Annual Financial Report
For the Fiscal Year Ended
June 30, 2018

Board of Directors as of June 30, 2018

Name	Title	Elected/ Appointed	Current Term
Richard Smith	President	Elected	12/14 - 12/18
Wayne Holman	Vice-president	Elected	12/16 - 12/20
K. Wayne Norton	Director	Elected	12/16 - 12/20
Marcus Dutra	Director	Elected	12/14 - 12/18
James Leap	Director	Elected	12/14 - 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, 2018

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For the Fiscal Year Ended June 30, 2018

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Financial Section

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Certified Public Accountants

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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, 2018, 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, 2018, 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

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 32 and 33, 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 schedules of operating expenses are presented for purposes of additional analysis and are 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 November 27, 2018, 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 35 and 36.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
November 27, 2018

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, 2018. 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 2018, the District's operating revenues increased 18.44% or $175,920, due primarily to increases in water and new connection revenues.
- In fiscal year 2018, the District's operating expenses increased 13.27% or $101,754 to $868,622, due for the most part to increases of $93,872 in employee benefits and well pumping of $10,733; which were offset by a decrease of $11,935 in administrative and general expenses.
- In fiscal year 2018, the District's net position decreased 2.02% or $137,358 to $6,664,823, from continuing operations, which is an improvement in the change in net position from the previous year.

Required Financial Statements

This annual report consists of a series of financial statements. The Statements of Net Position, Statements of Revenues, Expenses, and Changes in Net Position, and Statements 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 Statements of Net Position include all of the District's investments in resources (assets), deferred outflows of resources, the obligations to creditors (liabilities), and deferred inflows of resources. They also provide 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 Statements of Revenues, Expenses, and Changes in Net Position. These statements measure 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. These statements can also be used to evaluate profitability and credit worthiness. The final required financial statements are the Statements of Cash Flows, which provide information about the District's cash receipts and cash payments during the reporting period. The Statements of Cash Flows report 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 questions such 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 Statements of Net Position and the Statements 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.

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 31.

Statements 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 $6,664,823 as of June 30, 2018.

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, 2018). 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 6 for further discussion)

At the end of fiscal year 2018, the District showed a positive balance in its unrestricted net position of $694,780.

Condensed Statements of Net Position

		2018	2017	Change
Assets:				
Current assets	$	4,271,744	4,330,857	(59,113)
Capital assets, net		7,179,211	7,468,147	(288,936)
Total assets		11,450,955	11,799,004	(348,049)
Deferred outflows of resources		187,200	174,771	12,429
Liabilities:				
Current liabilities		275,576	326,217	(50,641)
Non-current liabilities		4,690,047	4,827,914	(137,867)
Total liabilities		4,965,623	5,154,131	(188,508)
Deferred inflows of resources		7,709	17,463	(9,754)
Net position:				
Net investment in capital assets		2,898,043	2,957,396	(59,353)
Restricted		3,072,000	3,215,519	(143,519)
Unrestricted		694,780	629,266	65,514
Total net position	$	6,664,823	6,802,181	(137,358)

Statements of Revenues, Expenses, and Changes in Net Position

Condensed Statements of Revenues, Expenses, and Changes in Net Position

	2018	2017	Change
Revenue:			
Operating revenues	$ 1,129,944	954,024	175,920
Non-operating revenues	216,103	227,349	(11,246)
Total revenue	1,346,047	1,181,373	164,674
Expense:			
Operating expense	868,622	766,868	101,754
Depreciation expense	444,463	451,158	(6,695)
Non-operating expense	170,320	205,022	(34,702)
Total expense	1,483,405	1,423,048	60,357
Changes in net position	(137,358)	(241,675)	104,317
Net position – beginning of year	6,802,181	7,043,856	(241,675)
Net position – end of year	$ 6,664,823	6,802,181	(137,358)

The statements of revenues, expenses, and changes in net position show how the District's net position changed during the fiscal years.

A closer examination of the sources of changes in net position reveals that:

In fiscal year 2018, the District's operating revenues increased 18.44% or $175,920, due primarily to increases in water and new connection revenues. The District's non-operating revenues decreased 4.95% or $11,246 to $216,103, due in part to a decrease of $31,380 in voter approved assessment; which was offset by an increase of $14,534 in property taxes.

