

**CARMICHAEL WATER DISTRICT**  
**FINANCIAL STATEMENTS**  
**JUNE 30, 2014 AND 2013**



**Leaf & Cole, LLP**  
*Certified Public Accountants*

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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 statements of net position as of June 30, 2014 and 2013, 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.

***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, 2014 and 2013, 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 - 10 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.

*Leaf & Cole LLP*

San Diego, California  
October 15, 2014

## 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 year ended June 30, 2014. Please read it in conjunction with the District's financial statements which begin on page 10.

### **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:

- Net Investment in Capital Assets
- 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

- To evaluate the accuracy of the historical cost of the District's capital assets, an eighteen month project was undertaken and completed in fiscal year 2014. The project entailed an examination of not only the existence of assets, but also the valuations or cost accounting for the assets recorded. Through this process, it was determined that early-contributed assets by developers had not been recorded. This finding alone provided for almost three quarters of the amount of the restatement.

To better represent the District's existing infrastructure and to better assess the Planned System Maintenance Schedule within the 100 Year Master Plan, the District engaged with an engineering consulting firm to map the District's existing infrastructure and capture all necessary sizes, locations, age and conditions within a Global Information System (GIS) database. The District had spent a significant amount of time and resources to implement GIS with the most precise information available. This technology was used to assist with reassessing the value of the District's capital assets. As a result, the District made certain adjustments increasing net position at June 30, 2012 by \$22,504,732. See Note 12.

- The District's net position increased by \$436,196 to \$42,398,331 at June 30, 2014.
- In accordance with the District's 2003 Master Plan, the District funded the following reserve accounts from its unrestricted net position:

Operating Reserve (25% of operating & maintenance)	\$ 1,292,943
Rate Stabilization Reserve	500,000
Membrane Replacement Reserve	<u>373,265</u>
Total Reserves	<u>\$ 2,166,208</u>

The adequacy of, and contributions to, the target reserves are reviewed annually during the District's budget process and may be revised as deemed necessary.

- The District's total revenues decreased from \$10,317,912 for the year ended June 30, 2013, to \$9,833,091 for the year ended June 30, 2014. The decrease in water sales, due to extreme drought conditions, and a decrease in capital contributions accounts for the majority of the decrease.
- The District's total expenses increased from \$8,914,689 for the year ended June 30, 2013, to \$9,396,895 for the year ended June 30, 2014. The increase in general and administrative along with transmission and distribution accounts for the majority of the increase as a result of the District capitalizing less construction costs and increased efforts to obtain new water sources.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Financial Analysis of the District

#### Net Position

After the restatement described in Note 12 of the financial statements, the following is a summary of the District's statements of net position at June 30:

	<u>2014</u>	<u>2013</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
<u>Assets:</u>				
Current and other assets	\$ 9,168,687	\$ 8,165,680	\$ 1,003,007	12.28
Capital assets	<u>60,494,171</u>	<u>62,225,965</u>	<u>(1,731,794)</u>	(2.78)
Total Assets	<u>69,662,858</u>	<u>70,391,645</u>	<u>(728,787)</u>	(1.04)
<u>Deferred Outflows of Resources:</u>				
Deferred amount on refunding	<u>971,011</u>	<u>1,036,657</u>	<u>(65,646)</u>	(6.33)
<u>Liabilities:</u>				
Current liabilities	2,017,037	2,124,314	(107,277)	(5.05)
Noncurrent liabilities	<u>26,218,501</u>	<u>27,341,853</u>	<u>(1,123,352)</u>	(4.11)
Total Liabilities	<u>28,235,538</u>	<u>29,466,167</u>	<u>(1,230,629)</u>	(4.18)
<u>Net Position:</u>				
Net investment in capital assets	35,284,574	35,499,050	(214,476)	(0.60)
Restricted	2,258,493	2,449,216	(190,723)	(7.79)
Unrestricted	<u>4,855,264</u>	<u>4,013,869</u>	<u>841,395</u>	20.96
Total Net Position	<u>\$ 42,398,331</u>	<u>\$ 41,962,135</u>	<u>\$ 436,196</u>	1.04

As you can see from the table above, net position increased by \$436,196 from fiscal year 2013 to 2014. 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 \$841,395. This is largely attributed to operating revenues from water sales exceeding the operating expenses in the fiscal year 2014.

Restricted net position decreased \$190,723 from fiscal year 2013 to 2014 as a result of less cash and cash equivalents being required for debt reserves.

