



REGULAR MEETING OF THE BOARD OF DIRECTORS

Meeting held at
District Office:
388 Blohm Ave.,
Aromas CA 95004

AGENDA Tuesday, January 23, 2018 7:00 PM

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

- I. **CALL TO ORDER**
- II. **ROLL CALL OF DIRECTORS:** Pres. Richard Smith, V. Pres. Wayne Holman, Directors, Marcus Dutra, Wayne Norton and James Leap.
- III. **PLEDGE OF ALLEGIANCE**
- IV. **STATEMENTS OF DISQUALIFICATION**
- V. **ADDITIONS AND DELETIONS**
- VI. **MINUTES** Motion to approve the Minutes of the December 20, 2017 Board Meeting p.3-5
- VII. **ORAL COMMUNICATION** *Anyone wishing to address the Board on informational items, staff reports or matters not listed on the agenda may do so during Oral Communications. Please limit your comment to three minutes. The public may comment on listed Action and Public Hearing items at the time they are considered by the Board.*
- VIII. **PRESENTATIONS:**
 - A. DIRECTORS' REPORTS
 - B. ATTORNEY'S REPORT
 - C. MANAGER'S REPORT p.6-9
 - D. CORRESPONDENCE p.10
- IX. **ACTION ITEMS:**
 - A. **Presentation of Audited Financial Statements - Fiscal Year 2016-17:** p.11 & 18
Fedak & Brown staff will present the Audited Financial Statements for Board approval. (DRAFT Annual Financial Report attached)
 - B. **Financial Reports for the Month of December 2017:** p.12-17
Total Revenue was \$102,489.59; Total expenditures were \$89,940.51 between December 16, 2017 and January 17, 2018. These financials and monthly expenditures will be presented for discussion and approval.
- X. **FUTURE MEETINGS & AGENDA ITEMS** Next meeting ó February 27, 2018
- XI. **ADJOURNMENT**

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**Minutes of the Special Meeting of
the Board of Directors of the Aromas Water District
December 20, 2017**

- I. CALL TO ORDER.** The special meeting of the Board of Directors of the Aromas Water District was called to order by Vice President Smith on Wednesday, December 20, 2017 at 7:00 p.m. at the District office located at 388 Blohm Ave, Aromas, California.
- II. ROLL CALL.** Vice-President Smith, and Directors Dutra, Norton and Holman were present; President Leap was absent. Also in attendance were General Manager Robert Johnson and Board Secretary Louise Coombes; Counsel Bob Bosso was absent, although available by phone if necessary.
- III. PLEDGE OF ALLEGIANCE.** Director Holman led the pledge of allegiance.
- IV. STATEMENTS OF DISQUALIFICATION.** There were no disqualification statements.
- V. ADDITIONS AND DELETIONS.** There were no additions or deletions.
- VI. MINUTES.** The minutes of the November 24, 2017 Board Meeting were presented for review and approval; there one correction and one comment. The first regarding Director Norton's Report; *San Benito County Councilors'/Governor's meeting* corrected to *San Benito County Council of Government meeting*. The second comment from GM Johnson was clarification regarding the San Benito County LAFCO was, in fact, the Santa Cruz County LAFCO. Director Norton moved for approval of the minutes and Director Holman seconded. Minutes were approved unanimously with President Leap absent.
- VII. ORAL COMMUNICATION.** There were no public comments.

VIII. REPORTS/PRESENTATIONS

- A. Director's Reports.** Director Norton went to the San Juan Bautista City Council meeting who have a new plan to correct their safe drinking water issues. The City Manager is planning on the implementation of this new plan by the end of summer 2018.
- B. Attorney's Report.** Counsel Bosso was not present, but sent word that he is continuing to keep watch on the Proposition 218 cases; however, there is no new information at this time.
- C. Manager's Report.** See detailed report in agenda packet. Items highlighted include:

Production & Well Levels

GM Johnson noted that all three wells have been in service for most of the month. Total production was approaching 5.8 million gallons which is still not as high as 2013 although overall production has been higher this year due to the continuing warm and dry weather. Well water measurements show Carpenteria Well is down 2ft and San Juan Well is up 2ft. With the Board meeting being a week early, the figures for Aimee Meadows were not received from PVWMA in time for inclusion in the Board packet.

Operations

GM Johnson commented that by the next Board meeting AWD's meter count is likely to show an additional connection. The loss of water system-wide continues to be minimal, which is a tribute to the good work AWD's Operators are doing in maintaining the system. Routine water samples have been taken and have good results. In addition, the three-year cyclic sampling was undertaken in preparation for the upcoming Consumer Confidence Report in the Spring of 2018. Fe bacteria presence/absence testing was performed at the San Juan and Pleasant Acres wells so that, should Fe bacteria be discovered, pro-active treatment action plan would be implemented. This incidentally provides a baseline for the current status of each well in the eventuality that potential contamination is introduced during future external contractor work.

Maintenance

GM Johnson noted all is well; routine maintenance as detailed in the GM Report continues.

Incidents

GM Johnson reported no new incidents this month.

Staff & Board Recognition

GM Johnson praised the timeliness of Operators DeAlba and Zelmar in obtaining the aforementioned water samples. Also the proactivity the Operators showed when they noticed a customer had a large leak and was out of town for a month. Their actions prevented an excessive and expensive water loss.

GM Johnson was able to introduce the new Customer Services Representative, Toleen Gonzales, to the Board, commending both her performance and the training given by Accounts Clerk Gir6n. GM Johnson commented on Admin Services Officer Coombes working with both AWD's Accountant and Auditors on a number of fronts post audit.

After incorporating research from staff, GM Johnson explained a plan to raise the Hydrant meter deposit from \$150 to \$850 to be a greater deterrent to theft.

GM Johnson drew the Board's attention to the letter from ACWA JPIA accompanying two "President's Special Recognition Award" 3 year certificates (2013-2016) for AWD achieving a low ratio of Paid Claims and Case Reserves to Deposit Premiums for the Property and Liability programs in which AWD participates.

Drought & Conservation

GM Johnson noted that since the beginning of the new rain year (October 1st), the rain gauge is currently at 2.56" (as at 12/14/17), with only 0.04" of this occurring in December.

Projects - Booster Generator

See Staff Report and Action Item IX. C.

