AGENDA ITEM 12

CARMICHAEL WATER DISTRICT

AUDITED FINANCIAL STATEMENTS

June 30, 2017 and 2016

CARMICHAEL WATER DISTRICT

AUDITED FINANCIAL STATEMENTS

June 30, 2017 and 2016

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Carmichael Water District
Carmichael, California

Report on Financial Statements

We have audited the accompanying financial statements of Carmichael Water District, which comprise the statements of net position as of June 30, 2017 and 2016, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

To the Board of Directors
Carmichael Water District

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Carmichael Water District, as of June 30, 2017 and 2016, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 15 and other required supplementary information on pages 45 and 46 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 the 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 on inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Richardson & Company, LLP

October 11, 2017

MANAGEMENT DISCUSSION AND ANALYSIS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements, which are comprised of the financial statements and notes to the financial statements. The District's Basic Financial Statements are designed to provide readers with a broad overview of the finances of the Carmichael Water District fiscal year (FY) ending June 30, 2017.

Financial Statements

This discussion and analysis provides an introduction and a brief description of the District's financial statements, including the relationship of the statements to each other and the significant differences in the information they provide. This District's financial statements include five components:

- Statement of Net Position
- Statement of Revenues, Expenses and Changes in Net Position
- Statement of Cash Flows
- Notes to the Financial Statements
- Other Information

The statement of net position includes all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the net difference reported as net position. Net position may be displayed in three categories:

- Net Investment in Capital Assets
- Restricted
- Unrestricted

The statement of net position provides the basis of computing rate of return, evaluating the capital structure of the District, and assessing its liquidity and financial flexibility.

The statement of revenues, expenses and changes in net position presents information which shows how the District's net position changed during the year. The financial statements, except for the cash flow statement, are prepared using the accrual basis of accounting, which means that revenues are recorded when earned and expenses are recorded when incurred regardless of the timing of cash receipts or payments. The statement of revenues, expenses and changes in net position measures the success of the District's operations over the past year and determines whether the District has recovered its costs through user fees and other charges.

The statement of cash flows provides information regarding the District's cash receipts and cash disbursements during the year. This statement reports cash activity in four categories:

- Operating
- Noncapital financing
- Capital and related financing
- Investing

OVERVIEW OF FINANCIAL STATEMENTS

The Carmichael Water District operates as a public utility and maintains its accounting records in accordance with generally accepted accounting principles for proprietary funds as prescribed by the Government Accounting Standards Board (GASB). The required financial statements include the Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and Statement of Cash Flows.

Required Financial Statements

The Financial Statements of the District report information about the District using accounting methods similar to those used by companies in the private sector. These statements offer short and long-term financial information about its activities.

The *Statement of Net Position* includes all of the District's assets, deferred outflows, liabilities, and deferred inflows, which provide information about the nature and amounts of investments in assets and obligations to District creditors. They also provide the basis for computing rates of return, evaluating the capital structure of the District, and assessing the liquidity and financial flexibility of the District.

All of the current year's revenues and expenses are accounted for in the *Statement of Revenues, Expenses and Changes in Net Position*. This statement measures the District's operations over the past year and can be used to determine the extent to which the District has successfully recovered its costs through its rates, fees, facility capacity charges, and other charges. The District's credit worthiness can also be determined from these statements.

The final required financial statement is the *Statement of Cash Flows*. The primary purpose of this statement is to provide information about the District's cash receipts and payments during the reporting period, as well as net changes in cash resulting from operations, non-capital, capital and related financing, and investing activities, while excluding such non-cash accounting measures as depreciation or amortization of assets. This statement explains where cash came from, where cash was used, and the change in the cash balance during the reporting period.

Notes to Financial Statements

The *Notes to the Basic Financial Statements* provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The Notes to the Basic Financial Statements are an integral part of, and can be found immediately following, the financial statements.

Other Information

In addition to the financial statements and accompanying notes, the Basic Financial Statements also present certain required supplementary information, which follows the notes to the financial statements. This other information includes a retirement and OPEB funding schedule.

DISTRICT UPDATES

Outside Boundary Sales

Carmichael Water District (CWD) worked with Golden State Water Company (GSWC) and Aerojet Rocketdyne (AR) on a cooperative pipeline project - American River Pipeline Project (Project) that was completed in the current year. The goal of the project was to deliver up to 5,000 Acre-feet per year (AFY) of treated water from the District's Bajamont Water Treatment Plant (BWTP) to GSWC for use as a replacement water supply. The District could also use the pipeline in the case of a severe emergency and deliver water from GSWC to CWD. The pipeline went into service on September 20, 2016 and the District began to deliver treated water at full capacity to GSWC on January 1, 2017. The project was funded by AR in addition to a portion of the funding secured by a grant through the Regional Water Authority.

Two agreements were signed on August 15, 2016. In the agreement with AR, CWD sold, transferred, and conveyed to GSWC the firm capacity right in the BWTP to divert, treat, and deliver up to 5,000 AFY of treated water to GSWC as a replacement water supply. Additionally, the District secured approximately 2,000 AFY of remediated groundwater supply from AR's groundwater extraction and treatment (GET) facilities GET LA and GET LB, which will assist with drought proofing the District during future surface water supply curtailments. The sale of capacity resulted in the District recognizing $9,400,000 in operating revenue. The payment dates for the capacity sale are detailed in the agreements with the final payment to be received by the District on July 1, 2022. However, there is no penalty for early pay-off by AR. As of June 30, 2017, the District has a capacity sale receivable of $7,000,000.

In addition to the sale of capacity, CWD also recognized revenue from the treatment and delivery of water to GSWC. The agreement with GSWC outlined an allocated portion of the District's fixed and variable costs relating to the production of treated water, capital costs associated with the BWTP and intake structures, and membrane replacement costs charged to GSWC during the year. While the agreement calls for treatment and delivery of up to 5,000 AFY of treated water, the District provided six months of delivery (January 1, 2017 to June 30, 2017) totaling 2,463 AF. As of June 30, 2017, CWD recognized operating revenue of $413,720 for the treatment and delivery of water to GSWC.

Rate Increase

The rate structure for the District is detailed in the '2015 Master Plan, Business Plan and Water Rate Study'. In April 2016, The Reed Group updated the 'Business Plan and Water Rate Study' portion, which served as the basis for the District implementing a 5% rate increase beginning January 1, 2017 and also eliminating the use of a tiered rate structure. Although water consumption increased in 2017 compared to 2016, the District's customers are still using much less water than they did prior to the drought. The increase in rates is a necessary measure to combat the continued overall decline in water consumption and helps ensure the long-term financial success of the District.

Financial Analysis of the District

- The District's net position increased $9,513,699, or 22.95%, to end at $50,975,219 at June 30, 2017. New outside boundary sales, the rate increase, staff's cost control, and strategic planning efforts served to put the District's financial health in a stable, strong position.

- Total revenue for the District increased $10,184,749, or 97.56%. An operating revenue increase in the amount of $10,238,700, or 107.85%, offset with a nonoperating revenue decrease of $53,951, or 5.70%, resulted in the change in total revenue. The operating revenue increase can be attributed to outside boundary sales and an increase in retail water sales. The decrease in nonoperating revenue is due to lower miscellaneous revenue such as recycling, investment in electrical power, investment income earned, gain on disposal of assets, and expense reimbursements.

- Total expenses increased $1,853,224, or 20.02%. Operating expenses, not including depreciation, increased $1,296,873, or 22.56%. The majority of the increase in operating expenses can be attributed to environmental restoration costs for the clean-up and disposal of the abandoned pipeline and other old water assets along the American River. Non-operating expenses increased $672,831, or 66.10%, due in majority to a pass-through grant payment made to AR.

- Total cash and investments increased by $1,700,107, or 21.63%. Operating cash posted the largest gain with an increase of $1,460,692, which can be attributed to the cash collections of the capacity sale receivable. Restricted facility fees cash also had a substantial increase due to an increased number of construction projects requiring connections to the District's distribution infrastructure.

- The District's plan for reinvestment in infrastructure and replacement of aging assets continued with overall investment in Capital Assets of $1,311,990.

- Long-term debt, including current portion, decreased by $1,273,175, or 5.40%, due to the annual principal payment this year of $1,185,000 on the 2010 Certificates of Participation and bond premium amortization of $88,175.

Net Position

A summary of the District's Net Position as of June 30, 2017 is presented in Table A-1, reflecting the underlying assets and liabilities impacting this year's increase in net position. The financial condition of the District improved significantly over last year with an increase of $9,513,699, from $41,461,520 in 2016 to $50,975,219 in 2017. Current and other assets varied greatly over last year as the construction for the American River Pipeline Project was completed and the resulting agreements between GSWC and AR took effect. In particular, the noncurrent capacity sale receivable of $7,000,000 contributed to the overall increase of current and other assets of $6,555,888, or 50.80%. This increase was offset by decreases in grants receivable, as well as decreases in expense reimbursement receivables relating to the completed pipeline project. As a result of GASB Pronouncement 68 that was first implemented in FY 2015, deferred outflows and inflows of resources relating to pensions must be reported every year. Due to the current year pension calculation, deferred outflows increased $654,864 which also helped to increase total net position.

