SWEETWATER SPRINGS WATER DISTRICT

BASIC FINANCIAL STATEMENTS

JUNE 30, 2014

SWEETWATER SPRINGS WATER DISTRICT
FINANCIAL STATEMENTS

JUNE 30, 2014

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements the Sweetwater Springs Water District (District) as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2014, 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.

Emphasis of Matter

Change in Accounting Principles

As discussed in Note 1 of the notes to the basic financial statements effective July 1, 2013, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities,* Statement No. 66, *Technical Correction-2012,* Statement No. 67, *Financial Reporting for Pension Plans,* and Statement No. 70, *Accounting and Financial Reporting for Non-exchange Financial Guarantees*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 and the Schedule of Funding Progress for Other Postemployment Benefits on page 28 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2015, on our consideration of the Sweetwater Springs Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited the District's basic financial statements as of and for the fiscal year end June 30, 2013, and our report dated February 19, 2014, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year fiscal year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Culver City, California
March 16, 2015

Management Discussion & Analysis
(Unaudited)

Management has prepared this financial overview of the activities of the Sweetwater Springs Water District for the fiscal year ended June 30, 2014. 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 fiscal year. Much of the analysis is comparative to last fiscal year's activity.

The Discussion begins with a selection of financial activities that management considers worthy of special note for FY 2013-14. The condensed financial statements that follow provide a complete financial summary of the audit report. Following the financial statements are additional details on capital spending, District debt and future plans of the District.

I. SELECTED FINANCIAL ACTIVITIES IN 2013-14 versus FY 2012-13

Net income ("net position") is more than last year. Net income for the year before depreciation expense was $1,005,958 compared to $876,269 in FY 2012-13. However, after Other (non-cash) items, the District's net income overall was $138,623, compared to $1,160,642 last year (p. 6)

Surplus revenue transferred to CIRF is up. In FY 2013-14, the District budgeted $390,000 in surplus operating revenues for transfer to the Capital Improvement Revenue Fund (CIRF) for future capital spending, more than the $220,000 budgeted in FY 2012-13. (p. 9)

District reserves are down. The District funds available for capital improvement projects were $2,507,800 at FYE 14, compared to $3,206,882 at FYE 2013. (p. 9)

Selected revenues and expenses:

	FY 2013-14	FY 2012-13
Water Sales:	$2,219,458	$2,191,787
Grant funding:	$ 0	$ 910,829
Operating Expenses (before depreciation):	$1,570,099	$1,591,473
Capital Improvement Projects:	$1,070,424	$1,666,795
Debt Payments (principal + interest):	$1,059,252	$1,086,634

Other Notes for FY 2013-14:

(1) The District refinanced (refunded) bond indebtedness to a lower interest rate. More information on this is available on page 7.

(2) The District received no grant funding. FY 2013-14 marks the first year in over 10 years that the District received no grant funds from any source. No new sources of grant funding are on the horizon at this time.

(3) The District began investing funds with the California Employee Retirement Benefit Trust (CERBT), administered by CalPERS. In FY 2013-14 the District began allocating funds for the purpose of pre-funding post-employment retirement health benefits (PERB). PERB liability is listed as "Other post employment benefits payable" on the Statement of Net Position. The additional funds are invested by CERBT, who can seek more aggressive investment returns than the District could do on their own. Funds can be withdrawn in future years to help defray the cash outlay for retiree health premiums as these costs are projected to rise significantly in the future.

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's Discussion and Analysis are condensed versions of the statements in the audit report:

The Statement of Net Position is comparable to a Balance Sheet. It 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 fiscal year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position, comparable to an Income Statement. This statement measures the success of the District's operations over the past fiscal 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's Discussion and Analysis 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 POSITION

A summary of the District's Statement of Net Position in FY 2013-14 compared to FY 2012-13 is presented in Table 1 below. Generally, an increase in the District's net position is a good indicator of whether its financial health is improving or deteriorating. The District's net position increased by $138,623 to $11,618,183 at FYE 2014, up from $11,479,560 at FYE 2013.

Table 1
Condensed Statement of Net Position

	FYE 2014	FYE 2013	$ Change	% Change
Cash	3,974,722	4,662,829	(688,107)	-14.8%
Capital Assets	20,313,215	19,937,624	375,591	1.9%
Other Assets	416,029	416,297	(268)	-0.1%
Total Assets	**24,703,966**	**25,016,750**	**(312,784)**	**-1.3%**
Bond & Loan principal debt outstanding	12,819,071	13,121,077	(302,006)	-2.3%
Other long-term liabilities	62,421	66,488	(4,067)	-6.1%
Other short-term liabilities	204,291	349,625	(145,334)	-41.6%
Total Liabilities	**13,085,783**	**13,537,190**	**(451,407)**	**-3.3%**
Net investment in capital assets	7,348,268	7,850,732	(502,464)	-6.4%
Restricted	10,115	15,104	(4,989)	-33.0%
Unrestricted	4,259,800	3,613,724	646,076	17.9%
Total Net Position	**11,618,183**	**11,479,560**	**138,623**	**1.2%**

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

The Statement of Revenues, Expenses, and Changes in Net Position provides additional information concerning revenues and expenses that impacted net position. Table 2 below compares the District's Statement of Revenues, Expenses, and Changes in Net Position in FY 2013-14 versus FY 2012-13.