Ad Hoc GSA Committee

GM Johnson reported on a discussion with Brian Lockwood, General Manager of PVWMA, who has been discussing options with the State should the Alternative Plan be rejected which may result in this basin attaining probationary status. To avoid probation, there is a potential for formation of a JPA between AWD and PVWMA and/or San Benito County or thirdly, the State could manage this portion of the Pajaro basin. AWD's wells are within the PVWMA basin, so it is the basin outside of PVWMA's sphere that is in question.

- D. Correspondence.** The monthly correspondence list was reviewed; GM Johnson drew attention to the response from CalTrans who admitted that ATS have been negligent and unprofessional. All Directors agreed that AWD's point had been made.

IX. ACTION ITEMS

- A. Receive and approve the updated Aromas Water District (AWD) Organizational Chart.** Director Norton moved to approve the updated Organizational Chart as presented, and Director Holman seconded. The new Chart was unanimously accepted by all Directors present; President Leap was absent.
- B. Receive update on Senate Bill 623, and provide direction to Staff.** Although Director Norton applauds the intent of this bill, he feels strongly that those contaminating the water should be the ones to pay to clean up that same water rather than adding to the tax burden of those living in the area who are often less affluent. Board directed Staff to watch the progress of SB623 and keep the Board informed.
- C. Backup Power Generator Update.** GM Johnson noted that there may be an issue with the proximity of windows to the planned site of the generator. In addition, an archeological waiver may also be necessary as within 750ft of the AWD building there is an archeological site of high value. For the number of times that the generator will be used, it may be more prudent to switch to a portable propane generator with greater functionality, including portable stand lighting. Board direction is to continue to research alternatives for 16kW and 22kW generators.
- D. Financial Reports for the Month of November 2017.** Total Revenue was \$86,617.23; Total expenditures were \$64,124.44 between November 21, 2017 and 15 December, 2017. GM Johnson drew the Board's attention to the new inclusion of the Assessment Districts as advised by the new Auditors, Fedak & Brown, resulting in a comparative increase of approximately \$3.2 million in both Assets and Total Long Term Liabilities. Technically the assets and liabilities of each Assessment belongs to the property owners in each Assessment District rather than AWD which is why these figures have previously been separated for reporting. The Audit Committee will hear further details before the next Board meeting. Director Dutra moved to accept the Financials as presented and Vice President Smith seconded. The financials were unanimously accepted with President Leap absent.
- E. Election of Officers for 2018:** In President Leap's absence, he left a memo to nominate Vice President Smith to serve as President for 2018; Director Norton concurred and further nominated Director Holman as Vice President and Director Dutra seconded. Vice President Smith and Director Holman both accepted the nomination. A motion to approve both nominations was made by Director Norton and seconded by Director Dutra. Vice President Smith was elected President and Director Holman was elected Vice President by unanimous vote with President Leap absent, and the new officers will take office in January 2018.

X. FUTURE MEETINGS & AGENDA ITEMS. The next meeting will be on Tuesday, January 23, 2018.

XI. ADJOURNMENT. Vice President Smith adjourned the meeting at 8:22pm until January 23, 2018.

Read and approved by: _____
Vice President, Richard Smith

Attest: _____
Board Secretary, Louise Coombes

Date: _____

Date: _____

Aromas Water District General Manager's Report December 2017

PRODUCTION

| Source | Production in Gallons | Average Daily Gal/Day | Days in Service |
|-------------------------|-----------------------|-----------------------|-----------------|
| San Juan Well | 3,189,330 | 102,882 | 31 |
| Pleasant Acres Well | 1,671,006 | 53,903 | 31 |
| Carpenteria Well | 1,107,000 | 35,710 | 31 |
| Total Production | 5,967,336 | 192,495 | |

ANNUAL PRODUCTION IN MILLIONS/GALLONS:

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|--------------|---------------|---------------|---------------|---------------|
| January | 5.84 | 5.99 | 5.68 | 6.49 | 5.83 | 5.77 | 7.33 | 5.34 | 8.11 | 5.99 | 5.195 | 4.717 |
| February | 6.12 | 5.46 | 5.55 | 5.38 | 5.09 | 5.43 | 5.81 | 5.40 | 5.42 | 5.48 | 4.687 | 4.184 |
| March | 5.10 | 7.99 | 8.40 | 6.72 | 6.34 | 5.61 | 5.62 | 7.37 | 6.43 | 7.06 | 4.797 | 5.327 |
| April | 5.34 | 10.58 | 11.95 | 9.97 | 6.07 | 7.46 | 5.55 | 9.93 | 7.42 | 7.49 | 5.801 | 5.406 |
| May | 11.56 | 14.57 | 14.58 | 12.42 | 9.77 | 10.58 | 9.94 | 12.74 | 11.81 | 7.93 | 8.332 | 9.347 |
| June | 16.34 | 14.71 | 15.77 | 14.04 | 14.13 | 11.32 | 13.4 | 13.14 | 11.99 | 9.37 | 10.286 | 10.478 |
| July | 18.07 | 16.91 | 16.02 | 16.31 | 14.35 | 13.41 | 14.1 | 14.82 | 12.59 | 10.01 | 10.915 | 11.608 |
| August | 16.61 | 17.13 | 16.04 | 16.68 | 14.67 | 12.76 | 14.0 | 13.96 | 11.73 | 9.93 | 10.295 | 11.171 |
| September | 14.78 | 14.27 | 14.34 | 13.71 | 13.28 | 12.02 | 11.8 | 12.79 | 10.39 | 9.74 | 9.701 | 10.733 |
| October | 12.48 | 10.69 | 12.99 | 9.98 | 10.54 | 8.90 | 10.69 | 11.22 | 9.34 | 8.02 | 7.970 | 9.923 |
| November | 8.41 | 8.06 | 7.71 | 8.36 | 6.62 | 6.01 | 6.83 | 8.91 | 5.88 | 5.37 | 5.299 | 5.777 |
| December | 6.74 | 7.20 | 6.35 | 6.84 | 5.68 | 6.88 | 5.10 | 7.81 | 4.86 | 4.88 | 4.873 | 5.967 |
| Totals MG | 127.42 | 133.6 | 135.38 | 126.9 | 112.37 | 106.15 | 110.17 | 123.42 | 105.97 | 91.27 | 88.152 | 94.638 |
| Total AcFt | 391.1 | 410.0 | 415.4 | 389.4 | 344.8 | 325.7 | 338.05 | 378.7 | 325.16 | 280.05 | 270.49 | 290.30 |

OPERATIONS:

- There are 954 total meters, on 899 parcels.
- Loss Production system wide has maintained below 5% for over eighteen+ months.
- All three wells, San Juan, Pleasant Acres, and Carpenteria were operational for the entire month.
- Water Treatment Plant; for the first time, the results for the finished water show a presence of iron; still non-detect for manganese.
- Distribution testing for total Coliform; all samples negative.
- All Coliform, Mn and Fe, and monthly DWR reports were filed.
- Backwashing WTP filters approximately every 2-3+/- days, or 1.5 mg, from San Juan Well and Pleasant Acres Well.
- Monthly Generator in-house 15 minute testing under load.
- Monthly well-level monitoring (see attached chart).

