SWEETWATER SPRINGS WATER DISTRICT

BASIC FINANCIAL STATEMENTS

JUNE 30, 2012

SWEETWATER SPRINGS WATER DISTRICT
FINANCIAL STATEMENTS

JUNE 30, 2012

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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, 2012, 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, 2012, 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, 2011, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions.*

In accordance with *Government Auditing Standards*, we have also issued a report dated December 18, 2012, 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 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.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Culver City, California
December 18, 2012

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, 2012. It serves as an introduction to the financial statements contained in the Audit Report and a summary of major activities of the District for the year.

The Discussion begins with a selection of financial activities that management considers worthy of special note for FY 2011-12. 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 2011-12 vs. 2010-11

Net income is down. Net income for the year before depreciation expense and Other Income (capital grants) was $697,292 compared to $800,350 in FY 2010-11.

Net assets are up. Net assets at fiscal year end were $10,733,741, an increase of $711,883 from FY 2010-11.

Surplus funds transferred to CIRF are the same. In FY 2011-12, the District transferred $240,000 in surplus operating revenues to the Capital Improvement Revenue Fund (CIRF) for future capital spending, about the same as in previous years.

Cash on hand is down. District cash at the end of the year totaled $4,944,723, $511,405 less than FY 2010-11. Of this amount, $3,475,659 is considered available for spending on future capital improvement projects.

SELECTED EXPENDITURES

- The District spent $1,301,480 on **capital improvement projects**, and $5,613 on equipment. The financial impact of this capital spending was a $697,716 increase in capital assets which reflects the amount that capital spending outpaced depreciation[1] of existing capital assets.
- The District spent $20,845 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 $1,083,348 on **capital debt principal and interest payments.**
- **Operating Expenses** were $1,608,219, not including depreciation, up 3.7% from FY 2010-11.

SELECTED REVENUES

- The District received $623,968 in **grant proceeds** from the Community Development Commission (CDC)/redevelopment to help fund designated capital improvement projects. This is recorded as “Other Income” on the Statement of Revenues, Expenses and Changes to Net Assets.

[1] Depreciation expense (a non-cash, accounting expense) totaled $609,377 in FY 2011-12.

- The District received $2,053,643 from **Water Sales**. Water rates were increased by 1.8% in FY 2011-12.

- **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 was to contribute $10,000 to the District each year for five years for ongoing costs of the Toilet Rebate Program, plus annual CUWCC membership dues thru 2019. However, in FY 2011-12 the District waived it's right to the funds for the Toilet Rebate Program and instead used these funds to implement a Direct (Toilet) Install Program for customers ineligible for SCWA's Direct Install Program. The Direct Install Program is administered by SCWA and will continue until the funding per the District's Agreement with SCWA runs out.

- **Settlement with Crystal Communications.** At fiscal year end, the District agreed to swap past rent owed by Crystal Communications for new radio equipment valued at $26,000. The radios will be booked as an asset at a cost of $16,000 in FY 2012-13, offset by $12,000 of receivables in FY 2011-12, and $4,000 of rent waived in FY 2012-13.

DISTRICT RESERVES

At fiscal year end, the District had $3,475,659[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 reserves to pay for capital spending in excess of operating surpluses. 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

In recent years, grants secured from CDC/redevelopment have kept reserves available for capital spending robust. In FY 2011-12, operating surpluses earmarked for capital spending were $240,000 compared to capital expenditures of $1,301,480. The difference, $1,061,480, was partially offset by CDC/redevelopment grant funding totaling over $600,000, but that source of grant funding will only continue through FY 2012-13. Absent a new source of grant funding, staff anticipates that reserves available for capital spending will be depleted by the end of FY 2016-17.

II. BASIC FINANCIAL STATEMENTS

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

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

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

All of the current 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.

STATEMENT OF NET ASSETS

A summary of the District's Statement of Net Assets (Balance Sheet) in FY 2011-12 compared to FY 2010-11 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 $711,883 to $10,733,741 at FYE 2012, up from $10,021,858 at FYE 2011.

