SWEETWATER SPRINGS WATER DISTRICT

TO: Board of Directors **AGENDA NO. V-A**

FROM: Steve Mack, General Manager

Meeting Date: January 6, 2011

Subject: Resolution 11-01, Accepting the Final Audit for the Fiscal Year Ending June 30, 2010

RECOMMENDED ACTION: Approve Resolution 11-01, Accepting the Final Audit for the Fiscal Year Ending June 30, 2010.

FISCAL IMPACT: none

DISCUSSION:

Our FY 2009-10 Audit was directed by Derek Rampone of Moss, Levy & Hartzheim, the audit firm newly hired this year, assisted by other members of the firm. Mr. Rampone will be available by telephone to answer any questions you have about the Audit.

Moss, Levy & Hartzheim brought some new approaches to this past year's audit (one of the reasons for periodically switching audit firms). One of the differences is the Management Report and Auditor's Communication Letter. In this letter, the auditors list items called "significant deficiencies" under Current Year Recommendations. Included in the letter are staff responses to the recommendations contained which staff believe address the auditors' recommendations.

Staff recommends the Board approve Resolution 11-01, Accepting the Final Audit for the Fiscal Year Ending June 30, 2010.

Resolution No. 11-01

A Resolution of the Board of Directors of the Sweetwater Springs Water District Accepting the Final Audit for the Fiscal Year Ending June 30, 2010

WHEREAS, the Sweetwater Springs Water District is required to have annual audits performed relative to the spending of public funds; and

WHEREAS, Moss, Levy & Hartzheim LLP provides said auditing service and is under contract with the District to perform such audits.

NOW, THEREFORE BE IT RESOLVED, that the Board of Directors of the Sweetwater Springs Water District has reviewed the audit as prepared by Moss, Levy & Hartzheim for the year ending June 30, 2010, and accepts the information contained therein.

I hereby certify that the foregoing is a full, true, and correct copy of a Resolution duly and regularly adopted and passed by the Board of Directors of the SWEETWATER SPRINGS WATER DISTRICT, Sonoma County, California, at a meeting held on January 6, 2011, by the following vote.

Director	Aye	No
Sukey Robb-Wilder	_____	_____
Jim Quigley	_____	_____
Wanda Smith	_____	_____
Gaylord Schaap	_____	_____
Victoria Wikle	_____	_____

_____
Jim Quigley
President of the Board of Directors

_____
Attest: Julie A. Kenny
Clerk of the Board of Directors

Sweetwater Springs Water District

MANAGEMENT REPORT
AND
AUDITOR'S COMMUNICATION LETTER

June 30, 2010

SWEETWATER SPRINGS WATER DISTRICT
June 30, 2010

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November 24, 2010

Sweetwater Springs Water District
P.O. Box 48, 17081 Hwy. 116, Suite B
Guerneville, CA 95446

Honorable Board of Directors:

In planning and performing our audit of the financial statements of Sweetwater Springs Water District (District), as of and for the fiscal year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weakness and therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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 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. We do not consider any of the deficiencies presented in the current year recommendations section to be material weaknesses.

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. We consider the deficiencies presented in the current year recommendations section as Findings 2010-1 through 2010-10 to be significant deficiencies in internal control.

During our audit we noted certain other matters involving internal controls and their operations, and are submitting, for your consideration, related recommendations designed to help the District make improvements and achieve operational efficiencies. These recommendations are described in the current year recommendations section as Findings 2010-11 through 2010-12. Our comments reflect our desire to be of continuing assistance to the District.

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The District's written responses to the findings identified in our audit are described in the current year recommendations section. We did not audit the District's responses and, accordingly, we express no opinion on them. In addition, we would be pleased to discuss the recommendations in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing these recommendations.

We have included in this letter a summary of communication with the members of the Board of Directors as required by professional auditing standards. We would like to thank the District's management and staff for the courtesy and cooperation extended to us during the course of our engagement. The accompanying communications and recommendations are intended solely for the information and use of management, the members of the Board of Directors, and others within the District, and are not intended to be and should not be used by anyone other these specified parties.

MOSS, LEVY & HARTZHEIM, LLP
Beverly Hills, CA

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November 24, 2010

Members of the Board of Directors
Sweetwater Springs Water District
P.O. Box 48, 17081 Hwy. 116, Suite B
Guerneville, CA 95446

We have audited the financial statements of the Sweetwater Springs Water District for the fiscal year ended June 30, 2010, and have issued our report thereon dated November 24, 2010. Professional standards require that we provide you with the information about our responsibilities under auditing standards generally accepted in the United States of America, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated June 15, 2010. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Sweetwater Springs Water District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. We noted no transactions entered into by the Sweetwater Springs Water District during the fiscal year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the District's financial statements was:

> Management's estimate of the other postemployment benefits payable is based on industry guidelines and actuarial tables. We evaluated the key factors and assumptions used to develop the other postemployment benefits payable in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 24, 2010.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Sweetwater Springs Water District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Sweetwater Springs Water District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Information in Documents Containing Audited Financial Statements

This information is intended solely for the use of the Board of Directors of the Sweetwater Springs Water District and management of the Sweetwater Springs Water District and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

MOSS, LEVY & HARTZHEIM, LLP
Beverly Hills, CA

CURRENT YEAR RECOMMENDATIONS

Significant Deficiencies

2010-01 Finding – Lack of defacement on petty cash reimbursements:

During our review of petty cash reimbursements, we noted that invoices/receipts were not defaced as "paid," after they had been reimbursed.

Effect:

If the District does not deface the paid invoices/receipts properly, invoices/receipts that have already been reimbursed could be resubmitted for reimbursement.

Recommendation:

We recommend that all reimbursed invoices/receipts be properly defaced with a "Paid" stamp, date of payment, the dollar amount, and approval signature written in ink on each reimbursed invoice/receipt at the time of reimbursement.

Management's Response:

We will begin marking all these as "Paid."

2010-02 Finding – Incorrect wage rates:

During our test of payroll, we noted that the 11/13/09 payroll wage rates for field workers were input incorrectly.

Effect:

Incorrect wage rates in the system will result in incorrect payments to employees.

Recommendation:

We recommend that the District have another employee review payroll data on a regular basis to ensure that all personnel information is current and that all wage rates are correct.

Management's Response:

The District will have a second person review the payroll prior to submission for payment. (Note: The 11/13/09 error noted above was caught and corrected right after payroll checks were received.)

2010-03 Finding – Incomplete I-9 forms:

During our test of payroll, we noted that two I-9 forms were not signed by the employee, six I-9 forms did not have the documentation sections filled out completely, one I-9 form was not signed by the employer, and one I-9 form was not on file.

Effect:

Missing or incomplete I-9 forms could result in fines if the District is to be audited by the Department of Justice. Also, by not retaining a completed I-9 form, it is impossible to verify if the employee is eligible to work in the United States of America.

Recommendation:

We recommend that the District ensure that all personnel forms are obtained and retained in each employee's personnel file or other secure location, for future verification.

Management's Response:

The District will correct the deficient and/or missing I-9 forms

CURRENT YEAR RECOMMENDATIONS (CONTINUED)

Significant Deficiencies (Continued)

2010-04 Finding – Lack of payroll review:

During our test of payroll, we noted that there was no review of payroll (by someone other than the preparer) prior to submission for payment.

Effect:

When a review of payroll by a Supervisor or other responsible employee is not performed regularly, a misappropriation or error in the payroll computations may occur and go undetected.

