

**FAIR OAKS  
WATER DISTRICT**

*Fair Oaks, California*

**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT**

**YEAR ENDED  
DECEMBER 31, 2004**

*Prepared By  
Finance Department*

**FAIR OAKS WATER DISTRICT**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**December 31, 2004**

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## **INTRODUCTORY SECTION**



FAIR OAKS  
WATER DISTRICT

May 26, 2005

The Board of Directors  
Fair Oaks Water District

The Fair Oaks Water District (“District”) hereby submits the Comprehensive Annual Financial Report (CAFR) for the year ending December 31, 2004. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with management. To the best of our knowledge and belief, the enclosed data is accurate in all material aspects and is reported in a manner designed to fairly present the financial positions and results of operations of the District. All disclosures necessary to enable the reader to gain an understanding of the District’s financial activities have been included.

The Comprehensive Annual Financial Report is presented in three sections: introductory, financial, and statistical. The introductory section includes the letter of transmittal, the District’s organization chart, and a list of principal officials. The financial section includes the management discussion and analysis which should be read in conjunction with the transmittal letter, the financial statements and schedules as well as the independent auditor’s report on these financial statements and schedules. The statistical section includes selected unaudited financial information of the District.

This report includes all funds, agencies, boards, commissions, and authorities that are financially accountable to the District’s Board of Directors. Such financial accountability was determined on the basis of budget adoption, imposition of will, funding, and appointment of governing board. Based upon these criteria, the Fair Oaks Water District Financing Corporation (the Financing Corporation) is considered a component unit of the District. The Financing Corporation provides specific financial benefits or imposes specific financial burdens on the District in regards to proceeds from certificates of participation used for capital outlay.

### **District History and Service Description**

Fair Oaks Water District was originally formed as the Fair Oaks Irrigation District in 1917. By 1979, residential development in the community had replaced all significant agricultural land; therefore, the board of directors passed a resolution declaring “irrigation district” no longer described the District’s actual functions and changed the name to Fair Oaks Water District. Even with the name change the District is legally structured as an irrigation district operating under the California Water Code, Division 11.

The District is a retail water agency supplying water to a population of approximately 40,000 people on approximately 6,000 acres in Fair Oaks and a small portion of Orangevale. The District purchases most of its water from San Juan Water District (“San Juan”) as treated water, and delivers it to approximately 13,600 residential and commercial service connections. Additionally, the District maintains seven groundwater wells, 180 miles of pipeline, and a three million gallon water storage facility.

### **Mission Statement**

The District’s mission statement is as follows: “Our mission is to provide our community with an adequate and reliable supply of water, exceeding all drinking water standards, at the lowest practicable cost. Our watchword is excellence. We operate in a responsive, professional, environmentally responsible manner, balancing immediate and long-term needs. The District strives to provide leadership in the community, and in regional water resource activities.”

### **Economic Condition and Outlook**

Fair Oaks is primarily a residential bedroom community, with some commercial enterprises within its boundaries, located in Sacramento County in Northern California. The District area is almost built out; therefore, the District does not depend upon new growth to maintain revenue. Based on actual results from prior years, the District is forecasting a slow but steady revenue increase of 20 new system connections per year from the demand for semi-custom housing in the Fair Oaks area.

Revenues from residential accounts are based upon flat rate billing with a plan to convert the accounts to metered rates in 2011. During 2002 commercial customers were converted from a flat rate to a metered rate, which decreased the revenues for commercial accounts. To mitigate the decline in revenues from account conversions to metered rates, the District has implemented a rate stabilization fund. Given this planning effort, the future financial stability of the District is positive relative to projected revenues.

The District continues the practice of establishing and maintaining reserves and designations to offset expected and unexpected significant expense fluctuations encountered year to year.

The San Juan Water District issued new debt in 2003 to improve its treatment operations as required by new governmental regulations. The cost of these upgrades is reflected in an increased purchased water cost in 2004. The District used the best available data at the time of its budget preparation to forecast the impact of the increased purchased water costs and the resulting necessary rate increases in the two year 2004 and 2005 Budget and Rate package as adopted on November 19, 2003.

## **Significant Projects and Future Plans**

### Meters

On September 28, 1999 the Reed Consulting Group presented the Fair Oaks Water District's Meter Implementation Plan at a regularly scheduled Board meeting. The plan presented was the result of an advisory group process and included a section on Financial Planning. The financial recommendations of the report were to consider issuing Certificates of Participation (COP) within five years and the establishment of a financial reserve account for future rate stabilization. Since the report was completed, regulatory pressure in California has continued to increase, resulting in a mandate for the FOWD to install and read water meters.

With the completion of the Meter Implementation Plan in 1999, an extensive effort to install water meters began. The District will invest approximately \$10.6 million in 1999 dollars to install meters and appurtenant hardware over the next several years. During 2004, the District installed approximately 1,025 meters as part of the meter implementation plan. As of December 31, 2004, the District has installed approximately 7,079 meters and has approximately 6,521 existing service connections that require meters to be installed. Additional employees have been hired to meet the ongoing demand of meter installations. Mandatory-metered rates for residential customers will go into effect after all residential meters are installed.

### Infrastructure and Water Delivery

The District continues to repair and replace aging infrastructure throughout its system. During 2004, the District completed construction on Debra Lane, Orangewood, Magnolia, New York, Valley View and Oakhurst that began in 2003 with the total project cost of \$695,838. The District has scheduled the following projects for 2005:

- Design and construction of two groundwater storage and recovery facilities, estimated at a cost of \$2.3 million.
- Replace 2,000 lineal feet of 12" C-900 water main for approximately \$288,000 at North Winding Way.

The District has deferred the following scheduled 2005 projects:

- Replace 1,800 lineal feet of 6" ten gage water main installed in 1954 with 12" C-900 water main for approximately \$252,000 at Timothy and Sunset.
- Replace one mile of pipeline water main C-900 at Hazel Avenue, estimated cost of \$1,000,000.

## Customer Service and Administration

The District began the review of its billing and accounting software programs to enhance functionality and delivery of service to its customers during 2003. The District selected Cogsdale as the billing software and Microsoft Great Plains for the accounting system. The implementation of these programs began in 2004 and will be completed in 2005. The finance department is working on implementing the positive pay program and the customer service will implement the check free program in 2005. Options for customer on-line bill paying will also be analyzed in 2005.

To increase the quality of service to the public, as well as accommodate internal needs, the District is considering alternative options for its administrative and operations facilities. The existing facilities do not meet current building codes or accessibility requirements, are cramped, poorly ventilated, worn and poorly lit, making it increasingly difficult for the District's employees to adequately serve customers. Furthermore, preliminary structural investigations indicate the building does not meet current seismic or wind loading requirements. After reviewing several options, an architect's report recommended demolishing the existing structure, constructing a new building and reorganizing the existing site, as the most cost effective, long-term solution. The preliminary estimated cost of a new building ranged from \$2,000,000 to \$3,000,000 and was budgeted in 2004. The building project has been deferred until 2006. As a result of the deferment, the District is leasing additional office space in Fair Oaks until a new building is constructed.

## Water Conservation

Conservation is an integral component of District's operations. Conservation is governed by local, state, and federal programs, such as those outlined by the: California Urban Water Conservation Council (CUWCC), Water Forum Agreement, and the U.S. Bureau Reclamation Central Valley Project Improvement Act. The District's objective is to implement water conservation best management practices (BMPs) in an efficient, cost effective and positive manner.

The District has developed the following proactive water efficiency outreach programs:

- Water-wise house calls are onsite water efficiency reviews that provide information on efficient water application at the specific property.
- The District toilet incentive rebate program, offered in partnership with the Sacramento Regional County Sanitation District and Regional Water Authority.
- Large landscape reviews, offered in conjunction with a grant from the U.S. Bureau of Reclamation and Proposition 13 through the Regional Water Authority Large Landscape Irrigation System Incentive Program.
- The Water Conservation School Poster Contest program. This program reaches out to grades 4 through 6 within the district, stressing an annual water conservation theme.
- Public outreach through community events such as: the Sacramento Convention Center Landscape Exposition, local Home and Garden Shows, Fair Oaks Fiesta Days, Get W.E.T. sponsored in part with the Bureau of Reclamation, Fair Oaks Harvest Day events and the Department of Fish and Games Salmon Festival.

These programs are designed to raise water conservation awareness among our customers and increase water supply available to the District.

### Regional Planning

In early 1998, the District and other water utilities north of the American River initiated an effort to study and evaluate projects and programs for using surface water and groundwater resources better, particularly during supply shortages. This conjunctive use effort generally calls for the use surface water from lakes and rivers in wet periods, while storing underground water supplies for later, when surface waters are needed for environmental purposes. As a follow up effort to the Sacramento region's *Water Forum Agreement*, participating members are motivated to plan for and meet the greater Sacramento areas water needs to the year 2030, especially in drought years.

Two separate pilot studies have been undertaken to test conjunctive use concepts in the Sacramento groundwater basin; one with the Sacramento Area Flood Control Agency, and one program with the CALFED Environmental Water Account. Both programs are deemed a success in understanding hydrologic and hydraulic operations, while addressing regulatory, governmental and institutional constraints. In 2002, seven water utilities, including the District, sought and received grant funds from Proposition 13 in the amount of nearly \$23 million to construct and install groundwater storage and extraction facilities that advance conjunctive use strategies. The Proposition 13 grant requires a 50% local cost share proportionate to the partnering agency benefit. As previously discussed, the District will use these funds to construct groundwater supply wells. The success of the Proposition 13 grant is a testament to the District's participation in recent regional cooperation efforts and joint planning, serving as a basis for future partnering efforts.

