paid on the Revenue Refunding Bonds was \$3,589,222 at December 31, 2012.

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 \$4,547,650 and \$5,121,050 at December 31, 2012 and 2011, respectively.

CITRUS HEIGHTS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

December 31, 2012 and 2011

NOTE D – LONG-TERM LIABILITIES (Continued)

Total principal and interest paid on all debt payable from net revenues was \$771,476 and \$687,906 and the total water system net revenues were \$4,609,736 and \$4,494,330 for the years ended December 31, 2012 and 2011, respectively. At December 31, 2012 and 2011, the District’s net revenues were 598% and 653% of debt service payments, respectively.

Refundings: In April 2012, the District issued the 2012 Revenue Refunding Bonds in the amount of \$2,275,000 with an average interest rate of 4.856%, to refund \$2,275,000 of the 2003 Certificates of Participation with an average interest rate of 4.585%. The District completed the advance refunding to reduce its total debt service payments through 2033. The net economic gain (difference between the present value of the old and new debt service payments) of the 2012 Refunding Bonds is \$142,894. The advance refunding resulted in differences between the reacquisition price and the net carrying amount of the outstanding debt of \$31,279 at December 31, 2012, net of accumulated amortization. This deferred amount on refunding, reported in the accompanying financial statements as a deferred inflow, is being credited to operations over 20 years using the straight-line method.

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, 2012 and 2011.

NOTE F – NET POSITION

Restrictions: Restricted net position 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 position consisted of the following at December 31:

	2012	2011
Debt service reserve on 2003 Certificates of Participation		\$ 194,742
Debt service reserve on 2010 Certificates of Participation	\$ 536,967	536,964
Total restricted net position	\$ 536,967	\$ 731,706

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

Designations: Designations of unrestricted net position 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:

CITRUS HEIGHTS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

December 31, 2012 and 2011

NOTE F – NET POSITION (Continued)

	<u>2012</u>	<u>2011</u>
Rate stabilization	\$ 1,000,000	\$ 1,000,000
Operating reserve	2,711,688	2,524,860
Depreciation reserve capital improvements	786,290	3,010,816
Capital improvement reserve	(137,748)	(1,088,326)
Fleet equipment reserve	491,815	505,716
Employment-related benefits reserve	<u>396,589</u>	<u>365,887</u>
Total	<u>\$ 5,248,634</u>	<u>\$ 6,318,953</u>

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.

CITRUS HEIGHTS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

December 31, 2012 and 2011

NOTE G – DEFINED BENEFIT PENSION PLAN (Continued)

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 \$137,773 during 2012 and \$143,063 during 2011. The District is required to contribute at an actuarially determined rate. The required employer contribution rate for 2010/11 was 16.8%, for 2011/12 was 17.593% and for 2012/13 was 17.831%. 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, 2012, 2011 and 2010 were \$400,048, \$363,868, \$328,028, respectively, which were equal to the required contributions each year.

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 2012 and 2011, the District contributed \$21,571 and \$8,737, 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 2012 and 2011, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the OPEB plan:

	2012	2011
Normal cost	\$ 59,800	\$ 52,468
Amortization of unfunded AAL	60,200	71,632
Annual required contribution	120,000	124,100
Interest and amortization of net OPEB obligation	78	700
Contributions made (premium payments made)	(21,571)	(8,737)
Change in net OPEB obligation	98,507	116,063
Net OPEB obligation, beginning of year	336,341	220,278
Net OPEB obligation, end of year	\$ 434,848	\$ 336,341

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012, 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
December 31, 2012	120,000	17.97%	434,848

CITRUS HEIGHTS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

December 31, 2012 and 2011

NOTE H – OTHER POST-RETIREMENT BENEFITS (Continued)

Funded Status and Funding Progress: As of December 31, 2012, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$1,414,800, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$2,266,500, and the ratio of the UAAL to the covered payroll was 62.42%.

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, 2012 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, 5% per year; for dental premiums, 4.00% per year. The assumptions also include a 3.25% 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, 2012, 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%
December 31, 2012	-	\$ 1,414,800	\$ 1,414,800	-	\$ 2,266,500	62.42%

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 capital project commitments as of December 31, 2012 of \$161,729 related to construction work on the Livoti Tract water main replacement project.

CITRUS HEIGHTS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

December 31, 2012 and 2011

NOTE J – ECONOMIC DEPENDENCY

During 2012 and 2011, the District purchased 95.86% and 92.74%, respectively, of its water supply from the San Juan Water District (SJWD). Total purchases for the year ended December 31, 2012 and 2011 was \$2,219,550 and \$2,102,734. In addition, the District owns water transmission capacity entitlements through the cooperative transmission pipeline project owned and operated by SJWD.

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.

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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, in accordance with the 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, the financial statements of the Citrus Heights Water District (the District) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 25, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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.

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 District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. The prior auditor identified certain deficiencies in internal control, described in the accompanying schedule of prior year findings, that they considered to be a significant deficiency as item 2009-1.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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*. We noted certain other matters that we reported to management of the District in a separate letter dated March 25, 2013.

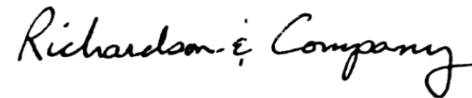
To the Board of Directors
Citrus Heights Water District

The District's Response to Findings

The District's response to the findings identified in our audit are described in the accompanying schedule of prior year findings. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance.

The image shows a handwritten signature in cursive script that reads "Richardson & Company". The signature is written in black ink and is positioned to the right of the main text block.

March 25, 2013

CITRUS HEIGHTS WATER DISTRICT

SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES

December 31, 2012 and 2011

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, 2012 and 2011

Management is confident that its internal controls are sound and that the approach used to prepare its FY 2012 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 2012, and believes that this course of action best serves the District, its Board of Directors and its customers.