

AROMAS WATER DISTRICT

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FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

* * *

June 30, 2010 and 2009

AROMAS WATER DISTRICT

June 30, 2010 and 2009

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ACCOUNTANCY CORPORATION

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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, 2010 and 2009, 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, 2010 and 2009, 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 2, 2010

AROMAS WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2010

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, 2010. 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 Governmental Accounting Standards Board has issued the accounting 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. This standard had minor impacts upon the financial reporting and accounting performed by the AWD.

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

For the Year Ended June 30, 2010

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 2010: Net capital assets include plant and construction work in progress, net of accumulated depreciation and amortization. At June 30, 2010, net capital assets totaled \$5,413,446 or 82.8% of total assets. Restricted cash of \$104,000 remains unexpended as of June 30, 2010, representing capital improvement funds borrowed from San Benito Bank in July 2006, for planned construction projects.

Fiscal Year 2010 compared to 2009: In fiscal year 2010, total current assets totaled \$1,004,582, this represented \$823,151 in unrestricted cash and \$181,431 in accounts receivable, inventory and prepaid expenses. Those amounts represent a 23.3% increase in cash and 76.2% increase in total current assets over fiscal year 2009. This increase in fiscal year 2010 is primarily due to the transfer of restricted cash to unrestricted cash to reimburse the unrestricted cash account for capital expenditures, and an increase in accounts receivable due to increased water sales for the month of June 2010 compared to June 2009.

LIABILITIES

At June 30, 2010, total long term debt net of current portion totaled \$860,030. Long term debt as of June 30, 2010 consisted of the following: the balance twelve months remaining in 1972 general revenue bonds, \$2,500; and a capital improvement note payable to San Benito Bank of \$857,530. The current portion of the long term liabilities, \$39,834; includes twelve months of principal payments on the capital improvement loan of \$37,334 and \$2,000 in general revenue bonds.

At June 30, 2010, other current liabilities totaled \$120,217 which was \$44,899 or 27.2% lower than the prior fiscal year 2009 of \$165,116. These represent other current liabilities that are due within one year. They include accounts payable, accrued liabilities, Pajaro Valley Water Management Agency's basin well augmentation fees collected, and accrued vacation, for example.

AROMAS WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2010

FINANCIAL HIGHLIGHTS

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

Grant funding from California State Proposition 50 for a wellhead treatment project was received and expended during the fiscal year ended June 30, 2010.

A four year rate increase was adopted by the Board in June 2007, becoming effective October 1, 2007. The new rates reflect a 6.5% increase each year through 2010-2011. The commodity rates remain tiered to encourage conservation.

STATEMENT OF NET ASSETS

	<u>2010</u>	<u>2009</u>	<u>\$ Change</u>	<u>% Change</u>
Checking/Savings	\$ 823,151	\$ 667,815	\$ 155,336	23.3%
A/R and Other Current Assets	181,431	102,993	78,438	76.2%
Total Current Assets	<u>1,004,582</u>	<u>770,808</u>	<u>233,774</u>	<u>30.3%</u>
Fixed Assets, Net of Depreciation	5,413,446	5,396,640	16,806	0.3%
Other Assets	120,081	392,111	(272,030)	-69.4%
Total Assets	<u>6,538,109</u>	<u>6,559,559</u>	<u>(21,450)</u>	<u>-0.3%</u>
Current Liabilities	120,217	165,616	(45,399)	-27.4%
Current Portion of Long-Term Liabilities	39,834	37,594	2,240	6.0%
Long-Term Liabilities	860,030	899,860	(39,830)	-4.4%
Total Liabilities	<u>1,020,081</u>	<u>1,103,070</u>	<u>(82,989)</u>	<u>-7.5%</u>
Total Net Assets	<u>\$ 5,518,028</u>	<u>\$ 5,456,489</u>	<u>\$ 61,539</u>	<u>1.1%</u>

