

COMPREHENSIVE ANNUAL
FINANCIAL REPORT

YEARS ENDED DECEMBER 31, 2017 & 2016

FAIR OAKS WATER DISTRICT — Fair Oaks, California

100
FAIR OAKS
WATER DISTRICT



1917 - 2017

CELEBRATING
100 YEARS OF SERVICE



**FAIR OAKS
WATER DISTRICT**

Fair Oaks, California

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

**YEARS ENDED
DECEMBER 31, 2017 and 2016**

*Prepared By
Finance Department*

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FAIR OAKS WATER DISTRICT
COMPREHENSIVE ANNUAL FINANCIAL REPORT
December 31, 2017 and 2016

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INTRODUCTORY SECTION



March 7, 2018

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, 2017 and 2016. 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 13,986 residential and commercial service

connections. Additionally, the District maintains six groundwater wells, 182.36 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 10 new service connections per year from the demand for semi-custom housing in the Fair Oaks area.

The increase in water demand in 2017 compared to 2016 was a result of increased water consumption.

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 a 9% rate increase from its wholesale water supplier in 2018. 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 2018 budget as adopted on December 18, 2017.

Significant Projects and Future Plans

Water Supplies

Dry-year and emergency water supply are critical to the District’s ability to meet customer water demand under all conditions. In 2017, the District completed Madison Well and has been using it for pumping groundwater to meet customer water demand.

Infrastructure and Water Delivery

The District continues to repair and replace aging infrastructure throughout its system. The District completed the Cardinal Road Service replacement in 2017. Additional projects scheduled for 2018 include:

PROJECT DESCRIPTION	ESTIMATED COSTS
Blue Oak, Madison, Winding Oak. - Replacement of a 30-inch (600 LF) T-main (Phase I) from Blue Oak to Madison Avenue	\$ 1,000,000
Replacement of 1,450 LF of 18-inch steel main with 16-inch DIP on Gastman from Pennsylvania to Dory	\$ 25,000
Completing connections (12-inch PVC/DIP) on Tommar Drive and Shadowwood Way to separate from T-main. Installation of welded cap on T-main on Timothy Way and east of Fair Oaks Blvd.	\$ 250,000

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 toilet incentive rebate program; offered in partnership with the Sacramento Regional County Sanitation District and Regional Water Authority.
- Water survey program for single family and multi-family residential customers.
- The water 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, 2017, the budget was adopted October 10, 2016. This annual financial plan established project priorities based upon District goals, policies and water distribution 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. Richardson & Company, LLP was selected to conduct the annual audit of 2017 District operations. The auditor's report is included in the financial section of the Comprehensive Annual Financial Report.

Awards and Acknowledgements

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

The Fair Oaks Water District received an award for its submission of the fiscal year 2016 Comprehensive Annual Financial Report for the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association (GFOA). This was the 16th 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, 2016

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>
Misha Sarkovich	President	Division 5
Randy Marx	Vice President	Division 4
Gary Page	Director	Division 3
Michael McRae	Director	Division 2
Dave Underwood	Director	Division 1

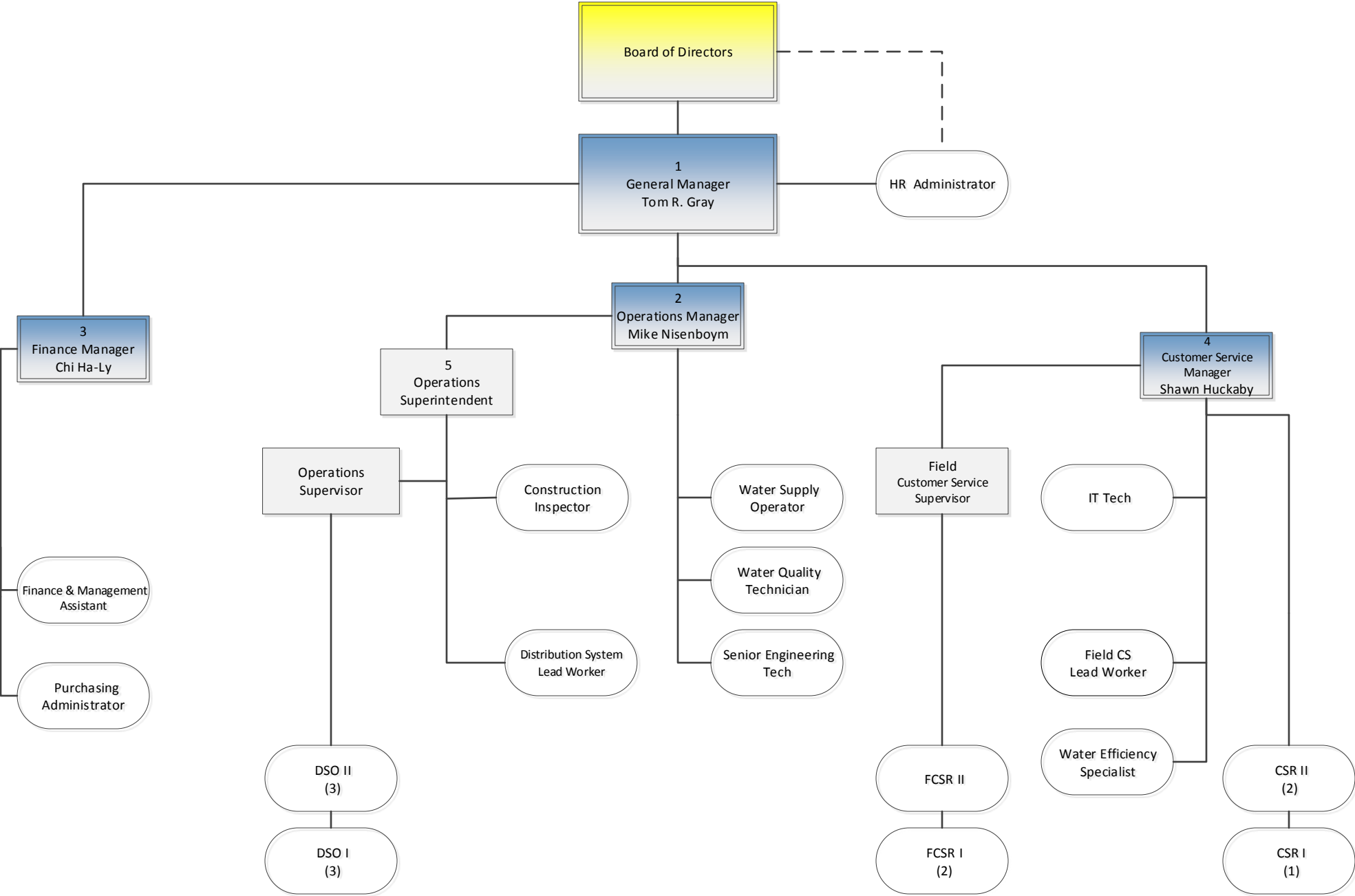
MANAGEMENT

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

Fair Oaks Water District Organization Chart

2017 & 2016 CAFR

30 Board Approved Positions





FINANCIAL SECTION



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Sacramento, California 95825
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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Fair Oaks Water District (the District), which comprise the statements of net position as of December 31, 2017 and 2016, and the related statements of revenues, expenses, changes in net position, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

To the Board of Directors
Fair Oaks Water District

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2017 and 2016 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 March 7, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Richardson & Company, LLP

March 7, 2018

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Fair Oaks Water District (the District), we offer readers of the District financial statements this narrative overview and analysis of the financial activities for the District for the years ended December 31, 2017 and 2016. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal and the audited financial statements.

