

CITRUS HEIGHTS WATER DISTRICT
BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

CITRUS HEIGHTS WATER DISTRICT
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CITRUS HEIGHTS WATER DISTRICT
Basic Financial Statements
For the Years Ended December 31, 2016 and 2015

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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

We have audited the accompanying financial statements of the Citrus Heights Water District (District) as of and for the years ended December 31, 2016 and 2015, 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. 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 opinions, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2016 and 2015, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

Management adopted the provisions of Governmental Accounting Standards Board Statement No. 72 – *Fair Value Measurement and Application*, which became effective during the year ended December 31, 2016, as discussed in Note 1 to the financial statements.

This change in accounting principle 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 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.



Pleasant Hill, California
May 24, 2017

CITRUS HEIGHTS WATER DISTRICT

Management's Discussion and Analysis December 31, 2016

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, 2016.

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 2016 and its financial position at the close of the year 2016:

- ❖ The District's assets exceeded its liabilities at the end of year 2016 by \$59,651,741. About 87.7 percent of the District's net position, \$52,335,229, 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 \$6,782,716, up from \$4,434,324 at the end of year 2015. This increase is due primarily to revenue generated from increased water sales in FY2016 as compared with FY2015, and also a 14 percent rate increase levied by the Board of Directors at the beginning of FY2016. The increase in unrestricted net assets represents continued progress by the District toward rebuilding its financial reserves after spending down the Rate Stabilization Reserve by \$366,000 due to State-mandated restrictions during the FY2015 drought.
- ❖ Capital improvement spending in year 2016 decreased by \$3,826,849 as compared with year 2015. Capital improvements capitalized in 2016 amounted to \$8,569,623.
- ❖ The District's operating revenues for 2016 were \$12,325,057. About 94.1 percent of operating revenues, \$11,602,622, came from water sales to customers. As previously mentioned, the District adopted a rate increase for FY2016, increasing water rates by 14 percent above water rates that were in place for FY2015.
- ❖ The District's total net long-term liabilities at the end of 2016, including the 2012 Revenue Refunding bonds, the 2010 Revenue Refunding Certificates of Participation, accrued other postemployment benefits, and compensated absences is \$7,955,992. The GASB 68 required recording of pension liability and pension related deferred inflows and outflows amounted to \$3,351,422. Liabilities from Bond debt service decreased by \$734,433 due in large part to a reduction in principal on debt during 2016 resulting from debt service payments during the year.

CITRUS HEIGHTS WATER DISTRICT

Management's Discussion and Analysis
December 31, 2016

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.

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.

CITRUS HEIGHTS WATER DISTRICT

Management's Discussion and Analysis December 31, 2016

Balance Sheet

As of December 31, 2016, the total net position of the District was \$59,730,963. The following table summarizes assets, deferred outflows, liabilities, deferred inflows, and net assets at December 31, 2016 and 2015:

| | <u>2016</u> | <u>2015</u> |
|--|----------------------------|----------------------------|
| Current assets, unrestricted | \$ 12,309,889 | \$ 10,687,841 |
| Restricted cash and cash equivalents | 533,796 | 533,350 |
| Capital assets, net | 56,078,006 | 55,206,322 |
| Deferred outflows | 764,732 | 530,528 |
| Total Assets and Deferred Outflows | <u>69,686,423</u> | <u>66,958,041</u> |
| | | |
| Current Liabilities | 1,618,896 | 1,675,151 |
| Non-current liabilities | 7,955,992 | 8,590,592 |
| Deferred Inflows | 459,794 | 829,619 |
| Total Liabilities and Deferred Inflows | <u>10,034,682</u> | <u>11,095,362</u> |
| | | |
| Net Position | | |
| Net investment in capital assets | 52,335,229 | 50,895,005 |
| Restricted for debt service | 533,796 | 533,350 |
| Unrestricted | 6,782,716 | 4,434,324 |
| Total Net Position | <u><u>\$59,651,741</u></u> | <u><u>\$55,862,679</u></u> |

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, 2016

Changes in Net Position

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

| | <u>2016</u> | <u>2015</u> |
|--|----------------------|----------------------|
| Operating revenues | \$ 12,325,057 | \$ 10,884,550 |
| Operating expenses: | | |
| Customer service, administration and general | 2,342,957 | 2,514,087 |
| Water purchases | 2,190,061 | 1,950,627 |
| Transmission and distribution | 2,114,019 | 1,239,387 |
| Pumping and well maintenance | 184,776 | 132,842 |
| Water demand management (Conservation) | 212,150 | 186,114 |
| Depreciation and amortization | <u>2,203,170</u> | <u>2,098,944</u> |
| Total operating expenses | <u>9,247,133</u> | <u>8,122,001</u> |
| Operating income | 3,077,924 | 2,762,549 |
| Net non-operating revenues (expenses) | <u>(186,265)</u> | <u>(120,929)</u> |
| Net income before capital contributions | <u>2,891,659</u> | <u>2,641,620</u> |
| Capital contributions: | | |
| Contributed (donated) assets | 896,688 | 438,567 |
| Grant Revenue | 715 | 610,431 |
| Total capital contributions | <u>897,403</u> | <u>1,048,998</u> |
| Change in net position | 3,789,062 | 3,690,618 |
| Net position, beginning of year | 55,862,679 | 55,900,828 |
| Prior period adjustment | | <u>(3,728,767)</u> |
| Net position, end of year | <u>\$ 59,651,741</u> | <u>\$ 55,862,679</u> |

CITRUS HEIGHTS WATER DISTRICT

Management's Discussion and Analysis December 31, 2016

Net position increased \$3,789,062, or 6.8 percent from the prior year. Operating revenue that exceeded operating expenses by \$3,077,924 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 \$896,688 in donated assets from private developer additions to the District's water distribution system accounted for about 23.2 percent of the increase in net assets.