While this activity in total assets and deferred outflows caused net position to increase, total liabilities also decreased by $2,734,405, or 9.31%, which had an impact on the total increase in net position. More than half of this decrease, or $1,938,963, occurred in current liabilities as a result of lower construction liabilities relating to the completed American River Pipeline Project. The decrease in total liabilities can be further attributed to a decrease in long-term debt, excluding current portion, of $1,333,175 due to the payment of principal and amortization of the bond premium. As a result of GASB 68, pension deferred inflows increased $42,539 which lowered total net position.

TABLE A-1
Net Position

	2017	2016	Dollar Change	Percentage Change
Assets:				
Current and other assets	$ 19,460,823	$ 12,904,935	$ 6,555,888	50.80%
Capital assets, net of depreciation	56,556,434	56,879,706	(323,272)	(0.57)
Total Assets	76,017,257	69,784,641	6,232,616	8.93
Deferred Outflows of Resources:				
Deferred amount on refunding	774,073	839,720	(65,647)	(7.82)
Pensions	993,943	339,079	654,864	193.13
Total Deferred outflows	1,768,016	1,178,799	589,217	49.98
Liabilities:				
Current liabilities	2,008,354	3,947,317	(1,938,963)	(49.12)
Non current liabilities	3,560,121	3,022,388	537,733	17.79
Long-term debt	21,052,907	22,386,082	(1,333,175)	(5.96)
Total Liabilities	26,621,382	29,355,787	(2,734,405)	(9.31)
Deferred Inflows of Resources				
Pensions	188,672	146,133	42,539	29.11
Total Deferred Inflow	188,672	146,133	42,539	29.11
Net Position:				
Net investment in capital assets	35,032,600	34,148,344	884,256	2.59
Restricted	2,402,358	2,360,084	42,274	1.79
Unrestricted	13,540,261	4,953,092	8,587,169	173.37
Total Net Position	$ 50,975,219	$ 41,461,520	$ 9,513,699	22.95%

Changes in Net Position

Table A-2 below reflects the underlying revenue and expense sources of the increase in net position, notably, a large revenue increase. Part of the improvement in revenue is due to the rate increase that became effective January 1, 2017. Rebounding water consumption by the District's customers coupled with the 5% increase in rates served to provide an increase in water sales. The remaining revenue increase can be attributed to the recording of $9,400,000 in capacity sale revenue and $413,720 in GSWC water treatment and delivery revenue. A slight increase in connection and other fees of $54,928 helped offset the total decrease of nonoperating revenues of $53,951. The decrease in nonoperating revenue is due to lower miscellaneous revenue such as recycling, investment in electrical power, investment income earned, gain on disposal of assets, and expense reimbursements.

Total expenses reflects an increase over last year with a large increase in both operating and nonoperating expenses. While operating departmental expenses increased over last year, all departments stayed under the Board adopted budget for the current year (See Table A-4). Operating expenses further increased due to the demolition and environmental restoration of the old abandoned American River Pipeline and an increase in other costs such as compensated absences expense and pension expense adjustment. These increases in operating expenses were slightly offset by a reduced depreciation expense of $116,480 for aging capital assets. The majority of the increase in nonoperating expenses is due to a pass-through grant payment to AR of $723,188. The decline in interest expense of $51,000 from the payments of the 2010 COP bonds helped to decrease total nonoperating expenses.

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

	2017	2016	Dollar Change	Percentage Change
Operating revenues	$ 19,732,042	$ 9,493,342	$ 10,238,700	107.85%
Nonoperating revenues	892,407	946,358	(53,951)	(5.70)
Total Revenues	20,624,449	10,439,700	10,184,749	97.56
Depreciation	2,375,778	2,492,258	(116,480)	(4.67)
Operating expenses	7,044,220	5,747,347	1,296,873	22.56
Nonoperating expenses	1,690,752	1,017,921	672,831	66.10
Total Expenses	11,110,750	9,257,526	1,853,224	20.02
Change in Net Position	9,513,699	1,182,174	8,331,525	704.76
Net Position at Beginning of	41,461,520	40,279,346	1,182,174	2.93
Net Position at End of Year	$ 50,975,219	$ 41,461,520	$ 9,513,699	22.95%

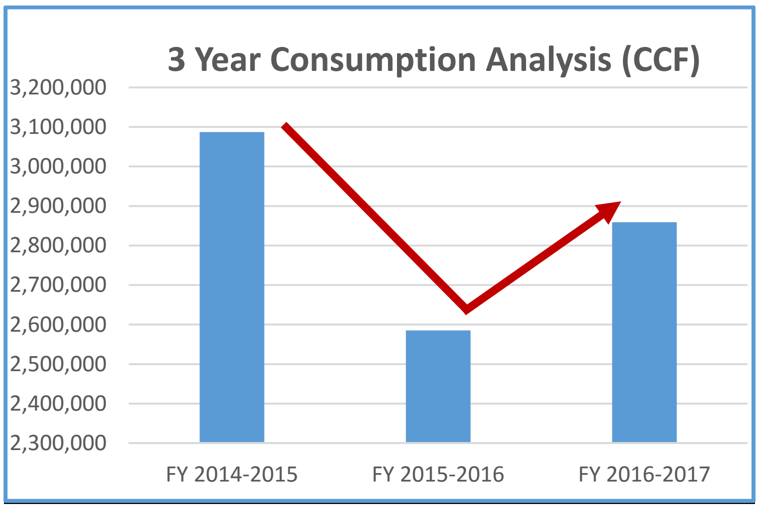
Operating revenues includes wholesale water sales, net of wholesale water purchases

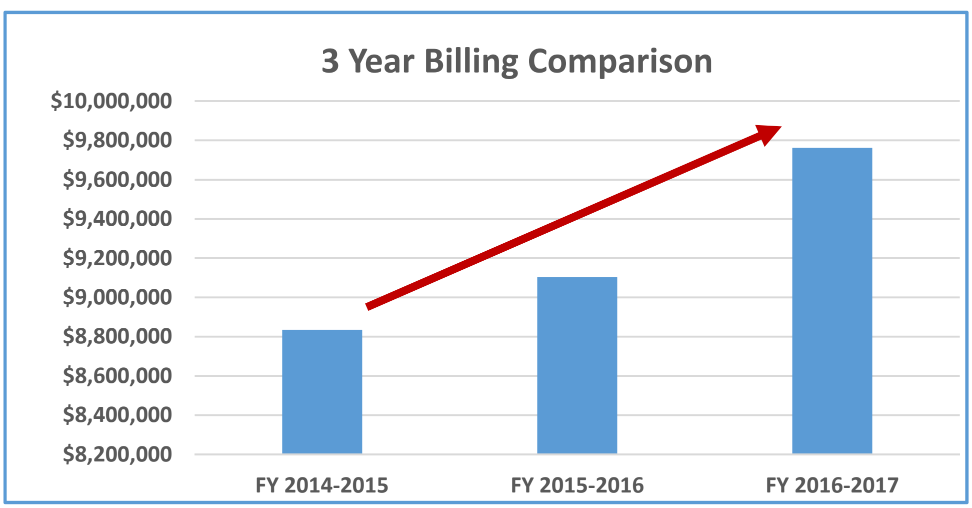
<u>Revenues</u>

Table A-3 breaks down the operating revenues of the District. The District's operating revenue increased 107.85% overall, by $10,238,700, for a total of $19,732,042 as compared to 2016 operating revenue of $9,493,342. Rebounding water consumption and the 5% rate increase implemented January 1, 2017 attributed to an increase in water sales of 5.84%, or $543,851. The charts below reflect the dramatic effects of the drought on consumption starting in 2015, and they show the necessity of the continued scheduled rate increases to shore up the District's finances. While increases in retail water sales helped increase operating revenue for the year, the new capacity sale and water treatment and delivery agreements led to the majority of the increase in operating revenue.

TABLE A-3
Operating revenues

	2017	2016	Dollar Change	Percentage Change
Water sales	$ 9,863,394	$9,319,543	$ 543,851	5.84%
Connections and other fees	54,928	51,174	3,754	7.34
Capacity sales	9,400,000	-	9,400,000	100
Water treatment & delivery	413,720	-	413,720	100
Subtotal	19,732,042	9,370,717	10,361,325	110.57
Wholesale water sales, net	-	122,625	(122,625)	(100)
Total operating revenue	$ 19,732,042	$9,493,342	$10,238,700	107.85%





Expenses

Total operating expenses for the year are shown below in Table A-4. Although departmental expenses increased, all departments were able to stay under budget by the continuing efforts of staff to control and monitor costs while still providing valuable services to customers. In the current year, the District incurred $626,475 as a result of pipeline demolition and environmental restoration. This cost will not reoccur in future years as the project is complete. Total other costs and expenses consisting of compensated absences expense, pension expense adjustment, other post-employment benefits, and membrane expense increased $275,652. These other costs, with the exception of membrane expense, are not budgeted and are the result of required accrual adjustments.

TABLE A-4
Operating expenses

	2017	2016	Dollar Change	Percentage Change
General and administrative	$ 2,047,067	$ 1,832,275	$ 214,792	11.72%
Financial services	577,342	678,601	(101,259)	(14.92)
Transmission and distribution	1,388,069	1,179,274	208,795	17.71
Pumping and treatment	2,024,279	1,951,861	72,418	3.71
Pipeline demo and environmental restoration	626,475	-	626,475	100.00
Other costs and expenses	380,988	105,336	275,652	261.69
Total operating expenses*	$ 7,044,220	$ 5,747,347	$ 1,296,873	22.56%

**Excludes depreciation expense*

Long – Term Debt

Table A-5 provides the details of the District's long-term debt and related unamortized premium. Total long-term debt decreased this year by $1,273,175. The decrease of $1,185,000 was the annual principal installment payment on the 2010 Certificates of Participation (COP). The remainder of the decrease of $88,175 is the amortization of the Premium received on the sale of the 2010 COP's. The District did not enter into any new long-term debt this year.

