

CITRUS HEIGHTS WATER DISTRICT
BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

CITRUS HEIGHTS WATER DISTRICT
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CITRUS HEIGHTS WATER DISTRICT
Basic Financial Statements
For the Years Ended December 31, 2017 and 2016

Table of Contents

FINANCIAL SECTION

INDEPENDENT AUDITOR’S REPORT 1

MANAGEMENT’S DISCUSSION AND ANALYSIS3

BASIC FINANCIAL STATEMENTS

 Balance Sheets12

 Statements of Revenues, Expenses, and Changes in Net Position.....13

 Statements of Cash Flows14

 Notes to Basic Financial Statements17

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of the Plan’s Proportionate Share of the Net Pension Liability and
 Related Ratios as of the Measurement Date 40

Schedule of Contributions 41

Schedule of Funding Status –
 Other Post-Employment Benefits Obligation42

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Financial Section

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Citrus Heights Water District (District), California, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District as of December 31, 2017 and 2016, and the respective changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

Management adopted the provision of the following Governmental Accounting Standards Board Statement which became effective during the year ended December 31, 2017 as discussed in Note 1 to the financial statements:

Statement No. 82 – Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No.73

The emphasis of this matter does not constitute a modification to our opinions.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management’s Discussion and Analysis, and other required supplementary information as listed in the Table of Contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the 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 May 3, 2018, 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* in considering the District’s internal control over financial reporting and compliance.



Pleasant Hill, California
May 3, 2018

CITRUS HEIGHTS WATER DISTRICT

Management's Discussion and Analysis December 31, 2017

The management of the Citrus Heights Water District (District) intends to present this Management Discussion and Analysis to serve as an introduction to the District's Financial Statements and to provide readers with a broad overview of the district's finances and an easier to understand narrative information that may help in interpreting the information presented in the Financial Statements for the year ending December 31, 2017.

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 2017 and its financial position at the close of the year 2017:

- ❖ The District's assets exceeded its liabilities at the end of year 2017 by \$64,769,085. About 83 percent of the District's net position, \$53,886,153, 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 \$10,347,199, up from \$6,782,716 at the end of year 2016. This increase is due primarily to revenue generated from increased water sales in FY2017 as compared with FY2016, and also a 13 percent rate increase levied by the Board of Directors at the beginning of FY2017.
- ❖ Capital improvement spending in year 2017 decreased by \$6.9 million as compared with year 2016. Capital improvements capitalized in 2017 amounted to \$1,696,149.
- ❖ The District's operating revenues for 2017 were \$14,043,049. About 95.8 percent of operating revenues, \$13,448,691, came from water sales to customers. As previously mentioned, the District adopted a rate increase for FY2017, increasing water rates by 13 percent above water rates that were in place for FY2016.
- ❖ The District's total net long-term liabilities at the end of 2017, including the 2012 Revenue Refunding bonds, the 2010 Revenue Refunding Certificates of Participation, accrued other postemployment benefits, and compensated absences is \$9,072,301. The GASB 68 required recording of pension liability and pension related deferred inflows and outflows amounted to \$4,155,588. Liabilities from Bond debt service decreased by \$599,819 due in large part to a reduction in principal on debt during 2017 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 and required supplementary information.

CITRUS HEIGHTS WATER DISTRICT

Management's Discussion and Analysis December 31, 2017

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 required supplementary information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB) to provide more context regarding the financial statements from an appropriate operational, economic, or historical perspective.

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.

Balance Sheet

As of December 31, 2017, the total net position of the District was \$64,769,085. The following table summarizes assets, deferred outflows, liabilities, deferred inflows, and net assets at December 31, 2017, 2016, and 2015:

	2017	2016	2015
Current assets, unrestricted	\$ 15,713,090	\$ 12,309,889	\$ 10,687,841
Restricted cash and cash equivalents	535,733	533,796	533,350
Capital assets, net	57,038,900	56,078,006	55,206,322
Deferred outflows	1,981,897	764,732	530,528
Total Assets and Deferred Outflows	75,269,620	69,686,423	66,958,041
Current Liabilities	2,031,682	1,618,896	1,675,151
Non-current liabilities	8,280,325	7,955,992	8,590,592
Deferred Inflows	188,528	459,794	829,619
Total Liabilities and Deferred Inflows	10,500,535	10,034,682	11,095,362
Net Position			
Net investment in capital assets	53,886,153	52,335,229	50,895,005
Restricted for debt service	535,733	533,796	533,350
Unrestricted	10,347,199	6,782,716	4,434,324
Total Net Position	\$64,769,085	\$59,651,741	\$55,862,679

The District's net position reflects restrictions imposed as a condition of its Certificates of Participation debt. The remaining net position is unrestricted.

CITRUS HEIGHTS WATER DISTRICT

Management's Discussion and Analysis December 31, 2017

Changes in Net Position

The following table summarizes the changes in net position for the fiscal years ended December 31, 2017, 2016, and 2015:

	2017	2016	2015
Operating revenues	\$14,043,049	\$12,325,057	\$10,884,550
Operating expenses:			
Customer service, administration and general	2,543,736	2,342,957	2,514,087
Water purchases	2,692,482	2,190,061	1,950,627
Transmission and distribution	1,963,750	2,114,019	1,239,387
Pumping and well maintenance	145,077	184,776	132,842
Water demand management (Conservation)	189,336	212,150	186,114
Depreciation and amortization	2,345,281	2,203,170	2,098,944
Total operating expenses	9,879,662	9,247,133	8,122,001
Operating income	4,163,377	3,077,924	2,762,549
Net non-operating revenues (expenses)	898,144	(186,265)	(120,929)
Net income before capital contributions	5,061,521	2,891,659	2,641,620
Capital contributions:			
Contributed (donated) assets	55,813	896,688	438,567
Grant Revenue	-	715	610,431
Total capital contributions	55,813	897,403	1,048,998
Change in net position	5,117,344	3,789,062	3,690,618
Net position, beginning of year	59,651,741	55,862,679	55,900,828
Prior period adjustment	-	-	(3,728,767)
Net position, end of year	\$ 64,769,085	\$59,651,741	\$55,862,679

Net position increased \$5,117,344, or 8.6 percent from the prior year. Operating revenue that exceeded operating expenses by \$4.1 million 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 receipt of \$55,813 in donated assets from private developer additions to the District's water distribution system accounted for about 1 percent of the increase in net assets.