Total operating revenues increased by \$1.44 million or 13.2 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 FY2016 compared with consumption in FY2015 due to the state-wide drought conditions.

Operating expenses also increased in 2016 by \$1.13 million, or 13.9 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, 2016, the District's investment in capital assets, net of related debt, was \$52,335,229, 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 \$2.4 million additions to the District's capital assets in 2016. A number of private development projects resulted in the addition of \$896,688 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 2016, principal on its collective debt was reduced by \$579,820. The District's total debt from its COP and bond issuances now stands at approximately \$4.3 million.

CITRUS HEIGHTS WATER DISTRICT

Management's Discussion and Analysis December 31, 2016

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 \$333,080 at the end of 2016, a decrease from the FY2015 year-end amount of \$351,615. This reduction was due primarily to cash payments for accrued leave balances during the year to one retiring employees.

The accrual for other post-employment benefits increased by \$51,942 in 2016 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.

ECONOMIC FACTORS AND FUTURE BUDGET CONSIDERATIONS

The District continued to exercise fiscal restraint in budgeting for District operations in 2017, with an overall increase of 9.6 percent compared with the 2016 Operating Budget. This budget includes:

- ❖ Maintaining the current level of services and programs for District customers;
- ❖ A 19% aggregate increase of treated water cost from San Juan Water District due to projected 16% rate increase and anticipated increase in consumption. The projected quantity of water estimated to be purchased is 12,000 AF, which is greater than the projected 2016 total water purchased.
- ❖ Employee benefit net cost increase of about \$170,000. A number of factors contributed to the overall increase, including PERS UAL (Unfunded Actuarial Liability), payment of \$360,000 as recommended by CalPERS, a decrease in new employees whose CalPERS contribution rates are lower, lower total Healthcare premiums as a result of new employees replacing long-term employees who were at higher premium points, and an increase of 10% in Healthcare premium costs.
- ❖ Professional Contract Services increase of about \$200,000 for use towards the Project 2030 Study, as we move forward to plan our mains replacements beyond 2030. Additionally, up to \$150,000 is allocated for advanced planning for a District-wide meter replacement program
- ❖ Includes \$1.15 million 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, \$75,000 to the Water Efficiency Reserve, and, \$300,000 to the Water Meter Replacement Reserve.

CITRUS HEIGHTS WATER DISTRICT

Management's Discussion and Analysis December 31, 2016

A 2017 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 FY2017 are about \$5.8 million compared with \$3.56 million in FY2016. This amount includes about \$3 million in carry-over projects from prior years, and about \$2.8 million in new projects for FY2017. Installation of new fire hydrants as well as replacements and upgrades for \$135,000, three water main replacement or installation projects, scheduled to start design, will be undertaken in 2017 with construction targeted for 2018 at a total cost of \$1.34 million. Operations equipment replacements and new equipment totaled \$287,000 for 2017. Carryover of Upgrades/Replacements to the District's billing and accounting software for the Administration department for a total of \$450,000 planned for 2017. Additional transfers to Water Meter Replacement Reserves for buildup of funds towards Meter Replacements at the end of their useful life of \$300,000.

A 2017 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 \$738,738 for FY2017, representing about 7.4 percent of the District's FY2017 Operating Budget.

The District's Board of Directors levied a water rate increase designed to achieve an overall increase in water rate revenues of 13 percent for 2017. 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 state wide water mandates, capital improvement program, and water meter reserves. The increase in revenues resulting from the FY2017 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 FY2017 have not been adopted by the Board of Directors.

CITRUS HEIGHTS WATER DISTRICT

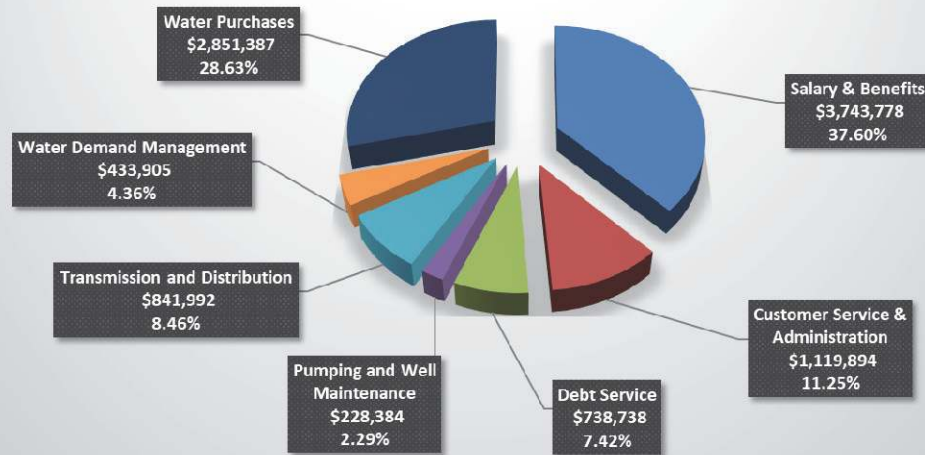
Management's Discussion and Analysis December 31, 2016

