

AROMAS WATER DISTRICT

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FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

* * *

June 30, 2012 and 2011

AROMAS WATER DISTRICT

June 30, 2012 and 2011

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EMERITUS

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

CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Aromas Water District
Aromas, California

We have audited the accompanying balance sheets of the Aromas Water District as of June 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Aromas Water District as of June 30, 2012 and 2011, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and State regulations governing special districts.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 2 through 7 and page 24 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Berger Lewis Accountancy Corporation

BERGER LEWIS ACCOUNTANCY CORPORATION
Santa Cruz, California
December 17, 2012

AROMAS WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

The following discussion and analysis of the Aromas Water District's ("AWD") financial performance presents Management's overview of the District's financial activities for the year ended June 30, 2012. Please read it in conjunction with the District's basic financial statements, which begin immediately following this analysis. This annual financial report consists of three parts - Management's Discussion and Analysis (this section), the Basic Financial Statements, and Supplementary Information.

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

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

AROMAS WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

DESCRIPTION OF BASIC FINANCIAL STATEMENTS

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

ASSETS

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

Fiscal Year 2012 compared to 2011: In fiscal year 2012, total current assets totaled \$778,133, this represented \$592,689 in cash and \$185,444 in accounts receivable, inventory and prepaid expenses. Those amounts represent a 10.0% increase in cash and 11.7% increase in total current assets compared to fiscal year 2011. This increase in fiscal year 2012 is primarily due to net cash provided by operating activities.

LIABILITIES

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

FINANCIAL HIGHLIGHTS

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

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

STATEMENT OF NET ASSETS

	<u>2012</u>	<u>2011</u>	<u>\$ Change</u>	<u>% Change</u>
Checking/Savings	\$ 592,689	\$ 539,136	\$ 53,553	9.9%
A/R and Other Current Assets	185,444	157,469	27,975	17.8%
Total Current Assets	<u>778,133</u>	<u>696,605</u>	<u>81,528</u>	<u>11.7%</u>
Fixed Assets, Net of Depreciation	5,822,803	5,516,566	306,237	5.6%
Other Assets	29,147	14,051	15,096	107.4%
Total Assets	<u>6,630,083</u>	<u>6,227,222</u>	<u>402,861</u>	<u>6.5%</u>
Current Liabilities	106,987	88,599	18,388	20.8%
Current Portion of Long-Term Liabilities	45,855	41,658	4,197	10.1%
Long-Term Liabilities	1,378,849	818,420	560,429	68.5%
Total Liabilities	<u>1,531,691</u>	<u>948,677</u>	<u>583,014</u>	<u>61.5%</u>
Total Net Assets	<u>\$ 5,098,392</u>	<u>\$ 5,278,545</u>	<u>\$ (180,153)</u>	<u>-3.4%</u>

AROMAS WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

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

STATEMENT OF REVENUES AND EXPENSES

	2012	2011	\$ Change	% Change
Water Revenue	\$ 784,895	\$ 789,477	\$ (4,582)	-0.6%
Non Operating Revenue (Expense):				
Property Taxes	49,741	54,134	(4,393)	-8.1%
Interest Income	2,259	5,492	(3,233)	-58.9%
Interest Expense	(63,863)	(42,136)	(21,727)	51.6%
Connection Fees and Miscellaneous	18,063	10,339	7,724	74.7%
Capital Contributions	19,860	0	19,860	
Total Revenues	810,955	817,306	(6,351)	-0.8%
Operations & Maintenance	65,596	65,155	441	0.7%
Payroll & Benefits	392,545	389,952	2,593	0.7%
Power Costs	89,115	87,963	1,152	1.3%
Administrative & General	162,180	233,531	(71,351)	-30.6%
Sub-Total Expenses	709,436	776,601	(67,165)	-8.6%
Sub-Total Net Income	101,519	40,705	60,814	149.4%
Depreciation and Amortization	281,672	280,188	1,484	0.5%
Total Expenses	991,108	1,056,789	(65,681)	-6.2%
Net Income (Loss)	\$ (180,153)	\$ (239,483)	\$ 59,330	