Recommendation:

Payroll is a likely area for numerous errors and possible irregularities to occur due to the number of calculations involved. Better segregation of duties will enhance controls to detect any such errors and irregularities and provide for much greater safeguarding of assets. We recommend that the District complete payroll reviews prior to processing/submission of payroll data, by someone other than the preparer.

Management's Response:

The District will have a second person review the payroll prior to submission for payment. (See 2010-02 above, finding of incorrect wage rate submitted.)

2010-05 Finding – Lack of inventory monitoring/accounting:

During our audit of the District's inventory, we noted that the District did not maintain a list of items stored as inventory, and the District did not perform an annual physical count at fiscal year-end.

Effect:

Lack of monitoring over inventory may lead to misstatement of inventory amounts and a misappropriation of assets.

Recommendation:

We recommend that the District maintain records of inventory and implement a control policy over inventory count for each fiscal year to ensure that all inventory is accounted for.

Management's Response:

We will do a thorough evaluation of items on hand for the FY 2010-11 audit. This is time-consuming. Because staff does not believe inventory levels vary greatly from year to year, and because inventory counts are time consuming, and because the District's inventory is not particularly attractive to thieves, staff would like to suggest inventory only be counted and valued once every five years.

CURRENT YEAR RECOMMENDATIONS (CONTINUED)

Significant Deficiencies (Continued)

2010-06 Finding – Discrepancies in cash drawer balances:

During our audit of the District's petty cash, we noted that there was an overage of $26.92 in one of the cash drawers, and an underage of $19.17 in the other cash drawer.

Effect:

Lack of accuracy in cash drawers could indicate a misappropriation of assets.

Recommendation:

We recommend that the District review drawer cash counts on a daily basis to monitor for overages/underages and to track any trends in balances.

Management's Response:

The mistake noted above would have been caught and corrected within a day per our own reconciliation procedures. The District's concern and focus is on not having to replenish the cash boxes due to uncorrectable errors. The District has not had to replenish the cash boxes for an uncorrectable error in years.

2010-07 Finding – Lack of timely rent collection:

During our test of rent collections, we noted that the District does not have a procedure in place to ensure timely collection of rent from one lessee.

Effect:

When rent receipts are not collected in a timely manner, a misstatement of the District's financial position may occur. Also, outstanding lease receivable accounts could be an indication of a misappropriation of funds.

Recommendation:

We recommend that the District periodically review the aging of the lease receivable and implement a policy of collecting on the lease receivable.

Management's Response:

The District could pursue formal action against the lessee, but our relationship with them is unique: this lessee provides our radio communication. To shut them down would shut our own radios down. The lessee provides an almost irreplaceable service to the District. Recognizing this, the District is trying to work with the lessee to catch up on their payments rather than going after them for money they probably don't have anyway.

CURRENT YEAR RECOMMENDATIONS (CONTINUED)

Significant Deficiencies (Continued)

2010-08 Finding – Lack of purchase order policy enforcement:

During our test of cash disbursements, we noted that purchase orders were not being issued for purchases over $300, or for tools, equipment, and capital assets, which is not in accordance with the District's purchasing policy.

Effect:

Without adhering to an established purchase order policy, it is difficult for the District's management to uniformly apply responsible purchasing standards in regards to the use of public funds.

Recommendation:

We recommend that the District require all employees to follow the current purchasing policy.

Management's Response:

Because the GM approves every payment – many for amounts greater than $300 that aren't required to have a purchase order per District policy – the use of purchase orders is not particularly useful to the District and is easily overlooked. Staff will broach the idea of eliminating the need for purchase orders with the Board.

2010-09 Finding – Approved invoices not reconciled to receiving reports:

During our test of cash disbursements, we noted that shipping/packing slips were not being compared/reconciled to the actual invoices, prior to payment.

Effect:

Without verifying that approved invoices reconcile to purchase orders and receiving reports (and attaching such reports), it is difficult to determine if this step has been completed or if payments are for goods received.

Recommendation:

We recommend that the District ensure that all approved invoices are signed off by the employee who received the goods and that all shipping/packing slips be attached as supporting documentation.

Management's Response:

Reconciling packing slips with invoices prior to payment can unearth errors but the time required to do it may not be worth it for the few errors to be found. Having said that, staff will try to reconcile at least the larger packing slips, both when the items are received and when the invoice is received.

2010-10 Finding – Lack of segregation of duties:

During our review of internal control, we noted:

a. Journal entries were not reviewed and approved by anyone other than the preparer.
b. Bank reconciliations were not reviewed and approved by anyone other than the preparer.
c. Online vendor payments through QuickBooks were all done by a single employee.
d. Only one employee had access to and operates QuickBooks.

CURRENT YEAR RECOMMENDATIONS (CONTINUED)

Significant Deficiencies (Continued)

2010-10 Finding – Lack of segregation of duties: (Continued)

Effect:
When there is a lack of segregation of duties, there is a greater chance for a misappropriation of funds to occur and to go undetected.

Recommendation:
We recommend that the District implement procedures that will allow for the proper segregation of duties.

Management's Response:
The District's small staff does not provide for multiple levels of accounting review for all transactions. It is not anticipated that more staff will be added for this purpose.

Other Matters

2010-11 Finding – Lack of petty cash recording on balance sheet:
During our audit of the District's petty cash, we noted that there were two cash boxes in the front desk with balances of $100 each (total $200), but were not recorded in the general ledger.

Effect:
Lack of recording of petty cash may lead to a misstatement on the balance sheet and a misappropriation of assets could occur and go undetected.

Recommendation:
We recommend that the District record the petty cash dollar amounts in the general ledger.

Management's Response:
The District will adjust the FY 2009-10 balance sheet to include the two cash boxes.

2010-12 Finding – Payment not approved:
During our review of credit card statements/payments, we noted that one payment was not approved.

Effect:
If the District does not approve its outgoing payments, unauthorized payment and misappropriation of assets could occur.

Recommendation:
We recommend that the District ensure that all invoices be reviewed, approved, and signed by a responsible official before being submitted for payment.

Management's Response:
The District makes a genuine effort to have every single payment approved by the General Manager. Occasionally, one slips through the cracks, usually due to timing (we get the payment after earlier payments were already approved and we are hustling to finalize the paperwork for approval by the Board).

STATUS OF PRIOR YEAR RECOMMENDATIONS

No prior year deficiencies were noted.

SWEETWATER SPRINGS WATER DISTRICT

BASIC FINANCIAL STATEMENTS

JUNE 30, 2010

SWEETWATER SPRINGS WATER DISTRICT
FINANCIAL STATEMENTS

JUNE 30, 2010

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Sweetwater Springs Water District
Guerneville, California

We have audited the accompanying basic financial statements of the Sweetwater Springs Water District (District) as of and for the fiscal year ended June 30, 2010, as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic 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. Those standards require that we plan and perform the audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Sweetwater Springs Water District as of June 30, 2010, and the changes in financial position and cash flows, for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

The District adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective July 1, 2009; GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*; GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*; GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*; and GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 24, 2010, on our consideration of the Sweetwater Springs Water District's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 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.

Moss, Levy & Hartzheim, LLP
Beverly Hills, California
November 24, 2010

Management Discussion & Analysis (Unaudited)

Management has prepared this overview of the financial impact of the activities of the Sweetwater Springs Water District for the fiscal year ended June 30, 2010. It serves as an introduction to the financial statements contained in the Audit Report and a summary of major activities of the District for the year.

