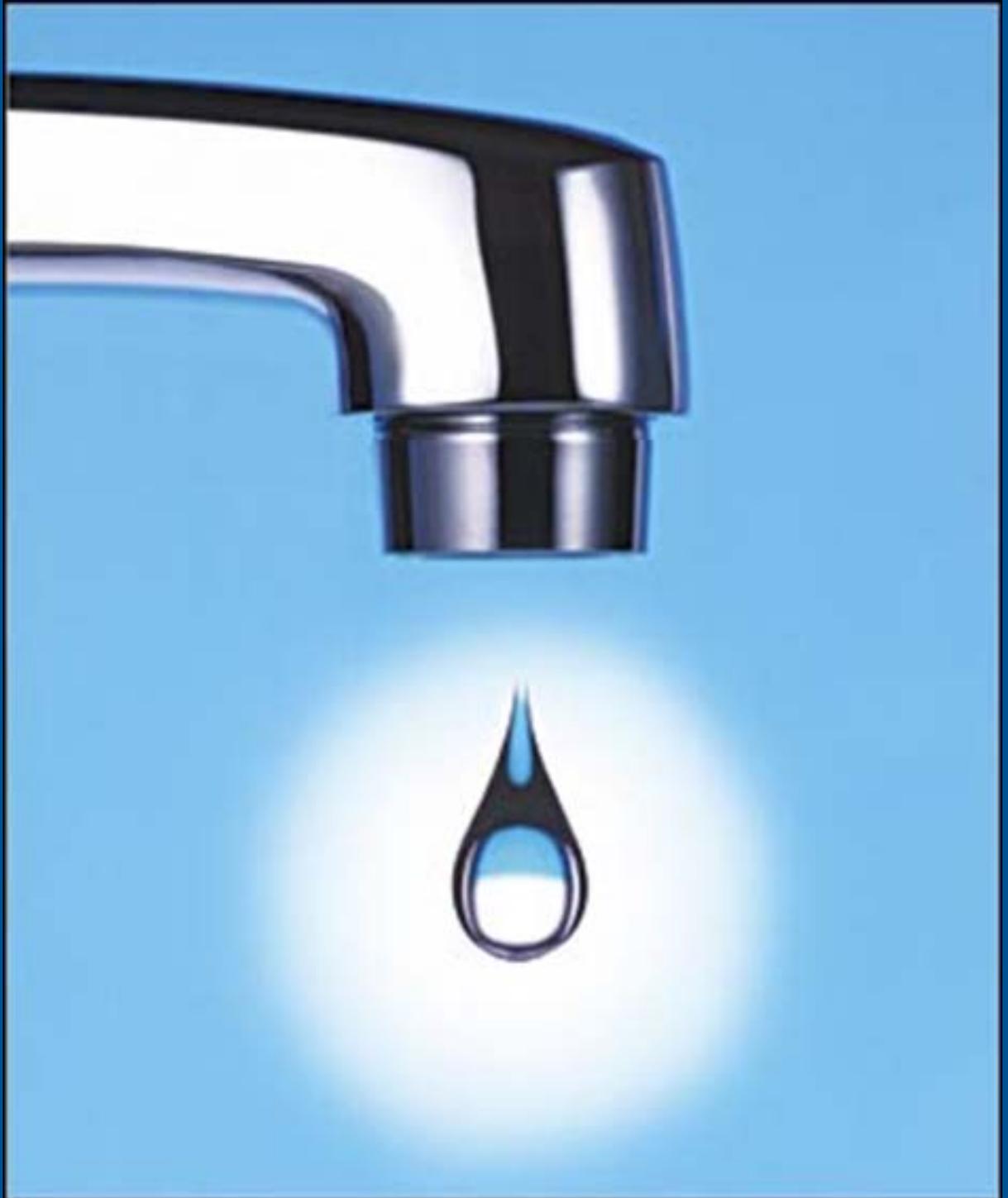


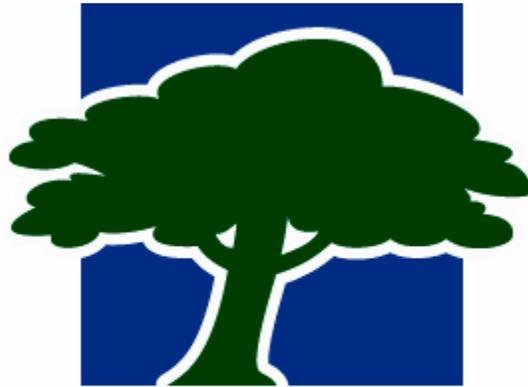
FAIR OAKS
WATER DISTRICT

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2012

FAIR OAKS WATER DISTRICT — Fair Oaks, California





**FAIR OAKS
WATER DISTRICT**

Fair Oaks, California

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

**YEAR ENDED
DECEMBER 31, 2012**

*Prepared By
Finance Department*

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FAIR OAKS WATER DISTRICT
COMPREHENSIVE ANNUAL FINANCIAL REPORT

December 31, 2012

TABLE OF CONTENTS

INTRODUCTORY SECTION

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

FINANCIAL SECTION

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

Basic Financial Statements

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

Additional Information

Debt Service Rate Covenant	31
----------------------------------	----

STATISTICAL SECTION

Description of Statistical Section	32
--	----

Financial Trends

Schedule of Net Assets by Component	33
Schedule of Changes in Net Assets	34

Revenue Capacity

Water Sales by Type of Customer	35
Principal Rate Payers	36

Debt Capacity

Ratios of Outstanding Debt by Type and Number of Connections	37
Schedule of Debt Service	38

FAIR OAKS WATER DISTRICT
COMPREHENSIVE ANNUAL FINANCIAL REPORT

December 31, 2012

TABLE OF CONTENTS
(Continued)

Demographic and Economic Information

Demographic and Economic Statistics	39
Top Ten Employers.....	40

Operating Information

Operating Information	41
-----------------------------	----

COMPLIANCE REPORT

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	42
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INTRODUCTORY SECTION

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March 1, 2013

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, 2012. 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 14,133 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.

The District billed its customers using the new rate structure 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 continues to bill based on the new rate structure projected in the financial plan, the District anticipates that the revenues collected will decline slightly. 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 District’s revenue was slightly impacted by the foreclosure of homes due to the recent housing market decline.

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 current reserve policy on May 14, 2007.

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 2013. 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 2013 budget as adopted on November 5, 2012.

Significant Projects and Future Plans

Meters

The Central Valley Project Improvement Act (CVPIA) was passed 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 and began billing as of January 1, 2012 based on the approved metered rates.

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 Kitty Hawk Lane 12-inch Main Relocation Project and Twin Lakes Main Installation (Phase I) in 2012. Additional projects scheduled for 2013 include:

- SJWD 40-Inch Pipeline Rehabilitation Project at an estimated cost of \$2,000,000.
- Installation of 850 LF of 24-inch T-Main (Walnut/Pershing/Twin Lakes Ave.) at an estimated cost of \$700,000.
- Replacement of 10-inch Main with 12-inch PVC C-900 (FOB) at an estimated cost of \$120,000.
- Installation of 650 LF of 12-inch on Twin Lakes Rd. (Phase II) at an estimated cost of \$150,000.
- Replacement of 260 LF of 4-inch Steel Main on California Avenue at an estimated cost of \$55,000.
- Replacement of 10-inch Main with 12-inch PVC C-900 (FOB) at an estimated cost of \$66,000.

