

AROMAS WATER DISTRICT

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FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

\* \* \*

June 30, 2011 and 2010

AROMAS WATER DISTRICT

June 30, 2011 and 2010

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Frank A. Minuti, Jr.  
Robert W. Smiley  
Thomas C. Bondi  
Lawrence S. Kuechler

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

**BERGER LEWIS**  
ACCOUNTANCY CORPORATION

CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

Roberto M. Maragoni  
Daniel C. Moors  
Randy G. Peterson  
Todd W. Robinson  
David R. Sheets

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Aromas Water District  
Aromas, California

We have audited the accompanying balance sheets of the Aromas Water District as of June 30, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2011 and 2010, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and State regulations governing special districts.

The Management's Discussion and Analysis and the other required supplementary information identified in the accompanying table of contents is not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Berger Lewis Accountancy Corporation*

BERGER LEWIS ACCOUNTANCY CORPORATION  
Santa Cruz, California  
November 10, 2011

# AROMAS WATER DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2011

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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, 2011. Please read it in conjunction with the District's basic financial statements, which begin immediately following this analysis. This annual financial report consists of two parts - Management's Discussion and Analysis (this section) and the Basic Financial Statements.

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 less liabilities; this difference is reported as net assets. Over time, increases or decreases in net assets 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 assets. 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 assets 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, 2011

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### DESCRIPTION OF BASIC FINANCIAL STATEMENTS

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 assets, and statements of cash flows. The balance sheets include all of AWD's assets and liabilities, with decreases in net assets 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 assets 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 2011: The largest part of AWD assets are investments in the 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, 2011, net capital assets totaled \$5,516,566 or 88.6% of total assets. Restricted cash of \$104,000 carried over from June 30, 2010 was spent down during the year ended June 30, 2011 in payment of planned capital improvements.

Fiscal Year 2011 compared to 2010: In fiscal year 2011, total current assets totaled \$696,605, this represented \$539,136 in unrestricted cash and \$157,469 in accounts receivable, inventory and prepaid expenses. Those amounts represent a 34.5% decrease in cash and 30.7% decrease in total current assets compared to fiscal year 2010. This decrease in fiscal year 2011 is primarily due to the expenditures of current assets (cash) for long term capital assets.

### LIABILITIES

At June 30, 2011, total long term debt net of current portion totaled \$818,420. The long term portion of debt as of June 30, 2011 consisted of the following: the long term portion of a capital improvement note payable to San Benito Bank of \$818,420. The current portion of the long term liabilities, \$41,658; includes twelve months of principal payments on the capital improvement loan totaling \$39,158 and the final \$2,500 owed on general revenue bonds.

At June 30, 2011, current liabilities other than the current portion of long term liabilities totaled \$88,599 which was \$31,618 or 26.3% lower than the prior fiscal year 2010 of \$120,217. 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.

AROMAS WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2011

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 ending at the end of this fiscal year, June 30, 2011. The commodity rates remain tiered to encourage conservation.

STATEMENT OF NET ASSETS

	<u>2011</u>	<u>2010</u>	<u>\$ Change</u>	<u>% Change</u>
Checking/Savings	\$ 539,136	\$ 823,151	\$ (284,015)	-34.5%
A/R and Other Current Assets	<u>157,469</u>	<u>181,431</u>	<u>(23,962)</u>	<u>-13.2%</u>
Total Current Assets	<u>696,605</u>	<u>1,004,582</u>	<u>(307,977)</u>	<u>-30.7%</u>
Fixed Assets, Net of Depreciation	5,516,566	5,413,446	103,120	1.9%
Other Assets	<u>14,051</u>	<u>120,081</u>	<u>(106,030)</u>	<u>-88.3%</u>
Total Assets	<u>6,227,222</u>	<u>6,538,109</u>	<u>(310,887)</u>	<u>-4.8%</u>
Current Liabilities	88,599	120,217	(31,618)	-26.3%
Current Portion of Long-Term Liabilities	41,658	39,834	1,824	4.6%
Long-Term Liabilities	<u>818,420</u>	<u>860,030</u>	<u>(41,610)</u>	<u>-4.8%</u>
Total Liabilities	<u>948,677</u>	<u>1,020,081</u>	<u>(71,404)</u>	<u>-7.0%</u>
Total Net Assets	<u>\$ 5,278,545</u>	<u>\$ 5,518,028</u>	<u>\$ (239,483)</u>	<u>-4.3%</u>

AROMAS WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2011

Aromas Water District's principal source of revenue is from water sales, which typically accounts for about 85% of the total revenue. During the fiscal year ended June 30, 2010 the District received Capital Contributions in the form of State Capital Grant and Capital Funds related to a water tank.