TABLE A-5
Long - Term Debt

	2017	2016	Dollar Change	Percentage Change
2010 Certificates of Participation*	$ 21,170,000	$ 22,355,000	$ (1,185,000)	-5.30%
Total	21,170,000	22,355,000	(1,185,000)	(5.30)
Unamortized Premium	1,127,907	1,216,082	(88,175)	(7.25)
Total Long-Term Debt*	$ 22,297,907	$ 23,571,082	$ (1,273,175)	-5.40%

*Includes current portion

Debt service coverage ratio

The debt service coverage ratio is a measurement required by the 2010 COP bond indenture covenants. The ratio demonstrates the District's ability to meet its debt obligations. Table A-6 provides the year to year comparison of the debt service coverage ratio. The 2010 COP bond covenants require a minimum 1.20 coverage ratio. This fiscal year, the District again complied with the covenants arriving at a comfortable 6.22 ratio.

TABLE A-6
Debt service coverage ratio

	2017	2016
REVENUES		
Water sales	$ 9,863,394	$ 9,319,543
Other revenue	10,761,055	222,532
Wholesale water sales	-	122,625
Total revenues	20,624,449	9,664,700
O&M EXPENSES		
General and administrative services	2,047,067	1,832,275
Transmission and distribution	1,388,069	1,179,274
Pumping and treatment	2,024,279	1,951,861
Financial services	577,342	678,601
Pipeline demo and environmental restoration	626,475	-
Other costs and expenses	380,988	105,336
Total operating expenses*	7,044,220	5,747,347
NET REVENUES	$ 13,580,229	$3,917,353
DEBT SERVICE		
Certificates of Participation	$ 2,184,325	$2,196,200
Debt service coverage ratio	6.22x	1.78x

*Excludes depreciation expense

Capital Assets

The District continued its strategic plan to allocate resources to replace aging assets and invest in infrastructure. Table A-7, on the next page, is a listing of the District's capital assets. This year, the District invested $1,311,990 in capital assets. $209,623 was invested in distribution infrastructure and meters, $14,517 was for the replacement of aging assets in other divisions, and $1,087,850 was invested in construction in progress. As of the end of the year, construction in progress consisted of a mainline replacement project and costs incurred to update the District's current hydraulic model. Due to the completion of the American River Pipeline Project, contributions from developers were large this year with $761,138 in contributed distribution infrastructure assets, bringing current year capital asset additions to $2,073,128. See Note C for a summary of the Capital Asset activity.

TABLE A-7
Capital Assets

	2017	2016	Dollar Change	Percentage Change
Capital Assets not being depreciated:				
Land, franchises and water rights	$ 546,488	$ 546,488	$ -	0.00%
Construction-in-progress	359,519	222,818	136,701	61.35
Total capital assets not being depreciated	906,007	769,306	136,701	17.77
Capital Assets being depreciated:				
Pumping and treatment	36,051,773	35,760,322	291,451	0.82
Distribution infrastructure	64,542,110	63,690,344	851,766	1.34
Transportation/licensed mobile equipment	1,126,536	1,111,629	14,907	1.34
Building and improvements	10,026,892	9,562,356	464,536	4.86
Machinery and equipment	213,793	125,072	88,721	70.94
Information technology	1,784,493	1,762,648	21,845	1.24
Furniture and fixtures	102,620	102,620	-	0.00
Total capital assets being depreciated	113,848,217	112,114,991	1,733,226	1.55
Less: accumulated depreciation	(58,197,790)	(56,004,591)	(2,193,199)	3.92
Net capital assets being depreciated	55,650,427	56,110,400	(459,973)	(0.82)
Net Capital Assets	$ 56,556,434	$ 56,879,706	$ (323,272)	-0.57%

Cash and Cash Equivalents

The District's cash position at June 30, 2017 is $9,560,629, representing all cash held by the District and/or by trustee to serve the financial needs of the District. Table A-8 is a detailed listing of the components of the cash position. See Note B for additional information.

Cash

Operating cash is the working capital used by the District to conduct its day-to-day operations. Expenditures flowing from this account are Board approved through the annual budget process. All revenue sources, except for the collection of facility fees, as discussed below, are deposited to this account. Operating cash increased this year due to the increase in revenue from collecting on the capacity sale receivable. There were no new debt issuances this year. Cash on hand is the imprest cash held for petty cash disbursements and the cash register change drawer.

Board – Designated cash

The key to long-term financial stability is the ability to anticipate and prepare for significant financial obligations. To achieve this, the District believes that a portion of its cash should be held in reserve. Board-designated accounts are for specific purposes and are established by the Board of Directors per Reserve Policy. Portions of these funds have been funded during the annual budget process. The adequacy of the target reserves and/or annual contributions will be reviewed annually during the budgeting and rate setting process and may be revised as necessary. A portion of the membrane fund was used to help pay for a planned systematic change out of membranes for this fiscal year. The use of the reserves for the membrane replacement is Board authorized for such occasions and is the reason for accumulating and designating an annual membrane funding amount each year.

Restricted cash

The District's restricted cash are those accounts held by trustee and or held by the District that are constrained through external requirements as to their usage. The debt service account is held by the 2010 COP bond trustee and represents the debt service reserve required by debt covenants restricting its usage to debt service payments. This year, the debt service funds have decreased due to lower investment returns on a portion of the funds in certificates of deposits with varying maturity dates and interest rates. The facility fees cash holds the collections of developer fees charged by the District for connections to the District's distribution infrastructure. These fees are restricted to capital expenses by law.

Table A-8
Cash and Cash Equivalents

	2017	2016	Dollar Change	Percentage Change
Cash				
Operating cash	$ 4,794,431	$ 3,333,739	$ 1,460,692	43.82%
Cash on hand	2,000	2,000	-	0.00
Subtotal, cash	4,796,431	3,335,739	1,460,692	43.79
Board - designated cash				
Membrane replacement fund	541,679	355,845	185,834	52.22
Operating reserve fund	1,311,819	1,304,094	7,725	0.59
Rate stabilization fund	508,342	504,290	4,052	0.80
Subtotal, Board designated cash	2,361,840	2,164,229	197,611	9.13
Total cash and cash equivalents	**7,158,271**	**5,499,968**	**1,658,303**	30.15
Restricted cash				
Debt service funds, 2010 COP	2,212,393	2,259,257	(46,864)	(2.07)
Facility fees	189,965	101,297	88,668	87.53
Subtotal, Resticted cash	2,402,358	2,360,554	41,804	1.77
Total cash and investments	$ 9,560,629	$ 7,860,522	$ 1,700,107	21.63%

Economic Factors

The District's Board of Directors and management staff consider many factors when setting the fiscal year budget. Management staff continually monitored all expenses to ensure that overall expenses stayed within budget. Closely monitoring these expenses resulted in the total approved O&M budget for the District coming in under budget by $529,422. Although water consumption increased in FY 2016-2017 compared to FY 2015-2016, consumption is still much lower than in years prior to the drought. As a result, the drought and conservation continued to be a major economic factor during FY 2016-2017.

Conservation

On May 5, 2015 the State Water Resources Control Board (SWRCB) adopted an emergency regulation requiring an immediate 25 percent reduction in overall potable urban water use statewide in response to statewide drought conditions. On April 7, 2017 Governor Brown lifted the emergency regulation. The District has since been operating under normal water conservation conditions.

Water conservation continues to be a focus of the SWRCB with recently proposed legislation focused on long term water use reductions. The District has continued to monitor and provide input on the proposed legislation that will have future financial impacts.

Long-Term Infrastructure Liability and Planning

The District has been proactive in infrastructure replacement efforts by replacing aging pipelines and failing water service lines while also completing an accelerated meter retrofit program. Recent water use reductions are in part a benefit of metering, which has resulted in a greater awareness of water use by District customers, effective customer response to changing water use practices, and regional and District-led implementation of water conservation demand management measures. Although reduced water use is an important part of a modern and responsibly managed utility, it also can present challenges in managing the cost of service and maintaining sufficient revenue.

The '2015 Master Plan, Business Plan and Water Rate Study' provided the analysis, findings, and recommendations for the ongoing operation and maintenance of the District and its assets. The '2016 Business Plan and Water Rate Study', which was updated by The Reed Group, also identified recommended investments and scheduled implementation for a ten year planning window.

The District assets and facilities range in age and condition and include buried pipelines for transmission and distribution of treated water, above ground water supply treatment and pumping plants, groundwater wells, buildings, and storage. Planned maintenance, rehabilitation and replacement of these assets are essential to the long-term sustainability of District operation and are the largest District liability. Management staff must monitor and adjust infrastructure replacement annually based on District needs.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the financial resources it manages. If you have questions about this report or need additional financial information, contact the District at 7837 Fair Oaks Boulevard, Carmichael, California, 95608, call (916) 483-2452, or visit our website at www.carmichaelwd.org.