CITRUS HEIGHTS WATER DISTRICT

Management's Discussion and Analysis December 31, 2017

Total operating revenues increased by \$1.7 million or 13.93 percent from the prior year. A combination of increased water sales and an increase in water rates accounts for most of this increase. Water consumption by the District customers increased in FY2017 compared with consumption in FY2016 as the state-wide drought conditions lifted.

Operating expenses also increased in 2017 by \$632,529, or 6.8 percent from prior year, due to increases in operating costs such as GASB 68 CalPERS unfunded liability and cost of materials and supplies used to operate and maintain the District's water distribution system and groundwater production wells.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2017, the District's investment in capital assets, net of related debt, was \$53,886,153, 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 continued to represent the majority of the \$3.5 million additions to the District's capital assets in 2017. A number of private development projects resulted in the addition of \$55,813 in donated capital assets.

Additional information on the District's capital assets can be found in Note 3, 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. Through scheduled debt service payments during 2017, principal on its collective debt was reduced by \$599,819. The District's total debt from its COP and bond issuances now stands at approximately \$3.7 million.

Total compensated absences (long-term liability and current portion combined), are composed of leave hours earned by employees that are payable upon termination or retirement and are valued at \$378,339 at the end of 2017, a decrease from the FY2016 year-end amount of \$333,080. This reduction was due primarily to cash payments for accrued leave balances during the year to two departing employees.

The accrual for other post-employment benefits increased by \$95,772 in 2017 as a result of the annual cost of these benefits exceeding the amounts currently paid for premiums.

Additional information on the District's debt activity can be found in Note 4, Long-Term Liabilities, of the notes to the basic financial statements.

CITRUS HEIGHTS WATER DISTRICT

Management's Discussion and Analysis
December 31, 2017

ECONOMIC FACTORS AND FUTURE BUDGET CONSIDERATIONS

The District continued to exercise fiscal restraint in budgeting for District operations in 2018, with an overall increase of 20 percent compared with the 2017 Operating Budget. This budget includes:

- ❖ Maintaining the current level of services and programs for District customers;
- ❖ An 8% aggregate increase of treated water cost from San Juan Water District due to projected 9% rate increase and anticipated increase in consumption. The projected quantity of water estimated to be purchased is 12,500 AF, which is greater than the projected 2017 total water purchased;
- ❖ Employee benefit net cost increase of about \$188,000. A number of factors contributed to the overall increase, including PERS UAL (Unfunded Actuarial Liability), payment of \$360,000 as recommended by CalPERS as approved by the Board to fund at the 15-year amortization schedule, an increase in new employees whose CalPERS contribution rates are lower, Board also approved the funding of Other Post-Employment Benefits (OPEB) UAL at a 20-year amortization schedule, lower total healthcare premiums as a result of new employees replacing long-term employees who were at higher premium points, and an increase of 12% in healthcare premium costs;
- ❖ Professional contract services increase of about \$475,000 for use towards the Project 2030 Study, as we move forward to plan our mains replacements beyond 2030. Additionally, advanced planning for a District-wide meter replacement program and District Easements Study.
- ❖ Includes \$435,000 in transfers to the Capital Improvement Reserves, a transfer of \$100,000 to replenish the Rate Stabilization Reserve, \$100,000 to the Water Supply Reserve, \$50,000 to the Water Efficiency Reserve, \$1.15 million to the Water Supply Reserve and, \$300,000 to the Water Meter Replacement Reserve.

A 2018 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 plans to rebuild its financial reserves to a level that supports a higher level of capital investment from reserves. Total capital improvement expenditures budgeted for FY2018 are about \$6.6 million compared with \$5.8 million in FY2017. This amount includes about \$1.7 million in carry-over projects from prior years, and about \$4.9 million in new projects for FY2018. Installation of new fire hydrants as well as replacements and upgrades for \$154,500, four water main replacement or installation projects, scheduled to start design, will be undertaken in 2018 with construction targeted for 2019 at a total cost of \$1.1 million. Operations equipment replacements and new equipment purchases totaling \$145,000 are planned for 2018.

CITRUS HEIGHTS WATER DISTRICT

Management's Discussion and Analysis December 31, 2017

A 2018 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 \$735,936 for FY2018.

The District's Board of Directors levied a water rate increase designed to achieve an overall increase in water rate revenues of 3 percent for 2018. The District utilized a detailed cost-of-service and financial plan study set in place in FY2013 to determine the increase, taking into consideration the statewide water mandates, capital improvement program, and water meter reserves. The increase in revenues resulting from the FY2018 water rates 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. The financial plan adopted by the Board of Directors in FY2013 contemplates water rate increases in the 3 percent range every year through FY2019. However, water rates for years beyond FY2018 have not been adopted by the Board of Directors.