In fiscal year 2018, the District's operating expenses increased 13.27% or $101,754 to $868,622, due for the most part to increases of $93,872 in employee benefits and pumping of $10,733; which were offset by a decrease of $11,935 in administrative and general expenses. The District's non-operating expenses decreased $34,702 to $170,320, due mostly to decreases of $13,375 in bond issuance cost, $13,134 in interest expense, and $8,193 in miscellaneous expense.

In fiscal year 2018, the District's net position decreased 2.02% or $137,358 to $6,664,823, from continuing operations, which is an improvement in the change in net position from the previous year. See note 6 for further discussion.

Capital Asset Administration

At the end of fiscal year 2018, the District's investment in capital assets amounted to $7,179,221 (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.

Capital Asset Administration, continued

Changes in capital assets for 2018, were as follows:

	Balance 2017	Transfers/ Additions	Transfers/ Deletions	Balance 2018
Non-depreciable assets	$ 331,196	-	-	331,196
Depreciable assets	12,165,812	155,527	-	12,321,339
Accumulated depreciation	(5,028,861)	(444,463)	-	(5,473,324)
Total capital assets, net	$ 7,468,147			7,179,211

Debt Administration

Changes in long-term debt in 2018, were as follows:

	Balance 2017	Additions	Principal Payments	Balance 2018
Bonds payable	$ 3,193,000	-	(121,000)	3,072,000
Notes payable	1,317,751	-	(108,583)	1,209,168
Total long-term debt	$ 4,510,751	-	(229,583)	4,281,168

Conditions Affecting Current Financial Position

Management does not foresee 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

Aromas Water District
Statements of Net Position
June 30, 2018
With comparative amounts for June 30, 2017

		2018	2017
Current assets:			
Cash and cash equivalents (note 2)	$	1,010,316	942,686
Cash and cash equivalents – restricted (note 2)		463,763	545,951
Accounts receivable, net		150,780	137,009
Assessment receivable – restricted		2,608,237	2,669,568
Property taxes receivable		2,926	1,262
Interest receivables		3,755	1,801
Prepaid expenses		9,053	8,666
Inventory and supplies		22,914	23,914
Total current assets		4,271,744	4,330,857
Non-current assets:			
Capital assets – not being depreciated (note 3)		331,196	331,196
Capital assets – being depreciated (note 3)		6,848,015	7,136,951
Total non-current assets		7,179,211	7,468,147
Total assets		11,450,955	11,799,004
Deferred outflows of resources			
Deferred outflows – pensions (note 7)		187,200	174,771
Total deferred outflows of resources	$	187,200	174,771

Continued on next page

See accompanying notes to the basic financial statements

Aromas Water District
Statements of Net Position, continued
June 30, 2018
With comparative amounts for June 30, 2017

		2018	2017
Current liabilities:			
Accounts payable	$	40,767	36,329
Accrued interest		49,842	52,481
Accrued payroll and payroll liabilities		271	2,526
Customer deposits and unearned revenue		12,236	28,221
Long-term liabilities – due within one year:			
Compensated absences (note 4)		14,330	17,077
Bonds payable (note 5)		44,000	81,000
Notes payable (note 5)		114,130	108,583
Total current liabilities		275,576	326,217
Non-current liabilities:			
Long-term liabilities – due in more than one year:			
Compensated absences (note 4)		4,777	5,692
Net pension liability (note 7)		562,232	501,054
Bonds payable (note 5)		3,028,000	3,112,000
Notes payable (note 5)		1,095,038	1,209,168
Total non-current liabilities		4,690,047	4,827,914
Total liabilities		4,965,623	5,154,131
Deferred inflows of resources			
Deferred inflows – pensions (note 7)		7,709	17,463
Total deferred inflows of resources		7,709	17,463
Net position (note 6):			
Net investment in capital assets		2,898,043	2,957,396
Restricted		3,072,000	3,215,519
Unrestricted		694,780	629,266
Total net position	$	6,664,823	6,802,181

See accompanying notes to the basic financial statements

Aromas Water District
Statements of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2018
With comparative amounts for June 30, 2017