STATEMENT OF REVENUES AND EXPENSES

	2011	2010	\$ Change	% Change
Water Revenue	\$ 789,477	\$ 780,769	\$ 8,708	1.1%
Non Operating Revenue (Expense):				
Other Revenues	69,965	89,150	(19,185)	-21.5%
Interest Expense	(42,136)	(43,960)	1,824	-4.1%
Connection Fees	0	20,362	(20,362)	-100.0%
Capital Contributions	0	224,596	(224,596)	
Total Revenues	817,306	1,070,917	(253,611)	-23.7%
Operations & Maintenance	65,155	94,468	(29,313)	-31.0%
Payroll & Benefits	389,952	383,996	5,956	1.6%
Power Costs	87,963	81,108	6,855	8.5%
Administrative & General	232,047	169,618	62,429	36.8%
Sub-Total Expenses	775,117	729,190	45,927	6.3%
Sub-Total Net Income	42,189	341,727	(299,538)	-87.7%
Depreciation and Amortization	281,672	280,188	1,484	0.5%
Total Expenses	1,056,789	1,009,378	47,411	4.7%
Net Income (Loss)	\$ (239,483)	\$ 61,539	\$ (301,022)	

Water revenue remained relatively flat for the year ended June 30, 2011, which reflects the fourth year of the four-year annual 6.5% rate increase and lower production compared to the year ended June 30, 2010. Other revenue includes property tax revenue, interest income and miscellaneous income. Property tax revenue decreased from \$56,355 in 2009-2010 to \$54,134 due to reduction in assessed value. The investment interest income decreased from \$8,922 in 2009-2010 to \$5,492 in the fiscal year 2010-2011 due to a decrease in the amounts invested and declining interest rates. Interest expense is paid on debt associated with water system improvements. Connection fees are collected when the District installs new meters, connection fees for the years 2009-2010 and 2010-2011 were \$20,362 and \$-0-, respectively. For the fiscal year ended June 30, 2010, the District received a Capital contribution of the State Proposition 50 grant and a reimbursement for capital expenditures for a water tank. Administrative & General expenses reflect a net increase in 2010-2011, the largest component of the change was an increase in legal fees and costs associated with legal action that was concluded as of June 30, 2011.

AROMAS WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2011

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CAPITAL ASSETS AND CAPITAL IMPROVEMENT PROGRAMS

This fiscal year, 2010-2011 the Carr Tank replacement and booster pump station project were completed, total cost of that tank project was \$430,000. Last fiscal year ending June 30, 2010, the District completed the construction of the Rea Tank replacement, the total cost of that tank project was \$331,233.

DEBT ADMINISTRATION

The District has a total debt outstanding balance of \$860,078 as of June 30, 2011:

San Benito Bank Capital Project Loan 2006	\$	857,578
1972 Water Revenue Bonds	\$	2,500

Debt transactions during the year ended June 30, 2011, consisted of required debt payments. The funds from the San Benito Bank Capital Projects Loan are for the express purpose of capital funding identified projects; iron and manganese removal/treatment plant, two replacement 214,000 gallon water storage tanks, electrical generator for emergency backup and the payoff of the SCADA loan from Telstar. The 1972 bonds were issued to finance the water treatment facility at Marshall Well and upgrade the distribution system; the final payment is due in 2012.