Water revenue remained relatively flat for the year ended June 30, 2012, prior year ended June 30, 2011 was the the fourth and final year of four-year annual 6.5% rate increase. Other revenue includes property tax revenue, interest income and miscellaneous income. Property tax revenue decreased from \$54,134 in 2010-2011 to \$49,741 due to reduction in assessed value. The investment interest income decreased from \$5,492 in 2010-2011 to \$2,259 in the fiscal year 2011-2012 due to declining interest rates. Interest expense is paid on debt associated with water system improvements. Connection fees are collected when the District installs new meters, connection fees for the years 2010-2011 and 2011-2012 were \$-0- and \$10,843-, respectively. For the fiscal year ended June 30, 2012, the District received a capital contribution of the California Department of Transportation for costs incurred associated with the San Juan Road Interchange Utility Relocation project. Administrative & General expenses reflect a net decrease in 2011-2012, the largest component of the change was a decrease in legal fees and costs associated with legal action that was concluded as of June 30, 2011.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

CAPITAL ASSETS AND CAPITAL IMPROVEMENT PROGRAMS

This fiscal year, 2011-2012 the major capital additions were: the Carpenteria Well project completed at a total cost of \$360,232, and the purchase of 388 Blohm Avenue, Aromas, at a cost of \$187,000, the site will be used as the District's office. Last fiscal year ending June 30, 2011, the District completed the construction of the Carr Tank replacement and booster pump station project, the total cost of that tank project was \$430,000.

DEBT ADMINISTRATION

The District has a total debt outstanding balance of \$1,424,704 as of June 30, 2012:

Santa Barbara Bank & Trust 2011 Loan	\$ 1,424,704
1972 Water Revenue Bonds	\$ -

Debt transactions during the year ended June 30, 2012, consisted of obtaining a new loan in the amount of \$1,457,578 the proceeds of which were used to payoff the prior existing debt and for capital improvements including Carpenteria Well project and purchase of 388 Blohm Avenue for the District's office. Other Debt transactions included required monthly payments on the prior and new loan balances, and the final payment on the 1972 Water Revenue Bonds.

SIGNIFICANT DIFFERENCES, BUDGET TO ACTUAL

The difference between the District's budgeted net surplus of \$5,335 and the actual net loss of \$180,153 totaled (\$185,488). Of this difference, \$197,254 was due to depreciation expense. For financial statement presentation, actual depreciation expense of \$293,254 is used. For District budget preparation \$96,000 is used. For budget purposes the District uses this expected cash to be set aside for rebuilding the capital reserves. Other significant variances were: Interest Expense was over budget by \$21,438 due to increased interest expense on the new loan.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The District's fiscal year 2012-2013 income/expense budget is \$853,000. Water sales have remained reduced due to wet weather, poor local economy and continued conservation measures; there are no rate increases planned for 2012-2013. There are several capital projects planned for 2012-2013. Completing the remodeling of the future home of the District office at 388 Blohm Avenue, ends fifty-three years of renting our office space. The building was purchased in February 2012 and ready for occupancy in October 2012. Caltrans is requiring the relocation of several sections of our pipeline due to a major overpass and freeway project. Funds for this have been advanced from Caltrans by way of a Utility Costs Agreement in the amount of \$152,500. We continue to be publically active in the Aromas community promoting water conservation.

