SWEETWATER SPRINGS WATER DISTRICT

BASIC FINANCIAL STATEMENTS

JUNE 30, 2013

SWEETWATER SPRINGS WATER DISTRICT
FINANCIAL STATEMENTS

JUNE 30, 2013

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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, 2013, 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 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 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.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District as of June 30, 2013, and the respective changes in financial position and cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the basic financial statements effective July 1, 2012, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 60, *Accounting and Financial Reporting for Service Concession Agreements*, Statement No. 61, *The Financial Reporting Entity: Omnibus*, Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, and Statement No. 63, *Financial Reporting of Deferred Outflows of Resource, Deferred Inflows of Resources, and Net Position.*

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 4 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 issue our report dated February 19, 2014, 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, 2012, and our report dated December 18, 2012, 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, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Moss, Levy & Hartzheim, LLP
Culver City, California
February 19, 2014

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, 2013. 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 2012-13. 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 2012-13 vs. 2011-12

Net income is up. Net income for the year before depreciation expense and Other Income (grant funding) was $859,841 compared to $718,564 in FY 2011-12.

Net position is up. Net position at fiscal year-end was $11,479,560, an increase of $745,819 from FY 2011-12.

Surplus revenue transferred to CIRF is down. In FY 2012-13, the District budgeted $220,000 in surplus operating revenues for transfer to the Capital Improvement Revenue Fund (CIRF) for future capital spending, less than the $240,000 budgeted in previous years.

Cash on hand is down. District cash at the end of the year totaled $4,662,829, $281,894 less than FY 2011-12. Of this amount, $3,613,540 is unrestricted.

Special Note for FY 2012-13: Change in accounting method for lump sum payments to CalPERS. The District has twice made lump sum payments to CalPERS -- $427,885 in 2004, and $230,511 in 2011. In the past, these payments were shown as an asset (Prepaid Retirement) and amortized over 15 years. This year's audit has concluded that this asset should be closed out to Net Position and future lump sum payments accounted for as a retirement expense in the fiscal year paid. Removing this asset resulted in a reduction to prior year Net Position of $414,823.

SELECTED EXPENSES

- The District spent $1,666,795 on capital improvement projects. The financial impact of this capital spending was a $1,029,279 increase in capital assets which reflects the amount that capital spending outpaced depreciation[1] of existing capital assets.
- The District spent $27,541 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 $1,086,634 on capital debt principal and interest payments.
- Operating Expenses before depreciation were $1,591,473, down 1% from FY 2011-12.

[1] Depreciation expense (a non-cash, accounting expense) totaled $628,643 in FY 2012-13.

SELECTED REVENUES

- The District received $910,829 in grant proceeds from the Community Development Commission (CDC)/redevelopment to help fund designated capital improvement projects. This is recorded as "Capital grants" on the Statement of Revenues, Expenses, and Changes in Net Position.
- The District received $2,191,787 from Water Sales, compared to $2,053,643 last fiscal year. Water rates were increased by 3% in FY 2012-13, the 2nd year of a 9-year plan to use rate increases to boost operating surpluses available for capital improvement projects up to an annual $500,000.

DISTRICT RESERVES AVAILABLE FOR SPENDING ("RESERVES ABOVE POLICY")

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, the District policy reserves were $1,132,099, leaving $3,206,882[2] available for spending. Below 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

District reserves are built up through surplus operating and capital revenues, loan proceeds, and grant funding. Similarly, District reserves are depleted by capital and operating expenses that exceed District surplus revenue, loan proceeds and grant funding. The District's long range budget calls for depleting a portion of District reserves above policy each year to accomplish the "catch-up" projects of the 2012-19 Capital Improvement Program needed to get the water system to an acceptable standard.

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.[3] The plan contemplates nine years of 3% water increases.[4] FY 2012-13 was the second year of this plan. Below is a table of *budgeted* (see FN 3 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)

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:

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[2] Source: 4th Quarter Actual vs. Budgeted report, modified to add back transfers from CIRF to Federal Bonds and State Loans for FY 13-14 payments.

