

CARMICHAEL WATER DISTRICT
FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012



Leaf & Cole, LLP
Certified Public Accountants

**CARMICHAEL WATER DISTRICT
FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

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Independent Auditor's Report

To the Board of Directors
Carmichael Water District
7837 Fair Oaks Boulevard
Carmichael, California 95608

Report on Financial Statements

We have audited the accompanying financial statements of Carmichael Water District, which comprise the statement of net position as of June 30, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position and cash flows for the years 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 audit. We conducted our audit 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 opinion.

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, 2013 and 2012, and the changes in financial position and cash flows thereof for the years 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 - 7 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.

Change in Accounting Principle

As discussed in Note 12 to the financial statements, the District adopted new accounting guidance GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. Our opinion is not modified with respect to this matter.

San Diego, California
September 10, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the financial performance of Carmichael Water District (District) provides an overview of the District's financial activities for the years ended June 30, 2013 and 2012. Please read it in conjunction with the District's financial statements which begin on page 8.

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. The District's financial statements include four components:

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

The statements of net position include 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:

- Invested in Capital Assets, Net of Related Debt
- Restricted
- Unrestricted

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

The statements of revenues, expenses and changes in net position present information which shows how the District's net position changed during the year. All of the current year's revenues and expenses are recorded when the underlying transaction occurs, regardless of the timing of the related cash flows. The statements 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 statements of cash flows provide information regarding the District's cash receipts and cash disbursements during the year. These statements reports cash activity in four categories:

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

This statement differs from the statement of revenues, expenses and changes in net position because the statement accounts only for transactions that result in cash receipts or cash disbursements.

The notes to the financial statements provide a description of the accounting policies used to prepare the financial statements and present material disclosures required by generally accepted accounting principles that are not otherwise present in the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Highlights

- The District's net position increased by \$1,540,579 to \$19,594,759 at June 30, 2013.
- The District's total revenues increased from \$9,144,720 for the year ended June 30, 2012, to \$10,156,950 for the year ended June 30, 2013. The increase in water sales accounts for the majority of the increase.
- The District's total expenses decreased from \$9,144,288 for the year ended June 30, 2012, to \$8,616,371 for the year ended June 30, 2013. The decrease in depreciation accounts for the majority of the decrease.

Financial Analysis of the District

Net Position

The following is a summary of the District's statements of net position at June 30, 2013 and 2012, respectively:

	<u>2013</u>	<u>2012</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
<u>Assets:</u>				
Current and other assets	\$ 8,165,680	\$ 6,280,463	\$ 1,885,217	30.02
Capital assets	<u>39,858,589</u>	<u>41,414,389</u>	<u>(1,555,800)</u>	(3.76)
Total Assets	<u>48,024,269</u>	<u>47,694,852</u>	<u>329,417</u>	0.69
<u>Deferred Outflows of Resources</u>	<u>1,036,657</u>	<u>1,102,303</u>	<u>(65,646)</u>	(5.96)
<u>Liabilities:</u>				
Noncurrent liabilities	27,341,853	28,721,725	(1,379,872)	(4.80)
Other liabilities	<u>2,124,314</u>	<u>2,021,250</u>	<u>103,064</u>	5.10
Total Liabilities	<u>29,466,167</u>	<u>30,742,975</u>	<u>(1,276,808)</u>	(4.15)
<u>Net Position:</u>				
Invested in capital assets, net of related debt	13,131,674	13,212,659	(80,985)	(0.61)
Restricted	2,449,216	2,482,788	(33,572)	(1.35)
Unrestricted	<u>4,013,869</u>	<u>2,358,733</u>	<u>1,655,136</u>	70.17
Total Net Position	<u>\$ 19,594,759</u>	<u>\$ 18,054,180</u>	<u>\$ 1,540,579</u>	8.53

As you can see from the table above, net position increased by \$1,540,579 from fiscal year 2012 to 2013. Looking more carefully you will note that most of the change occurred in unrestricted net position (the portion that can be used to finance day-to-day operations) which increased \$1,655,136. This is largely attributed to increasing operating revenues from water sales along with decreasing depreciation expense in the fiscal year 2013.

Restricted net position decreased \$33,572 from fiscal year 2012 to 2013.

Net position invested in capital assets, net of related debt, decreased \$80,985 in fiscal year 2013. This decrease is the result of depreciation expense exceeding the amount spent on capital improvements and principal payments towards long-term debt.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Revenues, Expenses and Change in Net Position

The following is a summary of the District's change in net position for the years ended June 30, 2013 and 2012, respectively:

	<u>2013</u>	<u>2012</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Operating revenue	\$ 9,946,179	\$ 8,939,530	\$ 1,006,649	11.26
Nonoperating revenue	210,771	205,190	5,581	2.72
Total Revenues	<u>10,156,950</u>	<u>9,144,720</u>	<u>1,012,230</u>	11.07
Depreciation	2,455,488	3,189,802	(734,314)	(23.02)
Other operating expense	5,009,405	4,765,375	244,030	5.12
Nonoperating expense	1,151,478	1,189,111	(37,633)	(3.16)
Total Expenses	<u>8,616,371</u>	<u>9,144,288</u>	<u>(527,917)</u>	(5.77)
Change in Net Position	1,540,579	432	1,540,147	356,515.51
Net Position at Beginning of Year	<u>18,054,180</u>	<u>18,053,748</u>	432	0.00
Net Position at End of Year	<u>\$ 19,594,759</u>	<u>\$ 18,054,180</u>	<u>\$ 1,540,579</u>	8.53

A closer examination of the source of changes in net position reveals that the District's operating revenues increased by \$1,006,649 in fiscal year 2013 due to a restructuring of the customer billing rates effective January 2012 in combination with an increased water output in fiscal year 2013 as compared to fiscal year 2012. Nonoperating revenues increased by \$5,581 in fiscal year 2013. Operating costs, exclusive of depreciation, increased \$244,030 in fiscal year 2013 due to increased general expenses and engineering costs being expensed as a result of the District having capitalized less in construction projects.

Capital Assets

Capital assets consist of the following at June 30, 2013 and June 30, 2012, respectively:

	<u>2013</u>	<u>2012</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
<u>Capital Assets Not Being Depreciated:</u>				
Land, franchises and water rights	\$ 545,701	\$ 545,701	\$ -	-
Construction-in-progress	28,291	297,087	(268,796)	(90.48)
Total Capital Assets Not Being Depreciated	<u>573,992</u>	<u>842,788</u>	<u>(268,796)</u>	(31.89)
<u>Capital Assets Being Depreciated:</u>				
Pumping plant	35,809,676	35,785,790	23,886	0.07
Transmission and distributions	24,099,833	23,326,183	773,650	3.32
Buildings and improvements	9,903,894	9,840,985	62,909	0.64
Vehicles and equipment	7,028,614	6,782,738	245,876	3.63
Furniture and fixtures	1,534,713	1,659,671	(124,958)	(7.53)
Total Capital Assets Being Depreciated	<u>78,376,730</u>	<u>77,395,367</u>	<u>981,363</u>	1.27
Less: Accumulated depreciation	(39,092,133)	(36,823,766)	(2,268,367)	6.16
Net Capital Assets Being Depreciated	<u>39,284,597</u>	<u>40,571,601</u>	<u>(1,287,004)</u>	(3.17)
Net Capital Assets	<u>\$ 39,858,589</u>	<u>\$ 41,414,389</u>	<u>\$ (1,555,800)</u>	(3.76)

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Assets (Continued)

The net additions of capital assets being depreciated for fiscal year 2013 totaled \$981,363. Capital asset additions consisted primarily of main line and service line replacements and miscellaneous capital improvements.

