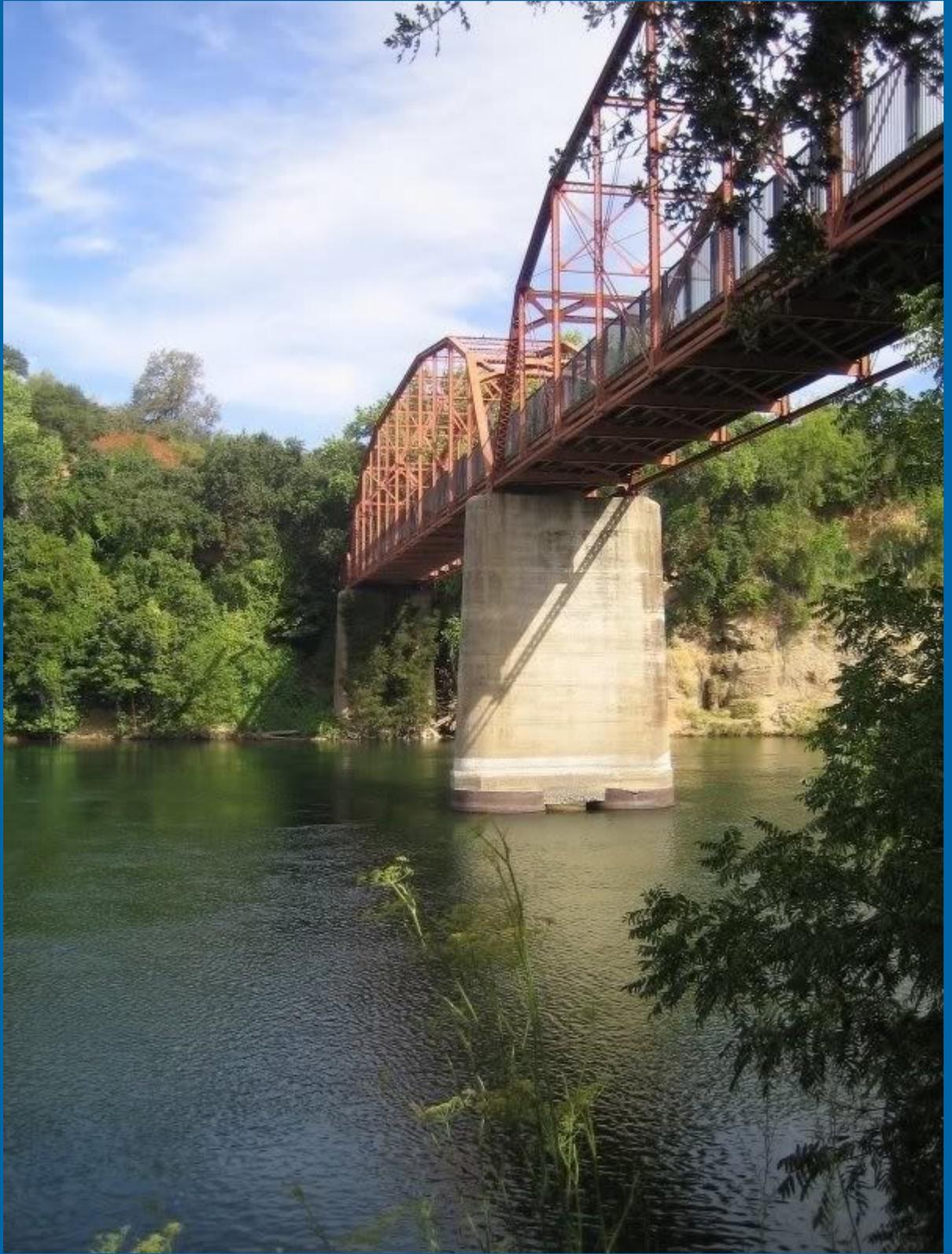


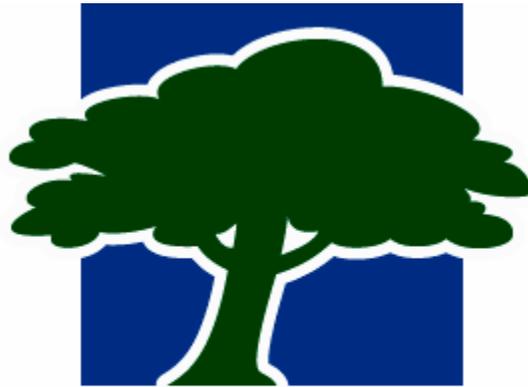


COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEARS ENDED DECEMBER 31, 2020 & 2019

FAIR OAKS WATER DISTRICT — Fair Oaks, California





**FAIR OAKS
WATER DISTRICT**

Fair Oaks, California

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

**YEARS ENDED
DECEMBER 31, 2020 and 2019**

*Prepared By
Finance Department*

FAIR OAKS WATER DISTRICT
COMPREHENSIVE ANNUAL FINANCIAL REPORT

December 31, 2020 and 2019

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INTRODUCTORY SECTION



April 9, 2020

The Board of Directors
Fair Oaks Water District

The Fair Oaks Water District (“District”) hereby submits the Comprehensive Annual Financial Report (CAFR) for the years ended December 31, 2020 and 2019. 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 the governing board. Based upon these criteria, the Fair Oaks Water District Financing Corporation (the Financing Corporation) is considered a component unit of the District.

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. On March 26, 2017, the District celebrated 100 years of service to the community.

The District is a retail water agency supplying water to a population of approximately 36,200 people on approximately 6,240 acres in Fair Oaks and a small portion of Orangevale. The District purchases a majority of its water from San Juan Water District (“San Juan”) as treated water, and delivers it to approximately 14,390 residential and commercial service

connections. Additionally, the District maintains six groundwater wells, 185.59 miles of pipeline, 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 20 new service connections per year from the demand for semi-custom housing in the Fair Oaks area.

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 an 8% rate increase from its wholesale water supplier in 2021. 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 in the 2021 budget as adopted on November 9, 2020.

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. The District completed upgrading existing Winding Way and Minnesota PRV Station in 2020. Additional projects scheduled for 2021 include:

| PROJECT DESCRIPTION | ESTIMATED COSTS |
|---|-----------------|
| New York Well Design | \$ 220,000 |
| New York Well Drilling and Equipping | \$ 1,600,000 |
| Skyway Tank Site Test Hole and Design | \$ 160,000 |
| Skyway Tank Site Drilling and Equipping | \$ 1,200,000 |
| Town Well Rehabilitation | \$ 70,000 |

Infrastructure and Water Delivery

The District continues to repair and replace aging infrastructure throughout its system. The District completed Hazel Avenue Improvement Project Phases I & II and Winding Way/Chicago Creek in 2020. Additional projects scheduled for 2021 include:

| PROJECT DESCRIPTION | ESTIMATED COSTS |
|--|-----------------|
| Replace 12-inch Steel Water Main on New York Ave. South of New York Well | \$ 824,000 |
| Replace 12-inch Steel Water Main on New York Ave. North of New York Well | \$ 871,000 |
| Riverfront Lane Services Upgrade | \$ 100,000 |
| County Hazel Avenue Improvement Project Phase III from Sunset Avenue to Madison Avenue | \$ 700,000 |

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 manufacturers' recommended replacement schedule, District's maintenance records, and policy related to meter accuracy.

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 last long-term financial document developed was for 2012-2016. The District prepares financial projections for five years during annual budget planning.

Water Efficiency

Efficient water use is an integral component of the District's operations. The District's water efficiency program was developed to meet local, state, and federal guidelines such as those outlined by the: State of California, Sacramento 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 low flow toilet incentive rebate program; offered in partnership with the Sacramento Regional County Sanitation District and Regional Water Authority.
- Water use analysis program for single family and multi-family residential customers.
- The water efficiency school poster contest. This program reaches out to grades 4 through 6 within the District, stressing an annual water efficiency 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 efficiency 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 water is needed for environmental purposes. Participating members are motivated to plan for and meet the greater Sacramento areas' water needs through the year 2030 and beyond, 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, 2020, the budget was adopted on November 18, 2019. This annual financial plan established project priorities based upon District goals, policies and water supply needs. The budget was 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 was 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 worked with a budget committee, which extensively reviewed the proposed budget. The proposed budget was 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, so the COP fund is no longer required but is kept in the policy for possible future use.

Other Information

Independent Audit

California Government Code Section 26909 requires independent annual audits to be conducted for special districts. JJACPA, Inc. was selected to conduct the annual audit of 2020 District operations. The auditor's report is included in the financial section of the Comprehensive Annual Financial Report.

Awards and Acknowledgements

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

The Fair Oaks Water District received an award for its submission of the fiscal year 2019 Comprehensive Annual Financial Report for the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association (GFOA). This was the 19th 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, 2019

Christopher P. Morill

Executive Director/CEO

**FAIR OAKS WATER DISTRICT
PRINCIPAL DISTRICT OFFICIALS**

BOARD OF DIRECTORS – ELECTED OFFICIALS

| <u>Name</u> | <u>Title</u> | <u>Division</u> |
|--------------------|---------------------|------------------------|
| Gary Page | President | Division 3 |
| Misha Sarkovich | Vice President | Division 5 |
| Randy Marx | Director | Division 4 |
| Michael McRae | Director | Division 2 |
| Nadine Reid | Director | Division 1 |

