

Aromas Water District

Financial Statements and Supplementary Information
and Single Audit Reports

June 30, 2015

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Aromas Water District
Aromas, California

We have audited the accompanying 2015 financial statements of the Aromas Water District as of and for the year ended June 30, 2015, 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 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. 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 2015 financial statements referred to above present fairly, in all material respects, the financial position of Aromas Water District as of June 30, 2015, and the changes in net position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Prior Period Financial Statements

The financial statements as of and for the period ended June 30, 2014, were audited by Berger Lewis Accountancy Corporation, whose practice became part of Armanino^{LLP} as of January 1, 2015, and whose report dated December 23, 2014, expressed an unmodified opinion on those statements.

Emphasis of Matter

As described in note 2 to the financial statements, for the year ended June 30, 2015, the District adopted new accounting guidance. Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. 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 and pension 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.

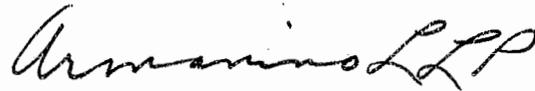
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Aromas Water District's basic financial statements. The budgetary comparison schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements, and is also not a required part of the basic 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 Standard*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2016, on our consideration of the Aromas Water 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 Aromas Water District's internal control over financial reporting and compliance



Armanino^{LLP}
Santa Cruz, California

March 28, 2016

AROMAS WATER DISTRICT
Management's Discussion and Analysis
June 30, 2015 and 2014

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, 2015. 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.

Description of Basic Financial Statements

Aromas Water District 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.

AROMAS WATER DISTRICT
Management's Discussion and Analysis
June 30, 2015 and 2014

Fiduciary fund

For the year ended June 30, 2015, the reporting entity is comprised of the primary government, Aromas Water District, and Oak Ridge Via Del Sol Assessment District. The Assessment District is included in the financial statements as Fiduciary Agency Fund; Aromas Water District is performing duties as an agent during the construction phase of water project for the Assessment District. Upon completion of the project the water project assets will be contributed to Aromas Water District and the fiduciary agency fund closed. For additional information see note 9.

Assets

Fiscal Year 2015: 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, 2015, net capital assets totaled \$5,471,401 or 79.5% of total assets.

Fiscal Year 2014: 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, 2014, net capital assets totaled \$5,528,708 or 91.1% of total assets.

Liabilities

Fiscal Year 2015: The largest part of AWD liabilities are long term debt from Union Bank in the amount of \$1,525,687. The current portion of the long term liabilities, \$102,460 includes required principal payments due during the next twelve months on the loan.

During the year ended June 30, 2015, the District refinanced the Santa Barbara Bank & Trust loan through City National Bank at an interest rate of 3.0% for term of fifteen years, in addition to paying off the Santa Barbara Bank & Trust loan, the District took out an additional \$201,966 to fund the Solar Capital project at an interest rate of 2.75% for a term of six years.

At June 30, 2015, current liabilities other than the current portion of long term liabilities totaled \$388,000 which was \$275,460 higher than the prior fiscal year 2014 of \$62,570. 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.

Fiscal Year 2014: The largest part of AWD liabilities are long term debt from Santa Barbara Bank & Trust in the amount of \$1,280,321. The current portion of the long term liabilities, \$50,533 includes twelve months of principal payments on the loan.

AROMAS WATER DISTRICT
Management's Discussion and Analysis
June 30, 2015 and 2014

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.

At June 30, 2015, current liabilities other than the current portion of long term liabilities totaled \$338,528 which included \$276,837, for the solar array capital project. The prior fiscal year 2014 was \$62,540 in current liabilities. 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.

The rate increase adopted by the Board in June 2007, ended at the end of fiscal year, June 30, 2011. A new Rate Study was completed in 2014, it has recommended rate increases for the 2014/2015 year through 2018/2019, these were adopted by the Board in July 2014. The rate increases took effect November 1, 2014, July 1, 2015 and annually thereafter on July 1, with the last increase proposed for July 1, 2018.

Statement of Financial Position

	<u>2015</u>	<u>2014</u>	<u>\$ Change</u>
Checking/savings	\$1,233,496	\$ 388,277	\$ 845,219
A/R and other current assets	<u>131,667</u>	<u>131,679</u>	<u>(12)</u>
Total current assets	1,365,163	519,956	845,207
Fixed assets, net of depreciation	5,472,401	5,528,708	(56,307)
Other assets	<u>38,896</u>	<u>21,339</u>	<u>17,557</u>
Total assets	<u>6,876,460</u>	<u>6,070,003</u>	<u>806,457</u>
Current liabilities	338,528	62,540	275,988
Current portion of long-term liabilities	102,460	50,533	51,297
Long-term liabilities	<u>1,930,847</u>	<u>1,280,321</u>	<u>650,526</u>
Total liabilities	<u>2,371,835</u>	<u>1,393,394</u>	<u>978,441</u>
Total net position	<u>\$4,504,625</u>	<u>\$4,676,609</u>	<u>\$(171,984)</u>

AROMAS WATER DISTRICT
Management's Discussion and Analysis
June 30, 2015 and 2014

Aromas Water District's principal source of revenue is from water sales, which accounts for about 95% of the total revenue.

