SWEETWATER SPRINGS WATER DISTRICT

BASIC FINANCIAL STATEMENTS

JUNE 30, 2011

SWEETWATER SPRINGS WATER DISTRICT
FINANCIAL STATEMENTS

JUNE 30, 2011

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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, 2011, 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, 2011, 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.

As discussed in Note 1 of the notes to the basic financial statements, effective July 1, 2010, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 59, *Financial Instruments Omnibus.*

In accordance with *Government Auditing Standards*, we have also issued a report dated December 20, 2011, 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.

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
Culver City, California
December 20, 2011

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, 2011. 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.

The discussion begins with a selection of financial activities that management considers worthy of special note for FY 2010-11. It is not intended to be an exhaustive list. 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 2010-11

Net income for the fiscal year before depreciation expense and capital grant funding was $800,351 compared to $682,315 in FY 2009-10.

Net assets at fiscal year end were $10,021,858, an increase of $1,807,687 from FY 2009-10.

In FY 2010-11, the District had $240,000 in surplus operating revenues available to transfer to the Capital Improvement Revenue Fund (CIRF) for future capital spending.

District cash at the end of the fiscal year totaled $5,456,128, $664,403 less than last fiscal year. Of this amount, $4,023,083 is considered available for spending on future capital improvement projects.

SELECTED EXPENDITURES

- The District spent $2,283,547 on **major capital improvement projects** and $1,064 on equipment. The financial impact of this capital spending was a $1,707,814 increase in capital assets because capital spending outpaced depreciation[1] of existing capital assets. Conversely, cash decreased by $664,403 because more cash was spent than received via operations, grants, or loan proceeds.

- The District spent $25,722 on **In-House Construction projects**. These projects are too small to be capitalized, but are major repairs to District infrastructure. As such, these expenditures impact Operating Expenses.

- The District spent $1,089,756 on **capital debt principal and interest payments**, about the same as the prior fiscal year.

- **Operating Expenses** were $1,551,186, not including depreciation, which is slightly less than the prior fiscal year.

- **Extra payment made to CalPERS.** The District spent $230,511 to pay off existing unfunded PERS liability and new unfunded PERS liability incurred as part of the District's change from PERS' 2% @ 60 defined benefit plan to PERS' 2% @ 55 plan. The Plan change was negotiated as part of the Memorandum of Understanding with the International Union of Operating Engineers, Stationary Local 39, that took effect on July 1, 2010.

[1] Depreciation expense (a non-cash, accounting expense) totaled $576,797 in FY 2010-11.

SELECTED REVENUES

- The District received $1,584,133 in **grant proceeds** from the Community Development Commission (CDC) to help fund designated capital improvement projects. This is recorded as "Capital grants" on the Statement of Revenues, Expenses, and Changes in Net Assets.

- The District received $2,018,065 from **Water Sales**.

- The District received **$50,830 in one-time Construction New Services flat charges** from a large low-income housing project (Fife Creek Commons) being constructed in downtown Guerneville. This sum was included with the other normal flat charges collected (on the Statement of Revenues, Expenses and Changes to Net Assets) and explains the one-time increase in flat charge collections for FY 2010-11.

- **Sonoma County Water Agency (SCWA) reimbursements.** The District joined the California Urban Water Conservation Counsel (CUWCC) in October, 2010 at the request of the Sonoma County Water Agency. In return for our membership, SCWA contributed a total of $13,089 to reimburse the District for the ongoing costs of the Toilet Rebate Program and annual CUWCC membership dues. SCWA will continue to reimburse the District for these costs thru 2019.

DISTRICT RESERVES

At fiscal year end, the District had $4,023,083[2] available for spending on capital improvement projects in accordance with the District's Reserve Policy adopted in 2009. It is the goal of the District to finance capital projects with operating surpluses. Until that goal is reached, the District must rely on grants, loans and policy reserves to pay for capital spending in excess of operating surpluses.

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 and analysis 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 fiscal year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, 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.

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[2] Source: 4th Quarter Actual vs. Budgeted report

STATEMENT OF NET ASSETS

A summary of the District's Statement of Net Assets (Balance Sheet) in FY 2010-11 compared to FY 2009-10 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 $1,807,686 to $10,021,858 at FYE 2011, up from $8,214,171 at FYE 2010.

