



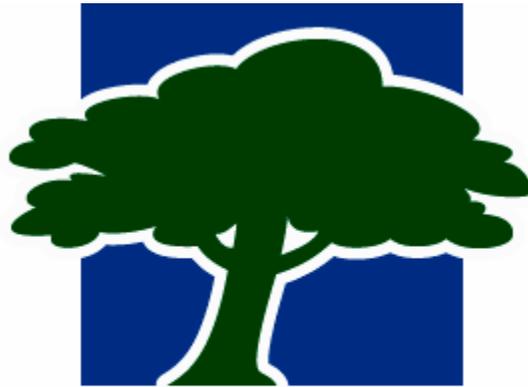
FAIR OAKS
WATER DISTRICT

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2013

FAIR OAKS WATER DISTRICT — Fair Oaks, California





**FAIR OAKS
WATER DISTRICT**

Fair Oaks, California

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

**YEAR ENDED
DECEMBER 31, 2013**

*Prepared By
Finance Department*

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FAIR OAKS WATER DISTRICT
COMPREHENSIVE ANNUAL FINANCIAL REPORT

December 31, 2013

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FAIR OAKS WATER DISTRICT
COMPREHENSIVE ANNUAL FINANCIAL REPORT

December 31, 2013

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INTRODUCTORY SECTION



March 6, 2014

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, 2013. 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 14,221 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

“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 rate structure developed in the Board approved *2012-2016 Five-Year Financial and Water Rate Development Plan*. As the District continues to bill based on the 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, the District has implemented a rate stabilization fund.

Due to the dry year conditions, the District expects the water consumption to decrease by 20% in 2014 due to the conservation efforts and requirements of the Conservation Stage adopted by District Board of Directors; while groundwater pumping costs are expected to increase in 2014.

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 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 3% rate increase from its wholesale water supplier in 2014. 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 2014 budget as adopted on November 4, 2013.

Significant Projects and Future Plans

Water Supplies

Dry-year and emergency water supply are critical to the District’s ability to meet customer water demand under all conditions. In our continuing effort to secure reliable back-up water supply, the District plans to drill the Madison Well in 2014. The District budgeted \$600,000 in 2014 for the design and drilling of the Madison Well.

Infrastructure and Water Delivery

The District continues to repair and replace aging infrastructure throughout its system. The District completed the Sheraton Drive main installation, the Twin Lakes main installation (Phase II), the Fair Oaks Village Streetscape main replacement, the Good Year Drive main replacement and the Winding Oak/Long Canyon Drive main replacement in 2013. Additional projects scheduled for 2014 include:

- Installation of 800 LF of 24-inch transmission main on Walnut Ave. from Twin Lakes Ave. and Westerly on Blue Oak Drive at an estimated cost of \$715,000.
- Replacement of 8-inch steel main on Kentucky Lane from Sunset Ave. to end of lane at an estimated cost of \$141,000.
- Replacement of 12-inch steel main on Main Ave. from south of Twin Lakes Ave. to Shumway Road at an estimated cost of \$340,000.
- Replacement of 6-inch steel main on Central Ave. from Capitola Ave. to River Look at an estimated cost of \$151,000.
- Improvement of water main on Gastman Way Phase I at an estimated cost of \$50,000.
- Replacement of 12-inch main on Fair Oaks Blvd. north of Plumeria Road to south Shangrila Drive at an estimated cost of \$376,000.

Meters

The District completed the Metering Implementation Plan (MIP) program in 2011. The District maintains the meters through the Meter Maintenance Program. The District replaces meters based on manufacturer's recommended replacement schedule and District's maintenance records.

Cash Flow

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

Water conservation is an integral component of the District's operations. The District's water conservation program was developed to meet local, state, and federal guidelines 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 education program.

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

The District also has formal water conservation requirements that are documented in District Policy Number 6060.

Regional Planning

In early 1998, the District, along with other water utilities, 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; along with ensuring 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) ensure transactions are executed in accordance with management's authorization; and
- (3) ensure 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, 2013, the budget was adopted November 4, 2013. This annual 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 annual 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 2013 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.

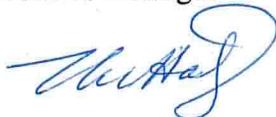
The Fair Oaks Water District received an award for its submission of the fiscal year 2012 Comprehensive Annual Financial Report for the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association (GFOA). This was the 12th consecutive year that the 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