Statement of Revenues and Expenses

	<u>2015</u>	<u>2014</u>	<u>\$ Change</u>
Water revenue	\$ 822,204	\$ 852,818	\$ (30,614)
Non operating revenue (expense)			
Property taxes	62,290	52,689	9,601
Interest income	1,771	1,019	752
Interest expense	(87,432)	(62,891)	(24,541)
Connection fees and miscellaneous	583,623	47,852	535,771
Grant revenue	<u>2,014</u>	<u>4,311</u>	<u>(2,297)</u>
Total revenues	<u>1,384,470</u>	<u>895,798</u>	<u>488,672</u>
Operations and maintenance	77,353	87,347	9,994
Payroll and benefits and costs	483,449	471,229	(12,220)
Power costs	76,323	102,179	25,856
Administrative and general	<u>81,142</u>	<u>76,695</u>	<u>(4,447)</u>
Sub-total expenses	<u>718,267</u>	<u>737,450</u>	<u>19,183</u>
Depreciation and amortization	<u>378,637</u>	<u>357,645</u>	<u>(20,992)</u>
Total expenses	<u>1,096,904</u>	<u>1,095,095</u>	<u>(1,809)</u>
Increase (decrease) net position	<u>\$ 287,566</u>	<u>\$(199,297)</u>	<u>\$486,863</u>

Water revenue decreased for the year ended June 30, 2015, due to decreased consumption due to conservation and the severe drought. Non-operating revenue includes connection and meter installations, grant revenue, property tax revenue, interest income, interest expense and miscellaneous income. Interest expense is paid on debt associated with water system and office building improvements. Connection and meter installations fees are collected when the District adds new connections or installs new meters; connection fee revenue increased substantially due to the one-time charges to the Oak Ridge Via Del Sol Assessment District. Total expenses remained consistent with prior year. Net position reflects depreciation and amortization of expense of \$378,637.

Capital Assets and Capital Improvement Programs

This fiscal year ending June 30, 2015, the major capital addition was a \$276,837 for a solar power project.

AROMAS WATER DISTRICT
Management's Discussion and Analysis
June 30, 2015 and 2014

Debt Administration

During this fiscal year ending June 30, 2015 the District refinanced an existing debt, the 2011 loan with Santa Barbara Bank & Trust (now Union Bank), the new debt is with City National Bank. The District took out an additional \$201,966 to fund the Solar Energy Project. Total outstanding balance as of June 30, 2015:

City National Bank	\$1,525,687
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In addition to refinancing, debt transactions during the year ended June 30, 2015, consisted of required monthly payments on the debt.

Significant Differences, Budget to Actual

The difference between the District's \$569,469 based budget and the actual increase in net position of \$287,566 is due in large part to depreciation. For financial statement presentation, actual depreciation expense of \$360,462 is used. For District budget preparation \$120,000 is used, a difference of \$240,462. For budget purposes the District uses this expected cash to be set aside for rebuilding the capital reserves.

In the fiscal year ended June 30, 2015, the District implemented GASB pronouncements 68 and 71. The District made a prior period adjustment which reduced net assets by \$459,550.

Economic Factors and Next Year's Budget and Rates

The District's fiscal year 2015/2016 income/expense budget is \$969,080. Water sales have decreased by over 18% from 2014, due to requested voluntary water conservation. A professional Rate Study was completed in 2014 which resulted in a five year gradual rate increase; becoming effective November 1, 2014. Both the commodity rates and capacity fees were increased. At the request of a nearby community of 59 parcels, the District annexed and formed a property tax assessment district to finance the construction of a 2.5 mile water system, 100,000 gallon storage tank and two booster pump stations. This will result in 47 new water service connections and estimated revenue of \$20,000 in the fiscal year 2015/16. Completion of construction was December 2015.

There are several smaller capital projects planned for 2015/2016: storage tank repainting, well VFD replacement, security fencing and re-slurry asphalt at five system sites. We continue to be publicly active in the Aromas community promoting water conservation.

AROMAS WATER DISTRICT
Management's Discussion and Analysis
June 30, 2015 and 2014

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 admin@aromaswaterdistrict.org.

AROMAS WATER DISTRICT
Balance Sheets
June 30, 2015 and 2014

ASSETS

	<u>2015</u>	<u>2014</u>
Current assets		
Cash and investments	\$ 1,233,496	\$ 388,277
Accounts receivable, net of allowance for doubtful accounts of \$500 and \$500 for 2015 and 2014, respectively	96,881	94,399
Other receivables	3,459	2,988
Inventory and supplies	25,666	28,150
Prepaid expenses	<u>5,661</u>	<u>6,142</u>
Total current assets	<u>1,365,163</u>	<u>519,956</u>
Non-current assets		
Property and equipment, net of accumulated depreciation of \$4,120,823 and \$3,760,361 for 2015 and 2014, respectively	5,471,401	5,528,708
Deposits	2,185	2,289
Idle assets, net of accumulated depreciation of \$42,400 and \$42,400 for 2015 and 2014, respectively	<u>1,000</u>	<u>1,000</u>
Total non-current assets	<u>5,474,586</u>	<u>5,531,997</u>
Deferred outflows of resources		
Deferred pension outflows - actuarial	21,836	
Loan fees, net of accumulated amortization of \$125 and and \$19,950 for 2015 and 2014, respectively	<u>14,875</u>	<u>18,050</u>
Total deferred outflows of resources	<u>36,711</u>	<u>18,050</u>
Total assets	<u>\$ 6,876,460</u>	<u>\$ 6,070,003</u>