Financial Highlights

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

- The net position of the District for 2017 was \$44,757,512 and for 2016 was \$42,592,289. Of the net position amount, \$7,437,764 for 2017 and \$6,865,365 for 2016 of unrestricted net position may be used to meet the District's ongoing obligations to citizens and creditors. The District has designated \$2.4 and \$2.1 million of the unrestricted net position for emergencies and rate stabilization for 2017 and 2016, respectively.
- The District's total net position increased by \$2,165,223 in 2017 and increased by \$1,008,743 in 2016. The net increase in 2017 was primarily from connection fees, contributed assets and groundwater reimbursement and the net increase in 2016 was from capital grants and contributed assets.
- Water sales increased by \$161,233 due to an increase in water consumption. Water sales – groundwater of \$922,647 in 2017 is for SJWD reimbursement for groundwater pumped from 2009 to 2014. Water service and other operating revenues increased by \$187,196 due to increased development.
- Water supply and pumping had a net increase of \$386,787. Operations and maintenance costs had a net increase of \$86,214. Customer service costs had a net increase of \$53,568. Administration and general costs had a net increase of \$108,559. 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 increase in water supply and pumping was attributed to an increase in wholesale water supply costs and in water demand.

Overview of the Financial Statements

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

Financial Statements

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

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

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

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

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

The District has determined that the Fair Oaks Water District Financing Corporation (Financing Corporation) meets the requirements for inclusion within the financial reporting entity and has, therefore, included the Financing Corporation as a blended component unit in the District's financial statements. However, this Financing Corporation had no activity in 2017 and 2016.

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 District's selected 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 exceeded liabilities by \$44,757,512 at the close of the most recent fiscal year.

The largest portion of the District's net position (82 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment). The District uses these capital assets to provide water delivery service to its users. Consequently, these assets are not available for future spending.

Fair Oaks Water District Net Position

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Current assets	\$ 11,342,898	\$ 10,431,354	\$ 9,017,311
Other assets	395,869	49,874	49,874
Capital assets	<u>36,734,853</u>	<u>35,726,924</u>	<u>35,615,871</u>
Total assets	48,473,620	46,208,152	44,683,056
Deferred outflow of resources	<u>840,843</u>	<u>598,001</u>	<u>138,018</u>
Current liabilities	1,670,536	1,752,728	1,456,181
Non-current liabilities	<u>2,578,513</u>	<u>2,140,138</u>	<u>1,512,684</u>
Total liabilities	4,249,049	3,892,866	2,968,865
Deferred inflow of resources	<u>307,902</u>	<u>320,998</u>	<u>268,663</u>
Net Position:			
Investment in capital assets	36,734,853	35,726,924	35,615,871
Restricted	584,895	-	144,521
Unrestricted	<u>7,437,764</u>	<u>6,865,365</u>	<u>5,823,154</u>
Total net position	<u>\$ 44,757,512</u>	<u>\$ 42,592,289</u>	<u>\$ 41,583,546</u>

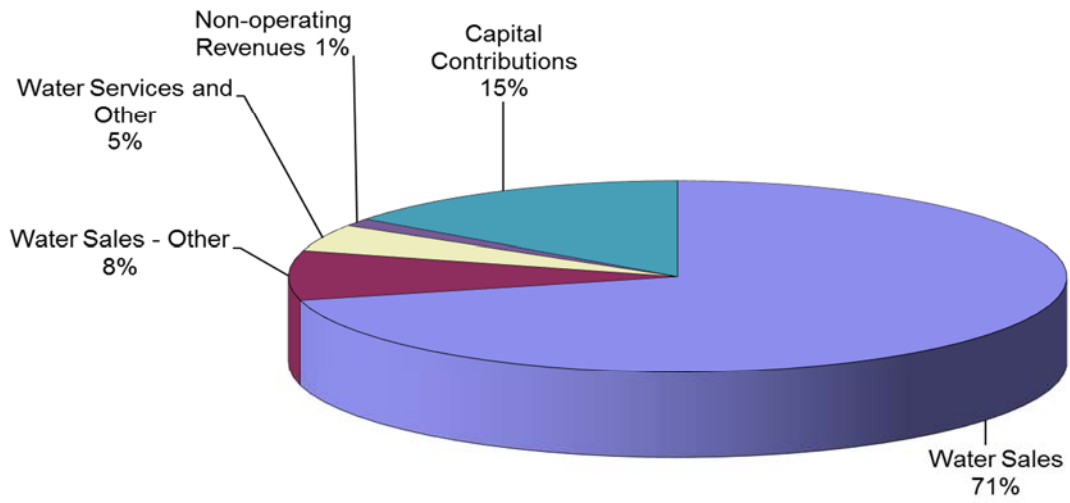
The increase in net position in 2017 is due to increase in connection fees, contributed assets and groundwater pumping reimbursement. The increase in net position in 2016 is due to capital grants and contributed assets. The increase in net position in 2015 is due to operating revenues exceeding operating expenses, contributed assets and connection fees.

The District used \$240,272 of the connection fee reserves (restricted) for the Madison Well Project in 2017. A portion of the District's net position (one percent for 2017) represents resources that are subject to external restrictions on how they may be used. The 2015 restricted net position was related to connection fees that were not expended by year-end. The District has also designated \$2.4M in 2017, \$2.1M in 2016, and \$3.3M in 2015 for emergencies and rate stabilization (see footnote F, page 26).

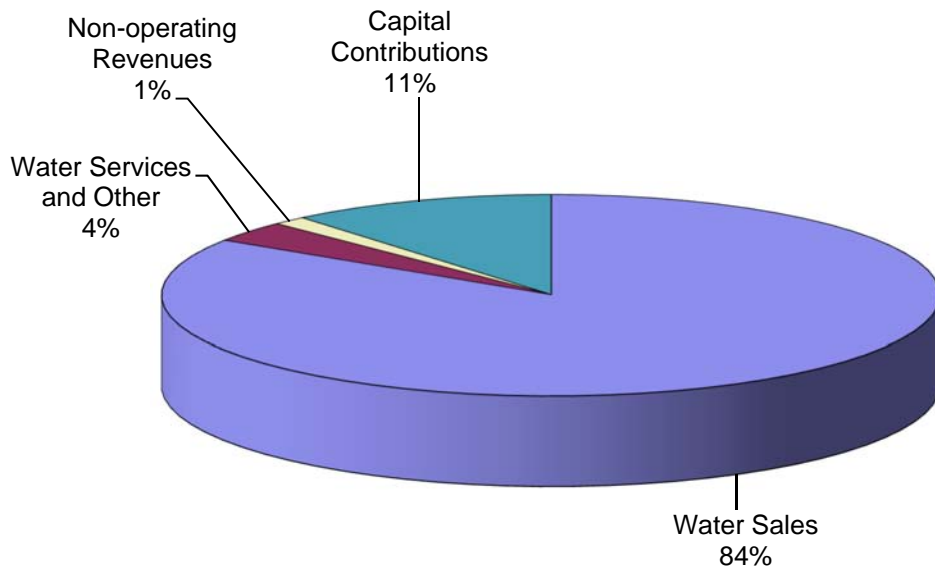
Fair Oaks Water District Changes in Net Position

	2017	2016	2015
Operating Revenues:			
Water Sales	\$ 7,822,281	\$ 7,661,048	\$ 7,495,787
Water Sales - Groundwater	922,647	-	-
Water Services	284,932	162,038	167,923
Other	211,878	147,576	183,347
Total Operating Revenues	9,241,738	7,970,662	7,847,057
Non-Operating Revenues (Expenses):			
Interest Revenue	73,313	48,255	17,955
Pipeline Rehabilitation	(57,062)	-	-
Other Revenues	70,019	78,772	22,744
Total Non-Operating Revenues	86,270	127,027	40,699
Revenues Before Capital Contrib.	9,328,008	8,097,689	7,887,756
Operating Expenses:			
Water Supply and Pumping	2,338,221	1,951,434	1,734,274
Operations and Maintenance	2,045,739	1,959,525	1,583,836
Customer Service	533,080	479,512	473,289
Administrative and General	1,551,666	1,443,107	1,252,214
Depreciation and Amortization	2,325,912	2,262,124	2,140,364
Total Operating Expenses	8,794,618	8,095,702	7,183,977
Total Expenses	8,794,618	8,095,702	7,183,977
Net Income Before Capital Contribution	533,390	1,987	703,779
Capital Contributions:			
Contributed Assets	738,600	288,000	134,800
Capital Grant Revenue	-	609,120	96,505
Other Capital Revenues	822,741	77,860	12,209
Connections	70,492	31,776	203,699
Total Capital Contributions	1,631,833	1,006,756	447,213
Increase in Net Position	2,165,223	1,008,743	1,150,992
Net Position January 1	42,592,289	41,583,546	40,432,554
Net Position December 31	\$ 44,757,512	\$ 42,592,289	\$ 41,583,546

