

2013

Comprehensive Annual

Financial Report

For the Fiscal Years Ended June 30, 2013 and 2012

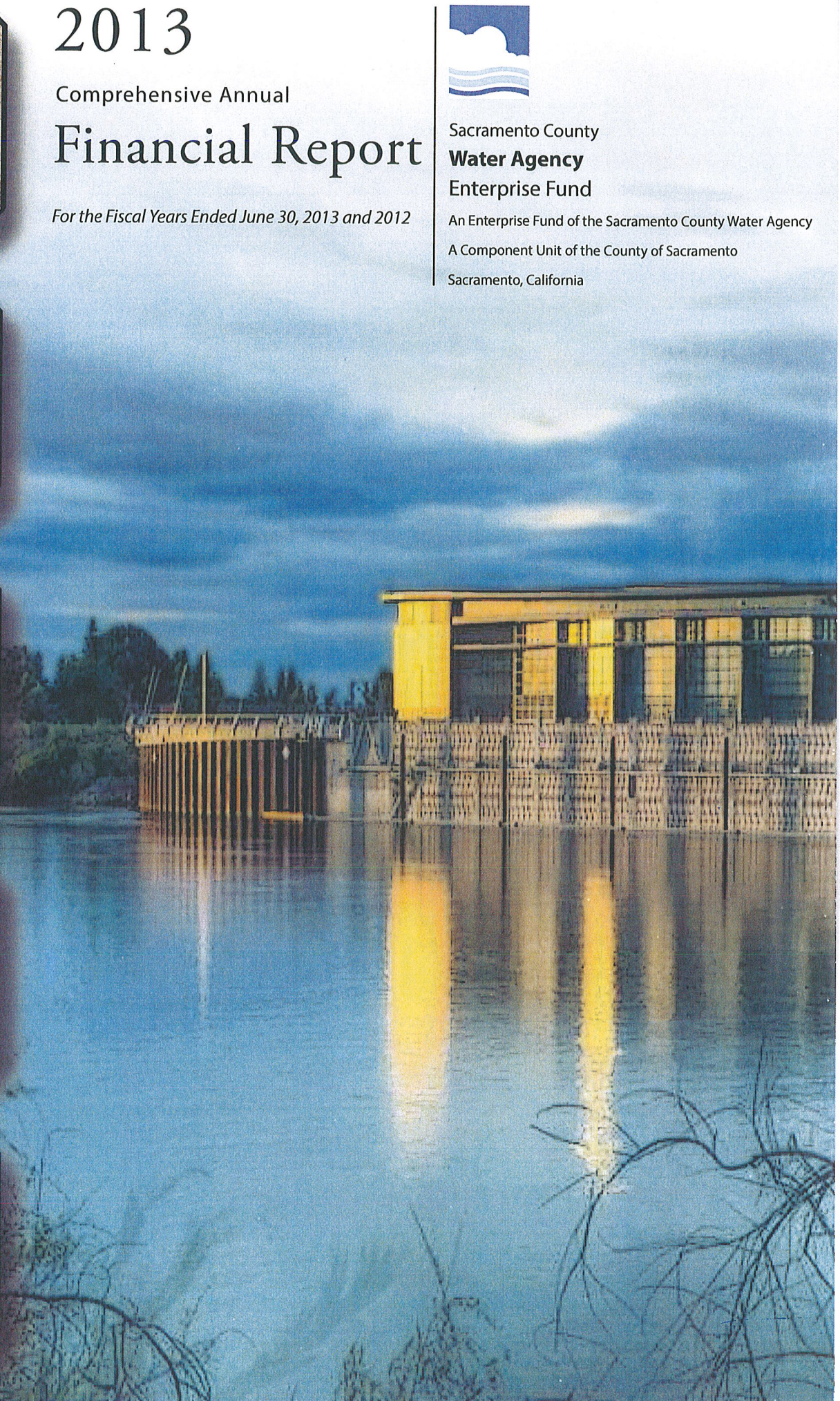
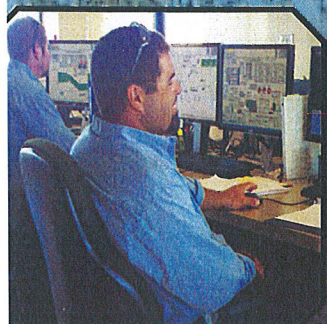
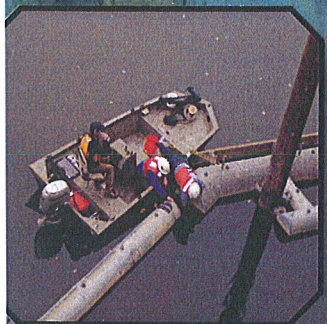
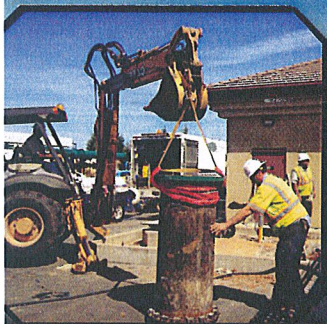


Sacramento County
Water Agency
Enterprise Fund

An Enterprise Fund of the Sacramento County Water Agency

A Component Unit of the County of Sacramento

Sacramento, California



SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND

*An Enterprise Fund of the Sacramento County Water Agency,
A Component Unit of the County of Sacramento*

Sacramento, California

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Years Ended June 30, 2013 and 2012

Prepared by:

Sacramento County Department of Water Resources
Finance and Administration Division

Susan R. Purdin, CPA, Chief Financial and Administrative Officer
Department of Water Resources

Bill Konigsmark, Accounting Manager
Department of Water Resources

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**Department of Water
Resources**

Michael L. Peterson, Director

Including service to the cities of
Elk Grove and Rancho Cordova



**SACRAMENTO COUNTY
WATER AGENCY**

December 11, 2013

Honorable Board of Directors
Sacramento County Water Agency

It is a pleasure to submit the Comprehensive Annual Financial Report (CAFR) of the Sacramento County Water Agency Enterprise Fund (Agency) for the fiscal years ended June 30, 2013 and 2012, as prepared by the staff of the Accounting and Finance Section of the Finance and Administration Division of the Sacramento County Water Agency.

Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the Agency's management. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported to present fairly the financial position and results of operations of the Agency. All disclosures necessary to enable the reader to gain an understanding of the Agency's financial activities have been included in the CAFR.

An independent auditor audits the basic financial statements of the Agency's enterprise fund each year. The firm of Vavrinek, Trine, Day & Co., LLP was selected to perform the independent audit for the fiscal years ended June 30, 2013 and 2012. The goal of the independent audit was to provide reasonable assurance that the basic financial statements of the Agency's enterprise fund for the fiscal years ended June 30, 2013 and 2012 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the Sacramento County Water Agency Enterprise Fund's financial statements for the fiscal years ended June 30, 2013 and 2012 are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles (GAAP). The independent auditors' report is presented as a component of the financial section of this report.

The independent audit of the basic financial statements of the Agency's enterprise fund is part of a broader, federally mandated "Single Audit" at the countywide level. It was designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the basic financial statements, but also on the audited government agency's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available by contacting the Sacramento County Department of Finance, Auditor-Controller Division.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The Agency's MD&A can be found immediately following the report of the independent auditor.

"Managing Tomorrow's Water Today"

Administration: 827 7th St., Room 301, Sacramento, CA 95814 • (916) 874-6851 • fax (916) 874-8693 •
Facilities Operations & Engineering: 10151 Florin Rd., Sacramento, CA 95829 • (916) 875-RAIN • fax (916) 875-6884

PROFILE OF THE WATER AGENCY ENTERPRISE FUND

The Agency, created in 1952 pursuant to the Water Agency Act (Act), is a separate legal entity from the County of Sacramento. Although a separate legal entity, the Sacramento County Board of Supervisors acts ex officio as the Agency’s Board of Directors while Sacramento County Department of Water Resources’ personnel acts as Agency staff.

The sector of the Agency covered by this report is the Water Supply Division which is accounted for in the Agency’s enterprise fund. Its purpose is to provide a high quality supply of water to retail and wholesale customers, as well as to construct and operate groundwater and surface water facilities and infrastructure that will continue to provide safe and reliable water for years to come.

To facilitate the collection of fees to run the operations of the Agency and enterprise fund, the Act allows for the creation of Zones within Sacramento County. Each Zone covers a geographic area in which a fee or charge is imposed to fund projects or operations of benefit to the area within the Zone. Currently there are three Zones covered by this report – Zone 40, 50 and 41.

The Agency water supply service area spans some 122 square miles and includes portions of the unincorporated area of Sacramento County and the cities of Elk Grove and Rancho Cordova.

FACTORS AFFECTING FINANCIAL CONDITION

Development fees and water service fees are the two primary revenue streams that fund activities of the Water Agency Enterprise Fund. Although construction activity in the Agency’s service area has slowed significantly from the highs seen in fiscal year 2003-04, for the third consecutive year, development fee revenue has increased.

The following table reflects historical and current data on the Agency’s total impact fees which is a good indicator of economic growth in the area.

Fiscal Year:	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Total Impact Fees:	\$15.7M	\$7.9M	\$7.4M	\$9.8M	\$10.4M	\$16.2M
Annual Percent Increase (Decrease) From Prior Year:	(8.2%)	(49.7%)	(5.9%)	31.6%	6.5%	55.4%

While the total number of service connections (water accounts) to the Agency’s water system continues to rise, it is at a much slower pace than seen in the mid-2000s. In fiscal year 2012-13 the Agency experienced an increase of 675 in new connections as compared to the prior year. This is the second consecutive year in which service connections to the Agency’s water system has increased. The following table reflects the historical, current and projected growth in number of retail connections:

Fiscal Year:	2008-09	2009-10	2010-11	2011-12	2012-13	Projected 2013-14
Total No. of Connections:	48,438	49,069	49,580	50,138	50,813	51,713
Annual Percent Increase (Decrease) From Prior Year:	1.4%	1.3%	1.04%	1.13%	1.34%	1.77%

Although the Agency Enterprise Fund's service area has historically relied on the underlying groundwater basin (Central Basin) for most of its water supply, the Agency's long term planning has always included the development of a significant supply of surface water to allow for the effective management of groundwater and to meet projected future demands. Surface water currently accounts for about 28% of total Agency enterprise fund water supply; recycled water and recaptured remediated groundwater are also part of the Agency's water supply portfolio.

The use of groundwater in conjunction with surface water (called "conjunctive use") is a basic element of the Agency's Zone 40 Water Supply Master Plan (WSMP). The importance of conjunctive use is evidenced by the Agency's long-term commitment to the collaborative regional water planning effort called the Sacramento Area Water Forum (Water Forum). To meet a key Water Forum objective, the Agency partnered with East Bay Municipal Utility District to construct a joint regional surface water supply diversion and conveyance project on the Sacramento River near the community of Freeport and adjacent to the City of Sacramento.

LONG-TERM FINANCIAL PLANNING: In February 2005, the SCWA Board of Directors approved the WSMP. The purpose of the WSMP is to provide a flexible plan of water management alternatives to meet projected water demands in Zone 40 through the year 2030. The WSMP describes a conjunctive use (groundwater-surface water) program and identifies the major capital facilities needed for its implementation; these facilities include a surface water diversion structure, surface water treatment plant, water pipelines, water storage tanks and pump stations, wells and groundwater treatment facilities. The total cost of capital projects identified in the WSMP is estimated at \$726 million (2005 dollars). The April 2007 Feasibility Report for Sacramento County Water Financing Authority Series 2007 Revenue Bonds set total capital project cost at an estimated \$935 million.

To fund the needed surface water treatment plant, diversion structure and related improvements, \$413.4 million in Revenue Bonds were issued in May 2007. This included \$43.2 million to advance refund most of the 2003 Revenue Bonds. The revenue bonds are scheduled to mature on June 1, 2034 and 2039.

ACCOMPLISHMENTS: The Agency enterprise fund has continued to deliver a reliable supply of high quality potable water to all of its customers. In fiscal year 2012-13, the Agency completed a number of capital improvement projects including three water treatment plant projects, three Freeport Regional Water Authority projects, seven facility improvement projects, one water transmission main project, and six water well improvement projects.

The Agency enterprise fund has also continued to administer and provide partial funding for the Sacramento Central Groundwater Authority JPA for maintaining the long-term sustainable yield of the Central Basin, devising and implementing strategies to safeguard groundwater quality and working collaboratively with other entities in order to promote coordination of groundwater policies and activities throughout the region.

CURRENT DESIGN AND CONSTRUCTION ACTIVITIES: The Agency enterprise fund's capital improvement program strategy is to provide infrastructure concurrent with growth, to meet all regulatory requirements, to improve capital program efficiency, and to follow its Master Plan strategy guided by the Agency enterprise fund's annual capital budgeting process. Capital improvement projects currently in the design or construction phase include a major surface water treatment facility, fifteen facility improvement projects, seven water wells, and six transmission main projects.

FUTURE DESIGN AND CONSTRUCTION ACTIVITIES: From fiscal year 2013-14 through 2015-16 approximately 51% of the Agency enterprise fund's capital improvement project expenses will be for water production and treatment facilities. Most new transmission pipelines will be installed by developers with reimbursement by the Agency enterprise fund.

The Agency enterprise fund intends to construct approximately \$69.2 million in major water facilities through fiscal year 2015-16. These include:

\$ 15.7 million	water treatment wells and facilities
28.8 million	transmission mains
.2 million	fluoridation treatment
.7 million	pipeline replacement
1.6 million	master plans
8.8 million	water meters
3.6 million	water rights
<u>9.8 million</u>	other projects
\$ 69.2 million	total projects planned for near-term

INTERNAL CONTROLS: Agency management is responsible for establishing and maintaining internal controls designed to ensure that the assets of the Agency are protected from loss, theft, or misuse and to ensure that accounting data are compiled to allow for the preparation of financial statements, in conformity with generally accepted accounting principles. The internal controls are designed to provide a reasonable, but not absolute, assurance that these objectives are met recognizing that: (1) the cost of control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management.

BUDGETARY CONTROLS: The Agency prepares an annual operating and capital budget which is presented to the Board of Directors for review and approval. The budget, as approved by the Board, serves as an approved plan for operational control and performance evaluation, and provides the financial basis for the Agency enterprise fund's operations.

The Department of Water Resources and the County of Sacramento impose controls that require the use of requisitions, purchase orders, contracts and specific approval for purchases of goods and services. Procedures have been established to verify expenses and ensure budgeted amounts are not exceeded. Monthly comparisons of actual to budgeted revenues and expenses will identify any significant variances that may require the Agency enterprise fund to take corrective action.

DEBT ADMINISTRATION: The Sacramento County Water Financing Authority issued \$50 million of revenue bonds in June 2003 to finance Agency capital improvement projects. In May 2007 an additional \$413 million of revenue bonds were issued, at which time \$41.7 million of the 2003 bond issue was advance refunded. The additional bonds were issued to finance Agency capital improvement projects. During fiscal year 2012-13 the 2003 bonds were paid in full. The underlying ratings of this issue were A2 by Moody's and A+ by Standard and Poor's at the time of issuance. The Agency's continued strength is evidenced by Moody's reaffirmation of its A2 rating in August of 2009 and Standard and Poor's reaffirmation of its A+ rating in March of 2011. As a result of Moody's April 2010 bond recalibration the Agency's current rating with Moody's is Aa3.

AWARDS AND ACKNOWLEDGEMENTS

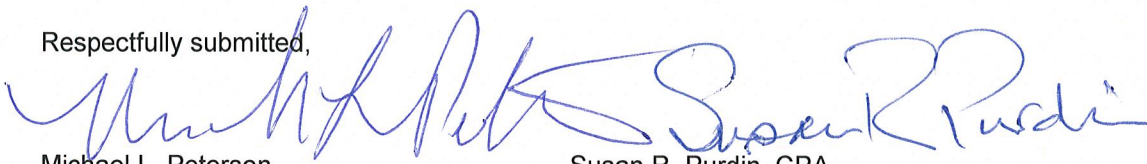
The Agency enterprise fund's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2012 was awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (GFOA). The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. Such a report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is only valid for a period of one year. We believe our current report continues to conform to the Certificate of Achievement Program requirements and we will be submitting our report for the current year to the GFOA to determine its eligibility for another certificate.

The preparation of the CAFR on a timely basis could not have been accomplished without the efficient and dedicated services of the accounting staff of the Department of Water Resources. Each staff member has our sincere appreciation for the contributions made in the preparation of this report.

We also wish to thank staff of the Sacramento County Department of Finance for their cooperation and assistance. And in closing, the Sacramento County Water Agency's Board of Directors must also be recognized for its unfailing support of the highest standards of professionalism in the financial management of the Agency.