Government Finance Officers Association

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, 2012

Executive Director/CEO

**FAIR OAKS WATER DISTRICT
PRINCIPAL DISTRICT OFFICIALS**

BOARD OF DIRECTORS – ELECTED OFFICIALS

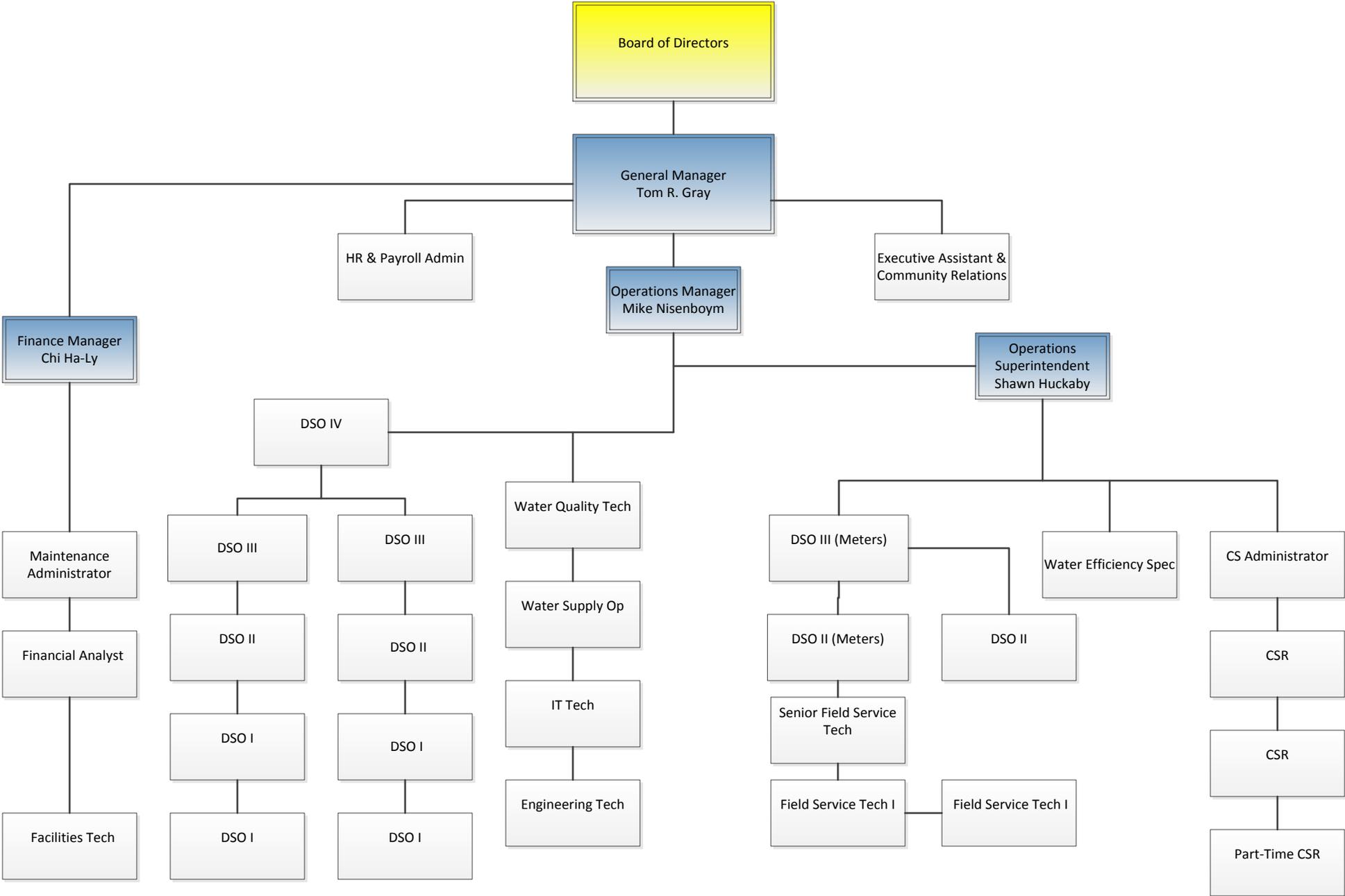
<u>Name</u>	<u>Title</u>	<u>Division</u>
Misha Sarkovich	President	Division 5
Lonny Gossett	Vice President	Division 3
Timothy Healey	Director	Division 1
Randy Marx	Director	Division 4
Michael McRae	Director	Division 2

MANAGEMENT

<u>Name</u>	<u>Title</u>
Tom R. Gray	General Manager
Michael Nisenboym	Operations Manager
Chi Ha-Ly	Finance Manager
Shawn Huckaby	Operations Superintendent

Fair Oaks Water District Organization Chart

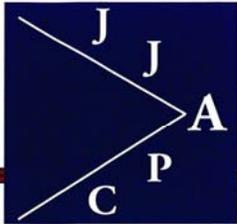
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FINANCIAL SECTION



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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Fair Oaks Water District, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents. The prior year comparative total information presented has been derived from the District's 2012 basic financial statements and, in our report dated March 6, 2013 we expressed an unqualified opinion on the those financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's *Minimum Audit Requirements for California Special Districts*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District, as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The introductory and statistical sections have 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2014 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* in considering the District's internal control over financial reporting and compliance.

March 6, 2014

JJACPA, Inc.
JJACPA, Inc.
Dublin, CA

**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, 2013. 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 changes) while investing in infrastructure.

- The net position of the District for 2013 was \$40,418,757 and for 2012 was \$40,910,078. Of the net position amount, \$5,541,390 for 2013 and 5,757,356 for 2012 of unrestricted net position may be used to meet the District's ongoing obligations to citizens and creditors. The District has designated \$3.5 million dollars of the unrestricted for emergencies and rate stabilization for 2013 and 2012.
- The District's total net position decreased by \$491,321 in 2013 and 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 \$1.74M in 2013 and \$2.2M in 2012.
- The District's total debt decreased by \$144,237 in 2013 and by \$256,401 in 2012 due to principal payments.
- Water sales increased by \$127,196 due to increase in water consumption. Other operating revenues decreased by \$437,041 during the fiscal year due to more reimbursements received from other agencies in 2012 compared to 2013.
- Operations and Maintenance costs had a net decrease of \$75,491. Customer service costs had a net decrease of \$29,337. Administration and general costs had a net increase of \$58,206. Water supply and pumping had a net increase of \$61,596. The net decrease in the operating expenses was mainly due to unfilled positions in 2013. The net increase in water supply and pumping was attributed to the District's increase 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 position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position presents information showing how net position changed during the most recent fiscal year. All changes in net position 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 position may serve as a useful indicator of a government's financial position over time. In the case of the District, assets exceeded liabilities by \$40,418,757 at the close of the most recent fiscal year.

The largest portion of the District's net position (86 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 Position

	2013	2012	2011
Current assets	\$ 7,364,819	\$ 7,411,469	\$ 7,032,561
Other assets	54,861	57,355	59,848
Capital assets	34,668,806	35,067,703	36,567,811
Total assets	<u>42,088,486</u>	<u>42,536,527</u>	<u>43,660,220</u>
Current liabilities	\$ 1,602,358	\$ 1,558,229	\$ 2,106,920
Non-current liabilities	67,371	68,220	65,132
Total liabilities	1,669,729	1,626,449	2,172,052
Net Position:			
Net Investment in Capital Assets	34,668,806	34,953,466	36,197,173
Restricted	208,561	199,256	149,242
Unrestricted	5,541,390	5,757,356	5,141,753
Total net position	<u>\$ 40,418,757</u>	<u>\$ 40,910,078</u>	<u>\$ 41,488,168</u>

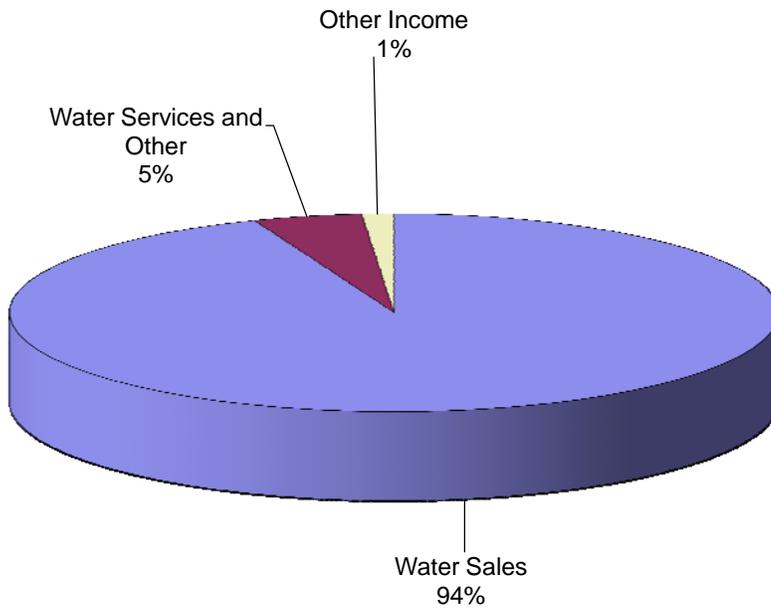
The decrease in net position for 2013 and 2012 is mainly from the payment to San Juan Water District for the 40-inch pipeline project rehabilitation of \$1.74M in 2013 and \$2.2M in 2012.

