

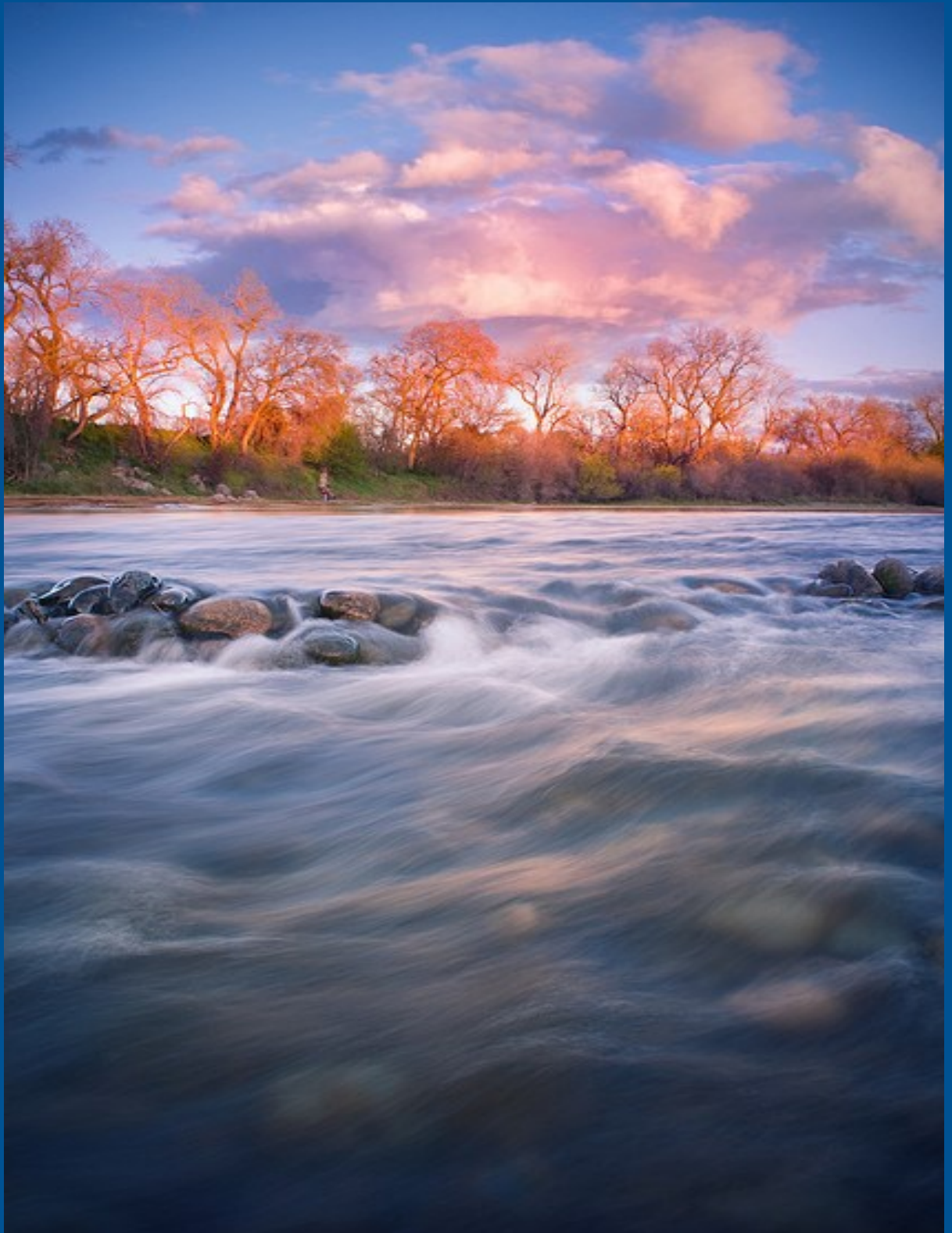


FAIR OAKS
WATER DISTRICT

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2015

FAIR OAKS WATER DISTRICT — Fair Oaks, California





**FAIR OAKS
WATER DISTRICT**

Fair Oaks, California

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

**YEAR ENDED
DECEMBER 31, 2015**

*Prepared By
Finance Department*

(This page intentionally left blank.)

FAIR OAKS WATER DISTRICT
COMPREHENSIVE ANNUAL FINANCIAL REPORT

December 31, 2015

TABLE OF CONTENTS

INTRODUCTORY SECTION

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

FINANCIAL SECTION

| | |
|--|---|
| Independent Auditor's Report | 1 |
| Management's Discussion and Analysis | 4 |

Basic Financial Statements

| | |
|--|----|
| Statements of Net Position | 14 |
| Statements of Revenues, Expenses and Changes in Net Position | 15 |
| Statements of Cash Flows | 16 |
| Notes to the Basic Financial Statements | 18 |

Required Supplemental Information

| | |
|--|----|
| Schedule of the Proportionate Share of the Net Pension Liability – Miscellaneous Plan (Unaudited) | 38 |
| Schedule of Contributions to the Pension Plan–Miscellaneous Plan (Unaudited)..... | 38 |

STATISTICAL SECTION

| | |
|---|----|
| Description of Statistical Section..... | 39 |
|---|----|

Financial Trends

| | |
|---|----|
| Schedule of Net Position by Component | 40 |
| Schedule of Changes in Net Position..... | 41 |

Revenue Capacity

| | |
|---------------------------------------|----|
| Water Sales by Type of Customers..... | 42 |
| Principal Rate Payers | 43 |

FAIR OAKS WATER DISTRICT
COMPREHENSIVE ANNUAL FINANCIAL REPORT

December 31, 2015

TABLE OF CONTENTS
(Continued)

Debt Capacity

| | |
|--|----|
| Ratios of Outstanding Debt by Type and Number of Connections | 44 |
| Schedule of Debt Service..... | 45 |

Demographic and Economic Information

| | |
|---|----|
| Demographic and Economic Statistics | 46 |
| Top Ten Employers..... | 47 |

Operating Information

| | |
|-----------------------------|----|
| Operating Information | 48 |
|-----------------------------|----|

COMPLIANCE REPORT

| | |
|---|----|
| Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 49 |
|---|----|



INTRODUCTORY SECTION



May 25, 2016

The Board of Directors
Fair Oaks Water District

The Fair Oaks Water District (“District”) hereby submits the Comprehensive Annual Financial Report (CAFR) for the year ended December 31, 2015. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with management. To the best of our knowledge and belief, the enclosed data is accurate in all material aspects and is reported in a manner designed to fairly present the financial positions and results of operations of the District. All disclosures necessary to enable the reader to gain an understanding of the District’s financial activities have been included.

The Comprehensive Annual Financial Report includes the management discussion and analysis which should be read in conjunction with the transmittal letter. The District’s management discussion and analysis can be found immediately following the independent auditor’s report.

This report includes all funds, agencies, boards, commissions, and authorities that are financially accountable to the District’s Board of Directors. Financial accountability was determined on the basis of budget adoption, imposition of will, funding, and appointment of governing board. Based upon these criteria, the Fair Oaks Water District Financing Corporation (the Financing Corporation) is considered a component unit of the District. The Financing Corporation provides specific financial benefits or imposes specific financial burdens on the District in regards to proceeds from certificates of participation used for capital outlay.

District History and Service Description

Fair Oaks Water District was originally formed as the Fair Oaks Irrigation District in 1917. By 1979, residential development in the community had replaced all significant agricultural land; therefore, the board of directors passed a resolution declaring “irrigation district” no longer described the District’s actual functions and changed the name to Fair Oaks Water District. Even with the name change, the District is legally structured as an irrigation district operating under the California Water Code, Division 11.

The District is a retail water agency supplying water to a population of approximately 36,200 people on approximately 6,240 acres in Fair Oaks and a small portion of Orangevale. The District purchases a majority of its water from San Juan Water District (“San Juan”) as treated water, and delivers it to approximately 13,894 residential and commercial service

connections. Additionally, the District maintains six groundwater wells, 180 miles of pipeline, and a three million gallon water storage facility and a booster station.

Mission Statement

“Our mission is to provide our community with an adequate and reliable supply of water, exceeding all drinking water standards, at the lowest reasonable cost.”

Economic Condition and Outlook

Fair Oaks is primarily a residential bedroom community, with some commercial enterprises within its boundaries, located in the eastern portion of Sacramento County in Northern California. The District area is almost built out; therefore, the District does not depend upon new growth to maintain revenue. Based on historic data, the District is forecasting a slow but steady revenue increase based on 10 new service connections per year from the demand for semi-custom housing in the Fair Oaks area.

The District developed a proposed rate structure in the Board approved *2012-2016 Five-Year Financial and Water Rate Development Plan*. The District anticipates that annual revenues collected will decline slightly.

Due to the dry year conditions, the District’s commodity revenues decreased by 18% in 2015 due to the conservation efforts and requirements of the Conservation Stage adopted by District Board of Directors; while groundwater pumping costs decreased by 29%. The District expects the water consumption to continue to be less than historical baseline demand in 2016.

The District continues the practice of establishing and maintaining funds to offset expected and unexpected significant expense fluctuations encountered year to year.

The Fair Oaks Water District and its wholesale water supplier continue to encounter changes in operations due to new regulations. The impact of current and future regulations, and the resulting cost on water supply operations, are an ongoing challenge for District management. The District anticipates 13% rate increase from its wholesale water supplier in 2016. The District used the best available data at the time of its budget preparation to forecast the impact of the regulatory environment on operational costs on the 2016 budget as adopted on December 14, 2015.

Significant Projects and Future Plans

Water Supplies

Dry-year and emergency water supply are critical to the District’s ability to meet customer water demand under all conditions. In our continuing effort to secure reliable back-up water supply, the District drilled the Madison Well in 2014. The District anticipates completing the equipping of the Madison Well in 2016 for a cost of \$1,100,000.

Infrastructure and Water Delivery

The District continues to repair and replace aging infrastructure throughout its system. The District completed the Fair Oaks Boulevard main replacement, the Kentucky Lane main replacement, and the Main Avenue main replacement in 2015. Additional projects scheduled for 2016 include:

| PROJECT DESCRIPTION | ESTIMATED COSTS |
|---|-----------------|
| County Hazel Ave. Improvement Project Phase I (12-inch DIP) | \$ 1,100,000 |
| Replacement of 12-inch Steel Main on Fair Oaks Blvd. (from Orange Ave. to school property). | \$ 100,000 |
| Service Replacement on Quail Road | \$ 50,000 |
| Portion of 24-inch in FOB and El Capitan | \$ 100,000 |

Meters

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

Cash Flow

One of the tasks for finance and administration is to monitor the future cash flow of the District and to ensure that the District is financially sound. The *2012-2016 Five-Year Financial and Water Rate Development Plan* was developed as a near-term plan for District revenues.

Water Conservation

Water conservation is an integral component of the District's operations. The District's water conservation program was developed to meet local, state, and federal guidelines such as those outlined by the: California Urban Water Conservation Council (CUWCC), Water Forum Agreement, and the U.S. Bureau Reclamation Central Valley Project Improvement Act. The District's objective is to implement water conservation best management practices (BMPs) in an efficient, cost effective and positive manner.

The District has developed the following proactive water efficiency outreach programs:

- Water-wise house calls; onsite water efficiency reviews that provide information on efficient water application at the specific property.
- The District toilet incentive rebate program; offered in partnership with the Sacramento Regional County Sanitation District and Regional Water Authority.
- Water survey program for single family and multi-family residential customers.
- The water conservation school poster contest. This program reaches out to grades 4 through 6 within the District, stressing an annual water conservation theme.
- Public outreach through community events such as: Sacramento Convention Center Landscape Exposition, Home and Garden Shows, Fair Oaks Spring Fest, Get W.E.T. sponsored in part with the US Bureau of Reclamation, Fair Oaks Harvest Day and annual Department of Fish and Game events.
- Public information through full participation by the Fair Oaks Water District in the Regional Water Authority's (RWA's) Water Efficiency Program (WEP).
- School education program through full participation by Fair Oaks Water District in the RWA Water Efficiency Program.
- Water waste prohibition education and enforcement.
- An aggressive water education program.

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

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

Regional Planning

In early 1998, the District, along with other water utilities, initiated an effort to study and evaluate projects and programs for using surface water and groundwater resources better, particularly during supply shortages. This conjunctive use effort continues today, and generally calls for the use of surface water from lakes and rivers in wet periods, while storing underground water supplies for later use, when surface waters are needed for environmental purposes. Participating members are motivated to plan for and meet the greater Sacramento areas' water needs through the year 2030, especially in drought years.