### **Financial Information**

#### Internal Control

Management is responsible for establishing and maintaining an internal control structure designed to ensure its assets are protected from loss, theft, or misuse and to ensure adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to:

- (1) provide reasonable, but not absolute, assurance these objectives are met;
- (2) transactions are executed in accordance with management's authorization; and
- (3) transactions are recorded properly.

The concept of reasonable assurance recognizes:

- (1) the cost of the control should not exceed the benefits likely to be derived; and
- (2) the evaluation of costs and benefits requires estimates and judgments by management.

#### Budgetary Control

While the District is not mandated to prepare budgets by State law, the District does prepare budgets as a matter of policy and financial control. The budget is a financial plan for two

calendar years detailing operating expenses, capital infrastructure investments, debt obligations, designations and reserves. For the year ending December 31, 2004, the budget was adopted November 19, 2003.

The financial plan establishes project priorities based upon District goals, policies and water distribution needs. The budget is developed following these steps:

- Assess current conditions and needs, including system quality and safety;
- Develop goals, objectives, policies, and plans based upon the assessment;
- Prioritize projects and develop work programs, based upon short-term and long-term cost effectiveness; and
- Prepare a plan to evaluate the effectiveness and shortcomings of the budget.

The budget is prepared on a cash basis, which differs from the basis used in preparing financial statements in conformity with generally accepted accounting principles (GAAP). The District staff works with an ad-hoc budget committee, which extensively reviews the proposed budget. The proposed budget is then presented to the board of directors for comments, suggestions, and feedback prior to notifying District customers.

The District notifies customers 45 days in advance of the public hearing and also holds public workshops designed to provide extensive budget information prior to the public hearing date. The District follows a very extensive and open budget process. The process is designed to educate and inform customers about the District's financial operations and requirements. The District adopts its budget at a Public Hearing. The adopted budget is then used as a management tool for projecting and measuring revenues and expenses for a ten to fifteen year planning horizon.

### Cash Management

The District complies with published investment policies and the provisions of the State statutes pertaining to the types of investments held. The District's cash, except for small amounts on hand for paying current expenses and amounts held with fiscal agents, is deposited in the State of California's Local Agency Investment Fund. Cash surpluses in these accounts are invested and investment earnings are allocated to the District's funds on the basis of average daily cash balances. Amounts held with fiscal agents are invested according to permitted investments outlined in official statements.

### Risk Management

The District participates in the Association of California Water Agency Joint Powers Insurance Authority (ACWA JPIA), a pooled self-insurance group. The District purchases its property, general liability, and automobile insurance from ACWA JPIA. Additionally, all contractors doing work for the District are required to furnish certificates of insurance for general liability, automobile liability, and workers' compensation and indemnification clauses.

The District also purchases worker's compensation insurance through Association of California Water Agency Joint Powers Insurance Authority (ACWA JPIA). The District's experience modification rate for the year beginning July 1, 2004 is 77%. The District has a defined safety program, holding monthly safety and training sessions as well as on the spot training sessions to ensure employees conduct their work in a safe manner.

## **Other Information**

### Independent Audit

California Government Code Section 26909 requires independent annual audits to be conducted for special districts. Richardson & Company has been selected to conduct the annual audit. The auditor's report is included in the financial section of the Comprehensive Annual Financial Report.

### Acknowledgements

The preparation of the comprehensive annual financial report on a timely basis requires the dedicated efforts of several staff members. We wish to express our appreciation to all District staff and managers who contributed to this report. Additionally, thank you to the Fair Oaks Water District Board of Directors for their interest and support in planning and conducting the financial operation of the District. The preparation of this report could not have been accomplished without the combined effort of the District leadership, Richardson & Company and staff.

Respectfully submitted,



Tom R. Gray  
General Manager



Chi Ha-Ly  
Senior Financial Analyst

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

Fair Oaks Water District,  
California

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
December 31, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Nancy L. Zielke*

President

*Jeffrey R. Emer*

Executive Director

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Mitch Myers  
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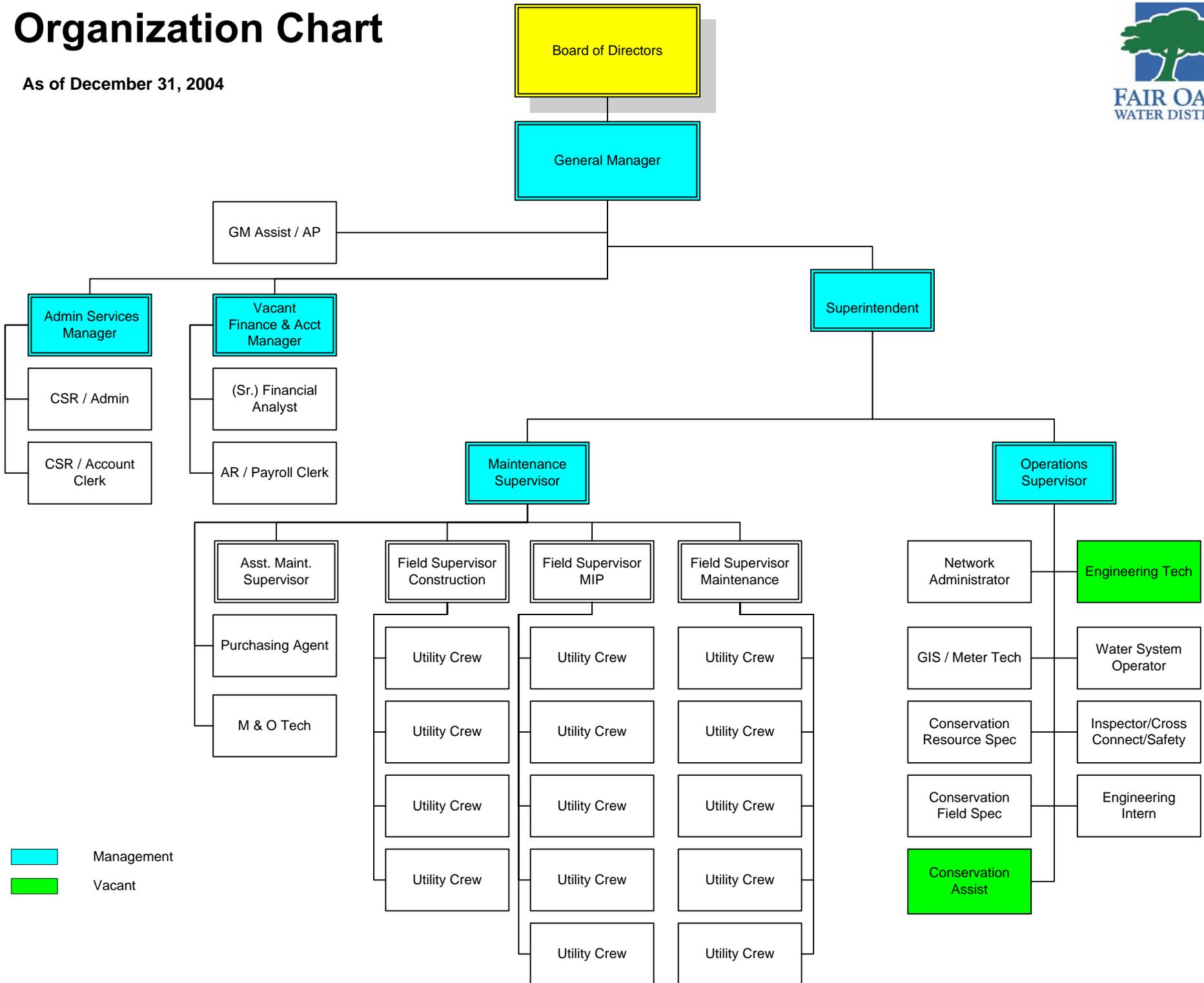
Chi Ha-Ly  
Senior Financial Analyst

# Organization Chart

As of December 31, 2004



X



Management  
 Vacant



## **FINANCIAL SECTION**

**INDEPENDENT AUDITOR'S REPORT**

**To the Board of Directors  
Fair Oaks Water District  
Fair Oaks, California**

We have audited the accompanying basic financial statements of the Fair Oaks Water District (the District) as of December 31, 2004 and for the year then ended, as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. The balance sheet of the District as of December 31, 2003 and the related statements of revenues, expenses and changes in net assets, and the changes in cash flows for the year ended December 31, 2003, were audited by other auditor's whose report dated February 27, 2004 provided an unqualified opinion on these statements.

We conducted our audit in accordance with accounting principles generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2004 and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, as listed in the accompanying table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

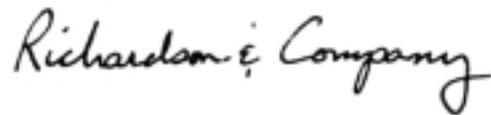
In accordance with *Government Auditing Standards*, we have also issued a report thereon dated May 20, 2005 on our consideration of the Fair Oaks Water District's internal control over financial

To the Board of Directors  
Fair Oaks Water District

reporting and on out tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Additional Information listed in the table of contents is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Introductory and Statistical Sections listed in the table of contents are presented for purposes of additional analysis and is not a required part of the basic financial statements. Such additional information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

A handwritten signature in cursive script that reads "Richardson & Company".

