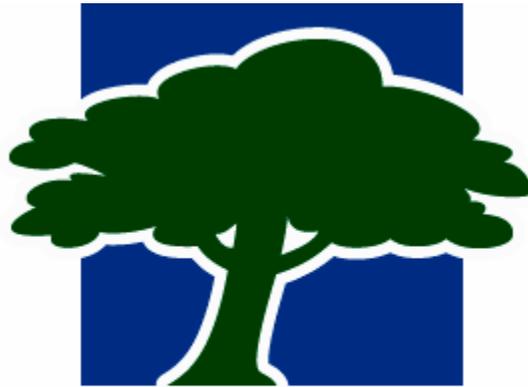


COMPREHENSIVE ANNUAL  
FINANCIAL REPORT  
FOR THE YEAR ENDING DECEMBER 31, 2008

FAIR OAKS WATER DISTRICT — Fair Oaks, California





**FAIR OAKS  
WATER DISTRICT**

*Fair Oaks, California*

**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT**

**YEAR ENDED  
DECEMBER 31, 2008**

*Prepared By  
Finance Department*

**FAIR OAKS WATER DISTRICT**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**December 31, 2008**

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**TABLE OF CONTENTS**

**INTRODUCTORY SECTION**

Letter of Transmittal .....	i
Certificate of Achievement .....	viii
List of District Officials .....	ix
Organization Chart .....	x

**FINANCIAL SECTION**

Independent Auditor's Report .....	1
Management's Discussion and Analysis .....	3

Basic Financial Statements

Balance Sheets .....	12
Statements of Revenues, Expenses and Changes in Net Assets .....	13
Statements of Cash Flows .....	14
Notes to the Basic Financial Statements .....	16

Additional Information

Debt Service Rate Covenant .....	32
----------------------------------	----

**STATISTICAL SECTION**

Description of Statistical Section .....	33
--	----

Financial Trends

Schedule of Net Assets by Component .....	34
Schedule of Changes in Net Assets .....	35

Revenue Capacity

Water Sales by Type of Customer .....	36
Principal Rate Payers .....	37

Debt Capacity

Ratios of Outstanding Debt by Type and Number of Connections .....	38
Schedule of Debt Service .....	39

**FAIR OAKS WATER DISTRICT**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**December 31, 2008**

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**TABLE OF CONTENTS**  
**(Continued)**

Demographic and Economic Information

Demographic and Economic Statistics .....	40
Top Ten Employers.....	41

Operating Information

Operating Information .....	42
-----------------------------	----

**COMPLIANCE REPORT**

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	43
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## **INTRODUCTORY SECTION**



March 2, 2009

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, 2008. 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, schedules, and independent auditor’s report on these financial statements and schedules are included on the financial section of the report. 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. 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 a majority of its water from San Juan Water District (“San Juan”) as treated water, and delivers it to approximately 14,470 residential and commercial service connections. Additionally, the District maintains six groundwater wells, 180 miles of pipeline, and a three million gallon water storage facility and a booster station.

### **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 the eastern portion of 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 historic data, the District is forecasting a slow but steady revenue increase based on 10 new service 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. The District plans to introduce metered rates in 2011. All commercial accounts have been billed based on metered rates since 2002. To mitigate the forecasted future decline in revenues from 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 current housing market downturn, along with an increase in unemployment in Sacramento County, has somewhat affected the District. While revenues remain fairly unaffected; processing fees for credit card usage and staff time processing accounts for foreclosed homes are higher.

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 District adopted the new reserve policy on May 14, 2007 which decreased the reserve requirements for 2007 and 2008 compared to previous years.

The Fair Oaks Water District and its wholesale water supplier continue to encounter changes in operations due to new regulations. The impact of current and future regulations and the

resetting cost on water supply operations are an ongoing challenge for District management. The District anticipates a 8% rate increase from its wholesale water supplier in 2010. The District used the best available data at the time of its budget preparation to forecast the impact of the regulatory environment on operational costs on the 2009 budget as adopted on November 10, 2008.

## **Significant Projects and Future Plans**

### Meters

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 2007. 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.

During 2008, the District installed 1,317 meters as part of the Meter Implementation Plan. As of December 31, 2008, the District has installed approximately 11,160 meters and has approximately 3,310 existing service connections that require meters to be installed. To expedite the metering installation, the District intends to use all of its maintenance crew to install meters in 2009; while contracting out capital budget water main projects. 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; in addition to adding groundwater supply to the system. The District completed the Hawaiian Tract Water Main Relocation Project and installed two 24" Butterfly T-Main Valves in 2008. Additional projects scheduled for 2009 include:

- Hazel Widening Project Phase I at an estimated cost of \$420,000.
- T-Main Feasibility Study at an estimated cost of \$40,000.

### Customer Service and Administration

To increase the quality of service to the public, as well as accommodate internal needs, the District is building new 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 existing building does not meet current seismic or wind loading requirements.

Anova Architects, Inc. was selected to design and manage the new building projects. The District incurred costs of \$1,235,952 as of December 31, 2008 for the new building projects. The District anticipates completing construction of phase I of the new building projects in 2009.

### Water Conservation

Conservation is an integral component of the 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; 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.
- Water survey program for single family and multi-family residential customers.
- 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 Spring Fest, 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.
- Public information in conjunction with full participation by the Fair Oaks Water District in the Regional Water Authority's (RWA's) Water Efficiency Program (WEP).
- School education program in conjunction with full participation by Fair Oaks Water District in the RWA Water Efficiency Program.
- Water waste prohibition.
- An aggressive water meter installation and education program.

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 continues today, and generally calls for the use of surface water from lakes and rivers in wet periods, while storing underground water supplies for later use, when surface waters are needed for environmental purposes. Participating members are motivated to plan for and meet the greater Sacramento areas' water needs to the year 2030, especially in drought years.

The Fair Oaks Water District is currently working with other regional water stakeholders to continue the implementation for the year 2030 water management plan.

## **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 detailing operating expenses, capital infrastructure investments, debt obligations, designations and reserves. For the year ending December 31, 2008, the budget was adopted December 10, 2007.

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 a 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 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 to plan for the future needs of the District.

### Capital Assets

As of December 31, 2008, the District changed the estimated useful lives for the various capital assets to reflect industry standard. This change resulted in a decrease in depreciation expense of \$668,595 in 2008. More detail is discussed under Note L on page 31.

### District Reserve Fund

The Board adopted an updated reserves policy on May 14, 2007 with the following reserves and designations: Certificate of Participation (COP) reserve, connection fee reserve, rate stabilization designation, and emergency designation. The policy requires the District to maintain \$658,000 of the Certificate of Participation (COP) reserve, three months of operating expenses for the rate stabilization designation, and six months of operating expenses for emergency and other operating designation. The connection fee reserve will be used for capacity expansion and has no designated balance.

## **Other Information**

### Independent Audit

California Government Code Section 26909 requires independent annual audits to be conducted for special districts. Richardson & Company was selected to conduct the annual audit of 2008 District operations. The auditor's report is included in the financial section of the Comprehensive Annual Financial Report.

### Awards and 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.

The District received a certificate of achievement for excellence in financial reporting from the Government Finance Officers Association of the United States and Canada for year ended December 31, 2007.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Tom R. Gray", enclosed within a large, loopy oval shape.

Tom R. Gray  
General Manager

A handwritten signature in black ink, appearing to read "Chi Ha-Ly", written in a cursive style.

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, 2007

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.



A handwritten signature in black ink, appearing to read "M. L. Post".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