Table 1
Condensed Statement of Net Assets

	FYE 2011	FYE 2010	$ Change	% Change
Cash	5,456,128	6,120,531	(664,403)	-10.9%
Capital Assets	18,210,629	16,502,815	1,707,814	10.3%
Other Assets	976,349	599,674	376,675	62.8%
Total Assets	**24,643,106**	**23,223,020**	**1,420,086**	**6.1%**
Bond & Loan principal debt outstanding	14,043,368	14,475,781	(432,413)	-3.0%
Other long-term liabilities	59,771	137,562	(77,791)	-56.5%
Other short-term liabilities	509,109	395,506	113,603	28.7%
Total Liabilities	**14,612,248**	**15,008,849**	**(396,601)**	**-2.6%**
Invested in capital assets, net of related debt	4,167,261	1,942,034	2,225,227	114.6%
Restricted	833,030	1,508,003	(674,973)	-44.8%
Unrestricted	5,021,567	4,764,134	257,433	5.4%
Total Net Assets	**10,021,858**	**8,214,171**	**1,807,687**	**22.0%**

STATEMENT OF REVENUES, EXPENSES, AND CHANGES TO NET ASSETS

The Statement of Revenues, Expenses, 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 Revenues, Expenses, and Changes in Net Assets for FY 2010-11 versus FY 2009-10.

	FYE 2011	FYE 2010	$ Change	% Change
Water Sales	2,018,065	2,005,265	12,800	0.6%
Property Tax Assessment (flat charge)	810,292	762,521	47,771	6.3%
Non-Operating Revenues	172,875	183,384	(10,509)	-5.7%
Total Revenues	**3,001,232**	**2,951,170**	**50,062**	**1.7%**
Operating Expenses:				
Salaries and Benefits	1,085,675	1,069,029	16,646	1.6%
Services and Supplies	465,511	531,647	(66,136)	-12.4%
Total Operating Expenses	**1,551,186**	**1,600,676**	**(49,490)**	**-3.1%**
Non-Operating Expenses:				
Interest	649,695	668,179	(18,484)	-2.8%
Total Non-Operating Expenses	**649,695**	**668,179**	**(18,484)**	**-2.8%**
Total Expenses	**2,200,881**	**2,268,855**	**(67,974)**	**-3.0%**
Income before Capital Grants and Depreciation Expense	**800,351**	**682,315**	**118,036**	**17.3%**
Capital Grants	1,584,133	575,304	1,008,829	175.4%
Depreciation Expense	(576,797)	(534,225)	(42,572)	8.0%
Change in Net Assets (Net Income)	**1,807,687**	**723,394**	**1,084,293**	**149.9%**

As the table shows, income before capital grants and depreciation expense was $800,351, or $118,036 (17.3%) more than FY 2009-10, mostly due to increases in flat charges and decreases in Services and Supplies.

Total revenues were $3,001,232, about the same as the prior fiscal year. Water sales were up slightly from the prior fiscal year even as District customers used less water. Non-operating revenues were down $10,509, from the prior fiscal 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 fiscal year. Interest rates on District cash remain sluggish. Rents are up, but continue to reflect a growing receivable for Mt. Jackson tenant Crystal Communications, who had unpaid rents totaling $23,824 at fiscal year end and no clear timeline for paying past due amounts. "Other income" consists entirely of CDC/Redevelopment grant revenue -- $1,584,133 in FY 2010-11.

On the expense side, total expenses decreased $67,974 (3%), mostly due to a decrease in Services and Supplies expenses. Notably, distribution repairs were down $17,582 from the prior fiscal year, Water Treatment System maintenance was down $62,506, and government fees were also down $7,715. Finally, as discussed earlier, the District made an extra payment to PERS of $230,511. (See, Selected Expenditures on p. 3.) However, this payment will be amortized over 15 years rendering its impact on the Statement of Revenues, Expenses, and Changes to Net Assets minimal.

After accounting for grant revenues and depreciation expense, the District's Change in Net Assets, or Net Income, was $1,807,687 compared to $723,394 in FY 2009-10 – an increase of $1,084,292.