A portion of the District's net position (less than one percent for 2013 and 2012) represents resources that are subject to external restrictions on how they may be used. The District has also designated \$3.5M in 2013 and \$3.5M in 2012 for emergencies and rate stabilization (see footnote F, page 28).

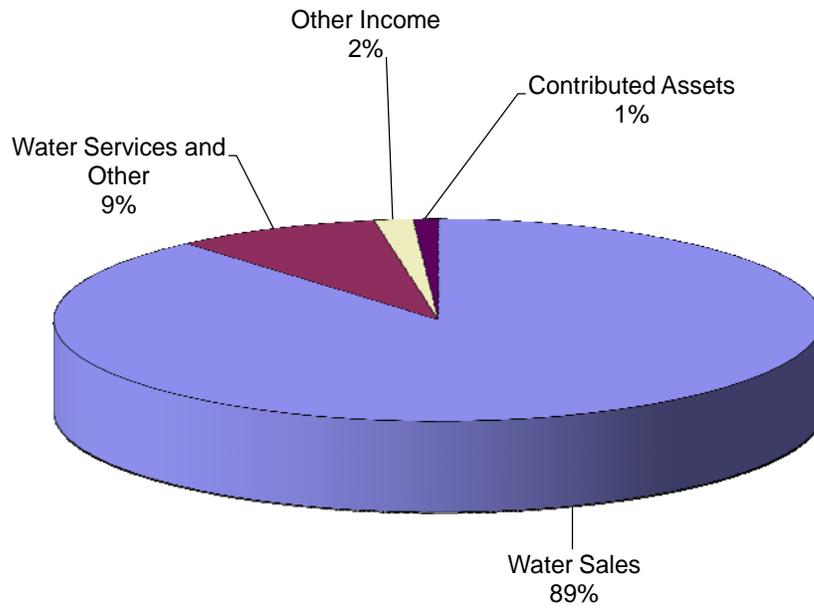
Fair Oaks Water District Changes in Net Position

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating Revenues:			
Water Sales	\$ 8,235,897	\$ 8,108,701	\$ 7,820,836
Water Services	162,709	121,573	162,852
Other	238,531	675,572	244,635
Total Operating Revenues	<u>8,637,137</u>	<u>8,905,846</u>	<u>8,228,323</u>
Non-Operating Revenues:			
Interest Revenue	12,916	19,420	28,182
Non-Capital Grant Revenue	-	-	-
Other Revenues	94,796	21,279	28,088
Total Non-Operating Revenues	<u>107,712</u>	<u>40,699</u>	<u>56,270</u>
Revenues Before Capital Contrib.	8,744,849	8,946,545	8,284,593
Operating Expenses:			
Water Supply and Pumping	1,941,976	1,880,380	1,826,476
Operations and Maintenance	1,662,383	1,737,874	1,704,238
Customer Service	530,104	559,441	607,873
Administrative and General	1,151,121	1,092,915	1,079,017
Depreciation and Amortization	2,213,728	2,233,749	2,220,109
Total Operating Expenses	<u>7,499,312</u>	<u>7,504,359</u>	<u>7,437,713</u>
Non-Operating Expenses:			
SJWD 40-Inch Pipeline Rehabilitation	1,744,930	2,222,824	-
Gain on advance refunding of debt	-	(108,024)	-
Interest Expense	1,214	1,577	22,257
Total Non-Operating Expenses	<u>1,746,144</u>	<u>2,116,377</u>	<u>22,257</u>
Total Expenses	9,245,456	9,620,736	7,459,970
Net Income (Loss) Before Capital Contribution	(500,607)	(674,191)	824,623
Capital Revenues:			
Contributed Assets	-	46,207	99,475
Connections and Annexation Fees	9,286	49,894	17,260
Total Capital Revenues	<u>9,286</u>	<u>96,101</u>	<u>116,735</u>
Increase (Decrease) in Net Position	(491,321)	(578,090)	941,358
Net Position January 1	<u>40,910,078</u>	<u>41,488,168</u>	<u>40,546,810</u>
Net Position December 31	<u>\$ 40,418,757</u>	<u>\$ 40,910,078</u>	<u>\$ 41,488,168</u>

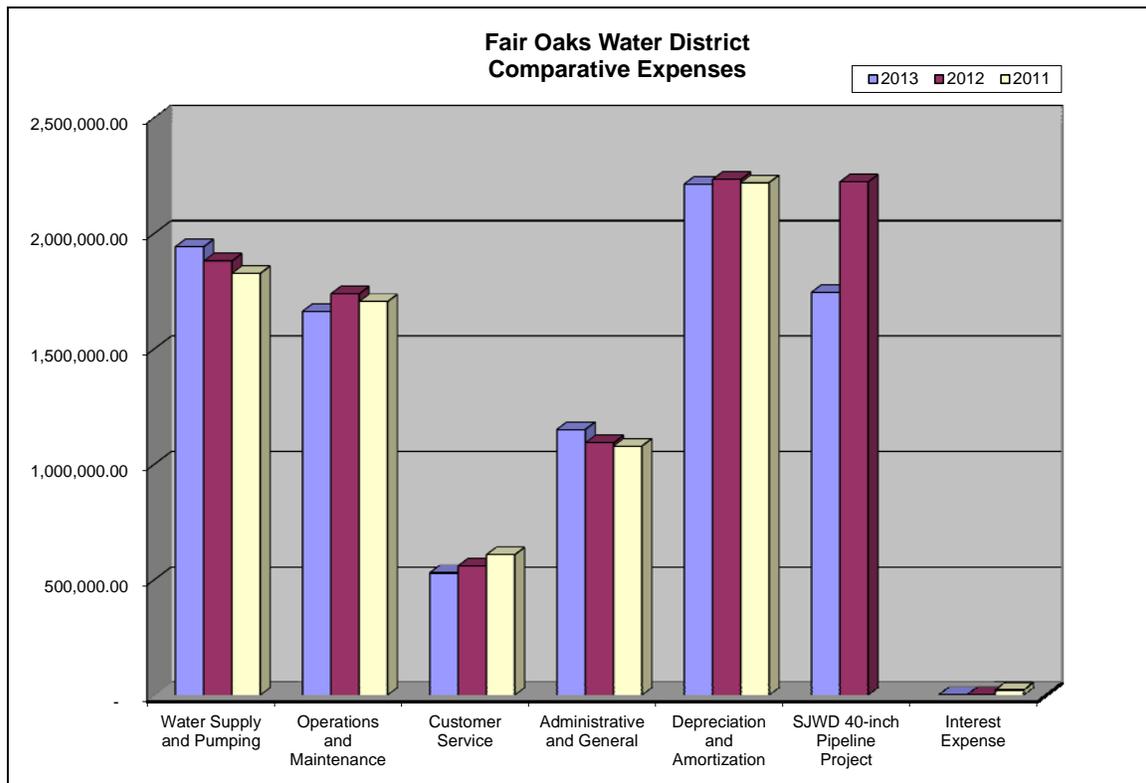
**Fair Oaks Water District
2013 Revenues by Source**