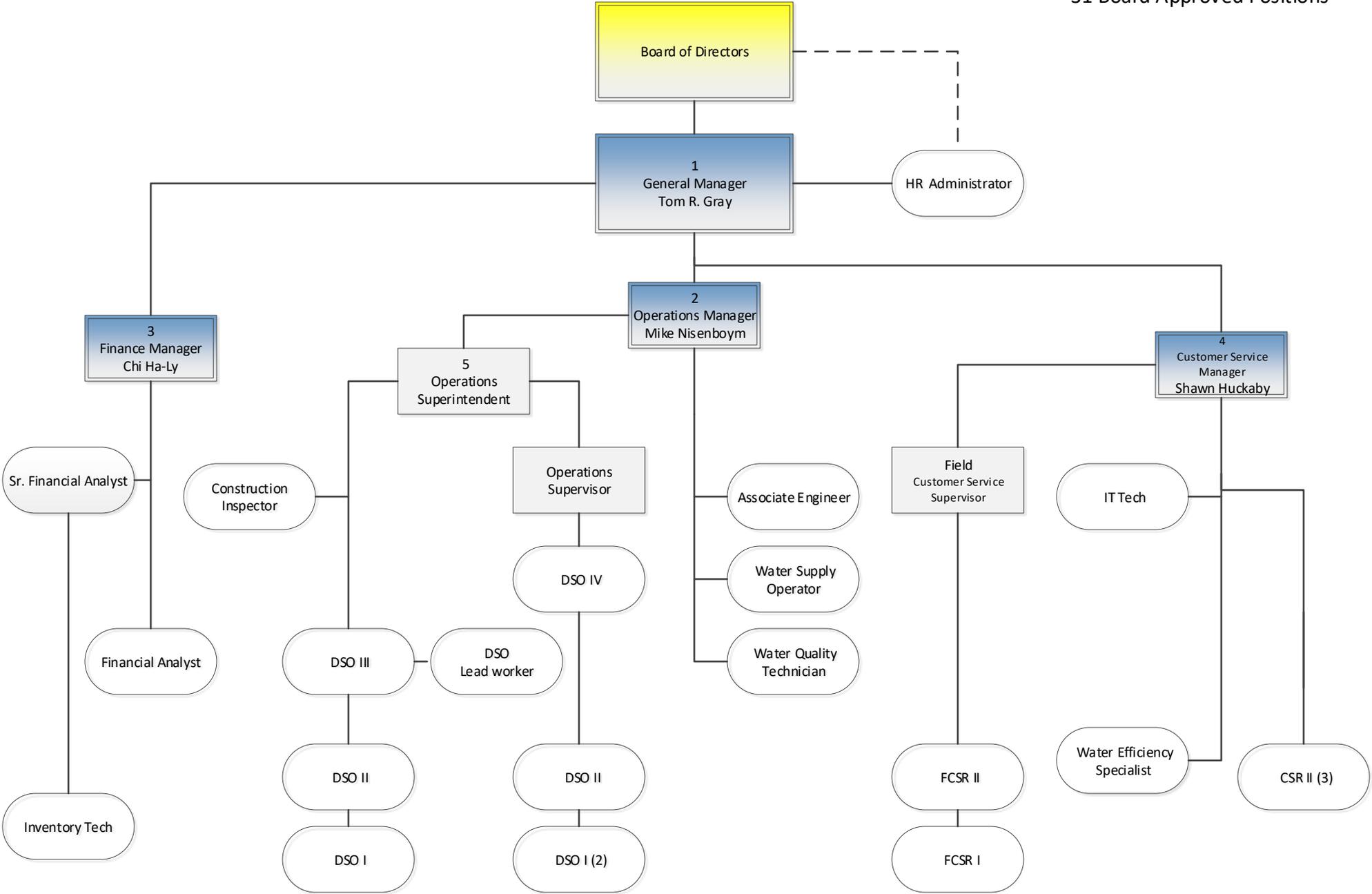
MANAGEMENT

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

Fair Oaks Water District Organization Chart

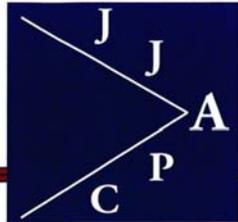
2020 / 2019 CAFR

31 Board Approved Positions





FINANCIAL SECTION



JJACPA, Inc.

A Professional Accounting Services Corp.

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Fair Oaks Water District (District), as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents. The prior year comparative information has been derived from the District's December 31, 2019 financial statements, in which an unqualified opinion was expressed on April 8, 2020, on those financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 of the
Fair Oaks Water District
Fair Oaks, California
Page 2

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2020 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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 11 and other required supplementary information on page 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory and statistical sections 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 9, 2021, 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.

April 9, 2021

JJACPA, Inc.
JJACPA, Inc.
Dublin, CA

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

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 years ended December 31, 2020 and 2019. 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 had no rate increase in 2020 and 2019.

- The net position of the District for 2020 was \$45,470,595 and for 2019 was \$43,920,071. The unrestricted net position amounts, \$6,256,477 for 2020 and \$6,043,969 for 2019, may be used to meet the District's ongoing obligations to citizens and creditors. The District has designated \$2.5 and \$2.6 million of the unrestricted net position for emergencies and rate stabilization for 2020 and 2019, respectively.
- The District's total net position increased by \$1,550,524 in 2020 and decreased by \$1,442,706 in 2019. The net increase in 2020 was primarily from contributed capital assets. The net decrease in 2019 was primarily due to the Fair Oaks 40-inch Pipeline Rehabilitation Project.
- Water sales increased by \$274,417 in 2020 due to additional water connections and increased in water consumption. The District received revenue of \$133,475 in 2020 and \$24,037 in 2019 from transferring water to other agencies. Other operating revenues decreased by \$97,280 due to decreased development.
- Water supply and pumping had a net decrease of \$121,114 in 2020. Operations and maintenance costs had a net increase of \$320,454 in 2020. Customer service costs had a net increase of \$94,130 in 2020. Administration and general costs had a net decrease of \$177,460 in 2020. The net increase in the operating expenses was due to water system fees, salaries and benefits, system maintenance, regional support and professional services. The net decrease in water supply and pumping was attributed to a decrease in wholesale water supply costs.

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).

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 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 2020 and 2019.

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

The financial statements can be found on pages 12 to 15.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the financial data provided in the financial statements. The notes to the financial statements can be found on pages 16 to 34 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 selected District information over a 10-year period. This information can be found on pages 35 to 45 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 and deferred outflows of resources

exceeded liabilities and deferred inflows of resources by \$45,470,595 as of the current fiscal year.

The largest portion of the District's net position (84 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment). The District uses these capital assets to provide water delivery to its users. Consequently, these assets are not available for future spending.

Fair Oaks Water District Net Position

| | 2020 | 2019 | 2018 |
|-------------------------------|---------------|---------------|---------------|
| Current assets | \$ 11,770,363 | \$ 11,937,850 | \$ 13,431,780 |
| Other assets | 49,874 | 49,874 | 165,209 |
| Capital assets | 38,283,094 | 36,229,598 | 36,994,582 |
| Total assets | 50,103,331 | 48,217,322 | 50,591,571 |
| Deferred outflow of resources | 747,087 | 747,047 | 742,698 |
| Current liabilities | 1,827,555 | 1,866,843 | 3,156,468 |
| Non-current liabilities | 3,195,180 | 2,850,685 | 2,535,093 |
| Total liabilities | 5,022,735 | 4,717,528 | 5,691,561 |
| Deferred inflow of resources | 357,088 | 326,770 | 279,931 |
| Net Position: | | | |
| Investment in capital assets | 38,283,094 | 36,229,598 | 36,994,582 |
| Restricted | 931,024 | 1,646,504 | 1,620,304 |
| Unrestricted | 6,256,477 | 6,043,969 | 6,747,891 |
| Total net position | \$ 45,470,595 | \$ 43,920,071 | \$ 45,362,777 |

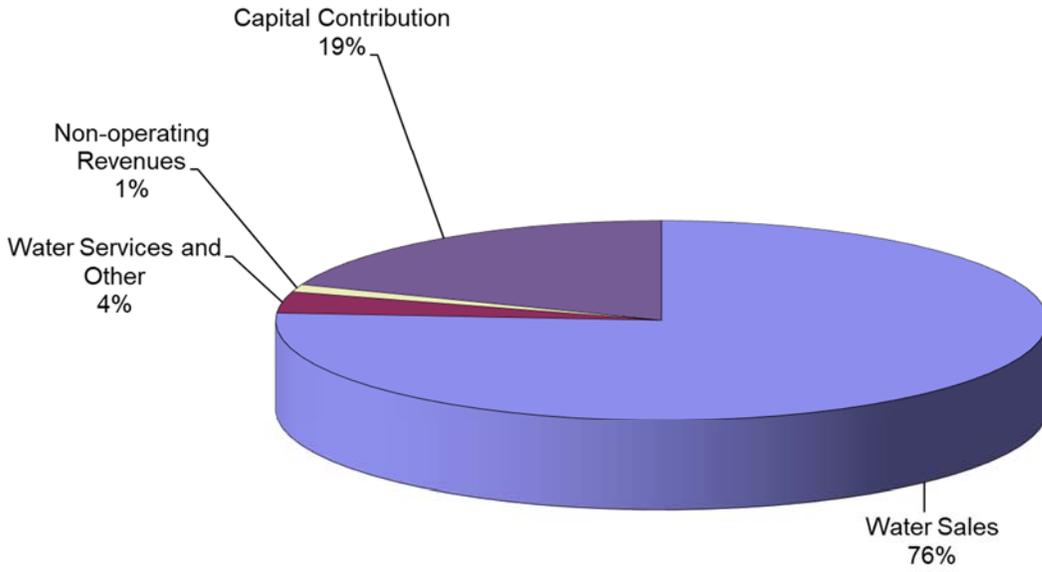
The increase in net position in 2020 is due to an increase in capital contributions and water sales. The decrease in net position in 2019 was primarily due to the Fair Oaks-40 Rehabilitation Project. The increase in net position in 2018 was due to an increase in connection fees and water sales.

A portion of the District's net position (two percent for 2020) represents resources that are subject to external restrictions on how they may be used. The 2019 and 2018 restricted net position were related to connection fees that were not expended by year-end. The District has also designated \$2.5M in 2020, \$2.6M in 2019, and \$2.4M in 2018 for emergencies and rate stabilization (see footnote F, page 26).

