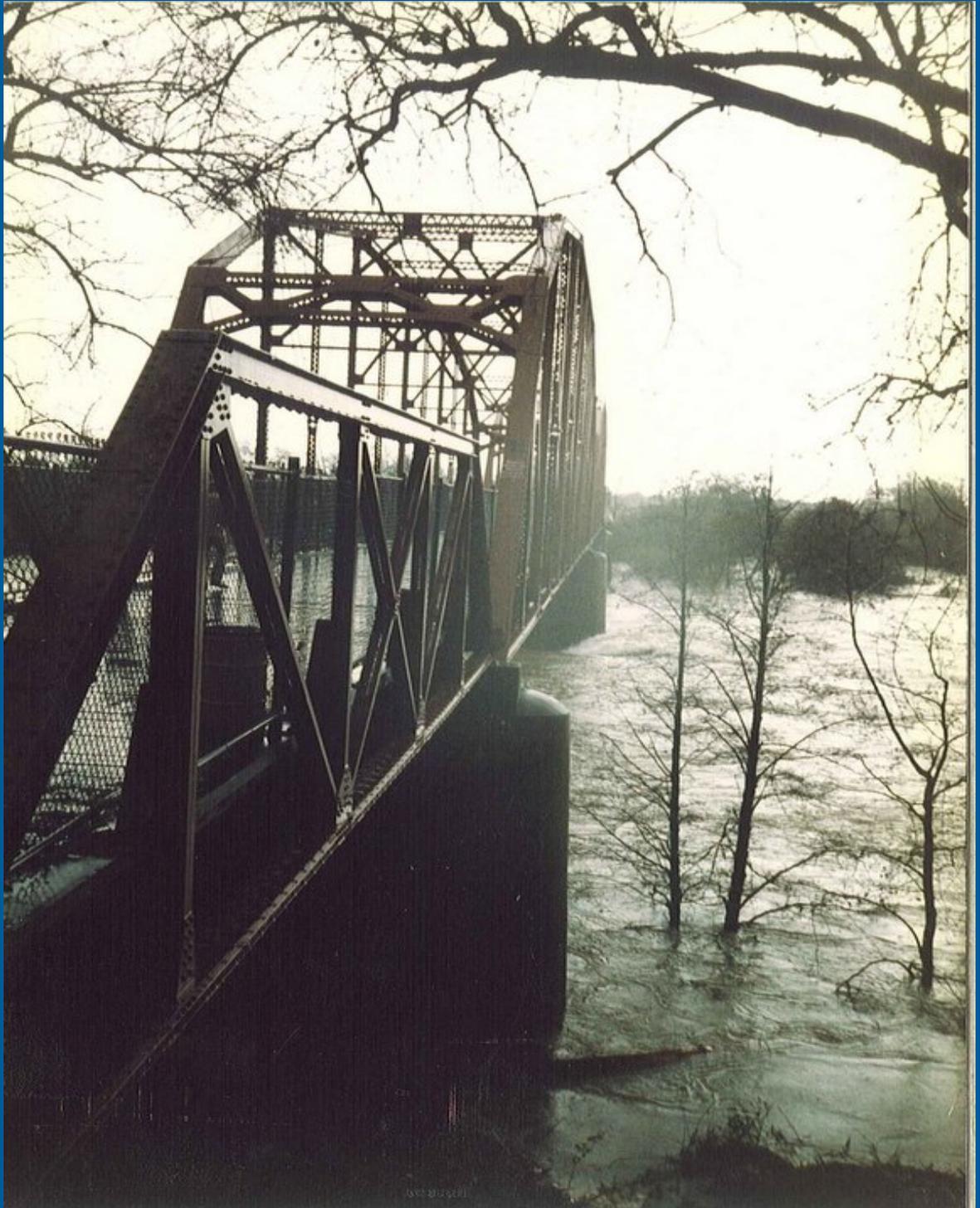


2007 ANNUAL BUDGET

FOR THE YEAR ENDING DECEMBER 31, 2007

FAIR OAKS WATER DISTRICT — Fair Oaks, California



FAIR OAKS WATER DISTRICT
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INTRODUCTION

Fair Oaks Water District was originally formed as 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 Code, Division 11.

The District is a retail water agency supplying water to a population of approximately 40,000 people on 6,160 acres in Fair Oaks and a small portion of Orangevale. The District purchases most of its water from San Juan Water District as treated water, and delivers it to approximately 14,470 residential and commercial service connections.

The District is governed by five board members. The board members are publicly elected to four-year staggered terms representing geographic divisions. The Board delegates day-to-day operations authority to an appointed General Manager and staff.

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 practical 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.”

BUDGET OVERVIEW AND HIGHLIGHTS

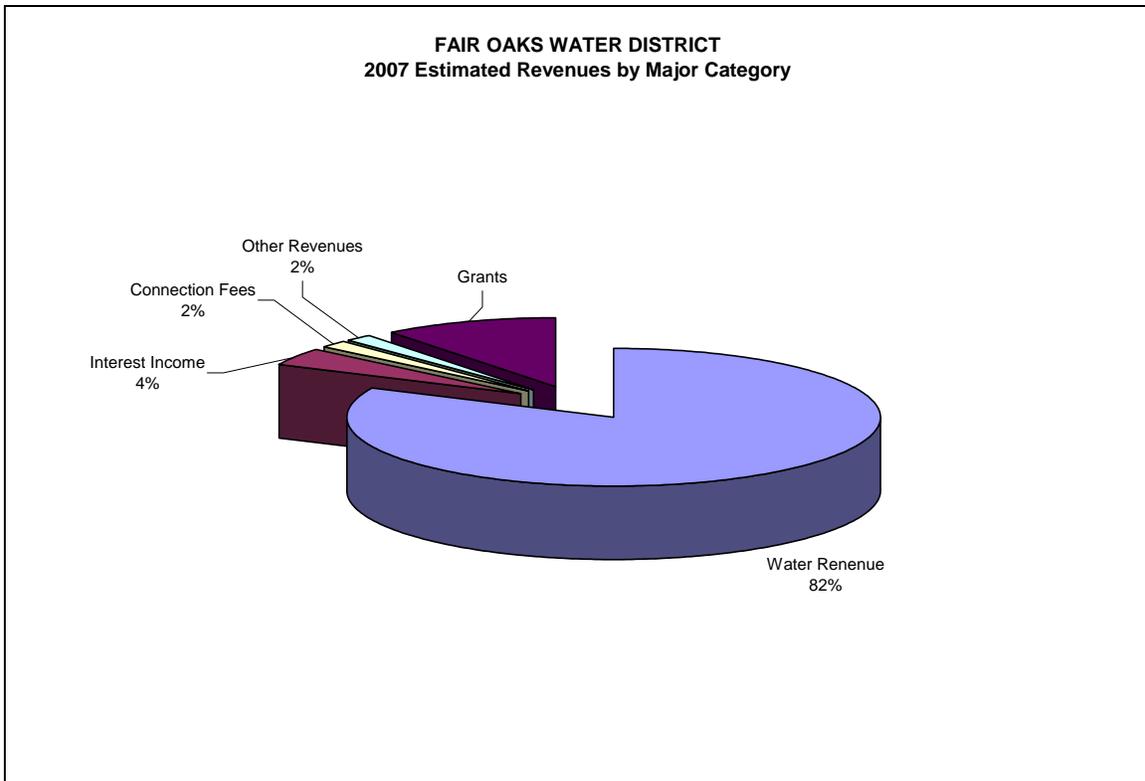
The budget was prepared by staff and presented to the Board of Directors for approval and adoption at the public meeting on January 8, 2007. Rates and fees were not increased in the 2007 budget.

The primary purpose of the budget is to provide the Board of Directors and the District’s customers with an accurate picture of total available resources and planned spending for 2007. The budget includes setting program priorities and cash flow projections. The District maintains its financial records in accordance with the generally accepted accounting principles (GAAP) for annual reporting purposes set by the Government Accounting Standard Board (GASB).

Revenues

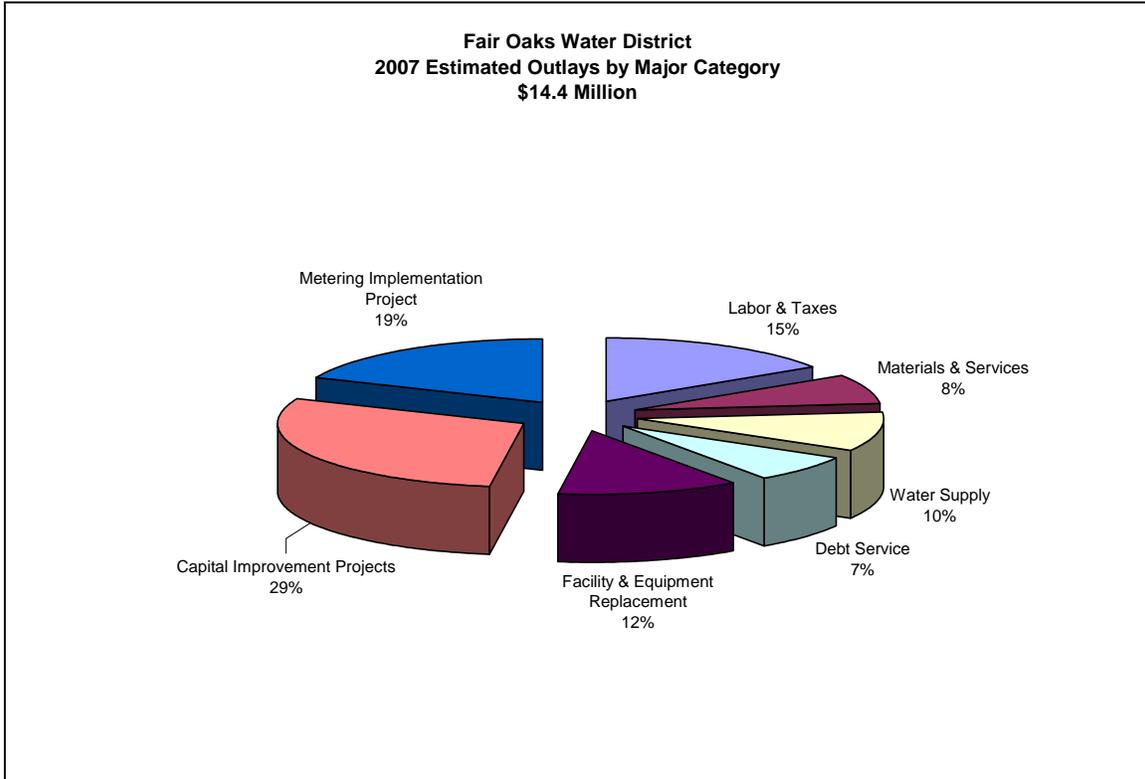
The District projects revenues of \$9,500,800 in 2007. The projected revenues include \$979,000 of grant funding for Town Well and Heather Well projects.

2007 Estimated Revenues by Major Category	
Water Revenue	\$ 7,789,400
Interest Income	400,000
Other Revenues	165,000
Connection Fees	150,000
Grants	996,400
Total	\$ 9,500,800



Expenses

The District's total estimated expenses for 2007 are \$14,426,400. These expenses include meter implementation, facility and equipment replacement, transmission and distribution system improvements and well sites.



2007 Estimated Outlays by Major Category	
Labor & Taxes	\$ 2,279,800
Materials & Services	1,097,400
Water Supply	1,433,900
Debt Service	998,200
Facility & Equipment Replacement	1,738,900
Capital Improvement Projects	4,206,200
Metering Implementation Project	2,672,000
Total	\$ 14,426,400

Reserves and Designations

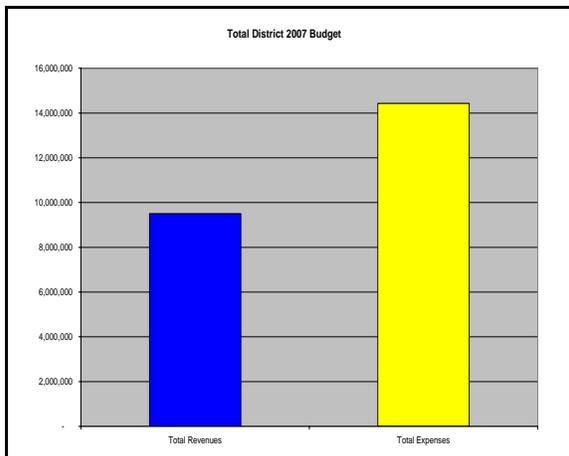
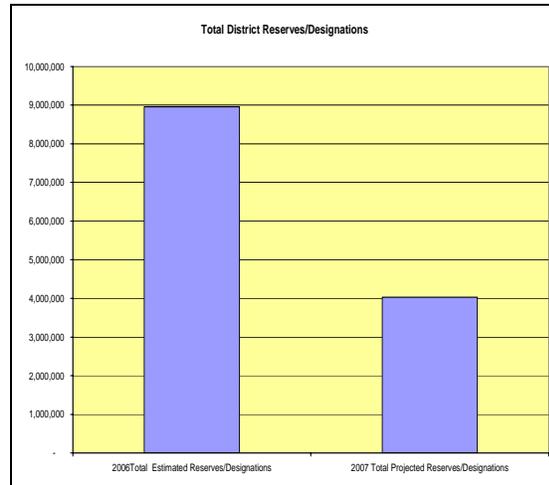
The District's reserves consist of restricted, unrestricted and designated funds. The District's restricted reserves include the Certificate of Participation's (COP's) and capacity system fees (connection and annexation fees). The District has drawn down its reserve to fund the 2007 capital improvement programs and normal operating expenses.

The District's 2007 budget projects a net loss of (\$4,925,600) calculated as follows:

Projected Total Revenues	\$ 9,500,800
Projected Total Expenses	<u>14,426,400</u>
Projected Net Loss	<u>(\$ 4,925,600)</u>

With a projected deficit of (\$4,925,600), the District will use reserve(s)/designation(s) to offset this deficit. The District is currently revising the reserve policy. As such, staff will make recommendations on the funding of the deficit based on the revised policy once it is adopted by the Board. The District projects a year-ending total reserve balance of \$4,030,900. See reserve balance summary for more detail on page 48.

The District projects a decrease in the reserves and designations of \$4,925,600 (over 50%) at the end of 2007.



This graph reflects the 2007 net deficit of (\$4,925,600).

BUDGET PRINCIPLES AND PROCESS OVERVIEW

Budget planning begins annually at mid-calendar year, following completion of the audit for the fiscal year ending the prior December 31, and a review of the first six month's of actual revenues and expenses for the current fiscal year. In July, the District's senior staff will provide updated information for the timing and costs of scheduled activities over the next year. The impact on operations of capital projects, legislation and economic factors are reviewed and communicated to the General Manager.

The budget is developed through several processes. The Board of Directors provides certain priorities and guidelines to the General Manager. The General Manager communicates these criteria to staff. The District's annual budget is then developed consistent with District's mission, goals, policies and water distribution needs.

The financial model is updated to determine whether adequate funds exist to meet requests, while maintaining Board approved reserves over the budget period. All unfunded needs will be documented, if any. The budget and forecast will be prepared by the staff and General Manager to ensure consistency with District policies. An Ad-hoc Budget Committee, comprised of two Board of Directors and staff, will then review the draft document and assist in preparing the final document for the public information sessions, public hearing, and Board adoption.

