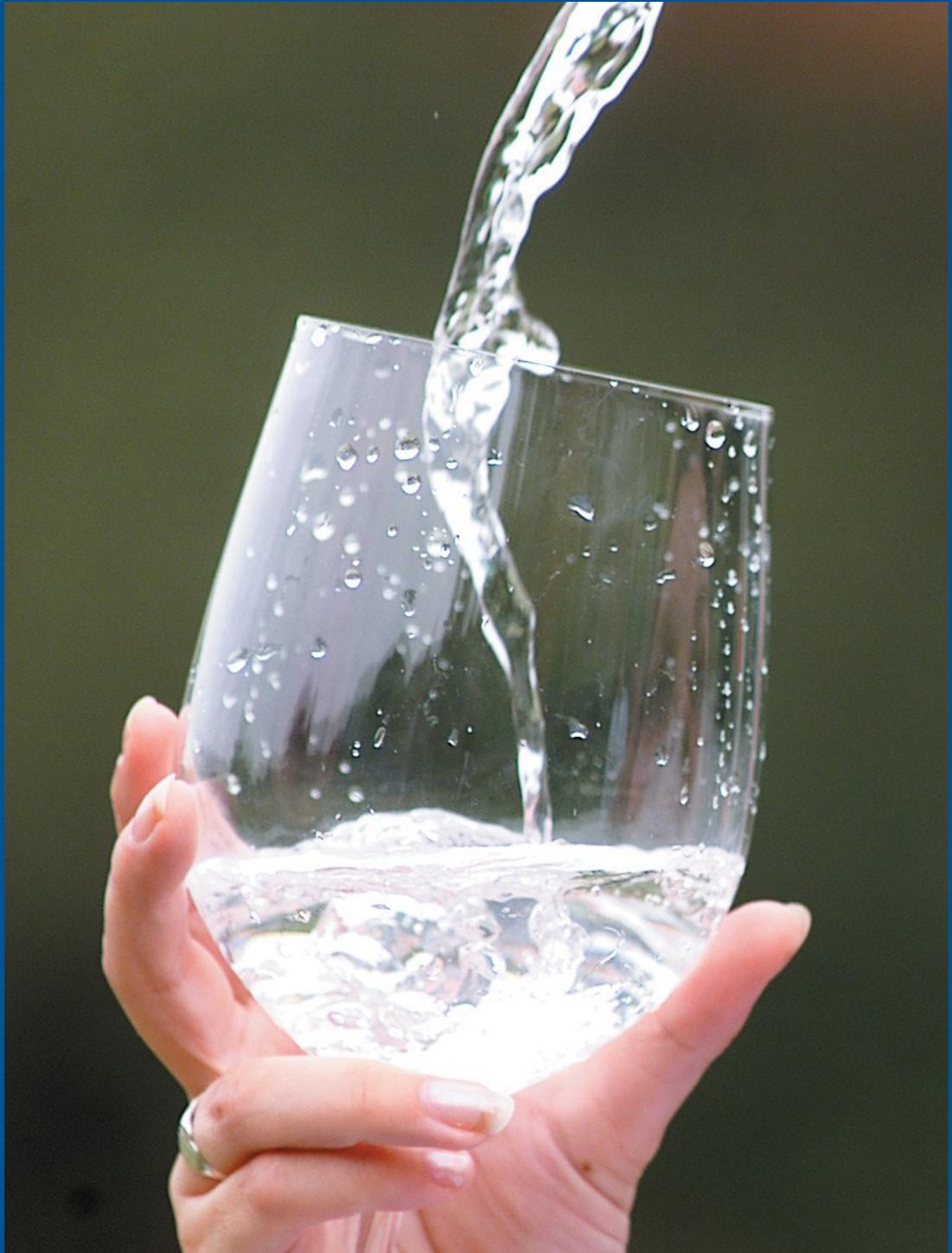
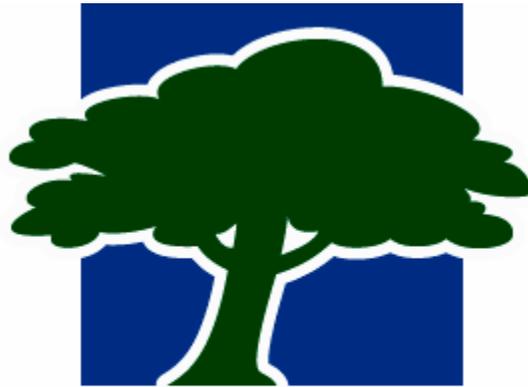


COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED DECEMBER 31, 2011

FAIR OAKS WATER DISTRICT — Fair Oaks, California





**FAIR OAKS
WATER DISTRICT**

Fair Oaks, California

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

**YEAR ENDED
DECEMBER 31, 2011**

*Prepared By
Finance Department*

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FAIR OAKS WATER DISTRICT
COMPREHENSIVE ANNUAL FINANCIAL REPORT

December 31, 2011

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FAIR OAKS WATER DISTRICT
COMPREHENSIVE ANNUAL FINANCIAL REPORT

December 31, 2011

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INTRODUCTORY SECTION



March 2, 2012

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 ended December 31, 2011. 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 includes the management discussion and analysis which should be read in conjunction with the transmittal letter. The District’s management discussion and analysis can be found immediately following the independent auditor’s report.

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 36,200 people on approximately 6,240 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 14,135 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 reasonable cost.”

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 primarily based upon flat rate billing. All commercial accounts have been billed based on metered rates since 2002. The District will be introducing a new rate structure for all its customers effective January 1, 2012. New rate structure and fees calculations are included in the *2012-2016 Five-Year Financial and Water Rate Development Plan*. As the District starts to bill based on the new rate structure projected in the financial plan, the District anticipates that the revenues collected will decline. 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 2010 and 2011 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 resulting cost on water supply operations, are an ongoing challenge for District management. The District anticipates no rate increase from its wholesale water supplier in 2012. 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 2012 budget as adopted on December 12, 2011.

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. The District completed the MIP program in 2011. The District installed approximately 13,950 meters as of December 31, 2011.

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 Sunset 12-inch and Lakeside Way 4-inch water main replacement projects in 2011. Additional projects scheduled for 2012 include:

- Fair Oaks 40-Inch Pipeline Rehabilitation Project at an estimated cost of \$2,000,000.
- Twin Lakes 12-Inch Water Main Replacement at an estimated cost of \$300,000.

Customer Service and Administration

One of the tasks for the finance and administration is to monitor the future cash flow of the District and to ensure that the District is financially sound. The *2012-2016 Five-Year Financial and Water Rate Development Plan* was developed for long-term planning and especially for the 2012 budget and rate preparation as the District prepares for billing using the new rate structure.

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. 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: Sacramento Convention Center Landscape Exposition, Home and Garden Shows, Fair Oaks Spring Fest, Get W.E.T. sponsored in part with the US Bureau of Reclamation, Fair Oaks Harvest Day and the Department of Fish and Game 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 education and enforcement.
- 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 through the year 2030, especially in drought years.

The Fair Oaks Water District is currently working with other regional water stakeholders to continue the implementation of 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 ended December 31, 2011, the budget was adopted November 8, 2010.

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 required to meet the future needs of the District.

District Reserve Fund

The Board adopted an updated reserve 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 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 is used for capacity expansion based on proposed development and

has no designated balance. Since the District paid off its 1999 COP in full in 2010, the COP reserve will no longer be required.

Other Information

Independent Audit

California Government Code Section 26909 requires independent annual audits to be conducted for special districts. JJACPA, Inc. was selected to conduct the annual audit of 2011 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 operations of the District. The preparation of this report could not have been accomplished without the combined effort of the District leadership, JJACPA, Inc. and staff.

The Fair Oaks Water District received an award for its submission of the fiscal year 2010 Comprehensive Annual Financial Report for the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association (GFOA). This was the 10th consecutive year that the District received this award.

In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that this report will again meet the program requirements to receive the award.