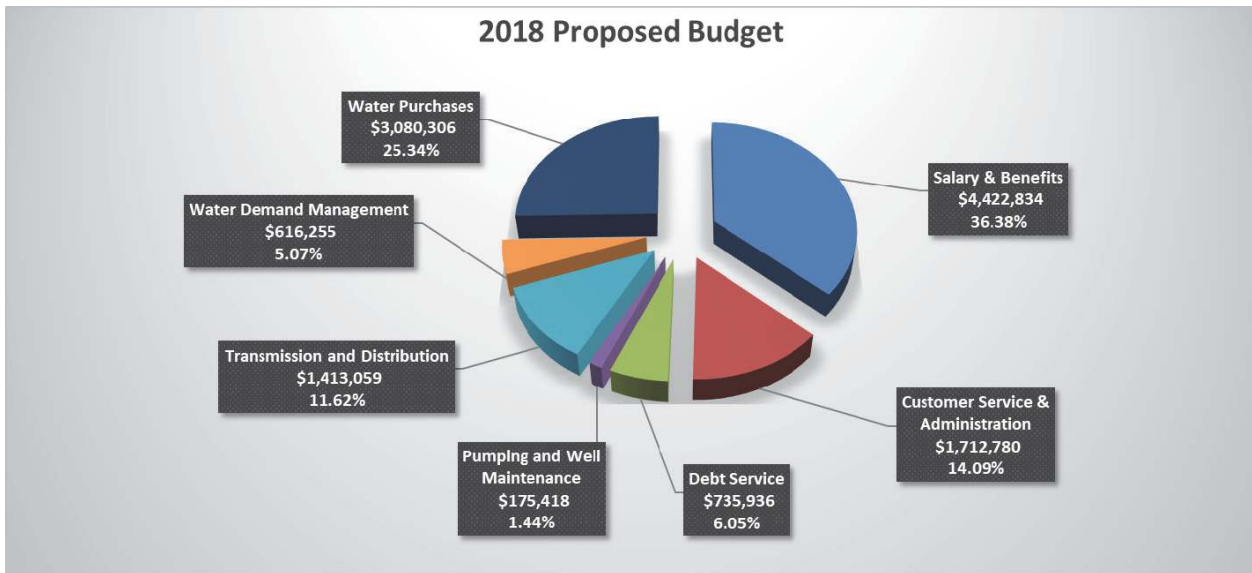
CITRUS HEIGHTS WATER DISTRICT

Management's Discussion and Analysis December 31, 2017

CITRUS HEIGHTS WATER DISTRICT 2018 OPERATING BUDGET SUMMARY

Adopted: November 08, 2017

<i>Expense Category</i>	2016 Budget	2016 Actual	2017 Budget	2017 Projected	2018 Proposed Budget	% Change 2016 vs. 2017
Salary & Benefits	\$ 3,597,333	\$ 3,429,887	\$ 3,872,783	\$ 3,785,539	\$ 4,422,834	14.20%
Customer Service & Administration	\$ 1,113,405	\$ 1,181,847	\$ 1,119,894	\$ 1,097,820	\$ 1,712,780	52.94%
Debt Service	\$ 740,263	\$ 189,433	\$ 738,738	\$ 738,738	\$ 735,936	-0.38%
Pumping and Well Maintenance	\$ 266,904	\$ 158,893	\$ 228,384	\$ 169,990	\$ 175,418	-23.19%
Transmission and Distribution	\$ 547,960	\$ 885,006	\$ 841,992	\$ 600,461	\$ 1,413,059	67.82%
Water Demand Management	\$ 428,500	\$ 210,349	\$ 433,905	\$ 204,452	\$ 616,255	42.03%
Water Purchases	\$ 2,387,701	\$ 2,190,061	\$ 2,851,387	\$ 2,737,020	\$ 3,080,306	8.03%
	\$ 9,082,066	\$ 8,245,477	\$ 10,087,082	\$ 9,334,020	\$ 12,156,588	20.52%



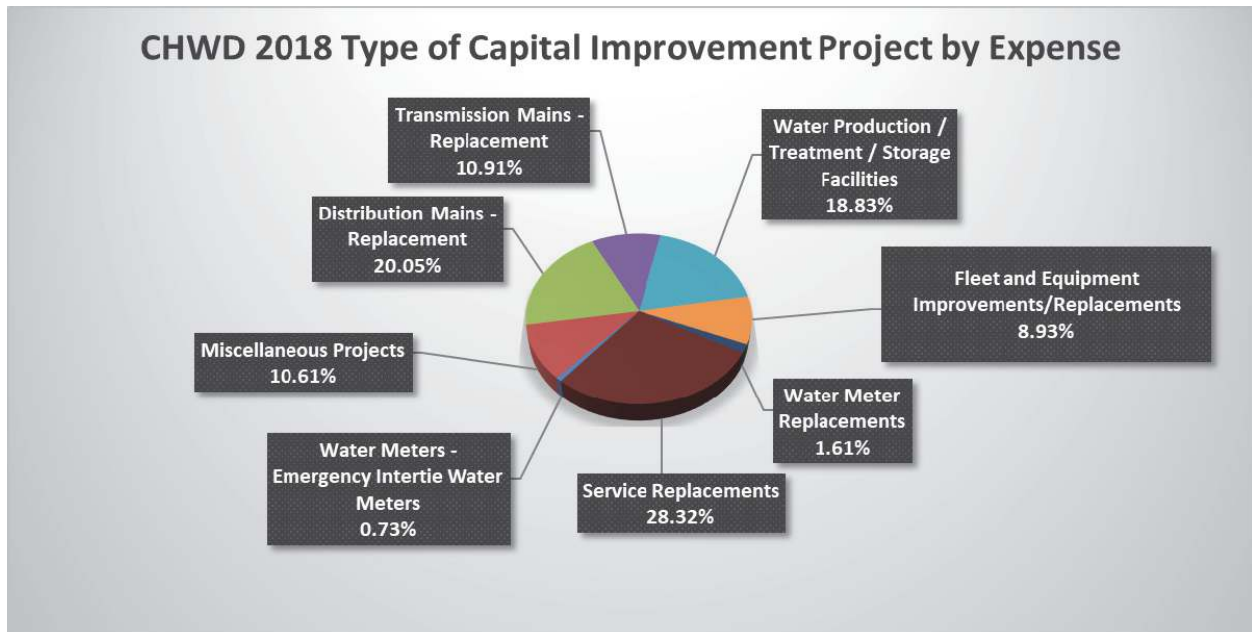
CITRUS HEIGHTS WATER DISTRICT

Management's Discussion and Analysis
December 31, 2017

Citrus Heights Water District 2018 CAPITAL PROJECTS BUDGET SUMMARY

Adopted: November 08, 2017

<i>Category</i>	<i>2017 Adopted Budget</i>	<i>2018 Proposed Budget</i>	<i>Total Project Budget</i>
Distribution Mains - Replacement	87,836	1,249,433	1,328,793
Fleet and Equipment Improvements/Replacements	861,500	567,000	592,000
Miscellaneous Projects	250,000	653,000	703,000
Transmission Mains - Replacement	146,936	575,959	722,895
Water Meters - Emergency Intertie Water Meters	41,995	48,327	48,327
Water Production / Treatment / Storage Facilities	1,005,000	1,127,500	1,247,500
Water Meter Replacements	100,000	107,000	107,000
Service Replacements	923,000	1,876,243	1,876,243
Grand Total	\$ 3,416,266	\$ 6,204,462	\$ 6,625,758