A discussion draft of the budget document will typically reviewed by the Board in August. Customers are notified 45 days in advance about any proposed rate increases and the information sessions and public hearing. One or more public workshop sessions usually occur in October, to allow extended discussion on major issues. The budget process culminates in its adoption at a public meeting normally scheduled in November.

Any budget amendments required during the year will be submitted to the Board of Directors at a board meeting for Board action.

Budget Control

The approved budget is entered in the District's accounting system, which will provide up to date financial information throughout the year.

The Board of Directors, on the recommendation of the General Manager, establishes overall budgets and policy programs. The approved budget is then monitored by the respective department managers.

The General Manager controls the budget at the operating level. While line item expenses are in some cases shown in the budget worksheets, the intent of this information is to provide internal budget monitoring controls for staff, and are not intended to be explicit appropriations by the Board of Directors. Upon request from staff, and approved by the Board of Directors, reserve funds may be transferred or added to throughout the fiscal year. This bottom line approach to budget management is intended to prioritize

overall District spending, while making senior staff accountable for internal operations and expenses.

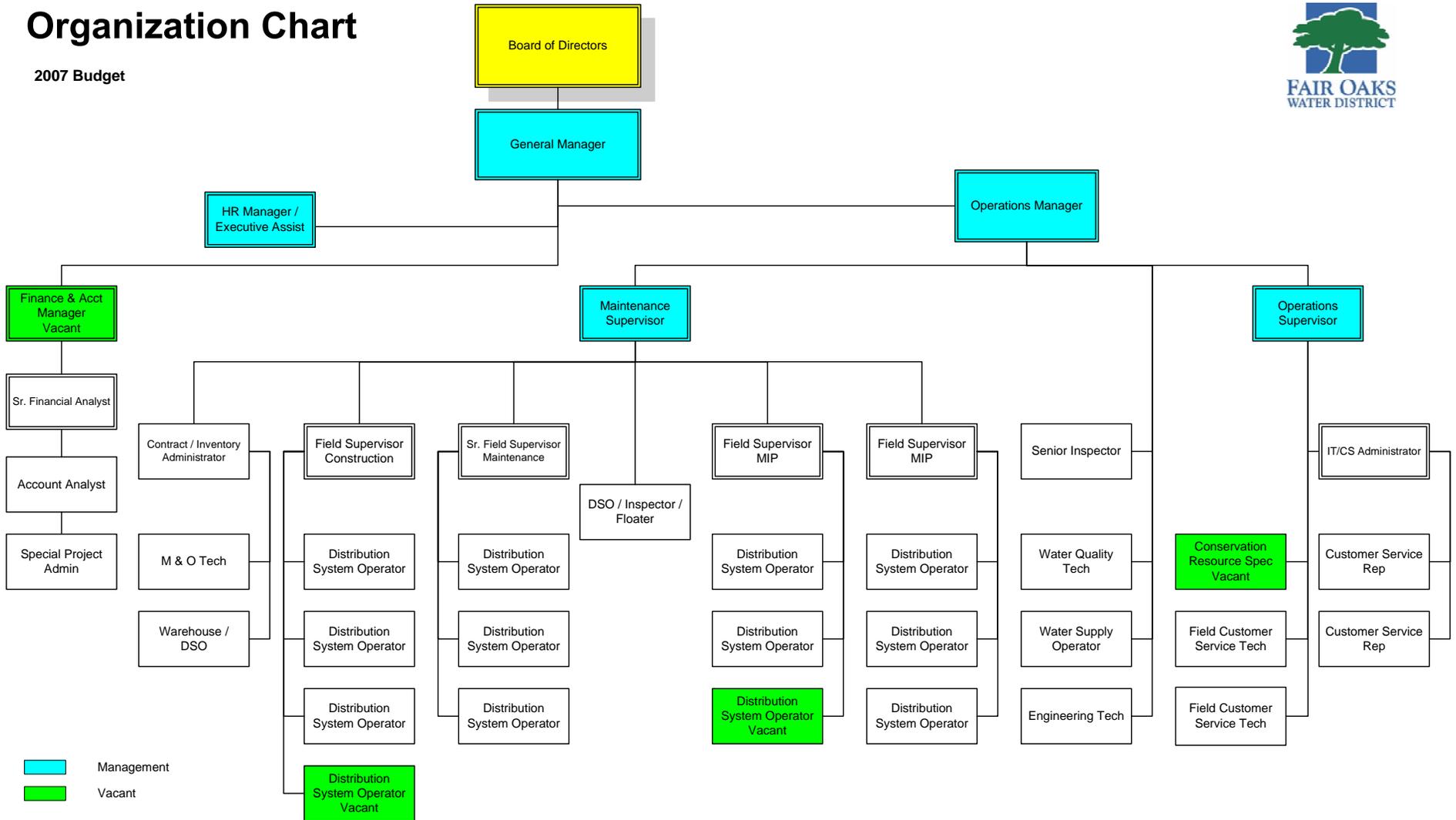
Capital projects and program budgets are adopted for specific non-operational projects or programs. These budgets often span multiple budget years. For each project or program, subsequent Board approval is sometimes required for approving bids and contracts.

Basis of Budgeting

The financial sections of the budget are prepared on a cash basis, and include expenses for capital outlay and the principal and interest portions of debt service, while non-cash expenses such as depreciation and bad debt write-off are excluded. Generally, revenues are recognized in the accounting period in which they become measurable and available, and expenses are recognized in the period in which the liability is incurred.

Organization Chart

2007 Budget



District Principles, Goals and Objectives

The purpose of the District's Financial Plan is to demonstrate fiscal solvency and a balanced budget over the long-term, to provide early warning signs of adverse trends, and to serve as a resource for financial planning and policy making for the allocation of budget resources. The Financial Plan utilizes detailed assumptions, such as population, new connections, infrastructure age, parcel area, and historical and projected operating trends while maintaining consistency with District-wide goals and objectives as well as Board approved fiscal and operational policies.

Growth projections are prepared based on past experience and are reviewed for consistency with the Sacramento County General Plan and economic development forecasts. A financial model (discussed later) then generates revenue forecasts and inflates or deflates future year operating and project costs on a consistent basis for all operating activities. The Financial Plan's projections may or may not occur as predicted, depending upon changes in the economy, future service level changes, and mandates from other government agencies. In order to keep the District Board and management up to date, District staff updates the budget model based on actual experience with the latest available information.

District Principles

Customer and Community Service

The District is dedicated to excellence in customer service, to representing the community's interest and to serving as a role model for integrity, dependability, enthusiasm and professionalism. These objectives are translated into functional level objectives for the District's staff. To fulfill these goals, the District continually develops problem solving policies and procedures that benefit the District's customers and community.

Planning and Preparedness

The District believes that proper programmatic and fiscal planning allows the organization to provide the utmost service benefit to its customers. Strategically planning District activities results in a structured and supportable allocation of resources and reduces cost, down time, and customer inconvenience.

Quality

The District is dedicated to providing quality service and long-term value to the community and its customers. Long-term value is not always synonymous with cost. Our customers deserve quality, and expect to pay fairly for it. We want to build a utility that generates community pride, yet provides a value to the ratepayer.

Team work

Delivering high quality water and reliable service and maintaining excellence in customer service requires a diverse set of knowledge and disciplines. The District believes teams of people can accomplish more than similar numbers of people acting alone. Through

collaborative efforts, the District is stronger, more competent, more sensitive, more considerate, and provides more consistent service.

Setting priorities

The District believes in putting first things first. In matters of priority, the District's customers, both internal and external, will always come first. We believe we must take care of our customers. In prioritizing our activities, we will place matters of safety and public health protection first, matters of system and property value retention second, and matters of aesthetics third.

Continuous improvement

The District believes in continuous improvement. We believe in life-long learning and will create an environment where the status quo will be challenged. We will ask questions, execute, and learn. In the process of improving, we will take reasonable risks and make mistakes. We will always be honest about risk and own our mistakes.

District Goals and Objectives

While the District operates by a fundamental set of overriding principles, the fiscal and operational functions of the organization are guided by the District's long term goals and objectives.

Conversion to Residential Metering

In 1998, the District had made a good faith commitment to retrofit all District water services with meters by the year 2005. While the District has been diligently following its meter implementation plan, completion of this plan now scheduled for 2011. The District has been in communication with USBR in regards to its meter implementation plan. In order to continue with this program while balancing the needs of the community and its customers, the District has defined the following specific objectives:

- ✓ Install approximately 1,100 residential meters per year through 2010.
- ✓ Refine meter reading processes and data analysis processes.
- ✓ Analyze residential accounts in preparation for metered rate billing.
- ✓ Continue the public education and outreach program.
- ✓ Continue conservation programs designed to educate customers about water use.

Enhance Reliability of Water Supply and Delivery

As its core mission, the District is dedicated to providing a high quality, reliable source of water supply to the community. As part of this goal, the District has outlined the following specific objectives:

- ✓ Continue to provide leadership in regional conjunctive use, and drought planning opportunities.

- ✓ Continue in a leadership in groundwater contamination cleanup.
- ✓ Provide an updated system Master Plan every five years, incorporating the vulnerability and emergency response, meter implementation, regional water issues, and new regulations into comprehensive update of the District's existing master plan.
- ✓ Create an additional zone to maximize current well efficiency during normal and emergency operations.
- ✓ Continue with best management practices for water quality and conservation.
- ✓ Continue promoting and educating customers about water issues.

Support Employee Development and Professionalism

The District believes that the power of the organization and its ability to meet its goals and objectives lies in its human resources. As such, the District is keenly aware of the necessity of supporting its employees in their professional development. To that end, the District has defined the following specific objectives:

- ✓ Continue to promote education, formal, and informal training in matters of communication and public relations, finance, management, leadership, and computer science.
- ✓ Recruiting unfilled positions.
- ✓ Upgrade or replace the District's current office facility to meet current building standards.

Promote Multi-District Resource Sharing Opportunities

Given the constant economic pressures and the mission to provide the most cost effective service to the community, the District is committed to identifying and promoting resource sharing opportunities. In so doing, the District strives to balance cost savings, efficiency and customer benefit with minimal service disruption. As part of this goal, the District has defined the following specific objectives:

- ✓ Continue to participate in RWA's collaborative conservation activities.
- ✓ Continue to work with the San Juan Family of Water Agencies on mutually compatible activities and services, including grant applications.

District Financial Policies

The District Board of Directors has established a number of financial policies to guide the organization in its budgeting and operating activities. The significant financial policies are summarized (discussed) below.

Budget Preparation

An annual budget on a calendar year basis shall be prepared by the General Manager and approved by the Board of Directors. This budget shall be reviewed by a finance committee, then reviewed at a special meeting by the full Board. The amended proposed budget will then be reviewed and discussed at a public meeting scheduled for November.

Fixed Asset Accounting Control

An accounting and inventory of all fixed assets shall be maintained to ensure proper accounting control resulting in accurate financial reports of fixed assets. District's assets greater than \$500 in value will be recorded as a fixed asset for financial recording purposes.

District Reserve Funds and Designations

1. Emergency Designation:

- 1.1. Purpose: To fund unanticipated District fixed asset, operating and maintenance expenses.
- 1.2. Target Balance: The reserve fund balance will approximate one year of annual fixed asset amortization (approximately \$1.0 million dollars in 2000).
- 1.3. Methodology: Historical data records do not provide the information required to accurately assess risk and related costs. A small repair cost can be as little as \$20,000, but a large pipe failure could cost in excess of \$1,000,000. The District plans to update its Master Plan in 2000/2001 that will help identify and quantify potential risks. Until the District can better identify and quantify its exposure, it will set aside at least one year's worth of weighted average depreciated fixed assets.
- 1.4. Use of Funds: The funds can only be used with specific Board approval. The use of these funds will be for significant fixed asset acquisitions, repairs or improvements.
- 1.5. Contributions: Annual contributions will be designated in the budget process and could range from 1% to 5% of rate revenues to achieve the target balance.

2. Rate Stabilization Designation:

- 2.1. Purpose: To offset the estimated impact of revenue fluctuation and lag effects in converting to meter based billing.
- 2.2. Target Balance: The target fund balance is \$2.7 million in 2011. Beyond 2011, the target fund balance is estimated at 5% of gross water revenues.
- 2.3. Methodology: Since the District will experience a six month cash flow lag affect from receiving revenues in arrears from meter based billing versus the current pre-paid flat rate billing, 50% of flat rate revenue is required in the projected conversion year of 2011. After the year of conversion, an ongoing reserve is necessary to offset revenue fluctuations resulting from metered billing.

- 2.4. Use of Funds: These funds will be used to offset cash lags experienced when flat rate water customers convert to metered billing. Additionally, these funds will be used to supplement differences in revenue projections resulting from consumption based water sales.
 - 2.5. Contributions: Annual contributions will range from 5% to 6% of rate revenues to achieve the target balance.
3. *Fixed Asset Designation:*
- 3.1. Purpose: To fund the improvement, acquisition, and replacement of the water distribution system, well sites, tank site(s), vehicles and equipment.
 - 3.2. Target Balance: The target reserve balance is approximately \$1.0 to \$1.5 million.
 - 3.3. Methodology: The planned target reserve balance is an average of forecasted acquisitions for the next ten years.
 - 3.4. Use of Funds: The funds will be used to improve, acquire, and replace the water distribution system, well and tank sites, vehicles and equipment as identified in the annual budget and rate process. For water capacity enhancement projects, a combination of the Connection Fee Reserve and the Fixed Asset Reserve may be used depending upon available resources.
 - 3.5. Contributions: Annual contributions will range from 12% to 20% of water sales revenues.
4. *Administrative Facilities Designation:*
- 4.1. Purpose: To help fund future upgrades, improvements, or replacements to the administrative facilities for ergonomic requirements, staffing space, security enhancements, and customer access.
 - 4.2. Target Balance: The target reserve balance will approximate a building replacement, or approximately \$1,000,000 in 2000 dollars.
 - 4.3. Methodology: The actual cost of this project is unknown at this time, but was estimated at approximately \$300,000 in 1998. The planned reserve balance will provide the starting funds to improve and possibly replace the building or to move to a new facility.
 - 4.4. Use of Funds: The funds will be used to improve, acquire, or replace the administrative facilities, including office furniture.
 - 4.5. Contributions: Annual contributions will approximate average annual depreciation of the building and building improvements, or approximately 1% of water sales revenues.
5. *Operating Fund Designation:*
- 5.1. Purpose: To ensure cash resources are available to fund daily administration, operations and maintenance of providing water delivery and customer service.