Respectfully submitted,



Tom R. Gray
General Manager



Chi Ha-Ly
Finance Manager

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, 2010

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.



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President

Jeffrey R. Emer

Executive Director

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Director

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Director

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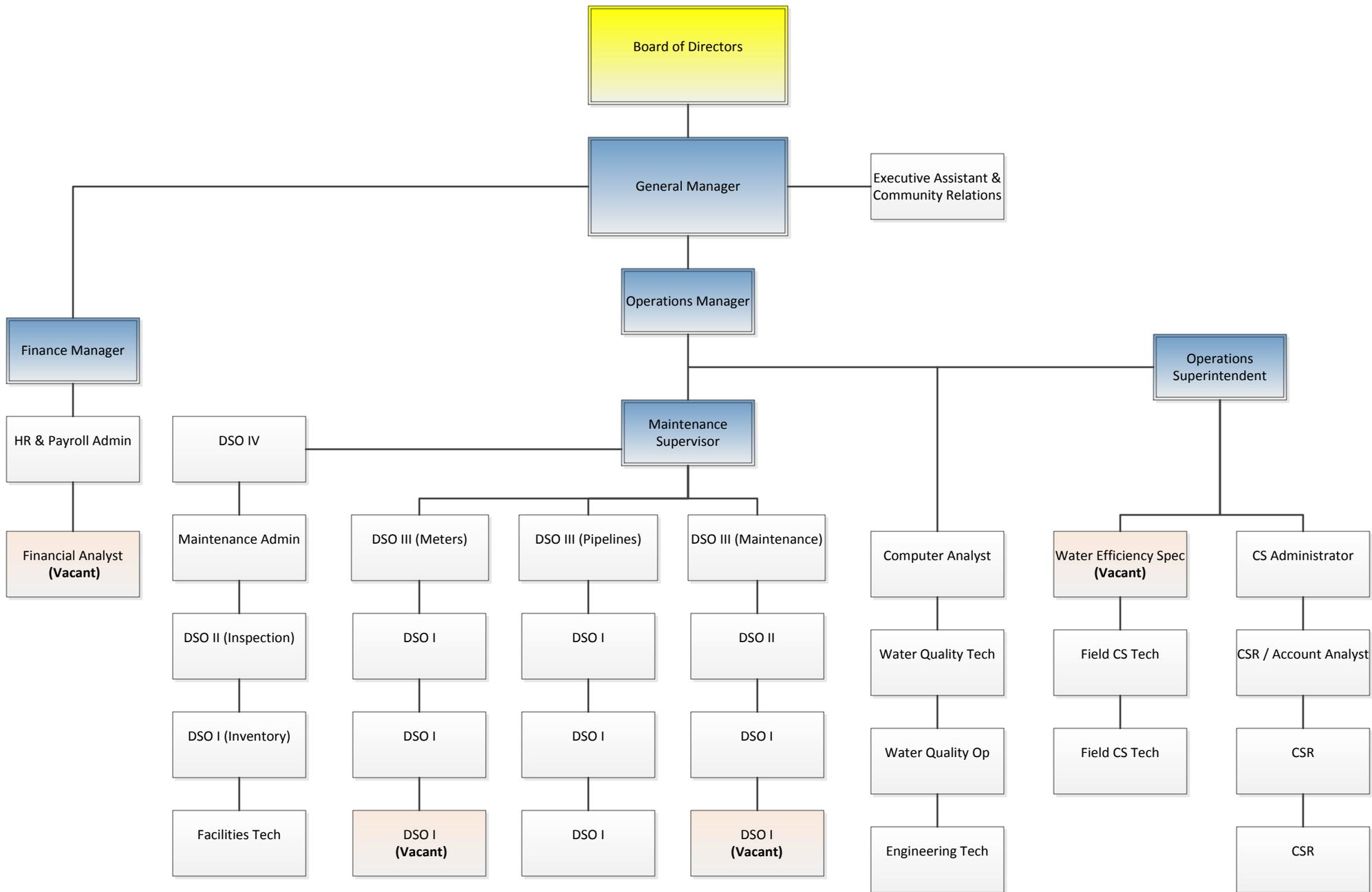
Tom R. Gray
General Manager

Michael Nisenboym
Operations Manager

Chi Ha-Ly
Finance Manager

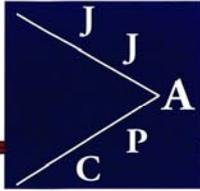
Organization Chart

As of December 31, 2011





FINANCIAL SECTION



JJACPA, Inc.

A Professional Accounting Services Corp.

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying basic financial statements of the Fair Oaks Water District (District) as of and for the year ended December 31, 2011 and the related statement of revenues, expenses and changes in net assets and cash flows for the year then ended. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. The prior year comparative information has been derived from the District's December 31, 2010 financial statements, in which an unqualified opinion was expressed on March 8, 2011, on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, standards applicable to financial audits contained in *Government Auditing Standards* 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2011, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

The Management's Discussion Analysis (MD&A) on pages three to eleven are not required parts of the basic financial statements but are 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 required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 2012 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, contracts, and grant agreements and other matters. 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 considered in assessing the results of our audit.

Our audit was made for the purpose of forming an opinion on the basic financial statements of the District taken as a whole. The accompanying supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information presented in the supplementary schedules has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented 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 are 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.

March 2, 2012

JJACPA, Inc.
JJACPA, Inc.

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Fair Oaks Water District (the District), we offer readers of the District financial statements this narrative overview and analysis of the financial activities for the District for the year ended December 31, 2011. 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 District has reviewed its current year financials and determined that its financial position remained the same (not improving or deteriorating) as prior year given the current economic conditions. The District was able to maintain its rate structure (no rate increases) while investing in infrastructure.

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$41,488,168 (net assets). Of this amount, \$5,141,753 of unrestricted net assets may be used to meet the District's ongoing obligations to citizens and creditors. The District has designated all of the unrestricted (\$5.14 million dollars) for emergencies and rate stabilization.
- The District's total net assets increased by \$941,358 in 2011.
- The District's total debt decreased by \$212,235 during the fiscal year due to principal payments. The District paid off its 1999 COP in July 12, 2010; therefore, the debt payment went down in 2011.
- Water sales decreased by \$32,073 due to customer meter downsizing, home vacancies and early conversions to metered rates. Other operating revenues increased by \$137,650 during the fiscal year primarily from reimbursements from other agencies.
- Operations and Maintenance costs had a net increase of \$253,574. Water supply and pumping had a net decrease of \$25,712. Customer service costs had a net increase of \$117,178. Administration and general costs had a net increase of \$77,807. The net increase in the operating expenses was mainly due to a reduction in capitalized labor. The net decrease in water pumping was attributed to the District's decrease water demand.

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 District maintains a single fund account for all its programs and operations.

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 30 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 31. The report also includes a statistical section of selected financial information over a 10 year period. This information can be found on pages 32 to 41 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 \$41,488,168 at the close of the most recent fiscal year.