Executive Director

**BOARD OF DIRECTORS**

Timothy Healey  
President

Barry Brown  
Vice President

Daniel Gilliam  
Director

Randy Marx  
Director

Misha Sarkovich  
Director

**STAFF**

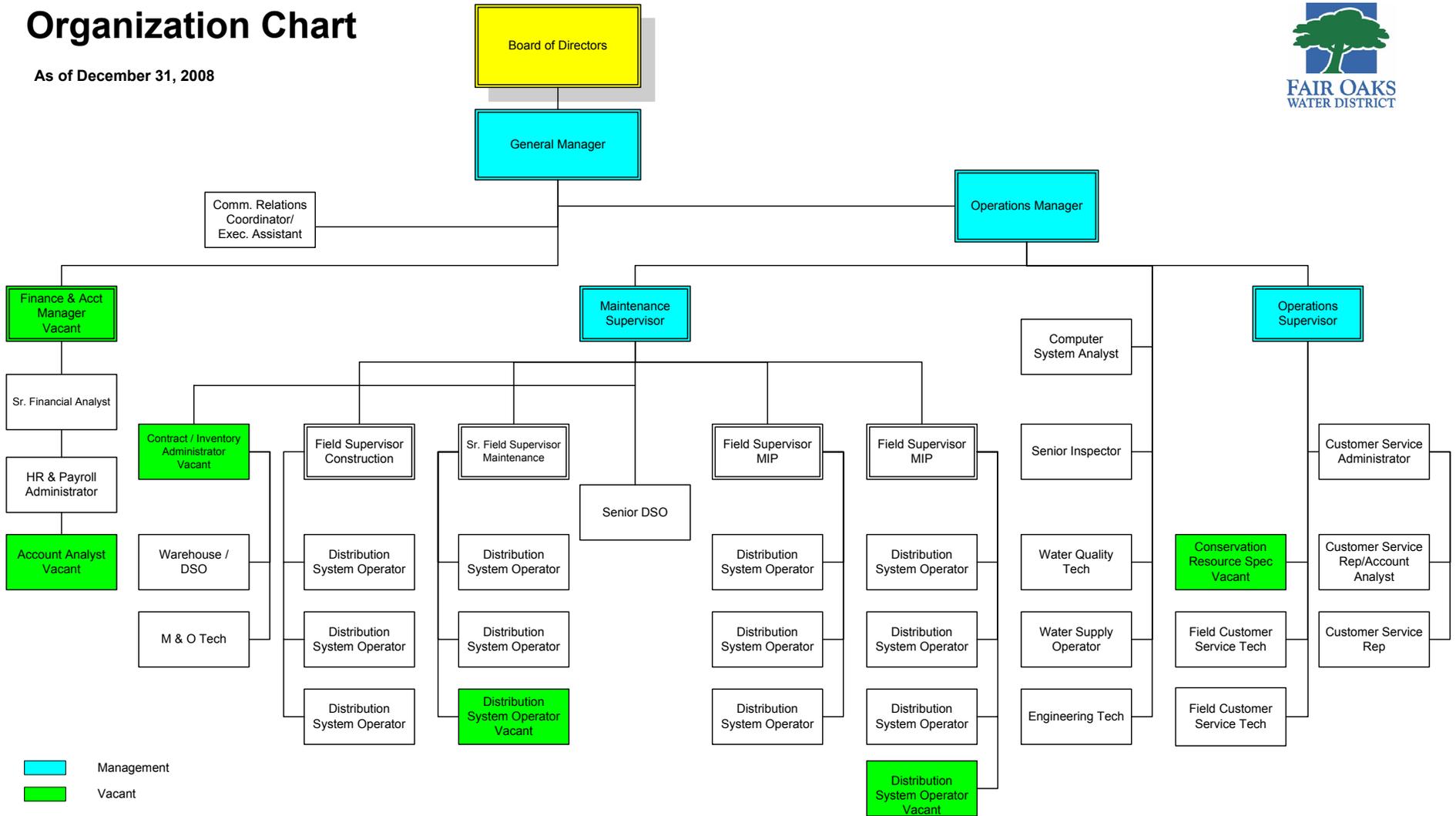
Tom R. Gray  
General Manager

Michael Nisenboym  
Operations Manager

Chi Ha-Ly  
Senior Financial Analyst

# Organization Chart

As of December 31, 2008





## **FINANCIAL SECTION**

**INDEPENDENT AUDITOR'S REPORT**

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

We have audited the accompanying balance sheets of the Fair Oaks Water District as of December 31, 2008 and 2007 and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2008 and 2007 and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

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.

To the Board of Directors  
Fair Oaks Water District

In accordance with *Government Auditing Standards*, we have also issued a report thereon dated March 2, 2009 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. 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.

*Richardson & Company*

March 2, 2009

**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, 2008. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal and the audited financial statements.

### Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$37,290,491 (net assets). Of this amount, \$7,868,497 of unrestricted net assets may be used to meet the District's ongoing obligations to citizens and creditors.
- Based on the District's reserve policy 5050 adopted on May 14, 2007, the District has designated \$4.1 million dollars for emergencies and rate stabilization.
- The District's total net assets increased by \$3,813,950.
- The District's total debt decreased by \$838,112 during the fiscal year due to scheduled principal payments.
- Water sales increased by \$271,132, while other operating revenues decreased by \$199,433 during the fiscal year.
- Maintenance and Operation costs had a net increase of \$115,948. Water supply and pumping had a net increase of \$179,441. Customer service had a net decrease of \$17,786. Administration and general costs had a net decrease of \$94,907.

### 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, with recovery of all 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 services 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 15.

#### 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 16 to 31 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 32. The report also includes a statistical section of selected financial information over a 10 year period. This information can be found on pages 33 to 42 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 \$37,290,491 at the close of the most recent fiscal year.

The largest portion of the District's net assets (77 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 delivery service 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

	2008	2007	2006
Current assets	\$ 11,411,672	\$ 10,443,961	\$ 13,205,713
Other assets	2,928,932	3,044,798	3,160,664
Capital assets	28,204,296	25,995,310	21,571,276
Total assets	42,544,900	39,484,069	37,937,653
Long-term liabilities	\$ 1,525,516	\$ 2,379,613	\$ 3,187,436
Other liabilities	3,728,893	3,627,915	3,827,738
Total liabilities	5,254,409	6,007,528	7,015,174
Net assets:			
Invested in capital assets,			
Net of related debt	28,705,015	25,799,589	20,712,839
Restricted	716,979	658,757	1,565,938
Unrestricted	7,868,497	7,018,195	8,643,702
Total net assets	\$ 37,290,491	\$ 33,476,541	\$ 30,922,479

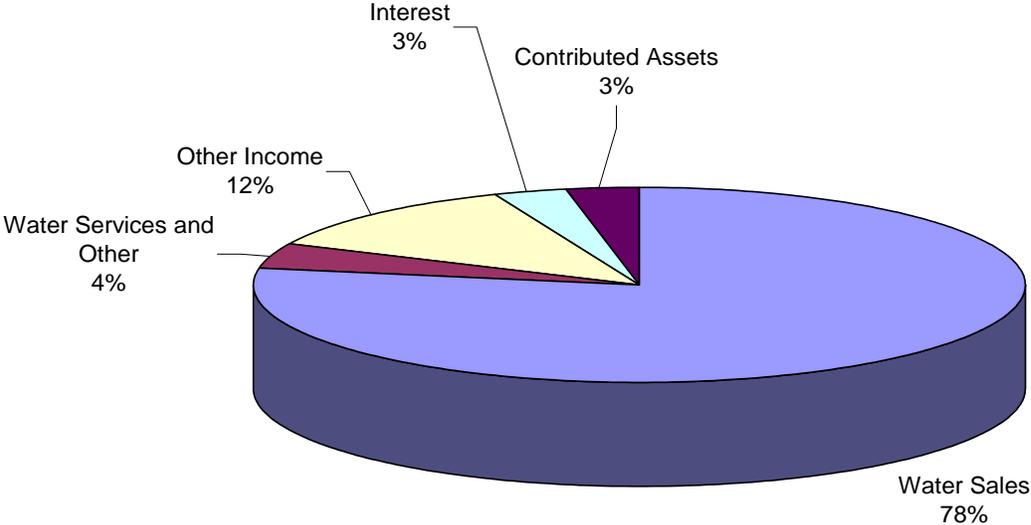
The increase in net assets is largely due to meter installations, work on the building and water main projects. These expenditures contributed to the decrease in cash.

A portion of the District's net assets (approximately 2 percent) represents resources that are subject to external restrictions on how they may be used. Of the invested in capital assets, net of related debt portion, 6 percent of the District's net assets have been invested in water pipeline capacity entitlements, net of related debt (see footnote D, page 26). The District has also designated \$4.1 million dollars emergency and rate stabilization (see footnote F, page 29).

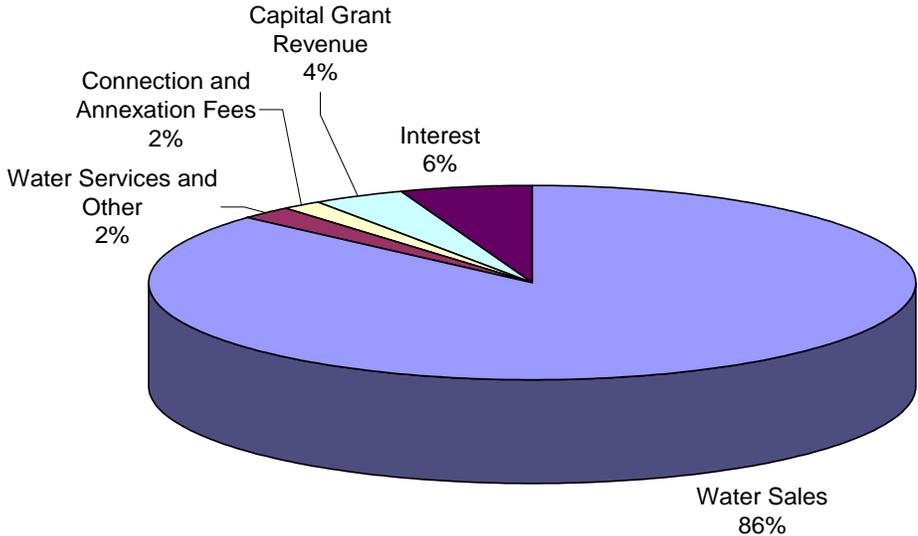
### Fair Oaks Water District Changes in Net Assets