Basic Financial Statements

CITRUS HEIGHTS WATER DISTRICT
BALANCE SHEETS
DECEMBER 31, 2017 AND 2016

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and investments (Note 2)	\$12,058,984	\$9,738,990
Restricted - cash and investments (Note 2)	535,733	533,796
Accounts receivable, net	2,432,542	2,002,102
Due from other governments	662,991	1,246
Accrued interest receivable	23,519	15,272
Inventory	235,467	259,637
Prepaid expenses and other deposits	299,587	292,642
Total current assets	16,248,823	12,843,685
NON-CURRENT ASSETS		
Non-depreciable capital assets (Note 3)	2,836,183	1,126,441
Depreciable capital assets, net (Note 3)	54,202,717	54,951,565
Total non-current assets	57,038,900	56,078,006
TOTAL ASSETS	73,287,723	68,921,691
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount from refunding debt	35,889	48,940
Pension related (Note 7)	1,946,008	715,792
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,981,897	764,732
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$75,269,620	\$69,686,423
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$670,330	\$368,716
Retentions payable	76,613	21,028
Accrued payroll	65,476	59,301
Accrued interest payable	52,987	57,909
Deposits payable	374,300	341,011
Current portion of long-term liabilities:		
Compensated absences (Note 4)	206,976	205,931
Long-term debt (Note 4)	585,000	565,000
Total current liabilities	2,031,682	1,618,896
NON-CURRENT LIABILITIES		
Long-term liabilities - due in more than one year:		
Compensated absences (Note 4)	171,363	127,149
Long-term debt (Note 4)	3,112,847	3,732,666
Net pension liability (Note 7)	4,155,588	3,351,422
Net OPEB obligation (Note 8)	840,527	744,755
Total non-current liabilities	8,280,325	7,955,992
TOTAL LIABILITIES	10,312,007	9,574,888
DEFERRED INFLOWS OF RESOURCES		
Deferred amount from refunding debt	26,522	27,847
Pension related (Note 7)	162,006	431,947
TOTAL DEFERRED INFLOWS OF RESOURCES	188,528	459,794
NET POSITION (Note 6)		
Net investment in capital assets	53,886,153	52,335,229
Restricted for debt service	535,733	533,796
Unrestricted	10,347,199	6,782,716
TOTAL NET POSITION	64,769,085	59,651,741
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$75,269,620	\$69,686,423

See accompanying notes to financial statements

CITRUS HEIGHTS WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
OPERATING REVENUES		
Water sales	\$13,448,691	\$11,602,622
Connection and other fees	<u>594,358</u>	<u>722,435</u>
Total operating revenues	<u>14,043,049</u>	<u>12,325,057</u>
OPERATING EXPENSES		
Customer service, administration and general	2,543,736	2,342,957
Water purchases	2,692,482	2,190,061
Transmission and distribution	1,963,750	2,114,019
Pumping and well maintenance	145,077	184,776
Conservation	189,336	212,150
Depreciation and amortization	<u>2,345,281</u>	<u>2,203,170</u>
Total operating expenses	<u>9,879,662</u>	<u>9,247,133</u>
OPERATING INCOME	<u>4,163,387</u>	<u>3,077,924</u>
NONOPERATING REVENUES (EXPENSES)		
Investment income	63,531	38,313
Miscellaneous income	77,074	68,203
Groundwater transfers and sales	1,058,793	-
Interest expense	(145,911)	(155,214)
(Loss) gain on disposal of capital assets	<u>(155,343)</u>	<u>(137,567)</u>
Total nonoperating revenues (expenses)	<u>898,144</u>	<u>(186,265)</u>
Net income (loss) before capital contributions	<u>5,061,531</u>	<u>2,891,659</u>
CAPITAL CONTRIBUTIONS		
Grant revenue	-	715
Capital contributions	<u>55,813</u>	<u>896,688</u>
Total capital contributions	<u>55,813</u>	<u>897,403</u>
CHANGES IN NET POSITION	5,117,344	3,789,062
NET POSITION, BEGINNING OF YEAR	<u>59,651,741</u>	<u>55,862,679</u>
NET POSITION, END OF YEAR	<u><u>\$64,769,085</u></u>	<u><u>\$59,651,741</u></u>

See accompanying notes to financial statements

CITRUS HEIGHTS WATER DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	\$13,668,194	\$12,193,259
Cash paid to suppliers for goods and services	(5,731,692)	(4,071,755)
Cash paid to employees for services	(2,657,612)	(2,875,090)
Cash Flows from Operating Activities	5,278,890	5,246,414
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Receipts from other net operating income	1,135,867	68,203
Cash Flows from Noncapital Financing Activities	1,135,867	68,203
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital grant revenues		715
Acquisition and construction of capital assets	(3,250,362)	(2,410,946)
Proceeds from sale of capital assets	(155,343)	95,213
Principal payments on long-term debt	(599,819)	(579,820)
Interest payments on long-term debt	(150,833)	(161,564)
Cash Flows (used for) Capital and Related Financing Activities	(4,156,357)	(3,056,402)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earnings	63,531	38,313
Groundwater transfers and sales		
Cash Flows from Investing Activities	63,531	38,313
NET CASH FLOWS	2,321,931	2,296,528
Cash, beginning of year	10,272,786	7,976,258
Cash, end of year	\$12,594,717	\$10,272,786
Reconciliation of cash and cash equivalents to statement of net position:		
Cash and cash equivalents	\$12,058,984	\$9,738,990
Restricted - cash and cash equivalents	535,733	533,796
Total cash and cash equivalents	\$12,594,717	\$10,272,786

(Continued)

CITRUS HEIGHTS WATER DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

RECONCILIATION OF NET INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	2017	2016
Net income from operations	\$4,163,387	\$3,077,924
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	2,345,281	2,203,170
Change in assets and liabilities:		
(Increase) decrease in assets and deferred outflows of resources:		
Accounts receivable	(430,440)	(33,213)
Inventory	24,170	17,276
Prepaid expenses and other assets	(676,937)	689,971
Deferred amount from refunding of debt	13,051	13,051
Increase (decrease) in liabilities and deferred inflows of resources:		
Accounts payable	301,614	(48,962)
Accrued payroll	6,175	13,271
Deposits payable	33,289	3,402
Retentions payable	55,585	(98,585)
Accrued other postemployment benefits	95,772	51,942
Compensated absences	45,259	(18,235)
Deferred amount from refunding of debt	(1,325)	(1,325)
Net pension liability and related deferred inflows and outflows	(695,991)	(623,273)
Net cash provided by operating activities	\$5,278,890	\$5,246,414
 SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES		
Receipt of contributed assets	\$55,813	\$896,688

See accompanying notes to financial statements

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CITRUS HEIGHTS WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 about 19,600 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 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 GASB pronouncements in its accounting and reporting. The more significant of the District's accounting policies are described below.

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 represents 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. When such funds are received they are recorded as unearned revenue until earned. Earned but unbilled water services are accrued as revenue.

CITRUS HEIGHTS WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016

**NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

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. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or ancillary activities.

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.

Fair Value Measurements: Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs are inputs – other than quoted prices included within level 1 – that are observable for an asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for an asset or liability.

If the fair value of an asset or liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

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.

CITRUS HEIGHTS WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Prepays: Prepays consist primarily of insurance, maintenance agreements and other prepaid assets.

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	Useful 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 \$2,334,743 and \$2,187,515 for the years ended December 31, 2017 and 2016, 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 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.