Table 2
Condensed Statement of Revenues, Expenses, and Changes in Net Position

	FYE 2014	FYE 2013	$ Change	% Change
Water Sales	2,219,458	2,191,787	27,671	1.3%
Property Tax Assessment (flat charge)	759,014	753,091	5,923	0.8%
Non-Operating Revenues	122,724	143,952	(21,228)	-14.7%
Total Revenues	**3,101,196**	**3,088,830**	**12,366**	**0.4%**
Operating Expenses:				
Salaries & Benefits	1,072,968	1,090,746	(17,778)	-1.6%
Services & Supplies	496,621	500,727	(4,106)	-0.8%
Total Operating Expenses	**1,569,589**	**1,591,473**	**(21,884)**	**-1.4%**
Non-Operating Expenses:				
Interest	525,649	610,028	(84,379)	-13.8%
Other		11,060	(11,060)	0.0%
Total Non-Operating Expenses	**525,649**	**621,088**	**(95,439)**	**-15.4%**
Total Expenses	**2,095,238**	**2,212,561**	**(117,323)**	**-5.3%**
Income before Other Items and Depreciation Expense	**1,005,958**	**876,269**	**129,689**	**14.8%**
Other income		910,829	(910,829)	-100.0%
Other expense	(171,235)		(171,235)	0.0%
Depreciation Expense	(696,100)	(626,456)	(69,644)	11.1%
Change in Net Position (Net Income)	**138,623**	**1,160,642**	**(1,022,019)**	**-88.1%**

As the table shows, Income before Other Items and Depreciation Expense was $129,689 more than last fiscal year.

Total revenues were $3,101,196, slightly higher than last year. Water Sales were up from last year due to a 3% rate increase, though actual water usage decreased from FY 2012-13 to FY 2013-14. Flat charge revenue, collected via property tax bills, is expected to remain constant from year to year at around $750,000. Non-operating revenues were down $21,228 from last fiscal year. The main components of non-operating revenue on a year to year basis are (1) interest income; (2) rent received from cell tower tenants on the District's Mt. Jackson property; and (3) construction of new services during the fiscal year. FY 2013-14 declines were mostly due to lower interest earnings.

On the expense side, total expenses decreased $117,323 or 5.3%, mostly due to decreases in interest expense on long-term debt.

In "Other Items", Other expense consisted of closing costs associated with the refunding of District bonds to a lower interest rate. These closing costs, totaling $171,235, were rolled into the principal on the new bond. Depreciation Expense, another non-cash expense, continues to rise each year as the District continues with annual capital improvements that depreciate over a 40-year life.

The District's Change in Net Position, or Net Income, was $138,623 compared to $1,160,642 in FY 2012-13 – a decrease of $1,022,019. This difference was mostly due to the loss of grant proceeds rather than year-to-year operating costs.

III. CAPITAL SPENDING

In FY 2013-14, the District spent $1,070,424 on construction projects, broken down as follows:

Project	Project Description	Amount spent FY 2013-14	% complete at FYE 2014
CIP 2014 Piazza Construction	3900 lf of main replacement on Hidden Valley Road; 1800 lf of main replacement on Guernewood Lane	$1,016,735	100% (Project total: $1,168,301)
CIP 2015	5800 lf of main replacement on Old Monte Rio Road from the Handy Andy Booster west	$ 39,923	4% (Project total: $950,000)
Tank/Facilities Improvements	(Various site improvements)	$ 13,766	N/A
		$1,070,424	

In addition to these capital projects, the District spent $19,595 on various in-house large maintenance projects and the purchase of machinery and equipment.

IV. DISTRICT DEBT/SOURCES OF DEBT REPAYMENT

At the beginning of FY 2013-14, the District owed a total of $13,121,077 in bond debt, state loans, and a private placement loan. During the year the District refunded a portion of its bond indebtedness to new, lower-interest bonds. The old bonds carried a 5% (1992) and 4.5% (2003) interest rate over a 40-year term. The new bonds (shown below as Capital One bonds) are carried at a 3.6% interest rate over a 20-year term. As of the writing of this report, the District has negotiated a lower interest rate on the remaining USDA GO Bonds. Beginning in 2014-15, these bonds will be carried at a 2.375% interest rate with a new 40-year term.