CARMICHAEL WATER DISTRICT

STATEMENTS OF NET POSITION

June 30, 2017 and 2016

	2017	2016
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 7,158,271	$ 5,499,968
Accounts receivable		
Current services	1,666,504	1,631,934
Outside boundary	219,093	-
Grants	51,812	775,000
Other	2,669	2,022,635
Accrued interest receivable	14,244	11,715
Inventory	637,537	318,826
Prepaid expenses	153,908	123,424
Total Current Assets	9,904,038	10,383,502
Noncurrent Assets:		
Restricted assets:		
Cash and cash equivalents	2,402,358	2,360,554
Total Restricted Assets	2,402,358	2,360,554
Capital Assets:		
Nondepreciable	906,007	769,304
Depreciable, net of accumulated depreciation	55,650,427	56,110,402
Total Capital Assets, Net	56,556,434	56,879,706
Other Assets:		
Noncurrent capacity sale receivable	7,000,000	-
Investment in electrical power	154,427	160,879
Total Other Assets	7,154,427	160,879
Total Noncurrent Assets	66,113,219	59,401,139
TOTAL ASSETS	76,017,257	69,784,641
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on refunding	774,073	839,720
Pensions	993,943	339,079
TOTAL DEFERRED OUTFLOWS	1,768,016	1,178,799

(Continued)

CARMICHAEL WATER DISTRICT

STATEMENTS OF NET POSITION (Continued)

June 30, 2017 and 2016

	2017	2016
LIABILITIES		
Current Liabilities:		
Accounts payable	$ 366,767	$ 2,201,440
Accrued expenses and other liabilities	117,356	81,538
Unearned revenue	103,673	95,624
Accrued interest payable	161,617	171,492
Retention payable	12,527	210,809
Current portion of noncurrent liabilities	1,246,414	1,186,414
Total Current Liabilities	2,008,354	3,947,317
Noncurrent Liabilities:		
Certificates of participation, net of current portion	21,052,907	22,386,082
Compensated absences	126,101	125,070
Unearned lease revenue	124,916	126,330
Net other postemployment benefits (OPEB) obligation	1,275,030	1,498,235
Net pension obligation	2,034,074	1,272,753
Total Noncurrent Liabilities	24,613,028	25,408,470
TOTAL LIABILITIES	26,621,382	29,355,787
DEFERRED INFLOWS OF RESOURCES		
Pensions	188,672	146,133
TOTAL DEFERRED INFLOWS	188,672	146,133
NET POSITION		
Net investment in capital assets	35,032,600	34,148,344
Restricted for debt service	2,212,393	2,259,257
Restricted for capital facilities	189,965	100,827
Unrestricted	13,540,261	4,953,092
TOTAL NET POSITION	$ 50,975,219	$ 41,461,520

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

CARMICHAEL WATER DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Years Ended June 30, 2017 and 2016

	2017	2016
OPERATING REVENUES		
Retail water sales	$ 9,863,394	$ 9,319,543
Connection and other fees	54,928	51,174
Total retail water sales	9,918,322	9,370,717
Capacity sales	9,400,000	-
Water treatment and delivery charges	413,720	-
Total outside boundary sales	9,813,720	-
Wholesale water sales	-	367,875
Less: Wholesale water purchase	-	(245,250)
Wholesale water sales, net	-	122,625
TOTAL OPERATING REVENUES	19,732,042	9,493,342
OPERATING EXPENSES		
General and administrative	2,047,067	1,832,275
Transmission and distribution	1,388,069	1,179,274
Pumping and treatment	2,024,279	1,951,861
Financial services	577,342	678,601
Depreciation and amortization	2,375,778	2,492,258
Pipeline demo and environmental restoration	626,475	-
Compensated absences expense	1,031	(11,893)
Pension expense adjustment	148,996	(501,289)
Other post-employment benefits (OPEB)	216,795	227,130
Membrane expense	14,166	391,388
TOTAL OPERATING EXPENSES	9,419,998	8,239,605
NET INCOME FROM OPERATIONS	10,312,044	1,253,737
NON-OPERATING (EXPENSES) REVENUES		
Other revenue	15,284	21,271
Interest from investment in electrical power	11,116	16,221
Investment income earned	12,047	62,172
Reimbursements	5,379	20,772
Gain (loss) on disposal of capital assets	(643)	7,174
Pass-through grant payment	(723,188)	-
Interest expense	(966,921)	(1,017,921)
TOTAL NON-OPERATING (EXPENSES) REVENUES	(1,646,926)	(890,311)
CAPITAL CONTRIBUTIONS		
Grant revenue	1,683	775,000
Facility fees and other capital revenues	846,898	43,748
TOTAL CAPITAL CONTRIBUTIONS	848,581	818,748
CHANGE IN NET POSITION	9,513,699	1,182,174
Net position, beginning of year	41,461,520	40,279,346
NET POSITION AT END OF YEAR	$ 50,975,219	$ 41,461,520

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

CARMICHAEL WATER DISTRICT

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	$ 12,486,428	$ 9,193,642
Cash payments to suppliers for goods and services	(5,473,822)	(3,873,803)
Cash payments to employees for services	(1,969,942)	(2,163,838)
NET CASH PROVIDED BY OPERATING ACTIVITIES	5,042,664	3,156,001
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Receipts from other net nonoperating revenues	19,249	40,629
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	19,249	40,629
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisitions and construction of capital assets	(1,311,990)	(916,367)
Proceeds from sale of capital assets	19,979	13,802
Principal paid on long-term debt	(1,185,000)	(1,150,000)
Interest paid on long-term debt	(999,324)	(1,046,200)
Facility fees collected	85,760	25,280
Capital grants received	724,871	10,000
Capital grants paid	(723,188)	-
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(3,388,892)	(3,063,485)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	9,518	51,749
Receipts from investment in electrical power	17,568	18,144
NET CASH PROVIDED BY INVESTING ACTIVITIES	27,086	69,893
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,700,107	203,038
Cash and cash equivalents at beginning of year	7,860,522	7,657,484
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 9,560,629	$ 7,860,522

(Continued)

CARMICHAEL WATER DISTRICT

STATEMENTS OF CASH FLOWS (Continued)

For the Years Ended June 30, 2017 and 2016

	2017	2016
Cash and cash equivalents - financial statement classification		
Cash and cash equivalents	$ 7,158,271	$ 5,499,968
Restricted cash and cash equivalents	2,402,358	2,360,554
TOTAL CASH AND CASH EQUIVALENTS	$ 9,560,629	$ 7,860,522
RECONCILIATION OF NET INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 10,312,044	$ 1,253,737
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	2,375,778	2,492,258
(Increase) Decrease in:		
Accounts receivable	1,766,303	(2,048,844)
Inventory	(318,711)	(73,192)
Prepaid expense	(30,484)	(23,020)
Noncurrent capacity sale receivable	(7,000,000)	
Deferred outflows	(654,864)	(65,502)
Increase (Decrease) in:		
Accounts payable	(1,834,673)	1,618,482
Accrued expenses and other liabilities	35,818	11,680
Unearned revenue	8,049	142
Retention payable	(198,282)	210,809
Compensated absences	1,031	(11,893)
Net OPEB obligation	(223,205)	227,131
Net pension obligation	761,321	73,144
Deferred inflows	42,539	(508,931)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 5,042,664	$ 3,156,001
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Amortization of deferred amortization on refunding	$ 65,647	$ 65,646
Receipt of contributed assets	761,138	

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

NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Carmichael 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 more significant of the District's accounting policies are described below.

Reporting Entity: The District was established in 1916 as an irrigation district located in the central portion of Sacramento County northeast of the City of Sacramento and north of the lower American River. The area served by the District encompasses approximately eight square miles and serves a population of approximately 37,897. The District is predominately residential in character, with interspersed commercial areas. The District is governed by a Board of Directors consisting of five 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 Carmichael Water District Financing Corporation (the Corporation) to provide assistance to the District in the issuance of debt. Although legally separate from the District, the Corporation is reported as if it were part of the primary government because it shares a common Board of Directors with the District and its sole purpose is to provide financing to the District under the debt issuance documents of the District. Debt issued by the Corporation is reflected as debt of the District in these financial statements. The Corporation has no other transactions and does not issue separate financial statements.

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

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

The District uses the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Grant revenue is recognized when program expenditures are incurred in accordance with program guidelines. When such funds are received they are recorded as unearned revenues until earned. Earned but unbilled water services are accrued as revenue.

Water lines are constructed by private developers and then dedicated to the District, which is then responsible for their future maintenance. These lines are recorded as capital contributions when they pass inspection by the District and the estimated costs are capitalized as transmission and distribution.

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

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

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

Pensions: For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Commission's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

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

Restricted Assets: Certain proceeds of the District's long-term debt are classified as restricted investments on the balance sheet because their use is limited by applicable debt covenants. The "reserve" account is used to report resources set aside to make up for potential future deficiencies in the Certificates of Participation debt service. The District also had unspent facility fees classified as restricted cash and cash equivalents.

Inventory: Inventory consists primarily of materials used in the construction and maintenance of the water distribution facilities and is valued at average cost.