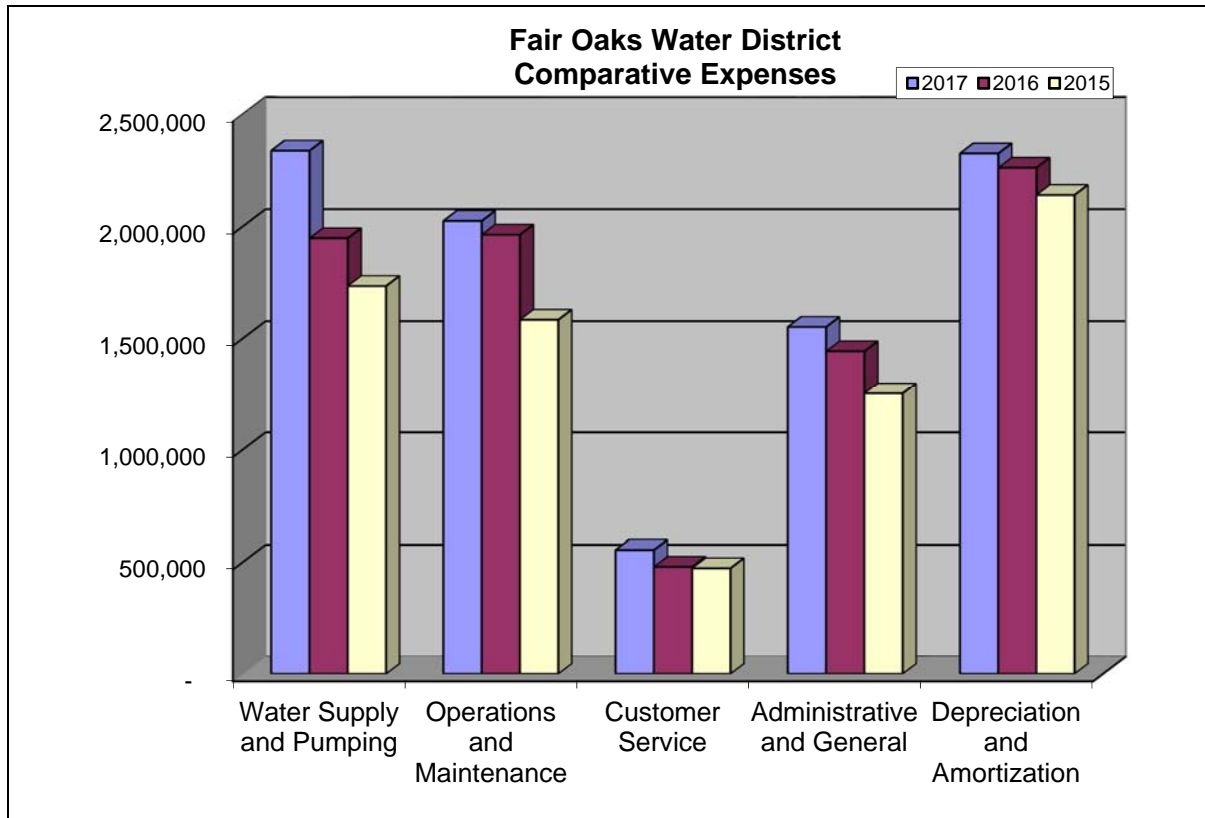
**Fair Oaks Water District
2017 Revenues by Source**



**Fair Oaks Water District
2016 Revenues by Source**



- Water sales increased by \$161,233 (2.1%) in 2017, increased by \$165,261 (2.2%) in 2016, decreased by \$266,201 (3.4%) in 2015. The increase in water revenues in 2017 and 2016 were attributed to higher water consumption. The decrease in revenues in 2015 was primarily due to water conservation. The District did not have any water rate changes in 2015, 2016 or 2017.
- Interest income increased by \$25,058 in 2017, increased by \$30,300 in 2016, increased by \$3,170 in 2015 due to market interest rate fluctuations and a decrease in cash and investment balances.



- The operations and maintenance had a net increase of \$86,214 in 2017, a net increase of \$375,689 in 2016, and a net increase of \$11,676 in 2015. The net increase in 2017 was primarily due to a net increase in water system fees of \$40,342, salaries and benefits of \$36,960 and system maintenance and materials of \$8,912. The net increase in 2016 was due to salaries, benefits and capitalized labor (less labor was capitalized in 2016 compare to 2015) of \$91,619, a net increase in pension expense of \$327,000 and a net decrease of system maintenance, equipment repairs and maintenance and other costs of \$42,930. The net increase in 2015 was due to the net increase in vehicle/equipment repairs and maintenance, paving, sand/aggregate, and salaries and benefit and a net decrease in net pension expense.
- Customer service had a net increase of \$53,568 in 2017, a net increase of \$6,223 in 2016, and a net increase of \$10,912 in 2015. The net increase in 2017 was primarily due to salaries and benefits (hired a new employee in 2017). The net increase in 2016 is primarily due to a net decrease in salaries and benefits of \$12,456, a net increase in pension expense of \$62,969, a net decrease in water efficiency program of \$38,592

and a decrease in billings of \$5,698. The net increase in 2015 is primarily due to a net decrease in pension expense of \$47,015, a net increase in the water efficiency program of \$47,055 and a net increase in salaries, benefits and billings.

- Administration and general expenses had a net increase of \$108,559 in 2017, a net increase of \$190,893 in 2016, and a net increase of \$19,778 in 2015. The net increase in 2017 was primarily due to a net increase in utilities of \$22,364, a net increase in printing and postage of \$16,473, a net increase in professional services of \$16,782, a net increase in salaries and benefits of \$37,007, a net increase in regional support and dues and subscriptions of \$12,640, a decrease in general liability insurance of \$13,794 and a net increase in supplies and other services of \$17,087. The net increase in 2016 was primarily due to increases in professional services of \$94,760, decreases in salaries and benefits of \$8,997, increases in pension expense of \$74,694, increases in general liability insurance of \$6,660, and a net increase of \$23,776 for supplies and other services. The net increase in 2015 is primarily due to the increases in general liability insurance of \$13,176, regional support of \$11,580, salaries and benefits of \$23,828, and decreases in professional services of \$25,961.
- Water supply costs had a net increase in 2017 of \$386,787 and a net increase of \$217,160 in 2016 due to increase in wholesale water supply cost and increase in water demand. Water supply costs had a net decrease of \$3,217 in 2015 due to a decrease in water demand.

Capital Asset and Debt Administration

The District's investment in capital assets as of December 31, 2017, amounts to \$36,734,853 (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 2.8 percent.

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

- The District started the Madison Well Project in 2014 and completed it in 2017 with the cost totaling \$1,893,560.
- The District completed the Cardinal Road Service Replacement in 2017 with the cost totaling \$34,481.
- Approximately \$295,940 was spent on various individual service line upgrades, minor main upgrades and hydrant upgrades in 2017.
- The District incurred \$318,668 for the metering program in 2017.

Fair Oaks Water District Capital Assets, net of depreciation

	2017	2016	2015
Intangible Asset			
Capacity Entitlements	\$ 3,956,248	\$ 3,956,248	\$ 3,956,248
Less: Amort. - Cap. Entitlements	(2,027,575)	(1,928,669)	(1,829,763)
Total Intangible Asset	1,928,673	2,027,579	2,126,485
Capital Assets, not being depreciated:			
Land	1,422,835	1,422,835	1,422,835
Construction in Progress	1,856,238	2,113,675	1,104,721
Total Capital Assets, not being depreciated	3,279,073	3,536,510	2,527,556
Capital Assets, being depreciated:			
Wells and Pumps	5,119,288	3,340,127	3,443,065
Transmission and Distribution System	19,104,724	19,923,272	20,774,586
Maintenance Equipment	207,949	217,103	203,002
Trucks, Trailers, and Mobile Equipment	338,508	364,843	291,232
Buildings	2,247,487	2,351,484	2,450,500
Office Equipment and Furnishings	70,585	93,020	41,318
Contributed Distribution Systems	3,912,057	3,341,385	3,215,386
Water Tank and Pumping	526,509	531,601	542,741
Total Capital Assets, being depreciated	31,527,107	30,162,835	30,961,830
Total	\$ 36,734,853	\$ 35,726,924	\$ 35,615,871

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 2017, 2016 and 2015, the District has no outstanding debt.