The table below summarizes activity on the bonds and loans in FY 2013-14:

DEBT TYPE	ORIGINAL PRINCIPAL	PRINCIPAL OWED JULY 1, 2013	PRINCIPAL PAID FY 2013-14	PRINCIPAL OWED FYE 2014
USDA G.O. Bonds	$ 8,000,000 (1992-96) $ 4,000,000 (2003)	$ 9,256,307	$7,645,307 less $36,875 accrued interest added to principal	$ 1,647,875
Capital One Bonds	$ 7,993,000 (2013)*	$ 0	$440,000	$ 7,553,000
State Loans	$ 3,013,500 (1996)	$ 1,317,949	$132,192	$ 1,185,757
Private Placement Loan	$ 3,000,000 (2008)	$ 2,546,821	$114,382	$ 2,432,439
	* including accrued interest to Closing Date and closing costs	$13,121,077	$302,006 (net of principal added)	$12,819,071

With interest, actual payments (i.e., not interest and principal transfers due to the bond refunding) on District bond and loan debt were $1,059,252. The District allocates revenue from flat charges, the CDR[1] portion of the Water Sales revenue, and capital interest to pay for annual principal and interest on debt, itemized for FY 2013-14 as shown below:

Flat Charges:	$ 759,014
CDR Revenue:	$ 246,360
Capital interest:	$ 16,287
Total:	**$ 1,021,661**

The shortfall from these sources of revenue -- $37,591 in FY 2013-14 -- comes from *District reserves above policy* (see discussion below).

V. ECONOMIC FACTORS, PROJECTED CAPITAL EXPENDITURES/SOURCES OF FUNDING

The bulk of the District's income is tied to water sales and flat charge revenue, both unaffected in any major way by economic events. District reserves are conservatively managed via the County of Sonoma's investment pool. Interest rates remain low, but invested principal remains untouched and the loss in interest revenue is manageable.

The District's 2014-19 Capital Improvement Program identifies over $6.2 million of additional capital projects that still need to be completed to bring District facilities to an acceptable standard.[2] According to the District's long-term budget annual capital construction costs will average about $900,000. The District's capital construction is funded from four sources:

- **Surplus revenue**. The District has a plan to increase surplus revenue to $500,000 annually. In FY 2014-15 it is budgeted at $260,000.
- **Grants**. The District is not anticipating any grant revenue in the foreseeable future.
- **Loan proceeds.** The District's indebtedness was over $12 million at the end of FY 2013-14. There is no plan to take on additional debt in the foreseeable future.
- **Reserves.** Available reserves ("reserves above policy") were at $2,507,800 at FYE 2014.

For this period (2014-19), the District's long-term budget calls for depleting District reserves above policy. Once reserves above policy are depleted - projected to be around 2017-18, the District's plan calls for a shift to a *sustainable capital program* which consists of smaller projects that can be funded fully with District surpluses and/or years in which no capital projects are scheduled.

MORE ABOUT DISTRICT RESERVES

The District adopted a Reserve Policy in 2009 that calls for leaving a designated amount of District funds in reserve for emergencies. All other District funds are considered "reserves above policy" and available for spending/capital improvement projects. At fiscal year end, District funds at the County totalled $3,683,403. District policy reserves were $1,175,603, leaving $2,507,800[3] available for spending. Below

[1] CDR stands for "Capital Debt Reduction".
[2] Source: 2014-19 Capital Improvement Program
[3] Source: 4th Quarter Actual vs. Budgeted report.

is a history of the District's reserves available for spending on capital improvement projects since the adoption of the District Reserve Policy:

Fiscal Year End 2010:	$3,238,830
Fiscal Year End 2011:	$4,023,083
Fiscal Year End 2012:	$3,475,569
Fiscal Year End 2013:	$3,206,882
Fiscal Year End 2014:	$2,507,800

District reserves above policy are going down, as anticipated. The District's long range budget forecasts depleting a portion of District reserves above policy each year to accomplish the "catch-up" projects of the 2014-19 Capital Improvement Program needed to get the water system to an acceptable standard.

MORE ABOUT DISTRICT SURPLUS REVENUES

The District is in the midst of a long-term budget plan to increase District surplus revenues to a sustainable $500,000 annually.[4] The plan contemplates nine years of 3% water increases. FY 2013-14 was the third year of this plan. Below is a table of *budgeted* (see FN 5 below) operating surpluses from recent years:

Fiscal Year 2010-11:	$240,000
Fiscal Year 2011-12:	$240,000 (Year 1 of 9 - 3% water rate increase)
Fiscal Year 2012-13:	$220,000 (Year 2 of 9)
Fiscal Year 2013-14:	$390,000 (Year 3 of 9)
Fiscal Year 2014-15:	$260,000 (Year 4 of 9)

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.