Respectfully submitted,



Michael L. Peterson
Director
Department of Water Resources
Sacramento County Water Agency

Susan R. Purdin, CPA
Chief Financial Officer
Department of Water Resources
Sacramento County Water Agency

**Sacramento County Water Agency
Enterprise Fund**

Board of Directors

Phil Serna	Supervisor, First District
Jimmie Yee	Supervisor, Second District
Susan Peters	Supervisor, Third District
Roberta MacGlashan	Supervisor, Fourth District
Don Nottoli	Supervisor, Fifth District

Officials

Robert B. Leonard
Chief Deputy County Executive

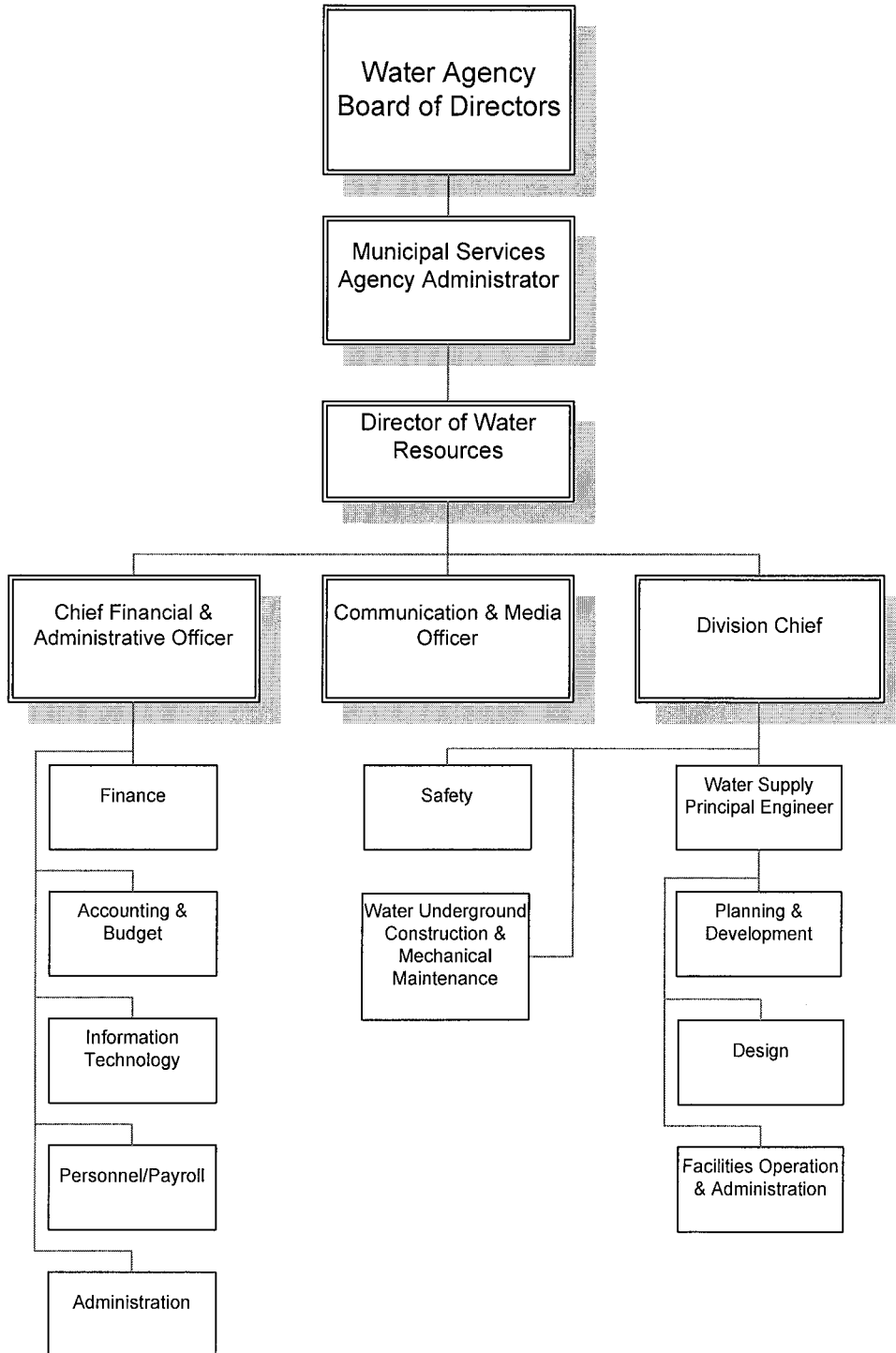
Michael L. Peterson
Director, Department of Water Resources

Steve Pedretti
Division Chief, Department of Water Resources

Susan R. Purdin, CPA
Chief Financial & Administrative Officer
Department of Water Resources

**Sacramento County Water Agency
Enterprise Fund**

Organizational Chart



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Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Sacramento County
Water Agency Enterprise Fund
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2012

Executive Director/CEO

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INDEPENDENT AUDITORS' REPORT

Honorable Board of Supervisors
Sacramento County Water Agency
Sacramento, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Sacramento County Water Agency Enterprise Fund (the Fund), an enterprise fund of the Sacramento County Water Agency, a component unit of the County of Sacramento, California (the County), as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, as listed in the table of contents.

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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurances 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 of our audit opinions.

Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the Sacramento County Water Agency Enterprise Fund, as of June 30, 2013 and 2012, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Individual Fund Financial Statements

As discussed in Note 1, the financial statements present only the Sacramento County Water Agency enterprise fund and does not purport to, and does not, present fairly the financial position of the Sacramento County Water Agency or County of Sacramento, as of June 30, 2013 and 2012, and the changes in its financial position, or where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Implementation of new accounting standards

As discussed in Note 1 to the financial statements, the Fund adopted new accounting guidance, GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective July 1, 2011. Our opinion is not modified with respect to this matter.

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 through 7 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 regarding 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 audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Fund's basic financial statements. The introductory section, statistical and bond disclosure sections listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such additional information has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2013, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Vavrinick, Trine, Day & Co. LLP

Sacramento, California
December 11, 2013

SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012

This section of the Agency Enterprise Fund's comprehensive annual financial report presents a discussion and analysis of the Agency Enterprise Fund's financial performance during the fiscal years ending June 30, 2013 and 2012. Please read it in conjunction with the transmittal letter at the front of this report and the Agency's basic financial statements following this section.

FINANCIAL HIGHLIGHTS

- The assets of the Agency exceeded liabilities at June 30, 2013 by \$487.6 million (*net position*). Of this amount, \$55.8 million (*unrestricted net position*) could be used in meeting the ongoing obligations to customers and creditors. \$28.8 million was restricted for revenue bond reserves, debt service, and capital construction purposes (*restricted net position*) and \$403 million was the net investment in capital assets. At June 30, 2012, the net position of the Agency exceeded liabilities by \$473.6 million (*net position*). Of this amount, \$58 million was unrestricted, \$28.9 million was restricted for revenue bond reserves, debt service, and capital construction purposes (*restricted net position*) and \$386.7 million was the net investment in capital assets.
- The Agency's total net position increased by \$14 and \$53.2 during fiscal years 2012-13 and 2011-12, respectively. These increases were attributable to the Agency's normal operations, contributions, increased water rates, receipt of a lawsuit settlement, and its operating income for the respective fiscal years.
- The Agency's total long-term debt obligations decreased by \$42.1 million during the 2012-13 fiscal year. This net decrease was mainly due to payments on bond obligations and a change in the negative SWAP valuation. During fiscal year 2011-12, long-term debt obligations increased by \$37 million which was mainly due to a change in the negative SWAP valuation.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Agency Enterprise Fund's basic financial statements. The Agency Enterprise Fund's basic financial statements are comprised of two components: the fund financial statements and notes to the financial statements.

Fund Financial Statements are designed to provide readers with a broad overview of the Agency's finances.

The *Statements of Net Position* presents information on all Agency Enterprise Fund 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 financial position of the Agency's Enterprise Fund is improving or deteriorating.

The *Statements of Revenues, Expenses, and Changes in Fund Net Position* presents information showing how net position changed during the most recent two fiscal years. 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 result in cash flows in future fiscal periods (e.g., uncollected service charges).

The *Statements of Cash Flows* present information about the cash receipts and cash payments of the Agency Enterprise Fund during the two most recent fiscal years. When used with related disclosures and information in the other financial statements, the information provided in these statements should help financial report users assess the Agency's ability to generate future net cash flows, its ability to meet its obligations as they come due and its need for external financing. It also provides insight into the reasons for differences between operating income and associated cash receipts and payments; and the effects on the Agency's financial position of its cash and its non-cash investing, capital and related financing transactions during the year.

SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012

Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the Agency Enterprise Fund's financial statements. The notes are included immediately following the financial statements within this report.

FINANCIAL ANALYSIS

As previously noted, net position may serve over time as a useful indicator of the Agency Enterprise Fund's financial position. As of June 30, 2013, and 2012, net position exceeded liabilities by \$487.6 million and \$473.6 million, respectively. During the fiscal year ended June 30, 2013 and 2012, net position increased \$14 and \$53.2 million, respectively.

The following table summarizes the changes between assets, liabilities and net position as of June 30, 2013 and 2012:

Agency's Enterprise Fund Condensed Statements of Net Position
(Amounts Expressed in Thousands)

	<u>2013</u>	<u>% Change</u>	<u>2012</u>	<u>% Change</u>	<u>2011</u>
Current assets	\$ 69,472	-1.3%	\$ 70,381	67.6%	\$ 41,984
Restricted and other noncurrent assets	29,631	-1.0%	29,917	-0.4%	30,034
Capital assets, net	<u>813,146</u>	0.7%	<u>807,532</u>	2.5%	<u>787,644</u>
Total assets	<u>912,249</u>	0.5%	<u>907,830</u>	5.6%	<u>859,662</u>
Deferred Outflows of Resources	<u>52,104</u>	-37.3%	<u>83,140</u>	120.8%	<u>37,649</u>
Current and other liabilities	21,362	6.1%	20,138	9.6%	18,382
Long-term obligations	<u>455,366</u>	-8.4%	<u>497,273</u>	8.5%	<u>458,512</u>
Total liabilities	<u>476,728</u>	-7.9%	<u>517,411</u>	8.5%	<u>476,894</u>
Net position:					
Net Investment in capital assets	403,084	4.2%	386,733	7.9%	358,508
Restricted	28,804	0.0%	28,810	0.0%	28,808
Unrestricted	<u>55,736</u>	-3.9%	<u>58,016</u>	75.3%	<u>33,101</u>
Total net position	<u>\$ 487,624</u>	3.0%	<u>\$ 473,559</u>	12.6%	<u>\$ 420,417</u>

The largest portion of the Agency Enterprise Fund's net position (82.7% and 81.6% at June 30, 2013 and 2012, respectively) reflects its investment in capital assets (e.g., land, water rights, structures and improvements, equipment and construction in progress) less any related debt used to acquire those assets that is still outstanding. The Agency uses these capital assets to provide services to customers; consequently, these assets are not available for future spending. Although the Agency's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A portion of the Agency Enterprise Fund's net position (5.9% and 6.1% at June 30, 2013 and 2012, respectively) is restricted for revenue bond reserves, debt service, and capital construction projects.

The remaining amount (11.4% and 12.3% at June 30, 2013 and 2012, respectively) may be used to meet the Agency Enterprise Fund's ongoing obligations to customers and creditors.

SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012

Current assets decreased from June 30, 2012 to June 30, 2013 by 1.3% due to normal operations. Current assets increased from June 30, 2011 to June 30, 2012 by 67.6% primarily due to amounts received in the settlement of a lawsuit.

For the twelve months ending June 30, 2013 and June 30, 2012, the decrease in restricted and other non-current assets was 1% and .4%, respectively. Both were primarily due to the amortization of bond issuance costs.

The following table summarizes changes in net position for the fiscal years ended June 30, 2013 and 2012:

Agency's Enterprise Fund Changes in Net Position
(Amounts Expressed in Thousands)

	<u>2013</u>	%	<u>2012</u>	%	<u>2011</u>
		<u>Change</u>		<u>Change</u>	
Operating revenues					
Charges for services	\$ 45,799	2.9%	\$ 44,505	9.0%	\$ 40,823
Development fees	16,172	55.4%	10,404	6.5%	9,769
Connection fees	396	67.8%	236	32.6%	178
Other revenues	1,297	-3.7%	1,347	-55.4%	3,018
Nonoperating revenues					
Interest income	1,592	4.5%	1,524	386.9%	313
Increase (decrease) in fair value of investments	-	0.0%	-	-100.0%	(11)
Other revenues	2,725	-41.6%	4,667	223.6%	1,442
Total revenues	<u>67,981</u>	8.5%	<u>62,683</u>	12.9%	<u>55,532</u>
Operating expenses					
County Labor - Dept of Water Resources	9,293	1.4%	9,162	40.0%	6,542
Services and supplies	11,695	36.1%	8,590	-8.8%	9,415
Other Charges	1,437	-13.5%	1,662	12.4%	1,479
Depreciation and amortization	15,693	63.4%	9,606	7.3%	8,949
Nonoperating expenses					
Interest expense	17,299	-4.8%	18,176	3624.6%	488
Total expenses	<u>55,417</u>	17.4%	<u>47,196</u>	75.6%	<u>26,873</u>
Increase in net position before contributions and transfers	12,564	-18.9%	15,487	-46.0%	28,659
Net transfers	-	-100.0%	5,446	1037.0%	479
Capital contributions	1,917	29.6%	1,479	-1.5%	1,502
Net extraordinary items	<u>(416)</u>	100.0%	<u>30,730</u>	0.0%	<u>-</u>
Change in net position	14,065		53,142		30,640
Net position, beginning of year	<u>473,559</u>		<u>420,417</u>		<u>389,777</u>
Net position, end of year	<u>\$ 487,624</u>	3.0%	<u>\$ 473,559</u>	12.6%	<u>\$ 420,417</u>

SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012

Total revenues increased \$5.3 million in 2012-13 and increased \$7.2 million in 2011-12. Service charges increased 2.9% in 2012-13 due to an increase in accounts served and water usage. Service charges increased 9% in 2011-12 due mainly to increased water fees. Development fees increased 55.4% in 2012-13 and increased 6.5% in 2011-12 due to an upswing in new home construction which caused an increase in development permits. During the fiscal year ending June 30, 2013, monthly service fees in Zone 40 remained at \$25.80 for the typical flat rate single family residence. In Zone 41, monthly service fees remained at \$36.99 as well.

Total expenses increased \$8.2 million in 2012-13 due primarily to increases in depreciation expense and increases in operating costs after the first full year of treatment plant and intake facility operations. Total expenses increased \$20.3 million in 2011-12 due primarily to the majority of interest expense not being subject to capitalization as in prior years.

Total interest income increased \$.06 million during 2012-13 due to more idle cash earning interest than in the prior year. Total interest income increased by \$1.2 million during 2011-12 due to interest income not being subject to capitalization as in previous years.

Capital contributions increased \$.438 million in 2012-13 and decreased \$.02 million 2011-12. These changes were mainly due to changes in new residential development activity.

CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITY

Capital Assets, net of accumulated depreciation and amortization, totaled \$813.1 and \$807.5 million at June 30, 2013 and 2012, respectively. This corresponded to an increase of \$5.6 and \$19.9 million during those fiscal years. The following table summarizes the changes in capital assets by fiscal year:

Agency's Enterprise Fund Changes in Capital Assets
(Amounts Expressed in Thousands)

	<u>2013</u>	%	<u>2012</u>	%	<u>2011</u>
		<u>Change</u>		<u>Change</u>	
Land	\$ 10,833	0.0%	\$ 10,833	0.1%	\$ 10,825
Water facility rights, rights to use and permanent easements	198,850	0.2%	198,380	613.8%	27,794
Structures, Improvements and equipment	647,061	2.8%	629,523	90.0%	331,293
Construction in progress	53,144	6.0%	50,125	-89.8%	489,569
Less accumulated depreciation and amortization	<u>(96,743)</u>	19.0%	<u>(81,329)</u>	13.2%	<u>(71,838)</u>
	<u>\$ 813,145</u>	0.7%	<u>\$ 807,532</u>	2.5%	<u>\$ 787,643</u>

From July 1, 2012 to June 30, 2013, construction in progress increased \$3 million due to costs on new and existing capital projects not yet completed at year-end. Once completed, these projects will be transferred to structures, improvements and equipment. Structures and improvements increased by \$17.5 million primarily due to projects being completed during the year. From July 1, 2011 to June 30, 2012, construction in progress decreased \$439.4 million due to the completion of a surface water treatment plant and a water intake facility. Capitalization of these projects resulted in a corresponding increase in Structures and Improvements of \$298.2 million and in Water facility rights of \$170.6 million.

SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012

Additional information on the Agency's capital assets can be found in Note 4 of this report.

Long-term obligations, including current portion totaled \$466.8 and \$508.6 million at June 30, 2013 and 2012, respectively. These amounts were comprised of revenue bonds, compensated absences, water facility rights, reimbursement agreements and derivative instrument valuation related to the negative value of the swap agreements.

Agency's Enterprise Fund Long-Term Obligations
(Amounts Expressed in Thousands)

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Revenue bonds	\$ 396,908	\$ 405,511	\$ 413,466
Derivative instrument liability	52,104	83,140	37,649
Compensated absences	1,150	1,186	1,185
Capital facilities - City	5,184	7,027	7,027
Water rights - USBR	6,474	7,232	7,728
Transformer right to use - SMUD	1,801	1,809	1,817
Post employment health care benefits	253	222	198
Reimbursement agreements	<u>2,625</u>	<u>2,430</u>	<u>2,428</u>
 Total Long-Term Obligations	 <u>\$ 466,499</u>	 <u>\$ 508,557</u>	 <u>\$ 471,498</u>

A negative derivative instrument liability exists as a long-term liability. Due to changes in the market value of the SWAP, the obligation decreased during the year ended June 30, 2013 by \$31 million. The net increase for the year ended June 30, 2012 was \$45.5 million.