Net investment in capital assets decreased \$214,476 in fiscal year 2014. 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

After the restatement described in Note 12 of the financial statements, the following is a summary of the District's change in net position for the years ended June 30:

	<u>2014</u>	<u>2013</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Operating revenues	\$ 9,666,748	\$ 9,946,179	\$ (279,431)	(2.81)
Nonoperating revenues	166,343	371,733	(205,390)	(55.25)
Total Revenues	<u>9,833,091</u>	<u>10,317,912</u>	<u>(484,821)</u>	(4.70)
Depreciation	2,603,442	2,597,394	6,048	0.23
Other operating expenses	5,675,410	5,132,878	542,532	10.57
Nonoperating expenses	1,118,043	1,184,417	(66,374)	(5.60)
Total Expenses	<u>9,396,895</u>	<u>8,914,689</u>	<u>482,206</u>	5.41
Change in Net Position	436,196	1,403,223	(967,027)	(68.91)
Net Position at Beginning of Year	<u>41,962,135</u>	<u>40,558,912</u>	<u>1,403,223</u>	3.46
Net Position at End of Year	<u>\$ 42,398,331</u>	<u>\$ 41,962,135</u>	<u>\$ 436,196</u>	1.04

A closer examination of the source of changes in net position reveals that the District's operating revenues decreased by \$279,431 in fiscal year 2014 due to decreased water consumption as compared to fiscal year 2013. Nonoperating revenues decreased by \$205,390 in fiscal year 2014 which is driven by a decrease in capital contributions. Operating expenses, exclusive of depreciation, increased \$542,532 in fiscal year 2014 due to increased salary, engineering and development costs being expensed as a result of the District incurring costs for new water sources and capitalizing less in construction projects.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Capital Assets

After the restatement described in Note 12 of the financial statements, capital assets consist of the following at June 30:

	<u>2014</u>	<u>2013</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
<u>Capital Assets Not Being Depreciated:</u>				
Land, franchises and water rights	\$ 546,488	\$ 546,488	\$ -	-
Construction-in-progress	<u>21,719</u>	<u>28,291</u>	<u>(6,572)</u>	(23.23)
Total Capital Assets Not Being Depreciated	<u>568,207</u>	<u>574,779</u>	<u>(6,572)</u>	(1.14)
<u>Capital Assets Being Depreciated:</u>				
Pumping plant	35,609,179	35,591,642	17,537	0.05
Transmission and distribution	55,426,708	54,717,863	708,845	1.30
Buildings and improvements	9,659,559	9,659,559	-	-
Vehicles and equipment	9,015,356	8,988,990	26,366	0.29
Furniture and fixtures	<u>1,727,728</u>	<u>1,704,094</u>	<u>23,634</u>	1.39
Total Capital Assets Being Depreciated	<u>111,438,530</u>	<u>110,662,148</u>	<u>776,382</u>	0.70
Less: Accumulated depreciation	<u>(51,512,566)</u>	<u>(49,010,962)</u>	<u>(2,501,604)</u>	5.10
Net Capital Assets Being Depreciated	<u>59,925,964</u>	<u>61,651,186</u>	<u>(1,725,222)</u>	(2.80)
Net Capital Assets	<u>\$ 60,494,171</u>	<u>\$ 62,225,965</u>	<u>\$ (1,731,794)</u>	(2.78)

The net additions of capital assets being depreciated for fiscal year 2014 totaled \$776,382. Capital asset additions consisted primarily of service line and main line replacements to Rustic Woods and Maple Lane, along with miscellaneous capital improvements.

### Long-Term Debt

The following is a summary of long-term debt at June 30:

	<u>2014</u>	<u>2013</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
2010 Certificates of Participation	\$ 24,610,000	\$ 25,685,000	\$ (1,075,000)	(4.19)
2010 Subordinate installment sale agreement	<u>178,175</u>	<u>597,964</u>	<u>(419,789)</u>	(70.20)
Total	<u>24,788,175</u>	<u>26,282,964</u>	<u>(1,494,789)</u>	(5.69)
Unamortized premium	<u>1,392,433</u>	<u>1,480,608</u>	<u>(88,175)</u>	(5.70)
Total Long-Term Debt	<u>\$ 26,180,608</u>	<u>\$ 27,763,572</u>	<u>\$ (1,582,964)</u>	

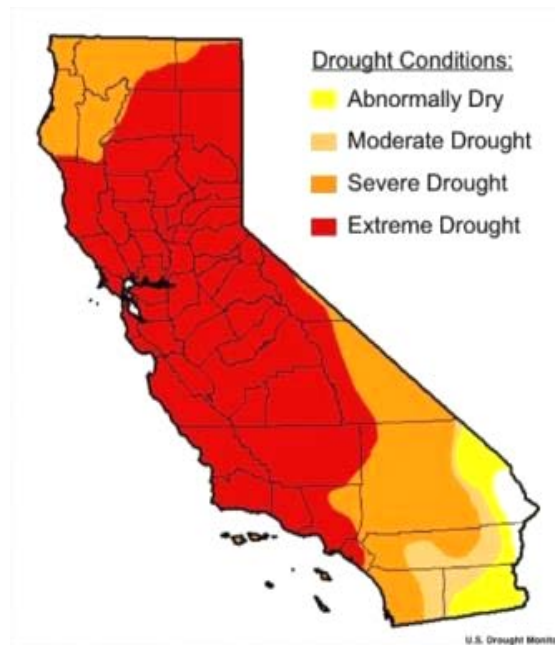
The District reduced its debt outstanding by \$1,582,964 during the year ended June 30, 2014. No new debt has been issued.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Economic Factors

The District's Board of Directors and management staff consider many factors when setting the fiscal year budget. A major economic factor changed during Fiscal Year 2013-14. On January 17, 2014, Governor Brown, declared a drought emergency for the State of California. During the January 2014 Board of Directors meeting, the Board authorized staff to implement the District's Water Shortage Contingency and Drought Plan. The initial implementation called for a 10% voluntary reduction in use per Stage 1 of the plan. In addition, at the January 2014 Board meeting, the Board approved the adjustment to the Planned System Maintenance budget to suspend project activities in the amount of \$221,691, anticipating the decline in water revenues.