The largest portion of the District's net assets (87 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

	2011	2010	2009
Current assets	\$ 7,032,561	\$ 5,967,277	\$ 9,825,446
Other assets	59,848	62,342	93,144
Capital assets	36,567,811	36,725,985	34,460,745
Total assets	43,660,220	42,755,604	44,379,335
Current liabilities	\$ 2,106,920	\$ 1,776,860	\$ 1,776,860
Long-term liabilities	65,132	431,934	1,057,775
Total liabilities	2,172,052	2,208,794	2,834,635
Net assets:			
Invested in capital assets,			
Net of related debt	36,197,173	36,143,021	32,957,747
Restricted	149,242	131,956	769,652
Unrestricted	5,141,753	4,271,833	5,467,470
Total net assets	\$ 41,488,168	\$ 40,546,810	\$ 39,194,869

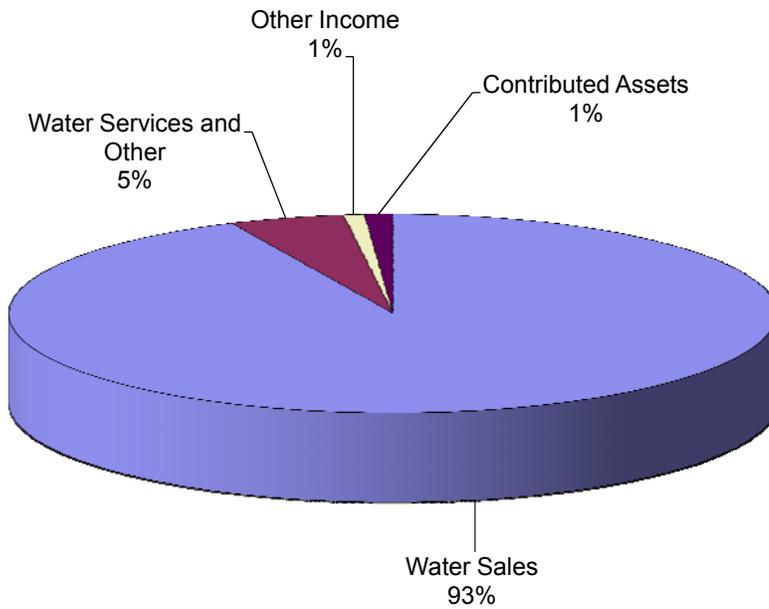
The increase in net assets is from revenues received being greater than current year expenses. Some of the factors attributed to the net increase are the District's paid off its 1999 COP and the increase in other income.

A portion of the District's net assets (less than one percent) represents resources that are subject to external restrictions on how they may be used. The District has also designated \$5.1 million dollars for emergencies and rate stabilization (see footnote F, page 29).

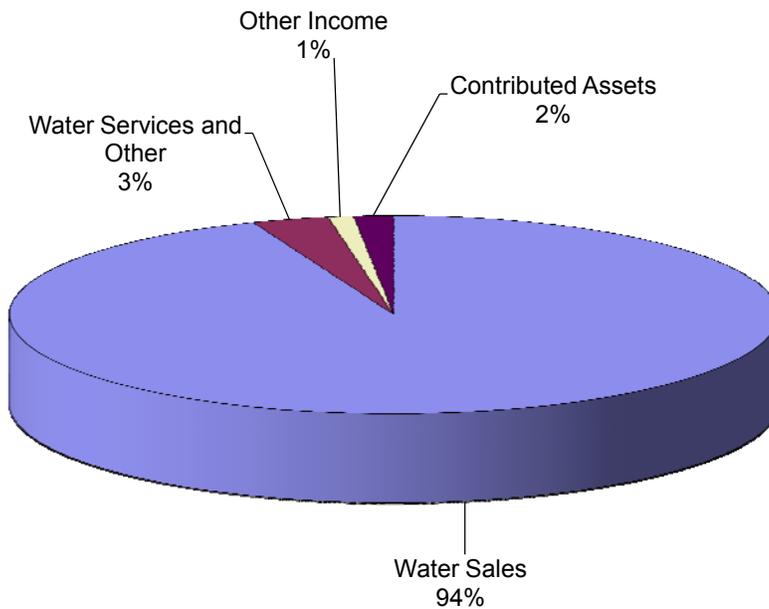
Fair Oaks Water District Changes in Net Assets

	2011	2010	2009
Operating Revenues:			
Water Sales	\$ 7,820,836	\$ 7,852,909	\$ 7,879,245
Water Services	162,852	77,947	85,985
Other	244,635	191,890	234,162
Total Operating Revenues	8,228,323	8,122,746	8,199,392
Non-Operating Revenues:			
Interest Revenue	28,182	36,438	78,743
Non-Capital Grant Revenue	-	19,696	-
Other Revenues	28,088	5,687	30,654
Total Non-Operating Revenues	56,270	61,821	109,397
Revenues Before Capital Contrib.	8,284,593	8,184,567	8,308,789
Operating Expenses:			
Water Supply and Pumping	1,826,476	1,852,188	1,817,561
Operations and Maintenance	1,704,238	1,450,664	1,331,725
Customer Service	607,873	490,695	482,922
Administrative and General	1,079,017	1,001,210	1,007,540
Depreciation and Amortization	2,220,109	2,101,370	1,811,067
Total Operating Expenses	7,437,713	6,896,127	6,450,815
Non-Operating Expenses:			
Interest Expense	22,257	104,058	116,511
Total Non-Operating Expenses	22,257	104,058	116,511
Total Expenses	7,459,970	7,000,185	6,567,326
Net Income Before Capital Contribution	824,623	1,184,382	1,741,463
Capital Revenues:			
Contributed Assets	99,475	139,716	105,880
Capital Grant Revenue	-	-	-
Connections and Annexation Fees	17,260	27,843	57,035
Total Capital Revenues	116,735	167,559	162,915
Increase in net assets	941,358	1,351,941	1,904,378
Net assets January 1	40,546,810	39,194,869	37,290,491
Net assets December 31	\$ 41,488,168	\$ 40,546,810	\$ 39,194,869

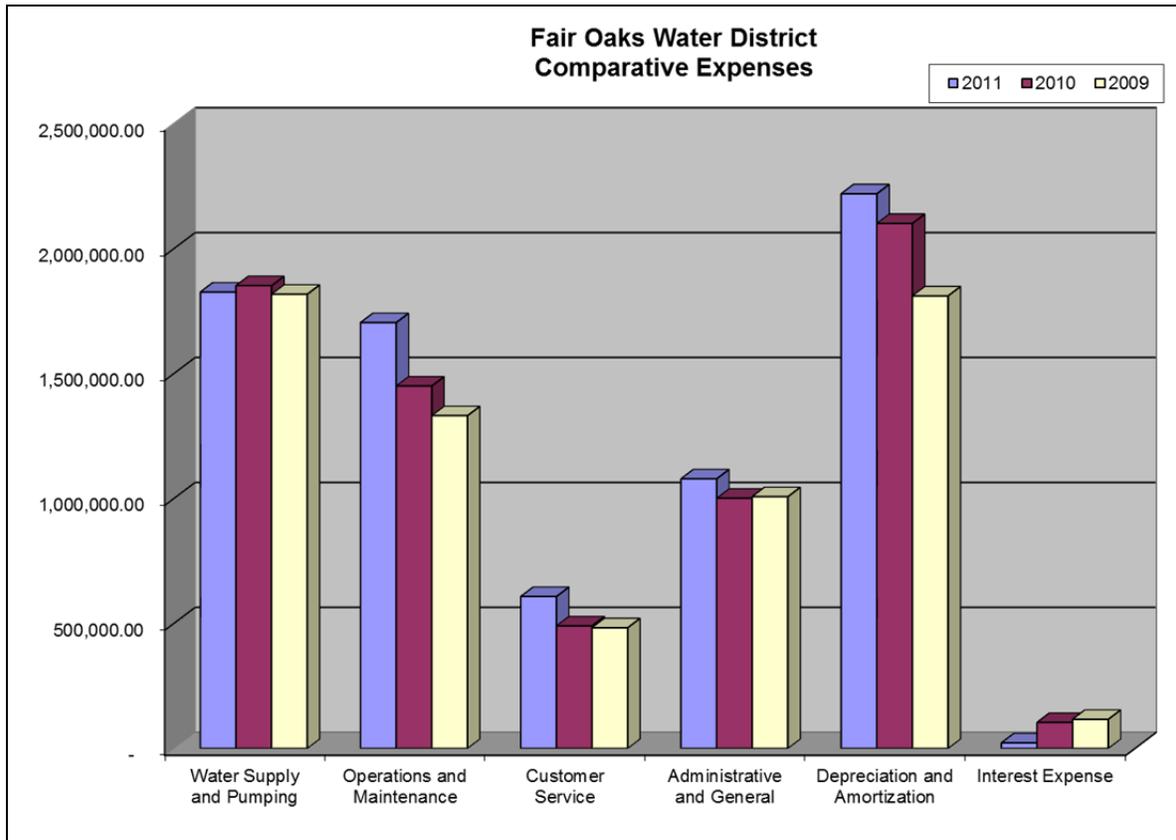
**Fair Oaks Water District
2011 Revenues by Source**



**Fair Oaks Water District
2010 Revenues by Source**



- Water sales decreased by \$32,073 (less than one percent) in 2011 and decreased by \$26,336 (less than one percent) in 2010. The decrease in revenues was primarily due to vacancies and water conservation. The District did not increase water rates in 2011 or 2010.
- Interest income decreased by \$8,256 in 2011 and decreased by \$42,305 in 2010 due to market interest rates fluctuation and a decrease in cash and investment balances.