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

Capital Assets: Capital assets are recorded at historical cost. Donated capital assets are recorded at the acquisition value, which is the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date. Self-constructed assets are recorded based on the amount of direct labor and materials charged to the asset construction. Depreciation is calculated using the straight-line method over the following estimated useful lives:

Description	Estimated Life
Pumping and treatment	10-50 years
Distribution infrastructure	10-75 years
Buildings and improvements	10-40 years
Construction projects	10-75 years
Transportation equipment	7-20 years
Information technology	3-7 years
Machinery and equipment	5-7 years
Furniture and fixtures	5-10 years

Maintenance and repairs are charged to operations when incurred. It is the District's policy to capitalize all capital assets with a cost of $1,500 to $10,000 or more, depending on the asset type. 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.

Depreciation expense aggregated $2,375,778 and $2,492,258 for the years ended June 30, 2017 and 2016, respectively, and is included with depreciation and amortization expense.

Bond Premiums and Bond Issuance Costs: Bond premiums are deferred and amortized over the lives of the bonds. Bonds payable 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.

Compensated Absences: The District's policy allows employees to accumulate earned but unused vacation which will be paid to employees upon separation from the District's service. The cost of vacation is recognized in the period earned.

Reclassifications: Certain amounts in 2016 have been reclassified to conform to the 2017 financial statement presentation. The reclassification had no effect on total net assets or change in net assets.

New Pronouncements: In June 2015, the GASB issued Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)", replaces the requirements of GASB Statement No. 45 and requires governments that are responsible only for OPEB liabilities related to their own employees and that provide OPEB through a defined benefit OPEB plan administered through a trust that meets specified criteria to report a net OPEB liability, which is the difference between the total OPEB liability and assets accumulated in the trust and restricted to making benefit payments, on the face of the financial statements. Governments that participate in a cost-sharing OPEB plan that is

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

administered through a trust that meets the specified criteria will report a liability equal to their proportionate share of the collective OPEB liability for all entities participating in the cost-sharing plan. Governments that do not provide OPEB through a trust that meets specified criteria will report the total OPEB liability related to their employees. This Statement also requires governments to present more extensive note disclosures and required supplementary information about their OPEB liabilities. This Statement is effective beginning the year ended June 30, 2018.

In March 2016, the GASB issued Statement No. 82, *Pension Issues - an Amendment of GASB Statements No. 67, No. 68, and No. 73.* This Statement clarifies certain accounting and reporting issues related to pension plans, including the presentation of payroll related measures in required supplementary information, clarifies the use of the term deviation for the selection of assumptions, and clarifies the classification of employer-paid member contributions and the period in which they should be recognized. This Statement is effective in the first reporting period in which the measurement date of the employer's pension liability is on or after June 15, 2017.

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (ARO's), which is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The timing and pattern of recognition of the liability and corresponding deferred outflow of resources recorded is defined in this Statement. This Statement is effective for periods beginning after June 15, 2018.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This Statement establishes criteria for identifying and disclosing fiduciary activities of state and local governments. The focus of the criteria is on whether a government is controlling the assets of the fiduciary activity and the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements of the government. Four fiduciary funds should be reported under this statement: Pension and other employee benefit trust funds, investment trust funds, private-purpose trust funds, and custodial funds. This Statement is effective for periods beginning after December 15, 2018.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. This Statement addresses practice issues that have been identified during implementation and application of certain GASB statements, including issues related to blending component units, goodwill, fair value measurements and application, pensions and other postemployment benefits. This Statement is effective for periods beginning after June 15, 2017.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues.* This Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. This Statement is effective for periods beginning after June 15, 2017.

The District is currently analyzing the impact of the required implementation of these new statements.

NOTE B – CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30 are classified in the accompanying financial statements as follows:

	2017	2016
Cash and cash equivalents	$ 7,158,271	5,499,968
Restricted assets:		
Cash and cash equivalents	2,402,358	2,360,554
Total cash and investments	$ 9,560,629	$ 7,860,522

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

	2017	2016
Cash on hand	2,000	2,000
Deposits with financial institutions	5,526,075	3,790,881
Total cash	5,528,075	3,792,881
Certificates of deposit	2,208,707	2,244,844
Money market mutual funds	3,686	14,413
Investments in Local Agency Investment Fund (LAIF)	1,820,161	1,808,384
Total investments	4,032,554	4,067,641
Total cash and investments	$ 9,560,629	$ 7,860,522

The components of unrestricted cash and equivalents at June 30 are as follows:

	2017	2016
Operating cash	$ 2,915,094	$ 3,333,003
Designations (See Note G for designations)	4,243,177	2,166,965
Total unrestricted cash and investments	$ 7,158,271	$ 5,499,968

Investment policy: California statutes authorize districts to invest idle or surplus funds in a variety of credit instruments as provided for in the California Government Code, Section 53600, Chapter 4 - Financial Affairs. The table below identifies the investment types that are authorized for the District by the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by the bond trustee that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

NOTE B – CASH AND CASH EQUIVALENTS (Continued)

During the year ended June 30, 2017 and 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 Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
State Obligations	5 years	None	None
California Local Agency Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Bankers Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposits	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20%	None
Medium Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	None
Money Market Mutual Funds	N/A	20%	10%
LAIF	N/A	$4 million	None
Collateralized Bank Deposits	5 years	None	None
Mortgage Pass-Through Securities	5 years	20%	None
California Local Agency Investment Fund (LAIF)	N/A	None	None
County Pooled Investments	N/A	None	None
Time Deposits	5 years	None	None

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

The District's policy restricts the District from investing more than $4,000,000 in LAIF. In addition, staff is directed to maintain an average annual balance not to exceed $3,500,000. The District complied with the provisions of the California Government Code (or the District's investment policy, where more restrictive) pertaining to the types of investments held, the institutions in which deposits were made and the security requirements. The District will continue to monitor compliance with applicable statutes pertaining to public deposits and investments.

Investments Authorized by Debt Agreements: Investment of debt proceeds held by the bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy. The 2010 Revenue Certificates of Participation debt agreement contains certain provisions that address interest rate risk and credit risk, but not concentration of credit risk.

NOTE B – CASH AND CASH EQUIVALENTS (Continued)

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	None	None	None
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Bankers Acceptances	1 year	None	None
Commercial Paper	None	None	None
Certificates of Deposits	None	None	None
Investment Agreements	None	None	None
Repurchase Agreements	None	None	None
Money Market Mutual Funds	N/A	None	None
LAIF	N/A	None	None

Interest rate risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

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

		Remaining Maturity (in Months)		
	Total	12 Months or Less	13-24 Months	24-60 Months
Held by bond trustee:				
Certificates of Deposit	$ 2,208,707		$ 1,717,347	$ 491,360
Money market mutual funds	3,686	$ 3,686		
LAIF	1,820,161	1,820,161		
Total	$ 4,032,554	$ 1,823,847	$ 1,717,347	$ 491,360

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.

NOTE B – CASH AND CASH EQUIVALENTS (Continued)

	Total	Minimum Legal Rating	Exempt from Disclosure	Ratings as of Year End AAA	Not Rated
Held by bond trustee:					
Certificates of deposit	$ 2,208,707		$ 2,208,707		
Money market mutual funds	3,686	AAA		$ 3,686	
LAIF	1,820,161	N/A			$ 1,820,161
	$ 4,032,554		$ 2,208,707	$ 3,686	$ 1,820,161

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

Custodial credit risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

At June 30, 2017, the carrying amount of the District's deposits were $5,526,075 and the balances in financial institutions were $5,482,329 and of this amount $5,232,329 was not insured by federal depository insurance. At June 30, 2016, the carrying amount of the District's deposits were $3,790,881 and the balances in financial institutions were $3,717,320 and of this amount $3,467,320 was not insured by federal depository insurance. As of June 30, 2017, District investments in the following investment types were held by the same broker-dealer (counterparty) that was used by the District to buy the securities:

Reported Investment Type	Amount
Certificates of deposit	$ 2,208,707
Money market mutual funds	3,686

NOTE B – CASH AND CASH EQUIVALENTS (Continued)

Investment in LAIF: LAIF is stated at amortized cost, which approximates fair value. The LAIF is a special fund of the California State Treasury through which local governments may pool investments. The total fair value amount invested by all public agencies in LAIF is $77,539,216,146 managed by the State Treasurer. Of that amount, 2.89% is invested in structured notes and asset-backed securities. No amounts were invested in derivative financial products. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

Fair Value Measurement: 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 the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs, Level 3 inputs are significant unobservable inputs.

The District has certificates of deposit of $2,208,707 at June 30, 2017. The fair values of certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on the certificates to a schedule of aggregated contractual maturities on such time deposits, which are level 2 inputs.

