

REGULAR MEETING OF THE BOARD OF DIRECTORS

AGENDA

Tuesday, February 27, 2018
7:00 PM

President- Richard Smith Vice President-Wayne Holman Director- Marcus Dutra Director- Wayne Norton Director- James Leap General Manager- Robert Johnson Board Secretary-Louise Coombes
--

- I. **CALL TO ORDER**
- II. **ROLL CALL OF DIRECTORS:** Pres. Richard Smith, V. Pres. Wayne Holman, Directors, Marcus Dutra, Wayne Norton and James Leap.
- III. **PLEDGE OF ALLEGIANCE**
- IV. **STATEMENTS OF DISQUALIFICATION**
- V. **ADDITIONS AND DELETIONS**
- VI. **MINUTES** Motion to approve the Minutes of the January 23, 2018 Board Meeting p.3-5
- VII. **ORAL COMMUNICATION** *Anyone wishing to address the Board on informational items, staff reports or matters not listed on the agenda may do so during Oral Communications. Please limit your comment to three minutes. The public may comment on listed Action and Public Hearing items at the time they are considered by the Board.*
- VIII. **PRESENTATIONS:**
 - A. DIRECTORS' REPORTS
 - B. ATTORNEY'S REPORT
 - C. MANAGER'S REPORT p.6-9
 - D. CORRESPONDENCE p.10
- IX. **ACTION ITEMS:**
 - A. **Presentation of Audited Financial Statements - Fiscal Year 2016-17** p.11 & 21
Fedak & Brown staff will present the Audited Financial Statements for Board approval. (DRAFT Annual Financial Report attached at end of packet)
 - B. **Presentation of Proposed District Expense Budget Revision** p.12-14
Staff will present a proposed District Expense Budget revision for the remainder of the Fiscal Year 2017-2018 for discussion and Board action.
 - C. **Financial Reports for the Month of January 2018** p.15-20
Total Revenue was \$90,526.27; Total expenditures were \$72,558.06 between January 18, 2018 and February 21, 2018. These financials and monthly expenditures will be presented for discussion and approval.
- X. **FUTURE MEETINGS & AGENDA ITEMS** Next meeting ó March 27, 2018
- XI. **ADJOURNMENT**

PAGE INTENTIONALLY LEFT BLANK

**Minutes of the Regular Meeting of
the Board of Directors of the Aromas Water District
January 23, 2017**

- I. CALL TO ORDER.** The regular meeting of the Board of Directors of the Aromas Water District was called to order by President Smith on Tuesday, January 23, 2018 at 7:00 p.m. at the District office located at 388 Blohm Ave, Aromas, California.
- II. ROLL CALL.** President Smith, Vice President Holman and Directors Dutra, Norton and Leap were present. Also in attendance were General Manager Robert Johnson, Counsel Bob Bosso and Board Secretary Louise Coombes.
- III. PLEDGE OF ALLEGIANCE.** Director Leap led the pledge of allegiance.
- IV. STATEMENTS OF DISQUALIFICATION.** There were no disqualification statements.
- V. ADDITIONS AND DELETIONS.** There was one deletion to the Agenda; Action Item IX A. Due to illness, the Auditors Fedak & Brown were not able to meet with the Audit Committee and subsequently present a summary to the Board at this meeting. This Action Item has been rescheduled to February 27.
- VI. MINUTES.** The minutes of the December 20, 2017 Board Meeting were presented for review and approval; there were no corrections or comments. Director Norton moved for approval of the minutes and Director Leap seconded. Minutes were approved unanimously with all directors present.
- VII. ORAL COMMUNICATION.** There were no public comments.

VIII. REPORTS/PRESENTATIONS

- A. Director's Reports.** Director Norton recently noticed that in San Benito County there is no Special District Representative for LAFCO; he volunteered to perform further research into the process. Further discussion by the District Board will be added to the March Board meeting agenda, potentially inviting the LAFCO Director to attend. President Smith formed an Ad-Hoc Committee and appointed Directors Norton and Leap to perform further research. The first task of the Ad Hoc Committee is to determine which is the lead County, in terms of assessed property values, within the respective AWD annexations of Monterey or San Benito counties before we commit to volunteering a representative to LAFCO.
- B. Attorney's Report.** Counsel Bosso brought up the subject of ADUs; SB831 introduced by Senator Wieckowski last week, which may have possible future implications related to new connections for inclusionary ADUs (Alternative Dwelling Units) within the Aromas Water District if this bill passes. This bill would not be retroactive, so existing dwellings would not be affected.

Director Leap enquired about SB623 discussed in December 2017, but Counsel Bosso explained that this Bill has not moved beyond the Rules Committee.

Later in the meeting, Counsel Bosso summarized that PVWMA rates are no longer subject to Prop 218, so the rates AWD currently pay PVWMA may change in the near future.

- C. Manager's Report.** See detailed report in agenda packet. Items highlighted include:

Production & Well Levels

GM Johnson noted that unusually the production between November and December increased. All wells were in production for the entire month of December. Total production was over 5.9 million gallons which is still not as high as 2013. Well water measurements show Carpenteria Well is up 2ft, Marshall is up 3ft and both the San Juan Well and Aimee Meadows Well are up 4ft.

Operations

GM Johnson noted one new connection within the last month. December's water testing results at the Water Treatment Plant showed very low levels of iron, but in the readings from the January sample, it was back to non-detect.

Maintenance

GM Johnson mentioned that he recently met with the Fire Chief to discuss the location of a delivery of sand at the Carpenteria Well site. Sand, with bags for the public to fill, is being offered for flooding protection if the oncoming months bring excessive rain. In addition, the Fire Department would like to offer the ever-popular branch chipping program to the public in April 2018. Again, the location of this was discussed; hopefully the existing piles of mulch will have been taken away by then.

Incidents

GM Johnson reported no new incidents this month.

Emergency Preparedness

The Operators recently installed an HD antenna so that the office can receive KSBW for emergency situations.

GM Johnson reported on the research regarding backup generator options being carried out by himself and CO DeAlba (see further details in *Projects - Booster Generator*)

Staff & Board Recognition

GM Johnson commented on how all staff are harmoniously working hard together. Director Dutra confirmed this impression during his recent visit to the office.

CSR Gonzales continues to work well together with AC Giron, performing and learning her new role proficiently and efficiently. Having been in similar roles before, she brings a wealth of experience to her position at AWD. AC Giron is adroitly pivoting between ensuring all CSR issues are dealt with, as well as working with ASO Coombes on seasonal Accounting tasks. ASO Coombes continues to work with AWD's Accountant and Auditors on a variety of items.

Customer Account Adjustments

GM Johnson informed the Board he has implemented two alterations to adjustments for customer fees and credits; firstly late fees may only be waived if the customer has not had any other late fees within the previous six month period; secondarily any leak credits will be evaluated on a case by case basis and will not be automatically granted. The suggestion of the latter has been removed from the letter sent out to customers warning them of high usage and therefore a potential leak.

Lead in Schools

GM Johnson reported on a webinar regarding the updates to this legislation. Any public school within AWD's jurisdiction can reach out to AWD to request free sampling and analysis of their water. Should the presence of Lead (Pb) be found in the water, it is the responsibility of the school to fix the issue.

Drought & Conservation

GM Johnson noted that since the rain gauge is currently at 5.52", with over 2.5" of this occurring in January.

PROJECTS

1. Oakridge Booster Station

Letters to the customer, on whose property the Oakridge Booster is currently located, have received no response. Therefore preparations are being made to make this power source independent of the property owner. This project is still in development, so further information will be forthcoming.

2. Backup Generator

GM Johnson brought in an electrician to assess the possibility of a mobile generator which circumvents the necessity of permits, fees and so on. Director Dutra also reported he had been researching the same issue. In summary, an assessment of the wattage used in the office, if all electrical equipment is simultaneously running may be a maximum draw of probably only 6.5KW, so a generator to cover all this would not be as expensive. Consider a Tier 4 generator to comply with new regulations from the Environmental Protection Agency. A key consideration would be quiet, clean running, and to be located away from the building to avoid fumes. To provide a connection for the generator, some re-wiring or double wiring of the input or circuit breakers to the office, would also need to be factored into the cost.

The possibility of purchasing a used generator with a pole light for use in the field will be evaluated separately.

Director Leap suggested some research into the possibility and cost of Photovoltaic panels and batteries.

- D. Correspondence.** The monthly correspondence list was reviewed; GM Johnson drew attention to the response from ATS which was confrontational; GM Johnson is declining to respond further. Director Norton enquired about the letter from San Benito Planning requesting comment on 901 Searle Road. GM Johnson explained that the property is within our sphere of influence, but not annexed. No request for water has been made at this time.

IX. ACTION ITEMS

- A. Presentation of the Audited Financials** - Deleted from the Agenda; tabled until February 27, 2018.
- B. Financial Reports for the Month of December 2017.** Total Revenue was \$102,489.59; Total expenditures were \$89,840.51 between December 16, 2017 and January 17, 2018. GM Johnson drew the Board's attention to the repositioning of the Assessment Districts on the Balance Sheet and the addition of Customer Deposits under the Other Current Liabilities. At the next Board meeting, the Auditors Fedak & Brown, will explain the reason for these inclusions to the Board. GM Johnson also noted that a small automatic annual charge had been made on the former GM Morris' credit card, which has now been switched to a different card. GM Johnson also noted the large amount on #473 - Membership for the Small Water System Annual Fee and a breakdown of the higher than usual amount under #431 System Maintenance and Repair. Director Holman moved to accept the Financials as presented and Director Norton seconded. The financials were unanimously accepted with all Directors present.

