

AROMAS WATER DISTRICT

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FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

\* \* \*

June 30, 2013 and 2012

AROMAS WATER DISTRICT

June 30, 2013 and 2012

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**EMERITUS**

Alexander W. Berger (1916-2005)  
Griffith R. Lewis

CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Aromas Water District  
Aromas, California

We have audited the accompanying financial statements of the Aromas Water District as of and for the years ended June 30, 2013 and 2012, 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 opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 opinions.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Aromas Water District as of June 30, 2013 and 2012, and the changes in net position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison schedules as listed in the table of contents 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.

*Berger Lewis Accountancy Corporation*

BERGER LEWIS ACCOUNTANCY CORPORATION  
Santa Cruz, California  
November 15, 2013

AROMAS WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

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The following discussion and analysis of the Aromas Water District's ("AWD") financial performance presents Management's overview of the District's financial activities for the year ended June 30, 2013. Please read it in conjunction with the District's basic financial statements, which begin immediately following this analysis. This annual financial report consists of three parts - Management's Discussion and Analysis (this section), the Basic Financial Statements, and Supplementary Information.

The District follows Governmental Accounting Standards Board standard referred to as GASB Statement Number 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. GASB No. 34 establishes financial reporting standards for state and local governments including states, cities, villages and special purpose governments such as school districts and public utilities.

1. The District presents a balance sheet. The format of the information has a listing of the total assets and deferred outflows less liabilities and deferred inflows; with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating and provides a basis for evaluating the capital structure of the District and assessing its liquidity and financial flexibility.
2. The District presents statements of revenues, expenses and changes in net position. This statement measures the success of AWD operations over the past year and can be used to determine whether the District recovered its cost through water sales, user fees and other charges and its credit worthiness. Contributed capital is reported on this statement of revenues, expenses, and changes in net position in the line entitled, "Capital Contributions" following non-operating revenues and expenses.
3. The statements of cash flows include a summarization of the cash flows from operations and investments during the reporting period. The statements of cash flows reconcile the reasons why cash from operating activities differs from operating income.

AROMAS WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

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DESCRIPTION OF BASIC FINANCIAL STATEMENTS

Aromas Water District (AWD) operates as a utility enterprise and maintains its accounting records in accordance with generally accepted accounting principles for proprietary funds as prescribed by the Governmental Accounting Standards Board. The basic financial statements include balance sheets, statement of revenues, expenses and changes in net position, and statements of cash flows. The balance sheets include all of AWD's assets and deferred outflows and liabilities and deferred inflows, with the difference reported as net position. Increases/decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating and provides a basis for evaluating the capital structure of the District and assessing its liquidity and financial flexibility. The statements of revenues, expenses, and changes in net position report all of AWD's revenues and expenses during the periods indicated. The statements of cash flows show the amount of cash received and paid out for operating activities, as well as cash received from taxes, debt financing, and investment income, and cash used for construction projects and interest payments.

ASSETS

Fiscal Year 2013: The largest part of AWD's assets are investments in capital assets net of accumulated depreciation. Those assets include water system plant, office building, furniture and fixtures, vehicles, and construction in progress. Those assets are reported net of accumulated depreciation and amortization. At June 30, 2013, net capital assets totaled \$5,667,035 or 89.5% of total assets.

Fiscal Year 2012: The largest part of AWD's assets are investments in capital assets net of accumulated depreciation. Those assets include water system plant, office furniture and fixtures, vehicles and construction work in progress. Those assets are reported net of accumulated depreciation and amortization. At June 30, 2012, net capital assets totaled \$5,822,803 or 87.8% of total assets.

LIABILITIES

Fiscal Year 2013 the largest part of AWD liabilities are long term debt from Santa Barbara Bank & Trust in the amount of \$1,330,779; The current portion of the long term liabilities, \$48,137 includes twelve months of principal payments on the loan.

At June 30, 2013, current liabilities other than the current portion of long term liabilities totaled \$77,220 which was \$29,767 lower than the prior fiscal year 2012 of \$106,987. These items represent other current liabilities that are due within one year. They include accounts payable, accrued interest on long term liabilities, accrued liabilities (accrued vacation), and customer deposits.

At June 30, 2012, the largest part of AWD's liabilities are long term debt from Santa Barbara Bank & Trust in the amount of \$1,378,849. The current portion of the long term liabilities, \$45,855; includes twelve months of principal payments on the capital improvement loan. During the year ended June 30, 2012 the District obtained a new loan from Santa Barbara Bank & Trust in the amount of \$1,457,578; the proceeds of that loan were used to pay off the existing debt and to fund capital improvements.

At June 30, 2012, current liabilities other than the current portion of long term liabilities totaled \$106,987 which was \$18,388 higher than the prior fiscal year 2011 of \$88,599. These items represent other current liabilities that are due within one year. They include accounts payable, accrued interest on long term liabilities, accrued liabilities (accrued vacation), and customer deposits.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

FINANCIAL HIGHLIGHTS

During the fiscal year ending June 30, 2010, the District celebrated its 50th year anniversary of serving water to the community of Aromas.