[4] "Sustainable Funding for Needed Capital Improvements", dated April 18, 2011.
[5] Actual surpluses may vary. For example, in FY 2013-14, budgeted operating surpluses were $390,000. At FYE, however, the District was able to transfer an additional $279,910 of unanticipated surplus revenue.

SWEETWATER SPRINGS WATER DISTRICT
STATEMENT OF NET POSITION
June 30, 2014
With Comparative Totals at June 30, 2013

	Totals June 30, 2014	Totals June 30, 2013
ASSETS		
CURRENT ASSETS		
Cash and investments	$ 2,240,852	$ 3,613,540
Accounts receivable	300,818	304,889
Flat charges receivables	58,816	56,410
Inventory	56,395	54,998
TOTAL CURRENT ASSETS	2,656,881	4,029,837
NONCURRENT ASSETS		
Land	143,053	143,053
Construction in progress	71,394	183,037
Buildings and improvements	27,550,834	26,368,767
Machinery and equipment	544,327	564,822
Less-accumulated depreciation	(7,996,393)	(7,322,055)
TOTAL CAPITAL ASSETS, NET	20,313,215	19,937,624
OTHER NONCURRENT ASSETS		
Restricted cash and investments	1,733,870	1,049,289
TOTAL OTHER NONCURRENT ASSETS	1,733,870	1,049,289
TOTAL ASSETS	24,703,966	25,016,750
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	15,336	92,652
Accrued wages	19,254	19,585
Accrued interest	146,386	206,747
Customer deposits	13,200	15,537
Road maintenance obligations	10,115	15,104
Current portion of long term debt	556,007	490,574
TOTAL CURRENT LIABILITIES	760,298	840,199
LONG TERM LIABILITIES		
Compensated absences	58,800	52,012
General obligation bonds payable	8,900,875	9,012,307
California safe drinking water bonds payable	1,049,628	1,185,756
Citizens business bank (COP) payable	2,312,561	2,432,440
Other postemployment benefits payable	3,621	14,476
TOTAL LONG TERM LIABILITIES	12,325,485	12,696,991
TOTAL LIABILITIES	13,085,783	13,537,190
NET POSITION		
Net Investment in capital assets	9,217,899	7,865,836
Unrestricted	2,400,284	3,613,724
TOTAL NET POSITION	$ 11,618,183	$ 11,479,560

See accompanying notes to basic financial statements

SWEETWATER SPRINGS WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Fiscal Year Ended June 30, 2014
With Comparative Totals for the Fiscal Year Ended June 30, 2013

	Totals June 30, 2014	Totals June 30, 2013
Operating Revenues		
Charges for services	$ 2,219,458	$ 2,191,787
Total Operating Revenues	2,219,458	2,191,787
Operating Expenses		
Salaries and employee benefits	1,072,968	1,090,746
Service and supplies	496,621	500,727
Depreciation	696,100	626,456
Total Operating Expenses	2,265,689	2,217,929
Operating Income (Loss)	(46,231)	(26,142)
Non-Operating Revenues (Expenses)		
Interest income	22,984	41,469
Rents	90,204	77,557
Flat charges	759,014	753,091
Other non-operating revenue	9,536	24,926
Loss on disposal of capital assets		(11,060)
Interest expense	(525,649)	(610,028)
Debt issuance costs	(171,235)	
Total Non-Operating Revenues (Expenses)	184,854	275,955
Net Income (Loss) Before Capital Contributions	138,623	249,813
Capital Contributions		
Capital grants		910,829
Total Capital Contributions		910,829
Change in Net Position	138,623	1,160,642
Total Net Position, Beginning of Fiscal Year	11,479,560	10,733,741
Prior Period Adjustments		(414,823)
Total Net Position, Beginning of Fiscal Year, Restated	11,479,560	10,318,918
Total Net Position, End of Fiscal Year	$ 11,618,183	$ 11,479,560

See accompanying notes to basic financial statements

SWEETWATER SPRINGS WATER DISTRICT
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2014
With Comparative Totals for the Fiscal Year Ended June 30, 2013