SIGNIFICANT DIFFERENCES, BUDGET TO ACTUAL

The difference between the District's budgeted net surplus of \$700 and the actual net loss of \$239,483 totaled (\$240,183). Of this difference, \$183,772 was due to depreciation expense. For financial statement presentation, actual depreciation expense of \$279,772 is used. For District budget preparation \$96,000 is used. For budget purposes the District uses this expected cash to be set aside for rebuilding the capital reserves. Other significant variances were: Water revenues under budget by \$30,523 and Connection and Meter Installations \$22,000 under budget.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The District's fiscal year 2011-2012 income/expense budget is \$857,000. Water sales are reduced slightly due to unusually wet weather and continued conservation measures, there is no rate increase for 2011-2012 as the final fourth year rate increase of 6.5%, was implemented July 1, 2010. The capital projects planned for 2011/2012 include: Completing the replacement of the Carpenteria Well, proceeding with building the future home of the District office on the AWD property next to the CDF Fire Station. Funds have been secured for this project subsequent to June 30, 2011 at prevailing rates to finance construction. All building permits have been issued; the project is ready to go to bid. We continue to be publically active in the Aromas community promoting water conservation.



AROMAS WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2011

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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 387 Blohm Avenue, Aromas, CA 95004, (831) 726-3155 or by email at [aromaswd@aol.com](mailto:aromaswd@aol.com).

AROMAS WATER DISTRICT

BALANCE SHEETS

June 30, 2011 and 2010

ASSETS		
	2011	2010
CURRENT ASSETS:		
Cash and Certificate of Deposits	\$ 539,136	\$ 823,151
Accounts Receivable, Net of Allowance for Doubtful Accounts of \$500 and \$500 for 2011 and 2010, respectively.	101,877	100,003
Other Receivables	16,734	50,513
Inventory and Supplies	31,662	23,600
Prepaid Expenses	7,196	7,315
Total Current Assets	696,605	1,004,582
PROPERTY AND EQUIPMENT, Net of Accumulated Depreciation of \$2,792,745 and \$2,512,973 for 2011 and 2010, respectively.	5,516,566	5,413,446
DEPOSITS	2,601	2,731
RESTRICTED CASH - Capital Projects	-	104,000
DEFERRED CHARGES, Net of Accumulated Amortization of \$8,550 and \$6,650 for 2011 and 2010, respectively.	10,450	12,350
IDLE ASSETS, Net of Accumulated Depreciation of \$42,400 and \$42,400 for 2011 and 2010, respectively.	1,000	1,000
TOTAL ASSETS	\$ 6,227,222	\$ 6,538,109

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

AROMAS WATER DISTRICT

BALANCE SHEETS  
(Continued)

June 30, 2011 and 2010

LIABILITIES AND NET ASSETS

	2011	2010
<b>CURRENT LIABILITIES:</b>		
Accounts Payable	\$ 51,073	\$ 83,369
Accrued Interest	10,301	10,750
Accrued Liabilities	19,075	17,948
Customer Deposits	8,150	8,150
Current Portion of Long-Term Bonds	2,500	2,500
Current Portion of Long-Term Debt	39,158	37,334
Total Current Liabilities	130,257	160,051
<b>LONG-TERM LIABILITIES:</b>		
Bonds Payable, Net of Current Portion	-	2,500
Debt, Net of Current Portion	818,420	857,530
Total Long-Term Liabilities	818,420	860,030
<b>NET ASSETS:</b>		
Invested in Capital Assets, Net of Related Debt	4,657,488	4,618,582
Restricted for Capital Projects	-	104,000
Unrestricted Net Assets	621,057	795,446
Total Net Assets	5,278,545	5,518,028
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 6,227,222</b>	<b>\$ 6,538,109</b>

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

AROMAS WATER DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Years Ended June 30, 2011 and 2010