CITRUS HEIGHTS WATER DISTRICT 2017 ADOPTED OPERATING BUDGET SUMMARY

Adopted: November 15, 2016

| <i>Expense Category</i> | <i>2015 Budget</i> | <i>2015 Actual</i> | <i>2016 Budget</i> | <i>2016 Projected</i> | <i>2017 Adopted Budget</i> | <i>% Change 2016 vs. 2017</i> |
|-----------------------------------|--------------------|--------------------|--------------------|-----------------------|----------------------------|-------------------------------|
| Salary & Benefits | \$ 3,005,484 | \$ 3,475,404 | \$ 3,597,333 | \$ 3,507,240 | \$ 3,743,778 | 4.07% |
| Customer Service & Administration | \$ 788,472 | \$ 869,909 | \$ 1,113,405 | \$ 1,065,711 | \$ 1,119,894 | 0.58% |
| Debt Service | \$ 736,488 | \$ 207,871 | \$ 740,263 | \$ 760,581 | \$ 738,738 | -0.21% |
| Pumping and Well Maintenance | \$ 200,723 | \$ 109,748 | \$ 266,904 | \$ 214,507 | \$ 228,384 | -14.43% |
| Transmission and Distribution | \$ 496,406 | \$ 599,918 | \$ 547,960 | \$ 528,425 | \$ 841,992 | 53.66% |
| Water Demand Management | \$ 280,195 | \$ 101,534 | \$ 428,500 | \$ 207,714 | \$ 433,905 | 1.26% |
| Water Purchases | \$ 2,295,483 | \$ 1,950,627 | \$ 2,387,701 | \$ 2,735,971 | \$ 2,851,387 | 19.42% |
| | \$ 7,803,249 | \$ 7,315,012 | \$ 9,082,066 | \$ 9,020,147 | \$ 9,958,078 | 9.65% |

2017 Adopted Budget

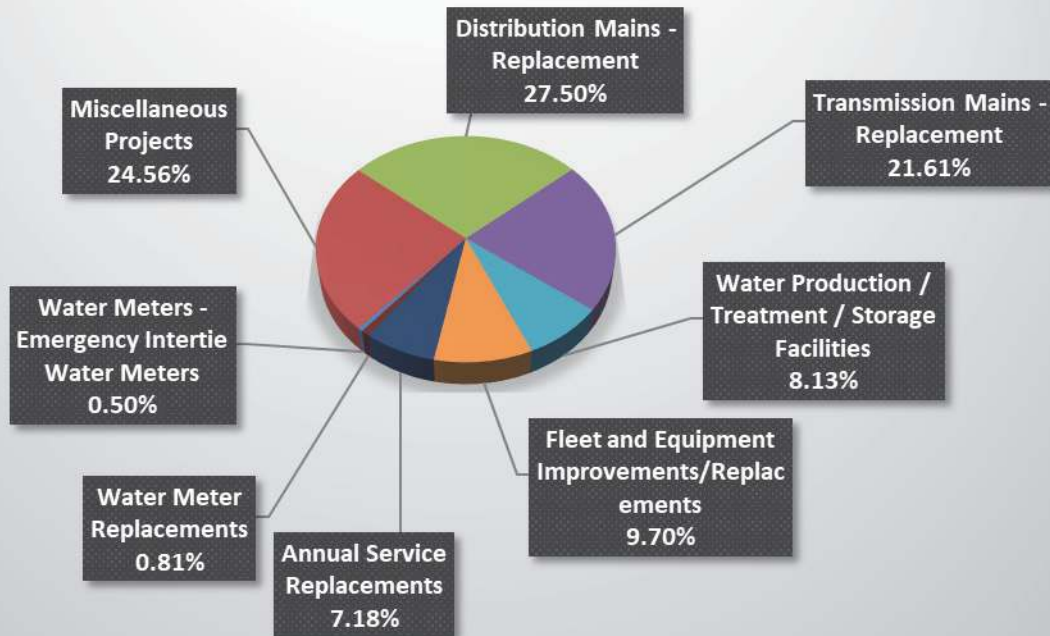


CITRUS HEIGHTS WATER DISTRICT

Management's Discussion and Analysis
December 31, 2016

| Citrus Heights Water District | | | | |
|--|-------------------------|---------------------------|----------------------------|---|
| <u>2017 CAPITAL PROJECTS BUDGET SUMMARY</u> | | | | |
| Adopted: November 15, 2016 | | | | |
| Category | Total Project Budget | 2016 Adopted Budget | 2017 Proposed Budget | 2016 vs 2017 Budget Variance (\$) |
| Annual Service Replacements | 888,000 | 1,024,523 | 888,000 | (136,523) |
| Distribution Mains - Replacement | 3,398,826 | 1,738,645 | 1,272,740 | 911,693 |
| Fleet and Equipment Improvements/Replacements | 1,199,500 | 821,134 | 899,500 | 378,366 |
| Miscellaneous Projects | 3,035,688 | 109,500 | 1,626,188 | 1,351,188 |
| Transmission Mains - Replacement | 2,670,984 | 513,055 | 146,936 | 57,929 |
| Water Meters - Emergency Intertie Water Meters | 61,684 | 98,664 | 61,684 | (36,980) |
| Water Production / Treatment / Storage Facilities | 1,005,000 | 48,900 | 855,000 | 66,100 |
| Water Meter Replacements | 100,000 | 53,158 | 100,000 | 46,842 |
| Grand Total | \$ 12,359,683 | \$ 4,407,579 | \$ 5,850,049 | \$ 2,638,615 |