AROMAS WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2010

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

	2010	2009	\$ Change	% Change
Water Revenue	\$ 780,769	\$ 764,840	\$ 15,929	2.1%
Non Operating Revenue (Expense):				
Other Revenues	89,150	95,874	(6,724)	-7.0%
Interest Expense	(43,960)	(45,738)	1,778	-3.9%
Connection Fees	20,362	28,678	(8,316)	-29.0%
Capital Contributions	224,596	0	224,596	
Total Revenues	1,070,917	843,654	227,263	26.9%
Operations & Maintenance	94,468	77,748	16,720	21.5%
Payroll & Benefits	383,996	377,884	6,112	1.6%
Power Costs	81,108	78,912	2,196	2.8%
Administrative & General	169,618	151,589	18,029	11.9%
Sub-Total Expenses	729,190	686,133	43,057	6.3%
Sub-Total Net Income	341,727	157,521	184,206	116.9%
Depreciation	280,188	267,897	12,291	4.6%
Total Expenses	1,009,378	954,030	55,348	5.8%
Net Income (Loss)	\$ 61,539	\$ (110,376)	\$ 171,915	

The increase in water revenue reflects the third year of the four-year annual 6.5% rate increase. Other revenue includes property tax revenue, interest income and miscellaneous income. Property tax revenue decreased from \$62,733 in 2008-2009 to \$56,355 due to reduction in assessed value. The investment interest income decreased from \$24,090 in 2008-2009 to \$8,922 in the fiscal year 2009-2010 due to a decrease in the rate of return earned on District investments. 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 2008-2009 and 2009-2010 were \$28,678 and \$20,362, 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. Operating and Maintenance expenses increased in 2009-2010 due to an emphasis on preventative maintenance; the largest increases were due to increased retirement benefit costs and increased legal fees.

AROMAS WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2010

CAPITAL ASSETS AND CAPITAL IMPROVEMENT PROGRAMS

During the year ended June 30, 2010, the District completed the construction of the Rea Tank Replacement. Total cost of the tank project was \$331,233. This fiscal year, 2009-2010, the Carr Tank Replacement has begun; \$60,467 has been expended thus far in engineering and progress payments to the contractor. The project completion will be in fiscal year 2010-2011.

DEBT ADMINISTRATION

The District has a total debt outstanding balance of \$899,864 as of June 30, 2010:

San Benito Bank Capital Project Loan 2006	\$ 894,864
1972 Water Revenue Bonds	\$ 5,000

Debt transactions during the year ended June 30, 2010, 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 200,000 plus 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

SIGNIFICANT DIFFERENCES, BUDGET TO ACTUAL

The difference between the District's budgeted net surplus of \$148,510 and the actual surplus of \$61,539 totaled (\$86,971). Of this difference, \$160,188 was due to depreciation expense. For financial statement presentation, actual depreciation expense of \$280,188 is used. For District budget preparation \$120,000 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 \$44,231 and Capital Grants and Other Revenue \$105,000 over budget.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The District's fiscal year 2010-2011 income/expense budget is \$978,000. Water sales are stable, a rate increase of 6.5%, was implemented July 1, 2010 and controlled expenses have contributed to the stable revenue stream and steady cash reserve increases. The capital projects planned for 2010/2011 include: completing the replacement of the storage reservoir Carr Tank, Carr Booster Station, SCADA enhancement and replacement of the Carpentaria Well; most of these are financed with the restricted funds held from the 2006 CIP loan, the balance from replacement reserves. Proceeding with building the future home of the District office on the AWD property next to the CDF Fire Station is the goal this year, first by securing funds at the best prevailing rate to finance this construction. All building permits have been issued; the project is ready to go to bid. The Pajaro River Watershed Integrated Regional Water Proposition 50 Grant that was approved in 2008, funded by the State in December 2009, and AWD received the final retention balance of \$15,385 in October 2010. 2009 was celebrated by the AWD for its 50th year anniversary of serving water to the community of Aromas; we continue to be publically active in the Aromas community promoting water conservation.

AROMAS WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2010

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.