June 30, 2012

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

AROMAS WATER DISTRICT

BALANCE SHEETS

June 30, 2012 and 2011

	ASSETS	
	<u>2012</u>	<u>2011</u>
CURRENT ASSETS:		
Cash and Certificate of Deposits	\$ 592,689	\$ 539,136
Accounts Receivable, Net of Allowance for Doubtful Accounts of \$500 and \$500 for 2012 and 2011, respectively.	110,779	101,877
Other Receivables	37,454	16,734
Inventory and Supplies	31,464	31,662
Prepaid Expenses	<u>5,747</u>	<u>7,196</u>
Total Current Assets	<u>778,133</u>	<u>696,605</u>
PROPERTY AND EQUIPMENT, Net of Accumulated Depreciation of \$3,085,999 and \$2,792,745 for 2012 and 2011, respectively.	5,822,803	5,516,566
DEPOSITS	2,497	2,601
RESTRICTED CASH - Capital Projects	-	-
DEFERRED CHARGES, Net of Accumulated Amortization of \$12,350 and \$8,550 for 2012 and 2011, respectively.	25,650	10,450
IDLE ASSETS, Net of Accumulated Depreciation of \$42,400 and \$42,400 for 2012 and 2011, respectively.	<u>1,000</u>	<u>1,000</u>
TOTAL ASSETS	<u>\$ 6,630,083</u>	<u>\$ 6,227,222</u>

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

AROMAS WATER DISTRICT

BALANCE SHEETS
(Continued)

June 30, 2012 and 2011

LIABILITIES AND NET ASSETS

	<u>2012</u>	<u>2011</u>
CURRENT LIABILITIES:		
Accounts Payable	\$ 73,039	\$ 51,073
Accrued Interest	4,634	10,301
Accrued Liabilities	20,864	19,075
Customer Deposits	8,450	8,150
Current Portion of Long-Term Bonds	-	2,500
Current Portion of Long-Term Debt	<u>45,855</u>	<u>39,158</u>
Total Current Liabilities	<u>152,842</u>	<u>130,257</u>
LONG-TERM LIABILITIES:		
Bonds Payable, Net of Current Portion	-	-
Debt, Net of Current Portion	<u>1,378,849</u>	<u>818,420</u>
Total Long-Term Liabilities	<u>1,378,849</u>	<u>818,420</u>
NET ASSETS:		
Invested in Capital Assets, Net of Related Debt	4,398,099	4,657,488
Restricted for Capital Projects	-	-
Unrestricted Net Assets	<u>700,293</u>	<u>621,057</u>
Total Net Assets	<u>5,098,392</u>	<u>5,278,545</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,630,083</u>	<u>\$ 6,227,222</u>

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

AROMAS WATER DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Years Ended June 30, 2012 and 2011

	2012	2011
OPERATING REVENUES:		
Water Revenue	\$ 775,796	\$ 788,323
Bulk Water	9,099	1,154
	784,895	789,477
OPERATING EXPENSES:		
Salaries	313,946	318,116
Payroll Taxes	27,200	27,485
Retirement Benefits - PERS	51,399	44,351
Power	89,115	87,963
Repairs & Maintenance	28,431	32,705
Outside Services	4,602	5,435
Truck Expense	14,246	11,465
Telemetry	4,113	4,102
Depreciation	293,254	279,772
Amortization	3,800	1,900
Annexation/EIR/Planning	100	9,080
Water Analysis and Treatment	12,803	10,991
Tools	1,401	457
Insurance	70,141	66,441
Office	11,163	9,194
Telephone	5,339	5,189
Accounting	6,025	5,850
Legal	12,049	86,678
Uniform Allowance	539	500
Election Expense	0	3,355
Miscellaneous	3,698	8,521
Memberships	11,798	11,553
Education	1,346	2,286
Rent	24,600	23,400
	991,108	1,056,789
OPERATING INCOME (LOSS)	(206,213)	(267,312)

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

AROMAS WATER DISTRICT

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

For the Years Ended June 30, 2012 and 2011

	2012	2011
NON-OPERATING REVENUES (EXPENSES):		
Connection and Meter Installations	\$ 10,843	
Property Taxes	49,741	\$ 54,134
Interest Income	2,259	5,492
Interest Expense	(63,863)	(42,136)
Miscellaneous Income	7,220	10,339
Net Non-Operating Revenues	<u>6,200</u>	<u>27,829</u>
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	<u>(200,013)</u>	<u>(239,483)</u>
CAPITAL CONTRIBUTIONS		
Capital Contributions	<u>19,860</u>	<u>-</u>
Capital Contributions	<u>19,860</u>	<u>-</u>
INCREASE (DECREASE) IN NET ASSETS	(180,153)	(239,483)
NET ASSETS, BEGINNING OF YEAR	<u>5,278,545</u>	<u>5,518,028</u>
NET ASSETS, END OF YEAR	<u>\$ 5,098,392</u>	<u>\$ 5,278,545</u>