Long-Term Debt

The following is a summary of long-term debt at June 30, 2013 and 2012, respectively:

	<u>2013</u>	<u>2012</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
2010 Certificates of participation	\$ 25,685,000	\$ 26,730,000	\$ (1,045,000)	(3.91)
2010 Subordinate installment sale agreement	<u>597,964</u>	<u>1,005,250</u>	<u>(407,286)</u>	(40.52)
Total	26,282,964	27,735,250	(1,452,286)	(5.24)
Unamortized premium	<u>1,480,608</u>	<u>1,568,783</u>	<u>(88,175)</u>	(5.62)
Total Long-Term Debt	<u>\$ 27,763,572</u>	<u>\$ 29,304,033</u>	<u>\$ (1,540,461)</u>	(5.26)

The District reduced its debt outstanding by \$1,540,461 during the year ended June 30, 2013. No new debt has been issued.

Economic Factors

The District's Board of Directors and management consider many factors when setting the fiscal year budget. In a comparison of 2013 and 2012 budgets, expenses remained relatively similar while water revenues were up. Several economic factors contributed to this revenue increase including hotter weather patterns in the spring and summer of 2013, positive economic changes and the outcome of a full year of changes to the rate structure effective January 1, 2012.

Long-Term Infrastructure Liability and Planning

From 1963 to 1993 the District followed a strategy of minimizing rate increases which led to a significant deterioration of infrastructure and a high level of deferred maintenance. Following that period the extensive maintenance required to keep the infrastructure from failing added to the requirement for significant rate increases for all but the last couple of years.

Recognizing that aging infrastructure creates known and predictable maintenance requirements, the District completed a 100 year master plan in September 2003. That analysis showed that deferred maintenance results in significantly higher total project costs and that financing requirements can easily double the cost of piping and other maintenance projects.

Recognizing that Carmichael is a relatively built-out community, a concept of planned system maintenance (PSM) rather than capital improvement was also adopted by the District.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Long-Term Infrastructure Liability and Planning (Continued)

Three strategies exist to meet these known requirements. First, the District could defer the financial planning. Second, the District could defer financial planning and use bonds to spread the increases over a thirty year period which would double the total payments for the projects. Or, third, the District could recognize the liability caused by the known aging of the infrastructure and build sinking funds to permit the work to be done with interest earned rather than interest paid. Over the long-term, the District believes that the third option will provide the lowest total life-cycle cost for water service to our community.

The Board of Directors has adopted the third strategy along with the 100 year master plan and the PSM concept. However, the Board has not yet taken specific action to establish the annual amounts to be set aside for the sinking fund. The District will be updating its Master Plan and Financial Business Plan scheduled to start in July 2013, with a rate study to follow. To that end, the District is currently working to integrate its financial and facility management systems to get the maximum service life from our facilities and make the soundest financial decisions.

The District's financial policy is to charge reasonable rates, fees, and other charges sufficient to pay for water services, operation and maintenance costs of all District facilities, principal and interest of all bonds and other commitments, and the general expenses of the District.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, 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 Blvd., Carmichael, California 95609, or call (916) 483-2452.

**CARMICHAEL WATER DISTRICT
STATEMENTS OF NET POSITION
JUNE 30, 2013 AND 2012**

ASSETS	<u>2013</u>	<u>2012</u>
<u>Current Assets:</u> (Notes 1 and 2)		
Cash and cash equivalents	\$ 3,278,546	\$ 1,522,509
Accounts receivable:		
Current services	1,791,063	1,670,433
Other	7,028	18,866
Grants	100,000	-
Accrued interest receivable	1,058	1,629
Inventory	305,945	343,599
Prepaid expense	57,631	59,188
Total Current Assets	<u>5,541,271</u>	<u>3,616,224</u>
<u>Noncurrent Assets:</u>		
Restricted Assets: (Notes 1, 2 and 3)		
Cash and cash equivalents	<u>2,449,216</u>	<u>2,482,788</u>
Total Restricted Assets	<u>2,449,216</u>	<u>2,482,788</u>
Capital Assets: (Notes 1 and 4)		
Nondepreciable	573,992	842,788
Depreciable, net of accumulated depreciation	<u>39,284,597</u>	<u>40,571,601</u>
Total Capital Assets, Net	<u>39,858,589</u>	<u>41,414,389</u>
Other Assets: (Notes 1 and 5)		
Investment in electrical power	<u>175,193</u>	<u>181,451</u>
Total Other Assets	<u>175,193</u>	<u>181,451</u>
Total Noncurrent Assets	<u>42,482,998</u>	<u>44,078,628</u>
TOTAL ASSETS	<u>48,024,269</u>	<u>47,694,852</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on refunding (Notes 1 and 12)	\$ <u>1,036,657</u>	\$ <u>1,102,303</u>

(Continued)

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

**CARMICHAEL WATER DISTRICT
STATEMENTS OF NET POSITION (CONTINUED)
JUNE 30, 2013 AND 2012**

LIABILITIES	<u>2013</u>	<u>2012</u>
<u>Current Liabilities:</u> (Notes 1, 6 and 7)		
Accounts payable	\$ 290,154	\$ 225,994
Accrued expenses and other liabilities	49,462	49,939
Unearned revenue	97,124	95,572
Accrued interest payable	191,299	196,474
Current portion of noncurrent liabilities	<u>1,496,275</u>	<u>1,453,271</u>
Total Current Liabilities	<u>2,124,314</u>	<u>2,021,250</u>
<u>Noncurrent Liabilities:</u>		
<u>Long-Term Debt:</u> (Notes 1, 6 and 12)		
Certificates of participation, net of current portion	26,090,608	27,253,783
Subordinate installment sale agreement, net of current portion	<u>178,103</u>	<u>598,393</u>
Total Long-Term Debt	<u>26,268,711</u>	<u>27,852,176</u>
<u>Other Noncurrent Liabilities:</u> (Notes 1, 6, 7 and 8)		
Compensated absences	124,873	134,606
Unearned lease revenue	130,572	131,986
Net OPEB obligation	<u>817,697</u>	<u>602,957</u>
Total Other Noncurrent Liabilities	<u>1,073,142</u>	<u>869,549</u>
 Total Noncurrent Liabilities	 <u>27,341,853</u>	 <u>28,721,725</u>
 Total Liabilities	 <u>29,466,167</u>	 <u>30,742,975</u>
<u>Commitments and Contingencies</u> (Notes 9, 10 and 12)		
NET POSITION (Note 12)		
Invested in capital assets, net of related debt	13,131,674	13,212,659
Restricted for debt service	2,414,938	2,414,938
Restricted for expansion	34,278	67,850
Unrestricted	<u>4,013,869</u>	<u>2,358,733</u>
Total Net Position	<u>\$ 19,594,759</u>	<u>\$ 18,054,180</u>