III. CAPITAL SPENDING

In FY 2010-11, the District continued to make progress on the projects identified in the current Capital Improvement Program. The District spent $2,283,547 on major construction projects, broken down as follows:

Project	Project Description	Amount spent FY 2010-11	% complete at FYE 2011
CIP IV-B, Project 1 W.R. Forde	65,000 gallon tank and booster station; 3100 lf of main on Bonita Terrace and Riverlands Road; replacement of the Handy Andy booster feed line (300 lf); and fire protection	$878,249	100% (Project total: $1,353,272)
CIP IV-B, Project 2 KAT Construction W.R. Forde	600 lf of 6" main replacement in Monte Rio (River Blvd., Alder, Willow, Railroad, Pebble Way, and Heller); and fire protection; Rio Vista addition	$1,313,905	95% (Project total: App. $1,411,000)
CIP 2012 – Foothill/Monte Rio portion	1000 lf of new 8" main and appurtenances from B Street northwesterly to end of existing 8" main and make connection to other side of Foothill where section of road is closed to thru traffic	$84,402	10% (Project total: App. $671,000)
CIP 2012 – Eastern/Western (Guerneville) portion	3,100 lf of main replacement on Western, Eastern, and Northern Avenues, and Orchard Lane	$6,991	1% (Project total: App. $684,000)

CIP IV-B, Project 1 / W.R. Forde Construction (Completed June, 2011 – app. $1,304,000)
Replacement of 1600 lf of 6” main and services on Riverlands Road (Guerneville)
Replacement of 450 lf of 6” main on a cross-country run from Hwy. 116 up to Old Monte Rio Road in Guerneville (“Handy Andy” line)
Replacement of 375 lf of 6” main on Alpine Terrace (Schoolhouse tank supply line)
Installation of 1,500 lf of 4” main and services on Bonita Terrace
Installation of 65,000-gallon steel tank at Schoolhouse site
Replacement of 300 lf of 4” main on a cross-country run from the Schoolhouse tank site to the Upper Schoolhouse tank site (supply line for Upper Schoolhouse tank)
Installation of a 10,000-gallon concrete tank at Upper Schoolhouse site
5 fire hydrants
2” asphalt overlay on affected roads

Except for the CIP 2012 – Eastern/Western project, all of these projects were recipients of Community Development Commission (CDC) 75% grant funding via application made to the Russian River Redevelopment Oversight Commission. Grant proceeds from the Community Development Commission (CDC) totaled $1,584,134 in FY 2010-11.

In addition to these capital projects, the District spent $25,722 on various in-house maintenance projects, which were not capitalized.

The District also purchased a field pump costing $1,064.

IV. DISTRICT DEBT

At the beginning of FY 2010-11, the District owed a total of $14,475,781 in bond debt, state loans, and a private placement loan. The table below summarizes activity on the loans in FY 2010-11:

DEBT TYPE	ORIGINAL PRINCIPAL	PRINCIPAL OWED JULY 1, 2010	PRINCIPAL PAID FY 2010-11	PRINCIPAL OWED JUNE 30, 2011
Bonds	$8,000,000 (1992-96) $4,000,000 (2003)	$ 9,924,307	$ 212,000	$ 9,712,307
State Loans	$3,013,500 (1996)	$ 1,692,030	$ 21,057	$ 1,570,973
Private Placement Loan	$3,000,000 (2008)	$ 2,859,444	$ 99,356	$ 2,760,088
		$14,475,781	$ 432,413	$ 14,043,368

With interest, yearly payments on District bond and loan debt are approximately $1,089,756.

In addition to bond debt and loans, during the fiscal year the District paid $85,000 to complete payment on a Construction Claim related to CIP Phase III. A total of $235,000 was paid on this claim over 5 years.

V. ECONOMIC FACTORS AND FY 2011-12 PROJECTED EXPENDITURES

District operations are only mildly affected by the greater economy. 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 and a CD at the Redwood Credit Union. In FY 2010-11, interest rates remained low, but the loss in interest revenue is manageable. Offsetting the minimal negative effects the poor economy has had on the District is the probability that the poor economy resulted in lower bids on the CIP 2012 project, saving the District money on a big-ticket capital expenditure.