**May 20, 2005**

**MANAGEMENT'S DISCUSSION  
AND ANALYSIS**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Fair Oaks Water District (the District), we offer the readers of the District financial statements this narrative overview and analysis of the financial activities for the District for the year ended December 31, 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i to vii report.

### Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$23,853,254 (net assets). Of this amount, \$9,718,605 of unrestricted net assets may be used to meet the District's ongoing obligations to citizens and creditors. The District has designated \$6.6 million dollars for future investment in capital assets. Additionally, the District has invested \$1.3 million dollars of unrestricted net assets in water capacity entitlements.
- The District's total net assets increased by \$1,899,809. Approximately 19% of this increase is attributable to investment in capital assets.
- The District's total debt decreased by \$761,738 during the fiscal year due to scheduled principal payments.
- Water sales increased by \$439,470, while other operating revenues decreased by \$158,987 during the fiscal year.
- Maintenance and Operation costs had a net increase of \$338,737 and customer service, administration and general costs had a net increase of \$24,813.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements which are comprised of the financial statements and the notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

### Financial Statements

The financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the District's financial position is improving or deteriorating.

The statement of revenues, expenses and changes in net assets presents information showing how net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported

in this statement for some items that will only result in cash flows in future fiscal periods (i.e. uncollected water sales and amounts due to vendors).

Since the District's primary function is to provide water delivery to its customers and recover all of the costs through user fees and charges, the financial statements only include business-type activities.

The accounts of the District are organized on the basis of fund accounting. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Because the District provides water delivery and recovers these costs through user fees and charges, the District's funds are accounted for as an enterprise fund type of the proprietary fund group.

The District has determined that the Fair Oaks Water District Financing Corporation (Financing Corporation) meets the requirements for inclusion within the financial reporting entity and has, therefore, included the Financing Corporation as a blended component unit in the District's financial statements.

The financial statements can be found on pages 12 to 14.

#### Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the financial data provided in the financial statements. The notes to the financial statements can be found on pages 15 to 28 of this report.

#### Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information regarding the District's debt service rate covenant compliance. This information can be found on page 29. The report also includes a statistical section of selected financial information over a 10 year period. This information can be found on pages 32 to 34 of this report.

#### **Financial Analysis**

As noted earlier, net assets may serve as a useful indicator of a government's financial position over time. In the case of the District, assets exceeded liabilities by \$23,853,254 at the close of the most recent fiscal year.

The largest portion of the District's net assets (53 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt and unused proceeds used to acquire those assets that are still outstanding. The District uses these capital assets to provide water service delivery to its users. Consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, resources are needed to repay this debt and must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

### Fair Oaks Water District Net Assets

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Current assets	\$12,157,565	\$12,092,814	\$10,895,346
Other assets	3,392,030	3,507,529	3,623,029
Capital assets	<u>16,444,818</u>	<u>14,966,397</u>	<u>13,829,398</u>
Total assets	<u>31,994,413</u>	<u>30,566,740</u>	<u>28,347,773</u>
Long-term liabilities	4,660,245	5,381,397	6,121,663
Other liabilities	<u>3,480,914</u>	<u>3,231,898</u>	<u>2,812,960</u>
Total liabilities	8,141,159	8,613,295	8,934,623
Net assets:			
Invested in capital assets,			
Net of related debt	12,744,821	10,711,397	9,707,154
Restricted	1,389,828	1,230,338	1,079,144
Unrestricted	<u>9,718,605</u>	<u>10,011,710</u>	<u>8,626,852</u>
Total net assets	<u>\$23,853,254</u>	<u>\$21,953,445</u>	<u>\$19,413,150</u>

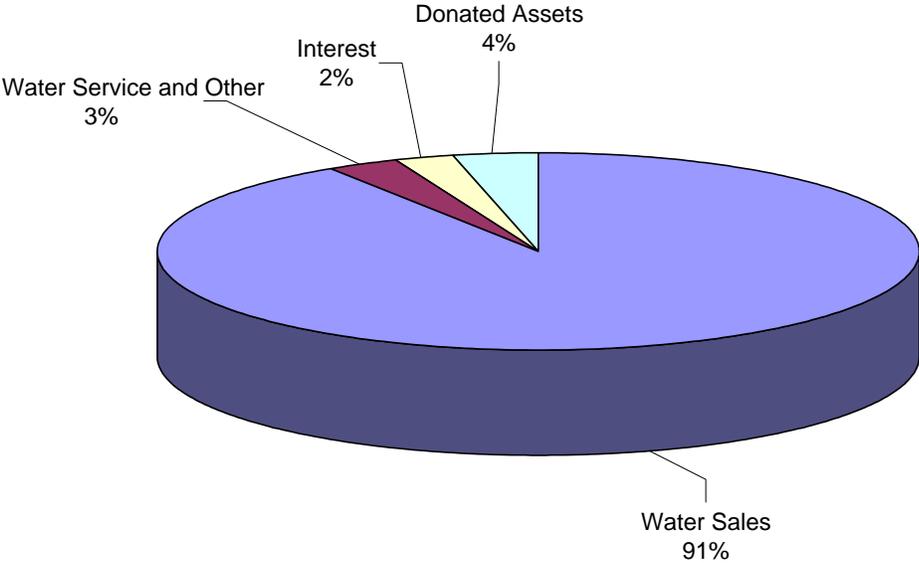
The remaining increase in net assets is largely due to increases in water sales to pay for ongoing and future anticipated capital asset replacement.

A portion of the District's net assets (approximately 6 percent) represents resources that are subject to external restrictions on how they may be used. Of the unrestricted portion, another 13 percent of the District's net assets have been invested in water pipeline capacity entitlements (see footnote D). The District has also designated \$6.6 million dollars for future investment in capital assets (see footnote F).

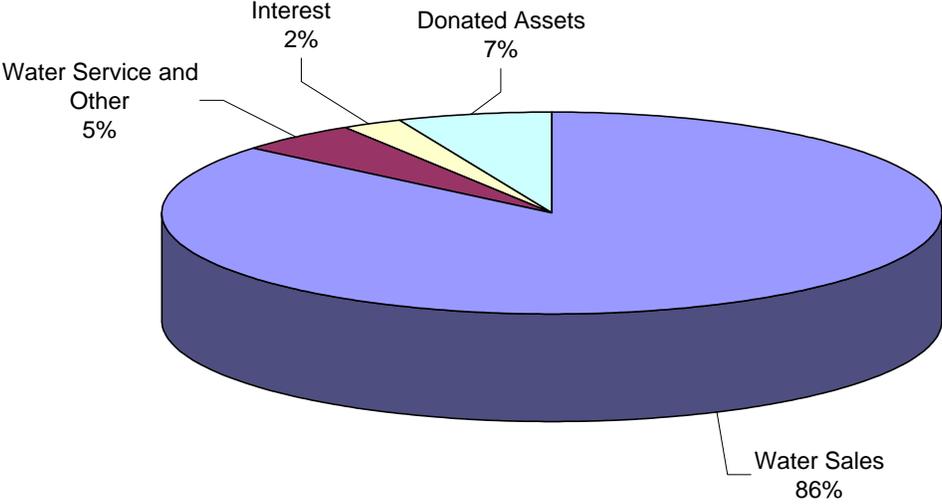
### Fair Oaks Water District Changes in Net Assets

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Operating Revenues:			
Water Sales	\$7,139,295	\$6,699,825	\$6,025,807
Water Service	199,174	376,615	215,404
Other	<u>37,779</u>	<u>19,325</u>	<u>69,521</u>
Total Operating Revenues	7,376,248	7,095,765	6,310,732
Operating Expenses:			
Water Supply and Pumping	1,251,150	997,239	987,140
Operations and Maintenance	2,156,656	1,817,919	1,698,240
Customer Service, Administrative and General	1,020,812	995,999	996,913
Depreciation and Amortization	<u>1,279,989</u>	<u>1,219,006</u>	<u>1,247,291</u>
Total Operating Expenses	5,708,607	5,030,163	4,929,584
Operating Income	1,667,641	2,065,602	1,381,148
Non-Operating Revenues (Expenses)			
Non-Operating Revenues	170,533	192,194	265,141
(Loss) Gain on Disposal of Capital Assets	(4,614)	10,709	4,555
Interest Expense	<u>(223,590)</u>	<u>(233,010)</u>	<u>(344,021)</u>
Total Non-Operating Revenues(Expenses)	<u>(57,671)</u>	<u>(30,107)</u>	<u>(74,325)</u>
Net Income Before Capital Contributions	1,609,970	2,035,495	1,306,823
Donated Assets	<u>289,839</u>	<u>504,800</u>	<u>295,000</u>
Increase in net assets	1,899,809	2,540,295	1,601,823
Net assets January 1	<u>21,953,445</u>	<u>19,413,150</u>	<u>17,811,327</u>
Net assets December 31	<u>\$23,853,254</u>	<u>\$21,953,445</u>	<u>\$19,413,150</u>