Deferred Amount from Refunding Debt: The difference between the reacquisition price of refunded debt and the net carrying amount of the previously outstanding debt is deferred and reported as either a deferred outflow or deferred inflow on the balance sheet. These amounts are amortized over the shorter of the term of the old debt or the new debt.

Deferred Outflows: In addition to assets, the balance sheet reports a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position or fund balance that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then.

Deferred Inflows: In addition to liabilities, the balance sheet reports a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position or fund balance that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time.

**CITRUS HEIGHTS WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016**

**NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

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 service to the District. The cost of annual leave, management leave and compensatory time-off is recognized in the period earned.

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: Management adopted the provisions of the following Governmental Accounting Standards Board (GASB) Statements, which became effective during the year ended December 31, 2017:

GASB Statement No. 80 – Blending requirements for Certain Component Units – an amendment of GASB Statement No. 14 – The objective of this statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units of all states and local governments. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, The Financial Reporting Entity, as amended. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. This statement had no effect on the financial statements.

GASB Statement No. 82 – Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73 – The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement had no effect on the financial statements.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments as of December 31 are classified in the accompanying financial statements as follows:

	2017	2016
Cash and investments	\$12,058,984	\$9,738,990
Restricted cash and investments	535,733	533,796
Total cash and investments	<u>\$12,594,717</u>	<u>\$10,272,786</u>

CITRUS HEIGHTS WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016

NOTE 2 – CASH AND INVESTMENTS (Continued)

Cash and investments as of December 31 consisted of the following:

	2017	2016
Cash on hand	\$550	\$550
Deposits with financial institutions	5,948,171	3,669,028
Total cash	5,948,721	3,669,578
Investments in Local Agency Investment Fund (LAIF)	6,110,263	6,069,412
Held by fiscal agent:		
Money market mutual fund	535,733	533,796
Total investments	6,645,996	6,603,208
Total cash and investments	\$12,594,717	\$10,272,786

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. 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, 2017, the District’s permissible investments included the following instruments:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio*	Maximum Investment In One Issuer
Local Agency Investment Program	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
Medium Term Corporate Notes	5 years	30%	None
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-through Securities	5 years	20%	No Limit
LAIF	N/A	None	No Limit
Passbook Deposits	45 days	None	None
Supranationals	5 years	30%	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 BASIC FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016

NOTE 2 – 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 Investment Program	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
Negotiable Certificates of Deposits	None	None	None
Investment Agreements	None	None	None
Repurchase Agreements	None	None	None
Money Market Mutual Funds	N/A	None	None
LAIF	N/A	None	None

Fair Value Hierarchy: The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The following is a summary of the fair value hierarchy of the fair value of investments of the District as of December 31, 2017:

	Level 1	Total
<i>Investments by Fair Value Level:</i>		
Money Market Mutual Fund	\$535,733	\$535,733
Total Investments	\$535,733	535,733
<i>Investments Measured at Amortized Cost:</i>		
Money Market Mutual Fund		530,717
<i>Cash in banks and on hand</i>		5,418,004
<i>Total Cash and Investments subject to Fair Value Hierarchy</i>		6,484,454
<i>Investments not subject to Fair Value Hierarchy</i>		
California Local Agency Investment Fund (LAIF)		6,110,263
Total Cash and Investments		\$12,594,717

CITRUS HEIGHTS WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016

NOTE 2 – CASH AND INVESTMENTS (Continued)

The following is a summary of the fair value hierarchy of the fair value of investments of the District as of December 31, 2016:

	Level 1	Total
<i>Investments by Fair Value Level:</i>		
Money Market Mutual Fund	\$533,796	\$533,796
Total Investments	\$533,796	533,796
<i>Investments Measured at Amortized Cost:</i>		
Money Market Mutual Fund		530,488
<i>Cash in banks and on hand</i>		3,139,090
<i>Total Cash and Investments subject to Fair Value Hierarchy</i>		4,203,374
<i>Investments not subject to Fair Value Hierarchy</i>		
California Local Agency Investment Fund (LAIF)		6,069,412
Total Cash and Investments		\$10,272,786

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. All of the District's investments mature in 12 months or less.

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 for the year ended December 31, 2017.

	Minimum Legal Rating	Ratings as of Year End AAAm	Not Rated	Total
LAIF	N/A		\$6,110,263	\$6,110,263
Held by bond trustee:				
Money market mutual funds	AAAm	\$535,733		535,733
		\$535,733	\$6,110,263	\$6,645,996

**CITRUS HEIGHTS WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016**

NOTE 2 – CASH AND INVESTMENTS (Continued)

The following is a summary of 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 for the year ended December 31, 2016.

	Minimum Legal Rating	Ratings as of Year End AAAm	Not Rated	Total
LAIF	N/A		\$6,069,412	\$6,069,412
Held by bond trustee:				
Money market mutual funds	AAAm	\$533,796		533,796
		<u>\$533,796</u>	<u>\$6,069,412</u>	<u>\$6,603,208</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 5% 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, the District will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Under California Government Code Section 53651, depending on specific types of eligible securities, a bank must deposit eligible securities posted as collateral with its Agent having a fair value of 105% to 150% of the District’s cash on deposit. All of the District’s deposits are either insured by the Federal Depository Insurance Corporation (FDIC) or collateralized with pledged securities held in the trust department of the financial institutions in the District’s name.

Investment in LAIF: The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The District reports its investment in LAIF at the fair value amount provided by LAIF. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF’s investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations. At December 31, 2017 and 2016, respectively, these investments matured in an average of 186 and 171 days.

CITRUS HEIGHTS WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2017 and 2016 are as follows:

	Balance December 31, 2016	Additions	Retirements	Transfers	Balance December 31, 2017
Capital assets not being depreciated:					
Land	\$955,683				\$955,683
Right of ways	26,080				26,080
Construction in progress	144,678	\$3,419,838	(\$13,947)	(\$1,696,149)	1,854,420
Total capital assets not being depreciated	1,126,441	3,419,838	(13,947)	(1,696,149)	2,836,183
Capital assets being depreciated:					
Improvements	55,847				55,847
Pipelines and infrastructure	58,852,269		(1,355,041)	1,381,268	58,878,496
Equipment and machinery	3,185,591	9,213	(94,019)	313,157	3,413,942
Buildings and improvements	2,776,214			1,724	2,777,938
Well improvements	7,604,268				7,604,268
Donated pipelines	17,380,532	55,813	(219)		17,436,126
Total capital assets being depreciated	89,854,721	65,026	(1,449,279)	1,696,149	90,166,617
Less accumulated depreciation for:					
Improvements	(37,874)	(783)			(38,657)
Pipelines and infrastructure	(20,479,755)	(1,452,783)	1,223,936		(20,708,602)
Equipment and machinery	(2,488,814)	(171,500)	49,844		(2,610,470)
Buildings and improvements	(810,660)	(71,455)			(882,115)
Well improvements	(1,420,742)	(189,869)			(1,610,611)
Donated pipelines	(9,665,311)	(448,353)	219		(10,113,445)
Total accumulated depreciation	(34,903,156)	(2,334,743)	1,273,999		(35,963,900)
Total capital assets being depreciated, net	54,951,565	(2,269,717)	(175,280)	1,696,149	54,202,717
Capital Assets, net	\$56,078,006	\$1,150,121	(\$189,227)		\$57,038,900