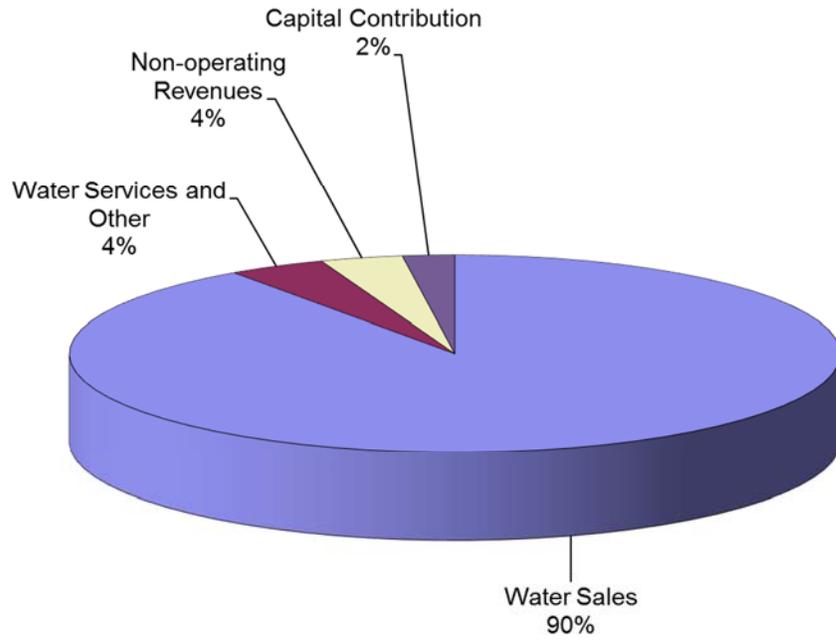
Fair Oaks Water District Changes in Net Position

| | 2020 | 2019 | 2018 |
|----------------------------------|---------------|---------------|---------------|
| Operating Revenues: | | | |
| Water Sales | \$ 8,938,972 | \$ 8,664,555 | \$ 8,638,571 |
| Water Sales - Water Transfer | 133,475 | 24,037 | 397,293 |
| Water Services | 99,892 | 136,754 | 249,847 |
| Other | 172,225 | 232,643 | 180,428 |
| Total Operating Revenues | 9,344,564 | 9,057,989 | 9,466,139 |
| Non-Operating Revenues: | | | |
| Interest Revenue | 136,729 | 293,477 | 215,612 |
| Other Revenues | 5,224 | 38,228 | 38,372 |
| Total Non-Operating Revenues | 141,953 | 331,705 | 253,984 |
| Revenues Before Capital Contrib. | 9,486,517 | 9,389,694 | 9,720,123 |
| Capital Contributions: | | | |
| Contributed Assets | 1,978,901 | - | 196,603 |
| Capital Grant Revenue | 115,500 | - | - |
| Connections | 69,221 | 43,071 | 1,027,551 |
| Other Capital Revenues | 86,071 | 166,436 | 73,228 |
| Total Capital Contributions | 2,249,693 | 209,507 | 1,297,382 |
| Total Revenues | 11,736,210 | 9,599,201 | 11,017,505 |
| Operating Expenses: | | | |
| Water Supply and Pumping | 2,628,409 | 2,749,523 | 2,608,597 |
| Operations and Maintenance | 2,492,361 | 2,171,907 | 1,915,621 |
| Customer Service | 662,646 | 568,516 | 551,642 |
| Administrative and General | 1,647,115 | 1,824,575 | 1,524,294 |
| Depreciation and Amortization | 2,590,206 | 2,445,861 | 2,396,432 |
| Total Operating Expenses | 10,020,737 | 9,760,382 | 8,996,586 |
| Non-Operating Expenses: | | | |
| Pipeline Rehabilitation | 164,949 | 1,281,525 | 1,415,654 |
| Total Non-Operating Expenses | 164,949 | 1,281,525 | 1,415,654 |
| Total Expenses | 10,185,686 | 11,041,907 | 10,412,240 |
| Increase in Net Position | 1,550,524 | (1,442,706) | 605,265 |
| Net Position January 1 | 43,920,071 | 45,362,777 | 44,757,512 |
| Net Position December 31 | \$ 45,470,595 | \$ 43,920,071 | \$ 45,362,777 |

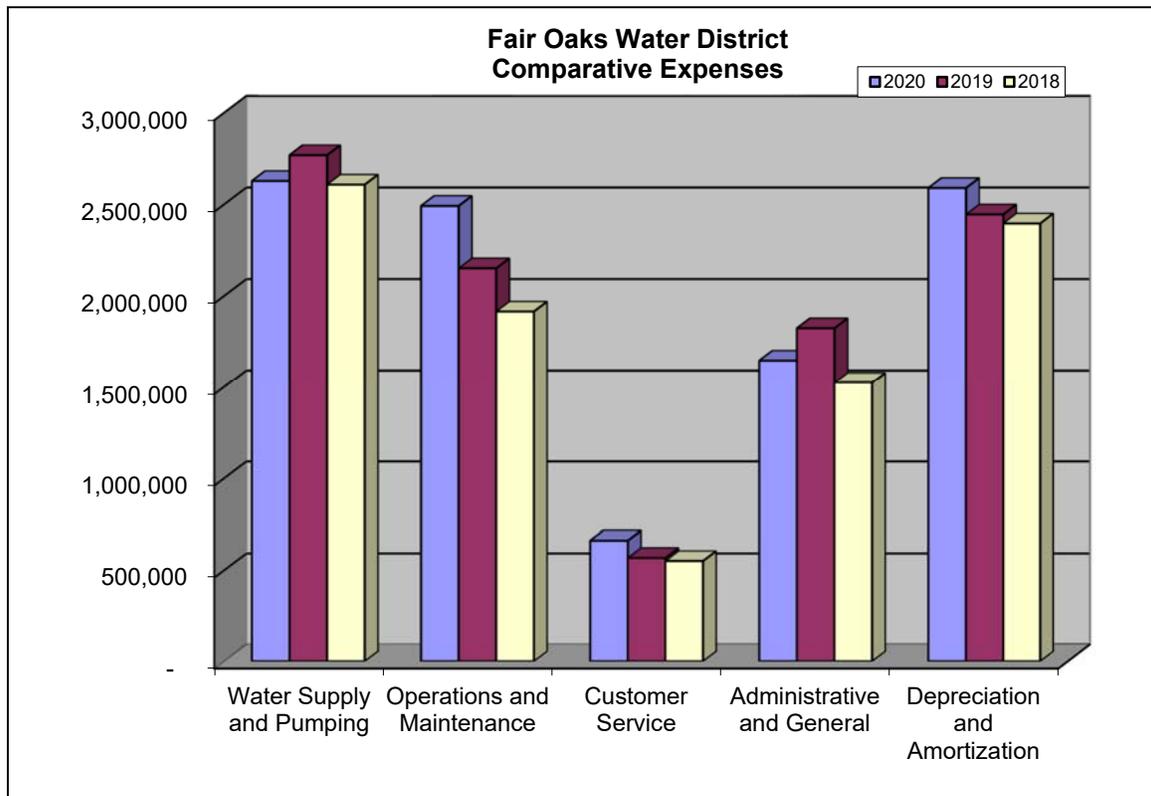
**Fair Oaks Water District
2020 Revenues by Source**



**Fair Oaks Water District
2019 Revenues by Source**



- Water sales increased by \$274,417 (3.17%) in 2020, increased by \$25,894 (less than one percent) in 2019, and increased by \$816,290 (10.44%) in 2018. The increase in water revenues in 2020 was attributed to higher water consumption and increase in service connections. The increase in 2019 was due to increase in service connections. The increase in 2018 water revenues was due to the 10% water rate increase and increase in water demand. The District did not have any water rate changes in 2020 or 2019.
- Interest income decreased by \$156,748 in 2020, increased by \$77,865 in 2019, and increased by \$142,299 in 2018 due to market interest rate fluctuations and investment balances.



- The operations and maintenance had a net increase of \$320,454 in 2020, a net increase of \$256,286 in 2019 and a net decrease in 2018 of \$130,118. The net increase in 2020 was primarily due to a net increase in salaries and benefits of \$264,715, a net increase in distribution repairs and maintenance of \$85,709 and a net decrease in system maintenance, equipment repairs and maintenance and other costs of \$29,970. The net increase in 2019 was primarily due to a net increase pension expense of \$253,807. The net decrease in 2018 was primarily due to a net decrease in salaries and benefits of \$13,739, decrease in pension expense of \$98,667, a net decrease in water system fees of \$12,887 and a net decrease of system maintenance, equipment repairs and maintenance and other costs of \$4,825.
- Customer service had a net increase of \$94,130 in 2020, a net increase of \$16,874 in 2019, and a net increase of \$18,562 in 2018. The net increase in 2020 was due to a

net increase in salaries and benefits of \$85,830, a net increase in customer billing processing of \$7,629 and a net increase in water efficiency of \$671. The net increase in 2019 was due to a net increase in salaries and benefits of \$18,030 and \$4,766 in water efficiency and a net decrease in bill processing and other expenses of \$5,922. The net increase in 2018 was primarily due to the salaries and benefits.

- Administration and general expenses had a net decrease of \$177,460 in 2020, a net increase of \$300,281 in 2019, and a net decrease of \$27,372 in 2018. The net decrease in 2020 was due to a net decrease in professional services of \$124,133, a net decrease in dues and regional support of \$27,811, a net decrease in training, travel, maintenance agreements and other costs of \$25,516. The net increase in 2019 was due to net increase of professional services of \$176,188, salaries and benefits of \$93,498 (\$80,839 is pension expense), insurance of \$19,484 and all other expenses of \$11,111. The net decrease in 2018 was primarily due to the net decrease in professional services of \$33,740, a net decrease in pension expenses of \$27,377, a net increase in salaries and benefits of \$12,300, an increase in election expense of \$24,560, a net increase in utilities of \$10,003, and a net increase of dues and regional support of \$9,827, and a net increase of all office expenses of \$4,427.
- Water supply costs had a net decrease of \$121,114 in 2020, a net increase in 2019 of \$140,926, and a net increase in 2018 of \$270,376. The net decrease in 2020 was due to the decrease in wholesale water supply cost of \$190,497, an increase in energy cost of \$81,151 and a net decrease of other water supply related costs of \$11,768. The 2019 and 2018 net increases were due to increases in wholesale water supply cost and increase in water demand.

Capital Asset and Debt Administration

The District's investment in capital assets as of December 31, 2020, amounts to \$38,283,094 (net of accumulated depreciation and amortization). This investment in capital assets includes land, buildings, system and distribution construction and improvements, machinery and equipment, wells, tanks, office equipment, and vehicles. The total net increase in investment in capital assets for the current fiscal year was 5.7 percent.

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

- The District completed the Hazel Avenue Improvement Project Phases I & II with total cost of \$2,238,179.
- The District completed Winding Way at Chicago Creek Project with total cost of \$238,945.
- Approximately \$940,175 was spent on various individual service line upgrades, minor main upgrades and hydrant upgrades in 2020.
- The District completed upgrading existing Winding Way at Minnesota PRV Station in 2020 with a total cost of \$32,052.
- The District incurred a cost of \$304,225 for the metering program in 2020.

Fair Oaks Water District Capital Assets, net of depreciation

| | 2020 | 2019 | 2018 |
|---|---------------|---------------|---------------|
| Intangible Asset | | | |
| Capacity Entitlements | \$ 3,956,248 | \$ 3,956,248 | \$ 3,956,248 |
| Less: Amort. - Cap. Entitlements | (2,324,294) | (2,225,388) | (2,126,481) |
| Total Intangible Asset | 1,631,954 | 1,730,860 | 1,829,767 |
| Capital Assets, not being depreciated: | | | |
| Land | 1,619,438 | 1,619,438 | 1,619,438 |
| Construction in Progress | 1,686,344 | 3,031,333 | 2,626,931 |
| Total Capital Assets, not being depreciated | 3,305,782 | 4,650,771 | 4,246,369 |
| Capital Assets, being depreciated: | | | |
| Wells and Pumps | 4,799,919 | 4,941,043 | 4,960,000 |
| Transmission and Distribution System | 20,137,132 | 18,116,279 | 18,836,778 |
| Maintenance Equipment | 161,855 | 177,316 | 190,352 |
| Trucks, Trailers, and Mobile Equipment | 443,312 | 341,081 | 258,806 |
| Buildings | 1,936,964 | 2,040,341 | 2,143,804 |
| Office Equipment and Furnishings | 88,728 | 187,715 | 269,204 |
| Contributed Distribution Systems | 5,316,113 | 3,545,777 | 3,728,917 |
| Water Tank and Pumping | 461,335 | 498,415 | 530,585 |
| Total Capital Assets, being depreciated | 33,345,358 | 29,847,967 | 30,918,446 |
| Total | \$ 38,283,094 | \$ 36,229,598 | \$ 36,994,582 |

Additional information on the capital assets can be found in Note C on pages 23 to 25 of this report.