X. FUTURE MEETINGS & AGENDA ITEMS. The next meeting will be on Tuesday, February 27, 2018.

XI. ADJOURNMENT. Vice President Smith adjourned the meeting at 8:13pm until February 27, 2018.

Read and approved by: _____
President, Richard Smith

Attest: _____
Board Secretary, Louise Coombes

Date: _____

Date: _____

Aromas Water District General Manager's Report January 2018

PRODUCTION

Source	Production in Gallons	Average Daily Gal/Day	Days in Service
San Juan Well	3,149,880	101,609	31
Pleasant Acres Well	1,097,396	35,400	31
Carpenteria Well	646,000	24,846	26
Total Production	4,893,276	157,848	

ANNUAL PRODUCTION IN MILLIONS/GALLONS:

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
January	5.99	5.68	6.49	5.83	5.77	7.33	5.34	8.11	5.99	5.195	4.717	4.893
February	5.46	5.55	5.38	5.09	5.43	5.81	5.40	5.42	5.48	4.687	4.184	
March	7.99	8.40	6.72	6.34	5.61	5.62	7.37	6.43	7.06	4.797	5.327	
April	10.58	11.95	9.97	6.07	7.46	5.55	9.93	7.42	7.49	5.801	5.406	
May	14.57	14.58	12.42	9.77	10.58	9.94	12.74	11.81	7.93	8.332	9.347	
June	14.71	15.77	14.04	14.13	11.32	13.4	13.14	11.99	9.37	10.286	10.478	
July	16.91	16.02	16.31	14.35	13.41	14.1	14.82	12.59	10.01	10.915	11.608	
August	17.13	16.04	16.68	14.67	12.76	14.0	13.96	11.73	9.93	10.295	11.171	
September	14.27	14.34	13.71	13.28	12.02	11.8	12.79	10.39	9.74	9.701	10.733	
October	10.69	12.99	9.98	10.54	8.90	10.69	11.22	9.34	8.02	7.970	9.923	
November	8.06	7.71	8.36	6.62	6.01	6.83	8.91	5.88	5.37	5.299	5.777	
December	7.20	6.35	6.84	5.68	6.88	5.10	7.81	4.86	4.88	4.873	5.967	
Totals MG	133.6	135.38	126.9	112.37	106.15	110.17	123.42	105.97	91.27	88.152	94.638	4.893
Total AcFt	410.0	415.4	389.4	344.8	325.7	338.05	378.7	325.16	280.05	270.49	290.30	15.01

OPERATIONS:

- There are 954 total meters, on 899 parcels.
- Loss Production system wide has maintained below 5% for over 18+ months.
- San Juan and Pleasant Acres wells were operational for the entire month, while the Carpenteria well was operational for 26 of the 31 days.
- Water Treatment Plant; the finished water is non-detect for both iron and manganese.
- Distribution testing for total Coliform; all samples negative.
- All Coliform, Mn and Fe, and monthly DWR reports were filed on time.
- Backwashing WTP filters approximately every 2-3+/- days, from San Juan Well and Pleasant Acres Well.
- Monthly Generator in-house 15 minute testing under load.
- Monthly well-level monitoring (see attached chart).

MAINTENANCE:

- Preventative maintenance as needed, flushing was performed since less water is being used
- Graffiti removal whenever it occurs
- Chlorine chemical pump maintenance and analyzer maintenance at all wells
- AWD continues to offer mulch to the community, located at our Carpenteria site

INCIDENTS:

- Leak on Rose Avenue ó leak was in pipe connecting the water main and the customer meter. Staff incorporated the help of a leak detection consultant to help locate the leak, as well as an asphalt contractor to finish the asphalt work on the customer's driveway.

STAFF & BOARD RECOGNITION:

- Operator DeAlba and GM Johnson began evaluating the use of a portable generator as a backup power source for the office, using information provided by Board Member Dutra.
- Administrative Services Officer Coombes has been working with our accountant working through the calendar year-end requirements.
- Accounts Clerk Giron continues to balance Customer Service Representative training duties with her Accounts Clerk job duties.
- GM Johnson led a staff meeting that included:
 - An introduction to the "Seven Habits of Highly Effective People" principles
 - Discussion of new forms and protocols related to late fees, leak credits, and emergency drills.

CONSERVATION UPDATE:

Summer usage 2017 is similar to 2016, though it is still well below the 2013 production numbers. AWD water customers are to be commended for continued excellent conservation.

October 1, 2017 marked the start of a new water year. As of the date of this report, the rain gauge at Chittenden Pass has recorded 5.92 inches of precipitation this water year, with 0.00 inches falling so far in the month of February.

PROJECTS:

1. Plan to provide power to the Oakridge Booster Station

The Oakridge Booster station sits on a customer's property. The AWD has an agreement in place with the property owner to pay the property owner a fixed amount per month. This agreement was recently recorded at the Monterey County Recorder's office.

Staff is also preparing to develop a power source independent of the property owner. This project will involve some engineering, as well as an application to PG&E for a new meter (which can be a timely process). A scope of work will be developed and released for cost estimates that will then be brought back to the Board for discussion and approval.

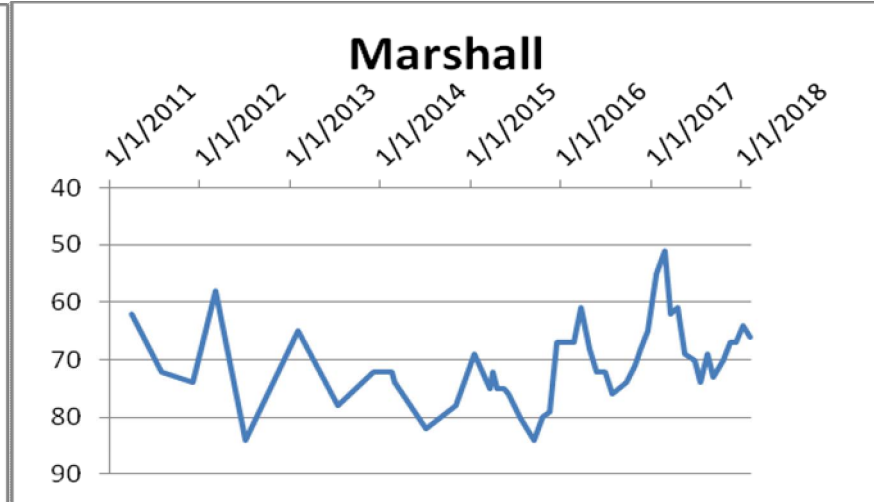
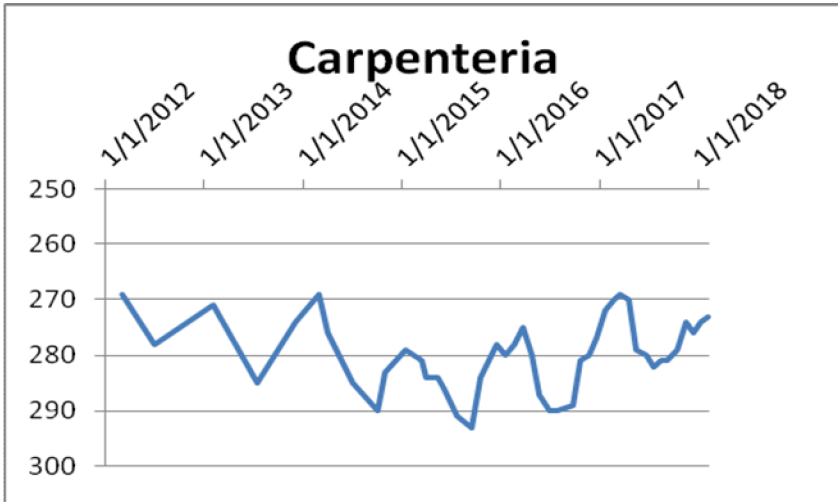
2. Backup Generator for the AWD office facility

GM Johnson has met with a couple more electricians, each bringing varying alternatives to be evaluated. Those alternatives are being reviewed and a viable strategy will be brought to the Board for discussion and approval at a future meeting.

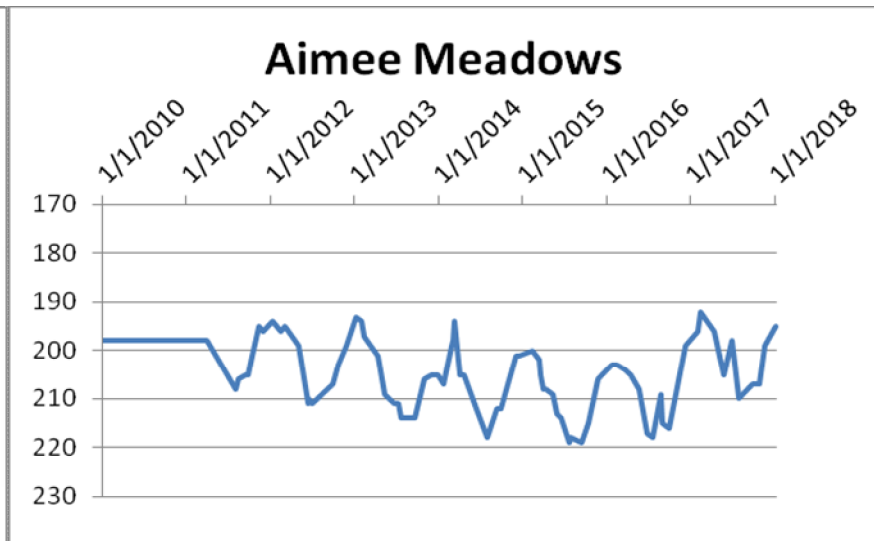
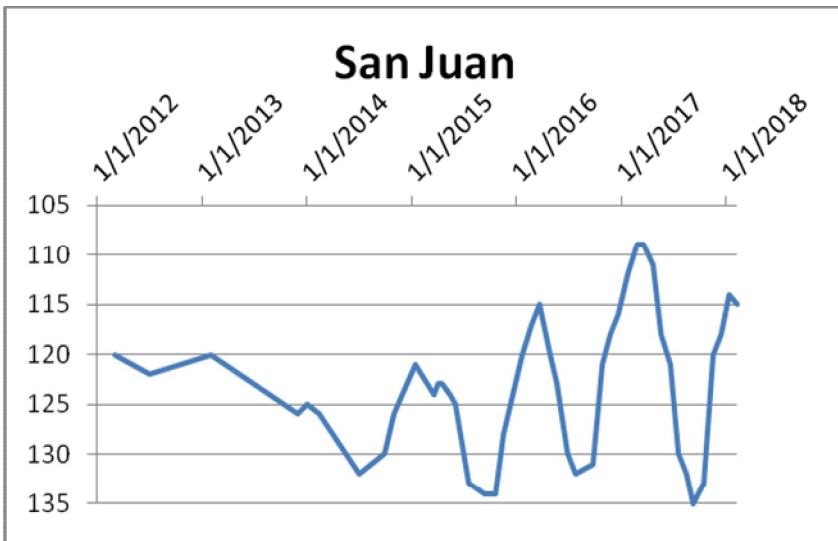
Robert Johnson
General Manager
February 23, 2018

Well Water Level Monitoring Depth to Water Measurements

Date: February 6, 2018



Carpenteria Well (production): Previous Read = 274 feet ; Current Read = 273 feet Marshall Well (monitoring): Previous Read = 64 feet ; Current Read = 66 feet



San Juan Well (production): Previous Read = 114 feet ; Current Read = 115 feet Aimee Meadows Well (monitoring): 11/21/2017 = 199 feet ; 1/18/2018 = 195 feet

CORRESPONDENCE LIST: 1/18/2018 - 2/21/2018

DATE	TYPE	TO	FROM	SUBJECT
1/22/18	E	R. Johnson, AWD	S. Kler, SWRCB	Bacteriological and radiological monitoring schedules
1/23/18	M	All Staff, AWD	K Klemme, NSVMAD	Notice of pesticide application to US waters for mosquito abatement
1/24/18	E	All Staff, AWD	N. Badawi, MUFG Union Bank	Invoice for upcoming debt service and notification of staff change for account administration to Sean Vaccarezza
1/29/18	E	B. Wells, ACWA JPIA	L. Coombes, AWD	Requesting confirmation of receipt of Form 700 for JPIA Director & informing her of staff changes for JPIA Representative.
1/29/18	E	State Controller's Office	R Johnson, AWD	Cover page for submission of annual 2017 State Controller's Report (Financials submitted through online portal by AWD's Accountant)
2/7/18	E	SWRCB	R. Johnson, AWD	Monthly Summary of Coliform Monitoring
2/7/18 & 2/12/18	E	L. Coombes, AWD	State Controller's Office	Confirmation of receipt of 2017 Government Compensation in California Report
2/8/18	E	SWRCB WTP	R. Johnson, AWD	Monthly Fe & Mn Field Test Results

Late receipt of the following:

12/20/17	M	R. Johnson AWD	D. Polhemus, SWRCB	State Adoption of new regulation for 1,2,3-Trichloropropane MCL
----------	---	----------------	-----------------------	---

Staff Report



To: Board of Directors

Re: Item IX.A ó Presentation of Audited Financial Statements for Fiscal Year 2016-17

Date: February 16, 2018

Summary / Discussion

The Aromas Water District (AWD) Board of Directors is charged with the fiduciary responsibility to oversee and protect the assets of the AWD. The AWD is under contract with Fedak & Brown, LLP for the legally required annual auditing of the financial records of the AWD. These annual Financial Statements are the relied upon source of information detailing the AWD's financial condition. They are utilized by our creditors, bond holders, as well as our state and county regulators.