CARMICHAEL WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2017 and 2016

NOTE C – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 and 2016 is as follows:

	Balance July 1, 2016	Additions	Deletions	Transfers	Balance June 30, 2017
Capital assets not being depreciated:					
Land, franchises and water rights	$ 546,488				$ 546,488
Construction in progress	222,816	$ 1,087,850		$ (951,147)	359,519
	769,304	1,087,850		(951,147)	906,007
Capital assets being depreciated:					
Pumping plant	35,760,322	264,236		27,215	36,051,773
Transmission and distribution	63,690,346	286,627	$ (125,427)	690,564	64,542,110
Buildings and improvements	9,562,356	412,570		51,966	10,026,892
Transportation equipment	1,111,629		(77,774)	92,681	1,126,536
Information technology	1,762,648	21,845			1,784,493
Machinery and equipment	125,072			88,721	213,793
Furniture and fixtures	102,620				102,620
	112,114,993	985,278	(203,201)	951,147	113,848,217
Less accumulated depreciation:					
Pumping plant	(17,390,776)	(699,847)			(18,090,623)
Transmission and distribution	(31,617,576)	(1,372,769)	104,805		(32,885,540)
Buildings and improvements	(4,078,067)	(246,293)			(4,324,360)
Transportation equipment	(989,134)	(22,655)	77,774		(934,015)
Information technology	(1,717,633)	(20,533)			(1,738,166)
Machinery and equipment	(108,785)	(13,681)			(122,466)
Furniture and fixtures	(102,620)				(102,620)
	(56,004,591)	(2,375,778)	182,579		(58,197,790)
Net capital assets being depreciated	56,110,402	(1,390,500)	(20,622)	951,147	55,650,427
Net capital assets	$ 56,879,706	$ (302,650)	$ (20,622)	$ -	$ 56,556,434

NOTE C – CAPITAL ASSETS (Continued)

	Balance July 1, 2015	Additions	Deletions	Transfers	Balance June 30, 2016
Capital assets not being depreciated:					
Land, franchises and water rights	$ 546,488				$ 546,488
Construction in progress	71,734	$ 294,961		$ (143,879)	222,816
	618,222	294,961		(143,879)	769,304
Capital assets being depreciated:					
Pumping plant	35,610,488	41,358		108,476	35,760,322
Transmission and distribution	63,282,181	434,507	$ (168,199)	141,857	63,690,346
Buildings and improvements	9,659,559	42,298	(31,025)	(108,476)	9,562,356
Transportation equipment	1,076,763	108,461	(73,595)		1,111,629
Information technology	1,799,375	9,146	(47,895)	2,022	1,762,648
Machinery and equipment	124,863	4,104	(3,895)		125,072
Furniture and fixtures	102,620				102,620
	111,655,849	639,874	(324,609)	143,879	112,114,993
Less accumulated depreciation:					
Pumping plant	(16,526,488)	(756,189)		(108,099)	(17,390,776)
Transmission and distribution	(30,376,677)	(1,406,734)	165,835		(31,617,576)
Buildings and improvements	(3,973,888)	(239,038)	26,760	108,099	(4,078,067)
Transportation equipment	(1,043,068)	(19,662)	73,596		(989,134)
Information technology	(1,699,402)	(66,126)	47,895		(1,717,633)
Machinery and equipment	(108,172)	(4,509)	3,896		(108,785)
Furniture and fixtures	(102,620)				(102,620)
	(53,830,315)	(2,492,258)	317,982		(56,004,591)
Net capital assets being depreciated	57,825,534	(1,852,384)	(6,627)	143,879	56,110,402
Net capital assets	$ 58,443,756	$ (1,557,423)	$ (6,627)	$ -	$ 56,879,706

NOTE D – INVESTMENT IN ELECTRICAL POWER

The District participates in the California-Oregon Transmission Project (Project), a Joint Powers Authority (JPA), which is a project of the Department of Energy, Western Area Power Administration. The Project is governed by a management committee, which is chaired by a representative of the Transmission Agency of Northern California with each participant in the Project having representation on the Management Committee. The District applied as a Community Services District and Central Valley Project Contractor, and received allocation of 1MW (megawatt) of power (capacity and associated energy) in exchange for an investment as a participant in the construction of the transmission line.

The District has a 0.069% equity interest in the net assets of the Project as defined in the Long-Term Participation Agreement. The District also has an obligation to finance 0.069% of the net losses of the Project; it also has the right to receive 0.069% of the operating results of the Project income. The District is billed monthly for its share of the operations and maintenance costs of the Project, which totaled approximately $416 for the years ended June 30, 2017 and 2016. The District's net investment and its share of the operating results of the Project are reported as Investment in Electrical Power.

NOTE D – INVESTMENT IN ELECTRICAL POWER (Continued)

On January 1, 2006, the District entered into an agreement to lease its share of transmission capacity to the Sacramento Municipal Utility District. For the years ended June 30, 2017 and 2016, the amount of revenue generated from the transmission lease was $17,568 and $18,144, respectively. The agreement is effective through December 31, 2024.

The Project's unaudited financial statements for the year ended June 30, 2017 and 2016, are available from the California-Oregon Transmission Project at Post Office Box 15140, Sacramento, California 95851-5140. The following is the summarized unaudited financial information for the Project as of and for the years ended June 30, 2017 and 2016:

	2017	2016
Balance sheet		
Assets	$ 262,290,472	$ 262,544,679
Liabilities	$ 24,043,044	$ 20,455,414
Net assets	238,247,428	242,099,265
Liabilities and net assets	$ 262,290,472	$ 262,554,679
Income statement		
Operating revenues	$ 14,186,803	$ 13,077,796
Operating expenses	(19,961,087)	(18,733,422)
Operating loss	(5,774,284)	(5,655,626)
Nonoperating revenues	19,696	5,831
Decrease in net assets before adjustments	(5,754,588)	(5,649,795)
Adjustments for capital improvements	1,902,751	2,310,267
Net decrease in net assets	$ (3,851,837)	$ (3,339,528)
District's share of net assets	$ 154,427	$ 160,879

NOTE E – LONG-TERM LIABILITIES

The activity of the District's long-term liabilities during the year ended June 30, 2017 and 2016 was as follows:

	Balance July 1, 2016	Additions	(Reductions)	Balance June 30, 2017	Due Within One Year
2010 Certificates of Participation	$ 22,355,000		$(1,185,000)	$ 21,170,000	$ 1,245,000
Less: Unamortized discount	1,216,082		(88,175)	1,127,907	
	23,571,082		(1,273,175)	22,297,907	1,245,000
Compensated absences	125,070	$ 154,074	(153,043)	126,101	
Unearned lease revenue	127,744		(1,414)	126,330	1,414
Net OPEB obligation	1,498,235	322,289	(545,494)	1,275,030	
Net pension obligation	1,272,753	761,321		2,034,074	
	$ 26,594,884	$ 1,237,684	$(1,973,126)	$ 25,859,442	$ 1,246,414

	Balance July 1, 2015	Additions	(Reductions)	Balance June 30, 2016	Due Within One Year
2010 Certificates of Participation	$ 23,505,000		$(1,150,000)	$ 22,355,000	$ 1,185,000
Less: Unamortized discount	1,304,257		(88,175)	1,216,082	
	24,809,257		(1,238,175)	23,571,082	1,185,000
Compensated absences	136,963	$ 168,503	(180,396)	125,070	
Unearned lease revenue	129,158		(1,414)	127,744	1,414
Net OPEB obligation	1,271,104	313,816	(86,685)	1,498,235	
Net pension obligation	1,199,609	73,144		1,272,753	
	$ 27,546,091	$ 555,463	$(1,506,670)	$ 26,594,884	$ 1,186,414

The District's long-term liabilities consist of the following:

2010 Water Revenue Refunding Certificates of Participation: In March 2010, the Corporation issued the 2010 Water Revenue Refunding Certificates of Participation to refund the previously outstanding 1999 Water Revenue Certificates of Participation, fund a reserve fund and pay the cost of issuance as well as a net original issue premium of $1,763,503. The net original issue premium is being amortized over the life of the remaining debt. Amortization of the premium totaled $88,175 for the years ended June 30, 2017 and 2016, and is included as a reduction of interest expense.

Although the refunding resulted in deferred amount on refunding of $1,247,270, the Corporation in effect reduced the aggregate debt service payments by approximately $3,253,000 over the next nineteen years and obtained an economic gain (difference between the present values of the old debt and the new debt service payments) of $2,334,692. The deferred amount on refunding is being amortized over the remaining life of the refunded debt. Amortization expense totaled $65,647 for the years ended June 30, 2017 and 2016, and is included in interest expense. The deferred amount on refunding was $774,073 and $839,720 at June 30, 2017 and 2016, respectively.

NOTE E – LONG-TERM LIABILITIES (Continued)

The 2010 Water Revenue Refunding Certificates of Participation are obligations of the Corporation payable solely from payments received from the District pursuant to an Installment Sale Agreement (Senior Installment Sale Agreement) between the Corporation and the District. The obligation of the District to make installment payments is payable solely from net revenues of the District's water system and certain funds and accounts created under the Installment Sale Agreement. The Installment Sale Agreement requires the District to agree to fix, prescribe, and collect rates and charges for its water service which will be at least sufficient to yield each fiscal year net revenues equal to 120% of the annual debt service in such fiscal year. At June 30, 2017 and 2016, the District's net revenues were 6.22% and 1.78% of debt service payments.

The 2010 Water Revenue Refunding Certificates of Participation have interest rates ranging from 2.5% to 5.0% with maturities through the fiscal year ending June 30, 2027. The 2010 Water Revenue Refunding Certificates of Participation outstanding totaled $21,170,000 and $22,355,000 at June 30, 2017 and 2016, respectively. Accrued interest payable totaled $161,617 and $171,492 at June 30, 2017 and 2016.