- The operations and maintenance had a net increase of \$253,574. The net increase is due to net increase in salaries and benefits of \$82,950 and \$94,273 of salaries and benefits not being capitalized compared to 2010. System and maintenance expenses increased by \$69,980 and County and permit fees increased by \$6,371.
- Customer service had a net increase of \$117,178. The net increase is due to net increase in salaries and benefits of \$69,702, a net increase in conservation program \$7,351 and bill processing of \$40,125.
- Administration and general expenses had a net increase of \$77,807. The net increase is due to net increase in salaries and benefits of \$33,429, a net increase in utilities and equipment maintenance of \$7,820, a net decrease in general liability of \$8,008, net increase in computer support and maintenance of \$19,345 and net increase in office supplies, fees and maintenance of \$25,221.
- Water supply costs had a net decrease of \$25,712 due to decrease in water delivery compared to 2010.

Capital Asset and Debt Administration

The District's investment in capital assets as of December 31, 2011, amounts to \$36,567,811 (net of accumulated depreciation and amortization). 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 less than one percent.

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

- The District installed 218 meters and 218 AMR (Automatic Meter Read) units on customer service connections at a cost of approximately \$968,773 as part of the Metering Implementation Program (MIP) in 2011.
- The District completed Lakeside Way water main project totaling \$112,864 and Sunset water main project totaling \$521,539.
- Approximately \$68,766 was spent on various individual service line and hydrant upgrades in 2011.

Fair Oaks Water District Capital Assets, net of depreciation

	2011	2010	2009
Intangible Asset			
Capacity Entitlements	\$ 3,956,248	\$ 3,956,248	\$ 3,956,248
Less: Amort. - Cap. Entitlements	(1,434,139)	(1,335,232)	(1,236,326)
Total Intangible Asset	<u>2,522,109</u>	<u>2,621,016</u>	<u>2,719,922</u>
Capital Assets, not being depreciated:			
Land	1,422,835	1,352,835	1,128,565
Construction in Progress	<u>1,004,644</u>	<u>323,783</u>	<u>2,968,125</u>
Total Capital Assets, not being depreciated	<u>2,427,479</u>	<u>1,676,618</u>	<u>4,096,690</u>
Capital Assets, being depreciated:			
Wells and Pumps	3,855,848	3,947,709	4,060,357
Transmission and Distribution System	20,145,074	20,439,296	18,338,369
Maintenance Equipment	227,219	241,562	246,152
Trucks, Trailers, and Mobile Equipment	198,321	272,784	350,362
Buildings	2,842,028	2,906,365	50,385
Office Equipment and Furnishings	203,351	254,100	121,678
Contributed Distribution Systems	3,503,224	3,663,256	3,710,931
Water Tank and Pumping	<u>643,158</u>	<u>703,279</u>	<u>765,899</u>
Total Capital Assets, being depreciated	<u>31,618,223</u>	<u>32,428,351</u>	<u>27,644,133</u>
Total	<u><u>\$ 36,567,811</u></u>	<u><u>\$ 36,725,985</u></u>	<u><u>\$ 34,460,745</u></u>

Additional information on the capital assets can be found in Note C on pages 24 to 26 of this report.

Long-Term Debt

At the end of the current fiscal year, the District had total debt outstanding of \$370,638 representing 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. The 1999 certificates of participation debt, which is secured solely by pledged water revenues, were paid in full on July 12, 2010. These certificates were issued to advance refund outstanding on the 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.

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Certificates of Participation	\$ -	\$ -	\$ 570,000
Capacity Entitlement Agreement	<u>370,638</u>	<u>582,963</u>	<u>990,851</u>
Total Debt	<u>370,638</u>	<u>582,963</u>	<u>1,560,851</u>
Deferred Amount on Refunding	<u>-</u>	<u>-</u>	<u>(57,853)</u>
Total	<u><u>\$ 370,638</u></u>	<u><u>\$ 582,963</u></u>	<u><u>\$ 1,502,998</u></u>

Total debt decreased during the fiscal year by \$212,235 due to payments of scheduled/paid off principal made during the year. 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 2012 Budget and Rates

- The unemployment rate for the greater Sacramento County in which the District resides averaged 12.1% in 2011, down from an average 12.8% in 2010.
- The District is largely built out, serving approximately 14,135 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.)
- The Board has approved a new rate structure effective January 1, 2012 that that will provide the District with the total revenues increase of approximately 3.22%.
- Health benefit costs are expected to increase 3% in 2012.
- The District intends to use the reserve to fund the shortfall of revenues in 2012.

All of these factors were considered in preparing the District's budget for the 2012 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 Finance Manager, Fair Oaks Water District, 10326 Fair Oaks Boulevard, P.O. Box 640, Fair Oaks, CA 95628-0640.

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BASIC FINANCIAL STATEMENTS

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FAIR OAKS WATER DISTRICT

BALANCE SHEETS

December 31, 2011 and 2010

	2011	2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 5,948,550	\$ 4,543,073
Accounts receivable	77,678	103,769
Water service receivable	421,155	753,360
Interest receivable	5,437	5,312
Inventory	416,282	404,418
Prepaid expenses	163,459	157,345
TOTAL CURRENT ASSETS	7,032,561	5,967,277
NON-CURRENT ASSETS		
Dues on deposit	59,848	62,342
Capital assets not depreciated	2,427,479	1,676,618
Capital assets depreciated, net	31,618,223	32,428,351
Capacity entitlements, net	2,522,109	2,621,016
TOTAL NON-CURRENT ASSETS	36,627,659	36,788,327
TOTAL ASSETS	\$ 43,660,220	\$ 42,755,604
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 475,675	\$ 141,459
Accrued expenses	330,487	264,847
Accrued payroll expense	75,746	87,621
Deposits	61,642	62,286
Unearned revenue	727,600	947,025
Compensated absences	65,132	61,297
Current portion of long-term liabilities	370,638	212,325
TOTAL CURRENT LIABILITIES	2,106,920	1,776,860
LONG-TERM LIABILITIES		
Long-term debt		370,638
Compensated absences	65,132	61,296
TOTAL LONG-TERM LIABILITIES	65,132	431,934
TOTAL LIABILITIES	2,172,052	2,208,794
NET ASSETS		
Invested in capital assets, net of related debt	36,197,173	36,143,021
Restricted:		
Connection and annexation fees	149,242	131,956
Unrestricted	5,141,753	4,271,833
TOTAL NET ASSETS	41,488,168	40,546,810
TOTAL LIABILITIES AND NET ASSETS	\$ 43,660,220	\$ 42,755,604