CHWD 2017 Capital Improvement Budget by Category



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Basic Financial Statements

CITRUS HEIGHTS WATER DISTRICT
BALANCE SHEETS
DECEMBER 31, 2016 AND 2015

| | 2016 | 2015 |
|--|--------------|--------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and investments (Note 2) | \$9,738,990 | \$7,442,908 |
| Restricted - cash and investments (Note 2) | 533,796 | 533,350 |
| Accounts receivable, net | 2,002,102 | 1,968,889 |
| Due from other governments | 1,246 | 601,211 |
| Accrued interest receivable | 15,272 | 4,933 |
| Inventory | 259,637 | 276,913 |
| Prepaid expenses and other deposits | 292,642 | 392,987 |
| Total current assets | 12,843,685 | 11,221,191 |
| NON-CURRENT ASSETS | | |
| Non-depreciable capital assets (Note 3) | 1,126,441 | 7,364,340 |
| Depreciable capital assets, net (Note 3) | 54,951,565 | 47,841,982 |
| Total non-current assets | 56,078,006 | 55,206,322 |
| TOTAL ASSETS | 68,921,691 | 66,427,513 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred amount from refunding debt | 48,940 | 61,991 |
| Pension related (Note 7) | 715,792 | 468,537 |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | 764,732 | 530,528 |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | \$69,686,423 | \$66,958,041 |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$368,716 | \$417,678 |
| Retentions payable | 21,028 | 119,613 |
| Accrued payroll | 59,301 | 46,030 |
| Accrued interest payable | 57,909 | 64,259 |
| Deposits payable | 341,011 | 337,609 |
| Current portion of long-term liabilities: | | |
| Compensated absences (Note 4) | 205,931 | 144,962 |
| Long-term debt (Note 4) | 565,000 | 545,000 |
| Total current liabilities | 1,618,896 | 1,675,151 |
| NON-CURRENT LIABILITIES | | |
| Long-term liabilities - due in more than one year: | | |
| Compensated absences (Note 4) | 127,149 | 206,353 |
| Long-term debt (Note 4) | 3,732,666 | 4,332,486 |
| Net pension liability (Note 7) | 3,351,422 | 3,358,940 |
| Net OPEB obligation (Note 8) | 744,755 | 692,813 |
| Total non-current liabilities | 7,955,992 | 8,590,592 |
| TOTAL LIABILITIES | 9,574,888 | 10,265,743 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Deferred amount from refunding debt | 27,847 | 29,172 |
| Pension related (Note 7) | 431,947 | 800,447 |
| TOTAL DEFERRED INFLOWS OF RESOURCES | 459,794 | 829,619 |
| NET POSITION (Note 6) | | |
| Net investment in capital assets | 52,335,229 | 50,895,005 |
| Restricted for debt service | 533,796 | 533,350 |
| Unrestricted | 6,782,716 | 4,434,324 |
| TOTAL NET POSITION | 59,651,741 | 55,862,679 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION | \$69,686,423 | \$66,958,041 |

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, 2016 AND 2015

| | 2016 | 2015 |
|--|--------------|--------------|
| OPERATING REVENUES | | |
| Water sales | \$11,602,622 | \$9,953,864 |
| Connection and other fees | 722,435 | 930,686 |
| Total operating revenues | 12,325,057 | 10,884,550 |
| OPERATING EXPENSES | | |
| Customer service, administration and general | 2,342,957 | 2,514,087 |
| Water purchases | 2,190,061 | 1,950,627 |
| Transmission and distribution | 2,114,019 | 1,239,387 |
| Pumping and well maintenance | 184,776 | 132,842 |
| Conservation | 212,150 | 186,114 |
| Depreciation and amortization | 2,203,170 | 2,098,944 |
| Total operating expenses | 9,247,133 | 8,122,001 |
| OPERATING INCOME | 3,077,924 | 2,762,549 |
| NONOPERATING REVENUES (EXPENSES) | | |
| Investment income | 38,313 | 19,093 |
| Miscellaneous income | 68,203 | 28,606 |
| Interest expense | (155,214) | (173,462) |
| (Loss) gain on disposal of capital assets | (137,567) | 4,834 |
| Total nonoperating revenues (expenses) | (186,265) | (120,929) |
| Net income (loss) before capital contributions | 2,891,659 | 2,641,620 |
| CAPITAL CONTRIBUTIONS | | |
| Grant revenue | 715 | 610,431 |
| Capital contributions | 896,688 | 438,567 |
| Total capital contributions | 897,403 | 1,048,998 |
| CHANGES IN NET POSITION | 3,789,062 | 3,690,618 |
| NET POSITION, BEGINNING OF YEAR | 55,862,679 | 55,900,828 |
| Prior period adjustment | | (3,728,767) |
| NET POSITION, END OF YEAR | \$59,651,741 | \$55,862,679 |

See accompanying notes to financial statements

CITRUS HEIGHTS WATER DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

| | 2016 | 2015 |
|--|--------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash receipts from customers | \$12,193,259 | \$10,914,532 |
| Cash paid to suppliers for goods and services | (4,071,755) | (5,201,318) |
| Cash paid to employees for services | (2,875,090) | (1,355,774) |
| Cash Flows from Operating Activities | 5,246,414 | 4,357,440 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Receipts from other net operating income | 68,203 | 28,606 |
| Cash Flows from Noncapital Financing Activities | 68,203 | 28,606 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Capital grant revenues | 715 | 610,431 |
| Acquisition and construction of capital assets | (2,410,946) | (6,084,237) |
| Proceeds from sale of capital assets | 95,213 | 4,834 |
| Principal payments on long-term debt | (579,820) | (554,819) |
| Interest payments on long-term debt | (161,564) | (182,760) |
| Cash Flows (used for) Capital and Related Financing Activities | (3,056,402) | (6,206,551) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest earnings | 38,313 | 19,093 |
| Cash Flows from Investing Activities | 38,313 | 19,093 |
| NET CASH FLOWS | 2,296,528 | (1,801,412) |
| Cash, beginning of year | 7,976,258 | 9,777,670 |
| Cash, end of year | \$10,272,786 | \$7,976,258 |
| Reconciliation of cash and cash equivalents to statement of net position: | | |
| Cash and cash equivalents | \$9,738,990 | \$7,442,908 |
| Restricted - cash and cash equivalents | 533,796 | 533,350 |
| Total cash and cash equivalents | \$10,272,786 | \$7,976,258 |

(Continued)