Water revenues and water production have continued to decline as customers are conserving water. During the May 2014 Board of Directors meeting, the Board implemented Stage 2 of the District's Water Shortage Contingency and Drought Plan requesting a voluntary 25% reduction. On June 16, 2014, at the Board of Director's meeting, the Board approved Resolution 06162014-1 Declaring Water Shortage Emergency Conditions.



### Conservation

Carmichael Water District has implemented Stage 2 of the District's Water Shortage Contingency and Drought Plan calling for a 25% voluntary reduction in water use. The plan serves as a guide for the District in responding to water supply shortages and responding to the regional and state-wide impacts from drought conditions while maintaining water quality, safe operating conditions, and fire flow capability.

In support of the water shortage plan implementation, staff conducted an extensive public outreach campaign. This outreach campaign is an ongoing program with continuous updates. Some of the major elements of this campaign include: press releases; special messages and updates on the website; special mailings to customers; outreach and speaking opportunities; and free water efficiency and landscape audit services. The response to the drought stage implementation and public outreach campaign has been overwhelmingly effective. Customers have reduced their use by more than 25% in the 4<sup>th</sup> quarter of fiscal year 2013-14 as compared to the same period in the previous year.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### **Economic Factors (Continued)**

#### **Budget Impacts**

Consumption revenues for FY 2013-14 are down in comparison to FY 2012-13, the direct result of consumer's response to the drought. Management staff closely monitored the revenues and expenditures as compared to the budget. A conscious effort to maintain a close alignment of the expenses with the decreased revenues due to drought conditions and the voluntary conservation efforts of our customers, has been ongoing since January 2014. There were budget revisions approved since January 2014, with the final impact estimated at a cost savings of over \$91,000.

The District received written Curtailment Notices from the State Water Resources Control Board (SWRCB) on May 29, 2014 and May 30, 2014 to immediately cease American River diversions under its licenses and permit effective May 27, 2014. To supplement the District's water supply during water shortage emergency conditions, staff secured a verbal agreement with Aerojet Rocketdyne, Inc. on May 27, 2014, for remediated groundwater. The written Purchase and Sale Agreement between Aerojet Rocketdyne, Inc. and Carmichael Water District was approved and signed on June 5, 2014, with an effective date of May 27, 2014. The agreement provides the District the alternative supply necessary to meet its existing water demands at \$85 per acre-foot. The additional budget impact for this remediated groundwater through June 30, 2014 was \$57,372. Signing this Agreement committed the District to purchase 3,500 acre feet at a total cost of \$297,500 for use within the District by December 31, 2014.

#### **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.

Recognizing the aging infrastructure creates known and predictable maintenance requirements, the District completed a 100 year Master Plan in September 2003. As Carmichael is a relatively built-out community, a concept of planned system maintenance (PSM) rather than capital improvement was also adopted by the District. 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.

Three strategies exist to meet the District's Business Plan. 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 reserve 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 the 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 funding all the reserve funds. The District is currently updating its Master Plan and Financial Business Plan which will be followed by a rate study. To that end, the District is currently working to integrate its financial and facility management systems to get the maximum service life from facilities and make the soundest financial decisions.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### **Long-Term Infrastructure Liability and Planning (Continued)**

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 general expenses of the District. It is crucial for the District to establish and fund prudent reserves for long-range planning and address the future needs for changing factors such as economic factors, regulatory, climate change, drought, and conservation.

### **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 95608, or call (916) 483-2452.

**CARMICHAEL WATER DISTRICT  
STATEMENTS OF NET POSITION  
JUNE 30, 2014 AND 2013**

<u><b>ASSETS</b></u>	<u>2014</u>	<u>2013</u>
<b>Current Assets:</b> (Notes 1 and 2)		
Cash and cash equivalents	\$ 4,611,787	\$ 3,278,546
Accounts receivable:		
Current services	1,542,631	1,791,063
Other	108,224	7,028
Grants	10,000	100,000
Accrued interest receivable	2,650	1,058
Inventory	401,881	305,945
Prepaid expense	65,198	57,631
Total Current Assets	<u>6,742,371</u>	<u>5,541,271</u>
<b>Noncurrent Assets:</b>		
<b>Restricted Assets:</b> (Notes 1, 2 and 3)		
Cash and cash equivalents	<u>2,258,493</u>	<u>2,449,216</u>
Total Restricted Assets	<u>2,258,493</u>	<u>2,449,216</u>
<b>Capital Assets:</b> (Notes 1, 4 and 12)		
Nondepreciable	568,207	574,779
Depreciable, net of accumulated depreciation	<u>59,925,964</u>	<u>61,651,186</u>
Total Capital Assets, Net	<u>60,494,171</u>	<u>62,225,965</u>
<b>Other Assets:</b> (Notes 1 and 5)		
Investment in electrical power	<u>167,823</u>	<u>175,193</u>
Total Other Assets	<u>167,823</u>	<u>175,193</u>
Total Noncurrent Assets	<u>62,920,487</u>	<u>64,850,374</u>
<b>TOTAL ASSETS</b>	<u>69,662,858</u>	<u>70,391,645</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred amount on refunding (Notes 1 and 6)	\$ <u>971,011</u>	\$ <u>1,036,657</u>