MAINTENANCE:

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

STAFF & BOARD RECOGNITION:

- Operator DeAlba and GM Johnson began evaluating the use of a trailer-mounted generator as a backup power source for the office.
- Operators DeAlba and Zelmar installed a HD Antenna for access to emergency information.
- Administrative Services Officer Coombes has been working with both our accountant and our auditors in preparation for the audit presentation.
- Toleen continues to grasp the Customer Service Representative duties, and handles customers with courteousness and friendliness.
- Accounts Clerk Giron has been balancing the training duties of the new Customer Service Representative, with her Accounts job duties, and has provided support while Administrative Services Officer Coombes was out on a medical leave. She continues to excel at this new position, while providing assistance to others.
- GM Johnson, after working with staff, has implemented the following policies:
 - Late fee waiver ó late fees may be waived if the customer has not had a late fee waived in the previous six months, and
 - Leak credits ó leak credits will be evaluated on a case-by-case basis. The mention of leak credits has been removed from the High Usage warning letter AWD sends to high-use customers.
- GM Johnson attended a webinar discussing the updates to the Lead in Schools legislation. If any school on our water system wants to be sampled for lead ó they need to reach out to AWD first. Then AWD would perform up to five samples. If those samples come back positive, then the related fix of the issue would be paid by the school.

CONSERVATION UPDATE:

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

October 1, 2017 marked the start of a new water year. As of the date of this report, the rain gauge at Chittenden Pass has recorded 5.52 inches of precipitation this water year, with 2.68 inches falling in the month of January.

PROJECTS:

1. Plan to provide power to the Oakridge Booster Station

The Oakridge Booster station currently sits on a customer's property. The AWD has an agreement with the property owner to pay the property owner the highest rate for the power used per month for the additional power the booster station adds to his power bill.

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

2. Backup Generator for the AWD office facility

After the last Board of Directors meeting, alternatives were brought forth to be investigated. Those options are still being reviewed and a viable strategy will be brought to the Board for discussion and approval at a future meeting.

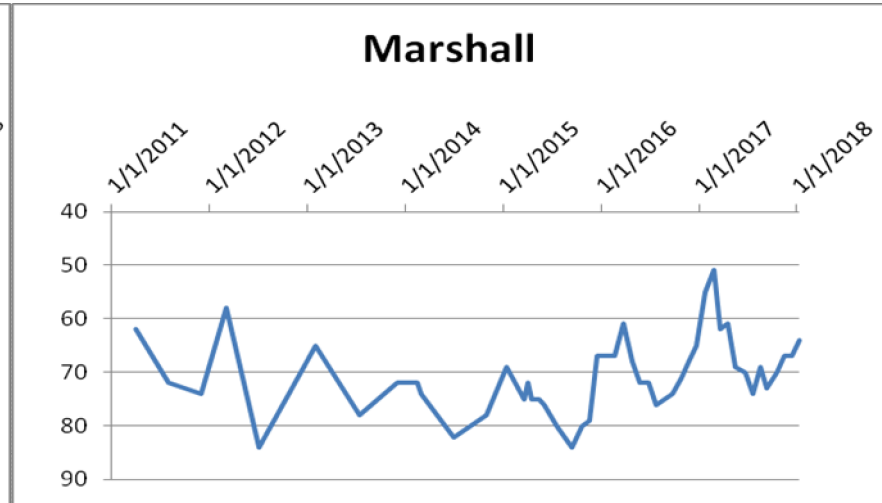
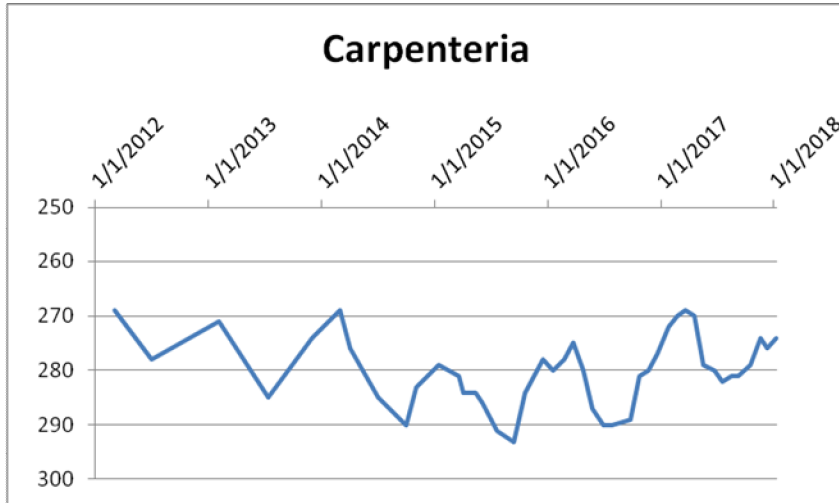
Robert Johnson
General Manager
January 17, 2018