	Totals June 30, 2014	Totals June 30, 2013
Cash Flows From Operating Activities		
Cash received from customers	$ 2,221,192	$ 2,170,291
Payments to suppliers for goods and services	(580,323)	(451,176)
Payments to employees and related items	(1,077,366)	(1,078,223)
Net cash flows provided by operating activities	563,503	640,892
Cash Flows From Capital and Related Financing Activities		
Acquisition of capital assets	(1,071,691)	(1,666,795)
Proceeds from issuance of long term debt	7,993,000	
Payment on long term debt	(8,295,006)	(469,592)
Bond issue costs paid	(171,235)	
Interest payments	(586,010)	(617,042)
Capital grant contributions		910,829
Net cash flows (used) by capital and related financing activities	(2,130,942)	(1,842,600)
Cash Flows From Non-Capital and Related Financing Activities		
Flat charges	756,608	763,862
Miscellaneous non-operating revenues	9,536	24,926
Net cash provided by non-capital and related financing activities	766,144	788,788
Cash Flows From Investing Activities		
Rents	90,204	89,557
Interest income	22,984	41,469
Net cash flows provided by investing activities	113,188	131,026
Net Increase (Decrease) in Cash and Investments	(688,107)	(281,894)
Cash and Investments, Beginning of Fiscal Year	4,662,829	4,944,723
Cash and Investments, End of Fiscal Year	$ 3,974,722	$ 4,662,829
Reconciliation of Cash and Investments to Amounts Reported on the Statement of Net Position:		
Cash and investments	$ 2,240,852	$ 3,613,540
Restricted cash and investments	1,733,870	1,049,289
	$ 3,974,722	$ 4,662,829
Supplemental Disclosures:		
Interest expense during the fiscal year	$ 525,649	$ (610,028)
Interest capitalized during the fiscal year	$ -	$ -

(continued)

See accompanying notes to basic financial statements

SWEETWATER SPRINGS WATER DISTRICT
COMPARATIVE STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2014
With Comparative Totals for the Fiscal Year Ended June 30, 2013
(Continued)

	Totals June 30, 2014	Totals June 30, 2013
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operations:		
Operating income (loss)	$ (46,231)	$ (26,142)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation	696,100	626,456
(Increase) Decrease in Operating Assets:		
Accounts receivable	4,071	(22,555)
Inventory	(1,397)	(5,642)
Increase (Decrease) in Operating Liabilities:		
Accounts payable	(77,316)	50,182
Accrued wages	(331)	598
Compensated absences	6,788	8,533
Customer deposits payable	(2,337)	1,059
Road maintenance obligations	(4,989)	5,011
Other postemployment benefits payable	(10,855)	3,392
Total Adjustments	609,734	667,034
Net Cash Provided by Operating Activities	$ 563,503	$ 640,892

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 Position, a Statement of Revenues, Expenses, and Changes in Net Position, and a Statement of Cash Flows.

In accordance with GASB Statement No. 20 and No. 62, 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 tracked each year by staff, but have been deemed immaterial. 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 Position. 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, 2014 and 2013, accrued vacation pay amounted to $58,800 and $52,012 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**. Comparative Data**

Selected information regarding the prior fiscal year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the government's prior fiscal year financial statements, from which this selected financial data was derived. Certain reclassifications have been made to the 2013 financial statements to conform to the current presentation. These reclassifications had no effect on the previously reported net position, change in net position, or change in cash flows.

Note 1: Summary of Significant Accounting Policies (Continued)

L. **New Accounting Pronouncement**

The District has implemented the requirements of Governmental Accounting Standards Board (GASB) Statement Nos. 65, 66, 67, and 70 during the fiscal year ended June 30, 2014.

Governmental Accounting Standards Board Statement No. 65

For the fiscal year ended June 30, 2014, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 65, "Items Previously Reported as Assets and Liabilities." This Statement is effective for periods beginning after December 15, 2012. The objective of this Statement is to establish accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. Implementation of the GASB Statement No. 65 did not have an impact on the District's financial statements for the fiscal year ended June 30, 2014.

Governmental Accounting Standards Board Statement No. 66

For the fiscal year ended June 30, 2014, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 66, "Technical Correction - 2012." This Statement is effective for periods beginning after December 15, 2012. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from GASB Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions," and GASB Statement No. 62 "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements." Since the release of these Statements, questions have arisen concerning differences between the provisions in Statement No. 54 and Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, regarding the reporting of risk financing activities. Questions also have arisen about differences between Statement No. 62 and Statements No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, regarding the reporting of certain operating lease transactions, and No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Equity Transfers of Assets and Future Revenues*, concerning the reporting of the acquisition of a loan or a group of loans and the recognition of servicing fees related to mortgage loans that are sold. Implementation of the GASB Statement No. 66 did not have an impact on the District's financial statements for the fiscal year ended June 30, 2014.

Governmental Accounting Standards Board Statement No. 67

For the fiscal year ended June 30, 2014, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 67, "Financial Reporting for Pension Plans." This Statement is effective for periods beginning after June 15, 2013. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement replaces the requirements of Statements No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans" and No. 50 "Pension Disclosures" as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 25 and No. 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. Implementation of the GASB Statement No. 67 did not have an impact on the District's financial statements for the fiscal year ended June 30, 2014.