Table 1
Condensed Statement of Net Assets

	FYE 2012	FYE 2011	$ Change	% Change
Cash	4,944,723	5,456,128	(511,405)	-9.4%
Capital Assets	18,908,345	18,210,629	697,716	3.8%
Other Assets	825,694	967,349	(141,655)	-14.6%
Total Assets	**24,678,762**	**24,634,106**	**44,656**	**0.2%**
Bond & Loan principal debt outstanding	13,590,669	14,043,368	(452,699)	-3.2%
Other long-term liabilities	54,563	59,771	(5,208)	-8.7%
Other short-term liabilities	299,789	509,109	(209,320)	-41.1%
Total Liabilities	**13,945,021**	**14,612,248**	**(667,227)**	**-4.6%**
Capital assets net of related debt	5,317,676	4,167,261	1,150,415	27.6%
Restricted cash	0	833,030	(833,030)	-100.0%
Unrestricted cash	4,944,723	4,623,098	321,625	7.0%
Net other assets	471,342	398,469	72,873	18.3%
Total Net Assets	**10,733,741**	**10,021,858**	**711,883**	**7.1%**

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 in FY 2011-12 versus FY 2010-11.

	FYE 2012	FYE 2011	$ Change	% Change
Water Sales	2,053,643	2,018,065	35,578	1.8%
Property Tax Assessment (flat charge)	738,661	810,292	(71,631)	-8.8%
Non-Operating Revenues	143,856	172,875	(29,019)	-16.8%
Total Revenues	**2,936,160**	**3,001,232**	**(65,072)**	**-2.2%**
Operating Expenses:				
Salaries & Benefits	1,113,431	1,085,675	27,756	2.6%
Services & Supplies	493,821	465,511	28,310	6.1%
Repair & Maintenance	967	0	967	100.0%
Total Operating Expenses	**1,608,219**	**1,551,186**	**57,033**	**3.7%**
Non-Operating Expenses:				
Interest	630,649	649,695	(19,046)	-2.9%
Total Non-Operating Expenses	**630,649**	**649,695**	**(19,046)**	**-2.9%**
Total Expenses	**2,238,868**	**2,200,881**	**37,987**	**1.7%**
Income before Other Items and Depreciation Expense	**697,292**	**800,351**	**(103,059)**	**-12.9%**
Other Income	623,968	1,584,133	(960,165)	-60.6%
Depreciation Expense	(609,377)	(576,797)	(32,580)	5.6%
Change in Net Assets (Net Income)	**711,883**	**1,807,687**	**(1,095,804)**	**-60.6%**

As the table shows, Income before Other Items and Depreciation Expense was $697,292, less than last year's income by $103,059 or 12.9%, mostly due to decreases in flat charge revenue and across-the-board increases in operating expenses.

Total revenues were $2,936,160, just under last year's revenues. Due to a 3% rate increase, water sales were up slightly even as District customers used less water. Flat charge revenue was back to normal this year – last year's revenues were inflated due to a one-time large construction project. Non-operating revenues were down $29,019, from the prior 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; (3) construction of new services during the year; and more recently (4) reimbursement from SCWA for the District's Toilet Rebate Program. Interest rates on District cash remain sluggish and new construction remains slow. Rents were also down due to a partial write-off of past due amounts owed by tenant Crystal Communications, discussed earlier in this report. Finally, and also discussed earlier, the reimbursement from SCWA has been exchanged beginning in FY 2011-12 for their services in administering the Direct Install Program.

On the expense side, total expenses increased $37,987 (1.7%), mostly due to across the board increases in Operating Expenses.

After accounting for Other Items and Depreciation Expense, the District's Change in Net Assets, or Net Income, was $711,883 compared to $1,807,687 in FY 2010-11 – a decrease of $1,095,804. This difference was almost entirely due to a decrease in grant revenue. The decrease reflects that – unlike last year - one of the two major projects constructed in FY 2011-12 was not subsidized with grant funding.