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

Financial Information

Internal Control

Management is responsible for establishing and maintaining an internal control structure designed to ensure its assets are protected from loss, theft, or misuse; along with ensuring adequate accounting data is compiled to allow for the preparation of financial statements in

conformity with generally accepted accounting principles. The internal control structure is designed to:

- (1) provide reasonable, but not absolute, assurance these objectives are met;
- (2) ensure transactions are executed in accordance with management's authorization; and
- (3) ensure transactions are recorded properly.

The concept of reasonable assurance recognizes:

- (1) the cost of the control should not exceed the benefits likely to be derived; and
- (2) the evaluation of costs and benefits requires estimates and judgments by management.

Budgetary Control

While the District is not mandated to prepare budgets by State law, the District does prepare budgets as a matter of policy and financial control. The budget is a financial plan for detailing operating expenses, capital infrastructure investments, debt obligations, designations and reserves. For the year ended December 31, 2015, the budget was adopted November 10, 2014. This annual financial plan establishes project priorities based upon District goals, policies and water distribution needs. The budget is developed following these steps:

- Assess current conditions and needs, including system quality and safety;
- Develop goals, objectives, policies, and plans based upon the assessment;
- Prioritize projects and develop work programs, based upon short-term and long-term cost effectiveness; and
- Prepare a plan to evaluate the effectiveness and shortcomings of the budget.

The annual budget is prepared on a cash basis, which differs from the basis used in preparing financial statements in conformity with generally accepted accounting principles (GAAP). The District staff works with a budget committee, which extensively reviews the proposed budget. The proposed budget is then presented to the Board of Directors for comments, suggestions, and feedback during public meetings.

The District follows a very extensive and open budget process. The process is designed to educate and inform customers about the District's financial operations and requirements. The District adopts its budget at a Public Hearing. The adopted budget is then used as a management tool for projecting and measuring revenues and expenses required to meet the future needs of the District.

District Reserve Fund

The District adopted a new reserve policy on May 9, 2016. The current reserve policy includes the following funds: Certificate of Participation (COP) fund, connection fee fund, and emergency fund. The policy requires the District to maintain four months of operating expenses for emergency and other operating designation. The connection fee fund is used for capacity expansion based on proposed development and has no designated balance. The District paid off its 1999 COP in full in 2010, the COP fund is no longer required.

Other Information

Independent Audit

California Government Code Section 26909 requires independent annual audits to be conducted for special districts. Richardson & Company, LLP was selected to conduct the annual audit of 2015 District operations. The auditor's report is included in the financial section of the Comprehensive Annual Financial Report.

Awards and Acknowledgements

The preparation of the comprehensive annual financial report on a timely basis requires the dedicated efforts of several staff members. We wish to express our appreciation to all District staff and managers who contributed to this report. Additionally, thank you to the Fair Oaks Water District Board of Directors for their interest and support in planning and conducting the financial operations of the District. The preparation of this report could not have been accomplished without the combined effort of the District leadership, Richardson & Company, LLP and staff.

The Fair Oaks Water District received an award for its submission of the fiscal year 2014 Comprehensive Annual Financial Report for the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association (GFOA). This was the 14th consecutive year that the District received this award.

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

Respectfully submitted,



Tom R. Gray
General Manager



Chi Ha-Ly
Finance Manager



Government Finance Officers Association

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

Presented to

**Fair Oaks Water District
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

December 31, 2014

Executive Director/CEO

**FAIR OAKS WATER DISTRICT
PRINCIPAL DISTRICT OFFICIALS**

BOARD OF DIRECTORS – ELECTED OFFICIALS

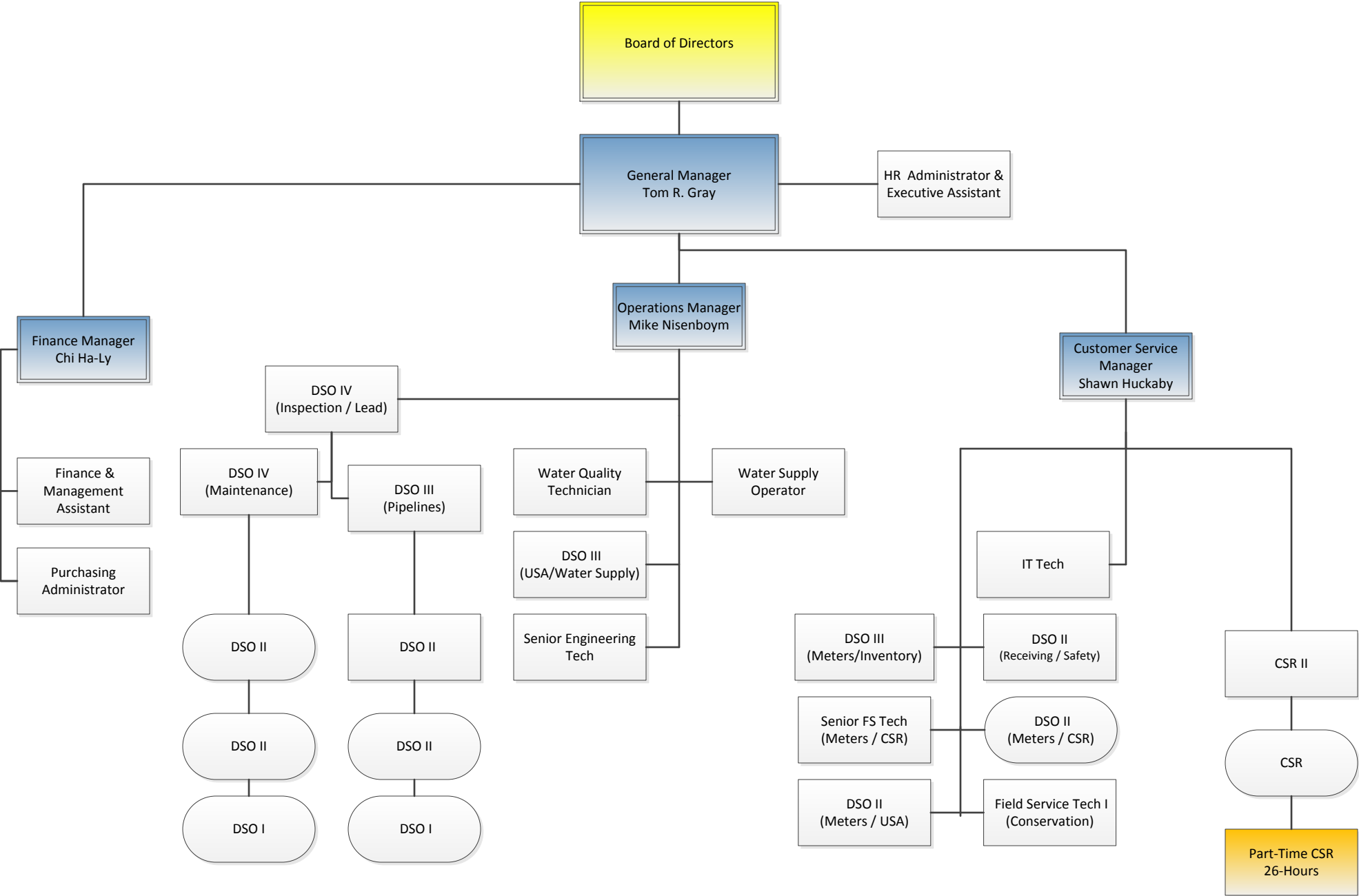
| <u>Name</u> | <u>Title</u> | <u>Division</u> |
|--------------------|---------------------|------------------------|
| Michael McRae | President | Division 2 |
| Dave Underwood | Vice President | Division 1 |
| Randy Marx | Director | Division 4 |
| Misha Sarkovich | Director | Division 5 |
| Tom Tafoya | Director | Division 3 |

MANAGEMENT

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

Fair Oaks Water District Organization Chart

2015 CAFR





FINANCIAL SECTION



550 Howe Avenue, Suite 210
Sacramento, California 95825

Telephone: (916) 564-8727
FAX: (916) 564-8728

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Fair Oaks Water District (the District), which comprise the statements of net position as of December 31, 2015 and 2014, and the related statements of revenues, expenses, changes in net position, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

To the Board of Directors
Fair Oaks Water District

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2015 and 2014 and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

Other Matters

Change in Accounting Principle

As discussed in Note G to the basic financial statements, the District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, during the year ended December 31, 2015. Due to the implementation of these Statements, the District recognized deferred outflows of resources, a pension liability and deferred inflows of resources for its cost-sharing pension plans in the financial statements as of January 1, 2014. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 through 12 and other required supplementary information on page 37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Districts basic financial statements. The introductory and statistical sections listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

To the Board of Directors
Fair Oaks Water District

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 25, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Richardson & Company, LLP

May 25, 2016

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

(This page intentionally left blank.)

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Fair Oaks Water District (the District), we offer readers of the District financial statements this narrative overview and analysis of the financial activities for the District for the year ended December 31, 2015. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal and the audited financial statements.

Financial Highlights

The District has reviewed its current year financials and determined that its financial position remained the same (not improving or deteriorating) as prior year given the current economic conditions. The District was able to maintain its rate structure (no rate changes) while investing in infrastructure.

- The net position of the District for 2015 was \$41,583,546 and for 2014 was \$40,432,554. Of the net position amount, \$5,823,154 for 2015 and \$4,494,411 for 2014 of unrestricted net position may be used to meet the District's ongoing obligations to citizens and creditors. The District has designated \$3.3 and \$3.6 million dollars of the unrestricted for emergencies and rate stabilization for 2015 and 2014, respectively.
- The District's total net position increased by \$1,150,992 in 2015 and decreased by \$742,336 in 2014. The net increase in 2015 was from operating revenues collected exceeding operating expenses, contributed assets, grants and connection fees.
- Water sales decreased by \$266,201 due to a decrease in water consumption. Water service and other operating revenues increased by \$97,656 during the fiscal year due to more reimbursements received from other agencies in 2015 compared to 2014.
- Operations and maintenance costs had a net increase of \$11,676. Customer service costs had a net increase of \$10,912. Administration and general costs had a net increase of \$19,778. Water supply and pumping had a net decrease of \$3,217. The increase in the operating expenses was due to increases in the water efficiency program, regulatory fees, damages and salaries and benefits. The net decrease in water supply and pumping was attributed to the District's decrease in ground water pumping related costs.
- The District recorded a liability for its unfunded pension obligation due to implementation of Governmental Accounting Standards Board Statements No. 68 and 71 of \$1,354,267, which resulted in the restatement of the January 1, 2014 net position previously reported.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements which are comprised of the financial statements and the notes to the financial statements.

Financial Statements

The financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the District's financial position is improving or deteriorating.

The statement of revenues, expenses and changes in net position presents information showing how net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (i.e. uncollected water sales and amounts due to vendors).

Since the District's primary function is to provide water delivery to its customers, with recovery of all the costs through user fees and charges, the financial statements only include business-type activities.

The accounts of the District are organized on the basis of fund accounting. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Because the District provides water delivery services and recovers these costs through user fees and charges, the District's funds are accounted for as an enterprise fund type of the proprietary fund group.

The District has determined that the Fair Oaks Water District Financing Corporation (Financing Corporation) meets the requirements for inclusion within the financial reporting entity and has, therefore, included the Financing Corporation as a blended component unit in the District's financial statements. However, this Financing Corporation had no activity in 2015 and 2014.

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

The financial statements can be found on pages 14 to 17.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the financial data provided in the financial statements. The notes to the financial statements can be found on pages 18 to 37 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also includes a required supplemental information section and a statistical section that provides

the District's selected information over a 10 year period. This information can be found on pages 39 to 48 of this report.

Financial Analysis

As noted earlier, net position may serve as a useful indicator of a government's financial position over time. In the case of the District, assets exceeded liabilities by \$41,583,546 at the close of the most recent fiscal year.

The largest portion of the District's net position (86 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment). The District uses these capital assets to provide water delivery service to its users. Consequently, these assets are not available for future spending.