The Financial Statements for review cover the 2016-2017 Fiscal Year, which is the twelve-month period from July 1, 2015 to June 30, 2016. A copy of the DRAFT Financial Statements was included with the January 2018 Board packet.

The Audit Committee is composed of Board President Smith and Director James Leap, Fedak & Brown staff, AWD Administrative Services Officer Coombes, AWD Consulting GM Morris, and AWD GM Johnson. The Committee plans to meet on February 27, 2018 for an in-depth review of these Financial Statements before the presentation to the full Board at the meeting later that evening.

Staff Recommendation

Staff recommends that the Board accept the Financial Statements as presented.

Submitted by:

Robert Johnson
General Manager

Staff Report



To: Board of Directors

Re: Item IX.B ó Presentation of Proposed District Expense Budget Revision

Date: February 16, 2018

Summary / Discussion

The Expense Budget performance is reviewed monthly by the board; typically the budget may be revised mid-year to reflect unanticipated changes. Changes have occurred during the 2017-2018 fiscal year requiring the Budget to be amended.

The 2017-2018 Expense Budget was approved in June 2017 reflecting the proposed revenue of \$1,052,290. During the course of the first seven months of the fiscal year, there have been changes and adjustments to both the income and expenses.

On the Revenue side, metered water sales have exceeded original estimates and a slight adjustment has been made to the Bulk water revenue forecast. The net change is an \$84,100 increase in revenue for a total budget of \$1,136,390.

On the Expense side, there were increases to gross payroll costs and employee costs due to personnel changes, and there were reductions in the PR/Annexation/Conservation fund since there has currently not been a need to produce information related to the Sustainable Groundwater Management Act and how it could affect Aromas Water District customers.

This proposed Budget Revision allows the District to augment its Capitol Reserve by increasing Depreciation. The proposed revised budget would increase depreciation (Capital Reserves) by \$32,724 (from \$175,000 to \$207,724).

Staff Recommendation

Approve the Revised 2017-2018 Expense Budget of \$1,136,390 with revenue and expense changes as recommended in the attached spreadsheet.

Submitted by:

Robert Johnson
General Manager

AROMAS WATER DISTRICT EXPENSE BUDGETS	2014 - 2015	2015- 2016	2016 - 2017	2017 - 2018	THROUGH 1.31.2018	PROPOSED 2017- 2018 BUDGET REVISION	
	Actual	Actual	Actual	ADOPTED	ACTUAL		
REVENUE							
303 · Water Revenue	804,767	889,600	952,822	960,000	666,653	1,040,000	*
307 · Bulk Water	17,437	3,282	1,202	3,000	4,545	5,000	*
302 · Connection	576,626	12,790	12,790	12,790	12,790	12,790	
301 · Taxes Received	62,290	60,805	60,989	66,000	44,061	66,000	
304 · Misc Income	6,995	4,233	2,484	1,000	450	1,600	
306 · Interest	1,771	3,465	6,219	8,000	5,374	9,000	*
312 · Grant Revenue	2,014	675	1,000	1,500	1,725	2,000	*
Total Revenue	1,471,900	974,850	1,037,506	\$1,052,290	\$ 735,598	\$ 1,136,390	*
EXPENSES							
Administrative & General							
467 - Depreciation/Reserve	360,462	423,928	451,158	175,000	140,000	207,724	*
405 · Election	550	0	400	-	-	-	
406 · Liability Ins	17,109	18,070	16,355	20,000	10,536	20,000	
417 · Interest Payment	87,432	46,161	36,033	38,400	19,594	38,400	
420 · Legal Fees	14,400	15,000	15,000	16,000	9,100	16,000	
423 · Litigation Contingency	0	0	0	10,000	0	10,000	
422 · Bank Charges	1,127	1,594	3,469	2,000	51	1,200	*
425 · Audit	6,725	11,000	12,350	11,500	9,973	11,500	
471 · Bad Debts	66	2	1,151	400	-	400	
473 · Memberships	12,886	14,140	14,708	15,000	15,608	16,000	*
Total Administrative & General	500,757	529,894	550,624	288,300	204,862	321,224	
Communications							
455 · Phone, Off	3,455	3,334	3,797	3,800	2,273	3,800	
456 · Telemetry	3,477	4,183	3,594	3,600	2,089	3,600	
457 · Answ Serv/Cell Phone	3,131	2,387	3,371	3,600	1,638	3,600	
Total Communications	10,063	9,905	10,762	11,000	6,000	11,000	
Payroll							
Gross	315,260	314,876	392,695	350,000	254,147	417,272	*
Comp FICA	19,465	19,479	24,805	22,000	15,731	25,157	*
Comp MCARE	4,552	4,556	5,525	5,100	3,679	5,771	*
Comp SUI & SDI	2,737	2,705	1,854	4,500	1,323	6,276	*
Total Payroll	342,014	341,615	424,879	381,600	274,880	454,476	*
Employee Costs							
407 · Outside Services	6,481	5,145	5,811	6,000	3,805	6,000	
408 · Uniform Allowance	1,553	1,277	1,121	1,000	692	1,000	
409 · Workers Comp	6,392	5,922	7,527	8,500	5,198	10,000	*
410 · Health Ins	52,948	58,837	73,228	56,000	44,556	71,300	*
474 · Education	4,677	4,958	5,256	6,000	1,908	6,000	
477 · Retirement Contrib	43,150	55,731	63,162	62,000	39,287	67,000	*
Total Employee Costs	115,201	131,870	156,105	139,500	95,446	161,300	

	2014-2015	2015 - 2016	2016 - 2017	ADOPTED 2017- 2018 BUDGET	THROUGH 1.31.2018	PROPOSED REVISION 2017- 2018 BUDGET
Office	Actual	Actual	Actual	ADOPTED	Actual	PROPOSED
440 · Misc Exp	2,717	3,723	6,553	4,000	2,011	4,000
444 · Postage	4,255	4,310	4,086	4,000	1,912	4,000
445 · Office Supplies	4,703	4,839	3,675	4,000	1,636	4,000
446 · Office Eqpmt Maint	6,541	6,663	6,240	5,000	6,019	7,500
Total Office	18,216	19,534	20,554	17,000	11,578	19,500
Operations						
403 · Fuel	7,985	7,804	7,525	8,000	5,028	9,000
404 · Truck Maint	3,824	4,950	3,731	4,500	2,541	5,000
431 · System Repair & Maint	47,583	40,817	61,692	58,000	31,444	60,000
463 · Water Analysis	6,075	2,980	7,680	4,500	3,454	5,500
464 · Water Treatment	7,821	7,148	8,149	8,000	6,222	9,500
468 · Tools	3,895	7,449	7,295	5,000	4,111	7,500
470 · PR/Annex/Conserv	170	-190	1,845	5,000	-	2,500
Total Operations	77,353	70,958	97,917	93,000	52,800	99,000
Power						
449.75 388 Blohm #C	53	148	221	200	117	200
449.5-388 Blohm A & B	1,431	1,637	1,630	1,600	826	1,600
447 · Leo Ln Booster	227	309	419	400	215	400
448 · Aimee Mdws Well	116	124	121	120	65	120
451 · Marshall Corp Yard	451	360	364	400	265	400
452 · Rea Booster @ Seely	724	598	523	500	172	500
454 · Carr Booster	4,350	4,423	4,768	4,600	2,740	4,600
458 · Pleasant Acres Well	1,986	1,655	4,894	6,000	6,643	10,000
459 · Seely Pump & Carpenter	27,038	125	125	300	137	300
460 · San Juan Well	39,382	44,744	40,085	34,000	33,284	50,000
461.5 RLS Tank	116	124	121	120	65	120
461 · Cole Tank	145	146	149	150	83	150
462 · Rea Tank	147	161	151	150	101	150
465 · Lwr Oakridge Bstr	-	-	314	600	524	800
465.5 · Upr Oakridge Bstr	-	-	-	600	-	400
466 · Pine Tree Tank	156	134	149	150	83	150
Total Power	76,322	54,688	54,034	49,890	\$ 45,320	69,890
TOTAL EXP	1,139,926	1,158,464	1,314,875	980,290	690,886	1,136,390
NET INCOME	331,974	(183,614)	(277,369)	72,000	44,712	(0)
Add back in Depreciation/Reserve	360,462	423,928	451,158	175,000	140,000	207,724
Net incl. Depreciation	692,436	240,314	173,789	247,000	184,712	207,724

Aromas Water District
Balance Sheet Prev Year Comparison

As of January 31, 2018

	Jan 31, 18	Jan 31, 17
ASSETS		
Current Assets		
Checking/Savings		
UB Checking	123,417.10	89,173.23
UB Bk Money Market xxxx7853	105,035.54	179,924.00
LAIF-State of Ca xx-05	789,280.30	781,098.29
Petty Cash	100.00	100.00
Assesment District Banks	545,950.99	0.00
Total Checking/Savings	1,563,783.93	1,050,295.52
Accounts Receivable		
1200 · Accounts Receivable - Other	0.00	1,200.00
Total Accounts Receivable	0.00	1,200.00
Other Current Assets		
1292 · Accounts Rec - USDA Loan	2,329,859.60	0.00
1291 · Accounts Rec - Orchard Acres	339,708.47	0.00
Prepaid Insurance	13,324.04	13,100.24
128 · Inventory	23,913.50	21,549.46
1200.1 · Accounts Receivable--UBMax	83,079.37	67,042.38
1201.9 · Less Allowance for doubtful Acc	-500.00	-500.00
Total Other Current Assets	2,789,384.98	101,192.08
Total Current Assets	4,353,168.91	1,152,687.60
Fixed Assets		
1900 · Water System	11,645,940.45	11,505,107.47
1915 · Office Building & Improvements	387,260.80	387,260.80
1970 · Office Equipment & Fixtures	93,467.05	93,467.05
1980 · District Vehicles	75,349.31	75,349.31
1990 · Land and Easements	330,195.78	330,195.78
1995 · Idle Assets	43,400.00	43,400.00
1998 · Less Accum Depr Idle Assets	-42,400.00	-42,400.00
1999 · Less Accumuated Depreciation	-5,126,460.75	-4,646,807.75
Total Fixed Assets	7,406,752.64	7,745,572.66
Other Assets		
Deferred Outflow of Resources	174,771.00	87,849.00
LoanBrokerageFees	0.00	15,000.00
Accumulated Amortiz-loan fees	0.00	-1,625.00
Deposits		
ACWA Deposit	2,080.80	2,080.80
Total Deposits	2,080.80	2,080.80
Total Other Assets	176,851.80	103,304.80
TOTAL ASSETS	11,936,773.35	9,001,565.06