CITRUS HEIGHTS WATER DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

RECONCILIATION OF NET INCOME FROM OPERATIONS TO
NET CASH PROVIDED BY OPERATING ACTIVITIES:

| | | |
|---|--------------------|--------------------|
| Net income from operations | \$3,077,924 | \$2,762,549 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation and amortization | 2,203,170 | 2,098,944 |
| Change in assets and liabilities: | | |
| (Increase) decrease in assets and deferred outflows of resources: | | |
| Accounts receivable | (33,213) | (67,807) |
| Inventory | 17,276 | 20,886 |
| Prepaid expenses and other assets | 689,971 | (541,178) |
| Deferred amount from refunding of debt | 13,051 | 13,051 |
| Increase (decrease) in liabilities and deferred inflows of resources: | | |
| Accounts payable | (48,962) | (78,762) |
| Accrued payroll | 13,271 | 16,218 |
| Deposits payable | 3,402 | 36,838 |
| Retentions payable | (98,585) | 97,789 |
| Accrued other postemployment benefits | 51,942 | 60,013 |
| Compensated absences | (18,235) | (21,859) |
| Deferred amount from refunding of debt | (1,325) | (1,325) |
| Net pension liability and related deferred inflows and outflows | <u>(623,273)</u> | <u>(37,917)</u> |
| Net cash provided by operating activities | <u>\$5,246,414</u> | <u>\$4,357,440</u> |
| SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES | | |
| Receipt of contributed assets | <u>\$896,688</u> | <u>\$438,567</u> |

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, 2016 and 2015

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, 2016 and 2015

**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, 2016 and 2015**

**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 \$2,187,515 and \$2,085,894 for the years ended December 31, 2016 and 2015, 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, 2016 and 2015**

**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, 2016:

GASB Statement No. 72 – Fair Value Measurement and Application. This Statement addresses accounting and financial reporting issues related to fair value measurements. The Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement are effective for financial statements for period beginning after June 15, 2015, therefore, the District implemented this Statement in fiscal year ending December 31, 2016.

GASB Statement No. 76 – The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The objective of this statement is to reduce the GAAP hierarchy to two categories of authoritative GAAP from the four categories under GASB Statement No. 55. The statement is effective for the periods beginnings after June 15, 2015, or the 2016 fiscal year.

GASB Statement No. 79 – Certain External Investment Pools and Pool Participants. The objective of this Statement is to address for certain external investment pool and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. This statement is effective for the periods beginning after December 15, 2015, or the 2016 fiscal year.

NOTE 2 – CASH AND INVESTMENTS

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

| | 2016 | 2015 |
|---------------------------------|--------------|-------------|
| Cash and investments | \$9,738,990 | \$7,442,908 |
| Restricted cash and investments | 533,796 | 533,350 |
| Total cash and investments | \$10,272,786 | \$7,976,258 |

**CITRUS HEIGHTS WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended December 31, 2016 and 2015**

NOTE 2 – CASH AND INVESTMENTS (Continued)

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

| | 2016 | 2015 |
|--|--------------|-------------|
| Cash on hand | \$550 | \$550 |
| Deposits with financial institutions | 3,669,028 | 2,900,318 |
| Total cash | 3,669,578 | 2,900,868 |
| Investments in Local Agency Investment Fund (LAIF) | 6,069,412 | 4,542,040 |
| Held by fiscal agent: | | |
| Money market mutual fund | 533,796 | 533,350 |
| Total investments | 6,603,208 | 5,075,390 |
| Total cash and investments | \$10,272,786 | \$7,976,258 |

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, 2016, 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 |
| 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% | No Limit |
| LAIF | N/A | None | No Limit |

* 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, 2016 and 2015**

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, 2016:

| | Level 1 | Level 2 | Total |
|---|------------------|--------------------|---|
| <i>Investments by Fair Value Level:</i> | | | |
| California Local Agency Investment Fund (LAIF) | | \$6,069,412 | \$6,069,412 |
| Money Market Mutual Fund | \$533,796 | | 533,796 |
| Total Investments | <u>\$533,796</u> | <u>\$6,069,412</u> | <u>6,603,208</u> |
| <i>Investments Measured at Amortized Cost:</i> | | | |
| Money Market Mutual Fund | | | 530,488 |
| <i>Cash in banks and on hand</i> | | | |
| Total Cash and Investments | | | <u>3,139,090</u> <u>\$10,272,786</u> |

CITRUS HEIGHTS WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended December 31, 2016 and 2015

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, 2015:

| | Level 1 | Level 2 | Total |
|--|-----------|-------------|-------------|
| <i>Investments by Fair Value Level:</i> | | | |
| California Local Agency Investment Fund (LAIF) | | \$4,542,040 | \$4,542,040 |
| Money Market Mutual Fund | \$533,350 | | 533,350 |
| Total Investments | \$533,350 | \$4,542,040 | 5,075,390 |
| <i>Investments Measured at Amortized Cost:</i> | | | |
| Money Market Mutual Fund | | | 530,431 |
| <i>Cash in banks and on hand</i> | | | 2,370,437 |
| Total Cash and Investments | | | \$7,976,258 |

The California Local Agency Investment Fund (LAIF) classified in Level 2 is value based on the fair value factor provided by the Treasurer of the State of California, which is calculated as fair value divided by the amortized cost of the investment pool. These prices are obtained from various pricing sources by the custodian mark.

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, 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 |
| | | \$533,796 | \$6,069,412 | \$6,603,208 |

**CITRUS HEIGHTS WATER DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS
 For the Years Ended December 31, 2016 and 2015**

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, 2015.

| | Minimum Legal Rating | Ratings as of Year End AAAm | Not Rated | Total |
|---------------------------|----------------------------|-----------------------------------|--------------------|--------------------|
| LAIF | N/A | | \$4,542,040 | \$4,542,040 |
| Held by bond trustee: | | | | |
| Money market mutual funds | AAAm | \$533,350 | | 533,350 |
| | | <u>\$533,350</u> | <u>\$4,542,040</u> | <u>\$5,075,390</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, 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, 2016 and 2105, respectively, these investments matured in an average of 171 and 179 days.