	2008	2007	2006
<b>Operating Revenues:</b>			
Water Sales	\$ 8,021,890	\$ 7,750,758	\$ 7,723,313
Water Services	122,813	98,566	113,255
Other	287,228	112,042	118,046
<b>Total Operating Revenues</b>	<b>8,431,931</b>	<b>7,961,366</b>	<b>7,954,614</b>
<b>Non-Operating Revenues:</b>			
Interest Revenue	318,554	508,938	610,556
Non-Capital Grant Revenue	19,433	9,309	
(Loss) Gain on Disposal of Capital Assets	1,211,350	13,815	11,570
<b>Total Non-Operating Revenues</b>	<b>1,549,337</b>	<b>532,062</b>	<b>622,126</b>
<b>Revenues Before Capital Contrib.</b>	<b>9,981,268</b>	<b>8,493,428</b>	<b>8,576,740</b>
<b>Operating Expenses:</b>			
Water Supply and Pumping	1,627,386	1,447,945	1,321,268
Operations and Maintenance	1,473,302	1,357,354	1,401,320
Customer Service	410,906	428,692	399,124
Administrative and General	1,004,510	1,099,417	994,004
Depreciation and Amortization	1,879,709	1,971,789	1,711,211
<b>Total Operating Expenses</b>	<b>6,395,813</b>	<b>6,305,197</b>	<b>5,826,927</b>
<b>Non-Operating Expenses:</b>			
Interest Expense	147,620	179,779	208,204
<b>Total Non-Operating Expenses</b>	<b>147,620</b>	<b>179,779</b>	<b>208,204</b>
<b>Total Expenses</b>	<b>6,543,433</b>	<b>6,484,976</b>	<b>6,035,131</b>
<b>Net Income Before Capital Contribution</b>	<b>3,437,835</b>	<b>2,008,452</b>	<b>2,541,609</b>
<b>Capital Revenues:</b>			
Contributed Assets	322,500	68,500	
Capital Grant Revenue	179	330,278	1,030,162
Connections and Annexation Fees	53,436	146,832	169,901
<b>Total Capital Revenues</b>	<b>376,115</b>	<b>545,610</b>	<b>1,200,063</b>
<b>Increase in net assets</b>	<b>3,813,950</b>	<b>2,554,062</b>	<b>3,741,672</b>
<b>Net assets January 1</b>	<b>33,476,541</b>	<b>30,922,479</b>	<b>27,180,807</b>
<b>Net assets December 31</b>	<b>\$ 37,290,491</b>	<b>\$ 33,476,541</b>	<b>\$ 30,922,479</b>

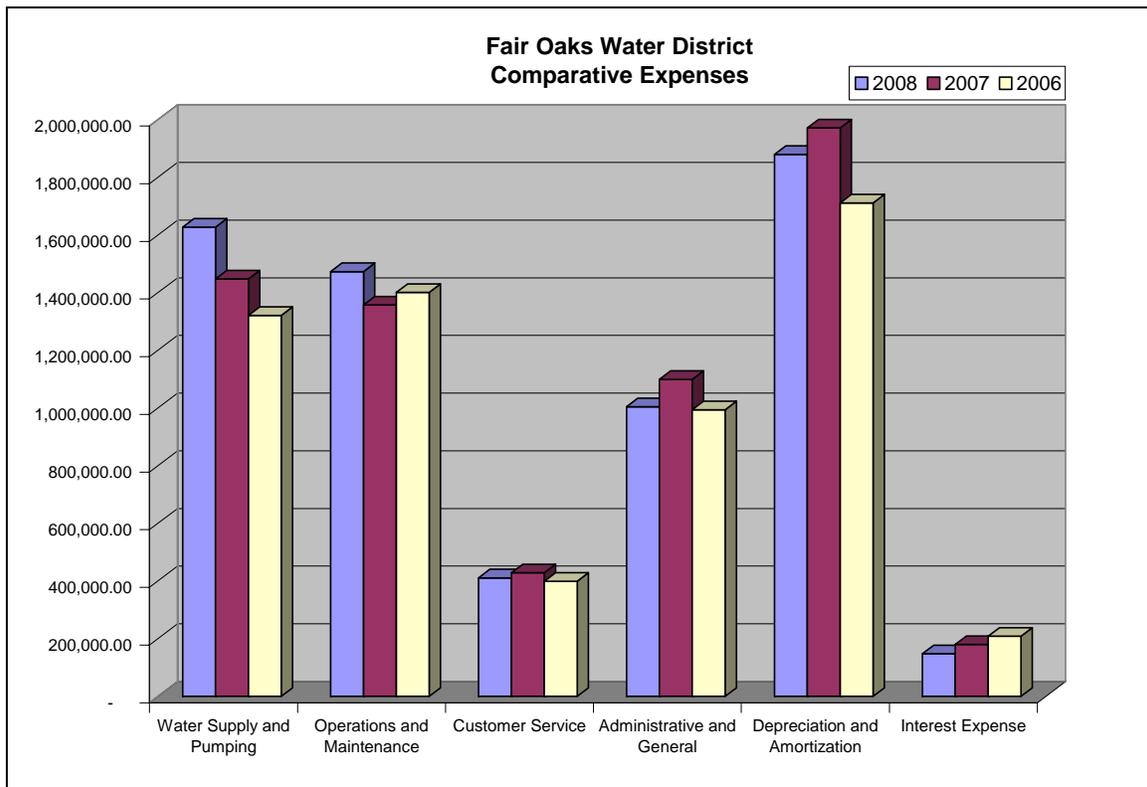
**2008 Revenues by Source**



**2007 Revenues by Source**



- Water sales increased by \$271,132 (3.5 percent) in 2008 and by \$27,445 (less than one percent) in 2007. The increase in revenues was primarily due to Rollingwood accounts for 2007 billed and collected in 2008. The District did not increase water rates in 2008 or 2007.
- Interest income decreased by \$190,384 in 2008 and decreased by \$101,618 in 2007 due to market interest rates fluctuation and a decrease in cash and investment balances.
- The gain on disposal of capital assets increased by \$1,197,535 was a result of selling the Chicago Well in 2008 for \$1,200,000.
- Connections and annexation fees decreased by \$93,396 in 2008. The District did not have any significant development in 2007 or 2008.



- The operations and maintenance had a net increase of \$115,948. The net increase is due to a net increase in salaries and benefits of \$135,580 partially for filling vacant positions and for payments to employees for passing treatment and distribution exams (certificate incentive program). System and maintenance expenses decreased by \$32,687 and County and permit fees increased by \$13,055.
- Customer service had a net decrease of \$17,786 in salaries and benefits due to vacant positions during 2008.
- Administration and general expenses had a net decrease of \$94,907. The decreases in administrative and general are due to misappropriated revenues of \$145,078 being written off in 2007. This decrease was offset by \$50,171 due to an increase in benefits, insurance and professional services.

- Water supply costs increased by \$179,441 due to increased wholesale water costs of \$75,389 and a net increase of \$104,052 in groundwater pumping and maintenance cost.

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

The District's investment in capital assets as of December 31, 2008, amounts to \$28,204,296 (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 8.5 percent.

The District changed the estimated useful life for calculating depreciation for various assets as of December 31, 2008 which resulted in a decrease in depreciation expense of \$668,595. The affected capital assets were: meters, services, and transmission and distribution systems. The useful lives of capital assets were lengthened to reflect industry standard. More detail information is provided in Note L on page 31.

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

- The District installed 1,317 meters and 2,162 AMR (Automatic Meter Read) units on customer service connections at a cost of approximately \$2.3 million as part of the Metering Implementation Program (MIP) in 2008.
- The District completed Hawaiian Tract Water Main Relocation Phases 3 & 4 totaling \$341,763 and \$299,738 respectively.
- The District completed two 24" Butterfly T-Main Valves for \$44,627.
- Approximately \$212,511 was spent on various individual service line and hydrant upgrades in 2008.
- The District purchased: a new backhoe for \$84,659, a Honda Pilot for \$33,549, and a Dodge Ram 1500 for \$13,454. The District also upgraded a dump truck for \$15,075.
- The District incurred \$238,912 for the administrative building in 2008. The total cost for the building project as of December 31, 2008 is \$1,235,952. The building project should be completed in 2009.

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

	2008	2007	2006
Capital Assets, not being depreciated:			
Land	\$ 1,128,565	\$ 1,128,565	\$ 1,128,565
Construction in Progress	622,940	302,773	2,286,979
Total Capital Assets, not being depreciated	<u>1,751,505</u>	<u>1,431,338</u>	<u>3,415,544</u>
Capital Assets, being depreciated:			
Wells and Pumps	4,175,460	4,238,569	52,171
Transmission and Distribution System	16,834,379	15,741,846	13,471,192
Maintenance Equipment	253,626	257,114	56,716
Trucks, Trailers, and Mobile Equipment	446,548	437,080	407,538
Buildings	72,014	78,911	99,922
Office Equipment and Furnishings	65,120	38,501	102,102
Contributed Distribution Systems	3,789,372	3,644,165	3,805,537
Water Tank and Pumping	816,272	127,786	160,554
Total Capital Assets, being depreciated	<u>26,452,791</u>	<u>24,563,972</u>	<u>18,155,732</u>
Total	<u>\$ 28,204,296</u>	<u>\$ 25,995,310</u>	<u>\$ 21,571,276</u>

Additional information on the capital assets can be found in Note C on pages 24 to 25 of this report.