Additional information on the Agency's long-term obligations can be found in Note 6 of this report.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Agency's finances for all those with an interest. Questions concerning any of the information provided in the report or requests for additional financial information should be addressed to Susan R. Purdin, CPA, Chief Financial and Administrative Officer; Sacramento County Agency, 827 7th Street #301, Sacramento, CA 95814 or phone (916) 874-3190.

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SACRAMENTO COUNTY
WATER AGENCY ENTERPRISE FUND

*An Enterprise Fund of the Sacramento County Water Agency,
A Component Unit of the County of Sacramento*

Sacramento, California

Basic Financial Statements

For the Fiscal Years Ended June 30, 2013 and 2012

SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND
STATEMENTS OF NET POSITION
JUNE 30, 2013 AND 2012

	2013	2012
ASSETS		
CURRENT ASSETS:		
Cash & investments	\$ 61,891,069	\$ 59,550,876
Restricted cash & investments	2,103,306	2,103,306
Accounts receivable	5,463,720	7,114,430
Accounts Receivable - Affordable housing fees	-	1,150,072
Accounts Receivable - Freeport Regional Water Authority	-	329,928
Due from other funds of the County of Sacramento	14,049	132,640
TOTAL CURRENT ASSETS	69,472,144	70,381,252
NONCURRENT ASSETS:		
Restricted assets	26,700,645	26,706,953
Deferred charges, net	2,930,494	3,209,598
Capital assets:		
Land	10,833,321	10,833,212
Intangible Assets	198,849,780	198,379,512
Structures & improvements	646,253,650	628,742,825
Equipment	808,190	781,111
Construction in progress	53,143,759	50,125,005
Total capital assets	909,888,700	888,861,665
Less accumulated depreciation & amortization	(96,743,210)	(81,329,389)
Total capital assets, net of accumulated depreciation and amortization	813,145,490	807,532,276
TOTAL NONCURRENT ASSETS	842,776,629	837,448,827
TOTAL ASSETS	912,248,773	907,830,079
DEFERRED OUTFLOWS OF RESOURCES		
Derivative Instruments, accumulated decrease in fair value	52,103,512	83,140,087
LIABILITIES		
CURRENT LIABILITIES:		
Warrants payable	410,804	159,073
Accounts payable	7,206,638	5,435,018
Interest payable	2,368,530	2,600,487
Due to other funds of the County of Sacramento	243,509	658,726
Current portion of long-term obligations	11,132,566	11,284,021
TOTAL CURRENT LIABILITIES	21,362,047	20,137,325
NONCURRENT LIABILITIES:		
Revenue bonds payable	388,334,948	397,250,451
Compensated absences	1,076,643	1,180,261
Derivative instrument liability	52,103,512	83,140,087
Other long-term obligations	13,851,301	15,702,559
TOTAL NONCURRENT LIABILITIES	455,366,404	497,273,358
TOTAL LIABILITIES	476,728,451	517,410,683
NET POSITION:		
Net Investment in capital assets	403,083,651	386,733,111
Restricted for revenue bond reserve	25,713,903	25,713,903
Restricted for debt service	986,742	993,050
Restricted for capital construction	2,103,306	2,103,306
Unrestricted	55,736,232	58,016,113
TOTAL NET POSITION	\$ 487,623,834	\$ 473,559,483

See accompanying notes to the basic financial statements.

SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND
 STATEMENTS OF REVENUES, EXPENSES AND
 CHANGES IN FUND NET POSITION
 FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
OPERATING REVENUES:		
Water service charges	\$ 43,523,865	\$ 41,971,767
Development fees	16,171,509	10,403,872
Connection fees	395,694	236,305
Services to others	2,275,754	2,533,333
Other	1,297,489	1,346,335
Total operating revenues	63,664,311	56,491,612
OPERATING EXPENSES:		
County labor - Department of Water Resources	9,292,726	9,161,954
Services & supplies	11,695,106	8,590,372
Other charges	1,437,120	1,662,430
Depreciation & amortization	15,692,925	9,605,862
Total operating expenses	38,117,877	29,020,618
Operating income	25,546,434	27,470,994
NONOPERATING REVENUES (EXPENSES):		
Interest income	1,591,579	1,524,282
Intergovernmental revenue	2,724,969	4,667,389
Interest expense	(17,298,896)	(18,175,355)
Total nonoperating revenues (expenses)	(12,982,348)	(11,983,684)
Income before contributions and transfers	12,564,086	15,487,310
CAPITAL CONTRIBUTIONS	1,916,905	1,478,695
TRANSFERS IN	-	5,446,469
EXTRAORDINARY GAIN	-	35,000,000
EXTRAORDINARY LOSS	(416,640)	(4,269,723)
Changes in net position	14,064,351	53,142,751
NET POSITION, BEGINNING OF THE YEAR	473,559,483	420,416,732
NET POSITION, END OF THE YEAR	\$ 487,623,834	\$ 473,559,483

See accompanying notes to the basic financial statements.

SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND
STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
Cash flows from operating activities:		
Receipts from customers	\$ 58,498,108	\$ 50,868,051
Receipts from other operating activities	1,297,489	1,346,335
Payments to employees	(9,222,656)	(9,030,425)
Payments to suppliers for goods and services	(10,570,324)	(12,219,599)
Net cash provided by operating activities	40,002,617	30,964,362
Cash flows from noncapital financing activities:		
Transfers from other funds	-	5,446,469
Net cash flows provided by noncapital financing activities	-	5,446,469
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(9,691,354)	(18,827,965)
Principal payments on long-term obligations	(10,862,682)	(8,108,522)
Interest payments on long-term obligations	(18,706,274)	(18,227,936)
Net cash used for capital and related financing activities	(39,260,310)	(45,164,423)
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	-	882,467
Net proceeds from lawsuit settlement	-	35,000,000
Interest received	1,598,233	1,524,291
Net cash provided by investing activities	1,598,233	37,406,758
Net (decrease) / increase in cash and cash equivalents	2,340,540	28,653,166
Cash and cash equivalents, beginning of year	66,430,144	37,776,978
Cash and cash equivalents, end of year	\$ 68,770,684	\$ 66,430,144
Reconciliation of cash and cash equivalents to the statement of net position:		
Cash and investments	\$ 61,891,069	\$ 59,550,876
Restricted cash & investments	2,103,306	2,103,306
Restricted assets	26,700,645	26,706,953
Less: Non cash and cash equivalents in restricted assets	(21,924,336)	(21,930,991)
Total cash and cash equivalents	\$ 68,770,684	\$ 66,430,144
Reconciliation of operating income to net cash provided by operating activities		
Operating Income	\$ 25,546,434	\$ 27,470,994
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	15,692,925	9,605,862
Impact fees - credits applied	(7,118,015)	(3,648,356)
Change in assets and liabilities:		
Accounts receivable / deferred housing fee receivable / grants receivable	3,130,710	(563,833)
Due from other funds of the County of Sacramento	118,591	(65,037)
Payables	3,015,878	(2,215,388)
Payroll liabilities	70,070	131,529
Due to other funds of the County of Sacramento	(453,976)	248,591
Total adjustments	14,456,183	3,493,368
Net cash provided by operating activities	\$ 40,002,617	\$ 30,964,362
Schedule of noncash investing, capital and financing activities:		
Contributed assets	\$ 1,916,905	\$ 1,478,695
Amortization of bond premiums	\$ 691,773	\$ 350,089
Impact fees - credits applied	\$ 7,118,015	\$ 3,648,356

See accompanying notes to the basic financial statements.

SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements of the Sacramento County Water Agency Enterprise Fund (Agency), have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Agency Enterprise Fund's accounting policies are described below.

REPORTING ENTITY

The Agency, created in 1952 pursuant to the Sacramento County Water Agency Act (Act), is a separate legal entity from the County of Sacramento. Although a separate legal entity, the Sacramento County Board of Supervisors acts ex officio as the Agency's Board of Directors while Sacramento County Department of Water Resources' personnel acts as Agency staff. The Department of Water Resources (Department) is a department within the Municipal Services Agency of the County of Sacramento. The Municipal Services Agency is administered by the Municipal Services Agency Administrator who reports to the County Executive and the County Board of Supervisors. Department staff manages the County's surface water and groundwater resources through the powers of the County and the Agency.

The sector of the Agency covered by this report is the Water Supply Enterprise Fund. Its purpose is to provide a high quality supply of water to retail and wholesale customers, as well as to construct and operate groundwater and surface water facilities and infrastructure that will continue to provide safe and reliable water for future years. This sector of the Agency is accounted for as an enterprise fund with no financial accountability for any component units.

The activity in this fund is also included in the appropriate basic financial statements for the County as a whole. These financial statements are not intended to be a complete presentation of the Agency or County. The following is a list of Zones included within the Sacramento County Agency Enterprise Fund.

Enterprise Fund

Sacramento County Agency – Zone 40
Sacramento County Agency – Zone 41
Sacramento County Agency – Zone 50

In 2003 the Agency entered into a Joint Exercise of Powers Agreement with the County of Sacramento to form the Sacramento County Water Financing Authority (Authority) for the purpose of facilitating the financing of the acquisition and/or construction of real and personal property for the Agency. The Board of Directors of the Agency serve as the Authority's governing board. For financial reporting purposes, the Master Installment Purchase Contract between the Agency Enterprise Fund and the Authority has been eliminated and the financial data of the Authority related to this contract has been included in the Agency's Enterprise Fund.

The Authority is not a blended component unit of the Agency Enterprise Fund but it is a blended component unit of the Sacramento County Water Agency. However, as mentioned above, all balances and transactions of the Authority are presented as part of the Agency Enterprise Fund's financial statements.

BUDGETARY PROCESS

The Agency prepares an annual operating and capital budget for the Enterprise Fund, which is approved and adopted by the County Board of Supervisors. The budget serves as an approved plan to facilitate financial control and operational evaluation.

SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The Agency Enterprise Fund uses the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Agency Enterprise Fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Agency Enterprise Fund's operations. The principal operating revenues of the Agency Enterprise Fund consist of water service fees and development fees. The principal operating expenses of the Agency Enterprise Fund are labor costs and services and supplies for water resources and water quality. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing activities and result from non-exchange transactions or ancillary activities. When both restricted and unrestricted resources are available for use, it is the Agency's policy to use restricted resources first then unrestricted resources as they are needed.

CASH EQUIVALENTS AND INVESTMENTS

For purposes of the statements of cash flows, the Agency Enterprise Fund considers all short-term highly liquid investments with an original maturity of three months or less, including restricted cash and investments and amounts held in the County's investment pool, to be cash and cash equivalents. Amounts held in the County's investment pool are available on demand to individual entities; thus, they are considered highly liquid and cash equivalents for purposes of the statements of cash flows.

At June 30, 2013 and 2012, the Agency's investments are stated at fair value in accordance with GASB Statement No. 31. However, the value of the pool shares in the County that may be withdrawn is determined on an amortized cost basis, which is different than the fair value of the Agency's position in the pool.

DEFERRED CHARGES

Deferred charges of \$2,930,494 as of June 30, 2013 and \$3,209,598 as of June 30, 2012, net of accumulated amortization, consist of costs incurred for the issuance of the 2003 and 2007 revenue bonds. Amortization of issuance costs is computed using the straight-line method, over the life of the related obligation.

WATER FACILITY RIGHTS

Water facility rights are comprised of the purchased rights to the usage of water, water facilities and a water storage tank. When useful lives are defined, amortization of water facility rights is computed using the straight-line method over the defined useful life of the related asset. In accordance with GASB 51, when useful lives are not defined, useful lives are considered to be indefinite. Therefore, such assets are not amortized but are periodically considered for potential impairment.

PERMANENT EASEMENTS

Permanent easements are comprised of rights of way acquired from property owners which will allow access to Agency facilities.

SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

CAPITAL ASSETS

Capital assets are stated at cost except for capital assets contributed to the Agency, which are stated at their market value on the date contributed. When capital assets are retired or otherwise disposed of, the cost and related depreciation are removed from the accounts and any resulting gain or loss is reflected in non-operating revenues or expenses for the period.

Depreciation and amortization of capital assets is computed under the straight-line method over the following estimated useful lives:

Equipment	5 to 10 years
Structures and improvements	10 to 50 years
Intangible assets with defined useful lives	According to contract
Intangible assets without defined useful lives	Not amortized

The Agency's policy is to capitalize all buildings, structures, and improvements with a cost greater than \$25,000. All infrastructure is capitalized regardless of the cost. Equipment with a cost greater than \$5,000 and a useful life of more than one year is capitalized.

Maintenance and repair costs are expensed as incurred. Significant renewals or improvements greater than \$5,000 are capitalized and depreciated over their revised estimated useful lives. Costs incurred for major improvements or construction of assets are carried in construction in progress until the project is completed at which time costs related to the project are capitalized in the appropriate asset account.

CAPITALIZATION OF INTEREST

Interest costs relating to the acquisition or construction of capital assets are capitalized as a component of the cost of the capital assets.

For the years ended June 30, 2013 and June 30, 2012, the Agency Enterprise Fund incurred interest costs totaling \$17,782,544 and \$18,998,718 respectively. Of these amounts, part was related to the construction of structures and improvements which resulted in capitalized interest totaling \$483,648 and \$823,363 respectively.

COMPENSATED ABSENCES

Department of Water Resources employees staffing the Agency accrue vacation in varying amounts based on job classification and length of service. Additionally, certain employees are allowed compensated time off in lieu of overtime compensation and/or working on holidays.

Sick leave is earned by regular, full-time employees. Any sick leave hours not used during the period are carried forward to following years, with no limit to the number of hours that can be accumulated. Any sick leave hours unused at the time of an employee's retirement are added to the actual period of service when computing retirement benefits. Upon retirement, management employees have the option of receiving payment for one half of accrued sick leave with the balance included in the calculation of retirement benefits.

SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

COMPENSATED ABSENCES (Continued)

It is the policy of the County not to pay accumulated sick leave to employees who terminate prior to retirement. The liability for compensated absences earned through year-end, but not yet taken, is accrued in the accompanying financial statements. Compensated absences liability activity for the fiscal year ended June 30, 2013 can be found in Note 6 on long term liabilities.

RISK MANAGEMENT

The County maintains an "All Risk" pooled blanket property insurance program with limits in the aggregate amount of \$1.730 billion. These coverages apply to all County-owned buildings and personal property, including the real and personal property of the Agency. Boiler and Machinery coverage is provided in the aggregate amount of \$100 million limit any one loss and includes Agency real and personal property. Flood coverage for Agency real and personal property is provided with limits in the aggregate amount of \$1.315 billion. Earthquake limits are capped at \$25 million occurrence and aggregate.

The Agency participates in the County's self-insurance and excess insurance program for liability. Limits are capped at \$2 million and \$25 million respectively. Annual premiums are based primarily on claims experience. Current premiums are charged to expense when paid.

FRWA facilities are covered for "All Risk" property loss on a replacement cost basis with limits in the aggregate amount of \$114 million. Flood coverage is capped at \$25 million occurrence. Earthquake limits are capped at \$25 million occurrence. Boiler and machinery coverage is provided in the aggregate amount of \$100 million limit any one loss and includes FRWA real and personal property.

FRWA liability coverage is provided through a policy with SDRMA with a \$10 million limit per occurrence.

In the past three fiscal years, there were no instances or settlements exceeding insurance coverage.

DEVELOPMENT FEES

Development fees are received for building permits issued on construction related improvement plans. They represent one-time cash fees imposed so funds can be generated that cover costs associated with water supply capital projects. Revenues related to development fees are earned and recognized in two phases. At the time improvement plans are approved, a portion of developer fees are earned and received. The remainder of development fees are earned and received as building permits are issued.

Beginning in FY 2001-02, the Agency began granting developers credit for infrastructure dedications that would ultimately offset a portion of the impact fees. A result of these arrangements is that when a developer builds a water pipeline required by the Agency as a condition of development, the developer is granted a credit for the value of the pipeline. Subsequently when building permits are issued for the development, the credits, which have been apportioned among the developable parcels, are applied towards the impact fees. The value of infrastructure credits is determined for certain improvements by a schedule in Agency Code, and for other improvements by engineer's cost estimate.

COMPARATIVE DATA / RECLASSIFICATIONS

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation. In accordance with GASB 63, Deferred Outflows of Resources was removed from Other Assets and reported separately below assets in the Statements of Net Position.

SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

NEW ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) releases new accounting and financial reporting standards which may have a significant impact on the Agency's financial reporting process. The Agency became subject to the following GASB Statements for the year ended June 30, 2013:

Governmental Accounting Standard No. 60

In November 2010, the GASB issued statement No. 60, Accounting and Financial Reporting for Concession Agreements. The objective of this statement is to provide guidance related to service concession agreements. This statement is effective for periods beginning after December 15, 2011. The Agency has determined that this statement did not have a material effect on the financial statements.

Governmental Accounting Standard No. 61

In November 2010, the GASB issued statement No. 61, The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements No. 14 and No. 34. This statement's purpose is to improve the definitions and financial reporting requirements for component units, to refine the blending criteria for component units, and to clarify the reporting of equity interests in legally separate organizations. This statement is effective for periods beginning after June 15, 2012. The Agency has determined that this statement did not have a material effect on the financial statements.