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

AROMAS WATER DISTRICT
Balance Sheets (continued)
June 30, 2015 and 2014

LIABILITIES AND NET POSITION

	<u>2015</u>	<u>2014</u>
Current liabilities		
Accounts payable	\$ 311,296	\$ 42,669
Accrued interest	5,658	-
Accrued liabilities	17,274	15,421
Customer deposits	4,300	4,450
Current portion of long-term debt	<u>102,460</u>	<u>50,533</u>
Total current liabilities	<u>440,988</u>	<u>113,073</u>
Non-current liabilities		
Net pension liability	436,144	-
Debt, net of current portion	<u>1,423,227</u>	<u>1,280,321</u>
Total non-current liabilities	<u>1,859,371</u>	<u>1,280,321</u>
Deferred inflows of resources		
Deferred pension inflows - actuarial	<u>71,476</u>	<u>-</u>
Total liabilities	<u>2,371,835</u>	<u>1,393,394</u>
Net position		
Net investment in capital assets	3,945,714	4,197,854
Unrestricted net position	<u>558,911</u>	<u>478,755</u>
Total net position	<u>4,504,625</u>	<u>4,676,609</u>
Total liabilities and net position	<u>\$ 6,876,460</u>	<u>\$ 6,070,003</u>

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

AROMAS WATER DISTRICT
 Statements of Revenues, Expenses and Changes in Net Position
 For the Years Ended June 30, 2015 and 2014

	2015	2014
Operating revenues		
Water revenue	\$ 804,767	\$ 837,363
Bulk water	17,437	15,455
Total operating revenues	822,204	852,818
Operating expenses		
Salaries	315,260	327,434
Payroll taxes	26,754	28,585
Retirement benefits - PERS	69,384	50,260
Uniform allowance	1,553	300
Education	4,677	3,615
Insurance (workers comp and health)	59,340	55,861
Outside services	6,481	5,174
Power	76,323	102,179
Truck expense	11,809	12,472
System repair and maintenance	47,583	59,220
Water analysis and treatment	13,896	13,092
Tools	3,895	2,488
Annexation/EIR/Planning	170	75
Miscellaneous	2,717	2,900
Office (postage/supplies/maintenance)	15,499	18,743
Telemetry	3,477	3,430
Telephone	6,586	5,843
Depreciation	360,462	353,845
Amortization	18,175	3,800
Election expense	550	-
Insurance: liability	17,109	12,044
Legal	14,400	13,225
Bank charges	1,127	1,250
Audit	6,725	6,475
Bad debts	66	167
Memberships	12,886	12,618
Total operating expenses	1,096,904	1,095,095
Operating income (loss)	(274,700)	(242,277)

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

AROMAS WATER DISTRICT
 Statements of Revenues, Expenses and Changes in Net Position
 For the Years Ended June 30, 2015 and 2014

	2015	2014
Non-operating revenues (expenses)		
Connection and meter installations	\$ 576,626	\$ 43,372
Grant revenue	2,014	4,311
Property taxes	62,290	52,689
Interest income	1,771	1,019
Interest expense	(87,432)	(62,891)
Miscellaneous income	6,997	4,480
Net non-operating revenues	562,266	42,980
Net income (loss) before capital contributions	287,566	(199,297)
Capital contributions		
Capital contributions	-	-
Capital contributions	-	-
Increase (decrease) in net position	287,566	(199,297)
Prior period adjustment, restated as of July 1, 2014 for GASB 68	(459,550)	-
Net position, beginning of year	4,676,609	4,875,906
Net position, end of year	\$ 4,504,625	\$ 4,676,609

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

AROMS WATER DISTRICT
 Statements of Cash Flows
 For the Years Ended June 30, 2015 and 2014

	2015	2014
Cash flows from operating activities		
Cash received from customers	\$ 818,292	\$ 861,908
Cash paid to vendors and suppliers for materials and services	(252,700)	(278,868)
Cash paid to employees for salaries, wages and benefits	(442,651)	(466,606)
Net cash provided by operating activities	122,941	116,434
Cash flows from noncapital financing activities		
Property taxes received	63,099	55,192
Net cash provided by financing activities	63,099	55,192
Cash flows from capital and related financing activities		
Cash used for loan payments and payoff	(1,330,854)	(48,062)
Cash provided from refinancing	1,525,687	-
Payments for loan fees	(15,000)	-
Grant revenue	2,014	4,311
Miscellaneous income	7,027	4,483
Acquisition and construction of capital assets and deferred charges	(26,318)	(215,518)
Interest paid	(81,774)	(65,835)
Connection fees	576,626	43,372
Net cash provided (used) for capital and related financing activities	657,408	(277,249)
Cash flows from investing activities		
Interest received on cash and investments	1,771	1,019
Net cash flows provided by investing activities	1,771	1,019
Net (increase) decrease in cash	845,219	(104,604)
Cash, beginning of year	388,277	492,881
Cash, end of year	\$ 1,233,496	\$ 388,277
Reconciliation of operating loss to net cash provided by operating activities		
Operating loss	\$ (274,700)	\$ (242,277)
Adjustments to reconcile operating loss to cash provided by operating activities		
Depreciation and amortization	378,637	357,645
Change in operating assets and liabilities		
Accounts receivable	(2,482)	6,345
Other receivables	(1,280)	2,598
Inventory and supplies	2,484	2,812
Prepaid expenses	481	946
Deposits	104	104
Deferred pension outflows - actuarial	(21,836)	-
Accounts payable	(8,240)	(7,423)
Accrued liabilities	1,853	(4,466)
Customer deposits	(150)	150
Deferred pension inflows - actuarial	71,476	-
Net pension liability	(23,406)	-
Net cash flows provided by operating activities	\$ 122,941	\$ 116,434

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

AROMAS WATER DISTRICT
Oakridge/Via Del Sol Assessment District 2013-1
Statement of Fiduciary Net Position
June 30, 2015