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

CARMICHAEL WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
<u>Operating Revenues:</u>		
Water sales	\$ 9,912,458	\$ 8,896,233
Tap fees and other revenues	33,721	43,297
Total Operating Revenues	<u>9,946,179</u>	<u>8,939,530</u>
<u>Operating Expenses:</u>		
Depreciation	2,455,488	3,189,802
General and administrative	1,642,069	1,669,457
Pumping	885,624	882,809
Transmission and distribution	879,870	736,020
Source of supply	857,416	712,724
Financial services	616,054	634,536
Water treatment	128,372	129,829
Total Operating Expenses	<u>7,464,893</u>	<u>7,955,177</u>
Operating Income	<u>2,481,286</u>	<u>984,353</u>
<u>Nonoperating Revenues (Expenses):</u>		
Grant revenue	100,000	-
Other revenue	33,371	56,550
Income from investment in electrical power	13,614	14,491
Investment income earned	1,598	2,884
Reimbursements	1,560	2,720
Gain (loss) on disposal of capital assets	(1,203)	22,610
Interest expense	<u>(1,150,275)</u>	<u>(1,189,111)</u>
Total Nonoperating Revenues (Expenses)	<u>(1,001,335)</u>	<u>(1,089,856)</u>
Income (Loss) Before Capital Contributions	1,479,951	(105,503)
Capital Contributions	<u>60,628</u>	<u>105,935</u>
Change in Net Position	1,540,579	432
Net Position at Beginning of Year (Note 12)	<u>18,054,180</u>	<u>18,053,748</u>
NET POSITION AT END OF YEAR	<u><u>\$ 19,594,759</u></u>	<u><u>\$ 18,054,180</u></u>

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

**CARMICHAEL WATER DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
<u>Cash Flows From Operating Activities:</u>		
Cash received from customers	\$ 9,827,101	\$ 8,555,562
Cash payments to supplies for goods and services	(3,165,474)	(2,697,705)
Cash payments to employees for services	(1,536,030)	(1,876,560)
Net Cash Provided by Operating Activities	<u>5,125,597</u>	<u>3,981,297</u>
<u>Cash Flows From Noncapital and Related Financing Activities:</u>		
Receipts from other nonoperating revenues	<u>45,355</u>	<u>51,210</u>
Net Cash Provided by Noncapital and Related Financing Activities	<u>45,355</u>	<u>51,210</u>
<u>Cash Flows From Capital and Related Financing Activities:</u>		
Acquisitions and construction of capital assets	(871,663)	(1,103,920)
Proceeds from sale of capital assets	-	22,610
Principal paid on certificates of participation	(1,045,000)	(1,020,000)
Interest paid on certificates of participation	(1,152,962)	(1,178,774)
Principal paid on subordinate installment sale agreement	(407,286)	(394,349)
Interest paid on subordinate installment sale agreement	(25,017)	(37,953)
Facility fees collected	<u>31,400</u>	<u>98,910</u>
Net Cash Used in Capital and Related Financing Activities	<u>(3,470,528)</u>	<u>(3,613,476)</u>
<u>Cash Flows From Investing Activities:</u>		
Investment income	2,169	5,096
Receipts from investment in electrical power	<u>19,872</u>	<u>20,488</u>
Net Cash Provided by Investing Activities	<u>22,041</u>	<u>25,584</u>
Net Increase in Cash and Cash Equivalents	1,722,465	444,615
Cash and Cash Equivalents at Beginning of Year	<u>4,005,297</u>	<u>3,560,682</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 5,727,762</u>	<u>\$ 4,005,297</u>
<u>Cash and Cash Equivalents - Financial Statement Classification:</u>		
Cash and cash equivalents	\$ 3,278,546	\$ 1,522,509
Restricted cash and cash equivalents	2,449,216	2,482,788
Total Cash and Cash Equivalents	<u>\$ 5,727,762</u>	<u>\$ 4,005,297</u>

(Continued)

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

**CARMICHAEL WATER DISTRICT
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
<u>Reconciliation of Operating Income to Net</u>		
<u>Cash Provided by Operating Activities:</u>		
Operating income	\$ 2,481,286	\$ 984,353
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	2,455,488	3,189,802
(Increase) Decrease in:		
Accounts receivable - current services	(120,630)	(381,894)
Inventory	37,654	(19,265)
Prepaid expense	1,557	70,794
Increase (Decrease) in:		
Accounts payable	64,160	(74,601)
Accrued expenses and other liabilities	(477)	8,512
Unearned revenue	1,552	(2,074)
Compensated absences	(9,733)	8,856
Net OPEB obligation	214,740	196,814
Net Cash Provided by Operating Activities	<u>\$ 5,125,597</u>	<u>\$ 3,981,297</u>
<u>Supplemental Disclosures of Cash Flow Information:</u>		
Receipt of contributed assets	<u>\$ 29,228</u>	<u>\$ 7,025</u>

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

**CARMICHAEL WATER DISTRICT
NOTES TO FINANCIAL STATEMENT
JUNE 30, 2013 AND 2012**

Note 1 - Organization and Significant Accounting Policies:

Organization

The Carmichael Water District (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 39,000. 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 criteria used in determining the scope of the reporting entity is based on the provisions of GASB Cod. Sec. 2100 "Defining the Financial Reporting Entity." The Carmichael Water District includes the accounts of the District and the Carmichael Water District Financing Corporation.

The Carmichael Water District Financing Corporation (the Corporation) was organized on April 16, 1999 pursuant to the Government Code of the State of California (Title 1, Division 7, Section 6500 of the California Government Code) as a Joint Powers Agency, solely for the purpose of providing financial assistance to the District.

The District is the primary government unit. Component units are those entities which are financially accountable to the primary government, either because the District appoints a voting majority of the component unit's board or because the component unit will provide a financial benefit or impose a financial burden on the District. The District has accounted for the Corporation as a blended component unit. Despite being legally separate, the Corporation is so intertwined with the District that the Corporation is in substance part of the District's operations. Accordingly, the Corporation is included within the financial statements of the District.

Significant Accounting Policies

A summary of the District's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

Method of Accounting

The District utilizes accounting principles appropriate for an enterprise fund to record its activities. Accordingly, the statements of net position and the statements of revenues, expenses and changes in net position have been prepared using the economic resources measurement focus and the accrual basis of accounting.