- 5.2. Target Balance: A minimum of six months of cash to fund District expenses.
- 5.3. Methodology: The District is required to have sufficient cash flow to meet the next six months of budgeted District expenses (Government Code Section 53646(b)(3)). The next six months of projected cash revenues can be included as a source of cash flow to satisfy this requirement. Revenues in excess of reserve contributions and expenses resulting from expense savings or timing differences are also reflected in this fund.
- 5.4. Use of Funds: These funds will be used to pay for expenses according to budget and expense authority.
- 5.5. Contributions: Annual contributions will vary, depending upon other reserve requirements and current year expense requirements.
6. *Connection Fee Reserve*:
- 6.1. Purpose: To segregate fees charged to new development and direct those proceeds to capacity enhancement projects in compliance with AB1600.
- 6.2. Target Balance: AB1600 does not designate a target reserve balance. If funds are not used for planned capacity expansion or applied to previous capacity expansion, these fees may be subject to refund.
- 6.3. Methodology: Connection and pressure mitigation fees generated from new development will be segregated in this reserve. Significant prior capacity expansion absorbed all of the District's connection fee contributions. The District can apply future connection fees to previous year's plant capacity construction.
- 6.4. Use of Funds: The funds will be used to acquire and enhance system water capacity and delivery. To the extent these reserves do not fund these projects, Fixed Asset Reserves may be used to supplement the difference.
- 6.5. Contributions: Annual contributions will depend upon new construction within the District. Additionally, interest earnings will be imputed on this balance on a monthly basis, using the District's earnings rate on investments.
7. *Residential Metering Designation*:
- 7.1. Purpose: To segregate budgeted expense funds for the residential meter installation program.
- 7.2. Target Balance: There currently is no target reserve balance.
- 7.3. Methodology: The metering program funding is currently projected using a pay as you go methodology, with a potential certificate of participation issuance in 2004. If the metering implementation follows the plan exactly, there will be no metering reserve available. If in any year metering installations do not meet budgeted expenses, the excess funds, if any, will be set-aside for subsequent year installations.
- 7.4. Use of Funds: The funds will be used to install residential meters.

- 7.5. Contributions: Annual contributions are currently based upon annual projected meter installations in conjunction with the overall budget and rate plan.
8. *Certificate of Participation (COP) Reserve*:
- 8.1. Purpose: To segregate certificate of participation (COP) reserves according to governing documents.
- 8.2. Target Balance: The proceeds of a COP issue establish the maximum COP reserve available for use.
- 8.3. Methodology: COP reserve balances are created upon issuance of debt. These balances are used according to the COP's installment purchase agreement.
- 8.4. Use of Funds: Use of the COP reserves will be accounted for on a monthly basis, according to the COP's installment purchase agreement.

Contributions: Contributions will occur upon issuance of COP's. Additionally, interest earnings will be imputed on this balance on a monthly basis, using the District's earnings rate on investments.

Investment of District Funds

The General Manager or other persons designated by the Board shall invest idle funds not immediately needed by the District within the limitations of the California Government Code.

1. As authorized by resolution(s) of the Board of Directors, the General Manager of the District or other persons designated by the Board, shall invest within the limitations of the California Government Code and this Investment Policy, idle funds not immediately needed by the District for the purpose of earning interest income.
2. The District's general policy is to invest idle funds in the Local Agency Investment Fund (LAIF) of the State of California. However, the District may invest in other instruments from time-to-time, subject to the following goals, objectives, and policies.
3. Goal 1, Portfolio Safety and Diversification: District funds will be managed to insure the safety of the portfolio by investing in high quality securities and by maintaining a mix of securities that will provide reasonable assurance that no single investment or class of investments will have a disproportionate impact on the total portfolio.
 - 3.1. Objective: In addition to the safety provided by investing in high quality securities, the safety of the portfolio is enhanced three ways by maintaining a prudent mix (i.e., diversity) of investments:
 - 3.1.1. Spreading investments over different investment types minimizes the impact any one industry/investment class can have on the portfolio;
 - 3.1.2. Spreading investments over multiple credits/issuers within an investment type minimizes the credit exposure of the portfolio to any single firm/institution; and

- 3.1.3. Spreading investments over various maturity periods minimizes the risk of portfolio depreciation due to a rise in interest rates
4. Policy: The District's portfolio shall contain a sufficient number and diversity of marketable securities so that a reasonable portion of the portfolio can be readily converted to cash without causing a material change in the value of the portfolio.
 5. Goal 2, Liquidity: The pool will be managed to ensure that normal cash needs, as well as scheduled extraordinary cash needs can be met. Further, adequate liquidity shall be maintained to ensure the unforeseen cash needs, whether ordinary or extraordinary.
 - 5.1. Objective: The District will maintain a cash-flow-generated portfolio balance, sufficient to cover a one-month operating period. In addition, investments will be made based a six month forecasted cash flow. Further, sufficient marketable treasuries will be maintained to cover unforeseen withdrawals or delayed deposits.
 - 5.2. Policy: First priority is given to maintaining specific calendar liquidity, as dictated by the most recent cash forecast. Second priority is the maintenance of Treasury Bill positions adequate to meet unscheduled needs and domiciled in the San Francisco Depository to facilitate cash needs. Final consideration would be given to other investments deemed appropriate to portfolio maintenance, enhancement, or restructuring.
 6. Goal 3, Rate of Return: District investments and deposits shall be made in such a way as to realize the maximum return consistent with safe and prudent treasury management.
 - 6.1. Objective: The rate of return will be maintained on a consistent level representative of current market yield direction.
 - 6.2. Policy: Sales gains/losses will not be incurred to the point of significantly altering the final quarterly apportionment rate. Significant sales gains will be offset for restructuring purposes to maintain consistent current return, as well as maximizing future portfolio performance. Significant sales losses shall be incurred only by consent of the Board, or when sufficient profits negate the alteration of the apportionment rate. Range bonds and inverse yielding securities are examples of the types of investments, which are precluded by the above stated objective.
 7. Reporting and Conformance: This policy shall be reviewed and updated annually by the Board of Directors. The General Manager or his designee shall prepare a report no later than 30 days after the end of each calendar quarter, listing all investments and activities of the District, in accordance with State Law.

Authorization of Expenses

Expense authority is generally delegated to the General Manager by the Board of Directors through the adopted annual operating budget and through board policy.

1. Individual purchases under \$10,000 require approval by one of the District's senior managers (General Manager, Operations Manager or Operations Supervisor) and be in general conformance with previously approved operating budgets.

2. Purchases greater than \$10,000 shall be pre-authorized by the General Manager using a purchase order.
3. Any commitment of District funds for an individual unit purchase or expense greater than \$15,000 and not previously approved in conjunction with the annual operating budget shall first be submitted to the Board of Directors for approval, or shall be in conformance with prior Board action and/or authorizations.
4. Payroll related expenses are exempt from the \$15,000 limit. Expense of \$15,000 to \$25,000 may be authorized by a combination approval from the General Manager and Board President or Vice President.
5. Any individual purchase that is greater than \$25,000 and not part of the approved operating budget shall require approval by the Board of Directors.

FINANCIAL SUMMARIES

District Revenues

Major Sources of Revenue

The District has the following major sources of revenue for 2007:

- ✓ Water Sales
- ✓ Connection fees
- ✓ Interest Income
- ✓ Grants

Water Sales

Unmetered Flat Rate Revenue

The District's revenue from water sales is derived primarily from unmetered flat rates charged to residential customers. Approximately 88% of the total water sales is from unmetered flat rates residential customers.

Metered Rate Revenues

Metered rates are charged primarily to commercial customers, with some residential customers voluntarily converting to metered rates. Metered rates are based upon two components: a usage or commodity rate for actual water usage and a fixed service charge.

The fixed service charge is based upon meter or service line size and is designed to cover the fixed costs of the water delivery as it relates to customer service and capacity costs

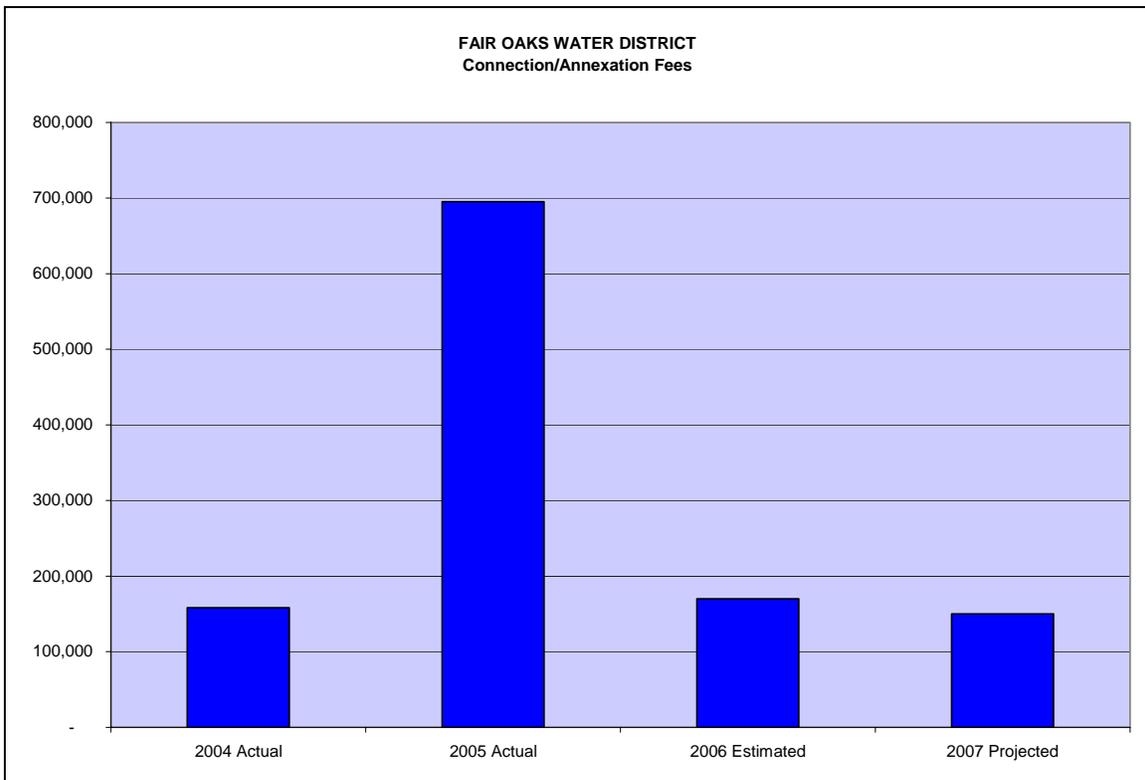
(i.e. repair and maintenance crew labor costs, supplies and construction related costs). Fixed service charges represent approximately 75% of the total water bill.

The usage or commodity charge covers the variable costs of water service, which fluctuate according to actual water use. The commodity charge represents approximately 25% of the total water bill and is designed to cover the costs of water purchases, pumping, treatment and conservation costs.

The District projected twelve percent of our customers will be on metered rates in 2007 (11% is for commercial customers, and 1% for residential).

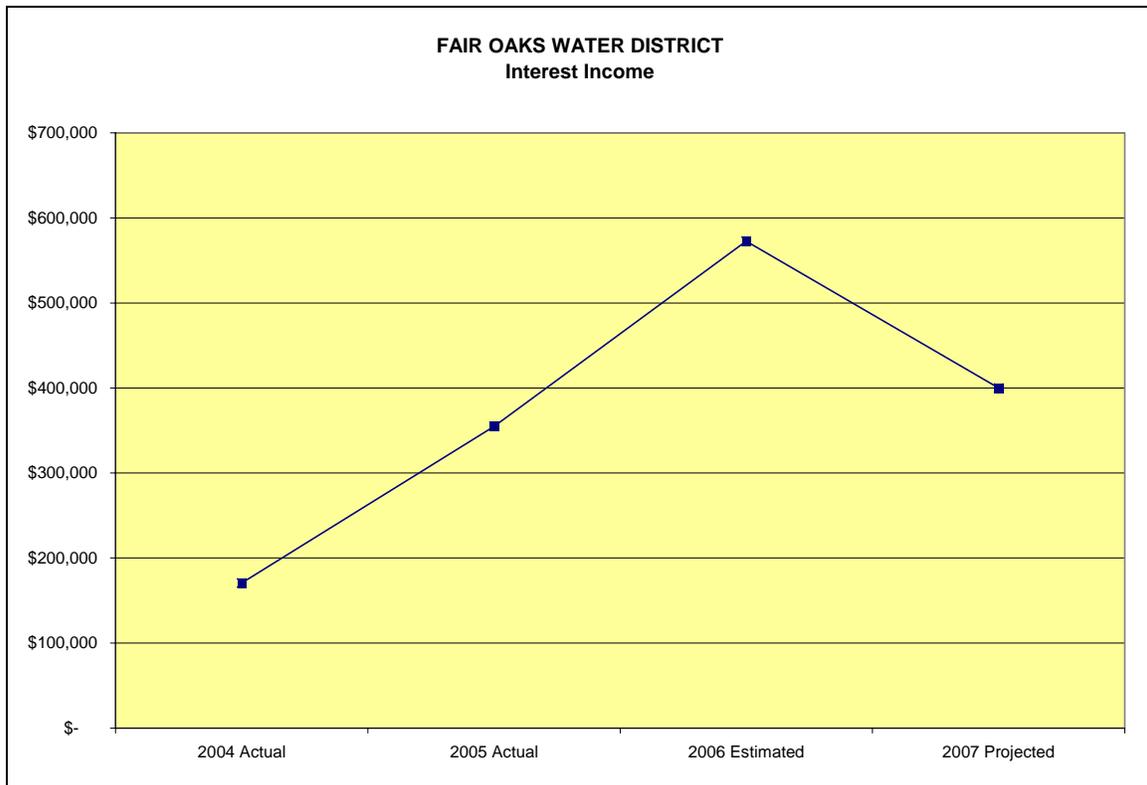
Connection Fees

Connection fees represent the cost to new customers for addition to Fair Oaks Water District system; the funds collected are restricted by AB1600 to capacity enhancement projects. The District service area will experience little growth. Most new service connections are derived from in-fill developer projects. Connection fees are a small portion of the District's revenues and are projected to be a small amount relative to other revenues. The District had an increase in 2005 due to the Gum Ranch development. However, future connection fee revenues are difficult to predict due to the built out nature of the system and limited in-fill projects available. The following graph reflects the projected revenues from connection/annexation fees through 2007.



Interest Income

The District invests its funds in accordance with the California Government Code, Section 53600, Chapter 4 – Financial Affairs and the District’s investment policy 5070; with a majority invested in LAIF (Local Agency Investment Fund) and Certificates of Deposit. Interest earnings on District’s reserves remain within the invested funds. Interest earnings fluctuate based on rates and cash balances. The District projected a decrease of approximately \$172,600 in interest earnings in 2007 (from the estimated 2006) due to the 2007 projected decrease in ending reserve balance.