[3] Actual surpluses may vary. For example, in FY 2012-13 budgeted operating surpluses were $220,000. At FYE, however, the District was able to transfer an additional $147,666 of unanticipated surplus revenue.

[4] "Sustainable Funding for Needed Capital Improvements", dated April 18, 2011.

The Statement of Net Position 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. 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 (Balance Sheet) in FY 2012-13 compared to FY 2011-12 is presented in Table 1 below. Generally, an increase in the District's net position – the difference between assets and liabilities – is a good indicator of whether its financial health is improving or deteriorating. The District's net position increased by $745,819 to $11,479,560 at FYE 2013, up from $10,733,741 at FYE 2012.

Table 1
Condensed Statement of Net Position

	FYE 2013	FYE 2012	$ Change	% Change
Cash	4,662,829	4,944,723	(281,894)	-5.7%
Capital Assets	19,937,624	18,908,345	1,029,279	5.4%
Other Assets	416,297	825,695	(409,398)	-49.6%
Total Assets	**25,016,750**	**24,678,762**	**337,988**	**1.4%**
Bond & Loan principal debt outstanding	13,121,077	13,590,669	(469,592)	-3.5%
Other long-term liabilities	66,488	54,563	11,925	21.9%
Other short-term liabilities	349,625	299,789	49,836	16.6%
Total Liabilities	**13,537,190**	**13,945,021**	**(407,831)**	**-2.9%**
Net investment in capital assets	7,850,732	5,496,184	2,354,548	42.8%
Restricted	15,104	10,093	5,011	49.6%
Unrestricted	3,613,724	5,227,464	(1,613,740)	-30.9%
Total Net Position	**11,479,560**	**10,733,741**	**745,819**	**6.9%**

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

The Statement of Revenues, Expenses, and Changes in Net Position (Income Statement) 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 2012-13 versus FY 2011-12.

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

	FYE 2013	FYE 2012	$ Change	% Change
Water Sales	2,191,787	2,053,643	138,144	6.7%
Property Tax Assessment (flat charge)	753,091	738,661	14,430	2.0%
Non-Operating Revenues	143,952	143,856	96	0.1%
Total Revenues	**3,088,830**	**2,936,160**	**152,670**	**5.2%**
Operating Expenses:				
Salaries & Benefits	1,090,746	1,113,431	(22,685)	-2.0%
Services & Supplies	500,727	493,821	6,906	1.4%
Other		967	(967)	-100.0%
Total Operating Expenses	**1,591,473**	**1,608,219**	**(16,746)**	**-1.0%**
Non-Operating Expenses:				
Interest	610,028	630,649	(20,621)	-3.3%
Other	11,060		11,060	0.0%
Total Non-Operating Expenses	**621,088**	**630,649**	**(9,561)**	**-1.5%**
Total Expenses	**2,212,561**	**2,238,868**	**(26,307)**	**-1.2%**
Income before Other Items and Depreciation Expense	**876,269**	**697,292**	**178,977**	**25.7%**
Other income	910,829	623,968	286,861	46.0%
Other expense	0	0	0	0.0%
Depreciation Expense	(626,456)	(609,377)	(17,079)	2.8%
Change in Net Position (Net Income)	**1,160,642**	**711,883**	**448,759**	**63.0%**

As the table shows, Income before Other Items and Depreciation Expense was $178,977 more than last fiscal year, mostly due to the increase in Water Sales.

Total revenues were $3,088,830. Water Sales were up from last year due to a 3% rate increase and higher than anticipated usage compared to FY 2011-12. Flat charge revenue, collected via property tax bills, is expected to be flat from year to year and was normal in FY 2012-13. Non-operating revenues were up $96 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.

On the expense side, total expenses decreased $26,307 or 1.2%, mostly due to the removal of the prepaid expense which results in no more annual amortization.

After accounting for Grant revenues and Depreciation Expense, the District's Change in Net Position, or Net Income, was $1,160,642 compared to $711,883 in FY 2011-12 – a increase of $448,759. This difference was mostly due to increases in water sales and other income.