	<u>2015</u>
Assets	
Cash and certificate of deposits	\$ 318,119
Construction in progress Oak Ridge Via Del Sol Water Project	<u>2,400,684</u>
Total assets	<u>\$ 2,718,803</u>
Liabilities	
Accounts payable	\$ 306,965
Debt without District commitment	2,041,606
Contributions from property owners and other government agencies	<u>370,232</u>
Total liabilities	<u>2,718,803</u>
Net Position	<u>-</u>
Total liabilities and net position	<u>\$ 2,718,803</u>

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

AROMAS WATER DISTRICT
Notes to Financial Statements
June 30, 2015 and 2014

1. Organization

Organization/reporting entity

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. The District has reviewed criteria to determine whether other entities with activities that benefit the District should be included within its financial reporting entity. The criteria include, but are not limited to, whether it exercises oversight responsibility (which includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters). The District has determined that no outside entity meets the above criteria, and therefore, no agency has been included as a component unit in the District's financial statements. In addition, the District is not aware of any entity that would exercise such oversight responsibility that would result in the District being considered a component unit of that entity.

For the year ended June 30, 2015, the reporting entity is comprised of the primary government, Aromas Water District, and Oak Ridge Via Del Sol Assessment District. The Assessment District is included in the financial statements a fiduciary Agency Fund; Aromas Water District is performing duties as an agent during the construction phase of water project for the Assessment District. Upon completion of the project the water project assets will be contributed to Aromas Water District and the fiduciary agency fund closed. For additional information see note 9.

District officials

The District is governed by an elected board of five directors. The following were in office at June 30, 2015:

	<u>Term Expires</u>
Wayne Norton, President	November 2016
James Leap, Vice-President	November 2018
Marcus Dutra	November 2018
Wayne Holman	November 2016
Richard Smith	November 2018

Other officials of the District at June 30, 2015 were:

Vicki Morris, General Manager
Robert Bosso, Legal Counselor

AROMAS WATER DISTRICT
Notes to Financial Statements
June 30, 2015 and 2014

2. Summary of Significant Accounting Policies

Introduction

The District's financial statements are prepared in conformance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements.

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.

Basis of accounting and measurement focus

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, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Proprietary funds distinguishes 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.

AROMAS WATER DISTRICT
Notes to Financial Statements
June 30, 2015 and 2014

2. Summary of Significant Accounting Policies (continued)

New accounting guidance

For the year ended June 30, 2015, the District adopted new accounting guidance. Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. GASB No.'s 68 and 71 establish standards for measuring and recognizing net pension (assets and) liabilities, deferred outflows of resources, deferred inflows of resources, and expenses related to pension benefits provided through defined benefit pension plans. In addition, GASB Statement No. 68 requires disclosure of information related to pension benefits.

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, 2015 and 2014 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

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.

AROMAS WATER DISTRICT
Notes to Financial Statements
June 30, 2015 and 2014

2. Summary of Significant Accounting Policies (continued)

Property, equipment and depreciation (continued)

The amount of interest capitalized as part of the District's 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
June 30, 2015 and 2014

3. Property and Equipment

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

	<u>2015</u>	<u>2014</u>
Water systems	\$ 8,679,616	\$ 8,382,901
Land and water rights	330,196	330,196
Vehicles	74,492	74,492
Office building (land and improvements)	387,261	387,261
Office furniture and fixtures	<u>102,915</u>	<u>93,506</u>
Capital assets in use	9,574,480	9,268,356
Less: accumulated depreciation	<u>(4,120,823)</u>	<u>(3,760,361)</u>
	5,453,657	5,507,995
Construction in progress	<u>17,744</u>	<u>20,713</u>
Property and equipment, net	<u>\$5,471,401</u>	<u>\$5,528,708</u>

Change in accounts:

	<u>Balance</u> <u>June 30, 2014</u>	<u>Additions or</u> <u>Transfers in</u>	<u>Deletions or</u> <u>Transfers out</u>	<u>Balance</u> <u>June 30, 2015</u>
Change in property and equipment was as follows:	\$9,268,356	\$306,124		\$9,574,480

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

	<u>2015</u>	<u>2014</u>
Land	\$ 1,000	\$ 1,000
Machines and equipment	22,000	22,000
Improvements	<u>20,400</u>	<u>20,400</u>
	43,400	43,400
Less: accumulated depreciation	<u>(42,400)</u>	<u>(42,400)</u>
Idle property and equipment, net	<u>\$ 1,000</u>	<u>\$ 1,000</u>

AROMAS WATER DISTRICT
Notes to Financial Statements
June 30, 2015 and 2014

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.

	<u>Carrying Amount</u>		<u>Market Value</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Checking and savings	\$ 458,700	\$125,084	\$ 458,700	\$125,084
LAIF	<u>774,796</u>	<u>263,193</u>	<u>774,796</u>	<u>263,193</u>
Total cash and investments	<u>\$1,233,496</u>	<u>\$388,277</u>	<u>\$1,233,496</u>	<u>\$388,277</u>

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.

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 cannot 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, 2015 and 2014, the balances on deposit with LAIF were \$774,796 and \$263,193, respectively.

Disclosures relating to interest rate 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.

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.