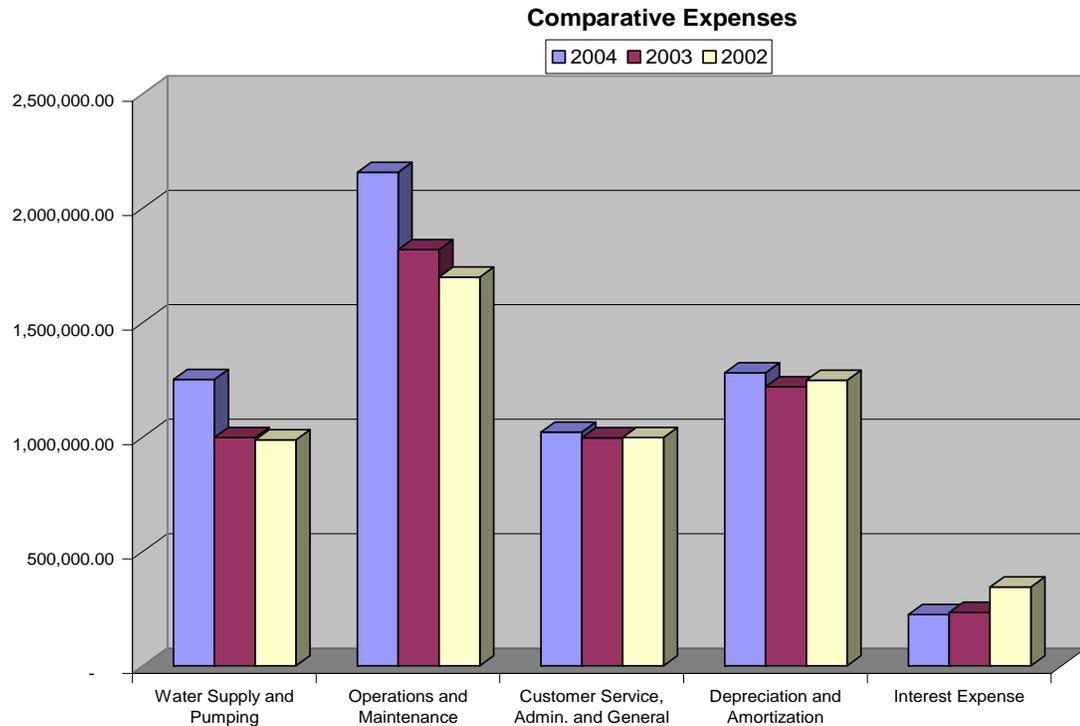
**2004 Revenues by Source**



**2003 Revenues by Source**



- Water sales increased by \$439,470 (7 percent) in 2004 and by \$674,018 (11 percent) in 2003. The District increased water rates in 2004 by 10 percent and in 2003 by 12 percent. This rate increase was offset by a decline in commercial water revenue due to converting flat rate commercial customers to a metered rate. In addition, in 2004, the District adjusted the rate for its duplex customers and thus decreased the revenues by approximately \$129,000.
- Interest income decreased by \$21,661 in 2004 and by \$72,947 in 2003 due to a significant decline in market interest rates during 2003.



- The net increase of \$338,737 in operations and maintenance expenses in 2004 includes an increase of \$23,100 associated with travel and training; approximately \$22,800 increase in gas and oil, maintenance and repairs; approximately \$30,100 increase in supplies, safety, telephone; and approximately \$361,400 increase in workers comp, health benefit, and labor related costs. The increases are offset by the decreases in employee recognition, other professional fees, advertisement, uniforms, sand/cutback, and meter reading of \$102,300.
- Customer service, administration and general expenses had a net increase of \$24,813 in 2004. There were increases in office lease of approximately \$22,700, in professional services including legal fees and financial services of \$110,300, in office supplies of \$28,000, in director fees of \$15,500, and in regional support and printing of \$8,400. The increases are offset by the decreases of \$160,900 including a decrease in salaries and benefits by approximately \$77,600 due to unfilled positions; in travel and training of \$15,200; in insurance and bonding of \$60,600; and in telephone of \$7,400.

- Water supply costs increased by \$253,911 in 2004 due to an increase in the whole sale water rate from San Juan Water District and partly due to the payment made to San Juan Water District from the Environmental Water Account (EWA) program of \$48,327. In addition, the District incurred \$14,500 for the Cooperative Transmission Pipeline fees from San Juan Water District.

### **Capital Asset and Debt Administration**

The District's investment in capital assets as of December 31, 2004, amounts to \$16,444,818 (net of accumulated depreciation). This investment in capital assets includes land, buildings, system and distribution construction and improvements, machinery and equipment, wells, tanks, office equipment, and vehicles. The total net increase in investment in capital assets for the current fiscal year was ten percent.

Major capital asset events during the current fiscal year included the following:

- Construction began on Debra Lane, Orangewood Drive, Magnolia, New York, Valley View and Oakhurst in 2003 and completed in 2004 with the total project cost of \$695,838.
- The District installed 1,025 meters for customer service connections for \$988,927 as part of the federally mandated metering program.
- The District spent \$141,070 on Phoenix Park Abandonment and Relocation.
- Approximately \$75,600 was spent on various individual service line and hydrant upgrades including new installed services.
- As part of an ongoing effort to remodel and create more office space, the District incurred \$93,233 in office furniture and remodeling.
- The District incurred \$198,421 for the billing and accounting software in 2004 that was budgeted in 2002 and 2003. The District also incurred \$78,826 in various types of machinery and office equipment to facilitate the delivery of services to customers including CAD/GIS software updates, updated alarm systems for tank sites and District facilities, computer equipment replacement, audio-visual equipment and hand tools.
- Service vehicles and dump trucks were purchased as part of replacement program including one Bobcat Skidsteer for \$38,000, one pickup truck for \$17,000, and one hydraulic excavator for \$33,000. In addition, the District also purchased two heavy duty service trucks to accommodate the new metering crews as budgeted in the Meter Implementation Plan for \$75,000 each.
- The new well budgeted in 2004 for \$1,153,600 was deferred to 2005. The North Winding Way project for \$287,188 was also deferred to 2005. The administrative building was budgeted in 2004 for \$500,000 in building costs and \$240,000 in office lease has not been incurred and will be deferred to 2006.

## Fair Oaks Water District Capital Assets, net of depreciation

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Capital Assets, not being depreciated:			
Land	\$323,961	\$ 323,961	\$ 323,961
Construction in Progress	<u>54,214</u>	<u>245,500</u>	<u>444,251</u>
Total Capital Assets, not being depreciated	<u>378,175</u>	<u>569,461</u>	<u>768,212</u>
Capital Assets, being depreciated:			
Wells and Pumps	82,020	61,914	120,731
Transmission and Distribution System	10,486,664	9,173,869	8,142,553
Maintenance Equipment	52,410	57,950	46,307
Trucks, Trailers, and Mobile Equipment	460,708	330,388	222,465
Buildings	132,339	121,787	134,438
Office Equipment and Furnishings	357,879	179,431	180,198
Donated Distribution Systems	4,254,733	4,188,529	3,902,533
Water Tank and Pumping	239,890	283,068	311,961
Total Capital Assets, being depreciated	<u>16,066,643</u>	<u>14,396,936</u>	<u>13,061,186</u>
<b>Total</b>	<b><u>\$16,444,818</u></b>	<b><u>\$14,966,397</u></b>	<b><u>\$13,829,398</u></b>

Additional information on the capital assets can be found in Note C on pages 20 to 22 of this report.

### Long-Term Debt

At the end of the current fiscal year, the District had total debt outstanding of \$5,612,787. Of this amount, \$3,700,000 is comprised of certificates of participation debt secured solely by pledged water revenues. These certificates were issued to advance refund outstanding 1989 and 1991 certificates of participation. The reacquisition price of the 1999 certificates compared to the net carrying value of the 1989 and 1991 certificates is netted against the liability and is systematically amortized over the remaining life of the refinanced certificates. The remaining debt represents a capacity entitlement agreement between the District and San Juan Water District for the District to pay a portion of principal and interest payments related to San Juan's certificates of participation debt for to the acquisition of capacity water rights in a transmission pipeline.

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Certificates of Participation	\$3,700,000	\$4,255,000	\$4,785,000
Capacity Entitlement Agreement	<u>1,912,787</u>	<u>2,119,525</u>	<u>2,270,388</u>
Total Debt	5,612,787	6,374,525	7,055,388
Unamortized Difference	(202,467)	(231,390)	(260,313)
Total	<u>\$5,410,320</u>	<u>\$6,143,135</u>	<u>\$6,795,075</u>

Total debt decreased during the fiscal year by \$761,738 due to payments of scheduled principal made during the year. The District maintains an “AAA” rating by Moody’s and “AAA” rating by Fitch and Standard & Poor’s on the certificates of participation debt. Additional information on the District’s long-term debt can be found in Note E on pages 22 to 25 of this report.

### **Economic Factors and assumptions in preparing the 2005 Budget and Rates**

- The unemployment rate for the greater Sacramento County in which the District resides averaged 6.2% in 2004, down from an average 6.7% in 2003.
- The District is largely built out, serving approximately 13,600 customers, adding an average of 20 new customers a year.
- Inflationary trends in the region are comparable to national indices.
- The District continues to face increasing regulatory requirements that ultimately add new costs to delivering the water service (i.e. security measures, new water quality tests, etc.)
- Wholesale water costs will increase approximately 10% in 2005.
- Health benefit costs are expected to increase another 14% in 2005.
- The District must continue to install water meters for its residential customers to meet the federal and State mandates. In order to meet the time deadline, the District plans to install 1,229 meters in 2005. These costs are extensive and factored into the budget.
- Customers received an additional 10% rate increase for 2005 in anticipation of these increased costs.