Note 1: Summary of Significant Accounting Policies (Continued)

L. New Accounting Pronouncement (Continued)

Governmental Accounting Standards Board Statement No. 70

For the fiscal year ended June 30, 2014, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 70, "Accounting and Financial Reporting for Non-exchange Financial Guarantees." This Statement is effective for periods beginning after June 15, 2013. The objective of this Statement is to improve the recognition, measurement, and disclosure guidance for state and local governments that have extended or received financial guarantees that are non-exchange transactions. Implementation of the GASB Statement No. 70 did not have an impact on the District's financial statements for the fiscal year ended June 30, 2014.

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, 2014:

	Unrestricted	Restricted	Totals
Cash on hand	$ 500	$ -	$ 500
Cash in bank	117,144	10,116	127,260
Cash and investments	2,123,208	1,723,754	3,846,962
Total Cash and Investments	$ 2,240,852	$ 1,733,870	$ 3,974,722

Statement of Net Position:	
Cash and investments	$ 2,240,852
Restricted cash and investments	1,733,870
Total	$ 3,974,722

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.

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
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
Bankers' 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
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. The District manages its exposure to interest rate risk by investing a majority of its cash and investments in the County Pooled Investment Fund.

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 Pooled Investment Fund	$ 3,846,962	$ 3,846,962	$ -	$ -	$ -	$ -	$ -
	$ 3,846,962	$ 3,846,962	$ -	$ -	$ -	$ -	$ -

Note 2: Cash and Investments (Continued)

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 Pooled Investment Fund	$ 3,846,962	N/A	$ -	$ -	$ -	$ -	$ 3,846,962
Total	$ 3,846,962		$ -	$ -	$ -	$ -	$ 3,846,962

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 are no investments 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, 2014, 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: Capital Assets

Capital asset activity for the fiscal year ended June 30, 2014, was as follows:

	Balance at July 1, 2013	Additions	Deletions	Transfers	Balance at June 30, 2014
Capital assets, not being depreciated:					
Land	$ 143,053	$ -	$ -	$ -	$ 143,053
Construction in progress	183,037	1,208,224	(151,566)	(1,168,301)	71,394
Total capital assets, not being depreciated	326,090	1,208,224	(151,566)	(1,168,301)	214,447
Capital Assets, being depreciated:					
Building and improvements	26,368,767	13,766		1,168,301	27,550,834
Machinery and equipment	564,822	1,267	(21,762)		544,327
Total capital assets, being depreciated	26,933,589	15,033	(21,762)	1,168,301	28,095,161
Accumulated depreciation:					
Building and improvements	(6,796,828)	(682,401)			(7,479,229)
Machinery and equipment	(525,227)	(13,699)	21,762		(517,164)
Total accumulated depreciation	(7,322,055)	(696,100)	21,762		(7,996,393)
Total depreciable assets, net	19,611,534	(681,067)		1,168,301	20,098,768
Total capital assets, net	$ 19,937,624	$ 527,157	$ (151,566)	$ -	$ 20,313,215

Depreciation expense of $696,100 was incurred and recorded as an operating expense for June 30, 2014.

Note 4: Long-Term Debt

The following is a summary of changes in long-term debt for the District for the fiscal year ended June 30, 2014:

	Balance at July 1, 2013	Additions	Repayments	Balance at June 30, 2014	Due Within One Year
1992 General Obligation Bonds	$ 5,651,307	$ -	$ (5,651,307)	$ -	$ -
2003 General Obligation Bonds	3,605,000	36,875	(1,994,000)	1,647,875	
2013 General Obligation Refunding Bonds		7,993,000	(440,000)	7,553,000	300,000
California Safe Drinking Bonds	1,317,949		(132,192)	1,185,757	136,128
Citizens Business Bank Certificates of Participation	2,546,821		(114,382)	2,432,439	119,879
Compensated Absences	52,012	45,532	(38,744)	58,800	
Other Postemployment Benefits	14,476	6,453	(17,308)	3,621	
Total	$ 13,187,565	$ 8,081,860	$ (8,387,933)	$ 12,881,492	$ 556,007

Note 4: Long-Term Debt (Continued)

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 was 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 1st and March 1st in each year to maturity. During the fiscal year ended June 30, 2014, the District prepaid $1,994,000 of the outstanding principal on the 2003 General Obligation Bonds from a portion of the proceeds of the 2013 General Obligation Refunding Bonds. The first installment payment that was due September 1, 2014 was deferred until September 1, 2015. The accrued interest of $36,875, as a result of the deferred payment date, was added to the principal balance for a total outstanding balance of $1,647,875.