In FY 2012-13, the District spent $1,634,958 on major construction projects, broken down as follows:

Project	Project Description	Amount spent FY 2012-13	% complete at FYE 2013
CIP 2013 Piazza Construction	1940 lf of main replacement on Starrett Hill Road; 1440 lf of main replacement on Lovers Lane; 1270 lf of main replacement on Middle Terrace; 2505 lf of new main and appurtenances on Canyon Seven Road	$1,451,921	100% (Project total: $1,539,032)
CIP 2014 Piazza Construction	3900 lf of main replacement on Hidden Valley Road; 1800 lf of main replacement on Guernewood Lane	$151,566	11% (Project total: $1,382,780
CIP 2015	5800 lf of main replacement on Old Monte Rio Road from the Handy Andy Booster west	$31,471	3% (Project total: $950,000)
		$1,634,958	

In addition to these capital projects, the District spent $31,837 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 2012-13, the District owed a total of $13,590,669 in bond debt, state loans, and a private placement loan. The table below summarizes activity on the loans in FY 2012-13:

DEBT TYPE	ORIGINAL PRINCIPAL	PRINCIPAL OWED JULY 1, 2012	PRINCIPAL PAID FY 2012-13	PRINCIPAL OWED FYE 2013
Bonds	$8,000,000 (1992-96) $4,000,000 (2003)	$9,488,307	$232,000	$9,256,307
State Loans	$3,013,500 (1996)	$1,446,405	$128,456	$1,317,949
Private Placement Loan	$3,000,000 (2008)	$2,655,957	$109,136	$2,546,821
		$13,590,669	$469,592	$13,121,077

With interest, the payment on District bond and loan debt was $1,086,634. The District allocates revenue from flat charges, the CDR[5] portion of the Water Sales revenue, and capital interest to pay for annual principal and interest on debt, itemized for FY 2012-13 as shown below:

Flat Charges: $753,091

[5] CDR stands for "Capital Debt Reduction".

Flat Charges:	$753,091
CDR Revenue:	$238,267
Capital interest:	$24,165
Total:	**$1,015,523**

The shortfall from these sources of revenue -- $71,111 in FY 2012-13 -- comes from District reserves above policy.

At fiscal year end, the District is in the midst of investigating refinancing bond debt to a lower interest rate.[6] Currently, the District pays 5% interest on the 1992 bonds and 4.5% interest on the 2003 bonds.

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

The economy is recovering. However, 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.

Of larger impact to the District's financial future is the State's decision to terminate redevelopment programs. CIP 2013 - completed in June 2013 - was the final project to be supported with CDC/redevelopment funds, the District's sole source of grant funding in recent years. The loss of this source of grant funding is significant: in all the District received $4.53 million in CDC/Redevelopment grant funds over six years beginning in FY 2007-08.

The District's 2012-19 Capital Improvement Program identifies over $7.2 million of additional capital projects that still need to be completed to bring District facilities to an acceptable standard.[7] 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 three sources:

- **Surplus revenue**. The District has a plan to increase surplus revenue to $500,000 annually. In FY 2013-14 it is budgeted at $390,000.
- **Grants**. The District is not anticipating any grant revenue in the foreseeable future.
- **Loan proceeds.** The District's indebtedness was over $13 million at the end of FY 2012-13. There is no plan to take on additional debt in the foreseeable future.

For this period (2012-19), the District's longterm 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.

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.

[6] As of the writing of this report, the District completed a refunding of $7,645,307 in bond principal to bonds that carry a rate of 3.6% over a 20-year term. More information about the refunding will be provided in the FY 13-14 report.
[7] Source: 2014-19 Capital Improvement Program

SWEETWATER SPRINGS WATER DISTRICT
STATEMENT OF NET POSITION
June 30, 2013
With Comparative Totals at June 30, 2012