(Continued)

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

**CARMICHAEL WATER DISTRICT  
STATEMENTS OF NET POSITION (CONTINUED)  
JUNE 30, 2014 AND 2013**

<b><u>LIABILITIES</u></b>	<u>2014</u>	<u>2013</u>
<b><u>Current Liabilities:</u></b> (Notes 1, 6 and 7)		
Accounts payable	\$ 410,210	\$ 290,154
Accrued expenses and other liabilities	49,263	49,462
Unearned revenue	87,973	97,124
Accrued interest payable	185,002	191,299
Current portion of noncurrent liabilities	<u>1,284,589</u>	<u>1,496,275</u>
Total Current Liabilities	<u>2,017,037</u>	<u>2,124,314</u>
<b><u>Noncurrent Liabilities:</u></b>		
<b><u>Long-Term Debt:</u></b> (Notes 1 and 6)		
Certificates of participation, net of current portion	24,897,433	26,090,608
Subordinate installment sale agreement, net of current portion	-	178,103
Total Long-Term Debt	<u>24,897,433</u>	<u>26,268,711</u>
<b><u>Other Noncurrent Liabilities:</u></b> (Notes 1, 6, 7 and 8)		
Compensated absences	152,456	124,873
Unearned lease revenue	129,158	130,572
Net OPEB obligation	<u>1,039,454</u>	<u>817,697</u>
Total Other Noncurrent Liabilities	<u>1,321,068</u>	<u>1,073,142</u>
Total Noncurrent Liabilities	<u>26,218,501</u>	<u>27,341,853</u>
Total Liabilities	<u>28,235,538</u>	<u>29,466,167</u>
<b><u>Commitments and Contingencies</u></b> (Notes 9 and 10)		
<b><u>NET POSITION:</u></b> (Note 12)		
Net investment in capital assets	35,284,574	35,499,050
Restricted for debt service	2,214,757	2,414,938
Restricted for expansion	43,736	34,278
Unrestricted	<u>4,855,264</u>	<u>4,013,869</u>
Total Net Position	<u>\$ 42,398,331</u>	<u>\$ 41,962,135</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, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
<b><u>Operating Revenues:</u></b>		
Water sales	\$ 9,624,391	\$ 9,912,458
Tap fees and other revenues	42,357	33,721
Total Operating Revenues	<u>9,666,748</u>	<u>9,946,179</u>
<b><u>Operating Expenses:</u></b>		
Depreciation	2,603,442	2,597,394
General and administrative	2,016,843	1,642,069
Transmission and distribution	1,152,781	1,003,343
Source of supply	875,303	857,416
Pumping	833,303	885,624
Financial services	706,427	616,054
Water treatment	90,753	128,372
Total Operating Expenses	<u>8,278,852</u>	<u>7,730,272</u>
Operating Income	<u>1,387,896</u>	<u>2,215,907</u>
<b><u>Nonoperating Revenues (Expenses):</u></b>		
Other revenue	121,209	33,371
Income from investment in electrical power	11,926	13,614
Investment income earned	5,843	1,598
Reimbursements	2,785	1,560
Grant revenue	341	100,000
Loss on disposal of capital assets	(10,581)	(34,142)
Interest expense	<u>(1,107,462)</u>	<u>(1,150,275)</u>
Total Nonoperating Revenues (Expenses)	<u>(975,939)</u>	<u>(1,034,274)</u>
Income Before Capital Contributions	411,957	1,181,633
Capital Contributions	<u>24,239</u>	<u>221,590</u>
Change in Net Position	436,196	1,403,223
Net Position at Beginning of Year (Note 12)	<u>41,962,135</u>	<u>40,558,912</u>
<b>NET POSITION AT END OF YEAR</b>	<u><u>\$ 42,398,331</u></u>	<u><u>\$ 41,962,135</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, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
<b><u>Cash Flows From Operating Activities:</u></b>		
Cash received from customers	\$ 9,906,029	\$ 9,827,101
Cash payments to suppliers for goods and services	(3,677,649)	(3,288,947)
Cash payments to employees for services	(1,732,067)	(1,536,030)
Net Cash Provided by Operating Activities	<u>4,496,313</u>	<u>5,002,124</u>
<b><u>Cash Flows From Noncapital and Related Financing Activities:</u></b>		
Receipts from other nonoperating revenues	<u>21,384</u>	<u>45,355</u>
Net Cash Provided by Noncapital and Related Financing Activities	<u>21,384</u>	<u>45,355</u>
<b><u>Cash Flows From Capital and Related Financing Activities:</u></b>		
Acquisitions and construction of capital assets	(867,410)	(748,190)
Proceeds from grant revenues	90,341	-
Principal paid on certificates of participation	(1,075,000)	(1,045,000)
Interest paid on certificates of participation	(1,111,271)	(1,152,962)
Principal paid on subordinate installment sale agreement	(419,789)	(407,286)
Interest paid on subordinate installment sale agreement	(25,017)	(25,017)
Facility fees collected	9,420	31,400
Net Cash Used in Capital and Related Financing Activities	<u>(3,398,726)</u>	<u>(3,347,055)</u>
<b><u>Cash Flows From Investing Activities:</u></b>		
Investment income	4,251	2,169
Receipts from investment in electrical power	19,296	19,872
Net Cash Provided by Investing Activities	<u>23,547</u>	<u>22,041</u>
Net Increase in Cash and Cash Equivalents	1,142,518	1,722,465
Cash and Cash Equivalents at Beginning of Year	<u>5,727,762</u>	<u>4,005,297</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 6,870,280</u>	<u>\$ 5,727,762</u>
<b><u>Cash and Cash Equivalents - Financial Statement Classification:</u></b>		
Cash and cash equivalents	\$ 4,611,787	\$ 3,278,546
Restricted cash and cash equivalents	2,258,493	2,449,216
Total Cash and Cash Equivalents	<u>\$ 6,870,280</u>	<u>\$ 5,727,762</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, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
<b><u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</u></b>		
Operating income	\$ 1,387,896	\$ 2,215,907
<b>Adjustments to reconcile operating income to net cash provided by operating activities:</b>		
Depreciation	2,603,442	2,597,394
<b>(Increase) Decrease in:</b>		
Accounts receivable - current services	248,432	(120,630)
Inventory	(95,936)	37,654
Prepaid expense	(7,567)	1,557
<b>Increase (Decrease) in:</b>		
Accounts payable	120,056	64,160
Accrued expenses and other liabilities	(199)	(477)
Unearned revenue	(9,151)	1,552
Compensated absences	27,583	(9,733)
Net OPEB obligation	221,757	214,740
Net Cash Provided by Operating Activities	<u>\$ 4,496,313</u>	<u>\$ 5,002,124</u>
 <b><u>Supplemental Disclosures of Cash Flow Information:</u></b>		
Receipt of contributed assets	<u>\$ 14,819</u>	<u>\$ 190,190</u>
Amortization of deferred amortization on refunding	<u>\$ 65,646</u>	<u>\$ 65,646</u>