### Long-Term Debt

At the end of the current fiscal year, the District had total debt outstanding of \$2,446,413. Of this amount, \$1,260,000 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 deferred 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>2008</u>	<u>2007</u>	<u>2006</u>
Certificates of Participation	\$ 1,260,000	\$ 1,910,000	\$ 2,530,000
Capacity Entitlement Agreement	<u>1,186,413</u>	<u>1,374,525</u>	<u>1,558,912</u>
Total Debt	2,446,413	3,284,525	4,088,912
Unamortized Difference	<u>(86,776)</u>	<u>(115,699)</u>	<u>(144,621)</u>
Total	<u>\$ 2,359,637</u>	<u>\$ 3,168,826</u>	<u>\$ 3,944,291</u>

Total debt decreased during the fiscal year by \$838,112 due to payments of scheduled principal made during the year. The District's rating has been downgraded from an "AAA" to an "AA-" by Standard & Poor's on the certificates of participation debt as a result of a change in the credit worthiness of the insurer. Additional information on the District's long-term debt can be found in Note E on pages 26 to 28 of this report.

### **Economic Factors and assumptions in preparing the 2009 Budget and Rates**

- The unemployment rate for the greater Sacramento County in which the District resides averaged 7.2% in 2008, up from an average 5.5 % in 2007.
- The District is largely built out, serving approximately 14,470 customers.
- 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.)
- There will be no rate increases in 2009.
- Health benefit costs are expected to increase 7% in 2009.
- 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 1,141 meters in 2009. These costs are extensive and factored into the budget.
- The District intends to use the reserve to fund the shortfall of revenues in 2009.

All of these factors were considered in preparing the District's budget for the 2009 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.

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# **BASIC FINANCIAL STATEMENTS**

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**FAIR OAKS WATER DISTRICT**

**BALANCE SHEETS**

**December 31, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 9,114,194	\$ 8,574,576
Restricted cash and cash equivalents	662,800	658,757
Accounts receivable	155,670	241,898
Note receivable	600,000	
Water service receivable	182,114	189,957
Interest receivable	74,234	114,861
Inventory	431,216	531,670
Prepaid expenses	191,444	132,242
<b>TOTAL CURRENT ASSETS</b>	<u>11,411,672</u>	<u>10,443,961</u>
<b>NON-CURRENT ASSETS</b>		
Dues on deposit	68,576	71,693
Capital assets, net	28,204,296	25,995,310
Unamortized bond expenses, net	41,528	55,371
Capacity entitlements, net	2,818,828	2,917,734
<b>TOTAL NON-CURRENT ASSETS</b>	<u>31,133,228</u>	<u>29,040,108</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 42,544,900</u></u>	<u><u>\$ 39,484,069</u></u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 226,645	\$ 124,203
Accrued expenses	22,389	26,271
Accrued payroll expense	71,058	102,824
Accrued interest expense	36,101	42,998
Deposits	45,246	27,575
Unearned revenue	2,390,451	2,417,032
Current portion of long-term liabilities	937,003	887,012
<b>TOTAL CURRENT LIABILITIES</b>	<u>3,728,893</u>	<u>3,627,915</u>
<b>LONG-TERM LIABILITIES</b>		
Long-term debt	1,474,075	2,330,714
Compensated absences	51,441	48,899
<b>TOTAL LONG-TERM LIABILITIES</b>	<u>1,525,516</u>	<u>2,379,613</u>
<b>TOTAL LIABILITIES</b>	5,254,409	6,007,528
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	28,705,015	25,799,589
Restricted:		
Connection and annexation fees	54,179	
Certificates of participation	662,800	658,757
Unrestricted	7,868,497	7,018,195
<b>TOTAL NET ASSETS</b>	<u>37,290,491</u>	<u>33,476,541</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 42,544,900</u></u>	<u><u>\$ 39,484,069</u></u>

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, 2008 and 2007**

	2008	2007
<b>OPERATING REVENUES</b>		
Water sales	\$8,021,890	\$ 7,750,758
Water services	122,813	98,566
Other	287,228	112,042
<b>TOTAL OPERATING REVENUES</b>	<b>8,431,931</b>	<b>7,961,366</b>
<b>OPERATING EXPENSES</b>		
Water supply and pumping	1,627,386	1,447,945
Operations and maintenance	1,473,302	1,357,354
Customer service	410,906	428,692
Administrative and general	1,004,510	1,099,417
Depreciation and amortization	1,879,709	1,971,789
<b>TOTAL OPERATING EXPENSES</b>	<b>6,395,813</b>	<b>6,305,197</b>
<b>NET INCOME FROM OPERATIONS</b>	<b>2,036,118</b>	<b>1,656,169</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Interest revenue	318,554	508,938
Non-capital grant revenue	19,433	9,309
Gain on disposal of capital assets	1,211,350	13,815
Interest expense	(147,620)	(179,779)
<b>TOTAL NON-OPERATING REVENUES</b>	<b>1,401,717</b>	<b>352,283</b>
<b>NET INCOME BEFORE CAPITAL CONTRIBUTIONS</b>	<b>3,437,835</b>	<b>2,008,452</b>
<b>CAPITAL CONTRIBUTIONS</b>		
Contributed assets	322,500	68,500
Connection and annexation fees	53,436	146,832
Capital grant revenue	179	330,278
<b>TOTAL CAPITAL CONTRIBUTIONS</b>	<b>376,115</b>	<b>545,610</b>
<b>CHANGE IN NET ASSETS</b>	<b>3,813,950</b>	<b>2,554,062</b>
Net assets at beginning of year	<b>33,476,541</b>	<b>30,922,479</b>
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 37,290,491</b>	<b>\$ 33,476,541</b>

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, 2008 and 2007**

	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash receipts from customers	\$ 8,365,575	\$ 8,146,181
Cash paid to suppliers	(2,245,574)	(2,616,247)
Cash paid to employees	(2,157,401)	(1,992,917)
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,962,600	3,537,017
<b>CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Non-capital grants received	28,742	
TOTAL CASH FLOW FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES	28,742	
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from disposal of capital assets	618,057	24,025
Principal payments on long-term debt	(838,113)	(804,387)
Interest payments on long-term debt	(125,593)	(155,928)
Capital grants received	142,387	836,596
Connection and annexation fees received	53,436	146,832
Purchases of capital assets	(3,660,153)	(6,224,784)
NET CASH USED BY RELATED FINANCING ACTIVITIES	(3,809,979)	(6,177,646)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	359,181	538,021
Dues on deposit received	3,117	3,117
NET CASH PROVIDED BY INVESTING ACTIVITIES	362,298	541,138
NET CHANGE IN CASH AND CASH EQUIVALENTS	543,661	(2,099,491)
Cash and cash equivalents at beginning of year	9,233,333	11,332,824
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 9,776,994	\$ 9,233,333
<b>COMPONENTS OF CASH AND CASH EQUIVALENTS</b>		
Cash and equivalents	\$ 9,114,194	\$ 8,574,576
Restricted cash and cash equivalents	662,800	658,757
TOTAL CASH AND CASH EQUIVALENTS	\$ 9,776,994	\$ 9,233,333

(Continued)

**FAIR OAKS WATER DISTRICT**

**STATEMENTS OF CASH FLOWS (Continued)**

**For the years ended December 31, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
<b>RECONCILIATION OF NET INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Net income from operations	\$ 2,036,118	\$ 1,656,169
Adjustments to reconcile net income from operations to net cash provided by operating activities:		
Depreciation and amortization	1,879,709	1,971,789
Changes in assets and liabilities:		
Accounts receivable	(65,289)	101,611
Water service receivable	7,843	(32,279)
Inventory	100,454	56,547
Prepaid expenses	(59,202)	10,290
Accounts payable	102,442	(346,130)
Accrued expenses	(3,882)	(6,554)
Accrued payroll expense	(31,766)	7,357
Deposits	17,671	2,600
Unearned revenue	(26,581)	112,883
Compensated absences	5,083	2,734
	<u>\$ 3,962,600</u>	<u>\$ 3,537,017</u>
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES</b>		
Receipt of contributed assets	\$ 322,500	\$ 68,500
Note receivable issued for sale of capital asset	\$ 600,000	

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

# FAIR OAKS WATER DISTRICT

## NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2008 and 2007

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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.

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

## FAIR OAKS WATER DISTRICT

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

December 31, 2008 and 2007

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

considered a jointly governed organization. Separate financial statements are available from RWA.

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 are segregated into amounts invested in capital assets, net of related debt, amounts restricted and amounts unrestricted. Enterprise fund type operating statements present increases and decreases 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 that are constructed by private developers and then dedicated to the District, which is then responsible for their future maintenance, are recorded as capital contributions when they pass inspection by the District. The estimated costs for materials and installation are capitalized as part of the distribution system.