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

AROMAS WATER DISTRICT
STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received From Customers	\$ 776,293	\$ 805,996
Cash Paid to Suppliers	(356,391)	(491,130)
Cash Paid to Employees	(312,157)	(316,989)
Net Cash Provided (Used) for Operating Activities	107,745	(2,123)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Property Taxes Received	51,864	54,135
Net Cash Provided by Financing Activities	51,864	54,135
CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES:		
Principal Payments on Loans	(890,452)	(37,286)
Principal Payments on Bonds	(2,500)	(2,500)
Proceeds from Capital Contributions	19,860	15,385
Proceeds from New Loans	1,457,578	
Acquisition and Construction of Capital Assets and Deferred Charges	(618,491)	(388,872)
Interest Paid	(69,530)	(42,585)
Connection Fees and Other Income	(4,780)	10,339
Net Cash Used for Capital and Related Financing Activities	(108,315)	(445,519)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest Received on Cash and Investments	2,259	5,492
Net Cash Flows Provided by Investing Activities	2,259	5,492
NET (INCREASE) DECREASE IN CASH	53,553	(388,015)
CASH, Beginning of Year	539,136	927,151
CASH, End of Year	\$ 592,689	\$ 539,136
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Loss	\$ (206,213)	\$ (267,312)
Adjustments to Reconcile Net Income to Cash Provided by Operating Activities:		
Depreciation and Amortization	297,054	281,672
Loss on Disposal of Capital Asset	0	5,980
(Increase) Decrease in:		
Accounts Receivable	(8,902)	(1,874)
Other Receivables	0	18,393
Inventory	198	(8,062)
Prepaid Expenses	1,449	119
Deposits	104	130
Increase (Decrease) in:		
Accounts Payable	21,966	(32,296)
Accrued Liabilities	1,789	1,127
Customer Deposits	300	-
Net Cash Flows Provided (Used) for Operating Activities	\$ 107,745	\$ (2,123)

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

AROMAS WATER DISTRICT

STATEMENTS OF CASH FLOWS
(Continued)

For the Years Ended June 30, 2012 and 2011

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

	Unrestricted Assets	Proceeds from Capital Loan	Statements of Cash Flows Total
Year Ended June 30, 2012:			
Cash and Cash Equivalents, Beginning	\$ 539,136	\$ -	\$ 539,136
Net Increase (Decrease)	53,553	-	53,553
Cash and Cash Equivalents, Ending	<u>\$ 592,689</u>	<u>\$ -</u>	<u>\$ 592,689</u>
Year Ended June 30, 2011:			
Cash and Cash Equivalents, Beginning	\$ 823,151	\$ 104,000	\$ 927,151
Net Increase (Decrease)	(284,015)	(104,000)	(388,015)
Cash and Cash Equivalents, Ending	<u>\$ 539,136</u>	<u>\$ -</u>	<u>\$ 539,136</u>

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

AROMAS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

District Officials - The District is governed by a board of five directors. The following were in office at June 30, 2012:

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

Other officials of the District at June 30, 2012 were:

Vicki Morris, General Manager
Robert Bosso, Legal Counselor

Method of Accounting - An enterprise fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. The operating revenues of the District are charges to customers for water sales. Operating expenses for the District include the cost of sales and services, administrative expenses, and depreciation on capital assets. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Contributed assets are reported as non-operating other income.

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

Accounts Receivable - The District utilizes an allowance for bad debts with respect to its accounts receivable. The allowance at June 30, 2012 and 2011 was \$500. Management's periodic evaluation of the adequacy of the allowance is based on the District's past bad debt experience. Accounts receivable are charged off when they are deemed uncollectible.