The Discussion begins with a selection of financial activities that management considers worthy of special note for FY 2009-10. It is not intended to be an exhaustive list. The condensed financial statements that follow provide a complete financial summary of the Audit Report. Finally, additional detail on capital spending, District debt and future plans of the District are provided later in the Discussion.

I. SELECTED FINANCIAL ACTIVITIES IN 2009-10

Net income for the year before depreciation expense and Other Income (grant funding) was $682,315, compared to $827,437 in FY 2008-09. The decrease -- $145,122 – is largely due to increases in the District's interest expense on long-term debt.

Net assets at fiscal year end were $8,214,171, an increase of $723,394 from FY 2008-09.

SELECTED EXPENDITURES

- The District spent $1,086,870 on **capital improvement projects**, and $10,507 on equipment. The financial impact of this capital spending was a $563,152 increase in capital assets because capital spending outpaced depreciation[1] of existing capital assets. Conversely, cash assets decreased by $251,434 because more cash was spent than received via operations, grants, or loan proceeds.

- The District spent $20,311 on **In-House Construction projects**, a decrease of $37,160 from FY 2008-09. These projects are too small to be capitalized, but are major repairs to District infrastructure. As such, these expenditures impact Operating Expenses.

- The District began making full payments on the $3,000,000 Private Placement Loan secured at the end of FY 2008-09. This addition to the District's annual debt payments increased Interest Expense by $124,224 compared to FY 2008-09 and brings the District's total **annual debt payments** to approximately $1,091,181.

- **Operating Expenses** were about the same as the prior year. The District had some earlier-than-expected maintenance to the District's wells and treatment systems totaling $70,703. These costs were largely offset by lower insurance and less spending on In-House Construction projects.

- The District set aside $10,000 to fund a **Toilet Rebate Program for District customers** who were not eligible for a similar program offered by Sonoma County Sanitation. The $4,622 in rebates issued in FY 2009-10 were applied to customer water bills, reducing Water Sales.

- The District began accounting for **post-employment retirement health benefits (PERB)** as required by the Government Accounting Standards Board Ruling 45 (GASB 45). District retiree health benefit expenses are low compared to other government entities, such as the County or the State. Cash spent on retiree health expenditures in FY 2009-10 was $2,270, and unfunded PERB liability totaled $3,815. Like depreciation, this is an accounting (i.e., non-cash) expense that reduces Net Assets.

[1] Depreciation expense (a non-cash, accounting expense) totaled $534,225 in FY 2009-10.

SELECTED REVENUES

- The District received $575,304 in **grant proceeds** from the Community Development Commission (CDC) to help fund designated capital improvement projects. This is recorded as "Other Income" on the Statement of Activities and Changes to Net Assets.

- The District restructured water rates effective at the beginning of the fiscal year. The changes were intended to be revenue neutral, except for the increase to the Capital Debt Reduction Charge component. **Water Sales**, the District's main source of Operating Revenues, were $2,005,265, up $47,528 from the prior year despite lower amounts of water sold.

OTHER ACTIVITIES of NOTE

- The District adopted a **Reserve Policy**. While this policy has no impact on the District financial statements – it is not the same as the "Restricted Cash" line item -- it demonstrates a financially responsible District by setting forth a consistent method for identifying how much cash the District can comfortably spend on capital projects, holding the rest as "rainy day" Policy Reserve. For FY 2009-10, Cash Assets were $6,120,531. Of this amount, $2,567,193 was identified as not already spoken for, not earmarked as Policy Reserve, and therefore available for new capital spending.

- The District transferred $280,000 of **surplus operating revenues** to the Capital Improvement Revenue Fund (CIRF) for future capital spending.

II. BASIC FINANCIAL STATEMENTS

The Financial Statements of the District report information about the District using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The two statements contained in this Management Discussion are condensed versions of the statements in the Audit Report:

The Statement of Net Assets includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations of the District's creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the District, and assessing the liquidity and financial flexibility of the District.

All of the current year's revenues and expenses are accounted for in the Statement of Activities and Changes in Net Assets. This statement measures the success of the District's operations over the past year and can be used to determine the District's creditworthiness and whether the District has successfully recovered all its costs through its user fees and other charges.

Not included in this Management Discussion but required in the Audit report is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the reporting period. It provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

STATEMENT OF NET ASSETS

A summary of the District's Statement of Net Assets in FY 2009-10 compared to FY 2008-09 is presented in Table 1 below. Generally, an increase in the District's net assets – the difference between assets and liabilities – is a good indicator of whether its financial health is improving or deteriorating. The District's net assets increased by $723,394 to $8,214,171 at FYE 2010, up from $7,490,777 at FYE 2009.

Table 1
Condensed Statement of Net Assets

	FYE 2010	FYE 2009	$ Change	% Change
Cash	6,120,531	6,371,965	(251,434)	-3.9%
Capital Assets	16,502,815	15,939,663	563,152	3.5%
Other Assets	599,674	766,909	(167,235)	-21.8%
Total Assets	**23,223,020**	**23,078,537**	**144,483**	**0.6%**
Bond & Loan principal debt outstanding	14,560,781	14,893,138	(332,356)	-2.2%
Other long-term liabilities	52,562	101,775	(49,213)	-48.4%
Other short-term liabilities	395,506	592,847	(197,341)	-33.3%
Total Liabilities	**15,008,849**	**15,587,760**	**(578,910)**	**-3.7%**
Capital assets net of related debt	1,942,034	679,050	1,262,984	-186.0%
Restricted cash	1,734,453	2,914,132	(1,179,679)	-40.5%
Unrestricted cash	4,386,078	3,457,833	928,245	26.8%
Net other assets	151,606	439,762	(288,156)	-65.5%
Total Net Assets	**8,214,171**	**7,490,777**	**723,394**	**9.7%**

The District spent $1,086,870 on capital improvement projects this year, financed in part by proceeds remaining from a $3,000,000 loan taken out the prior year, and by $575,304 in CDC grant proceeds.

On the asset side, this activity increased capital assets by $563,153 but decreased cash by $251,434 as loan proceeds on hand were depleted to pay for the District's share of capital projects. On the liabilities side, debt outstanding decreased as the District continues to make payments on existing debt and did not take on new debt this year.

STATEMENT OF ACTIVITIES AND CHANGES TO NET ASSETS

The Statement of Activities and Changes in Net Assets (Income Statement) provides additional information concerning revenues and expenses that impacted net assets. Table 2 below compares the District's Statement of Activities and Changes in Net Assets in FY 2009-10 versus FY 2008-09.