Economic Factors and assumptions in preparing the 2018 Budget and Rates

- The unemployment rate for the greater Sacramento County in which the District resides averaged 4.7% in 2017, down from an averaged 5.4% in 2016.
- The District is largely built out, serving approximately 13,986 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 a 10% water rate increase in 2018.
- Health benefit costs are expected to increase 6% in 2018.
- The District's 2018 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 2018 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.

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BASIC FINANCIAL STATEMENTS

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FAIR OAKS WATER DISTRICT
STATEMENTS OF NET POSITION
December 31, 2017 and 2016

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 9,966,029	\$ 8,656,624
Accounts receivable	45,693	35,140
Due from other government	267,375	672,890
Water service receivable	487,913	469,542
Interest receivable	30,002	15,362
Inventory	221,271	204,626
Prepaid expenses	324,615	377,170
TOTAL CURRENT ASSETS	<u>11,342,898</u>	<u>10,431,354</u>
NON-CURRENT ASSETS		
Dues on deposit	49,874	49,874
Due from other government	345,995	-
Capital assets not depreciated	3,279,073	3,536,510
Capital assets depreciated, net	31,527,107	30,162,835
Capacity entitlements, net	1,928,673	2,027,579
TOTAL NON-CURRENT ASSETS	<u>37,130,722</u>	<u>35,776,798</u>
TOTAL ASSETS	<u>48,473,620</u>	<u>46,208,152</u>
Deferred outflow of resources - pension activities	840,843	598,001
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	<u>\$ 49,314,463</u>	<u>\$ 46,806,153</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 526,521	\$ 517,444
Accrued expenses	20,782	161,523
Accrued payroll expense	98,859	94,483
Deposits	11,712	8,613
Unearned revenue	907,330	874,697
Compensated absences	105,332	95,968
TOTAL CURRENT LIABILITIES	<u>1,670,536</u>	<u>1,752,728</u>
NON-CURRENT LIABILITIES		
Compensated absences	105,332	95,968
Net pension liability	2,473,181	2,044,170
TOTAL NON-CURRENT LIABILITIES	<u>2,578,513</u>	<u>2,140,138</u>
TOTAL LIABILITIES	4,249,049	3,892,866
Deferred inflow of resources - pension activities	307,902	320,998
NET POSITION		
Investment in capital assets	36,734,853	35,726,924
Restricted:		
Connection fees	584,895	-
Unrestricted	7,437,764	6,865,365
TOTAL NET POSITION	<u>44,757,512</u>	<u>42,592,289</u>
TOTAL LIABILITIES, NET POSITION AND DEFERRED INFLOW OF RESOURCES	<u>\$ 49,314,463</u>	<u>\$ 46,806,153</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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
OPERATING REVENUES		
Water sales	\$7,822,281	\$7,661,048
Water sales - groundwater	922,647	-
Water services	284,932	162,038
Other	211,878	147,576
TOTAL OPERATING REVENUES	<u>9,241,738</u>	<u>7,970,662</u>
OPERATING EXPENSES		
Water supply and pumping	2,338,221	1,951,434
Operations and maintenance	2,045,739	1,959,525
Customer service	533,080	479,512
Administrative and general	1,551,666	1,443,107
Depreciation and amortization	2,325,912	2,262,124
TOTAL OPERATING EXPENSES	<u>8,794,618</u>	<u>8,095,702</u>
NET INCOME (LOSS) FROM OPERATIONS	447,120	(125,040)
NON-OPERATING REVENUES (EXPENSES)		
Interest revenue	73,313	48,255
Pipeline rehabilitation	(57,062)	-
Other revenues	70,019	78,772
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>86,270</u>	<u>127,027</u>
NET INCOME BEFORE CAPITAL CONTRIBUTIONS	533,390	1,987
CAPITAL CONTRIBUTIONS		
Contributed assets	738,600	288,000
Grants	-	609,120
Connection fees	822,741	77,860
Other capital revenues	70,492	31,776
TOTAL CAPITAL CONTRIBUTIONS	<u>1,631,833</u>	<u>1,006,756</u>
CHANGE IN NET POSITION	2,165,223	1,008,743
Net position at beginning of year	<u>42,592,289</u>	<u>41,583,546</u>
NET POSITION AT END OF YEAR	<u><u>\$ 44,757,512</u></u>	<u><u>\$ 42,592,289</u></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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	\$ 8,672,909	\$ 7,938,534
Cash paid to suppliers	(4,443,416)	(3,817,560)
Cash paid to employees	(2,149,602)	(2,028,612)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>2,079,891</u>	<u>2,092,362</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Pipeline rehabilitation	(57,062)	-
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	<u>(57,062)</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from disposal of capital assets	8,511	67,321
Connection fees	822,741	77,860
Other capital revenues	70,492	31,776
Grant received	635,157	35,187
Purchases of capital assets	(2,308,998)	(1,801,120)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(772,097)</u>	<u>(1,588,976)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	58,673	42,002
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>58,673</u>	<u>42,002</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,309,405	545,388
Cash and cash equivalents at beginning of year	<u>8,656,624</u>	<u>8,111,236</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 9,966,029</u>	<u>\$ 8,656,624</u>

(Continued)

FAIR OAKS WATER DISTRICT

STATEMENTS OF CASH FLOWS (Continued)

For the years ended December 31, 2017 and 2016

	2017	2016
RECONCILIATION OF NET INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net income from operations	\$ 447,120	\$ (125,040)
Adjustments to reconcile net income (loss) from operations to net cash provided by operating activities:		
Reclassifications of construction in progress	114,256	
Depreciation and amortization	2,325,912	2,262,124
Loss on disposal of assets		301
Changes in assets and liabilities:		
Accounts receivable and due from other governments	(586,190)	6,238
Water service receivable	(18,371)	(47,080)
Inventory	(16,645)	(53,270)
Prepaid expenses	52,555	(188,713)
Accounts payable	(329,914)	(141,216)
Accrued expenses	(140,741)	136,996
Accrued payroll expense	4,376	2,458
Deposits	3,099	(2,934)
Unearned revenue	32,633	11,647
Deferred inflow/outflow	(255,938)	(407,648)
Net pension liability	429,011	616,409
Compensated absences	18,728	22,090
	\$ 2,079,891	\$ 2,092,362
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES		
Receipt of contributed assets	\$ 738,600	\$ 288,000
Trade-in allowances received	\$ 61,508	\$ 22,901

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

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2017 and 2016

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, 2017 and 2016

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

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

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

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

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

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

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

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

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2017 and 2016

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

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

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

Water Service Receivable and Unearned Revenue: Under normal operations, bills for water service are rendered to each customer on a bi-monthly basis. Fixed charges (e.g. service charge) are billed in advance of the service period. Commodity charges are billed after the meters are read. Advanced collections on water service invoiced in the current year for service in the following year are recorded as unearned revenue since these collections have not been earned as of December 31. Customers who are invoiced on a metered basis receive their bills bimonthly in arrears of the service provided. Unpaid amounts as of December 31 are recorded as water service receivable. Water invoices that remain unpaid when the new water invoices are issued may have a lien placed on the property. Water service receivables include \$27,623 in 2016 that are not expected to be collected within one year.

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

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

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2017 and 2016

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

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.