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

**CARMICHAEL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**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 STATEMENTS  
JUNE 30, 2014 AND 2013**

**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, 2014 and 2013.

**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 \$1,500 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	10 - 50 years
Transmission and distribution	10 - 75 years
Buildings and improvements	10 - 40 years
Vehicles and equipment	7 - 20 years
Furniture and fixtures	5 - 10 years

Depreciation totaled \$2,603,442 and \$2,597,394 for the years ended June 30, 2014 and 2013, 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, 2014 and 2013.

**CARMICHAEL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

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

**Significant Accounting Policies (Continued)**

**Compensated Absences**

Accumulated unpaid compensated absences totaling \$152,456 and \$124,873 is accrued when incurred and included in noncurrent liabilities at June 30, 2014 and 2013, 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, 2014, 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 \$44,751,116). 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 \$100,866 and \$109,677 for the years ended June 30, 2014 and 2013, respectively. There were no instances in the past three years where a settlement exceeded the District's Coverage.

**CARMICHAEL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

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

**Significant Accounting Policies (Continued)**

**Economic Dependency**

The District extracts approximately 80% of its water from the American River and 20% from groundwater wells. However, the District received written Curtailment Notices from the State Water Resources Control Board on May 29, 2014 and May 30, 2014, to immediately cease American River diversions under its licenses and permit effective May 27, 2014. To supplement the District's water supply during water shortage emergency conditions, staff secured a verbal agreement with Aerojet Rocketdyne, Inc. on May 27, 2014, for remediated groundwater. The written Purchase and Sale Agreement between Aerojet Rocketdyne, Inc. and Carmichael Water District was approved and signed on June 5, 2014, with an effective date of May 27, 2014. The agreement provides the District the alternative supply necessary to meet its existing water demands. As of May 27, 2014, the District's water supply is 100% groundwater from District wells and remediated groundwater purchased from Aerojet. The District's water supply will remain on 100% groundwater until the State Water Resources Control Board lifts the Curtailment.

**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 October 15, 2014, the date the financial statements were available to be issued.

**CARMICHAEL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**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. 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>Quality Requirements</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

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.

**CARMICHAEL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**Note 2 - Cash and Investments: (Continued)**

**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>1 Year or Less</u>	<u>2014 Total</u>	
Cash on hand	\$ 2,050	\$ 2,050	\$ 2,050
Deposits with financial institutions	2,855,966	2,855,966	3,309,429
California Local Agency Investment Fund (LAIF)	1,797,508	1,797,508	1,383
Certificates of deposit	-	-	200,000
Money market mutual funds	2,214,756	2,214,756	2,214,900
Total Cash and Investments	<u>\$ 6,870,280</u>	<u>\$ 6,870,280</u>	<u>\$ 5,727,762</u>

Financial Statement Classification:

Current:

Cash and cash equivalents	\$ 4,611,787	\$ 3,278,546
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Restricted:

Cash and cash equivalents	2,258,493	2,449,216
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Total Cash and Investments	<u>\$ 6,870,280</u>	<u>\$ 5,727,762</u>
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**CARMICHAEL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**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 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, 2014.