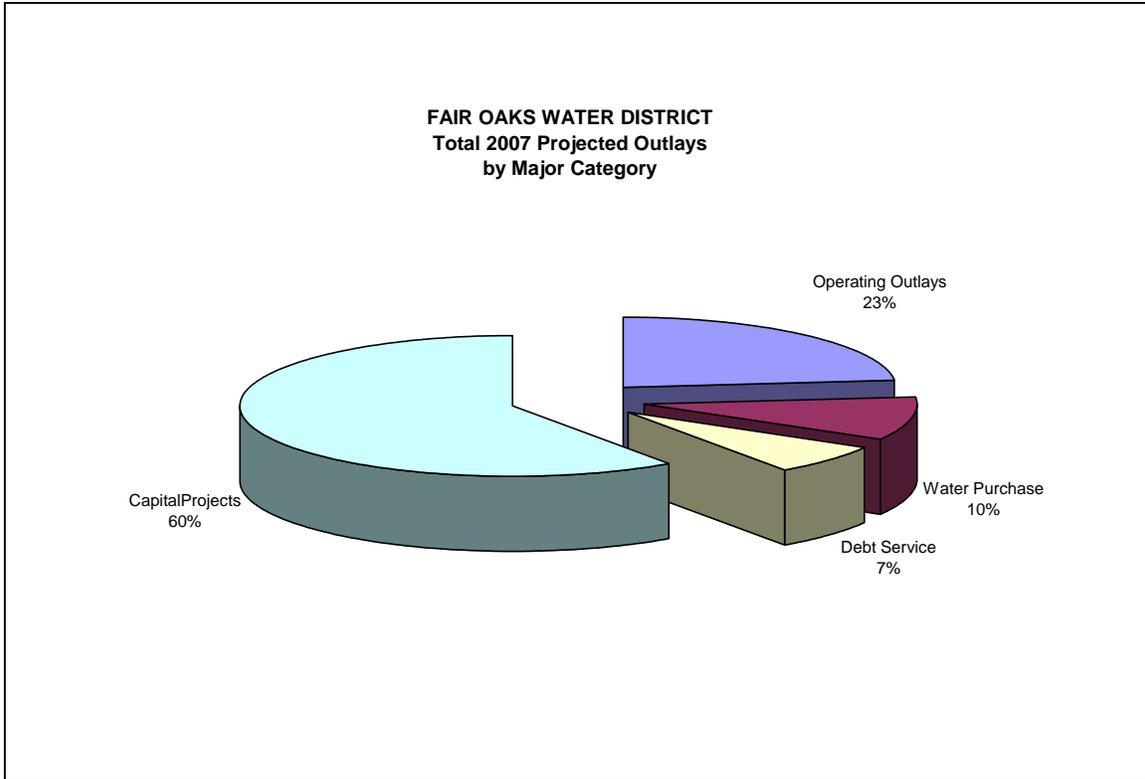


District Expenses

The District’s expenses can be categorized into four major groups:

- ✓ Water Supply
- ✓ Capital Projects
- ✓ Debt Service
- ✓ Operating Cost

The following pie chart illustrates the percentage of the total District expenses allocated to each of these categories.



Water Supply

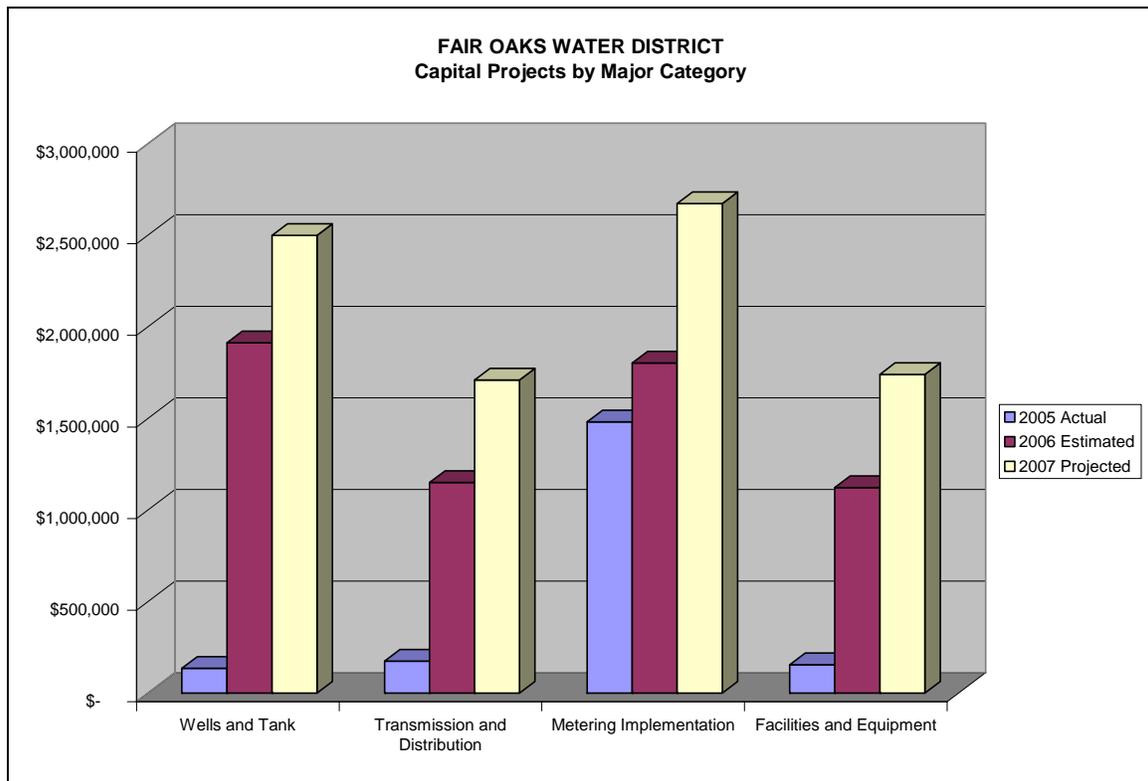
The District’s main water supply is surface water from the San Juan Water District. San Juan Water District provides approximately 94% of the FOWD water demand. The District has purchased approximately 13,000 Acre-Feet of surface water over the past five years. The District projects purchasing approximately 10,656 AF of surface water from SJWD in 2007.

The District completed drilling of two new wells - Heather and Town Wells in 2006 and anticipates completing equipping these wells in May of 2007. With completion of these two wells, the groundwater portion of the overall water supply may increase in upcoming years. The District projected the production of 2,344 AF of groundwater in 2007.

<i>Water Supply Costs</i>	<i>2007</i>
Commodity Charge (\$63.26 per AF x 10,656 AF)	<i>674,100</i>
Service Charge	<i>272,000</i>
Debt Service Charge	<i>184,000</i>
<i>Total Water Purchase</i>	<i>1,130,100</i>
Regulatory, Utilities and Misc. Fees	303,800
Total Water Supply Costs	<i>\$1,433,900</i>

Capital Projects Overview

Capital Projects Overview			
Category	2005 Actual	2006 Estimated	2007 Projected
Wells and Tank	\$ 135,200	\$ 1,911,800	\$ 2,497,700
Transmission and Distribution	174,456	1,148,900	1,708,500
Metering Implementation	1,480,600	1,801,200	2,672,000
Facilities and Equipment	154,326	1,121,400	1,738,900
Total	\$ 1,944,582	\$ 5,983,300	\$ 8,617,100



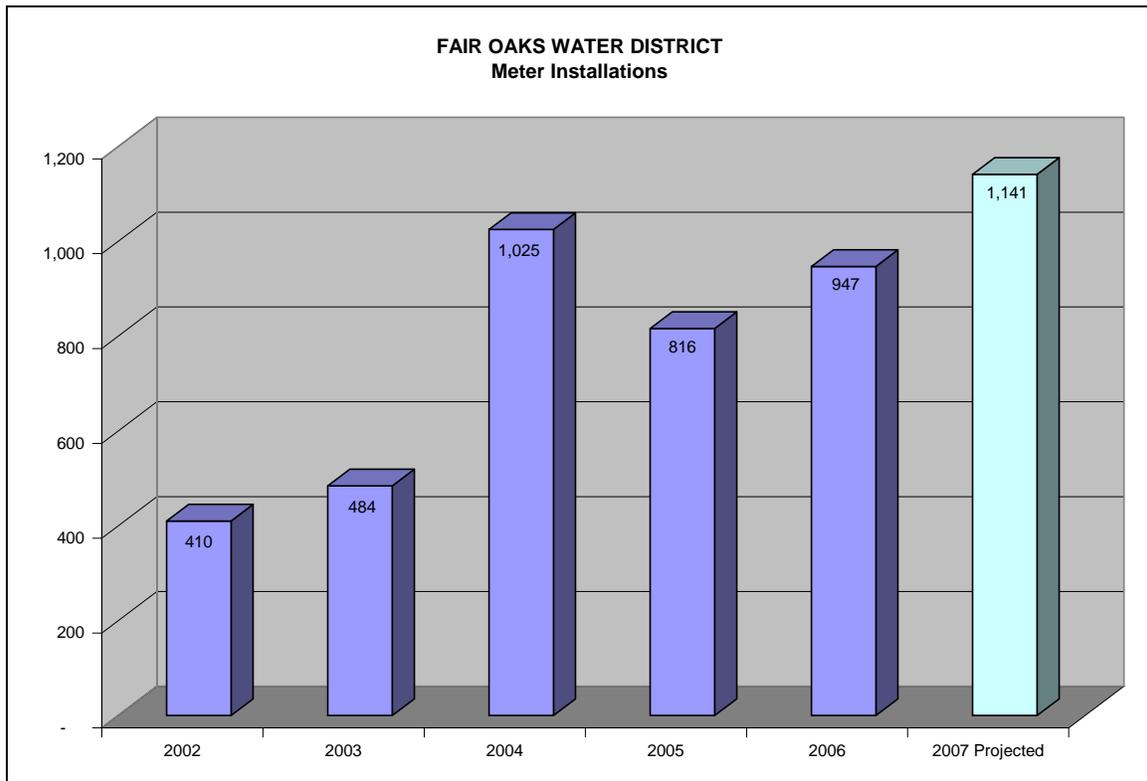
Wells and Tank

The District completed drilling of the Heather Well and Town Well in 2006. Equipment installation and site improvements at both wells are scheduled for completion in May of 2007. The estimated costs for the two wells in 2007 are: \$1,000,000 for Town Well and \$1,400,000 for Heather Well.

Metering Implementation Program

The Central Valley Project Improvement (CVPIA) was enacted by the Federal Government in 1992 requiring any water purveyor contracted to receive surface water from United States Bureau of Reclamation to implement metering within five years of the date of contract. On September 28, 1999 the Reed Consulting Group presented the

District's Metering Implementation Plan at the Board meeting. At the meeting, the District's Board of Directors adopted the proposed plan to have meter installation program complete and functioning by 2011. The current management of the District updated the Metering Implementation Plan (MIP) in 2006. With the updated MIP, the District anticipates installing 1,141 meters a year at a cost of approximately \$2.7 million per year through 2011. The District's total estimated cost for the Meter Implementation Program is approximately \$17.4 million. The following graph reflects meters installed since 2002.



Transmission and Distribution

The District continues to repair and replace aging infrastructure throughout its system. The District scheduled the following projects for 2007:

- Fair Oaks Blvd. Phase I and II at an estimated cost of \$173,000.
- Hawaiian Tract Phase I and II at an estimated cost of \$818,000.
- Bracken Road at an estimated cost of \$90,300.
- T-Main Feasibility Study and Phase I at an estimated cost of \$467,200.

Facilities and Equipment

One of the major projects in 2007 is the design and permitting of a new District's administration center and corporation yard. The District facility is in need of replacement

as presented to the Board and the public at many public meetings. The District hired a consultant, Murray & Downs Architects, Inc. to perform design and master plan the overall District administrative facilities. The District anticipates the completion of the administrative center and corporation yard in 2009. The 2007 estimated cost for the new building is \$1,500,000.

The amount of \$238,900 was allocated for replacement of office equipment, computer software, computer equipment, maintenance equipment and trucks and vehicles.

Debt Service

The District monitors debt and investment closely to ensure compliance with all of the debt requirements. The District complies with the terms, provisions, covenants, conditions and agreements related to the current District's Certificate of Participation. For the COP's issued in 1989 and 1991 (subsequently refinanced in 1999), the District is required to comply with the following:

- Maintain a Debt Service ratio of 1.15.
- Maintain a \$658,000 Reserve Fund with the Trustee.
- Prepare the annual rebate calculations on the bond.

The 2007 Debt Coverage is estimated at 2.32; calculated as follows:

Operating Revenue	\$7,944,400
Operating Expenses	<u>5,627,000</u>
Net Income from Operations	\$2,317,400
Debt Service ¹	\$998,200
Calculated Coverage	2.32

¹ Includes principle and interest for 1999 COP's and CTP-SJWD 1993 COP's

Year Ending December 31,	Principle	Interest	Total
2007	\$ 804,388	\$ 153,160	\$ 957,548
2008	838,113	121,832	959,945
2009	885,563	89,626	975,189
2010	501,150	55,701	556,851
2011	476,738	36,833	513,571
2012	212,325	18,541	230,866
2013	370,638	7,413	378,051
Total	\$ 4,088,915	\$ 483,106	\$ 4,572,021

Operating Outlay

The District's operating outlay fall into three functional areas:

- ✓ Operations & Maintenance
- ✓ Customer Service & Administration
- ✓ Board of Directors

Operations & Maintenance

Operations and maintenance is the largest functional department of Fair Oaks Water District. It is responsible for the purchase and delivery of water to the District's customers as well as operating and maintaining the District's pipelines and facilities. This department includes the functions of water quality, system maintenance, planning, operations, inspection and safety.

A major, and ongoing project over the past few years, and continuing into the 2007 budget year, is the Metering Implementation Plan (see discussion under *Capital Projects*). The District significantly increased the number of meter installations starting in 2004 and projected to be completed in 2011. The District anticipates installing 1,141 meters a year from 2007 through 2010.

Another significant effort of Operations and Maintenance over the next years will be completing two new groundwater wells. Construction of the two wells is complete. Equipping the two wells is scheduled for completion in 2007.

Another significant ongoing District activity is replacing and improving the District's aging pipelines. The District anticipates the completion of four separate water main replacement projects in 2007 (see discussion under *Capital Projects*).

Customer Service & Administration

The Customer Service & Administration department is responsible for District management, regional water issues, conservation, customer service, billing, collections, metering reading, information systems, public relations, accounting, payroll, accounts payable, human resources, finance and record keeping.

During the next two years, significant resources will be directed toward the design and construction of a new administrative center and corporation yard. Construction is anticipated to begin sometime in 2008.

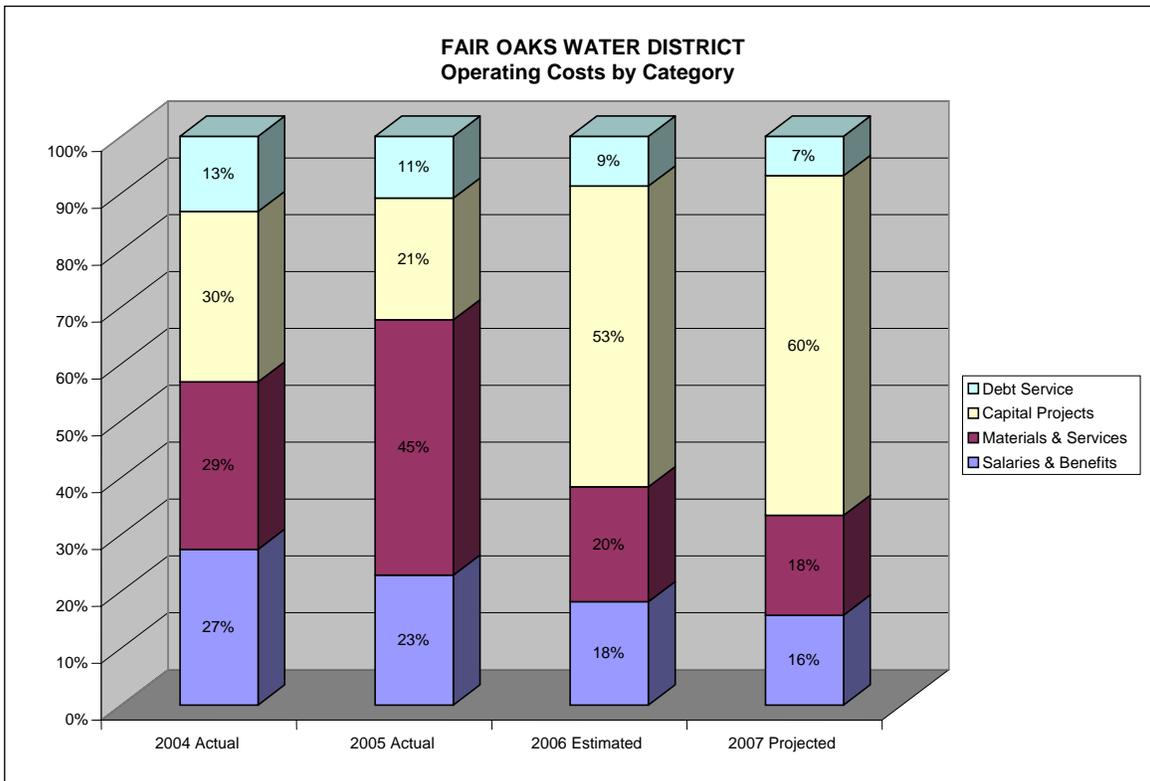
Board of Directors

The Board of Directors (Board) is responsible for developing and reviewing the policies of the District. Directors are elected at large, by geographical area (i.e. division), to four year overlapping terms. The Board's regular business meetings are held the second Monday of the month. Several financial policies are expected to be reviewed and revised in 2007. The Board maintains an active involvement in regional water organizations representing the Districts interest locally and regionally.