AROMAS WATER DISTRICT
Notes to Financial Statements
June 30, 2015 and 2014

4. 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 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, 2015 and 2014, the District maintained deposit balances at the following institution:

	<u>2015</u>	<u>2014</u>
Santa Barbara Bank and Trust		
Checking and savings	\$ 458,700	\$ 125,084
FDIC insurance	<u>(250,000)</u>	<u>(250,000)</u>
Collateralized funds	<u>\$ 208,700</u>	<u>\$ -</u>

At June 30, 2015 and 2014, of the bank balance, \$458,700 and \$125,084, respectively, were covered by federal depository insurance; \$208,700 and \$0, 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. 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
June 30, 2015 and 2014

5. Long-Term Debt

The details of long-term debt at June 30, 2015 and 2014, are as follows:

	<u>2015</u>	<u>2014</u>
Note payable to Union Bank: pledge of all net revenues, prepayment at 101.00% through November 12, 2022. Tax-exempt refunding, dated May 15, 2015 due 30 semi-annual payments if \$55,119 including interest at 3.00% per annum. First payment due November 15, 2015.	\$1,323,721	
Taxable project (solar) dated May 15, 2015 due in 12 semi-annual payments of \$18,372 including interest at 2.75% per annum. First payment due November 15, 2015.	201,966	
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.	-0-	\$1,330,854
	1,525,687	1,330,854
Less: principal due in one year	(102,460)	(50,533)
Long-term debt, net of current portion	<u>\$1,423,227</u>	<u>\$1,280,321</u>

Future maturities of long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 102,460	\$ 44,522	\$ 146,982
2017	105,477	41,505	146,982
2018	108,583	38,399	146,982
2019	111,781	35,201	146,982
2020	115,073	31,909	146,982
2021 – 2015	473,999	113,933	587,932
2026 - 2030	<u>508,314</u>	<u>42,873</u>	<u>551,187</u>
	<u>\$1,525,687</u>	<u>\$348,342</u>	<u>\$1,874,029</u>

Change in debt was as follows:

	<u>Balance</u> <u>June 30, 2014</u>	<u>New</u> <u>Debt</u>	<u>Principal</u> <u>Paid</u>	<u>Balance</u> <u>June 30, 2015</u>
Santa Barbara Bank and Trust	\$1,330,854	\$ -	\$1,330,854	\$ -
Union Bank	\$ -	\$1,525,687	\$ -	\$1,525,687

AROMAS WATER DISTRICT
Notes to Financial Statements
June 30, 2015 and 2014

6. Defined Benefit Pension Plan

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 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.

Plan description

All qualified permanent and probationary employees are eligible to participate in the District's Miscellaneous Plans, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provision under the Plans are established by State statute and the District's resolution. CalPERS issues publically available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

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 service, age, and final compensation.

The Plans' provisions and benefits in effect at June 30, 2015, are summarized as follows:

	<u>Miscellaneous</u>	
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	2.0% @ 55	2% @ 62
Benefit vesting schedule	5 year's service	5 year's service
Benefit payments	monthly for life	monthly for life
Retirement age	55	62
Monthly benefits, as a % of eligible compensation	2.0%	2.0%
Required employee contribution rates	7%	6.25%
Required employer contribution rates	18.33%	6.25%

AROMAS WATER DISTRICT
Notes to Financial Statements
June 30, 2015 and 2014

6. Defined Benefit Pension Plan (continued)

Contributions

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

For the year ended June 30, 2015, the contributions recognized as part of pension expense for each Plan were as follows:

Contributions - employer	\$ 43,136
Contributions -- employee	\$ 16,646

Net pension liability

As of June 30, 2015, the District reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

	<u>Proportionate Share of net pension liability</u>
Miscellaneous	\$ 436,144

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2014, using an annual actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for each Plan as of June 30, 2013 and 2014 was as follows:

	<u>Miscellaneous</u>
Proportion – June 30, 2013	\$ 481,386
Proportion – June 30, 2014	436,144
Change – increase/ (decrease)	<u>\$ (45,242)</u>

AROMAS WATER DISTRICT
Notes to Financial Statements
June 30, 2015 and 2014

6. Defined Benefit Pension Plan (continued)

Pension expenses and deferred outflows/inflows of resources related to pensions

For the year ended June 30, 2015, the District recognized pension expense of \$69,384. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Pension contributions subsequent to measurement date	\$ 21,836	\$ -
Differences between expected and actual experience	-	-
Changes in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	(55,465)
Adjustment due to differences in proportions	-	(16,011)
Total	<u>\$ -</u>	<u>\$ (71,476)</u>

The \$21,836 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. The (\$71,476) reported as deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Year Ended June 30</u>	<u>Deferred Inflows</u>
2016	\$ 19,584
2017	19,584
2018	18,441
2019	13,867
2020	-
Thereafter	-
Total	<u>\$ 71,476</u>

AROMAS WATER DISTRICT
Notes to Financial Statements
June 30, 2015 and 2014

6. Defined Benefit Pension Plan (continued)

Actuarial assumptions

For the measurement period ending June 30, 2014 (measurement date), the total pension liability was determined by rolling forward the June 30, 2013 total pension liability. Both the June 30, 2013 total pension liability and the June 30, 2014 total pension liability were based on the following actuarial methods and assumptions:

	<u>Miscellaneous</u>
Valuation date	June 30, 2013
Measurement date	June 30, 2014
Actuarial cost method	Entry-age normal cost method in accordance with the requirement of GASB 68

Actuarial Assumptions:

Discount rate	7.5%
Inflation	2.75%
Payroll Growth	3.0%
Projected salary increase	3.3%-14.2% ⁽¹⁾
Investment rate of return	7.5% ⁽²⁾
Mortality ⁽³⁾	Derived using CalPERS' Membership Data for all funds.
Post Retirement Benefit Increase	Contract Cost-of-Living-Adjustment (COLA) up to 2.75% until purchasing power protection allowance floor on purchasing power applies, 2.75% thereafter.

⁽¹⁾ Depending on age, service and type of employment.

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

⁽³⁾ The mortality table used was developed based on CalPERS's 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 2014 experience study report.