A four year rate increase of 6.5% annually was adopted by the Board in June 2007, becoming effective October 1, 2007 and ended at the end of fiscal year, June 30, 2011. The commodity rates remain tiered to encourage conservation.

STATEMENT OF NET POSITION

	<u>2013</u>	<u>2012</u>	<u>\$ Change</u>	<u>% Change</u>
Checking/Savings	\$ 492,881	\$ 592,689	\$ (99,808)	-16.8%
A/R and Other Current Assets	146,883	185,444	(38,561)	-20.8%
Total Current Assets	<u>639,764</u>	<u>778,133</u>	<u>(138,369)</u>	<u>-17.8%</u>
Fixed Assets, Net of Depreciation	5,667,035	5,822,803	(155,768)	-2.7%
Other Assets	25,243	29,147	(3,904)	-13.4%
Total Assets	<u>6,332,042</u>	<u>6,630,083</u>	<u>(298,041)</u>	<u>-4.5%</u>
Current Liabilities	77,220	106,987	(29,767)	-27.8%
Current Portion of Long-Term Liabilities	48,137	45,855	2,282	5.0%
Long-Term Liabilities	1,330,779	1,378,849	(48,070)	-3.5%
Total Liabilities	<u>1,456,136</u>	<u>1,531,691</u>	<u>(75,555)</u>	<u>-4.9%</u>
Total Net Position	<u>\$ 4,875,906</u>	<u>\$ 5,098,392</u>	<u>\$ (222,486)</u>	<u>-4.4%</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

Aromas Water District's principal source of revenue is from water sales, which typically accounts for about 85% of the total revenue.

STATEMENT OF REVENUES AND EXPENSES

	<u>2013</u>	<u>2012</u>	<u>\$ Change</u>	<u>% Change</u>
Water Revenue	\$ 830,859	\$ 784,895	\$ 45,964	5.9%
Non Operating Revenue (Expense):				
Property Taxes	50,004	49,741	263	0.5%
Interest Income	1,662	2,259	(597)	-26.4%
Interest Expense	(69,646)	(63,863)	(5,783)	9.1%
Connection Fees and Miscellaneous	3,906	18,063	(14,157)	-78.4%
Capital Contributions	0	19,860	(19,860)	
Total Revenues	<u>816,785</u>	<u>810,955</u>	<u>5,830</u>	<u>0.7%</u>
Operations & Maintenance	77,323	65,596	11,727	17.9%
Payroll & Benefits	394,604	392,545	2,059	0.5%
Power Costs	99,158	89,115	10,043	11.3%
Administrative & General	143,869	146,798	(2,929)	-2.0%
Sub-Total Expenses	<u>714,954</u>	<u>694,054</u>	<u>20,900</u>	<u>3.0%</u>
Sub-Total Net Income	<u>101,831</u>	<u>116,901</u>	<u>(15,070)</u>	<u>-12.9%</u>
Depreciation and Amortization	<u>324,317</u>	<u>297,054</u>	<u>27,263</u>	<u>9.2%</u>
Total Expenses	<u>1,039,271</u>	<u>991,108</u>	<u>48,163</u>	<u>4.9%</u>
Increase (Decrease) Net Position	<u>\$ (222,486)</u>	<u>\$ (180,153)</u>	<u>\$ (42,333)</u>	

Water revenue increased for the year ended June 30, 2013, due to increase consumption. Other revenue includes property tax revenue, interest income and miscellaneous income all of which remained fairly consistent. Property tax revenue has been affected by reduction in assessed value. The investment interest income remains low due to declining interest rates. Interest expense is paid on debt associated with water system and office building improvements. Connection fees are collected when the District installs new meters. For the fiscal year ended June 30, 2012, the District received a capital contribution of the California Department of Transportation for costs incurred associated with the San Juan Road Interchange Utility Relocation project. Total expenses increased due to increased power costs, system maintenance costs and depreciation net of savings of rent expense due to District now occupying its new office building.



AROMAS WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

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CAPITAL ASSETS AND CAPITAL IMPROVEMENT PROGRAMS

This fiscal year ending June 30, 2013, the major capital additions were the completion of the District Office remodel. Last fiscal year ending June 30, 2012, the major capital additions were: the Carpenteria Well project completed at a total cost of \$360,232, and the purchase of 388 Blohm Avenue, Aromas, at a cost of \$187,000, site is now used as the District's office.

DEBT ADMINISTRATION

The District has a total debt outstanding balance of \$1,378,916 as of June 30, 2013:

Santa Barbara Bank & Trust (now Union Bank) 2011 Loan	<u>\$ 1,378,779</u>
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Debt transactions during the year ended June 30, 2013, consisted of required monthly payments on the debt.