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

Fiscal Year Ended June 30,	Principal	Interest	Total
2015	$ -	$ -	$ -
2016	25,147	39,137	64,284
2017	25,744	38,540	64,284
2018	26,355	37,929	64,284
2019	26,981	37,303	64,284
2020-2024	144,828	176,600	321,428
2025-2029	162,863	158,574	321,437
2030-2034	183,143	138,304	321,447
2035-2039	205,949	115,510	321,459
2040-2044	231,597	89,877	321,474
2045-2049	260,436	61,052	321,488
2050-2054	292,866	28,637	321,503
2055	61,966	1,491	63,457
Total	$ 1,647,875	$ 922,954	$ 2,570,829

2013 General Obligation Refunding Bonds

On August 1, 2013, the District issued $7,993,000 of General Obligation Refunding Bonds bearing interest of 4.50% and payable semi-annually on September 1 and March 1, maturing on September 1, 2033. The proceeds of the Bonds were used to (i) prepay, in full, the 1992 General Obligation Bonds; (ii) partial prepayment of the 2003 General Obligation Bonds, and (iii) pay the costs of issuing the Bonds. The outstanding principal balance of the 2013 General Obligation Refunding Bonds at June 30, 2014 was $7,553,000.

$7,821,765 from the 2013 General Obligation Refunding Bonds was placed in an irrevocable trust that is to be used to service the future debt requirements of the 1992 General Obligation Bonds and the 2003 General Obligation Bonds. The refunding resulted in an economic gain (difference between the present value of the debt service payments on the old and new debts) of $648,545. The aggregate difference in debt service between the old and new debt is $923,427.

The District defeased the 1992 General Obligation Bonds by placing a portion of the proceeds of the 2013 General Obligation Refunding Bonds in an irrevocable trust to provide for all future debt service payments on the 1992 General Obligation Bonds. Accordingly, the trust account assets and the liability for the defeased 1992 General Obligation Bonds is not included in the District's financial statements.

Note 4: Long-Term Debt (Continued)

<u>2013 General Obligation Refunding Bonds (Continued)</u>

The scheduled annual minimum debt service requirements at June 30, 2014 are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2015	$ 300,000	$ 266,508	$ 566,508
2016	312,000	255,492	567,492
2017	321,000	244,098	565,098
2018	332,000	232,344	564,344
2019	343,000	220,194	563,194
2020-2024	1,922,000	902,160	2,824,160
2025-2029	2,285,000	523,998	2,808,998
2030-2034	1,738,000	111,780	1,849,780
Total	$ 7,553,000	$ 2,756,574	$ 10,309,574

<u>California Safe Drinking Bonds Payable</u>

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, 2014 are $1,037,801 and $147,956 respectively.

The remaining debt service payments are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2015	$ 116,806	$ 29,813	$ 146,619
2016	120,229	26,389	146,618
2017	123,909	22,709	146,618
2018	127,549	19,069	146,618
2019	131,347	15,272	146,619
2020-2022	417,961	21,893	439,854
Total	$ 1,037,801	$ 135,145	$ 1,172,946

Fiscal Year Ended June 30,	Principal	Interest	Total
2015	$ 19,322	$ 4,231	$ 23,553
2016	19,891	3,663	23,554
2017	20,497	3,057	23,554
2018	21,101	2,453	23,554
2019	21,728	1,825	23,553
2020-2021	45,417	1,692	47,109
Total	$ 147,956	$ 16,921	$ 164,877

Note 4: 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, 2014 is $2,432,439.

Fiscal Year Ended June 30,	Principal	Interest	Total
2015	$ 119,879	$ 114,134	$ 234,013
2016	125,641	108,372	234,013
2017	131,680	102,333	234,013
2018	138,009	96,004	234,013
2019	144,642	89,371	234,013
2020-2024	834,421	335,645	1,170,066
2025-2029	938,167	114,892	1,053,059
Total	$ 2,432,439	$ 960,751	$ 3,393,190

Note 5: Operating Leases

The District has entered into an operating lease arrangement as lessee for the District offices. The terms of the lease is 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. On May 6, 2014, the District renegotiated the office lease. The new lease commences August 1, 2014 and expires on July 31, 2017, at a cost of $2,250 per month. The new lease has an option to expend for one additional term of three years.

The District has also entered into an operating lease arrangement as lessee for a postage machine. The term of the lease is five years, beginning in October 2010. The District's current quarterly lease expense for the postage machine is $337.

The total rental payments for all leasing arrangements charged to expenses were $28,653 and $28,344 for June 30, 2014 and 2013 respectively.

Note 6: 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 6: 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 55) 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, 2014, the employer rate was 10.282% of annual covered salary. The contribution requirements of plan members and the District are established and may be amended by PERS.