	Totals June 30, 2013	Totals June 30, 2012
ASSETS		
CURRENT ASSETS		
Cash and investments	$ 3,613,540	$ 4,756,122
Accounts receivable	304,889	282,334
Rent receivable		12,000
Flat charges receivables	56,410	67,181
Inventory	54,998	49,356
Prepaid expenses		43,893
TOTAL CURRENT ASSETS	4,029,837	5,210,886
NONCURRENT ASSETS		
Land	143,053	143,053
Construction in progress	183,037	1,479,661
Buildings and improvements	26,368,767	23,436,543
Machinery and equipment	564,822	544,687
Less-accumulated depreciation	(7,322,055)	(6,695,599)
TOTAL CAPITAL ASSETS, NET	19,937,624	18,908,345
OTHER NONCURRENT ASSETS		
Prepaid expenses		370,930
Restricted cash and investments	1,049,289	188,601
TOTAL OTHER NONCURRENT ASSETS	1,049,289	559,531
TOTAL ASSETS	25,016,750	24,678,762
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	92,652	42,470
Accrued wages	19,585	18,987
Accrued interest	206,747	213,761
Customer deposits	15,537	14,478
Road maintenance obligations	15,104	10,093
Current portion of long term debt	490,574	469,592
TOTAL CURRENT LIABILITIES	840,199	769,381
LONG TERM LIABILITIES		
Compensated absences	52,012	43,479
General obligation bonds payable	9,012,307	9,256,307
California safe drinking water bonds payable	1,185,756	1,317,949
Citizens business bank (COP) payable	2,432,440	2,546,821
Other postemployment benefits payable	14,476	11,084
TOTAL LONG TERM LIABILITIES	12,696,991	13,175,640
TOTAL LIABILITIES	13,537,190	13,945,021
NET POSITION		
Net Investment in capital assets	7,850,732	5,496,184
Restricted for road maintenance	15,104	10,093
Unrestricted	3,613,724	5,227,464
TOTAL NET POSITION	$ 11,479,560	$ 10,733,741

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, 2013
With Comparative Totals for the Fiscal Year Ended June 30, 2012

	Totals June 30, 2013	Totals June 30, 2012
Operating Revenues		
Charges for services	$ 2,191,787	$ 2,053,643
Total Operating Revenues	2,191,787	2,053,643
Operating Expenses		
Salaries and employee benefits	1,090,746	1,113,431
Service and supplies	500,727	493,821
Repair and Maintenance		967
Depreciation	626,456	609,377
Total Operating Expenses	2,217,929	2,217,596
Operating Income (Loss)	(26,142)	(163,953)
Non-Operating Revenues (Expenses)		
Interest income	41,469	67,114
Rents	77,557	59,765
Flat charges	753,091	738,661
Other non-operating revenue	24,926	16,977
Loss on disposal of capital assets	(11,060)	
Interest expense	(610,028)	(630,649)
Total Non-Operating Revenues (Expenses)	275,955	251,868
Net Income (Loss) Before Capital Contributions	249,813	87,915
Capital Contributions		
Capital grants	910,829	623,968
Total Capital Contributions	910,829	623,968
Change in Net Position	1,160,642	711,883
Total Net Position, Beginning of Fiscal Year	10,733,741	10,021,858
Prior Period Adjustments	(414,823)	
Total Net Position, Beginning of Fiscal Year, Restated	10,318,918	10,021,858
Total Net Position, End of Fiscal Year	$ 11,479,560	$ 10,733,741

See accompanying notes to basic financial statements

SWEETWATER SPRINGS WATER DISTRICT
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2013
With Comparative Totals for the Fiscal Year Ended June 30, 2012

	Totals June 30, 2013	Totals June 30, 2012
Cash Flows From Operating Activities		
Cash received from customers	$ 2,170,291	$ 2,131,388
Payments to suppliers for goods and services	(451,176)	(692,026)
Payments to employees and related items	(1,078,223)	(1,071,695)
Net cash flows provided by operating activities	640,892	367,667
Cash Flows From Capital and Related Financing Activities		
Acquisition of capital assets	(1,666,795)	(1,307,093)
Payment on long term debt	(469,592)	(452,699)
Interest payments	(617,042)	(637,055)
Capital grant contributions	910,829	623,968
Net cash flows (used) by capital and related financing activities	(1,842,600)	(1,772,879)
Cash Flows From Non-Capital and Related Financing Activities		
Flat charges	763,862	738,127
Miscellaneous non-operating revenues	24,926	16,977
Net cash provided by non-capital and related financing activities	788,788	755,104
Cash Flows From Investing Activities		
Rents	89,557	71,589
Interest income	41,469	67,114
Net cash flows provided by investing activities	131,026	138,703
Net Increase (Decrease) in Cash and Investments	(281,894)	(511,405)
Cash and Investments, Beginning of Fiscal Year	4,944,723	5,456,128
Cash and Investments, End of Fiscal Year	$ 4,662,829	$ 4,944,723
Reconciliation of Cash and Investments to Amounts Reported on the Statement of Net Position:		
Cash and investments	$ 3,613,540	$ 4,756,122
Restricted cash and investments	1,049,289	188,601
	$ 4,662,829	$ 4,944,723
Supplemental Disclosures:		
Interest expense during the fiscal year	$ 610,028	$ 630,649
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, 2013
With Comparative Totals for the Fiscal Year Ended June 30, 2012
(Continued)