	2011	2010
<b>OPERATING REVENUES:</b>		
Water Revenue	\$ 788,323	\$ 777,683
Bulk Water	1,154	3,086
Total Operating Revenues	789,477	780,769
<b>OPERATING EXPENSES:</b>		
Salaries	318,116	316,577
Payroll Taxes	27,485	27,013
Retirement Benefits - PERS	44,351	40,406
Power	87,963	81,108
Repairs & Maintenance	32,705	55,941
Outside Services	5,435	9,836
Truck Expense	11,465	11,554
Telemetry	4,102	4,040
Depreciation	279,772	280,188
Amortization	1,900	1,900
Annexation/EIR/Planning	9,080	7,451
Water Analysis and Treatment	10,991	12,480
Tools	457	617
Insurance	66,441	68,560
Office	9,194	12,617
Telephone	5,189	5,194
Accounting	5,850	5,650
Legal	86,678	31,700
Uniform Allowance	500	382
Election Expense	3,355	-
Miscellaneous	8,521	1,503
Memberships	11,553	11,773
Education	2,286	688
Rent	23,400	22,200
Total Operating Expenses	1,056,789	1,009,378
<b>OPERATING INCOME (LOSS)</b>	<b>(267,312)</b>	<b>(228,609)</b>

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

AROMAS WATER DISTRICT

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

For the Years Ended June 30, 2011 and 2010

	2011	2010
NON-OPERATING REVENUES (EXPENSES):		
Connection and Meter Installations		\$ 20,362
Property Taxes	\$ 54,134	56,355
Interest Income	5,492	8,922
Interest Expense	(42,136)	(43,960)
Miscellaneous Income	10,339	23,873
Net Non-Operating Revenues	27,829	65,552
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(239,483)	(163,057)
CAPITAL CONTRIBUTIONS		
State Capital Grant	-	153,846
Capital Contributions	-	70,750
Capital Contributions	-	224,596
INCREASE (DECREASE) IN NET ASSETS	(239,483)	61,539
NET ASSETS, BEGINNING OF YEAR	5,518,028	5,456,489
NET ASSETS, END OF YEAR	\$ 5,278,545	\$ 5,518,028

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

AROMAS WATER DISTRICT  
STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2011 and 2010

	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash Received From Customers	\$ 805,996	\$ 713,165
Cash Paid to Suppliers	(491,130)	(454,990)
Cash Paid to Employees	(316,989)	(313,223)
Net Cash Used for Operating Activities	(2,123)	(55,048)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Property Taxes Received	54,135	56,981
Net Cash Provided by Financing Activities	54,135	56,981
<b>CASH FLOWS FROM CAPITAL &amp; RELATED FINANCING ACTIVITIES:</b>		
Principal Payments on Loans	(37,286)	(35,590)
Principal Payments on Bonds	(2,500)	(2,000)
Proceeds from Capital Contributions	15,385	209,211
Acquisition and Construction of Capital Assets	(388,872)	(296,994)
Interest Paid	(42,585)	(44,381)
Connection Fees	-	20,362
Miscellaneous Income	10,339	23,873
Net Cash Used for Capital and Related Financing Activities	(445,519)	(125,519)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest Received on Cash and Investments	5,492	8,922
Net Cash Flows Provided by Investing Activities	5,492	8,922
<b>NET DECREASE IN CASH</b>	(388,015)	(114,664)
CASH, Beginning of Year	927,151	1,041,815
CASH, End of Year	\$ 539,136	\$ 927,151
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating Loss	\$ (267,312)	\$ (228,609)
Adjustments to Reconcile Net Income to Cash Provided by Operating Activities:		
Depreciation and Amortization	281,672	282,088
Loss on Disposal of Capital Asset	5,980	
(Increase) Decrease in:		
Accounts Receivable	(1,874)	(40,718)
Other Receivables	18,393	(24,586)
Inventory	(8,062)	586
Prepaid Expenses	119	1,039
Deposits	130	130
Increase (Decrease) in:		
Accounts Payable	(32,296)	(29,580)
Accrued Liabilities	1,127	3,354
Customer Deposits	-	(2,300)
PVWMA Payable	-	(16,452)
Net Cash Flows Used for Operating Activities	\$ (2,123)	\$ (55,048)

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

AROMAS WATER DISTRICT

STATEMENTS OF CASH FLOWS  
(Continued)

For the Years Ended June 30, 2011 and 2010

RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET ASSETS:

	Unrestricted Assets	Proceeds from Capital Loan	Statements of Cash Flows Total
Year Ended June 30, 2011:			
Cash and Cash Equivalents, Beginning	\$ 823,151	\$ 104,000	\$ 927,151
Net Increase (Decrease)	(284,015)	(104,000)	(388,015)
Cash and Cash Equivalents, Ending	<u>\$ 539,136</u>	<u>\$ -</u>	<u>\$ 539,136</u>
Year Ended June 30, 2010:			
Cash and Cash Equivalents, Beginning	\$ 667,815	\$ 374,000	\$ 1,041,815
Net Increase (Decrease)	155,336	(270,000)	(114,664)
Cash and Cash Equivalents, Ending	<u>\$ 823,151</u>	<u>\$ 104,000</u>	<u>\$ 927,151</u>

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

AROMAS WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization - The Aromas Water District 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 east of the City of Watsonville. 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, 2011:

	<u>Term Expires</u>
Wayne Holman, President	November 2012
Bonnie Mahler, Vice-President	November 2014
Marcus Dutra	November 2014
Ernest Huggins	November 2012
Sylvia Borchard	November 2014

Other officials of the District at June 30, 2011 were:

Vicki Morris, General Manager  
Robert Bosso, Legal Counselor

Method of Accounting - An enterprise fund 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 principal ongoing operations. The operating revenues of the District are charges to customers for water sales. Operating expenses for the District include the cost of sales and services, administrative expenses, and depreciation on capital assets. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Contributed assets are reported as non-operating other income.

Pronouncements of GASB and FASB - The Proprietary Fund types are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. The net assets are segregated into invested in capital assets, net of related debt and unrestricted net assets.

Accounts Receivable - The District utilizes an allowance for bad debts with respect to its accounts receivable. The allowance at June 30, 2011 and 2010 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.



AROMAS WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(Continued)

June 30, 2011 and 2010

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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.

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.

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.

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

Cash Flows - The District presents its cash flows statements using the direct method. For purposes of cash flows presentation, the District considers time deposits with a term of twelve months or less to be cash equivalents.

AROMAS WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(Continued)

June 30, 2011 and 2010

2. PROPERTY AND EQUIPMENT:

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

	2011	2010
Water Systems	\$ 7,808,233	\$ 7,367,573
Land and Water Rights	322,075	319,280
Vehicles	74,492	74,492
Office Furniture and Fixtures	89,194	89,194
Capital Assets in Use	8,293,994	7,850,539
Less: Accumulated Depreciation	(2,792,745)	(2,512,973)
	5,501,249	5,337,566
Construction in Progress	15,317	75,880
Property and Equipment, Net	\$ 5,516,566	\$ 5,413,446

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

	2011	2010
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

3. CASH AND INVESTMENTS:

Investments are stated at cost and all investment activities are conducted through San Benito Bank and LAIF. During the fiscal year ended 2011 the District did not invest through security brokers or dealers.

	Carrying Amount		Market Value	
	2011	2010	2011	2010
Checking and Savings	\$ 493,190	\$ 463,620	\$ 493,190	\$ 463,620
LAIF	45,946	463,531	45,946	463,531
Total Cash and Investments	\$ 539,136	\$ 927,151	\$ 539,136	\$ 927,151

INVESTMENTS AUTHORIZED BY THE DISTRICTS INVESTMENT POLICY:

The District conducts all of its banking and investment transactions with Santa Barbara Bank and Trust (formerly San Benito Bank) and through the State of California Local Agency Investment Fund (LAIF).

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.

NOTES TO FINANCIAL STATEMENTS  
(Continued)

June 30, 2011 and 2010

3. 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, 2011 and 2010, the balances on deposit with LAIF were \$45,946 and \$463,531 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, 2011 and 2010, the District maintained deposit balances at the following institution:

<u>Santa Barbara Bank and Trust:</u>	<u>2011</u>	<u>2010</u>
Checking & Savings	\$ 493,090	\$ 463,520
FDIC Insurance	(250,000)	(250,000)
Collateralized Funds	<u>\$ 243,090</u>	<u>\$ 213,520</u>

At June 30, 2011 and 2010, of the bank balance, \$250,000 and \$250,000, respectively, were covered by federal depository insurance; \$243,090 and \$213,520, 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, 2011 and 2010