Long-Term Debt

At the end of 2020, 2019 and 2018, the District has no outstanding debt.

Economic Factors and assumptions in preparing the 2021 Budget and Rates

- The unemployment rate for the greater Sacramento County in which the District resides averaged 9.3% in 2020, up from an averaged 3.7% in 2019.
- The District is largely built out, serving approximately 14,390 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 2021.
- Health benefit costs are expected to increase 5% in 2021.
- The District's 2021 budget shows a shortfall in revenues and intends to use the reserve to fund the shortfall.

All of these factors were considered in preparing the District's budget for the 2021 fiscal year.

Economic Factors related to future water supply

The District is currently working to revise our Wholesale Water Supply Agreement, which could result in a financial impact related to future water purchases.

The District is currently completing an analysis of how to meet future water supply demand relative to groundwater and surface water – future implementation of a new water supply strategy may have a financial impact to the District.

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

FAIR OAKS WATER DISTRICT
STATEMENTS OF NET POSITION
December 31, 2020 and 2019

| | 2020 | 2019 |
|--|----------------------|----------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 10,536,412 | \$ 10,781,666 |
| Accounts receivable | 40,451 | 54,674 |
| Due from other government | 252,369 | 116,330 |
| Water service receivable | 480,201 | 479,975 |
| Interest receivable | 18,191 | 60,379 |
| Inventory | 175,482 | 189,112 |
| Prepaid expenses | 267,257 | 255,714 |
| TOTAL CURRENT ASSETS | <u>11,770,363</u> | <u>11,937,850</u> |
| NON-CURRENT ASSETS | | |
| Dues on deposit | 49,874 | 49,874 |
| Capital assets not depreciated | 3,305,782 | 4,650,771 |
| Capital assets depreciated, net | 33,345,358 | 29,847,967 |
| Capacity entitlements, net | 1,631,954 | 1,730,860 |
| TOTAL NON-CURRENT ASSETS | <u>38,332,968</u> | <u>36,279,472</u> |
| TOTAL ASSETS | <u>50,103,331</u> | <u>48,217,322</u> |
| Deferred outflow of resources - pension activities | <u>747,087</u> | <u>747,047</u> |
| TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES | <u>\$ 50,850,418</u> | <u>\$ 48,964,369</u> |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 557,515 | \$ 606,595 |
| Accrued expenses | 37,457 | 10,280 |
| Accrued payroll expense | 47,798 | 119,702 |
| Deposits | 18,620 | 18,679 |
| Unearned revenue | 1,045,267 | 1,003,352 |
| Compensated absences | 120,898 | 108,235 |
| TOTAL CURRENT LIABILITIES | <u>1,827,555</u> | <u>1,866,843</u> |
| NON-CURRENT LIABILITIES | | |
| Compensated absences | 120,898 | 108,235 |
| Net pension liability | 3,074,282 | 2,742,450 |
| TOTAL NON-CURRENT LIABILITIES | <u>3,195,180</u> | <u>2,850,685</u> |
| TOTAL LIABILITIES | <u>5,022,735</u> | <u>4,717,528</u> |
| Deferred inflow of resources - pension activities | <u>357,088</u> | <u>326,770</u> |
| NET POSITION | | |
| Investment in capital assets | 38,283,094 | 36,229,598 |
| Restricted: | | |
| Connection fees | 931,024 | 1,646,504 |
| Unrestricted | 6,256,477 | 6,043,969 |
| TOTAL NET POSITION | <u>45,470,595</u> | <u>43,920,071</u> |
| TOTAL LIABILITIES, NET POSITION AND DEFERRED INFLOW OF RESOURCES | <u>\$ 50,850,418</u> | <u>\$ 48,964,369</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, 2020 and 2019

| | <u>2020</u> | <u>2019</u> |
|---|----------------------|----------------------|
| OPERATING REVENUES | | |
| Water sales | \$ 8,938,972 | \$ 8,664,555 |
| Water sales - water transfer | 133,475 | 24,037 |
| Water services | 99,892 | 136,754 |
| Other | 172,225 | 232,643 |
| TOTAL OPERATING REVENUES | <u>9,344,564</u> | <u>9,057,989</u> |
| OPERATING EXPENSES | | |
| Water supply and pumping | 2,628,409 | 2,749,523 |
| Operations and maintenance | 2,492,361 | 2,171,907 |
| Customer service | 662,646 | 568,516 |
| Administrative and general | 1,647,115 | 1,824,575 |
| Depreciation and amortization | 2,590,206 | 2,445,861 |
| TOTAL OPERATING EXPENSES | <u>10,020,737</u> | <u>9,760,382</u> |
| NET INCOME FROM OPERATIONS | (676,173) | (702,393) |
| NON-OPERATING REVENUES (EXPENSES) | | |
| Interest revenue | 136,729 | 293,477 |
| Pipeline rehabilitation | (164,949) | (1,281,525) |
| Other revenues | 5,224 | 38,228 |
| TOTAL NON-OPERATING REVENUES (EXPENSES) | <u>(22,996)</u> | <u>(949,820)</u> |
| NET (LOSS) INCOME BEFORE CAPITAL CONTRIBUTIONS | (699,169) | (1,652,213) |
| CAPITAL CONTRIBUTIONS | | |
| Contributed assets | 1,978,901 | |
| Connection fees | 69,221 | 43,071 |
| Capital Grants | 115,500 | |
| Other capital revenues | 86,071 | 166,436 |
| TOTAL CAPITAL CONTRIBUTIONS | <u>2,249,693</u> | <u>209,507</u> |
| CHANGE IN NET POSITION | 1,550,524 | (1,442,706) |
| Net position at beginning of year | <u>43,920,071</u> | <u>45,362,777</u> |
| NET POSITION AT END OF YEAR | <u>\$ 45,470,595</u> | <u>\$ 43,920,071</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, 2020 and 2019

| | 2020 | 2019 |
|--|----------------------|----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash receipts from customers | \$ 9,384,539 | \$ 9,354,228 |
| Cash paid to suppliers | (4,997,796) | (5,217,795) |
| Cash paid to employees | (2,412,172) | (2,200,547) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 1,974,571 | 1,935,886 |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES | | |
| Pipeline rehabilitation | (164,949) | (2,557,591) |
| NET CASH USED BY NON-CAPITAL FINANCING ACTIVITIES | (164,949) | (2,557,591) |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Proceeds from disposal of capital assets | 5,224 | 38,228 |
| Connection fees | 69,221 | 43,071 |
| Other capital revenues | 86,071 | 166,436 |
| Purchases of capital assets | (2,389,648) | (1,372,821) |
| NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES | (2,229,132) | (1,125,086) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest received | 174,256 | 274,496 |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | 174,256 | 274,496 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (245,254) | (1,472,295) |
| Cash and cash equivalents at beginning of year | 10,781,666 | 12,253,961 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | \$ 10,536,412 | \$ 10,781,666 |

(Continued)

FAIR OAKS WATER DISTRICT

STATEMENTS OF CASH FLOWS (Continued)

For the years ended December 31, 2020 and 2019

| | 2020 | 2019 |
|--|---------------------|---------------------|
| RECONCILIATION OF NET INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | | |
| Net income from operations | \$ (676,173) | \$ (702,393) |
| Adjustments to reconcile net income from operations to net cash provided by operating activities: | | |
| Reclassifications of construction in progress | 6,571 | 92,266 |
| Depreciation and amortization | 2,590,206 | 2,445,861 |
| Changes in fair value | 4,661 | 29,966 |
| Changes in assets and liabilities: | | |
| Accounts receivable and due from other governments | (6,316) | 237,100 |
| Water service receivable | (226) | 2,399 |
| Inventory | 13,630 | (35,925) |
| Prepaid expenses | (11,543) | (77,589) |
| Accounts payable | (330,804) | (121,261) |
| Accrued expenses | 27,177 | (332,948) |
| Accrued payroll expense | (71,904) | 12,250 |
| Deposits | (59) | (429) |
| Unearned revenue | 41,915 | 27,203 |
| Deferred inflow/outflow | 30,278 | 42,490 |
| Net pension liability | 331,832 | 314,288 |
| Compensated absences | 25,326 | 2,608 |
| | <u>\$ 1,974,571</u> | <u>\$ 1,935,886</u> |
| SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES | | |
| Receipt of contributed assets | \$ 1,978,901 | \$ - |

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

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2020 and 2019

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, 2020 and 2019

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

considered a jointly governed organization. The District has only a residual equity interest in the related entity, and is not liable for the liabilities of the entities if they dissolve under the related JPA agreement. However, Senate Bill 1912, effective January 1, 2019, requires members of a JPA that participates in a public retirement system to agree on the apportionment of the JPA's retirement liability to the members of the JPA if the JPA dissolves or otherwise terminates its contract with the public retirement system. 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.

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2020 and 2019

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

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.

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.

Capital Assets: Capital assets are recorded at historical cost. Contributed assets are valued at acquisition 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 |

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2020 and 2019

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

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.

Inventory: Inventories are stated at cost, 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.

Deferred Outflows and Inflows of Resources: In addition to liabilities, the statement of net position reports separate sections for deferred outflows and deferred inflows of resources. *Deferred outflows of resources* represent a consumption of net position by the government that is applicable to a future reporting period. *Deferred inflows of resources* represent an acquisition of net position that is applicable to a future reporting period. These amounts will not be recognized as an outflow of resources (expense) or an inflow of resources (revenue) until the earnings process is complete. Deferred outflows and inflows of resources represent amounts deferred related to the District's pension plan under the GASB 68 as described in Note G.

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.