	Totals June 30, 2013	Totals June 30, 2012
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operations:		
Operating income (loss)	$ (26,142)	$ (163,953)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation	626,456	609,377
(Increase) Decrease in Operating Assets:		
Accounts receivable	(22,555)	78,992
Inventory	(5,642)	7,480
Prepaid expenses		43,893
Increase (Decrease) in Operating Liabilities:		
Accounts payable	50,182	(209,723)
Accrued wages	598	3,051
Compensated absences	8,533	(8,662)
Customer deposits payable	1,059	(1,247)
Road maintenance obligations	5,011	5,005
Other postemployment benefits payable	3,392	3,454
Total Adjustments	667,034	531,620
Net Cash Provided by Operating Activities	$ 640,892	$ 367,667

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, 2013 and 2012, accrued vacation pay amounted to $52,012 and $43,479 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 2012 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 No. 60, 61, 62, and 63 during the fiscal year ended June 30, 2013.

Governmental Accounting Standards Board Statement No. 60

Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements." This Statement is effective for periods beginning after December 15, 2011. The objective of this Statement is to improve financial reporting by addressing issues related to Service Concession Arrangements. This Statement improves consistency in reporting and enhances the comparability of the accounting and financial reporting of Service Concession Arrangements among state and local governments. Implementation of the GASB Statement No. 60, did not have an impact on the District's financial statements for the fiscal year ended June 30, 2013.

Governmental Accounting Standards Board Statement No. 61

For the fiscal year ended June 30, 2013, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 61 "The Financial Reporting Entity: Omnibus." This statement is effective for periods beginning after June 15, 2012. The objective of this Statement is to improve financial reporting for component units. The Statement modifies certain requirements for inclusion of component units in the financial reporting entity and clarifies the reporting of equity interests in legally separate organizations. Implementation of the GASB Statement No. 61, did not have an impact on the District's financial statements for the fiscal year ended June 30, 2013.

Governmental Accounting Standards Board Statement No. 62

For the fiscal year ended June 30, 2013, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 62 "Codification of Accounting and Financial Reporting Guidance Contained in *Pre*-November 30, 1989 FASB and AICPA Pronouncements." This Statement is effective for periods beginning after December 15, 2011. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the FASB and AICPA pronouncements issued on or before November 30, 1989. This Statement specifically identifies and consolidates the accounting and financial reporting provisions that apply to state and local governments. Implementation of the GASB Statement No. 62 and the impact of the District's financial statements are explained in Note 1C.

Governmental Accounting Standards Board Statement No. 63

For the fiscal year ended June 30, 2013, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position." This Statement is effective for periods beginning after December 15, 2011. The objective of this Statement is to establish guidance for reporting deferred outflows or resources, deferred inflows of resources, and net position in a statement of financial position. This Statement sets forth framework that specifies where deferred outflows of resources and deferred inflows of resources, as well as assets and liabilities should be displayed. This Statement also specifies how net position, no longer referred to as net position, should be displayed. Implementation of the Statement and the impact on the District's financial statements are explained in Note 8 – Net Position.

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, 2013:

	Unrestricted	Restricted	Totals
Cash on hand	$ 500	$ -	$ 500
Cash in bank	103,867	15,104	118,971
Cash and investments	3,509,173	1,034,185	4,543,358
Total Cash and Investments	$ 3,613,540	$ 1,049,289	$ 4,662,829

Statement of Net Position:	
Cash and investments	$ 3,613,540
Restricted cash and investments	1,049,289
Total	$ 4,662,829

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.