III. CAPITAL SPENDING

In FY 2011-12, the District spent $1,301,480 on major construction projects, broken down as follows:

Project	Project Description	Amount spent FY 2011-12	% complete at FYE 2012
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	$56,435	98% (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	$612,430	100% (Project total: App. $696,832)
CIP 2012 – Eastern/Western (Guerneville) portion	3,100 lf of main replacement on Western, Eastern, and Northern Avenues, and Orchard Lane	$545,503	100% (Project total:. $552,494)
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	$87,112	5% (Project total: $1,696,311)
		$1,301,480	

CIP 2012, Foothill Drive project / KAT Construction **(Completed January 2012; Cost: $696,832)**
Replacement of approximately 1000 lf of new 8" main pipe and appurtenances on Foothill Drive in Monte Rio from B Street northwesterly to end of existing 8" main 1600 lf of 6" main and services on Riverlands Road (Guerneville) Replacement of 36 services 4 fire hydrants 2" asphalt overlay on affected roads

CIP 2012, Eastern, Western and Northern Avenues; Orchard Lane / KAT Construction (Completed June 2012, Cost: $552,494)
Replacement of approximately 3100 lf of existing main pipe and appurtenances for Western, Eastern and Northern Avenues, and Orchard Land Replacement of 94 services 5 fire hydrants 2" asphalt overlay on affected roads

Completion of CIP IV-B, Project 2 was stalled due to complications with the Rio Vista addition portion of that project. At issue at fiscal year end was the financial responsibility for investigation and replacement of approximately 26 saddles in this section of the project, where at least four saddles had already failed. Replacement costs are estimated at $60,000, plus the cost of the investigation (app. $18,000).

The CIP 2012 – Foothill project and CIP 2013 project 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 $623,968 in FY 2011-12.

In addition to these capital projects, the District spent $20,854 on various in-house large maintenance projects. The only large equipment purchased in FY 2011-12 was a new copier costing $5,613.

IV. DISTRICT DEBT

At the beginning of FY 2011-12, the District owed a total of $14,043,369 in bonded debt, state loans, and a private placement loan. The table below summarizes activity on the loans in FY 2011-12:

DEBT TYPE	ORIGINAL PRINCIPAL	PRINCIPAL OWED JULY 1, 2011	PRINCIPAL PAID FY 2011-12	PRINCIPAL OWED FYE 2012
Bonds	$8,000,000 (1992-96) $4,000,000 (2003)	$9,712,307	$224,000	$9,488,307
Sta te Loans	$3,013,500 (1996)	$1,570,973	$124,568	$1,446,405
Private Placement Loan	$3,000,000 (2008)	$2,760,088	$104,131	$2,655,957
		$14,043,368	$452,699	$13,590,669

With interest, yearly payments on District bond and loan debt are approximately $1,083,348.

V. ECONOMIC FACTORS AND PROJECTED CAPITAL EXPENDITURES

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 2011-12, interest rates remained 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 abolish redevelopment programs. The District has received over $3.5 million in CDC/redevelopment grant funding beginning in FY 2008-09. The CIP 2013 project, which will be completed next year, is the final project that will be subsidized with CDC/redevelopment funds. As discussed earlier in this report, **future capital project financing** will require use of District reserves above policy and operating surpluses.

The District has budgeted approximately $1.7 million for CIP 2013. After that, the District's Capital Improvement Program identifies over $7.2 million of additional capital project that still need to be completed. The District's long term budget[3] shows reserves and operating surpluses will be available for projects planned through FY 2016-17 at a cost of about $900,000 annually. After that year, the budget shows years in which no capital spending occurs for lack of available funds.

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.