AROMAS WATER DISTRICT

BALANCE SHEETS

June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
CURRENT ASSETS:		
Cash and Certificate of Deposits	\$ 823,151	\$ 667,815
Accounts Receivable, Net of Allowance for Doubtful Accounts of \$500 and \$500 for 2010 and 2009, respectively.	100,003	59,285
Other Receivables	50,513	11,168
Inventory and Supplies	23,600	24,186
Prepaid Expenses	<u>7,315</u>	<u>8,354</u>
Total Current Assets	<u>1,004,582</u>	<u>770,808</u>
PROPERTY AND EQUIPMENT, Net of Accumulated Depreciation of \$2,512,973 and \$2,232,785 for 2010 and 2009, respectively.	5,413,446	5,396,640
DEPOSITS	2,731	2,861
RESTRICTED CASH - Capital Projects	104,000	374,000
DEFERRED CHARGES, Net of Accumulated Amortization of \$6,650 and \$4,750 for 2010 and 2009, respectively.	12,350	14,250
IDLE ASSETS, Net of Accumulated Depreciation of \$42,400 and \$42,400 for 2010 and 2009, respectively.	<u>1,000</u>	<u>1,000</u>
TOTAL ASSETS	<u>\$ 6,538,109</u>	<u>\$ 6,559,559</u>

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

AROMAS WATER DISTRICT

BALANCE SHEETS
(Continued)

June 30, 2010 and 2009

LIABILITIES AND NET ASSETS

	2010	2009
CURRENT LIABILITIES:		
Accounts Payable	\$ 83,369	\$ 112,949
PVWMA Payable	-	16,452
Accrued Interest	10,750	11,171
Accrued Liabilities	17,948	14,594
Customer Deposits	8,150	10,450
Current Portion of Long-Term Bonds	2,500	2,000
Current Portion of Long-Term Debt	37,334	35,594
Total Current Liabilities	160,051	203,210
LONG-TERM LIABILITIES:		
Bonds Payable, Net of Current Portion	2,500	5,000
Debt, Net of Current Portion	857,530	894,860
Total Long-Term Liabilities	860,030	899,860
NET ASSETS:		
Invested in Capital Assets, Net of Related Debt	4,618,582	4,834,186
Restricted for Capital Projects	104,000	374,000
Unrestricted Net Assets	795,446	248,303
Total Net Assets	5,518,028	5,456,489
TOTAL LIABILITIES AND NET ASSETS	\$ 6,538,109	\$ 6,559,559

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, 2010 and 2009

	2010	2009
OPERATING REVENUES:		
Water Revenue	\$ 777,683	\$ 760,092
Bulk Water	3,086	4,748
Total Operating Revenues	780,769	764,840
 OPERATING EXPENSES:		
Salaries	316,577	327,249
Payroll Taxes	27,013	26,497
Retirement Benefits - PERS	40,406	24,138
Power	81,108	78,912
Repairs & Maintenance	55,941	27,876
Outside Services	9,836	13,007
Truck Expense	11,554	12,319
Telemetry	4,040	3,518
Depreciation	280,188	267,897
Amortization	1,900	1,900
Annexation/EIR/Planning	7,451	1,639
Water Analysis and Treatment	12,480	20,289
Tools	617	739
Insurance	68,560	74,646
Office	12,617	14,259
Telephone	5,194	6,946
Accounting	5,650	5,500
Legal	31,700	11,727
Bad Debts	332	319
Election Expense	-	400
Miscellaneous	1,553	4,702
Memberships	11,773	6,298
Education	688	2,253
Rent	22,200	21,000
Total Operating Expenses	1,009,378	954,030
OPERATING INCOME (LOSS)	(228,609)	(189,190)

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, 2010 and 2009

	2010	2009
NON-OPERATING REVENUES (EXPENSES):		
Connection and Meter Installations	\$ 20,362	\$ 28,678
Property Taxes	56,355	62,733
Interest Income	8,922	24,090
Interest Expense	(43,960)	(45,738)
Miscellaneous Income	23,873	9,051
Net Non-Operating Revenues	<u>65,552</u>	<u>78,814</u>
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	<u>(163,057)</u>	<u>(110,376)</u>
CAPITAL CONTRIBUTIONS		
State Capital Grant	153,846	-
Capital Contributions	70,750	-
Capital Contributions	<u>224,596</u>	<u>-</u>
INCREASE (DECREASE) IN NET ASSETS	61,539	(110,376)
NET ASSETS, BEGINNING OF YEAR	<u>5,456,489</u>	<u>5,566,865</u>
NET ASSETS, END OF YEAR	<u>\$ 5,518,028</u>	<u>\$ 5,456,489</u>