Fair Oaks Water District Net Position

| | 2015 | Restated 2014 | 2013 |
|-------------------------------|----------------------|----------------------|----------------------|
| Current assets | \$ 9,017,311 | \$ 7,660,150 | \$ 7,364,819 |
| Other assets | 49,874 | 52,367 | 54,861 |
| Capital assets | <u>35,615,871</u> | <u>35,938,143</u> | <u>35,424,939</u> |
| Total assets | 44,683,056 | 43,650,660 | 42,844,619 |
| Deferred outflow of resources | <u>138,018</u> | <u>101,676</u> | <u>-</u> |
| Current liabilities | 1,456,181 | 1,348,694 | 1,602,358 |
| Non-current liabilities | <u>1,512,684</u> | <u>1,436,983</u> | <u>67,371</u> |
| Total liabilities | 2,968,865 | 2,785,677 | 1,669,729 |
| Deferred inflow of resources | <u>268,663</u> | <u>534,105</u> | <u>-</u> |
| Net Position: | | | |
| Investment in capital assets | 35,615,871 | 35,938,143 | 35,424,939 |
| Restricted | 144,521 | - | 208,561 |
| Unrestricted | <u>5,823,154</u> | <u>4,494,411</u> | <u>5,541,390</u> |
| Total net position | <u>\$ 41,583,546</u> | <u>\$ 40,432,554</u> | <u>\$ 41,174,890</u> |

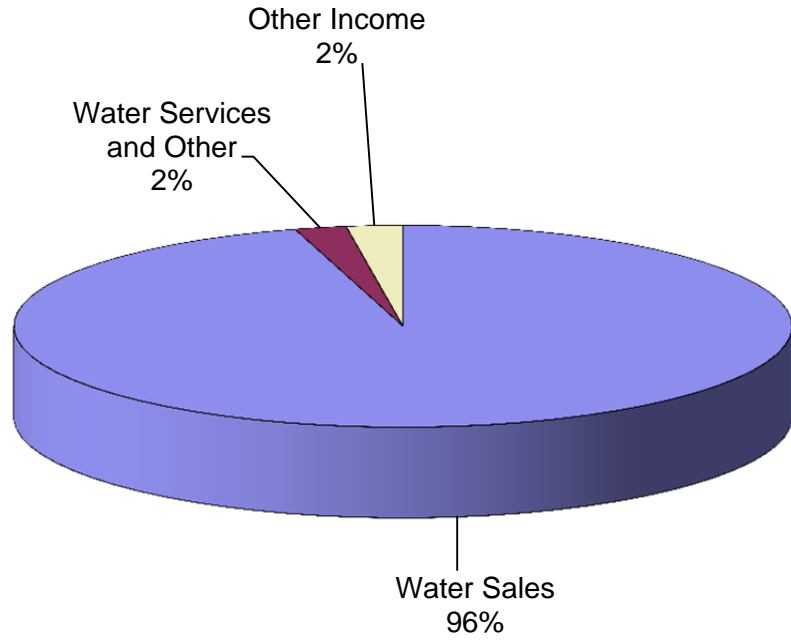
The increase in net position in 2015 is due to operating revenues exceeding operating expenses, contributed assets and connection fees. The decrease in net position for 2014 is due primarily to the District recording the net pension liability and related deferred outflows and inflows as of January 1, 2014 that reduced net position by \$1,841,308. The 2014 amounts were restated to reflect the implementation of GASB No. 68 and 71. In addition to recording a pension liability of \$1,427,761 as of December 31, 2015 and \$1,354,267 as of December 31, 2014, the District also recorded deferred outflows and inflows related to pensions. The information was not available to restate the 2013 amounts.

A portion of the District's net position (less than one percent for 2015) represents resources that are subject to external restrictions on how they may be used. The 2015 and 2013 restricted net position was related to connection fee reserves that were not expended by year-end. The District has also designated \$3.3M in 2015 and \$3.6M in 2014 for emergencies and rate stabilization (see footnote F, page 28).

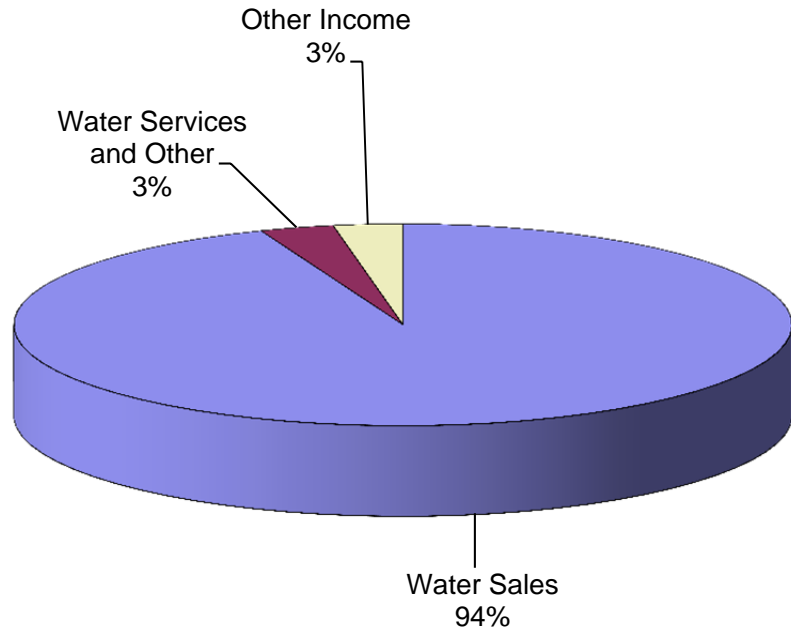
Fair Oaks Water District Changes in Net Position

| | 2015 | Restated 2014 | 2013 |
|---|----------------------|----------------------|----------------------|
| Operating Revenues: | | | |
| Water Sales | \$ 7,495,787 | \$ 7,761,988 | \$ 8,235,897 |
| Water Services | 167,923 | 164,397 | 147,287 |
| Other | 183,347 | 89,217 | 238,531 |
| Total Operating Revenues | <u>7,847,057</u> | <u>8,015,602</u> | <u>8,621,715</u> |
| Non-Operating Revenues: | | | |
| Interest Revenue | 17,955 | 14,785 | 12,916 |
| Other Revenues | 22,744 | 70,495 | 94,796 |
| Total Non-Operating Revenues | <u>40,699</u> | <u>85,280</u> | <u>107,712</u> |
| Revenues Before Capital Contrib. | 7,887,756 | 8,100,882 | 8,729,427 |
| Operating Expenses: | | | |
| Water Supply and Pumping | 1,734,274 | 1,737,491 | 1,941,976 |
| Operations and Maintenance | 1,583,836 | 1,572,160 | 1,662,383 |
| Customer Service | 473,289 | 462,377 | 530,104 |
| Administrative and General | 1,252,214 | 1,232,436 | 1,151,121 |
| Depreciation and Amortization | 2,140,364 | 2,149,267 | 2,127,795 |
| Total Operating Expenses | <u>7,183,977</u> | <u>7,153,731</u> | <u>7,413,379</u> |
| Non-Operating Expenses: | | | |
| SJWD 40-Inch Pipeline Rehabilitation | - | - | 1,744,930 |
| Interest Expense | - | - | 1,214 |
| Total Non-Operating Expenses | <u>-</u> | <u>-</u> | <u>1,746,144</u> |
| Total Expenses | 7,183,977 | 7,153,731 | 9,159,523 |
| Net Income (Loss) Before Capital Contribution | 703,779 | 947,151 | (430,096) |
| Capital Contributions: | | | |
| Contributed Assets | 134,800 | - | - |
| Capital Grant Revenue | 96,505 | - | - |
| Other Capital Revenues | 12,209 | 20,656 | 15,422 |
| Connections | 203,699 | 131,165 | 9,286 |
| Total Capital Contributions | <u>447,213</u> | <u>151,821</u> | <u>24,708</u> |
| Increase (Decrease) in Net Position | 1,150,992 | 1,098,972 | (405,388) |
| Net Position January 1 | 40,432,554 | 41,174,890 | 41,580,278 |
| Prior Period Pension Adjustment | | <u>(1,841,308)</u> | |
| Net Position January 1, restated | | <u>39,333,582</u> | |
| Net Position December 31 | <u>\$ 41,583,546</u> | <u>\$ 40,432,554</u> | <u>\$ 41,174,890</u> |

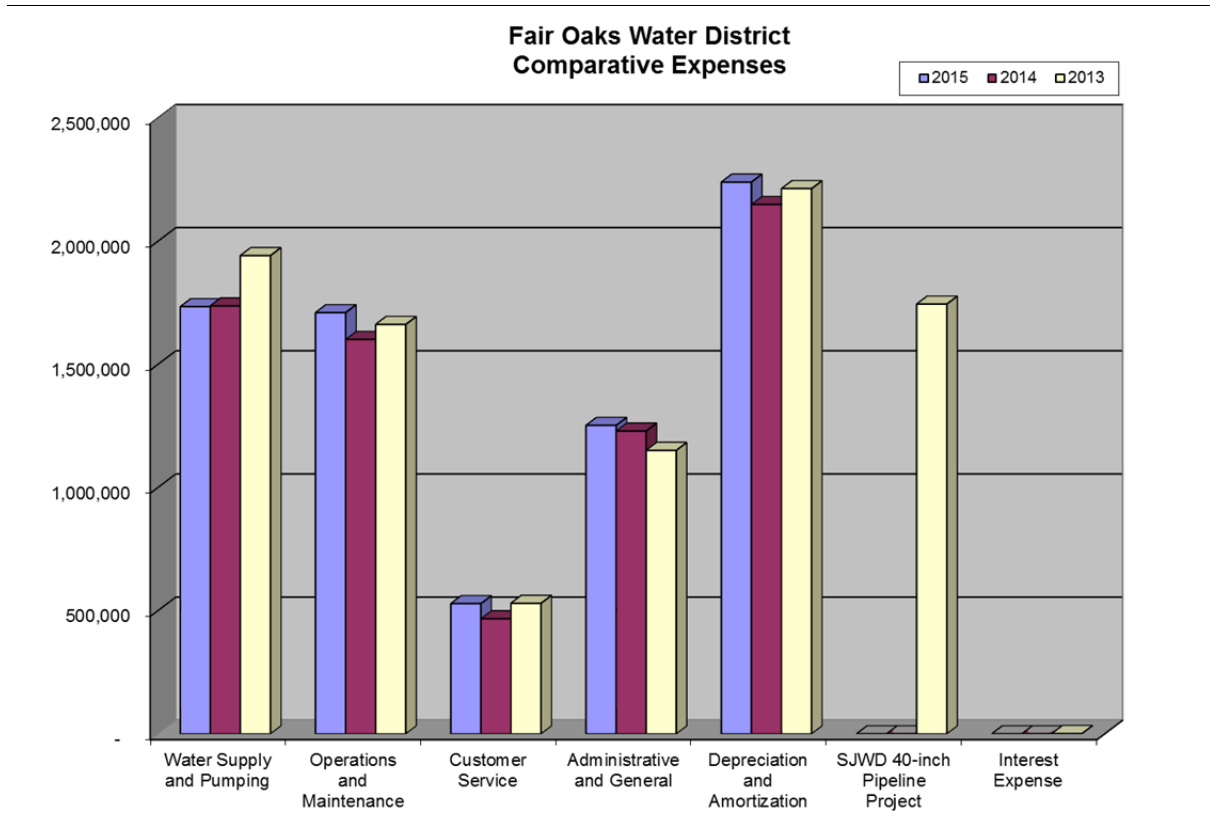
**Fair Oaks Water District
2015 Revenues by Source**



**Fair Oaks Water District
2014 Revenues by Source**



- Water sales decreased by \$266,201 (3.4 percent) in 2015, decreased by \$473,909 (5.8 percent) in 2014, and increased by \$127,196 (1.6 percent) in 2013. The increase in water revenues in 2013 was attributed to higher water consumption. The District did not have any water rate changes in 2014. The decrease in revenues in 2014 and 2015 was primarily due to water conservation.
- Interest income increased by \$3,170 in 2015, increased by \$1,869 in 2014, and decreased by \$6,504 in 2013 due to market interest rate fluctuations and a decrease in cash and investment balances.



- The operations and maintenance had a net increase of \$11,676 in 2015, a net decrease of \$90,223 in 2014 and a net decrease of \$75,491 in 2013. The net increase in 2015 was due to the net increase in vehicle/equipment repairs and maintenance, paving, sand/aggregate, and salaries and benefit and a net decrease in net pension expense. The net decrease in 2014 is primarily due to more labor being capitalized in 2014 compared to 2013. The net decrease in 2013 is primarily due to unfilled positions (savings from salaries and benefits) and reclassification of one staff to administration.
- Customer service had a net increase of \$10,912 in 2015, a net decrease of \$67,727 in 2014, and a net decrease of \$29,337 in 2013. The net increase in 2015 is primarily due to a net decrease in pension expense of \$47,015, a net increase in water efficiency program of \$47,055 and a net increase in salaries, benefits and billings. The net decrease in 2014 is primarily savings from salaries and benefits. The net decrease in 2013 is primarily savings from salaries and benefits of \$23,976 and net savings of \$5,361 from the water efficiency program, customer billing and rebate programs.