[3] Source: 2014-19 Capital Improvement Program

SWEETWATER SPRINGS WATER DISTRICT
STATEMENT OF NET ASSETS
June 30, 2012
With Comparative Totals at June 30, 2011

	Totals June 30, 2012	Totals June 30, 2011
ASSETS		
CURRENT ASSETS		
Cash and investments	$ 4,740,051	$ 4,402,931
Accounts receivable	282,334	361,326
Rent receivable	12,000	23,824
Flat charges receivables	67,181	66,647
Inventory	49,356	56,836
Prepaid expenses	43,893	43,893
TOTAL CURRENT ASSETS	5,194,815	4,955,457
NONCURRENT ASSETS		
Land	143,053	143,053
Construction in progress	1,479,661	1,427,508
Buildings and improvements	23,436,543	22,187,216
Machinery and equipment	544,687	545,512
Less-accumulated depreciation	(6,695,599)	(6,092,660)
TOTAL CAPITAL ASSETS, NET	18,908,345	18,210,629
OTHER NONCURRENT ASSETS		
Prepaid expenses	370,930	414,823
Restricted cash and investments	204,672	1,053,197
TOTAL OTHER NONCURRENT ASSETS	575,602	1,468,020
TOTAL ASSETS	24,678,762	24,634,106
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	42,470	252,193
Accrued wages	18,987	15,936
Accrued interest	213,761	220,167
Customer deposits	14,478	15,725
Road maintenance obligations	10,093	5,088
Current portion of long term debt	469,592	452,699
TOTAL CURRENT LIABILITIES	769,381	961,808
LONG TERM LIABILITIES		
Compensated absences	43,479	52,141
General obligation bonds payable	9,256,307	9,488,307
California safe drinking water bonds payable	1,317,949	1,446,405
Citizens business bank (COP) payable	2,546,821	2,655,957
Other postemployment benefits payable	11,084	7,630
TOTAL LONG TERM LIABILITIES	13,175,640	13,650,440
TOTAL LIABILITIES	13,945,021	14,612,248
NET ASSETS		
Invested in capital assets, net of related debt	5,317,676	4,167,261
Restricted		833,030
Unrestricted	5,416,065	5,021,567
TOTAL NET ASSETS	$ 10,733,741	$ 10,021,858

See accompanying notes to basic financial statements

SWEETWATER SPRINGS WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Fiscal Year Ended June 30, 2012
With Comparative Totals for the Fiscal Year Ended June 30, 2011

	Totals June 30, 2012	Totals June 30, 2011
Operating Revenues		
Charges for services	$ 2,053,643	$ 2,018,065
Total Operating Revenues	2,053,643	2,018,065
Operating Expenses		
Salaries and employee benefits	1,113,431	1,085,675
Service and supplies	493,821	465,511
Repair and Maintenance	967	
Depreciation	609,377	576,797
Total Operating Expenses	2,217,596	2,127,983
Operating Income (Loss)	(163,953)	(109,918)
Non-Operating Revenues (Expenses)		
Interest income	67,114	59,959
Rents	59,765	82,444
Flat charges	738,661	810,292
Other non-operating revenue	16,977	30,472
Interest expense	(630,649)	(649,695)
Total Non-Operating Revenues (Expenses)	251,868	333,472
Net Income (Loss) Before Capital Contributions	87,915	223,554
Capital Contributions		
Capital grants	623,968	1,584,133
Total Capital Contributions	623,968	1,584,133
Change in Net Assets	711,883	1,807,687
Total Net Assets, Beginning of Fiscal Year	10,021,858	8,214,171
Total Net Assets, End of Fiscal Year	$ 10,733,741	$ 10,021,858

See accompanying notes to basic financial statements

SWEETWATER SPRINGS WATER DISTRICT
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2012
With Comparative Totals for the Fiscal Year Ended June 30, 2011