Customer Service and Administration

One of the tasks for 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 as a new-term plan for District revenues.

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 annual Department of Fish and Game events.
- Public information through full participation by the Fair Oaks Water District in the Regional Water Authority's (RWA's) Water Efficiency Program (WEP).
- School education program through 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, 2012, the budget was adopted December 12, 2011.

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 during public meetings.

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 the current 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 5% of gross water revenues beginning 2012 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 is no longer 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 2012 District operations. The auditor's report is included in the financial section of the Comprehensive Annual Financial Report.

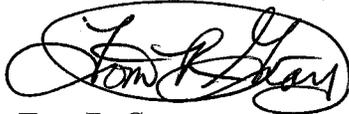
Awards and Acknowledgements

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.

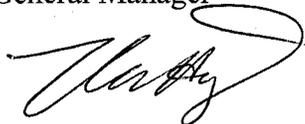
The Fair Oaks Water District received an award for its submission of the fiscal year 2011 Comprehensive Annual Financial Report for the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association (GFOA). This was the 11th consecutive year that the 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, 2011

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

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Executive Director

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Director

Randy Marx
Director

Michael McRae
Director
(June-December)

STAFF

Tom R. Gray
General Manager

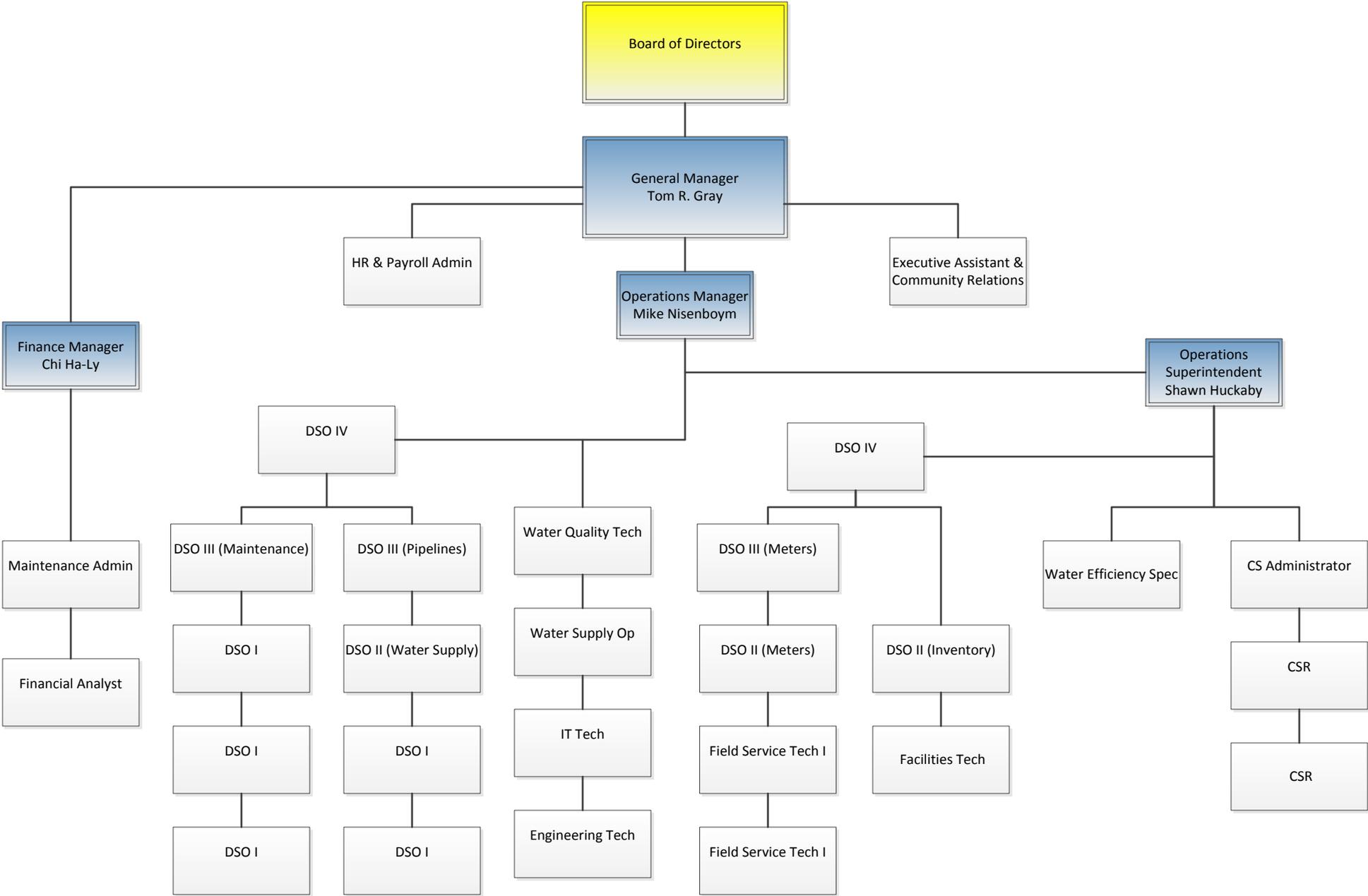
Michael Nisenboym
Operations Manager

Chi Ha-Ly
Finance Manager

Shawn Huckaby
Operations Superintendent

Fair Oaks Water District Organization Chart

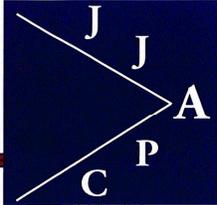
2012 CAFR



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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, 2012, 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, 2011 financial statements, in which an unqualified opinion was expressed on March 2, 2012, on those financial statements.

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. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Directors of the
Fair Oaks Water District
Fair Oaks, California
Page 2

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2013 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 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying and statistical sections are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

March 6, 2013

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, 2012. 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 \$40,910,078 (net assets). Of this amount, \$5,757,356 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 (\$3.5 million dollars) for emergencies and rate stabilization.
- The District's total net assets decreased by \$578,090 in 2012. The net decrease was mainly from the payment to San Juan Water District for the 40-inch pipeline rehabilitation project of \$2.2M.
- The District's total debt decreased by \$256,401 during the fiscal year due to principal payments and reductions from advance refunding in 2012.
- Water sales increased by \$287,865 due to the new rate structures in 2012. Other operating revenues increased by \$389,658 during the fiscal year primarily from reimbursements from other agencies.
- Operations and Maintenance costs had a net increase of \$33,636. Water supply and pumping had a net increase of \$53,904. Customer service costs had a net decrease of \$48,432. Administration and general costs had a net increase of \$13,898. 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 \$40,910,078 at the close of the most recent fiscal year.