AROMAS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

June 30, 2012 and 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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

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

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

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

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

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

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

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

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

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

AROMAS WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

June 30, 2012 and 2011

2. PROPERTY AND EQUIPMENT:

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

	2012	2011
Water Systems	\$ 8,169,583	\$ 7,808,233
Land and Water Rights	324,226	322,075
Vehicles	74,492	74,492
Office Furniture and Fixtures	89,194	89,194
Capital Assets in Use	8,657,495	8,293,994
Less: Accumulated Depreciation	(3,085,999)	(2,792,745)
	5,571,496	5,501,249
Construction in Progress	251,307	15,317
Property and Equipment, Net	\$ 5,822,803	\$ 5,516,566

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

	2012	2011
Land	\$ 1,000	\$ 1,000
Machines and Equipment	22,000	22,000
Improvements	20,400	20,400
	43,400	43,400
Less: Accumulated Depreciation	(42,400)	(42,400)
Idle Property and Equipment, Net	\$ 1,000	\$ 1,000

3. CASH AND INVESTMENTS:

Investments are stated at cost and all investment activities are conducted through San Benito Bank and LAIF. During the fiscal years ended 2012 and 2011 the District did not invest through security brokers or dealers.

	Carrying Amount		Market Value	
	2012	2011	2012	2011
Checking and Savings	\$ 592,665	\$ 493,190	\$ 592,665	\$ 493,190
LAIF	24	45,946	24	45,946
Total Cash and Investments	\$ 592,689	\$ 539,136	\$ 592,689	\$ 539,136

INVESTMENTS AUTHORIZED BY THE DISTRICTS INVESTMENT POLICY:

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

CONCENTRATION OF CREDIT RISK:

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

AROMAS WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS
(Continued)

June 30, 2012 and 2011

3. CASH AND INVESTMENTS (Continued):

INVESTMENT IN STATE INVESTMENT POOL (LAIF):

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The Fund invests in U.S. Treasury securities, federal agency securities, bankers acceptances, certificates of deposits, collateralized time deposits, corporate paper and bonds and repurchase agreements. Under federal regulations the State of California can not declare bankruptcy, so money placed with the State Treasurer for deposit in the funds shall not be subject to impoundment or seizure by any state official or state agency. At June 30, 2012 and 2011, the balances on deposit with LAIF were \$24 and \$45,946, respectively.

DISCLOSURES RELATING TO INTEREST RATE RISK:

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As of the year end, the weighted average maturity of the investments contained in the LAIF investment pool is approximately 185 days.

DISCLOSURES RELATING TO CREDIT RISK:

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

CUSTODIAL CREDIT RISK:

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

At June 30, 2012 and 2011, the District maintained deposit balances at the following institution:

<u>Santa Barbara Bank and Trust:</u>	2012	2011
Checking & Savings	\$ 592,665	\$ 493,090
FDIC Insurance	(250,000)	(250,000)
Collateralized Funds	\$ 342,665	\$ 243,090

At June 30, 2012 and 2011, of the bank balance, \$250,000 and \$250,000, respectively, were covered by federal depository insurance; \$342,665 and \$243,090, respectively, were collateralized by the pledging institutions as required by Section 53652 of the California Government Code.

With respect to investments, custodial risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools such as LAIF.

AROMAS WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

June 30, 2012 and 2011

4. LONG-TERM BONDS PAYABLE:

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

	2012	2011
Aromas County Water District Water Bonds of 1960, Third Division	\$ -	\$ 2,500
Less: Current Portion	-	(2,500)
Long-Term Bonds Payable	\$ -	\$ -

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

5. LONG-TERM DEBT:

The details of long-term debt at June 30, 2012 and 2011 are as follows:

	2012	2011
Note Payable to Santa Barbara Bank and Trust; interest at 4.80% ,with quarterly payments of interest and principal of \$19,905 for initial 10 year loan term until July 2016; right to extend loan term upon approval for 10 year period with loan balance due July 2026.	\$ -	\$ 857,578
Note Payable to Santa Barbara Bank and Trust; dated September 15, 2012 in the amount of \$1,457,578; interest at 4.80% ,with monthly payments of interest and principal of \$9,515 for initial 10 year loan term until September 15, 2021. Balloon payment of \$912,063.	1,424,704	857,578
	1,424,704	857,578
Less: Principal Due in One Year	(45,855)	(39,158)
Long-Term Debt, Net of Current Portion	\$ 1,378,849	\$ 818,420

Future maturities of long-term debt are as follows:

	Principal	Interest	Total
2013	\$ 45,855	\$ 68,324	\$ 114,179
2014	48,137	66,042	114,179
2015	50,533	63,646	114,179
2016	52,879	61,300	114,179
2017	55,679	58,500	114,179
2018-2022	1,171,621	216,231	1,387,852
	\$ 1,424,704	\$ 534,043	\$ 1,958,747

Change in debt was as follows:

	Balance June 30, 2011	New Debt	Principal Paid	Total
Santa Barbara Bank and Trust Due 2016	\$ 857,578		\$ 857,578	\$ -
Santa Barbara Bank and Trust Due 2021	\$ -	\$ 1,457,578	\$ 32,874	\$ 1,424,704

AROMAS WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS
(Continued)

June 30, 2012 and 2011

6. EMPLOYEES' RETIREMENT PLAN:

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

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

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

Funding Policy - Active plan members in the Aromas Water District's defined pension plan are required to contribute 7% of their annual covered salary. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2011/2012 was 17.613% and for 2010/2011 was 15.225% for miscellaneous employees. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

Annual Pension Cost - For fiscal year 2011/2012, the Aromas Water District's defined benefit pension plan's annual pension cost was \$51,399 for PERS and was equal to the District's required and actual contributions. The required contribution for fiscal year 2011/2012 was determined as part of the June 30, 2009 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by duration of service age, and type of employment, and (c) 3.25% overall payroll growth. Both (a) and (b) included an inflation component of 3.0%. The actuarial value of Aromas Water District's defined benefit pension plan's assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a three year period depending on the size of investment gains and/or losses.

AROMAS WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS
(Continued)

June 30, 2012 and 2011

6. EMPLOYEES' RETIREMENT PLAN (Continued):

Three-Year Trend Information:

Fiscal Year <u>Ending</u>	Annual Pension Cost (APC)	Percentage of APC <u>Contributed</u>	Net Pension <u>Obligation</u>
6/30/10	\$40,406	100%	N/A
6/30/11	\$44,351	100%	N/A
6/30/12	\$51,399	100%	N/A

Required Supplementary Information

Funded Status of the Plan:

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

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

Funded Status of the Risk Pool:

Funded Status of the Miscellaneous Plan Risk Pool

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

7. COMPENSATED ABSENCES:

Accumulated unpaid employee compensated absences are recognized as liabilities of the District. The accumulated compensated absences at June 30, 2012 and 2011 were \$20,864 and \$19,075, respectively.

NOTES TO FINANCIAL STATEMENTS
(Continued)June 30, 2012 and 2011

8. CAPITAL CONTRIBUTIONS:

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

9. COMMUNITY FACILITIES DISTRICT:

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

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

10. PROPOSITION 1A BORROWING BY THE STATE OF CALIFORNIA:

Under the provisions of Proposition 1A and as part of the 2009-2010 budget package passed by the California state legislature on July 28, 2009, the State of California borrowed 8% of the amount of property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fee, the triple flip in lieu sales tax, and supplemental property tax, apportioned to the cities, counties and special districts (excluding redevelopment agencies). The State is required to repay this borrowing plus interest by June 30, 2013. After repayment of the initial borrowing, the California Legislature may consider only one additional borrowing within a ten-year period. As of June 30, 2012 and 2011, the receivable balance for this borrowing from Aromas Water District was \$4,835 and \$4,835, respectively.