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

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2020 and 2019

NOTE B – CASH AND INVESTMENTS

Cash and investments as of December 31, 2020 and 2019 consisted of the following:

| | 2020 | 2019 |
|--|---------------|---------------|
| Cash on hand | \$ 2,450 | \$ 2,372 |
| Deposits with financial institutions | 230,066 | 203,193 |
| Total cash | 232,516 | 205,565 |
| Investments in Local Agency Investment Fund (LAIF) | 10,303,896 | 10,576,101 |
| Total investments | 10,303,896 | 10,576,101 |
| Total cash and cash equivalents | \$ 10,536,412 | \$ 10,781,666 |

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.

During the year ended December 31, 2020 and 2019, the District's permissible investments included the following instruments:

| Authorized Investment Type* | Maximum Maturity | Maximum Percentage Of Portfolio | Maximum Investment In One Issuer |
|---|---------------------|---------------------------------------|--|
| 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.

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2020 and 2019

NOTE B – CASH AND INVESTMENTS (Continued)

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:

| | 2020 | | 2019 | |
|------|---------------|---|---------------|---|
| | Total | <u>Remaining Maturity</u> 12 Months or Less | Total | <u>Remaining Maturity</u> 12 Months or Less |
| LAIF | \$ 10,303,896 | \$ 10,303,896 | \$ 10,576,101 | \$ 10,576,101 |

LAIF has an average maturity of 165 days and 226 days as of December 31, 2020 and 2019, respectively.

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

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2020 and 2019

NOTE B – CASH AND INVESTMENTS (Continued)

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, 2020, the carrying amount of the District's deposits was \$230,066 and the balance in financial institutions was \$421,062. Of the balance in financial institutions, \$250,000 was covered by federal depository insurance and \$171,062 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, 2019, the carrying amount of the District's deposits was \$203,193 and the balance in financial institutions was \$249,905. The total amount of \$249,905 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, 2020 by all public agencies in LAIF is \$107,374,468,594 managed by the State Treasurer. Of that amount, 3.28% is investments in structured notes and asset-backed securities. The total amount invested on December 31, 2019 by all public agencies in LAIF is \$88,927,564,494 managed by the State Treasurer. Of that amount, 2.79% is investments in structured notes and asset-backed securities. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2020 and 2019

NOTE C – CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2020 and 2019 are as follows:

| | Balance at January 1, 2020 | Additions | Disposals | Transfers and Adjustments | Balance at December 31, 2020 |
|--|----------------------------------|---------------------|-------------|------------------------------|------------------------------------|
| Intangible Asset | | | | | |
| Capacity Entitlements | \$ 3,956,248 | \$ - | \$ - | \$ - | \$ 3,956,248 |
| Less: Amortization | | | | | |
| Capacity Entitlements | (2,225,388) | (98,906) | - | - | (2,324,294) |
| Total Intangible Asset | \$ 1,730,860 | \$ (98,906) | \$ - | \$ - | \$ 1,631,954 |
| Capital assets, not being depreciated: | | | | | |
| Land | \$ 1,619,438 | \$ - | \$ - | \$ - | \$ 1,619,438 |
| Construction in progress | 3,031,333 | 2,464,823 | - | (3,809,812) | 1,686,344 |
| Subtotal capital assets not being depreciated | 4,650,771 | | | (3,809,812) | 3,305,782 |
| Total capital assets, not being deprec. | 6,381,631 | | | (3,809,812) | 4,937,736 |
| Capital assets, being depreciated: | | | | | |
| Wells and pumps | 7,381,194 | | | 32,052 | 7,413,246 |
| Transmission and distribution system | 41,169,513 | | (187,356) | 3,771,189 | 44,753,346 |
| Maintenance equipment | 572,830 | 4,471 | | | 577,301 |
| Trucks, trailers, and mobile equipment | 1,502,011 | 181,648 | | | 1,683,659 |
| Buildings | 3,738,489 | | | | 3,738,489 |
| Office equipment and furnishings | 1,261,181 | 20,430 | | | 1,281,611 |
| Contributed distribution systems | 8,735,613 | 1,978,901 | | | 10,714,514 |
| Water tank and pumping | 2,124,828 | | | | 2,124,828 |
| Total capital assets being depreciated, net | 66,485,659 | 2,185,450 | (187,356) | 3,803,241 | 72,286,994 |
| Less accumulated depreciation for: | | | | | |
| Wells and pumps | (2,440,151) | (173,176) | | | (2,613,327) |
| Transmission and distribution system | (23,053,234) | (1,750,336) | 187,356 | | (24,616,214) |
| Maintenance equipment | (395,514) | (19,932) | | | (415,446) |
| Trucks, trailers, and mobile equipment | (1,160,930) | (79,417) | | | (1,240,347) |
| Buildings | (1,698,148) | (103,377) | | | (1,801,525) |
| Office equipment and furnishings | (1,073,466) | (119,417) | | | (1,192,883) |
| Contributed distribution systems | (5,189,836) | (208,565) | | | (5,398,401) |
| Water tank and pumping | (1,626,413) | (37,080) | | | (1,663,493) |
| Total accumulated depreciation | (36,637,692) | (2,491,300) | 187,356 | - | (38,941,636) |
| Total capital assets being depreciated, net | 29,847,967 | (305,850) | - | 3,803,241 | 33,345,358 |
| Capital assets, net book value | \$36,229,598 | \$ (404,756) | \$ - | \$ (6,571) | \$ 38,283,094 |

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2020 and 2019

NOTE C – CAPITAL ASSETS (Continued)

| | Balance at January 1, 2019 | Additions | Disposals | Transfers and Adjustments | Balance at December 31, 2019 |
|--|----------------------------------|---------------------|----------------|------------------------------|------------------------------------|
| Intangible Asset | | | | | |
| Capacity Entitlements | \$ 3,956,248 | \$ - | \$ - | \$ - | \$ 3,956,248 |
| Less: Amortization | | | | | |
| Capacity Entitlements | (2,126,481) | (98,907) | - | - | (2,225,388) |
| Total Intangible Asset | <u>\$ 1,829,767</u> | <u>\$ (98,907)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,730,860</u> |
| Capital assets, not being depreciated: | | | | | |
| Land | \$ 1,619,438 | | \$ - | \$ - | \$ 1,619,438 |
| Construction in progress | 2,626,931 | 1,589,768 | - | (1,185,366) | 3,031,333 |
| Subtotal capital assets not being depreciated | 4,246,369 | 1,589,768 | | (1,185,366) | 4,650,771 |
| Total capital assets, not being deprec. | <u>6,076,136</u> | <u>1,490,861</u> | | <u>(1,185,366)</u> | <u>6,381,631</u> |
| Capital assets, being depreciated: | | | | | |
| Wells and pumps | 7,240,289 | | | 140,905 | 7,381,194 |
| Transmission and distribution system | 40,462,596 | | (245,278) | 952,195 | 41,169,513 |
| Maintenance equipment | 566,379 | 6,451 | | | 572,830 |
| Trucks, trailers, and mobile equipment | 1,527,131 | 141,098 | (166,218) | | 1,502,011 |
| Buildings | 3,738,489 | | | | 3,738,489 |
| Office equipment and furnishings | 1,236,682 | 31,352 | (6,853) | | 1,261,181 |
| Contributed distribution systems | 8,735,613 | | | | 8,735,613 |
| Water tank and pumping | 2,124,064 | 4,474 | (3,710) | | 2,124,828 |
| Total capital assets being depreciated, net | 65,631,243 | 183,375 | (422,059) | 1,093,100 | 66,485,659 |
| Less accumulated depreciation for: | | | | | |
| Wells and pumps | (2,280,289) | (159,862) | | | (2,440,151) |
| Transmission and distribution system | (21,625,818) | (1,672,694) | 245,278 | | (23,053,234) |
| Maintenance equipment | (376,027) | (19,487) | | | (395,514) |
| Trucks, trailers, and mobile equipment | (1,268,325) | (58,823) | 166,218 | | (1,160,930) |
| Buildings | (1,594,685) | (103,463) | | | (1,698,148) |
| Office equipment and furnishings | (967,478) | (112,841) | 6,853 | | (1,073,466) |
| Contributed distribution systems | (5,006,696) | (183,140) | | | (5,189,836) |
| Water tank and pumping | (1,593,479) | (36,644) | 3,710 | | (1,626,413) |
| Total accumulated depreciation | <u>(34,712,797)</u> | <u>(2,346,954)</u> | <u>422,059</u> | <u>-</u> | <u>(36,637,692)</u> |
| Total capital assets being depreciated, net | <u>30,918,446</u> | <u>(2,163,579)</u> | <u>-</u> | <u>1,093,100</u> | <u>29,847,967</u> |
| Capital assets, net book value | <u>\$36,994,582</u> | <u>\$ (672,718)</u> | <u>\$ -</u> | <u>\$ (92,266)</u> | <u>\$ 36,229,598</u> |

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2020 and 2019

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.

Depreciation and Amortization Reconciliation: Depreciation and amortization for 2020 of \$2,590,206 included capacity entitlements amortization of \$98,906 and capital assets depreciation of \$2,491,300. Depreciation and amortization for 2019 of \$2,346,954 included capacity entitlements amortization of \$98,907 and capital assets depreciation of \$2,445,861.

NOTE D – ECONOMIC DEPENDENCY

The District purchased 79.02% and 77.24% of its water supply from SJWD in 2020 and 2019, respectively. During the years ended December 31, 2020 and 2019, the District’s total cost for water purchases from SJWD were \$2,061,803 and \$2,252,300, respectively.