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2017 and 2016

NOTE B – CASH AND INVESTMENTS

Cash and investments as of December 31, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Cash on hand	\$ 2,434	\$ 1,950
Deposits with financial institutions	238,962	187,591
Total cash	<u>241,396</u>	<u>189,541</u>
Investments in Local Agency Investment Fund (LAIF)	<u>9,724,633</u>	<u>8,467,083</u>
Total investments	<u>9,724,633</u>	<u>8,467,083</u>
Total cash and cash equivalents	<u>\$ 9,966,029</u>	<u>\$ 8,656,624</u>

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

During the year ended December 31, 2017, the District's permissible investments included the following instruments:

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

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

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2017 and 2016

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:

	<u>Total</u>	<u>Remaining Maturity 12 Months or Less</u>
LAIF	<u>\$ 9,724,633</u>	<u>\$ 9,724,633</u>

LAIF has an average maturity of 186 days as of December 31, 2017.

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

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2017 and 2016

NOTE B – CASH AND INVESTMENTS (Continued)

undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

At December 31, 2017, the carrying amount of the District's deposits was \$238,962 and the balance in financial institutions was \$316,648. Of the balance in financial institutions, \$250,000 was covered by federal depository insurance and \$66,648 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, 2016, the carrying amount of the District's deposits was \$187,591 and the balance in financial institutions was \$311,606. Of the balance in financial institutions, \$250,000 was covered by federal depository insurance and \$61,606 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.

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, 2017 by all public agencies in LAIF is \$74,272,397,118 managed by the State Treasurer. Of that amount, 3.59% 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, 2017 and 2016

NOTE C – CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2017 and 2016 are as follows:

	Balance at January 1, 2017	Additions	Disposals	Transfers and Adjustments	Balance at December 31, 2017
Intangible Asset					
Capacity Entitlements	\$ 3,956,248	\$ -	\$ -	\$ -	\$ 3,956,248
Less: Amortization					
Capacity Entitlements	(1,928,669)	(98,906)	-	-	(2,027,575)
Total Intangible Asset	\$ 2,027,579	\$ (98,906)	\$ -	\$ -	\$ 1,928,673
Capital assets, not being depreciated:					
Land	\$ 1,422,835	\$ -	\$ -	\$ -	\$ 1,422,835
Construction in progress	2,113,675	2,624,903	-	(2,882,340)	1,856,238
Subtotal capital assets not being depreciated	3,536,510	2,624,903		(2,882,340)	3,279,073
Total capital assets, not being deprec.	5,564,089	2,525,997		(2,882,340)	5,207,746
Capital assets, being depreciated:					
Wells and pumps	5,317,007			1,923,282	7,240,289
Transmission and distribution system	38,831,026		(261,958)	814,899	39,383,967
Maintenance equipment	555,245	10,638	(2,068)		563,815
Trucks, trailers, and mobile equipment	1,461,619	65,512			1,527,131
Buildings	3,738,489				3,738,489
Office equipment and furnishings	981,388	8,444	(13,457)		976,375
Contributed distribution systems	7,997,013	738,600			8,735,613
Water tank and pumping	2,054,381			29,903	2,084,284
Total capital assets being depreciated, net	60,936,168	823,194	(277,483)	2,768,084	64,249,963
Less accumulated depreciation for:					
Wells and pumps	(1,976,880)	(144,121)			(2,121,001)
Transmission and distribution system	(18,907,754)	(1,633,447)	261,958		(20,279,243)
Maintenance equipment	(338,142)	(19,792)	2,068		(355,866)
Trucks, trailers, and mobile equipment	(1,096,776)	(91,847)			(1,188,623)
Buildings	(1,387,005)	(103,997)			(1,491,002)
Office equipment and furnishings	(888,368)	(30,879)	13,457		(905,790)
Contributed distribution systems	(4,655,628)	(167,928)			(4,823,556)
Water tank and pumping	(1,522,780)	(34,995)			(1,557,775)
Total accumulated depreciation	(30,773,333)	(2,227,006)	277,483	-	(32,722,856)
Total capital assets being depreciated, net	30,162,835	(1,403,812)	-	2,768,084	31,527,107
Capital assets, net book value	\$35,726,924	\$ 1,122,185	\$ -	\$ (114,256)	\$ 36,734,853

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2017 and 2016

NOTE C – CAPITAL ASSETS (Continued)

	Balance at January 1, 2016	Additions	Disposals	Transfers and Adjustments	Balance at December 31, 2016
Intangible Asset					
Capacity Entitlements	\$ 3,956,248	\$ -	\$ -	\$ -	\$ 3,956,248
Less: Amortization					
Capacity Entitlements	(1,829,763)	(98,906)	-	-	(1,928,669)
Total Intangible Asset	\$ 2,126,485	\$ (98,906)	\$ -	\$ -	\$ 2,027,579
Capital assets, not being depreciated:					
Land	\$ 1,422,835	\$ -	\$ -	\$ -	\$ 1,422,835
Construction in progress	1,104,721	1,851,432	-	(842,478)	2,113,675
Subtotal capital assets not being depreciated	2,527,556	1,851,432		(842,478)	3,536,510
Total capital assets, not being deprec.	4,654,041	1,752,526		(842,478)	5,564,089
Capital assets, being depreciated:					
Wells and pumps	5,308,123			8,884	5,317,007
Transmission and distribution system	38,330,977		(256,541)	756,590	38,831,026
Maintenance equipment	526,838	32,235	(2,195)	(1,633)	555,245
Trucks, trailers, and mobile equipment	1,473,893	176,482	(188,756)		1,461,619
Buildings	3,739,346		(5,930)	5,073	3,738,489
Office equipment and furnishings	895,468	42,423	(4,587)	48,084	981,388
Contributed distribution systems	7,709,013	288,000			7,997,013
Water tank and pumping	2,029,202			25,179	2,054,381
Total capital assets being depreciated, net	60,012,860	539,140	(458,009)	842,177	60,936,168
Less accumulated depreciation for:					
Wells and pumps	(1,865,058)	(111,822)			(1,976,880)
Transmission and distribution system	(17,556,391)	(1,606,271)	256,541	(1,633)	(18,907,754)
Maintenance equipment	(323,836)	(18,048)	2,109	1,633	(338,142)
Trucks, trailers, and mobile equipment	(1,182,661)	(85,863)	171,748		(1,096,776)
Buildings	(1,288,846)	(104,089)	5,930		(1,387,005)
Office equipment and furnishings	(854,150)	(38,805)	4,587		(888,368)
Contributed distribution systems	(4,493,627)	(162,001)	-		(4,655,628)
Water tank and pumping	(1,486,461)	(36,319)	-		(1,522,780)
Total accumulated depreciation	(29,051,030)	(2,163,218)	440,915	-	(30,773,333)
Total capital assets being depreciated, net	30,961,830	(1,624,078)	(17,094)	842,177	30,162,835
Capital assets, net book value	\$35,615,871	\$ 128,448	\$ (17,094)	\$ (301)	\$ 35,726,924

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2017 and 2016

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 2017 of \$2,325,912 included capacity entitlements amortization of \$98,906 and capital assets depreciation of \$2,227,006. Depreciation and amortization for 2016 of \$2,262,124 included capacity entitlements amortization of \$98,906 and capital assets depreciation of \$2,163,218.

NOTE D – ECONOMIC DEPENDENCY

The District purchased 64.61% of its water supply from SJWD in 2017. During the years ended December 31, 2017 and 2016, the District’s total cost for water purchases from SJWD were \$1,801,311 and \$1,638,098, respectively.