Well Water Level Monitoring Depth to Water Measurements

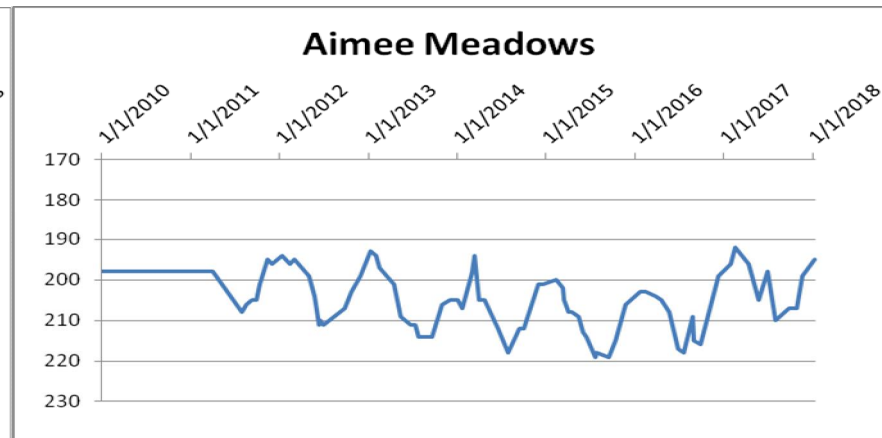
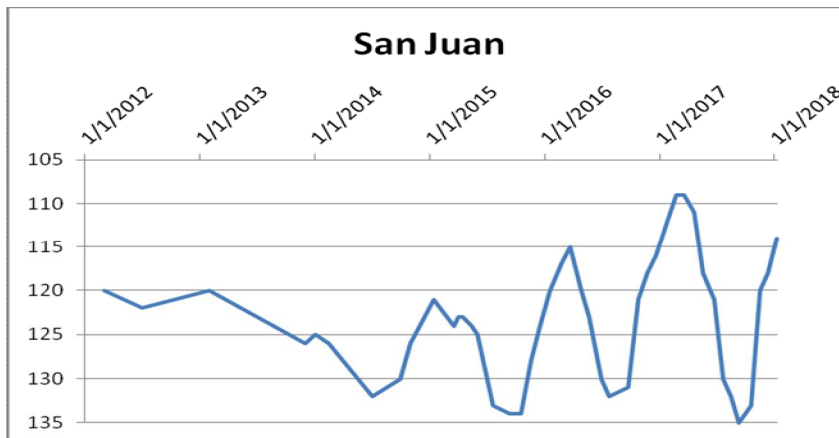
Date: January 9, 2018



www.aromaswaterdistrict.org



Carpenteria Well (production): Previous Read = 276 feet ; Current Read = 274 feet Marshall Well (monitoring): Previous Read = 67 feet ; Current Read = 64 feet



San Juan Well (production): Previous Read = 118 feet ; Current Read = 114 feet Aimee Meadows Well (monitoring): 11/21/2017 = 199 feet ; 1/18/2018 = 195 feet

CORRESPONDENCE LIST: 12/14/2017 - 1/17/2018

| DATE | TYPE | TO | FROM | SUBJECT |
|----------|------|---------------------------------------|--|---|
| 12/14/17 | M | R. Johnson, AWD | C Montoya, Associated Traffic Safety | Associated Traffic Safety damaging water lateral with auger during erection of diversion signage |
| 1/2/217 | M | All Staff, AWD | CalPERS | Circular Letter: GASB Statement 68 Agency Reports Availability for Public Agencies |
| 1/2/217 | M | All Staff, AWD | CalPERS | Circular Letter: GASB Statement 68 Public Agency Cost Sharing Reports for Measurement Date June 30, 2017, Are Now Available |
| 1/4/17 | E | SWRCB | R. Johnson, AWD | Monthly Fe & Mn Field Test Results |
| 1/4/17 | M | R. Johnson, AWD | U.S. Dept of Justice | U.S. vs Defendant John McEwan (Pinnacle Workforce Solution) |
| 1/5/17 | E | R. Johnson, AWD | I. Kranjcec, SmartProcure | Public Records Request for PO/Vendor Information |
| 1/9/17 | E | SWRCB | R. Johnson, AWD | Monthly Summary of Coliform Monitoring |
| 1/12/17 | E | R. Johnson, AWD | A. Correale, NBS | Update from USDA regarding Oakridge project |
| 1/12/17 | M | M Krausie, San Benito Cty Planning | R. Johnson, AWD | PLN180001; Medeiros, 901 Searle Road |
| 1/16/17 | M | R. Johnson, AWD | Dept of Transportation | Request for Utility Verification |
| 1/16/17 | E | I. Kranjcec, SmartProcure | R. Johnson, AWD | Requesting 10 day extension for Public Records Request |
| 1/17/17 | E | R. Johnson, AWD | I. Kranjcec, SmartProcure | Granting 10 day extension for Public Records Request |
| 1/17/17 | E | Andy Beck, Fedak & Brown | L. Coombes, AWD | Query & response for expected delivery of Audited Financials no longer in Draft version |

Staff Report



To: Board of Directors

Re: Item 9.A ó Presentation of Audited Financial Statements - Fiscal Year 2016-17

Date: January 17, 2018

Summary / Discussion

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

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

The Audit Committee is composed of Board President Smith and Director James Leap, Fedak & Brown staff, AWD Administrative Services Officer Coombes, AWD Consulting GM Morris, and AWD GM Johnson. The Committee plans to meet on January 23, 2018 for an in-depth review of these Financial Statements before the presentation to the full Board at the meeting later that evening.

Staff Recommendation

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

Submitted by:

Robert Johnson
General Manager

Aromas Water District
Balance Sheet Prev Year Comparison

As of December 31, 2017

| | Dec 31, 17 | Dec 31, 16 |
|--|----------------------|---------------------|
| ASSETS | | |
| Current Assets | | |
| Checking/Savings | | |
| UB Checking | 102,149.18 | 93,577.06 |
| UB Bk Money Market xxxx7853 | 105,030.75 | 179,916.03 |
| LAIF-State of Ca xx-05 | 788,402.93 | 780,600.49 |
| Petty Cash | 100.00 | 100.00 |
| Assesment District Banks | 545,950.99 | 0.00 |
| Total Checking/Savings | 1,541,633.85 | 1,054,193.58 |
| Other Current Assets | | |
| 1292 · Accounts Rec - USDA Loan | 2,329,859.60 | 0.00 |
| 1291 · Accounts Rec - Orchard Acres | 339,708.47 | 0.00 |
| Prepaid Insurance | 15,428.78 | 15,243.32 |
| 128 · Inventory | 23,913.50 | 21,549.46 |
| 1200.1 · Accounts Receivable--UBMax | 101,352.06 | 75,536.45 |
| 1201.9 · Less Allowance for doubtful Acc | -500.00 | -500.00 |
| Total Other Current Assets | 2,809,762.41 | 111,829.23 |
| Total Current Assets | 4,351,396.26 | 1,166,022.81 |
| Fixed Assets | | |
| 1900 · Water System | 11,645,613.45 | 11,505,107.47 |
| 1915 · Office Building & Improvements | 387,260.80 | 387,260.80 |
| 1970 · Office Equipment & Fixtures | 93,467.05 | 93,467.05 |
| 1980 · District Vehicles | 75,349.31 | 75,349.31 |
| 1990 · Land and Easements | 330,195.78 | 330,195.78 |
| 1995 · Idle Assets | 43,400.00 | 43,400.00 |
| 1998 · Less Accum Depr Idle Assets | -42,400.00 | -42,400.00 |
| 1999 · Less Accumuated Depreciation | -5,106,460.75 | -4,634,307.75 |
| Total Fixed Assets | 7,426,425.64 | 7,758,072.66 |
| Other Assets | | |
| Deferred Outflow of Resources | 174,771.00 | 87,849.00 |
| LoanBrokerageFees | 0.00 | 15,000.00 |
| Accumulated Amortiz-loan fees | 0.00 | -1,625.00 |
| Deposits | | |
| ACWA Deposit | 2,080.80 | 2,080.80 |
| Total Deposits | 2,080.80 | 2,080.80 |
| Total Other Assets | 176,851.80 | 103,304.80 |
| TOTAL ASSETS | 11,954,673.70 | 9,027,400.27 |