NOTE E – LONG-TERM LIABILITIES

The activity of the District’s long-term liabilities during the years ended December 31, 2020 and 2019 are as follows:

| <u>Description</u> | <u>Balance at January 1, 2020</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance at December 31, 2020</u> | <u>Due within One Year</u> |
|-------------------------------|---|-------------------|---------------------|---|--------------------------------|
| Compensated absences | \$ 216,470 | \$ 135,192 | \$ (109,866) | \$ 241,796 | <u>\$ 120,898</u> |
| Net pension liability | <u>2,742,450</u> | <u>331,832</u> | <u>-</u> | <u>3,074,282</u> | |
| Total | 2,958,920 | <u>\$ 467,024</u> | <u>\$ (109,866)</u> | 3,316,078 | |
| Less: Current portion | <u>(105,332)</u> | | | <u>(120,898)</u> | |
| Total non-current liabilities | <u>\$ 2,853,588</u> | | | <u>\$ 3,195,180</u> | |

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2020 and 2019

NOTE E – LONG-TERM LIABILITIES (Continued)

| Description | Balance at January 1, 2019 | Additions | Reductions | Balance at December 31, 2019 | Due within One Year |
|-------------------------------|----------------------------------|-------------------|---------------------|------------------------------------|------------------------|
| Compensated absences | \$ 213,862 | \$ 144,280 | \$ (141,672) | \$ 216,470 | <u>\$ 108,235</u> |
| Net pension liability | <u>2,428,162</u> | <u>314,288</u> | <u>-</u> | <u>2,742,450</u> | |
| Total | 2,642,024 | <u>\$ 458,568</u> | <u>\$ (141,672)</u> | 2,958,920 | |
| Less: Current portion | <u>(105,332)</u> | | | <u>(108,235)</u> | |
| Total non-current liabilities | <u>\$ 2,536,692</u> | | | <u>\$ 2,850,685</u> | |

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:

| | 2020 | 2019 |
|--|---------------------|---------------------|
| <u>Designated for Emergency:</u> | | |
| For capital projects, operating and maintenance expenses not currently budgeted | <u>\$ 2,475,700</u> | <u>\$ 2,622,800</u> |
| Total designated net position | <u>\$ 2,475,700</u> | <u>\$ 2,622,800</u> |

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2020 and 2019

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 rate plans:

- Miscellaneous Plan
- PEPRM Miscellaneous Plan

Benefit provisions under the Plan 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 0% in 2020 and 1% in 2019 of 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 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 PEPRM Miscellaneous Plan) with statutorily reduced benefits. All members are eligible for non-

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2020 and 2019

NOTE G – EMPLOYEES' RETIREMENT PLAN (Continued)

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, 2020 and 2019, 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 | 1.100% to 2.5% | 1.0% to 2.5% |
| Required employee contribution rates - January to June 2019 | 7.000% | 6.250% |
| Required employee contribution rates - July to December 2019 | 7.000% | 6.750% |
| Required employee contribution rates - January to June 2020 | 7.000% | 6.750% |
| Required employee contribution rates - July to December 2020 | 7.000% | 6.750% |
| Required employer contribution rates - January to June 2019 | 8.892% | 6.842% |
| Required employer contribution rates - July to December 2019 | 9.680% | 6.985% |
| Required employer contribution rates - January to June 2020 | 9.680% | 6.985% |
| Required employer contribution rates - July to December 2020 | 10.484% | 7.732% |

In addition to the contribution rates above, the District was required to make a payment of \$170,223 in 2020 and \$141,200 in 2019 toward its unfunded actuarial liability.

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 Plan 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.

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2020 and 2019

NOTE G – EMPLOYEES' RETIREMENT PLAN (Continued)

For the years ended December 31, 2020 and 2019, District's contributions to the Plan were \$205,071 and \$181,541, respectively. Employee contributions to the Plan, including those made by the District on behalf of the employees, totaled \$153,691 in 2020 and totaled \$144,340 in 2019.

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions: As of December 31, 2020 and 2019, the District reported a net pension liability for its proportionate share of the net pension liability of the Plan of \$3,074,282 and \$2,742,450, respectively.

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 Plan is measured as of June 30, 2020 and 2019, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019 and 2018 rolled forward to June 30, 2020 and 2019, 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 plan relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability as of June 30, 2020 and 2019 was as follows:

| | |
|------------------------------|-----------------|
| Proportion - June 30, 2019 | 0.06848% |
| Proportion - June 30, 2020 | <u>0.07288%</u> |
| Change - Increase (Decrease) | <u>0.00440%</u> |

For the years ended December 31, 2020 and 2019, the District recorded pension expense of \$640,725 and \$591,730 for the Plan. At December 31, 2020 and 2019 to the Plan from the following sources:

| | Deferred Outflows of Resources | | Deferred Inflows of Resources | |
|---|-----------------------------------|------------------|----------------------------------|---------------------|
| | 2020 | 2019 | 2020 | 2019 |
| Pension contributions subsequent to measurement date | \$ 278,615 | \$234,952 | \$ - | \$ - |
| Changes in assumptions | - | 130,772 | (21,927) | (46,358) |
| Difference between expected and actual experience | 158,427 | 190,475 | - | (14,758) |
| Change in employer's proportion | 218,719 | 190,847 | - | - |
| Differences between the employer's contribution and the employer's proportionate share of contributions | - | - | (335,161) | (217,707) |
| Net differences between projected and actual earnings on plan investments | <u>91,326</u> | <u>-</u> | <u>-</u> | <u>(47,947)</u> |
| Total | <u>\$ 747,087</u> | <u>\$747,046</u> | <u>\$ (357,088)</u> | <u>\$ (326,770)</u> |

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2020 and 2019

NOTE G – EMPLOYEES' RETIREMENT PLAN (Continued)

The \$278,615 and \$234,952 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, 2021 and 2020, 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 | |
|----------------------------------|-------------------|
| 2021 | \$ (5,821) |
| 2022 | 37,587 |
| 2023 | 35,816 |
| 2024 | <u>43,802</u> |
| | <u>\$ 111,384</u> |

| Fiscal Year Ended December 31 | |
|----------------------------------|-------------------|
| 2020 | \$ 185,777 |
| 2021 | (25,338) |
| 2022 | 15,197 |
| 2023 | <u>9,689</u> |
| | <u>\$ 185,325</u> |

Actuarial Assumptions: The total pension liabilities in the June 30, 2020 and 2019 actuarial valuations were determined using the following actuarial assumptions:

| | June 30, 2020 | June 30, 2019 |
|---------------------------|--|--|
| Valuation Date | June 30, 2019 | June 30, 2018 |
| Measurement Date | June 30, 2020 | June 30, 2019 |
| Actuarial Cost Method | Entry-Age Normal Cost Method | Entry-Age Normal Cost Method |
| Actuarial Assumptions: | | |
| Discount Rate | 7.15% | 7.15% |
| Inflation | 2.50% | 2.50% |
| Projected Salary Increase | Varies by Entry Age and Service | Varies by Entry Age and Service |
| Mortality | Derived using CalPERS Membership Data for all Funds | Derived using CalPERS Membership Data for all Funds |

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

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2020 and 2019

NOTE G – EMPLOYEES' RETIREMENT PLAN (Continued)

The underlying mortality assumptions used in the June 30, 2020 valuation includes 15 years of mortality improvements using Society of Actuaries Scale 90% MP 2016. For more details on this table, please refer to the December 2017 experience study report (based on CalPERS demographic data from 1997 to 2015) that can be found on the CalPERS website. The underlying mortality assumptions used in the June 30, 2017 valuation were based on the April 2014 CalPERS experience study for the period of 1997 to 2011. The underlying mortality assumptions used for all other actuarial assumptions used in June 30, 2017 were based on the results of the actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website.

Discount Rate: The discount rates used to measure the total pension liability were 7.15% as of both June 30, 2020 and 2019. The current rate of 7.15% reflects the long-term expected rate of return for the Plan net of investment expenses and without reduction for administrative expenses. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS used the amortization and smoothing periods adopted by the Board in 2013. For the Plan, the crossover test was performed for a miscellaneous agent plan selected as being more at risk of failing the crossover test and resulting in a discount rate that would be different from the long-term expected rate of return on pension investments. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The crossover test results are presented in a detailed report that can be obtained from the CalPERS website.

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 the short-term (first 10 years) and the long-term (11+ 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 rounded 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 to equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

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.

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2020 and 2019

NOTE G – EMPLOYEES' RETIREMENT PLAN (Continued)

| Asset Class | 2020 | | | 2019 | | |
|------------------|--------------------------|-----------------------------|--------------------------|--------------------------|-----------------------------|--------------------------|
| | New Strategic Allocation | Real Return Years 1 - 10(a) | Real Return Years 11+(b) | New Strategic Allocation | Real Return Years 1 - 10(c) | Real Return Years 11+(d) |
| Global Equity | 50.0% | 4.80% | 5.98% | 50.0% | 4.80% | 5.98% |
| Fixed Income | 28.0% | 1.00% | 2.62% | 28.0% | 1.00% | 2.62% |
| Inflation Assets | 0.0% | 0.77% | 1.81% | 0.0% | 0.77% | 1.81% |
| Private Equity | 8.0% | 6.30% | 7.23% | 8.0% | 6.30% | 7.23% |
| Real Assets | 13.0% | 3.75% | 4.93% | 13.0% | 3.75% | 4.93% |
| Liquidity | 1.0% | 0.00% | (0.92%) | 1.0% | 0.00% | (0.92%) |
| Total | 100.0% | | | 100.0% | | |

(a) An expected inflation of 2.0% used for this period.
 (b) An expected inflation of 2.92% used for this period.

(c) An expected inflation of 2.0% used for this period.
 (d) An expected inflation of 2.92% 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, calculated using the discount rate, 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% point lower or 1% point higher than the current rate:

| | 2020 | 2019 |
|-----------------------|--------------|--------------|
| 1% Decrease | 6.15% | 6.15% |
| Net Pension Liability | \$ 4,961,158 | \$ 4,578,900 |
| Current Discount Rate | 7.15% | 7.15% |
| Net Pension Liability | \$ 3,074,282 | \$ 2,742,450 |
| 1% Increase | 8.15% | 8.15% |
| Net Pension Liability | \$ 1,515,216 | \$ 1,226,590 |

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, 2020 and 2019, 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.

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2020 and 2019

NOTE I – INSURANCE

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

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

| Coverage | ACWA/JPIA | Commercial Insurance | Deductible |
|--|--------------|-------------------------|-------------------|
| General and Auto Liability (includes public officials' liability) | \$ 5,000,000 | \$ 50,000,000 | None |
| Property Damage | 100,000 | 500,000,000 | \$500 to \$50,000 |
| Fidelity | 100,000 | | 1,000 |
| Workers Compensation | 2,000,000 | Statutory | None |
| Employers Liability | 2,000,000 | | None |
| Cyber Liability | | 5,000,000 | 10,000 to 25,000 |

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, 2020.

- New York Well Design, Drilling and Equipping with an estimated cost of \$535,583.
- Skyway Well Design, Drilling and Equipping with an estimated cost of \$195,363.
- Capitola Main Replacement with an estimated cost of \$133,775.
- Sunset Avenue Main Replacement with an estimated cost of \$262,700.
- Fair Oaks Boulevard Main Replacement with an estimated cost of \$188,204.
- New Building Design with an estimated cost of \$200,020.

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

- Hazel Avenue Project Phase III in the next few years with an estimated cost of \$1,790,513.

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2020 and 2019

NOTE K – DUE FROM OTHER GOVERNMENT

The District signed an agreement with SJWD in 2017 for SJWD to reimburse the District for pumping groundwater from 2009 to 2014 totaling \$922,647. The 2014 portion of \$230,662 was received in 2017 and the 2009 to 2013 balance of \$691,985 will be received in quarterly installments of \$57,665 starting July 1, 2017. During the years ended December 31, 2020 and 2019, the receivable balances were \$0.00 and \$115,335, respectively.