Perhaps the largest impact on the District's financial future is the future of CDC/Redevelopment grant funding for District capital projects. The State legislature is seeking to abolish redevelopment programs statewide, or at least redirect to the State a sizeable portion of redevelopment funds on an annual basis. Even without this proposed legislation, competition for redevelopment funds is increasing and the District has already received significant grant funding.

Future capital project financing will be as follows: Projected grant proceeds consist of the 75% grant funding from the CDC for the remainder of CIP IV-B, Project 2, for a portion of CIP 2012, and for all of CIP 2013. The District's share of these projects will be financed with operating surpluses and District reserves above policy. As discussed above, however, CDC/redevelopment funding is very uncertain for future District projects. Longterm budgets call for funding capital projects beyond CIP 2013 entirely with District policy reserves, which are projected to last through FY 2016-17. (See, District Reserves on p. 4).

Water rates, the largest source of income for the District, were not increased in FY 2010-11 because of local economic conditions and as part of the agreement for grant funding from the CDC. In FY 2011-12 rates were increased by a 3% COLA. Management has 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. (Salary and benefits negotiated for union represented employees were extended to the four non-represented employees.) The resulting contracts cover five years and have 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, 2011
With Comparative Totals at June 30, 2010

	Totals June 30, 2011	Totals June 30, 2010
ASSETS		
CURRENT ASSETS		
Cash and investments	$ 4,402,931	$ 4,386,078
Accounts receivable	361,326	237,159
Rent receivable	23,824	9,424
Flat charges receivables	66,647	66,360
Inventory	56,836	30,000
Prepaid expenses	43,893	28,525
TOTAL CURRENT ASSETS	4,955,457	4,757,546
NONCURRENT ASSETS		
Land	143,053	143,053
Construction in progress	1,427,508	497,232
Buildings and improvements	22,187,216	20,833,945
Machinery and equipment	545,512	544,448
Less-accumulated depreciation	(6,092,660)	(5,515,863)
TOTAL CAPITAL ASSETS, NET	18,210,629	16,502,815
OTHER NONCURRENT ASSETS		
Prepaid expenses	414,823	228,206
Restricted cash and investments	1,053,197	1,734,453
TOTAL OTHER NONCURRENT ASSETS	1,468,020	1,962,659
TOTAL ASSETS	24,634,106	23,223,020
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	252,193	132,850
Accrued wages	15,936	13,155
Accrued interest	220,167	226,450
Customer deposits	15,725	15,275
Road maintenance obligations	5,088	7,776
Current portion of long term debt	452,699	517,413
TOTAL CURRENT LIABILITIES	961,808	912,919
LONG TERM LIABILITIES		
Compensated absences	52,141	48,747
General obligation bonds payable	9,488,307	9,712,307
California safe drinking water bonds payable	1,446,405	1,570,973
Citizens business bank (COP) payable	2,655,957	2,760,088
Other postemployment benefits payable	7,630	3,815
TOTAL LONG TERM LIABILITIES	13,650,440	14,095,930
TOTAL LIABILITIES	14,612,248	15,008,849
NET ASSETS		
Invested in capital assets, net of related debt	4,167,261	1,942,034
Restricted	833,030	1,508,003
Unrestricted	5,021,567	4,764,134
TOTAL NET ASSETS	$ 10,021,858	$ 8,214,171

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, 2011
With Comparative Totals for the Fiscal Year Ended June 30, 2010

	Totals June 30, 2011	Totals June 30, 2010
Operating Revenues		
Charges for services	$ 2,018,065	$ 2,005,265
Total Operating Revenues	2,018,065	2,005,265
Operating Expenses		
Salaries and employee benefits	1,085,675	1,069,029
Service and supplies	465,511	531,647
Depreciation	576,797	534,225
Total Operating Expenses	2,127,983	2,134,901
Operating Income (Loss)	(109,918)	(129,636)
Non-Operating Revenues (Expenses)		
Interest income	59,959	74,391
Rents	82,444	87,294
Other non-operating revenue	30,472	21,699
Interest expense	(649,695)	(668,179)
Total Non-Operating Revenues (Expenses)	(476,820)	(484,795)
Net Income (Loss) Before Capital Contributions and Special Items	(586,738)	(614,431)
Capital Contributions and Special Items		
Capital grants	1,584,133	575,304
Flat charges	810,292	762,521
Total Capital Contributions and Special Items	2,394,425	1,337,825
Change in Net Assets	1,807,687	723,394
Total Net Assets, Beginning of Fiscal Year	8,214,171	7,490,777
Total Net Assets, End of Fiscal Year	$ 10,021,858	$ 8,214,171