11. OPERATING LEASE:

The District entered into a lease on January 1, 2004, for the site for its office building. The initial lease term began on January 1, 2004 and ended December 31, 2007. After the end of the initial period ended December 31, 2007, the District continues to lease office space on a month to month basis. As of June 30, 2012, monthly rent is \$2,100 per month. Total rent for the years ended June 30, 2012 and 2011 was \$23,400 and \$22,200, respectively.

AROMAS WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

June 30, 2012 and 2011

12. RISK MANAGEMENT:

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

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

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

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

Property (ACWA/JPIA):

All risks excluding earthquake and flood.

All Real and Personal Property:

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

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

Liability (ACWA/JPIA):

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

Automobile:

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

Workers' Compensation:

State Compensation Insurance Fund	Statutory
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NOTES TO FINANCIAL STATEMENTS

(Continued)

June 30, 2012 and 2011

13. SUBSEQUENT EVENTS:

The District's management has evaluated events and transactions subsequent to June 30, 2012 for potential recognition or disclosure in the financial statements. The District did not have subsequent events that required recognition or disclosure in the financial statements for the year ended June 30, 2012. Subsequent events have been evaluated through December 17, 2012, the date the financial statements became available to be issued. The entity has not evaluated subsequent events after December 17, 2012.

REQUIRED SUPPLEMENTARY INFORMATION

AROMAS WATER DISTRICT
BUDGETARY COMPARISON SCHEDULE

For the Year Ended June 30, 2012

	Original Budget 2012	Final Budget 2012	Actual 2012	Difference
OPERATING REVENUES:				
Water Revenue	\$ 785,000	\$ 785,000	\$ 775,796	\$ (9,204)
Bulk Water	2,000	2,000	9,099	7,099
TOTAL OPERATING REVENUES	787,000	787,000	784,895	(2,105)
OPERATING EXPENSES:				
Salaries	310,000	310,000	313,946	(3,946)
Payroll Taxes	27,700	27,700	27,200	500
Retirement Benefits - PERS	52,530	52,530	51,399	1,131
Power	84,010	84,010	89,115	(5,105)
Repairs & Maintenance	50,000	50,000	28,431	21,569
Outside Services	6,000	6,000	4,602	1,398
Truck Expense (Fuel & Maintenance)	13,000	13,000	14,246	(1,246)
Telemetry	3,800	3,800	4,113	(313)
Depreciation	96,000	96,000	293,254	(197,254)
Amortization	-	-	3,800	(3,800)
Annexation/EIR/Planning	2,400	2,400	100	2,300
Water Analysis and Treatment	11,500	11,500	12,803	(1,303)
Tools	2,000	2,000	1,401	599
Insurance (Liability, Workers Comp and Employee Health)	68,100	68,100	70,141	(2,041)
Office	12,100	12,100	11,163	937
Telephone	5,200	5,200	5,339	(139)
Accounting	5,500	5,500	6,025	(525)
Legal, Legal Contingency	22,000	22,000	12,049	9,951
Uniform Allowance	600	600	539	61
Election Expense	-	-	0	-
Miscellaneous	2,900	2,900	3,698	(798)
Memberships	12,000	12,000	11,798	202
Education	1,500	1,500	1,346	154
Rent	20,400	20,400	24,600	(4,200)
TOTAL OPERATING EXPENSES	809,240	809,240	991,108	(181,868)
OPERATING LOSS	(22,240)	(22,240)	(206,213)	(183,973)
NON-OPERATING REVENUES (EXPENSES):				
Connection and Meter Installations	11,000	11,000	10,843	(157)
Property Tax	52,000	52,000	49,741	(2,259)
Interest Income	1,000	1,000	2,259	1,259
Interest Expense	(42,425)	(42,425)	(63,863)	(21,438)
Miscellaneous Income	6,000	6,000	7,220	1,220
NET NON-OPERATING REVENUES	27,575	27,575	6,200	(21,375)
NET INCOME (LOSS)	\$ 5,335	\$ 5,335	\$ (200,013)	\$ (205,348)