	Totals June 30, 2012	Totals June 30, 2011
Cash Flows From Operating Activities		
Cash received from customers	$ 2,131,388	$ 1,894,348
Payments to suppliers for goods and services	(692,026)	(375,692)
Payments to employees and related items	(1,071,695)	(1,277,670)
Net cash flows provided by operating activities	367,667	240,986
Cash Flows From Capital and Related Financing Activities		
Acquisition of capital assets	(1,307,093)	(2,284,611)
Payment on long term debt	(452,699)	(517,413)
Interest payments	(637,055)	(655,978)
Capital grant contributions	623,968	1,584,133
Net cash flows (used) by capital and related financing activities	(1,772,879)	(1,873,869)
Cash Flows From Non-Capital and Related Financing Activities		
Flat charges	738,127	810,005
Miscellaneous non-operating revenues	16,977	30,472
Net cash provided by non-capital and related financing activities	755,104	840,477
Cash Flows From Investing Activities		
Rents	71,589	68,044
Interest income	67,114	59,959
Net cash flows provided by investing activities	138,703	128,003
Net Increase (Decrease) in Cash and Investments	(511,405)	(664,403)
Cash and Investments, Beginning of Fiscal Year	5,456,128	6,120,531
Cash and Investments, End of Fiscal Year	$ 4,944,723	$ 5,456,128
Reconciliation of Cash and Investments to Amounts Reported on the Statement of Net Assets:		
Cash and investments	$ 4,740,051	$ 4,402,931
Restricted cash and investments	204,672	1,053,197
	$ 4,944,723	$ 5,456,128
Supplemental Disclosures:		
Interest expense during the fiscal year	$ 630,649	$ 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, 2012
With Comparative Totals for the Fiscal Year Ended June 30, 2011
(Continued)

	Totals June 30, 2012	Totals June 30, 2011
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operations:		
Operating income (loss)	$ (163,953)	$ (109,918)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation	609,377	576,797
(Increase) Decrease in Operating Assets:		
Accounts receivable	78,992	(124,167)
Inventory	7,480	(26,836)
Prepaid expenses	43,893	(201,985)
Increase (Decrease) in Operating Liabilities:		
Accounts payable	(209,723)	119,343
Accrued wages	3,051	2,781
Compensated absences	(8,662)	3,394
Customer deposits payable	(1,247)	450
Road maintenance obligations	5,005	(2,688)
Other postemployment benefits payable	3,454	3,815
Total Adjustments	531,620	350,904
Net Cash Provided by Operating Activities	$ 367,667	$ 240,986

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 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 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, 2012 and 2011, accrued vacation pay amounted to $43,479 and $52,141 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 2011 financial statements to conform to the current presentation. These reclassifications had no effect on the previously reported net assets, fund balances, or change in net assets or change in fund balances.

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. 64 during the fiscal year ended June 30, 2012.

GASB Statement No. 64 – *Application of Hedge Accounting Termination Provisions*

For the fiscal year ended June 30, 2012, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions." This Statement is effective for periods beginning after June 15, 2011. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. Implementation of the GASB Statement No. 64, did not have an impact on the District's financial statements for the fiscal year ended June 30, 2012.

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, 2012:

	Unrestricted	Restricted	Totals
Cash on hand	$ 500	$ -	$ 500
Cash in bank	54,112	26,164	80,276
Cash and investments	4,685,439	178,508	4,863,947
Total Cash and Investments	$ 4,740,051	$ 204,672	$ 4,944,723

Statement of Net Assets:	
Cash and investments	$ 4,740,051
Restricted cash and investments	204,672
Total	$ 4,944,723

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	$ 4,199,326	$ 4,199,326	$ -	$ -	$ -	$ -	$ -
Certificates of Deposit	664,621	664,621					
	$ 4,863,947	$ 4,863,947	$ -	$ -	$ -	$ -	$ -

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	$ 4,199,326	N/A	$ -	$ -	$ -	$ -	$ 4,199,326
Certificates of Deposit	664,621						664,621
Total	$ 4,863,947		$ -	$ -	$ -	$ -	$ 4,863,947

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, 2012, 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. As of June 30, 2012, the District owned a certificate of deposit valued at $664,621 which is insured by the Federal Deposit Insurance Corporation up to $250,000. The excess amount over $250,000 is collateralized by Redwood Credit Union. 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 $370,930, net of accumulated amortization, towards its unfunded pension obligation to the Public Employees Retirement System (PERS). There have been two prepayments made to PERS, which are both amortized over a fifteen year period. The first prepayment commenced amortization in the 2004/2005 fiscal year and the second prepayment commenced amortization during the current fiscal year.