District Salaries and Benefits

As with most organizations, salary and benefit costs are a significant component of the District’s annual budget. The following schedule and pie chart reflects the District’s actual salaries and benefits compared to other major cost categories since 2004.

Operating Costs by Category				
Category	2004 Actual	2005 Actual	2006 Estimated	2007 Projected
Salaries & Benefits	\$ 2,130,852	\$ 2,074,821	\$ 2,052,400	\$ 2,279,800
Materials & Services	2,288,699	4,081,498	2,286,500	2,531,300
Capital Projects	2,332,864	1,944,582	5,983,300	8,617,100
Debt Service	1,028,218	987,782	988,000	998,200
Total	\$ 7,780,633	\$ 9,088,683	\$ 11,310,200	\$ 14,426,400



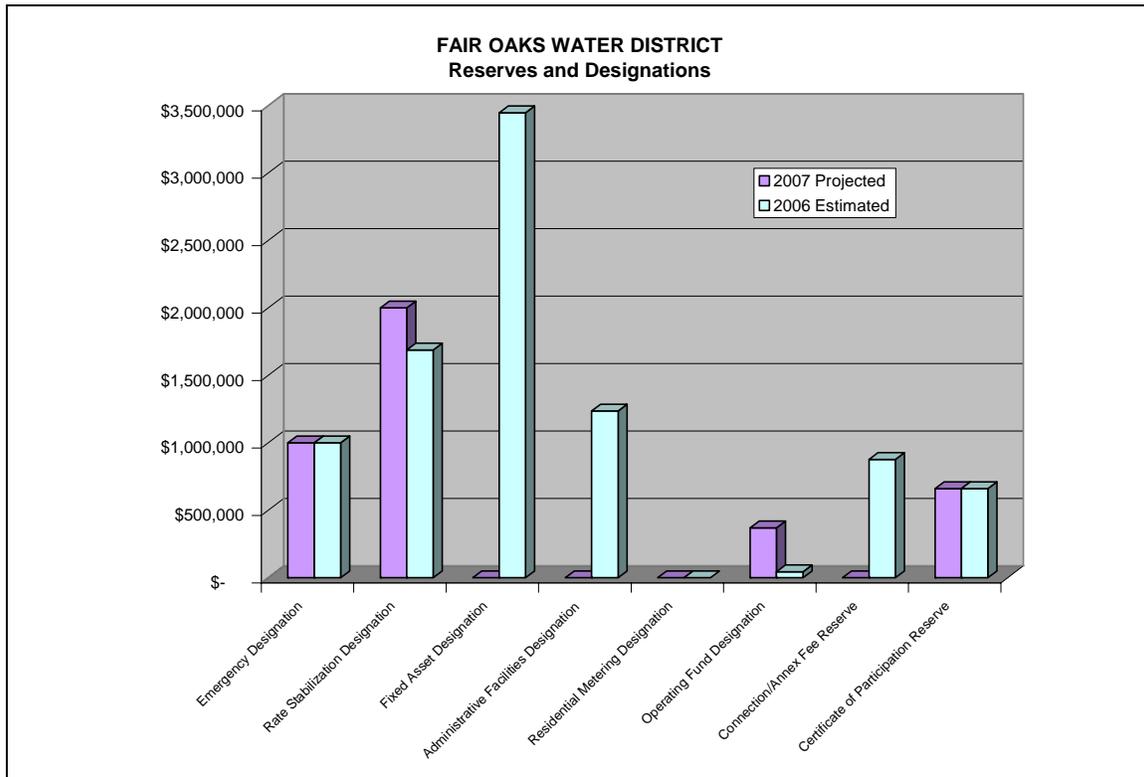
Personnel Summary
Full Time Equivalent (FTE)

Department	Actual 2004	Actual 2005	Actual 2006	Budgeted 2007
All Departments	<u>39</u>	<u>35.5</u>	<u>38</u>	<u>40</u>

District Reserve Funds and Designations

Reserves and designations are established to minimize adverse annual and multi-year budgetary impacts from anticipated and unanticipated District expenses. The District's long-term goal is to finance major asset acquisitions on a pay as you go plan, as opposed to issuing new debt. The reserves and designation are designed to assist in the goal. See pages 13-16 for specific definitions on each reserve. The following chart and graph illustrate the District's ending reserves and designations.

Ending Reserves/Designations		
Category	2007 Projected	2006 Estimated
Emergency Designation	\$ 1,000,000	1,000,000
Rate Stabilization Designation	2,001,400	1,689,800
Fixed Asset Designation	-	3,448,200
Administrative Facilities Designation	-	1,236,550
Residential Metering Designation	-	-
Operating Fund Designation	369,000	44,900
Connection/Annex Fee Reserve	-	876,500
Certificate of Participation Reserve	660,500	660,500
Total	\$ 4,030,900	\$ 8,956,500



(For more detail on the allocation and usage of funds, see “2007 Projected Reserves and Designations” page 48).

Note that only reserves and designations with a carry forward balance or an ending balance will be reflected in the “2007 Projected Reserves and Designations” on page 48. The residential metering designations for 2007 did not have a carry forward balance from prior year and the District did not anticipate an ending balance in 2007; therefore, it is not reflected in the 2007 Projected Reserves and Designations. The specific functions of the current reserves and designations policy of the Fair Oaks Water District are discussed under the District Financial Policies. It is anticipated that the District’s Reserve Policy will be revised in 2007.

Fair Oaks Water District

2007 Budget

Financial Plan Summary of Revenues/Expenses

Description	Actual 2003	Actual 2004	Actual 2005	Budget 2006	Estimated 2006	Projected 2007
Revenues						
<i>Total Operating Revenues</i>	\$ 6,815,656	\$ 7,180,280	\$ 7,928,475	\$ 7,774,200	\$ 7,897,100	\$ 7,944,400
<i>Total Non-Operating Income*</i>	<u>483,014</u>	<u>361,888</u>	<u>1,088,226</u>	<u>2,365,600</u>	<u>1,219,500</u>	<u>1,556,400</u>
Total Revenues	\$ 7,298,670	\$ 7,542,168	\$ 9,016,701	\$ 10,139,800	\$ 9,116,600	\$ 9,500,800
Expenses						
Operating Expenses						
<i>Departmental Expenses</i>	\$ 3,813,440	\$ 4,419,551	\$ 4,081,498	\$ 4,855,500	\$ 4,338,900	\$ 4,811,100
<i>Debt Service</i>	<u>683,803</u>	<u>737,629</u>	<u>754,515</u>	<u>784,300</u>	<u>778,300</u>	<u>815,900</u>
Total Operating Expenses	\$ 4,497,243	\$ 5,157,180	\$ 4,836,013	\$ 5,639,800	\$ 5,117,200	\$ 5,627,000
Non-Operating Expenses: (Debt Interest)	\$ 235,806	\$ 290,589	\$ 233,267	\$ 209,700	\$ 209,700	\$ 182,300
Total Expenses	\$ 4,733,049	\$ 5,447,769	\$ 5,069,280	\$ 5,849,500	\$ 5,326,900	\$ 5,809,300
Net Income (Loss) before Capital Program	\$ 2,565,621	\$ 2,094,399	\$ 3,947,421	\$ 4,290,300	\$ 3,789,700	\$ 3,691,500
Capital Program Expenses						
<i>Computer Equipment & Software</i>	\$ 42,832	\$ 241,337	\$ 41,271	\$ 39,000	23,600	\$ 31,000
<i>Vehicles and Maintenance Equipment</i>	217,716	268,433	75,651	263,200	258,300	197,900
<i>Facility & Office Equipment</i>	51,891	107,849	37,405	561,000	839,500	1,510,000
<i>Meter Implementation Program (MIP)</i>	393,104	990,810	1,480,600	1,469,000	1,801,200	2,672,000
<i>CIP</i>	<u>1,001,394</u>	<u>724,435</u>	<u>309,656</u>	<u>4,814,700</u>	<u>3,060,700</u>	<u>4,206,200</u>
Total Capital Program Expenses	\$ 1,706,937	\$ 2,332,864	\$ 1,944,582	\$ 7,146,900	5,983,300	\$ 8,617,100
Total Expenses including Capital Program	\$ 6,439,986	\$ 7,780,633	\$ 7,013,862	\$ 12,996,400	11,310,200	\$ 14,426,400
Net Income (Loss)	\$ 858,684	\$ (238,465)	\$ 2,002,838	\$ (2,856,600)	\$ (2,193,600)	\$ (4,925,600)
Ending Reserve/Designated Balance		\$ 9,147,215	\$ 11,150,053	\$ 8,086,545	\$ 8,956,500	\$ 4,030,900

* Reclassed fees for service to operating expense from 2006 budget

Fair Oaks Water District

2007 Budget Revenues Summary

Description	Acct #	Actual 2003	Actual 2004	Actual 2005	Budget 2006	Estimated 2006	Projected 2007
Operating Revenues:							
<u>Water sales</u>							
Residential-unmetered flat rates	4010	\$ 5,698,068	\$ 6,064,742	\$ 6,711,305	\$ 6,753,900	\$ 6,781,200	6,866,500
Metered service charges - resid.	4025	17,295	33,980	38,596	38,500	41,600	43,200
Metered commodity rates - resid.	4020	6,371	13,684	7,330	8,000	8,000	8,000
Metered service charges - comm.	4035	619,476	681,388	672,568	667,500	637,700	647,000
Metered commodity rates - comm.	4030	228,190	259,102	217,175	230,500	223,100	223,000
Commercial Flat	4037			12,783	12,800	12,000	9,700
Allowance: metered rate conversion		-	-	-	(12,000)		(5,000)
Allowance: uncollectible accounts		(344)	-	-	(5,000)	(1,500)	(3,000)
<i>Total Water Sales</i>		\$ 6,569,056	\$ 7,052,896	\$ 7,659,757	\$ 7,694,200	\$ 7,702,100	7,789,400
<u>Other Fees</u>							
Delinquencies & late fees	4050/4055/4060	93,231	69,727	114,578	80,000	120,000	95,000
Fees for service	4150/4140/4130	115,830	57,657	154,140	75,000	75,000	60,000
Bi-Monthly service fee	4040	37,539	-	-			
Total Operating Revenues		\$ 6,815,656	\$ 7,180,280	\$ 7,928,475	\$ 7,774,200	\$ 7,897,100	\$ 7,944,400
Non-Operating Income:							
Interest income	4610	\$ 192,194	\$ 170,534	\$ 354,769	\$ 300,000	\$ 572,600	400,000
Connection fees	4110/4120	263,323	158,188	509,105	100,000	170,000	150,000
Annexation fees	4155			186,095			
Grants	4320			15,000	1,890,600	444,900	996,400
Miscellaneous revenue	4310/4170/4175/41	16,788	37,780	13,284		19,000	
Contributed assets	4160	504,800	289,839	8,000			
Cont Less: Contributed Assets (non-cash)	4160	(504,800)	(289,839)	(8,000)			
(Loss) gain on disposal of assets	4080/4090	10,709	(4,614)	9,973		13,000	10,000
Total Non-Operating Income		\$ 483,014	\$ 361,888	\$ 1,088,226	\$ 2,365,600	\$ 1,219,500	1,556,400
Total Revenues							
		\$ 7,298,670	\$ 7,542,168	\$ 9,016,701	\$ 10,139,800	\$ 9,116,600	\$ 9,500,800

Fair Oaks Water District

Expense Summary - 2007 Budget

		Actual	Actual	Actual	Budget	Estimated	Projected	
	Acct #	2003	2004	2005	2006	2006	2007	Notes
Labor & Benefits								
<i>Salaries and Wages</i>								
Salaries	5010	\$ 1,560,441	\$ 1,852,473	\$ 1,819,303	\$ 2,083,900	\$ 1,917,200	\$ 2,157,000	
On-call	5011	24,161	27,139	25,402	33,000	28,000	33,000	
Overtime	5011	29,637	53,946	47,682	55,500	24,000	40,000	Overtime due to leaks and breakages outside of normal business hours
Certificate Incentive Program	5010	13,349	49,054	24,697	45,000	50,000	58,000	
Temporary Labor (incl. taxes)	5050	8,906	-					
<i>Salaries and Wages Subtotal</i>		<u>\$ 1,636,494</u>	<u>\$ 1,982,612</u>	<u>\$ 1,917,085</u>	<u>\$ 2,217,400</u>	<u>\$ 2,019,200</u>	<u>\$ 2,288,000</u>	
<i>Benefits and Insurance</i>								
Auto and mileage	5420	\$ 2,931	\$ 1,730	\$ 2,889	\$ 2,200	\$ 2,200	\$ 2,700	
Dental Insurance	5220	27,263	30,687	34,589	35,700	31,100	36,500	
FICA	5110	96,194	122,172	119,941	136,500	125,700	140,600	Directly related to salaries
Medicare	5120	24,692	28,695	28,345	32,200	29,400	33,200	Directly related to salaries
Health Insurance	5210	188,353	230,691	299,008	370,900	330,600	449,000	Actual lower from employee opt out of benefits & unfilled positions
Disability Insurance	5260	7,795	8,290	8,605	10,600	8,600	10,300	Actual lower due to vacant/unfilled positions
Life Insurance	5230	3,016	3,130	3,865	4,900	3,800	5,200	
Pension Plan	5240	102,282	120,243	169,461	252,600	227,300	278,200	Actuarial determined benefit; employer paid 4.44% starting 7/1/05; 5.287% starting 7/1/06; 5.841% starting 7/1/07
Unemployment insurance	5310	8,305	137	14,240	21,000	1,000	15,000	This amount varies-self-insured & based upon claims.
Vision care	5250	7,895	9,097	9,370	10,200	8,100	10,100	
Workers compensation	5320	53,205	102,133	94,247	112,300	103,700	108,200	Directly related to salaries
<i>Benefits and Insurance Subtotal</i>		<u>\$ 521,931</u>	<u>\$ 657,005</u>	<u>\$ 784,560</u>	<u>\$ 989,100</u>	<u>\$ 871,500</u>	<u>\$ 1,089,000</u>	
<i>Labor & Benefits Subtotal</i>		<u>\$ 2,158,425</u>	<u>\$ 2,639,617</u>	<u>\$ 2,701,645</u>	<u>\$ 3,206,500</u>	<u>\$ 2,890,700</u>	<u>\$ 3,377,000</u>	
In-house CIP/MIP labor & benefits capitalized		\$ (311,053)	\$ (508,765)	\$ (626,824)	\$ (850,800)	\$ (817,000)	\$ (1,097,200)	
In-house labor & benefits accounted for in Conservation		-	-	-	(53,400)	(21,300)	-	
<i>Net Labor & Benefits</i>		<u>\$ 1,847,372</u>	<u>\$ 2,130,852</u>	<u>\$ 2,074,821</u>	<u>\$ 2,302,300</u>	<u>\$ 2,052,400</u>	<u>\$ 2,279,800</u>	