		2018	2017
Operating revenues:			
Water revenue	$	1,078,784	954,024
Connection fees		51,160	-
Total operating revenues		1,129,944	954,024
Operating expenses:			
Pumping		150,126	139,393
Water treatment		16,029	15,829
Administration and general		71,340	83,275
Salaries and wages		433,763	424,879
Employee benefits		197,364	103,492
Total operating expenses		868,622	766,868
Operating income before depreciation		261,322	187,156
Depreciation expense		(444,463)	(451,158)
Operating loss		(183,141)	(264,002)
Non-operating revenue(expense):			
Property taxes		75,523	60,989
Voter approved assessment		128,761	160,141
Interest income		11,819	6,219
Bond issuance cost		-	(13,375)
Interest expense		(163,469)	(176,603)
Miscellaneous expense		(6,851)	(15,044)
Total non-operating revenues, net		45,783	22,327
Changes in net position		(137,358)	(241,675)
Net position – beginning of year		6,802,181	7,043,856
Net position – end of year	$	6,664,823	6,802,181

See accompanying notes to the basic financial statements

Aromas Water District
Statements of Cash Flows
For the Fiscal Year Ended June 30, 2018
With comparative amounts for June 30, 2017

		2018	2017
Cash flows from operating activities:			
Cash receipts from customers for sales and service	$	1,091,383	824,879
Cash paid to vendors and suppliers		(390,813)	(384,105)
Cash paid to employees		(439,680)	(416,446)
Net cash provided by operating activities		260,890	24,328
Cash flows from non-capital financing activities:			
Proceeds from property taxes and assessments		263,951	404,748
Net cash provided by non-capital financing activities		263,951	404,748
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets		(155,527)	(97,575)
Principal paid on long-term debt		(229,583)	(167,715)
Interest paid on long-term debt		(166,108)	(178,682)
Cost of bond issuance		-	(14,875)
Net cash used in capital and related financing activities		(551,218)	(458,847)
Cash flows from investing activities:			
Interest earnings		11,819	6,219
Net cash provided by investing activities		11,819	6,219
Net decrease in cash and cash equivalents		(14,558)	(23,552)
Cash and cash equivalents, beginning of year		1,488,637	1,512,189
Cash and cash equivalents, end of year	$	1,474,079	1,488,637

Reconciliation of cash and cash equivalents to statements of net position:			
Cash and cash equivalents	$	1,010,316	942,686
Cash and cash equivalents - restricted		463,763	545,951
Total cash and cash equivalents	$	1,474,079	1,488,637

Continued on next page

See accompanying notes to the basic financial statements

Aromas Water District
Statements of Cash Flows, continued
For the Fiscal Year Ended June 30, 2018
With comparative amounts for June 30, 2017

		2018	2017
Reconciliation of operating loss to net cash provided by operating activites:			
Operating loss	$	(183,141)	(264,002)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation		444,463	451,158
Other non-operating		(6,851)	(15,044)
Change in assets, deferred outflows of resources, liabilities, and deferred inflows of resources			
(Increase)decrease in assets and deferred outflows:			
Accounts receivable, net		(13,771)	(137,009)
Other receivables		(1,954)	(1,163)
Prepaid expenses		(387)	7,217
Inventory and supplies		1,000	(2,365)
Deferred outflows – pensions		(12,429)	(86,922)
Increase(decrease) in liabilities and deferred inflows:			
Accounts payable		4,438	5,646
Accrued payroll and payroll liabilities		(2,255)	2,676
Customer deposits and unearned revenue		(15,985)	24,071
Compensated absences		(3,662)	5,757
Net pension liability		61,178	64,871
Deferred inflows – pensions		(9,754)	(30,563)
Total adjustments		444,031	288,330
Net cash provided by operating activities	$	260,890	24,328

See accompanying notes to the basic financial statements

(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 three 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 Standards Board 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. 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.

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

C. Financial Reporting, continued

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.

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.

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]).

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.

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.

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.

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

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

4. 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.

5. 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.

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

6. 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.

7. 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.

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

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

8. 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

9. Deferred Outflows of Resources

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

10. Compensated Absences

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

11. Deferred Inflows of Resources

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

12. 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* – 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* – 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* – 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:

		2018
Cash and cash equivalents	$	1,010,316
Cash and cash equivalents - restricted		463,763
Total cash and investments	$	1,474,079

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

		2018
Cash on hand	$	100
Deposits with financial institutions		682,643
Investments		791,336
Total	$	1,474,079

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

	2018
Deposits in California Local Agency Investment Fund (LAIF)	193 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.