Governmental Accounting Standard No. 62

In December 2010, the GASB issued statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. The objective of this statement is to accept, as authority, all non-conflicting pronouncements from on or before 11/30/89 which were issued as: 1) FASB Statements and Interpretations, 2) OPB Opinions, and 3) ARB's of the AICPA Committee on Accounting Procedure. This statement is effective for periods beginning after December 15, 2011. The Agency has determined that this statement has a material effect on its financial statements and has applied all sections as applicable.

Governmental Accounting Standard No. 63

In December 2011, the GASB issued statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources, and Net Position. The objective of this statement is to refine the financial reporting structure of net position regarding deferred outflows of resources and deferred inflows of resources. It also renames previous measures of "net position" to measures of "net position". This statement is effective for periods beginning after December 15, 2011. The Agency has determined that this statement is material to its financial statements and has applied all sections as applicable.

2. CASH AND INVESTMENTS

The Agency Enterprise Fund maintains specific cash deposits and investments with the County and participates in the investment pool of the County, which is not rated by credit rating agencies. At June 30, 2013, the carrying amounts of the Agency Enterprise Fund's cash held by the County Treasurer's investment pool was \$63,994,375 of which, \$2,103,306 was restricted for capital construction and at June 30, 2012 the carrying amounts of the Agency's cash held by the County Treasurer's investment pool were \$61,654,182 of which, \$2,103,306 was restricted for capital construction. The weighted average maturity of the Treasurer's investment pool was 301 and 259 days at June 30, 2013 and 2012, respectively.

Investment policies and related credit, custodial credit, concentration of credit, and interest rate risk applicable to the Agency Enterprise Fund's pooled funds are those of the County and are disclosed in the County's basic financial statements. The County Treasurer's investment pool is subject to oversight by the Treasury Oversight Committee. The County Treasurer's investment pool is not rated.

SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012

3. RESTRICTED ASSETS (Continued)

The County Treasurer, acting in a fiduciary capacity, invests bond proceeds in accordance with long-term obligation covenants. Reserves are held by an outside fiscal agent as required by the bond indentures.

At June 30, 2013 and 2012, all cash held by fiscal agents was covered by federal depository insurance or by collateral held by the County's financial institutions in the County's name.

The Agency's restricted assets held with fiscal agents as of June 30, 2013 and 2012 are classified in the accompanying financial statements as follows:

	2013	2012
Restricted Assets		
Cash held by County Fiscal Agent	886,853	4,636
Investments held by County Fiscal Agent	-	881,870
Investments Held by Financial Institution as Bond Trustee	25,713,902	25,713,903
Total Investments Held by Fiscal Agent and Trustee	25,713,902	26,595,773
Interest Receivable on Bond Proceeds	99,890	106,544
Total Noncurrent Restricted Assets	\$ 26,700,645	\$ 26,706,953

Investments Authorized by Debt Agreements

Investment of debt proceeds held by the County fiscal agent and bond trustee is governed by provisions of the debt agreements rather than the general provisions of the California Government Code or the County's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment in One Issuer</u>
Defeasance Securities	None	None	None
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances	360 days	None	None
Commercial Paper	270 days	None	None
Money Market Fund	None	None	None
Pre-refunded municipal obligations	None	None	None
Municipal Obligations	None	None	None
County of Sacramento Pooled Investment Fund	None	None	None
Investment Agreements	None	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. The Agency's investments held by bond trustees are monitored for interest rate risk by measuring the weighted average maturity.

SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012

3. RESTRICTED ASSETS (Continued)

Investment Type	Fair Value at June 30, 2013	Weighted Average Maturity (in years)	Fair Value at June 30, 2012	Weighted Average Maturity (in years)
Held by County Fiscal Agent:				
Government Securities	\$ -	-	881,870	0.16
Held by Bond Trustee:				
Money Market Fund	3,118,665	0.25	3,118,666	0.25
Guaranteed Investment Contracts	<u>22,595,237</u>	25.93	<u>22,595,237</u>	26.94
Total	<u>\$ 25,713,902</u>		<u>\$ 26,595,773</u>	

Credit Risk

This is the risk that an issuer or other counterparty to a debt instrument will not fulfill its obligations. The Agency is permitted to hold investments of issuers with a short-term rating of superior capacity and a minimum long-term rating of upper medium grade by the top two nationally recognized statistical rating organizations (rating agencies). For short-term rating, the issuers' rating must be A-1 and P-1, and the long-term rating must be A- and A3 respectively by Standard & Poor's and Moody's rating agencies.

Investment Type	Fair Value at June 30, 2013	Ratings as of June 30, 2013	Fair Value at June 30, 2012	Ratings as of June 30, 2012
Held by County Fiscal Agent:				
Government Securities	\$ -	-	\$ 881,870	P-1/A-1+
Held by Bond Trustee:				
Money Market Fund	3,118,665	Aaa/AAA	3,118,666	AAAm
Guaranteed Investment Contracts	<u>22,595,237</u>	Not Rated	<u>22,595,237</u>	Not Rated
Total	<u>\$ 25,713,902</u>		<u>\$ 26,595,773</u>	

Concentration of Credit Risk

This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Investments in any one issuer that represent five percent or more of the Agency's total investments are shown below as of June 30, 2013 and 2012. Mutual funds are excluded from this disclosure.

Issuer	Investment Type	Fair Value at June 30, 2013	Fair Value at June 30, 2012
Assured Guaranty	Guaranteed Investment Contract	22,595,237	22,595,237

Custodial Credit Risk

This is the risk that in the event a financial institution or counterparty fails, the Agency would not be able to recover the value of its deposits and investments. As of June 30, 2013 and 2012, one hundred percent of the Agency's investments are held in the Agency's name and is not exposed to custodial credit risk. The Agency does not have a policy for custodial credit risk.

Bond Reserves

At June 30, 2013 and June 30, 2012, the Agency's bond reserves are held in money market funds and a guaranteed investment contract originally issued by FSA Capital Management Services LLC and are valued at cost.

SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012

3. RESTRICTED ASSETS (Continued)

On July 1, 2009, Assured Guaranty Municipal Corp purchased FSA from Dexia SA. All agreements were assumed by Assured Guaranty and no changes to the GIC or custody agreement terms were made. As of June 30, 2013, Assured Guaranty credit ratings are A2/AA- by Moody's and S&P.

4. CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2013 and 2012 were as follows:

	<u>July 1, 2012</u>	<u>Increase</u>	<u>Decrease</u>	<u>June 30, 2013</u>
Capital assets not being depreciated				
Land	\$ 10,833,212	\$ 109	\$ -	\$ 10,833,321
Water Facility Rights	195,177,784	470,268	-	195,648,052
Rights to Use	1,903,815	-	-	1,903,815
Permanent Easements	24,516	-	-	24,516
Construction in progress	50,125,005	20,597,675	(17,578,921)	53,143,759
Capital assets not being depreciated	<u>258,064,332</u>	<u>21,068,052</u>	<u>(17,578,921)</u>	<u>261,553,463</u>
Capital assets being depreciated				
Water rights and permanent easements	1,273,397	-	-	1,273,397
Structures & improvements	628,742,825	17,510,825	-	646,253,650
Equipment	781,111	27,079	-	808,190
Capital assets being depreciated	<u>630,797,333</u>	<u>17,537,904</u>	<u>-</u>	<u>648,335,237</u>
Less accumulated depreciation & amortization				
Water Rights	(280,147)	(25,468)	-	(305,615)
Structures & improvements	(80,291,208)	(15,376,713)	-	(95,667,921)
Equipment	(758,034)	(11,640)	-	(769,674)
Total accumulated depreciation & amortization	<u>(81,329,389)</u>	<u>(15,413,821)</u>	<u>-</u>	<u>(96,743,210)</u>
Total capital assets, being depreciated, net	<u>549,467,944</u>	<u>2,124,083</u>	<u>-</u>	<u>551,592,027</u>
Net capital assets	<u>\$ 807,532,276</u>	<u>\$ 23,192,135</u>	<u>\$ (17,578,921)</u>	<u>\$ 813,145,490</u>
	<u>July 1, 2011</u>	<u>Increase</u>	<u>Decrease</u>	<u>June 30, 2012</u>
Capital assets not being depreciated				
Land	\$ 10,825,329	\$ 7,883	\$ -	\$ 10,833,212
Water Facility Rights	24,592,399	170,585,385	-	195,177,784
Rights to Use	1,903,815	-	-	1,903,815
Permanent Easements	24,516	-	-	24,516
Construction in progress	489,568,667	27,900,907	(467,344,569)	50,125,005
Capital assets not being depreciated	<u>526,914,726</u>	<u>198,494,175</u>	<u>(467,344,569)</u>	<u>258,064,332</u>
Capital assets being depreciated				
Water rights and permanent easements	1,273,397	-	-	1,273,397
Structures & improvements	330,526,394	298,216,431	-	628,742,825
Equipment	766,957	14,154	-	781,111
Capital assets being depreciated	<u>332,566,748</u>	<u>298,230,585</u>	<u>-</u>	<u>630,797,333</u>
Less accumulated depreciation & amortization				
Water Rights	(254,679)	(25,468)	-	(280,147)
Structures & improvements	(70,852,098)	(9,439,110)	-	(80,291,208)
Equipment	(731,320)	(26,714)	-	(758,034)
Total accumulated depreciation & amortization	<u>(71,838,097)</u>	<u>(9,491,292)</u>	<u>-</u>	<u>(81,329,389)</u>
Total capital assets, being depreciated, net	<u>260,728,651</u>	<u>288,739,293</u>	<u>-</u>	<u>549,467,944</u>
Net capital assets	<u>\$ 787,643,377</u>	<u>\$ 487,233,468</u>	<u>\$ (467,344,569)</u>	<u>\$ 807,532,276</u>

Depreciation and amortization on capital assets and intangible assets for the years ended June 30, 2013 and 2012 was \$15,413,821 and \$9,491,292, respectively.

SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012

4. CAPITAL ASSETS (Continued)

Beginning in FY 2001-02, the Agency began granting developers credit for infrastructure dedications that would ultimately offset a portion of the impact fees. In other words, when a developer builds a water pipeline required by the Agency as a condition of development, the developer is granted a credit for the value of the pipeline. Subsequently when building permits are issued for the development, the credits, which have been apportioned among the developable parcels, are applied towards the impact fees. The value of infrastructure credits is determined for certain improvements by a schedule in Agency Code, and for other improvements by engineer's cost estimate.

In 2012-13, of the \$16,171,509 in Zone 40 impact fee revenue, approximately \$7,118,015 was from impact fee credits applied. In 2011-12, of the \$10,403,872 in Zone 40 impact fee revenue, approximately \$3,648,356 was from impact fee credits applied. The impact fee credits applied portion of impact fees revenue is capitalized as construction in progress.

Included in 2012-13 intergovernmental revenue are First Five (Proposition 10) grant revenues of \$2,724,969. Included in 2011-12 Intergovernmental revenue are First Five (Proposition 10) grant revenues of \$4,667,389. These grant funds were used on fluoridation project construction costs within the Agency Enterprise Fund's service area.

During the year ended June 30, 2013, a capital project in Construction in progress was written off as expense in the amount of \$1,415,972. Under terms of a recent settlement agreement, the project was no longer required. Its cost is included in Services and Supplies.

5. WATER FACILITY RIGHTS

In April 2000, the Agency and the City of Sacramento (City) entered into an agreement to treat and deliver (wheel) surface water. The Agency payments to the City are called a "Capital Facilities Use Fee." The payments entitle the Agency to use the designated facilities for the remaining useful life of the facilities. This agreement contained an option allowing the Agency to purchase additional capacity which was exercised in February 2009. At June 30, 2013 and 2012, water facility rights related to this asset were \$13,864,027 and \$13,864,027. Accumulated amortization was \$0 at the end of both years. Because this agreement has an indefinite life, no provision for amortization was made.

The Agency has shared the costs of a water storage tank with Citizens Utilities. The payments entitle the Agency to use the storage capacity for the duration of the tank's useful life of 50 years. At June 30, 2013 and 2012, water facility rights related to the Citizens Utilities asset was \$1,273,397 and \$1,273,397, less accumulated amortization of \$305,615 and \$280,147, respectively.

The Agency has entered into an agreement with Sacramento Municipal Utilities District (SMUD) which provides for the assignment of thirty thousand acre feet of SMUD's CVP water supply to the Agency. Under this contract the Agency has agreed to pay the United States Bureau of Reclamation (USBR) certain costs that are allocated to the assigned contract amount. At June 30, 2013 and June 30, 2012, water facility rights related to this contract was \$10,728,373 and \$10,728,373 respectively. Because this agreement has an indefinite life, no provision for amortization was made.

In 2002, The Agency entered into an agreement with East Bay Municipal Utility District (EBMUD). The purpose of this agreement was for the construction of a joint regional surface water supply project on the Sacramento River near the community of Freeport and adjacent to the City of Sacramento. The jointly owned facilities consist of a Sacramento River diversion structure and a raw water conveyance pipeline. This project was completed during fiscal year 2011-12, at which time the Agency took ownership of capacity rights according to its cost share in the overall project. At June 30, 2013 and June 30, 2012 costs totaling \$171,055,652 and \$170,585,385 respectively are included in Water Facility Rights. Because the capacity rights have an indefinite useful life, no provision for amortization was made.

SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012

6. LONG-TERM OBLIGATIONS

	June 30	
	2013	2012
Revenue Bonds:		
2003 series, 3.5% to 5.0% due 2011 to 2013	\$ -	\$ 1,145,000
Plus unamortized premium	-	357,954
	-	1,502,954
2007 series, 3.75% to 5.0% due 2011 - 2039	387,960,000	394,725,000
Plus unamortized premium	10,080,584	10,468,299
Less deferred amount on refunding	(1,131,817)	(1,185,713)
	396,908,767	404,007,586
Total revenue bonds payable	<u>\$ 396,908,767</u>	<u>\$ 405,510,540</u>

On June 12, 2003, the Agency (through the Sacramento County Water Financing Authority) issued \$23,850,000 of serial revenue bonds and \$26,945,000 of term revenue bonds. The interest rates on the serial bonds range from 2.0% to 5.0% while the interest rates on the term bonds range from 4.75% to 5.00%. The maturity dates on the serial bonds range from June 1, 2005 to June 1, 2013. The purpose of this issue was to finance or reimburse the costs of acquisition and construction of certain additions, betterments and improvements to the Agency's Water System. On June 1, 2013, the final 2003 bond payment was made.

On May 9, 2007, the Agency (through the Sacramento County Water Financing Authority) issued \$184,500,000 of serial 2007A (Fixed Rate) revenue bonds and \$228,920,000 of term series 2007B (Index Rate) revenue bonds. The interest rates on the 2007A bonds range from 3.75% to 5.0%. The variable interest rates on the 2007B bonds range from 0.73402% – 0.75402% and 0.86279% – 0.88279% at June 30, 2013 and 2012, respectively. Proceeds from this debt issue were used to finance or reimburse the costs of acquisition and construction of certain additions, betterments and improvements to the Agency's Water System and to advance refund the majority of the 2003 revenue bonds.

The defeased 2003 revenue bonds outstanding at June 30, 2013 and 2012 was \$0 and \$41,740,000, respectively.

Future debt service requirements at June 30, 2013 are as follows:

Fiscal Years ending June 30:	Principal	Interest	Total
2014	\$ 8,240,000	\$ 17,439,812	\$ 25,679,812
2015	8,650,000	17,035,312	25,685,312
2016	9,070,000	16,642,553	25,712,553
2017	9,505,000	16,200,653	25,705,653
2018	9,955,000	15,756,653	25,711,653
2019-2023	57,535,000	71,015,215	128,550,215
2024-2028	73,110,000	55,435,723	128,545,723
2029-2033	91,315,000	37,226,513	128,541,513
2034-2038	98,905,000	17,176,785	116,081,785
2039-2039	21,675,000	914,902	22,589,902
	387,960,000	264,844,121	652,804,121
Plus: Unamortized Premium	10,080,584	-	10,080,584
Less: Deferred amount on refunding	(1,131,817)	-	(1,131,817)
	<u>\$ 396,908,767</u>	<u>\$ 264,844,121</u>	<u>\$ 661,752,888</u>

The Federal Tax Reform Act of 1986 required issuers of tax-exempt debt to make payments to the United States Treasury of investment income received at yields that exceed the issuer's tax-exempt borrowing rates. The U.S. Treasury requires payment every five years. At June 30, 2013 and June 30, 2012, there is no excess investment income payable related to the 2003 or 2007 bonds.

SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012

6. LONG-TERM OBLIGATIONS (Continued)

2003 Revenue Bond and 2007 Revenue Bond Covenants: Pursuant to the Indenture between the County and Union Bank of California, N.A., as trustee, and the Master Installment Purchase Contract between the Sacramento County Water Financing Authority and the Agency, the Agency is required to faithfully perform and abide by all of the covenants, undertakings, and provisions of the above agreement so long as any of the bonds are outstanding. Specific covenants include the following:

- Punctual payment of interest and principal will be made when due.
- Proceeds of the bonds will be used by the Agency, as agent for the Authority, to pay the costs of financing the acquisition and construction (together with the incidental costs and expenses related thereto) of the Projects approved by the Board of Directors.
- Rates, fees and charges will be fixed and collected at least sufficient to yield adjusted annual net revenues, as defined, equal to at least meet fiscal year coverage requirements.

For fiscal years 2013 and 2012, the Agency was in compliance with the preceding covenants.