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



- Water sales increased by \$127,196 (1.6 percent) in 2013, increased by \$287,865 (3.7 percent) in 2012 and decreased by \$32,073 (less than one percent) in 2011. The decrease in revenues in 2011 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 have any water rate changes in 2013. The increase in water revenues in 2013 was attributed to higher water consumption.
- Interest income decreased by \$6,504 in 2013, by \$8,762 in 2012 and 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 decrease of \$75,491 in 2013 and a net increase of \$33,636 in 2012. The net decrease in 2013 is primarily due to unfilled positions (savings from salaries and benefits) and reclassification of one staff to administration. The net increase in 2012 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 \$29,337 in 2013 and a net decrease of \$48,432 in 2012. The net decrease in 2013 is primarily savings from salaries and benefits of \$23,976 and net savings of \$5,361 from water efficiency program, customer billing and rebate programs. The net decrease in 2012 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 \$58,206 in 2013 and a net increase of \$13,898 in 2012. The net increase in 2013 is primarily due to salaries and benefits for one position transferred from the maintenance department to administrative department. The net increase in 2012 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 \$61,596 in 2013 and a net increase of \$53,904 in 2012 due to increase in water delivery.

Capital Asset and Debt Administration

The District's investment in capital assets as of December 31, 2013, amounts to \$34,668,806 (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 completed the 8-inch main installation on Sheraton Drive with the cost totaling \$65,066.
- The District completed the Twin Lakes water main installation phase I in 2012 and phase II in 2013 with the cost totaling \$284,756.
- The District completed the Winding Oak/Long Canyon Drive main replacement with the cost totaling \$98,644.
- The District completed the Good Year Drive main replacement with the cost totaling \$104,286.
- The District completed the Fair Oaks Village Streetscape main replacement with the cost totaling \$108,240.
- The District completed the California Avenue main replacement with the cost totaling \$43,420.
- The District completed the 3920 Edgevale with the cost totaling \$57,729.
- The District started the 12-inch Walnut Avenue main replacement with the cost totaling \$612,936. The District anticipates completing the project in 2014.
- The District started the 10-inch main replacement on Fair Oaks Blvd. with the cost totaling \$173,547. The District anticipates completing the project in 2014.
- Approximately \$170,000 was spent on various individual service line upgrades, minor main upgrades and hydrant upgrades in 2013.
- The District incurred \$207,582 for metering program in 2013.
- The District purchased 3 vehicles and 2 fleet equipment as part of the equipment replacement program totaling \$181,060.

Fair Oaks Water District Capital Assets, net of depreciation

	2013	2012	2011
Intangible Asset			
Capacity Entitlements	\$ 3,956,248	\$ 3,956,248	\$ 3,956,248
Less: Amort. - Cap. Entitlements	(1,631,951)	(1,533,045)	(1,434,139)
Total Intangible Asset	2,324,297	2,423,203	2,522,109
Capital Assets, not being depreciated:			
Land	1,422,835	1,422,835	1,422,835
Construction in Progress	852,907	390,706	1,004,644
Total Capital Assets, not being depreciated	2,275,742	1,813,541	2,427,479
Capital Assets, being depreciated:			
Wells and Pumps	3,640,728	3,744,993	3,855,848
Transmission and Distribution System	19,447,428	19,834,944	20,145,074
Maintenance Equipment	206,400	206,626	227,219
Trucks, Trailers, and Mobile Equipment	309,176	193,311	198,321
Buildings	2,641,966	2,746,437	2,842,028
Office Equipment and Furnishings	113,883	158,542	203,351
Contributed Distribution Systems	3,168,526	3,359,556	3,503,224
Water Tank and Pumping	540,660	586,550	643,158
Total Capital Assets, being depreciated	30,068,767	30,830,959	31,618,223
Total	\$ 34,668,806	\$ 35,067,703	\$ 36,567,811

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 has no outstanding debt. The outstanding debt in 2012 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 was paid off in 2013.

	2013	2012	2011
Capacity Entitlement Agreement	\$ -	\$ 114,237	\$ 370,638
Total Debt	\$ -	\$ 114,237	\$ 370,638

Total debt decreased by \$114,237 in 2013 and by \$256,401 in 2012 due to payments of scheduled 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 2014 Budget and Rates

- The unemployment rate for the greater Sacramento County in which the District resides averaged 8.8% in 2013, down from an average 10.6% in 2012.
- The District is largely built out, serving approximately 14,221 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 2014.
- Health benefit costs are expected to increase 7% in 2014.
- The District intends to use the reserve to fund the shortfall of revenues in 2014.

All of these factors were considered in preparing the District’s budget for the 2014 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.

BASIC FINANCIAL STATEMENTS

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FAIR OAKS WATER DISTRICT
STATEMENTS OF NET POSITION

December 31, 2013 and 2012

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 6,262,135	\$ 6,194,247
Accounts receivable	17,765	146,461
Water service receivable	708,286	661,067
Interest receivable	6,021	7,299
Inventory	224,794	269,333
Prepaid expenses	145,818	133,062
TOTAL CURRENT ASSETS	7,364,819	7,411,469
NON-CURRENT ASSETS		
Dues on deposit	54,861	57,355
Capital assets not depreciated	2,275,742	1,813,541
Capital assets depreciated, net	30,068,767	30,830,959
Capacity entitlements, net	2,324,297	2,423,203
TOTAL NON-CURRENT ASSETS	34,723,667	35,125,058
TOTAL ASSETS	\$ 42,088,486	\$ 42,536,527
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 689,720	\$ 373,893
Accrued expenses	10,971	16,238
Accrued payroll expense	63,239	80,584
Deposits	31,936	48,309
Unearned revenue	739,121	856,748
Compensated absences	67,371	68,220
Current portion of long-term liabilities		114,237
TOTAL CURRENT LIABILITIES	1,602,358	1,558,229
NON-CURRENT LIABILITIES		
Compensated absences	67,371	68,220
TOTAL NON-CURRENT LIABILITIES	67,371	68,220
TOTAL LIABILITIES	1,669,729	1,626,449
NET POSITION		
Net Investment in Capital Assets	34,668,806	34,953,466
Restricted:		
Connection and annexation fees	208,561	199,256
Unrestricted	5,541,390	5,757,356
TOTAL NET POSITION	40,418,757	40,910,078
TOTAL LIABILITIES AND NET POSITION	\$ 42,088,486	\$ 42,536,527