See accompanying notes to basic financial statements

SWEETWATER SPRINGS WATER DISTRICT
COMPARATIVE STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2011
With Comparative Totals for the Fiscal Year Ended June 30, 2010

	Totals June 30, 2011	Totals June 30, 2010
Cash Flows From Operating Activities		
Cash received from customers	$ 1,894,348	$ 2,170,387
Payments to suppliers for goods and services	(375,692)	(654,147)
Payments to employees and related items	(1,277,670)	(1,024,801)
Net cash flows provided by operating activities	240,986	491,439
Cash Flows From Capital and Related Financing Activities		
Acquisition of capital assets	(2,284,611)	(1,097,377)
Payment on long term debt	(517,413)	(467,356)
Interest payments	(655,978)	(674,204)
Capital grant contributions	1,584,133	575,304
Net cash flows (used) by capital and related financing activities	(1,873,869)	(1,663,633)
Cash Flows From Non-Capital and Related Financing Activities		
Flat charges	810,005	746,800
Miscellaneous non-operating revenues	30,472	21,699
Net cash provided by non-capital and related financing activities	840,477	768,499
Cash Flows From Investing Activities		
Rents	68,044	77,870
Interest income	59,959	74,391
Net cash flows provided by investing activities	128,003	152,261
Net Increase (Decrease) in Cash and Investments	(664,403)	(251,434)
Cash and Investments, Beginning of Fiscal Year	6,120,531	6,371,965
Cash and Investments, End of Fiscal Year	$ 5,456,128	$ 6,120,531
Reconciliation of Cash and Investments to Amounts		
Reported on the Statement of Net Assets:		
Cash and investments	$ 4,402,931	$ 4,386,078
Restricted cash and investments	1,053,197	1,734,453
	$ 5,456,128	$ 6,120,531
Supplemental Disclosures:		
Interest expense during the fiscal year	$ 649,695	$ 668,179
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, 2011
With Comparative Totals for the Fiscal Year Ended June 30, 2010
(Continued)

	Totals June 30, 2011	Totals June 30, 2010
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operations:		
Operating income (loss)	$ (109,918)	$ (129,636)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation	576,797	534,225
(Increase) Decrease in Operating Assets:		
Accounts receivable	(124,167)	163,854
Inventory	(26,836)	
Prepaid expenses	(201,985)	28,525
Increase (Decrease) in Operating Liabilities:		
Accounts payable	119,343	(127,508)
Accrued wages	2,781	3,508
Compensated absences	3,394	8,380
Customer deposits payable	450	1,268
Road maintenance obligations	(2,688)	5,008
Other postemployment benefits payable	3,815	3,815
Total Adjustments	350,904	621,075
Net Cash Provided by Operating Activities	$ 240,986	$ 491,439

See accompanying notes to basic financial statements

Note 1: Summary of Significant Accounting Policies

A. Reporting Entity

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

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

B. Basis of Accounting

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

C. Proprietary Fund Accounting

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

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

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

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

D. Budgetary Reporting

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

Note 1: Summary of Significant Accounting Policies (Continued)

E. **Receivables**

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

F. **Flat Charges Receivable**

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

G. **Inventories**

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

H. **Capital Assets**

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

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

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

I. **Vacation and Sick Leave**

Vacation pay is accrued by the District in the period earned. At June 30, 2011 and 2010, accrued vacation pay amounted to $52,141 and $48,747 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 Pronouncement**

The District has implemented the requirements of Governmental Accounting Standards Board (GASB) Statement No. 59 during the fiscal year ended June 30, 2011.

Note 1: Summary of Significant Accounting Policies (Continued)

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

GASB Statement No. 59 – *Financial Instruments Omnibus*

For the fiscal year ended June 30, 2011, the District implemented GASB Statement No. 59, "Financial Instruments Omnibus". This Statement is effective for financial statements for periods beginning after June 15, 2010. The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. 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, 2011:

	Unrestricted	Restricted	Totals
Cash on hand	$ 500	$ -	$ 500
Cash in bank	120,171	18,946	139,117
Cash and investments	4,282,260	1,034,251	5,316,511
Total Cash and Investments	$ 4,402,931	$ 1,053,197	$ 5,456,128

Statement of Net Assets:	
Cash and investments	$ 4,402,931
Restricted cash and investments	1,053,197
Total	$ 5,456,128

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
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
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.