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for water service. 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.

# FAIR OAKS WATER DISTRICT

## NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2008 and 2007

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

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

Cash and Cash Equivalents: For purposes of the statement of cash flows, the District considers all highly liquid debt instruments purchased with 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 option of making payments annually, semi-annually, or bimonthly. Advanced collections on water service 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. Contributed 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	10 - 40 years
Transmission and distribution system	10 - 40 years
Maintenance equipment	5 - 30 years
Trucks, trailers, and mobile equipment	5 - 10 years
Buildings	5 - 30 years
Office equipment and furnishings	3 - 5 years
Contributed distribution systems	40 years
Water tank and pumping stations	10 - 40 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 \$500 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.

**FAIR OAKS WATER DISTRICT**

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

**December 31, 2008 and 2007**

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

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

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.

Reclassifications: Certain reclassifications have been made to the 2007 financial statements to conform to the current presentation. These reclassifications had no affect on previously reported change in net assets.

**NOTE B – CASH AND INVESTMENTS**

Cash and investments as of December 31, 2008 and 2007 are classified in the accompanying financial statements as follows:

	2008	2007
Cash and cash equivalents	\$ 9,114,194	\$ 8,574,576
Restricted cash and cash equivalents	662,800	658,757
Total cash and investments	\$ 9,776,994	\$ 9,233,333

Cash and investments as of December 31, 2008 and 2007 consisted of the following:

	2008	2007
Cash on hand	\$ 1,402	\$ 1,349
Deposits with financial institutions	692,718	624,646
Total cash	694,120	625,995
Mutual funds		1,060
Investments in Local Agency Investment Fund (LAIF)	9,082,874	8,606,278
Total investments	9,082,874	8,607,338
Total cash and cash equivalents	\$ 9,776,994	\$ 9,233,333

**FAIR OAKS WATER DISTRICT**

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

**December 31, 2008 and 2007**

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

Investment policy: California statutes authorize districts to invest idle or surplus funds in a variety of credit instruments as provided for in the California Government Code, Section 53600, Chapter 4 - Financial Affairs. The table below identifies the investment types that are authorized for the District by the California Government Code (or the District’s investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by the bond trustee that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District’s investment policy. During the year ended December 31, 2008, the District’s permissible investments included the following instruments:

Authorized Investment Type*	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment In One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Bankers Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates and Time Deposits	5 years	30%	None
Repurchase Agreements	92 days	20%	None
Medium Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
LAIF	N/A	None	None

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

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

Investments Authorized by Debt Agreements: Investment of debt proceeds held by the bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District’s investment policy. The 1999 Revenue Certificates of Participation debt agreement contains certain provisions that address interest rate risk and credit risk, but not concentration of credit risk.

**FAIR OAKS WATER DISTRICT**

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

**December 31, 2008 and 2007**

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of Portfolio</u>	<u>Maximum Investment In One Issuer</u>
Local Agency Bonds	None	None	None
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Bankers Acceptances	360 days	None	None
Commercial Paper	270 days	None	None
Negotiable Certificates Deposits	None	None	None
Investment Agreements	None	None	None
Repurchase Agreements	None	None	None
Mutual Funds	N/A	None	None
LAIF	N/A	None	None

Interest rate risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Information about the sensitivity of the fair values of the District's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity:

	<u>Total</u>	<u>Remaining Maturity 12 Months or Less</u>
LAIF	\$ 8,420,075	\$ 8,420,075
Held by bond trustee:		
LAIF	<u>662,799</u>	<u>662,799</u>
Total	<u>\$ 9,082,874</u>	<u>\$ 9,082,874</u>

Credit Risk: Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

**FAIR OAKS WATER DISTRICT**

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

**December 31, 2008 and 2007**

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

	Total	Minimum Legal Rating	Ratings as of Year End Not Rated
LAIF	\$ 8,420,075	N/A	\$ 8,420,075
Held by bond trustee:			
LAIF	662,799	N/A	662,799
	\$ 9,082,874		\$ 9,082,874

Concentration of Credit Risk: The investment policy of the District limits the amount that can be invested in any one issuer to the California Government Code. There are no investments in any one issuer (other than external investment pools) that represent 5% or more of total District investments.

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

At December 31, 2008, the carrying amount of the District’s deposits were \$692,718 and the balances in financial institutions was \$743,244. Of the balance in financial institutions, \$250,000 was covered by federal depository insurance and \$493,244 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, but not in the name of the District. At December 31, 2007, the carrying amount of the District’s deposits were \$624,646 and the balances in financial institutions was \$588,819. Of the balance in financial institutions, \$100,000 was covered by federal depository insurance and \$488,819 was collateralized.

**FAIR OAKS WATER DISTRICT**

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

**December 31, 2008 and 2007**

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

Investment in LAIF: LAIF is stated at amortized cost, which approximates fair value. The LAIF is a special fund of the California State Treasury through which local governments may pool investments. The total amount invested on December 31, 2008 by all public agencies in LAIF is \$63,290,206,371 managed by the State Treasurer. Of that amount, 12.93% is investments in structured notes and asset-backed securities. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

**FAIR OAKS WATER DISTRICT**

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

**December 31, 2008 and 2007**

**NOTE C – CAPITAL ASSETS**

Capital asset activity for the years ended December 31, 2008 and 2007 are as follows:

	Balance at January 1, 2008	Additions	Disposals	Transfers and Adjustments	Balance at December 31, 2008
Capital assets, not being depreciated:					
Land	\$ 1,128,565				\$ 1,128,565
Construction in progress	302,773	\$ 409,795		\$ (89,628)	622,940
Total capital assets not being depreciated	1,431,338	409,795		(89,628)	1,751,505
Capital assets, being depreciated:					
Wells and pumps	5,348,068	22,177	\$ (76,945)	(16,583)	5,276,717
Transmission and distribution system	25,094,807	2,992,823		(1,668,926)	26,418,704
Maintenance equipment	450,138	16,104	(814)	(2,215)	463,213
Trucks, trailers, and mobile equipment	1,435,191	146,737	(36,353)		1,545,575
Buildings	705,730	13,631		5,750	725,111
Office equipment and furnishings	810,886	42,620		(96,499)	757,007
Contributed distribution systems	6,930,435	322,500			7,252,935
Water tank and pumping	421,416	16,266		1,581,364	2,019,046
Total capital assets being depreciated, net	41,196,671	3,572,858	(114,112)	(197,109)	44,458,308
Less accumulated depreciation for:					
Wells and pumps	(1,109,499)	(116,391)	76,945	47,688	(1,101,257)
Transmission and distribution system	(9,352,961)	(345,146)		113,782	(9,584,325)
Maintenance equipment	(193,024)	(19,467)	814	2,090	(209,587)
Trucks, trailers, and mobile equipment	(998,111)	(137,269)	36,353		(1,099,027)
Buildings	(626,819)	(20,528)		(5,750)	(653,097)
Office equipment and furnishings	(772,385)	(27,858)		108,356	(691,887)
Contributed distribution systems	(3,286,270)	(177,293)			(3,463,563)
Water tank and pumping	(293,630)	(923,008)		13,864	(1,202,774)
Total accumulated depreciation	(16,632,699)	(1,766,960)	114,112	280,030	(18,005,517)
Total capital assets being depreciated, net	24,563,972	1,805,898		82,921	26,452,791
Capital assets, net book value	<u>\$ 25,995,310</u>	<u>\$ 2,215,693</u>	<u>\$ -</u>	<u>\$ (6,707)</u>	<u>\$ 28,204,296</u>

**FAIR OAKS WATER DISTRICT**

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

**December 31, 2008 and 2007**

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

	Balance at January 1, 2007	Additions	Disposals	Transfers and Adjustments	Balance at December 31, 2007
Capital assets, not being depreciated:					
Land	\$ 1,128,565				\$ 1,128,565
Construction in progress	2,286,979	\$ 209,497		\$ (2,193,703)	302,773
Total capital assets not being depreciated	3,415,544	209,497		(2,193,703)	1,431,338
Capital assets, being depreciated:					
Wells and pumps	1,155,329	2,075,100	\$ (73,115)	2,190,754	5,348,068
Transmission and distribution system	21,592,006	3,501,993		808	25,094,807
Maintenance equipment	228,386	221,752			450,138
Trucks, trailers, and mobile equipment	1,263,720	187,762	(16,291)		1,435,191
Buildings	703,731	1,999			705,730
Office equipment and furnishings	813,774	17,892	(22,921)	2,141	810,886
Contributed distribution systems	6,861,935	68,500			6,930,435
Water tank and pumping	416,292	8,784	(3,660)		421,416
Total capital assets being depreciated, net	33,035,173	6,083,782	(115,987)	2,193,703	41,196,671
Less accumulated depreciation for:					
Wells and pumps	(1,103,158)	(69,246)	62,905		(1,109,499)
Transmission and distribution system	(8,120,814)	(1,232,147)			(9,352,961)
Maintenance equipment	(171,670)	(21,354)			(193,024)
Trucks, trailers, and mobile equipment	(856,182)	(158,220)	16,291		(998,111)
Buildings	(603,809)	(23,010)			(626,819)
Office equipment and furnishings	(711,672)	(83,634)	22,921		(772,385)
Contributed distribution systems	(3,056,398)	(229,872)			(3,286,270)
Water tank and pumping	(255,738)	(41,552)	3,660		(293,630)
Total accumulated depreciation	(14,879,441)	(1,859,035)	105,777		(16,632,699)
Total capital assets being depreciated, net	18,155,732	4,224,747	(10,210)	2,193,703	24,563,972
Capital assets, net book value	\$ 21,571,276	\$ 4,434,244	\$ (10,210)	\$ -	\$ 25,995,310