(2) Cash and Cash Equivalents, continued

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

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, 2018, the District's bank balances, up to $250,000, are 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, 2018, the District maintained no investments subject to market interest rate risk fluctuations.

(2) Cash and Cash Equivalents, continued

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, 2018.

(3) Capital Assets

Changes in capital assets for 2018, were as follows:

	Balance 2017	Additions/ Transfers	Deletions/ Transfers	Balance 2018
Non-depreciable assets:				
Land	$ 331,196	-	-	331,196
Total non-depreciable assets	331,196	-	-	331,196
Depreciable assets:				
Water systems	11,609,735	155,527	-	11,765,262
Office building and improvements	387,261	-	-	387,261
Office furniture and fixtures	93,467	-	-	93,467
Vehicles	75,349	-	-	75,349
Total depreciable assets	12,165,812	155,527	-	12,321,339
Accumulated depreciation	(5,028,861)	(444,463)	-	(5,473,324)
Total depreciable assets, net	7,136,951	(288,936)	-	6,848,015
Total capital assets, net	$ 7,468,147			7,179,211

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 2018, were as follows:

Balance 2017	Additions	Deletions	Balance 2018
$ 22,769	16,887	(20,549)	19,107

(5) Long-Term Debt

Changes in long-term debt in 2018, were as follows:

		Balance 2017	Additions	Payments	Balance 2018
Bonds payable:					
Limited Obligation Improvement Bonds					
Orchard Acres Assessment District 2008 Series A	$	420,000	-	(10,000)	410,000
Assessment District No. 2013-1 Series 2014		2,693,000	-	(31,000)	2,662,000
Special Tax Bond					
Community Facilities District No. 98-1		80,000	-	(80,000)	-
Total bonds payable		3,193,000	-	(121,000)	3,072,000
Notes payable:					
City National Note		1,179,465	-	(75,415)	1,104,050
Solar Energy Project - Taxable project loan		138,286	-	(33,168)	105,118
Total notes payable		1,317,751	-	(108,583)	1,209,168
Total long-term debt		4,510,751	-	(229,583)	4,281,168
Current portion		(189,583)			(158,130)
Non-current portion	$	4,321,168			4,123,038

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.

(5) Long-Term Debt, continued

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

Annual maturity and interest on the bond are as follows:

Fiscal Year	Principal	Interest	Total
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	15,000	21,832	36,832
2024-2028	85,000	94,811	179,811
2029-2033	110,000	65,039	175,039
2034-2038	155,000	25,191	180,191
Total	410,000	301,989	711,989
Current	(10,000)		
Non-current	$ 400,000		

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.

(5) Long-Term Debt, continued

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

Annual maturity and interest on the bond are as follows:

Fiscal Year		Principal	Interest	Total
2019	$	33,000	105,820	138,820
2020		34,000	104,480	138,480
2021		35,000	103,100	138,100
2022		37,000	101,660	138,660
2023		38,000	100,160	138,160
2024-2028		215,000	476,140	691,140
2029-2033		260,000	428,800	688,800
2034-2038		318,000	371,200	689,200
2039-2043		385,000	301,100	686,100
2044-2048		471,000	215,820	686,820
2049-2053		573,000	111,700	684,700
2054-2055		263,000	10,620	273,620
Total		2,662,000	2,430,600	5,092,600
Current		(33,000)		
Non-current	$	2,629,000		

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. In 2018, the District paid off the balance of the bond in full.

City National Note Payable

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.

(5) Long-Term Debt, continued

City National Note Payable, continued

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

Annual maturity and interest on the tax-exempt note are as follows:

Fiscal Year		Principal	Interest	Total
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		87,522	22,715	110,237
2024-2028		478,926	72,261	551,187
2029-2030		212,449	8,026	220,475
Total		1,104,050	218,799	1,322,849
Current		(77,694)		
Non-current	$	1,026,356		

Annual maturity and interest on the taxable note are as follows:

Fiscal Year		Principal	Interest	Total
2019	$	34,087	2,658	36,745
2020		35,031	1,714	36,745
2021		36,000	744	36,744
Total		105,118	5,116	110,234
Current		(34,087)		
Non-current	$	71,031		