CITRUS HEIGHTS WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended December 31, 2016 and 2015

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2016 and 2015 are as follows:

| | 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 | <u>7,364,340</u> | <u>2,410,946</u> | <u>(79,222)</u> | <u>(8,569,623)</u> | <u>1,126,441</u> |
| 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 | <u>81,425,990</u> | <u>896,688</u> | <u>(1,037,580)</u> | <u>8,569,623</u> | <u>89,854,721</u> |
| 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 | <u>(33,584,008)</u> | <u>(2,187,515)</u> | <u>868,367</u> | | <u>(34,903,156)</u> |
| Total capital assets being depreciated, net | <u>47,841,982</u> | <u>(1,290,827)</u> | <u>(169,213)</u> | <u>8,569,623</u> | <u>54,951,565</u> |
| Capital Assets, net | <u>\$55,206,322</u> | <u>\$1,120,119</u> | <u>(\$248,435)</u> | | <u>\$56,078,006</u> |

CITRUS HEIGHTS WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended December 31, 2016 and 2015

NOTE 3 – CAPITAL ASSETS (Continued)

| | Balance December 31, 2014 | Additions | Retirements | Transfers | Balance December 31, 2015 |
|---|------------------------------|-------------|-------------|---------------|------------------------------|
| Capital assets not being depreciated: | | | | | |
| Land | \$955,683 | | | | \$955,683 |
| Right of ways | 26,080 | | | | 26,080 |
| Construction in progress | 2,385,577 | \$5,988,412 | | (\$1,991,412) | 6,382,577 |
| Total capital assets not being depreciated | 3,367,340 | 5,988,412 | | (1,991,412) | 7,364,340 |
| Capital assets being depreciated: | | | | | |
| Improvements | 55,847 | | | | 55,847 |
| Pipelines and infrastructure | 53,532,988 | | (\$32,029) | 1,991,412 | 55,492,371 |
| Equipment and machinery | 2,967,081 | 82,774 | | | 3,049,855 |
| Buildings and improvements | 1,466,585 | | | | 1,466,585 |
| Well improvements | 4,858,478 | | | | 4,858,478 |
| Donated pipelines | 16,064,286 | 438,568 | | | 16,502,854 |
| Total capital assets being depreciated | 78,945,265 | 521,342 | (32,029) | 1,991,412 | 81,425,990 |
| Less accumulated depreciation for: | | | | | |
| Improvements | (36,310) | (782) | | | (37,092) |
| Pipelines and infrastructure | (18,652,289) | (1,335,710) | 32,029 | | (19,955,970) |
| Equipment and machinery | (2,145,024) | (168,865) | | | (2,313,889) |
| Buildings and improvements | (698,711) | (39,494) | | | (738,205) |
| Well improvements | (1,167,287) | (124,799) | | | (1,292,086) |
| Donated pipelines | (8,830,522) | (416,244) | | | (9,246,766) |
| Total accumulated depreciation | (31,530,143) | (2,085,894) | 32,029 | | (33,584,008) |
| Total capital assets being depreciated, net | 47,415,122 | (1,564,552) | | 1,991,412 | 47,841,982 |
| Capital Assets, net | \$50,782,462 | \$4,423,860 | | | \$55,206,322 |

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, 2016 and 2015

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, 2016 and 2015 was as follows:

| | 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 | 322,486 | | (34,820) | 287,666 | |
| | 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 | 351,315 | 71,172 | (89,407) | 333,080 | 205,931 |
| Total Long-Term Liabilities | \$9,280,554 | \$172,820 | (\$726,451) | \$8,726,923 | \$770,931 |
| | Balance December 31, 2014 | Additions | Retirements | Balance December 31, 2015 | Current Portion |
| 2010 Certificates of Participation 4%, due 9/28/20 | \$2,980,000 | | (\$450,000) | \$2,530,000 | \$470,000 |
| 2012 Revenue Refunding Bonds 3-5.25%, due 2/1/33 | 2,095,000 | | (70,000) | 2,025,000 | 75,000 |
| Less: Unamortized premiums | 357,305 | | (34,819) | 322,486 | |
| | 5,432,305 | | (554,819) | 4,877,486 | 545,000 |
| Net pension liability | 4,166,006 | | (807,066) | 3,358,940 | |
| Net OPEB obligation | 632,800 | \$101,648 | (41,635) | 692,813 | |
| Compensated absences | 373,174 | 130,212 | (152,071) | 351,315 | 144,962 |
| Total Long-Term Liabilities | \$10,604,285 | \$231,860 | (\$1,555,591) | \$9,280,554 | \$689,962 |

**CITRUS HEIGHTS WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended December 31, 2016 and 2015**

NOTE 4 – LONG-TERM LIABILITIES (Continued)

The annual requirements to amortize the outstanding debt as of December 31, 2016 are as follows:

| Fiscal Year Ending June 30, | 2010 Certificates of Participation | | | 2012 Revenue Refunding Bonds | | |
|--------------------------------|------------------------------------|------------------|--------------------|------------------------------|------------------|--------------------|
| | Principal | Interest | Total | Principal | Interest | Total |
| 2017 | \$485,000 | \$82,400 | \$567,400 | \$80,000 | \$92,938 | \$172,938 |
| 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 |
| 2022-2026 | | | | 540,000 | 326,038 | 866,038 |
| 2027-2031 | | | | 665,000 | 190,575 | 855,575 |
| 2032-2033 | | | | 315,000 | 24,938 | 339,938 |
| Total | <u>\$2,060,000</u> | <u>\$210,000</u> | <u>\$2,270,000</u> | <u>\$1,950,000</u> | <u>\$973,038</u> | <u>\$2,923,038</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 \$2,923,038 and \$3,093,225 at December 31, 2016 and 2015, 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 \$2,270,000 and \$2,841,200 at December 31, 2016 and 2015, respectively.

Total principal and interest paid on all debt payable from net revenues was \$734,433 and \$736,488 and the total water system net revenues were \$5,261,062 and \$4,885,420 for the years ended December 31, 2016 and 2015, respectively. At December 31, 2016 and 2015, the District’s net revenues were 709% and 556% 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, 2016 and 2015.