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

FAIR OAKS WATER DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the years ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
OPERATING REVENUES		
Water sales	\$8,235,897	\$8,108,701
Water services	162,709	121,573
Other	238,531	675,572
TOTAL OPERATING REVENUES	<u>8,637,137</u>	<u>8,905,846</u>
OPERATING EXPENSES		
Water supply and pumping	1,941,976	1,880,380
Operations and maintenance	1,662,383	1,737,874
Customer service	530,104	559,441
Administrative and general	1,151,121	1,092,915
Depreciation and amortization	2,213,728	2,233,749
TOTAL OPERATING EXPENSES	<u>7,499,312</u>	<u>7,504,359</u>
NET INCOME FROM OPERATIONS	1,137,825	1,401,487
NON-OPERATING REVENUES (EXPENSES)		
Interest revenue	12,916	19,420
Other Revenues	94,796	21,279
Gain on advance refunding of debt		108,024
SJWD 40-Inch Pipeline Rehabilitation	(1,744,930)	(2,222,824)
Interest expense	(1,214)	(1,577)
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(1,638,432)</u>	<u>(2,075,678)</u>
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(500,607)	(674,191)
CAPITAL CONTRIBUTIONS		
Contributed assets		46,207
Connection and annexation fees	9,286	49,894
TOTAL CAPITAL CONTRIBUTIONS	<u>9,286</u>	<u>96,101</u>
CHANGE IN NET POSITION	(491,321)	(578,090)
Net Position at beginning of year	<u>40,910,078</u>	<u>41,488,168</u>
NET POSITION AT END OF YEAR	<u>\$ 40,418,757</u>	<u>\$ 40,910,078</u>

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

FAIR OAKS WATER DISTRICT

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	\$ 8,584,614	\$ 8,712,966
Cash paid to suppliers	(3,070,990)	(3,330,160)
Cash paid to employees	(1,891,294)	(1,864,193)
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,622,330	3,518,613
NON-CAPITAL FINANCING ACTIVITIES		
SJWD 40-Inch Pipeline Rehabilitation	(1,744,930)	(2,222,824)
NET CASH FROM NON-CAPITAL FINANCING ACTIVITIES	(1,744,930)	(2,222,824)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from disposal of capital assets	107,844	24,300
Principal payments on long-term debt	(114,237)	(148,377)
Interest payments on long-term debt	(1,214)	(1,577)
Connection and annexation fees received	9,286	49,894
Purchases of capital assets	(1,827,879)	(994,383)
NET CASH USED BY RELATED FINANCING ACTIVITIES	(1,826,200)	(1,070,143)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	14,194	17,558
Dues on deposit received	2,494	2,493
NET CASH PROVIDED BY INVESTING ACTIVITIES	16,688	20,051
NET CHANGE IN CASH AND CASH EQUIVALENTS	67,888	245,697
Cash and cash equivalents at beginning of year	6,194,247	5,948,550
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 6,262,135	\$ 6,194,247
COMPONENTS OF CASH AND CASH EQUIVALENTS		
Cash and equivalents	\$ 6,262,135	\$ 6,194,247
TOTAL CASH AND CASH EQUIVALENTS	\$ 6,262,135	\$ 6,194,247

(Continued)

FAIR OAKS WATER DISTRICT

STATEMENTS OF CASH FLOWS (Continued)

For the years ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
RECONCILIATION OF NET INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net income from operations	\$ 1,137,825	1,401,487
Adjustments to reconcile net income from operations to net cash provided by operating activities:		
Depreciation and amortization	2,213,728	2,233,749
Loss on disposal of assets		302,147
Changes in assets and liabilities:		
Accounts receivable	128,696	(69,014)
Water service receivable	(47,219)	(237,900)
Inventory	44,539	146,949
Prepaid expenses	(12,756)	30,397
Accounts payable	315,827	(101,782)
Accrued expenses	(5,267)	(314,249)
Accrued payroll expense	(17,345)	4,838
Deposits	(16,373)	(13,333)
Unearned revenue	(117,627)	129,148
Compensated absences	(1,698)	6,176
	<u>\$ 3,622,330</u>	<u>\$ 3,518,613</u>
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES		
Receipt of contributed assets	\$ -	\$ 46,207

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

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2013 and 2012

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, 2013 and 2012

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 position 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 statement of net position. Net position is segregated into net investment in capital assets, restricted and unrestricted amounts. Enterprise fund type operating statements present increases and decreases in net total position.

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, 2013 and 2012

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: Under normal operations, bills for water service are rendered to each customer on a bi-monthly basis. Fixed charges (e.g. service charge) are made payable in advance of the service period. Commodity charges are made payable at the end of meter read. 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 statement of net position 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, 2013 and 2012

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.

Compensated Absences: The District’s policy allows employees to accumulate earned 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, 2013 and 2012 are classified in the accompanying financial statements as follows:

	2013	2012
Cash and cash equivalents	\$ 6,262,135	\$ 6,194,247
Total cash and investments	\$ 6,262,135	\$ 6,194,247

Cash and investments as of December 31, 2013 and 2012 consisted of the following:

	2013	2012
Cash on hand	\$ 1,700	\$ 1,700
Deposits with financial institutions	333,423	272,334
Total cash	335,123	274,034
Investments in Local Agency Investment Fund (LAIF)	5,927,012	5,920,213
Total investments	5,927,012	5,920,213
Total cash and cash equivalents	\$ 6,262,135	\$ 6,194,247

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2013 and 2012

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, 2013, 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, 2013 and 2012

NOTE B – CASH AND INVESTMENTS (Continued)

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment In One Issuer
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:

	Total	<u>Remaining Maturity</u> 12 Months or Less
LAIF	\$ 5,927,012	\$ 5,927,012
Total	\$ 5,927,012	\$ 5,927,012

LAIF has an average maturity of 209 days as of December 31, 2013.