**FAIR OAKS WATER DISTRICT**

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

**December 31, 2008 and 2007**

**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 40 years. At December 31, 2008 and 2007, accumulated amortization was \$1,137,420 and \$1,038,514, 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 LIABILITIES**

The activity of the District's long-term liabilities during the years ended December 31, 2008 and 2007 are as follows:

	Balance at January 1, 2008	Additions	Repayments	Balance at December 31, 2008	Due within One Year
1999 Revenue Certificates of Participation	\$ 1,910,000		\$ (650,000)	\$ 1,260,000	\$ 690,000
Capacity entitlement agreement	<u>1,374,525</u>		<u>(188,112)</u>	<u>1,186,413</u>	<u>195,562</u>
Total	3,284,525		<u>\$ (838,112)</u>	2,446,413	<u>\$ 885,562</u>
Deferred amount on refunding	(115,699)			(86,776)	
Less: Current portion of long-term debt	<u>(838,112)</u>			<u>(885,562)</u>	
	<u>\$ 2,330,714</u>			<u>\$ 1,474,075</u>	
Compensated absences	<u>\$ 97,799</u>	<u>\$ 127,329</u>	<u>\$ (122,246)</u>	\$ 102,882	<u>\$ 51,441</u>
Less: Current portion				<u>(51,441)</u>	
				<u>\$ 51,441</u>	

**FAIR OAKS WATER DISTRICT**

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

**December 31, 2008 and 2007**

**NOTE E – LONG-TERM LIABILITIES (Continued)**

	Balance at January 1, 2007	Additions	Repayments	Balance at December 31, 2007	Due within One Year
1999 Revenue Certificates of Participation	\$ 2,530,000		\$ (620,000)	\$ 1,910,000	\$ 650,000
Capacity entitlement agreement	1,558,912		(184,387)	1,374,525	188,112
Total	4,088,912		\$ (804,387)	3,284,525	\$ 838,112
Deferred amount on refunding	(144,621)			(115,699)	
Less: Current portion of long-term debt	(804,387)			(838,112)	
	\$ 3,139,904			\$ 2,330,714	
Compensated absences	\$ 95,065	\$ 117,959	\$ (115,225)	\$ 97,799	\$ 48,900
Less: Current portion				(48,900)	
				\$ 48,899	

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 4.0% 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 \$26,344 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.

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

Year Ending December 31,	Principal	Interest	Total
2009	\$ 690,000	\$ 52,688	\$ 742,688
2010	300,000	24,225	324,225
2011	270,000	11,475	281,475
	\$ 1,260,000	\$ 88,388	\$ 1,348,388

**FAIR OAKS WATER DISTRICT**

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

**December 31, 2008 and 2007**

**NOTE E – LONG-TERM LIABILITIES (Continued)**

The District has pledged future water system revenues, net of specified operating expenses, to repay \$6,580,000 of Revenue Certificates of Participation issued in January 1999. Proceeds from the Certificates of Participation provided financing to refund previously issued debt used to finance water system improvement projects. The Certificates of Participation are payable solely from water system net revenues and are payable through December 2011. The District is required 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. Net revenues of the District cover 550% of total debt service at December 31, 2008. The total principal and interest remaining to be paid on the Certificates of Deposit is \$1,348,388. Principal and interest paid for the current year on this debt and the capacity entitlement agreement debt and total water system net revenues were \$728,688 and \$5,420,434, respectively.

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, 2008 and 2007, net of accumulated amortization of \$289,230 and \$260,306, 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.

Future estimated debt requirements for the agreement as of December 31, 2008 are as follows:

Year Ending December 31,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 195,562	\$ 36,938	\$ 232,500
2010	201,150	31,476	232,626
2011	206,737	25,357	232,094
2012	212,325	18,541	230,866
2013	370,639	7,413	378,052
	<u>\$ 1,186,413</u>	<u>\$ 119,725</u>	<u>\$ 1,306,138</u>

# FAIR OAKS WATER DISTRICT

## NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2008 and 2007

### 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 and annexation 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>2008</u>	<u>2007</u>
<u>Designated for Emergency:</u>		
For fixed asset, operating and maintenance expenditures not currently budgeted	\$ 2,757,800	\$ 2,501,200
<u>Designated for Rate Stabilization:</u>		
To offset the estimated impact of revenue fluctuations and lag effects in converting to meter based billing	<u>1,378,900</u>	<u>1,250,601</u>
Total designated net assets	<u>\$ 4,136,700</u>	<u>\$ 3,751,801</u>

### NOTE G – EMPLOYEES' RETIREMENT PLAN

Plan Description: The District contributes to the California Public Employees Retirement System (PERS), a cost-sharing 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. PERS requires employers with less than 100 active members in the plan to participate in the risk pool. 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 thirty-six 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.

**FAIR OAKS WATER DISTRICT**

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

**December 31, 2008 and 2007**

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

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 \$138,004 and \$131,490 for the years ended December 31, 2008 and 2007, respectively. The District is required to contribute at an actuarially determined rate; the rate for January 1 to June 30, 2008 was 5.841% and for July 1 to December 31, 2008 was 6.466%. The rate for January 1 to June 30, 2007 was 5.287% and for July 1 to December 31, 2007 was 5.841%. The contribution requirements of plan members and the District are established and may be amended by PERS. The District's contributions for the years ending December 31, 2008, 2007 and 2006 were \$124,612, \$106,341, and \$95,772 respectively, which were equal to the required contributions for each year.

**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:

Coverage	ACWA/JPIA	Commercial Insurance	Deductible
General and Auto Liability (includes public officials liability)	\$ 1,000,000	\$ 49,000,000	None
Property Damage	50,000	100,000,000	\$500 to 25,000
Fidelity	100,000		1,000
Workers Compensation	2,000,000	Statutory	None
Employers Liability	2,000,000	Statutory	None

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

**FAIR OAKS WATER DISTRICT**

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

**December 31, 2008 and 2007**

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**NOTE I – COMMITMENTS AND CONTINGENCIES**

The District has developed a meter implementation plan that will entail installing meters at a cost of over \$17,314,000 for all District customers by approximately 2011. As of December 31, 2008, the estimated remaining cost to install meters is approximately \$5,576,000.

The District has the following capital project commitments as of December 31, 2008:

Architectural work on new administration building	\$ 82,723
Meter installation services	<u>72,450</u>
Total	<u>\$ 155,173</u>

Subsequent to year-end the District entered into a contract for construction of the new administrative building totaling \$2,205,545.

**NOTE J – ECONOMIC DEPENDENCY**

The District purchased approximately 83% of its water supplies from SJWD in 2008. During the years ended December 31, 2008 and 2007, the District's total cost for water purchases from SJWD were \$1,256,066 and \$1,180,678, respectively.

**NOTE K – NOTES RECEIVABLES**

On March 10, 2008, the District sold the Chicago Well property for \$1,200,000. Pursuant to this sale transaction, the District recorded a note receivable for \$600,000 with a fixed annual interest rate of 5% for one year with a maturity date of April 16, 2009 for both principal and interest. The note is secured by a deed of trust.

**NOTE L – CHANGE IN ESTIMATE**

During the year ended December 31, 2008, the District changed the estimated useful life used to calculate the depreciation for various capital assets. The major changes were: (1) meters and services changing from 10 to 15 years; and (2) transmission and distribution systems changing from 30 to 40 years. This change resulted in a decrease in the accumulated depreciation and an increase in the net book value of capital assets at December 31, 2008. Depreciation expense consists of the following for the year ended December 31, 2008:

Current year depreciation expense	\$2,435,555
Decrease in depreciation expense due to Changes in estimated useful lives	<u>(668,595)</u>
Total	<u>\$1,766,960</u>

## **ADDITIONAL INFORMATION**

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

**December 31, 2008 and 2007**

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 2008 and 2007 is as follows:

	2008	2007
Operating Income:	\$ 2,036,118	\$ 1,656,169
Add:		
Depreciation and amortization	1,879,709	1,971,789
Interest revenue	318,554	508,938
Unrealized (gain) loss on investments	(25,297)	(5,394)
Gain on disposal of capital assets	1,211,350	13,815
Net Revenue	5,420,434	4,145,317
 Debt Service		
Principal	838,112	804,387
Interest	147,620	179,779
Total Debt Service	\$ 985,732	\$ 984,166
 Calculated Coverage	550%	421%

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## **STATISTICAL SECTION**

## STATISTICAL SECTION

This part of the District's comprehensive annual financial statement report presents detailed information as a context for understanding what the information in the financial statement, note disclosures, and required supplementary information says about the District's overall financial health.