CITRUS HEIGHTS WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended December 31, 2016 and 2015

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, 2016 and 2015 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, 2016 and 2015**

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, 2016:

| | Deferred Outflows of Resources | Net Pension Liability/ Proportionate Share of Net Pension Liability | Deferred Inflows of Resources |
|---------------|--------------------------------------|---|-------------------------------------|
| Miscellaneous | \$715,792 | \$3,351,422 | \$431,947 |

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, 2016, are summarized as follows:

| | Miscellaneous Tier 1 Prior to January 1, 2013 | Miscellaneous Tier 2 Prior to January 1, 2013 | Miscellaneous PEPRA On or after January 1, 2013 |
|---|--|--|--|
| Hire date | | | |
| Benefit formula | 2.0% @ 55 | 2.0% @ 55 | 2.0% @ 62 |
| Benefit vesting schedule | 5 years service | 5 years service | 5 years service |
| Benefit payments | monthly for life | monthly for life | monthly for life |
| Retirement age | 50 - 63 | 50 - 63 | 52 - 67 |
| Monthly benefits, as a % of eligible compensation | 1.43% to 2.42% | 1.43% to 2.42% | 1.0% to 2.5% |
| Required employee contribution rates | 6.9% | 6.9% | - |
| Required employer contribution rates | 8.5% | 8.0% | - |

**CITRUS HEIGHTS WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended December 31, 2016 and 2015**

NOTE 7 – DEFINED BENEFIT PENSION PLAN (Continued)

Beginning in fiscal year 2016, 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 \$292,848 in fiscal year 2016.

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, 2016, the District’s contributions to the Plan were as follows:

| | Miscellaneous | | |
|---|---------------|----------|----------|
| | Tier I | Tier II | PEPRA |
| Contributions - employer | \$550,805 | \$46,982 | \$14,222 |
| Contributions - employee (paid by employer) | 101,327 | 34,125 | - |

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

As of December 31, 2016, the District reported \$3,351,422 in 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, 2015, 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, 2014 rolled forward to June 30, 2015 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, 2014 and 2015 was as follows:

| | Miscellaneous | | |
|------------------------------|---------------|-----------|----------|
| | Tier 1 | Tier 2 | PEPRA |
| Proportion - June 30, 2014 | 0.12690% | 0.00024% | 0.00000% |
| Proportion - June 30, 2015 | 0.12217% | -0.00001% | 0.00000% |
| Change - Increase (Decrease) | 0.00% | 0.00% | 0.00% |

**CITRUS HEIGHTS WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended December 31, 2016 and 2015**

NOTE 7 – DEFINED BENEFIT PENSION PLAN (Continued)

For the year ended December 31, 2016, the District recognized negative pension expense of \$623,273. At December 31, 2016, 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 | \$612,009 | |
| Differences between actual and expected experience | 30,363 | |
| Changes in assumptions | | (\$287,259) |
| Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions | 73,420 | (681) |
| Net differences between projected and actual earnings on plan investments | | (144,007) |
| Total | <u>\$715,792</u> | <u>(\$431,947)</u> |

The \$612,009 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 |
|-----------------------|------------------------|
| 2017 | (\$175,266) |
| 2018 | (175,190) |
| 2019 | (161,783) |
| 2020 | 184,075 |
| 2021 | - |

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 | | |
|-------------------------------|---------------|------------|---------|
| | Tier 1 | Tier 2 | PEPRA |
| 1% Decrease | 6.65% | 6.65% | 6.65% |
| Net Pension Liability | \$5,451,662 | \$12,286 | \$884 |
| Current Discount Rate | 7.65% | 7.65% | 7.65% |
| Net Pension Liability/(Asset) | \$3,351,664 | (\$197) | (\$45) |
| 1% Increase | 8.65% | 8.65% | 8.65% |
| Net Pension Liability/(Asset) | \$1,617,870 | (\$10,502) | (\$812) |

**CITRUS HEIGHTS WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended December 31, 2016 and 2015**

NOTE 7 – DEFINED BENEFIT PENSION PLAN (Continued)

Actuarial Assumptions – For the measurement period ended June 30, 2015, the total pension liabilities were determined by rolling forward the June 30, 2014 total pension liability. The June 30, 2014 and June 30, 2015 total pension liabilities were based on the following actuarial methods and assumptions:

| | Miscellaneous |
|----------------------------------|--|
| Valuation Date | June 30, 2014 |
| Measurement Date | June 30, 2015 |
| 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 7.50 % used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65 % used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense. All other assumptions for the June 30, 2014 measurement date were the same as those used for the June 30, 2015 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, 2016 and 2015**

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 | New Strategic Allocation | Real Return Years 1 - 10(a) | Real Return Years 11+(b) |
|-------------------------------|--------------------------------|--------------------------------|-----------------------------|
| Global Equity | 51.0% | 5.25% | 5.71% |
| Global Fixed Income | 19.0% | 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 | 2.0% | -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 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.

CITRUS HEIGHTS WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended December 31, 2016 and 2015

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 2016 and 2015, the District contributed \$37,365 and \$30,352 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 2016 and 2015, the amount actually contributed to the plan, and changes in the District’s net OPEB obligation to the OPEB plan:

| | <u>2016</u> | <u>2015</u> |
|--|------------------|------------------|
| Normal Cost | \$40,342 | \$40,342 |
| Amortization of unfunded AAL | 61,306 | 61,306 |
| Annual required contribution | 101,648 | 101,648 |
| Interest and amortization of net OPEB obligation | (12,341) | (11,283) |
| Contributions made (premium payments made) | <u>(37,365)</u> | <u>(30,352)</u> |
| Change in net OPEB obligation | 51,942 | 60,013 |
| Net OPEB obligation, beginning of year | <u>692,813</u> | <u>632,800</u> |
| Net OPEB obligation, end of year | <u>\$744,755</u> | <u>\$692,813</u> |