The Agency has also agreed to pay the City of Sacramento (the city) for use of Sacramento River water facilities for diverting, treating and conveying surface water. The Agency agreed to pay the City in ten annual installments an amount that included payment of principal and interest at a rate equal to the City's pool rate of return. The principal, based on the present value of the Agency's share of the facilities at the time of the agreement was \$9,569,887. Annual principal and interest payments are \$1,144,904 with the final payment occurring during the 2018 fiscal year.

Annual requirements to maturity for the right to use City of Sacramento capital facilities are as follows:

	Capital Facilities - City of Sacramento		
	Principal	Interest	Total
Fiscal years ending June 30,			
2014	\$ 968,649	\$ 176,255	\$ 1,144,904
2015	1,001,583	143,321	1,144,904
2016	1,035,636	109,268	1,144,904
2017	1,070,848	74,056	1,144,904
2018	1,107,258	37,646	1,144,904
	\$ 5,183,974	\$ 540,546	\$ 5,724,520

The Agency has entered into an agreement with Sacramento Municipal Utilities District (SMUD) which provides for the assignment of thirty thousand acre feet of SMUD's Central Valley Project (CVP) water supply to the Agency. Under this contract the Agency has agreed to pay the United States Bureau of Reclamation certain costs that are allocated to the assigned contract amount. At June 30, 2013 and 2012, the principal balance remaining on the agreement is \$6,473,503 and \$7,232,305, respectively. Under the agreement terms, the Agency will pay the balance over ten years with the final payment due in October 2021.

SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012

6. LONG-TERM OBLIGATIONS (Continued)

Annual requirements to maturity for the SMUD Assignment liability are as follows:

Fiscal years ending June 30,	SMUD Assignment - US Bureau of Reclamation		
	Principal	Interest	Total
2014	\$ 680,113	\$ 349,941	\$ 1,030,054
2015	701,364	314,652	1,016,016
2016	724,005	277,972	1,001,977
2017	748,130	239,809	987,939
2018	773,835	200,066	973,901
2023	2,846,056	367,460	3,213,516
	<u>\$ 6,473,503</u>	<u>\$ 1,749,900</u>	<u>\$ 8,223,403</u>

The Agency has entered into an agreement with Sacramento Municipal Utilities District (SMUD) for the use of a second back-up power transformer for the Vineyard Surface Water Treatment Plant. Its purpose is to provide power if both electricity and the primary back-up transformer fail. This agreement requires an initial deposit, 48 equal monthly payments, and a balloon payment in 2014. While ownership of the transformer will remain with SMUD, the Agency is purchasing the right to use this asset indefinitely. Total cost of the transformer was \$1,903,815 and will be paid off in 2014.

Annual requirements to maturity for the right to use the SMUD transformer are as follows:

Fiscal years ending June 30,	Transformer - SMUD		
	Principal	Imputed Interest	Total
2014	\$ 8,681	\$ 117,634	\$ 126,315
2015	1,792,195	19,601	1,811,796
	<u>\$ 1,800,876</u>	<u>\$ 137,235</u>	<u>\$ 1,938,111</u>

Other Long-term Obligations

The Agency enters into various reimbursement agreements with developers for construction of water supply facilities within the Agency's jurisdiction. Impact fees are imposed to pay for the construction of new water supply facilities. The reimbursement agreement is created when the amount payable to the developers for construction of water supply facilities exceeds the amount of impact fees due. Current portions of long-term-debt related to reimbursement agreements are based on estimates of amounts due in the upcoming year. As a result, actual changes in the current portion in a given year may not be consistent with amounts estimated as current portion in the previous year.

SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012

6. LONG-TERM OBLIGATIONS (Continued)

Changes in long-term debt obligations for the fiscal years ended June 30, 2013 and 2012 were as follows:

	July 1, 2012	Increase	Decrease	June 30, 2013	Due Within One Year
2003 revenue bonds	\$ 1,145,000	\$ -	\$ (1,145,000)	\$ -	\$ -
Add premium	357,954	-	(357,954)	-	-
2007 revenue bonds	394,725,000	-	(6,765,000)	387,960,000	8,240,000
Add premium	10,468,298	-	(387,714)	10,080,584	387,715
Less deferred amount on refunding	(1,185,713)	-	53,896	(1,131,817)	(53,896)
Compensated absences	1,186,176	846,867	(882,877)	1,150,166	73,523
Derivative instrument liability	83,140,087	-	(31,036,575)	52,103,512	-
Water rights-SMUD assignment	7,232,305	-	(758,802)	6,473,503	680,113
SMUD transformer	1,809,167	-	(8,291)	1,800,876	8,681
Capital facilities-City of Sacramento	7,026,765	-	(1,842,791)	5,183,974	968,649
Post employment health care benefits	222,354	92,504	(61,899)	252,959	-
Reimbursement agreements	2,429,986	518,286	(323,059)	2,625,213	827,781
Total	\$ 508,557,379	\$ 1,457,657	\$ (43,516,066)	\$ 466,498,970	\$ 11,132,566

	July 1, 2011	Increase	Decrease	June 30, 2012	Due Within One Year
2003 revenue bonds	\$ 2,245,000	\$ -	\$ (1,100,000)	\$ 1,145,000	\$ 1,145,000
Add premium	374,225	-	(16,271)	357,954	16,270
2007 revenue bonds	401,230,000	-	(6,505,000)	394,725,000	6,765,000
Add premium	10,856,013	-	(387,715)	10,468,298	387,715
Less deferred amount on refunding	(1,239,609)	-	53,896	(1,185,713)	(53,896)
Compensated absences	1,185,183	842,595	(841,602)	1,186,176	5,915
Derivative instrument liability	37,648,846	45,491,241	-	83,140,087	-
Water rights-SMUD assignment	7,728,373	-	(496,068)	7,232,305	653,710
SMUD Transformer	1,816,620	-	(7,453)	1,809,167	8,291
Capital facilities-City of Sacramento	7,026,765	-	-	7,026,765	1,935,442
Post employment health care benefits	198,357	95,626	(71,629)	222,354	-
Reimbursement agreements	2,428,017	101,969	(100,000)	2,429,986	420,574
Total	\$ 471,497,790	\$ 46,531,431	\$ (9,471,842)	\$ 508,557,379	\$ 11,284,021

7. DERIVATIVE INSTRUMENTS

A deferred outflow of resources exists which is the accumulated decrease in fair value and is related to a corresponding negative SWAP valuation liability. The deferred outflow of resources balance was \$52,103,512 and \$83,140,087 at June 30, 2013 and 2012 respectively. These deferred outflows do not amortize but do change each year in an amount that is parallel to changes in the fair market value of the SWAP liability to which they apply.

In accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, the Agency's interest rate swaps are considered to be cash flow hedging derivative instruments (i.e. effective). The Agency used the consistent critical terms method to evaluate hedge effectiveness for the interest rate swaps. The Agency determined that the critical terms of the 2007B variable rate bonds and the interest rate swaps are the same, and the changes in cash flows of the interest rate swaps substantially offset the changes in cash flows of the 2007B variable rate bonds.

SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012

7. DERIVATIVE INSTRUMENTS (Continued)

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2013 and 2012, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the financial statements are as follows (debit (credit)):

<u>Fair Value at June 30, 2013</u>	<u>Changes in Fair Value</u>				
	<u>Notional Amount</u>	<u>Classification</u>	<u>Change in Fair Value</u>	<u>Classification</u>	<u>Fair Value</u>
<i>Cash Flow Hedges:</i>					
Pay-fixed interest rate swap	\$128,965,000	Deferred outflow of resources	\$15,839,162	Debt	\$(27,316,399)
Pay-fixed interest rate swap	99,955,000	Deferred outflow of resources	\$15,197,413	Debt	\$(24,787,113)
Total	<u>\$228,920,000</u>		<u>\$31,036,575</u>		<u>\$(52,103,512)</u>

<u>Fair Value at June 30, 2012</u>	<u>Changes in Fair Value</u>				
	<u>Notional Amount</u>	<u>Classification</u>	<u>Change in Fair Value</u>	<u>Classification</u>	<u>Fair Value</u>
<i>Cash Flow Hedges:</i>					
Pay-fixed interest rate swap	\$128,965,000	Deferred outflow of resources	\$(22,903,018)	Debt	\$(43,155,561)
Pay-fixed interest rate swap	99,955,000	Deferred outflow of resources	\$(22,588,223)	Debt	\$(39,984,526)
Total	<u>\$228,920,000</u>		<u>\$(45,491,241)</u>		<u>\$(83,140,087)</u>

The fair values of the interest rate swaps are estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

Objectives and Terms of Hedging Derivative Instruments

Concurrently with the sale of the Series 2007 Bonds, the Agency entered into the Series 2007B Swaps, whereby the Agency receives payments initially calculated by reference to a negotiated rate and thereafter calculated by reference to a percentage of the taxable three month LIBOR Index plus a spread equal to the LIBOR-Based Interest Rate payable with respect to the Series 2007 Bonds, and makes payments that are calculated by reference to a fixed interest rate.

SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012

7. DERIVATIVE INSTRUMENTS (Continued)

Objectives and Terms of Hedging Derivative Instruments (Continued)

The agreements were executed on April 26, 2007, with an effective date May 9, 2007, with Bear Stearns Financial Products Inc. in connection with the Series 2007B variable rate portion of the 2007 Sacramento County Water Financing Authority Revenue Bonds totaling \$228,920,000 (\$128,965,000 for 2034 Term and \$99,955,000 for 2039 Term). In order to avoid the interest rate risk associated with the variable rate bonds and to protect exposure against higher interest rates in the future, the Agency executed two swap agreements with Bear Stearns.

On April 21, 2009 the Agency Board of Directors approved the assignment of the interest rate swaps from Bear Stearns Financial Products Inc. to JPMorgan Chase Bank, N.A. This was done in an effort to provide the Agency with a stronger counterparty for the interest rate swap transactions in the long term. The terms of the SWAP agreement remained unchanged.

The following table displays the objective and terms of the Agency's hedging derivative instruments outstanding at June 30, 2013 and 2012, along with the credit rating of the associated counterparty:

Inst.	Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms	Counterparty Credit Rating
A	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2007 Series B bonds	\$128,965,00	5/9/2007	6/1/2034	Pay 4.193%; receive 67% of USD-LIBOR-BBA plus 55 bps	A+ (S&P) Aa3 (Moody's)
B	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2007 Series B bonds	\$99,955,000	5/9/2007	6/1/2039	Pay 4.221%; receive 67% of USD-LIBOR-BBA plus 57 bps	A+ (S&P) Aa3 (Moody's)

Risks

Credit Risk: The Agency is not exposed to credit risk resulting from a failure of the counterparty to perform because of the swaps negative fair value. If the swaps had positive fair value greater than \$10 million, the Agency would be exposed to credit risk from the counterparty. The swap counterparty was rated A+ by Standard & Poor's and Aa3 by Moody's Investors Services.

Interest rate risk: The Agency is exposed to interest rate risk on its interest rate swaps. On its pay-fixed, receive-variable interest rate swap, as the LIBOR index decreases, the Agency's net payment on the swap increases.

Basis Risk: The swaps are not exposed to basis risk since there is no difference between the rate paid on the variable rate bonds and the floating amount received from the hedging derivative instruments.

Termination Risk: The Agency or the counterparty may terminate the swaps if the other party fails to perform under the contract terms. If the swaps were terminated, the variable-rate bonds would no longer carry a synthetic interest rate. If the swaps are terminated, other than by the counterparty exercising its option under the agreement, and at the time of termination the swaps are in a liability position, the Agency would be liable to the counterparty for a payment equal to the liability, subject to netting arrangements.

SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012

7. DERIVATIVE INSTRUMENTS (Continued)

Derivative Instrument Payments and Hedged Debt

As of June 30, 2013, aggregate debt service requirements of the Agency's 2007B variable rate bonds and net receipts/payments on associated hedging derivative instruments are presented below:

Fiscal Year	Variable Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
2014		\$ 1,700,310	\$ 7,899,553	\$ 9,599,863
2015		1,700,310	7,899,553	9,599,863
2016		1,700,310	7,926,293	9,626,603
2017		1,700,310	7,926,293	9,626,603
2018		1,700,310	7,926,293	9,626,603
2019-2023	1,905,000	8,501,548	39,631,467	50,038,015
2024-2028	\$ 15,120,000	8,279,837	38,587,385	61,987,222
2029-2033	91,315,000	6,591,188	30,635,326	128,541,514
2034-2038	98,905,000	3,064,887	14,111,897	116,081,784
2039	21,675,000	163,434	751,468	22,589,902
Totals	<u>\$ 228,920,000</u>	<u>\$ 35,102,444</u>	<u>\$ 163,295,528</u>	<u>\$ 427,317,972</u>

The above amounts assume that current interest rates on variable-rate bonds and the current reference rates of hedging derivative instruments will remain the same for their term. As these rates vary, interest payments on variable-rate bonds and net receipts/payments on the hedging derivative instruments will vary. The hedging derivative instruments column reflects only net receipts/payments on derivative instruments that qualify for hedge accounting.

Contingencies

The Agency's swap assignment agreement includes provisions relating to the posting of collateral for the swap counterparty and the Agency. The swap Credit Support Annex, which is part of the swap agreement, is a one-way CSA where the counterparty has the obligation to post depending on the thresholds. Conversely, the Agency does not have to post unless (1) A rating event occurs (the Agency gets downgraded below A2 by Moody's or A by S&P and (2) An insurer event occurs which could be a combination of several events but most likely (a) the insurer gets downgraded and (b) the insurer has failed to payout an obligation of greater than \$30 million and (3) The Agency chooses the option to post collateral. The two other options available to the Agency are to provide a letter of credit or to assign the agreement to another entity.

Should the Agency be downgraded below Baa2 by Moody's or BBB by S&P and an insurer event has occurred, the counterparty has the option to terminate the swap. As June 30, 2013 and 2012, the negative fair value of the swaps amounted to \$52,103,512 and \$83,140,087, respectively.

SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012

8. POST-EMPLOYMENT HEALTH CARE BENEFITS

Plan Description

The Agency's labor forces are employees of the Sacramento County Department of Water Resources. Benefits provided to County employees include medical and dental insurance and subsidy/offset payments as authorized by the Board of Supervisors on an annual basis. Without annual authorization by the Board, the benefit is terminated.

All annuitants are eligible to enroll in a retiree medical and/or dental insurance plan in a given calendar year if (1) they began receiving a continuing retirement allowance from Sacramento County Employees Retirement System (SCERS) during that calendar year, or (2) they were enrolled in the annual plan previously approved by the County, or (3) they previously waived coverage but elected to enroll during the County authorized enrollment period with a coverage date effective January of the given calendar year (continuous coverage).

Annuitants who retired for any reason on or before May 31, 2007 are eligible to receive a County-paid medical or dental insurance subsidy/offset payment during calendar year 2013. The amount of subsidy/offset payments for the calendar year 2013 ranged from \$0 to \$40.00 depending upon SCERS gross wages. Annuitants who retire after May 31, 2007 and are from certain bargaining units are also eligible to receive a County-paid medical or dental insurance subsidy/offset payment during calendar year 2013. The amount of subsidy/offset payments for the calendar year 2013 ranged from \$122.00 to \$244.00 depending upon the years of service credit.

The amount of any medical subsidy/offset payments made available to annuitants (who retired on or before May 31, 2007) shall be calculated based upon the annuitant's SCERS gross wages. The amount of any dental subsidy/offset payments made available to annuitants shall be set by the Board of Supervisors.

Neither SCERS nor the County guarantees that a subsidy/offset payment will be made available to annuitants for the purchase of County-sponsored medical and/or dental insurance. Subsidy/offset payments are not a vested benefit of County employment or SCERS membership.

Funding Policy

The County currently pays for post-employment health care benefits (OPEB) of annuitants who retired on or before May 31, 2007 on a pay-as-you-go basis. These financial statements assume that pay-as-you-go will continue.

Additional details, actuarial assumptions, funded status of the plan and required supplementary information can be found in the County of Sacramento Comprehensive Annual Financial Report.

Annual OPEB Cost and Net OPEB Obligation

The Agency's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ended June 30, 2013 are shown in the table on the next page. The net OPEB obligation is owed to the County and included in Other long-term obligations on the Statement of Net Position.

SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012

8. POST-EMPLOYMENT HEALTH CARE BENEFITS (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

	June 30, 2013	June 30, 2012
Annual required contribution	\$ 96,266	\$ 96,146
Interest on net OPEB obligation	6,267	5,567
Adjustment to annual required contribution	(10,029)	(6,087)
Annual OPEB cost (expense)	92,504	95,626
Contributions made	(61,899)	(71,629)
Increase in net OPEB obligation	30,605	23,997
Net OPEB obligation-beginning of year	222,354	198,357
Net OPEB obligation-end of year	<u>\$ 252,959</u>	<u>\$ 222,354</u>
Annual OPEB cost contributed to the plan	<u>66.9%</u>	<u>74.9%</u>

9. DEFINED PENSION BENEFIT PLAN

All permanent full-time employees of the Agency participate in the Sacramento County Employees' Retirement System (System), a cost-sharing multiple-employer defined benefit public employee retirement system. A separate stand-alone report for the System may be obtained from the County Department of Finance located at 700 H Street, Sacramento, California 95814. The payroll for Agency employees covered by the System and direct charging to the Agency Enterprise Fund for the fiscal year ended June 30, 2013 and 2012 was \$7,022,077 and \$7,461,351 respectively. The Agency's total payroll for employees direct charging to the Agency Enterprise Fund for the fiscal year ended June 30, 2013 and 2012 was \$7,463,548 and \$7,731,534 respectively. Retirement benefits are based on member years of service and compensation. Additionally, the System provides for benefits upon death or disability of eligible members. Upon reaching five years of service, members earn the right to receive a retirement benefit, subject to certain restrictions if retirement is prior to attaining age 50 or achieving less than 10 years of service.