Aromas Water District
Balance Sheet Prev Year Comparison

As of January 31, 2018

	Jan 31, 18	Jan 31, 17
LIABILITIES & EQUITY		
Liabilities		
Current Liabilities		
Accounts Payable		
2000 - Accounts Payable	-1,261.13	7,933.36
Total Accounts Payable	-1,261.13	7,933.36
Credit Cards		
First Bankcard - E Giron #86	275.00	0.00
First Bankcard - R. Johnson #31	625.00	0.00
ACE Hardware	39.85	0.00
First Bankcard -- M Dias #30	0.00	-577.41
First Bankcard - L Coombes #92	8.99	0.00
First Bankcard -- T. Zelmar #67	-15.33	0.00
Valero - Fuel	317.33	227.89
First Bankcard -- D DeAlba #35	160.06	-16.10
First Bankcard -- V Morris #24	-34.01	-10.00
Total Credit Cards	1,376.89	-375.62
Other Current Liabilities		
2100 - Payroll Liabilities	4,257.23	-5,587.93
City National Bank - Current	105,477.00	105,477.00
Deferred Inflows- Actuarial	17,463.00	48,026.00
CUSTOMER DEPOSITS		
Connection Deposits Payable	4,000.00	4,000.00
Hydrant Meter Deposit	150.00	150.00
Total CUSTOMER DEPOSITS	4,150.00	4,150.00
Accrued Vacation Payable	22,769.14	17,011.82
Interest Payable	52,480.90	0.00
Payroll Taxes Payable		
State Payroll Taxes Payable		
Payroll-SWHCA	0.00	5,967.02
Total State Payroll Taxes Payable	0.00	5,967.02
Total Payroll Taxes Payable	0.00	5,967.02
PVWMA Payable	9,460.88	6,812.54
Total Other Current Liabilities	216,058.15	181,856.45
Total Current Liabilities	216,173.91	189,414.19
Long Term Liabilities		
2590 - Unearned Revenue - CFD 98-1	13,436.52	0.00
2393 - Long-term Debt - CFD 98-1	80,000.00	0.00
2392 - Long-term Debt - USDA	2,693,000.00	0.00
2391 - Long-term Debt - Orchard Acres	420,000.00	0.00
GASB 68 Pension Liability	501,054.00	436,183.00
City National Bank	1,158,375.84	1,265,394.67
Total Long Term Liabilities	4,865,866.36	1,701,577.67
Total Liabilities	5,082,040.27	1,890,991.86
Equity		
Investment in Capital Assets	6,420,006.53	6,396,001.53
Unrestricted Net Assets	3,019,627.85	3,261,281.44
Allocation of Net Assets	-2,637,407.62	-2,588,320.07
Net Income	52,506.32	41,610.30
Total Equity	6,854,733.08	7,110,573.20
TOTAL LIABILITIES & EQUITY	11,936,773.35	9,001,565.06

Aromas Water District
Profit & Loss Budget Performance

January 2018

	Jan 18	Budget	Jul '17 - Jan 18	YTD Budget	Annual Budget
Ordinary Income/Expense					
Income					
303 · Water Revenue	67,793.46	60,000.00	666,652.85	580,000.00	960,000.00
307 · Bulk Water	153.80	75.00	4,544.90	625.00	1,000.00
302 · Connection	0.00	0.00	12,790.00	0.00	12,790.00
301 · Taxes Rcvd	21,696.85	19,000.00	44,060.67	38,000.00	66,000.00
304 · Misc Income	0.00	0.00	450.12	500.00	1,000.00
306 · Interest	882.16	500.00	5,467.35	3,200.00	6,000.00
312 · Grant Revenue	0.00	0.00	1,725.00	1,500.00	1,500.00
Total Income	90,526.27	79,575.00	735,690.89	623,825.00	1,048,290.00
Gross Profit	90,526.27	79,575.00	735,690.89	623,825.00	1,048,290.00
Expense					
Operations					
403 · Fuel	740.69	650.00	5,028.34	4,550.00	8,000.00
404 · Truck Maint	13.99	375.00	2,540.39	2,625.00	4,500.00
431 · System Repair & Maint	4,134.80	5,000.00	31,443.92	35,000.00	60,000.00
463 · Water Analysis	1,517.00	400.00	3,454.00	2,700.00	4,500.00
464 · Water Treatment	754.26	600.00	6,221.37	4,700.00	8,000.00
468 · Tools	446.08	400.00	4,110.38	2,800.00	5,000.00
470 · Annexation/EIR/Planning	0.00	400.00	0.00	2,800.00	5,000.00
Total Operations	7,606.82	7,825.00	52,798.40	55,175.00	95,000.00
Power					
449.75 · 388 Blohm, # C	22.43	15.00	116.67	105.00	200.00
449.5 · 388 Blohm, A & B Office	149.70	130.00	825.79	910.00	1,600.00
461.5 · RLS Tank Booster	9.86	10.00	64.73	70.00	120.00
447 · Leo Ln Booster	13.09	35.00	215.20	225.00	400.00
448 · Aimee Mdws Well	10.52	10.00	65.07	70.00	120.00
451 · Marshall Corp Yard	42.17	30.00	265.18	210.00	400.00
452 · Rea Booster @ Seely	27.99	40.00	171.19	280.00	500.00
454 · Carr Booster	335.44	380.00	2,739.94	2,660.00	4,600.00
458 · Pleasant Acres Well	824.90	400.00	6,642.95	3,800.00	6,000.00
459 · Seely Booster @ Carpent...	21.03	25.00	136.37	175.00	300.00
460 · San Juan Well	3,033.76	1,000.00	33,283.95	23,000.00	35,000.00
461 · Cole Tank	13.17	13.00	82.46	85.00	150.00
462 · Rea Tank	32.08	13.00	100.92	85.00	150.00
465 - Lwr Oakridge Boost	63.68	50.00	524.31	350.00	600.00
465.5 - Upper Oakridge Booster	0.00	50.00	0.00	350.00	600.00
466 · Pine Tree Tank	13.23	13.00	82.78	85.00	150.00
Total Power	4,613.05	2,214.00	45,317.51	32,460.00	50,890.00
Payroll					
Gross	33,098.65	29,170.00	254,146.99	204,165.00	350,000.00
Comp FICA	2,049.15	1,850.00	15,731.33	12,750.00	22,000.00
Comp MCARE	479.26	425.00	3,679.14	2,975.00	5,100.00
Comp SUI	757.68	375.00	1,322.59	2,625.00	4,500.00
Total Payroll	36,384.74	31,820.00	274,880.05	222,515.00	381,600.00
Employee / Labor Costs					
407 · Outside Services	275.00	500.00	3,805.32	3,500.00	6,000.00
408 · Uniform Allowance	0.00	0.00	691.74	500.00	1,000.00
409 · Workers Comp	629.74	700.00	5,197.94	4,900.00	8,500.00
410 · Health Ins	4,867.54	4,500.00	44,556.04	33,500.00	56,000.00
474 · Education	1,205.00	500.00	1,907.73	3,500.00	6,000.00
477 · Retirement	5,281.04	5,200.00	39,286.88	36,000.00	62,000.00
Total Employee / Labor Costs	12,258.32	11,400.00	95,445.65	81,900.00	139,500.00

Aromas Water District
Profit & Loss Budget Performance

January 2018

	Jan 18	Budget	Jul '17 - Jan 18	YTD Budget	Annual Budget
Office					
440 · Misc Exp	450.00	300.00	2,011.18	2,100.00	4,000.00
444 · Postage	270.76	325.00	1,912.06	2,275.00	4,000.00
445 · Office Supplies	36.83	300.00	1,636.21	2,100.00	4,000.00
446 · Office Eqpmt and Maint	127.37	400.00	6,018.32	3,200.00	5,000.00
Total Office	884.96	1,325.00	11,577.77	9,675.00	17,000.00
Communications					
455 · Phone, Off	322.98	320.00	2,273.37	2,200.00	3,800.00
456 · Telemetry	298.45	300.00	2,088.61	2,100.00	3,600.00
457 · Answ Serv/Cellular Phone	180.08	300.00	1,637.81	2,100.00	3,600.00
Total Communications	801.51	920.00	5,999.79	6,400.00	11,000.00
Administrative & General					
417 · Capital Loan Interest	0.00	0.00	19,593.40	19,200.00	38,400.00
467 · Depreciation Reserve	20,000.00	20,000.00	140,000.00	140,000.00	240,000.00
406 · Liability Ins	1,475.00	1,666.00	2,653.53	11,662.00	20,000.00
420 · Legal Fees	1,300.00	1,300.00	9,100.00	9,100.00	16,000.00
422 · Bank Charges	189.04	170.00	237.30	1,150.00	2,000.00
423 · Litigation Contingency	0.00	0.00	0.00	0.00	10,000.00
425 · Audit	0.00	0.00	9,973.00	10,500.00	11,500.00
471 · Bad Debts	0.00	100.00	0.00	300.00	400.00
473 · Memberships	0.00	1,000.00	15,608.17	10,000.00	15,000.00
Total Administrative & General	22,964.04	24,236.00	197,165.40	201,912.00	353,300.00
Total Expense	85,513.44	79,740.00	683,184.57	610,037.00	1,048,290.00
Net Ordinary Income	5,012.83	-165.00	52,506.32	13,788.00	0.00
Net Income	5,012.83	-165.00	52,506.32	13,788.00	0.00