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, 2011 and 2010

	2011	2010
OPERATING REVENUES		
Water sales	\$7,820,836	\$7,852,909
Water services	162,852	77,947
Other	244,635	191,890
TOTAL OPERATING REVENUES	8,228,323	8,122,746
OPERATING EXPENSES		
Water supply and pumping	1,826,476	1,852,188
Operations and maintenance	1,704,238	1,450,664
Customer service	607,873	490,695
Administrative and general	1,079,017	1,001,210
Depreciation and amortization	2,220,109	2,101,370
TOTAL OPERATING EXPENSES	7,437,713	6,896,127
NET INCOME FROM OPERATIONS	790,610	1,226,619
NON-OPERATING REVENUES (EXPENSES)		
Interest revenue	28,182	36,438
Non-capital grant revenue		19,696
Other Revenues	28,088	5,687
Interest expense	(22,257)	(104,058)
TOTAL NON-OPERATING REVENUES	34,013	(42,237)
NET INCOME BEFORE CAPITAL CONTRIBUTIONS	824,623	1,184,382
CAPITAL CONTRIBUTIONS		
Contributed assets	99,475	139,716
Connection and annexation fees	17,260	27,843
TOTAL CAPITAL CONTRIBUTIONS	116,735	167,559
CHANGE IN NET ASSETS	941,358	1,351,941
Net assets at beginning of year	40,546,810	39,194,869
NET ASSETS AT END OF YEAR	\$ 41,488,168	\$ 40,546,810

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, 2011 and 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	\$ 8,366,550	\$ 6,237,379
Cash paid to suppliers	(2,804,060)	(2,903,072)
Cash paid to employees	(2,034,089)	(2,110,089)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>3,528,401</u>	<u>1,224,218</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from disposal of capital assets	29,004	41,810
Principal payments on long-term debt	(212,325)	(977,888)
Interest payments on long-term debt	(22,257)	(77,824)
Connection and annexation fees received	17,260	27,843
Purchases of capital assets	(1,965,157)	(4,215,636)
NET CASH USED BY RELATED FINANCING ACTIVITIES	<u>(2,153,475)</u>	<u>(5,201,695)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	28,057	43,048
Dues on deposit received	2,494	3,117
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>30,551</u>	<u>46,165</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,405,477	(3,931,312)
Cash and cash equivalents at beginning of year	<u>4,543,073</u>	<u>8,474,385</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 5,948,550</u>	<u>\$ 4,543,073</u>
COMPONENTS OF CASH AND CASH EQUIVALENTS		
Cash and equivalents	<u>\$ 5,948,550</u>	<u>\$ 4,543,073</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 5,948,550</u>	<u>\$ 4,543,073</u>

(Continued)

FAIR OAKS WATER DISTRICT

STATEMENTS OF CASH FLOWS (Continued)

For the years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
RECONCILIATION OF NET INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net income from operations	\$ 790,610	1,226,619
Adjustments to reconcile net income from operations to net cash provided by operating activities:		
Depreciation and amortization	2,220,109	2,101,370
Loss on disposal of assets	1,781	
Changes in assets and liabilities:		
Accounts receivable	26,091	55,747
Water service receivable	332,205	(199,528)
Inventory	(11,864)	(24,850)
Prepaid expenses	(6,114)	88,878
Accounts payable	334,216	(519,843)
Accrued expenses	65,640	212,527
Accrued payroll expense	(11,875)	14,144
Deposits	(644)	8,466
Unearned revenue	(219,425)	(1,750,052)
Compensated absences	7,671	10,740
	<u>\$ 3,528,401</u>	<u>\$ 1,224,218</u>
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES		
Receipt of contributed assets	\$ 99,475	\$ 139,716

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

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2011 and 2010

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, 2011 and 2010

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, 2011 and 2010

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 Unearned 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 unearned 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, 2011 and 2010

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

Inventory: Inventories are stated at the lower of cost or market, on a first-in, first-out basis. 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 earned.

Reclassifications: Certain amounts have been reclassified to provide for comparable results on a year to year basis.

NOTE B – CASH AND INVESTMENTS

Cash and investments as of December 31, 2011 and 2010 are classified in the accompanying financial statements as follows:

	2011	2010
Cash and cash equivalents	\$ 5,948,550	\$ 4,543,073
Total cash and investments	\$ 5,948,550	\$ 4,543,073

Cash and investments as of December 31, 2011 and 2010 consisted of the following:

	2011	2010
Cash on hand	\$ 1,631	\$ 1,662
Deposits with financial institutions	224,265	204,320
Total cash	225,896	205,982
Investments in Local Agency Investment Fund (LAIF)	5,722,654	4,337,091
Total investments	5,722,654	4,337,091
Total cash and cash equivalents	\$ 5,948,550	\$ 4,543,073

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2011 and 2010

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, 2011, the District’s permissible investments included the following instruments:

<u>Authorized Investment Type*</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of Portfolio</u>	<u>Maximum Investment In One Issuer</u>
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
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, 2011 and 2010

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	<u>\$ 5,722,654</u>	<u>\$ 5,722,654</u>
Total	<u>\$ 5,722,654</u>	<u>\$ 5,722,654</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. LAIF is unrated. 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, 2011 and 2010

NOTE B – CASH AND INVESTMENTS (Continued)

	Total	Minimum Legal Rating	Ratings as of Year End Not Rated
LAIF	\$ 5,722,654	N/A	\$ 5,722,654
	\$ 5,722,654		\$ 5,722,654

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, 2011, the carrying amount of the District’s deposits was \$224,265 and the balances in financial institutions was \$266,902. Of the balance in financial institutions, \$250,000 was covered by federal depository insurance and \$16,902 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, 2010, the carrying amount of the District’s deposits was \$204,320 and the balances in financial institutions was \$282,536. Of the balance in financial institutions, \$250,000 was covered by federal depository insurance and \$32,536 was collateralized.

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2011 and 2010

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, 2011 by all public agencies in LAIF is \$67,876,317,377 managed by the State Treasurer. Of that amount, 3.00% 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, 2011 and 2010

NOTE C – CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2011 and 2010 are as follows:

	Balance at January 1, 2011	Additions	Disposals	Transfers and Adjustments	Balance at December 31, 2011
Intangible Asset					
Capacity Entitlements	\$ 3,956,248	\$ -	\$ -	\$ -	\$ 3,956,248
Less: Amortization					
Capacity Entitlements	(1,335,232)	(98,907)	-	-	(1,434,139)
Total Intangible Asset	<u>2,621,016</u>	<u>(98,907)</u>	<u>-</u>	<u>-</u>	<u>2,522,109</u>
Capital assets, not being depreciated:					
Land	1,352,835	70,000			1,422,835
Construction in progress	323,783	721,966		(41,105)	1,004,644
Subtotal capital assets not being depreciated	1,676,618	791,966	-	(41,105)	2,427,479
Total capital assets, not being deprec.	<u>4,297,634</u>	<u>693,059</u>	<u>-</u>	<u>(41,105)</u>	<u>4,949,588</u>
Capital assets, being depreciated:					
Wells and pumps	5,276,717	18,861			5,295,578
Transmission and distribution system	32,146,789	1,118,563	(191,025)	39,323	33,113,650
Maintenance equipment	492,837	7,433			500,270
Trucks, trailers, and mobile equipment	1,575,115				1,575,115
Buildings	3,673,151	42,806			3,715,957
Office equipment and furnishings	863,074	48,668	(1,693)		910,049
Contributed distribution systems	7,498,531	29,475			7,528,006
Water tank and pumping	2,038,088	6,860	(18,246)		2,026,702
Total capital assets being depreciated, net	53,564,302	1,272,666	(210,964)	39,323	54,665,327
Less accumulated depreciation for:					
Wells and pumps	(1,329,008)	(110,722)		-	(1,439,730)
Transmission and distribution system	(11,707,493)	(1,452,108)	191,025	-	(12,968,576)
Maintenance equipment	(251,275)	(21,776)		-	(273,051)
Trucks, trailers, and mobile equipment	(1,302,331)	(74,463)		-	(1,376,794)
Buildings	(766,786)	(107,143)		-	(873,929)
Office equipment and furnishings	(608,974)	(98,502)	778	-	(706,698)
Contributed distribution systems	(3,835,275)	(189,507)		-	(4,024,782)
Water tank and pumping	(1,334,809)	(66,981)	18,246	-	(1,383,544)
Total accumulated depreciation	<u>(21,135,951)</u>	<u>(2,121,202)</u>	<u>210,049</u>	<u>-</u>	<u>(23,047,104)</u>
Total capital assets being depreciated, net	32,428,351	(848,536)	(915)	39,323	31,618,223
Capital assets, net book value	<u>\$ 36,725,985</u>	<u>\$ (155,477)</u>	<u>\$ (915)</u>	<u>\$ (1,782)</u>	<u>\$ 36,567,811</u>