Note 2: Cash and Investments (Continued)

Disclosures Relating to Interest Rate Risk (Continued)

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	$ 4,543,358	$ 4,543,358	$ -	$ -	$ -	$ -	$ -
	$ 4,543,358	$ 4,543,358	$ -	$ -	$ -	$ -	$ -

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	$ 4,543,358	N/A	$ -	$ -	$ -	$ -	$ 4,543,358
Total	$ 4,543,358		$ -	$ -	$ -	$ -	$ 4,543,358

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There is one investment (Redwood Credit Union Certificate of Deposit) that represents 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, 2013, 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, 2013, was as follows:

	Balance at July 1, 2012	Additions	Deletions	Transfers	Balance at June 30, 2013
Capital assets, not being depreciated:					
Land	$ 143,053	$ -	$ -	$ -	$ 143,053
Construction in progress	1,479,661	1,634,958	(11,060)	(2,920,522)	183,037
Total capital assets, not being depreciated	1,622,714	1,634,958	(11,060)	(2,920,522)	326,090
Capital Assets, being depreciated:					
Building and improvements	23,436,543	11,702		2,920,522	26,368,767
Machinery and equipment	544,687	20,135			564,822
Total capital assets, being depreciated	23,981,230	31,837		2,920,522	26,933,589
Accumulated depreciation:					
Building and improvements	(6,189,152)	(607,676)			(6,796,828)
Machinery and equipment	(506,447)	(18,780)			(525,227)
Total accumulated depreciation	(6,695,599)	(626,456)			(7,322,055)
Total depreciable assets, net	17,285,631	(594,619)		2,920,522	19,611,534
Total capital assets, net	$ 18,908,345	$ 1,040,339	$ (11,060)	$ -	$ 19,937,624

Note 3: Capital Assets (Continued)

Depreciation expense of $626,456 and $609,377 were incurred and were recorded as an operating expense for June 30, 2013 and 2012 respectively.

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, 2013:

	Balance at July 1, 2012	Additions	Repayments	Balance at June 30, 2013	Due Within One Year
1992 General Obligation Bonds	$ 5,826,307	$ -	$ (175,000)	$ 5,651,307	$ 185,000
2003 General Obligation Bonds	3,662,000		(57,000)	3,605,000	59,000
California Safe Drinking Bonds	1,446,405		(128,456)	1,317,949	132,192
Citizens Business Bank Certificates of Participation	2,655,957		(109,136)	2,546,821	114,382
Compensated Absences	43,479	49,112	(40,579)	52,012	
Other Postemployment Benefits	11,084	6,116	(2,724)	14,476	
Total	$ 13,645,232	$ 55,228	$ (512,895)	$ 13,187,565	$ 490,574

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, 2013 is $5,651,307.

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

Fiscal Year Ended June 30,	Principal	Interest	Total
2014	$ 185,000	$ 277,941	$ 462,941
2015	195,000	268,441	463,441
2016	205,000	258,441	463,441
2017	215,000	247,941	462,941
2018	225,000	236,941	461,941
2019-2023	1,310,000	999,580	2,309,580
2024-2028	1,680,000	627,080	2,307,080
2029-2032	1,636,307	169,356	1,805,663
Total	$ 5,651,307	$ 3,085,721	$ 8,737,028

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 1 and March 1 in each year to maturity. The balance at June 30, 2013 is $3,605,000.

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

Fiscal Year Ended June 30,	Principal	Interest	Total
2014	$ 59,000	$ 160,897	$ 219,897
2015	62,000	158,175	220,175
2016	65,000	155,318	220,318
2017	67,000	152,347	219,347
2018	70,000	149,265	219,265
2019-2023	403,000	694,688	1,097,688
2024-2028	502,000	593,235	1,095,235
2029-2033	624,000	467,100	1,091,100
2034-2038	780,000	309,825	1,089,825
2039-2043	973,000	113,287	1,086,287
Total	$ 3,605,000	$ 2,954,137	$ 6,559,137

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, 2013 are $1,151,229 and $166,720 respectively.