SIGNIFICANT DIFFERENCES, BUDGET TO ACTUAL

The difference between the District's zero based budget and the actual net loss of \$222,486 is due in large part to the depreciation. For financial statement presentation, actual depreciation expense of \$320,517 is used. For District budget preparation \$92,000 is used, a difference of \$228,517. For budget purposes the District uses this expected cash to be set aside for rebuilding the capital reserves.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The District's fiscal year 2013-2014 income/expense budget is \$880,000. Water sales have remained higher due to dry weather, there are no rate increases planned for 2013-2014. There are several capital projects planned for 2013-2014: purchasing an emergency generator, upgrading the SCADA system and purchasing radio read meters. We continue to be publicly active in the Aromas community promoting water conservation.

June 30, 2013

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CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the Board, our customers, and all creditors with a general overview of the Aromas Water District's accountability for the assets it receives and manages. The District provides all management and administrative functions, including all financial management and accounting. If you have any questions about this report or need additional information, please contact Aromas Water District's General Manager at 388 Blohm Avenue, Aromas, California 95004, (831) 726-3155 or by email at [aromaswd@aol.com](mailto:aromaswd@aol.com).

AROMAS WATER DISTRICT

BALANCE SHEETS

June 30, 2013 and 2012

ASSETS

	2013	2012
CURRENT ASSETS:		
Cash and Certificate of Deposits	\$ 492,881	\$ 592,689
Accounts Receivable, Net of Allowance for Doubtful Accounts of \$500 and \$500 for 2013 and 2012, respectively.	100,744	110,779
Other Receivables	8,089	37,454
Inventory and Supplies	30,962	31,464
Prepaid Expenses	7,088	5,747
Total Current Assets	639,764	778,133
PROPERTY AND EQUIPMENT, Net of Accumulated Depreciation of \$3,406,516 and \$3,085,999 for 2013 and 2012, respectively.	5,667,035	5,822,803
DEPOSITS	2,393	2,497
IDLE ASSETS, Net of Accumulated Depreciation of \$42,400 and \$42,400 for 2013 and 2012, respectively.	1,000	1,000
DEFERRED OUTFLOWS OF RESOURCES:		
Loan Fees, Net of Accumulated Amortization of \$16,150 and and \$12,350 for 2013 and 2012, respectively.	21,850	25,650
TOTAL ASSETS	\$ 6,332,042	\$ 6,630,083

See Independent Auditor's Report and Accompanying Notes to Financial Statements

AROMAS WATER DISTRICT

BALANCE SHEETS  
(Continued)

June 30, 2013 and 2012

LIABILITIES AND NET POSITION

	<u>2013</u>	<u>2012</u>
CURRENT LIABILITIES:		
Accounts Payable	\$ 50,092	\$ 73,039
Accrued Interest	2,944	4,634
Accrued Liabilities	19,884	20,864
Customer Deposits	4,300	8,450
Current Portion of Long-Term Debt	<u>48,137</u>	<u>45,855</u>
Total Current Liabilities	<u>125,357</u>	<u>152,842</u>
LONG-TERM LIABILITIES:		
Debt, Net of Current Portion	<u>1,330,779</u>	<u>1,378,849</u>
Total Long-Term Liabilities	<u>1,330,779</u>	<u>1,378,849</u>
NET POSITION:		
Net Investment in Capital Assets	4,288,119	4,398,099
Unrestricted Net Position	<u>587,787</u>	<u>700,293</u>
Total Net Position	<u>4,875,906</u>	<u>5,098,392</u>
 TOTAL LIABILITIES AND NET POSITION	 <u>\$ 6,332,042</u>	 <u>\$ 6,630,083</u>

See Independent Auditor's Report and Accompanying Notes to Financial Statements

AROMAS WATER DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Years Ended June 30, 2013 and 2012

	2013	2012
<b>OPERATING REVENUES:</b>		
Water Revenue	\$ 813,066	\$ 775,796
Bulk Water	17,793	9,099
Total Operating Revenues	830,859	784,895
<b>OPERATING EXPENSES:</b>		
Salaries	316,466	313,946
Payroll Taxes	27,601	27,200
Retirement Benefits - PERS	50,537	51,399
Uniform Allowance	406	539
Education	2,650	1,346
Insurance (Workers Comp & Health)	54,871	52,766
Outside Services	4,516	4,602
Power	99,158	89,115
Truck Expense	2,505	14,246
System Repair and Maintenance	54,026	28,431
Water Analysis and Treatment	11,465	12,803
Tools	1,276	1,401
Annexation/EIR/Planning	2,268	100
Office Rent	6,300	24,600
Miscellaneous	2,219	1,132
Office (Postage/Supplies/Maintenance)	11,675	10,031
Telemetry	3,535	4,113
Telephone	6,244	5,339
Depreciation	320,517	293,254
Amortization	3,800	3,800
Election Expense	5,213	-
Insurance: Liability	17,416	17,375
Legal	13,200	12,049
Bank Charges	2,262	3,122
Audit	6,250	6,025
Bad Debts	120	576
Memberships	12,775	11,798
Total Operating Expenses	1,039,271	991,108
OPERATING INCOME (LOSS)	(208,412)	(206,213)