- Administration and general expenses had a net increase of \$19,778 in 2015, a net increase of \$81,315 in 2014, and a net increase of \$58,206 in 2013. The net increase in 2015 is primarily due to the increases in general liability insurance of \$13,176, regional support of \$11,580, salaries and benefits of \$23,828, and decreases in professional services of \$25,961. The net increase in 2014 is due to increases in general liability, professional services, regional support, salaries, benefits, and Board expenses. The net increase in 2013 is primarily due to salaries and benefits for one position transferred from the maintenance department to administrative department.
- Water supply costs had a net decrease of \$3,217 in 2015 due to a decrease in water demand and a net decrease of \$204,485 in 2014 and a net increase of \$61,596 in 2013 due to increases in water deliveries.

Capital Asset and Debt Administration

The District's investment in capital assets as of December 31, 2015, amounts to \$35,615,871 (net of accumulated depreciation and amortization). This investment in capital assets includes land, buildings, system and distribution construction and improvements, machinery and equipment, wells, tanks, office equipment, and vehicles. The total net decrease in investment in capital assets for the current fiscal year was 0.9 percent.

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

- The District started the 12-inch main replacement on Fair Oaks Blvd. north of Plumeria Road to south Shangrila Drive in 2014 and completed in 2015 with the cost totaling \$314,285.
- The District completed the 8-inch main replacement on Johnson from Winding Way to Zelinda with the cost totaling \$224,891.
- The District completed the 8-inch main replacement on Kentucky Lane from Sunset to end of Lane with the cost totaling \$27,573.
- The District started the 12-inch main replacement on Main Avenue from South of Twin Lakes Avenue to Shumway Road in 2014 and completed in 2015 with the cost totaling \$275,967.
- The District completed the 12-inch main replacement on Main Avenue from Buffalo to Rolling Glen Phase II with the cost totaling \$176,546.
- Approximately \$411,817 was spent on various individual service line upgrades, minor main upgrades and hydrant upgrades in 2015.
- The District incurred \$265,884 for metering program in 2015.

Fair Oaks Water District Capital Assets, net of depreciation

| | 2015 | Restated 2014 | 2013 |
|---|---------------|------------------|---------------|
| Intangible Asset | | | |
| Capacity Entitlements | \$ 3,956,248 | \$ 3,956,248 | \$ 3,956,248 |
| Less: Amort. - Cap. Entitlements | (1,829,763) | (1,730,857) | (1,631,951) |
| Total Intangible Asset | 2,126,485 | 2,225,391 | 2,324,297 |
| Capital Assets, not being depreciated: | | | |
| Land | 1,422,835 | 1,422,835 | 1,422,835 |
| Construction in Progress | 1,104,721 | 1,174,141 | 852,907 |
| Total Capital Assets, not being depreciated | 2,527,556 | 2,596,976 | 2,275,742 |
| Capital Assets, being depreciated: | | | |
| Wells and Pumps | 3,443,065 | 3,548,311 | 3,643,655 |
| Transmission and Distribution System | 20,774,586 | 20,670,505 | 19,985,607 |
| Maintenance Equipment | 203,002 | 204,157 | 208,697 |
| Trucks, Trailers, and Mobile Equipment | 291,232 | 364,274 | 309,176 |
| Buildings | 2,450,500 | 2,549,244 | 2,642,072 |
| Office Equipment and Furnishings | 41,318 | 70,157 | 113,883 |
| Contributed Distribution Systems | 3,215,386 | 3,194,141 | 3,350,042 |
| Water Tank and Pumping | 542,741 | 514,987 | 571,768 |
| Total Capital Assets, being depreciated | 30,961,830 | 31,115,776 | 30,824,900 |
| Total | \$ 35,615,871 | \$ 35,938,143 | \$ 35,424,939 |

Additional information on the capital assets can be found in Note C on pages 25 to 27 of this report.

Long-Term Debt

At the end of 2015, 2014 and 2013, the District has no outstanding debt.

Economic Factors and assumptions in preparing the 2016 Budget and Rates

- The unemployment rate for the greater Sacramento County in which the District resides averaged 6% in 2015, down from an averaged 7.3% in 2014.
- The District is largely built out, serving approximately 13,894 customers.
- Inflationary trends in the region are comparable to national indices.
- The District continues to face increasing regulatory requirements that ultimately add new costs to delivering the water service (i.e. security measures, new water quality tests, etc.)
- There will be no water rate changes in 2016.
- Health benefit costs are expected to increase 5% in 2016.
- The District intends to use the reserve to fund the shortfall of revenues in 2016.

All of these factors were considered in preparing the District's budget for the 2016 fiscal year.

Requests for Information

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Finance Manager, Fair Oaks Water District, 10326 Fair Oaks Boulevard, Fair Oaks, CA 95628.

BASIC FINANCIAL STATEMENTS

(This page intentionally left blank.)

FAIR OAKS WATER DISTRICT
STATEMENTS OF NET POSITION
December 31, 2015 and 2014

| | 2015 | Restated 2014 |
|--|----------------------|----------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 8,111,236 | \$ 6,601,858 |
| Accounts receivable | 33,256 | 6,189 |
| Due from other government | 101,435 | 3,599 |
| Water service receivable | 422,462 | 660,634 |
| Interest receivable | 9,109 | 6,252 |
| Inventory | 151,356 | 221,767 |
| Prepaid expenses | 188,457 | 159,851 |
| TOTAL CURRENT ASSETS | 9,017,311 | 7,660,150 |
| NON-CURRENT ASSETS | | |
| Dues on deposit | 49,874 | 52,367 |
| Capital assets not depreciated | 2,527,556 | 2,596,976 |
| Capital assets depreciated, net | 30,961,830 | 31,115,776 |
| Capacity entitlements, net | 2,126,485 | 2,225,391 |
| TOTAL NON-CURRENT ASSETS | 35,665,745 | 35,990,510 |
| TOTAL ASSETS | 44,683,056 | 43,650,660 |
| Deferred outflow of resources - pension activities | 138,018 | 101,676 |
| Total assets and deferred outflow of resources | <u>\$ 44,821,074</u> | <u>\$ 43,752,336</u> |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 380,109 | \$ 153,882 |
| Accrued expenses | 24,527 | 171,140 |
| Accrued payroll expense | 92,025 | 75,759 |
| Deposits | 11,547 | 19,399 |
| Unearned revenue | 863,050 | 845,797 |
| Compensated absences | 84,923 | 82,717 |
| TOTAL CURRENT LIABILITIES | 1,456,181 | 1,348,694 |
| NON-CURRENT LIABILITIES | | |
| Compensated absences | 84,923 | 82,716 |
| Net pension liability | 1,427,761 | 1,354,267 |
| TOTAL NON-CURRENT LIABILITIES | 1,512,684 | 1,436,983 |
| TOTAL LIABILITIES | 2,968,865 | 2,785,677 |
| Deferred inflow of resources - pension activities | 268,663 | 534,105 |
| NET POSITION | | |
| Investment in capital assets | 35,615,871 | 35,938,143 |
| Restricted: | | |
| Connection fees | 144,521 | |
| Unrestricted | 5,823,154 | 4,494,411 |
| TOTAL NET POSITION | 41,583,546 | 40,432,554 |
| Total liabilities, net position and deferred inflow of resources | <u>\$ 44,821,074</u> | <u>\$ 43,752,336</u> |

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

FAIR OAKS WATER DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the years ended December 31, 2015 and 2014

| | 2015 | Restated 2014 |
|---|----------------------|----------------------|
| OPERATING REVENUES | | |
| Water sales | \$7,495,787 | \$7,761,988 |
| Water services | 167,923 | 164,397 |
| Other | 183,347 | 89,217 |
| TOTAL OPERATING REVENUES | <u>7,847,057</u> | <u>8,015,602</u> |
| OPERATING EXPENSES | | |
| Water supply and pumping | 1,734,274 | 1,737,491 |
| Operations and maintenance | 1,583,836 | 1,572,160 |
| Customer service | 473,289 | 462,377 |
| Administrative and general | 1,252,214 | 1,232,436 |
| Depreciation and amortization | 2,140,364 | 2,149,267 |
| TOTAL OPERATING EXPENSES | <u>7,183,977</u> | <u>7,153,731</u> |
| NET INCOME FROM OPERATIONS | 663,080 | 861,871 |
| NON-OPERATING REVENUES (EXPENSES) | | |
| Interest revenue | 17,955 | 14,785 |
| Other revenues | 22,744 | 70,495 |
| TOTAL NON-OPERATING REVENUES (EXPENSES) | <u>40,699</u> | <u>85,280</u> |
| NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS | 703,779 | 947,151 |
| CAPITAL CONTRIBUTIONS | | |
| Contributed assets | 134,800 | |
| Grants | 96,505 | |
| Connection fees | 203,699 | 131,165 |
| Other capital revenues | 12,209 | 20,656 |
| TOTAL CAPITAL CONTRIBUTIONS | <u>447,213</u> | <u>151,821</u> |
| CHANGE IN NET POSITION | 1,150,992 | 1,098,972 |
| Net position at beginning of year, as previously reported | 40,432,554 | 41,174,890 |
| Prior period pension adjustment | | <u>(1,841,308)</u> |
| Net position at beginning of year, restated | <u>-</u> | <u>39,333,582</u> |
| NET POSITION AT END OF YEAR | <u>\$ 41,583,546</u> | <u>\$ 40,432,554</u> |

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

FAIR OAKS WATER DISTRICT

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2015 and 2014

| | <u>2015</u> | <u>Restated 2014</u> |
|---|----------------------------|----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash receipts from customers | \$ 8,066,412 | \$ 8,167,239 |
| Cash paid to suppliers | (3,084,605) | (3,468,730) |
| Cash paid to employees | (2,045,200) | (1,933,361) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>2,936,607</u> | <u>2,765,148</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Proceeds from disposal of capital assets | 22,564 | 77,772 |
| Connection fees | 203,699 | 131,165 |
| Other capital revenues | 12,209 | 20,656 |
| Purchases of capital assets | (1,683,292) | (2,670,197) |
| NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES | <u>(1,444,820)</u> | <u>(2,440,604)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest received | 15,098 | 12,685 |
| Dues on deposit received | 2,493 | 2,494 |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | <u>17,591</u> | <u>15,179</u> |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 1,509,378 | 339,723 |
| Cash and cash equivalents at beginning of year | <u>6,601,858</u> | <u>6,262,135</u> |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | <u><u>\$ 8,111,236</u></u> | <u><u>\$ 6,601,858</u></u> |

(Continued)

FAIR OAKS WATER DISTRICT

STATEMENTS OF CASH FLOWS (Continued)

For the years ended December 31, 2015 and 2014

| | 2015 | Restated 2014 |
|---|---------------------|---------------------|
| RECONCILIATION OF NET INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | | |
| Net income from operations | \$ 663,080 | \$ 861,871 |
| Adjustments to reconcile net income from operations to net cash provided by operating activities: | | |
| Depreciation and amortization | 2,140,364 | 2,149,267 |
| Loss on disposal of assets | | 449 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (28,218) | 9,846 |
| Water service receivable | 238,172 | 47,652 |
| Inventory | 70,411 | 3,027 |
| Prepaid expenses | (28,606) | (14,033) |
| Accounts payable | 226,227 | (535,838) |
| Accrued expenses | (146,613) | 160,169 |
| Accrued payroll expense | 16,266 | 12,520 |
| Deposits | (7,852) | (12,537) |
| Unearned revenue | 17,253 | 106,676 |
| Deferred inflow/outflow | (301,784) | (23,431) |
| Net pension liability | 73,494 | (31,181) |
| Compensated absences | 4,413 | 30,691 |
| | <u>\$ 2,936,607</u> | <u>\$ 2,765,148</u> |
| SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES | | |
| Receipt of contributed assets | \$ 134,800 | \$ - |

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

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2015 and 2014

NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Fair Oaks Water District (the District) have been prepared in conformity with generally accepted accounting principles as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

Reporting Entity: The District was formed March 26, 1917 under the provisions of the California Water Code. The District is governed by a five member Board of Directors elected by the voters within the District for staggered, four-year terms, every two years. The District provides water to retail customers in the Fair Oaks area. The accompanying basic financial statements present the District and its component unit. The component unit discussed below is included in the District's reporting entity because of the significance of its operational and financial relationship with the District.

The District has created the Fair Oaks Water District Financing Corporation (the Financing Corporation) to provide assistance to the District in the issuance of debt. Although legally separate from the District, the Financing Corporation is reported as if it were part of the primary government because it shares a common Board of Directors with the District and its sole purpose is to provide financing to the District under the debt issuance documents of the District. Debt issued by the Financing Corporation is reflected as debt of the District in these financial statements. The Financing Corporation has no other transactions and does not issue separate financial statements.