The following is a schedule of maturities for the certificates of participation:

	Principal	Interest
For the Year Ended June 30:		
2018	$ 1,245,000	$ 938,575
2019	1,305,000	881,350
2020	1,355,000	828,150
2021	1,410,000	772,850
2022	1,470,000	707,900
2023-2027	8,365,000	2,511,725
2028-2030	6,020,000	461,250
	$ 21,170,000	$ 7,101,800

Pledged Revenue: The District pledged future water system revenues, net of specified expenses, to repay the 2010 Certificates of Participation in the original amount of $28,550,000. Proceeds of the Certificates of Participation were used to refund the previously outstanding 1999 Water Revenue Certificates of Participation. The Certificates of Participation are payable solely from water customer net revenues and are payable through November 1, 2029. Total principal and interest remaining to be paid on the Certificates of Participation was $28,271,800 and $30,456,125 at June 30, 2017 and 2016. Total principal and interest paid was $2,184,325 and the total water system net revenues were $13,580,229 for the year ended June 30, 2017. Total principal and interest paid was $2,190,450 and the total water system net revenues were $3,917,353 for the year ended June 30, 2016. At June 30, 2017 and 2016, the District's net revenues were 622% and 178% of debt service payments.

Deferred Lease Revenue: On November 1, 2007, the District entered into a long-term lease agreement with a private company for certain District facilities to construct a groundwater extraction treatment system, water conveyance facilities, and groundwater extraction wells that benefit the District's operations. The District received $140,000 when the lease was executed, which will be earned at a rate of $1,414 per year through October 31, 2106.

NOTE F – ARBITRAGE REBATE LIABILITY

Section 148 (f) of the Internal Revenue Code requires issuers of tax-exempt state and local bonds to remit to the federal government amounts equal to (a) the excess of the actual amounts earned on all "Non-purpose Investments" allocable to "Gross Proceeds" of an issue of municipal obligations less the amount that would have been earned if the investments bore a rate equal to the amount that would have been earned if the investments bore a rate equal to the yield on the issue, plus (b) all income attributable to the excess. Issuers must make rebate payments at least once every five years and upon final retirement or redemption of the bonds. There was no arbitrage liability at June 30, 2017. The next arbitrage calculation will be performed in 2020.

NOTE G – NET POSITION

Restrictions: Restricted net position consists of constraints placed on net asset use through external requirements imposed by creditors (such as through debt covenants), grantors, contributors, or laws and regulations of other governments or constraints by law through constitutional provisions or enabling legislation. Restricted net position consisted of the following at June 30:

	2017	2016
Debt service reserve on 2010 Certificates of Participation	$ 2,212,393	$ 2,259,257
Facility Fees - expansion of facilities	189,965	100,827
Total restricted net position	$ 2,402,358	$ 2,360,084

The restrictions are for the following:

Restricted for debt service payments represents debt service reserves required by the related debt covenants.

Restricted for capital facilities represents unspent facility fees, which are restricted to capital expenses by Section 66013 of the Water Code of the State of California.

Designations: Designations of unrestricted net position may be imposed by the Board of Directors to reflect future spending plans or concerns about the availability of future resources. Designations may be modified, amended or removed by Board action. Designations included the following as of June 30:

	2017	2016
Rate stabilization	$ 508,342	$ 505,053
Operating reserve	3,193,156	1,306,067
Membrane replacement	541,679	355,845
Total designated net position	$ 4,243,177	$ 2,166,965

The designations are for the following:

Designated for rate stabilization represents the amount to be used to make up a revenue deficiency in a future year in order to assist in meeting the debt coverage requirements.

NOTE G – NET POSITION (Continued)

Designated for operating reserve, which represents 33% of budgeted operating and maintenance costs, plus debt service, is to ensure an adequate balance for working capital requirements, as well as unanticipated expenditures for operations, maintenance or asset acquisition. The 2016 amount is based on 25% of budgeted operating and maintenance costs, excluding debt service.

Designated for the replacement of membrane submodules represents amounts budgeted but not yet spent for membrane replacements.

While the District's 2016 Business Plan and Water Rate Study has identified the need to establish a capital replacement reserve to fund future facility replacement projects and a replacement water supply reserve to fund the future acquisition of additional water supply, no amounts have been specifically designated by the Board as of June 30, 2017 or 2016.

NOTE H – PENSION PLANS

Plan Descriptions: All qualified employees are eligible to participate in the District's cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). The District participates in the Miscellaneous Plan within the CalPERS cost-sharing plan.

Benefit provisions under the Plans are established by State statute and Board resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website at www.calpers.ca.gov.

Benefits Provided: CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 (52 for PEPRA Miscellaneous Plan) with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is the following: the 1957 Survivor Benefit or the Optional Settlement 2W Death Benefit. The cost of living adjustments are applied as specified by the Public Employees' Retirement Law.

NOTE H – PENSION PLANS (Continued)

The Plans' provisions and benefits in effect at June 30, 2017 and 2016 are summarized as follows:

Hire date	Classic Miscellaneous Plan (Prior to January 1, 2013)	PEPRA Miscellaneous Plan (On or after January 1, 2013)
Benefit formula (at full retirement)	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 63	52 - 67
Monthly benefits, as a % of eligible compensation	1.426% to 2.418%	1.0% to 2.5%
Required employee contribution rates - 2016/17	7.000%	6.500%
Required employer contribution rates - 2016/17	9.887%	7.045%
Required employee contribution rates - 2015/16	7.000%	6.500%
Required employer contribution rates - 2015/16	9.454%	6.724%

In addition to the contribution rates above, the District was also required to make payments of $44,140 and $29,026 toward its unfunded actuarial liability during the years ended June 30, 2017 and 2016, respectively.

The Classic Miscellaneous Plan is closed to new members that are not already CalPERS eligible participants.

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 Plans 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.

The contributions recognized as part of pension expense for the Plans were $222,301 and $198,100 for the years ended June 30, 2017 and 2016, respectively.

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions: As of June 30, 2017 and 2016, the District reported a net pension liability for its proportionate share of the net pension liability of the Plan of $2,034,074 and $1,272,753, respectively.

NOTE H – PENSION PLANS (Continued)

The District's net pension liability is measured as the proportionate share of the net pension liability. The net pension liability as of June 30, 2017 and 2016 is measured as of June 30, 2016 and 2015, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 and 2013 rolled forward to June 30, 2015 and 2014 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 plans 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, 2017 and 2016 was as follows:

Proportion - June 30, 2016	0.046392%
Proportion - June 30, 2017	0.058553%
Change - Increase (Decrease)	0.012161%

For the year ended June 30, 2017 and 2016, the District had pension expense of $365,343 and ($340,597) at June 30, 2017 and 2016, respectively. The District reported deferred outflows of resources and deferred inflows of resources related to all Plans combined from the following sources:

	2017		2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 222,301		$ 169,074	
Differences between actual and expected experience	6,615	$ (2,295)	10,288	
Changes in assumptions		(62,574)		$ (97,337)
Change in employer's proportion	212,974	(315)	147,406	
Differences between the employer's contribution and the employer's proportionate share of contributions	5,471	(123,488)	12,311	
Net differences between projected and actual earnings on plan investments	546,582			(48,796)
Total	$ 993,943	$(188,672)	$ 339,079	$ (146,133)

The $222,301 and $169,074 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 June 30, 2018 and 2017, respectively. Other amounts reported as net deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ended June 30	
2018	$ 126,516
2019	117,002
2020	199,872
2021	139,580
	$ 582,970

NOTE H – PENSION PLANS (Continued)

Actuarial Assumptions: The total pension liabilities in the actuarial valuations for each of the Plans were determined using the following actuarial assumptions:

	June 30, 2017	June 30, 2016
Valuation Date	June 30, 2015	June 30, 2014
Measurement Date	June 30, 2016	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:		
Discount Rate	7.65%	7.65%
Inflation	2.75%	2.75%
Payroll Growth	3.0%	3.0%
Projected Salary Increase	3.3% - 14.2% (1)	3.3% - 14.2% (1)
Investment Rate of Return	7.50% (2)	7.65% (2)
Mortality	Derived using CalPERS Membership Data for all Funds	Derived using CalPERS Membership Data for all Funds

(1) Depending on entry age and service
(2) Net of pension plan investment expenses, including inflation

The underlying mortality assumptions and all other actuarial assumptions used in June 30, 2017 were based on the 2010 CalPERS experience study for the period from 1997 to 2007. The underlying mortality assumptions and all other actuarial assumptions used in June 30, 2016 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.

Discount Rate: The discount rates used to measure the total pension liability were 7.65% as of June 30, 2017 and 2016. 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 discount rate is appropriate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate 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.

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. Using historical returns of all the funds' asset classes, expected compound 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.

NOTE H – PENSION PLANS (Continued)

The table below reflects the long-term expected real rate of return by asset class for the Plan as of the measurement dates of June 30. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

	2016			2015		
Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	51.0%	5.25%	5.71%	51.0%	5.25%	5.71%
Global Fixed Income	20.0%	0.99%	2.43%	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%	2.0%	4.50%	5.09%
Liquidity	1.0%	(0.55)%	(1.05)%	2.0%	(0.55)%	(1.05)%
Total	100.0%			100.0%		

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

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

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 Plans, calculated using the discount rate for the Plans, 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:

	2017	2016
1% Decrease	6.65%	6.65%
Net Pension Liability	$ 3,635,912	$ 2,134,489
Current Discount Rate	7.65%	7.65%
Net Pension Liability	$ 2,034,074	$ 1,272,753
1% Increase	8.65%	8.65%
Net Pension Liability	$ 710,234	$ 561,283

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

Payable to the Pension Plan: At June 30, 2017 and 2016 the District reported payables for the outstanding amount of contributions to the pension plan of $7,112 and $6,549, respectively.