All of these factors were considered in preparing the District’s budget for the 2005 fiscal year.

### **Requests for Information**

This financial report is designed to provide a general overview of the District’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Senior Financial Analyst, Fair Oaks Water District, 10317 Fair Oaks Boulevard, Fair Oaks, CA 95628.

# **BASIC FINANCIAL STATEMENTS**

# FAIR OAKS WATER DISTRICT

## BALANCE SHEETS

December 31, 2004 and 2003

	2004	2003
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 9,936,750	\$ 10,227,031
Restricted cash and cash equivalents	731,481	572,298
Restricted cash and cash equivalents with fiscal agent	658,347	658,040
Accounts receivable	55,928	68,997
Water service receivable	149,544	141,700
Interest receivable	63,392	41,485
Inventory	234,067	156,159
Prepaid expenses	328,056	227,104
TOTAL CURRENT ASSETS	12,157,565	12,092,814
<b>NON-CURRENT ASSETS:</b>		
Dues on deposit	80,678	83,428
Capital assets, net	16,444,818	14,966,397
Unamortized bond expenses, net	96,900	110,743
Capacity entitlements, net	3,214,452	3,313,358
TOTAL ASSETS	\$ 31,994,413	\$ 30,566,740
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 223,716	\$ 240,524
Accrued expenses	116,063	39,664
Deposits	11,975	12,100
Deferred revenue	2,276,119	2,075,290
Current portion of long-term debt	750,075	761,738
TOTAL CURRENT LIABILITIES	3,377,948	3,129,316
<b>LONG-TERM LIABILITIES</b>		
Long-term debt	4,660,245	5,381,397
Compensated absences	102,966	102,582
TOTAL LIABILITIES	8,141,159	8,613,295
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	12,744,821	10,711,397
Restricted:		
Connection fees	731,481	572,298
Certificates of participation	658,347	658,040
Unrestricted	9,718,605	10,011,710
TOTAL NET ASSETS	23,853,254	21,953,445
TOTAL LIABILITIES AND NET ASSETS	\$ 31,994,413	\$ 30,566,740

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

## FAIR OAKS WATER DISTRICT

### STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Years Ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
OPERATING REVENUES		
Water sales	\$ 7,139,295	\$ 6,699,825
Water service	199,174	376,615
Other	<u>37,779</u>	<u>19,325</u>
TOTAL OPERATING REVENUES	<u>7,376,248</u>	<u>7,095,765</u>
OPERATING EXPENSES		
Water supply and pumping	1,251,150	997,239
Operations and maintenance	2,156,656	1,817,919
Customer service, administrative and general	1,020,812	995,999
Depreciation and amortization	<u>1,279,989</u>	<u>1,219,006</u>
TOTAL OPERATING EXPENSES	<u>5,708,607</u>	<u>5,030,163</u>
NET INCOME FROM OPERATIONS	1,667,641	2,065,602
NON-OPERATING REVENUES (EXPENSES)		
Interest revenue	170,533	192,194
(Loss) gain on disposal of capital assets	(4,614)	10,709
Interest expense	<u>(223,590)</u>	<u>(233,010)</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(57,671)</u>	<u>(30,107)</u>
NET INCOME BEFORE CAPITAL CONTRIBUTIONS	1,609,970	2,035,495
CAPITAL CONTRIBUTIONS		
Donated assets	<u>289,839</u>	<u>504,800</u>
CHANGE IN NET ASSETS	1,899,809	2,540,295
Net assets at beginning of year	<u>21,953,445</u>	<u>19,413,150</u>
NET ASSETS AT END OF YEAR	<u>\$ 23,853,254</u>	<u>\$ 21,953,445</u>

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

# FAIR OAKS WATER DISTRICT

## STATEMENTS OF CASH FLOWS

**For the Years Ended December 31, 2004 and 2003**

	<b>2004</b>	<b>2003</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash receipts from customers	\$ 7,582,177	\$ 7,420,260
Cash paid to suppliers	(2,588,344)	(2,560,363)
Cash paid to employees	(1,983,957)	(1,410,974)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>3,009,876</b>	<b>3,448,923</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from sale of capital assets	4,093	10,709
Principal payments on long-term debt	(761,738)	(680,862)
Interest payments on long-term debt	(169,869)	(232,786)
Purchases of capital assets	(2,364,529)	(1,709,757)
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(3,292,043)</b>	<b>(2,612,696)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	148,626	206,069
Dues on deposit received	2,750	2,750
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>151,376</b>	<b>208,819</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(130,791)</b>	<b>1,045,046</b>
Cash and cash equivalents at beginning of year	11,457,369	10,412,323
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 11,326,578</b>	<b>\$ 11,457,369</b>
<b>COMPONENTS OF CASH AND CASH EQUIVALENTS</b>		
Cash and equivalents	\$ 9,936,750	\$ 10,227,031
Restricted cash and cash equivalents	731,481	572,298
Restricted cash and cash equivalents with fiscal agent	658,347	658,040
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<b>\$ 11,326,578</b>	<b>\$ 11,457,369</b>
<b>RECONCILIATION OF NET INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Net income from operations	\$ 1,667,641	\$ 2,065,602
Adjustments to reconcile net income from operations to Net cash provided by operating activities:		
Depreciation and amortization	1,279,989	1,219,006
Changes in assets and liabilities:		
Accounts receivable	13,069	115,245
Water service receivable	(7,844)	(25,712)
Inventory	(77,908)	(52,776)
Prepaid expenses	(100,952)	(203,054)
Accounts payable	(16,808)	105,460
Accrued expenses	51,601	(9,813)
Deposits	(125)	
Deferred revenue	200,829	234,965
Compensated absences	384	
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 3,009,876</b>	<b>\$ 3,448,923</b>
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES</b>		
Receipt of donated assets	\$ 289,839	\$ 504,800

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

# FAIR OAKS WATER DISTRICT

## NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2004 and 2003

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### **NOTE A--REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the Fair Oaks Water District (the District) have been prepared in conformity with generally accepted accounting principles as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. As allowed by the GASB, the District has elected not to apply to its proprietary activities Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedures issued after November 30, 1989. The more significant of the District's accounting policies are described below.

Reporting Entity: The District was formed March 26, 1917 under the provisions of the California Water Code. The District is governed by a five member Board of Directors elected by the voters within the District for staggered, four year terms, every two years. The District provides water to retail customers in the Fair Oaks area. The accompanying basic financial statements present the District and its component unit. The component unit discussed below is included in the District's reporting entity because of the significance of its operational and financial relationship with the District.

The District has created the Fair Oaks Water District Financing Corporation (the Financing Corporation) to provide assistance to the District in the issuance of debt. Although legally separate from the District, the Financing Corporation is reported as if it were part of the primary government because it shares a common Board of Directors with the District and its sole purpose is to provide financing to the District under the debt issuance documents of the District. Debt issued by the Financing Corporation is reflected as debt of the District in these financial statements. The Financing Corporation has no other transactions and does not issue separate financial statements.

Jointly Governed Organization: The District is a signatory to the Regional Water Authority's (the RWA) Joint Powers Agreement, formally known as Sacramento Metropolitan Water Authority. The mission of the RWA is to serve and represent the regional water supply interest, and to assist the members of the RWA in protecting and enhancing the reliability, availability, affordability and quality of water resources. The goals of the RWA are to assist in voluntary consolidation of services provided by existing industry associations; develop and provide subscription-based support services; and coordinate and implement regional water master planning, grant-funding acquisition, and related planning efforts.

The RWA carries out its missions and goals, yet does not exercise governing or regulatory authority over its members. The relationship between the District and the RWA is such that the RWA is not a component unit of the District for financial reporting purposes. Additionally, the District does not have an ongoing financial responsibility to the RWA and therefore is considered a jointly governed organization. Separate financial statements are available from RWA.

# FAIR OAKS WATER DISTRICT

## NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2004 and 2003

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

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

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

The District uses the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Earned but unbilled water services are accrued as revenue. Water lines are constructed by private developers and then dedicated to the District, which is then responsible for their future maintenance. These lines are recorded as capital contributions when they pass inspection by the District and the estimated costs are capitalized as pipelines, reservoirs, pumping stations and buildings.

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

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

Budgetary Principles: The Board of Directors does not operate under any legal budgeting constraints. Budget integration is employed as a management control device. Budgets are formally adopted by the Board and take effect on each January 1.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the

**FAIR OAKS WATER DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**

**December 31, 2004 and 2003**

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

financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents: For purposes of the statement of cash flows, the District considers all highly liquid debt instruments purchased with an initial maturity of three months or less to be cash equivalents, including restricted assets. Cash in banks, deposits in the State of California Local Agency Investment Fund (LAIF) and deposits with fiscal agents are considered to be cash and cash equivalents.

Water Service Receivable and Deferred Revenue: Customers that are invoiced on a flat rate basis have the options of making payments annually, semi-annually, or bimonthly. Advanced collections on water services invoiced in the current year for service in the following year are recorded as deferred revenue since these collections have not been earned as of December 31. Customers who are invoiced on a metered basis receive their bills bimonthly in arrears of the service provided. Unpaid amounts as of December 31 are recorded as water service receivable. Water invoices that remain unpaid when the new water invoices are issued may have a lien placed on the property.