Jointly Governed Organization: The District is a signatory to the Regional Water Authority's (the RWA) Joint Powers Agreement, formally known as Sacramento Metropolitan Water Authority. The mission of the RWA is to serve and represent the regional water supply interest, and to assist the members of the RWA in protecting and enhancing the reliability, availability, affordability and quality of water resources. The goals of the RWA are to assist in voluntary consolidation of services provided by existing industry associations; develop and provide subscription-based support services; and coordinate and implement regional water master planning, grant-funding acquisition, and related planning efforts.

RWA carries out its missions and goals, yet does not exercise governing or regulatory authority over its members. The relationship between the District and the RWA is such that the RWA is not a component unit of the District for financial reporting purposes. Additionally, the District does not have an ongoing financial responsibility to the RWA and therefore is

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2015 and 2014

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

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

Basis of Presentation – Fund Accounting: The District's resources are allocated to and accounted for in these basic financial statements as an enterprise fund type of the proprietary fund group. The enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other policies. Net position for the enterprise fund represents the amount available for future operations.

Basis of Accounting: The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The enterprise fund type is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the statement of net position. Net position is segregated into investment in capital assets, restricted and unrestricted amounts. Enterprise fund type operating statements present increases and decreases in net total position.

The District uses the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Earned but unbilled water services are accrued as revenue. Water lines that are constructed by private developers and then dedicated to the District, which is then responsible for their future maintenance, are recorded as capital contributions when they pass inspection by the District. The estimated costs for materials and installation are capitalized as part of the distribution system.

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for water service. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or ancillary activities.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Budgetary Principles: The Board of Directors does not operate under any legal budgeting constraints. Budget integration is employed as a management control device. Budgets are formally adopted by the Board and take effect on each January 1.

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2015 and 2014

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

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

Cash and Cash Equivalents: For purposes of the statement of cash flows, the District considers all highly liquid debt instruments purchased with an initial maturity of three months or less to be cash equivalents, including restricted assets. Cash in banks, deposits in the State of California Local Agency Investment Fund (LAIF) and deposits with fiscal agents are considered to be cash and cash equivalents.

Water Service Receivable and Unearned Revenue: Under normal operations, bills for water service are rendered to each customer on a bi-monthly basis. Fixed charges (e.g. service charge) are billed in advance of the service period. Commodity charges are billed after the meters are read. Advanced collections on water service invoiced in the current year for service in the following year are recorded as unearned revenue since these collections have not been earned as of December 31. Customers who are invoiced on a metered basis receive their bills bimonthly in arrears of the service provided. Unpaid amounts as of December 31 are recorded as water service receivable. Water invoices that remain unpaid when the new water invoices are issued may have a lien placed on the property. Water service receivables include \$55,242 in 2015 and \$82,860 in 2014 that are not expected to be collected within one year.

Capital Assets: Capital assets are recorded at historical cost. Contributed assets are valued at estimated fair value on the date received. Depreciation is calculated using the straight line method over the following estimated useful lives:

| <u>Description</u> | <u>Estimated Life</u> |
|--|-----------------------|
| Wells and pumps | 10 - 40 years |
| Transmission and distribution system | 10 - 40 years |
| Maintenance equipment | 5 - 30 years |
| Trucks, trailers, and mobile equipment | 5 - 10 years |
| Buildings | 5 - 30 years |
| Office equipment and furnishings | 3 - 5 years |
| Contributed distribution systems | 40 years |
| Water tank and pumping stations | 10 - 40 years |

Maintenance and repairs are charged to operations when incurred. It is the District's policy to capitalize all capital assets with a cost of \$500 or more. Costs of assets sold or retired (and the related amounts of accumulated depreciation) are eliminated from the statement of net position in the year of sale or retirement, and the resulting gain or loss is recognized in operations.

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2015 and 2014

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

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

Compensated Absences: The District’s policy allows employees to accumulate earned unused vacation and administrative leave which will be paid to employees upon separation from the District’s service, subject to a vesting policy. The cost of vacation and administrative leave is recorded in the period earned.

Pensions: For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Commission’s California Public Employees’ Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans’ fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

NOTE B – CASH AND INVESTMENTS

Cash and investments as of December 31, 2015 and 2014 consisted of the following:

| | <u>2015</u> | <u>2014</u> |
|--|---------------------|---------------------|
| Cash on hand | \$ 1,700 | \$ 1,688 |
| Deposits with financial institutions | 332,360 | 135,899 |
| Total cash | <u>334,060</u> | <u>137,587</u> |
| Investments in Local Agency Investment Fund (LAIF) | 7,777,176 | 6,464,271 |
| Total investments | <u>7,777,176</u> | <u>6,464,271</u> |
| Total cash and cash equivalents | <u>\$ 8,111,236</u> | <u>\$ 6,601,858</u> |

Investment policy: California statutes authorize districts to invest idle or surplus funds in a variety of credit instruments as provided for in the California Government Code, Section 53600, Chapter 4 - Financial Affairs. The table below identifies the investment types that are authorized for the District by the California Government Code (or the District’s investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2015 and 2014

NOTE B – CASH AND INVESTMENTS (Continued)

During the year ended December 31, 2015, the District’s permissible investments included the following instruments:

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

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

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

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

| | <u>Total</u> | <u>Remaining Maturity 12 Months or Less</u> |
|------|---------------------|---|
| LAIF | <u>\$ 7,777,176</u> | <u>\$ 7,777,176</u> |

LAIF has an average maturity of 179 days as of December 31, 2015.

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2015 and 2014

NOTE B – CASH AND INVESTMENTS (Continued)

Credit Risk: Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. LAIF is unrated.

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

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

At December 31, 2015, the carrying amount of the District's deposits was \$332,360 and the balances in financial institutions was \$382,788. Of the balance in financial institutions, \$250,000 was covered by federal depository insurance and \$132,788 was collateralized as required by State law (Government Code Section 53630), by the pledging financial institution with assets held in a common pool for the District and other agencies, but not in the name of the District. At December 31, 2014, the carrying amount of the District's deposits was \$135,899 and the balances in financial institutions was \$179,831. The total amount of \$179,831 in the financial institutions was covered by federal depository insurance.

Investment in LAIF: LAIF is stated at fair value. The LAIF is a special fund of the California State Treasury through which local governments may pool investments. The total amount invested on December 31, 2015 by all public agencies in LAIF is \$65,567,969,782 managed by the State Treasurer. Of that amount, 1.76% is investments in structured notes and asset-backed securities. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2015 and 2014

NOTE B – CASH AND INVESTMENTS (Continued)

LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2015 and 2014

NOTE C – CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2015 and 2014 are as follows:

| | Balance at January 1, 2015 | Additions | Disposals | Transfers and Adjustments | Balance at December 31, 2015 |
|--|----------------------------------|---------------------|-------------|------------------------------|------------------------------------|
| Intangible Asset | | | | | |
| Capacity Entitlements | \$ 3,956,248 | \$ - | \$ - | \$ - | \$ 3,956,248 |
| Less: Amortization | | | | | |
| Capacity Entitlements | (1,730,857) | (98,906) | - | - | (1,829,763) |
| Total Intangible Asset | \$ 2,225,391 | \$ (98,906) | \$ - | \$ - | \$ 2,126,485 |
| Capital assets, not being depreciated: | | | | | |
| Land | \$ 1,422,835 | \$ - | \$ - | \$ - | \$ 1,422,835 |
| Construction in progress | 1,174,141 | 1,644,424 | - | (1,713,844) | 1,104,721 |
| Subtotal capital assets not being depreciated | 2,596,976 | 1,644,424 | - | (1,713,844) | 2,527,556 |
| Total capital assets, not being deprec. | 4,822,367 | 1,545,518 | - | (1,713,844) | 4,654,041 |
| Capital assets, being depreciated: | | | | | |
| Wells and pumps | 5,301,829 | - | - | 6,294 | 5,308,123 |
| Transmission and distribution system | 36,990,290 | - | (359,113) | 1,699,800 | 38,330,977 |
| Maintenance equipment | 510,888 | 16,519 | (569) | - | 526,838 |
| Trucks, trailers, and mobile equipment | 1,465,667 | 8,226 | - | - | 1,473,893 |
| Buildings | 3,734,096 | - | - | 5,250 | 3,739,346 |
| Office equipment and furnishings | 885,962 | 14,123 | (4,617) | - | 895,468 |
| Contributed distribution systems | 7,574,213 | 134,800 | - | - | 7,709,013 |
| Water tank and pumping | 2,026,702 | - | - | 2,500 | 2,029,202 |
| Total capital assets being depreciated, net | 58,489,647 | 173,668 | (364,299) | 1,713,844 | 60,012,860 |
| Less accumulated depreciation for: | | | | | |
| Wells and pumps | (1,753,518) | (110,862) | - | (678) | (1,865,058) |
| Transmission and distribution system | (16,319,785) | (1,532,098) | 359,113 | (63,621) | (17,556,391) |
| Maintenance equipment | (306,731) | (16,564) | 569 | (1,110) | (323,836) |
| Trucks, trailers, and mobile equipment | (1,101,393) | (90,227) | - | 8,959 | (1,182,661) |
| Buildings | (1,184,852) | (103,994) | - | - | (1,288,846) |
| Office equipment and furnishings | (815,805) | (42,963) | 4,617 | 1 | (854,150) |
| Contributed distribution systems | (4,380,072) | (154,125) | - | 40,570 | (4,493,627) |
| Water tank and pumping | (1,511,715) | (47,779) | - | 73,033 | (1,486,461) |
| Total accumulated depreciation | (27,373,871) | (2,098,612) | 364,299 | 57,154 | (29,051,030) |
| Total capital assets being depreciated, net | 31,115,776 | (1,924,944) | - | 1,770,998 | 30,961,830 |
| Capital assets, net book value | \$35,938,143 | \$ (379,426) | \$ - | \$ 57,154 | \$ 35,615,871 |

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2015 and 2014

NOTE C – CAPITAL ASSETS (Continued)

| | Balance at January 1, 2014 | Additions | Disposals | Transfers and Adjustments | Balance at December 31, 2014 |
|--|----------------------------------|--------------------|-------------------|------------------------------|------------------------------------|
| Intangible Asset | | | | | |
| Capacity Entitlements | \$ 3,956,248 | \$ - | \$ - | \$ - | \$ 3,956,248 |
| Less: Amortization | | | | | |
| Capacity Entitlements | (1,631,951) | (98,906) | - | - | (1,730,857) |
| Total Intangible Asset | \$ 2,324,297 | \$ (98,906) | \$ - | \$ - | \$ 2,225,391 |
| Capital assets, not being depreciated: | | | | | |
| Land | \$ 1,422,835 | \$ - | \$ - | \$ - | \$ 1,422,835 |
| Construction in progress | 852,907 | 1,124,611 | - | (803,377) | 1,174,141 |
| Subtotal capital assets not being depreciated | 2,275,742 | 1,124,611 | - | (803,377) | 2,596,976 |
| Total capital assets, not being deprec. | 4,600,039 | 1,025,705 | - | (803,377) | 4,822,367 |
| Capital assets, being depreciated: | | | | | |
| Wells and pumps | 5,301,791 | 15,433 | (15,395) | - | 5,301,829 |
| Transmission and distribution system | 34,970,455 | 1,357,975 | (141,068) | 802,928 | 36,990,290 |
| Maintenance equipment | 496,809 | 14,079 | - | - | 510,888 |
| Trucks, trailers, and mobile equipment | 1,483,131 | 139,093 | (156,557) | - | 1,465,667 |
| Buildings | 3,724,084 | 10,012 | - | - | 3,734,096 |
| Office equipment and furnishings | 865,184 | 8,994 | (42,373) | 54,157 | 885,962 |
| Contributed distribution systems | 7,574,213 | - | - | - | 7,574,213 |
| Water tank and pumping | 2,026,702 | - | - | - | 2,026,702 |
| Total capital assets being depreciated, net | 56,442,369 | 1,545,586 | (355,393) | 857,085 | 58,489,647 |
| Less accumulated depreciation for: | | | | | |
| Wells and pumps | (1,658,136) | (110,777) | 15,395 | - | (1,753,518) |
| Transmission and distribution system | (14,984,848) | (1,468,728) | 133,791 | - | (16,319,785) |
| Maintenance equipment | (288,112) | (18,619) | - | - | (306,731) |
| Trucks, trailers, and mobile equipment | (1,173,955) | (83,995) | 156,557 | - | (1,101,393) |
| Buildings | (1,082,012) | (102,840) | - | - | (1,184,852) |
| Office equipment and furnishings | (751,301) | (52,720) | 42,373 | (54,157) | (815,805) |
| Contributed distribution systems | (4,224,171) | (155,901) | - | - | (4,380,072) |
| Water tank and pumping | (1,454,934) | (56,781) | - | - | (1,511,715) |
| Total accumulated depreciation | (25,617,469) | (2,050,361) | 348,116 | (54,157) | (27,373,871) |
| Total capital assets being depreciated, net | 30,824,900 | (504,775) | (7,277) | 802,928 | 31,115,776 |
| Capital assets, net book value | \$ 35,424,939 | \$ 520,930 | \$ (7,277) | \$ (449) | \$ 35,938,143 |

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2015 and 2014

NOTE C – CAPITAL ASSETS (Continued)

Capacity Entitlements: In 1993, the District participated with four other water districts in a cooperative transmission pipeline project for the construction of additional transmission pipeline facilities. As a result of this project, the District participated with San Juan Water District (SJWD) to finance their share of the pipeline costs. The District’s share of these pipeline costs totaled \$3,956,248. The Capacity Entitlements asset represents the capacity rights the District has purchased in the cooperative transmission pipeline project with SJWD. The asset will be amortized over the pipeline’s estimated useful life of 40 years. In addition, the District has entered into an agreement with SJWD to pay for its share of these transmission pipeline facilities costs (see Note E).