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2011 and 2010

NOTE C – CAPITAL ASSETS (Continued)

	Balance at January 1, 2010	Additions	Disposals	Transfers and Adjustments	Balance at December 31, 2010
Intangible Asset					
Capacity Entitlements	\$ 3,956,248	\$ -	\$ -	\$ -	\$ 3,956,248
Less: Amortization					
Capacity Entitlements	(1,236,326)	(98,906)	-	-	(1,335,232)
Total Intangible Asset	<u>2,719,922</u>	<u>(98,906)</u>	<u>-</u>	<u>-</u>	<u>2,621,016</u>
Capital assets, not being depreciated:					
Land	1,128,565	224,270	-	-	1,352,835
Construction in progress	2,968,125	245,075	-	(2,889,417)	323,783
Subtotal capital assets not being depreciated	4,096,690	469,345	-	(2,889,417)	1,676,618
Total capital assets, not being deprec.	<u>6,816,612</u>	<u>370,439</u>	<u>-</u>	<u>(2,889,417)</u>	<u>4,297,634</u>
Capital assets, being depreciated:					
Wells and pumps	5,276,717	-	-	-	5,276,717
Transmission and distribution system	28,980,378	3,313,556	(271,829)	124,684	32,146,789
Maintenance equipment	475,395	18,365	(923)	-	492,837
Trucks, trailers, and mobile equipment	1,560,355	14,760	-	-	1,575,115
Buildings	725,111	183,307	-	2,764,733	3,673,151
Office equipment and furnishings	846,534	212,593	(196,053)	-	863,074
Contributed distribution systems	7,358,815	139,716	-	-	7,498,531
Water tank and pumping	2,034,378	3,710	-	-	2,038,088
Total capital assets being depreciated, net	47,257,683	3,886,007	(468,805)	2,889,417	53,564,302
Less accumulated depreciation for:					
Wells and pumps	(1,216,359)	(112,649)	-	-	(1,329,008)
Transmission and distribution system	(10,642,009)	(1,323,478)	257,994	-	(11,707,493)
Maintenance equipment	(229,243)	(22,340)	308	-	(251,275)
Trucks, trailers, and mobile equipment	(1,209,994)	(92,337)	-	-	(1,302,331)
Buildings	(674,726)	(92,060)	-	-	(766,786)
Office equipment and furnishings	(724,856)	(78,194)	194,076	-	(608,974)
Contributed distribution systems	(3,647,884)	(187,391)	-	-	(3,835,275)
Water tank and pumping	(1,268,479)	(66,330)	-	-	(1,334,809)
Total accumulated depreciation	<u>(19,613,550)</u>	<u>(1,974,779)</u>	<u>452,378</u>	<u>-</u>	<u>(21,135,951)</u>
Total capital assets being depreciated, net	27,644,133	1,911,228	(16,427)	2,889,417	32,428,351
Capital assets, net book value	<u>\$ 34,460,745</u>	<u>\$2,281,667</u>	<u>\$ (16,427)</u>	<u>\$ -</u>	<u>\$ 36,725,985</u>

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2011 and 2010

NOTE C – CAPITAL ASSETS (Continued)

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. 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).

Depreciation and Amortization Reconciliation: Depreciation and amortization for 2011 of \$2,220,109 included capacity entitlements amortization of \$98,907 and capital assets depreciation of \$2,121,202.

NOTE D – ECONOMIC DEPENDENCY

The District purchased approximately 90% of its water supply from SJWD in 2011. During the years ended December 31, 2011 and 2010, the District's total cost for water purchases from SJWD were \$1,494,562 and \$1,550,630, respectively.

NOTE E – LONG-TERM LIABILITIES

The activity of the District's long-term liabilities during the years ended December 31, 2011 and 2010 are as follows:

	Balance at January 1, 2011	Additions	Repayments	Balance at December 31, 2011	Due within One Year
Capacity entitlement agreement	\$ 582,963		\$ (212,325)	\$ 370,638	\$ 370,638
Total	582,963		<u>\$ (212,325)</u>	370,638	<u>\$ 370,638</u>
Deferred amount on refunding					
Less: Current portion of long-term debt	<u>(212,325)</u>			<u>(370,638)</u>	
	<u>\$ 370,638</u>			<u>\$ -</u>	
Compensated absences	<u>\$ 122,593</u>	<u>\$ 128,108</u>	<u>\$ (120,437)</u>	\$ 130,264	<u>\$ 65,132</u>
Less: Current portion				<u>(65,132)</u>	
				<u>\$ 65,132</u>	

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2011 and 2010

NOTE E – LONG-TERM LIABILITIES (Continued)

	<u>2010</u>	<u>Additions</u>	<u>Repayments</u>	<u>2010</u>	<u>One Year</u>
1999 Revenue Certificates of Participation	\$ 570,000		\$ (570,000)	\$ -	\$ -
Capacity entitlement agreement	<u>990,851</u>		<u>(407,888)</u>	<u>582,963</u>	<u>212,325</u>
Total	1,560,851		<u>\$ (977,888)</u>	582,963	<u>\$ 212,325</u>
Deferred amount on refunding	(57,853)				
Less: Current portion of long-term debt	<u>(501,150)</u>			<u>(212,325)</u>	
	<u>\$ 1,001,848</u>			<u>\$ 370,638</u>	
Compensated absences	<u>\$ 111,853</u>	<u>\$ 111,615</u>	<u>\$ (100,875)</u>	\$ 122,593	<u>\$ 61,297</u>
Less: Current portion				<u>(61,297)</u>	
				<u>\$ 61,296</u>	

Long-term debt consists of the following:

1999 Certificates of Participation: On January 13, 1999, the District issued \$6,580,000 of Revenue Certificates of Participation (Certificates) with interest ranging from 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 \$12,112 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 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 1303% of total debt service at December 31, 2011. The District paid the 1999 Certificates in full on July 12, 2010. Principal and interest paid for the current year on this debt and the capacity entitlement agreement debt and total water system net revenues were \$234,582 and \$3,057,550, respectively.

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2011 and 2010

NOTE E – LONG-TERM LIABILITIES (Continued)

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, 2011 and 2010, net of accumulated amortization of zero dollar and \$376,005, 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. Since the District paid off its 1999 Certificates of Participation, the full amount of the advance funding has been expensed in 2010.

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. SJWD has revised its debt billing to one year in advance. The following schedule reflects the future debt payments due to SJWD.

Future estimated debt requirements for the agreement as of December 31, 2011 are as follows:

Year Ending December 31,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 370,638	\$ 14,826	\$ 385,464
	<u>\$ 370,638</u>	<u>\$ 14,826</u>	<u>\$ 385,464</u>

NOTE F – NET ASSETS

Restrictions: Restricted net assets consist of constraints placed on net asset use through external requirements imposed by creditors (such as through debt covenants), grantors, contributors, or laws and regulations of other governments or constraints by law through constitutional provisions or enabling legislation. Restrictions include connection 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:

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2011 and 2010

NOTE F – NET ASSETS (Continued)

	2011	2010
<u>Designated for Emergency:</u>		
For capital projects, operating and maintenance expenditures not currently budgeted	\$ 3,608,153	\$ 2,839,958
<u>Designated for Rate Stabilization:</u>		
To offset the estimated impact of revenue fluctuations and lag effects in converting to meter based billing	1,533,600	1,431,875
Total designated net assets	\$ 5,141,753	\$ 4,271,833

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.