CITRUS HEIGHTS WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016

NOTE 3 – CAPITAL ASSETS (Continued)

	Balance December 31, 2015	Additions	Retirements	Transfers	Balance December 31, 2016
Capital assets not being depreciated:					
Land	\$955,683				\$955,683
Right of ways	26,080				26,080
Construction in progress	6,382,577	\$2,410,946	(\$79,222)	(\$8,569,623)	144,678
Total capital assets not being depreciated	7,364,340	2,410,946	(79,222)	(8,569,623)	1,126,441
Capital assets being depreciated:					
Improvements	55,847				55,847
Pipelines and infrastructure	55,492,371		(\$1,015,826)	4,375,724	58,852,269
Equipment and machinery	3,049,855		(2,744)	138,480	3,185,591
Buildings and improvements	1,466,585			1,309,629	2,776,214
Well improvements	4,858,478			2,745,790	7,604,268
Donated pipelines	16,502,854	896,688	(19,010)		17,380,532
Total capital assets being depreciated	81,425,990	896,688	(1,037,580)	8,569,623	89,854,721
Less accumulated depreciation for:					
Improvements	(37,092)	(782)			(37,874)
Pipelines and infrastructure	(19,955,970)	(1,379,953)	856,168		(20,479,755)
Equipment and machinery	(2,313,889)	(177,669)	2,744		(2,488,814)
Buildings and improvements	(738,205)	(72,455)			(810,660)
Well improvements	(1,292,086)	(128,656)			(1,420,742)
Donated pipelines	(9,246,766)	(428,000)	9,455		(9,665,311)
Total accumulated depreciation	(33,584,008)	(2,187,515)	868,367		(34,903,156)
Total capital assets being depreciated, net	47,841,982	(1,290,827)	(\$169,213)	8,569,623	54,951,565
Capital Assets, net	\$55,206,322	\$1,120,119	(\$248,435)		\$56,078,006

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 \$5,636,711. 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 is being amortized over the pipeline's estimated useful life of forty years.

NOTE 4 – LONG-TERM LIABILITIES

Long-term liabilities consist of the following:

2010 Certificates of Participation: In 2010, the District issued \$5,155,000 of Revenue Certificates of Participation (Certificates) with an interest rate of 4.00%. These 2010 Certificates were issued to retire the 2000 Certificates of Participation, which were issued 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 \$450,000 to \$545,000 are due on September 28 through September 28, 2020 and semi-annual interest payments, ranging from \$10,900 to \$59,600 are due on March 28 and September 28 through September 28, 2020.

CITRUS HEIGHTS WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016

NOTE 4 – LONG-TERM LIABILITIES (Continued)

2012 Revenue Refunding Bonds: In April 2012, the District issued \$2,275,000 of Revenue Refunding Bonds with interest rates ranging from 3.00% to 5.25%. These 2012 Revenue Refunding Bonds were issued to retire the 2003 Certificates of Participation, which were issued to finance the cost of 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 \$70,000 to \$160,000 are due on February 1 through February 1, 2033, and semi-annual interest payments, ranging from \$4,200 to \$48,600 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, 2017 and 2016 was as follows:

	Balance December 31, 2016	Additions	Retirements	Balance December 31, 2017	Current Portion
2010 Certificates of Participation 4%, due 9/28/20	\$2,060,000		(\$485,000)	\$1,575,000	\$505,000
2012 Revenue Refunding Bonds 3-5.25%, due 2/1/33	1,950,000		(80,000)	1,870,000	80,000
Less: Unamortized premiums	<u>287,666</u>		<u>(34,819)</u>	<u>252,847</u>	
	4,297,666		(599,819)	3,697,847	585,000
Net pension liability	3,351,422	\$804,166		4,155,588	
Net OPEB obligation	744,755	138,000	(42,228)	840,527	
Compensated absences	<u>333,080</u>	<u>233,536</u>	<u>(188,277)</u>	<u>378,339</u>	<u>206,976</u>
Total Long-Term Liabilities	<u>\$8,726,923</u>	<u>\$1,175,702</u>	<u>(\$830,324)</u>	<u>\$9,072,301</u>	<u>\$791,976</u>

	Balance December 31, 2015	Additions	Retirements	Balance December 31, 2016	Current Portion
2010 Certificates of Participation 4%, due 9/28/20	\$2,530,000		(\$470,000)	\$2,060,000	\$485,000
2012 Revenue Refunding Bonds 3-5.25%, due 2/1/33	2,025,000		(75,000)	1,950,000	80,000
Less: Unamortized premiums	<u>322,486</u>		<u>(34,820)</u>	<u>287,666</u>	
	4,877,486		(579,820)	4,297,666	565,000
Net pension liability	3,358,940		(7,518)	3,351,422	
Net OPEB obligation	692,813	\$101,648	(49,706)	744,755	
Compensated absences	<u>351,315</u>	<u>71,172</u>	<u>(89,407)</u>	<u>333,080</u>	<u>205,931</u>
Total Long-Term Liabilities	<u>\$9,280,554</u>	<u>\$172,820</u>	<u>(\$726,451)</u>	<u>\$8,726,923</u>	<u>\$770,931</u>

**CITRUS HEIGHTS WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016**

NOTE 4 – LONG-TERM LIABILITIES (Continued)

The annual requirements to amortize the outstanding debt as of December 31, 2017 are as follows:

Fiscal Year Ending December 31,	2010 Certificates of Participation			2012 Revenue Refunding Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2018	\$505,000	\$63,000	\$568,000	\$80,000	\$89,738	\$169,738
2019	525,000	42,800	567,800	85,000	86,138	171,138
2020	545,000	21,800	566,800	90,000	83,588	173,588
2021				95,000	79,088	174,088
2022				100,000	74,338	174,338
2023-2027				560,000	303,150	863,150
2028-2032				700,000	155,663	855,663
2033				160,000	8,400	168,400
Total	<u>\$1,575,000</u>	<u>\$127,600</u>	<u>\$1,702,600</u>	<u>\$1,870,000</u>	<u>\$880,100</u>	<u>\$2,750,100</u>

Pledged Revenue: The District pledged future water system revenues, net of specified expenses, to repay the 2012 Revenue Refunding Bonds in an 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 \$2,750,100 and \$2,923,038 at December 31, 2017 and 2016, 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 \$1,702,600 and \$2,270,000 at December 31, 2017 and 2016, respectively.