Depreciation and Amortization Reconciliation: Depreciation and amortization for 2015 of \$2,140,364 included capacity entitlements amortization of \$98,906 and capital assets depreciation of \$2,098,612 and adjustment of (\$57,154). Depreciation and amortization for 2014 of \$2,149,267 included capacity entitlements amortization of \$98,906 and capital assets depreciation of \$2,050,361.

NOTE D – ECONOMIC DEPENDENCY

The District purchased 89.3% of its water supply from SJWD in 2015. During the years ended December 31, 2015 and 2014, the District’s total cost for water purchases from SJWD were \$1,447,762 and \$1,335,482, respectively.

NOTE E – LONG-TERM LIABILITIES

The activity of the District’s long-term liabilities during the years ended December 31, 2015 and 2014 are as follows:

| <u>Description</u> | <u>Balance at January 1, 2015</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance at December 31, 2015</u> | <u>Due within One Year</u> |
|-------------------------------|---|-------------------|---------------------|---|--------------------------------|
| Compensated absences | \$ 165,433 | \$ 151,381 | \$ (146,968) | \$ 169,846 | <u>\$ 84,923</u> |
| Net pension liability | <u>1,354,267</u> | <u>73,494</u> | <u>-</u> | <u>1,427,761</u> | |
| Total | 1,519,700 | <u>\$ 224,875</u> | <u>\$ (146,968)</u> | 1,597,607 | |
| Less: Current portion | <u>(82,717)</u> | | | <u>(84,923)</u> | |
| Total non-current liabilities | <u>\$ 1,436,983</u> | | | <u>\$ 1,512,684</u> | |

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2015 and 2014

NOTE E – LONG-TERM LIABILITIES (Continued)

| | Restated Balance at January 1, 2014 | Additions | Reductions | Balance at December 31, 2014 | Due within One Year |
|-------------------------------|--|-------------------|---------------------|------------------------------------|------------------------|
| Compensated absences | \$ 134,742 | \$ 155,615 | \$ (124,924) | \$ 165,433 | \$ 82,717 |
| Net pension liability | 1,930,981 | - | (576,714) | 1,354,267 | |
| Total | 2,065,723 | <u>\$ 155,615</u> | <u>\$ (701,638)</u> | 1,519,700 | |
| Less: Current portion | (67,371) | | | \$ (82,717) | |
| Total non-current liabilities | 1,998,352 | | | 1,436,983 | |

Note: January 1, 2014 balance was restated to include net pension liability at the beginning of the fiscal year.

NOTE F – NET POSITION

Restrictions: Restricted net position consists of constraints placed on net position use through external requirements imposed by creditors (such as through debt covenants), grantors, contributors, or laws and regulations of other governments or constraints by law through constitutional provisions or enabling legislation. Restrictions include connection and annexation fees that are restricted by California Water Code for future water system capacity.

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

| | 2015 | 2014 |
|---|--------------|--------------|
| <u>Designated for Emergency:</u> | | |
| For capital projects, operating and maintenance expenses not currently budgeted | \$ 2,898,000 | \$ 3,181,200 |
| <u>Designated for Rate Stabilization:</u> | | |
| To offset the estimated impact of revenue fluctuations and lag effects from meter based billing | 374,800 | 388,100 |
| Total designated net position | \$ 3,272,800 | \$ 3,569,300 |

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2015 and 2014

NOTE G – EMPLOYEES' RETIREMENT PLAN

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

The District has the following cost-sharing plans:

- Miscellaneous Plan
- PEPRM Miscellaneous Plan

Benefit provisions under the Plans are established by State statute and Board resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website at www.calpers.ca.gov.

Funding Policy: Active plan members are required to contribute 7% (for Miscellaneous 2 percent at 55 members) of their annual covered salary. The District makes the contributions required of District employees on their behalf and for their account.

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

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

Benefits Provided: CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2015 and 2014

NOTE G – EMPLOYEES' RETIREMENT PLAN

beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 (52 for PEPRA Miscellaneous Plan) with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is the following: the 1957 Survivor Benefit or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at December 31, 2015, are summarized as follows:

| | Miscellaneous Plan (Prior to January 1, 2013) | PEPRA Miscellaneous Plan (On or after January 1, 2013) |
|--|--|--|
| Hire date | | |
| Benefit formula (at full retirement) | 2.0% @ 55 | 2.0% @ 62 |
| Benefit vesting schedule | 5 years service | 5 years service |
| Benefit payments | monthly for life | monthly for life |
| Retirement age | 50 - 63 | 52 - 67 |
| Monthly benefits, as a % of eligible compensation | 1.426% to 2.418% | 1.0% to 2.5% |
| Required employee contribution rates | 7.000% | 6.250% |
| Required employer contribution rates - January to June 2014 | 9.381% | 6.250% |
| Required employer contribution rates - July to December 2014 | 9.979% | 6.250% |
| Required employer contribution rates - January to June 2015 | 9.979% | 6.250% |
| Required employer contribution rates - July to December 2015 | 8.932% | 6.237% |

The Miscellaneous Plan is closed to new members that are not already CalPERS eligible participants.

Contributions: Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the years ended December 31, 2015 and 2014, District's contributions to the Plan were \$171,806 and \$175,689, respectively.

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2015 and 2014

NOTE G – EMPLOYEES' RETIREMENT PLAN (Continued)

| | Miscellaneous Plan | PEPRA Miscellaneous Plan | |
|--------------------------|-----------------------|--------------------------------|--|
| Contributions - employer | \$ 155,810 | \$ 15,996 | |

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions: As of December 31, 2015 and 2014, the District reported a net pension liability for its proportionate share of the net pension liability of the Plan of \$1,427,761 and \$1,354,267, respectively.

An actuarial valuation was not performed on the PEPRA Miscellaneous Plan for the June 30, 2014 valuation date. The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plans is measured as of June 30, 2014 and 2015, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 and 2014 rolled forward to June 30, 2014 and 2015, respectively, using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for the Plans as of June 30, 2015 and 2014 was as follows:

| | Miscellaneous Plan |
|------------------------------|-----------------------|
| Proportion - June 30, 2013 | 0.05893% |
| Proportion - June 30, 2014 | 0.05480% |
| Change - Increase (Decrease) | (0.00413)% |
| Proportion - June 30, 2014 | 0.05480% |
| Proportion - June 30, 2015 | 0.05204% |
| Change - Increase (Decrease) | (0.00276)% |

For the years ended December 31, 2015 and 2014, the District recorded pension expense of \$98,528 and \$232,046 for the Plan. At December 31, 2015 and 2014, the District reported deferred outflows of resources and deferred inflows of resources related to all Plans combined from the following sources:

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2015 and 2014

NOTE G – EMPLOYEES' RETIREMENT PLAN (Continued)

| | Deferred Outflows of Resources | | Deferred Inflows of Resources | |
|--|-----------------------------------|-----------|----------------------------------|--------------|
| | 2015 | 2014 | 2015 | 2014 |
| Pension contributions subsequent to measurement date | \$ 126,347 | \$ 94,451 | \$ - | \$ - |
| Differences between actual and expected experience changes in assumptions | | | (110,420) | |
| Difference between expected and actual experience | 11,671 | | | |
| Change in employer's proportion | | 7,225 | (44,819) | |
| Differences between the employer's contribution and the employer's proportionate share of contributions | | | (7,073) | (14,933) |
| Net differences between projected and actual earnings on plan investments | | | (106,351) | (519,172) |
| Total | \$ 138,018 | \$101,676 | \$ (268,663) | \$ (534,105) |

The \$126,347 and \$94,451 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016 and 2015, respectively. Other amounts reported as net deferred inflows of resources related to pensions will be recognized as pension expense as follows:

| Fiscal Year Ended December 31 | |
|----------------------------------|--------------|
| 2016 | \$ (114,240) |
| 2017 | (113,454) |
| 2018 | (100,055) |
| 2019 | 70,757 |
| | \$ (256,992) |

Actuarial Assumptions: The total pension liabilities in the June 30, 2015 and 2014 actuarial valuations for each of the Plans were determined using the following actuarial assumptions:

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2015 and 2014

NOTE G – EMPLOYEES' RETIREMENT PLAN (Continued)

| | |
|---------------------------|--|
| Valuation Date | June 30, 2013 and 2014 |
| Measurement Date | June 30, 2014 and 2015 |
| Actuarial Cost Method | Entry-Age Normal Cost Method |
| Actuarial Assumptions: | |
| Discount Rate | 7.5% for 2014 and 7.65% for 2015 |
| Inflation | 2.75% |
| Payroll Growth | 3.0% |
| Projected Salary Increase | 3.3% - 14.2% (1) |
| Investment Rate of Return | 7.5% (2) |
| Mortality | Derived using CalPERS Membership Data for all Funds |

(1) Depending on entry age and service

(2) Net of pension plan investment expenses, including inflation

The underlying mortality assumptions used in the June 30, 2014 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. The underlying mortality assumptions used in the June 30, 2015 valuation were based on the results of a 2010 CalPERS experience study for the period from 1997 to 2004. Further details of the Experience Study can found on the CalPERS website.

Discount Rate: The discount rate used to measure the total pension liability was 7.50% for the June 30, 2014 valuation and 7.65% for the June 30, 2015 valuation. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 and 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2015 and 2014

NOTE G – EMPLOYEES' RETIREMENT PLAN (Continued)

the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class for each of the Plans. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

| Asset Class | New Strategic Allocation | Real Return Years 1 - 10(a) | Real Return Years 11+(b) |
|-------------------------------|--------------------------------|--------------------------------|-----------------------------|
| Global Equity | 51.0% | 5.25% | 5.71% |
| Global Fixed Income | 19.0% | 0.99% | 2.43% |
| Inflation Sensitive | 6.0% | 0.45% | 3.36% |
| Private Equity | 10.0% | 6.83% | 6.95% |
| Real Estate | 10.0% | 4.50% | 5.13% |
| Infrastructure and Forestland | 2.0% | 4.50% | 5.09% |
| Liquidity | 2.0% | (0.55)% | (1.05)% |
| Total | <u>100.0%</u> | | |

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: The following presents the District's proportionate share of the net pension liability for the Plans, calculated using the discount rate for the Plans, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

| | |
|-----------------------|--------------|
| 1% Decrease | 6.65% |
| Net Pension Liability | \$ 2,394,454 |
| Current Discount Rate | 7.65% |
| Net Pension Liability | \$ 1,427,761 |
| 1% Increase | 8.65% |
| Net Pension Liability | \$ 629,643 |

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2015 and 2014

NOTE G – EMPLOYEES' RETIREMENT PLAN (Continued)

Pension Plan Fiduciary Net Position: Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

Payable to the Pension Plan: At December 31, 2015 and 2014, the District reported no payables for the outstanding amount of contributions to the pension plan.

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

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

NOTE I – INSURANCE

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

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

| <u>Coverage</u> | <u>ACWA/JPIA</u> | <u>Commercial Insurance</u> | <u>Deductible</u> |
|---|------------------|-----------------------------|-------------------|
| General and Auto Liability (includes public officials liability) | \$ 2,000,000 | \$ 58,000,000 | None |
| Property Damage | 100,000 | 150,000,000 | \$500 to \$50,000 |
| Fidelity | 100,000 | | 1,000 |
| Workers Compensation | 2,000,000 | Statutory | None |
| Employers Liability | 2,000,000 | Statutory | None |

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

NOTE J – COMMITMENTS AND CONTINGENCIES

Contract and Purchase Commitments: The District has the following outstanding commitments as of December 31, 2015.