See Independent Auditor's Report and Accompanying Notes to Financial Statements

AROMAS WATER DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
(Continued)

For the Years Ended June 30, 2013 and 2012

	2013	2012
NON-OPERATING REVENUES (EXPENSES):		
Connection and Meter Installations	\$ -	\$ 10,843
Property Taxes	50,004	49,741
Interest Income	1,662	2,259
Interest Expense	(69,646)	(63,863)
Miscellaneous Income	3,906	7,220
Net Non-Operating Revenues	(14,074)	6,200
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(222,486)	(200,013)
CAPITAL CONTRIBUTIONS:		
Capital Contributions	-	19,860
Capital Contributions	-	19,860
INCREASE (DECREASE) IN NET POSITION	(222,486)	(180,153)
NET POSITION, BEGINNING OF YEAR	5,098,392	5,278,545
NET POSITION, END OF YEAR	\$ 4,875,906	\$ 5,098,392

See Independent Auditor's Report and Accompanying Notes to Financial Statements

AROMAS WATER DISTRICT  
STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2013 and 2012

	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash Received From Customers	\$ 836,744	\$ 776,293
Cash Paid to Suppliers	(422,170)	(356,391)
Cash Paid to Employees	(317,446)	(312,157)
Net Cash Provided By Operating Activities	97,128	107,745
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Property Taxes Received	51,527	51,864
Net Cash Provided by Financing Activities	51,527	51,864
<b>CASH FLOWS FROM CAPITAL &amp; RELATED FINANCING ACTIVITIES:</b>		
Principal Payments on Loans	(45,788)	(890,452)
Principal Payments on Bonds	0	(2,500)
Proceeds from Capital Contributions	19,860	0
Proceeds from New Loans	0	1,457,578
Acquisition and Construction of Capital Assets and Deferred Charges	(164,749)	(618,491)
Interest Paid	(71,336)	(69,530)
Connection Fees and Other Income	11,888	15,080
Net Cash Used for Capital & Related Financing Activities	(250,125)	(108,315)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest Received on Cash and Investments	1,662	2,259
Net Cash Flows Provided by Investing Activities	1,662	2,259
<b>NET (INCREASE) DECREASE IN CASH</b>	(99,808)	53,553
CASH, Beginning of Year	592,689	539,136
CASH, End of Year	\$ 492,881	\$ 592,689
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating Loss	\$ (208,412)	\$ (206,213)
Adjustments to Reconcile Net Income to Cash Provided by Operating Activities:		
Depreciation and Amortization	324,317	297,054
(Increase) Decrease in:		
Accounts Receivable	10,035	(8,902)
Other Receivables	0	0
Inventory	502	198
Prepaid Expenses	(1,341)	1,449
Deposits	104	104
Increase (Decrease) in:		
Accounts Payable	(22,947)	21,966
Accrued Liabilities	(980)	1,789
Customer Deposits	(4,150)	300
Net Cash Flows Provided By Operating Activities	\$ 97,128	\$ 107,745

See Independent Auditor's Report and Accompanying Notes to Financial Statements

AROMAS WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

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1. ORGANIZATION:

Organization - The Aromas Water District (AWD) was formed in 1959 under the State of California Water Code (Division 12, Section 30000 et seq.) as a County Water District and is located 16 miles north of the City of Salinas. The District is approximately 20 square miles and provides water service to most of the unincorporated area of Aromas (population 3,500) and a portion of the unincorporated area west of the City of San Juan Bautista. The District is a governmental agency and is exempt from federal and state income tax.

District Officials - The District is governed by a board of five directors. The following were in office at June 30, 2013:

	<u>Term Expires</u>
Wayne Holman, President	November 2016
Bonnie Mahler, Vice-President	November 2014
Marcus Dutra	November 2014
James Leap	November 2014
Wayne Norton	November 2016

Other officials of the District at June 30, 2013 were:

Vicki Morris, General Manager  
Robert Bosso, Legal Counselor

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

For fiscal year ended June 30, 2013, The District implemented GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement 65, *Items Previously Reported as Assets and Liabilities*. Implementation of these statements has resulted in a change to the format of the basic financial statements and has been applied retroactively.

- a. Basis of Presentation - The District reports its activities as a proprietary (enterprise) fund. Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges fund.

The District applies all Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

- b. Method of Accounting - The transactions of the District are accounted for on a flow of economic resources measurement focus (full accrual basis). With this measurement focus, all assets, deferred outflows, liabilities and deferred inflows associated with the operations are included on the statement of net position, and revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.



AROMAS WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

June 30, 2013 and 2012

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

- b. Method of Accounting (Continued) - Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's ongoing operations. The principal operating revenues of the District are charges to customers for water (service charges and consumption charges). Operating expenses include the cost of providing those services including administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Net position (i.e., total assets and deferred outflows net of total liabilities and deferred inflows) are segregated into:

(1) Net Investment in Capital Assets: This component of net position consists of historical cost of capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets;

(2) Restricted: This component of net position consists of constraints placed on net position use by external parties such as lenders and grantors, or laws or regulations or other governments;

(3) Unrestricted: This component of net position consists of all other net assets including designated and undesignated.