The remaining debt service payments are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2014	$ 113,428	$ 33,190	$ 146,618
2015	116,805	29,814	146,619
2016	120,229	26,389	146,618
2017	123,909	22,709	146,618
2018	127,549	19,069	146,618
2019-2022	549,309	37,164	586,473
Total	$ 1,151,229	$ 168,335	$ 1,319,564

Note 4: Long-Term Debt (Continued)

California Safe Drinking Bonds Payable (Continued)

Fiscal Year Ended June 30,	Principal	Interest	Total
2014	$ 18,764	$ 4,789	$ 23,553
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
2019-2021	67,145	3,517	70,662
Total	$ 166,720	$ 21,710	$ 188,430

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, 2013 is $2,546,821.

Fiscal Year Ended June 30,	Principal	Interest	Total
2014	$ 114,382	$ 119,632	$ 234,014
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
2019-2023	796,154	373,911	1,170,065
2024-2028	1,006,785	163,283	1,170,068
2029	114,291	2,714	117,005
Total	$ 2,546,821	$ 1,080,383	$ 3,627,204

Note 5: Operating Leases

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

The District has also entered into an operating lease arrangement as lessee for a postage machine. The 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 $28,344 and $28,344 for June 30, 2013 and 2012 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.

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, 2013, the employer rate was 9.716% of annual covered salary. The contribution requirements of plan members and the District are established and may be amended by PERS.

For 2012-2013, the District's annual pension cost was $117,554, 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, 2013, 2012, and 2011 were $117,554, $112,612, and $101,119, 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 entered into a contract with Piazza Construction for $981,241 (including change orders), for construction of the 2014 Capital Improvement Project (CIP). As of June 30, 2013, the District has paid Piazza Construction a total of $0.

The District has entered into a contract with Coastland Civil Engineering Inc. for an estimated cost of $441,526 (including change orders), for design and inspection and construction management for the 2014 and 2015 Capital Improvement Projects (CIPs). As of June 30, 2013, the District has paid Coastland Engineering Inc. a total of $129,944 for CIP 2014 and $31,470 for CIP 2015.

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 ($112 and $115 for the calendar year 2012 and 2013 respectively).

Note 11: Post Retirement Health Insurance (Continued)

Funding Policy

The District's policy is to contribute an amount sufficient to pay the current year's premium. For fiscal year 2011-12, the District contributed $2,724, 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.

Annual OPEB and Net OPEB Obligation (Continued)

Annual required contribution	$ 6,333
Interest on net OPEB obligation	366
Adjustment to ARC	(583)
Annual OPEB cost (expense)	6,116
Contributions made	(2,724)
Increase in net OPEB obligation	3,392
Net OPEB obligation - beginning of fiscal year	11,084
Net OPEB obligation - end of fiscal year	$ 14,476

The District 's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2010-11, 2011-12, and 2012-13 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contribution	OPEB Obligation (Asset)
6/30/2011	$ 6,193	38%	$ 7,630
6/30/2012	6,094	43%	11,084
6/30/2013	6,116	45%	14,476

Funded Status and Funding Progress

As of June 30, 2013, the most recent Alternate Measurement Method valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was $335,607, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $335,607. The covered payroll (annual payroll of active employees covered by the plan) was $701,805, and the ratio of the UAAL to the covered payroll was 47.8 percent.

Note 11: Post Retirement Health Insurance (Continued)

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 (valuation) methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 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: Prior Period Adjustment

A prior period adjustment of ($414,823) was made on the Statement of Revenues, Expenses, and Changes in Net Position for an overstatement of prepaid expenses in the prior fiscal year. This was due to the payoff of the CalPERS side fund in prior fiscal years which was a payoff of a long-term debt and not a prepayment of expenses.

Note 13: Subsequent Event

On August 21, 2013, the District issued the 2013 General Obligation Refunding Bond in the amount of $7,993,000, which refunded the 1992 General Obligation Bonds and partially refunded the 2003 General Obligation Bonds.

Management of the District has evaluated subsequent events through February 19, 2014, 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, 2013

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