(6) Net Position

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

		2018
Net investments in capital assets:		
Capital assets, net	$	7,179,211
Notes payable, current		(114,130)
Notes payable, non-current		(1,095,038)
Bonds payable, current		(44,000)
Bonds payable, non-current		(3,028,000)
Total net investments in capital assets		2,898,043
Restricted for debt service:		
Cash and cash equivalents – restricted		463,763
Assessment receivable – restricted		2,608,237
Total restricted for debt service		3,072,000
Unrestricted net position:		
Non-spendable net position:		
Inventory and supplies		22,914
Prepaid expenses		9,053
Total non-spendable net position		31,967
Spendable net position:		
Unrestricted		662,813
Total spendable net position		662,813
Total unrestricted net position		694,780
Total net position	$	6,664,823

(7) 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.

(7) 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, 2018, are summarized as follows:

	New Classic	PEPRA
Hire date	Prior to December 31, 2012	On or after January 1, 2013
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	7.00%	6.25%
Required employer contribution rates	8.92%	6.53%

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, 2018, the District's employer contributions reduced its net pension liability by $61,410.

(7) Defined Benefit Pension Plans, continued

Net Pension Liability

As of the fiscal year ended June 30, 2018, the District reported net pension liabilities for its proportionate share of the net pension liability of the Plan as follows:

	2018
Proportionate share of net pension liability	$ 562,232

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, 2018, the net pension liability of the Plan is measured as of June 30, 2017 (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, 2016 (the valuation date), rolled forward to June 30, 2017, 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, 2017, was as follows:

	Proportionate Share	
Proportion – June 30, 2016	0.00579	%
Proportion – June 30, 2017	0.00567	
Decrease in proportionate share	0.00012	%

(7) Defined Benefit Pension Plans, continued

Deferred Pension Outflows(Inflows) of Resources

For the year ended June 30, 2018, the District recognized pension expense of $104,013. As of the fiscal year ended June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

Description		Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$	65,018	-
Differences between actual and expected experience		-	(7,709)
Changes in assumptions		66,306	-
Net differences between projected and actual earnings on plan investments		16,234	-
Adjustment due to changes in proportions and difference between actual and proportionate share of contributions		39,642	-
Total	$	187,200	(7,709)

For the year ended June 30, 2018, the District's deferred outflows of resources related to contributions subsequent to the measurement date totaled $65,018; 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:

Fiscal Year Ending June 30,		Deferred Net Outflows of Resources
2019	$	38,318
2020		52,779
2021		33,013
2022		(9,637)

(7) Defined Benefit Pension Plans, continued

Actuarial Assumptions

The total pension liability in the June 30, 2016, actuarial valuation report was determined using the following actuarial assumptions:

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Actuarial cost method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial assumption	
Discount rate	7.15%
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 rates used in the actuarial valuations to measure the total pension liability as of June 30, 2017, reflect the long-term expected rates of return. The discount rates used to measure the total pension liability as of June 30, 2017, was 7.15%. These differ from the discount rates used as of June 30, 2016, which was 7.65%, due to a decrease in the long-term expected rate of return. The financial reporting discount rates are not adjusted for administrative expenses and are consistent with the funding discount rates at the end of the three-year funding discount rate phase-in period.

To determine whether the municipal bond rate should be used in the calculation of the discount rate, the amortization and smoothing periods adopted by CalPERS in 2013 were used. 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 PERF C.

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

(7) Defined Benefit Pension Plans, continued

Discount Rate, continued

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+ 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 adjusted to account for assumed administrative expenses.

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, 2018, the target allocation and the long-term expected real rate of return by asset class were as follow:

Asset Class	Target Allocation	Real Return Years 1-10	Real Return Year 11+
Global Equity	47.0%	4.90%	0.54%
Global Fixed Income	19.0	0.80	2.27
Inflation Sensitive	6.0	0.60	1.39
Private Equity	12.0	6.60	6.63
Real Asset	11.0	2.80	5.21
Infrastructure and Forestland	3.0	3.90	5.36
Liquidity	2.0	(0.40)	(0.90)
Total	100.0%		

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, 2018, 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:

	Discount Rate - 1% 6.15%	Current Discount Rate 7.15%	Discount Rate + 1% 8.15%
District's Net Pension Liability	$ 798,837	562,232	366,272

(7) Defined Benefit Pension Plans, continued

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 32 and 33 for the Required Supplementary Schedules.