Total principal and interest paid on all debt payable from net revenues was \$740,388 and \$734,433 and the total water system net revenues were \$5,905,941 and \$5,261,062 for the years ended December 31, 2017 and 2016, respectively. At December 31, 2017 and 2016, the District’s net revenues were 798% and 709% of debt service payments, respectively.

NOTE 5 – 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 “Nonpurpose 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, 2017 and 2016.

CITRUS HEIGHTS WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016

NOTE 6 - 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 at December 31, 2017 and 2016 consisted of the debt service reserve on the 2010 Certificates of Participation. 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.

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 had a negative balance in past years due to large capital expenditures, 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 7 – DEFINED BENEFIT PENSION PLAN

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

**CITRUS HEIGHTS WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016**

NOTE 7 – DEFINED BENEFIT PENSION PLAN (Continued)

A. General Information about the Pension Plans

Plan Description and Summary of Balances by Plan – All qualified permanent and probationary employees are eligible to participate in the District’s Miscellaneous (all other) Employee Pension Rate Plan. The District’s Miscellaneous Rate Plan is part of the public agency cost-sharing multiple-employer defined benefit pension plan (PERF C), which is administered by the California Public Employees’ Retirement System (CalPERS). PERF C consists of a miscellaneous pool and a safety pool (also referred to as “risk pools”), which are comprised of individual employer miscellaneous and safety rate plans, respectively. Individual employers may sponsor more than one miscellaneous and safety rate plan. The employer participates in one cost-sharing multiple-employer defined benefit pension plan regardless of the number of rate plans the employer sponsors. The District sponsors one rate plan (miscellaneous). Benefit provisions under the Plan are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Below is a summary of the deferred outflows of resources, net pension liabilities, and deferred inflows of resources by Plan for the year ended December 31, 2017:

	Deferred Outflows of Resources	Net Pension Liability/ Proportionate Share of Net Pension Liability	Deferred Inflows of Resources
Miscellaneous	\$1,946,008	\$4,155,588	\$162,006

Benefits Provided – CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees’ Retirement Law. The Pension Reform Act of 2013 (PEPRA), Assembly Bill 340, is applicable to employees new to CalPERS and hired after December 31, 2012.

The Plans’ provisions and benefits in effect at December 31, 2017, are summarized as follows:

	Miscellaneous Tier 1	Miscellaneous Tier 2	Miscellaneous PEPRA
	Prior to January 1, 2013	Prior to January 1, 2013	On or after January 1, 2013
Hire date	2.0% @ 55	2.0% @ 55	2.0% @ 62
Benefit formula	5 years service	5 years service	5 years service
Benefit vesting schedule	monthly for life	monthly for life	monthly for life
Benefit payments	50 - 63	50 - 63	52 - 67
Retirement age	1.43% to 2.42%	1.43% to 2.42%	1.0% to 2.5%
Monthly benefits, as a % of eligible compensation	6.9%	6.9%	6.3%
Required employee contribution rates	8.9%	8.4%	6.5%
Required employer contribution rates			

**CITRUS HEIGHTS WATER DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS
 For the Years Ended December 31, 2017 and 2016**

NOTE 7 – DEFINED BENEFIT PENSION PLAN (Continued)

Beginning in fiscal year 2017, CalPERS collects employer contributions for the cost-sharing plan as a percentage of payroll for the normal cost portion as noted in the rates above and as a dollar amount for contributions toward the unfunded liability and side fund. The dollar amounts are billed on a monthly basis. The District’s required contribution for the unfunded liability was \$294,195 in fiscal year 2017.

Contributions – Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended December 31, 2017, the District’s contributions to the Plan were as follows:

	Miscellaneous		
	Tier I	Tier II	PEPRA
Contributions - employer	\$431,307	\$68,092	\$18,299

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

As of December 31, 2017 the District reported \$4,155,588 in net pension liabilities for its proportionate shares of the net pension liability of the Plan.

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

	Miscellaneous
Proportion - June 30, 2016	0.12216%
Proportion - June 30, 2017	0.11962%
Change - Increase (Decrease)	-0.00254%

CITRUS HEIGHTS WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016

NOTE 7 – DEFINED BENEFIT PENSION PLAN (Continued)

For the year ended December 31, 2017, the District recognized negative pension expense of \$695,991. At December 31, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$517,698	
Differences between actual and expected experience	16,687	(\$3,824)
Changes in assumptions		(157,879)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	589,914	(303)
Net differences between projected and actual earnings on plan investments	821,709	
Total	<u>\$1,946,008</u>	<u>(\$162,006)</u>

The \$517,698 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	Annual Amortization
2018	\$266,403
2019	277,150
2020	509,919
2021	212,832

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

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

	Miscellaneous
1% Decrease	6.65%
Net Pension Liability	\$6,379,825
Current Discount Rate	7.65%
Net Pension Liability/(Asset)	\$4,155,588
1% Increase	8.65%
Net Pension Liability/(Asset)	\$2,317,367

**CITRUS HEIGHTS WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016**

NOTE 7 – DEFINED BENEFIT PENSION PLAN (Continued)

Actuarial Assumptions – For the measurement period ended June 30, 2017, the total pension liabilities were determined by rolling forward the June 30, 2016 total pension liability. The June 30, 2016 and June 30, 2017 total pension liabilities were based on the following actuarial methods and assumptions:

	Miscellaneous
Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Projected Salary Increase	Varies by Entry Age and Service
Investment Rate of Return	7.5% (1)
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter
Mortality	Derived using CalPers Membership Data for all Funds (2)

(1) Net of pension plan investment and administrative expenses, including inflation.

(2) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the CalPERS 2014 experience study report available on CalPERS' website.

All other actuarial assumptions used in the June 30, 2015 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website under Forms and Publications.

Change of Assumptions – GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense, but without reduction for pension plan administrative expense. The discount rate of 7.65% used for the June 30, 2016 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense. All other assumptions for the June 30, 2015 measurement date were the same as those used for the June 30, 2016 measurement date.