For 2013-2014, the District's annual pension cost was $115,412, which was equal to the District's required and actual contributions (including the employees' portion). The District's annual pension costs for fiscal years ending June 30, 2014, 2013, and 2012 were $115,412, $117,554, and $112,612, respectively, and equal 100% of the required contributions for each fiscal year.

Note 7: Net Position

GASB Statement No. 63 requires that the difference between assets added to the deferred outflows of resources and liabilities added to the deferred inflows of resources be reported as net position. Net position is classified as either net investment in capital assets, restricted, or unrestricted.

Net position that is net investment in capital assets consist of capital assets, net of accumulated depreciation, and reduced by the outstanding principal of related debt. Restricted net position is the portion of net position that has external constraints placed on it by creditors, grantors, contributors, laws, or regulations of other governments, or through constitutional provisions or enabling legislation. Unrestricted net position consists of net position that does not meet the definition on net investment in capital assets or restricted net position.

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 8: 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 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 and AIG Valic) 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 9: 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 10: Contingencies

The District has amended a contract with Coastland Civil Engineering Inc. from $441,526 to $478,928, for design and inspection and construction management for the 2014 and 2015 Capital Improvement Projects (CIPs). As of June 30, 2014, the District has paid Coastland Engineering Inc. a total of $129,944 for CIP 2014 and $31,470 for CIP 2015. Also, the District has entered into a contract with Coastland Civil Engineering Inc. for $221,178 (with a potential up to $10,000 in extra fees), for engineering of the 2016 Capital Improvement Project (CIP).

On October 2, 2014, the District approved a contract with Open Spatial Corporation for a Hosted GIS of District Facilities in the sum of $13,775.

Note 11: 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 ($115 and $119 for the calendar year 2014 and 2013 respectively).

Funding Policy

The District adopted a resolution to enter into an agreement with CalPERS to participate in the California Employer's Retiree Benefit Trust Program (CERBT). For fiscal year 2013-14, the District contributed $17,308, 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 11: Post Retirement Health Insurance (Continued)

Annual OPEB and Net OPEB Obligation (Continued)

Annual required contribution	$	6,737
Interest on net OPEB obligation		478
Adjustment to ARC		(762)
Annual OPEB cost (expense)		6,453
Contributions made		(17,308)
Increase in net OPEB obligation		(10,855)
Net OPEB obligation - beginning of fiscal year		14,476
Net OPEB obligation - end of fiscal year	$	3,621

The District ‘s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2011-12, 2012-13, and 2013-14 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contribution	OPEB Obligation (Asset)
6/30/2012	$ 6,094	43%	$ 11,084
6/30/2013	6,116	45%	14,476
6/30/2014	6,453	268%	3,621

Funded Status and Funding Progress

As of June 30, 2014, the most recent Alternate Measurement Method valuation date, the plan was 3.9 percent funded. The actuarial accrued liability for benefits was $392,471, and the actuarial value of assets was $15,297, resulting in an unfunded actuarial accrued liability (UAAL) of $377,174. The covered payroll (annual payroll of active employees covered by the plan) was $665,666, and the ratio of the UAAL to the covered payroll was 56.7 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. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, present multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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 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.

Note 11: <u>Post Retirement Health Insurance (Continued)</u>

<u>Actuarial Methods and Assumptions (Continued)</u>

In the June 30, 2013 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, 2013 was thirty years.

Note 12: <u>Subsequent Event</u>

On October 2, 2014, the District entered into a Rescheduling Agreement with the United States Department of Agriculture in the amount of $1,647,874 with an interest rate of 2.375%, to refinance $1,611,000 of the remaining balance on the 2003 General Obligation Bonds. Interest payments are due every September 1st and March 1st, commencing March 1, 2015. Principal payment of $25,147 to $61,966 are due every September 1st, commencing September 1, 2015 and maturing September 1, 2054.

Management of the District has evaluated subsequent events through March 16, 2015, the date these financial statements were available to be issued, and has determined there were no material events requiring disclosure.

SWEETWATER SPRINGS WATER DISTRICT

Required Supplementary Information
June 30, 2014

Other Postemployment Benefits

Schedule of Funding Progress

Valuation Date	Actuarial Accrued Liability (a)	Actuarial Value of Assets (b)	Unfunded Liability (Excess Assets) (a)-(b)	Funded Status (b)/(a)	Annual Covered Payroll (c)	UAAL as a % of Payroll [(a)-(b)]/(c)
6/30/2012	$ 338,796	$ -	$ 338,796	0.0%	$ 679,328	49.9%
6/30/2013	$ 335,607	$ -	$ 335,607	0.0%	$ 701,805	47.8%