Fair Oaks Water District

Expense Summary - 2007 Budget

	Acct #	Actual 2003	Actual 2004	Actual 2005	Budget 2006	Estimated 2006	Projected 2007	Notes
Materials & Services								
<i>Water Supply</i>								
Surface water supply, SJWD	6110	\$ 857,861	\$ 1,102,044	\$ 1,071,645	\$ 1,206,800	\$ 1,206,800	\$ 1,130,100	Budgeted purchased water reduced due to GW pumping projection.
Chemicals	6160	5,575	964	2,043	8,000	6,200	16,400	Chlorine
DOHS Fees	6358	5,907	4,502	6,006	7,000	13,200	15,000	Water System Fees
Energy cost, tank	6120	31,534	28,837	23,659	35,000	28,200	23,200	Increase due to increase in GW pumping
Energy cost, wells	6130	70,594	68,525	58,322	75,000	99,700	216,200	Increase due to increase in GW pumping
Testing & Sampling	6140	18,457	20,422	31,410	26,000	21,200	27,000	Increase due to increase in GW pumping
Hydrant testing & flushing	6155	3,236	1,441	1,375	6,000	400	6,000	Industry best management practice
<i>Water Supply Subtotal</i>		\$ 993,164	\$ 1,226,735	\$ 1,194,460	\$ 1,363,800	\$ 1,375,700	\$ 1,433,900	
<i>District Facilities Maintenance and Repairs</i>								
Well and pump repairs	6170	\$ 6,110	\$ 12,596	\$ 8,729	\$ 11,000	\$ 10,100	\$ 11,000	
Minor tank repairs and maintenance	6165	-	-	385	6,000	9,000	9,300	Includes landscaping for tank site
District site maintenance	6700	20,054	22,851	23,257	22,500	10,500	18,000	Includes landscaping, repairs etc.
Refuse collection	6750	1,963	2,119	2,743	3,000	2,700	3,000	
Janitorial	6710	9,425	5,647	7,395	9,400	7,800	8,500	
Security costs	6720	363	2,483	3,614	5,400	2,000	3,100	
<i>District Facilities Maint. Subtotal</i>		\$ 37,915	\$ 45,696	\$ 46,123	\$ 57,300	\$ 42,100	\$ 52,900	
<i>Vehicle and Equipment Maintenance</i>								
Vehicle maintenance	6610	\$ 36,928	\$ 32,747	\$ 10,983	\$ 21,500	\$ 18,000	\$ 20,000	
Vehicle repairs	6611	-	7,026	7,051	8,000	12,000	15,000	
Other equipment repair & maint.	6620	7,988	10,902	15,542	20,000	11,500	15,000	
<i>Vehicle Maintenance Subtotal</i>		\$ 44,916	\$ 50,675	\$ 33,576	\$ 49,500	\$ 41,500	\$ 50,000	
<i>Insurance</i>								
Auto and general liab. insurance	7310	\$ 74,186	\$ 14,648	\$ 68,210	\$ 82,000	\$ 79,800	\$ 87,000	
Bonding	7330	972	1,000	1,000	1,100	800	1,100	
Property insurance	7320	7,814	6,730	13,301	15,500	14,600	18,100	Increase in property insurance to cover two new wells
<i>Insurance Subtotal</i>		\$ 82,972	\$ 22,378	\$ 82,511	\$ 98,600	\$ 95,200	\$ 106,200	

Fair Oaks Water District

Expense Summary - 2007 Budget

		Actual	Actual	Actual	Budget	Estimated	Projected	
Acct #	2003	2004	2005	2006	2006	2007	2007	Notes
Printing and Postage								
Advertisement & Notices & Recording Fees	7650/7655	\$ 10,180	\$ 8,436	\$ 4,625	\$ 9,000	\$ 1,900	\$ 9,000	
Invoice printing	7660	21,498	24,612	14,492	26,000	21,500	24,000	
Printing	7670	468	6,074	3,906	7,000	2,300	5,000	
Water Currents: print, mail, consult.	7680	19,807	644	-	16,000	14,000	16,000	
Postage	7690	16,672	17,018	11,920	21,000	19,200	22,000	Increase in stamp costs by 3 cents in 2007
Collection Expense	6910	693	2,748	2,408	7,000	6,400	7,000	
<i>Printing & Postage Subtotal</i>		\$ 69,318	\$ 59,532	\$ 37,351	\$ 86,000	\$ 65,300	\$ 83,000	
Office Expense & Other								
Office lease	6770	\$ -	\$ 22,669	\$ 27,885	\$ 15,000	\$ 7,600	\$ 6,000	Mobile office rental
Office equipment rental	6315	-	-	-	1,200	300	500	
Office supplies	7610	27,543	55,570	26,121	28,000	21,800	28,000	
Office equipment maintenance	6615	1,312	760	964	4,000	4,000	4,500	
Miscellaneous	7910	244	(819)	1,797	10,000	500	10,000	
<i>Office Expense & Other Subtotal</i>		\$ 29,099	\$ 78,180	\$ 56,767	\$ 58,200	\$ 34,200	\$ 49,000	
Professional services & other								
Coop. Trans. Pipeline O & M	6190	\$ -	\$ 14,514	\$ 3,000	\$ 4,000	\$ 3,000	\$ 3,500	
Backflow testing and supplies	6180	3,871	1,808	1,346	1,000	700	1,500	
Dues & subscriptions	7620	14,735	9,749	19,786	21,000	19,500	19,500	
Grant application	7165	13,328	-	-	-	-	5,000	
Urban Water Management Plan	7130	-	-	29,606	-	-	-	Required every five years.
Emergency Response Plan	7131	-	-	-	-	-	15,000	
Five Year Water Management Plan	7130	13,374	6,700	-	-	-	-	Required every five years.
Five Year Rate Analysis	7132	-	-	-	-	-	15,000	
California EPA notification report	7130	-	-	-	-	-	-	
Banking fees	7170	5,473	15,099	19,407	22,000	20,500	22,000	
Audit fees	7120	13,400	15,075	14,900	15,500	15,500	16,500	
Legal fees	7110	46,042	41,755	23,475	125,000	125,000	125,000	
Legal fees - other	7115	-	60,000	-	-	-	-	
Public Relations	7160	29,390	1,062	-	5,000	2,500	5,000	
Regional Support	7640	48,035	54,419	40,981	61,100	55,300	56,300	includes WEF-used to budget under Conservation
Professional fees, misc.	7130	47,058	94,939	73,383	25,000	16,500	25,000	
Meter reading services	7140	27,174	14,941	-	-	-	-	
<i>Professional Services Subtotal</i>		\$ 261,880	\$ 330,061	\$ 225,884	\$ 279,600	\$ 258,500	\$ 309,300	

Fair Oaks Water District

Expense Summary - 2007 Budget

		Actual	Actual	Actual	Budget	Estimated	Projected	
Acct #	2003	2004	2005	2006	2006	2007		Notes
System Maintenance /Repairs								
Aggregate, sand & cutback	6320	\$ 40,209	\$ 11,642	\$ 9,818	\$ 15,000	\$ 11,900	\$ 15,000	
Paving	6340	61,795	63,294	8,455	18,000	8,200	18,000	
Contract trucking/dumping	6330	9,629	7,943	6,721	10,000	5,700	6,000	
Equip. and tool rental	6310	2,196	1,468	620	5,000	3,000	5,000	
Consumables, maintenance supplies	6210	27,752	39,260	30,919	37,500	38,800	40,000	
Parts inventory replenishment	6220/6230	5,029	7,167	2,747	11,800	4,000	5,000	
Gas and oil	6630	22,978	35,528	40,735	45,000	52,200	55,000	Increased prices and vehicles
Small equipment and tools	6240	25,085	24,883	10,346	17,000	17,000	20,000	
Safety, signs, and cones	6250	2,934	13,670	13,081	12,000	12,500	21,300	Yearly replacements
<i>System Maintenance/Repairs</i>		\$ 197,607	\$ 204,855	\$ 123,442	\$ 171,300	\$ 153,300	\$ 185,300	
Fees								
County fees	6350	\$ 5,321	\$ 5,255	\$ 1,281	\$ 6,000	\$ 2,100	\$ 5,000	
Air quality	6355	2,241	1,792	911	2,500	1,800	3,000	One additional generator in 2007
NPDES permit	6359	2,900	593	1,185	3,200	1,200	1,300	
Haz-mat permit	6357	392	1,176	1,046	1,500	1,700	2,200	
<i>Fees Subtotal</i>		\$ 10,854	\$ 8,816	\$ 4,423	\$ 13,200	\$ 6,800	\$ 11,500	
Utilities								
Communication, telephone	6760	\$ 45,959	\$ 46,692	\$ 45,636	\$ 50,000	\$ 43,600	\$ 50,000	
District site energy utilities (SMUD)	6740	9,398	12,126	15,927	16,100	15,500	16,000	
<i>Utilities Subtotal</i>		\$ 55,357	\$ 58,818	\$ 61,563	\$ 66,100	\$ 59,100	\$ 66,000	
Information Technology								
Computer support	7150	\$ 39,970	\$ 47,660	\$ 46,557	\$ 58,170	\$ 31,500	\$ -	
DSL (user)							4,800	
MS Great Plains Accounting software maint							8,400	
Cogsdale Billing software maint							14,600	
Auto Cad Licensing							1,000	
Microsoft Technet Technical Information Subscription							1,500	
Mpower T-1 Internet/VPN Connection							5,400	
Savin 9945 Maintenance Support							1,000	
Savin C4535 Maintenance and Support Agreement							1,400	
Misc. Service Agreements/Subscriptions.							2,000	
Misc. Consulting Fees							4,000	

Fair Oaks Water District

Expense Summary - 2007 Budget

		Actual	Actual	Actual	Budget	Estimated	Projected	
	Acct #	2003	2004	2005	2006	2006	2007	Notes
Website design/maintenance	7155				2,500	10,500	2,500	
Computer hardware <\$500	7151				2,000	1,300	2,500	
Computer software <\$500	7152				300	200	2,500	
Computer supplies	7153				5,500	700	5,000	
<i>Information Technology Subtotal</i>		\$ 39,970	\$ 47,660	\$ 46,557	\$ 68,500	\$ 44,200	\$ 56,600	
Conservation								
Advertising	6475	\$ 1,026	\$ -	\$ -	\$ -	\$ -	\$ 500	
Conservation Outreach	6430	20,125	24,458	12,591	27,200	12,800	15,000	
Grant Application	6407	2,500	-	3,000	-	-	1,000	
Cons. Landscape Irrigation Review	6450	1,006	1,225	610	10,300	-	1,500	
Conservation Water Waste	6470	-	-	-	22,300	5,900	500	
Conservation Subscriptions	6405	-	-	-	900	500	800	
Conservation Toilet Rebate Program	6510	10,872	8,565	16,185	22,900	21,400	15,000	
Conservation Internal Review	6460	3,438	8,728	513	3,200	1,100	1,500	
<i>Conservation Subtotal</i>		\$ 38,967	\$ 42,976	\$ 32,899	\$ 86,800	\$ 41,700	\$ 35,800	
Training & Uniforms								
DMV/Physicals	7135	\$ 2,101	\$ 1,684	\$ 1,916	\$ 3,100	\$ 1,900	\$ 2,100	
Training, travel, and expenses	7410/7510	35,193	57,382	29,140	65,000	23,700	40,000	
Employee recognition program	7570	15,035	6,000	3,912	7,500	7,500	7,500	
Uniforms	6270	23,119	14,266	12,993	27,700	9,300	13,000	
<i>Training Subtotal</i>		\$ 75,448	\$ 79,332	\$ 47,961	\$ 103,300	\$ 42,400	\$ 62,600	
Board Expenses								
Election expense	7720	\$ 175	\$ 12,648	\$ -	\$ 13,000	\$ 13,000	\$ -	every other year
Director's fees	7710	12,600	15,500	10,300	22,000	9,500	12,000	\$100 per meeting
Miscellaneous Board expenses	7730	-	-	-	-	-	1,200	
Travel and seminars	7740	15,826	4,837	2,860	16,000	4,000	16,000	
<i>Board Expenses Subtotal</i>		\$ 28,601	\$ 32,985	\$ 13,160	\$ 51,000	\$ 26,500	\$ 29,200	
Materials & services total		\$ 1,966,068	\$ 2,288,699	\$ 2,006,677	\$ 2,553,200	\$ 2,286,500	\$ 2,531,300	
Department Grand Total		\$ 3,813,440	\$ 4,419,551	\$ 4,081,498	\$ 4,855,500	\$ 4,338,900	\$ 4,811,100	

Fair Oaks Water District 2007 Budget Debt Service

Description	Acct #	Actual 2003	Actual 2004	Actual 2005	Budget 2006	Estimated 2006	Projected 2007
Debt Service							
CTP-SJWD 1993 COP's ¹	2550	\$ 150,863	\$ 206,738	\$ 175,075	\$ 178,800	\$ 178,800	\$ 185,000
1999 COP'S ²	2510	530,000	555,000	575,000	595,000	595,000	620,000
2004 COP'S				\$ -			
<i>Debt Service Principal Total</i>		\$ 680,863	\$ 761,738	\$ 750,075	\$ 773,800	\$ 773,800	\$ 805,000
Debt Service - Interest							
CTP-SJWD 1993 COP's ¹	8010	\$ 57,855	\$ 92,747	\$ 56,238	\$ 54,200	\$ 54,200	\$ 49,800
15% Refund from SJWD		(39,103)		-			
1999 COP'S ²	8020	188,131	168,919	148,106	126,500	126,500	103,500
2004 COP'S				-	-		-
Refunding costs (amortized)		28,923	28,923	28,923	29,000	29,000	29,000
<i>Debt Service Interest Total</i>		\$ 235,806	\$ 290,589	\$ 233,267	\$ 209,700	\$ 209,700	\$ 182,300
Material and Services							
Bond Trustee Fees	7175	\$ 2,940	\$ 2,940	\$ 2,940	\$ 3,000	\$ 3,000	\$ 3,200
Bond Arbitrage Fees	7130	-	(27,049)	1,500	7,500	1,500	7,700
<i>Material and Services Total</i>		\$ 2,940	\$ (24,109)	\$ 4,440	\$ 10,500	\$ 4,500	\$ 10,900
Department Grand Total		\$ 919,609	\$ 1,028,218	\$ 987,782	\$ 994,000	\$ 988,000	\$ 998,200

Notes:

¹ Cooperative Transmission Pipeline interest range is 3.1% - 5.3%. Also includes 115% debt service coverage. Final maturities occur in 2013.

Refinances 93 COPs in 2003. Interest rate is 4.23%. New principle and interest schedule obtained from SJWD on September 24, 2003 for 2004-2013.

² Refunding COP's interest rate range is 3.5% to 4.25%. Also includes 115% debt service coverage. Final Maturities occur in 2011.