- c. Cash in and Certificate of Deposits - The District's cash mainly in financial institutions as described in Note 4.

Accounts Receivable - The District utilizes an allowance for bad debts with respect to its accounts receivable. The allowance at June 30, 2013 and 2012 was \$500. Management's periodic evaluation of the adequacy of the allowance is based on the District's past bad debt experience. Accounts receivable are charged off when they are deemed uncollectible

Inventory - Inventories consist primarily of water meters and parts used in the repair and maintenance of the water utility plant and are stated at cost using the first-in, first-out method.

Property, Equipment and Depreciation - The District records fixed assets at cost and depreciates these assets using the straight-line method. Depreciation is based on the following estimated useful lives:

Machinery and Equipment	3 - 5 years
Improvements to Wells, Tanks and Lines	20-40 years
Vehicles	5 years
Buildings	35 years

AROMAS WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(Continued)

June 30, 2013 and 2012

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Maintenance and repairs are charged against income; major renewals and repairs are capitalized and depreciated. Water systems contributed by developers and associations annexed by the District are recorded at their fair market value on the date of contribution.

The amount of interest capitalized as part of the District constructed assets is calculated by applying the appropriate interest rate to average accumulated expenditures during the construction period.

Idle assets are assets which have been taken out of service but are retained by the District.

Employee Compensated Absences - The District records the expense of employees' vacation and sick leave benefits in the period in which they accumulate and become vested.

Property Taxes - Property tax in California is levied in accordance with Article XIII A of the State constitution at 1% of countrywide assessed valuations. The property taxes are placed in a pool and are then allocated to the local government units based upon complex formulas. Property tax revenue is recognized in the fiscal year in which taxes have been levied. The property tax calendar is as follows:

Lien Date:	January 1
Levy Date:	July 1
Due Date:	First Installment - November 1 Second Installment - February 1
Delinquent Date:	First Installment - December 11 Second Installment - April 11

Connection Fees - The District collects water capacity fees (connection fees) in order to ensure that current customers do not bear the burden of growth. These fees are paid by new customers and represent, on a residential equivalent unit basis, the cost of the water capacity represented by the new account. GASB 34 defines these fees as non-operating revenues and requires reporting the amounts through the statement of activities and changes in net assets.

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

AROMAS WATER DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 (Continued)

June 30, 2013 and 2012

3. PROPERTY AND EQUIPMENT:

At June 30, property and equipment consists of the following:

	2013	2012
Water Systems	\$ 8,177,784	\$ 8,169,583
Land and Water Rights	324,226	324,226
Vehicles	74,492	74,492
Office Building (Land and Improvements)	387,261	
Office Furniture and Fixtures	89,194	89,194
Capital Assets in Use	9,052,957	8,657,495
Less: Accumulated Depreciation	(3,406,516)	(3,085,999)
	5,646,441	5,571,496
Construction in Progress	20,594	251,307
Property and Equipment, Net	\$ 5,667,035	\$ 5,822,803

Change in Accounts:

	Balance June 30, 2012	Additions or Transfers in	Deletions or Transfers out	Balance June 30, 2013
Change in Property and Equipment was as follows:				
Capital Assets in Use	\$ 8,657,495	\$ 395,462		\$ 9,052,957
Construction in Progress	251,307	166,148	\$ 396,861	20,594

At June 30, idle property and equipment consisted of the following:

	2013	2012
Land	\$ 1,000	\$ 1,000
Machines and Equipment	22,000	22,000
Improvements	20,400	20,400
	43,400	43,400
Less: Accumulated Depreciation	(42,400)	(42,400)
Idle Property and Equipment, Net	\$ 1,000	\$ 1,000

4. CASH AND INVESTMENTS:

INVESTMENTS AUTHORIZED BY THE DISTRICT'S INVESTMENT POLICY:

Investments are stated at cost and all activities are conducted through San Benito Bank and LAIF.

	Carrying Amount		Market Value	
	2013	2012	2013	2012
Checking and Savings	\$ 492,857	\$ 592,665	\$ 492,857	\$ 592,665
LAIF	24	24	24	24
Total Cash and Investments	\$ 492,881	\$ 592,689	\$ 492,881	\$ 592,689

CONCENTRATION OF CREDIT RISK:

The investment policy of the District contains no limitation on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer that represent 5% or more of the total District investments.

AROMAS WATER DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 (Continued)

June 30, 2013 and 2012

4. CASH AND INVESTMENTS (Continued):

INVESTMENT IN STATE INVESTMENT POOL (LAIF):

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 Fund invests in U.S. Treasury securities, federal agency securities, bankers acceptances, certificates of deposits, collateralized time deposits, corporate paper and bonds and repurchase agreements. Under federal regulations the State of California can not declare bankruptcy, so money placed with the State Treasurer for deposit in the funds shall not be subject to impoundment or seizure by any state official or state agency. At June 30, 2013 and 2012, the balances on deposit with LAIF were \$24 and \$24, respectively.