4. LONG-TERM BONDS PAYABLE:

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

	2011	2010
Aromas County Water District Water Bonds of 1960, Third Division	\$ 2,500	\$ 5,000
Less: Current Portion	(2,500)	(2,500)
Long-Term Bonds Payable	\$ -	\$ 2,500

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 mature serially on January 1, in the years and amounts as follows:

2012	\$ 2,500
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5. LONG-TERM DEBT:

The details of long-term debt at June 30, 2011 and 2010 are as follows:

	2011	2010
Note Payable to Santa Barbara Bank and Trust; interest at 4.80% ,with quarterly payments of interest and principal of \$19,905 for initial 10 year loan term until July 2016; right to extend loan term upon approval for 10 year period with loan balance due July 2026.	\$ 857,578	\$ 894,864
Less: Principal Due in One Year	(39,158)	(37,334)
Long-Term Debt, Net of Current Portion	\$ 818,420	\$ 857,530

Future maturities of long-term debt are as follows:

	Principal	Interest	Total
2012	\$ 39,158	\$ 40,463	\$ 79,621
2013	41,072	38,549	79,621
2014	43,079	36,542	79,621
2015	45,185	34,436	79,621
2016	47,393	32,228	79,621
2017	641,691	7,699	649,390
	\$ 857,578	\$ 189,917	\$ 1,047,495

The table above does not include the terms or future maturities of a refinance of the note payable with Santa Barbara Bank and Trust subsequent to June 30, 2011. See Note 12 for further details.

AROMAS WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(Continued)

June 30, 2011 and 2010

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6. 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 2010/2011 was 15.225% 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 2010/2011, the Aromas Water District's defined benefit pension plan's annual pension cost was \$44,351 for PERS and was equal to the District's required and actual contributions. The required contribution for fiscal year 2010/2011 was determined as part of the June 30, 2008 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, 2011 and 2010

6. EMPLOYEES' RETIREMENT PLAN (Continued):

Three-Year Trend Information:

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual</u> <u>Pension</u> <u>Cost (APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contributed</u>	<u>Net</u> <u>Pension</u> <u>Obligation</u>
6/30/09	\$24,138	100%	N/A
6/30/10	\$40,406	100%	N/A
6/30/11	\$44,351	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.

Funded Status of the Risk Pool:

**Funded Status of the Miscellaneous Plan Risk Pool**

<u>Valuation</u> <u>Date</u>	<u>Accrued</u> <u>Liability</u>	<u>Actuarial</u> <u>Value of Assets</u>	<u>Unfunded</u> <u>Liability</u>	<u>Funded</u>	<u>Annual</u> <u>Covered</u> <u>Payroll</u>	<u>UAAL</u> <u>as % of</u> <u>Payroll</u>
6/30/07	\$2,611,746,790	\$2,391,434,447	\$220,312,343	91.6%	\$665,522,859	33.1%
6/30/08	\$2,780,280,768	\$2,547,323,278	\$232,957,490	91.6%	\$688,606,681	33.8%
6/30/09	\$3,104,798,222	\$2,758,511,101	\$346,287,121	88.9%	\$742,981,488	46.6%

7. COMPENSATED ABSENCES:

Accumulated unpaid employee compensated absences are recognized as liabilities of the District. The accumulated compensated absences at June 30, 2011 and 2010 were \$19,075 and \$17,948, respectively.

AROMAS WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(Continued)

June 30, 2011 and 2010

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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. 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.

10. 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, 2011 and 2010, the receivable balance for this borrowing from Aromas Water District was \$4,835 and \$4,835, respectively.

11. 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, 2011 monthly rent is \$2,000 per month. Total rent for the years ended June 30, 2011 and 2010 was \$23,400, and \$22,200, respectively.

AROMAS WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(Continued)

June 30, 2011 and 2010

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12. NOTE PAYABLE - CAPITAL PROJECTS / SUBSEQUENT EVENT:

During the fiscal year ended June 30, 2007, the District borrowed \$1,020,000 to finance water system improvements; these include construction of an Iron and Manganese Removal Treatment Plant, replacement of two redwood water storage tanks with steel tanks, installation of electrical generators at key sites in the event of an emergency, and repayment of the Telstar, Inc. note balance. On July 19, 2006, the loan for \$1,020,000 was funded by San Benito Bank at 4.80% interest, with quarterly payments of interest and principal due of \$19,905 for the initial 10 year loan period until July 2016. The District has the right to extend the term of the loan for an additional 10 years, until July 2026, upon approval, at a rate of interest to be agreed upon between both parties. As of June 30, 2011, the balance due on the note was \$857,578.