The District has not elected to apply the option allowed in GASB Cod. Sec. P80.103 "Proprietary Fund Accounting and Financial Reporting" and as a consequence will continue to apply GASB statements and interpretations.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources 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.

**CARMICHAEL WATER DISTRICT
NOTES TO FINANCIAL STATEMENT
JUNE 30, 2013 AND 2012**

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Revenue Recognition

The District recognizes revenues from water sales, tap fees and other revenues when they are earned. Operating activities generally result from providing services and producing and delivering goods. As such, the District considers fees received from water sales and tap fees and other revenues to be operating revenues.

Investments

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

Allowance for Doubtful Accounts

Management believes that all accounts receivable were fully collectible; therefore no allowance for doubtful accounts was recorded as of June 30, 2013 and 2012.

Inventory

Inventory consists primarily of materials used in the construction and maintenance of capital assets and is valued at weighted average cost.

Capital Assets

Capital assets purchased or acquired with an initial, individual cost exceeding \$1,000 and an estimated useful life of more than one year are reported at historical cost. Contributed assets are recorded at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation is calculated on the straight-line method over the following estimated useful lives:

Pumping plant	5 - 50 years
Transmission and distribution	33 - 75 years
Buildings and improvements	15 - 40 years
Vehicles and equipment	3 - 10 years
Furniture and fixtures	3 - 7 years

Depreciation totaled \$2,455,488 and \$3,189,802 for the years ended June 30, 2013 and 2012, respectively.

Interest

The District incurred interest charges on long-term debt. No interest was capitalized as a cost of construction for the years ended June 30, 2013 and 2012.

**CARMICHAEL WATER DISTRICT
NOTES TO FINANCIAL STATEMENT
JUNE 30, 2013 AND 2012**

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Compensated Absences

Accumulated unpaid vacation totaling \$124,873 and \$134,606 is accrued when incurred and included in noncurrent liabilities at June 30, 2013 and 2012, respectively.

Risk Management

The District is a member of the Association of California Water Agencies Joint Powers Insurance Authority (Insurance Authority). The Insurance Authority is a risk-pooling self-insurance authority, created under provisions of California Government Code Sections 6500 et. seq. The purpose of the Authority is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage.

At June 30, 2013, the District participated in the self-insurance programs of the Insurance Authority as follows:

Property Loss - The Insurance Authority has pooled self-insurance up to \$100,000 per occurrence and has purchased excess insurance coverage up to \$100,000,000 (total insurable value \$43,366,285). The District has a \$2,500 deductible for buildings, personal property and fixed equipment, a \$1,000 deductible for mobile equipment, and a \$500 deductible for licensed vehicles.

General and Auto Liability - The Insurance Authority has pooled self-insurance up to \$2,000,000 per occurrence and has purchased excess insurance coverage up to \$60,000,000.

Public Officials' Liability - The Insurance Authority has pooled self-insurance up to \$2,000,000 per occurrence and has purchased excess insurance coverage up to \$60,000,000.

Fidelity Bond - The Insurance Authority has pooled self-insurance up to \$100,000. The District has a \$1,000 deductible.

Workers' Compensation - Insured up to the statutory limits; the Insurance Authority has pooled self-insurance up to \$2,000,000 and has purchased excess insurance coverage up to the statutory limits for workers' compensation and \$2,000,000 for employer's liability.

The District pays annual premiums for this coverage. They are subject to retrospective adjustments based on claims experienced. The nature and amounts of these adjustments cannot be estimated and are charged to expense as invoiced. The District's insurance expense was \$109,677 and \$112,971 for the years ended June 30, 2013 and 2012, respectively. There were no instances in the past three years where a settlement exceeded the District's Coverage.

Economic Dependence

The District extracts approximately 70% of its water supply from the American River and 30% from groundwater wells. Interruption of this source would impact the District negatively.

**CARMICHAEL WATER DISTRICT
NOTES TO FINANCIAL STATEMENT
JUNE 30, 2013 AND 2012**

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Cash and Cash Equivalents

For purposes of the statement of cash flows the District considers all investment instruments purchased with a maturity of three months or less to be cash equivalents.

Subsequent Events

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or exposure through September 10, 2013, the date the financial statements were available to be issued.

Note 2 - Cash and Investments:

Investments Authorized by the California Government Code and the District's Investment Policy

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). The table also identifies certain provisions of the California Government Code that address interest rate risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District, rather than the general provision of the California Government Code or the District's investment policy:

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
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%	None
Commercial Paper	270 days	25%	A1
Negotiable Certificates of Deposits	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20%	None
Medium Term Notes	5 years	30%	A Rating
Mutual Funds	N/A	20%	Multiple
Money Market Mutual Funds	N/A	20%	Multiple
Collateralized Bank Deposits	5 years	None	None
Mortgage Pass-Through Securities	5 years	20%	AA Rating
Time Deposits	5 years	None	None
California Local Agency Investment Fund (LAIF)	N/A	None	None
County Pooled Investments	N/A	None	None

**CARMICHAEL WATER DISTRICT
NOTES TO FINANCIAL STATEMENT
JUNE 30, 2013 AND 2012**

Note 2 - Cash and Investments:

Investments Authorized by the California Government Code and the District's Investment Policy (Continued)

The District's investment policy is more restrictive than the Government Code. The 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.

Investments Authorized by Debt Agreements

Investment of debt proceeds held by the bond trustee is governed by provisions of the debt agreements; rather than the general provisions of the California Government Code or the District's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustees. The table also identifies certain provisions of these debt agreements that address interest rate risk and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds	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

Cash and investments held by the District were comprised of the following at June 30:

	<u>Maturity in Years</u>		<u>2012 Total</u>
	<u>1 Year or Less</u>	<u>2013 Total</u>	
Cash on hand	\$ 2,050	\$ 2,050	\$ 2,050
Deposits with financial institutions	3,309,429	3,309,429	1,586,969
California Local Agency Investment Fund (LAIF)	1,383	1,383	1,378
Certificates of deposit	200,000	200,000	200,000
Money market mutual funds	2,214,900	2,214,900	2,214,900
Total Cash and Investments	<u>\$ 5,727,762</u>	<u>\$ 5,727,762</u>	<u>\$ 4,005,297</u>

Financial Statement Classification:

Current:

Cash and cash equivalents	\$ 3,278,546	\$ 1,522,509
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Restricted:

Cash and cash equivalents	2,449,216	2,482,788
Total Cash and Investments	<u>\$ 5,727,762</u>	<u>\$ 4,005,297</u>

**CARMICHAEL WATER DISTRICT
NOTES TO FINANCIAL STATEMENT
JUNE 30, 2013 AND 2012**

Note 2 - Cash and Investments: (Continued)

Disclosures Relating to 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. 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 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 trustees) to market interest rate fluctuations is provided in the previous table that shows the distribution of the District's investments by maturity as of June 30, 2013.