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2015 and 2014

NOTE J – COMMITMENTS AND CONTINGENCIES (Continued)

- Hazel Avenue Project Phase II with an estimated cost of \$2,300,000.
- ePlus with a total cost \$17,500 for IT backup solution.
- Kennedy Jenks Consultants for the Madison Well Project in the amount of \$36,299.

Future Projects Obligations: The District has the following future projects obligations.

- The District is required to pay for the maintenance of the Fair Oaks 40-Inch Pipeline totaling \$1,988,350 when SJWD completes the project.
- The District anticipates incurring cost for the Hazel Avenue Project Phase III in the next few years with an estimated cost of \$2,300,000.

NOTE K – NEW PRONOUNCEMENTS

In February 2015, the GASB approved Statement No. 72, Fair Value Measurement and Application. This Statement addresses accounting and financial reporting issues related to fair value measurements and will require additional disclosures about assets and liabilities measured at fair value. This Statement is effective for periods beginning after June 15, 2015.

In December 2015, the GASB issued Statement No. 79 that addresses accounting and financial reporting for participants in external investment pools. This Statement is effective for the reporting periods beginning after December 15, 2015.

In June 2016, the GASB issued statement No. 82 that clarifies certain issues raised in implementation of GASB No. 68. This Statement is effective for the year ending December 31, 2017.

The District is currently analyzing the impact of the required implementation of these new statements.

NOTE L – RESTATEMENT

During the year ended December 31, 2015, the District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. These Statements required the District to recognize in its accrual basis financial statements the proportional share of the net pension liability, deferred outflows of resources and deferred inflows of resources for the District's cost-sharing pension plans. These Statements also required contributions made after the June 30, 2014 measurement date used in the actuarial valuations for the pension plans to be reported as deferred outflows of resources.

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2015 and 2014

NOTE L – RESTATEMENT (Continued)

Due to the implementation of these Statements, the District's December 31, 2014 financials were restated to reflect deferred outflows of resources of \$101,676, a pension liability of \$1,354,267 and deferred inflows of resources of \$534,105. Total net position as of January 1, 2014 was restated compared to the amounts reported in the December 31, 2014 financial statements, resulting in a decrease in net position of \$1,841,308.

REQUIRED SUPPLEMENTAL INFORMATION

(This page intentionally left blank.)

FAIR OAKS WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended December 31, 2015

**SCHEDULE OF THE PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY - MISCELLANEOUS PLAN (UNAUDITED)
Last 10 Years**

| | December 31, 2015 | December 31, 2014 |
|---|-------------------|-------------------|
| Proportion of the net pension liability | 0.05204% | 0.05480% |
| Proportionate share of the net pension liability | \$ 1,427,761 | \$ 1,354,267 |
| Covered - employee payroll | \$ 1,983,696 | \$ 1,882,443 |
| Proportionate share of the net pension liability as a percentage of covered payroll | 71.97% | 71.94% |
| Plan fiduciary net position as a percentage of the total pension liability | 78.40% | 79.28% |

Notes to Schedule:

Change in Benefit Terms: The figures above do not include any liability impact that may have resulted from plan changes which occurred after December 31, 2013 as they have minimal cost impact. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes in assumptions: None.

Omitted years: GASB Statement No. 68 was implemented effective the year ended December 31, 2014. No information was available prior to this date.

**SCHEDULE OF CONTRIBUTIONS TO THE PENSION PLAN - MISCELLANEOUS PLAN (UNAUDITED)
Last 10 Years**

| | December 31, 2015 | December 31, 2014 |
|---|-------------------|-------------------|
| Contractually required contribution (actuarially determined) | \$ 171,806 | \$ 175,689 |
| Contributions in relation to the actuarially determined contributions | (171,806) | (175,689) |
| Contribution deficiency (excess) | \$ - | \$ - |
| Covered - employee payroll | \$ 1,983,696 | \$ 1,882,443 |
| Contributions as a percentage of covered - employee payroll | 8.66% | 9.33% |

Notes to Schedule:

Valuation date: June 30, 2014 and 2015

Methods and assumptions used to determine contribution rates:

| | |
|-------------------------------|---|
| Single Employers Example | Entry age normal |
| Amortization method | Level percentage of payroll, closed |
| Remaining amortization period | 15 years |
| Asset valuation method | 5-year smoothed market |
| Inflation | 2.75% |
| Salary increases | 3.0%, average, including inflation of 2.75% |
| Investment rate of return | 7.50%, net of pension plan investment expense, including inflation |
| Retirement age | 50 years |

Omitted years: GASB Statement No. 68 was implemented effective the year ended December 31, 2014. No information was available prior to this date.

(This page intentionally left blank.)



STATISTICAL SECTION

(This page intentionally left blank.)

STATISTICAL SECTION

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

| <u>Content</u> | <u>Page</u> |
|--|--------------------|
| Financial Trends <i>These schedules contain trend information to help the reader understand how the District's financial performance and well-being changed over time.</i> | 40-41 |
| Revenue Capacity <i>These schedules contain information to help the reader assess the District's most significant local revenue source, water sales.</i> | 42-43 |
| Debt Capacity <i>These schedules present information to help the reader assess the affordability of the District's current level of outstanding debt and the District's ability to issue additional debt in the future.</i> | 44-45 |
| Demographic and Economic Information <i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place.</i> | 46-47 |
| Operating Information <i>This schedule contains service and infrastructure data to help the reader understand how the information in the District's financial report relates to the services the District provides and the activities it performs.</i> | 48 |

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

| | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | Restated <u>2014</u> | <u>2015</u> |
|------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|--------------------------------|----------------------|
| Net Position: | | | | | | | | | | |
| Investment in Capital Assets | \$ 20,643,625 | \$ 25,744,218 | \$ 28,663,487 | \$ 32,957,747 | \$ 36,143,021 | \$ 36,197,173 | \$ 35,623,666 | \$ 35,424,939 | \$ 35,938,143 | \$ 35,615,871 |
| Restricted | 1,565,938 | 658,757 | 716,979 | 769,652 | 131,956 | 149,242 | 199,256 | 208,561 | - | 144,521 |
| Unrestricted | 8,712,916 | 7,073,566 | 7,910,025 | 5,467,470 | 4,271,833 | 5,141,753 | 5,757,356 | 5,541,390 | 4,494,411 | 5,823,154 |
| Total Net Position** | <u>\$ 30,922,479</u> | <u>\$ 33,476,541</u> | <u>\$ 37,290,491</u> | <u>\$ 39,194,869</u> | <u>\$ 40,546,810</u> | <u>\$ 41,488,168</u> | <u>\$ 41,580,278</u> | <u>\$ 41,174,890</u> | <u>\$ 40,432,554</u> | <u>\$ 41,583,546</u> |

*2013 and prior do not reflect the net pension liability adjustment for GASB No. 68 and 71, as this information is not available.

Source:
District Finance Department

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

| | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>Restated 2014</u> | <u>2015</u> |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|-------------------|------------------|---------------------|--------------------------|---------------------|
| Operating Revenues: | | | | | | | | | | |
| Water Sales | \$ 7,723,313 | \$ 7,750,758 | \$ 8,021,890 | \$ 7,879,245 | \$ 7,852,909 | \$ 7,820,836 | \$ 8,108,701 | \$ 8,235,897 | \$ 7,761,988 | \$ 7,495,787 |
| Water Service and Other | <u>191,424</u> | <u>208,188</u> | <u>390,150</u> | <u>317,359</u> | <u>267,417</u> | <u>368,100</u> | <u>778,709</u> | <u>385,818</u> | <u>253,614</u> | <u>351,270</u> |
| Total Operating Revenues | 7,914,737 | 7,958,946 | 8,412,040 | 8,196,604 | 8,120,326 | 8,188,936 | 8,887,410 | 8,621,715 | 8,015,602 | 7,847,057 |
| Operating Expenses: | | | | | | | | | | |
| Water Supply and Pumping | \$ 1,321,268 | \$ 1,447,945 | \$ 1,627,386 | \$ 1,817,561 | \$ 1,852,188 | \$ 1,826,476 | \$ 1,880,380 | \$ 1,941,976 | \$ 1,737,491 | \$ 1,734,274 |
| Operations and Maintenance | 1,401,320 | 1,357,354 | 1,473,302 | 1,331,725 | 1,450,664 | 1,704,238 | 1,737,874 | 1,662,383 | 1,572,160 | 1,583,836 |
| Customer Service | 399,124 | 428,692 | 410,906 | 482,922 | 490,695 | 607,873 | 559,441 | 530,104 | 462,377 | 473,289 |
| Administrative and General | 994,004 | 1,099,417 | 1,004,510 | 1,007,540 | 1,001,210 | 1,079,018 | 1,092,915 | 1,151,121 | 1,232,436 | 1,252,214 |
| Depeciation and Amortization ^(a) | <u>1,711,211</u> | <u>1,971,789</u> | <u>1,879,709</u> | <u>1,811,067</u> | <u>2,101,370</u> | <u>2,220,108</u> | <u>1,563,549</u> | <u>2,127,795</u> | <u>2,149,267</u> | <u>2,140,364</u> |
| Total Operating Expenses | 5,826,927 | 6,305,197 | 6,395,813 | 6,450,815 | 6,896,127 | 7,437,713 | 6,834,159 | 7,413,379 | 7,153,731 | 7,183,977 |
| Net Income From Operations | 2,087,810 | 1,653,749 | 2,016,227 | 1,745,789 | 1,224,199 | 751,223 | 2,053,251 | 1,208,336 | 861,871 | 663,080 |
| Non-Operating Revenues (Expenses): | | | | | | | | | | |
| Interest Revenue | 610,556 | 508,938 | 318,554 | 78,743 | 36,438 | 28,182 | 19,420 | 12,916 | 14,785 | 17,955 |
| Other Revenues | 11,570 | 13,815 | 1,211,350 | 30,654 | 5,687 | 28,088 | 21,279 | 94,796 | 70,495 | 22,744 |
| Non-Capital Grant Revenue | - | 9,309 | 19,433 | - | 19,696 | - | - | - | - | - |
| Gain on Advance Refunding of Debt | - | - | - | - | - | - | 108,024 | - | - | - |
| SJWD 40-Inch Pipeline Rehabilitation | - | - | - | - | - | - | (2,222,824) | (1,744,930) | - | - |
| Interest Expense | <u>(208,204)</u> | <u>(179,779)</u> | <u>(147,620)</u> | <u>(116,511)</u> | <u>(104,058)</u> | <u>(22,257)</u> | <u>(1,577)</u> | <u>(1,214)</u> | <u>-</u> | <u>-</u> |
| Total Non-Operating Revenues (Expenses) | 413,922 | 352,283 | 1,401,717 | (7,114) | (42,237) | 34,013 | (2,075,678) | (1,638,432) | 85,280 | 40,699 |
| Net Income (Loss) Before Capital Contributions | 2,501,732 | 2,006,032 | 3,417,944 | 1,738,675 | 1,181,962 | 785,236 | (22,427) | (430,096) | 947,151 | 703,779 |
| Capital Contributions: | | | | | | | | | | |
| Connection Fees and Annexation Fees | 169,901 | 146,832 | 53,436 | 57,035 | 27,843 | 17,260 | 49,894 | - | 131,165 | 203,699 |
| Other Capital Revenues | 39,877 | 2,420 | 19,891 | 2,788 | 2,420 | 39,387 | 18,436 | 15,422 | 20,656 | 12,209 |
| Capital Contributions | - | 68,500 | 322,500 | 105,880 | 139,716 | 99,475 | 46,207 | 9,286 | - | 134,800 |
| Capital Grant Revenue | <u>1,030,162</u> | <u>330,278</u> | <u>179</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>96,505</u> |
| Total Capital Contributions | 1,239,940 | 548,030 | 396,006 | 165,703 | 169,979 | 156,122 | 114,537 | 24,708 | 151,821 | 447,213 |
| Changes in Net Position ^(b) | <u>\$ 3,741,672</u> | <u>\$ 2,554,062</u> | <u>\$ 3,813,950</u> | <u>\$ 1,904,378</u> | <u>\$ 1,351,941</u> | <u>\$ 941,358</u> | <u>\$ 92,110</u> | <u>\$ (405,388)</u> | <u>\$ 1,098,972</u> | <u>\$ 1,150,992</u> |

(a) Depreciation expenses for 2014 have been changed from amounts previously reported.

(b) 2013 and prior do not reflect the net pension liability adjustment for GASB No. 68 and 71, as this information is not available.