NOTE L – NEW PRONOUNCEMENTS

GASB has issued the following statements which may impact the District's financial reporting requirements in the future. The District is currently analyzing the impact of implementing these new statements.

In June 2020, the GASB issued Statement No. 97, *Certain Component Unit Criteria, and accounting and financial reporting for internal revenue code section 457 deferred compensation plans – an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are (1) to increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with reporting of certain defined contribution pension plans, defined contribution other post-employment plan benefit (OPEB) plans, and employee benefit plans other than pension plans for OPEB plans as fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code section 457 deferred compensation plans that meet the definition of a pension plan and for benefits provided through those plans. The requirements of this Statement are effective for periods beginning after June 15, 2021.

In June 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. The objective of this Statement is to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

REQUIRED SUPPLEMENTAL INFORMATION

FAIR OAKS WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended December 31, 2020 and 2019

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

| Measurement Dates: | June 30, 2020 | June 30, 2019 | June 30, 2018 | June 30, 2017 | June 30, 2016 | June 30, 2015 | June 30, 2014 |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Proportion of the net pension liability | 0.07288% | 0.06848% | 0.06443% | 0.06274% | 0.05884% | 0.05204% | 0.05480% |
| Proportionate share of the net pension liability | \$ 3,074,282 | \$ 2,742,450 | \$ 2,428,162 | \$ 2,473,181 | \$ 2,044,170 | \$ 1,427,761 | \$ 1,354,267 |
| Covered payroll - measurement period | \$ 2,260,614 | \$ 2,096,825 | \$ 2,070,380 | \$ 1,983,103 | \$ 2,007,347 | \$ 1,911,508 | \$ 1,890,899 |
| Proportionate share of the net pension liability as a percentage of covered payroll | 135.99% | 130.79% | 117.28% | 124.71% | 101.83% | 74.69% | 71.62% |
| Plan fiduciary net position as a percentage of the total pension liability | 78.32% | 79.91% | 80.56% | 78.57% | 79.86% | 78.40% | 79.82% |

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: The discount rate was reduced from 7.65% to 7.15% in 2017.

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, 2020 | December 31, 2019 | December 31, 2018 | December 31, 2017 | December 31, 2016 | December 31, 2015 | December 31, 2014 |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Contractually required contribution (actuarially determined) | \$ 205,071 | \$ 181,541 | \$ 167,092 | \$ 166,074 | \$ 155,871 | \$ 171,806 | \$ 175,689 |
| Contributions in relation to the actuarially determined contributions | (205,071) | (181,541) | (167,092) | (166,074) | (155,871) | (171,806) | (175,689) |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Covered payroll - calendar year | \$ 2,259,411 | \$ 2,138,298 | \$ 2,059,085 | \$ 2,060,588 | \$ 1,966,712 | \$ 2,004,379 | \$ 1,888,603 |
| Contributions as a percentage of covered payroll | 9.08% | 8.49% | 8.11% | 8.06% | 7.93% | 8.57% | 9.30% |

Valuation Dates:

Methods and assumptions used to determine contribution rates:

| Method | June 30, 2018 | June 30, 2017 | June 30, 2016 | June 30, 2015 | June 30, 2014 | June 30, 2013 | June 30, 2012 |
|-------------------------------|-------------------------------------|---------------|----------------|-----------------|-----------------|-----------------|-----------------|
| Method | Entry age normal | | | | | | |
| Amortization method | Level percentage of payroll, closed | | | | | | |
| Remaining amortization period | 25 years | 25 years | 25 years | 12 years | 13 years | 14 years | 15 years |
| Asset valuation method | 5-year smoothed market | | | | | | |
| Inflation | 2.500% | 2.625% | 2.750% | 2.750% | 2.750% | 2.750% | 2.750% |
| Salary increases | 0.30% to 6.4% | 0.30% to 6.4% | 3.40% to 9.50% | 3.20% to 12.20% | 3.20% to 12.20% | 3.20% to 12.20% | 3.20% to 12.20% |
| Payroll growth | 2.750% | 2.875% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% |
| Investment rate of return | 7.000% | 7.250% | 7.375% | 7.50% | 7.50% | 7.50% | 7.50% |
| Retirement age | 50 years | | | | | | |

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.



STATISTICAL SECTION

STATISTICAL SECTION

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

| <u>Content</u> | <u>Page</u> |
|--|--------------------|
| Financial Trends <i>These schedules contain trend information to help the reader understand how the District's financial performance and well-being changed over time.</i> | 37-38 |
| Revenue Capacity <i>These schedules contain information to help the reader assess the District's most significant local revenue source, water sales.</i> | 39-40 |
| 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> | 41-42 |
| 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> | 43-44 |
| 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> | 45 |

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

| | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>2019</u> | <u>2020</u> |
|------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Net Position: | | | | | | | | | | |
| Investment in Capital Assets | \$ 36,197,173 | \$ 35,623,666 | \$ 35,424,939 | \$ 35,938,143 | \$ 35,615,871 | \$ 35,726,924 | \$ 36,734,853 | \$ 36,994,582 | \$ 36,229,598 | \$ 38,283,094 |
| Restricted | 149,242 | 199,256 | 208,561 | - | 144,521 | - | 584,895 | 1,620,304 | 1,646,504 | 931,024 |
| Unrestricted | 5,141,753 | 5,757,356 | 5,541,390 | 4,494,411 | 5,823,154 | 6,865,365 | 7,437,764 | 6,747,891 | 6,043,969 | 6,256,477 |
| Total Net Position* | <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> | <u>\$ 42,592,289</u> | <u>\$ 44,757,512</u> | <u>\$ 45,362,777</u> | <u>\$ 43,920,071</u> | <u>\$ 45,470,595</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>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>2019</u> | <u>2020</u> |
|--|-------------------|------------------|---------------------|---------------------|---------------------|---------------------|---------------------|-------------------|-----------------------|---------------------|
| Operating Revenues: | | | | | | | | | | |
| Water Sales | \$ 7,820,836 | \$ 8,108,701 | \$ 8,235,897 | \$ 7,761,988 | \$ 7,495,787 | \$ 7,661,048 | \$ 7,822,281 | \$ 8,638,571 | \$ 8,664,555 | \$ 8,938,972 |
| Water Sales-Groundwater | | | | | | | 922,647 | - | - | - |
| Water Sales-Water Transfer | | | | | | | | 397,293 | 24,037 | 133,475 |
| Water Service and Other | <u>368,100</u> | <u>778,709</u> | <u>385,818</u> | <u>253,614</u> | <u>351,270</u> | <u>309,614</u> | <u>496,810</u> | <u>430,275</u> | <u>369,397</u> | <u>272,117</u> |
| Total Operating Revenues | 8,188,936 | 8,887,410 | 8,621,715 | 8,015,602 | 7,847,057 | 7,970,662 | 9,241,738 | 9,466,139 | 9,057,989 | 9,344,564 |
| Operating Expenses: | | | | | | | | | | |
| Water Supply and Pumping | \$ 1,826,476 | \$ 1,880,380 | \$ 1,941,976 | \$ 1,737,491 | \$ 1,734,274 | \$ 1,951,434 | \$ 2,338,221 | \$ 2,608,597 | \$ 2,749,523 | \$ 2,628,409 |
| Operations and Maintenance | 1,704,238 | 1,737,874 | 1,662,383 | 1,572,160 | 1,583,836 | 1,959,525 | 2,045,739 | 1,915,621 | 2,171,907 | 2,492,361 |
| Customer Service | 607,873 | 559,441 | 530,104 | 462,377 | 473,289 | 479,512 | 533,080 | 551,642 | 568,516 | 662,646 |
| Administrative and General | 1,079,018 | 1,092,915 | 1,151,121 | 1,232,436 | 1,252,214 | 1,443,107 | 1,551,666 | 1,524,294 | 1,824,575 | 1,647,115 |
| Depeciation and Amortization | <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> | <u>2,262,124</u> | <u>2,325,912</u> | <u>2,396,432</u> | <u>2,445,861</u> | <u>2,590,206</u> |
| Total Operating Expenses | 7,437,713 | 6,834,159 | 7,413,379 | 7,153,731 | 7,183,977 | 8,095,702 | 8,794,618 | 8,996,586 | 9,760,382 | 10,020,737 |
| Net Income From Operations | 751,223 | 2,053,251 | 1,208,336 | 861,871 | 663,080 | (125,040) | 447,120 | 469,553 | (702,393) | (676,173) |
| Non-Operating Revenues (Expenses): | | | | | | | | | | |
| Interest Revenue | 28,182 | 19,420 | 12,916 | 14,785 | 17,955 | 48,255 | 73,313 | 215,612 | 293,477 | 136,729 |
| Other Revenues | 28,088 | 21,279 | 94,796 | 70,495 | 22,744 | 78,772 | 70,019 | 38,372 | 38,228 | 5,224 |
| Gain on Advance Refunding of Debt | | 108,024 | - | - | - | - | - | - | - | - |
| Pipeline Rehabilitation | - | (2,222,824) | (1,744,930) | - | - | - | (57,062) | (1,415,654) | (1,281,525) | (164,949) |
| Interest Expense | <u>(22,257)</u> | <u>(1,577)</u> | <u>(1,214)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Non-Operating Revenues (Expenses) | 34,013 | (2,075,678) | (1,638,432) | 85,280 | 40,699 | 127,027 | 86,270 | (1,161,670) | (949,820) | (22,996) |
| Net Income (Loss) Before Capital Contributions | 785,236 | (22,427) | (430,096) | 947,151 | 703,779 | 1,987 | 533,390 | (692,117) | (1,652,213) | (699,169) |
| Capital Contributions: | | | | | | | | | | |
| Connection Fees and Annexation Fees | 17,260 | 49,894 | - | 131,165 | 203,699 | 77,860 | 822,741 | 1,027,551 | 43,071 | 69,221 |
| Other Capital Revenues | 39,387 | 18,436 | 15,422 | 20,656 | 12,209 | 31,776 | 70,492 | 73,228 | 166,436 | 86,071 |
| Capital Contributions | 99,475 | 46,207 | 9,286 | - | 134,800 | 288,000 | 738,600 | 196,603 | - | 1,978,901 |
| Capital Grant Revenue | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>96,505</u> | <u>609,120</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>115,500</u> |
| Total Capital Contributions | 156,122 | 114,537 | 24,708 | 151,821 | 447,213 | 1,006,756 | 1,631,833 | 1,297,382 | 209,507 | 2,249,693 |
| Changes in Net Position ^(a) | <u>\$ 941,358</u> | <u>\$ 92,110</u> | <u>\$ (405,388)</u> | <u>\$ 1,098,972</u> | <u>\$ 1,150,992</u> | <u>\$ 1,008,743</u> | <u>\$ 2,165,223</u> | <u>\$ 605,265</u> | <u>\$ (1,442,706)</u> | <u>\$ 1,550,524</u> |