Table 2
Condensed Statement of Activities and Changes to Net Assets

	FYE 2010	FYE 2009	$ Change	% Change
Water Sales	2,005,265	1,957,737	47,528	2.4%
Property Tax Assessment (flat charge)	762,521	751,758	10,763	1.4%
Non-Operating Revenues	183,384	237,111	(53,727)	-22.7%
Total Revenues	**2,951,170**	**2,946,606**	**4,564**	**0.2%**
Operating Expenses:				
Salaries & Benefits	1,069,029	997,640	71,389	7.2%
Services & Supplies	531,647	577,573	(45,926)	-8.0%
Total Operating Expenses	**1,600,676**	**1,575,213**	**25,463**	**1.6%**
Non-Operating Expenses:				
Interest	668,179	543,955	124,224	22.8%
Other				0.0%
Total Non-Operating Expenses	**668,179**	**543,955**	**124,224**	**22.8%**
Total Expenses	**2,268,855**	**2,119,168**	**149,687**	**7.1%**
Income before Other Items and Depreciation Expense	**682,315**	**827,438**	**(145,123)**	**-17.5%**
Other income	575,304	646,912	(71,608)	-11.1%
Other expense				0.0%
Depreciation Expense	(534,225)	(524,458)	(9,767)	1.9%
Change in Net Assets (Net Income)	**723,394**	**949,892**	**(226,498)**	**-23.8%**

As the table shows, Income before Other Items and Depreciation Expense was $682,315 or $145,122 (17.5%) less than FY 2009-10, mostly due to increases in Salaries and Benefits, and interest expenses.

Total revenues were $2,951,170, about the same as the prior year. As noted earlier water sales were up slightly from the prior year even as District customers used less water. Non-operating revenues were down $53,727, from the prior year. The main components of non-operating revenue on a year to year basis are interest income, rent received from cell tower tenants on the District's Mt. Jackson property, and construction of new services during the year. Interest rates on District cash remain sluggish, down again from the prior year's rates. Rents are up, but for the first time rent revenue includes a receivable for Mt. Jackson tenant Crystal Communications, who had unpaid rents totaling $9,424 at fiscal year end and no clear timeline for paying past due amounts. New construction is about the same as the prior year, low compared to previous years as a result of economic factors.

On the expense side, total expenses increased $149,686 (7.1%). Salaries and Benefits increased 7.2% ($71,389) as staff received an annual COLA and various merit increases accrued with experience. Services & Supplies expenditures decreased, wit Distribution Repairs down $49,672 from the prior year, and Consultant fees also down $10,602. The District also saved over 25% on insurance costs as the effect of a large claims made in past years phased out of the District's loss experience.

After accounting for Other Items and Depreciation Expense, the District's Change in Net Assets, or Net Income, was $723,394 compared to $949,892 in FY 2008-09 – a decrease of $226,498.

III. CAPITAL SPENDING

In FY 2009-10, the District continued to make progress on the projects identified in the current Capital Improvement Program. The District spent $1,086,870 on major construction projects, broken down as follows:

Project	Project Description	Amount spent FY 2009-10	% complete at FYE 2010
CIP IV-A, Project 2 KAT Construction	*(This project was completed. A more detailed project description is provided below.)*	$659,239	100% (Project total: App. $1,050,000)
CIP IV-B, Project 1 W.R. Forde	65,000 gallon tank and booster station; 3100 lf of main on Bonita Terrace and Riverlands Road; replacement of the Handy Andy booster feed line (300 lf); and fire protection	$405,422	34% (Project total: $1,203,250)
CIP IV-B, Project 2 KAT Construction	600 lf of 6" main replacement in Monte Rio (River Blvd., Alder, Willow, Railroad, Pebble Way, and Heller); and fire protection	$22,209	1.6% (Project total: App. $1,411,000)

CIP IV-A, Project 2 / KAT Construction **(Completed November, 2009 – app. $1,050,000)**
Replacement of 3,850 lf of 6" main and 650 lf of 2" main and service connections on Monte Vista and Mesa Grande Terraces Replacement of 2,000 lf of 6" main and service connections on Starrett Hill Road Replacement of 910 lf of 6" main and service connections on Alpine Terrace Replacement of 370 lf of 2" main and service connections on Delta Way Replacement of 120 lf of 2" main and service connections on Laurel Way 9 fire hydrants 2" asphalt overlay on affected roads

All of these projects were recipients of Community Development Commission (CDC) funding via application made to the Russian River Redevelopment Oversight Commission. CIP IV-A above was awarded funding at a 50 percent level (approved in FY 2008-09), and CIP IV-B projects at a 75 percent level (in FY 2009-10). Grant proceeds from the Community Development Commission (CDC) totaled $575,304 in FY 2009-10.

In addition to these capital projects, the District spent $20,311 on various in-house maintenance projects.

The District also purchased $10,507 on equipment as follows:

Phone server ($3240)
Computer server ($2,390)
Compressor/hydropneumatic tank ($1,464)
Generator for the Schoeneman tank ($3,413)

IV. DISTRICT DEBT

At the end of FY 2009-10, the District owed a total of $9,924,307 in bond debt, $1,692,030 in State loans, and $2,859,444 on a private placement loan for a total of $14,115,781. The table below summarizes activity on the loans in FY 2009-10:

DEBT TYPE	ORIGINAL PRINCIPAL	PRINCIPAL OWED JULY 1, 2009	PRINCIPAL PAID FY 2009-10	PRINCIPAL OWED FYE 2010
Bonds	$8,000,000 (1992-96) $4,000,000 (2003)	$10,129,307	$205,000	$9,924,307
State Loans	$3,013,500 (1996)	$1,809,587	$117,557	$1,692,030
Private Placement Loan	$3,000,000 (2008)	$2,954,243	$94,799	$2,859,444
		$14,893,137	$417,356	$14,475,781

With interest, yearly payments on District bond and loan debt are approximately $1,091,181.

In addition to bond debt and loans, the District owed approximately $85,000 on a Construction Claim related to CIP Phase III-at the end of FY 2009-10. The District will complete payments on this Claim in FY 2010-11.

V. ECONOMIC FACTORS AND FY 2010-11 PROJECTED EXPENDITURES

District operations were only mildly affected by the recovering economy in FY 2009-10. The bulk of the District's income is tied to water sales and flat charge revenue, both unaffected by economic events. District reserves are conservatively managed via the County of Sonoma's investment pool and a CD at the Redwood Credit Union. Interest rates remain low, but the loss in interest revenue is manageable.

Of more interest to the District is the ongoing effect of reduced water use on District Water Sales revenue. Most of the news on water calls for increased water conservation: appliance and fixture rebate programs, the Sonoma County Water Agency's Fish Flow Project, statewide news, etc. The District joined the California Urban Water Conservation Counsel (CUWCC) in October, 2010 to assist the Russian River County Sanitation District obtain a low cost State loan. District water sales continue to decrease and that decrease should continue, however at a mild rate.

The effect of decreased water sales is smoothed by the District's rate structure which is weighted towards fixed charges – base rate and capital debt reduction charge rather than unit sales – water use charges which comprise approximately 35% of Water Sales revenue. Future rate changes will need to account for the decreasing sales trend.

Future capital project financing will be as follows: Projected grant proceeds consist of the75% grant funding from the CDC for the remainder of the CIP IV-B projects. At FYE, $678,346 remained of the $3,000,000 Private Placement Loan proceeds. Once exhausted, the District will begin to spend accumulated operating surpluses to pay for capital projects.

The District will not be pursuing additional funding from the CDC to finance 2011-12 capital spending, nor are additional loans anticipated. Therefore, CIP 2012 projects totaling $1.3 million will be financed 100% from accumulated operating surpluses.

In FY 2010-11, the District budgeted $280,000 for in-house transfer from operating surpluses to the designated capital improvement account. This is the same as FY 2009-10. As noted earlier, accumulated operating surpluses available for capital spending at FYE 2010 were $2,567,193. (See, discussion on Reserve Policy at p. 2.)

Rates were not increased in FY 2010-11 because of local economic conditions and as part of the agreement for grant funding from the CDC. However, management has generally identified the need for additional revenue to bring funding for needed capital projects up to a sustainable level.