The largest portion of the District's net assets (85 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

	2012	2011	2010
Current assets	\$ 7,411,469	\$ 7,032,561	\$ 5,967,277
Other assets	57,355	59,848	62,342
Capital assets	35,067,703	36,567,811	36,725,985
Total assets	<u>42,536,527</u>	<u>43,660,220</u>	<u>42,755,604</u>
Current liabilities	\$ 1,558,229	\$ 2,106,920	\$ 1,776,860
Long-term liabilities	68,220	65,132	431,934
Total liabilities	1,626,449	2,172,052	2,208,794
Net assets:			
Invested in capital assets,			
Net of related debt	34,953,466	36,197,173	36,143,021
Restricted	199,256	149,242	131,956
Unrestricted	5,757,356	5,141,753	4,271,833
Total net assets	<u>\$ 40,910,078</u>	<u>\$ 41,488,168</u>	<u>\$ 40,546,810</u>

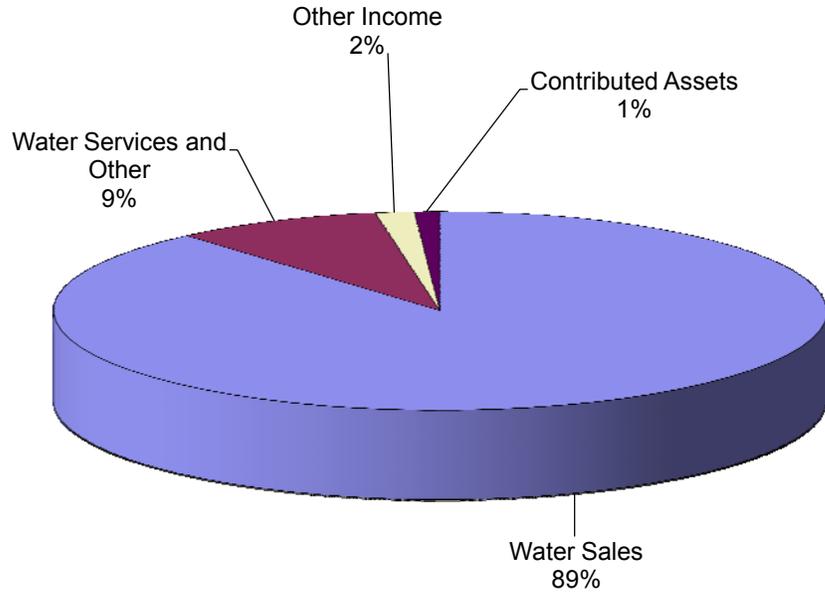
The decrease in net assets is mainly from the payment to San Juan Water District for the 40-inch pipeline project rehabilitation of \$2.2M.

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 \$3.5 million dollars for emergencies and rate stabilization (see footnote F, page 28).

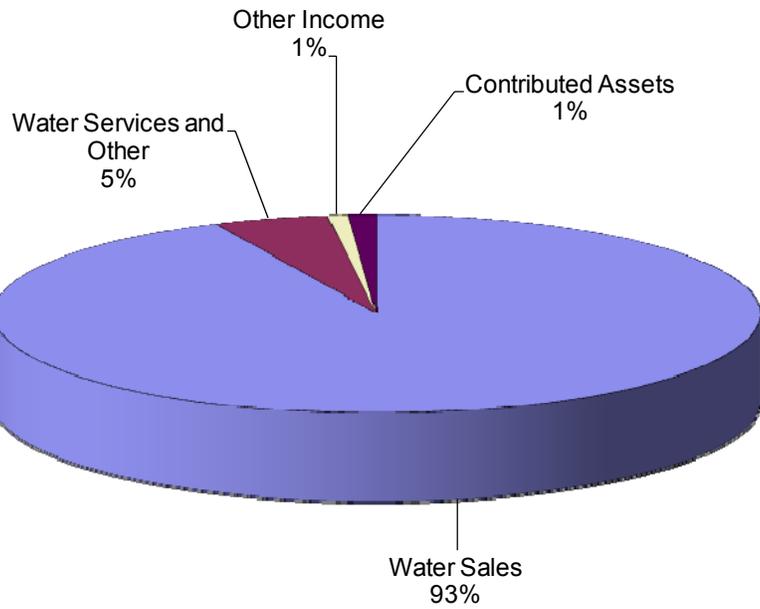
Fair Oaks Water District Changes in Net Assets

	2012	2011	2010
Operating Revenues:			
Water Sales	\$ 8,108,701	\$ 7,820,836	\$ 7,852,909
Water Services	121,573	162,852	77,947
Other	675,572	244,635	191,890
Total Operating Revenues	<u>8,905,846</u>	<u>8,228,323</u>	<u>8,122,746</u>
Non-Operating Revenues:			
Interest Revenue	19,420	28,182	36,438
Non-Capital Grant Revenue	-	-	19,696
Other Revenues	21,279	28,088	5,687
Total Non-Operating Revenues	<u>40,699</u>	<u>56,270</u>	<u>61,821</u>
Revenues Before Capital Contrib.	8,946,545	8,284,593	8,184,567
Operating Expenses:			
Water Supply and Pumping	1,880,380	1,826,476	1,852,188
Operations and Maintenance	1,737,874	1,704,238	1,450,664
Customer Service	559,441	607,873	490,695
Administrative and General	1,092,915	1,079,017	1,001,210
Depreciation and Amortization	2,233,749	2,220,109	2,101,370
Total Operating Expenses	<u>7,504,359</u>	<u>7,437,713</u>	<u>6,896,127</u>
Non-Operating Expenses:			
SJWD 40-Inch Pipeline Rehabilitation	2,222,824		
Gain on advance refunding of debt	(108,024)		
Interest Expense	1,577	22,257	104,058
Total Non-Operating Expenses	<u>2,116,377</u>	<u>22,257</u>	<u>104,058</u>
Total Expenses	9,620,736	7,459,970	7,000,185
Net Income (Loss) Before Capital Contribution	(674,191)	824,623	1,184,382
Capital Revenues:			
Contributed Assets	46,207	99,475	139,716
Connections and Annexation Fees	49,894	17,260	27,843
Total Capital Revenues	<u>96,101</u>	<u>116,735</u>	<u>167,559</u>
Increase (Decrease) in Net Assets	(578,090)	941,358	1,351,941
Net assets January 1	<u>41,488,168</u>	<u>40,546,810</u>	<u>39,194,869</u>
Net assets December 31	<u>\$ 40,910,078</u>	<u>\$ 41,488,168</u>	<u>\$ 40,546,810</u>