<b><u>Content</u></b>	<b><u>Page</u></b>
<b>Financial Trends</b> <i>These schedules contain trend information to help the reader understand how the District's financial performance and well-being changed over time.</i>	34-35
<b>Revenue Capacity</b> <i>These schedules contain information to help the reader assess the District's most significant local revenue source, water sales.</i>	36-37
<b>Debt Capacity</b> <i>These schedules present information to help the reader assess the affordability of the District's current level of outstanding debt and the District's ability to issue additional debt in the future.</i>	38-39
<b>Demographic and Economic Information</b> <i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place.</i>	40-41
<b>Operating Information</b> <i>This schedule contains service and infrastructure data to help the reader understand how the information in the District's financial report relates to the services the District provides and the activities it performs.</i>	42

**FAIR OAKS WATER DISTRICT**  
**Schedule of Net Assets by Component (a)**  
**(Accrual Basis of Accounting)**  
**Last Ten Years**

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Net Assets:										
Invested in Capital Assets, Net of Related Debt	\$ 8,795,413	\$ 9,127,858	\$ 9,966,584	\$ 10,571,173	\$ 12,247,363	\$ 14,345,850	\$ 15,572,945	\$ 20,712,839	\$ 25,799,589	\$ 28,705,015
Restricted	971,783	868,747	921,109	1,079,144	1,230,338	1,389,828	2,052,570	1,565,938	658,757	716,979
Unrestricted	4,729,896	5,911,321	6,923,634	7,762,833	8,475,744	8,117,576	9,555,292	8,643,702	7,018,195	7,868,497
Total Net Assets	<u>\$ 14,497,092</u>	<u>\$ 15,907,926</u>	<u>\$ 17,811,327</u>	<u>\$ 19,413,150</u>	<u>\$ 21,953,445</u>	<u>\$ 23,853,254</u>	<u>\$ 27,180,807</u>	<u>\$ 30,922,479</u>	<u>\$ 33,476,541</u>	<u>\$ 37,290,491</u>

(a) The Invested in Capital Assets, Net of Related Debt has been reclassified to include the SJWD Facility Usage Agreement and the deferred amount of refunding for 99 COP. This reclassification increases the Capital Assets, Net of Related and decreases Unrestricted by the same amount.

Source:  
District Finance Department

**FAIR OAKS WATER DISTRICT**  
**Schedule of Changes in Net Assets (a)**  
**(Accrual Basis of Accounting)**  
**Last Ten Years**

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
<b>Operating Revenues:</b>										
Water Sales	\$ 4,248,439	\$ 5,068,311	\$ 5,780,430	\$ 6,025,807	\$ 6,569,055	\$ 7,052,897	\$ 7,681,395	\$ 7,723,313	\$ 7,750,758	\$ 8,021,890
Water Service and Other	<u>193,919</u>	<u>145,872</u>	<u>234,725</u>	<u>284,925</u>	<u>263,387</u>	<u>135,163</u>	<u>258,148</u>	<u>231,301</u>	<u>210,608</u>	<u>410,041</u>
Total Operating Revenues	4,442,358	5,214,183	6,015,155	6,310,732	6,832,442	7,188,060	7,939,543	7,954,614	7,961,366	8,431,931
<b>Non-Operating Revenues:</b>										
Interest Revenue	391,062	510,144	464,309	265,141	192,194	170,533	354,769	610,556	508,938	318,554
Grants						30,000	15,000	0	9,309	19,433
Gain (Loss) on Disposal	<u>3,631</u>	<u>2,219</u>	<u>2,200</u>	<u>4,555</u>	<u>10,709</u>	<u>(4,614)</u>	<u>12,190</u>	<u>11,570</u>	<u>13,815</u>	<u>1,211,350</u>
Total Non-Operating Revenues	394,693	512,363	466,509	269,696	202,903	195,919	445,216	622,126	532,062	1,549,337
<b>Capital Revenues:</b>										
Connection Fees and Annexation Fees					263,323	158,188	695,200	169,901	146,832	53,436
Capital Contributions	-	-	235,800	295,000	504,800	289,839	8,000	-	68,500	322,500
Capital Grant Revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>63,257</u>	<u>1,030,162</u>	<u>330,278</u>	<u>179</u>
Total Capital Revenues	-	-	235,800	295,000	768,123	448,027	703,200	1,200,063	545,610	376,115
<b>Total Revenues</b>	<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>	<u>\$ 9,087,959</u>	<u>\$ 9,776,803</u>	<u>\$ 9,039,038</u>	<u>\$ 10,357,383</u>
<b>Operating Expenses:</b>										
Water Supply and Pumping	\$ 855,186	\$ 893,682	\$ 987,537	\$ 987,140	\$ 1,066,372	\$ 1,333,038	\$ 1,285,208	\$ 1,321,268	\$ 1,447,945	\$ 1,627,386
Operations and Maintenance	917,542	1,042,020	1,275,303	1,698,240	1,496,583	1,785,638	1,405,438	1,401,320	1,357,354	1,473,302
Customer Service						337,202	432,007	399,124	428,692	410,906
Administrative and General	1,075,638	1,082,505	1,069,037	996,913	1,248,202	972,740	963,279	994,004	1,099,417	1,004,510
Depeciation and Amortization	<u>1,037,935</u>	<u>1,014,439</u>	<u>1,102,859</u>	<u>1,247,291</u>	<u>1,219,006</u>	<u>1,279,989</u>	<u>1,441,207</u>	<u>1,711,211</u>	<u>1,971,789</u>	<u>1,879,709</u>
Total Operating Expenses	3,886,301	4,032,646	4,434,736	4,929,584	5,030,163	5,708,607	5,527,139	5,826,927	6,305,197	6,395,813
<b>Non-Operating Expenses:</b>										
Interest Expense	<u>406,023</u>	<u>435,066</u>	<u>379,327</u>	<u>344,021</u>	<u>233,010</u>	<u>223,590</u>	<u>233,267</u>	<u>208,204</u>	<u>179,779</u>	<u>147,620</u>
Total Non-Operating Expenses	406,023	435,066	379,327	344,021	233,010	223,590	233,267	208,204	179,779	147,620
<b>Total Expenses</b>	<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>	<u>\$ 5,760,406</u>	<u>\$ 6,035,131</u>	<u>\$ 6,484,976</u>	<u>\$ 6,543,433</u>
<b>Changes in Net Assets</b>	<u>\$ 544,727</u>	<u>\$ 1,258,834</u>	<u>\$ 1,903,401</u>	<u>\$ 1,601,823</u>	<u>\$ 2,540,295</u>	<u>\$ 1,899,809</u>	<u>\$ 3,327,553</u>	<u>\$ 3,741,672</u>	<u>\$ 2,554,062</u>	<u>\$ 3,813,950</u>

(a) The 2004 through 2005 revenues and expenses have been reclassified to reflect the current 2006 and 2007 classification for comparative purposes. The 2003 and prior were not adjusted for these reclassifications.

Source:  
District Finance Department

**FAIR OAKS WATER DISTRICT**  
**Water Sales by Type of Customers (a)**  
**Last Ten Years**

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u> <sup>(b)</sup>	<u>2008</u>
Water Sales:										
Residential	\$ 4,248,439	\$ 5,068,311	\$ 5,780,430	\$ 5,302,791	\$ 5,721,390	\$ 6,112,407	\$ 6,757,231	\$ 6,844,879	\$ 6,800,291	\$ 7,079,853
Commercial	-	-	-	723,016	847,665	940,490	924,164	878,434	950,467	942,037
Total Water Sales	\$ 4,248,439	\$ 5,068,311	\$ 5,780,430	\$ 6,025,807	\$ 6,569,055	\$ 7,052,897	\$ 7,681,395	\$ 7,723,313	\$ 7,750,758	\$ 8,021,890
Total Water Deliveries (AF)	14,423	14,377	15,148	14,067	12,574	14,153	12,453	12,024	12,431	12,431
Rate per Acre Foot (AF)	\$ 294.56	\$ 352.53	\$ 381.60	\$ 428.36	\$ 522.43	\$ 498.33	\$ 616.83	\$ 642.32	\$ 623.50	\$ 645.31

(a) The 2001 and prior years' Commercial Revenues have been included under Residential.

(b) For 2007, \$16,283 of the residential revenue has been reclassified to commercial revenue to be consistent with the current presentation.