Finally, Salary and Benefits, one of the largest expenses of the District, was not significantly impacted in FY 2010-11 by the expiration and subsequent renegotiation and approval of the union contract covering six District employees. Additionally, historically the salary and benefits negotiated for union represented employees were also extended to the four non-represented employees. The resulting contract covers five years and has manageable salary and benefit provisions for future budgets.

VI. REQUEST FOR INFORMATION

This financial report is designed to provide our customers and creditors with a general overview of the district's finances and to demonstrate the district's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Sweetwater Springs Water District at P.O. Box 48, Guerneville, California, 95446.

SWEETWATER SPRINGS WATER DISTRICT
COMPARATIVE STATEMENT OF NET ASSETS
June 30, 2010
With Comparative Totals at June 30, 2009

	Totals June 30, 2010	Totals June 30, 2009
ASSETS		
CURRENT ASSETS		
Cash and investments - note 2	$ 4,386,078	$ 3,456,268
Accounts receivable	237,159	401,013
Rent receivable	9,424	
Flat charges receivables	66,360	50,639
Inventory	30,000	30,000
Prepaid expenses - note 3	28,525	28,525
TOTAL CURRENT ASSETS	4,757,546	3,966,445
NONCURRENT ASSETS		
Land	143,053	143,053
Construction in progress	497,232	1,529,241
Buildings and improvements	20,833,945	18,715,066
Machinery and equipment	544,448	533,941
Less-accumulated depreciation	(5,515,863)	(4,981,638)
TOTAL CAPITAL ASSETS, NET	16,502,815	15,939,663
OTHER NONCURRENT ASSETS		
Prepaid expenses - note 3	228,206	256,731
Restricted cash and investments - note 2	1,734,453	2,915,697
TOTAL OTHER NONCURRENT ASSETS	1,962,659	3,172,428
TOTAL ASSETS	23,223,020	23,078,536
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	132,850	260,358
Accrued wages	13,155	9,647
Accrued interest	226,450	232,475
Customer deposits	15,275	14,007
Road maintenance obligations	7,776	2,768
Current portion of long term debt	517,413	466,330
TOTAL CURRENT LIABILITIES	912,919	985,585
LONG TERM LIABILITIES		
Compensated absences	48,747	40,367
General obligation bonds payable	9,712,307	9,925,307
California safe drinking water bonds payable	1,570,973	1,692,055
Citizens business bank (COP) payable	2,760,088	2,859,445
Construction claim payable		85,000
Other postemployment benefit payable	3,815	
TOTAL LONG TERM LIABILITIES	14,095,930	14,602,174
TOTAL LIABILITIES	15,008,849	15,587,759
NET ASSETS		
Invested in capital assets, net of related debt	1,942,034	661,650
Restricted - note 8	1,734,453	2,915,697
Unrestricted	4,537,684	3,913,430
TOTAL NET ASSETS	$ 8,214,171	$ 7,490,777

See accompanying notes to basic financial statements

SWEETWATER SPRINGS WATER DISTRICT
COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Fiscal Year Ended June 30, 2010
With Comparative Totals for the Fiscal Year Ended June 30, 2009

	Totals June 30, 2010	Totals June 30, 2009
Operating Revenues		
Charges for services	$ 2,005,265	$ 1,957,737
Total Operating Revenues	2,005,265	1,957,737
Operating Expenses		
Salaries and employee benefits	1,069,029	997,640
Service and supplies	531,647	577,573
Depreciation	534,225	524,458
Total Operating Expenses	2,134,901	2,099,671
Operating Income (Loss)	(129,636)	(141,934)
Non-Operating Revenues (Expenses)		
Interest income	74,391	149,925
Rents	87,294	70,796
Other non-operating revenue	21,699	16,390
Interest expense	(668,179)	(543,955)
Total Non-Operating Revenues (Expenses)	(484,795)	(306,844)
Net Income (Loss) Before Capital Contributions and Special Items	(614,431)	(448,778)
Capital Contributions and Special Items		
Capital grants	575,304	646,912
Flat charges	762,521	751,758
Total Capital Contributions and Special Items	1,337,825	1,398,670
Change in Net Assets	723,394	949,892
Total Net Assets, Beginning of Fiscal Year	7,490,777	6,540,885
Total Net Assets, End of Fiscal Year	$ 8,214,171	$ 7,490,777

See accompanying notes to basic financial statements

SWEETWATER SPRINGS WATER DISTRICT
COMPARATIVE STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2010
With Comparative Totals for the Fiscal Year Ended June 30, 2009

	Totals June 30, 2010	Totals June 30, 2009
Cash Flows From Operating Activities		
Cash received from customers	$ 2,170,387	$ 1,961,885
Payments to suppliers for goods and services	(654,147)	(561,133)
Payments to employees and related items	(1,024,801)	(986,751)
Net cash flows provided by operating activities	491,439	414,001
Cash Flows From Capital and Related Financing Activities		
Acquisition of capital assets	(1,097,377)	(1,244,922)
Proceeds from issuance of long term debt		3,000,000
Payment on long term debt	(467,356)	(387,030)
Interest payments	(674,204)	(547,959)
Capital grant contributions	575,304	628,636
Net cash flows (used) by capital and related financing activities	(1,663,633)	1,448,725
Cash Flows From Non-Capital and Related Financing Activities		
Flat charges	746,800	772,666
Miscellaneous non-operating revenues	21,699	16,390
Net cash provided by non-capital and related financing activities	768,499	789,056
Cash Flows From Investing Activities		
Rents	77,870	70,796
Interest income	74,391	149,925
Net cash flows provided by investing activities	152,261	220,721
Net Increase (Decrease) in Cash and Investments	(251,434)	2,872,503
Cash and Investments, Beginning of Fiscal Year	6,371,965	3,499,462
Cash and Investments, End of Fiscal Year	$ 6,120,531	$ 6,371,965
Reconciliation of Cash and Investments to Amounts Reported on the Statement of Net Assets:		
Cash and investments	$ 4,386,078	$ 3,456,268
Restricted cash and investments	1,734,453	2,915,697
	$ 6,120,531	$ 6,371,965
Supplemental Disclosures:		
Interest expense during the year	$ 668,179	$ 543,955
Interest capitalized during the year	$ -	$ 129,486

(continued)

See accompanying notes to basic financial statements

SWEETWATER SPRINGS WATER DISTRICT
COMPARATIVE STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2010
With Comparative Totals for the Fiscal Year Ended June 30, 2009
(Continued)

	Totals June 30, 2010	Totals June 30, 2009
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operations:		
Operating income (loss)	$ (129,636)	$ (141,934)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation	534,225	524,458
(Increase) Decrease in Operating Assets:		
Accounts receivable	163,854	8,144
Inventory		
Prepaid expenses	28,525	28,526
Increase (Decrease) in Operating Liabilities:		
Accounts payable	(127,508)	(10,091)
Accrued wages	3,508	3,419
Compensated absences	8,380	7,468
Customer deposits payable	1,268	(3,996)
Road maintenance obligations	5,008	(1,993)
Other postemployment benefit payable	3,815	
Total Adjustments	621,075	555,935
Net Cash Provided by Operating Activities	$ 491,439	$ 414,001

See accompanying notes to basic financial statements

Note 1: Summary of Significant Accounting Policies

A. Reporting Entity

The Sweetwater Springs Water District (District) was formed on December 6, 1988 with Resolution #88-2184 through an election under Section 30290 of the California State Water Code. The District supplies water services to residential and commercial users, and provides for connections to and the servicing of the delivering system. The District's Board of Directors has the responsibility of overseeing the financial activities of the District.