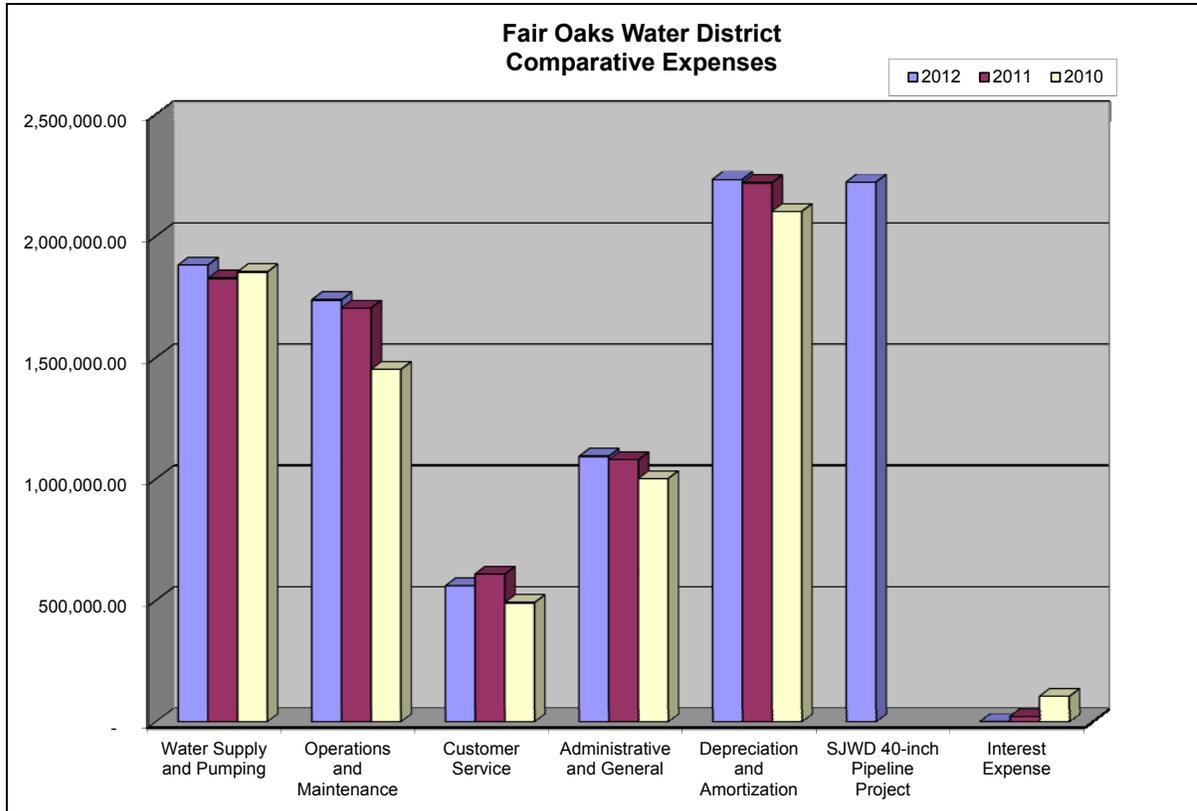
**Fair Oaks Water District
2012 Revenues by Source**



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



- Water sales increased by \$287,865 (3.7 percent) in 2012 and decreased by \$32,073 (less than one percent) in 2011. The decrease in revenues was primarily due to vacancies and water conservation. The District implemented a new water rate structure in 2012 with the projected 3.22 percent in the overall revenues increase. The District did not increase water rates in 2011.
- Interest income decreased by \$8,762 in 2012 and decreased by \$8,256 in 2011 due to market interest rates fluctuation and a decrease in cash and investment balances.



- The operations and maintenance had a net increase of \$33,636. The net increase is due to the payment to SJWD for the Cooperative Transmission Pipeline of \$33,959 for maintenance cost, net increase in salaries and benefits of \$44,923 for salaries and benefits not being capitalized compared to 2011 (Note: actual salaries and benefits decreased), net decrease of system and maintenance expenses of \$45,246.
- Customer service had a net decrease of \$48,432. The net decrease is due to net increase in salaries and benefits decrease of \$34,868, a net increase in conservation program \$7,312 and a net decrease in bill processing of \$20,876. The decrease in salaries and benefits is due to savings from eliminating a customer service representative for part of the year when the District uses the Lockbox for payment processing.
- Administration and general expenses had a net increase of \$13,898. The net increase is due to net increase in salaries and benefits of \$25,463 for transferring one position from the maintenance department over to administration, a net increase in consulting and professional fees of \$5,822, a net decrease in general liabilities and other

insurance of \$28,044 and a net increase in office supplies, fees and maintenance of \$3,241.

- Water supply costs had a net increase of \$53,904 due to increase in water delivery in 2012.

Capital Asset and Debt Administration

The District's investment in capital assets as of December 31, 2012, amounts to \$35,067,703 (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 69 meters and 69 AMR (Automatic Meter Read) units on customer service connections at a cost of approximately \$321,381 as part of the Metering Program in 2012.
- The District completed Kitty Hawk Lane 12-inch water main relocation project totaling \$184,349.
- The District completed the Twin Lakes water main installation phase I in 2012 with the cost totaling \$164,948 and will begin phase II in 2013.
- The District started the Fair Oaks Village Streetscape main replacement in 2012 with the cost totaling \$107,389. The District expects to complete this project in 2013.
- Approximately \$116,125 was spent on various individual service line upgrades, minor main upgrades, hydrant upgrades and County overlay in 2012.
- The District purchased two vehicles as part of the equipment replacement program totaling \$50,694

Fair Oaks Water District Capital Assets, net of depreciation

	2012	2011	2010
Intangible Asset			
Capacity Entitlements	\$ 3,956,248	\$ 3,956,248	\$ 3,956,248
Less: Amort. - Cap. Entitlements	(1,533,045)	(1,434,139)	(1,335,232)
Total Intangible Asset	2,423,203	2,522,109	2,621,016
Capital Assets, not being depreciated:			
Land	1,422,835	1,422,835	1,352,835
Construction in Progress	390,706	1,004,644	323,783
Total Capital Assets, not being depreciated	1,813,541	2,427,479	1,676,618
Capital Assets, being depreciated:			
Wells and Pumps	3,744,993	3,855,848	3,947,709
Transmission and Distribution System	19,834,944	20,145,074	20,439,296
Maintenance Equipment	206,626	227,219	241,562
Trucks, Trailers, and Mobile Equipment	193,311	198,321	272,784
Buildings	2,746,437	2,842,028	2,906,365
Office Equipment and Furnishings	158,542	203,351	254,100
Contributed Distribution Systems	3,359,556	3,503,224	3,663,256
Water Tank and Pumping	586,550	643,158	703,279
Total Capital Assets, being depreciated	30,830,959	31,618,223	32,428,351
Total	\$ 35,067,703	\$ 36,567,811	\$ 36,725,985

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 \$114,237 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.

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Capacity Entitlement Agreement	\$ 114,237	\$ 370,638	\$ 582,963
Total Debt	<u>\$ 114,237</u>	<u>\$ 370,638</u>	<u>\$ 582,963</u>

Total debt decreased during the fiscal year by \$256,401 due to payments of scheduled/paid off principal and advance refunding made during the year. Additional information on the District's long-term debt can be found in Note E on pages 26 to 27 of this report.

Economic Factors and assumptions in preparing the 2013 Budget and Rates

- The unemployment rate for the greater Sacramento County in which the District resides averaged 10.6% in 2012, down from an average 12.1% in 2011.
- The District is largely built out, serving approximately 14,133 customers.
- Inflationary trends in the region are comparable to national indices.
- The District continues to face increasing regulatory requirements that ultimately add new costs to delivering the water service (i.e. security measures, new water quality tests, etc.)
- There will be no water rate changes in 2013.
- Health benefit costs are expected to increase 5% in 2013.
- The District intends to use the reserve to fund the shortfall of revenues in 2013.