Disclosures Relating to 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 actual rating as of the year end for each investment type.

<u>Investment</u>	<u>Rating as of Year End Standard & Poor's</u>
Certificates of Deposit	Not Rated
California Local Agency Investment Fund (LAIF)	Not Rated
Money Market Mutual Funds	AAAm

Concentration of Credit Risk

Concentration of credit is the risk of loss attributed to the magnitude of the District's investment in a single issue.

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. The District holds no investments in any one issuer (other than U.S. Treasury obligations, mutual funds, and external investment pools) that represent 5% or more of total District investments at June 30, 2013.

**CARMICHAEL WATER DISTRICT
NOTES TO FINANCIAL STATEMENT
JUNE 30, 2013 AND 2012**

Note 2 - Cash and Investments: (Continued)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counter-party (e.g., broker-dealer) the District 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 or investments, 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 District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

At June 30, 2013, none of the District's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts. The following investments were held by the same broker-dealer (counterparty) that was used by the District to buy the securities at June 30:

<u>Investment</u>	<u>2013</u>	<u>2012</u>
Money Market Mutual Funds	\$ <u>2,214,900</u>	\$ <u>2,214,900</u>

Investment in State Investment Pool

The District is a voluntary participant in the California Local Agency Investment Fund (LAIF) that is regulated by California Government Code under the oversight of the Treasurer of the State of California. 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.

The statements of cash flows have been prepared by considering all investment instruments purchased with a maturity of three months or less to be cash equivalents. Following is a detail at June 30:

	<u>2013</u>	<u>2012</u>
Deposits with financial institutions	\$ 3,309,429	\$ 1,586,969
Money market mutual funds	2,414,900	2,414,900
Cash on hand	2,050	2,050
California Local Agency Investment Fund (LAIF)+	<u>1,383</u>	<u>1,378</u>
Total	\$ <u>5,727,762</u>	\$ <u>4,005,297</u>

**CARMICHAEL WATER DISTRICT
NOTES TO FINANCIAL STATEMENT
JUNE 30, 2013 AND 2012**

Note 3 - Restricted Assets:

Restricted assets were provided by, and are to be used for, the following at June 30:

<u>Funding Source</u>	<u>Use</u>	<u>2013</u>	<u>2012</u>
Bond proceeds and interest earnings	Reserve fund	\$ 2,414,937	\$ 2,414,937
Facility fees	Expansion of facilities	34,278	67,850
Bond proceeds and interest earnings	Debt service	<u>1</u>	<u>1</u>
		<u>\$ 2,449,216</u>	<u>\$ 2,482,788</u>

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

Note 4 - Capital Assets:

Capital assets consists of the following at June 30:

	2013			
	Balance at June 30, 2012	Additions	Deletions	Balance at June 30, 2013
Capital assets not being depreciated:				
Land, franchises and water rights	\$ 545,701	\$ -	\$ -	\$ 545,701
Construction in progress	297,087	441,794	(710,590)	28,291
Total Capital Assets Not Being Depreciated	<u>842,788</u>	<u>441,794</u>	<u>(710,590)</u>	<u>573,992</u>
Capital assets being depreciated:				
Pumping plant	35,785,790	23,886	-	35,809,676
Transmission and distribution	23,326,183	773,650	-	24,099,833
Buildings and improvements	9,840,985	62,909	-	9,903,894
Vehicles and equipment	6,782,738	264,640	(18,764)	7,028,614
Furniture and fixtures	1,659,671	44,602	(169,560)	1,534,713
Total Capital Assets Being Depreciated	<u>77,395,367</u>	<u>1,169,687</u>	<u>(188,324)</u>	<u>78,376,730</u>
Less: Accumulated depreciation:				
Pumping plant	(14,369,869)	(807,026)	-	(15,176,895)
Transmission and distribution	(13,773,479)	(864,223)	-	(14,637,702)
Buildings and improvements	(3,581,305)	(275,629)	-	(3,856,934)
Vehicles and equipment	(3,520,085)	(466,653)	18,764	(3,967,974)
Furniture and fixtures	(1,579,028)	(41,957)	168,357	(1,452,628)
Total Accumulated Depreciation	<u>(36,823,766)</u>	<u>(2,455,488)</u>	<u>187,121</u>	<u>(39,092,133)</u>
Net capital assets being depreciated	<u>40,571,601</u>	<u>(1,285,801)</u>	<u>(1,203)</u>	<u>39,284,597</u>
Net Capital Assets	<u>\$ 41,414,389</u>	<u>\$ (844,007)</u>	<u>\$ (711,793)</u>	<u>\$ 39,858,589</u>

**CARMICHAEL WATER DISTRICT
NOTES TO FINANCIAL STATEMENT
JUNE 30, 2013 AND 2012**

Note 4 - Capital Assets: (Continued)

	2012			Balance at June 30, 2012
	Balance at June 30, 2011	Additions	Deletions	
Capital assets not being depreciated:				
Land, franchises and water rights	\$ 545,701	\$ -	\$ -	\$ 545,701
Construction in progress	300,200	223,666	(226,779)	297,087
Total Capital Assets Not Being Depreciated	<u>845,901</u>	<u>223,666</u>	<u>(226,779)</u>	<u>842,788</u>
Capital assets being depreciated:				
Pumping plant	35,690,692	95,098	-	35,785,790
Transmission and distribution	22,854,086	472,097	-	23,326,183
Buildings and improvements	9,826,449	14,536	-	9,840,985
Vehicles and equipment	6,391,057	503,447	(111,766)	6,782,738
Furniture and fixtures	1,630,791	28,880	-	1,659,671
Total Capital Assets Being Depreciated	<u>76,393,075</u>	<u>1,114,058</u>	<u>(111,766)</u>	<u>77,395,367</u>
Less: Accumulated depreciation:				
Pumping plant	(13,183,971)	(1,185,898)	-	(14,369,869)
Transmission and distribution	(12,566,005)	(1,207,474)	-	(13,773,479)
Buildings and improvements	(3,301,563)	(279,742)	-	(3,581,305)
Vehicles and equipment	(3,182,840)	(449,011)	111,766	(3,520,085)
Furniture and fixtures	(1,511,350)	(67,678)	-	(1,579,028)
Total Accumulated Depreciation	<u>(33,745,729)</u>	<u>(3,189,803)</u>	<u>111,766</u>	<u>(36,823,766)</u>
Net capital assets being depreciated	<u>42,647,346</u>	<u>(2,075,745)</u>	<u>-</u>	<u>40,571,601</u>
Net Capital Assets	<u>\$ 43,493,247</u>	<u>\$ (1,852,079)</u>	<u>\$ (226,779)</u>	<u>\$ 41,414,389</u>

Note 5 - 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 1 MW (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 0.067% equity interest in the net position of the Project as defined in the Long-Term Participation Agreement. The District also has an obligation to finance 0.067% of the net losses of the Project, it also has the right to receive 0.067% 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. The District's net investment and its share of the operating results of the Project are reported as Investment in Electrical Power.