All other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

Discount rate

The discount rate used to measure the total pension liability was 7.50% for each plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50% will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test

AROMAS WATER DISTRICT
Notes to Financial Statements
June 30, 2015 and 2014

6. Defined Benefit Pension Plan (continued)

results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained from the CalPERS website under the GASB 68 section.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

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. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. 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 Financial Statements
June 30, 2015 and 2014

6. Defined Benefit Pension Plan (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. These rates of return are net of administrative expenses.

<u>Asset Class</u>	New Strategic Allocation	Real Return Years 1-10 ^(a)	Real Return Years 11+ ^(b)
Global equity	47.0%	5.25%	5.71%
Global fixed income	19.0%	.099%	2.43%
Inflation sensitive	6.0%	0.45%	3.36%
Private equity	12.0%	6.83%	6.95%
Real estate	11.0%	4.50%	5.13%
Infrastructure and forestland	3.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
Total	<u>100.0%</u>		

- (a) An expected inflation of 2.5% used for this period.
(b) An expected inflation of 3.0% used for this period.

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the District for each Plan, calculated using the discount rate for each Plan, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>Miscellaneous</u>
1% decrease	6.50%
Net pension liability	\$601,128
Current discount rate	7.50%
Net pension liability	\$436,144
1% increase	8.50%
Net pension liability	\$299,223

AROMAS WATER DISTRICT
Notes to Financial Statements
June 30, 2015 and 2014

6. Defined Benefit Pension Plan (continued)

Pension plan fiduciary net position

The plan fiduciary net position disclosed in the District's CalPERS GASB Statement No. 68 accounting valuation report may differ from the plan assets reported in the District's CalPERS funding actuarial valuation report due to several reasons. First, for the accounting valuations, CalPERS must keep items such as deficiency reserves, fiduciary self-insurance and OPEB expense included in fiduciary net position. These amounts are excluded for rate setting purposes in the District's funding actuarial valuation. In additions, differences may result from early CAFR closing and final reconciled reserves.

<u>Valuation date: June 30, 2013</u>	<u>Miscellaneous</u>
Total pension liability	\$1,173,783
Fiduciary net position	\$ 692,397
Net pension liability	\$ 481,386
Proportions for Aromas Water District:	
Total plan liability %	0.00949%
Fiduciary net position%	0.00761%

<u>Valuation date: June 30, 2014</u>	<u>Miscellaneous</u>
Total pension liability	\$1,243,634
Fiduciary net position	\$ 807,490
Proportions for Aromas Water District:	
Net pension liability	\$ 436,144
Net pension liability %	0.01765%

Payable to the pension plan

At June 30, 2015, there is no outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

7. Compensated Absences

Accumulated unpaid employee compensated absences are recognized as liabilities of the District. The accumulated compensated absences at June 30, 2015 and 2014 were \$17,274 and \$15,421, respectively.

AROMAS WATER DISTRICT
Notes to Financial Statements
June 30, 2015 and 2014

8. 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.

9. Assessment Districts

Aromas Water District is not liable for any special assessment district debt.

Accounting for Assessment Districts follows GASB Statement No. 6, *Accounting and Financial Reporting for Special Assessment Districts*. Under GASB No. 6 enterprise funds, such as that of Aromas Water District, are to account for Special Assessment financing debt on the book of the District only if one of the following conditions exists:

1. The District is directly liable for the special assessment debt.
2. The District is not directly liable for the special assessment debt, but the debt is expected to be repaid from revenues of the District.

The District is not directly liable for the special assessment debt. The special assessment debt will be repaid from landowner assessments. Therefore, special assessment debt is not recorded on the District's financial statements. The District acts solely as an agent for the Special Assessment Districts in collecting and forwarding the special assessments.

The District has two operating 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 CDF 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.

A third property tax assessment district: Oakridge/Via Del Sol Assessment 2013-01 was formed in 2013/2014 to finance the construction of a new water system project. Bonds were issued by the USDA and are secured and payable from the property taxes on the certain real properties within this new assessment district.

The Association Districts collect the tax revenues from the bond debt and forwards it to the bonding company.

AROMAS WATER DISTRICT
Notes to Financial Statements
June 30, 2015 and 2014

9. Assessment Districts (Continued)

Future maturities of long-term debt payable by the assessment districts are as follows:

Orchard Acres Assessment District

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 10,000	\$ 26,260	\$ 36,260
2017	10,000	25,752	35,752
2018	10,000	25,220	35,220
2019	10,000	24,680	34,680
2020	10,000	24,130	34,130
2021 – 2025	70,000	110,030	180,030
2026 – 2030	95,000	86,390	181,390
2031 – 2035	125,000	54,595	179,595
2036 – 2038	<u>100,000</u>	<u>12,505</u>	<u>112,505</u>
	<u>\$440,000</u>	<u>\$389,562</u>	<u>\$829,562</u>

98-1 Community Facilities District

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 30,000	\$ 7,280	\$ 37,280
2017	35,000	5,460	40,460
2018	40,000	3,360	43,360
2019	<u>40,000</u>	<u>1,120</u>	<u>41,120</u>
	<u>\$145,000</u>	<u>\$17,220</u>	<u>\$162,220</u>

Oakridge Assessment District

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 30,613	\$ 54,472	\$ 85,085
2017	31,000	53,860	84,860
2018	33,000	53,240	86,240
2019	34,000	52,580	86,580
2020	35,000	51,900	86,900
2021 – 2025	199,000	248,340	447,340
2026 – 2030	241,000	226,820	467,820
2031 – 2035	293,000	200,740	493,740
2036 – 2040	357,000	168,960	525,960
2041 – 2045	434,000	130,340	564,340
2046 – 2050	530,000	133,200	663,200
2051 - 2054	<u>506,000</u>	<u>25,800</u>	<u>531,800</u>
	<u>\$2,723,613</u>	<u>\$1,400,252</u>	<u>\$4,123,865</u>