Final year payment will be made from debt service reserve fund.

Fair Oaks Water District
2007 Budget
Computer Equipment and Software

Description	Actual 2003	Actual 2004	Actual 2005	Budget 2006	Estimated 2006	Projected 2007
Computer Equipment & Software						
Computer Equipment	\$ 28,159	\$ 27,319	\$ 6,806	\$ 10,000	\$ 10,000	\$ 13,500
Computer Software*		2,149		20,000	13,600	17,500
Accounting Software		58,625	31,536	-		
Billing Software		139,796		-		
Cogsdale Preventive Maintenance Software Program**				7,500		
Communication Software				1,500		
Telemetry/Scada	14,226	1,235				
CAD/GIS	265	12,213	2,929			
Other	182		-			
Total Computer Equipment & Software	\$ 42,832	\$ 241,337	\$ 41,271	\$ 39,000	\$ 23,600	\$ 31,000

* Expected to receive Field Service Grant from US Bureau of \$6,800 in 2007.

** \$5,700 of this budget line item will be used for meter reading equipment in 2006.

Fair Oaks Water District
2007 Budget
Vehicles and Maintenance Equipment

Description	Actual 2003	Actual 2004	Actual 2005	Budget 2006	Estimated 2006	Projected 2007
Trucks/Vehicles/Trailers						
Replace Backhoe				\$ 90,000	\$ 90,000	
Replace 1 Ton Service Truck w/ Utility Bed				77,000	77,000	
3/4 Ton Service Truck				37,000	37,000	
Pool Car				25,000	15,000	
Replace Two Utilities Trailers						\$ 3,000
Replace Two Wackers/Tampers						8,800
Replace 901 Dump Truck						70,000
New Vacuum Trailer						70,000
Upgrade 003-2000 International Dump Truck*						25,000
Subtotal	\$ 197,699	\$ 247,137	\$ 68,273	\$ 229,000	\$ 219,000	\$ 176,800
Maintenance Equipment/Tools						
Steel Plates				\$ 3,000	\$ 10,700	
Cut-Off Saw				2,500	700	
MMP Chamber W-3500					1,700	
Miller Bobcat 250 NT welder				3,500	4,300	
Vibra Plate				6,900		
Equip. Emergency Response Trailer				5,000		
2 New Locators				7,000	6,900	\$ 7,000
Pneumatic Jackhammer				2,800		1,200
Air Compressor for new truck						900
Poly Splitters						850
Soil Cutter						500
Trench Shoring						2,550
Hydraulic Breaker						4,600
Meter Reading Equipment**					11,400	
Other Maintenance Equipment				3,500	3,600	3,500
Subtotal	\$ 20,017	\$ 21,296	\$ 7,378	\$ 34,200	\$ 39,300	\$ 21,100
Total Vehicle & Maintenance Equipment	\$ 217,716	\$ 268,433	\$ 75,651	\$ 263,200	\$ 258,300	\$ 197,900

* Upgrade to comply with California Air Resource Control Board requirement

** Expected to receive Field Service Grant from US Bureau of \$5,700 in 2007.

Remaining balance of \$5,700 will be funded from the Cogsdale Preventive Maintenance Software Program budget in 2006.

Fair Oaks Water District

2007 Budget

Facility and Office Equipment

Description	Actual 2003	Actual 2004	Actual 2005	Budget 2006	Estimated 2006	Projected 2007
Building						
Building Remodel			\$ 15,991	\$ 8,000	\$ 1,700	
New Office Building			\$ 5,480	\$ 550,000	\$ 835,000	\$ 1,500,000
			-			
			-			
Total Building	\$ 45,540	\$ 99,641	\$ 21,471	\$ 558,000	\$ 836,700	\$ 1,500,000
Office Equipment						
Safety Equipment						\$ 2,500
Audio Video						\$ 2,000
Furnishings						\$ 2,500
Miscellaneous Office Equip.				\$ 3,000	\$ 2,800	\$ 3,000
Total Office Equipment	\$ 6,351	\$ 8,208	\$ 15,934	\$ 3,000	\$ 2,800	\$ 10,000
Total Facility and Equipment	\$ 51,891	\$ 107,849	\$ 37,405	\$ 561,000	\$ 839,500	\$ 1,510,000

Fair Oaks Water District
2007 Budget
Meter Implementation Program

Description	Actual 2003	Actual 2004	Actual 2005	Budget 2006	Estimated 2006	Projected 2007
Meter Implementation Program (MIP)						
Residential Metering/AMR ¹	\$ 382,110	\$ 984,563	\$ 1,477,118	\$ 1,460,000	\$ 1,788,100	\$ 2,667,000
Commercial Metering	7,426	4,364	1,025	1,000	9,900	
Meter Replacement	3,569	1,883	2,473	8,000	3,200	5,000
Total MIP	\$ 393,104	\$ 990,810	\$ 1,480,600	\$ 1,469,000	\$ 1,801,200	\$ 2,672,000

¹ Includes labor and benefits of \$867,200 in the 2007 budget.

Fair Oaks Water District 2007 Budget Capital Improvement Program

Description	Actual 2003	Actual 2004	Actual 2005	Budget 2006	Estimated 2006	Projected 2007
Wells & Tank						
Town Well			\$ 60,592	\$ 1,765,300	\$ 911,700	\$ 1,000,000
Heather Well			65,921	1,985,800	988,900	1,400,000
Northridge Well Rehab						65,000
Storage Tank (Safety Upgrade-Skyway) (Safety Upgrades to PRV Vaults)				25,000	11,200	
Tank Cathodic Protection Upgrade						4,800
T-Main Cathodic System Upgrade						2,900
Annual Well Pump Check				10,000		10,000
Miscellaneous Bowl Replacement				15,000		15,000
Subtotal	\$ 124,591	\$ -	\$ 135,200	\$ 3,801,100	\$ 1,911,800	\$ 2,497,700

Fair Oaks Water District

2007 Budget

Capital Improvement Program

Description	Actual 2003	Actual 2004	Actual 2005	Budget 2006	Estimated 2006	Projected 2007
Transmission & Distribution						
Services Upgrade		\$ 6,832	\$ 52,862	\$ 60,000	\$ 9,100	\$ 15,000
Hydrant Upgrades		11,539	38,900	40,000	27,700	25,000
Minor Main Upgrades		3,644	-	20,000		10,000
Developer's Paid Projects-Srvc Installation etc.		57,252	39,283	75,000	58,100	60,000
Developer's Paid Main Line Projects			13,936	15,000	50,900	50,000
Transmission Main Line Inspection & Report				38,100		
Two 24" Butterfly T-Main Valve				51,200		
North Winding Way (12-inch Distribution Main)		813	29,475	247,500	353,800	
Master Plan Update		11,857		32,600	2,600	
Watkins Dr Rep/Ext FOB to Main				231,000	329,800	
Timothy (Phase I)				200,700	316,900	
Deborah Lane/Orangewood Dr/Magnolia/						
New York/Oakhurst/Valley View		491,428				
Phoenix Park Abandonment		141,070		2,500		
Fair Oaks Blvd. Phase 1						153,000
Fair Oaks Blvd. Phase 2						20,000
Hawaiian Tract Phase 1						371,000
Hawaiian Tract Phase 2						447,000
Bracken Road						90,300
T-Main Feasibility Study						100,000
T-Main Phase 1						367,200
Subtotal	\$ 876,803	\$ 724,435	\$ 174,456	\$ 1,013,600	\$ 1,148,900	\$ 1,708,500
Total CIP¹	\$ 1,001,394	\$ 724,435	\$ 309,656	\$ 4,814,700	\$ 3,060,700	\$ 4,206,200

¹ Includes labor & benefits of \$230,000 in the 2007 budget.

**Reserves and Designations
2005 Budget vs. Actual**

	2005 Revenues	[1] Operating Designation	[2] Grants	[3] Connection Fee	[4] Annexation Fee	[5] Meter Designation	[6] Emergency Designation	[7] Admin. Facility Designation	[8] Fixed Asset Designation	[9] Rate Stabilization Designation	COP Retirement	Total
Beginning Reserve and Designation Balance		\$ 1,140,725		\$ 731,481	\$ -	\$ 364,937	\$ 913,933	\$ 1,171,960	\$ 3,147,594	\$ 1,018,239	\$ 658,346	\$ 9,147,215
<i>Add: Revenues Collected</i>												
Water Sales	7,659,757											
Interest Income	354,769											
Delinquencies & Late Fees	114,578											
Fees for Service	154,140											
Connection Fees	509,105											
Annexation Fees	186,095											
Grants	15,000											
Miscellaneous Revenue and Grants	23,257											
	9,016,701											
2005 Allocation	(9,016,701)	5,565,130	15,000	509,105	186,095	64,382	76,598	844,031	1,419,171	306,390	2,129	8,988,030
2005 Interest Allocation	(28,671.00)			28,671								28,671
	-											-
Subtotal Reserves and Designations		\$ 6,705,855	\$ 15,000	\$ 1,269,257	\$ 186,095	\$ 429,319	\$ 990,531	\$ 2,015,991	\$ 4,566,765	\$ 1,324,629	\$ 660,475	\$ 18,163,916
Expenses and payments												
Departmental Expenses		4,081,498										4,081,498
Information Technology		41,271										41,271
Debt Service		987,782										987,782
Facilities & Equip		15,934						21,471				37,405
Vehicles & Maintenance Equipment		75,651										75,651
CIP		153,668	-	126,513					29,475			309,656
Metering		1,036,281	15,000			429,319					-	1,480,600
Total Expenses and Infrastructure		\$ 6,392,084	\$ 15,000	\$ 126,513	\$ -	\$ 429,319	\$ -	\$ 21,471	\$ 29,475	\$ -	\$ -	\$ 7,013,862
Additional proposed allocation												-
Ending Reserve and Designation Balance¹⁰		\$ 313,771	\$ -	\$ 1,142,744	\$ 186,095	\$ -	\$ 990,531	\$ 1,994,520	\$ 4,537,290	\$ 1,324,629	\$ 660,475	\$ 11,150,053
Less: Deferred projects		-	-	-	-	-	-	(1,994,520)	(4,030,440)	-	-	(6,024,960)
Net Ending Reserve and Designation Balance		\$ 313,771	\$ -	\$ 1,142,744	\$ 186,095	\$ -	\$ 990,531	\$ -	\$ 506,850	\$ 1,324,629	\$ 660,475	\$ 5,125,093
2005 Budget		\$ 334,900		\$ -		\$ -	\$ 990,700	\$ -	\$ 1,031,900	\$ 1,324,200	\$ 662,800	\$ 4,344,500
Difference between Budget & Net Ending Reserve		-6.3%		100.0%		100.0%	0.0%	100.0%	-50.9%	0.0%	-0.4%	19.4%

- 2) Grants from wellsite reimbursement (50%) and \$15k from US Bureau used for AMR (radio reads).
- 3) Connection fee reserve for capacity related project. Amount collected is mainly from GUM Ranch; usage was for wellsite projects 50% of actual project costs.
- 4) Annexation fee reserve for capacity related project. Amount collected from GUM Ranch.
- 5) Meter Designation used 100% for meter costs.
- 6) Emergency Designation allocation is based on 1% of total water sales. Target balance is \$1 million.
- 7) Admin. Facility allocation is based on 1% of water sales plus allocation for Admin. Facility.
- 8) Fixed Asset Designation is 12% of total water sales plus allocation for deferred projects. Target balance is \$1-1.5 million.
- 9) Rate Stabilization is 4% of total water sales. Target balance is \$2.7 million by 2011.
- 10) Ending reserve balance for connection fee decreased by \$63,256.60 due to grant amount for well sites not received yet.

**Reserves and Designations
Deferred Projects
2005 Budget vs. Actual**

Deferred Projects as of 12/31/05

Fixed Asset Designation

Budget yr			<u>Amount</u>
2000	Visual Reader	EQ	\$ 1,120
2000	Portable electr. read meter tester	EQ	2,400
2002	Pressure Zone (RPZ 4)	CIP	15,900
2003	7644/49 Huntridget	CIP	17,200
2003	Visage to Nimbus Over Look Hydrant	CIP	25,400
2003	El Capitano	CIP	31,600
2003	Pressure Zone(Crestridge, F.O. Blvd., Lemon, Minn.)	CIP	50,000
2002	Tank site meters and motors	CIP	70,000
2003	Greenridge Pipeline upgrade	CIP	81,800
2003	Timothy & Sunset	CIP	259,700
2000	Comm. Washing Machine/Dryer	EQ	2,320
2004	Wellsite-Town Well	CIP	1,093,008
2004	North Winding Way	CIP	257,713
2005	Hazel Avenue	CIP	1,000,000
2005	Wellsite-Heather	CIP	1,122,279
	Total Fixed Asset Designation Deferred Projects		\$ 4,030,440

Administrative Facility Deferred Projects

2004	New Administrative Building		\$ 500,000
2005	New Administrative Building		1,500,000
2005	New Administrative Building - Usage		(5,480)
	Total Administrative Facility Deferred Projects		\$ 1,994,520

Total Deferred Projects			\$ 6,024,960
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**Reserves and Designations
2006 Estimated**

	2006 Revenues	[1] Operating Designation	[2] Grants	[3] Connection Fee	[4] Annexation Fee	[5] Emergency Designation	[6] Admin. Facility Designation	[7] Fixed Asset Designation	[8] Rate Stabilization Designation	COP Retirement	Total
Beginning Reserve and Designation Balance		\$ 313,771	\$ -	\$ 1,142,744	\$ 186,095	\$ 990,531	\$ 1,994,520	\$ 4,537,290	\$ 1,324,629	\$ 660,475	\$ 11,150,053
<i>Add: Revenues Collected</i>											
Water Sales	7,702,100										
Interest Income	572,600										
Delinquencies & Late Fees	120,000										
Fees for Service	75,000										
Connection Fees	170,000										
Annexation Fees	-										
Grants	444,900										
Miscellaneous Revenue and Grants	32,000										
	9,116,600										
2006 Allocation	(9,116,600)	7,037,853	444,900	170,000	-	9,469	77,021	924,252	385,105	-	9,048,600
2006 Interest Allocation				68,000							68,000
											-
Subtotal Reserves and Designations		\$ 7,351,624	\$ 444,900	\$ 1,380,744	\$ 186,095	\$ 1,000,000	\$ 2,071,541	\$ 5,461,542	\$ 1,709,734	\$ 660,475	\$ 20,266,653
Expenses and payments											
Departmental Expenses		4,319,000							19,900		4,338,900
Information Technology		23,600	-								23,600
Debt Service		988,000									988,000
Facilities & Equip		4,500					835,000				839,500
Vehicles & Maintenance Equipment		258,300									258,300
CIP		-	444,900	690,372				1,925,428			3,060,700
Metering		1,801,200								-	1,801,200
Total Expenses and Infrastructure		\$ 7,394,600	\$ 444,900	\$ 690,372	\$ -	\$ -	\$ 835,000	\$ 1,925,428	\$ 19,900	\$ -	\$ 11,310,200
Additional proposed allocation		87,900						(87,900)			-
Ending Reserve and Designation Balance		\$ 44,924	\$ -	\$ 690,372	\$ 186,095	\$ 1,000,000	\$ 1,236,541	\$ 3,448,214	\$ 1,689,834	\$ 660,475	\$ 8,956,500
Less: Deferred projects		-	-	-	-	-	(1,159,500)	(3,148,200)	-	-	(4,307,700)
Net Ending Reserve and Designation Balance		\$ 44,900	\$ -	\$ 690,400	\$ 186,100	\$ 1,000,000	\$ 77,000	\$ 300,000	\$ 1,689,800	\$ 660,500	\$ 4,648,700
Policy (5050) Requirement		\$ 2,558,600		N/A	N/A	\$ 1,000,000	\$ 1,000,000	\$ 1,500,000	\$ 2,700,000	\$ 658,000	\$ 9,416,600

- 2) Grants from Heather and Town wellsites reimbursement (50%) .
- 3) Connection fee reserve for capacity related project.
- 4) Annexation fee reserve for capacity related project.
- 5) Emergency Designation allocation is based on 1% of total water sales. Target balance is \$1 million.
- 6) Admin. Facility allocation is based on 1% of water sales.
- 7) Fixed Asset Designation is 12% of total water sales. Target balance is \$1-1.5 million.
- 8) Rate Stabilization is 4% of total water sales. Target balance is \$2.7 million by 2011.