NOTE E – LONG-TERM LIABILITIES

The activity of the District’s long-term liabilities during the years ended December 31, 2017 and 2016 are as follows:

<u>Description</u>	<u>Balance at January 1, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at December 31, 2017</u>	<u>Due within One Year</u>
Compensated absences	\$ 191,936	\$ 157,286	\$ (138,558)	\$ 210,664	<u>\$ 105,332</u>
Net pension liability	2,044,170	429,011	-	2,473,181	
Total	2,236,106	<u>\$ 586,297</u>	<u>\$ (138,558)</u>	2,683,845	
Less: Current portion	(95,968)			(105,332)	
Total non-current liabilities	<u>\$ 2,140,138</u>			<u>\$ 2,578,513</u>	

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2017 and 2016

NOTE E – LONG-TERM LIABILITIES (Continued)

Description	Balance at January 1, 2016	Additions	Reductions	Balance at December 31, 2016	Due within One Year
Compensated absences	\$ 169,846	\$ 155,403	\$ (133,313)	\$ 191,936	<u>\$ 95,968</u>
Net pension liability	<u>1,427,761</u>	<u>616,409</u>	<u>-</u>	<u>2,044,170</u>	
Total	1,597,607	<u>\$ 771,812</u>	<u>\$ (133,313)</u>	2,236,106	
Less: Current portion	<u>(84,923)</u>			<u>(95,968)</u>	
Total non-current liabilities				<u>\$ 2,140,138</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:

	<u>2017</u>	<u>2016</u>
<u>Designated for Emergency:</u>		
For capital projects, operating and maintenance expenses not currently budgeted	<u>\$ 2,383,700</u>	<u>\$ 2,085,200</u>
Total designated net position	<u>\$ 2,383,700</u>	<u>\$ 2,085,200</u>

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2017 and 2016

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
- PEPRAs 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 4.0% in 2017 and 5.5% in 2016 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

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2017 and 2016

NOTE G – EMPLOYEES' RETIREMENT PLAN (Continued)

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

The Plans' provisions and benefits in effect at December 31, 2017 and 2016, 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 2.486%	1.0% to 2.5%
Required employee contribution rates	7.000%	6.250%
Required employer contribution rates - January to June 2016	8.932%	6.237%
Required employer contribution rates - July to December 2016	8.377%	6.555%
Required employer contribution rates - January to June 2017	8.377%	6.555%
Required employer contribution rates - July to December 2017	8.418%	6.533%

In addition to the contribution rates above, the District was required to make a payment of \$75,665 in 2017 and \$55,402 in 2016 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, 2017 and 2016

NOTE G – EMPLOYEES' RETIREMENT PLAN (Continued)

For the years ended December 31, 2017 and 2016, District's contributions to the Plan were \$166,074 and \$155,871, respectively. Employee contributions to the Plan, including those made by the District on behalf of the employees, totaled \$139,121 in 2017 and totaled \$132,906 in 2016.

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions: As of December 31, 2017 and 2016, the District reported a net pension liability for its proportionate share of the net pension liability of the Plan of \$2,473,181 and \$2,044,170, 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, 2017 and 2016, 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, 2016 and 2015 rolled forward to June 30, 2017 and 2016, 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, 2017 and 2016 was as follows:

Proportion - June 30, 2016	0.05884%
Proportion - June 30, 2017	<u>0.06274%</u>
Change - Increase (Decrease)	<u>0.00390%</u>
Proportion - June 30, 2015	0.05204%
Proportion - June 30, 2016	<u>0.05884%</u>
Change - Increase (Decrease)	<u>0.00680%</u>

For the years ended December 31, 2017 and 2016, the District recorded pension expense of \$435,665 and \$420,685 for the Plan. At December 31, 2017 and 2016, the District reported deferred outflows of resources and deferred inflows of resources related to the Plan from the following sources:

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2017 and 2016

NOTE G – EMPLOYEES' RETIREMENT PLAN (Continued)

	Deferred Outflows of Resources		Deferred Inflows of Resources	
	2017	2016	2017	2016
Pension contributions subsequent to measurement date	\$ 159,085	\$133,329	\$ -	\$ -
Changes in assumptions	481,536		(36,718)	(67,078)
Difference between expected and actual experience	3,881	7,090	(55,602)	(1,624)
Change in employer's proportion	87,437	108,465	(63,313)	(183,758)
Differences between the employer's contribution and the employer's proportionate share of contributions			(152,269)	(68,538)
Net differences between projected and actual earnings on plan investments	108,904	349,117		
Total	\$ 840,843	\$598,001	\$ (307,902)	\$ (320,998)

The \$159,085 and \$133,329 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, 2017 and 2016, 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	
2018	\$ 22,381
2019	261,559
2020	154,574
2021	(64,658)
	\$ 373,856

Actuarial Assumptions: The total pension liabilities in the June 30, 2017 and 2016 actuarial valuations were determined using the following actuarial assumptions:

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2017 and 2016

NOTE G – EMPLOYEES' RETIREMENT PLAN (Continued)

	June 30, 2017	June 30, 2016
Valuation Date	June 30, 2016	June 30, 2015
Measurement Date	June 30, 2017	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:		
Discount Rate	7.15%	7.65%
Inflation	2.75%	2.75%
Payroll Growth	3.0%	3.0%
Projected Salary Increase	3.2% - 12.2% (1)	3.3% - 14.2% (1)
Mortality	Derived using CalPERS Membership Data for all Funds	Derived using CalPERS Membership Data for all Funds

(1) Depending on entry age and service

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

The underlying mortality assumptions used in the June 30, 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% and 7.65% for the June 30, 2017 and 2016. 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.

In Fiscal Year 2016-2017, the financial reporting discount rate for the Plan was lowered from 7.65 percent to 7.15 percent. Deferred outflows of resources for changes of assumptions represent the unamortized portion of this assumption change.

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.

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2017 and 2016

NOTE G – EMPLOYEES' RETIREMENT PLAN (Continued)

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.

Asset Class	2017			2016		
	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	47.0%	4.90%	5.38%	51.0%	5.25%	5.71%
Global Fixed Income	19.0%	80.00%	2.27%	20.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.60%	1.39%	6.0%	0.45%	3.36%
Private Equity	12.0%	6.60%	6.63%	10.0%	6.83%	6.95%
Real Estate	11.0%	2.80%	5.21%	10.0%	4.50%	5.13%
Infrastructure and Forestland	3.0%	3.90%	5.36%	2.0%	4.50%	5.09%
Liquidity	2.0%	(0.40%)	(0.90%)	1.0%	(0.55%)	(1.05%)
Total	100.0%			100.0%		

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

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

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: The following presents the District's proportionate share of the net pension liability, 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:

1% Decrease	6.15%
Net Pension Liability	\$ 4,060,461
Current Discount Rate	7.15%
Net Pension Liability	\$ 2,473,181
1% Increase	8.15%
Net Pension Liability	\$ 1,158,566

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2017 and 2016

NOTE G – EMPLOYEES' RETIREMENT PLAN (Continued)

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

Payable to the Pension Plan: At December 31, 2017 and 2016, the District reported no payables for the outstanding amount of contributions to the pension plan.

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

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

NOTE I – INSURANCE

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

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

<u>Coverage</u>	<u>ACWA/JPIA</u>	<u>Commercial Insurance</u>	<u>Deductible</u>
General and Auto Liability (includes public officials' liability)	\$ 5,000,000	\$ 55,000,000	None
Property Damage	100,000	150,000,000	\$500 to \$50,000
Fidelity	100,000		1,000
Workers Compensation	2,000,000	Statutory	None
Employers Liability	2,000,000	Statutory	None

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

NOTE J – COMMITMENTS AND CONTINGENCIES

Contract and Purchase Commitments: The District has the following outstanding commitments as of December 31, 2017.

FAIR OAKS WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2017 and 2016

NOTE J – COMMITMENTS AND CONTINGENCIES (Continued)

- Hazel Avenue Project Phase II with an estimated cost of \$342,044.
- Performance Piping, Inc. for 24” El Capitan/FOB with an estimated cost of \$183,954.
- Peterson Brustad Inc. for hydraulic modeling with an estimated cost of \$4,516.
- Tesco Controls Inc. Scada Implementation with an estimated cost of \$270,967.
- Tully and Young for consulting services with an estimated cost of \$29,000.
- Rawles Engineering Inc. for Zelinda Project with an estimated cost of \$208,460.

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

The District is required to pay for the maintenance of the Fair Oaks 40-Inch Pipeline totaling \$1,931,288 when SJWD completes the project.

The District anticipates incurring cost for the Hazel Avenue Project Phase III in the next few years with an estimated cost of \$2,300,000.