On January 1, 2006, the District entered into an agreement to lease its share of transmission capacity to the Sacramento Municipal Utility District. The amount of revenue generated from the transmission lease was \$19,872 and \$20,488, and is included in income from investment in electrical power for the years ended June 30, 2013 and 2012, respectively. The agreement is effective through December 31, 2024.

**CARMICHAEL WATER DISTRICT
NOTES TO FINANCIAL STATEMENT
JUNE 30, 2013 AND 2012**

Note 5 - Investment in Electrical Power: (Continued)

The Project's unaudited financial statements as of and for the year ended June 30, 2013, 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 year ended June 30:

	<u>2013</u>	<u>2012</u>
Statement of Net Position		
Assets	\$ 283,553,518	\$ 287,101,971
Liabilities	<u>21,559,693</u>	<u>15,726,789</u>
Net Position	<u>\$ 261,993,825</u>	<u>\$ 271,375,182</u>
Statements of Revenues, Expenses, and Changes in Net Position		
Operating revenues	\$ 8,661,198	\$ 10,902,553
Operating expenses	<u>(19,272,854)</u>	<u>(21,504,036)</u>
Operating loss	(10,611,656)	(10,601,483)
Nonoperating revenues	<u>489</u>	<u>491</u>
Change in Net Position Before Adjustments	(10,611,167)	(10,600,992)
Adjustment to Net Position for Capital Improvements	<u>1,229,810</u>	<u>1,610,868</u>
Change in Net Position	<u>\$ (9,381,357)</u>	<u>\$ (8,990,124)</u>
District's Share of Net Position	<u>\$ 175,193</u>	<u>\$ 181,451</u>

**CARMICHAEL WATER DISTRICT
NOTES TO FINANCIAL STATEMENT
JUNE 30, 2013 AND 2012**

Note 6 - Noncurrent Liabilities:

Noncurrent liabilities consists of the following at June 30:

	2013				
	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013	Due Within One Year
<u>Long-Term Debt:</u>					
2010 Certificates of Participation	\$ 26,730,000	\$ -	\$ (1,045,000)	\$ 25,685,000	\$ 1,075,000
Unamortized premiums	1,568,783	-	(88,175)	1,480,608	-
Net, 2010 Certificates of Participation	<u>28,298,783</u>	<u>-</u>	<u>(1,133,175)</u>	<u>27,165,608</u>	<u>1,075,000</u>
Subordinate installment sale agreement	1,005,250	-	(407,286)	597,964	419,861
Total Long-Term Debt	<u>\$ 29,304,033</u>	<u>\$ -</u>	<u>\$ (1,540,461)</u>	<u>\$ 27,763,572</u>	<u>\$ 1,494,861</u>
<u>Other Noncurrent Liabilities:</u>					
Compensated absences	\$ 134,606	\$ 132,992	\$ (142,725)	\$ 124,873	\$ -
Unearned Lease Revenue	133,400	-	(1,414)	131,986	1,414
Net OPEB Obligation	602,957	280,816	(66,076)	817,697	-
Total Other Noncurrent Liabilities	<u>\$ 870,963</u>	<u>\$ 413,808</u>	<u>\$ (210,215)</u>	<u>\$ 1,074,556</u>	<u>\$ 1,414</u>
2012					
	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012	Due Within One Year
<u>Long-Term Debt:</u>					
2010 Certificates of Participation	\$ 27,750,000	\$ -	\$ (1,020,000)	\$ 26,730,000	\$ 1,045,000
Unamortized premiums	1,656,958	-	(88,175)	1,568,783	-
Net, 2010 Certificates of Participation	<u>29,406,958</u>	<u>-</u>	<u>(1,108,175)</u>	<u>28,298,783</u>	<u>1,045,000</u>
Subordinate installment sale agreement	1,399,599	-	(394,349)	1,005,250	406,857
Total Long-Term Debt	<u>\$ 30,806,557</u>	<u>\$ -</u>	<u>\$ (1,502,524)</u>	<u>\$ 29,304,033</u>	<u>\$ 1,451,557</u>
<u>Other Noncurrent Liabilities:</u>					
Compensated absences	\$ 125,750	\$ 8,856	\$ -	\$ 134,606	\$ -
Unearned Lease Revenue	134,815	-	(1,415)	133,400	1,414
Net OPEB Obligation	406,143	250,668	(53,854)	602,957	-
Total Other Noncurrent Liabilities	<u>\$ 666,708</u>	<u>\$ 259,524</u>	<u>\$ (55,269)</u>	<u>\$ 870,963</u>	<u>\$ 1,414</u>

**CARMICHAEL WATER DISTRICT
NOTES TO FINANCIAL STATEMENT
JUNE 30, 2013 AND 2012**

Note 6 - Noncurrent Liabilities: (Continued)

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 life of remaining debt. Amortization expense totaled \$88,175 and \$88,175 for the years ended June 30, 2013 and 2012 respectively, and is included in 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 \$65,646 and \$65,646 for the years ended June 30, 2013 and 2012, respectively, and is included in interest expense. The deferred amount on refunding was \$1,036,657 and \$1,102,303 at June 30, 2013 and 2012, respectively.

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 Purchase 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 Purchase Agreement. The Installment Purchase Agreement will require 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, 2013 and 2012, the District's net revenues were 235% and 198% of debt service payments, respectively.

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 \$25,685,000 and \$26,730,000 at June 30, 2013 and 2012, respectively. Accrued interest payable totaled \$189,983 and \$194,338 at June 30, 2013 and 2012, respectively.

Subordinate Installment Sale Agreement

In November 2009, the District entered into a \$2,000,000 Subordinate Installment Sale Agreement with the Corporation as Seller and the District as purchaser pursuant to which the District pledged and granted a lien on gross revenues that is subordinate in all respects to that of the Senior Installment Sale Agreement in order to provide financing for a portion of the cost of certain capital projects. The District's obligation to pay the subordinate installment payments is a special obligation limited solely to net revenues as defined in the Subordinate Installment Sale Agreement. The District has covenanted to establish, maintain, and collect rates and charges for the water system sufficient to yield net revenues in each fiscal year, in an amount equal to 120% of annual debt service. The rights and interest of the Corporation in the Subordinate Installment Sale Agreement and the Subordinate Installment Payments have been assigned to Union Bank pursuant to an Assignment Agreement. Payments in the amount of \$36,025 are due monthly including interest at 3.06% beginning December 2009 and ending November 2014. The Subordinate Installment Payments outstanding totaled \$597,964 and \$1,005,250 at June 30, 2013 and 2012, respectively. Accrued interest totaled \$1,316 and \$2,136 at June 30, 2013 and 2012, respectively.