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

AROMAS WATER DISTRICT
STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received From Customers	\$ 713,165	\$ 795,363
Cash Paid to Suppliers and Employees	(768,213)	(663,543)
Net Cash Provided (Used) by Operating Activities	(55,048)	131,820
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Property Taxes Received	56,981	51,565
Net Cash Provided by Financing Activities	56,981	51,565
CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES:		
Principal Payments on Loans	(35,590)	(33,934)
Principal Payments on Bonds	(2,000)	(2,000)
Proceeds from Capital Contributions	209,211	
Acquisition and Construction of Capital Assets	(296,994)	(208,060)
Interest Paid	(44,381)	(46,137)
Connection Fees	20,362	28,678
Miscellaneous Income	23,873	9,051
Net Cash Used for Capital and Related Financing Activities	(125,519)	(252,402)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest Received on Cash and Investments	8,922	24,090
Net Cash Flows Provided by Investing Activities	8,922	24,090
NET DECREASE IN CASH	(114,664)	(44,927)
CASH, Beginning of Year	1,041,815	1,086,742
CASH, End of Year	\$ 927,151	\$ 1,041,815
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Loss	\$ (228,609)	\$ (189,190)
Adjustments to Reconcile Net Income to Cash Provided by Operating Activities:		
Depreciation and Amortization	282,088	269,797
(Increase) Decrease in:		
Accounts Receivable	(40,718)	28,174
Other Receivables	(24,586)	2,349
Inventory	586	(4,986)
Prepaid Expenses	1,039	(3,402)
Deposits	130	130
Increase (Decrease) in:		
Accounts Payable	(29,580)	27,249
Accrued Liabilities	3,354	1,578
Customer Deposits	(2,300)	
PVWMA Payable	(16,452)	121
Net Cash Flows Provided (Used) by Operating Activities	\$ (55,048)	\$ 131,820

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, 2010 and 2009

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

	<u>Unrestricted Assets</u>	<u>Proceeds from Capital Loan</u>	<u>Statements of Cash Flows Total</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>
Year Ended June 30, 2009:			
Cash and Cash Equivalents, Beginning	\$ 502,742	\$ 584,000	\$ 1,086,742
Net Increase (Decrease)	165,073	(210,000)	(44,927)
Cash and Cash Equivalents, Ending	<u>\$ 667,815</u>	<u>\$ 374,000</u>	<u>\$ 1,041,815</u>

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

AROMAS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 and 2009

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, 2010:

	<u>Term Expires</u>
Wayne Holman, President	November 2012
Bonnie Mahler, Vice-President	November 2010
Marcus Dutra	November 2010
Ernest Huggins	November 2012
Stuart Cardott	November 2010

Other officials of the District at June 30, 2010 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, 2010 and 2009 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 it is deemed uncollectible.

AROMAS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

JUNE 30, 2010 and 2009

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, 2010 and 2009

2. PROPERTY AND EQUIPMENT:

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

	2010	2009
Water Systems	\$ 7,367,573	\$ 7,026,184
Land and Water Rights	319,280	310,737
Vehicles	74,492	74,141
Office Furniture and Fixtures	89,194	89,194
Capital Assets in Use	7,850,539	7,500,256
Less: Accumulated Depreciation	(2,512,973)	(2,232,785)
	5,337,566	5,267,471
Construction in Progress	75,880	129,169
Property and Equipment, Net	\$ 5,413,446	\$ 5,396,640

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

	2010	2009
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 2010 the District did not invest through security brokers or dealers.