NOTE K – DUE FROM OTHER GOVERNMENT

The District signed an agreement with SJWD in 2017 for SJWD to reimburse for the District 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. The receivable balance at December 31, 2017 was \$576,655. This revenue was not previously recorded because the amount was not determinable as the agreement was under negotiation.

NOTE L – NEW PRONOUNCEMENTS

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. The requirements of this Statement are effective for periods beginning after June 15, 2018.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses criteria for an enterprise fund to blend a component unit, measuring certain money market investments at amortized cost, timing of pension liabilities and expenditures under the current financial resources measurement focus. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

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REQUIRED SUPPLEMENTAL INFORMATION

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FAIR OAKS WATER DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended December 31, 2017 and 2016

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

Last 10 Years

Measurement Dates:	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Proportion of the net pension liability	0.06274%	0.05884%	0.05204%	0.05480%
Proportionate share of the net pension liability	\$ 2,473,181	\$ 2,044,170	\$ 1,427,761	\$ 1,354,267
Covered - employee payroll - measurement period	\$ 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	124.71%	101.83%	74.69%	71.62%
Plan fiduciary net position as a percentage of the total pension liability	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, 2017	December 31, 2016	December 31, 2015	December 31, 2014
Contractually required contribution (actuarially determined)	\$ 166,074	\$ 155,871	\$ 171,806	\$ 175,689
Contributions in relation to the actuarially determined contributions	(166,074)	(155,871)	(171,806)	(175,689)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered - employee payroll - calendar year	\$ 2,060,588	\$ 1,966,712	\$ 2,004,379	\$ 1,888,603
Contributions as a percentage of covered - employee payroll	8.06%	7.93%	8.57%	9.30%

Valuation Dates:

Methods and assumptions used to determine contribution rates:

	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	12 years	13 years	14 years	15 years
Asset valuation method	5-year smoothed market			
Inflation	2.75%			
Salary increases	3.2% to 12.20%			
Payroll growth	3.00%	3.00%	3.00%	3.00%
Investment rate of return	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.

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STATISTICAL SECTION

STATISTICAL SECTION

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

<u>Content</u>	<u>Page</u>
Financial Trends <i>These schedules contain trend information to help the reader understand how the District's financial performance and well-being changed over time.</i>	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>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Net Position:										
Investment in Capital Assets	\$ 28,663,487	\$ 32,957,747	\$ 36,143,021	\$ 36,197,173	\$ 35,623,666	\$ 35,424,939	\$ 35,938,143	\$ 35,615,871	\$ 35,726,924	\$ 36,734,853
Restricted	716,979	769,652	131,956	149,242	199,256	208,561	-	144,521	-	584,895
Unrestricted	<u>7,910,025</u>	<u>5,467,470</u>	<u>4,271,833</u>	<u>5,141,753</u>	<u>5,757,356</u>	<u>5,541,390</u>	<u>4,494,411</u>	<u>5,823,154</u>	<u>6,865,365</u>	<u>7,437,764</u>
Total Net Position**	<u>\$ 37,290,491</u>	<u>\$ 39,194,869</u>	<u>\$ 40,546,810</u>	<u>\$ 41,488,168</u>	<u>\$ 41,580,278</u>	<u>\$ 41,174,890</u>	<u>\$ 40,432,554</u>	<u>\$ 41,583,546</u>	<u>\$ 42,592,289</u>	<u>\$ 44,757,512</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>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Operating Revenues:										
Water Sales	\$ 8,021,890	\$ 7,879,245	\$ 7,852,909	\$ 7,820,836	\$ 8,108,701	\$ 8,235,897	\$ 7,761,988	\$ 7,495,787	\$ 7,661,048	\$ 7,822,281
Water Sales-Groundwater										922,647
Water Service and Other	<u>390,150</u>	<u>317,359</u>	<u>267,417</u>	<u>368,100</u>	<u>778,709</u>	<u>385,818</u>	<u>253,614</u>	<u>351,270</u>	<u>309,614</u>	<u>496,810</u>
Total Operating Revenues	8,412,040	8,196,604	8,120,326	8,188,936	8,887,410	8,621,715	8,015,602	7,847,057	7,970,662	9,241,738
Operating Expenses:										
Water Supply and Pumping	\$ 1,627,386	\$ 1,817,561	\$ 1,852,188	\$ 1,826,476	\$ 1,880,380	\$ 1,941,976	\$ 1,737,491	\$ 1,734,274	\$ 1,951,434	\$ 2,338,221
Operations and Maintenance	1,473,302	1,331,725	1,450,664	1,704,238	1,737,874	1,662,383	1,572,160	1,583,836	1,959,525	2,045,739
Customer Service	410,906	482,922	490,695	607,873	559,441	530,104	462,377	473,289	479,512	533,080
Administrative and General	1,004,510	1,007,540	1,001,210	1,079,018	1,092,915	1,151,121	1,232,436	1,252,214	1,443,107	1,551,666
Depeciation and Amortization	<u>1,879,709</u>	<u>1,811,067</u>	<u>2,101,370</u>	<u>2,220,108</u>	<u>1,563,549</u>	<u>2,127,795</u>	<u>2,149,267</u>	<u>2,140,364</u>	<u>2,262,124</u>	<u>2,325,912</u>
Total Operating Expenses	6,395,813	6,450,815	6,896,127	7,437,713	6,834,159	7,413,379	7,153,731	7,183,977	8,095,702	8,794,618
Net Income From Operations	2,016,227	1,745,789	1,224,199	751,223	2,053,251	1,208,336	861,871	663,080	(125,040)	447,120
Non-Operating Revenues (Expenses):										
Interest Revenue	318,554	78,743	36,438	28,182	19,420	12,916	14,785	17,955	48,255	73,313
Other Revenues	1,211,350	30,654	5,687	28,088	21,279	94,796	70,495	22,744	78,772	70,019
Non-Capital Grant Revenue	19,433	-	19,696	-	-	-	-	-	-	-
Gain on Advance Refunding of Debt					108,024	-	-	-	-	-
Pipeline Rehabilitation	-	-	-	-	(2,222,824)	(1,744,930)	-	-	-	(57,062)
Interest Expense	<u>(147,620)</u>	<u>(116,511)</u>	<u>(104,058)</u>	<u>(22,257)</u>	<u>(1,577)</u>	<u>(1,214)</u>	-	-	-	-
Total Non-Operating Revenues (Expenses)	1,401,717	(7,114)	(42,237)	34,013	(2,075,678)	(1,638,432)	85,280	40,699	127,027	86,270
Net Income (Loss) Before Capital Contributions	3,417,944	1,738,675	1,181,962	785,236	(22,427)	(430,096)	947,151	703,779	1,987	533,390
Capital Contributions:										
Connection Fees and Annexation Fees	53,436	57,035	27,843	17,260	49,894	-	131,165	203,699	77,860	822,741
Other Capital Revenues	19,891	2,788	2,420	39,387	18,436	15,422	20,656	12,209	31,776	70,492
Capital Contributions	322,500	105,880	139,716	99,475	46,207	9,286	-	134,800	288,000	738,600
Capital Grant Revenue	<u>179</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>96,505</u>	<u>609,120</u>	<u>-</u>
Total Capital Contributions	396,006	165,703	169,979	156,122	114,537	24,708	151,821	447,213	1,006,756	1,631,833
Changes in Net Position ^(a)	<u>\$ 3,813,950</u>	<u>\$ 1,904,378</u>	<u>\$ 1,351,941</u>	<u>\$ 941,358</u>	<u>\$ 92,110</u>	<u>\$ (405,388)</u>	<u>\$ 1,098,972</u>	<u>\$ 1,150,992</u>	<u>\$ 1,008,743</u>	<u>\$ 2,165,223</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>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Water Sales:										
Residential	\$ 7,079,853	\$ 6,925,071	\$ 6,909,458	\$ 6,875,081	\$ 6,851,292	\$ 6,926,021	\$ 6,504,193	\$ 6,315,023	\$ 6,444,271	\$ 6,580,577
Non-residential ^(a)	<u>942,037</u>	<u>954,174</u>	<u>943,451</u>	<u>945,755</u>	<u>1,257,409</u>	<u>1,309,876</u>	<u>1,257,795</u>	<u>1,180,764</u>	<u>1,216,777</u>	<u>1,241,704</u>
Total Water Sales	\$ 8,021,890	\$ 7,879,245	\$ 7,852,909	\$ 7,820,836	\$ 8,108,701	\$ 8,235,897	\$ 7,761,988	\$ 7,495,787	\$ 7,661,048	\$ 7,822,281
Total Water Deliveries (AF)	12,758	12,181	11,800	11,113	11,550	12,259	9,591	8,130	8,701	9,576
Rate per Acre Foot (AF)	\$ 628.77	\$ 646.85	\$ 665.50	\$ 703.76	\$ 702.05	\$ 671.82	\$ 809.30	\$ 921.99	\$ 880.48	\$ 816.86