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, 2013 and 2012

NOTE B – CASH AND INVESTMENTS (Continued)

	Total	Minimum Legal Rating	Ratings as of Year End Not Rated
LAIF	\$ 5,927,012	N/A	\$ 5,927,012
	\$ 5,927,012		\$ 5,927,012

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, 2013, the carrying amount of the District’s deposits was \$333,423 and the balances in financial institutions was \$409,955. Of the balance in financial institutions, \$250,000 was covered by federal depository insurance and \$159,955 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, 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.

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2013 and 2012

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, 2013 by all public agencies in LAIF is \$57,666,947,672 managed by the State Treasurer. Of that amount, 2.19% 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, 2013 and 2012

NOTE C – CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2013 and 2012 are as follows:

	Balance at January 1, 2013	Additions	Disposals	Transfers and Adjustments	Balance at December 31, 2013
Intangible Asset					
Capacity Entitlements	3,956,248	\$ -	\$ -	\$ -	\$ 3,956,248
Less: Amortization					
Capacity Entitlements	(1,533,045)	(98,906)	-	-	(1,631,951)
Total Intangible Asset	2,423,203	(98,906)	-	-	2,324,297
Capital assets, not being depreciated:					
Land	1,422,835	-	-	-	1,422,835
Construction in progress	390,706	800,270	-	(338,069)	852,907
Subtotal capital assets not being depreciated	1,813,541	800,270	-	(338,069)	2,275,742
Total capital assets, not being deprec.	4,236,744	701,364	-	(338,069)	4,600,039
Capital assets, being depreciated:					
Wells and pumps	5,295,578	4,044	-	2,169	5,301,791
Transmission and distribution system	34,147,192	797,104	(309,741)	335,900	34,970,455
Maintenance equipment	481,512	19,758	(4,461)	-	496,809
Trucks, trailers, and mobile equipment	1,595,272	184,060	(296,201)	-	1,483,131
Buildings	3,724,084	-	-	-	3,724,084
Office equipment and furnishings	947,648	22,643	(105,107)	-	865,184
Contributed distribution systems	7,574,213	-	-	-	7,574,213
Water tank and pumping	2,026,702	-	-	-	2,026,702
Total capital assets being depreciated, net	55,792,201	1,027,609	(715,510)	338,069	56,442,369
Less accumulated depreciation for:					
Wells and pumps	(1,550,585)	(110,478)	-	-	(1,661,063)
Transmission and distribution system	(14,312,248)	(1,508,324)	297,545	-	(15,523,027)
Maintenance equipment	(274,886)	(19,132)	3,609	-	(290,409)
Trucks, trailers, and mobile equipment	(1,401,961)	(68,195)	296,201	-	(1,173,955)
Buildings	(977,647)	(104,471)	-	-	(1,082,118)
Office equipment and furnishings	(789,106)	(67,302)	105,107	-	(751,301)
Contributed distribution systems	(4,214,657)	(191,030)	-	-	(4,405,687)
Water tank and pumping	(1,440,152)	(45,890)	-	-	(1,486,042)
Total accumulated depreciation	(24,961,242)	(2,114,822)	702,462	-	(26,373,602)
Total capital assets being depreciated, net	30,830,959	(1,087,213)	(13,048)	338,069	30,068,767
Capital assets, net book value	\$ 35,067,703	\$ (385,849)	\$ (13,048)	\$ -	\$ 34,668,806

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2013 and 2012

NOTE C – CAPITAL ASSETS (Continued)

	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, 2013 and 2012

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 2013 of \$2,213,728 included capacity entitlements amortization of \$98,906 and capital assets depreciation of \$2,114,822.

NOTE D – ECONOMIC DEPENDENCY

The District purchased 89.2% of its water supply from SJWD in 2013. During the years ended December 31, 2013 and 2012, the District’s total cost for water purchases from SJWD were \$1,605,156 and \$1,547,919, respectively.

NOTE E – LONG-TERM LIABILITIES

The activity of the District’s long-term liabilities during the years ended December 31, 2013 and 2012 are as follows:

	<u>Balance at January 1, 2013</u>	<u>Additions</u>	<u>Repayments/ Reductions</u>	<u>Balance at December 31, 2013</u>	<u>Due within One Year</u>
Capacity entitlement agreement	<u>\$ 114,237</u>		<u>\$ (114,237)</u>	<u>\$ -</u>	<u>\$ -</u>
Total	114,237		<u>\$ (114,237)</u>		<u>\$ -</u>
Less: Current portion of long-term debt	<u>(114,237)</u>			<u>\$ -</u>	
	<u>\$ -</u>			<u>\$ -</u>	
Compensated absences	<u>\$ 130,264</u>	<u>\$ 134,379</u>	<u>\$ (129,901)</u>	<u>\$ 134,742</u>	<u>\$ 67,371</u>
Less: Current portion				<u>(67,371)</u>	
				<u>\$ 67,371</u>	

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2013 and 2012

NOTE E – LONG-TERM LIABILITIES (Continued)

	Balance at January 1, 2012	Additions	Repayments/ Reductions	Balance at December 31, 2012	Due within One Year
Capacity entitlement agreement	\$ 370,638		\$ (256,401)	\$ 114,237	\$ 114,237
Total	370,638		<u>\$ (256,401)</u>	114,237	<u>\$ 114,237</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>	\$ 136,440	<u>\$ 68,220</u>
Less: Current portion				<u>(68,220)</u>	
				<u>\$ 68,220</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 last principal payment on this debt was made in 2013 in the amount of \$114,237.

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2013 and 2012

NOTE F – NET POSITION

Restrictions: Restricted net position consists of constraints placed on net position 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 position 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 position balances at December 31:

	<u>2013</u>	<u>2012</u>
<u>Designated for Emergency:</u>		
For capital projects, operating and maintenance expenses not currently budgeted	\$ 3,045,400	\$ 3,088,000
<u>Designated for Rate Stabilization:</u>		
To offset the estimated impact of revenue fluctuations and lag effects from meter based billing	<u>412,100</u>	<u>405,435</u>
Total designated net position	<u>\$ 3,457,500</u>	<u>\$ 3,493,435</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% (for Miscellaneous 2 percent at 55 members) of their annual covered salary. The District makes the contributions required of District employees on their behalf and for their account. Contributions made on behalf of District employees total \$112,841, \$123,262 and \$132,624 for the years ended December 31, 2013, 2012 and 2011, respectively. The District is required to contribute at an actuarially determined rate; the rate for January 1 to June 30, 2013 was 8.852% and for July 1 to

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2013 and 2012

NOTE G – EMPLOYEES' RETIREMENT PLAN (Continued)

December 31, 2013 was 9.381%. The rate for January 1 to June 30, 2012 was 8.716% and for July 1 to December 31, 2012 was 8.852%. 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, 2013, 2012 and 2011 were \$163,279, \$158,867, and \$159,753 respectively, which were equal to the required contributions for each year.