Note 2: <u>Cash and Investments (Continued)</u>

<u>Disclosures Relating to Interest Rate Risk (Continued)</u>

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	$ 4,683,826	$ 4,683,826	$ -	$ -	$ -	$ -	$ -
Certificates of Deposit	632,685			632,685			
	$ 5,316,511	$ 4,683,826	$ -	$ 632,685	$ -	$ -	$ -

<u>Disclosures Relating to Credit Risk</u>

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	$ 4,683,826	N/A	$ -	$ -	$ -	$ -	$ 4,683,826
Certificates of Deposit	632,685						632,685
Total	$ 5,316,511		$ -	$ -	$ -	$ -	$ 5,316,511

<u>Concentration of Credit Risk</u>

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).

Note 2: Cash and Investments (Continued)

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, 2011, 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 $414,823, net of accumulated amortization, 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.

	2011	2010
Total prepayment	$ 502,609	$ 285,256
Amount amortized in current year	(43,893)	(28,525)
Balance as of June 30,	458,716	256,731
Less: Current portion	(43,893)	(28,525)
	$ 414,823	$ 228,206

Note 4: Capital Assets

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	Balance at July 1, 2010	Additions	Deletions	Transfers	Balance at June 30, 2011
Capital assets, not being depreciated:					
Land	$ 143,053	$ -	$ -	$ -	$ 143,053
Construction in progress	497,232	1,405,298		(475,022)	1,427,508
Total capital assets, not being depreciated	640,285	1,405,298		(475,022)	1,570,561
Capital Assets, being depreciated:					
Building and improvements	20,833,945	878,249		475,022	22,187,216
Machinery and equipment	544,448	1,064			545,512
Total capital assets, being depreciated	21,378,393	879,313		475,022	22,732,728
Accumulated depreciation					
Building and improvements	(5,064,966)	(545,555)			(5,610,521)
Machinery and equipment	(450,897)	(31,242)			(482,139)
Total accumulated depreciation	(5,515,863)	(576,797)			(6,092,660)
Total depreciable assets, net	15,862,530	302,516		475,022	16,640,068
Total capital assets, net	$ 16,502,815	$ 1,707,814	$ -	$ -	$ 18,210,629

Depreciation expense of $576,797 and $532,225 were incurred and were recorded as an operating expense for June 30, 2011 and 2010 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, 2011:

	Balance at July 1, 2010	Additions	Repayments	Balance at June 30, 2011	Due Within One Year
1992 General Obligation Bonds	$ 6,156,307	$ -	$ (160,000)	$ 5,996,307	$ 170,000
2003 General Obligation Bonds	3,768,000		(52,000)	3,716,000	54,000
California Safe Drinking Bonds	1,692,030		(121,057)	1,570,973	124,568
Citizens Business Bank Certificates of Participation	2,859,444		(99,356)	2,760,088	104,131
Construction Claim Payable	85,000		(85,000)		
Compensated Absences	48,747	3,394		52,141	
Other Postemployment Benefits	3,815	6,193	(2,378)	7,630	
Total	$ 14,613,343	$ 9,587	$ (519,791)	$ 14,103,139	$ 452,699

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, 2011 is $5,996,307.

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

Fiscal Year Ended June 30,	Principal	Interest	Total
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	205,000	258,441	463,441
2017-2021	1,185,000	1,124,205	2,309,205
2022-2026	1,525,000	787,205	2,312,205
2027-2031	1,885,000	357,705	2,242,705
2032	471,307	11,783	483,090
Total	$ 5,996,307	$ 3,668,228	$ 9,664,535

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, 2011 is $3,716,000.