Capital Assets: Capital assets are recorded at historical cost. Donated assets are valued at estimated fair value on the date received. Depreciation is calculated using the straight line method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Life</u>
Wells and Pumps	5-30 years
Transmission and Distribution	5-30 years
Maintenance Equipment	5-10 years
Trucks, Trailers, and Mobile Equipment	5-10 years
Buildings	5-30 years
Office Equipment and Furnishings	3-5 years
Donated distribution systems	30 years
Water Tank and Pumping	5-10 years

Maintenance and repairs are charged to operations when incurred. It is the District's policy to capitalize all capital assets with a cost of \$1,000 or more. Costs of assets sold or retired (and the related amounts of accumulated depreciation) are eliminated from the balance sheet in the year of sale or retirement, and the resulting gain or loss is recognized in operations.

Inventory: Inventories are stated at the lower of cost, on a first-in, first-out method, or market. Inventories consist of materials and supplies.

# FAIR OAKS WATER DISTRICT

## NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2004 and 2003

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

Issuance Costs: Bond issuance costs are deferred and amortized over the life of the bonds. Bond issuance costs are reported as unamortized bond expenses, a component of Other Assets.

Compensated Absences: The District's policy allows employees to accumulate earned but unused vacation and administrative leave which will be paid to employees upon separation from the District's service, subject to a vesting policy. The cost of vacation and administrative leave is recorded in the period accrued.

Recent Accounting Pronouncements: In March 2003, the GASB issued Statement No. 40 "*Deposit and Investment Risk Disclosures*," which updates the custodial credit risk disclosure requirements of Statement No. 3 and establishes additional disclosure requirements addressing other common risks of deposits and investments. This Statement is effective for the District beginning in 2005. The District is currently assessing the new Statement.

In November 2003, the GASB issued Statement No. 42 "*Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*," which establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries. This Statement is effective for the District beginning in 2005. The District is currently assessing the new Statement.

Reclassifications: Certain reclassifications have been made to the 2003 financial statements to conform to the current presentation. These reclassifications had no effect on previously reported change in net assets.

### NOTE B--CASH AND INVESTMENTS

California statutes authorize districts to invest idle or surplus funds in a variety of credit instruments as provided for in the California Government Code, Section 53600, Chapter 4 - Financial Affairs. During the year ended December 31, 2004, the District's permissible investments included the following instruments:

- Local agency bonds, notes or warrants within the state
- United States Treasury instruments
- Registered state warrants or treasury notes
- Securities of the U.S. Government, or its agencies
- Bankers acceptances
- Commercial paper

**FAIR OAKS WATER DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**

**December 31, 2004 and 2003**

**NOTE B--CASH AND INVESTMENTS (Continued)**

- Certificates of deposit (or time deposits) placed with commercial banks and/or savings and loan companies
- Repurchase or reverse repurchase agreements
- Medium term corporate notes
- Shares of beneficial interest issued by diversified management companies
- Certificates of participation
- Obligations with first priority security
- Collateralized mortgage obligations

The District complied with the provisions of State statutes pertaining to the types of investments held, institutions in which deposits were made and security requirements. The District will continue to monitor compliance with applicable statutes pertaining to public deposits and investments.

The District's cash and cash equivalents consisted of the following as of December 31:

	2004	2003
Unrestricted cash and cash equivalents		
Investment in Local Agency Investment Fund (LAIF)	\$ 9,452,313	\$ 9,990,261
Deposits in financial institutions	483,835	236,320
Cash on hand	602	450
	9,936,750	10,227,031
Restricted cash and cash equivalents		
Investment in LAIF	731,481	572,298
Restricted cash and cash equivalents with fiscal agent		
Investment in LAIF	657,684	657,530
Money market mutual funds	663	510
	658,347	658,040
Total cash and cash equivalents	\$ 11,326,578	\$ 11,457,369

At December 31, 2004, the carrying amount of the District's deposits was \$483,835 and the balances in financial institutions was \$572,219. Of the balance in financial institutions, \$100,000 was covered by federal depository insurance and \$472,219 was collateralized as required by State law (Government Code Section 53630), by the pledging financial institution with assets held in a common pool for the District and other governmental agencies. State law requires that the market value of the common pool of collateral be equal to or greater than 110% of all public deposits with the pledging financial institution if governmental securities are used, or 150% if mortgages are used, as collateral. The collateral is not held by, or in the name of, the District. At December 31, 2003, the carrying amount of the District's deposits was \$236,320 and the balances in financial institutions was \$437,750. Of the balance in financial institutions, \$100,000 was covered by federal depository insurance and \$337,750 was collateralized as required by State law.

## FAIR OAKS WATER DISTRICT

### NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2004 and 2003

#### NOTE B--CASH AND INVESTMENTS (Continued)

The District's investments in money mutual funds and LAIF are stated at fair value, as required by GASB Statement No. 31. The District's investments in market mutual funds and LAIF are not subject to categorization under GASB Statement No. 3. The total amount invested by all public agencies in LAIF is \$53,559,901,977 managed by the State Treasurer. Of that amount, 97.4 percent is invested in non-derivative financial products and 2.6 percent in derivative financial products and structured financial instruments. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. The value of pool shares in LAIF which may be withdrawn is determined on an amortized cost basis, which is different than the fair value of the District's position in the pool.

Cash and investments includes restricted amounts of \$731,481 and \$572,298 at December 31, 2004 and 2003, respectively, which represent monies restricted for future water system capacity, and restricted amounts of \$658,347 and \$658,040 at December 31, 2004 and 2003, respectively, which represent monies held in debt service reserves for the retirement of debt.

#### NOTE C--CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2004 and 2003 are as follows:

	<u>Balance</u> <u>January 1,</u> <u>2004</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u> <u>and</u> <u>Adjustments</u>	<u>Balance</u> <u>December 31,</u> <u>2004</u>
Capital assets not being depreciated					
Land	\$ 323,961				\$ 323,961
Construction in progress	<u>245,500</u>	\$ 13,124		\$ (204,410)	<u>54,214</u>
Total capital assets not being depreciated	569,461	13,124		(204,410)	378,175
Capital assets being depreciated:					
Wells and pumps	1,153,580		\$ (1,612)		1,151,968
Transmission and distribution system	15,001,825	1,735,937		204,410	16,942,172
Maintenance equipment	223,058	23,364	(35,468)	(9,697)	201,257
Trucks, trailers and mobile equipment	910,172	247,137	(35,371)	9,697	1,131,635
Buildings	663,157	34,020	(4,861)		692,316
Office equipment and furnishings	662,029	310,948	(80,464)		892,513
Donated distribution system	6,564,096	289,839			6,853,935
Water tank and pumping	<u>411,771</u>				<u>411,771</u>
Total capital assets being depreciated	25,589,688	2,641,245	(157,776)	204,410	28,277,567

**FAIR OAKS WATER DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**

**December 31, 2004 and 2003**

**NOTE C--CAPITAL ASSETS (Continued)**

	<u>Balance January 1, 2004</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers and Adjustments</u>	<u>Balance December 31, 2004</u>
Less accumulated depreciation for:					
Wells and pumps	\$ (1,091,666)	\$ 20,106	\$ 1,612		\$ (1,069,948)
Transmission and distribution system	(5,827,956)	(627,552)			(6,455,508)
Maintenance equipment	(165,108)	(20,693)	36,954		(148,847)
Trucks, trailers, and mobile equipment	(579,784)	(116,320)	25,177		(670,927)
Buildings	(541,370)	(18,607)			(559,977)
Office equipment and furnishings	(482,598)	(132,500)	80,464		(534,634)
Donated distribution system	(2,375,567)	(223,635)			(2,599,202)
Water tank and pumping	(128,703)	(48,039)	4,861		(171,881)
Total accumulated depreciation	<u>(11,192,752)</u>	<u>(1,167,240)</u>	<u>149,068</u>		<u>(12,210,924)</u>
 Total capital assets being depreciated, net	 <u>14,396,936</u>	 <u>1,474,005</u>	 <u>(8,708)</u>	 <u>\$ 204,410</u>	 <u>16,066,643</u>
 Capital assets, net book value	 <u>\$ 14,966,397</u>	 <u>\$ 1,487,129</u>	 <u>\$ (8,708)</u>	 <u>\$ _____</u>	 <u>\$ 16,444,818</u>
		<u>Balance January 1, 2003</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance December 31, 2003</u>
Capital assets not being depreciated					
Land		\$ 323,961			\$ 323,961
Construction in progress		<u>444,251</u>	<u>\$ 219,136</u>	<u>\$ (417,887)</u>	<u>245,500</u>
Total capital assets not being depreciated		768,212	219,136	(417,887)	569,461
 Capital assets being depreciated:					
Wells and pumps		1,153,580			1,153,580
Transmission and distribution system		13,387,260	1,614,565		15,001,825
Maintenance equipment		196,307	29,714	(2,963)	223,058
Trucks, trailers and mobile equipment		748,829	188,013	(26,670)	910,172
Buildings		650,491	12,666		663,157
Office equipment and furnishings		583,769	78,260		662,029
Donated distribution system		6,059,296	504,800		6,564,096
Water tank and pumping		<u>397,486</u>	<u>14,285</u>		<u>411,771</u>
Total capital assets being depreciated		<u>23,177,018</u>	<u>2,442,303</u>	<u>(29,633)</u>	<u>25,589,688</u>