**CARMICHAEL WATER DISTRICT
NOTES TO FINANCIAL STATEMENT
JUNE 30, 2013 AND 2012**

Note 6 - Noncurrent Liabilities: (Continued)

Debt service requirements on the certificates of participation and the subordinate installment sale agreements are as follows:

<u>Years Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 1,494,861	\$ 1,136,417
2015	1,283,732	1,086,944
2016	1,150,000	1,046,200
2017	1,185,000	999,325
2018	1,245,000	938,575
2019 - 2023	7,080,000	3,830,600
2024 - 2028	8,735,000	2,124,625
2029 - 2031	4,109,371	208,000
Total	<u>\$ 26,282,964</u>	<u>\$ 11,370,686</u>

Note 7 - Unearned Lease Revenue:

The District entered into a long-term lease agreement in November 2007, 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 evenly through October 2106. The unearned lease revenue totaled \$131,986 and \$133,400 at June 30, 2013 and 2012, respectively.

Note 8 - Post-Employment Benefits:

Plan Description

The District provides post-employment health benefits established by District resolution to all qualifying employees. Eligibility for retiree health benefits requires retirement from the District and PERS after age 50 with at least 5 years of District eligible service. 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. CalPERS's vesting is as follows:

- Must be retired from Carmichael Water District (CWD) with at least 5 years of service at CWD.
- Must have at least 10 years of CalPERS service (combined with other CalPERS agency service):
 - * 10 years = 50% of weighted average toward premium.
 - * Each additional year = +5% of weighted average premium.
 - * Includes all CWD eligible retirees and family ranging from 50% at 10 years of CalPERS service up to 100% at 20 years of CalPERS service of the weighted average premium.

**CARMICHAEL WATER DISTRICT
NOTES TO FINANCIAL STATEMENT
JUNE 30, 2013 AND 2012**

Note 8 - Post-Employment Benefits: (Continued)

Funding Policy and Annual OPEB Costs

The contribution requirements of the District are established and may be amended annually by the Board of Directors. The District's annual other post employment benefit (OPEB) cost (expense) for the plan is calculated based on the annual required contribution of the District (ARC), an amount actuarially determined in accordance with GASB Cod. Sec. P50 "Postemployment Benefits Other Than Pension Benefits - Employer Reporting." 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 current ARC rate is 12.55% of annual covered payroll. The following table shows the components of the District's annual OPEB cost, the amount actually contributed to the plan including benefits paid to retirees, and changes in the District's net OPEB obligation for the year ended June 30:

	<u>2013</u>	<u>2012</u>
Annual required contribution	\$ 250,668	\$ 250,668
Interest on net OPEB obligation	30,148	-
Adjustment to annual required contribution	(6,147)	-
Annual OPEB cost (expense)	274,669	250,668
Contributions (including benefits paid)	(59,929)	(53,854)
Increase in net OPEB obligation	214,740	196,814
Net OPEB obligation - Beginning of year	602,957	406,143
Net OPEB obligation - End of year	\$ 817,697	\$ 602,957

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013 and the two preceding years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2011	\$ 250,668	17.7%	\$ 406,143
June 30, 2012	250,668	21.5%	602,957
June 30, 2013	274,669	21.8%	817,697

**CARMICHAEL WATER DISTRICT
NOTES TO FINANCIAL STATEMENT
JUNE 30, 2013 AND 2012**

Note 8 - Post Employment Benefits (Continued)

Funding Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the plan was not yet funded. The District's actuarial accrued liability for benefits at July 1, 2011 was \$2,338,710 and the covered payroll (annual payroll of active employees covered by plan) was \$1,521,836, with a ratio of the UAAL to the covered payroll of 153.68%. The normal cost payments made during the year of \$53,854 funded 21.5% of the Annual Required Contribution (ARC) leaving an unfunded actuarial liability (UAAL) of \$2,338,710.

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(B-A)/C]
July 1, 2011	\$ -	\$ 2,338,710	\$ 2,338,710	0%	\$ 1,521,836	153.68%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presents multiyear trend information that shows whether the actuarial value of the 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 formal plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between 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 assets, consistent with the long-term perspective of the calculations.

The actuarial cost method used for determining the benefit obligations is the Entry Age Normal Cost Method. The actuarial assumptions included a 5% investment rate of return, which is the assumed rate of the expected long-term investment returns on plan assets calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 4%. Both rates included a 3.0% inflation assumption. The UAAL is being amortized as a level percentage of projected payroll over 30 years. It is assumed the District's payroll will also increase 3.0% per year.

**CARMICHAEL WATER DISTRICT
NOTES TO FINANCIAL STATEMENT
JUNE 30, 2013 AND 2012**

Note 9 - Defined Benefit Pension Plan:

Plan Description

The District contributes to the California Public Employees Retirement System (CalPERS), a cost sharing multiple-employer defined benefit pension plan. The District participates in the miscellaneous 2% at 55 pool and the miscellaneous 2% at 62 pool for new employees hired on or after January 1, 2013. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public employers within the State of California. CalPERS requires agencies with less than 100 active members in the plan to participate in a risk pool. All full and part-time District employees working at least 1,000 hours per year are eligible to participate in CalPERS. Under CalPERS, benefits vest after five years of service. Upon retirement, participants are entitled to an annual retirement benefit payable for life, in an amount equal to a benefit factor times the monthly average salary of the highest consecutive months full-time equivalent monthly pay. A menu of benefits provisions as well as other requirements is established by State Statutes within the Public Employees Retirement Law. The plan selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through District resolution. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS executive office - 400 P Street - Sacramento, California 95814.

Funding Policy

Active plan members of the miscellaneous 2% at 55 pool are required to contribute 7% of their annual covered salary and active plan members of the miscellaneous 2% at 62 pool are required to contribute 6.50% of their annual salary. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions are those adopted by the CalPERS Board of Administration. The required employer contribution rates for the fiscal year ended June 30, 2013 and 2012 were 4.689% and 4.519%, respectively, for the miscellaneous 2% at 55 pool and 6.50% and 0%, respectively, for the miscellaneous 2% at 62 pool. The contribution requirements of the plan members and the District are established and may be amended by CalPERS. The District's contributions for the years ended June 30, 2013, 2012 and 2011 were \$126,899, \$122,572, and \$77,606, respectively, which were equal to the required contributions each year.

Note 10 - Commitments and Contingencies:

Litigation

Certain claims, suits and complaints arising in the ordinary course of operations have been filed or are pending against the District. The District's management and legal counsel estimate that the potential claims against the District not covered by insurance resulting from such litigation would not materially affect the operations or financial condition of the District.

**CARMICHAEL WATER DISTRICT
NOTES TO FINANCIAL STATEMENT
JUNE 30, 2013 AND 2012**

Note 10 - Commitments and Contingencies: (Continued)

Meter Implementation Program

The District implemented a meter implementation program that will entail installing meters for all District customers. This project was completed in the Fiscal year 2012- 2013, with the exception of nine (9) remaining accounts. The remaining nine (9) accounts will be metered by the end of Fiscal Year 2013-2014. Costs related to this program are budgeted annually.