NOTE I – 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 plan. Employees become eligible to retire and receive healthcare benefits after age 50 with at least 5 years. In addition to 5 years of District eligible service, a retiree must have an additional 5 years of service with any contracting PERS agency for a total of 10 years of eligible service. The OPEB Plan does not issue a publicly available financial report.

Funding Policy: The contribution requirements of plan members and the District are established and may be amended by the Board of Directors. The required contribution is based on projected pay-as-you-go financing requirements. A trust was established in September 2016. The contribution amounts in the table below include prefunding contributions and premium payments on current retirees. For 2017 and 2016, the District contributed $545,494 and $86,685 to the plan. The 2017 contribution of $545,494 includes a $440,000 prefunding contribution to the trust and $105,494 of retiree premium payments. The 2016 contributions represent only retiree premium payments.

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 to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The District's Board of Directors has established a policy of funding the ARC on a pay as you go basis. The following table shows the components of the District's annual OPEB cost for 2017 and 2016, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the OPEB plan:

	2017	2016
Annual required contribution:		
Normal Cost	$ 141,201	$ 141,201
Amortization of UAAL	125,196	125,196
Interest	55,892	47,419
Annual OPEB cost (expense)	322,289	313,816
Contributions made	(545,494)	(86,685)
Change in net OPEB obligation	(223,205)	227,131
Net OPEB obligation, beginning of year	1,498,235	1,271,104
Net OPEB obligation, end of year	$ 1,275,030	$ 1,498,235

NOTE I – OTHER POST-RETIREMENT BENEFITS (Continued)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017 and the two preceding years were as follows:

Year Ended	Annual OPEB	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2015	$ 305,174	24.1%	$ 1,271,104
June 30, 2016	313,816	27.6%	1,498,235
June 30, 2017	322,289	169.3%	1,275,030

Funded Status and Funding Progress: As of July 1, 2014, the most recent actuarial valuation date, the actuarial accrued liability for benefits was $2,562,710, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) for the year ended June 30, 2017 was $1,854,585 and the ratio of the UAAL to the covered payroll was 138.18%.

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 exceptions and new estimates are made about the future. The schedule of funding progress, presented as Required Supplementary Information, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets consistent with the long-term perspective of the calculations.

In the July 1, 2014 actuarial valuation, the Entry Age Normal Cost Method was used. The actuarial assumptions included a 4.75% investment rate of return (net of administrative expenses), which is based on the District's own investments. The annual healthcare-cost trend rate is 4.0% per year. The assumptions also include a 2.75% annual increase in covered payroll and a 2.75% inflationary factor. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2017, was approximately 25 years.

NOTE J – COMMITMENTS AND CONTINGENCIES

The District implemented a phased meter implementation program that entailed installing meters for all District customers. This project was completed in 2013, except for six (6) remaining accounts. The District completed the two (2) mainline projects required to meter the final six (6) accounts. As of June 30, 2017, all District customers were metered and on metered billing.

NOTE J – COMMITMENTS AND CONTINGENCIES (Continued)

The District received grant funding for specific purposes that is subject to review and audit by the funding agency. Such potential audits could result in a request for reimbursement for expenses disallowed under the terms and conditions of the funding source. Management is of the opinion that no material liabilities will result from such potential audits.

The District completed the American River Pipeline Conveyance Project that was entered into in May 2015. As a result of the project, the District began supplying Golden State Water Company (GSWC) with treated water on January 1, 2017. The original sum of the contract was $4,815,000 of which $4,715,000 would be funded by Aerojet Rocketdyne (Aerojet) and $100,000 by the District. The funding commitment by Aerojet Rocketdyne was secured by an executed reimbursement agreement effective May 18, 2015. This agreement remained in effect until completion of the project in February 2017 and all costs associated with the project were reconciled between Aerojet Rocketdyne and the District.

As of June 30, 2017, the sum total of the construction contract was $4,920,277. Aerojet Rocketdyne agreed to fund $4,796,810 and the District funded $123,467. Aerojet has reimbursed the District $4,796,810 of the construction contract through June 30, 2017. The District also incurred environmental restoration costs for the clean-up and disposal of abandoned water assets along the American River and natural habitat restoration, fulfilling a prior commitment the District had made to the community. As of June 30, 2017, these costs totaled $626,475 and were not reimbursable by Aerojet Rocketdyne.

NOTE K – INSURANCE

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

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

Coverage	ACWA/JPIA	Commercial Insurance	Deductible
General and Auto Liability (includes public officials liability)	$ 5,000,000	$ 55,000,000	None
Property Damage	100,000	150,000,000	$500 to 50,000
Fidelity	100,000		1,000
Workers Compensation 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 L – ECONOMIC DEPENDENCY

Under normal operating conditions, the District extracts approximately 80% of its water from the American River and 20% from groundwater wells. On May 5, 2015 the State Water Resources Control Board (SWRCB) adopted an emergency regulation requiring an immediate 25 percent reduction in overall potable urban water use statewide in response to drought conditions. On April 7, 2017 Governor Brown lifted the emergency regulation. The District has since been operating under normal water conservation conditions and is beginning to rebound from the drought with water consumption increasing to 2,859,141 Centum Cubic Feet (CCF) in 2017 from 2,585,062 (CCF) in 2016.

Water conservation continues to be a focus of the SWRCB with recently proposed legislation focused on long term water use reductions. The District has continued to monitor and provide input on the proposed legislation that will have future financial impacts.

NOTE M — OUTSIDE BOUNDARY SALES AND AGREEMENTS

The District completed the American River Pipeline Conveyance Project in partnership with Aerojet Rocketdyne and Golden State Water Company to annually provide 5,000 acre feet of replacement water supply to GSWC. The District negotiated and signed two Agreements in August 2016 as part of this project.

The District entered into a Capacity Sale Agreement with Aerojet Rocketdyne to purchase rights to capacity in the District's Bajamont Water Treatment Plant (BWTP) on behalf of Golden State Water Company. Aerojet will pay the District a $9,400,000 capacity fee over a six year period. As of June 30, 2017, Aerojet has paid $2,400,000 to the District and will pay the remaining $7,000,000 in annual payments of $1,400,000 due on July 1 through 2022.

In connection with the sale of capacity, the District converted a portion of its outstanding 2010 Certificates of Participation from governmental bonds to tax-exempt private activity bonds. As a result of this action, $8,315,000 of the Certificates were treated as reissued for federal tax purposes on August 24, 2016. There was no effect on the tax-exempt status of the bonds and the remaining principal and interest due remained unchanged due to the bond conversion.

The District entered into a second agreement in August 2016 between the District and GSWC for the diversion, treatment, and delivery of water through the American River Pipeline. GSWC pays a proportionate share of three components: 1) the fixed and variable operations and maintenance costs associated with the production of water; 2) the capital asset costs of the BWTP and intake structures; 3) the costs incurred by the District for the replacement of membranes at the BWTP. The District has billed GSWC $413,720 under the terms of this agreement.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (UNAUDITED)
Last 10 Years

	June 30, 2017	June 30, 2016	June 30, 2015
Proportion of the net pension liability	0.058553%	0.046392%	0.048538%
Proportionate share of the net pension liability	$ 2,034,074	$ 1,272,753	$ 1,199,609
Covered - employee payroll - measurement period	$ 1,822,452	$ 1,756,975	$ 1,760,777
Proportionate share of the net pension liability as a percentage of covered payroll	111.61%	72.44%	68.13%
Plan fiduciary net position as a percentage of the total pension liability	82.90%	78.40%	79.82%

Notes to Schedule:
Change in Benefit Terms: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2014 as they have minimal cost impact.

Changes in assumptions: The discount rate was changed from 7.50% in 2015 to 7.65% in 2016 and 2017.

Omitted years: GASB Statement No. 68 was implemented during the year ended June 30, 2015. No information was available prior to this date.

SCHEDULE OF CONTRIBUTIONS TO THE PENSION PLAN (UNAUDITED)
Last 10 Years

	June 30, 2017	June 30, 2016	June 30, 2015
Contractually required contribution (actuarially determined)	$ 222,301	$ 198,100	$ 160,692
Contributions in relation to the actuarially determined contributions	(222,301)	(198,100)	(160,692)
Contribution deficiency (excess)	$ -	$ -	$ -
Covered - employee payroll - fiscal year	$ 1,854,585	$ 1,822,452	$ 1,756,975
Contributions as a percentage of covered - employee payroll	11.98%	10.86%	9.15%

Notes to Schedule:

Valuation date:	June 30, 2014	June 30, 2013	June 30, 2012

Methods and assumptions used to determine contribution rates:

Valuation cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	15 years
Asset valuation method	5-year smoothed market
Inflation	2.75%
Salary increases	3.0%, average, including inflation of 2.75%
Investment rate of return	7.50%, net of pension plan investment expense, including inflation
Retirement age	50 years

Omitted years: GASB Statement No. 68 was implemented during the year ended June 30, 2015, thus information prior to this date was not presented.

REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2017

SCHEDULE OF FUNDING PROGRESS OF THE OTHER POSTEMPLOYMENT BENEFITS PLAN (UNAUDITED)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (b/a)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2011	$ -	$ 2,338,710	$ 2,338,710	0.00%	$ 1,521,836	153.68%
July 1, 2014	-	2,562,710	2,562,710	0.00%	1,579,510	162.25%