Source:  
District Finance Department

**FAIR OAKS WATER DISTRICT**  
**Principal Rate Payers**  
**Current Year and Four Years Prior**

<u>Rate Payers</u>	<u>2008</u>			<u>2004</u>		
	<u>Revenues Collected</u>	<u>Rank</u>	<u>Percent of Total Water Sales</u>	<u>Revenues Collected</u>	<u>Rank</u>	<u>Percent of Total Water Sales</u>
Rollingwood, LLC <sup>1</sup>	\$ 286,462	1	3.57%	\$ 64,600	2	0.84%
San Juan School District	87,004	2	1.08%	68,444	1	0.89%
The Realty Associates Fund	72,199	3	0.90%			
Fair Oaks Park/Recreation District	62,250	4	0.78%	27,153	5	0.35%
Watermarke Properties	52,738	5	0.66%	47,770	3	0.62%
Raley's Inc.	32,568	6	0.41%			
Fountains of Fair Oaks	28,572	7	0.36%	20,662	6	0.27%
Sacramento Bella Lago, LLC.	25,859	8	0.32%			
Village @ Fair Oaks	24,117	9	0.30%	19,024	7	0.25%
Madison Hills	22,324	10	0.28%	27,275	4	0.36%
The Lakes at Fair Oaks	-		0.00%	16,426	8	0.21%
Huntcliff Apartments	-		0.00%	15,415	9	0.20%
Fair Oaks Lake Apartments	-		0.00%	14,217	10	0.19%
<b>Total</b>	<b>\$ 694,093</b>		<b>8.65%</b>	<b>\$ 320,986</b>		<b>4.18%</b>
<b>Total Water Sales</b>	<b>\$ 8,021,890</b>			<b>\$ 7,681,395</b>		

<sup>1</sup> The 2008 revenue collected for Rollingwood, LLC included prior years billings.

Information prior to 2004 was not available.

**FAIR OAKS WATER DISTRICT**  
**Ratios of Outstanding Debt by Type and Number of Connections**  
**Last Ten Years**

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Debt:										
1999 Revenue Certificates of Participation	\$ 6,265,000	\$ 5,790,000	\$ 5,300,000	\$ 4,785,000	\$ 4,255,000	\$ 3,700,000	\$ 3,125,000	\$ 2,530,000	\$ 1,910,000	\$ 1,260,000
Capacity Entitlement Agreement	<u>2,667,100</u>	<u>2,540,450</u>	<u>2,408,213</u>	<u>2,270,388</u>	<u>2,119,525</u>	<u>1,912,787</u>	<u>1,737,712</u>	<u>1,558,912</u>	<u>1,374,525</u>	<u>1,186,413</u>
Total Debt	\$ 8,932,100	\$ 8,330,450	\$ 7,708,213	\$ 7,055,388	\$ 6,374,525	\$ 5,612,787	\$ 4,862,712	\$ 4,088,912	\$ 3,284,525	\$ 2,446,413
Number of Service Connections	13,090	13,217	13,441	13,588	13,554	13,577	13,544	14,467	14,469	14,474
Debt Per Capita	682.36	630.28	573.49	519.24	470.31	413.40	359.03	282.64	227.00	169.02

Source:  
District Finance Department

**FAIR OAKS WATER DISTRICT**  
**Schedule of Debt Service**  
**Last Ten Years**

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Net Revenue	\$ 1,979,985	\$ 2,703,739	\$ 3,139,387	\$ 2,894,134	\$ 3,195,488	\$ 2,910,576	\$ 4,247,538	\$ 4,465,686	\$ 4,145,317	\$ 5,420,434
Debt Service	1,183,246	976,591	972,643	971,923	942,298	1,021,028	983,342	982,004	984,166	985,732
Coverage	167%	276%	323%	298%	339%	285%	432%	455%	421%	550%

Source:  
District Finance Department

**FAIR OAKS WATER DISTRICT  
Demographic and Economic Statistics\*\*  
Last Ten Years**

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Personal Income <sup>(1)</sup>	\$ 32,018,953	\$ 35,016,668	\$ 37,225,183	\$ 38,649,539	\$ 40,789,349	\$ 43,462,957	\$ 45,653,787	\$ 48,313,850	Unavailable	Unavailable
Population <sup>(1)</sup>	1,206,659	1,230,398	1,266,756	1,301,961	1,329,263	1,350,136	1,361,962	1,372,689	Unavailable	Unavailable
Per Capita Personal Income <sup>(1)</sup>	\$ 26,535	\$ 28,460	\$ 29,386	\$ 29,686	\$ 30,686	\$ 32,192	\$ 33,521	\$ 35,197	Unavailable	Unavailable
Unemployment Rate <sup>(2)</sup>	4.2%	4.3%	4.5%	5.7%	5.9%	5.6%	5.0%	4.8%	5.5%	7.2%

\*\*Information on Demographic and Economic statistics are for the County of Sacramento since Fair Oaks is unincorporated and is reported under the County of Sacramento.  
Separate demographic and economic statistical information for Fair Oaks are not available.

Sources:

<sup>(1)</sup>Bureau of Economic Analysis, US Department of Commerce

<sup>(2)</sup>California State Employment Development Department

**FAIR OAKS WATER DISTRICT  
Top Ten Employers\*\*  
Current Year and Two Years Prior\***

<u>Employers</u>	<u>2008</u>			<u>2006</u>		
	<u>Total Employee</u>	<u>Rank</u>	<u>Percent of Total Employed</u>	<u>Total Employee</u>	<u>Rank</u>	<u>Percent of Total Employed</u>
State of California	60,045	1	9.37%	67,467	1	10.42%
Sacramento County	14,488	2	2.26%	14,408	2	2.23%
University of California, Davis/UC Davis Health System	7,901	3	1.23%	7,901	3	1.22%
Sutter Health Sacramento Sierra Region	7,140	4	1.11%			
Sacramento City Unified School District	7,000	5	1.09%	7,000	4	1.08%
Kaiser Permanente	6,805	6	1.06%	6,656	6	1.03%
Intel Corp.	6,800	7	1.06%	7,000	4	1.08%
Los Rios Community College District	6,000	8	0.94%	6,000	7	0.93%
San Juan Unified School District	5,775	9	0.90%	5,775	8	0.89%
City of Sacramento	5,230	10	0.82%	5,105	9	0.79%
Mercy/CHW	-		-	4,897	10	0.76%
<b>Total</b>	<b>127,184</b>		<b>19.85%</b>	<b>132,209</b>		<b>20.42%</b>
<b>Total Employed by Sacramento County<sup>(2)</sup></b>	<b>640,800</b>			<b>647,300</b>		

\*Information prior to 2006 was not available.

\*\*Information on Demographic and Economic statistics are for the County of Sacramento since Fair Oaks is unincorporated and is reported under the County of Sacramento. Separate demographic and economic statistical information for Fair Oaks are not available.

Sources:

<sup>(1)</sup>Sacramento Business Journal

<sup>(2)</sup>California State Employment Development Department

**FAIR OAKS WATER DISTRICT**  
**Operating Information**  
**Last Ten Years**

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
<b>Water Services:</b>										
Number of Service Connections	13,090	13,217	13,441	13,588	13,554	13,577	13,544	14,467	14,469	14,474
Annual Demand in AF	14,423	14,377	15,148	14,067	12,574	14,153	12,453	12,024	12,431	12,758
Average Daily Demand in MGD	12.88	12.83	13.52	12.56	11.22	12.63	11.12	10.73	11.09	11.39
Maximum Day Demand in MGD	24.46	24.38	25.69	23.86	21.33	24.00	21.12	20.39	21.08	21.65
<b>Meters:</b>										
New Installations	383	446	457	410	484	1,025	816	947	1,213	1,317
Replacement	2	-	-	-	-	13	454	103	92	90
<b>Leaks:</b>										
Water Main	3	15	18	24	9	21	17	16	9	17
Service	15	54	54	70	145	92	89	66	30	26
<b>Hydrants:</b>										
New Installations	2	2	6	3	4	3	-	2	-	1
Upgrades	2	10	9	13	21	23	19	14	27	24
<b>Main Line Valves:</b>										
New Installations	8	10	26	33	56	18	15	17	3	16
Replacement	2	1	8	6	12	14	9	14	19	-
<b>Services:</b>										
New Installations	4	3	18	5	16	4	3	18	3	-
Replacement	66	88	146	323	483	612	548	857	619	856
<b>Major Facilities:</b>										
Wells	7	7	7	7	7	7	7	7	6	6
Tank	1	1	1	1	1	1	1	1	1	1
Booster Station	1	1	1	1	1	1	1	1	1	1
Pressure Regulation Valves	4	4	4	4	4	4	4	4	4	4
Miles of Pipeline	180	180	180	180	180	180	180	180	180	180
<b>Personnel (FTE)</b>										
Customer Service	4	4	4	4	6	5	5	5	4	5
Administration	4	5	5	5	5	5	5	5	4	4
Operations	3	2.5	3	3	4.5	5	4	5	5	6
Water Supply & Pumping	1	1	1	1	1	1	1	1	1	1
Maintenance	17	17	16	16	19	23	20.5	22	23	19
Total (FTE)	29	29.5	29	29	35.5	39	35.5	38	37	35

Source:  
District Finance Department



## **COMPLIANCE SECTION**

**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) as of and for the year ended December 31, 2008 and have issued our report thereon dated March 2, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Board of Directors  
Fair Oaks Water District

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### 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*.

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*

March 2, 2009



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