AROMAS WATER DISTRICT
Notes to Financial Statements
June 30, 2015 and 2014

10. 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	\$2,000,000
Property Program	\$ 100,000

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	
Buildings	\$ 704,266
Fixed equipment	\$2,210,727
Personal property	\$ 114,838
Mobile equipment	\$ 5,000
Vehicles	\$ 74,492
Expense to restore valuable papers	\$ 100,000,000
Extra expense	\$ 10,000,000
Accounts receivable	\$ 100,000,000
Business Interruption	\$ 10,000,000
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
June 30, 2015 and 2014

11. Restatement of Net Position

In fiscal year ended June 30, 2015 the District adopted GASB statements 68 and 71 to recognize the District's net pension liability. Adoption of GASB statements 68 and 71 resulted in a prior period adjustment of \$459,550 which reduced beginning net position as of July 1, 2014.

12. Subsequent Events

The District's management has evaluated events and transactions subsequent to June 30, 2015 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, 2015. Subsequent events have been evaluated through March 28, 2016, the date the financial statements became available to be issued. The entity has not evaluated subsequent events after March 28, 2016.

REQUIRED SUPPLEMENTARY INFORMATION

AROMAS WATER DISTRICT
Schedule of Proportionate Share of Net Pension Liability and Related Ratios
June 30, 2015
Last 10 Years*

**Schedule of Aromas Water District's Proportionate
Share of Net Pension Liability and Related Ratios**

	Miscellaneous June 30, 2014**
Proportion of the net pension liability	0.70100%
Proportionate share of the net pension liability	\$ 436,144
Covered employee payroll	\$ 328,069
Proportionate share of the net pension liability as a percentage of covered-employee payroll	132.94%
Plan's proportionate share of the fiduciary net position as a percentage of the total pension liability	64.93%
Plan's proportionate share of aggregate employer contributions	\$ 21,836

Notes to schedule

* Fiscal year 2014-2015 was the 1st year of implementation; therefore only one year is shown. Additional years presented as they become available.

**Measurement date is June 30, 2014

Benefit changes

The figures above do not include any liability impact that may have resulted from Plan changes, which may have occurred after June 30, 2013.

Changes in assumptions

There were no changes in assumptions.

AROMAS WATER DISTRICT
Schedule of Contributions
June 30, 2015
Last 10 Years*

Schedule of Contributions

	Miscellaneous 2013-2014
Contractually required contribution (actuarially determined)	\$ 50,260
Contributions in relation to the actuarially determined contributions	<u>(50,260)</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered-employee payroll	\$ 328,069
Contributions as a percentage of covered-employee payroll	15.32%

Notes to Schedule

Valuation date is June 30, 2013.

* Fiscal year 2014-2015 was the 1st year of implementation; therefore only one year is shown. Additional years presented as they become available.

SUPPLEMENTARY INFORMATION

AROMAS WATER DISTRICT
 Budgetary Comparison Schedule - Budget to Actual
 For the Year Ended June 30, 2015

	Original Budget 2015	Final Budget 2015	Actual 2015	Difference
Operating revenues				
Water revenue	\$ 875,000	\$ 875,000	\$ 804,767	\$ (70,233)
Bulk water	7,500	15,000	17,437	2,437
Total operating revenues	<u>882,500</u>	<u>890,000</u>	<u>822,204</u>	<u>(67,796)</u>
Operating expenses				
Payroll				
Salaries	340,000	335,000	315,260	19,740
Payroll taxes	31,000	30,000	26,754	3,246
Employee costs				
Retirement benefits - PERS	54,000	50,000	69,384	(19,384)
Uniform allowance	600	2,500	1,553	947
Education	7,000	7,000	4,677	2,323
Insurance (workers comp and health)	66,500	60,500	59,340	1,160
Outside services	6,000	6,000	6,481	(481)
Power				
Power	107,755	98,010	76,323	21,687
Operations				
Truck expense (fuel and maintenance)	15,000	14,000	11,809	2,191
System repair and maintenance	60,000	60,000	47,583	12,417
Water analysis and treatment	14,500	16,000	13,896	2,104
Tools	3,000	4,000	3,895	105
Annexation/EIR/Planning	-	1,000	170	830
Office				
Office rent	-	-	-	-
Miscellaneous	2,500	2,500	2,717	(217)
Office (postage/supplies/maintenance)	15,200	16,500	15,499	1,001
Communications				
Telemetry	3,500	3,500	3,477	23
Telephone and answering service	5,800	6,200	6,586	(386)
Administrative and general				
Depreciation	120,000	120,000	360,462	(240,462)
Amortization	-	-	18,175	(18,175)
Election expense	5,500	-	550	(550)
Insurance: liability	18,000	17,000	17,109	(109)
Legal, legal contingency	24,600	24,600	14,400	10,200
Bank charges	1,400	1,400	1,127	273
Audit	10,000	7,500	6,725	775
Bad debts	500	500	66	434
Memberships	15,000	15,000	12,886	2,114
Total operating expenses	<u>927,355</u>	<u>898,710</u>	<u>1,096,904</u>	<u>(198,194)</u>
Operating income (loss)	(44,855)	(8,710)	(274,700)	(265,990)
Non-operating revenues (expenses)				
Connection and meter installations	531,325	574,679	576,626	1,947
Grant revenue	1,000	2,000	2,014	14
Property tax	55,000	55,000	62,290	7,290
Interest income	2,000	1,500	1,771	271
Interest expense	(65,000)	(60,000)	(87,432)	(27,432)
Miscellaneous income	5,000	5,000	6,997	1,997
Net non-operating revenues	<u>529,325</u>	<u>578,179</u>	<u>562,266</u>	<u>(15,913)</u>
Net income (loss)	<u>\$ 484,470</u>	<u>\$ 569,469</u>	<u>\$ 287,566</u>	<u>\$ (281,903)</u>