DISCLOSURES RELATING TO 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. As of the year end, the weighted average maturity of the investments contained in the LAIF investment pool is approximately 185 days.

DISCLOSURES RELATING TO CREDIT RISK:

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligations to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. LAIF does not have a rating provided by a nationally recognized statistical rating organization.

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 position of an outside party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

At June 30, 2013 and 2012, the District maintained deposit balances at the following institution:

<u>Santa Barbara Bank and Trust:</u>	2013	2012
Checking & Savings	\$ 492,857	\$ 592,665
FDIC Insurance	(250,000)	(250,000)
Collateralized Funds	\$ 242,857	\$ 342,665

At June 30, 2013 and 2012, of the bank balance, \$250,000 and \$250,000, respectively, were covered by federal depository insurance; \$242,857 and \$342,665, respectively, were collateralized by the pledging institutions as required by Section 53652 of the California Government Code.

With respect to investments, custodial 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.

AROMAS WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

June 30, 2013 and 2012

5. LONG-TERM BONDS PAYABLE:

The details of long-term bonds payable are as follows:

	2013	2012
Aromas County Water District Water Bonds of 1960, Third Division	\$ -	\$ -
Less: Current Portion	-	-
Long-Term Bonds Payable	\$ -	\$ -

The Aromas County Water District Bonds of 1960, Third Division, dated July 11, 1972, are due in installments through January 1, 2012. The original bond issuance was \$45,000. The bonds bear interest at the rate of five percent (5%) per annum. The bonds are to be paid with property tax assessments which are collected by the County of San Benito. The bonds were paid off as of June 30, 2012.

6. LONG-TERM DEBT:

The details of long-term debt at June 30, 2013 and 2012 are as follows:

	2013	2012
Note payable to Santa Barbara Bank and Trust; dated September 15, 2012 in the amount of \$1,457,578; interest at 4.80%, with monthly payments of interest and principal of \$9,515 for initial 10 year loan term until September 15, 2021. Balloon payment of \$912,063.	\$ 1,378,916	\$ 1,424,704
Less: Principal Due in One Year	(48,137)	(45,855)
Long-Term Debt, Net of Current Portion	\$ 1,330,779	\$ 1,378,849

Future maturities of long-term debt are as follows:

	Principal	Interest	Total
2014	\$ 48,137	\$ 66,042	\$ 114,179
2015	50,533	63,646	114,179
2016	52,879	61,300	114,179
2017	58,450	55,729	114,179
2018	55,679	58,500	114,179
2019-2022	1,113,238	160,502	1,273,740
	\$ 1,378,916	\$ 465,719	\$ 1,844,635

Change in debt was as follows:

	Balance June 30, 2012	New Debt	Principal Paid	Balance June 30, 2013
Santa Barbara Bank and Trust, due 2021	\$ 1,424,704	\$ -	\$ 45,788	\$ 1,378,916

AROMAS WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(Continued)

June 30, 2013 and 2012

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7. EMPLOYEES' RETIREMENT PLAN:

Through December 31, 2005, the District maintained a Simplified Employee Pension - Individual Retirement Account, under 408(k) of the Internal Revenue Code. This retirement plan was available to all employees over the age of 18 and with one year of service. The retirement plan vested 100% upon qualification. Effective January 1, 2006, the District no longer contributed to the Simplified Employee Pension.

Effective January 1, 2006, the District adopted a defined benefit pension plan as follows:

Plan Description - The Aromas Water District's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The District's defined benefit pension plan is part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions, as well as other requirements, are established by State statutes within the Public Employees' Retirement Law. The District selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office - 400 P Street - Sacramento, CA 95814.

Funding Policy - Active plan members in the Aromas Water District's defined pension plan are required to contribute 7% of their annual covered salary. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2012/2013 was 16.958% and for 2011/2012 was 17.613% for miscellaneous employees. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

Annual Pension Cost - For fiscal year 2012/2013, the Aromas Water District's defined benefit pension plan's annual pension cost was \$50,537 for PERS and was equal to the District's required and actual contributions. The required contribution for fiscal year 2012/2013 was determined as part of the June 30, 2009 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by duration of service age, and type of employment, and (c) 3.25% overall payroll growth. Both (a) and (b) included an inflation component of 3.0%. The actuarial value of Aromas Water District's defined benefit pension plan's assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a three year period depending on the size of investment gains and/or losses.