(8) 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, 2018:

- 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.

(9) 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. 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.

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

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.

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.

Governmental Accounting Standards Board Statement No. 88

In April 2018, the GASB issued Statement No. 88 – *Certain Disclosures Related to Debt Including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

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

Governmental Accounting Standards Board Statement No. 88, continued

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

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. 89

In June 2018, the GASB issued Statement No. 89 – *Accounting for Interest Cost incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

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

(10) Commitments and Contingencies

Grant Awards

Grant funds received by the District are subject to audit by grantor agencies. Such audit could lead to requests for reimbursements to 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.

(11) Subsequent Events

Events occurring after June 30, 2018, have been evaluated for possible adjustment to the financial statements or disclosure as of November 27, 2018, which is the date the financial statements were available to be issued.

Required Supplementary Information

Aromas Water District
Schedules of the District's Proportionate Share of the Net Pension Liability
As of June 30, 2018
Last Ten Years*

Defined Benefit Plan

Description		Fiscal Years 6/30/2018	6/30/2017	6/30/2016	6/30/2015
District's proportion of the net pension liability		0.00567%	0.00579%	0.00635%	0.00701%
District's proportionate share of the net pension liability	$	562,232	501,054	436,183	436,144
District's covered-employee payroll	$	284,641	260,629	249,960	328,069
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll		197.52%	192.25%	174.50%	132.94%
Plan's fiduciary net position as a percentage of the plan's total pension liability		73.31%	74.06%	78.40%	79.82%

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

***Changes in Benefit Terms* –** The District can make changes to their plan provisions, and such changes occur on an ongoing basis. A summary of the plan provisions that were used for the District's plan can be found in the plan's annual valuation report.

***Changes of Assumptions* –** In fiscal year 2018, the financial reporting discount rate was lowered from 7.65% to 7.15%. In December 2016, the CalPERS Board approved lowering the funding discount rate used from 7.50% to 7.00%, which is to be phased-in over a three-year period (7.50% to 7.375%, 7.375% to 7.25%, and 7.25% to 7.00%) beginning with the June 30, 2016, valuation reports. The funding discount rate includes a 15 basis-point reduction for administrative expenses, and the remaining decrease is consistent with the change in the financial reporting discount rate.

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

Aromas Water District
Schedules of the Pension Plan Contributions
As of June 30, 2018
Last Ten Years*

Description		Fiscal Years		
	6/30/2018	6/30/2017	6/30/2016	6/30/2015
Actuarially determined contribution	$ 65,018	61,410	51,643	43,204
Contributions in relation to the actuarially determined contribution	(65,018)	(61,410)	(51,643)	(43,204)
Contribution deficiency(excess)	$ -	-	-	-
District's covered payroll	$ 284,641	260,629	249,960	328,069
Contribution's as a percentage of covered-employee payroll	22.84%	23.56%	20.66%	13.17%

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.

Supplementary Information

Aromas Water District
Schedules of Operating Expenses
For the Fiscal Year Ended June 30, 2018
With comparative amounts for June 30, 2017

		2018	2017
Operating expenses:			
Salaries	$	400,774	392,695
Payroll taxes		32,989	32,185
Retirement benefits - CalPERS		104,042	10,548
Uniform allowance		1,166	1,121
Education		4,385	5,256
Workers compensation and health insurance		82,063	80,755
Outside services		5,708	5,811
Power		74,324	54,034
Truck expense		12,736	11,302
System repair and maintenance		52,189	61,323
Water analysis and treatment		16,029	15,829
Small tools and equipment		6,136	7,295
Annexation/EIR/Planning		1,154	1,845
Office (postage/supplies/maintenance)		16,964	14,001
Telemetry		3,587	3,594
Telephone		6,725	7,167
Election expense		-	400
General and property insurance		2,375	16,355
Legal		15,600	15,000
Bank charges		1,053	1,774
Audit		12,200	12,350
Bad debts		70	1,151
Membership		16,353	15,077
Total operating expenses	$	868,622	766,868

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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, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 27, 2018.

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

Fedak & Brown LLP
Cypress, California
November 27, 2018