Aromas Water District
Balance Sheet Prev Year Comparison

As of December 31, 2017

| | Dec 31, 17 | Dec 31, 16 |
|---------------------------------------|---------------|---------------|
| LIABILITIES & EQUITY | | |
| Liabilities | | |
| Current Liabilities | | |
| Accounts Payable | | |
| 2000 - Accounts Payable | 26,476.32 | 15,675.91 |
| Total Accounts Payable | 26,476.32 | 15,675.91 |
| Credit Cards | | |
| First Bankcard - E Giron #86 | 87.60 | 0.00 |
| ACE Hardware | 39.85 | 0.00 |
| First Bankcard -- M Dias #30 | 0.00 | 641.60 |
| First Bankcard - L Coombes #92 | 10.00 | 110.67 |
| First Bankcard -- T. Zelmar #67 | 115.70 | 127.27 |
| Valero - Fuel | 124.51 | 331.93 |
| First Bankcard -- D DeAlba #35 | 1,122.31 | 195.11 |
| First Bankcard -- V Morris #24 | 90.95 | 56.18 |
| Total Credit Cards | 1,590.92 | 1,462.76 |
| Other Current Liabilities | | |
| 2100 - Payroll Liabilities | 3,354.11 | -2,792.35 |
| City National Bank - Current | 105,477.00 | 105,477.00 |
| Deferred Inflows- Actuarial | 17,463.00 | 48,026.00 |
| CUSTOMER DEPOSITS | | |
| Water Customer | 10,634.13 | 0.00 |
| Connection Deposits Payable | 4,000.00 | 4,000.00 |
| Hydrant Meter Deposit | 150.00 | 150.00 |
| CUSTOMER DEPOSITS - Other | -10,634.13 | 0.00 |
| Total CUSTOMER DEPOSITS | 4,150.00 | 4,150.00 |
| Accrued Vacation Payable | 22,769.14 | 17,011.82 |
| Interest Payable | 52,480.90 | 0.00 |
| Payroll Taxes Payable | | |
| State Payroll Taxes Payable | | |
| Payroll-SWHCA | 0.00 | 5,967.02 |
| Total State Payroll Taxes Payable | 0.00 | 5,967.02 |
| Total Payroll Taxes Payable | 0.00 | 5,967.02 |
| PVWMA Payable | 5,813.31 | 4,117.72 |
| Total Other Current Liabilities | 211,507.46 | 181,957.21 |
| Total Current Liabilities | 239,574.70 | 199,095.88 |
| Long Term Liabilities | | |
| 2590 - Unearned Revenue - CFD 98-1 | 13,436.52 | 0.00 |
| 2393 - Long-term Debt - CFD 98-1 | 80,000.00 | 0.00 |
| 2392 - Long-term Debt - USDA | 2,693,000.00 | 0.00 |
| 2391 - Long-term Debt - Orchard Acres | 420,000.00 | 0.00 |
| GASB 68 Pension Liability | 501,054.00 | 436,183.00 |
| City National Bank | 1,158,375.84 | 1,265,394.67 |
| Total Long Term Liabilities | 4,865,866.36 | 1,701,577.67 |
| Total Liabilities | 5,105,441.06 | 1,900,673.55 |
| Equity | | |
| Investment in Capital Assets | 6,420,006.53 | 6,396,001.53 |
| Unrestricted Net Assets | 3,019,627.85 | 3,261,281.44 |
| Allocation of Net Assets | -2,637,407.62 | -2,588,320.07 |
| Net Income | 47,005.88 | 57,763.82 |
| Total Equity | 6,849,232.64 | 7,126,726.72 |
| TOTAL LIABILITIES & EQUITY | 11,954,673.70 | 9,027,400.27 |