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AROMAS WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(Continued)

June 30, 2013 and 2012

7. EMPLOYEES' RETIREMENT PLAN (Continued):

Three-Year Trend Information:

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
<u>Ending</u>			
6/30/11	\$44,351	100%	N/A
6/30/12	\$51,399	100%	N/A
6/30/13	\$50,537	100%	N/A

Required Supplementary Information

Funded Status of the Plan:

As part of the program to smooth the changes in required employer contributions for smaller plans, resulting from changes in actuarial assumptions and short-term market experience, PERS placed plans of 100 or fewer members into "Risk Pools". Formation of the risk pools required the establishment of "Side Funds" to account for the differences between the funded status of the risk pool and the funded status of the member District's plan. The "Side Pool" represents unfunded liabilities to be amortized on an annual basis over a closed period.

The table below displays a schedule of funding progress for the recent history of the risk pool's Accrued Liability, Actuarial Value of Assets, Unfunded Liability, Funded Status (i.e., the ratio of the Actuarial Value of Assets to Accrued Liability), the estimated Annual Covered Payroll for the risk pool, and the Unfunded Actuarial Accrued Liability (UAAL) as a percentage of that covered payroll.

**Risk Pool's History of Funded Status and Funding Progress**

Valuation Date	Accrued Liabilities	Actuarial Assets	Unfunded Liabilities (UL)	Funded Ratio	Annual Covered Payroll	UAAL as a % of Payroll
6/30/09	\$3,104,798,222	\$2,758,511,101	\$346,287,121	88.9%	\$742,981,488	46.6%
6/30/10	\$3,309,064,934	\$2,946,408,106	\$362,656,828	89.0%	\$748,401,352	48.56%
6/30/11	\$3,619,835,876	\$3,203,214,899	\$416,620,977	88.5%	\$759,263,518	54.9%

8. COMPENSATED ABSENCES:

Accumulated unpaid employee compensated absences are recognized as liabilities of the District. The accumulated compensated absences at June 30, 2013 and 2012 were \$19,884 and \$20,864, respectively.

NOTES TO FINANCIAL STATEMENTS  
(Continued)June 30, 2013 and 2012

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## 9. CAPITAL CONTRIBUTIONS:

Capital contributions represent cash and capital asset additions contributed to the District by property owners, granting agencies, or real estate developers desiring services that require capital expenditures or capacity commitment. At the completion of a capital project that has been contributed to the District, assets are annexed into the District and become the property of the District. The District then becomes responsible for the maintenance, upkeep and eventual replacement of such assets.

## 10. COMMUNITY FACILITIES DISTRICT:

The District has two property tax assessment districts: the Community Facilities District (CFD) formed in 1998 and the Orchard Acres Assessment District formed in 2008. Bonds were issued, are secured by and payable from the pledge of the Special Taxes collected by the District levied upon certain real property within these CFD Districts. The bonds are not a debt of the District, the CFD District, the County, the State of California or any of its political subdivisions, and neither the District, the CFD District, the County, the State nor any of its political subdivisions is liable therefore. Consequently, the District does not include the bond debts, the bond redemption or reserve funds or cash collected from the Special Tax on its financial statements.

The District collects the tax revenues from the bond debt and forwards it to the bonding company. Any tax monies collected but not remitted would be recorded as a liability.

## 11. PROPOSITION 1A BORROWING BY THE STATE OF CALIFORNIA:

Under the provisions of Proposition 1A and as part of the 2009-2010 budget package passed by the California state legislature on July 28, 2009, the State of California borrowed 8% of the amount of property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fee, the triple flip in lieu sales tax, and supplemental property tax, apportioned to the cities, counties and special districts (excluding redevelopment agencies). The State is required to repay this borrowing plus interest by June 30, 2013. After repayment of the initial borrowing, the California Legislature may consider only one additional borrowing within a ten-year period. As of June 30, 2013, the District has received payment; as of June 30, 2012, the receivable balance for this borrowing from Aromas Water District was \$4,835.

## 12. OPERATING LEASE:

The District entered into a lease on January 1, 2004, for the site for its office building. The initial lease term began on January 1, 2004 and ended December 31, 2007. After the end of the initial period ended December 31, 2007, the District continues to lease office space on a month to month basis. As of June 30, 2012, monthly rent is \$2,100 per month. Total rent for the years ended June 30, 2012 was \$23,400.

During the year ended June 30, 2013 the District moved out of the rented office space and into its new office building. Rent expense for the year ended June 30, 2013 was \$6,300.



AROMAS WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

June 30, 2013 and 2012

13. RISK MANAGEMENT:

The District is exposed to various risks or loss for which the District carries insurance. There have been no significant reductions in coverage from the prior year. The District is a participating member of the Association of California Water Agencies Joint Powers Insurance Authority ("ACWA/JPIA"). ACWA/JPIA is a self-insured association of independent water agencies. ACWA/JPIA funding is based on rates established by ACWA/JPIA's executive committee. ACWA/JPIA administers claims in-house on behalf of participating members.

ACWA/JPIA retains the following self-insured retention ("SIR"):

Liability Program	\$ 500,000
Property Program	\$ 10,000

The following insurance coverage information is presented with maximum policy limits:

Property (ACWA/JPIA):

All risks excluding earthquake and flood.