Under the actuarial funding method used by the System, investments are valued at market and all unrealized gains and losses are recognized over the next five years. Therefore, contribution rates reflect the impact of market fluctuations on investments during the five-year period after they occur rather than upon disposition of the investment.

Member contributions are required by law and are based on age of entry into the System. Fund contributions are actuarially determined to provide for the balance of contributions needed. The authority for both benefit provisions and contribution obligations is derived from the County Employees Retirement Act of 1937, Section 31450 et seq. of the California Government Code.

The contribution requirements for the past three fiscal years were as follows:

Fiscal Year	Required Contributions	Employer Contributions	Employer % of Required Contributions	Employer % of Covered Payroll	Employee Contributions	Employee % of Covered Payroll
Ended June 30, 2013	\$ 1,725,585	\$ 1,394,302	80.8%	19.9%	\$ 331,283	4.7%
Ended June 30, 2012	1,747,355	1,405,884	80.5%	18.8%	341,471	4.6%
Ended June 30, 2011	1,197,405	832,835	69.6%	11.0%	364,570	4.8%

For additional information regarding retirement contributions for the year ended June 30, 2013, please refer to the County of Sacramento Comprehensive Annual Financial Report.

SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012

10. JOINT VENTURE

The Freeport Regional Water Authority (FRWA) was established in 2002 by a joint exercise of powers agreement between East Bay Municipal Utility District (EBMUD) and the Agency. The purpose of this partnership was to construct a joint regional surface water supply project on the Sacramento River near the community of Freeport and adjacent to the City of Sacramento. The jointly owned facilities consist of a Sacramento River diversion structure and a raw water conveyance pipeline.

Associated with this project is the construction of the Agency's Vineyard Surface Water Treatment Plant which went into service during the fiscal year 2011-12.

FRWA is governed by a four person Board of Directors, two from EBMUD and two from the Agency. The costs incurred by FRWA in carrying out its functions are allocated between its Members as follows:

- Capital costs and other fixed operating costs for the FRWA facilities are allocated between the Members based on the following share of dedicated capacity in the FRWA facilities: EBMUD – 54.054% and the Agency – 45.946%.
- Variable operating costs for FRWA facilities are allocated between the Members based on the cost of their proportionate share of the volume of use of the FRWA facilities or such other method as may be established by the Board or by mutual agreement of FRWA and its Members.

The Agency has no equity interest in the FRWA.

This project was completed during fiscal year 2011-12, at which time the Agency took ownership of capacity rights according to their cost share in the overall project. At June 30, 2013 and June 30, 2012, costs totaling \$171,055,652 and \$170,585,385, respectively are included in Intangible Assets. According to the agreement, the capacity rights have an indefinite useful life so no provision for amortization was made.

For the fiscal years 2012-13 and 2011-12, amounts paid to FRWA were \$0 and \$918,920 respectively and amounts received from FRWA were \$826,932 and \$1,666,940 respectively. As of June 30, 2013 and June 30, 2012, amounts due from FRWA to the agency were \$50,765 and \$329,928 respectively. As of June 30, 2013 and June 30, 2012, amounts due from the Agency to FRWA were \$1,329,568 and \$0 respectively.

Copies of the FRWA's financial statements may be obtained from the FRWA Authority Treasurer, MS#801, P.O. Box 24055, Oakland, CA 94623-1055.

11. RELATED PARTY TRANSACTIONS

The Board of Supervisors of the County is also the Board of Directors of the Agency. As a result, the County is considered a related party to the Agency.

For fiscal years 2012-13 and 2011-12, the County paid the Agency \$396,810 and \$215,895, respectively, for interest earned on Treasury deposits. In addition, the Agency's labor force are employees of the County and the Agency uses other County departments for other services, such as risk management, engineering, accounting, utility billing, etc. Expenses paid to the County during fiscal years 2012-13 and 2011-12 were \$1,669,596 and \$1,499,100 respectively. As of June 30, 2013 and 2012, amounts due from the County to the Agency were \$14,049 and \$132,640 respectively. As of June 30, 2013 and 2012, amounts due to the County from the Agency were \$243,509 and \$658,726 respectively.

Because of the joint venture that exists between East Bay Municipal Utility District (EBMUD) and the Agency (as described in note 10), Freeport Regional Water Authority (FRWA) is considered a related party to the agency.

SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012

12. COMMITMENTS AND CONTINGENCIES

The Agency has entered into contracts for the construction of certain projects. At June 30, 2013 the unexpended balance of the contract commitments was approximately \$7,395,772.

The Agency is a defendant in various matters of litigation. Anticipated costs related to such claims and litigation are accrued in the Agency's funds where appropriate. Although the final outcome of these matters cannot be predicted, the Agency believes that these accruals are adequate to provide for its estimated future obligation in these matters, and that any amounts in excess of such accruals will not be significant to the Agency. Please refer to Footnote 15 - Extraordinary Items for a more detailed explanation.

13. TRANSFERS

Transfers in from the County for the period ending June 30, 2012 totaled \$5,446,469. These transfers reflect a refund from Sacramento County Department of Water Resources of funds collected in previous years for a project that was cancelled during the current year.

14. FUTURE ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) releases new accounting and financial reporting standards, any of which may have a significant impact on the Agency's financial reporting process. Future new standards which may impact the Agency include the following:

Governmental Accounting Standard No. 65

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective for financial statements for periods beginning after December 15, 2011. This statement redefines the reporting of deferred outflows of resources and deferred inflows of resources that were previously reported as assets and liabilities in the financial statements. The Agency has not determined its effect on the financial statements.

Governmental Accounting Standard No. 66

In March 2012, the GASB issued Statement No. 66, *Technical Corrections – 2012 – An Amendment of GASB 10 and GASB 62*, effective for financial statements for periods beginning after December 15, 2012. The objective of this statement was to improve accounting and financial reporting for governmental reporting entities by resolving conflicting guidance contained in GASB 54 and GASB 62. The Agency has not determined its effect on the financial statements.

Governmental Accounting Standard No. 67

The GASB issued Statement 67, *Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25* in June 2012. This statement's objective is to improve financial reporting by state and local governmental pension plans. The Agency has not determined its effect on the financial statements.

Governmental Accounting Standard No. 68

The GASB issued Statement 68, *Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 27* in June 2012. This statement's objective is to improve financial reporting by state and local governmental pension plans. The Agency has not determined its effect on the financial statements.

Governmental Accounting Standard No. 69

In January 2013, the GASB issued Statement 69, *Government Combinations and Disposals of Government Operations*. This statement establishes standards that are to be followed during government mergers, acquisitions and when operations cease or are disposed of. The Agency has not determined its effect on the financial statements.

SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012

15. EXTRAORDINARY ITEMS

During fiscal year 2011-12, the Agency received funds in settlement of a lawsuit resulting from a defendants' contamination of certain water wells rendering them unusable. As of June 30, 2012, the judgment was satisfied in the amount of \$35,000,000 with no remaining amounts due to the Agency. The effected assets were fully depreciated with a net book value of \$0.

During fiscal year 2012-13 and 2011-12, extraordinary costs were primarily the result of the Agency accruing settlement costs that were due to a developer in relation to the lawsuit referenced above. While no amounts have been paid to date, settlement costs were estimated in the amount of \$4,213,973 for fiscal year 2011-12. Additional settlement costs were accrued for fiscal year 2012-13 in the amount of \$416,640. Total accrued settlement costs at June 30, 2013 were estimated at \$4,630,613.

These items are considered extraordinary due to the fact that they arise from lawsuit settlements resulting from events that are "unusual" and "infrequent" in nature.

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SACRAMENTO COUNTY

WATER AGENCY ENTERPRISE FUND

*An Enterprise Fund of the Sacramento County Water Agency,
A Component Unit of the County of Sacramento*

Sacramento, California

Statistical Section

For the Fiscal Years Ended June 30, 2013 and 2012

This part of the Sacramento County Agency Enterprise Fund's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

Contents	Page
Financial Trends <i>These schedules contain trend information to help understand how the Agency's financial performance and well-being have changed over time.</i>	36
Operating Information <i>These schedules contain service and infrastructure data to help understand how the information in the Agency's financial report relates to the services the Agency provides and the activities it performs.</i>	38
Debt Capacity <i>These schedules present information to help assess the affordability of the Agency's current levels of outstanding debt and the agency's ability to issue additional debt in the future.</i>	48
Revenue Capacity <i>These schedules contain information to help assess all of the Agency's revenue sources.</i>	49
Demographic and Economic Information <i>These schedules offer demographic and economic indicators to help understand the environment within which the Agency's financial activities take place.</i>	50

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND
NET POSITION BY COMPONENT
Fiscal Years 2003-04 through 2012-13

	<u>Restated</u> <u>2003-04</u> **	<u>Restated</u> <u>2004-05</u> **	<u>2005-06</u>	<u>Restated</u> <u>2006-07</u> ***	<u>2007-08</u>
Net Investment in capital assets	\$133,628,003	\$172,629,544	\$199,197,215	\$231,461,170	\$271,933,420
Restricted for revenue bond reserve	-	-	-	-	3,195,000
Restricted for debt service	-	-	-	-	-
Restricted for capital construction	-	-	-	-	-
Unrestricted	<u>72,492,887</u>	<u>77,665,127</u>	<u>81,049,107</u>	<u>78,309,716</u>	<u>69,705,653</u>
Total net position	<u>\$206,120,890</u>	<u>\$250,294,671</u>	<u>\$280,246,322</u>	<u>\$309,770,886</u>	<u>\$344,834,073</u>

** During the fiscal year ended June 30, 2006, the Agency discovered that purchased infrastructure from fiscal years ended June 30, 1997 through June 30, 2005, was inadvertently included in the capital contributions and capital assets financial statements line items, which resulted in the duplication in these accounts. As a result of this, certain 2004 and 2005 amounts have been restated.

*** Restated as of June 30, 2007 to reflect the acquisition of water rights from the U.S. Bureau of Reclamation which had been omitted.

Source: Audited Financial Statements for fiscal years 2003-04 through 2012-13.

SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND
NET POSITION BY COMPONENT (Continued)
Fiscal Years 2003-04 through 2012-13

	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
Net Investment in capital assets	\$260,183,106	\$309,670,548	\$358,507,845	\$386,733,111	\$403,083,651
Restricted for revenue bond reserve	25,713,903	25,713,903	25,713,903	25,713,903	25,713,903
Restricted for debt service	929,211	1,012,638	990,387	993,050	986,742
Restricted for capital construction	2,103,306	2,103,306	2,103,306	2,103,306	2,103,306
Unrestricted	<u>74,510,638</u>	<u>51,276,563</u>	<u>33,101,291</u>	<u>58,016,113</u>	<u>55,736,232</u>
Total net position	<u>\$363,440,164</u>	<u>\$389,776,958</u>	<u>\$420,416,732</u>	<u>\$473,559,483</u>	<u>\$487,623,834</u>

** During the fiscal year ended June 30, 2006, the Agency discovered that purchased infrastructure from fiscal years ended June 30, 1997 through June 30, 2005, was inadvertently included in the capital contributions and capital assets financial statements line items, which resulted in the duplication in these accounts. As a result of this, certain 2004 and 2005 amounts have been restated.

*** Restated as of June 30, 2007 to reflect the acquisition of water rights from the U.S. Bureau of Reclamation which had been omitted.

Source: Audited Financial Statements for fiscal years 2003-04 through 2012-13.

SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND
TOTAL ANNUAL REVENUES
Fiscal Years 2003-04 through 2012-13

	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>
Operating revenues:					
Charges for services	\$ 46,004,929	\$ 49,611,528	\$ 19,747,906	\$ 22,283,106	
Water service charges ^^	-	-	-	-	\$ 26,562,373
Development fees ^	-	-	24,365,027	17,125,443	15,678,450
Connection fees ^^	-	-	-	-	453,558
Services to others ^^^	-	-	-	-	-
Other	867,775	1,095,827	923,920	252,339	83,754
Total operating revenues	<u>46,872,704</u>	<u>50,707,355</u>	<u>45,036,853</u>	<u>39,660,888</u>	<u>42,778,135</u>
Non operating revenues:					
Interest income	1,306,457	2,355,259	3,865,836	6,483,646	18,029,671
Intergovernmental	14,543	19,646	7,200	-	96,569
Increase (decrease) in fair value	-	-	-	-	3,060,978
Total non operating revenues	<u>1,321,000</u>	<u>2,374,905</u>	<u>3,873,036</u>	<u>6,483,646</u>	<u>21,187,218</u>
Total revenues	<u>\$ 48,193,704</u>	<u>\$ 53,082,260</u>	<u>\$ 48,909,889</u>	<u>\$ 46,144,534</u>	<u>\$ 63,965,353</u>

[^] Through 2004-05, Development fees were combined with Charges for Services

^{^^} Through 2007-08, Water Service Charges and Connection Fees were combined with Charges for Services

^{^^^} Through 2007-08, Services to Others was reported as a reduction in the operating expenses to which they applied.

Source: Audited Financial Statements for fiscal years 2003-04 through 2012-13.

SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND
TOTAL ANNUAL REVENUES (Continued)
Fiscal Years 2003-04 through 2012-13

	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
Operating revenues:					
Charges for services					
Water service charges ^^	\$ 30,806,859	\$ 35,096,499	\$ 38,402,133	\$ 41,971,767	\$ 43,523,865
Development fees ^	7,889,728	7,424,055	9,768,877	10,403,872	16,171,509
Connection fees ^^	203,706	214,856	177,839	236,305	395,694
Services to others ^^^	2,326,994	1,706,228	2,421,170	2,533,333	2,275,754
Other	608,340	993,588	3,018,486	1,346,335	1,297,489
Total operating revenues	<u>41,835,627</u>	<u>45,435,226</u>	<u>53,788,505</u>	<u>56,491,612</u>	<u>63,664,311</u>
Non operating revenues:					
Interest income	1,490,169	793,556	313,475	1,524,282	1,591,579
Intergovernmental	579,114	429,439	1,441,903	4,667,389	2,724,969
Increase (decrease) in fair value	<u>(2,450,614)</u>	<u>(599,131)</u>	<u>(11,233)</u>	-	-
Total non operating revenues	<u>(381,331)</u>	<u>623,864</u>	<u>1,744,145</u>	<u>6,191,671</u>	<u>4,316,548</u>
Total revenues	<u>\$ 41,454,296</u>	<u>\$ 46,059,090</u>	<u>\$ 55,532,650</u>	<u>\$ 62,683,283</u>	<u>\$ 67,980,859</u>

[^] Through 2004-05, Development fees were combined with Charges for Services

^{^^} Through 2007-08, Water Service Charges and Connection Fees were combined with Charges for Services

^{^^^} Through 2007-08, Services to Others was reported as a reduction in the operating expenses to which they applied.

Source: Audited Financial Statements for fiscal years 2003-04 through 2012-13.

SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND
TOTAL ANNUAL EXPENSES
 Fiscal Years 2003-04 through 2012-13

	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	<u>Restated 2006-07 ***</u>	<u>2007-08</u>
Operating expenses:					
County Labor-Department of Water Resources ^{****}	-	-	-	-	-
Services and supplies	\$13,724,375	\$12,957,088	\$15,880,618	\$17,457,241	\$16,545,826
Other charges ^{****}	-	-	-	-	905,094
Depreciation and amortization	4,285,185	4,561,818	6,236,571	5,640,369	6,716,323
Total operating expenses	<u>18,009,560</u>	<u>17,518,906</u>	<u>22,117,189</u>	<u>23,097,610</u>	<u>24,167,243</u>
Nonoperating expenses:					
Interest expense	2,316,880	2,349,173	2,223,140	2,753,340	17,059,847
Arbitrage rebate	-	-	-	-	2,376,884
Total expenses	<u>\$20,326,440</u>	<u>\$19,868,079</u>	<u>\$24,340,329</u>	<u>\$25,850,950</u>	<u>\$43,603,974</u>

*** Restated as of June 30, 2007 to reflect the acquisition of water rights from the U.S. Bureau of Reclamation which had been omitted.

**** Through 2007-08, County Labor-Department of Water Resources and Other charges combined with Services and supplies

Source: Audited Financial Statements for fiscal years 2003-04 through 2012-13.

SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND
TOTAL ANNUAL EXPENSES (Continued)
Fiscal Years 2003-04 through 2012-13

	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
Operating expenses:					
County Labor-Department of Water Resources ^{****}	-	\$ 6,520,695	\$ 6,542,242	\$ 9,161,954	\$ 9,292,726
Services and supplies	\$ 8,362,894	7,991,660	9,414,700	8,590,372	11,695,106
Other charges ^{****}	2,067,784	1,992,159	1,479,492	1,662,430	1,437,120
Depreciation and amortization	8,418,060	7,015,394	8,949,593	9,605,862	15,692,925
Total operating expenses	<u>18,848,738</u>	<u>23,519,908</u>	<u>26,386,027</u>	<u>29,020,618</u>	<u>38,117,877</u>
Nonoperating expenses:					
Interest expense	2,427,731	472,931	487,934	18,175,355	17,298,896
Arbitrage rebate	(1,047,722)	(1,329,162)	-	-	-
Total expenses	<u>\$20,228,747</u>	<u>\$22,663,677</u>	<u>\$26,873,961</u>	<u>\$47,195,973</u>	<u>\$55,416,773</u>

*** Restated as of June 30, 2007 to reflect the acquisition of water rights from the U.S. Bureau of Reclamation which had been omitted.

**** Through 2007-08, County Labor-Department of Water Resources and Other charges combined with Services and supplies

Source: Audited Financial Statements for fiscal years 2003-04 through 2012-13.

SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND

CHANGES IN NET POSITION

Fiscal Years 2003-04 through 2012-13

	<u>Restated</u> <u>2003-04</u> **	<u>Restated</u> <u>2004-05</u> **	<u>2005-06</u>	<u>Restated</u> <u>2006-07</u> ***	<u>2007-08</u>
Operating Revenues:					
Charges for services	\$ 46,004,929	\$ 49,611,528	\$ 19,747,906	\$ 22,283,106	-
Water service charges ^^	-	-	-	-	\$ 26,562,373
Development fees ^	-	-	24,365,027	17,125,443	15,678,450
Connection fees ^^	-	-	-	-	453,558
Services to others ^^^	-	-	-	-	-
Other	867,775	1,095,827	923,920	252,339	83,754
Total operating revenues	<u>46,872,704</u>	<u>50,707,355</u>	<u>45,036,853</u>	<u>39,660,888</u>	<u>42,778,135</u>
Nonoperating revenues:					
Interest income	1,306,457	2,355,259	3,865,836	6,483,646	18,029,671
Intergovernmental	14,543	19,646	7,200	-	96,569
Increase (decrease) in fair value	-	-	-	-	3,060,978
Other revenues	-	-	-	-	-
Total non-operating revenue	<u>1,321,000</u>	<u>2,374,905</u>	<u>3,873,036</u>	<u>6,483,646</u>	<u>21,187,218</u>
Total revenues	<u>48,193,704</u>	<u>53,082,260</u>	<u>48,909,889</u>	<u>46,144,534</u>	<u>63,965,353</u>
Operating expenses:					
County Labor-Department of Water Resources^^^^	-	-	-	-	-
Services and supplies	13,724,375	12,957,088	15,880,618	17,457,241	16,545,826
Other charges^^^^	-	-	-	-	905,094
Depreciation and Amortization	4,285,185	4,561,818	6,236,571	5,640,369	6,716,323
Total operating expenses	<u>18,009,560</u>	<u>17,518,906</u>	<u>22,117,189</u>	<u>23,097,610</u>	<u>24,167,243</u>
Nonoperating expenses:					
Interest expense	2,316,880	2,349,173	2,223,140	2,753,340	17,059,847
Arbitrage rebate	-	-	-	-	2,376,884
Total non-operating expenses	<u>2,316,880</u>	<u>2,349,173</u>	<u>2,223,140</u>	<u>2,753,340</u>	<u>19,436,731</u>
Total expenses	<u>20,326,440</u>	<u>19,868,079</u>	<u>24,340,329</u>	<u>25,850,950</u>	<u>43,603,974</u>
Net income before transfers / contributions	27,867,264	33,214,181	24,569,560	20,293,584	20,361,379
Capital contributions	16,126,263	10,959,600	5,382,091	9,230,980	14,701,808
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Extraordinary Gain	-	-	-	-	-
Extraordinary Loss	-	-	-	-	-
Change in net position	<u>43,993,527</u>	<u>44,173,781</u>	<u>29,951,651</u>	<u>29,524,564</u>	<u>35,063,187</u>
Net position beginning	162,127,363	206,120,890	250,294,671	280,246,322	309,770,886
Net position ending	<u>\$ 206,120,890</u>	<u>\$ 250,294,671</u>	<u>\$ 280,246,322</u>	<u>\$ 309,770,886</u>	<u>\$ 344,834,073</u>

** During the fiscal year ended June 30, 2006, the Agency discovered that purchased infrastructure from fiscal years ended June 30, 1997 through June 30, 2005, was inadvertently included in the capital contributions and capital assets financial statements line items, which resulted in the duplication in these accounts. As a result of this, certain 2005 amounts have been restated.

*** Restated as of June 30, 2007 to reflect the acquisition of water rights from the U.S. Bureau of Reclamation which had been omitted.

^ Through 2004-05, Development fees were combined with Charges for Services

^^ Through 2007-08, Water Service Charges and Connection Fees were combined with Charges for Services

^^^ Through 2007-08, Services to Others was reported as a reduction in the operating expenses to which they applied.

^^^^ Through 2007-08, County Labor-Department of Water Resources and Other charges combined with Services and supplies

Source: Audited Financial Statements for fiscal years 2003-04 through 2012-13.

SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND
CHANGES IN NET POSITION (Continued)
Fiscal Years 2003-04 through 2012-13

	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
Operating Revenues:					
Charges for services	-	-	-	-	-
Water service charges ^{^^}	\$ 30,806,859	\$ 35,096,499	\$ 38,402,133	\$ 41,971,767	\$ 43,523,865
Development fees [^]	7,889,728	7,424,055	9,768,877	10,403,872	16,171,509
Connection fees ^{^^}	203,706	214,856	177,839	236,305	395,694
Services to others ^{^^^}	2,326,994	1,706,228	2,421,170	2,533,333	2,275,754
Other	608,340	993,588	3,018,486	1,346,335	1,297,489
Total operating revenues	<u>41,835,627</u>	<u>45,435,226</u>	<u>53,788,505</u>	<u>56,491,612</u>	<u>63,664,311</u>
Nonoperating revenues:					
Interest income	1,490,169	793,556	313,475	1,524,282	1,591,579
Intergovernmental	579,114	429,439	1,441,903	4,667,389	2,724,969
Increase (decrease) in fair value	(2,450,614)	(599,131)	(11,233)	-	-
Other revenues	-	-	-	-	-
Total non-operating revenue	<u>(381,331)</u>	<u>623,864</u>	<u>1,744,145</u>	<u>6,191,671</u>	<u>4,316,548</u>
Total revenues	<u>41,454,296</u>	<u>46,059,090</u>	<u>55,532,650</u>	<u>62,683,283</u>	<u>67,980,859</u>
Operating expenses:					
County Labor-Department of Water Resources ^{^^^^}	7,711,292	6,520,695	6,542,242	9,161,954	9,292,726
Services and supplies	8,362,894	7,991,660	9,414,700	8,590,372	11,695,106
Other charges ^{^^^^}	2,067,784	1,992,159	1,479,492	1,662,430	1,437,120
Depreciation and Amortization	8,418,060	7,015,394	8,949,593	9,605,862	15,692,925
Total operating expenses	<u>26,560,030</u>	<u>23,519,908</u>	<u>26,386,027</u>	<u>29,020,618</u>	<u>38,117,877</u>
Nonoperating expenses:					
Interest expense	2,427,731	472,931	487,934	18,175,355	17,298,896
Arbitrage rebate	(1,047,722)	(1,329,162)	-	-	-
Total non-operating expenses	<u>1,380,009</u>	<u>(856,231)</u>	<u>487,934</u>	<u>18,175,355</u>	<u>17,298,896</u>
Total expenses	<u>27,940,039</u>	<u>22,663,677</u>	<u>26,873,961</u>	<u>47,195,973</u>	<u>55,416,773</u>
Net income before transfers / contributions	13,514,257	23,395,413	28,658,689	15,487,310	12,564,086
Capital contributions	5,091,834	2,850,077	1,502,292	1,478,695	1,916,905
Transfers in	-	631,037	1,169,658	5,446,469	-
Transfers out	-	(539,733)	(690,865)	-	-
Extraordinary Gain	-	-	-	35,000,000	-
Extraordinary Loss	-	-	-	(4,269,723)	(416,640)
Change in net position	<u>18,606,091</u>	<u>26,336,794</u>	<u>30,639,774</u>	<u>53,142,751</u>	<u>14,064,351</u>
Net position beginning	<u>344,834,073</u>	<u>363,440,164</u>	<u>389,776,958</u>	<u>420,416,732</u>	<u>473,559,483</u>
Net position ending	<u>\$ 363,440,164</u>	<u>\$ 389,776,958</u>	<u>\$ 420,416,732</u>	<u>\$ 473,559,483</u>	<u>\$ 487,623,834</u>

** During the fiscal year ended June 30, 2006, the Agency discovered that purchased infrastructure from fiscal years ended June 30, 1997 through June 30, 2005, was inadvertently included in the capital contributions and capital assets financial statements line items, which resulted in the duplication in these accounts. As a result of this, certain 2005 amounts have been restated.

*** Restated as of June 30, 2007 to reflect the acquisition of water rights from the U.S. Bureau of Reclamation which had been omitted.

[^] Through 2004-05, Development fees were combined with Charges for Services

^{^^} Through 2007-08, Water Service Charges and Connection Fees were combined with Charges for Services

^{^^^} Through 2007-08, Services to Others was reported as a reduction in the operating expenses to which they applied.

^{^^^^} Through 2007-08, County Labor-Department of Water Resources and Other charges combined with Services and supplies

Source: Audited Financial Statements for fiscal years 2003-04 through 2012-13.

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**SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND
CONNECTIONS AND MONTHLY WATER RATES
Fiscal Years 2003-04 through 2012-13**

2003-04 2004-05 2005-06 2006-07 2007-08 2008-09 2009-10 2010-11 2011-12 2012-13

CONNECTIONS

Number of connections:	36,890	41,451	45,261	46,558	47,760	48,438	49,069	49,580	50,138	50,813
Annual Percent Increase:		12.4%	9.2%	2.9%	2.6%	1.4%	1.3%	1.0%	1.1%	1.3%

**MONTHLY WATER RATE
TYPICAL SINGLE FAMILY CONNECTION**

Zone 40 Monthly water rate: capital program component)	\$ 7.00	\$ 7.70	\$ 8.47	\$ 8.47	\$ 12.47	\$ 16.47	\$ 21.17	\$ 23.97	\$ 25.80	\$ 25.80
Zone 41 Monthly water rate: (operations component)	\$ 18.44	\$ 19.18	\$ 20.33	\$ 20.33	\$ 23.33	\$ 26.33	\$ 29.62	\$ 33.32	\$ 36.99	\$ 36.99
Total **	<u>\$ 25.44</u>	<u>\$ 26.88</u>	<u>\$ 28.80</u>	<u>\$ 28.80</u>	<u>\$ 35.80</u>	<u>\$ 42.80</u>	<u>\$ 50.79</u>	<u>\$ 57.29</u>	<u>\$ 62.79</u>	<u>\$ 62.79</u>

** Most, but not all customers pay both the Zone 40 and Zone 41 components.

Note: Through June 30, 2008 the Sacramento County Water Agency Enterprise Fund had no employees. The staff of Sacramento County Department of Water Resources acted ex-officio as staff of the Water Agency per the Sacramento County Water Agency Act.

Restriction on Ability to Raise Rates:

Rate increases for water service are subject to the provisions of Article XIIID Section 6(a) and (b) of the California Constitution, also known as Proposition 218. This section requires: 1) Individual mailed notification of proposed rate increases to all affected parcel owners; 2) a noticed public hearing; and 3) a process whereby written protests from a majority of affected parcel owners will prevent the increase. Lacking the majority protest, the appropriate governing Board may approve the increase.

Source: Sacramento County Water Agency

SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND
TOP INDUSTRIAL AND PUBLIC SECTOR USERS
Largest Industrial and Public Sector Customers of the Agency
Fiscal Years 2003-04 through 2012-13

	2012-13		2011-12		2010-11		2009-10		2008-09	
	Annual Water Use		Annual Water Use		Annual Water Use		Annual Water Use		Annual Water Use	
	(AF) *	% of Total	(AF) *	% of Total	(AF) *	% of Total	(AF) *	% of Total	(AF) *	% of Total
Elk Grove Community Services District	688	1.6%					444	1.1%	685	1.7%
Elk Grove Unified School District	435	1.0%	409	0.9%	532	1.4%				
Total Consumnes Community Services District	315	0.7%	904	2.1%	1,660	4.3%	1,510	3.8%	1,821	4.5%
Sacramento Regional County Sanitation District	271	0.6%	279	0.6%	258	0.7%	212	0.5%	240	0.6%
United States of America	173	0.4%	214	0.5%	306	0.8%	290	0.7%	360	0.9%
City of Elk Grove	165	0.4%	65	0.1%	254	0.7%	193	0.5%	220	0.5%
Aramark Uniform Services Inc.	139	0.3%	128	0.3%	130	0.3%	118	0.3%	109	0.3%
Cordova Recreation/Park District	104	0.2%	91	0.2%	154	0.4%	116	0.3%		
County of Sacramento	86	0.2%	168	0.4%	171	0.4%	193	0.5%	175	0.4%
Southgate Recreation / Park District	70	0.2%			232	0.6%	215	0.5%	243	0.6%
Cintas Sales Corporation			82	0.2%						
Donahue Schriber Realty Grp LP (Wells Fargo)			78	0.2%	148	0.4%	166	0.4%	192	0.5%
North Market Center LLP									116	0.3%
PSBP North Pointe LLC										
Pappas Laguna LP										
Lakeside Community Owners' Association										
DFT Properties										
North Market Center LP										
JB Management LP										
G.D. Development Co. LLC										
Price Company										
Top Ten Industrial Water Users	2,446	5.6%	2,418	5.5%	3,845	10.0%	3,457	8.6%	4,161	10.3%
Total Water Use	43,178	100.0%	43,505	100.0%	38,781	100.0%	39,428	100.0%	40,605	100.0%

* AF - Acre Feet

Source: Sacramento County Water Agency

SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND
TOP INDUSTRIAL AND PUBLIC SECTOR USERS (Continued)
Largest Industrial and Public Sector Customers of the Agency
Fiscal Years 2003-04 through 2012-13

	2007-08		2006-07		2005-06		2004-05		2003-04	
	Annual Water Use		Annual Water Use		Annual Water Use		Annual Water Use		Annual Water Use	
	(AF) *	% of Total	(AF) *	% of Total	(AF) *	% of Total	(AF) *	% of Total	(AF) *	% of Total
Elk Grove Community Services District	658	1.7%	1,812	4.5%	1,226	3.0%	996	3.0%	864	2.7%
Elk Grove Unified School District			531	1.3%	366	0.9%	292	0.9%	373	1.1%
Total Consumnes Community Services District	1,642	4.0%								
Sacramento Regional County Sanitation District	253	0.7%	256	0.6%	232	0.6%	198	0.6%	153	0.5%
United States of America	366	0.9%	332	0.8%	274	0.7%			305	0.9%
City of Elk Grove	121	0.3%								
Aramark Uniform Services Inc.	111	0.3%	218	0.5%	118	0.3%	145	0.4%	179	0.6%
Cordova Recreation/Park District					67	0.2%			70	0.2%
County of Sacramento	135	0.3%	129	0.3%	106	0.3%				
Southgate Recreation / Park District	255	0.7%	207	0.5%	159	0.4%			108	0.3%
Cintas Sales Corporation										
Donahue Schriber Realty Grp LP (Wells Fargo)	213	0.5%	227	0.6%	205	0.5%			57	0.2%
North Market Center LLP	161	0.4%	170	0.4%						
PSBP North Pointe LLC			132	0.3%						
Pappas Laguna LP					70	0.2%	76	0.2%	76	0.2%
Lakeside Community Owners' Association							50	0.1%		
DFT Properties							44	0.1%		
North Market Center LP							40	0.1%		
JB Management LP							31	0.1%		
G.D. Development Co. LLC							29	0.1%		
Price Company									56	0.2%
Top Ten Industrial Water Users	3,915	9.8%	4,014	9.8%	2,823	7.1%	1,901	5.6%	2,241	6.9%
Total Water Use	41,401	100.0%	40,719	100.0%	41,532	100.0%	33,748	100.0%	32,455	100.0%

* AF - Acre Feet

Source: Sacramento County Water Agency

SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND
RATIOS OF OUTSTANDING DEBT
Fiscal Years 2003-04 through 2012-13

Fiscal Year	Revenue Bonds	Installment Loans and Agreements	Total Outstanding Debt	Number of Service Connections	Total Debt Service / Connection
2003-04	50,795,000	4,627,312	55,422,312	36,890	1,502
2004-05	49,885,000	3,934,326	53,819,326	41,451	1,298
2005-06	48,960,000	1,995,370	50,955,370	45,261	1,126
2006-07	419,695,000	5,705,305	425,400,305	46,558	9,137
2007-08	418,730,000	4,653,122	423,383,122	47,760	8,865
2008-09	417,740,000	14,615,500	432,355,500	48,438	8,926
2009-10	410,765,000	16,219,700	426,984,700	49,069	8,702
2010-11	403,475,000	16,571,758	420,046,758	49,580	8,472
2011-12	395,870,000	16,068,236	411,938,236	50,138	8,216
2012-13	387,960,000	13,458,354	401,418,354	50,813	7,900

** Personal Income Information Not Available until April 2013

**SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND
PLEGGED REVENUE STREAM**

Fiscal Years 2003-04 through 2012-13
(Amounts expressed in thousands)

	Adjusted Annual Revenues	Maintenance and Operation Costs *	Adjusted Annual Net Revenues	Debt Service Requirements			Coverage
				Principal	Interest	Total	
2000-01	\$ 24,207	\$ 7,436	\$ 16,771	\$ -	\$ -	\$ -	-
2001-02	27,336	10,324	17,012	-	-	-	-
2002-03	36,758	10,382	26,376	-	-	-	-
2003-04	45,423	13,995	31,428	-	2,118	2,118	14.84
2004-05	45,068	13,122	31,946	910	2,184	3,094	10.33
2005-06	40,316	16,027	24,289	925	2,166	3,091	7.86
2006-07	41,467	17,359	24,108	945	1,195	2,140	11.27
2007-08	41,062	17,595	23,467	965	3,263	4,228	5.55
2008-09	40,712	18,560	22,152	990	9,434	10,424	2.13
2009-10	47,293	16,835	30,458	6,975	17,393	24,368	1.25
2010-11	54,039	17,815	36,224	7,290	17,133	24,423	1.48
2011-12	56,711	19,932	36,779	7,605	16,801	24,406	1.51
2012-13	64,065	23,030	41,035	7,910	16,620	24,530	1.67

* Maintenance and operation costs are exclusive of depreciation and amortization.