02/21/18

Aromas Water District
Monthly Expenditures
 January 18 through February 21, 2018

Date	Num	Name	Amount
UB Checking			
01/19/2018	Paid Online	P G & E	-4,613.05
01/26/2018	16567	ACE Hardware Prunedale	-113.17
01/26/2018	16568	ACWA JPIA, Emp. Ben. Prog.	-5,971.39
01/26/2018	16569	Agee Electric, Inc.	-180.00
01/26/2018	16570	CSSC	-79.00
01/26/2018	16571	Davis Auto Parts Store	-92.90
01/26/2018	16572	Granite Drilling Co. Inc.	-48.73
01/26/2018	16573	Monterey Bay Analytical Services Inc	-332.00
01/26/2018	16574	Old Firehouse Market	-101.67
01/26/2018	16575	R & B Company	-742.90
01/26/2018	16576	Streamline	-100.00
01/26/2018	16577	Valero	-687.04
01/29/2018	E-pay	Employment Development Dept	-161.40
01/29/2018	E-pay	Employment Development Dept	-714.92
01/29/2018	E-pay	United States Treasury (EFTPS)	-4,078.30
01/29/2018	Bill Adjust	Bill Adjustment Report	-150.52
01/30/2018	Dir Deposit	QuickBooks Payroll Service	-7,196.22
01/31/2018	DD1167	Morris (P), Vicki	0.00
01/31/2018	DD1168	Coombes (P), Louise P	0.00
01/31/2018	16578	DeAlba (P), David	-2,847.10
01/31/2018	DD1169	Giron (P), Ester	0.00
01/31/2018	DD1170	Gonzales (P), Toleen	0.00
01/31/2018	DD1171	Johnson (P), Robert L	0.00
01/31/2018	16579	Zelmar (P), Trevor J	-1,854.90
01/31/2018	16580	A T & T U-verse	-60.00
01/31/2018	16581	Aromas Water District (Petty Cash)	-470.00
01/31/2018	16582	CALNET3	-561.43
01/31/2018	16583	First Bankcard	-1,978.13
01/31/2018	16584	Leticia Oropreza	-15.98
01/31/2018	16585	R & B Company	-39.61
01/31/2018	16586	Rob Johnson	-50.00
01/31/2018	16587	Salinas Pump Company	-147.00
01/31/2018	16588	Simonds Machinery Co. Inc	-2,223.34
01/31/2018	16589	Trevor J. Zelmar	-8.18
01/31/2018	16590	United Way serving San Benito County	-48.00
01/31/2018	16591	Verizon Wireless	-51.08
01/31/2018	16592	Viking Septic	-350.00
01/31/2018	16593	USPO	-250.76
01/31/2018	16600	Robert E. Bosso	-1,300.00
01/31/2018	EFT	Bank Service Fees	-186.40
02/04/2018	ACH	CalPERS	-2,202.88
02/04/2018	ACH	CalPERS	-939.99
02/04/2018	EFT	CalPERS	-2,969.24
02/07/2018	16594	Cruz By Leak Detection & Pipe Locating	-250.00
02/07/2018	16595	D & G Sanitation	-80.81
02/07/2018	16596	Fedak & Brown LLP	-750.00
02/07/2018	16597	Mid Valley Supply	-754.26
02/07/2018	16598	R & B Company	-285.38

02/21/18

Aromas Water District
Monthly Expenditures
 January 18 through February 21, 2018

Date	Num	Name	Amount
02/07/2018	16599	Recology San Benito County	-34.66
02/07/2018	16601	Simonds Machinery Co. Inc	-263.56
02/07/2018	16602	Xerox Corp	-16.65
02/09/2018	Bill Adjust	Bill Adjustment Report	-107.00
02/14/2018	E-pay	Employment Development Dept	-650.33
02/14/2018	E-pay	United States Treasury (EFTPS)	-3,826.64
02/14/2018	16603	VOID	0.00
02/14/2018	Bill Adjust	Bill Adjustment Report	-194.00
02/15/2018	EFT	QuickBooks Payroll Service	-8,413.97
02/16/2018	DD1175	Coombes (P), Louise P	0.00
02/16/2018	DD1176	DeAlba (P), David	0.00
02/16/2018	DD1177	Giron (P), Ester	0.00
02/16/2018	DD1178	Gonzales (P), Toleen	0.00
02/16/2018	DD1179	Johnson (P), Robert L	0.00
02/16/2018	16606	Zelmar (P), Trevor J	-1,735.04
02/16/2018	16604	Dutra (P), Marcus	-210.11
02/16/2018	16605	Holman (P), Wayne R	-210.11
02/16/2018	DD1172	Leap (P), James E	0.00
02/16/2018	DD1173	Norton (P), K W	0.00
02/16/2018	DD1174	Smith (P), Richard	0.00
02/16/2018	16607	Good Earth Industries	-1,000.00
02/20/2018	ACH	CalPERS	-1,985.71
02/20/2018	ACH	CalPERS	-818.25
02/21/2018	16608	ACE Hardware Prunedale	-10.76
02/21/2018	16609	ACWA JPIA, Emp. Ben. Prog.	-6,821.66
02/21/2018	16610	Davis Auto Parts Store	-67.93
02/21/2018	16611	Monterey Bay Analytical Services Inc	-154.00
Total UB Checking			-72,558.06
TOTAL			<u>-72,558.06</u>



**Annual Financial Report
For the Fiscal Year Ended
June 30, 2017**



Board of Directors as of June 30, 2017

Name	Title	Elected/ Appointed	Current Term
James Leap	President	Elected	12/14 - 12/18
Richard Smith	Vice-president	Elected	12/14 - 12/18
K. Wayne Norton	Director	Elected	11/12 - 11/20
Wayne Holman	Director	Elected	12/08 - 12/20
Marcus Dutra	Director	Elected	12/98 - 12/18

**Robert Johnson, General Manager
388 Blohm Avenue
P.O. Box 388
Aromas, California 95004
(831) 726-3155**

**Aromas Water District
Annual Financial Report
For the Fiscal Year Ended June 30, 2017**

DRAFT

**Aromas Water District
Annual Financial Report
For the Fiscal Year Ended June 30, 2017**

Table of Contents

	<u>Page No.</u>
Table of Contents	i
Financial Section	
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-6
Basic Financial Statements:	
Statement of Net Position	7-8
Statement of Revenues, Expenses and Changes in Net Position	9
Statement of Cash Flows	10-11
Notes to the Basic Financial Statements	12-33
Required Supplementary Information	
Schedules of the District's Proportionate Share of the Net Pension Liability	34
Schedules of Pension Plan Contributions	35
Supplementary Information Section	
Schedule of Operating Expenses	36
Report on Compliance and Internal Controls	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on the Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	37-38

Financial Section

DRAFT

DRAFT

Independent Auditor's Report

Board of Directors
Aromas Water District
Aromas, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Aromas Water District (District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Aromas Water District, as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report, continued

Emphasis of Matter

As discussed in Note 6 to the financial statements, the District restated net position as of June 30, 2016, for accrued interest on long-term debt that was not recorded. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6, and required supplementary information on pages 34 and 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.

Supplementary Information in Relation to the Financial Statements as a Whole

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of operating expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance. This report can be found on pages 37 and 38.

Fedak & Brown LLP

Cypress, California

December 20, 2017

Aromas Water District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Aromas Water District (District) provides an introduction to the financial statements of the District for the fiscal year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with the basic financial statements and related notes, which follow this section.

Financial Highlights

- In fiscal year 2017, the District's net position decreased 3.43% or \$241,675 to \$6,802,181.

Required Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and Statement of Cash Flows provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies.

The Statement of Net Position includes all of the District's investments in resources (assets), deferred outflows of resources, the obligations to creditors (liabilities), and deferred inflows of resources. It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the year's revenue and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness. The final required financial statements is the Statement of Cash Flows, which provides information about the District's cash receipts and cash payments during the reporting period. The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities, as well as providing answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis of the District

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the District in a way that helps answer this question. These statements include all assets, deferred outflows, liabilities, and deferred inflows using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District's *net position* and changes in them. One can think of the District's net position (the difference between assets and deferred outflows, and liabilities and deferred inflows), as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position is one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, zoning, and new or changed government legislation, such as changes in Federal and State water quality standards.

Aromas Water District
Management's Discussion and Analysis, continued
For the Fiscal Year Ended June 30, 2017

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 12 through 33.

Statement of Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources of the District exceeded liabilities and deferred inflows of resources by \$6,802,181 as of June 30, 2017.

A portion of the District's net position reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding (43.48% as of June 30, 2017). The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are *not* available for future spending. (See Note 7 for further discussion)

At the end of fiscal year 2017, the District showed a positive balance in its unrestricted net position of \$629,266.

Condensed Statement of Net Position

	2017
Assets:	
Current assets	\$ 4,330,857
Capital assets, net	7,468,147
Total assets	11,799,004
Deferred outflows of resources	174,771
Liabilities:	
Current liabilities	326,217
Non-current liabilities	4,827,914
Total liabilities	5,154,131
Deferred inflows of resources	17,463
Net position:	
Net investment in capital assets	2,957,396
Restricted	3,215,519
Unrestricted	629,266
Total net position	\$ 6,802,181

Aromas Water District
Management's Discussion and Analysis, continued
For the Fiscal Year Ended June 30, 2017

Statement of Revenues, Expenses and Changes in Net Position

**Condensed Statement of Revenues, Expenses, and Changes in
Net Position**

	2017
Revenue:	
Operating revenues	\$ 954,024
Non-operating revenues	227,349
Total revenue	1,181,373
Expense:	
Operating expense	766,868
Depreciation expense	451,158
Non-operating expense	205,022
Total expense	1,423,048
Change in net position	(241,675)
Net position – beginning of period, as restated	7,043,856
Net position – end of period	\$ 6,802,181

The statement of revenues, expenses and changes in net position shows how the District's net position changed during the fiscal year. In the case of the District, net position decreased by \$241,675 for the fiscal year ended June 30, 2017.

Aromas Water District
Management's Discussion and Analysis, continued
For the Fiscal Year Ended June 30, 2017

Capital Asset Administration

At the end of fiscal year 2017, the District's investment in capital assets amounted to \$7,468,147 (net of accumulated depreciation). This investment in capital assets includes land, water transmission and distribution systems, buildings and structures, equipment, and vehicles. Major capital asset additions during the year include improvements to the water transmission and distribution system.

Changes in capital assets for 2017, were as follows:

	<u>Balance 2016</u>	<u>Transfers/ Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2017</u>
Non-depreciable assets	\$ 331,196	-	-	331,196
Depreciable assets	12,066,737	99,075	-	12,165,812
Accumulated depreciation	(4,577,703)	(451,158)	-	(5,028,861)
Total capital assets, net	<u>\$ 7,820,230</u>			<u>7,468,147</u>

Debt Administration

Changes in long-term debt in 2017, were as follows:

	<u>Balance 2016</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance 2017</u>
Bonds payable	\$ 3,268,613	-	(75,613)	3,193,000
Notes payable	1,423,228	-	(105,477)	1,317,751
Total long-term debt	<u>\$ 4,691,841</u>	<u>-</u>	<u>(181,090)</u>	<u>4,510,751</u>

Conditions Affecting Current Financial Position

Management is unaware of any conditions which could have a significant impact on the District's current financial position, net position or operating results in terms of past, present, and future.

Requests for Information

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's General Manager at 388 Blohm Avenue, Aromas, California 95004.