Under the Public Employees' Pension Reform Act of 2013 (PEPRA), District employees hired on or after January 1, 2013 will have a retirement formula of 2.0 percent at 62 and are required to contribute 50% of the total normal cost rate (12.5% from January 1, 2013 to December 31, 2013) for the benefits for miscellaneous members. The members and employer required contribution rates for 2013 are 6.25% and 6.25% respectively.

The District also requires classic members hired on or after January 1, 2013 to pay the 100% of the normal member contribution amount. Classic members are employees that have PERS retirement benefits from previous employment that do not fit within the definition of a new member.

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

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2013 and 2012

NOTE I – INSURANCE (Continued)

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

NOTE J – COMMITMENTS AND CONTINGENCIES

The District has no outstanding capital project commitments as of December 31, 2013.

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 in 2012 and \$1,744,930 in 2013 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. 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 at this time.

Statement No. 70 – *Accounting and Financial Reporting for Nonexchange Financial Guarantees*

Effective Date: For periods beginning after June 15, 2013

Impact to the District: There is no impact to the District at this time.

Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*

Effective Date: The provisions of this Statement should be applied simultaneously with the provisions of Statement No. 68

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

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ADDITIONAL INFORMATION

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FAIR OAKS WATER DISTRICT
DEBT SERVICE RATE COVENANT

December 31, 2013 and 2012

The Fair Oaks Water District does not have any outstanding debt secured by revenues of the Fair Oaks Water District in 2013 or 2012. 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 coverage for 2013 and 2012 is as follows:

	2013	2012
Operating Income:	\$ 1,137,825	\$ 1,401,487
Add:		
Depreciation and amortization	2,213,728	2,233,749
Interest revenue	12,916	19,420
Unrealized (gain) loss on investments	(1,704)	(6,666)
Gain on disposal of capital assets	94,796	21,279
Net Revenue	3,457,561	3,669,269
Debt Service		
Principal	114,237	148,377
Interest	1,214	1,577
Total Debt Service	\$ 115,451	\$ 149,954
Calculated Coverage	2995%	2447%

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STATISTICAL SECTION

STATISTICAL SECTION

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

<u>Content</u>	<u>Page</u>
Financial Trends <i>These schedules contain trend information to help the reader understand how the District's financial performance and well-being changed over time.</i>	33-34
Revenue Capacity <i>These schedules contain information to help the reader assess the District's most significant local revenue source, water sales.</i>	35-36
Debt Capacity <i>These schedules present information to help the reader assess the affordability of the District's current level of outstanding debt and the District's ability to issue additional debt in the future.</i>	37-38
Demographic and Economic Information <i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place.</i>	39-40
Operating Information <i>This schedule contains service and infrastructure data to help the reader understand how the information in the District's financial report relates to the services the District provides and the activities it performs.</i>	41

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

	<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>	<u>2013</u>
Net Position:										
Net Investment in Capital Assets	\$ 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	\$ 34,668,806
Restricted	1,389,828	2,052,570	1,565,938	658,757	716,979	769,652	131,956	149,242	199,256	208,561
Unrestricted	<u>8,214,476</u>	<u>9,638,349</u>	<u>8,712,916</u>	<u>7,073,566</u>	<u>7,910,025</u>	<u>5,467,470</u>	<u>4,271,833</u>	<u>5,141,753</u>	<u>5,757,356</u>	<u>5,541,390</u>
Total Net Position	<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>	<u>\$ 40,418,757</u>

(a) The net investment in capital assets 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 Position (a)
(Accrual Basis of Accounting)
Last Ten Years

	<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>	<u>2013</u>
Operating Revenues:										
Water Sales	\$ 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	\$ 8,235,897
Water Service and Other	<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>	<u>401,240</u>
Total Operating Revenues	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	8,637,137
Operating Expenses:										
Water Supply and Pumping	\$ 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	\$ 1,941,976
Operations and Maintenance	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	1,662,383
Customer Service	337,202	432,007	399,124	428,692	410,906	482,922	490,695	607,873	559,441	530,104
Administrative and General	972,740	963,279	994,004	1,099,417	1,004,510	1,007,540	1,001,210	1,079,018	1,092,915	1,151,121
Depecciation and Amortization	<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>	<u>2,213,728</u>
Total Operating Expenses	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	7,499,312
Net Income From Operations	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	1,137,825
Non-Operating Revenues (Expenses):										
Interest Revenue	170,533	354,769	610,556	508,938	318,554	78,743	36,438	28,182	19,420	12,916
Other Revenues	(4,614)	12,190	11,570	13,815	1,211,350	30,654	5,687	28,088	21,279	94,796
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)	(1,744,930)
Interest Expense	<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>	<u>(1,214)</u>
Total Non-Operating Revenues (Expenses)	(27,671)	148,692	413,922	352,283	1,401,717	(7,114)	(42,237)	34,013	(2,075,678)	(1,638,432)
Net Income (Loss) Before Capital Contributions	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)	(500,607)
Capital Contributions:										
Connection Fees and Annexation Fees	158,188	695,200	169,901	146,832	53,436	57,035	27,843	17,260	49,894	-
Capital Contributions	289,839	8,000	-	68,500	322,500	105,880	139,716	99,475	46,207	9,286
Capital Grant Revenue	-	63,257	1,030,162	330,278	179	-	-	-	-	-
Total Capital Revenues	448,027	766,457	1,200,063	545,610	376,115	162,915	167,559	116,735	96,101	9,286
Changes in Net Position	<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>	<u>\$ (491,321)</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>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>	<u>2013</u>
Water Sales:										
Residential	\$ 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	\$ 6,926,021
Non-residential ^(a)	<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>	<u>1,309,876</u>
Total Water Sales	\$ 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	\$ 8,235,897
Total Water Deliveries (AF)	14,153	12,453	12,024	12,431	12,758	12,181	11,800	11,113	11,550	12,259
Rate per Acre Foot (AF)	\$ 498.33	\$ 616.83	\$ 642.32	\$ 623.50	\$ 628.77	\$ 646.85	\$ 665.50	\$ 703.76	\$ 702.05	\$ 671.82