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

Fiscal Year Ended June 30,	Principal	Interest	Total
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	65,000	155,318	220,318
2017-2021	368,000	729,360	1,097,360
2022-2026	460,000	636,525	1,096,525
2027-2031	572,000	520,875	1,092,875
2032-2036	713,000	376,987	1,089,987
2037-2041	891,000	197,123	1,088,123
2042-2043	415,000	18,877	433,877
Total	$ 3,716,000	$ 3,283,650	$ 6,999,650

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, 2011 are $1,368,337 and $206,636 respectively.

The remaining debt service payments are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2012	$ 106,884	$ 39,733	$ 146,617
2013	110,223	36,395	146,618
2014	113,428	33,190	146,618
2015	116,805	29,814	146,619
2016	120,229	26,389	146,618
2017-2021	657,338	75,753	733,091
2022	143,430	3,189	146,619
Total	$ 1,368,337	$ 244,463	$ 1,612,800

Fiscal Year Ended June 30,	Principal	Interest	Total
2012	$ 17,684	$ 5,871	$ 23,555
2013	18,233	5,321	23,554
2014	18,764	4,789	23,553
2015	19,322	4,231	23,553
2016	19,891	3,663	23,554
2017-2021	108,742	9,027	117,769
Total	$ 202,636	$ 32,902	$ 235,538

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, 2011 is $2,760,088.

Fiscal Year Ended June 30,	Principal	Interest	Total
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	125,641	108,372	234,013
2017-2021	724,806	445,260	1,170,066
2022-2026	916,560	253,506	1,170,066
2027-2029	545,553	39,479	585,032
Total	$ 2,760,088	$ 1,335,142	$ 4,095,230

Note 6: 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.

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 monthly lease expense for the postage machine is $104.

On May 9, 2011, the District renegotiated the office lease. The new lease commences August 1, 2011 and expires on July 31, 2014, at a cost of $2,250 per month. The new lease has an option to expend for one additional term of three years.

The total rental payments for all leasing arrangements charged to expenses were $27,339 and $28,755 for June 30, 2011 and 2010 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, 2011, the employer rate was 11.091% of annual covered salary. The contribution requirements of plan members and the District are established and may be amended by PERS.

For 2010-2011, the District's annual pension cost was $101,119, 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, 2010 and 2009 were $97,381 and $90,771, 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.

The District has entered into a contract with KAT Construction for $956,007 (including change orders), for CIP Phase IV-B Project 2 Distribution System Improvements. As of June 30, 2011, the District has paid KAT Construction a total of $849,112.

The District has entered into a contract with W.R. Forde Associates for $975,321 (including change orders), for CIP Phase IV-B Project 1 Distribution System and Storage Improvements. As of June 30, 2011, the District has paid W.R. Forde Associates a total of $868,861.

The District has entered into a contract with W.R. Forde Associates for $221,565 (including change orders), for CIP Phase IV-B Project 2 Addition Distribution System Improvements. As of June 30, 2011, the District has paid W.R. Forde Associates a total of $138,845.

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 ($105 and $108 for the calendar year 2010 and 2011 respectively).

Funding Policy

The District's policy is to contribute an amount sufficient to pay the current year's premium. For fiscal year 2010-11, the District contributed $2,378, which covered current premiums, but did not include any additional prefunding of benefits. Currently, there are 2 retirees who are receiving benefits.

Note 12: Post Retirement Health Insurance (Continued)

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.

Annual required contribution	$	6,193
Annual OPEB cost (expense)		6,193
Contributions made		(2,378)
Increase in net OPEB obligation		3,815
Net OPEB obligation - beginning of fiscal year		3,815
Net OPEB obligation - end of fiscal year	$	7,630

The District 's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2009-10 and 2010-11 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contribution	OPEB Obligation (Asset)
6/30/2010	$ 6,085	37%	$ 3,815
6/30/2011	6,193	38%	7,630

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.

Note 12: Post Retirement Health Insurance (Continued)

Actuarial Methods and Assumptions

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.

SWEETWATER SPRINGS WATER DISTRICT

Required Supplementary Information
June 30, 2011

Other Postemployment Benefits

Schedule of Funding Progress

Valuation Date	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)
6/30/2010	$ 346,811	$ -	$ 346,811	0.0%	$ 659,280	52.6%

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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, 2011, and have issued our report thereon dated December 20, 2011. 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 December 20, 2011.

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 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

Moss, Levy & Hartzheim, LLP
Culver City, California
December 20, 2011