**FAIR OAKS WATER DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**

**December 31, 2004 and 2003**

**NOTE C--CAPITAL ASSETS (Continued)**

	Balance January 1, <u>2003</u>	<u>Additions</u>	<u>Disposals</u>	Balance December 31, <u>2003</u>
Less accumulated depreciation for:				
Wells and pumps	\$ (1,032,849)	\$ (58,817)		\$ (1,091,666)
Transmission and distribution system	(5,244,707)	(583,249)		(5,827,956)
Maintenance equipment	(150,000)	(17,182)	\$ 2,074	(165,108)
Trucks, trailers, and mobile equipment	(526,364)	(80,090)	26,670	(579,784)
Buildings	(516,053)	(25,317)		(541,370)
Office equipment and furnishings	(403,571)	(79,027)		(482,598)
Donated distribution system	(2,156,763)	(218,804)		(2,375,567)
Water tank and pumping	(85,525)	(43,178)		(128,703)
Total accumulated depreciation	<u>(10,115,832)</u>	<u>(1,105,664)</u>	<u>28,744</u>	<u>(11,192,752)</u>
Total capital assets being depreciated, net	<u>13,061,186</u>	<u>1,336,639</u>	<u>(889)</u>	<u>14,396,936</u>
Capital assets, net book value	<u>\$ 13,829,398</u>	<u>\$ 1,555,775</u>	<u>\$ (418,776)</u>	<u>\$ 14,966,397</u>

**NOTE D--CAPACITY ENTITLEMENTS**

In 1993, the District participated with four other water districts in a cooperative transmission pipeline project for the construction of additional transmission pipeline facilities. As a result of this project, the District participated with San Juan Water District (SJWD) to finance their share of the pipeline costs. The District's share of these pipeline costs totaled \$3,956,248. The Capacity Entitlements asset represents the capacity rights the District has purchased in the cooperative transmission pipeline project with SJWD. The asset will be amortized over the pipeline's estimated useful life of forty years. At December 31, 2004 and 2003, accumulated amortization was \$741,796 and \$642,890, respectively. In addition, the District has entered into an agreement with SJWD to pay for its share of these transmission pipeline facilities costs (see Note E).

**NOTE E--LONG-TERM DEBT**

The activity of the District's long-term debt during the years ended December 31, 2004 and 2003 are as follows:

**FAIR OAKS WATER DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**

**December 31, 2004 and 2003**

**NOTE E--LONG-TERM DEBT (Continued)**

	Balance January 1, 2004	<u>Additions</u>	<u>Repayments</u>	Balance December 31, 2004	Due Within One Year
1999 Revenue Certificates of Participation	\$ 4,255,000		\$ (555,000)	\$ 3,700,000	\$ 575,000
Capacity entitlement agreement	<u>2,119,525</u>		<u>(206,738)</u>	<u>1,912,787</u>	<u>175,075</u>
Total	6,374,525		<u>\$ (761,738)</u>	5,612,787	<u>\$ 750,075</u>
Deferred amount on refunding	(231,390)			(202,467)	
Less: Current portion of long-term debt	<u>(761,738)</u>			<u>(750,075)</u>	
	<u>\$ 5,381,397</u>			<u>\$ 4,660,245</u>	

	Balance January 1, 2003	<u>Additions</u>	<u>Repayments</u>	Balance December 31, 2003	Due Within One Year
1999 Revenue Certificates of Participation	\$ 4,785,000		\$ (530,000)	\$ 4,255,000	\$ 555,000
Capacity entitlement agreement	<u>2,270,388</u>		<u>(150,863)</u>	<u>2,119,525</u>	<u>206,738</u>
Total	7,055,388		<u>\$ (680,863)</u>	6,374,525	<u>\$ 761,738</u>
Deferred amount on refunding	(260,313)			(231,390)	
Less: Current portion of long-term debt	<u>(673,413)</u>			<u>(761,738)</u>	
	<u>\$ 6,121,662</u>			<u>\$ 5,381,397</u>	

Long-term debt consists of the following:

1999 Certificates of participation: On January 13, 1999, the District issued \$6,580,000 of Revenue Certificates of Participation (Certificates) with interest ranging from 3.5% to 4.25%. These 1999 Certificates were issued to advance refund outstanding 1989 and 1991 Certificates. The repayment of the debt is secured by a pledge of and first lien on the revenue of the District's water system. Annual principal payments, ranging from \$270,000 to \$690,000 are due on December 1 through December 1, 2011 and semi-annual interest payments, ranging from \$5,737 to \$74,053 are due on June 1 and December 1 through December 1, 2011. On or after December 1, 2007, the Certificates are subject to prepayment at the option of the District.

**FAIR OAKS WATER DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**

**December 31, 2004 and 2003**

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**NOTE E--LONG-TERM DEBT (Continued)**

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

Year Ending December 31,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 575,000	\$ 148,106	\$ 723,106
2006	595,000	126,544	721,544
2007	620,000	103,488	723,488
2008	650,000	78,688	728,688
2009	690,000	52,688	742,688
2010 - 2011	<u>570,000</u>	<u>35,700</u>	<u>605,700</u>
	<u>\$ 3,700,000</u>	<u>\$ 545,214</u>	<u>\$ 4,245,214</u>

The District is required by its 1999 Revenue Certificates of Participation to collect rates and charges from its water system that will be sufficient to yield net revenues equal to 115% of debt service payments on any future debt issued.

The amount due to the Federal government for interest earnings on unspent tax-exempt bond proceeds in excess of interest paid on the debt is required to be recorded as an arbitrage liability. This liability was zero as of December 31, 2004 and \$39,600 as of December 31, 2003.

The advance refunding of the 1989 and 1991 Certificates of Participation resulted in differences between the reacquisition price and the net carrying amount of the outstanding debt of \$376,005 at December 31, 2004 and 2003, net of accumulated amortization of \$173,538 and \$144,615, respectively. This deferred amount on refunding, reported in the accompanying financial statements as a deduction from long-term debt, is being charged to operations over 13 years.

Capacity entitlement agreement: On November 8, 1993, the District's Board of Directors passed Resolution No. 9313 requesting SJWD to acquire and construct additional pipeline facilities to supplement the existing transmission facilities which served the District. The water rate to be charged to the District, under its contract with SJWD which ends in 2013, will include installment payments relating to Certificates of Participation executed and delivered by SJWD to acquire the project. The District's share of the amount borrowed for the project is \$3,235,163 (37.25%), with interest rates ranging from 2.0% to 4.25%. On or after February 1, 2013, the Certificates with stated maturities on or after February 1, 2014 are subject to prepayment prior to their respective stated maturities.

**FAIR OAKS WATER DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**

**December 31, 2004 and 2003**

**NOTE E--LONG-TERM DEBT (Continued)**

Future estimated debt requirements for the agreement as of December 31, are as follows:

Year Ending December 31	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 175,075	\$ 57,765	\$ 232,840
2006	178,800	54,227	233,027
2007	184,388	49,673	234,061
2008	188,113	43,145	231,258
2009	195,562	36,938	232,500
2010-2013	<u>990,850</u>	<u>82,788</u>	<u>1,073,638</u>
Total	<u>\$ 1,912,788</u>	<u>\$ 324,536</u>	<u>\$ 2,237,324</u>

**NOTE F--NET ASSETS**

Restrictions: Restricted net assets consist of constraints placed on net asset use through external requirements imposed by creditors (such as through debt covenants), grantors, contributors, or laws and regulations of other governments or constraints by law through constitutional provisions or enabling legislation. Restrictions include connection fees collected for future water system capacity and debt service reserves on the 1999 Certificates of Participation.

Designations: Designations of unrestricted net assets may be imposed by the Board of Directors to reflect future spending plans or concerns about the availability of future resources. Designations may be modified, amended or removed by Board action. The following is a summary of designated net asset balances at December 31:

	<u>2004</u>	<u>2003</u>
<u>Designated for Emergency</u> : For unanticipated expenditures	\$ 913,933	\$ 843,406
<u>Designated for Fixed Asset Replacement</u> : For future improvements, acquisition and replacement of the water distribution system, well sites, tank sites, vehicles, and equipment as identified in the annual budget and rate process	3,147,594	3,047,962
<u>Designated for Rate Stabilization</u> : To offset the estimated impact of revenue fluctuations and lag effects in converting to meter based billing	1,018,239	736,129
<u>Designated for Residential Metering</u> : For budgeted but unexpended amounts for the meter installation program	364,937	860,521
<u>Designated Administrative Facility Reserve</u> : For future administrative facility improvements and acquisitions	<u>1,171,960</u>	<u>1,194,665</u>
Total Designated Net Assets	<u>\$ 6,616,663</u>	<u>\$ 6,682,683</u>

## FAIR OAKS WATER DISTRICT

### NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2004 and 2003

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#### NOTE G--EMPLOYEES' RETIREMENT PLAN

Plan Description: The District contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public employers within the State of California. All full and part time District employees working at least 1,000 hours per year are eligible to participate in PERS. Under PERS, 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 their highest twelve consecutive months full-time equivalent monthly pay. Copies of the PERS annual financial report may be obtained from their Executive Office, 400 P Street, Sacramento, CA 95814.