All of these factors were considered in preparing the District's budget for the 2013 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, Fair Oaks, CA 95628.

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BASIC FINANCIAL STATEMENTS

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FAIR OAKS WATER DISTRICT

BALANCE SHEETS

December 31, 2012 and 2011

	2012	2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 6,194,247	\$ 5,948,550
Accounts receivable	146,461	77,678
Water service receivable	661,067	421,155
Interest receivable	7,299	5,437
Inventory	269,333	416,282
Prepaid expenses	133,062	163,459
TOTAL CURRENT ASSETS	7,411,469	7,032,561
NON-CURRENT ASSETS		
Dues on deposit	57,355	59,848
Capital assets not depreciated	1,813,541	2,427,479
Capital assets depreciated, net	30,830,959	31,618,223
Capacity entitlements, net	2,423,203	2,522,109
TOTAL NON-CURRENT ASSETS	35,125,058	36,627,659
TOTAL ASSETS	\$ 42,536,527	\$ 43,660,220
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 373,893	\$ 475,675
Accrued expenses	16,238	330,487
Accrued payroll expense	80,584	75,746
Deposits	48,309	61,642
Unearned revenue	856,748	727,600
Compensated absences	68,220	65,132
Current portion of long-term liabilities	114,237	370,638
TOTAL CURRENT LIABILITIES	1,558,229	2,106,920
LONG-TERM LIABILITIES		
Compensated absences	68,220	65,132
TOTAL LONG-TERM LIABILITIES	68,220	65,132
TOTAL LIABILITIES	1,626,449	2,172,052
NET ASSETS		
Invested in capital assets, net of related debt	34,953,466	36,197,173
Restricted:		
Connection and annexation fees	199,256	149,242
Unrestricted	5,757,356	5,141,753
TOTAL NET ASSETS	40,910,078	41,488,168
TOTAL LIABILITIES AND NET ASSETS	\$ 42,536,527	\$ 43,660,220

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, 2012 and 2011

	2012	2011
OPERATING REVENUES		
Water sales	\$8,108,701	\$7,820,836
Water services	121,573	162,852
Other	675,572	244,635
TOTAL OPERATING REVENUES	8,905,846	8,228,323
OPERATING EXPENSES		
Water supply and pumping	1,880,380	1,826,476
Operations and maintenance	1,737,874	1,704,238
Customer service	559,441	607,873
Administrative and general	1,092,915	1,079,017
Depreciation and amortization	2,233,749	2,220,109
TOTAL OPERATING EXPENSES	7,504,359	7,437,713
NET INCOME FROM OPERATIONS	1,401,487	790,610
NON-OPERATING REVENUES (EXPENSES)		
Interest revenue	19,420	28,182
Other Revenues	21,279	28,088
Gain on advance refunding of debt	108,024	
SJWD 40-Inch Pipeline Rehabilitation	(2,222,824)	
Interest expense	(1,577)	(22,257)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(2,075,678)	34,013
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(674,191)	824,623
CAPITAL CONTRIBUTIONS		
Contributed assets	46,207	99,475
Connection and annexation fees	49,894	17,260
TOTAL CAPITAL CONTRIBUTIONS	96,101	116,735
CHANGE IN NET ASSETS	(578,090)	941,358
Net assets at beginning of year	41,488,168	40,546,810
NET ASSETS AT END OF YEAR	\$ 40,910,078	\$ 41,488,168

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, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	\$ 8,712,966	\$ 8,366,550
Cash paid to suppliers	(3,330,160)	(2,804,060)
Cash paid to employees	(1,864,193)	(2,034,089)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>3,518,613</u>	<u>3,528,401</u>
NON-CAPITAL FINANCING ACTIVITIES		
SJWD 40-Inch Pipeline Rehabilitation	(2,222,824)	-
NET CASH FROM NON-CAPITAL FINANCING ACTIVITIES	<u>(2,222,824)</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from disposal of capital assets	24,300	29,004
Principal payments on long-term debt	(148,377)	(212,325)
Interest payments on long-term debt	(1,577)	(22,257)
Connection and annexation fees received	49,894	17,260
Purchases of capital assets	(994,383)	(1,965,157)
NET CASH USED BY RELATED FINANCING ACTIVITIES	<u>(1,070,143)</u>	<u>(2,153,475)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	17,558	28,057
Dues on deposit received	2,493	2,494
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>20,051</u>	<u>30,551</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	245,697	1,405,477
Cash and cash equivalents at beginning of year	<u>5,948,550</u>	<u>4,543,073</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 6,194,247</u>	<u>\$ 5,948,550</u>
COMPONENTS OF CASH AND CASH EQUIVALENTS		
Cash and equivalents	<u>\$ 6,194,247</u>	<u>\$ 5,948,550</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 6,194,247</u>	<u>\$ 5,948,550</u>

(Continued)

FAIR OAKS WATER DISTRICT

STATEMENTS OF CASH FLOWS (Continued)

For the years ended December 31, 2012 and 2011

	2012	2011
RECONCILIATION OF NET INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net income from operations	\$ 1,401,487	790,610
Adjustments to reconcile net income from operations to net cash provided by operating activities:		
Depreciation and amortization	2,233,749	2,220,109
Loss on disposal of assets	302,147	1,781
Changes in assets and liabilities:		
Accounts receivable	(69,014)	26,091
Water service receivable	(239,912)	332,205
Inventory	146,949	(11,864)
Prepaid expenses	30,397	(6,114)
Accounts payable	(101,782)	334,216
Accrued expenses	(314,249)	65,640
Accrued payroll expense	4,838	(11,875)
Deposits	(13,333)	(644)
Unearned revenue	129,148	(219,425)
Compensated absences	6,176	7,671
	\$ 3,518,613	\$ 3,528,401
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES		
Receipt of contributed assets	\$ 46,207	\$ 99,475

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

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2012 and 2011

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, 2012 and 2011

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, 2012 and 2011

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, 2012 and 2011

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, 2012 and 2011 are classified in the accompanying financial statements as follows:

	2012	2011
Cash and cash equivalents	\$ 6,194,247	\$ 5,948,550
Total cash and investments	\$ 6,194,247	\$ 5,948,550

Cash and investments as of December 31, 2012 and 2011 consisted of the following:

	2012	2011
Cash on hand	\$ 1,700	\$ 1,631
Deposits with financial institutions	272,334	224,265
Total cash	274,034	225,896
Investments in Local Agency Investment Fund (LAIF)	5,920,213	5,722,654
Total investments	5,920,213	5,722,654
Total cash and cash equivalents	\$ 6,194,247	\$ 5,948,550

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2012 and 2011

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, 2012, 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, 2012 and 2011

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>\$ 5,920,213</u>	<u>\$ 5,920,213</u>
Total	<u><u>\$ 5,920,213</u></u>	<u><u>\$ 5,920,213</u></u>

LAIF has an average maturity of 208 days as of December 31, 2012.