Basic Financial Statements

DRAFT

**Aromas Water District
Statement of Net Position
June 30, 2017**

	2017
Current assets:	
Cash and cash equivalents (note 2)	\$ 942,686
Cash and cash equivalents – restricted (note 2)	545,951
Accounts receivable, net	137,009
Assessment receivable – restricted	2,669,568
Property taxes receivable	1,262
Other receivables	1,801
Prepaid expenses	8,666
Inventory and supplies	23,914
Total current assets	4,330,857
Non-current assets:	
Capital assets – not being depreciated (note 3)	331,196
Capital assets – being depreciated (note 3)	7,136,951
Total non-current assets	7,468,147
Total assets	11,799,004
Deferred outflows of resources	
Deferred outflows – pensions (note 8)	174,771
Total deferred outflows of resources	\$ 174,771

Continued on next page

See accompanying notes to the basic financial statements

Aromas Water District
Statement of Net Position, continued
June 30, 2017

	2017
Current liabilities:	
Accounts payable	\$ 36,329
Accrued interest	52,481
Accrued payroll and payroll liabilities	2,526
Customer deposits and unearned revenue	28,221
Long-term liabilities – due within one year:	
Compensated absences (note 4)	17,077
Bonds payable (note 5)	81,000
Notes payable (note 5)	108,583
Total current liabilities	326,217
Non-current liabilities:	
Long-term liabilities – due in more than one year:	
Compensated absences (note 4)	5,692
Net pension liability (note 8)	501,054
Bonds payable (note 5)	3,112,000
Notes payable (note 5)	1,209,168
Total non-current liabilities	4,827,914
Total liabilities	5,154,131
Deferred inflows of resources	
Deferred inflows – pensions (note 8)	17,463
Total deferred inflows of resources	17,463
Net position (note 7):	
Net investment in capital assets	2,957,396
Restricted	3,215,519
Unrestricted	629,266
Total net position	\$ 6,802,181

See accompanying notes to the basic financial statements

Aromas Water District
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2017

	2017
Operating revenues:	
Water revenue	\$ 954,024
Total operating revenues	954,024
Operating expenses:	
Pumping	139,393
Water treatment	15,829
Administration and general	83,275
Salaries and wages	424,879
Employee benefits	103,492
Total operating expenses	766,868
Operating income before depreciation	187,156
Depreciation expense	(451,158)
Operating loss	(264,002)
Non-operating revenue(expense):	
Property taxes	60,989
Voter approved assessment	160,141
Interest income	6,219
Bond issuance cost	(13,375)
Interest expense	(176,603)
Miscellaneous expense	(15,044)
Total non-operating revenues, net	22,327
Change in net position	(241,675)
Net position – beginning of period, as restated (note 6)	7,043,856
Net position – end of period	\$ 6,802,181

See accompanying notes to the basic financial statements

**Aromas Water District
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2017**

	2017
Cash flows from operating activities:	
Cash receipts from customers for sales and service	\$ 824,879
Cash paid to vendors and suppliers	(384,105)
Cash paid to employees	(416,446)
Net cash provided by operating activities	24,328
Cash flows from non-capital financing activities:	
Proceeds from property taxes and assessments	404,748
Net cash provided by non-capital financing activities	404,748
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(97,575)
Principal paid on long-term debt	(167,715)
Interest paid on long-term debt	(178,682)
Cost of bond issuance	(14,875)
Net cash used in capital and related financing activities	(458,847)
Cash flows from investing activities:	
Interest earnings	6,219
Net cash provided by investing activities	6,219
Net decrease in cash and cash equivalents	(23,552)
Cash and cash equivalents, beginning of year	1,512,189
Cash and cash equivalents, end of year	\$ 1,488,637
Reconciliation of cash and cash equivalents to statements of financial position:	
Cash and cash equivalents	\$ 942,686
Cash and cash equivalents - restricted	545,951
Total cash and cash equivalents	\$ 1,488,637

Continued on next page

See accompanying notes to the basic financial statements

Aromas Water District
Statement of Cash Flows, continued
For the Fiscal Year Ended June 30, 2017

	2017
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (264,002)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	451,158
Other non-operating	(15,044)
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources	
(Increase)decrease in assets and deferred outflows:	
Accounts receivable, net	(137,009)
Other receivables	(1,163)
Prepaid expenses	7,217
Inventory and supplies	(2,365)
Deferred outflows – pensions	(86,922)
Increase(decrease) in liabilities and deferred inflows:	
Accounts payable	5,646
Accrued payroll and payroll liabilities	2,676
Customer deposits and unearned revenue	24,071
Compensated absences	5,757
Net pension liability	64,871
Deferred inflows – pensions	(30,563)
Total adjustments	288,330
Net cash provided by operating activities	\$ 24,328

See accompanying notes to the basic financial statements

Aromas Water District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2017

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The Aromas Water District (District) was formed on July 24, 1959, pursuant to the provisions of the California Water Code, Division 12, and Section 30321 thereof. The District takes water from several deep-water wells located in Aromas to serve 953 connections within its jurisdiction. The District is dedicated to providing a reliable supply of high quality water. The District is governed by a five-member Board of Directors who serves overlapping four-year terms.

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Statement No. 61, *The Financial Reporting Entity*. The District is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable if it appoints a voting majority of the organization's governing body and: 1) It is able to impose its will on that organization, or 2) There is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

B. Basis of Accounting and Measurement Focus

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs of providing water to its service area on a continuing basis be financed or recovered primarily through user charges (water sales), capital grants and similar funding. Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

Operating revenues and expenses, such as water sales and water purchases, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Management, administration, and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses.

C. Financial Reporting

The District's basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to enterprise funds. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District solely operates as a special-purpose government which means it is only engaged in business-type activities; accordingly, activities are reported in the District's proprietary fund.

The District has adopted the following GASB pronouncements in the current year:

In June 2015, the GASB issued Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness or information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.

Aromas Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2017

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

C. Financial Reporting, continued

This Statement replaces Statements No. 43 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57 – *OPEB Measurements by Agent Employers and Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25 – *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No.50 – *Pension Disclosures*.

In August 2015, the GASB issued Statement No. 77 – *Tax Abatement Disclosures*. The objective of this Statement is to improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Financial statement users need information about certain limitations on a government’s ability to raise resources. This includes limitations on revenue-raising capacity resulting from governmental programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens. Tax abatements are widely used by state and local governments, particularly to encourage economic development.

In December 2015, the GASB issued Statement No. 78 – *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68 – *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that meet certain criteria.

In January 2016, the GASB issued Statement No. 80 – *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*. The objective of this statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member.

In March 2016, the GASB issued Statement No. 82 – *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position

1. Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources; and disclosures of contingent assets, deferred outflows of resources, liabilities, and deferred inflows of resources at the date of the financial statements and the reported changes in net position during the reporting period. Actual results could differ from those estimates.

Aromas Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2017

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position, continued

2. Cash and Cash Equivalents

Substantially all of the District's cash is invested in interest bearing accounts. The District considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents.

3. Investments

Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

4. Fair Value Measurement and Application

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on valuation inputs used to measure the fair value of the asset, as follows:

Level 1 – Valuations based on quoted prices in active markets for identical assets.

Level 2 – Valuation based on directly observable and indirectly observable inputs. These inputs are derived principally from or corroborated by observable market data through correlation or market-corroborated inputs. The concept of market-corroborated inputs incorporates observable market data such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 – Valuation based on unobservable inputs where assumptions are made based on factors such as prepayment rates, probability of defaults, loss severity and other assumptions that are internally generated and cannot be observed in the market.

5. Accounts Receivable and Allowance for Uncollectible Accounts

The District extends credit to customers in the normal course of operations. When management deems customer accounts uncollectible, the District uses the allowance method for the reservation and write-off of those accounts.

6. Property Taxes and Assessments

The County of Monterey and the County of San Benito Assessor's Offices assess all real and personal property within the Counties each year. The County of Monterey and the County of San Benito Tax Collector's Offices bill and collect the District's share of property taxes and assessments. In 1993, the Counties adopted the alternative method of secured property tax apportionment available under Chapter 3, Part 8, Division 1 (commencing section 4701) of the Revenue and Taxation Code of the State (also known as the "Teeter Plan"). This alternative method provides for funding each taxing entity included in the Teeter Plan with its total secured property taxes during the year the taxes are levied, including any amount uncollected at fiscal year-end. Under this plan, the Counties assume an obligation under a debenture or similar demand obligation to advance funds to cover expected delinquencies, and by such financing, Aromas Water District receives the full amount of secured property taxes levied each year and, therefore, no longer experiences delinquent taxes. Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent (1%) of countywide assessed valuations.

Aromas Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2017

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position, continued

6. Property Taxes and Assessments, continued

Property taxes receivable at year-end are related to property taxes collected by the County of Monterey and the County of San Benito, which have not been credited to the District's cash balance as of June 30. The property tax calendar is as follows:

Lien date	March 1
Levy date	July 1
Due dates	November 1 and March 1
Collection dates	December 10 and April 10

7. Materials and Supplies Inventory

Materials and supplies inventory consists primarily of water meters, and pipes and pipefittings for repair and maintenance to the District's water transmission and distribution system. Inventory is valued at cost using a first-in, first-out cost method. Inventory items are charged to expense at the time that individual items are withdrawn from inventory or consumed.

8. Prepaid Expenses

Certain payments to vendors reflect costs or deposits applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.

9. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at \$1,000. Donated assets are recorded at estimated fair market value at the date of donation. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

- Water systems – 20 to 40 years
- Office buildings and improvements – 35 years
- Office furniture and fixtures – 3 to 5 years
- Vehicles – 5 years

10. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of resources applicable to future periods.

11. Compensated Absences

The District's policy is to permit employees to accumulate earned vacation. Upon termination of employment, employees are paid all unused vacation.

Aromas Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2017

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position, continued

12. Deferred Inflows of Resources

Deferred inflows of resources represent the acquisition of resources applicable to future periods.

13. Net Position

The District follows the financial reporting requirements of the GASB and reports net position under the following classifications:

- *Net Investment in Capital Assets Component of Net Position* – This component of net position consists of capital assets, net of accumulated depreciation, and reduced by any debt outstanding against the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt, are included in this component of net position.
- *Restricted Component of Net Position* – This component of net position consists of assets that have restrictions placed upon their use by external constraints imposed either by creditors (debt covenants), grantors, contributors, or laws and regulations of other governments or constraints imposed by law through enabling legislation.
- *Unrestricted Component of Net Position* – This component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the net investment in capital assets or restricted components of net position.

(2) Cash and Cash Equivalents

Cash and investments as of June 30, are classified in the accompanying financial statements as follows:

	2017
Cash and cash equivalents	\$ 942,686
Cash and cash equivalents - restricted	545,951
Total cash and investments	\$ 1,488,637

Cash and investments as of June 30, consist of the following:

	2017
Cash on hand	\$ 100
Deposits with financial institutions	706,443
Investments	782,094
Total	\$ 1,488,637

Aromas Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2017

(2) Cash and Investments, continued

As of June 30, the District's authorized deposit had the following maturities:

	2017
Deposits in California Local Agency Investment Fund (LAIF)	194 days

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. 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.

