# 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

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<br>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<br>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%<br>(Project total: $1,203,250) |
| CIP IV-B, Project 2<br>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%<br>(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)<br>$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: <u>Summary of Significant Accounting Policies</u>

### 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: <u>Summary of Significant Accounting Policies (Continued)</u>**

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

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

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.

<u>GASB Statement No. 51 – *Accounting and Financial Reporting for Intangible Assets*</u>

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.

<u>GASB Statement No. 53 – *Accounting and Financial Reporting for Derivative Instruments*</u>

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.

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

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.

<u>GASB Statement No. 58 – *Accounting and Financial Reporting for Chapter 9 Bankruptcies*</u>

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