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, 2012 and 2011

NOTE B – CASH AND INVESTMENTS (Continued)

	Total	Minimum Legal Rating	Ratings as of Year End Not Rated
LAIF	\$ 5,920,213	N/A	\$ 5,920,213
	\$ 5,920,213		\$ 5,920,213

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, 2012, the carrying amount of the District’s deposits was \$272,334 and the balances in financial institutions was \$541,160. Of the balance in financial institutions, \$250,000 was covered by federal depository insurance and \$291,160 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, 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.

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2012 and 2011

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, 2012 by all public agencies in LAIF is \$63,196,977,710 managed by the State Treasurer. Of that amount, 1.87% 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, 2012 and 2011

NOTE C – CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2012 and 2011 are as follows:

	Balance at January 1, 2012	Additions	Disposals	Transfers and Adjustments	Balance at December 31, 2012
Intangible Asset					
Capacity Entitlements	3,956,248	\$ -	\$ -	\$ -	\$ 3,956,248
Less: Amortization					
Capacity Entitlements	(1,434,139)	(98,906)	-	-	(1,533,045)
Total Intangible Asset	<u>2,522,109</u>	<u>(98,906)</u>	<u>-</u>	<u>-</u>	<u>2,423,203</u>
Capital assets, not being depreciated:					
Land	1,422,835	-	-		1,422,835
Construction in progress	1,004,644	337,374	-	(951,312)	390,706
Subtotal capital assets not being depreciated	2,427,479	337,374	-	(951,312)	1,813,541
Total capital assets, not being deprec.	<u>4,949,588</u>	<u>238,468</u>	<u>-</u>	<u>(951,312)</u>	<u>4,236,744</u>
Capital assets, being depreciated:					
Wells and pumps	5,295,578				5,295,578
Transmission and distribution system	33,113,650	553,687	(167,529)	647,384	34,147,192
Maintenance equipment	500,270	2,201	(20,959)		481,512
Trucks, trailers, and mobile equipment	1,575,115	50,694	(30,537)		1,595,272
Buildings	3,715,957	8,127			3,724,084
Office equipment and furnishings	910,049	42,300	(4,701)		947,648
Contributed distribution systems	7,528,006	46,207			7,574,213
Water tank and pumping	2,026,702				2,026,702
Total capital assets being depreciated, net	54,665,327	703,216	(223,726)	647,384	55,792,201
Less accumulated depreciation for:					
Wells and pumps	(1,439,730)	(110,855)		-	(1,550,585)
Transmission and distribution system	(12,968,576)	(1,511,201)	167,529	-	(14,312,248)
Maintenance equipment	(273,051)	(19,773)	17,938	-	(274,886)
Trucks, trailers, and mobile equipment	(1,376,794)	(55,704)	30,537	-	(1,401,961)
Buildings	(873,929)	(103,718)		-	(977,647)
Office equipment and furnishings	(706,698)	(87,109)	4,701	-	(789,106)
Contributed distribution systems	(4,024,782)	(189,875)		-	(4,214,657)
Water tank and pumping	(1,383,544)	(56,608)		-	(1,440,152)
Total accumulated depreciation	<u>(23,047,104)</u>	<u>(2,134,843)</u>	<u>220,705</u>	<u>-</u>	<u>(24,961,242)</u>
Total capital assets being depreciated, net	31,618,223	(1,431,627)	(3,021)	647,384	30,830,959
Capital assets, net book value	<u>\$ 36,567,811</u>	<u>\$ (1,193,159)</u>	<u>\$ (3,021)</u>	<u>\$ (303,928)</u>	<u>\$ 35,067,703</u>

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2012 and 2011

NOTE C – CAPITAL ASSETS (Continued)

	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	<u>32,428,351</u>	<u>(848,536)</u>	<u>(915)</u>	<u>39,323</u>	<u>31,618,223</u>
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, 2012 and 2011

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 2012 of \$2,233,749 included capacity entitlements amortization of \$98,906 and capital assets depreciation of \$2,134,843.

NOTE D – ECONOMIC DEPENDENCY

The District purchased approximately 86.5% of its water supply from SJWD in 2012. During the years ended December 31, 2012 and 2011, the District's total cost for water purchases from SJWD were \$1,547,919 and \$1,494,562, respectively.

NOTE E – LONG-TERM LIABILITIES

The activity of the District's long-term liabilities during the years ended December 31, 2012 and 2011 are as follows:

	<u>Balance at January 1, 2012</u>	<u>Additions</u>	<u>Repayments/ Reductions</u>	<u>Balance at December 31, 2012</u>	<u>Due within One Year</u>
Capacity entitlement agreement	<u>\$ 370,638</u>		<u>\$ (256,401)</u>	<u>\$ 114,237</u>	<u>\$ 114,237</u>
Total	370,638		<u><u>\$ (256,401)</u></u>	114,237	<u><u>\$ 114,237</u></u>
Less: Current portion of long-term debt	<u>(370,638)</u>			<u>(114,237)</u>	
	<u>\$ -</u>			<u>\$ -</u>	
Compensated absences	<u>\$ 130,264</u>	<u>\$ 129,253</u>	<u>\$ (123,077)</u>	<u>\$ 136,440</u>	<u>\$ 68,220</u>
Less: Current portion				<u>(68,220)</u>	
				<u><u>\$ 68,220</u></u>	

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2012 and 2011

NOTE E – LONG-TERM LIABILITIES (Continued)

	<u>Balance at January 1, 2011</u>	<u>Additions</u>	<u>Repayments</u>	<u>Balance at December 31, 2011</u>	<u>Due within One Year</u>
Capacity entitlement agreement	\$ 582,963		\$ (212,325)	\$ 370,638	\$ 370,638
Total	582,963		<u>\$ (212,325)</u>	370,638	<u>\$ 370,638</u>
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>	

Long-term debt consists of the following:

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. SJWD completed the advance refunding in 2012 on this Certificates of Participation resulting in the gain on debt extinguishment of \$108,024 and repayment of principal amount of \$148,377. The following schedule reflects the future debt payments due to SJWD.

Future estimated debt requirements for the agreement as of December 31, 2012 are as follows:

Year Ending December 31,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	<u>\$ 114,237</u>	<u>\$ 1,214</u>	<u>\$ 115,451</u>
	<u>\$ 114,237</u>	<u>\$ 1,214</u>	<u>\$ 115,451</u>

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2012 and 2011

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.

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

	<u>2012</u>	<u>2011</u>
<u>Designated for Emergency:</u>		
For capital projects, operating and maintenance expenditures not currently budgeted	\$ 3,088,000	\$ 3,608,153
<u>Designated for Rate Stabilization:</u>		
To offset the estimated impact of revenue fluctuations and lag effects in converting to meter based billing	<u>405,435</u>	<u>1,533,600</u>
Total designated net assets	<u>\$ 3,493,435</u>	<u>\$ 5,141,753</u>

NOTE G – EMPLOYEES' RETIREMENT PLAN

Plan Description: The District contributes to the California Public Employees Retirement System (PERS), a cost-sharing multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public employers within the State of California. PERS requires employers with less than 100 active members in the plan to participate in the risk pool. All full and part time District employees working at least 1,000 hours per year are eligible to participate in PERS. Under PERS, benefits vest after five years of service. Upon retirement, participants are entitled to an annual retirement benefit, payable for life, in an amount equal to a benefit factor times the monthly average salary of their highest thirty-six consecutive months full-time equivalent monthly pay. Copies of the PERS annual financial report may be obtained from their Executive Office, 400 P Street, Sacramento, CA 95814.