The District's deposit and withdrawal restrictions and limitations are as follows:

- Same day transaction processing occurs for orders received before 10:00 a.m.
- Next day transactions processing occurs for orders received after 10:00 a.m.
- Maximum limit of 15 transactions (combination of deposits and withdrawals) per month.
- Minimum transaction amount requirement of \$5,000, in increments of \$1,000.
- Withdrawals of \$10,000,000 or more require 24 hours advance.
- Prior to funds transfer, an authorized person must call LAIF to do a verbal transaction.

Investments Authorized by the California Government Code and the District's Investment Policy

The table below identifies the investment types that are authorized by the District in accordance with the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of 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.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury obligations	5 years	None	None
Federal agency and bank obligations	5 years	None	None
Certificates-of-deposit (negotiable or placed)	5 years	30%	10%
Commercial paper (prime)	270 days	10%	10%
Money market mutual funds	N/A	20%	None
State and local bonds, notes and warrants	N/A	None	None
California Local Agency Investment Fund (LAIF)	N/A	None	None

Aromas Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2017

(2) Cash and Investments, continued

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. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

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 or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies.

As of June 30, 2017, the District's bank balances, up to \$250,000 is federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

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. One of the ways that the District can manage its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio matures or comes close to maturity evenly over time as necessary to provide for cash flow requirements and liquidity needed for operations.

As of June 30, 2017, the District maintained no investments subject to market interest rate risk fluctuations.

Credit Risk

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. The District's investment in LAIF is not rated.

Concentration of Credit Risk

The District's investment policy contains no limitations on the amounts that can be invested in any one issuer as beyond that stipulated by the California Government Code. There were no investments in any one issuer (other than for U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District's investments as of June 30, 2017.

Aromas Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2017

(3) Capital Assets

Changes in capital assets for 2017, were as follows:

	<u>Balance 2016</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2017</u>
Non-depreciable assets:				
Land	\$ 331,196	-	-	331,196
Total non-depreciable assets	<u>331,196</u>	<u>-</u>	<u>-</u>	<u>331,196</u>
Depreciable assets:				
Water systems	11,510,660	99,075	-	11,609,735
Office building and improvements	387,261	-	-	387,261
Office furniture and fixtures	93,467	-	-	93,467
Vehicles	75,349	-	-	75,349
Total depreciable assets	<u>12,066,737</u>	<u>99,075</u>	<u>-</u>	<u>12,165,812</u>
Accumulated depreciation	<u>(4,577,703)</u>	<u>(451,158)</u>	<u>-</u>	<u>(5,028,861)</u>
Total depreciable assets, net	<u>7,489,034</u>	<u>(352,083)</u>	<u>-</u>	<u>7,136,951</u>
Total capital assets, net	<u>\$ 7,820,230</u>			<u>7,468,147</u>

Major capital assets additions during the year include improvements to the District's water systems.

(4) Compensated Absences

The changes in compensated absences balance in 2017, were as follows:

	<u>Balance 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2017</u>
\$	<u>17,012</u>	<u>24,855</u>	<u>(19,098)</u>	<u>22,769</u>

(5) Long-Term Debt

Changes in long-term debt in 2017, were as follows:

	<u>Balance 2016</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 2017</u>
Bonds payable				
Limited Obligation Improvement Bonds				
Orchard Acres Assessment District 2008 Series A	\$ 430,000	-	(10,000)	420,000
Assessment District No. 2013-1 Series 2014	2,723,613	-	(30,613)	2,693,000
Special Tax Bond				
Community Facilities District No. 98-1	115,000	-	(35,000)	80,000
Total bonds payable	<u>3,268,613</u>	<u>-</u>	<u>(75,613)</u>	<u>3,193,000</u>
Notes payable				
Solar Engergy Project - Tax-exempt refunding loan	1,252,667	-	(73,202)	1,179,465
Solar Engergy Project - Taxable project loan	170,561	-	(32,275)	138,286
Total notes payable	<u>1,423,228</u>	<u>-</u>	<u>(105,477)</u>	<u>1,317,751</u>
Total long-term debt	<u>4,691,841</u>	<u>-</u>	<u>(181,090)</u>	<u>4,510,751</u>
Current portion	<u>(181,090)</u>			<u>(189,583)</u>
Non-current portion	<u>\$ 4,510,751</u>			<u>4,321,168</u>

Aromas Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2017

(5) Long-Term Debt, continued

Orchard Acres Assessment District, 2008 Limited Obligation Improvement Bond, Series A

In 2008, pursuant to the Assessment Bond Law and Resolution No. 2008-04, the District issued a limited obligation bond under a fiscal agent agreement between the District and Union Bank in the amount of \$498,000. The proceeds from the bond financed the connection of 11 parcels of land in an unincorporated area of the County of San Benito, known as Orchard Acres, to the District's municipal water supply system. The bond is a limited obligation to the District, and payable solely from the proceeds of unpaid assessments levied on the 11 parcels within Orchard Acres. Terms of the bond call for semi-annual interest payable on March 2nd and September 2nd of each year, and annual debt service payment of principal on September 2nd of each year. The interest on the bond escalates starting at a rate of 4.80% in 2013 to 6.10% at maturity in 2038. Annual maturity and interest on the bond are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 10,000	25,344	35,344
2019	10,000	24,733	34,733
2020	10,000	24,123	34,123
2021	10,000	23,512	33,512
2022	15,000	22,748	37,748
2023-2027	80,000	99,849	179,849
2028-2032	100,000	71,757	171,757
2033-2037	150,000	36,031	186,031
2038	35,000	1,069	36,069
Total	420,000	329,166	749,166
Current	(10,000)		
Non-current	\$ 410,000		

Aromas Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2017

(5) Long-Term Debt, continued

Assessment District No. 2013-1, Limited Obligation Improvement Bond, Series 2014

In 2014, pursuant to the Assessment Bond Law and Resolution No. 2014-09, the District issued a limited obligation bond in the amount of \$2,723,613. The proceeds from the bond financed 47 water and fire service connections and 12 fire service only connections to particular residences on Oakridge Drive and Via del Sol. The bond is a limited obligation to the District, and payable solely from the proceeds of unpaid assessments levied on the Assessment District. Terms of the bond call for semi-annual interest payable on March 2nd and September 2nd of each year, and annual debt service payment of principal on September 2nd of each year. The interest on the bond is stated at 4.00% and matures in 2055. Annual maturity and interest on the bond are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 31,000	105,539	136,539
2019	33,000	104,278	137,278
2020	34,000	102,958	136,958
2021	35,000	101,598	136,598
2022	37,000	100,179	137,179
2023-2027	207,000	477,519	684,519
2028-2032	250,000	432,603	682,603
2033-2037	305,000	378,070	683,070
2038-2042	371,000	311,612	682,612
2043-2047	452,000	230,866	682,866
2048-2052	551,000	132,225	683,225
2053-2055	387,000	23,276	410,276
Total	2,693,000	2,500,723	5,193,723
Current	(31,000)		
Non-current	\$ 2,662,000		

Aromas Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2017

(5) Long-Term Debt, continued

Community Facilities District No. 98-1, Special Tax Bond

In 1998, pursuant to the Mello-Roos Community Facilities Act of 1982 and Resolution No. 98-22, the District issued a special tax bond in the principal amount not to exceed \$990,000. The proceeds from the bond financed the acquisition and construction of certain public improvements to meet the needs of existing and new development within Community Facilities District No. 98-1 (CFD District) of the Aromas Water District. The bond is payable from a special tax approved by the electors of the CFD District. Terms of the bond call for semi-annual interest payable on March 2nd and September 2nd of each year, and annual debt service payment of principal on September 2nd of each year. The bond interest is stated at 6.10% and matures on 2019. Annual maturity and interest on the bond are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 40,000	3,360	43,360
2019	40,000	1,120	84,480
Total	80,000	4,480	127,840
Current	(40,000)		
Non-current	\$ 40,000		

Solar Energy Project Loan

In 2006, the District entered into a loan agreement with Santa Barbara Bank & Trust, N.A. and borrowed \$854,318. The proceeds of the loan financed the improvement to the District's water treatment and distribution system.

In 2011, the District refinanced its loan obtained in 2006, and borrowed additional funds to total \$1,457,578. The proceeds of the loan financed the improvement to the District's water treatment and distribution system extended to consist of the replacement of, and improvement to, the site of the Carpenteria well and improvements to the booster station.

In 2015, the District refinanced its loan obtained in 2011, with the Municipal Finance Corporation and borrowed \$1,323,721 on a tax-exempt basis and \$201,966 on a taxable basis. The proceeds of the addition funds were used to acquire and install a solar energy project at the Carpenteria well site. The interest rates on the tax-exempt loan and the taxable loan are stated at 3.00% and 2.75%, respectively, and mature in 2030 and 2021, respectively. The terms of the loans call for semi-annual debt service payment of principal and interest payable on May 1st and November 1st of each year. The loan is secured by a pledge of and lien on the net revenues of the District's water system.

Aromas Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2017

(5) Long-Term Debt, continued

Solar Energy Project Loan, continued

Annual maturity and interest on the tax-exempt solar energy project loan are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 75,415	34,823	110,238
2019	77,694	32,543	110,237
2020	80,043	30,195	110,238
2021	82,462	27,776	110,238
2022	84,954	25,283	110,237
2023-2027	464,875	86,312	551,187
2028-2030	314,022	16,691	330,713
Total	1,179,465	253,623	1,433,088
Current	(75,415)		
Non-current	\$ 1,104,050		

Annual maturity and interest on the taxable solar energy project loan are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 33,168	3,576	36,744
2019	34,087	2,658	36,745
2020	35,031	1,714	36,745
2021	36,000	744	36,744
Total	138,286	8,692	146,978
Current	(33,168)		
Non-current	\$ 105,118		

(6) Restatement of Net Position

Accrued Interest

In fiscal year 2016, the District did not recognize unpaid interest accrued within the months before its fiscal year end. As a result, the District recorded a prior period adjustment to net position in the amount of \$49,088.

The effect of the above change is summarized as follows:

Net position as of June 30, 2016, as previously stated	\$ 7,092,944
Effect of adjustment to accrued interest	
Accrued interest	(49,088)
Net position as of June 30, 2017, as restated	\$ 7,043,856

Aromas Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2017

(7) Net Position

Calculation of net position as of June 30, were as follows:

	2017
Net investments in capital assets:	
Capital assets, net	\$ 7,468,147
Notes payable, current	(108,583)
Notes payable, non-current	(1,209,168)
Bonds payable, current	(81,000)
Bonds payable, non-current	(3,112,000)
Total net investments in capital assets	2,957,396
Restricted for debt service:	
Cash and cash equivalents – restricted	545,951
Assessment receivable – restricted	2,669,568
Total restricted for debt service	3,215,519
Unrestricted net position:	
Non-spendable net position:	
Inventory and supplies	23,914
Prepaid expenses	8,666
Total non-spendable net position	32,580
Spendable net position:	
Unrestricted	596,686
Total spendable net position	596,686
Total unrestricted net position	629,266
Total net position	\$ 6,802,181

(8) Defined Benefit Pension Plans

Plan Description

All qualified permanent and probationary employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Defined Pension Plan (Plan or PERF C) administered by the California Public Employees' Retirement System (CalPERS). The Plan consists of a miscellaneous risk pool and a safety risk pool, which are comprised of individual employer miscellaneous and safety plans, respectively. Benefit provisions under the Plan are established by State statute and the District's resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on CalPERS website or may be obtained from their executive office at 400 P Street, Sacramento, California 95814.