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 \$132,624 and \$134,600 for the years ended December 31, 2011 and 2010, respectively. The District is required to contribute at an actuarially determined rate; the rate for January 1 to June 30, 2011 was 7.650% and for July 1 to December 31, 2011 was 8.716%. The rate for January 1 to June 30, 2010 was 6.929% and for July 1 to December 31, 2010 was 7.650%. The contribution requirements of plan members and the District are established and may be amended by PERS. The District's contributions for the years ended December 31, 2011, 2010 and 2009 were \$159,753, \$144,339, and \$131,221 respectively, which were equal to the required contributions for each year.

NOTE H – POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

The District currently does not provide post employment benefits other than pensions.

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2011 and 2010

NOTE I – INSURANCE

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

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

<u>Coverage</u>	<u>ACWA/JPIA</u>	<u>Commercial Insurance</u>	<u>Deductible</u>
General and Auto Liability (includes public officials liability)	\$ 2,000,000	\$ 60,000,000	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.

NOTE J – COMMITMENTS AND CONTINGENCIES

The District has no outstanding capital project commitments as of December 31, 2011.

NOTE K – SUBSEQUENT EVENTS

The District has been working with San Juan Water District on the Fair Oaks 40-inch transmission pipeline project to determine the cost percentage to be paid by Fair Oaks Water District. There is a potential liability and the amount is indeterminable at this time.

NOTE L – NEW PRONOUNCEMENTS

The District has reviewed the two new pronouncements: GASB 60, *Accounting and Financial Reporting for Service Concession Arrangements* and GASB 61, *The Financial Reporting Entity: Omnibus*. Both of these new pronouncements are not applicable to the District.

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ADDITIONAL INFORMATION

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FAIR OAKS WATER DISTRICT
DEBT SERVICE RATE COVENANT

December 31, 2011 and 2010

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 2011 and 2010 is as follows:

	2011	2010
Operating Income:	\$ 790,610	\$ 1,226,619
Add:		
Depreciation and amortization	2,220,108	2,101,370
Interest revenue	28,182	36,438
Unrealized (gain) loss on investments	(9,438)	(6,329)
Gain on disposal of capital assets	28,088	5,687
Net Revenue	3,057,550	3,363,785
 Debt Service		
Principal	212,325	977,888
Interest	22,257	104,058
Total Debt Service	\$ 234,582	\$ 1,081,946
 Calculated Coverage	1303%	311%

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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.

<u>Content</u>	<u>Page</u>
Financial Trends <i>These schedules contain trend information to help the reader understand how the District's financial performance and well-being changed over time.</i>	33-34
Revenue Capacity <i>These schedules contain information to help the reader assess the District's most significant local revenue source, water sales.</i>	35-36
Debt Capacity <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>	37-38
Demographic and Economic Information <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>	39-40
Operating Information <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>	41

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

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Net Assets:										
Invested in Capital Assets, Net of Related Debt	\$ 10,446,587	\$ 12,136,620	\$ 14,248,950	\$ 15,489,888	\$ 20,643,625	\$ 25,744,218	\$ 28,663,487	\$ 32,957,747	\$ 36,143,021	\$ 36,197,173
Restricted	1,079,144	1,230,338	1,389,828	2,052,570	1,565,938	658,757	716,979	769,652	131,956	149,242
Unrestricted	7,887,419	8,586,487	8,214,476	9,638,349	8,712,916	7,073,566	7,910,025	5,467,470	4,271,833	5,141,753
Total Net Assets	<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>	<u>\$ 39,194,869</u>	<u>\$ 40,546,810</u>	<u>\$ 41,488,168</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.

Source:
District Finance Department

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

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Operating Revenues:										
Water Sales	\$ 6,025,807	\$ 6,569,055	\$ 7,052,897	\$ 7,681,395	\$ 7,723,313	\$ 7,750,758	\$ 8,021,890	\$ 7,879,245	\$ 7,852,909	\$ 7,820,836
Water Service and Other	<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>	<u>320,147</u>	<u>269,837</u>	<u>407,487</u>
Total Operating Revenues	6,310,732	6,832,442	7,188,060	7,939,543	7,954,614	7,961,366	8,431,931	8,199,392	8,122,746	8,228,323
Non-Operating Revenues:										
Interest Revenue	265,141	192,194	170,533	354,769	610,556	508,938	318,554	78,743	36,438	28,182
Grants			30,000	15,000	-	9,309	19,433	-	19,696	-
Gain (Loss) on Disposal	<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>	<u>30,654</u>	<u>5,687</u>	<u>28,088</u>
Total Non-Operating Revenues	269,696	202,903	195,919	445,216	622,126	532,062	1,549,337	109,397	61,821	56,270
Capital Revenues:										
Connection Fees and Annexation Fees		263,323	158,188	695,200	169,901	146,832	53,436	57,035	27,843	17,260
Capital Contributions	295,000	504,800	289,839	8,000	-	68,500	322,500	105,880	139,716	99,475
Capital Grant Revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>63,257</u>	<u>1,030,162</u>	<u>330,278</u>	<u>179</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Capital Revenues	295,000	768,123	448,027	703,200	1,200,063	545,610	376,115	162,915	167,559	116,735
Total Revenues	<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>	<u>\$ 8,471,704</u>	<u>\$ 8,352,126</u>	<u>\$ 8,401,328</u>
Operating Expenses:										
Water Supply and Pumping	\$ 987,140	\$ 1,066,372	\$ 1,333,038	\$ 1,285,208	\$ 1,321,268	\$ 1,447,945	\$ 1,627,386	\$ 1,817,561	\$ 1,852,188	\$ 1,826,476
Operations and Maintenance	1,698,240	1,496,583	1,785,638	1,405,438	1,401,320	1,357,354	1,473,302	1,331,725	1,450,664	1,704,238
Customer Service			337,202	432,007	399,124	428,692	410,906	482,922	490,695	607,873
Administrative and General	996,913	1,248,202	972,740	963,279	994,004	1,099,417	1,004,510	1,007,540	1,001,210	1,079,018
Depeciation and Amortization	<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>	<u>1,811,067</u>	<u>2,101,370</u>	<u>2,220,108</u>
Total Operating Expenses	4,929,584	5,030,163	5,708,607	5,527,139	5,826,927	6,305,197	6,395,813	6,450,815	6,896,127	7,437,713
Non-Operating Expenses:										
Interest Expense	<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>	<u>116,511</u>	<u>104,058</u>	<u>22,257</u>
Total Non-Operating Expenses	344,021	233,010	223,590	233,267	208,204	179,779	147,620	116,511	104,058	22,257
Total Expenses	<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>	<u>\$ 6,567,326</u>	<u>\$ 7,000,185</u>	<u>\$ 7,459,970</u>
Changes in Net Assets	<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>	<u>\$ 1,904,378</u>	<u>\$ 1,351,941</u>	<u>\$ 941,358</u>

(a) The 2009 revenues and expenses have been reclassified to reflect the current classification for comparative purposes.

Source:
District Finance Department

FAIR OAKS WATER DISTRICT
Water Sales by Type of Customers
Last Ten Years

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u> ^(b)	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Water Sales:										
Residential	\$ 5,302,791	\$ 5,721,390	\$ 6,112,407	\$ 6,757,231	\$ 6,844,879	\$ 6,800,291	\$ 7,079,853	\$ 6,925,071	\$ 6,909,458	\$ 6,875,081
Non-residential ^(a)	<u>723,016</u>	<u>847,665</u>	<u>940,490</u>	<u>924,164</u>	<u>878,434</u>	<u>950,467</u>	<u>942,037</u>	<u>954,174</u>	<u>943,451</u>	<u>945,755</u>
Total Water Sales	\$ 6,025,807	\$ 6,569,055	\$ 7,052,897	\$ 7,681,395	\$ 7,723,313	\$ 7,750,758	\$ 8,021,890	\$ 7,879,245	\$ 7,852,909	\$ 7,820,836
Total Water Deliveries (AF)	14,067	12,574	14,153	12,453	12,024	12,431	12,758	12,181	11,800	11,113
Rate per Acre Foot (AF)	\$ 428.36	\$ 522.43	\$ 498.33	\$ 616.83	\$ 642.32	\$ 623.50	\$ 628.77	\$ 646.85	\$ 665.50	\$ 703.76

(a) Non-residential includes multi-family, institutional, industrial, commercial and landscape irrigation.