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 \$123,262 and \$132,624 for the years ended December 31, 2012 and 2011, respectively. The District is required to contribute at an actuarially determined rate; the rate for January 1 to June 30, 2012 was 8.716% and for July 1 to December 31, 2012 was 8.852%. The rate for January 1 to

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2012 and 2011

June 30, 2011 was 7.650% and for July 1 to December 31, 2011 was 8.716%. 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, 2012, 2011 and 2010 were \$158,867, \$159,753, and \$144,339 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.

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:

Coverage	ACWA/JPIA	Commercial Insurance	Deductible
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 the following project commitments as of December 31, 2012:

SJWD 40-inch Pipeline Rehabilitation Project	\$ 2,000,000
Radio Survey	<u>2,170</u>
Total	<u>\$ 2,002,170</u>

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2012 and 2011

NOTE K – SAN JUAN WATER DISTRICT (40-INCH PIPELINE REHABILITATION)

The District and SJWD reached an agreement in 2012 relating to the 40-Inch Pipeline. The District paid San Juan Water District \$2,222,824 for the 40-Inch Pipeline.

NOTE L – NEW PRONOUNCEMENTS

The District has reviewed following new pronouncements issued by the Government Accounting Standard Board (GASB) and their impact to the District.

Statement No. 65 – Items Previously Reported as Assets and Liabilities

Effective Date: For periods beginning after December 15, 2012

Impact to the District: There is no impact to the District.

Statement No. 66 – Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62

Effective Date: For periods beginning after December 15, 2012

Impact to the District: There is no impact to the District.

Statement No. 67 – Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25

Effective Date: For periods beginning after June 15, 2013

Impact to the District: The District will incorporate the changes as required.

Statement No. 68 – Accounting and Financial Reporting for Pensions – an amendment of Statement No. 27

Effective Date: For periods beginning after June 15, 2014

Impact to the District: The District will incorporate the changes as required.

Statement No. 69 – Government Combinations and Disposals of Government Operations

Effective Date: For periods beginning after December 15, 2013

Impact to the District: There is no impact to the District.

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ADDITIONAL INFORMATION

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FAIR OAKS WATER DISTRICT
DEBT SERVICE RATE COVENANT

December 31, 2012 and 2011

The Fair Oaks Water District does not have any outstanding debt secured by revenues of the Fair Oaks Water District in 2012 or 2011. The debt below is through SJWD for the pipeline project as noted in Note E. For purposes of this calculation, net revenues equals net income plus depreciation and amortization expenses. The debt service requirement for 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Operating Income:	\$ 1,401,487	\$ 790,610
Add:		
Depreciation and amortization	2,233,749	2,220,108
Interest revenue	19,420	28,182
Unrealized (gain) loss on investments	(6,666)	(9,438)
Gain on disposal of capital assets	21,279	28,088
Net Revenue	<u>3,669,269</u>	<u>3,057,550</u>
Debt Service		
Principal	148,377	212,325
Interest	<u>1,577</u>	<u>22,257</u>
Total Debt Service	<u>\$ 149,954</u>	<u>\$ 234,582</u>
Calculated Coverage	<u>2447%</u>	<u>1303%</u>

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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

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

	<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>	<u>2012</u>
Net Assets:										
Invested in Capital Assets, Net of Related Debt	\$ 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	\$ 34,953,466
Restricted	1,230,338	1,389,828	2,052,570	1,565,938	658,757	716,979	769,652	131,956	149,242	199,256
Unrestricted	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	5,757,356
Total Net Assets	<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>	<u>\$ 40,910,078</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>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>	<u>2012</u>
Operating Revenues:										
Water Sales	\$ 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	\$ 8,108,701
Water Service and Other	<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>	<u>797,145</u>
Total Operating Revenues	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	8,905,846
Operating Expenses:										
Water Supply and Pumping	\$ 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	\$ 1,880,380
Operations and Maintenance	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	1,737,874
Customer Service		337,202	432,007	399,124	428,692	410,906	482,922	490,695	607,873	559,441
Administrative and General	1,248,202	972,740	963,279	994,004	1,099,417	1,004,510	1,007,540	1,001,210	1,079,018	1,092,915
Depeciation and Amortization	<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>	<u>2,233,749</u>
Total Operating Expenses	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	7,504,359
Net Income From Operations	1,802,279	1,479,453	2,412,404	2,127,687	1,656,169	2,036,118	1,748,577	1,226,619	790,610	1,401,487
Non-Operating Revenues (Expenses):										
Interest Revenue	192,194	170,533	354,769	610,556	508,938	318,554	78,743	36,438	28,182	19,420
Other Revenues	10,709	(4,614)	12,190	11,570	13,815	1,211,350	30,654	5,687	28,088	21,279
Non-Capital Grant Revenue		30,000	15,000	-	9,309	19,433	-	19,696	-	-
Gain on Advance Refunding of Debt										108,024
SJWD 40-Inch Pipeline Rehabilitation	-	-	-	-	-	-	-	-	-	(2,222,824)
Interest Expense	<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>	<u>(1,577)</u>
Total Non-Operating Revenues (Expenses)	(30,107)	(27,671)	148,692	413,922	352,283	1,401,717	(7,114)	(42,237)	34,013	(2,075,678)
Net Income (Loss) Before Capital Contributions	1,772,172	1,451,782	2,561,096	2,541,609	2,008,452	3,437,835	1,741,463	1,184,382	824,623	(674,191)
Capital Contributions:										
Connection Fees and Annexation Fees	263,323	158,188	695,200	169,901	146,832	53,436	57,035	27,843	17,260	49,894
Capital Contributions	504,800	289,839	8,000	-	68,500	322,500	105,880	139,716	99,475	46,207
Capital Grant Revenue	-	-	63,257	1,030,162	330,278	179	-	-	-	-
Total Capital Revenues	<u>768,123</u>	<u>448,027</u>	<u>766,457</u>	<u>1,200,063</u>	<u>545,610</u>	<u>376,115</u>	<u>162,915</u>	<u>167,559</u>	<u>116,735</u>	<u>96,101</u>
Changes in Net Assets	<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>	<u>\$ (578,090)</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>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>	<u>2012</u>
Water Sales:										
Residential	\$ 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	\$ 6,851,292
Non-residential ^(a)	<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>	<u>1,257,409</u>
Total Water Sales	\$ 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	\$ 8,108,701
Total Water Deliveries (AF)	12,574	14,153	12,453	12,024	12,431	12,758	12,181	11,800	11,113	11,550
Rate per Acre Foot (AF)	\$ 522.43	\$ 498.33	\$ 616.83	\$ 642.32	\$ 623.50	\$ 628.77	\$ 646.85	\$ 665.50	\$ 703.76	\$ 702.05