Aromas Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2017

(8) Defined Benefit Pension Plans, continued

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: The Basic Death Benefit, 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.

On September 12, 2012, the California Governor signed the California Public Employees' Pension Reform Act of 2013 (PEPRA) into law. PEPRA took effect January 1, 2013. The new legislation closed the District's CalPERS 2.0% at 55 Risk Pool Retirement Plan to new employee entrants, not previously employed by an agency under CalPERS, effective December 31, 2012. All employees hired after January 1, 2013, are eligible for the District's CalPERS 2.0% at 62 Retirement Plan under PEPRA.

The District participates in the Plan's miscellaneous risk pool. The provisions and benefits for the Plan's miscellaneous pool in effect as June 30, 2017, are summarized as follows:

	<u>New Classic</u>	<u>PEPRA</u>
	Prior to December 31, 2012	On or after January 1, 2013
Hire date		
Benefit formula	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5 years of service	
Benefit payments	monthly for life	
Retirement age	50 - 55	52 - 67
Monthly benefits, as a % of eligible compensation	2.00%	2.00%
Required employee contribution rates	6.89%	6.25%
Required employer contribution rates	8.88%	6.25%

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 July 1, following notice of a change in rate. Funding contribution for the Plan is determined annually on an actuarial basis as of June 30, by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the year ended June 30, 2017, the District's employer contributions reduced its net pension liability by \$51,643.

Aromas Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2017

(8) Defined Benefit Pension Plans, continued

Net Pension Liability

As of the fiscal year ended June 30, 2017, the District reported net pension liabilities for its proportionate share of the net pension liability of the Plan as follows:

	2017
Proportionate share of net pension liability	\$ 501,054

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability for the miscellaneous risk pool. As of June 30, 2017, the net pension liability of the Plan is measured as of June 30, 2016 (the measurement date). The total pension liability for the Plan's miscellaneous risk pool used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 (the valuation date), rolled forward to June 30, 2016, 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 changes in proportionate share of the net pension liability for the Plan's miscellaneous risk pool as of the measurement date June 30, 2016, was as follows:

	Proportionate Share
Proportion – June 30, 2015	0.00635 %
Proportion – June 30, 2016	0.00579
Decrease in proportionate share	0.00056 %

Aromas Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2017

(8) Defined Benefit Pension Plans, continued

Deferred Pension Outflows(Inflows) of Resources

For the year ended June 30, 2017, the District recognized pension expense of \$8,796. As of the fiscal year ended June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 61,410	-
Differences between actual and expected experience	1,423	-
Changes in assumptions	-	(17,463)
Net differences between projected and actual earnings on plan investments	90,890	-
Adjustment due to changes in proportions and difference between actual and proportionate share of contributions	21,048	-
Total	<u>\$ 174,771</u>	<u>(17,463)</u>

For the year ended June 30, 2017, the District's deferred outflows of resources related to contributions subsequent to the measurement date totaled \$61,410; and other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized as pension expense as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Deferred Net Outflows of Resources</u>
2018	\$ 13,276
2019	17,189
2020	41,892
2021	23,541

Aromas Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2017

(8) Defined Benefit Pension Plans, continued

Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation report was determined using the following actuarial assumptions:

Valuation date	June 30, 2015
Measurement date	June 30, 2016
Actuarial cost method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial assumption	
Discount rate	7.65%
Inflation	2.75%
Salary increase	Varies by Entry Age and Service
Mortality table*	Derived using CalPERS membership data
Period upon which actuarial experience survey assumptions were based	1997 - 2011
Post-retirement benefit increase	Contract COLA up to 2.75% until PPPA floor on purchasing power applies; 2.75% thereafter.

* The mortality table used was developed based on CalPERS specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the April 2014 experience study report (based on CalPERS demographic data from 1997 to 2011) available online.

Discount Rate

The discount rate used to measure the total pension liability was 7.65% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, the amortization and smoothing periods recently adopted by CalPERS were utilized. The crossover test was performed for a miscellaneous agent plan and a safety 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 for the Plan.

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

Aromas Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2017

(8) Defined Benefit Pension Plans, continued

Discount Rate, continued

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

As of June 30, 2017, the target allocation and the long-term expected real rate of return by asset class were as follow:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Real Return Years 1-10</u>	<u>Real Return Year 11+</u>
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	20.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	10.0	6.83	6.95
Real Asset	10.0	4.50	5.13
Infrastructure and Forestland	2.0	4.50	5.09
Liquidity	1.0	(0.55)	(1.05)
Total	<u>100.0%</u>		

Sensitivity of the Proportionate Share of Net Pension Liability to Changes in the Discount Rate

The following table presents the District's proportionate share of the net position liability for the Plan, 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 one percentage point lower or one percentage point higher than the current rate.

As of June 30, 2017, the District's net pension liability at the current discount rate, using a discount rate that is one-percentage point lower and using a discount rate that is one-percentage point higher, are as follows:

	<u>Discount Rate - 1%</u>	<u>Current Discount Rate</u>	<u>Discount Rate + 1%</u>
	<u>6.65%</u>	<u>7.65%</u>	<u>8.65%</u>
District's Net Pension Liability	\$ <u>780,629</u>	<u>501,054</u>	<u>269,999</u>

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in separately issued CalPERS financial reports. See pages 34 and 35 for the Required Supplementary Schedules.

Aromas Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2017

(9) Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is insured for a variety of potential exposures. The following is a summary of the insurance policies carried by the District as of June 30, 2017:

- Public employee dishonesty, forgery or alteration, computer fraud, faithful performance of duty, pension plans including ERISA: \$200,000 limit of coverage with a \$100,000 deductible.
- Building, personal property, fixed equipment, additional coverage and catastrophic coverage: \$1,000 deductible.
- Mobile equipment: \$1,000 deductible.
- Automobile: \$1,000 deductible.
- Boiler and machinery: Various.
- Flood: Various.
- Earthquake: 5% per unit of insurance, subject to \$75,000 minimum.

(10) Governmental Accounting Standards Board Statements Issued, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to the issue date, that has effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 75

In June 2015, the GASB issued Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.

This Statement replaces the requirements of Statement No. 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57 – *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2017. The impact of the implementation of this Statement to the District’s financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 81

In March 2016, the GASB issued Statement No. 81 – *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

Aromas Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2017

(10) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 81, continued

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively.

Governmental Accounting Standards Board Statement No. 83

In November 2016, the GASB issued Statement No. 83 – *Certain Asset Retirement Obligations*. This Statement (1) addresses accounting and financial reporting for certain asset retirement obligations (AROs), (2) establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs, (3) requires that recognition occur when the liability is both incurred and reasonably estimable, (4) requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred, (5) requires the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually, and (6) requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 84

In January 2017, the GASB issued Statement No. 84 – *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

Aromas Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2017

(10) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 85

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 a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]).

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 86

In May 2017, the GASB issued Statement No. 86 – *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 87

In June 2017, the GASB issued Statement No. 87 – *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

Aromas Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2017

(11) Commitments and Contingencies

Grant Awards

Grant funds received by the District are subject to audit by the grantor agencies. Such audit could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. Management of the District believes that such disallowances, if any, would not be significant.

Litigation

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

(12) Subsequent Events

Events occurring after June 30, 2017, have been evaluated for possible adjustment to the financial statements or disclosure as of December 20, 2017, which is the date the financial statements were available to be issued.

DRAFT

<Page Intentionally Left Blank>

DRAFT

Required Supplementary Information

DRAFT

DRAFT

Aromas Water District
Schedules of the District's Proportionate Share of the Net Pension Liability
As of June 30, 2017
Last Ten Years*

Defined Benefit Plan

<u>Description</u>	<u>6/30/2017</u>	<u>Fiscal Years 6/30/2016</u>	<u>6/30/2015</u>
District's proportion of the net pension liability	0.00579%	0.00635%	0.00701%
District's proportionate share of the net pension liability	\$ 501,054	436,183	436,144
District's covered-employee payroll	\$ 260,629	249,960	328,069
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	192.25%	174.50%	132.94%
Plan's fiduciary net position as a percentage of the plan's total pension liability	74.06%	78.40%	79.82%

Notes to the Schedules of the District's Proportionate Share of Net Pension Liability

Changes in Benefit Terms – There were no changes to benefit terms for the measurement period ended June 30, 2016.

Changes of Assumptions – There were no changes of assumption for the measurement period ended June 30, 2016.

* The District has presented information for those years for which information is available until a full 10-year trend is compiled.

DRAFT

Aromas Water District
Schedules of Pension Plan Contributions
As of June 30, 2017
Last Ten Years*

Description	6/30/2017	Fiscal Years 6/30/2016	6/30/2015
Actuarially determined contribution	\$ 61,410	51,643	43,204
Contributions in relation to the actuarially determined contribution	<u>(61,410)</u>	<u>(51,643)</u>	<u>(43,204)</u>
Contribution deficiency(excess)	\$ <u>-</u>	<u>-</u>	<u>-</u>
District's covered payroll	\$ <u>260,629</u>	<u>249,960</u>	<u>328,069</u>
Contribution's as a percentage of covered-employee payroll	<u>23.56%</u>	<u>20.66%</u>	<u>13.17%</u>

Notes to the Schedules of Pension Plan Contributions

* The District has presented information for those years for which information is available until a full 10-year trend is compiled.

DRAFT

Supplementary Information

DRAFT

DRAFT

**Aromas Water District
Schedule of Operating Expenses
For the Fiscal Year Ended June 30, 2017**

	2017
Operating expenses:	
Salaries	\$ 392,695
Payroll taxes	32,184
Retirement benefits - CalPERS	10,548
Uniform allowance	1,121
Education	5,256
Workers compensation and health insurance	80,755
Outside services	5,812
Power	54,034
Truck expense	11,302
System repair and maintenance	61,323
Water analysis and treatment	15,829
Small tools and equipment	7,295
Annexation/EIR/Planning	1,845
Office (postage/supplies/maintenance)	14,001
Telemetry	3,594
Telephone	7,167
Election expense	400
General and property insurance	16,355
Legal	15,000
Bank charges	1,774
Audit	12,350
Bad debts	1,151
Membership	15,077
	766,868
Total operating expenses	\$ 766,868

Report on Internal Controls and Compliance

DRAFT

DRAFT

**Independent Auditor's Report on Internal Controls Over Financial Reporting
And on Compliance and Other Matters Based on the Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Board of Directors
Aromas Water District
Aromas, 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 Aromas Water District (District), as of and for the year June 30, 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 December 20, 2017.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

**Independent Auditor’s Report on Internal Controls Over Financial Reporting
And on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*, (continued)**

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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. Accordingly, this communication is not suitable for any other purpose.

Fedak & Brown LLP
Cypress, California
December 20, 2017

DRAFT