The District accounting policies conform to accounting principles generally accepted in the United States of America as applicable to governments, in accordance with the uniform system of accounts for water utility special enterprise districts as prescribed by the State Controller in compliance with the government code of the State of California.

B. Basis of Accounting

The District follows the accrual basis of accounting. The District's policy is to record all assets, liabilities, revenues, and expenses on the accrual basis of accounting and the flow of economic resources measurement focus. Under this method, revenue is recognized when earned and expenses are recognized when the related liability is incurred. In these funds, receivables have been recorded as revenue and provisions have been made for uncollectible amounts.

C. Proprietary Fund Accounting

The District has one fund which is considered a proprietary fund.

Proprietary Fund Financial Statements include a Statement of Net Assets, a Statement of Revenues, Expenses, and Changes in Net Assets, and a Statement of Cash Flows.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* the District has opted to apply all applicable GASB pronouncements and all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements.

Operating revenues in the proprietary fund are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operation of the fund. All other expenses are reported as non-operating expenses.

D. Budgetary Reporting

The annual budget is prepared in accordance with the basis of accounting utilized by the District. The budget is not legally required and therefore budget to actual information has not been presented, either as a statement or required or other supplementary information.

Note 1: Summary of Significant Accounting Policies (Continued)

E. **Receivables**

Bad debts associated with accounts receivable for services are provided for by use of the allowance method. Other receivables, if any, are shown at the anticipated recoverable amount, unless otherwise noted.

F. **Flat Charges Receivable**

Flat charges receivable represent direct charges owed to the District by property owners.

G. **Inventories**

Inventory consists primarily of water meters, water pipes, valves and fittings. Inventory is valued at estimated cost.

H. **Capital Assets**

Property, plant, and equipment are recorded at cost or estimated historical cost if actual cost is not available. Contributed assets are recorded at their fair value at the time of transfer to the District. Assets with a value of $1,000 or less are expensed in the years acquired.

Depreciation is recorded using the straight-line method over the estimated useful lives of the assets. Depreciation is recorded as an expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. The range of estimated useful lives are as follows:

Water system	40 years
Leasehold improvements	7 years
Equipment	3-5 years

I. **Vacation and Sick Leave**

Vacation pay is accrued by the District in the period earned. At June 30, 2010 and 2009, accrued vacation pay amounted to $48,747 and $40,367 respectively.

J. **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA) 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.

K. **New Accounting Pronouncements**

The District has implemented the requirements of Governmental Accounting Standards Board (GASB) Statement No. 45, No. 51, No. 53, No. 57, and No. 58 during the fiscal year ended June 30, 2010.

Note 1: Summary of Significant Accounting Policies (Continued)

K. **New Accounting Pronouncements (Continued)**

GASB Statement No. 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*

For the fiscal year ended June 30, 2010, the District implemented GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions". This Statement is effective for periods beginning July 1, 2009 for phase III governments. This Statement establishes standards for accounting and financial reporting for state and local government employees that offer "Other Postemployment Benefits" (OPEB) and requires accrual basis measurement and recognition of OPEB expenses and liabilities that will result in recognition of expenses over periods that approximate employees' years of service. See note 12 for more details of the District's Plan and the effect on the financial statements.

GASB Statement No. 51 – *Accounting and Financial Reporting for Intangible Assets*

For the fiscal year ended June 30, 2010, the District implemented GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets". This Statement is effective for financial statements for periods beginning after June 15, 2009. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to reduce these inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. The implementation of this Statement did not have an effect on these financial statements.

GASB Statement No. 53 – *Accounting and Financial Reporting for Derivative Instruments*

For the fiscal year ended June 30, 2010, the District implemented GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments". This Statement is effective for financial statements for periods beginning after June 15, 2009. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. The implementation of this Statement did not have an effect on these financial statements.

GASB Statement No. 57 – *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*

For the fiscal year ended June 30, 2010, the District implemented GASB Statement No. 57, "*OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*". This Statement establishes standards for the measurement and financial reporting of actuarially determined information by agent employers with individual-employer OPEB plans that have fewer than 100 total plan members and by the agent multiple-employer OPEB plans in which they participate. The implementation of this Statement did not have an effect on these financial statements.

GASB Statement No. 58 – *Accounting and Financial Reporting for Chapter 9 Bankruptcies*

For the fiscal year ended June 30, 2010, the District implemented GASB Statement No. 58, "*Accounting and Financial Reporting for Chapter 9 Bankruptcies*". This Statement is effective for reporting periods beginning after June 15, 2009. The objective of this Statement is to provide accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. It requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms (that is, approves) a new payment plan. The implementation of this Statement did not have an effect on these financial statements.

Note 2: Cash and Investments

The cash and investments are classified in the financial statements as shown below, based on whether or not their use is restricted under the terms of District debt instruments or District agreements.

The District's cash and investments are comprised of the following at June 30, 2010:

	Unrestricted	Restricted	Totals
Cash on hand	$ 500	$ -	$ 500
Cash in bank	26,894	23,219	50,113
Cash and investments	4,358,684	1,711,234	6,069,918
Total Cash and Investments	$ 4,386,078	$ 1,734,453	$ 6,120,531

Statement of Net Assets:	
Cash and investments	$ 4,386,078
Restricted cash and investments	1,734,453
Total	$ 6,120,531

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

The table below identifies the investment types that are authorized for the Sweetwater Springs Water District (District) by 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 risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
State of California Obligations	5 years	None	None
CA Local Agency Obligations	5 years	None	None
U.S. Agencies	5 years	None	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper - Selected Agencies	270 days	25%	10%
Commercial Paper - Other Agencies	270 days	40%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements & Securities Lending Agreements	92 days	20 % of the base value of the portfolio	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	None
Collateralized Bank Deposits	5 years	None	None

Note 2: Cash and Investments (Continued)

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Mortgage Pass-Through Securities	5 years	20%	None
Time Deposits	5 years	None	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	50 Million

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 the market interest rates. One of the ways that the District manages 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 is maturing or coming closer to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity:

		Remaining maturity (in Months)					
Investment Type	Totals	12 Months or Less	13 to 24 Months	25-36 Months	37-48 Months	49-60 Months	More Than 60 Months
County Treasury	$ 5,467,645	$ 5,467,645	$ -	$ -	$ -	$ -	$ -
Certificate of Deposit	602,273			602,273			
	$ 6,069,918	$ 5,467,645	$ -	$ 602,273	$ -	$ -	$ -

Disclosures Relating to Credit Risk

Generally, 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 rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code and the District's investment policy, and the actual rating as of fiscal year end for each investment type.

				Rating as of Fiscal Year End			
Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	AAA	AA	A	Not Rated
County Treasury	$ 5,467,645	N/A	$ -	$ -	$ -	$ -	$ 5,467,645
Certificate of Deposit	602,273						602,273
Total	$ 6,069,918		$ -	$ -	$ -	$ -	$ 6,069,918

Note 2: Cash and Investments (Continued)

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There is one investment (Redwood Credit Union Certificate of Deposit) that represent 5% or more of total District investments (other than Sonoma County Investment Pool).

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 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, 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 fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure the District's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2010, the District's deposits with financial institutions were not in excess of federal depository insurance limits.