(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 Eight Years Prior

<u>Rate Payers</u>	<u>2012</u>			<u>2004</u>		
	<u>Revenues Collected</u>	<u>Rank</u>	<u>Percent of Total Water Sales</u>	<u>Revenues Collected</u>	<u>Rank</u>	<u>Percent of Total Water Sales</u>
Rollingwood, LLC	\$ 133,908	1	1.50%	\$ 64,600	2	0.84%
San Juan School District	89,441	2	1.00%	68,444	1	0.89%
Fair Oaks Park/Recreation District	64,506	3	0.72%	27,153	5	0.35%
Primrose HOA	60,918	4	0.68%			
Watermarke Properties	52,082	5	0.58%	47,770	3	0.62%
The Realty Associates Fund	47,445	6	0.53%			
County of Sacramento	32,841	7	0.37%			
Fountains of Fair Oaks	32,785	8	0.37%	20,662	6	0.27%
Sacramento Bella Lago, LLC.	30,150	9	0.34%			
Madison Hills	25,500	10	0.29%	19,024	7	0.25%
Village @ Fair Oaks	-		0.00%	27,275	4	0.36%
The Lakes at Fair Oaks	-		0.00%	16,426	8	0.21%
Huntcliff Apartments	-		0.00%	15,415	9	0.20%
Fair Oaks Lake Apartments	-		0.00%	14,217	10	0.19%
Total	\$ 569,577		6.40%	\$ 320,986		4.18%
Total Water Sales	\$ 8,905,846			\$ 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>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>	<u>2012</u>
Debt:										
1999 Revenue Certificates of Participation	\$ 4,255,000	\$ 3,700,000	\$ 3,125,000	\$ 2,530,000	\$ 1,910,000	\$ 1,260,000	\$ 570,000	\$ -	\$ -	\$ -
Capacity Entitlement Agreement	<u>2,119,525</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>	<u>114,237</u>
Total Debt	\$ 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	\$ 114,237
Number of Service Connections	13,554	13,577	13,544	14,467	14,469	14,474	14,450	14,129	14,135	14,133
Debt Per Capita	470.31	413.40	359.03	282.64	227.00	169.02	108.02	41.26	26.22	8.08

Source:
District Finance Department

FAIR OAKS WATER DISTRICT
Schedule of Debt Service
Last Ten Years

	<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>	<u>2012</u>
Net Revenue	\$ 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	\$ 3,669,269
Debt Service	942,298	1,021,028	983,342	982,004	984,166	985,732	1,002,073	1,081,946	234,582	149,954
Coverage	339%	285%	432%	455%	421%	550%	366%	311%	1303%	2447%

Source:
District Finance Department

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

	<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>	<u>2012</u>
Personal Income ⁽¹⁾	\$ 42,564,972	\$ 45,282,367	\$ 47,563,421	\$ 50,165,916	\$ 52,572,684	\$ 54,332,238	\$ 53,560,115	52,811,960	54,861,602	Unavailable
Population ⁽¹⁾	1,324,971	1,344,279	1,354,695	1,362,328	1,373,585	1,386,469	1,400,949	1,422,094	1,436,105	Unavailable
Per Capita Personal Income ⁽¹⁾	\$ 32,125	\$ 33,685	\$ 35,110	\$ 36,824	\$ 38,274	\$ 39,187	\$ 38,231	37,137	38,202	Unavailable
Unemployment Rate ⁽²⁾	5.9%	5.6%	5.0%	4.8%	5.4%	7.1%	11.3%	12.8%	12.1%	10.6%

**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 Six Years Prior***

<u>Employers</u>	<u>2012</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	69,763	1	11.47%	67,467	1	10.56%
Sacramento County	11,450	2	1.88%	14,408	2	2.26%
UC Davis Health System	9,584	3	1.58%	7,901	3	1.24%
Dignity Health	7,069	4	1.16%			
Intel Corp.	6,633	5	1.09%	7,000	4	1.10%
Kaiser Permanente	6,360	6	1.05%	6,656	6	1.04%
Sutter Health Sacramento Sierra Region	5,765	7	0.95%			
Elk Grove Unified School District	5,021	8	0.83%			
Sacramento City Unified School District	5,000	9	0.82%	7,000	4	1.10%
San Juan Unified School District	4,700	10	0.77%	5,775	8	0.90%
Los Rios Community College District	-			6,000	7	0.94%
City of Sacramento	-			5,105	9	0.80%
Mercy/Catholic Healthcare West	-		-	4,897	10	0.77%
Total	131,345		21.59%	132,209		20.70%
Total Employed by Sacramento County⁽²⁾	608,400			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

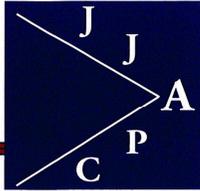
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Water Services:										
Number of Service Connections	13,554	13,577	13,544	14,467	14,469	14,474	14,450	14,129	14,135	14,133
Annual Demand in AF	12,574	14,153	12,453	12,024	12,431	12,758	12,181	11,800	11,113	11,550
Average Daily Demand in MGD	11.22	12.63	11.12	10.73	11.09	11.39	10.87	10.53	9.92	10.31
Maximum Day Demand in MGD	21.33	24.00	21.12	20.39	21.08	21.65	20.65	20.00	20.48	19.65
Meters:										
New Installations	484	1,025	816	947	1,213	1,317	1,086	1,116	218	69
Replacement	-	13	454	103	92	90	554	281	723	223
Leaks:										
Water Main	9	21	17	16	9	17	8	4	3	22
Service	145	92	89	66	30	26	9	10	25	28
Hydrants:										
New Installations	4	3	-	2	-	1	-	-	9	3
Upgrades	21	23	19	14	27	24	14	5	1	7
Main Line Valves:										
New Installations	56	18	15	17	3	16	1	-	21	3
Replacement	12	14	9	14	19	-	1	2	-	2
Services:										
New Installations	16	4	3	18	3	-	-	3	5	12
Replacement	483	612	548	857	619	856	853	899	271	108
Major Facilities:										
Wells	7	7	7	7	6	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	6	5	5	5	4	4.5	4	4.5	5	4.5
Administration	5	5	5	4.5	4	4	4	4	4	4.5
Operations	4.5	5	4	5	5	6	6	4.5	5	5
Water Supply & Pumping	1	1	1	1	1	1	1	1	1	1
Maintenance	19	23	20.5	21	23.84	20.1	19.9	21.4	19.3	14.9
Total (FTE)*	35.5	39	35.5	36	37.8	35.6	34.9	35.4	34.3	29.9

* Some years have been updated to reflect part-time/temporary employees.

Source:
District Finance Department



COMPLIANCE SECTION



JJACPA, Inc.

A Professional Accounting Services Corp.

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

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, 2012, and have issued our report thereon dated March 6, 2012. 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

Management of the District is responsible for establishing and maintaining effective 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 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 previously.

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, and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

March 6, 2013

JJACPA, Inc.
JJACPA, Inc.



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