(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 Nine Years Prior

	<u>2013</u>			<u>2004</u>		
	<u>Revenues</u> <u>Collected</u>	<u>Rank</u>	<u>Percent of</u> <u>Total Water Sales</u>	<u>Revenues</u> <u>Collected</u>	<u>Rank</u>	<u>Percent of</u> <u>Total Water Sales</u>
Rate Payers						
Rollingwood, LLC	\$ 136,147	1	1.58%	\$ 64,600	2	0.84%
San Juan School District	87,791	2	1.02%	68,444	1	0.89%
Fair Oaks Park/Recreation District	75,956	3	0.88%	27,153	5	0.35%
Primrose HOA	62,016	4	0.72%			
The Realty Associates Fund	39,720	5	0.46%			
Watermarke Properties	38,353	6	0.44%	47,770	3	0.62%
Sacramento Bella Lago, LLC.	37,726	7	0.44%			
Fountains of Fair Oaks	30,929	8	0.36%	20,662	6	0.27%
Village @ Fair Oaks	26,856	9	0.31%	27,275	4	0.36%
Madison Hills	24,026	10	0.28%	19,024	7	0.25%
The Lakes at Fair Oaks	-		0.00%	16,426	8	0.21%
Huntcliff Apartments	-		0.00%	15,415	9	0.20%
Fair Oaks Lake Apartments	-		<u>0.00%</u>	14,217	10	<u>0.19%</u>
Total	\$ 559,520		6.48%	\$ 320,986		4.18%
Total Water Sales	\$ 8,637,137			\$ 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>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>	<u>2013</u>
Debt:										
1999 Revenue Certificates of Participation	\$ 3,700,000	\$ 3,125,000	\$ 2,530,000	\$ 1,910,000	\$ 1,260,000	\$ 570,000	\$ -	\$ -	\$ -	\$ -
Capacity Entitlement Agreement	<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>	<u>-</u>
Total Debt	\$ 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	13,577	13,544	14,467	14,469	14,474	14,450	14,129	14,135	14,133	14,221
Debt Per Capita	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>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>	<u>2013</u>
Net Revenue	\$ 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	\$ 3,457,561
Debt Service	1,021,028	983,342	982,004	984,166	985,732	1,002,073	1,081,946	234,582	149,954	115,451
Coverage	285%	432%	455%	421%	550%	366%	311%	1303%	2447%	2995%

Source:
District Finance Department

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

	<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>	<u>2013</u>
Personal Income ⁽¹⁾	\$ 45,282,367	\$ 47,563,421	\$ 50,165,916	\$ 52,572,684	\$ 54,332,238	\$ 53,560,115	52,811,960	54,861,602	60,668,975	unavailable
Population ⁽¹⁾	1,344,279	1,354,695	1,362,328	1,373,585	1,386,469	1,400,949	1,422,094	1,436,105	1,450,121	unavailable
Per Capita Personal Income ⁽¹⁾	\$ 33,685	\$ 35,110	\$ 36,824	\$ 38,274	\$ 39,187	\$ 38,231	37,137	38,202	41,837	unavailable
Unemployment Rate ⁽²⁾	5.6%	5.0%	4.8%	5.4%	7.1%	11.3%	12.8%	12.1%	10.6%	8.8%

**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 Seven Years Prior***

<u>Employers</u>	<u>2013</u>			<u>2006</u>		
	<u>Total Employee</u>	<u>Rank</u>	<u>Percent of Total Employed</u>	<u>Total Employee</u>	<u>Rank</u>	<u>Percent of Total Employed</u>
State of California	70,548	1	11.38%	67,467	1	10.56%
Sacramento County	10,634	2	1.71%	14,408	2	2.26%
UC Davis Health System	9,985	3	1.61%	7,901	3	1.24%
Sutter Health Sacramento Sierra Region	6,507	4	1.05%			
Intel Corp.	6,000	5	0.97%	7,000	4	1.10%
Dignity Health	5,756	6	0.93%			
US Government	5,750	7	0.93%			
Kaiser Permanente	5,696	8	0.92%	6,656	6	1.04%
Elk Grove Unified School District	5,536	9	0.89%			
San Juan Unified School District	4,700	10	0.76%	5,775	8	0.90%
Sacramento City Unified School District	-			7,000	4	1.10%
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	131,112		21.14%	132,209		20.70%
Total Employed by Sacramento County⁽²⁾	620,200			638,600		

*Information prior to 2006 was not available.

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

Sources:

⁽¹⁾Sacramento Business Journal

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

FAIR OAKS WATER DISTRICT
Operating Information
Last Ten Years

	<u>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>	<u>2013</u>
Water Services:										
Number of Service Connections	13,577	13,544	14,467	14,469	14,474	14,450	14,129	14,135	14,133	14,221
Annual Demand in AF	14,153	12,453	12,024	12,431	12,758	12,181	11,800	11,113	11,550	12,259
Average Daily Demand in MGD	12.63	11.12	10.73	11.09	11.39	10.87	10.53	9.92	10.31	10.90
Maximum Day Demand in MGD	24.00	21.12	20.39	21.08	21.65	20.65	20.00	20.48	19.65	20.80
Meters:										
New Installations	1,025	816	947	1,213	1,317	1,086	1,116	218	69	26
Replacement	13	454	103	92	90	554	281	723	223	708
Leaks:										
Water Main	21	17	16	9	17	8	4	3	22	21
Service	92	89	66	30	26	9	10	25	28	44
Hydrants:										
New Installations	3	-	2	-	1	-	-	9	3	3
Upgrades	23	19	14	27	24	14	5	1	7	8
Main Line Valves:										
New Installations	18	15	17	3	16	1	-	21	3	9
Replacement	14	9	14	19	-	1	2	-	2	7
Services:										
New Installations	4	3	18	3	-		3	5	12	4
Replacement	612	548	857	619	856	853	899	271	108	51
Major Facilities:										
Wells	7	7	7	6	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	5	5	5	4	4.5	4	4.5	5	4.5	5
Administration	5	5	4.5	4	4	4	4	4	4.5	5
Operations	5	4	5	5	6	6	4.5	5	5	5
Water Supply & Pumping	1	1	1	1	1	1	1	1	1	1
Maintenance	23	20.5	21	23.84	20.1	19.9	21.4	19.3	14.9	13.3
Total (FTE)*	39	35.5	36	37.8	35.6	34.9	35.4	34.3	29.9	29.3

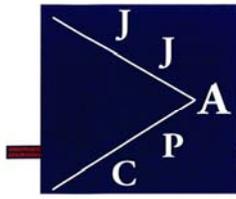
* Some years have been updated to reflect part-time/temporary employees.

Source:
District Finance Department

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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

INDEPENDENT AUDITOR'S REPORT

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

We have audited, in accordance with the 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, the financial statements of the business-type activities of the Fair Oaks Water District (District), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 6, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

March 6, 2014

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