(a) 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>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018*</u> | <u>2019</u> | <u>2020</u> |
|--------------------------------|----------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Water Sales: | | | | | | | | | | |
| Residential | \$ 6,875,081 | \$ 6,851,292 | \$ 6,926,021 | \$ 6,504,193 | \$ 6,315,023 | \$ 6,444,271 | \$ 6,580,577 | \$ 7,260,156 | \$ 7,282,766 | \$ 7,534,167 |
| Non-residential ^(a) | <u>945,755</u> | <u>1,257,409</u> | <u>1,309,876</u> | <u>1,257,795</u> | <u>1,180,764</u> | <u>1,216,777</u> | <u>1,241,704</u> | <u>1,378,415</u> | <u>1,381,789</u> | <u>1,404,805</u> |
| Total Water Sales | \$ 7,820,836 | \$ 8,108,701 | \$ 8,235,897 | \$ 7,761,988 | \$ 7,495,787 | \$ 7,661,048 | \$ 7,822,281 | \$ 8,638,571 | \$ 8,664,555 | \$ 8,938,972 |
| | | | | | | | | | | |
| Total Water Deliveries (AF) | 11,113 | 11,550 | 12,259 | 9,591 | 8,130 | 8,701 | 9,576 | 9,691 | 9,399 | 10,452 |
| | | | | | | | | | | |
| Rate per Acre Foot (AF) | \$ 703.76 | \$ 702.05 | \$ 671.82 | \$ 809.30 | \$ 921.99 | \$ 880.48 | \$ 816.86 | \$ 891.40 | \$ 921.86 | \$ 855.24 |

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

* 2018 has been reclassified to reflect proper category.

Source:

District Finance Department

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

| | <u>2020</u> | | | <u>2011</u> | | |
|--------------------------------------|---------------------------|-------------|-------------------------------------|---------------------------|-------------|-------------------------------------|
| | <u>Revenues Collected</u> | <u>Rank</u> | <u>Percent of Total Water Sales</u> | <u>Revenues Collected</u> | <u>Rank</u> | <u>Percent of Total Water Sales</u> |
| Rate Payers | | | | | | |
| Rollingwood, LLC | \$ 147,910 | 1 | 1.65% | \$ 133,455 | 1 | 1.71% |
| San Juan School District | 101,229 | 2 | 1.13% | 78,093 | 2 | 1.00% |
| Fair Oaks Recreation & Park District | 93,817 | 3 | 1.05% | 52,103 | 4 | 0.67% |
| Primrose HOA | 66,747 | 4 | 0.75% | 50,526 | 5 | 0.65% |
| Watermarke Properties | 54,293 | 5 | 0.61% | 38,262 | 6 | 0.49% |
| NMC Madison Marketplace, LLC | 49,836 | 6 | 0.56% | | | |
| Sacramento Fair Oaks Blvd. Apts. LP | 37,513 | 7 | 0.42% | | | |
| Fair Oaks Fountains LLC | 34,067 | 8 | 0.38% | 28,513 | 8 | 0.36% |
| Madison Hills | 32,869 | 9 | 0.37% | 18,771 | 10 | 0.24% |
| County of Sacramento | 28,026 | 10 | 0.31% | | | |
| Village @ Fair Oaks | | | | 19,180 | 9 | 0.25% |
| The Realty Associates Fund | | | | 56,715 | 3 | 0.73% |
| Sacramento Bella Lago, LLC | - | | - | 31,818 | 7 | 0.41% |
| Total | \$ 646,307 | | 7.23% | \$ 507,436 | | 6.49% |
| Total Water Sales | \$ 8,938,972 | | | \$ 7,820,836 | | |

Source:
District Finance Department

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

| | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>2019</u> | <u>2020</u> |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Debt: | | | | | | | | | | |
| 1999 Revenue Certificates of Participation | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Capacity Entitlement Agreement | 370,638 | 114,237 | - | - | - | - | - | - | - | - |
| Total Debt | \$ 370,638 | \$ 114,237 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Number of Service Connections | 14,135 | 14,133 | 14,221 | 14,278 | 13,894 | 13,996 | 13,986 | 14,031 | 14,241 | 14,390 |
| Debt Per Capita | 26.22 | 8.08 | - | - | - | - | - | - | - | - |

Source:
District Finance Department

FAIR OAKS WATER DISTRICT
Schedule of Debt Service
Last Ten Years

| | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>2019</u> | <u>2020</u> |
|--------------|--------------|--------------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Net Revenue | \$ 3,057,550 | \$ 3,650,833 | \$ 3,442,139 | | | | | | | |
| Debt Service | 234,582 | 149,954 | 115,451 | None |
| Coverage | 1303% | 2435% | 2981% | | | | | | | |

Source:
District Finance Department

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

| | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>2019</u> | <u>2020</u> |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-------------|
| Personal Income ^{(1)*} | \$ 54,861,602 | \$ 60,668,975 | \$ 63,512,541 | \$ 65,126,187 | \$ 69,870,482 | \$ 72,878,458 | \$ 76,832,120 | \$ 80,969,087 | \$ 85,775,621 | unavailable |
| Population ⁽¹⁾ | 1,436,105 | 1,450,121 | 1,462,131 | 1,482,026 | 1,501,335 | 1,514,460 | 1,530,615 | 1,540,975 | 1,552,058 | unavailable |
| Per Capita Personal Income ⁽¹⁾ | \$ 38,202 | \$ 41,837 | \$ 43,438 | \$ 43,944 | \$ 46,539 | \$ 48,122 | \$ 50,197 | \$ 52,544 | \$ 55,266 | unavailable |
| Unemployment Rate ⁽²⁾ | 12.1% | 10.6% | 8.8% | 7.3% | 6.0% | 5.4% | 4.6% | 3.8% | 3.7% | 9.3% |

*Amounts are expressed in thousands.

**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

⁽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>2020</u> | | | <u>2011</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 | 77,172 | 1 | 12.03% | 70,937 | 1 | 11.94% |
| Kaiser Permanente | 15,585 | 2 | 2.43% | 6,367 | 7 | 1.07% |
| UC Davis Health System | 14,510 | 3 | 2.26% | 8,580 | 3 | 1.44% |
| Sacramento County | 12,360 | 4 | 1.93% | 11,300 | 2 | 1.90% |
| Sutter Health Sacramento Sierra Region | 10,764 | 5 | 1.68% | 6,958 | 4 | 1.17% |
| US Government | 10,559 | 6 | 1.65% | | | |
| Dignity Health | 7,871 | 7 | 1.23% | | | |
| Intel Corp. | 6,200 | 8 | 0.97% | 6,515 | 6 | 1.10% |
| Elk Grove Unified School District | 6,164 | 9 | 0.96% | 5,619 | 8 | 0.95% |
| San Juan Unified School District | 5,350 | 10 | 0.83% | 4,600 | 9 | 0.77% |
| Mercy/CHW | | | | 6,942 | 5 | 1.17% |
| Sacramento City Unified School District | - | | - | 4,500 | 10 | 0.76% |
| Total | 166,535 | | 25.97% | 132,318 | | 22.27% |
| Total Employed by Sacramento County⁽²⁾ | 641,600 | | | 594,100 | | |

*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

FAIR OAKS WATER DISTRICT
Operating Information
Last Ten Years

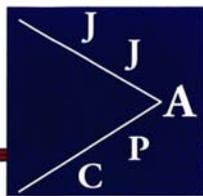
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|-------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Water Services: | | | | | | | | | | |
| Number of Service Connections | 14,135 | 14,133 | 14,221 | 14,278 | 13,894 | 13,996 | 13,986 | 14,031 | 14,241 | 14,390 |
| Annual Demand in AF | 11,113 | 11,550 | 12,259 | 9,591 | 8,130 | 8,701 | 9,576 | 9,691 | 9,399 | 10,452 |
| Average Daily Demand in MGD | 9.92 | 10.31 | 10.90 | 8.56 | 7.26 | 7.77 | 8.55 | 8.65 | 8.40 | 9.31 |
| Maximum Day Demand in MGD | 20.48 | 19.65 | 20.80 | 15.98 | 11.82 | 14.7 | 16.4 | 16.2 | 16.1 | 16.6 |
| Meters: | | | | | | | | | | |
| New Installations | 218 | 69 | 26 | 4 | 115 | 95 | 4 | 10 | 105 | 149 |
| Replacement | 723 | 223 | 708 | 454 | 493 | 195 | 295 | 113 | 134 | 121 |
| Leaks: | | | | | | | | | | |
| Water Main | 3 | 22 | 21 | 17 | 19 | 13 | 9 | 10 | 10 | 8 |
| Service | 25 | 28 | 44 | 32 | 61 | 35 | 45 | 28 | 40 | 41 |
| Hydrants: | | | | | | | | | | |
| New Installations | 9 | 3 | 3 | 2 | 13 | 6 | 4 | - | - | - |
| Upgrades | 1 | 7 | 8 | 13 | 31 | 13 | 17 | 17 | 12 | 12 |
| Main Line Valves: | | | | | | | | | | |
| New Installations | 21 | 3 | 9 | 5 | 44 | 17 | 2 | - | - | 2 |
| Replacement | - | 2 | 7 | 24 | - | 18 | - | 2 | 1 | 9 |
| Services: | | | | | | | | | | |
| New Installations | 5 | 12 | 4 | 4 | 115 | 95 | 4 | 17 | 105 | 149 |
| Replacement | 271 | 108 | 51 | 59 | 95 | 123 | 83 | 67 | 46 | 64 |
| Major Facilities: | | | | | | | | | | |
| Wells | 6 | 6 | 6 | 6 | 6 | 6 | 7 | 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 | 181.9 | 182.36 | 182.82 | 183.05 | 185.59 |
| Personnel (FTE) | | | | | | | | | | |
| Customer Service | 5 | 4.5 | 5 | 3 | 3 | 2.5 | 3 | 3 | 3 | 3 |
| Administration | 4 | 4.5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| Operations | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| Water Supply & Pumping | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Maintenance | 19.3 | 14.9 | 13.3 | 15 | 15 | 15 | 14.5 | 14 | 14 | 16 |
| Total (FTE)* | 34.3 | 29.9 | 29.3 | 29 | 29 | 28.5 | 28.5 | 28 | 28 | 30 |

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

Source:
District Finance Department



COMPLIANCE SECTION



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

INDEPENDENT AUDITOR'S REPORT

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Fair Oaks Water District (the District) as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated April 9, 2021.

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.

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.

April 9, 2021

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