Adjusted annual revenues are the result of all operating and non-operating revenues as well as any deposits from / repayments to the rate stabilization fund.

Pledge revenues represent charges for services including impact fees and commercial and residential customer accounts.

Source: Agency Enterprise Fund's Audited Financial Statements.

**SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND
DEMOGRAPHIC AND ECONOMIC STATISTICS**

Fiscal Years 2003-04 through 2012-13
(amounts expressed in thousands)

<u>Fiscal Year</u>	<u>Population</u>	<u>Personal Income *</u>	<u>Per Capita Personal Income *</u>	<u>School Enrollment</u>	<u>Unemployment Rate (%)</u>
2004*	1,329	42,564,972	32,039	235	5.9
2005*	1,349	45,282,367	33,569	238	5.6
2006*	1,361	47,563,421	34,952	239	5.0
2007*	1,370	50,165,916	36,629	238	4.8
2008*	1,381	52,572,684	38,064	238	5.4
2009*	1,394	54,078,812	38,782	238	7.2
2010*	1,409	52,150,896	37,023	238	11.3
2011*	1,422	52,811,960	37,137	238	12.7
2012	1,436	54,861,602	38,202	237	12.1
2013	N/A**	N/A**	N/A**	238	10.6

** Not Available until April 2013

Source: California State Department of Finance; Bureau of Economic Analysis, Sacramento County Office of Education, and California State Employment Development Department.

SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND
PRINCIPAL EMPLOYERS
 Fiscal Years 2012-13 and 2003-04

<u>Employer</u>	<u>June 30, 2013</u>			<u>June 30, 2004</u>		
	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total County Employment</u>	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total County Employment</u>
	(b)			(c)		
1 Kaiser Permanente	10,140	1	1.67%	7,694	1	1.24%
2 Sutter / California Health Services	9,112	2	1.50%	6,405	4	1.04%
3 Raley's Inc./ Bel Air	7,283	3	1.20%	6,632	3	1.07%
4 CHW / Mercy Health Care	7,054	4	1.16%	6,002	5	0.97%
5 Intel Corporation	6,500	5	1.07%	7,000	2	1.13%
6 Hewlett-Packard	3,200	6	0.53%	4,500	7	0.73%
7 Wells Fargo & Co.	3,188	7	0.52%			
8 Health Net of California	2,552	8	0.42%	2000	10	0.32%
9 Cache Creek Casino Resort	2,400	9	0.39%			
10 Pacific Gas & Electric Co.	2,247	10	0.37%			
11 SBC Communications (a)				5,180	6	0.84%
12 Wal-Mart				3,220	8	0.52%
13 EDS				2,870	9	0.46%
Totals	<u>53,676</u>		<u>8.83%</u>	<u>51,503</u>		<u>8.32%</u>

- (a) SBC Communications merged with AT&T in November 2005.
 (b) Source: Sacramento Business Journal Annual Book of Lists
 (c) Source: Sacramento Area Commerce and Trade Organization

SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND
CAPITAL ASSET STATISTICS BY FUNCTION
 Fiscal Years 2003-04 through 2012-13

	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
Water mains (miles)	566	631	651	659	718	743	753	761	766	776
Storage Capacity (thousands of gallons)	20,400	27,900	31,400	34,400	39,400	39,400	39,400	39,400	39,400	61,900

Source: Sacramento County Department of Water Resources

SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND

SCHEDULE OF INFORMATION FOR CALIFORNIA SENATE BILL 1760

For the Fiscal Year Ended June 30, 2013

During 1998-99, the California Senate adopted Bill No. 1760, which requires the Agency to present the following information regarding its operations:

Description of capacity charges:

The Agency receives capacity charges from developers. The charges are development impact fees which provide funds for the planning, design and construction of safe and reliable water supply infrastructure which includes water wells, water treatment plants and transmission mains.

Description of public improvement projects:

The Agency is involved in various on-going capital improvement projects that have been discussed in depth in the Introductory Section of this report. These projects include water wells, water treatment plants and transmission mains, as well as participation in the development of a new regional water supply facility known as the Freeport Regional Water Project. There were no inter-fund loans between the Agency and other County funds or agencies, which involved capacity charges. During 2012-13, capital costs of \$10,942,083 were funded out of capacity charges, interest earnings, other revenues and fund equity. \$0 was spent on capital costs funded from bond proceeds.

A list of projects constructed using capacity charges is available upon request.

Financial Information:

Net cash provided from capacity charges - Beginning of Year	\$	17,563,182
Net cash provided from capacity charges - End of Year		24,844,505
Interest revenues on capacity charges		480,216
Capacity charges collected during the year		8,848,005

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SACRAMENTO COUNTY
WATER AGENCY ENTERPRISE FUND

*An Enterprise Fund of the Sacramento County Water Agency,
A Component Unit of the County of Sacramento*

Sacramento, California

Bond Disclosure Section

For the Fiscal Years Ended June 30, 2009 Through 2013

**ANNUAL REPORT FOR THE SACRAMENTO COUNTY
WATER AGENCY ENTERPRISE FUND**
For the Fiscal Years Ended June 30, 2009 through 2013

On April 8, 2003, the Agency entered into a Joint Exercise of Powers Agreement with Sacramento County to form the Sacramento County Water Agency Financing Authority (the Authority) for the purpose of facilitating the financing of acquisition and/or construction of real and personal property in and for the Agency. The Board of Directors of the Agency serves as the Authority's governing board. For financial reporting purposes, the Master Installment Purchase Contract between the Agency and the Authority has been eliminated.

The Authority is not a blended component unit of the Agency Enterprise Fund but it is a blended component unit of the Sacramento County Water Agency. However, all balances and transactions of the Authority are presented as part of the Agency Enterprise Fund's financial statements.

This section is provided in accordance with the requirements of the "Continuing Disclosure Certificate (the Certificate) for the Sacramento County Water Financing Authority Revenue Bonds Series 2003, Series 2007A and Series 2007B." The material provided under the Certificate is intended to meet or exceed the requirements of Securities and Exchange Commission Rule 15c2-12(b)(5) (the Rule). The data tables provided herein apply to both the 2003 and 2007 issues. On June 1, 2013, the final 2003 bond payment was made.

This Bond Disclosure Section included within the Agency's Comprehensive Annual Financial Report (CAFR) provides the information required by the Continuing Disclosure Certificate. The CAFR, in turn, will be filed with each National Repository specified in the Rule, and with any other repository that shall be identified in the future.

ANNUAL REPORT

As required by the Certificate, this annual report is incorporated into the CAFR and thus, includes by reference, the audited financial statements of the Agency for the prior fiscal year.

The annual report also contains the following five (5) sections as required in the Certificate:

- (1) Approximate number of connections to which the Agency delivered water
- (2) Zone 40 Monthly Service Fee generally imposed on customers
- (3) Zone 41 Monthly Service Fee generally imposed on customers
- (4) Zone 40 Impact Fees
- (5) Information contained in "Summary of Projected Operating Results" table on page 25 of the 2003 Bonds Official Statement

REPORTING OF SIGNIFICANT EVENTS

As of July 1, 2009, Ambac, the bond insurer for the Sacramento County Water Financing Authority Revenue Bonds Series 2003, ratings were downgraded to Ba3 by Moody's and BBB by Standard and Poor's, and Fitch had withdrawn its rating. During Fiscal Year 2009-10, Ambac's ratings were further downgraded to Caa2 by Moody's and Standard and Poor's had withdrawn its rating. At the end of Fiscal Year 2012-13 Moody's had also withdrawn its ratings. The Series 2003 Revenue Bonds now carry the Agency's underlying ratings of Aa3 (Moody's) and A+ (Standard and Poor's).

As of July 1, 2009, the original bond insurer for the Sacramento County Water Financing Authority Revenue Bonds Series 2007, Financial Guaranty Insurance Company (FGIC), had this transaction "reinsured" by MBIA Insurance Corporation, which is now National Public Finance Guarantee Corporation, and was rated Baa1 by Moody's and A by Standard and Poor's. On December 19, 2011, Moody's downgraded National Public Finance Guarantee Corporation to Baa2, and on May 21, 2013, Moody's upgraded the rating back to Baa1. At the end of Fiscal Year 2012-13 these ratings had not changed. The Series 2007 Revenue Bonds now carry the Agency's underlying ratings of Aa3 (Moody's) and A+ (Standard and Poor's).

**ANNUAL REPORT FOR THE SACRAMENTO COUNTY
WATER AGENCY ENTERPRISE FUND**
For the Fiscal Years Ended June 30, 2009 through 2013

REPORTING OF SIGNIFICANT EVENTS (Continued)

The above insurer downgrades were disclosed as material events when the downgrades were announced. No additional significant events, as identified in Section 5 of the Certificates, have occurred during the fiscal year ended June 30, 2013.

As of June 30, 2013, there is no knowledge on the part of the Board of Directors, officers, or employees of Sacramento County Agency of any impending significant event that would require disclosure under the provisions of the Certificate.

ADDITIONAL INFORMATION

The Certificate requires that the following information be updated annually:

Section 3(b)(i) A table indicating the number of connections to which the Agency delivered water.

Fiscal Year:	2008-09	2009-10	2010-11	2011-12	2012-13
Number of connections:	48,438	49,069	49,580	50,138	50,813
Annual Percent Increase:	1.4%	1.3%	1.0%	1.1%	1.3%

Section 3(b)(ii) Zone 40 Monthly Service Fee generally imposed on customers.

Fiscal Year:	2008-09	2009-10	2010-11	2011-12	2012-13
Monthly Rate:	\$ 21.17	\$ 23.97	\$ 25.80	\$ 25.80	\$ 25.80

Section 3(b)(iii) Zone 41 Monthly Service Fee generally imposed on customers.

Fiscal Year:	2008-09	2009-10	2010-11	2011-12	2012-13
Monthly Rate:	\$ 26.33	\$ 29.62	\$ 33.32	\$ 36.99	\$ 36.99

Section 3(b)(iv) Zone 40 Impact Fees

Effective Date (Month-Yr)	Mar-09	Mar-10	Mar-11	Mar-12	Mar-13
Development Fee (per EDU) (Domestic, Commercial, Other Service)	\$ 13,166	\$ 13,166	\$ 13,166	\$ 13,166	\$ 13,447
Annual increase	6%	0%	0%	0%	2%
Commercial Service (per acre)	\$ 8,033	\$ 8,033	\$ 8,033	\$ 8,033	\$ 8,205
Annual increase	6%	0%	0%	0%	2%
Other Service (per acre)	\$ 1,557	\$ 1,557	\$ 1,557	\$ 1,557	\$ 1,590
Annual increase	5%	0%	0%	0%	2%

**ANNUAL REPORT FOR THE SACRAMENTO COUNTY
WATER AGENCY ENTERPRISE FUND**
For the Fiscal Years Ended June 30, 2009 through 2013

ADDITIONAL INFORMATION (Continued)

Zone 50 Impact Fees (implemented December 2005)

Effective Date (Month-Yr)	Mar-09	Mar-10	Mar-11	Mar-12	Mar-13
Development Fee (per EDU) (Domestic, Commercial, Other Service)	\$ 236	\$ 236	\$ 236	\$ 236	\$ 241
Annual increase	6%	0%	0%	0%	2%
Commercial (per acre)	\$ 3,403	\$ 3,403	\$ 3,403	\$ 3,403	\$ 3,476
Annual increase	6%	0%	0%	0%	2%
Other Service (per acre)	\$ 3,403	\$ 3,403	\$ 3,403	\$ 3,403	\$ 3,476
Annual increase	6%	0%	0%	0%	2%

**ANNUAL REPORT FOR THE SACRAMENTO COUNTY
WATER AGENCY ENTERPRISE FUND**
For the Fiscal Years Ended June 30, 2011 through 2013

Section 3(b)(v) A table showing the Revenues, Maintenance and Operation Costs, Net Revenues (as these three terms are defined in the Installment Purchase Contract), and Reserve Balances of the Agency.

Revenues, Maintenance and Operations Costs, Net Revenue and Certain Fund Balances of the Agency for the Fiscal Years Ended June 30
(Amounts expressed in thousands)

	2010-11	2011-12	2012-13
Revenues:			
Operating Revenues			
Water Service Charges	38,402	41,972	43,524
Charges for Services	2,421	2,533	2,276
Development Fees	9,769	10,404	16,171
Connection Fees	178	236	396
Other	3,018	1,304	1,297
Total Net Operating Revenues	<u>53,788</u>	<u>56,449</u>	<u>63,664</u>
Nonoperating Revenues			
Total Interest Income	1,538	1,524	1,591
Less: Interest Earnings on Reserves	<u>(1,287)</u>	<u>(1,304)</u>	<u>(1,191)</u>
Net Interest Income	251	220	400
Inter governmental revenue	-	42	-
Total nonoperating revenues	<u>251</u>	<u>262</u>	<u>400</u>
TOTAL REVENUES	<u>54,039</u>	<u>56,711</u>	<u>64,064</u>
Deposit from rate stabilization fund	-	-	-
ADJUSTED ANNUAL REVENUES (1)	<u>54,039</u>	<u>56,711</u>	<u>64,065</u>
Maintenance & Operating Expenses	17,815	19,932	23,061
NET REVENUES (1)	<u>36,224</u>	<u>36,779</u>	<u>41,004</u>
Impact Fee Credits	<u>(3,798)</u>	<u>(3,648)</u>	<u>(7,118)</u>
Net Revenue Less Impact Fee Credits	<u>32,426</u>	<u>33,131</u>	<u>33,886</u>
Debt Service			
Debt Service on 2003 Bonds	1,189	1,186	1,182
Debt Service on 2007 Bonds	24,521	24,524	24,539
Less Int Earnings on Reserve	<u>(1,287)</u>	<u>(1,304)</u>	<u>(1,191)</u>
Adjusted Annual Debt Service	<u>24,423</u>	<u>24,406</u>	<u>24,530</u>
DEBT SERVICE COVERAGE (1)	1.48	1.51	1.67
Debt Svc Coverage Net Impact Fee Credits	1.33	1.36	1.38
Pay-as-you-go capital	30,849	17,234	10,755
Net cash flow of year's operations	<u>\$ (22,846)</u>	<u>\$ (8,509)</u>	<u>\$ (1,399)</u>
Reserves End of Year	<u>36,195</u>	<u>61,112</u>	<u>58,826</u>
Bond Reserve Account End of Year	<u>25,713</u>	<u>25,713</u>	<u>25,713</u>

(1) Calculated in accordance with the Master Installment Purchase Contract

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ACKNOWLEDGEMENTS

This Comprehensive Annual Financial Report was prepared by the Sacramento County Department of Water Resources Finance and Administrative Division

Robert B. Leonard

Chief Deputy County Executive
Municipal Services Department Assignments

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Department of Water Resources

Susan R. Purdin, CPA

Chief Financial and Administrative Officer
Department of Water Resources

Bill Konigsmark

Accounting Manager
Department of Water Resources

ABOUT THE COVER

The Sacramento County Water Agency (SCWA) provides safe and reliable drinking water to over 50,000 homes and businesses within its service area.

The Freeport Regional Water Project (FRWP) is the largest project ever undertaken by SCWA. The Freeport Project provides SCWA with up to 85 million gallons per day of surface water for its drinking water customers. This water is pumped from the FRWP water intake facility (on the cover) and piped to and treated at the Vineyard Surface Water Treatment Plant (above)—a critical companion project to the Freeport Project.

As depicted in the front and back covers of the CAFR, SCWA employees exhibit a wide range of skills including equipment repair, infrastructure assembly, water sampling and maintenance of components such as fish screens. Water facilities and infrastructure range from underground piping to sophisticated intake structures, massive treatment facilities and water storage structures.

From our field crews to customer service staff and management team, each member of Sacramento County Water Agency is committed to providing high quality drinking water to our customers.

For more information, please visit www.SCWA.net.



Sacramento County
Water Agency
Enterprise Fund

An Enterprise Fund of the Sacramento County Water Agency
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