**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 &amp; Poor's</u>
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, 2014.



**CARMICHAEL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**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, 2014, 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>2014</u>	<u>2013</u>
Money Market Mutual Funds	\$ <u>2,214,756</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>2014</u>	<u>2013</u>
Deposits with financial institutions	\$ 2,855,966	\$ 3,309,429
Money market mutual funds	2,214,756	2,414,900
California Local Agency Investment Fund (LAIF)	1,797,508	1,383
Cash on hand	2,050	2,050
Total	<u>\$ 6,870,280</u>	<u>\$ 5,727,762</u>

**CARMICHAEL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**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>2014</u>	<u>2013</u>
Bond proceeds and interest earnings	Reserve fund	\$ 2,214,756	\$ 2,414,937
Facility fees	Expansion of facilities	43,736	34,278
Bond proceeds and interest earnings	Debt service	1	1
		<u>\$ 2,258,493</u>	<u>\$ 2,449,216</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:**

After the restatement described in Note 12 of the financial statements, capital assets consists of the following at June 30:

	<u>2014</u>			
	<u>Balance at June 30, 2013</u>	<u>Additions</u>	<u>Deletions</u>	
<b>Capital assets not being depreciated:</b>				
Land, franchises and water rights	\$ 546,488	\$ -	\$ -	\$ 546,488
Construction in progress	28,291	810,529	(817,101)	21,719
Total Capital Assets Not Being Depreciated	<u>574,779</u>	<u>810,529</u>	<u>(817,101)</u>	<u>568,207</u>
<b>Capital assets being depreciated:</b>				
Pumping plant	35,591,642	36,272	(18,735)	35,609,179
Transmission and distribution	54,717,863	798,385	(89,540)	55,426,708
Buildings and improvements	9,659,559	-	-	9,659,559
Vehicles and equipment	8,988,990	30,510	(4,144)	9,015,356
Furniture and fixtures	1,704,094	23,634	-	1,727,728
Total Capital Assets Being Depreciated	<u>110,662,148</u>	<u>888,801</u>	<u>(112,419)</u>	<u>111,438,530</u>
<b>Less: Accumulated depreciation for:</b>				
Pumping plant	(14,959,718)	(805,384)	14,362	(15,750,740)
Transmission and distribution	(23,448,805)	(856,670)	83,332	(24,222,143)
Buildings and improvements	(3,473,394)	(251,330)	-	(3,724,724)
Vehicles and equipment	(5,604,603)	(619,235)	4,144	(6,219,694)
Furniture and fixtures	(1,524,442)	(70,823)	-	(1,595,265)
Total Accumulated Depreciation	<u>(49,010,962)</u>	<u>(2,603,442)</u>	<u>101,838</u>	<u>(51,512,566)</u>
Net capital assets being depreciated	<u>61,651,186</u>	<u>(1,714,641)</u>	<u>(10,581)</u>	<u>59,925,964</u>
<b>Net Capital Assets</b>	<u>\$ 62,225,965</u>	<u>\$ (904,112)</u>	<u>\$ (827,682)</u>	<u>\$ 60,494,171</u>

**CARMICHAEL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**Note 4 - Capital Assets: (Continued)**

	2013			
	Balance at June 30, 2012	Additions	Deletions	Balance at June 30, 2013
<b>Capital assets not being depreciated:</b>				
Land, franchises and water rights	\$ 546,488	\$ -	\$ -	\$ 546,488
Construction in progress	297,086	441,794	(710,589)	28,291
Total Capital Assets Not Being Depreciated	<u>843,574</u>	<u>441,794</u>	<u>(710,589)</u>	<u>574,779</u>
<b>Capital assets being depreciated:</b>				
Pumping plant	35,567,757	23,885	-	35,591,642
Transmission and distribution	54,006,032	781,051	(69,220)	54,717,863
Buildings and improvements	9,590,754	68,805	-	9,659,559
Vehicles and equipment	8,700,158	288,832	-	8,988,990
Furniture and fixtures	1,659,492	44,602	-	1,704,094
Total Capital Assets Being Depreciated	<u>109,524,193</u>	<u>1,207,175</u>	<u>(69,220)</u>	<u>110,662,148</u>
<b>Less: Accumulated depreciation for:</b>				
Pumping plant	(14,158,132)	(801,586)	-	(14,959,718)
Transmission and distribution	(22,635,638)	(848,245)	35,078	(23,448,805)
Buildings and improvements	(3,216,489)	(256,905)	-	(3,473,394)
Vehicles and equipment	(4,984,009)	(620,594)	-	(5,604,603)
Furniture and fixtures	(1,454,378)	(70,064)	-	(1,524,442)
Total Accumulated Depreciation	<u>(46,448,646)</u>	<u>(2,597,394)</u>	<u>35,078</u>	<u>(49,010,962)</u>
Net capital assets being depreciated	<u>63,075,547</u>	<u>(1,390,219)</u>	<u>(34,142)</u>	<u>61,651,186</u>
<b>Net Capital Assets</b>	<u>\$ 63,919,121</u>	<u>\$ (948,425)</u>	<u>\$ (744,731)</u>	<u>\$ 62,225,965</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 cash receipts generated from the transmission lease was \$19,296 and \$19,872, and is included in income from investment in electrical power for the years ended June 30, 2014 and 2013, respectively. The agreement is effective through December 31, 2024.