Source:
District Finance Department

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

| | <u>2006</u> | <u>2007</u> ^(b) | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> |
|--------------------------------|----------------|----------------------------|----------------|----------------|----------------|----------------|------------------|------------------|------------------|------------------|
| Water Sales: | | | | | | | | | | |
| Residential | \$ 6,844,879 | \$ 6,800,291 | \$ 7,079,853 | \$ 6,925,071 | \$ 6,909,458 | \$ 6,875,081 | \$ 6,851,292 | \$ 6,926,021 | \$ 6,504,193 | \$ 6,315,023 |
| Non-residential ^(a) | <u>878,434</u> | <u>950,467</u> | <u>942,037</u> | <u>954,174</u> | <u>943,451</u> | <u>945,755</u> | <u>1,257,409</u> | <u>1,309,876</u> | <u>1,257,795</u> | <u>1,180,764</u> |
| Total Water Sales | \$ 7,723,313 | \$ 7,750,758 | \$ 8,021,890 | \$ 7,879,245 | \$ 7,852,909 | \$ 7,820,836 | \$ 8,108,701 | \$ 8,235,897 | \$ 7,761,988 | \$ 7,495,787 |
| | | | | | | | | | | |
| Total Water Deliveries (AF) | 12,024 | 12,431 | 12,758 | 12,181 | 11,800 | 11,113 | 11,550 | 12,259 | 9,591 | 8,130 |
| | | | | | | | | | | |
| Rate per Acre Foot (AF) | \$ 642.32 | \$ 623.50 | \$ 628.77 | \$ 646.85 | \$ 665.50 | \$ 703.76 | \$ 702.05 | \$ 671.82 | \$ 809.30 | \$ 921.99 |

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

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

Source:

District Finance Department

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

| | <u>2015</u> | | | <u>2006</u> | | |
|---|-------------------------------------|-------------|---|-------------------------------------|-------------|---|
| | <u>Revenues</u> <u>Collected</u> | <u>Rank</u> | <u>Percent of</u> <u>Total Water Sales</u> | <u>Revenues</u> <u>Collected</u> | <u>Rank</u> | <u>Percent of</u> <u>Total Water Sales</u> |
| Rate Payers | | | | | | |
| Rollingwood, LLC | \$ 136,359 | 1 | 1.82% | \$ 31,901 | 4 | 0.41% |
| San Juan School District | 96,630 | 2 | 1.29% | 81,814 | 1 | 1.06% |
| Fair Oaks Park/Recreation District | 61,346 | 3 | 0.82% | 45,647 | 2 | 0.59% |
| Primrose HOA | 60,147 | 4 | 0.80% | | | |
| The Realty Associates Fund | 53,846 | 5 | 0.72% | | | |
| Sacramento Fair Oaks Blvd. Apts. LLC (Park Place) | 50,103 | 6 | 0.67% | | | |
| Watermarke Properties | 49,963 | 7 | 0.67% | | | |
| County of Sacramento | 44,657 | 8 | 0.60% | | | |
| Oakmont Properties Madison Hills | 35,709 | 9 | 0.48% | | | |
| Fountains of Fair Oaks | 34,094 | 10 | 0.45% | 27,135 | 5 | 0.35% |
| Bre Properties | | | | 45,167 | 3 | 0.58% |
| Madison Hills | | | | 23,339 | 6 | 0.30% |
| Village @ Fair Oaks | | | | 20,698 | 7 | 0.27% |
| The Lakes at Fair Oaks | | | | 16,859 | 8 | 0.22% |
| Huntcliff Apartments | | | | 15,449 | 9 | 0.20% |
| Fair Oaks Lake Apartments | | | | 15,140 | 10 | 0.20% |
| Total | \$ 622,854 | | 8.31% | \$ 323,150 | | 4.18% |
| Total Water Sales | \$ 7,495,787 | | | \$ 7,723,313 | | |

Source:
District Finance Department

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

| | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> |
|--|--------------|--------------|--------------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Debt: | | | | | | | | | | |
| 1999 Revenue Certificates of Participation | \$ 2,530,000 | \$ 1,910,000 | \$ 1,260,000 | \$ 570,000 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Capacity Entitlement Agreement | 1,558,912 | 1,374,525 | 1,186,413 | 990,851 | 582,963 | 370,638 | 114,237 | - | - | - |
| Total Debt | \$ 4,088,912 | \$ 3,284,525 | \$ 2,446,413 | \$ 1,560,851 | \$ 582,963 | \$ 370,638 | \$ 114,237 | \$ - | \$ - | \$ - |
| Number of Service Connections | 14,467 | 14,469 | 14,474 | 14,450 | 14,129 | 14,135 | 14,133 | 14,221 | 14,278 | 13,894 |
| Debt Per Capita | 282.64 | 227.00 | 169.02 | 108.02 | 41.26 | 26.22 | 8.08 | - | - | - |

Source:
District Finance Department

FAIR OAKS WATER DISTRICT
Schedule of Debt Service
Last Ten Years

| | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> |
|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------|-------------|
| Net Revenue | \$ 4,465,686 | \$ 4,145,317 | \$ 5,420,434 | \$ 3,662,758 | \$ 3,363,785 | \$ 3,057,550 | \$ 3,650,833 | \$ 3,442,139 | | |
| Debt Service | 982,004 | 984,166 | 985,732 | 1,002,073 | 1,081,946 | 234,582 | 149,954 | 115,451 | None | None |
| Coverage | 455% | 421% | 550% | 366% | 311% | 1303% | 2435% | 2981% | | |

Source:
District Finance Department

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

| | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-------------|
| Personal Income ⁽¹⁾ | \$ 50,165,916 | \$ 52,572,684 | \$ 54,332,238 | \$ 53,560,115 | \$ 52,811,960 | \$ 54,861,602 | \$ 60,668,975 | \$ 63,512,541 | \$ 65,126,187 | unavailable |
| Population ⁽¹⁾ | 1,362,328 | 1,373,585 | 1,386,469 | 1,400,949 | 1,422,094 | 1,436,105 | 1,450,121 | 1,462,131 | 1,482,026 | unavailable |
| Per Capita Personal Income ⁽¹⁾ | \$ 36,824 | \$ 38,274 | \$ 39,187 | \$ 38,231 | \$ 37,137 | \$ 38,202 | \$ 41,837 | \$ 43,438 | \$ 43,944 | unavailable |
| Unemployment Rate ⁽²⁾ | 4.8% | 5.4% | 7.1% | 11.3% | 12.8% | 12.1% | 10.6% | 8.8% | 7.3% | 6.0% |

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

Sources: _____

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

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

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

| <u>Employers</u> | <u>2015</u> | | | <u>2006</u> | | |
|--|-----------------------|-------------|----------------------------------|-----------------------|-------------|----------------------------------|
| | <u>Total Employee</u> | <u>Rank</u> | <u>Percent of Total Employed</u> | <u>Total Employee</u> | <u>Rank</u> | <u>Percent of Total Employed</u> |
| State of California | 74,329 | 1 | 11.48% | 67,467 | 1 | 10.56% |
| Sacramento County | 10,598 | 2 | 1.64% | 14,408 | 2 | 2.26% |
| UC Davis Health System | 9,706 | 3 | 1.50% | 7,901 | 3 | 1.24% |
| US Government | 9,668 | 4 | 1.49% | | | |
| Sutter Health Sacramento Sierra Region | 8,817 | 5 | 1.36% | | | |
| San Juan Unified School District | 7,523 | 6 | 1.16% | 5,775 | 8 | 0.90% |
| Kaiser Permanente | 6,464 | 7 | 1.00% | 6,656 | 6 | 1.04% |
| Dignity Health | 6,286 | 8 | 0.97% | | | |
| Intel Corp. | 6,200 | 9 | 0.96% | 7,000 | 4 | 1.10% |
| Elk Grove Unified School District | 5,758 | 10 | 0.89% | | | |
| Sacramento City Unified School District | | | | 7,000 | 4 | 1.10% |
| Los Rios Community College District | | | | 6,000 | 7 | 0.94% |
| City of Sacramento | | | | 5,105 | 9 | 0.80% |
| Mercy/Catholic Healthcare West | | | | 4,897 | 10 | 0.77% |
| Total | 145,349 | | 22.44% | 132,209 | | 20.70% |
| Total Employed by Sacramento County⁽²⁾ | 647,600 | | | 638,600 | | |

*Information prior to 2006 was not available.

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

Sources:

⁽¹⁾Sacramento Business Journal

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

FAIR OAKS WATER DISTRICT
Operating Information
Last Ten Years

| | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> |
|-------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Water Services: | | | | | | | | | | |
| Number of Service Connections | 14,467 | 14,469 | 14,474 | 14,450 | 14,129 | 14,135 | 14,133 | 14,221 | 14,278 | 13,894 |
| Annual Demand in AF | 12,024 | 12,431 | 12,758 | 12,181 | 11,800 | 11,113 | 11,550 | 12,259 | 9,591 | 8,130 |
| Average Daily Demand in MGD | 10.73 | 11.09 | 11.39 | 10.87 | 10.53 | 9.92 | 10.31 | 10.90 | 8.56 | 7.26 |
| Maximum Day Demand in MGD | 20.39 | 21.08 | 21.65 | 20.65 | 20.00 | 20.48 | 19.65 | 20.80 | 15.98 | 11.82 |
| Meters: | | | | | | | | | | |
| New Installations | 947 | 1,213 | 1,317 | 1,086 | 1,116 | 218 | 69 | 26 | 4 | 115 |
| Replacement | 103 | 92 | 90 | 554 | 281 | 723 | 223 | 708 | 454 | 493 |
| Leaks: | | | | | | | | | | |
| Water Main | 16 | 9 | 17 | 8 | 4 | 3 | 22 | 21 | 17 | 19 |
| Service | 66 | 30 | 26 | 9 | 10 | 25 | 28 | 44 | 32 | 61 |
| Hydrants: | | | | | | | | | | |
| New Installations | 2 | - | 1 | - | - | 9 | 3 | 3 | 2 | 13 |
| Upgrades | 14 | 27 | 24 | 14 | 5 | 1 | 7 | 8 | 13 | 31 |
| Main Line Valves: | | | | | | | | | | |
| New Installations | 17 | 3 | 16 | 1 | - | 21 | 3 | 9 | 5 | 44 |
| Replacement | 14 | 19 | - | 1 | 2 | - | 2 | 7 | 24 | |
| Services: | | | | | | | | | | |
| New Installations | 18 | 3 | - | | 3 | 5 | 12 | 4 | 4 | 115 |
| Replacement | 857 | 619 | 856 | 853 | 899 | 271 | 108 | 51 | 59 | 95 |
| Major Facilities: | | | | | | | | | | |
| Wells | 7 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 |
| Tank | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Booster Station | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Pressure Regulation Valves | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 |
| Miles of Pipeline | 180 | 180 | 180 | 180 | 180 | 180 | 180 | 180 | 180 | 180 |
| Personnel (FTE) | | | | | | | | | | |
| Customer Service | 5 | 4 | 4.5 | 4 | 4.5 | 5 | 4.5 | 5 | 3 | 3 |
| Administration | 4.5 | 4 | 4 | 4 | 4 | 4 | 4.5 | 5 | 5 | 5 |
| Operations | 5 | 5 | 6 | 6 | 4.5 | 5 | 5 | 5 | 5 | 5 |
| Water Supply & Pumping | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Maintenance | 21 | 23.84 | 20.1 | 19.9 | 21.4 | 19.3 | 14.9 | 13.3 | 15 | 15 |
| Total (FTE)* | 36 | 37.8 | 35.6 | 34.9 | 35.4 | 34.3 | 29.9 | 29.3 | 29.0 | 29.0 |

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

Source:
District Finance Department



COMPLIANCE SECTION

(This page intentionally left blank.)



550 Howe Avenue, Suite 210
Sacramento, California 95825

Telephone: (916) 564-8727
FAX: (916) 564-8728

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Fair Oaks Water District (the District) as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 25, 2016.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

To the Board of Directors
Fair Oaks Water District

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance.

Richardson & Company, LLP

May 25, 2016

FAIR OAKS WATER DISTRICT
SCHEDULE OF PRIOR YEAR FINDINGS

For the Year Ended December 31, 2015

STATUS OF PRIOR YEAR AUDIT FINDINGS – FINANCIAL STATEMENT AUDIT

Depreciation Calculation

We noted during our prior year audit that the District's capital asset system was not calculating depreciation correctly when the District changed the useful lives of certain assets in 2008. An adjustment was made to correct the accumulated depreciation; however, we recommend that the District review the calculations performed by the system when changes are made to useful lives as well as checking the system on a periodic basis to ensure the calculations are correct. During our current year audit, we noted the District is properly calculating depreciation on capital assets, and has made the corrections in the capital asset system.



10326 Fair Oaks Boulevard
Fair Oaks, CA 95628
Tel: (916) 967-5723
Fax: (916) 967-0153
www.fowd.com