Discount Rate – The discount rate used to measure the total pension liability was 7.65% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65% will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

**CITRUS HEIGHTS WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016**

NOTE 7 – DEFINED BENEFIT PENSION PLAN (Continued)

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

Asset Class	Current Target Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	20.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	1.0%	-0.55%	-1.05%
Total	<u>100%</u>		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

Pension Plan Fiduciary Net Position – Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

NOTE 8 – OTHER POST-RETIREMENT BENEFITS

Plan Description: The District has 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.

CITRUS HEIGHTS WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016

NOTE 8 – OTHER POST-RETIREMENT BENEFITS (Continued)

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 2017 and 2016, the District contributed \$41,228 and \$37,365 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 2017 and 2016, the amount actually contributed to the plan, and changes in the District’s net OPEB obligation to the OPEB plan:

	2017	2016
Normal Cost	\$59,000	\$40,342
Amortization of unfunded AAL	79,000	61,306
Annual required contribution	138,000	101,648
Interest and amortization of net OPEB obligation	(1,000)	(12,341)
Contributions made (premium payments made)	(41,228)	(37,365)
Change in net OPEB obligation	95,772	51,942
Net OPEB obligation, beginning of year	744,755	692,813
Net OPEB obligation, end of year	\$840,527	\$744,755

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017, 2016, and 2015 were as follows:

Year Ended	Annual OPEB	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2015	\$101,648	29.86%	\$692,813
December 31, 2016	101,648	36.76%	744,755
December 31, 2017	138,000	29.88%	840,527

The schedule of funding progress presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the unfunded actuarial accrued liability (UAAL) for benefits. Information as of December 31, 2017 is presented below:

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, 2016	\$0	\$2,152,000	\$2,152,000	\$0	\$2,576,000	83.54%

CITRUS HEIGHTS WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016

NOTE 8 – 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.

NOTE 9 – 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, 2017 and 2016 totaling \$3,848,217 and \$2,197,621, respectively, related to construction work.

NOTE 10 – ECONOMIC DEPENDENCY

During 2017 and 2016, the District purchased 99.05% and 95.61%, respectively, of its water supply from the San Juan Water District (SJWD). Total purchases for the year ended December 31, 2017 and 2016 was \$2,692,482 and \$2,190,061, respectively. In addition, the District owns water transmission capacity entitlements through the cooperative transmission pipeline project owned and operated by SJWD.

NOTE 11 – 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:

**CITRUS HEIGHTS WATER DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS
 For the Years Ended December 31, 2017 and 2016**

NOTE 11 – INSURANCE (Continued)

<u>Type of Coverage (Deductible)</u>	<u>ACWA/ JPIA</u>	<u>Commercial Insurance</u>	<u>Deductible</u>
General and Auto Liability (Includes Public Officials Liability)	\$5,000,000	Statutory	None
Property Damage	100,000	150,000,000	2,500 - 5,000
Crime	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.

NOTE 12 – SUBSEQUENT EVENTS DISCLOSURE

In December 2016, CalPERS' Board of Directors voted to lower the discount rate from 7.5% to 7.0% over the next three fiscal years, beginning in fiscal year 2018. The change in the discount rate will affect the contribution rates beginning in fiscal year 2019 and result in increases to the normal costs and unfunded actuarial liabilities.

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Required Supplementary Information

CITRUS HEIGHTS WATER DISTRICT REQUIRED SUPPLEMENTAL INFORMATION For the Years Ended December 31, 2017 and 2016

Citrus Heights Water District, a Cost-Sharing Defined Pension Plan
As of fiscal year ending December 31, 2017
**Schedule of the Plan's Proportionate Share of the Net Pension Liability and
Related Ratios as of the Measurement Date**
Last 10 Years***

	6/30/2014	6/30/2015	6/30/2016
Plan's Proportion of the Net Pension Liability/Asset	0.05398%	0.12216%	0.11962%
Plan's Proportionate Share of the Net Pension Liability/(Asset)	\$3,358,940	\$3,351,422	\$4,155,588
Plan's Covered-Employee Payroll	\$2,259,371	\$2,129,887	\$2,362,614
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll	148.67%	157.35%	175.89%
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of the Plan's Total Pension Liability	77.44%	78.40%	87.28%

* Fiscal year 2015 was the 1st year of implementation.

** Calpers provides the information based on a June 30 fiscal year end.

CITRUS HEIGHTS WATER DISTRICT REQUIRED SUPPLEMENTAL INFORMATION For the Years Ended December 31, 2017 and 2016

Citrus Heights Water District, a Cost-Sharing Defined Pension Plan
As of fiscal year ending December 31, 2017
SCHEDULE OF CONTRIBUTIONS
Last 10 Years*

	2015	2016	2017
Actuarially determined contribution	\$ 437,239	\$ 612,009	\$ 517,698
Contributions in relation to the actuarially determined contributions	(437,239)	(612,009)	(517,698)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
 Covered-employee payroll	 \$ 2,129,887	 \$ 2,362,614	 \$ 2,667,190
 Contributions as a percentage of covered-employee payroll	 20.53%	 25.90%	 19.41%

* Fiscal year 2015 was the 1st year of implementation.

**CITRUS HEIGHTS WATER DISTRICT
REQUIRED SUPPLEMENTAL INFORMATION
For the Years Ended December 31, 2017 and 2016**

Schedule of Funding Status – Other Post-Employment Benefits Obligation

Funded Status and Funding Progress of the Plan

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, 2012	\$0	\$1,414,800	\$1,414,800	\$0	\$2,266,500	62.42%
January 1, 2015	0	1,060,112	1,060,112	0	2,659,682	39.86%
December 31, 2016	0	2,152,000	2,152,000	0	2,576,000	83.54%

In the December 31, 2016 actuarial valuation, the projected unit credit actuarial method was used. The actuarial assumptions included a 3.75% investment rate of return (net of administrative expenses), which is based on the District's own investments. The annual healthcare-cost trend rates are 7.0%-5.0% for 2018 through 2022+ respectively. The UAAL is being amortized as a level dollar amount on an open basis. The remaining amortization period at December 31, 2017, was 28 years.

Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and the pattern of sharing of costs between the employer and plan members to that point. Consistent with the long-term perspective of actuarial calculations, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities for benefits.

The following is a summary of the actuarial assumptions and methods:

Valuation date	December 31, 2016
Actuarial cost method	Projected unit credit method
Amortization method	Level percent of payroll amortization
Remaining amortization period	30 years as of the valuation date
Actuarial assumptions:	
Investment rate of return	3.75%
Projected salary increase	3.00%
Inflation rate	2.75%
Health care cost trend rates	7.00% - 5.00%