Aromas Water District
Profit & Loss Budget Performance

December 2017

| | Dec 17 | Budget | Jul - Dec 17 | YTD Budget | Annual Budget |
|----------------------------------|------------|-----------|--------------|------------|---------------|
| Ordinary Income/Expense | | | | | |
| Income | | | | | |
| 303 · Water Revenue | 70,562.82 | 60,000.00 | 598,644.64 | 520,000.00 | 960,000.00 |
| 307 · Bulk Water | 541.27 | 75.00 | 4,391.10 | 550.00 | 1,000.00 |
| 302 · Connection | 12,790.00 | 0.00 | 12,790.00 | 0.00 | 12,790.00 |
| 301 · Taxes Rcvd | 17,796.22 | 19,000.00 | 22,363.82 | 19,000.00 | 66,000.00 |
| 304 · Misc Income | 0.00 | 250.00 | 450.12 | 500.00 | 1,000.00 |
| 306 · Interest | 799.28 | 500.00 | 4,585.19 | 2,700.00 | 6,000.00 |
| 312 · Grant Revenue | 0.00 | 0.00 | 1,725.00 | 1,500.00 | 1,500.00 |
| Total Income | 102,489.59 | 79,825.00 | 644,949.87 | 544,250.00 | 1,048,290.00 |
| Gross Profit | 102,489.59 | 79,825.00 | 644,949.87 | 544,250.00 | 1,048,290.00 |
| Expense | | | | | |
| Operations | | | | | |
| 403 · Fuel | 607.00 | 650.00 | 4,210.15 | 3,900.00 | 8,000.00 |
| 404 · Truck Maint | 49.68 | 375.00 | 2,526.40 | 2,250.00 | 4,500.00 |
| 431 · System Repair & Maint | 5,975.71 | 5,000.00 | 27,309.12 | 30,000.00 | 60,000.00 |
| 463 · Water Analysis | 359.00 | 350.00 | 1,937.00 | 2,300.00 | 4,500.00 |
| 464 · Water Treatment | 678.83 | 600.00 | 5,467.11 | 4,100.00 | 8,000.00 |
| 468 · Tools | 805.94 | 400.00 | 3,624.62 | 2,400.00 | 5,000.00 |
| 470 · Annexation/EIR/Planning | 0.00 | 400.00 | 0.00 | 2,400.00 | 5,000.00 |
| Total Operations | 8,476.16 | 7,775.00 | 45,074.40 | 47,350.00 | 95,000.00 |
| Power | | | | | |
| 449.75 · 388 Blohm, # C | 22.26 | 15.00 | 94.24 | 90.00 | 200.00 |
| 449.5 · 388 Blohm, A & B Office | 144.74 | 130.00 | 676.09 | 780.00 | 1,600.00 |
| 461.5 · RLS Tank Booster | 10.51 | 10.00 | 54.87 | 60.00 | 120.00 |
| 447 · Leo Ln Booster | 30.30 | 35.00 | 202.11 | 190.00 | 400.00 |
| 448 · Aimee Mdws Well | 9.86 | 10.00 | 54.55 | 60.00 | 120.00 |
| 451 · Marshall Corp Yard | 29.69 | 30.00 | 223.01 | 180.00 | 400.00 |
| 452 · Rea Booster @ Seely | 19.71 | 40.00 | 143.20 | 240.00 | 500.00 |
| 454 · Carr Booster | 299.33 | 380.00 | 2,404.50 | 2,280.00 | 4,600.00 |
| 458 · Pleasant Acres Well | 995.88 | 400.00 | 5,818.05 | 3,400.00 | 6,000.00 |
| 459 · Seely Booster @ Carpent... | 25.96 | 25.00 | 115.34 | 150.00 | 300.00 |
| 460 · San Juan Well | 2,676.78 | 2,000.00 | 30,250.19 | 22,000.00 | 35,000.00 |
| 461 · Cole Tank | 12.34 | 12.00 | 69.29 | 72.00 | 150.00 |
| 462 · Rea Tank | 12.27 | 12.00 | 68.84 | 72.00 | 150.00 |
| 465 - Lwr Oakridge Boost | 60.32 | 50.00 | 460.63 | 300.00 | 600.00 |
| 465.5 - Upper Oakridge Booster | 0.00 | 50.00 | 0.00 | 300.00 | 600.00 |
| 466 · Pine Tree Tank | 12.39 | 12.00 | 69.55 | 72.00 | 150.00 |
| Total Power | 4,362.34 | 3,211.00 | 40,704.46 | 30,246.00 | 50,890.00 |
| Payroll | | | | | |
| Gross | 35,064.24 | 29,160.00 | 221,048.34 | 174,995.00 | 350,000.00 |
| Comp FICA | 2,166.66 | 1,850.00 | 13,682.18 | 10,900.00 | 22,000.00 |
| Comp MCARE | 506.74 | 425.00 | 3,199.88 | 2,550.00 | 5,100.00 |
| Comp SUI | 81.30 | 375.00 | 564.91 | 2,250.00 | 4,500.00 |
| Total Payroll | 37,818.94 | 31,810.00 | 238,495.31 | 190,695.00 | 381,600.00 |
| Employee / Labor Costs | | | | | |
| 407 · Outside Services | 640.95 | 500.00 | 3,530.32 | 3,000.00 | 6,000.00 |
| 408 · Uniform Allowance | 0.00 | 250.00 | 691.74 | 500.00 | 1,000.00 |
| 409 · Workers Comp | 629.74 | 700.00 | 4,568.20 | 4,200.00 | 8,500.00 |
| 410 · Health Ins | 6,926.40 | 4,500.00 | 39,688.50 | 29,000.00 | 56,000.00 |
| 474 · Education | 0.00 | 500.00 | 702.73 | 3,000.00 | 6,000.00 |
| 477 · Retirement | 5,667.81 | 5,200.00 | 34,005.84 | 30,800.00 | 62,000.00 |
| Total Employee / Labor Costs | 13,864.90 | 11,650.00 | 83,187.33 | 70,500.00 | 139,500.00 |

Aromas Water District
Profit & Loss Budget Performance

December 2017

| | Dec 17 | Budget | Jul - Dec 17 | YTD Budget | Annual Budget |
|--------------------------------|-----------|-----------|--------------|------------|---------------|
| Office | | | | | |
| 440 · Misc Exp | 100.00 | 300.00 | 1,561.18 | 1,800.00 | 4,000.00 |
| 444 · Postage | 252.94 | 325.00 | 1,641.30 | 1,950.00 | 4,000.00 |
| 445 · Office Supplies | 164.71 | 300.00 | 1,500.42 | 1,800.00 | 4,000.00 |
| 446 · Office Eqpmt and Maint | 110.00 | 400.00 | 5,890.95 | 2,800.00 | 5,000.00 |
| Total Office | 627.65 | 1,325.00 | 10,593.85 | 8,350.00 | 17,000.00 |
| Communications | | | | | |
| 455 · Phone, Off | 323.48 | 320.00 | 1,950.39 | 1,880.00 | 3,800.00 |
| 456 · Telemetry | 298.36 | 300.00 | 1,790.16 | 1,800.00 | 3,600.00 |
| 457 · Answ Serv/Cellular Phone | 245.75 | 300.00 | 1,457.73 | 1,800.00 | 3,600.00 |
| Total Communications | 867.59 | 920.00 | 5,198.28 | 5,480.00 | 11,000.00 |
| Administrative & General | | | | | |
| 417 · Capital Loan Interest | 0.00 | 0.00 | 19,593.40 | 19,200.00 | 38,400.00 |
| 467 · Depreciation Reserve | 20,000.00 | 20,000.00 | 120,000.00 | 120,000.00 | 240,000.00 |
| 406 · Liability Ins | 1,475.00 | 1,666.00 | 1,178.53 | 9,996.00 | 20,000.00 |
| 420 · Legal Fees | 1,300.00 | 1,300.00 | 7,800.00 | 7,800.00 | 16,000.00 |
| 422 · Bank Charges | 317.52 | 170.00 | 188.26 | 980.00 | 2,000.00 |
| 423 · Litigation Contingency | 0.00 | 0.00 | 0.00 | 0.00 | 10,000.00 |
| 425 · Audit | 0.00 | 0.00 | 9,973.00 | 10,500.00 | 11,500.00 |
| 471 · Bad Debts | 0.00 | 0.00 | 0.00 | 200.00 | 400.00 |
| 473 · Memberships | 5,718.00 | 1,500.00 | 15,957.17 | 9,000.00 | 15,000.00 |
| Total Administrative & General | 28,810.52 | 24,636.00 | 174,690.36 | 177,676.00 | 353,300.00 |
| Total Expense | 94,828.10 | 81,327.00 | 597,943.99 | 530,297.00 | 1,048,290.00 |
| Net Ordinary Income | 7,661.49 | -1,502.00 | 47,005.88 | 13,953.00 | 0.00 |
| Net Income | 7,661.49 | -1,502.00 | 47,005.88 | 13,953.00 | 0.00 |