(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 Seven Years Prior

	<u>2011</u>			<u>2004</u>		
	<u>Revenues</u> <u>Collected</u>	<u>Rank</u>	<u>Percent of</u> <u>Total Water Sales</u>	<u>Revenues</u> <u>Collected</u>	<u>Rank</u>	<u>Percent of</u> <u>Total Water Sales</u>
Rate Payers						
Rollingwood, LLC	\$ 133,455	1	1.71%	\$ 64,600	2	0.84%
San Juan School District	78,093	2	1.00%	68,444	1	0.89%
The Realty Associates Fund	56,715	3	0.73%			
Fair Oaks Park/Recreation District	52,103	4	0.67%	27,153	5	0.35%
Primrose HOA	50,526	5	0.65%			
Watermarke Properties	38,262	6	0.49%	47,770	3	0.62%
Sacramento Bella Lago, LLC.	31,818	7	0.41%			
Fountains of Fair Oaks	28,513	8	0.36%	20,662	6	0.27%
Village @ Fair Oaks	19,180	9	0.25%	27,275	4	0.36%
Madison Hills	18,771	10	0.24%	19,024	7	0.25%
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	-		<u>0.00%</u>	14,217	10	<u>0.19%</u>
Total	\$ 507,436		6.49%	\$ 320,986		4.18%
Total Water Sales	\$ 7,820,836			\$ 7,681,395		

Information prior to 2004 was not available.

Source:
District Finance Department

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

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Debt:										
1999 Revenue Certificates of Participation	\$ 4,785,000	\$ 4,255,000	\$ 3,700,000	\$ 3,125,000	\$ 2,530,000	\$ 1,910,000	\$ 1,260,000	\$ 570,000	\$ -	\$ -
Capacity Entitlement Agreement	<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>	<u>990,851</u>	<u>582,963</u>	<u>370,638</u>
Total Debt	\$ 7,055,388	\$ 6,374,525	\$ 5,612,787	\$ 4,862,712	\$ 4,088,912	\$ 3,284,525	\$ 2,446,413	\$ 1,560,851	\$ 582,963	\$ 370,638
Number of Service Connections	13,588	13,554	13,577	13,544	14,467	14,469	14,474	14,450	14,129	14,135
Debt Per Capita	519.24	470.31	413.40	359.03	282.64	227.00	169.02	108.02	41.26	26.22

Source:
District Finance Department

FAIR OAKS WATER DISTRICT
Schedule of Debt Service
Last Ten Years

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Net Revenue	\$ 2,894,134	\$ 3,195,488	\$ 2,910,576	\$ 4,247,538	\$ 4,465,686	\$ 4,145,317	\$ 5,420,434	\$ 3,662,758	\$ 3,363,785	\$ 3,057,550
Debt Service	971,923	942,298	1,021,028	983,342	982,004	984,166	985,732	1,002,073	1,081,946	234,582
Coverage	298%	339%	285%	432%	455%	421%	550%	366%	311%	1303%

Source:
District Finance Department

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

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Personal Income ⁽¹⁾	\$ 40,305,530	\$ 42,564,972	\$ 45,282,367	\$ 47,563,421	\$ 50,165,916	\$ 52,572,684	\$ 54,332,238	\$ 53,560,115	Unavailable	Unavailable
Population ⁽¹⁾	1,299,105	1,324,971	1,344,279	1,354,695	1,362,328	1,373,585	1,386,469	1,400,949	Unavailable	Unavailable
Per Capita Personal Income ⁽¹⁾	\$ 31,026	\$ 32,125	\$ 33,685	\$ 35,110	\$ 36,824	\$ 38,274	\$ 39,187	\$ 38,231	Unavailable	Unavailable
Unemployment Rate ⁽²⁾	5.7%	5.9%	5.6%	5.0%	4.8%	5.4%	7.1%	11.3%	12.8%	12.1%

**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:

⁽¹⁾Bureau of Economic Analysis, US Department of Commerce: The Bureau of Economic Analysis revised their data for 2002-2009 on April 21, 2011. This schedule was updated to reflect the change.

⁽²⁾California State Employment Development Department: Some of the prior year data was adjusted to reflect actual because December preliminary was used.

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

<u>Employers</u>	<u>2011</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	70,937	1	11.94%	67,467	1	10.56%
Sacramento County	11,300	2	1.90%	14,408	2	2.26%
UC Davis Health System	8,580	3	1.44%	7,901	3	1.24%
Sutter Health Sacramento Sierra Region	6,958	4	1.17%			
Mercy/Catholic Heathcare West	6,942	5	1.17%	4,897	10	0.77%
Intel Corp.	6,515	6	1.10%	7,000	4	1.10%
Kaiser Permanente	6,367	7	1.07%	6,656	6	1.04%
Elk Grove Unified School District	5,619	8	0.95%			
San Juan Unified School District	4,600	9	0.77%	5,775	8	0.90%
Sacramento City Unified School District	4,500	10	0.76%	7,000	4	1.10%
Los Rios Community College District	-			6,000	7	0.94%
City of Sacramento	-		-	5,105	9	<u>0.80%</u>
Total	132,318		22.27%	132,209		20.70%
Total Employed by Sacramento County⁽²⁾	594,100			638,600		

*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:

⁽¹⁾Sacramento Business Journal

⁽²⁾California State Employment Development Department: Note: 2006 number has been updated to reflect actual.

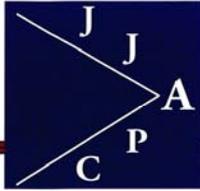
FAIR OAKS WATER DISTRICT
Operating Information
Last Ten Years

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Water Services:										
Number of Service Connections	13,588	13,554	13,577	13,544	14,467	14,469	14,474	14,450	14,129	14,135
Annual Demand in AF	14,067	12,574	14,153	12,453	12,024	12,431	12,758	12,181	11,800	11,113
Average Daily Demand in MGD	12.56	11.22	12.63	11.12	10.73	11.09	11.39	10.87	10.53	9.92
Maximum Day Demand in MGD	23.86	21.33	24.00	21.12	20.39	21.08	21.65	20.65	20.00	20.48
Meters:										
New Installations	410	484	1,025	816	947	1,213	1,317	1,086	1,116	218
Replacement	-	-	13	454	103	92	90	554	281	723
Leaks:										
Water Main	24	9	21	17	16	9	17	8	4	3
Service	70	145	92	89	66	30	26	9	10	25
Hydrants:										
New Installations	3	4	3	-	2	-	1	-	-	9
Upgrades	13	21	23	19	14	27	24	14	5	1
Main Line Valves:										
New Installations	33	56	18	15	17	3	16	1	-	21
Replacement	6	12	14	9	14	19	-	1	2	-
Services:										
New Installations	5	16	4	3	18	3	-	-	3	5
Replacement	323	483	612	548	857	619	856	853	899	271
Major Facilities:										
Wells	7	7	7	7	7	6	6	6	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
Personnel (FTE)										
Customer Service	4	6	5	5	5	4	5	5	5	5
Administration	5	5	5	5	5	4	4	4	4	4
Operations	3	4.5	5	4	5	5	6	6	5	5
Water Supply & Pumping	1	1	1	1	1	1	1	1	1	1
Maintenance	16	19	23	20.5	22	23	19	19	22	17
Total (FTE)	29	35.5	39	35.5	38	37	35	35	37	32

Source:
District Finance Department



COMPLIANCE SECTION



JJACPA, Inc.

A Professional Accounting Services Corp.

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

Independent Auditor's Report

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

We have audited the basic financial statements of the Fair Oaks Water District as of and for the year ended December 31, 2011, and have issued our report thereon dated March 2, 2011. 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 *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 and Other Matters

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 grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

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

March 2, 2012

JJACPA, Inc.
JJACPA, Inc.



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