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. 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 investments. 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 the Sonoma County Investment Pool).

Note 3: Prepaid Expenses

The District has paid $427,885 towards its unfunded pension obligation to the Public Employees Retirement System (PERS). This prepayment is being amortized over a fifteen year period, which commenced in the 2004/2005 fiscal year.

	2010	2009
Total prepayment	$ 285,256	$ 313,782
Amount amortized in current year	(28,525)	(28,526)
Balance as of June 30,	256,731	285,256
Less: Current portion	28,525	28,525
	$ 228,206	$ 256,731

Note 4: Capital Assets

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	Balance at July 1, 2009	Additions	Deletions	Transfers	Balance at June 30, 2010
Capital assets, not being depreciated:					
Land	$ 143,053	$ -	$ -	$ -	$ 143,053
Construction in progress	1,529,241	1,086,870		(2,118,879)	497,232
Total capital assets, not being depreciated	1,672,294	1,086,870		(2,118,879)	640,285
Capital Assets, being depreciated:					
Building and improvements	18,715,066			2,118,879	20,833,945
Machinery and equipment	533,941	10,507			544,448
Total capital assets, being depreciated	19,249,007	10,507		2,118,879	21,378,393
Accumulated depreciation					
Building and improvements	(4,569,899)	(495,067)			(5,064,966)
Machinery and equipment	(411,739)	(39,158)			(450,897)
Total accumulated depreciation	(4,981,638)	(534,225)			(5,515,863)
Total depreciable assets, net	14,267,369	(523,718)		2,118,879	15,862,530
Total capital assets, net	$ 15,939,663	$ 563,152	$ -	$ -	$ 16,502,815

Depreciation expense of $534,225 and $524,458 were incurred and were recorded as an operating expense for June 30, 2010 and 2009 respectively.

Note 5: Long-Term Debt

The following is a summary of changes in long-term debt for the District for the fiscal year ended June 30, 2010:

	Balance at July 1, 2009	Additions	Repayments	Balance at June 30, 2010	Due Within One Year
1992 General Obligation Bonds	$ 6,311,307	$ -	$ (155,000)	$ 6,156,307	$ 160,000
2003 General Obligation Bonds	3,818,000		(50,000)	3,768,000	52,000
California Safe Drinking Bonds	1,809,587		(117,557)	1,692,030	121,057
Citizens Business Bank Certificates of Participation	2,954,243		(94,799)	2,859,444	99,356
Construction Claim Payable	135,000		(50,000)	85,000	85,000
Compensated Absences	40,367	8,380		48,747	
Other Postemployment Benefits		6,085	(2,270)	3,815	
Total	$ 15,068,504	$ 14,465	$ (469,626)	$ 14,613,343	$ 517,413

Note 5: Long-Term Debt (Continued)

1992 General Obligation Bonds

On November 6, 1990, the voters of the District authorized the issuance of general obligation bonds for the acquisition and improvements of the water system. On August 20, 1991, the District entered into an agreement with Citizens Utilities to purchase the water system for $6,500,000. The District financed the acquisitions with the bond proceeds in the amount of $7,000,000 received on April 8, 1992. $500,000 in additional bonds were issued in fiscal year 1993-94, $250,000 during fiscal year 1994-95, and $250,000 in fiscal year 1995-96.

The bonds bear interest at 5% and mature on September 1, 2031. Principal payments are due annually on September 1, and interest payments are due semi-annually on March 1, and September 1. The balance at June 30, 2010 is $6,156,307.

Future debt service requirements on the 1992 General Obligation bonds are:

Fiscal Year Ended June 30,	Principal	Interest	Total
2011	$ 160,000	$ 303,816	$ 463,816
2012	170,000	295,566	465,566
2013	175,000	286,941	461,941
2014	185,000	277,941	462,941
2015	195,000	268,441	463,441
2016-2020	1,130,000	1,182,080	2,312,080
2021-2025	1,450,000	861,580	2,311,580
2026-2030	1,845,000	450,955	2,295,955
2031-2032	846,307	44,724	891,031
Total	$ 6,156,307	$ 3,972,044	$ 10,128,351

2003 General Obligation Bonds

On April 29, 2003, and pursuant to Resolution No. 03-15, the District authorized the issuance of General Obligation Bond of 1990, Series 2003 in the principal amount of $4,000,000. The bond issued as a single fully registered bond and matures in installments of the same principal amounts on the same dates as the registered bonds it represents. Interest on the bond is 4.5% per annum, payable commencing on March 1, 2004 and semi-annually thereafter on September 1 and March 1 in each year to maturity. The balance at June 30, 2010 is $3,768,000.

Future debt service requirements on the 2003 General Obligation bonds are:

Fiscal Year Ended June 30,	Principal	Interest	Total
2011	$ 52,000	$ 168,390	$ 220,390
2012	54,000	166,005	220,005
2013	57,000	163,508	220,508
2014	59,000	160,897	219,897
2015	62,000	158,175	220,175
2016-2020	353,000	745,583	1,098,583
2021-2025	440,000	656,775	1,096,775
2026-2030	547,000	546,052	1,093,052
2031-2035	682,000	408,375	1,090,375
2036-2040	853,000	236,363	1,089,363
2041-2043	609,000	41,917	650,917
Total	$ 3,768,000	$ 3,452,040	$ 7,220,040

Note 5: Long-Term Debt (Continued)

California Safe Drinking Bonds Payable

On June 24, 1993 the State Department of Water Resources provided a $2,870,000 and $400,000 loan to the District under the Safe Drinking Water Bond Act of 1986. The project financed by this loan consists of construction of three wells, interconnection of the system's service area, and construction of five storage facilities and appurtenances.

The bonds bear interest at 2.955% and mature on April 1, 2021 and 2022. Principal payments are due semi-annually on October 1 and April 1 including interest. A 5% administrative fee is included in the principal amount. The balances at June 30, 2010 are $1,472,210 and $219,820 respectively.

The remaining debt service payments are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2011	$ 103,873	$ 42,745	$ 146,618
2012	106,885	39,733	146,618
2013	110,223	36,395	146,618
2014	113,428	33,190	146,618
2015	116,805	29,814	146,619
2016-2020	638,269	94,822	733,091
2021-2022	282,727	10,509	293,236
Total	$ 1,472,210	$ 287,208	$ 1,759,418

Fiscal Year Ended June 30,	Principal	Interest	Total
2011	$ 17,184	$ 6,370	$ 23,554
2012	17,684	5,870	23,554
2013	18,233	5,321	23,554
2014	18,764	4,789	23,553
2015	19,322	4,231	23,553
2016-2020	105,590	12,179	117,769
2021	23,043	511	23,554
Total	$ 219,820	$ 39,271	$ 259,091

Construction Claim Payable

The construction claim payable consists entirely of a structured settlement, dated February 7, 2005, with the CIP Phase III – A general contractor. The amount of $235,000 is net of third party cash contributions. Payments are due annually through July 1, 2010. The balance at June 30, 2010 is $85,000.

Future debt service requirements on the construction claim payable are:

Fiscal Year Ended June 30,	Principal
2011	$ 85,000
Total	$ 85,000

Note 5: Long-Term Debt (Continued)

Citizens Business Bank Certificates of Participation Payable

On July 3, 2008, Citizens Business Bank as assigned from Municipal Finance Corporation provided a $3,000,000 loan to the District in the form of Certificates of Participation.