	Carrying Amount		Market Value	
	2010	2009	2010	2009
Checking and Savings	\$ 463,620	\$ 311,693	\$ 463,620	\$ 311,693
LAIF	463,531	730,122	463,531	730,122
Total Cash and Investments	\$ 927,151	\$ 1,041,815	\$ 927,151	\$ 1,041,815

INVESTMENTS AUTHORIZED BY THE DISTRICTS INVESTMENT POLICY:

The District conducts all of its banking and investment transactions with 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.

AROMAS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

June 30, 2010 and 2009

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, 2010 and 2009, the balances on deposit with LAIF were \$463,531 and \$730,122 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, 2010 and 2009, the District maintained deposit balances at the following institution:

<u>San Benito Bank:</u>	2010	2009
Checking & Savings	\$ 463,520	\$ 311,593
FDIC Insurance	(250,000)	(250,000)
Collateralized Funds	\$ 213,520	\$ 61,593

At June 30, 2010 and 2009, of the bank balance, \$250,000 and \$250,000, respectively, were covered by federal depository insurance; \$213,520 and \$61,593, 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, 2010 and 2009

4. LONG-TERM BONDS PAYABLE:

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

	2010	2009
Aromas County Water District Water Bonds of 1960, Third Division	\$ 5,000	\$ 7,000
Less: Current Portion	(2,500)	(2,000)
Long-Term Bonds Payable	\$ 2,500	\$ 5,000

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:

2011		\$ 2,500
2012		2,500
		\$ 5,000

5. LONG-TERM DEBT:

The details of long-term debt at June 30, 2010 and 2009 are as follows:

	2010	2009
Note Payable to San Benito Bank; 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.	\$ 894,864	\$ 930,454
Less: Principal Due in One Year	(37,334)	(35,594)
Long-Term Debt, Net of Current Portion	\$ 857,530	\$ 894,860

Future maturities of long-term debt are as follows:

	Principal	Interest	Total
2011	\$ 37,334	\$ 42,287	\$ 79,621
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 - 2017	689,036	39,928	728,964
	\$ 894,864	\$ 232,205	\$ 1,127,069

AROMAS WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS
(Continued)

JUNE 30, 2010 and 2009

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 contributes 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 2009/2010 was 14.717% 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 2009/2010, the Aromas Water District's defined benefit pension plan's annual pension cost was \$40,406 for PERS and was equal to the District's required and actual contributions. The required contribution for fiscal year 2009/2010 was determined as part of the June 30, 2007 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.

AROMAS WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS
(Continued)

June 30, 2010 and 2009

6. EMPLOYEES' RETIREMENT PLAN (Continued):

Three-Year Trend Information:

Fiscal Year <u>Ending</u>	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/08	\$23,856	100%	N/A
6/30/09	\$24,138	100%	N/A
6/30/10	\$40,406	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 Date</u>	<u>Accrued Liability</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded Liability</u>	<u>Funded</u>	<u>Annual Covered Payroll</u>	<u>UAAL as % of Payroll</u>
6/30/05	\$2,891,460,651	\$2,588,713,000	\$302,747,651	89.5%	\$755,046,679	40.1%
6/30/06	\$2,754,396,608	\$2,492,226,176	\$262,170,432	90.5%	\$699,897,835	37.5%
6/30/07	\$2,611,746,790	\$2,391,434,447	\$220,312,343	91.6%	\$665,522,859	33.1%

7. COMPENSATED ABSENCES:

Accumulated unpaid employee compensated absences are recognized as liabilities of the District. The accumulated compensated absences at June 30, 2010 and 2009 were \$17,948 and \$14,594, respectively.

AROMAS WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

June 30, 2010 and 2009

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. FAIR VALUE OF FINANCIAL INSTRUMENTS:

The fair value of financial instruments classified as current assets or liabilities, including cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximate carrying value, principally because of the short maturity of those items.

The fair value of the District's long-term bonds payable and debt approximate carrying value principally because of the relative short term maturity of those items.

11 STATE OF CALIFORNIA:

Under the provisions of Proposition 1A and as part of the 2009-10 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. The amount of this borrowing pertaining to Aromas Water District was \$4,835.