01/17/18

Aromas Water District
Monthly Expenditures
 December 16, 2017 through January 17, 2018

| Date | Num | Name | Amount |
|-------------|-------------|---|------------|
| UB Checking | | | |
| 12/19/2017 | E-pay | Employment Development Dept | -780.09 |
| 12/19/2017 | E-pay | United States Treasury (EFTPS) | -5,079.02 |
| 12/19/2017 | ACH | CalPERS | -2,404.65 |
| 12/19/2017 | ACH | CalPERS | -2,837.18 |
| 12/22/2017 | Paid Online | P G & E | -4,362.34 |
| 12/27/2017 | E-pay | Employment Development Dept | -594.98 |
| 12/27/2017 | E-pay | United States Treasury (EFTPS) | -3,576.78 |
| 12/27/2017 | 16532 | ACE Hardware Prunedale | -71.55 |
| 12/27/2017 | 16533 | Aromas Water District (Petty Cash) | -102.87 |
| 12/27/2017 | 16534 | David DeAlba | -21.40 |
| 12/27/2017 | 16535 | First Bankcard | -1,187.11 |
| 12/27/2017 | 16536 | Laurie Goodman | -70.00 |
| 12/27/2017 | 16537 | Mid Valley Supply | -678.83 |
| 12/27/2017 | 16538 | Monterey Bay Analytical Services Inc | -180.00 |
| 12/27/2017 | 16539 | R & B Company | -1,077.05 |
| 12/27/2017 | 16540 | Rob Johnson | -50.00 |
| 12/27/2017 | 16541 | Trevor J. Zelmar | -8.03 |
| 12/27/2017 | 16542 | USA BlueBook | -1,386.91 |
| 12/27/2017 | 16543 | Valero | -614.17 |
| 12/28/2017 | | QuickBooks Payroll Service | -7,568.06 |
| 12/29/2017 | DD1158 | Coombes (P), Louise P | 0.00 |
| 12/29/2017 | DD1159 | DeAlba (P), David | 0.00 |
| 12/29/2017 | DD1160 | Giron (P), Ester | 0.00 |
| 12/29/2017 | DD1161 | Gonzales (P), Toleen | 0.00 |
| 12/29/2017 | DD1162 | Johnson (P), Robert L | 0.00 |
| 12/29/2017 | 16531 | Zelmar (P), Trevor J | -1,521.53 |
| 12/29/2017 | EFT | Bank Service Fees | -161.12 |
| 01/03/2018 | ACH | CalPERS | -2,067.56 |
| 01/03/2018 | ACH | CalPERS | -806.47 |
| 01/03/2018 | EFT | CalPERS | -2,969.24 |
| 01/03/2018 | Paid Online | Verizon Wireless | -116.75 |
| 01/05/2018 | 16544 | USPO | -250.07 |
| 01/05/2018 | 16545 | Buckles-Smith Electric Co. | -893.63 |
| 01/05/2018 | 16546 | CALNET3 | -561.84 |
| 01/05/2018 | 16547 | CSSC | -79.00 |
| 01/05/2018 | 16548 | D & G Sanitation | -80.81 |
| 01/05/2018 | 16549 | Davis Auto Parts Store | -375.49 |
| 01/05/2018 | 16550 | Monterey Bay Analytical Services Inc | -1,185.00 |
| 01/05/2018 | 16551 | PVWMA | -17,275.87 |
| 01/05/2018 | 16552 | R & B Company | -1,720.34 |
| 01/05/2018 | 16553 | State Water Resource Control Board, SWRCB | -5,718.00 |
| 01/05/2018 | 16554 | United Way serving San Benito County | -48.00 |
| 01/05/2018 | 16555 | Xerox Corp | -16.39 |
| 01/08/2018 | Billing | Bill Adjustment Report | -216.10 |
| 01/08/2018 | Billing | Bill Adjustment Report | -610.27 |
| 01/08/2018 | Billing | Bill Adjustment Report | -417.31 |
| 01/10/2018 | 16556 | Mid Valley Supply | -226.28 |
| 01/10/2018 | 16557 | R & B Company | -419.21 |

01/17/18

Aromas Water District
Monthly Expenditures
December 16, 2017 through January 17, 2018

| Date | Num | Name | Amount |
|-------------------|--------|--------------------------------|-------------------|
| 01/10/2018 | 16558 | Recology San Benito County | -34.66 |
| 01/10/2018 | 16559 | Robert E. Bosso | -1,300.00 |
| 01/10/2018 | 16560 | Streamline | -100.00 |
| 01/12/2018 | DD1165 | Coombes (P), Louise P | 0.00 |
| 01/12/2018 | 16563 | DeAlba (P), David | -2,558.42 |
| 01/12/2018 | 16564 | Giron (P), Ester | -746.16 |
| 01/12/2018 | 16565 | Gonzales (P), Toleen | -705.17 |
| 01/12/2018 | DD1166 | Johnson (P), Robert L | 0.00 |
| 01/12/2018 | 16566 | Zelmar (P), Trevor J | -1,635.29 |
| 01/12/2018 | 16561 | Dutra (P), Marcus | -210.10 |
| 01/12/2018 | 16562 | Holman (P), Wayne R | -206.10 |
| 01/12/2018 | DD1163 | Norton (P), K W | 0.00 |
| 01/12/2018 | DD1164 | Smith (P), Richard | 0.00 |
| 01/12/2018 | E-pay | Employment Development Dept | -654.69 |
| 01/12/2018 | E-pay | United States Treasury (EFTPS) | -4,060.52 |
| 01/13/2018 | EFT | CalPERS | -2,042.47 |
| 01/13/2018 | EFT | CalPERS | -881.09 |
| 01/16/2018 | | QuickBooks Payroll Service | -4,318.54 |
| Total UB Checking | | | -89,840.51 |
| TOTAL | | | <u>-89,840.51</u> |