Grant Funding

The District has received grant funding in the current and prior year for various purposes that may be subjected to review and audit by the funding agencies. Such potential audits could result in a request for reimbursement for expense 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.

Note 11 - New Governmental Accounting Standards:

GASB No. 62

In December 2010, the Governmental Accounting Standards Board issued Statement No. 62, “Codification of Accounting and Financial Reporting Guidance contained in Pre-November 30, 1989 FASB and AICPA Pronouncements”. This pronouncement is effective for periods beginning after December 15, 2011. Earlier application is encouraged. The objective of this statement is to incorporate into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the pronouncements of the FASB and the AICPA that was issued on or before November 30, 1989 which does not conflict with or contradict GASB pronouncements. This pronouncement did not have a material effect on the financial statements of the District in the year of implementation.

GASB No. 63

In June 2011, the Governmental Accounting Standards Board issued Statement No. 63, “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position”. This pronouncement is effective for periods beginning after December 15, 2011. Concepts Statement No. 4 “Elements of Financial Statements” introduced and defined deferred outflows and deferred inflows as an acquisition or consumption of net assets by the government that is applicable to a future reporting period, which is distinct from assets and liabilities. Concepts Statement No. 4 also defines net position as the residual of all other elements presented in a statement of financial position and renames that measure net position rather than net assets. This pronouncement did not have a material effect on the financial statements of the District in the year of implementation.

**CARMICHAEL WATER DISTRICT
NOTES TO FINANCIAL STATEMENT
JUNE 30, 2013 AND 2012**

Note 11 - New Governmental Accounting Standards: (Continued)

GASB No. 64

In June 2011, the Governmental Accounting Standards Board issued Statement No. 64, “Derivative Instruments: Application of Hedge Accounting Termination Provisions - an amendment to GASB 53”. This pronouncement is effective for periods beginning after June 15, 2011. This statement clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty’s credit support provider. The Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The District does not have any hedge transactions at June 30, 2013.

GASB No. 65

In March 2012, the Governmental Accounting Standards Board issued Statement No. 65, “Items Previously Reported as Assets and Liabilities”. This pronouncement is effective for periods beginning after December 15, 2012. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement amends the financial statement classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement No. 4. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. The effects of this pronouncement are more fully described in Note 12.

GASB No. 66

In March 2012, the Governmental Accounting Standards Board issued Statement No. 66, “Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and No. 62”. This pronouncement is effective for periods beginning after December 15, 2012. This statement resolves conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions”, and No. 62, “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements”. This Statement amends Statement No. 10, “Accounting and Financial Reporting for Risk Financing and Related Insurance Issues”, by removing the provision that limits fund-based reporting of an entity’s risk financing activities to the general fund and the internal service fund type. This Statement also amends Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) service fee rate. These changes clarify how to apply Statement No. 13, “Accounting for Operating Leases with Scheduled Rent Increases”, and result in guidance that is consistent with the requirements in Statement No. 48, “Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues”, respectively. This pronouncement is not anticipated to have a material effect on the financial statements of the District in the year of implementation.

**CARMICHAEL WATER DISTRICT
NOTES TO FINANCIAL STATEMENT
JUNE 30, 2013 AND 2012**

Note 11 - New Governmental Accounting Standards: (Continued)

GASB No. 67

In June 2012, the Governmental Accounting Standards Board issued Statement No. 67, “Financial Reporting for Pension Plans - an Amendment of GASB Statement No. 25”. This pronouncement is effective for periods beginning after June 15, 2013. This Statement replaces the requirements of Statements No. 25, “Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans”, and No. 50, “Pension Disclosures”, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. This pronouncement is not anticipated to have a material effect on the financial statements of the District in the year of implementation.

GASB No. 68

In June 2012, the Governmental Accounting Standards Board issued Statement No. 68, “Accounting and Financial Reporting for Pensions”. This pronouncement is effective for periods beginning after June 15, 2013. This pronouncement establishes accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions through pension plans, as well as for nonemployer governments that have a legal obligation to contribute to those plans. This pronouncement is not anticipated to have a material effect on the financial statements of the District in the year of implementation.

GASB No. 69

In January 2013, The Governmental Accounting Standard Board issued Statement No. 69, “Government Combinations and Disposals of Government Operations.” This pronouncement is effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013 and should be applied on a prospective basis. Earlier application is encouraged. This statement requires the use of carrying values to measure the assets and liabilities in a government merger. Conversely, this statement requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. This statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. This statement provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold. This pronouncement is not anticipated to have a material effect on the financial statements of the District.

**CARMICHAEL WATER DISTRICT
NOTES TO FINANCIAL STATEMENT
JUNE 30, 2013 AND 2012**

Note 11 - New Governmental Accounting Standards: (Continued)

GASB No. 70

In April 2013, The Governmental Accounting Standard Board issued Statement No. 70, "Accounting and Financial Reporting for Nonexchange Financial Guarantees." This pronouncement is effective for financial reporting periods beginning after June 15, 2013. Earlier application is encouraged. This statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data indicate that the government will be required to make a payment on the guarantee. The Government that issued the obligation guaranteed in a nonexchange transaction should recognize revenue to the extent that its guaranteed obligations have been reduced. If that government is required to repay a guarantor for making a payment, they should continue to reflect the liability until legally released as an obligor. This pronouncement is not anticipated to have a material effect on the financial statements of the District.

Note 12 - Change in Accounting Principle:

During the year ended June 30, 2013, the District changed its method of accounting for Bond Issuance Costs as a result of the Governmental Accounting Standards Board issuing Statement No. 65, "Items Previously Reported as Assets and Liabilities". Under the new method, debt issuance costs, except any portion related to prepaid insurance costs, should be recognized as an expense in the period incurred. Prepaid insurance costs should be reported as an asset and recognized as an expense in a systematic and rational manner over the duration of the related debt.

For current and advance refundings, resulting in defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt should be reported as a deferred outflow of resources or a deferred inflow of resources and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter. Comparative financial statements of prior years have been adjusted to apply these new methods retrospectively. The following financial statement line items have been affected by the change in accounting principle.

	As Originally Reported	Adjustment	As Restated
Bond Issuance Costs	\$ <u>314,575</u>	\$ <u>(314,575)</u>	\$ <u>-</u>
Deferred Amount on Refunding	\$ <u>-</u>	\$ <u>1,102,303</u>	\$ <u>1,102,303</u>
Net Position - Unrestricted	\$ <u>2,673,308</u>	\$ <u>(314,575)</u>	\$ <u>2,358,733</u>
Certificates of Participation, Net of Current Portion	\$ <u>26,151,480</u>	\$ <u>1,102,303</u>	\$ <u>27,253,783</u>