**CARMICHAEL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**Note 5 - Investment in Electrical Power: (Continued)**

The Project's unaudited financial statements as of and for the year ended June 30, 2014, 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>2014</u>	<u>2013</u>
Statement of Net Position		
Assets	\$ 276,192,556	\$ 283,553,518
Liabilities	<u>22,025,550</u>	<u>21,559,693</u>
Net Position	<u>\$ 254,167,006</u>	<u>\$ 261,993,825</u>
Statements of Revenues, Expenses, and Changes in Net Position		
Operating revenues	\$ 12,893,405	\$ 8,661,198
Operating expenses	<u>(23,507,537)</u>	<u>(19,272,854)</u>
Operating loss	<u>(10,614,132)</u>	<u>(10,611,656)</u>
Nonoperating revenues	<u>489</u>	<u>489</u>
Change in Net Position Before Adjustments	(10,613,643)	(10,611,167)
Adjustment to Net Position for Capital Improvements	<u>2,786,824</u>	<u>1,229,810</u>
Change in Net Position	<u>\$ (7,826,819)</u>	<u>\$ (9,381,357)</u>
District's Share of Net Position	<u>\$ 167,823</u>	<u>\$ 175,193</u>

**CARMICHAEL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**Note 6 - Noncurrent Liabilities:**

Noncurrent liabilities consists of the following at June 30:

	2014				
	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014	Due Within One Year
<b><u>Long-Term Debt:</u></b>					
2010 Certificates of Participation	\$ 25,685,000	\$ -	\$ (1,075,000)	\$ 24,610,000	\$ 1,105,000
Unamortized premium	1,480,608	-	(88,175)	1,392,433	-
2010 Certificates of Participation, Net	<u>27,165,608</u>	<u>-</u>	<u>(1,163,175)</u>	<u>26,002,433</u>	<u>1,105,000</u>
Subordinate installment sale agreement	597,964	-	(419,789)	178,175	178,175
Total Long-Term Debt	<u>\$ 27,763,572</u>	<u>\$ -</u>	<u>\$ (1,582,964)</u>	<u>\$ 26,180,608</u>	<u>\$ 1,283,175</u>
<b><u>Other Noncurrent Liabilities:</u></b>					
Compensated absences	\$ 124,873	\$ 169,448	\$ (141,865)	\$ 152,456	\$ -
Unearned Lease Revenue	131,986	-	(1,414)	130,572	1,414
Net OPEB Obligation	817,697	291,553	(69,796)	1,039,454	-
Total Other Noncurrent Liabilities	<u>\$ 1,074,556</u>	<u>\$ 461,001</u>	<u>\$ (213,075)</u>	<u>\$ 1,322,482</u>	<u>\$ 1,414</u>
2013					
	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013	Due Within One Year
<b><u>Long-Term Debt:</u></b>					
2010 Certificates of Participation	\$ 26,730,000	\$ -	\$ (1,045,000)	\$ 25,685,000	\$ 1,075,000
Unamortized premium	1,568,783	-	(88,175)	1,480,608	-
2010 Certificates of Participation, Net	<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>
<b><u>Other Noncurrent Liabilities:</u></b>					
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>

**CARMICHAEL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**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 of the premium totaled \$88,175 for the years ended June 30, 2014 and 2013, 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 \$65,646 for the years ended June 30, 2014 and 2013, and is included in interest expense. The deferred amount on refunding was \$971,011 and \$1,036,657 at June 30, 2014 and 2013, 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, 2014 and 2013, the District's net revenues were 160% and 235% 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 \$24,610,000 and \$25,685,000 at June 30, 2014 and 2013, respectively. Accrued interest payable totaled \$184,608 and \$189,983 at June 30, 2014 and 2013, 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 \$178,175 and \$597,964 at June 30, 2014 and 2013, respectively. Accrued interest totaled \$394 and \$1,316 at June 30, 2014 and 2013, respectively.

**CARMICHAEL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**Note 6 - Noncurrent Liabilities: (Continued)**

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

<u>Years Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 1,283,175	\$ 1,086,944
2016	1,150,000	1,046,200
2017	1,185,000	999,325
2018	1,245,000	938,575
2019	1,305,000	881,350
2020 - 2024	7,380,000	3,526,700
2025 - 2029	9,135,000	1,702,550
2030	2,105,000	52,625
Total	<u>\$ 24,788,175</u>	<u>\$ 10,234,269</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, and earns \$1,414 annually through October 2106. The unearned lease revenue totaled \$130,572 and \$131,986 at June 30, 2014 and 2013, 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 STATEMENTS  
JUNE 30, 2014 AND 2013**

**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 16.47% 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 years ended June 30:

	<u>2014</u>	<u>2013</u>
Annual required contribution	\$ 250,668	\$ 250,668
Interest on net OPEB obligation	40,885	30,148
Adjustment to annual required contribution	(8,336)	(6,147)
Annual OPEB cost (expense)	<u>283,217</u>	<u>274,669</u>
Contributions (including benefits paid)	<u>(61,460)</u>	<u>(59,929)</u>
Increase in net OPEB obligation	221,757	214,740
Net OPEB obligation - Beginning of year	<u>817,697</u>	<u>602,957</u>
Net OPEB obligation - End of year	<u>\$ 1,039,454</u>	<u>\$ 817,697</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014 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, 2012	\$ 283,668	21.6%	\$ 602,957
June 30, 2013	274,669	21.8%	817,697
June 30, 2014	283,217	21.7%	1,039,454



**CARMICHAEL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**Note 8 - Post Employment Benefits (Continued)**

**Funding Status and Funding Progress**

As of July 1, 2014, the most recent actuarial valuation date, the plan was not yet funded. The District's actuarial accrued liability for benefits at July 1, 2014 was \$2,562,710 and the covered payroll (annual payroll of active employees covered by plan) was \$1,579,510, with a ratio of the UAAL to the covered payroll of 162.25%. The normal cost payments made during the year of \$61,460 funded 21.7% of the Annual Required Contribution (ARC) leaving an unfunded actuarial liability (UAAL) of \$2,562,710 and a funded ratio of zero.

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (A)</u>	<u>Actuarial Accrued Liability Entry Age (B)</u>	<u>Unfunded AAL (UAAL) (B-A)</u>	<u>Funded Ratio (A/B)</u>	<u>Covered Payroll (C)</u>	<u>UAAL as a Percentage of Covered Payroll [(B-A)/C]</u>
July 1, 2011	\$ -	\$ 2,338,710	\$ 2,338,710	0.0%	\$ 1,521,836	153.68%
July 1, 2014	-	2,562,710	2,562,710	0.0%	1,579,510	162.25%

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 4.75% 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 2.75% 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 2.75% per year.

**CARMICHAEL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**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 for those employees hired before January 1, 2013. New employees with no prior CalPERS membership, and those with prior CalPERS membership with a break in service greater than six months, hired after January 1, 2013 participate in the miscellaneous 2% at 62 pool. 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 covered 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, 2014 and 2013 were 5.059% and 4.689%, respectively, for the miscellaneous 2% at 55 pool and 6.50% and 6.50%, 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, 2014, 2013 and 2012 were \$166,710, \$126,899 and \$122,572, 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 STATEMENTS  
JUNE 30, 2014 AND 2013**

**Note 10 - Commitments and Contingencies: (Continued)**

**Meter Implementation Program**

The District implemented a phased meter implementation program in 1999 that entailed installing meters for all District customers. This project was completed as of June 30, 2013, except for six (6) remaining accounts to be metered. The remaining six (6) accounts will require two (2) mainline projects that are considered by management to be a high priority.

**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. 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 did not have a material effect on the financial statements of the District in the year of implementation.

**CARMICHAEL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**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 did not 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. The District has not determined the effects of this pronouncement 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 STATEMENTS  
JUNE 30, 2014 AND 2013**

**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. The District has not extended any nonexchange financial guarantees at the date of these financial statements.

**GASB No. 71**

In November 2013, The Governmental Accounting Standards Board issue Statement No. 71, “Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68. This pronouncement is effective simultaneously with the implementation of Statement 68. This statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The District has not determined the effects of this pronouncement on the financial statements of the District in the year of implementation.

**CARMICHAEL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**Note 12 - Restatement:**

To better represent the District's existing infrastructure and to better assess the Planned System Maintenance Schedule within the 100 Year Master Plan (currently being updated), the District underwent a multi-year long project examining the existence, condition and cost basis of the District's existing capital assets. Through this process, it was determined that early-contributed assets by developers had not been recorded. Using historical data and current data provided by engineering consulting firms which mapped out the District's existing infrastructure and all necessary sizes, locations, age and conditions within a Global Information System database, the District reassessed the value of its capital assets. As a result, the District made certain adjustments increasing net position at June 30, 2012 by \$22,504,732. The following is a summary of the financial statement line items being restated as a result of this detailed analysis:

	As Originally Reported	Adjustment	As Restated
Capital Assets - Nondepreciable	\$ <u>573,992</u>	\$ <u>787</u>	\$ <u>574,779</u>
Capital Assets - Depreciable, Net of Accumulated Depreciation	\$ <u>39,284,597</u>	\$ <u>22,366,589</u>	\$ <u>61,651,186</u>
Net Position at Beginning of Year	\$ <u>(18,054,180)</u>	\$ <u>(22,504,732)</u>	\$ <u>(40,558,912)</u>
Depreciation	\$ <u>2,455,488</u>	\$ <u>141,906</u>	\$ <u>2,597,394</u>
Transmission and Distribution	\$ <u>879,870</u>	\$ <u>123,473</u>	\$ <u>1,003,343</u>
Loss on Disposal of Capital Assets	\$ <u>1,203</u>	\$ <u>32,939</u>	\$ <u>34,142</u>
Capital Contributions	\$ <u>(60,628)</u>	\$ <u>(160,962)</u>	\$ <u>(221,590)</u>