All Real and Personal Property:

	Amount
Buildings	\$ 265,938
Fixed Equipment	\$ 1,896,978
Personal Property	\$ 89,576
Mobile Equipment	\$ 5,000
Vehicles	\$ 74,492
Expense to Restore Valuable Papers	\$ 100,000
Extra Expense	\$ 100,000
Accounts Receivable	\$ 100,000
Loss on Earnings	\$ 100,000
Loss on Rents	\$ 100,000
Vehicles Garaged on District Premises - Catastrophic Coverage	\$ 100,000

Deductibles: Buildings, Personal Property, Fixed Equipment and Catastrophic coverage \$1,000, Mobile Equipment \$1,000, and Vehicles \$500

Liability (ACWA/JPIA):

Comprehensive General - Bodily Injury and Property Damage, Per Occurrence	\$ 40,000,000
Comprehensive Automobile - Bodily Injury and Property Damage, Per Occurrence	\$ 40,000,000

Automobile:

Automobile Liability, Per Occurrence	\$ 1,000,000
Uninsured Motorist	\$ -

Workers' Compensation:

State Compensation Insurance Fund	Statutory
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AROMAS WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(Continued)

June 30, 2013 and 2012

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14. SUBSEQUENT EVENTS:

The District's management has evaluated events and transactions subsequent to June 30, 2013 for potential recognition or disclosure in the financial statements. The District did not have subsequent events that required recognition or disclosure in the financial statements for the year ended June 30, 2013. Subsequent events have been evaluated through November 15, 2013, the date the financial statements became available to be issued. The entity has not evaluated subsequent events after November 15, 2013.

REQUIRED SUPPLEMENTARY INFORMATION

AROMAS WATER DISTRICT  
BUDGETARY COMPARISON SCHEDULE  
BUDGET TO ACTUAL

For the Year Ended June 30, 2013

	Original Budget 2013	Final Budget 2013	Actual 2013	Difference
<b>OPERATING REVENUES:</b>				
Water Revenue	\$ 800,000	\$ 800,000	\$ 813,066	\$ 13,066
Bulk Water	15,000	15,000	17,793	2,793
<b>TOTAL OPERATING REVENUES</b>	<b>815,000</b>	<b>815,000</b>	<b>830,859</b>	<b>15,859</b>
<b>OPERATING EXPENSES:</b>				
Payroll:				
Salaries	316,000	316,000	316,466	(466)
Payroll Taxes	28,350	28,350	27,601	749
Employee Costs:				
Retirement Benefits - PERS	54,000	54,000	50,537	3,463
Uniform Allowance	600	600	406	194
Education	2,400	2,400	2,650	(250)
Insurance (Workers Comp & Health)	55,000	55,000	54,871	129
Outside Services	5,000	5,000	4,516	484
Power:				
Power	95,050	95,050	99,158	(4,108)
Operations:				
Truck Expense (Fuel & Maintenance)	14,500	14,500	2,505	11,995
System Repair and Maintenance	45,000	45,000	54,026	(9,026)
Water Analysis and Treatment	11,000	11,000	11,465	(465)
Tools	1,500	1,500	1,276	224
Annexation/EIR/Planning	-	-	2,268	(2,268)
Office:				
Office Rent	6,300	6,300	6,300	-
Miscellaneous	1,600	1,600	2,219	(619)
Office (Postage/Supplies/Maintenance)	15,600	15,600	11,675	3,925
Communications:				
Telemetry	4,000	4,000	3,535	465
Telephone and Answering Service	6,400	6,400	6,244	156
Administrative and General:				
Depreciation	92,000	92,000	320,517	(228,517)
Amortization	-	-	3,800	(3,800)
Election Expense	4,000	4,000	5,213	(1,213)
Insurance: Liability	16,000	16,000	17,416	(1,416)
Legal, Legal Contingency	23,200	23,200	13,200	10,000
Bank Charges	3,000	3,000	2,262	738
Audit	6,500	6,500	6,250	250
Bad Debts	500	500	120	380
Memberships	15,000	15,000	12,775	2,225
<b>TOTAL OPERATING EXPENSES</b>	<b>822,500</b>	<b>822,500</b>	<b>1,039,271</b>	<b>(216,771)</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(7,500)</b>	<b>(7,500)</b>	<b>(208,412)</b>	<b>(200,912)</b>
<b>NON-OPERATING REVENUES (EXPENSES):</b>				
Connection and Meter Installations	11,000	11,000	-	(11,000)
Property Tax	52,000	52,000	50,004	(1,996)
Interest Income	1,500	1,500	1,662	162
Interest Expense	(67,000)	(67,000)	(69,646)	(2,646)
Miscellaneous Income	10,000	10,000	3,906	(6,094)
<b>NET NON-OPERATING REVENUES</b>	<b>7,500</b>	<b>7,500</b>	<b>(14,074)</b>	<b>(21,574)</b>
<b>NET INCOME (LOSS)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (222,486)</b>	<b>\$ (222,486)</b>