The Certificates of Participation bear interest at 4.75% and mature on August 1, 2028. Principal and interest payments are due semi-annually on February 1st and August 1st in the amount of $117,007. The balance at June 30, 2010 is $2,859,444.

Fiscal Year Ended June 30,	Principal	Interest	Total
2011	$ 99,356	$ 134,658	$ 234,014
2012	104,131	129,882	234,013
2013	109,136	124,877	234,013
2014	114,382	119,632	234,014
2015	119,879	114,134	234,013
2016-2020	691,566	478,499	1,170,065
2021-2025	874,527	295,539	1,170,066
2026-2029	746,467	72,579	819,046
Total	$ 2,859,444	$ 1,469,800	$ 4,329,244

Note 6: Operating Leases

The District has entered into an operating lease arrangement as lessee for the District offices. The terms of the lease are for five years with an option to extend for seven, one year periods. The initial five year lease expired on July 31, 2004. The District's current monthly lease expense for the District offices is $2,250.

The District has also entered into an operating lease arrangement as lessee for a postage machine. The terms of the lease is five years, beginning in March 2006. The District's current monthly lease expense for the postage machine is $109.

The total rental payments for all leasing arrangements charged to expenses were $28,755 and $28,146 for June 30, 2010 and 2009 respectively.

Note 7: Employees Retirement Plan (Defined Benefit Pension Plan)

Plan Description

The District contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement, disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and local resolution. Copies of PERS' annual financial report may be obtained from the Executive Office, 400 P Street, Sacramento, CA 95814.

Note 7: Employees Retirement Plan (Defined Benefit Pension Plan) (Continued)

Funding Policy

All full-time District employees are eligible to participate in the system. Benefits vest after five years of service. District employees who retire at or after age 50, with a minimum of five years credited service, are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to percent (2.0%-at age 60) times the number of years service credit times their annual salary, based on the three highest paid calendar years.

District employees are required to contribute 7.0% of their annual covered salary to PERS. The District makes the required employees' contributions on their behalf and for their account. At June 30, 2010, the employer rate was 7.745% of annual covered salary. The contribution requirements of plan members and the District are established and may be amended b PERS.

For 2009-2010, the District's annual pension cost was $97,381, which was equal to the District's required and actual contributions. The District's annual pension costs for fiscal years ending June 30, 2010, 2009 and 2008 were $97,381, $90,771, and $81,471, respectively, and equal 100% of the required contributions for each fiscal year.

Note 8: Net Assets

GASB Statement No. 34 requires that the difference between assets and liabilities be reported as net assets. Net assets are classified as either invested in capital assets, net of related debt, restricted, or unrestricted.

Net assets that are invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, and reduced by the outstanding principal of related debt. Restricted net assets are those net assets that have external constraints placed on them by creditors, grantors, contributors, laws or regulations of other governments, or through constitutional provisions or enabling legislation. Unrestricted net assets consist of net assets that do not meet the definition of invested in capital assets, net of related debt, or restricted net assets.

The District maintains the majority of its cash with the Sonoma County Treasury in a general operating account, debt service accounts, and construction accounts.

Cash restricted to long-term debt repayment is held in the debt service accounts, and cash restricted to water system improvements is held in the construction accounts. The restrictions arise from provisions of the General Obligation Bond Issues and California Safe Drinking Water Loan Contracts #58330 and #58340.

Note 9: Deferred Compensation Plans

The District offers its employees two deferred compensation plans created in accordance with Internal Revenue Code Section 457. The plans are available to all employees. The Omnibus Budget Reconciliation Act of 1990 mandates social security coverage for state and local government employees who are not covered by a retirement plan. The plans permit employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plans, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) held in trust by a third party administrator (ING) for the exclusive benefit of the plan participants and their beneficiaries as prescribed by Internal Revenue Code Section 457 (g). Accordingly, these assets have been excluded from the accompanying financial statements.

Note 10: Risk Management

The District participates in a joint venture under a joint powers agreement (JPA) with the Special District Risk Management Authority (SDRMA) for insurance purposes. The SDRMA is a joint powers agency formed pursuant to Section 6500 et seq., California Government Code, is comprised of California special districts, and agencies. The relationship between the District and JPA is such that the JPA is not a component of the District for financial reporting purposes. The SDRMA's purpose is to jointly fund and develop programs to provide stable, efficient, and long term risk financing for special districts. These programs are provided through collective self-insurance; the purchase of insurance coverage's; or a combination thereof. SDRMA provides general and auto liability, workers' compensation, public officials' and employees' errors and omissions, employment practices liability, property loss, and boiler and machinery coverage.

Note 11: Contingencies

The District participated in a Federal financial assistance program for the construction and improvement to the water system. The program is subject to financial and compliance audits by the grantor or its representatives, the purpose of which is to insure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

Note 12: Post Retirement Health Insurance

Plan Description

The District provides certain health insurance benefits to retired employees in accordance with memoranda of understanding as follows:

For employees who retire from the District after at least five (5) years of service with CalPERS and who have reached the age of fifty (50) years old, and who continue health insurance through a District-sponsored health insurance plan, the District will contribute the minimum monthly amount (as required by CalPERS) of the health insurance premium ($101 and $105 for the calendar year 2009 and 2010 respectively).

Funding Policy

The District's policy is to contribute an amount sufficient to pay the current year's premium. For fiscal year 2009-10, the District contributed $2,270, which covered current premiums, but did not include any additional prefunding of benefits. Currently, there are 2 retirees who are receiving benefits.

Annual OPEB and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45's Alternative Measurement Method allowed for employers with less than 100 plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the fiscal year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation.

Note 12: Post Retirement Health Insurance (Continued)

Annual OPEB and Net OPEB Obligation (Continued)

Annual required contribution	$ 6,085
Annual OPEB cost (expense)	6,085
Contributions made	(2,270)
Increase in net OPEB obligation	3,815
Net OPEB obligation - beginning of fiscal year	-
Net OPEB obligation - end of fiscal year	$ 3,815

The District ‘s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2009-10 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contribution	Net OPEB Obligation (Asset)
6/30/2010	$ 6,085	37%	$ 3,815

Funded Status and Funding Progress

As of June 30, 2010, the most recent Alternate Measurement Method valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was $346,811, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $346,811. The covered payroll (annual payroll of active employees covered by the plan) was $659,280, and the ratio of the UAAL to the covered payroll was 52.6 percent.

The Alternate Measurement Method valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The Alternate Measurement Method valuation (valuation) methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2010 actuarial valuation, the actuarial assumptions included a 3.3 percent investment rate of return, a 75 percent continuity rate that retirees will continue to participate in CalPERS health, and an annual healthcare cost trend rate of 3.2 percent. The actuarial value of assets is not applicable (no assets as of the initial valuation date). The UAAL is being amortized as a flat percentage of covered payroll over thirty years. The remaining amortization period at June 30, 2010 was thirty years.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Sweetwater Springs Water District
Guerneville, California

We have audited the basic financial statements of the Sweetwater Springs Water District (District), as of and for the fiscal year ended June 30, 2010, and have issued our report thereon dated November 24, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

We noted certain other matters that we reported to the management of the Sweetwater Springs Water District in a separate letter dated November 24, 2010.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of 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

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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*.

This report is intended solely for the information and use of management, the Board of Directors, and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

Moss, Levy & Hartzheim, LLP
Beverly Hills, California
November 24, 2010