Funding Policy: Active plan members are required to contribute 7% of their annual covered salary. The District makes the contributions required of District employees on their behalf and for their account contributions made on behalf of District employees total \$112,012 for the year ended December 31, 2004. The District is required to contribute at an actuarially determined rate, which is zero for the year ended December 31, 2004. The contribution requirements of plan members and the District are established and may be amended by PERS.

Annual Pension Cost: For the years ending December 31, 2004 and 2003, the District incurred no annual pension cost. The required contribution was determined as part of the June 30, 2002 and 2001 actuarial valuation using entry age actuarial cost method. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses); (b) projected salary increases that vary in duration of service ranging from 3.75% to 14.20% and (c) 3.75% cost of living adjustment. Both (a) and (b) include an inflation component of 3.5%. The actuarial value of the plan's assets was determined using techniques that smooth the effects of short term volatility in the market value of investments over a three year period (smoothed market value). The plan's excess assets are being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2003 was 20 years.

**FAIR OAKS WATER DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**

**December 31, 2004 and 2003**

**NOTE G--EMPLOYEES' RETIREMENT PLAN (Continued)**

Three-Year Trend Information for the District

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost(APC)</u>	<u>Percentage of APC Contributed</u>
December 31, 2002	\$ 0	100%
December 31, 2003	0	100%
December 31, 2004	0	100%

Required Supplementary Information - Funded Status of Plan

<u>Actuarial Valuation Date</u>	<u>Actuarial Assets Value</u>	<u>Entry Age Actuarial Accrued Liability</u>	<u>Excess Assets (Unfunded Liability)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Excess Assets (Unfunded Liability) As a % of Covered Payroll</u>
June 30, 20 01	\$ 4,409,165	\$2,936,460	\$ 1,472,705	150.2%	\$ 1,159,141	127.1%
June 30, 2002	4,165,810	3,197,801	968,009	130.3%	1,216,878	79.5%
June 30, 2003	4,289,283	3,953,480	335,803	108.5%	1,580,680	21.2%

**NOTE H--INSURANCE**

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

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

<u>Coverage</u>	<u>ACWA/JPIA</u>	<u>Commercial Insurance</u>	<u>Deductible</u>
General and Auto Liability (includes public officials liability)	\$ 500,000	\$ 39,500,000	None
Property Damage	50,000	50,000,000	\$500 to 25,000
Fidelity	100,000		1,000
Workers Compensation liability	2,000,000	Statutory	None
Employers liability	2,000,000	Statutory	None

**FAIR OAKS WATER DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**

**December 31, 2004 and 2003**

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**NOTE H--INSURANCE (Continued)**

The District continues to carry commercial insurance for all other risks of loss to cover all claims for risk of loss to which the District is exposed. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**NOTE I--COMMITMENTS AND CONTINGENCIES**

The District has developed a meter implementation plan that will entail installing meters at a cost of over \$10,000,000 for all District customers by approximately 2011. As of December 31, 2004, the estimated remaining cost to install meters is approximately \$8,375,000.

**NOTE J--ECONOMIC DEPENDENCY**

The District purchases approximately 97% of its water supplies from SJWD. During the years ended December 31, 2004 and 2003, the District's total water purchases from SJWD were \$1,102,044 and \$857,860, respectively.

## **ADDITIONAL INFORMATION**

**FAIR OAKS WATER DISTRICT**  
**DEBT SERVICE RATE COVENANT**

**December 31, 2004 and 2003**

In conjunction with the 1999 Certificate of Participation, the District has covenanted to fix, prescribe and collect rates and charges for the water service which will be sufficient to yield during the year net revenues equal to 115% of the debt service paid during the year. For purposes of this calculation, net revenues equals net income plus depreciation and amortization expenses. The debt service requirement for 2004 and 2003 is as follows:

	<u>2004</u>	<u>2003</u>
Operating Income	\$ 1,667,641	\$ 2,065,602
Add:		
Depreciation and Amortization	1,279,989	1,219,006
Interest Revenue	170,533	192,194
Unrealized loss on investments	20,915	
(Loss) gain on disposal of capital assets	(4,614)	10,709
Less:		
Capitalized Interest	<u>(35,700)</u>	<u>(28,700)</u>
Net Revenue	3,098,764	3,458,811
Debt Service:		
Principal	761,738	680,862
Interest	<u>223,590</u>	<u>232,736</u>
Total Debt Service	<u>985,328</u>	<u>913,598</u>
Calculated Coverage	<u>314%</u>	<u>379%</u>

# **COMPLIANCE REPORT**

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS***

**Board of Directors  
Fair Oaks Water District  
Fair Oaks, California**

We have audited the basic financial statements of the Fair Oaks Water District (the District) of and for the year ended December 31, 2004 and have issued our report thereon dated May 20, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving

Board of Directors  
Fair Oaks Water District

the internal control over financial reporting, which we have reported to management of the District in a separate letter dated May 20, 2005.

This report is intended solely for the information and use of the Board of Directors, management, and the federal and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Richardson & Company*

**May 20, 2005**



## **STATISTICAL SECTION**

**FAIR OAKS WATER DISTRICT  
SCHEDULE OF REVENUES  
(UNAUDITED)  
FOR TEN YEARS**

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Operating Revenues:										
Water Sales	\$ 3,241,181	\$ 3,378,917	\$ 3,552,718	\$ 3,639,761	\$ 4,248,439	\$ 5,068,311	\$ 5,780,430	\$ 6,025,807	\$6,699,825	\$ 7,139,295
Taxes and assessments	126,165									
Water Service and Other	76,959	97,735	171,883	92,271	193,919	145,872	234,725	284,925	395,940	236,953
Total Operating Revenues	3,444,305	3,476,652	3,724,601	3,732,032	4,442,358	5,214,183	6,015,155	6,310,732	7,095,765	7,376,248
Non-Operating Revenues:										
Interest Revenue	424,391	461,916	400,634	430,522	391,062	510,144	464,309	265,141	192,194	170,533
Gain (Loss) on Disposal	1,203	325,829	1,887	582	3,631	2,219	2,200	4,555	10,709	(4,614)
Total Non-Operating Revenues	425,594	787,745	402,521	431,104	394,693	512,363	466,509	269,696	202,903	165,919
Capital Contributions	-	-	-	-	-	-	235,800	295,000	504,800	289,839
 Total Revenues	<u>\$ 3,869,899</u>	<u>\$ 4,264,397</u>	<u>\$ 4,127,122</u>	<u>\$ 4,163,136</u>	<u>\$ 4,837,051</u>	<u>\$ 5,726,546</u>	<u>\$ 6,717,464</u>	<u>\$ 6,875,428</u>	<u>\$7,803,468</u>	<u>\$ 7,832,006</u>

Source:  
District Finance Department

**FAIR OAKS WATER DISTRICT  
SCHEDULE OF EXPENSES  
(UNAUDITED)  
FOR TEN YEARS**

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Operating Expenses:										
Water Supply and Pumping	\$ 703,314	\$ 743,143	\$ 784,952	\$ 817,910	\$ 855,186	\$ 893,682	\$ 987,537	\$ 987,140	\$ 997,239	\$ 1,251,150
Operations and Maintenance	648,423	647,204	899,735	860,315	917,542	1,042,020	1,275,303	1,698,240	1,817,919	2,156,656
Administrative and General	658,056	678,862	963,978	969,087	1,075,638	1,082,505	1,069,037	996,913	995,999	1,020,812
Depeciation and Amortization	805,794	637,805	734,646	1,111,811	1,037,935	1,014,439	1,102,859	1,247,291	1,219,006	1,279,989
Total Operating Expenses	2,815,587	2,707,014	3,383,311	3,759,123	3,886,301	4,032,646	4,434,736	4,929,584	5,030,163	5,708,607
Non-Operating Expenses:										
Interest Expense	744,175	614,318	587,890	555,056	406,023	435,066	379,327	344,021	233,010	223,590
Total Non-Operating Expenses	<u>744,175</u>	<u>614,318</u>	<u>587,890</u>	<u>555,056</u>	<u>406,023</u>	<u>435,066</u>	<u>379,327</u>	<u>344,021</u>	<u>233,010</u>	<u>223,590</u>
Total Expenses	<u>\$ 3,559,762</u>	<u>\$ 3,321,332</u>	<u>\$ 3,971,201</u>	<u>\$ 4,314,179</u>	<u>\$ 4,292,324</u>	<u>\$ 4,467,712</u>	<u>\$ 4,814,063</u>	<u>\$ 5,273,605</u>	<u>\$ 5,263,173</u>	<u>\$ 5,932,197</u>

Source:  
District Finance Department

**FAIR OAKS WATER DISTRICT  
SCHEDULE OF DEBT SERVICE  
(UNAUDITED)  
FOR TEN YEARS**

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Net Revenue	\$ 1,860,106	\$ 1,407,443	\$ 1,075,936	\$ 1,515,825	\$ 1,979,985	\$ 2,703,739	\$ 3,139,387	\$ 2,894,134	\$ 3,458,811	\$ 3,098,764
Debt Service	1,133,115	651,828	657,402	1,017,393	1,183,246	976,591	972,643	971,923	913,599	985,328
Coverage	164%	216%	164%	149%	167%	276%	323%	298%	379%	314%

Source:  
District Finance Department



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