Note: Residential Metering Designation is not reflected in the above illustration due to no carryforward balance and no allocation in 2006.

**Reserves and Designations
Deferred Projects
2006 Estimated**

Total Estimated Deferred Projects as of 12/31/06

Fixed Asset Designation

Budget yr	Amount
2000 Visual Reader	\$ 1,120
2000 Portable electr. read meter tester	2,400
2000 Comm. Washing Machine/Dryer	2,320
2002 Pressure Zone (RPZ 4)	15,900
2002 Tank site meters and motors	70,000
2003 7644/49 Huntridget	17,200
2003 Visage to Nimbus Over Look Hydrant	25,400
2003 El Capitano	31,600
2003 Pressure Zone(Crestridge, F.O. Blvd., Lemon, Minnesota)	50,000
2003 Greenridge Pipeline upgrade	81,800
2005 Hazel Avenue	1,000,000
2006 Town Well	853,600
2006 Heather Well	996,900
Total Estimated Fixed Asset Designation Deferred Projects	\$ 3,148,200

Administrative Facility Deferred Projects

2004 New Administrative Building	\$ 500,000
2005 New Administrative Building	1,500,000
2005 New Administrative Building - Usage	(5,480)
2006 New Administrative Building - Usage	(835,000)
Total Estimated Administrative Facility Deferred Projects	\$ 1,159,500

Total Estimated Deferred Projects	\$ 4,307,700
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**Reserves and Designations
2007 Projected**

	2007 Revenues	[1] Operating Designation	[2] Grants	[3] Connection Fee	[4] Annexation Fee	[5] Emergency Designation	[6] Admin. Facility Designation	[7] Fixed Asset Designation	[8] Rate Stabilization Designation	COP Retirement	Total
Beginning Reserve and Designation Balance		\$ 44,924	\$ -	\$ 690,372	\$ 186,095	\$ 1,000,000	\$ 1,236,541	\$ 3,448,214	\$ 1,689,834	\$ 660,475	\$ 8,956,500
<i>Add: Revenues Collected</i>											
Water Sales	7,789,400										
Interest Income	400,000										
Delinquencies & Late Fees	95,000										
Fees for Service	60,000										
Connection Fees	150,000										
Annexation Fees	-										
Grants	996,400										
Miscellaneous Revenue and Grants	10,000										
	9,500,800										
2007 Allocation	(9,500,800)	6,995,702	996,400	150,000	-	-	77,894	934,728	311,576	-	9,466,300
2007 Interest Allocation				34,500							34,500
											-
Subtotal Reserves and Designations		\$ 7,040,626	\$ 996,400	\$ 874,872	\$ 186,095	\$ 1,000,000	\$ 1,314,435	\$ 4,382,942	\$ 2,001,410	\$ 660,475	\$ 18,457,300
Expenses and payments											
Departmental Expenses		4,811,100									4,811,100
Information Technology		13,600	17,400								31,000
Debt Service		998,200									998,200
Facilities & Equip		195,537					1,314,463				1,510,000
Vehicles & Maintenance Equipment		197,900									197,900
CIP		-	979,000	874,900	186,100	-		2,166,200			4,206,200
Metering		455,300						2,216,700			2,672,000
Total Expenses and Infrastructure		\$ 6,671,637	\$ 996,400	\$ 874,900	\$ 186,100	\$ -	\$ 1,314,463	\$ 4,382,900	\$ -	\$ -	\$ 14,426,400
Additional proposed allocation		-									-
Ending Reserve and Designation Balance		\$ 369,000	\$ -	\$ -	\$ -	\$ 1,000,000	\$ -	\$ -	\$ 2,001,400	\$ 660,500	\$ 4,030,900
Less: Deferred projects		-	-	-	-	-	-	-	-	-	-
Net Ending Reserve and Designation Balance		\$ 369,000	\$ -	\$ -	\$ -	\$ 1,000,000	\$ -	\$ -	\$ 2,001,400	\$ 660,500	\$ 4,030,900
Policy (5050) Requirement		\$ 2,813,500		N/A	N/A	\$ 1,000,000	\$ 1,000,000	\$ 1,500,000	\$ 2,700,000	\$ 658,000	\$ 9,671,500

- 2) Grants from wellsite reimbursement (50%) and \$17.4k from US Bureau will be used for Conservation software for reporting.
- 3) Connection fee reserve for capacity related project.
- 4) Annexation fee reserve for capacity related project.
- 5) Emergency Designation allocation is based on 1% of total water sales. Target balance is \$1 million.
- 6) Admin. Facility allocation is based on 1% of water sales.
- 7) Fixed Asset Designation is 12% of total water sales. Target balance is \$1-1.5 million.
- 8) Rate Stabilization is 4% of total water sales. Target balance is \$2.7 million by 2011.

Note: Residential Metering Designation is not reflected in the above illustration due to no carryforward balance and no allocation in 2007.

Fair Oaks Water District

Schedule of service rates in 2007

Effective January 1, 2007

User Category	2006 Rate	Rate Adjustment	2007 Rate
Single family, up to .50 acre	\$520.00	\$0.00	\$520.00
Single family, .51 to 1.0 acre base	\$605.00	\$0.00	\$605.00
Additional premium lot fee (over 1.0 acre base, per acre, pro-ratable)	\$438.00	\$0.00	\$438.00
Second dwelling unit	\$399.00	\$0.00	\$399.00
Duplex-one service connection	\$524.00	\$0.00	\$524.00
Duplex-two service connections	\$915.00	\$0.00	\$915.00
Condominiums	\$416.00	\$0.00	\$416.00
Shared meter service customer fee	\$392.00	\$0.00	\$392.00

Common Areas	Service Charge	plus	per acre fee
<i>Up to one acre parcel</i>	2004 Rate	plus	\$398.00
	2005 Rate	plus	\$438.00
	2006 Rate	plus	\$438.00
	2007 Rate	plus	\$438.00
	2007 Rate	plus	\$438.00
<i>One to two acre parcel</i>	2004 Rate	plus	\$398.00
	2005 Rate	plus	\$438.00
	2006 Rate	plus	\$438.00
	2007 Rate	plus	\$438.00
	2007 Rate	plus	\$438.00
<i>Over two acre parcel</i>	2004 Rate	plus	\$398.00
	2005 Rate	plus	\$438.00
	2006 Rate	plus	\$438.00
	2007 Rate	plus	\$438.00
	2007 Rate	plus	\$438.00

- (1) Any non-residential accounts that cannot be metered will pay their current flat rate, plus the proposed rate increase for each year. Additionally, individual parcels who share a common meter will each be invoiced based upon a one inch metered service fee, plus shared water use.
- (2) Customers outside the district's service area will pay 150% of the above rates or as otherwise determined by Fair Oaks Water District.

Fair Oaks Water District

Metered Service and Commodity Rates ⁽¹⁾

Based upon 2007 Budget

	<u>Actual 2004</u>	<u>Actual 2005</u>	<u>Actual 2006</u>	<u>2007</u>
Uniform Commodity Rate (\$/CCF) ⁽²⁾ :	\$0.30	\$0.33	\$0.33	\$0.33
Bi-Monthly Service Charges (every two months.):				
<u>Mtr. Size</u>	<u>Charge</u>	<u>Charge</u>	<u>Charge</u>	<u>Charge</u>
1"	59.18	65.10	65.10	65.10
1 1/2"	108.46	119.31	119.31	119.31
2"	167.53	184.28	184.28	184.28
3"	325.05	357.56	357.56	357.56
4"	502.37	552.61	552.61	552.61
5"	797.06	876.77	876.77	876.77
6"	994.40	1,093.84	1,093.84	1,093.84
8"	1,586.20	1,744.82	1,744.82	1,744.82
10"	2,471.70	2,718.87	2,718.87	2,718.87

These rates were developed using the same rate setting methodology as outlined in the Hilton Farnkopf & Hobson and The Reed Group, Inc. water rate study, November 12, 1998. Commodity costs reflect the variable cost of water use. Service charges reflect customer costs and capacity costs. The capacity cost portion includes fixed costs of the District. Costs were allocated at 10.7% customer costs, 64.8% capacity costs, 24.5% commodity costs. As the District gathers actual data on consumption and revenue patterns based upon metered billing, the cost allocations will likely be modified to allocate a larger percentage to commodity costs.

(1) Customers outside the district's service area will pay 150% of the above water rates or as otherwise determined by Fair Oaks Water District.

(2) One CCF is equal to 100 cubic feet. 100 cubic feet is equal to 748 gallons. The commodity rate is invoiced based upon CCFs used.

Fair Oaks Water District

Schedule of Fees and Charges

2007

Activity	Actual 2004	Actual 2005	Actual 2006	2007
Connection (system utilization) fees:				
1" service	\$ 2,250	\$ 2,475	\$ 2,475	\$ 2,475
1 ½" service	\$ 3,850	\$ 4,235	\$ 4,235	\$ 4,235
2" service	\$ 5,830	\$ 6,413	\$ 6,413	\$ 6,413
4" service	\$ 17,050	\$ 18,755	\$ 18,755	\$ 18,755
6" service	\$ 33,550	\$ 36,905	\$ 36,905	\$ 36,905
8" service	\$ 44,550	\$ 49,005	\$ 49,005	\$ 49,005
Tapping and service installation fees, District installed ⁽¹⁾:				
1" service	\$ 2,200	\$ 2,420	\$ 2,420	\$ 2,420
1 ½" service	\$ 2,860	\$ 3,146	\$ 3,146	\$ 3,146
2" service	\$ 3,300	\$ 3,630	\$ 3,630	\$ 3,630
Peak Hour Pressure and Flow Mitigation Fee				
Based upon peak hour system demand increases calculated for all new development.				
Per gallon per minute of impact	\$ 42	\$ 46	\$ 46	\$ 46
Hydrant Flow Testing (minimum)				
Minimum test fee	\$ 138	\$ 152	\$ 152	\$ 152
Trouble shooting: per hour rate (2 persons minimum)	\$ 103	\$ 113	\$ 113	\$ 113
Fire Flow (minimum)				
Fire flow letter - Standard service	\$ 69	\$ 76	\$ 76	\$ 76
Fire flow letter - Same day service	\$ 138	\$ 152	\$ 152	\$ 152
Fire flow verification - Standard	\$ 94	\$ 103	\$ 103	\$ 103
Fire flow verification - Additional	\$ 187	\$ 206	\$ 206	\$ 206
Backflow Testing				
Normal Turnaround (one week service)	\$ 70	\$ 77	\$ 77	\$ 77
Same day service	\$ 135	\$ 149	\$ 149	\$ 149
Retesting	\$ 70	\$ 77	\$ 77	\$ 77
Service and repairs to backflow (per hour)	\$ 75	\$ 83	\$ 83	\$ 83
New installation and retrofits ²	T & M	T & M	T & M	T & M

Activity	Actual 2004	Actual 2005	Actual 2006	2007
Inspection And Supervision Fees ⁽²⁾ :				
Inspection Fee (minimum)				
Inspection per hour - standard	\$ 72	\$ 79	\$ 79	\$ 79
Inspection - additional/non-standard	\$ 110	\$ 121	\$ 121	\$ 121
Private Development Fees (Minimum):				
Calculated at 5% of the estimated Public Water system value				
OR				
Pipeline inspections (each)	\$ 414	\$ 455	\$ 455	\$ 455
Notifications and shutdowns (each)	\$ 220	\$ 242	\$ 242	\$ 242
Tie-ins (each)	\$ 276	\$ 304	\$ 304	\$ 304
Hydrostatic testing (each)	\$ 276	\$ 304	\$ 304	\$ 304
Plan checking (minimum)	\$ 220	\$ 242	\$ 242	\$ 242
Plan checking-additional (per hour)	\$ 99	\$ 109	\$ 109	\$ 109
County trench cut fee(per square foot)	\$ 14	\$ 15	\$ 15	\$ 15
Construction Fees:				
Based upon labor, equipment and materials for each project:				
Water Usage Fees:				
Basic residential service, annually	\$ 473	\$ 520	\$ 520	\$ 520
Special service, per 100 cubic feet	\$ 1.27	\$ 1.40	\$ 1.40	\$ 1.40
<i>Construction water</i>				
Schedule A (per lot or parcel)	\$ 47	\$ 52	\$ 52	\$ 52
Schedule B (trench excavation, per CY)	\$ 9	\$ 10	\$ 10	\$ 10
Schedule C (grading, per 100 CY)	\$ 9	\$ 10	\$ 10	\$ 10
Schedule D (acreage, per acre)	\$ 199	\$ 219	\$ 219	\$ 219
Schedule E (metered usage, per 1000 gal.)	\$ 8	\$ 9	\$ 9	\$ 9
Special Event - non-metered: daily ⁽³⁾	\$ 45	\$ 50	\$ 50	\$ 50
Annual fire line maintenance fee	\$ 24	\$ 26	\$ 26	\$ 26
Coliform samples (each)	\$ 66	\$ 73	\$ 73	\$ 73

Notes:

- (1) Fees listed are based on estimated average costs for services provided on typical projects, and are listed here for reference only. Actual charges will be based on the District's total incurred project cost, and may vary substantially from the price quoted herein. For new construction, the appropriate connection fee will be charged in addition to installation fees.
- (2) Fees listed are based on estimated average costs for services provided on typical projects, and are listed here for reference only. Actual charges will be based on the District's total incurred cost, at the rate of \$60 - \$95 per hour, plus expenses, and may vary substantially from the price quoted.
- (3) Minimum service fee for any special event not previously defined.

Fair Oaks Water District
Schedule of Billing Fees and Charges
2007

Activity	Actual 2004	Actual 2005	Actual 2006	2007
Payment Processing Fees:				
Return Check	\$ 25	\$ 30	\$ 30	\$ 30
Late Penalty Fee				
Penalty Assessed After the Payment Due Date-1st Month	10%	10%	10%	10%
Subsequent Months	1 ½%	1 ½%	1 ½%	1 ½%
Disconnect Service Fee				
Field Charge - Hanging 48 Hr Notice	\$ 17	\$ 19	\$ 19	\$ 19
Reconnect Fee	\$ 55	\$ 61	\$ 61	\$ 61
Deposit ⁽¹⁾	\$ 125	\$ 125	\$ 125	\$ 125

Notes:

⁽¹⁾ Deposit is required before the service will be reconnected. This deposit will be refunded to the customer after one year of timely payment or at the time of change in ownership of the property, which ever is earlier.