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



Board of Directors as of June 30, 2017

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

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

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

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

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Financial Section

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Independent Auditor's Report

Board of Directors
Aromas Water District
Aromas, California

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

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

Independent Auditor's Report, continued

Emphasis of Matter

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6, and required supplementary information on pages 34 and 35, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information in Relation to the Financial Statements as a Whole

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

Other Reporting Required by Government Auditing Standards

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

Fedak & Brown LLP

Cypress, California

December 20, 2017

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

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

Financial Highlights

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

Required Financial Statements

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

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

Financial Analysis of the District

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

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

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

Notes to the Basic Financial Statements

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

Statement of Net Position

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

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

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

Condensed Statement of Net Position

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

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

Statement of Revenues, Expenses and Changes in Net Position

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

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

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

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

Capital Asset Administration

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

Changes in capital assets for 2017, were as follows:

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

Debt Administration

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

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

Conditions Affecting Current Financial Position

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

Requests for Information

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

Basic Financial Statements

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

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

Continued on next page

See accompanying notes to the basic financial statements

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

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

See accompanying notes to the basic financial statements

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

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

See accompanying notes to the basic financial statements

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

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

Continued on next page

See accompanying notes to the basic financial statements

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

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

See accompanying notes to the basic financial statements

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

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

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

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

B. Basis of Accounting and Measurement Focus

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

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

C. Financial Reporting

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

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

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

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

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

C. Financial Reporting, continued

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

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

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

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

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

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

1. Use of Estimates

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

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

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

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

2. Cash and Cash Equivalents

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

3. Investments

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

4. Fair Value Measurement and Application

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

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

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

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

5. Accounts Receivable and Allowance for Uncollectible Accounts

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

6. Property Taxes and Assessments

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

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

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

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

6. Property Taxes and Assessments, continued

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

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

7. Materials and Supplies Inventory

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

8. Prepaid Expenses

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

9. Capital Assets

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

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

10. Deferred Outflows of Resources

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

11. Compensated Absences

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

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

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

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

12. Deferred Inflows of Resources

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

13. Net Position

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

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

(2) Cash and Cash Equivalents

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

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

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

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

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

(2) Cash and Investments, continued

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

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

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

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

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

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

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

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

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

(2) Cash and Investments, continued

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party.

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District can manage its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio matures or comes close to maturity evenly over time as necessary to provide for cash flow requirements and liquidity needed for operations.

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

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investment in LAIF is not rated.

Concentration of Credit Risk

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

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

(3) Capital Assets

Changes in capital assets for 2017, were as follows:

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

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

(4) Compensated Absences

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

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

(5) Long-Term Debt

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

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

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

(5) Long-Term Debt, continued

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

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

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

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

(5) Long-Term Debt, continued

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

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

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

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

(5) Long-Term Debt, continued

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

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

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

Solar Energy Project Loan

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

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

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

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

(5) Long-Term Debt, continued

Solar Energy Project Loan, continued

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

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

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

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

(6) Restatement of Net Position

Accrued Interest

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

The effect of the above change is summarized as follows:

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

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

(7) Net Position

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

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

(8) Defined Benefit Pension Plans

Plan Description

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

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

(8) Defined Benefit Pension Plans, continued

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: The Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

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

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

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

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on July 1, following notice of a change in rate. Funding contribution for the Plan is determined annually on an actuarial basis as of June 30, by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the year ended June 30, 2017, the District's employer contributions reduced its net pension liability by \$51,643.

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

(8) Defined Benefit Pension Plans, continued

Net Pension Liability

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

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

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability for the miscellaneous risk pool. As of June 30, 2017, the net pension liability of the Plan is measured as of June 30, 2016 (the measurement date). The total pension liability for the Plan's miscellaneous risk pool used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 (the valuation date), rolled forward to June 30, 2016, using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The District's changes in proportionate share of the net pension liability for the Plan's miscellaneous risk pool as of the measurement date June 30, 2016, was as follows:

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

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

(8) Defined Benefit Pension Plans, continued

Deferred Pension Outflows(Inflows) of Resources

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

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

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

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

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

(8) Defined Benefit Pension Plans, continued

Actuarial Assumptions

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

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

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

Discount Rate

The discount rate used to measure the total pension liability was 7.65% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, the amortization and smoothing periods recently adopted by CalPERS were utilized. The crossover test was performed for a miscellaneous agent plan and a safety agent plan, selected as being more at risk of failing the crossover test and resulting in a discount rate that would be different from the long-term expected rate of return on pension investments.

Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the Plan.

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

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

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

(8) Defined Benefit Pension Plans, continued

Discount Rate, continued

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

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

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

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

The following table presents the District's proportionate share of the net position liability for the Plan, calculated using the discount rate, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate.

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

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

Pension Plan Fiduciary Net Position

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

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

(9) Risk Management

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

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

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

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

Governmental Accounting Standards Board Statement No. 75

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

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

Governmental Accounting Standards Board Statement No. 81

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

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

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

Governmental Accounting Standards Board Statement No. 81, continued

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

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

Governmental Accounting Standards Board Statement No. 83

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

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

Governmental Accounting Standards Board Statement No. 84

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

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

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

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

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

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

Governmental Accounting Standards Board Statement No. 85

In March 2017, the GASB issued Statement No. 85 – *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]).

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

Governmental Accounting Standards Board Statement No. 86

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

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

Governmental Accounting Standards Board Statement No. 87

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

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

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

(11) Commitments and Contingencies

Grant Awards

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

Litigation

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

(12) Subsequent Events

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

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Required Supplementary Information

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

Defined Benefit Plan

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

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

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

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

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

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

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

Notes to the Schedules of Pension Plan Contributions

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

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Supplementary Information

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

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

Report on Internal Controls and Compliance

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

Board of Directors
Aromas Water District
Aromas, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Aromas Water District (District), as of and for the year June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 20, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Fedak & Brown LLP
Cypress, California
December 20, 2017

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