AROMAS WATER DISTRICT
Schedule of Expenditures of Federal Awards
June 30, 2015

Federal/State Grantor Pass-Through Grantor Program Title	Program/Contract Title	CFDA Number	Program or Award Amount	Grant Funds or Loan Funds Drawn	Disbursement/ Expenditures
U.S. Department of Agriculture	Rural Utilities Service Water and Wast Loan and Grant Program	10.760	\$ 2,723,613	\$ 2,041,606	\$ 2,041,606
Community Development Block Grant County of Monterey	Annexation Financing for Low-Income Residents	14.218	<u>121,738</u>	<u>121,738</u>	<u>121,738</u>
<i>Total Federal awards</i>			<u>\$ 2,845,351</u>	<u>\$ 2,163,344</u>	<u>\$ 2,163,344</u>

Schedule of Federal Awards

Purpose of the schedule - Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* requires Aromas Water District to prepare a schedule of expenditures of federal awards for the period covered by the current year financial statements.

Basis of accounting - The accompanying schedule of federal awards includes grant activity of Aromas Water District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in or used in the preparation of the basis financial statements.

AROMAS WATER DISTRICT
Schedule of Activity - USDA
For the Year Ended June 30, 2015

Project: Oakridge/Via Del Sol Annexation

Expenditures to June 30 2015 (Capital Outlay Report No. 8)

Administrative	\$	18,656
Land & RW		41,500
Legal		40,236
Engineering:		
Preliminary engineering report		7,500
Design		199,710
Bid/contract award		16,428
Construction phase services		49,908
Inspection		43,963
Geotechnical		8,630
Easement & RW		3,023
Environmental		3,696
Surveying		42,455
Connection tap fees		509,621
Additional inspections		14,941
Environmental		28,991
Construction Contract		1,617,888
Change orders		76,021
Contingency		<u>25,767</u>

Total Expenditures to June 30, 2015 \$ 2,748,934

Funding Sources

USDA Loan (see reconciliation below)	\$	2,400,684
CDBG		121,738
Pre-pay/Assessments		<u>226,512</u>

\$ 2,748,934

Reconciliation of Schedule of Federal Awards to total expenditures to June 30, 2015

From June 30, 2015 Schedule of Federal Awards - U.S.D.A.	\$	2,041,606
Draw #7		217,112
Draw #8		<u>141,966</u>

Total USDA Funding Sources at June 30, 2015 \$ 2,400,684

OTHER AUDITOR'S REPORTS

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

To the Board of Directors
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 Aromas Water District as of and for the year ended June 30, 2015, and the related notes to the financial statement, which collectively compile the District's basic financial statements as listed in the table of contents and have issued a report thereon dated March 28, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Aromas Water 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 Aromas Water 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.

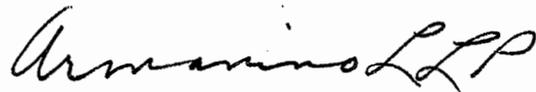
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 Aromas Water District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



Armanino^{LLP}
Santa Cruz, California

Date March 28, 2016

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
OMB CIRCULAR A-133

To the Board of Directors
Aromas Water District
Aromas, California

Report on Compliance for Each Major Federal Program

We have audited Aromas Water District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Aromas Water District's major federal programs for the year ended June 30, 2015. Aromas Water District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Aromas Water District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Aromas Water District compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Aromas Water District's compliance.

Opinion on Each Major Federal Program

In our opinion, Aromas Water District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

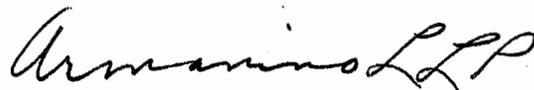
Management of Aromas Water District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Aromas Water District internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Aromas Water District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Armanino^{LLP}
Santa Cruz, California

March 28, 2016

AROMAS WATER DISTRICT
 Schedule of Findings and Questions Costs
 June 30, 2015

Section I - Summary of Auditor's Results
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Financial Statements

Type of auditors' report issued	Unmodified
Internal control over financial reporting	
Material weakness(es) identified	No
Significant deficiencies identified	None reported
Non compliance material to financial statements identified	No

Federal awards

Internal control over major programs	
Material weakness(es) identified	No
Significant deficiencies identified	None reported
Type of auditors' report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance With section 510(a) of circular A-133	No
Identification of programs tested as major	
U.S. Department of Agriculture - California Department of Aging	10.760
Dollar threshold used to distinguish between type A & B programs	\$ 300,000
Auditee qualified as a low risk auditee:	No

AROMAS WATER DISTRICT
Schedule of Findings and Questioned Costs
June 30, 2015

<u>Finding/Program</u>	<u>Findings/Non- Compliance</u>	<u>Questioned Cost</u>
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Section II - Financial Statement Findings

There are no financial statement findings to be reported.

Section III - Federal Award Findings and Questioned Costs

There are no federal award findings or questioned costs to be reported.

Section IV - Status of Prior Year Audit Findings
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There were no prior year audit findings.