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016, 2015, and 2014 were as follows:

| <u>Year Ended</u> | <u>Annual OPEB</u> | <u>Percentage of Annual OPEB Cost Contributed</u> | <u>Net OPEB Obligation</u> |
|-------------------|------------------------|---|------------------------------------|
| December 31, 2014 | \$123,823 | 21.08% | \$632,800 |
| December 31, 2015 | 101,648 | 29.86% | 692,813 |
| December 31, 2016 | 101,648 | 36.76% | 744,755 |

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, 2016 is presented below:

| <u>Actuarial Valuation Date</u> | <u>Actuarial Value of Assets (A)</u> | <u>Actuarial Accrued Liability (AAL)- Simplified Entry Age (B)</u> | <u>Unfunded AAL (Uaal) (B - A)</u> | <u>Funded Ratio (A/B)</u> | <u>Covered Payroll (C)</u> | <u>UAAL as a Percentage of/Covered Payroll ((B-A)/C)</u> |
|---|--|--|--|-----------------------------------|------------------------------------|--|
| January 1, 2015 | \$0 | \$1,060,112 | \$1,060,112 | 0 | \$2,659,682 | 39.86% |

**CITRUS HEIGHTS WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended December 31, 2016 and 2015**

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, 2016 and 2015 totaling \$2,197,621 and \$1,164,971, respectively, related to construction work.

NOTE 10 – ECONOMIC DEPENDENCY

During 2016 and 2015, the District purchased 95.61% and 91.57%, respectively, of its water supply from the San Juan Water District (SJWD). Total purchases for the year ended December 31, 2016 and 2015 was \$2,190,061 and \$1,950,627, 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, 2016 and 2015**

NOTE 11 – INSURANCE (Continued)

| Type of Coverage (Deductible) | ACWA/ JPIA | Commercial Insurance | Deductible |
|---|-------------|-------------------------|---------------|
| 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.

On February 1, 2017, San Juan Water District agreed to compensate Citrus Heights Water District for all of its expenses related to providing groundwater supplies between 2009 and 2014. In April 2017, the District will be reimbursed \$264,698 for the expenses incurred in 2014. A reimbursement of \$66,175 will be made to the District every quarter over three years beginning July 2017 to compensate for the costs of operation from 2009-2013. In accordance to these terms, San Juan Water District is responsible to provide the District a total credit of \$1,058,793.

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Required Supplementary Information

**CITRUS HEIGHTS WATER DISTRICT
REQUIRED SUPPLEMENTAL INFORMATION
For the Years Ended December 31, 2016 and 2015**

Citrus Heights Water District, a Cost-Sharing Defined Pension Plan
As of fiscal year ending December 31, 2016
**Schedule of the Plan's Proportionate Share of the Net Pension Liability and
Related Ratios as of the Measurement Date
Last 10 Years***

| | Tier 1 | Tier 2 | Tier 1 | Tier 2 | PEPRA |
|---|------------------|------------------|------------------|------------------|------------------|
| | 6/30/2014 | 6/30/2014 | 6/30/2015 | 6/30/2015 | 6/30/2015 |
| Plan's Proportion of the Net Pension Liability/Asset | 0.05389% | 0.00009% | 0.12217% | -0.00001% | -0.000002% |
| Plan's Proportionate Share of the Net Pension Liability/(Asset) | \$3,353,100 | \$5,840 | \$3,351,664 | (\$197) | (\$45) |
| Plan's Covered-Employee Payroll | \$1,909,003 | \$220,884 | \$1,492,183 | \$643,723 | \$226,708 |
| Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll | 175.65% | 2.64% | 224.61% | -0.03% | -0.02% |
| Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of the Plan's Total Pension Liability | 77.43% | 83.03% | 78.26% | 100.21% | 100.66% |

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

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| CITRUS HEIGHTS WATER DISTRICT REQUIRED SUPPLEMENTAL INFORMATION For the Years Ended December 31, 2016 and 2015 |
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Citrus Heights Water District, a Cost-Sharing Defined Pension Plan
As of fiscal year ending December 31, 2016
SCHEDULE OF CONTRIBUTIONS
Last 10 Years*

| | Tier 1 2015 | Tier 2 2015 | Tier 1 2016 | Tier 2 2016 | PEPRA 2016 |
|--|------------------------|------------------------|------------------------|------------------------|-----------------------|
| Actuarially determined contribution | \$ 405,696 | \$ 31,543 | \$ 550,805 | \$ 46,982 | \$ 14,222 |
| Contributions in relation to the actuarially determined contributions | (405,696) | (31,543) | (550,805) | (46,982) | (14,222) |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - | \$ - |
| Covered-employee payroll | \$ 1,909,003 | \$ 220,884 | \$ 1,492,183 | \$ 643,723 | \$ 226,708 |
| Contributions as a percentage of covered- employee payroll | 21.25% | 14.28% | 36.91% | 7.30% | 6.27% |

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

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| CITRUS HEIGHTS WATER DISTRICT REQUIRED SUPPLEMENTAL INFORMATION For the Years Ended December 31, 2016 and 2015 |
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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 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 | \$0 | \$1,449,500 | \$1,449,500 | \$0 | \$2,154,000 | 67.29% |
| 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% |

In the January 1, 2015 actuarial valuation, the projected unit credit actuarial method was used. The actuarial assumptions included a 4.0% investment rate of return (net of administrative expenses), which is based on the District's own investments. The annual healthcare-cost trend rates are 5.0%-8.0% for 2015 through 2018+ respectively. The UAAL is being amortized as a level dollar amount on an open basis. The remaining amortization period at December 31, 2016, was 29 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 | January 1, 2015 |
| 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 | 4.00% |
| Projected salary increase | 0.00% |
| Inflation rate | 3.00% |
| Health care cost trend rates | 5.00% - 8.00% |