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

Source:
District Finance Department

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

	<u>2017</u>			<u>2008</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 ¹	\$ 135,078	1	1.73%	\$ 286,462	1	3.57%
Conservice	108,807	2	1.39%			
San Juan School District	92,771	3	1.19%	87,004	2	1.08%
Fair Oaks Recreation & Park District	68,098	4	0.87%	62,250	4	0.78%
Primrose HOA	60,375	5	0.77%			
NMC Madison Marketplace, LLC	44,689	6	0.57%			
Fair Oaks Fountains LLC	29,436	7	0.38%	28,572	7	0.36%
Madison Hazel Apartments LP	21,443	8	0.27%			
County of Sacramento	19,525	9	0.25%			
Village 10741 LLC	17,450	10	0.22%			
The Realty Associates Fund				72,199	3	0.90%
Watermarke Properties				52,738	5	0.66%
Raley's Inc.				32,568	6	0.41%
Sacramento Bella Lago, LLC				25,859	8	0.32%
Village @ Fair Oaks				24,117	9	0.30%
Madison Hills	-		-	22,324	10	0.28%
Total	\$ 597,672		7.64%	\$ 694,093		8.65%
Total Water Sales	\$ 7,822,281			\$ 8,021,890		

¹ 2008 revenue collected for Rollingwood, LLC included prior years billings.

Source:
District Finance Department

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

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Debt:										
1999 Revenue Certificates of Participation	\$ 1,260,000	\$ 570,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Capacity Entitlement Agreement	1,186,413	990,851	582,963	370,638	114,237	-	-	-	-	-
Total Debt	\$ 2,446,413	\$ 1,560,851	\$ 582,963	\$ 370,638	\$ 114,237	\$ -	\$ -	\$ -	\$ -	\$ -
Number of Service Connections	14,474	14,450	14,129	14,135	14,133	14,221	14,278	13,894	13,996	13,986
Debt Per Capita	169.02	108.02	41.26	26.22	8.08	-	-	-	-	-

Source:
District Finance Department

FAIR OAKS WATER DISTRICT
Schedule of Debt Service
Last Ten Years

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Net Revenue	\$ 5,420,434	\$ 3,662,758	\$ 3,363,785	\$ 3,057,550	\$ 3,650,833	\$ 3,442,139				
Debt Service	985,732	1,002,073	1,081,946	234,582	149,954	115,451	None	None	None	None
Coverage	550%	366%	311%	1303%	2435%	2981%				

Source:
District Finance Department

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

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Personal Income ^{(1)*}	\$ 54,332,238	\$ 53,560,115	\$ 52,811,960	\$ 54,861,602	\$ 60,668,975	\$ 63,512,541	\$ 65,126,187	\$ 69,870,482	\$ 72,878,458	unavailable
Population ⁽¹⁾	1,386,469	1,400,949	1,422,094	1,436,105	1,450,121	1,462,131	1,482,026	1,501,335	1,514,460	unavailable
Per Capita Personal Income ⁽¹⁾	\$ 39,187	\$ 38,231	\$ 37,137	\$ 38,202	\$ 41,837	\$ 43,438	\$ 43,944	\$ 46,539	\$ 48,122	unavailable
Unemployment Rate ⁽²⁾	7.1%	11.3%	12.8%	12.1%	10.6%	8.8%	7.3%	6.0%	5.4%	4.7%

*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: The Bureau of Economic Analysis revised their data for 2002-2009 on April 21, 2011. This schedule was updated to reflect the change.

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

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

<u>Employers</u>	<u>2017</u>			<u>2008</u>		
	<u>Total Employee</u>	<u>Rank</u>	<u>Percent of Total Employed</u>	<u>Total Employee</u>	<u>Rank</u>	<u>Percent of Total Employed</u>
State of California	74,462	1	11.17%	60,045	1	9.37%
Sacramento County	12,514	2	1.88%	14,488	2	2.26%
UC Davis Health System	10,467	4	1.57%	7,901	3	1.23%
US Government	10,322	5	1.55%			
Sutter Health Sacramento Sierra Region	9,911	6	1.49%	7,140	4	1.11%
Kaiser Permanente	10,517	3	1.58%	6,805	6	1.06%
Dignity Health	8,039	7	1.21%			
Intel Corp.	6,000	8	0.90%	6,800	7	1.06%
Apple Inc.	5,000	9	0.75%			
Elk Grove Unified School District	4,620	10	0.69%			
City of Sacramento				5,230	10	0.82%
San Juan Unified School District				5,775	9	0.90%
Sacramento City Unified School District				7,000	5	1.09%
Los Rios Community College District	-		-	6,000	8	0.94%
Total	151,852		22.79%	127,184		19.85%
Total Employed by Sacramento County⁽²⁾	666,500			640,800		

*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

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Water Services:										
Number of Service Connections	14,474	14,450	14,129	14,135	14,133	14,221	14,278	13,894	13,996	13,986
Annual Demand in AF	12,758	12,181	11,800	11,113	11,550	12,259	9,591	8,130	8,701	9,576
Average Daily Demand in MGD	11.39	10.87	10.53	9.92	10.31	10.90	8.56	7.26	7.77	8.55
Maximum Day Demand in MGD	21.65	20.65	20.00	20.48	19.65	20.80	15.98	11.82	14.7	16.4
Meters:										
New Installations	1,317	1,086	1,116	218	69	26	4	115	95	4
Replacement	90	554	281	723	223	708	454	493	195	295
Leaks:										
Water Main	17	8	4	3	22	21	17	19	13	9
Service	26	9	10	25	28	44	32	61	35	45
Hydrants:										
New Installations	1	-	-	9	3	3	2	13	6	4
Upgrades	24	14	5	1	7	8	13	31	13	17
Main Line Valves:										
New Installations	16	1	-	21	3	9	5	44	17	2
Replacement	-	1	2	-	2	7	24	-	18	-
Services:										
New Installations	-		3	5	12	4	4	115	95	4
Replacement	856	853	899	271	108	51	59	95	123	83
Major Facilities:										
Wells	6	6	6	6	6	6	6	6	6	7
Tank	1	1	1	1	1	1	1	1	1	1
Booster Station	1	1	1	1	1	1	1	1	1	1
Pressure Regulation Valves	4	4	4	4	4	4	4	4	4	4
Miles of Pipeline	180	180	180	180	180	180	180	180	181.9	182.36
Personnel (FTE)										
Customer Service	4.5	4	4.5	5	4.5	5	3	3	2.5	3
Administration	4	4	4	4	4.5	5	5	5	5	5
Operations	6	6	4.5	5	5	5	5	5	5	5
Water Supply & Pumping	1	1	1	1	1	1	1	1	1	1
Maintenance	20.1	19.9	21.4	19.3	14.9	13.3	15	15	15	14.5
Total (FTE)*	35.6	34.9	35.4	34.3	29.9	29.3	29.0	29.0	28.5	28.5

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

Source:
District Finance Department



COMPLIANCE SECTION



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Fair Oaks Water District (the District) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 7, 2018.

Internal Control Over Financial Reporting

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

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

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

To the Board of Directors
Fair Oaks Water District

Compliance and Other Matters

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

Purpose of this Report

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

Richardson & Company, LLP

March 7, 2018



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