Long-term debt issuance costs associated with the Capital Projects Note Payable were \$19,000. These costs have been capitalized and are being amortized over the life of the related debt using the straight-line method. Accumulated amortization at June 30, 2011 was \$8,550.

On August 23, 2011, the Board adopted a resolution authorizing the refinance of the Capital Projects Note Payable, including an additional \$600,000 in debt to finance future site and capital improvements, for a total amount not to exceed \$1,458,000. The loan term was extended 10 years with a fixed interest rate of 4.80%.

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



AROMAS WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(Continued)

June 30, 2011 and 2010

13. RISK MANAGEMENT (Continued):

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:

	<u>Amount</u>
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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REQUIRED SUPPLEMENTARY INFORMATION

AROMAS WATER DISTRICT

BUDGETARY COMPARISON SCHEDULE

For the Year Ended June 30, 2011

	Actual 2011	Revised Budgeted 2011	Difference	Original Budgeted 2011
<b>OPERATING REVENUES:</b>				
Water Revenue	\$ 788,323	\$ 820,000	\$ (31,677)	\$ 820,000
Bulk Water	1,154	4,000	(2,846)	4,000
<b>TOTAL OPERATING REVENUES</b>	<u>789,477</u>	<u>824,000</u>	<u>(34,523)</u>	<u>824,000</u>
<b>OPERATING EXPENSES:</b>				
Salaries	318,116	316,500	(1,616)	314,000
Payroll Taxes	27,485	25,095	(2,390)	25,825
Retirement Benefits - PERS	44,351	45,000	649	45,000
Power	87,963	86,805	(1,158)	82,305
Repairs & Maintenance	32,705	55,000	22,295	55,000
Outside Services	5,435	10,000	4,565	10,000
Truck Expense	11,465	11,500	35	11,500
Telemetry	4,102	3,600	(502)	3,600
Depreciation	279,772	96,000	(183,772)	96,000
Amortization	1,900	-	(1,900)	-
Annexation/EIR/Planning	9,080	8,500	(580)	4,000
Water Analysis and Treatment	10,991	12,500	1,509	12,500
Tools	457	2,000	1,543	2,000
Insurance	66,441	66,500	59	66,500
Office	9,194	15,500	6,306	15,500
Telephone	5,189	5,300	111	5,300
Accounting	5,850	5,750	(100)	5,750
Legal	86,678	62,000	(24,678)	32,600
Uniform Allowance	500	700	200	700
Election Expense	3,355	6,000	2,645	6,000
Miscellaneous	8,521	2,150	(6,371)	2,150
Memberships	11,553	11,750	197	11,750
Education	2,286	1,600	(686)	1,000
Rent	23,400	23,400	-	24,000
<b>TOTAL OPERATING EXPENSES</b>	<u>1,056,789</u>	<u>873,150</u>	<u>(183,639)</u>	<u>832,980</u>
<b>OPERATING LOSS</b>	(267,312)	(49,150)	(218,162)	(8,980)
<b>NON-OPERATING REVENUES (EXPENSES):</b>				
Connection and Meter Installations	-	22,000	(22,000)	22,000
Property Tax	54,134	55,000	(866)	55,000
Interest Income	5,492	5,000	492	2,000
Interest Expense	(42,136)	(43,250)	1,114	(43,350)
Miscellaneous Income	10,339	11,100	(761)	75,000
<b>NET NON-OPERATING REVENUES</b>	<u>27,829</u>	<u>49,850</u>	<u>(22,021)</u>	<u>110,650</u>
<b>NET INCOME (LOSS)</b>	<u>\$ (239,483)</u>	<u>\$ 700</u>	<u>\$ (240,183)</u>	<u>\$ 101,670</u>