AROMAS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

June 30, 2010 and 2009

12. OPERATING LEASES:

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. The base amount of monthly rent was \$950 and increased \$50 annually each January 1. Additional rent included real property taxes.

At the end of the lease period, the District began renting the site of its office building on a month-to-month basis beginning January 1, 2008. Monthly rents were \$1,900 in 2010 and \$1,800 in 2009. The annual rent expense was \$22,200 and \$21,000 respectively, for the years ended June 30, 2010 and 2009.

13. NOTE PAYABLE - CAPITAL PROJECTS:

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. During the extended loan term, interest on the unpaid principal balance shall be calculated at a rate of interest to be agreed upon between the District and San Benito Bank. As of June 30, 2010, the balance due on the note was \$894,864.

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, 2010 was \$6,650.

14. 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, 2010 and 2009

14. 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	\$ 245,669
Fixed Equipment	\$ 1,624,984
Personal Property	\$ 89,576
Mobile Equipment	\$ 5,000
Vehicles	\$ 74,492
Expense to Restore Valuable Papers	\$ 100,000
Extra Expense	\$ 100,000
Accounts Receivable	\$ 100,000
Loss on Earnings	\$ 100,000
Loss on Rents	\$ 100,000
Vehicles Garaged on District Premises - Catastrophic Coverage	\$ 100,000

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

Liability (ACWA/JPIA):

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

Automobile:

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

Workers' Compensation:

State Compensation Insurance Fund	Statutory
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AROMAS WATER DISTRICT

BUDGETARY COMPARISON SCHEDULE

For the Year Ended June 30, 2010

	Actual 2010	Revised Budgeted 2010	Difference	Original Budgeted 2010
OPERATING REVENUES:				
Water Revenue	\$ 777,683	\$ 820,000	\$ (42,317)	\$ 820,000
Bulk Water	3,086	5,000	(1,914)	5,000
TOTAL OPERATING REVENUES	780,769	825,000	(44,231)	825,000
OPERATING EXPENSES:				
Salaries	316,577	311,000	(5,577)	309,000
Payroll Taxes	27,013	27,800	787	25,700
Retirement Benefits - PERS	40,406	42,000	1,594	43,000
Power	81,108	81,990	882	79,000
Repairs & Maintenance	55,941	55,000	(941)	42,000
Outside Services	9,836	13,000	3,164	13,000
Truck Expense	11,554	11,500	(54)	8,000
Telemetry	4,040	3,600	(440)	3,600
Depreciation	280,188	120,000	(160,188)	120,000
Amortization	1,900	-	(1,900)	-
Engineering	-	2,400	2,400	2,400
Annexation/EIR/Planning	7,451	6,000	(1,451)	12,000
Water Analysis and Treatment	12,480	12,500	20	12,500
Tools	617	1,000	383	3,000
Insurance	68,560	68,200	(360)	69,600
Office	12,617	14,500	1,883	17,700
Telephone	5,194	5,900	706	6,900
Accounting	5,650	5,650	-	8,000
Legal	31,700	27,000	(4,700)	27,000
Bad Debts	332	600	268	1,200
Miscellaneous	1,553	2,300	747	3,150
Memberships	11,773	12,400	627	8,400
Education	688	1,000	312	2,400
Rent	22,200	22,800	600	24,600
TOTAL OPERATING EXPENSES	1,009,378	848,140	(161,238)	842,150
OPERATING LOSS	(228,609)	(23,140)	(205,469)	(17,150)
NON-OPERATING REVENUES (EXPENSES):				
Connection and Meter Installations	20,362	10,000	10,362	30,000
Property Tax	56,355	55,000	1,355	55,000
Interest Income	8,922	9,000	(78)	18,000
Interest Expense	(43,960)	(45,350)	1,390	(45,450)
Miscellaneous Income	23,873	143,000	(119,127)	2,000
NET NON-OPERATING REVENUES	65,552	171,650	(106,098)	59,550
NET INCOME (LOSS)	\$ (163,057)	\$ 148,510	\$ (311,567)	\$ 42,400