	2012	2011
Total prepayment	$ 458,716	$ 502,609
Amount amortized in current year	(43,893)	(43,893)
Balance as of June 30,	414,823	458,716
Less: Current portion	(43,893)	(43,893)
	$ 370,930	$ 414,823

Note 4: Capital Assets

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	Balance at July 1, 2011	Additions	Deletions	Transfers	Balance at June 30, 2012
Capital assets, not being depreciated:					
Land	$ 143,053	$ -	$ -	$ -	$ 143,053
Construction in progress	1,427,508	143,546		(91,393)	1,479,661
Total capital assets, not being depreciated	1,570,561	143,546		(91,393)	1,622,714
Capital Assets, being depreciated:					
Building and improvements	22,187,216	1,157,934		91,393	23,436,543
Machinery and equipment	545,512	5,613	(6,438)		544,687
Total capital assets, being depreciated	22,732,728	1,163,547	(6,438)	91,393	23,981,230
Accumulated depreciation:					
Building and improvements	(5,610,521)	(578,631)			(6,189,152)
Machinery and equipment	(482,139)	(30,746)	6,438		(506,447)
Total accumulated depreciation	(6,092,660)	(609,377)	6,438		(6,695,599)
Total depreciable assets, net	16,640,068	554,170		91,393	17,285,631
Total capital assets, net	$ 18,210,629	$ 697,716	$ -	$ -	$ 18,908,345

Depreciation expense of $609,377 and $576,797 were incurred and were recorded as an operating expense for June 30, 2012 and 2011 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, 2012:

	Balance at July 1, 2011	Additions	Repayments	Balance at June 30, 2012	Due Within One Year
1992 General Obligation Bonds	$ 5,996,307	$ -	$ (170,000)	$ 5,826,307	$ 175,000
2003 General Obligation Bonds	3,716,000		(54,000)	3,662,000	57,000
California Safe Drinking Bonds	1,570,973		(124,568)	1,446,405	128,456
Citizens Business Bank Certificates of Participation	2,760,088		(104,131)	2,655,957	109,136
Compensated Absences	52,141	48,577	(57,239)	43,479	
Other Postemployment Benefits	7,630	6,094	(2,640)	11,084	
Total	$ 14,103,139	$ 54,671	$ (512,578)	$ 13,645,232	$ 469,592

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, 2012 is $5,826,307.

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

Fiscal Year Ended June 30,	Principal	Interest	Total
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	215,000	247,941	462,941
2018-2022	1,245,000	1,063,455	2,308,455
2023-2027	1,600,000	709,080	2,309,080
2028-2032	2,006,307	260,422	2,266,729
Total	$ 5,826,307	$ 3,372,662	$ 9,198,969

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, 2012 is $3,662,000.

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

Fiscal Year Ended June 30,	Principal	Interest	Total
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	67,000	152,347	219,347
2018-2022	385,000	712,418	1,097,418
2023-2027	481,000	615,352	1,096,352
2028-2032	597,000	494,573	1,091,573
2033-2037	746,000	344,160	1,090,160
2038-2042	931,000	156,127	1,087,127
2043	212,000	4,770	216,770
Total	$ 3,662,000	$ 3,117,645	$ 6,779,645

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, 2012 are $1,261,452 and $184,953 respectively.

The remaining debt service payments are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
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	123,909	22,709	146,618
2018-2022	676,858	56,233	733,091
Total	$ 1,261,452	$ 204,730	$ 1,466,182

Fiscal Year Ended June 30,	Principal	Interest	Total
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	20,497	3,057	23,554
2018-2021	88,246	5,970	94,216
Total	$ 184,953	$ 27,031	$ 211,984

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, 2012 is $2,655,957.

Fiscal Year Ended June 30,	Principal	Interest	Total
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	131,680	102,333	234,013
2018-2022	759,643	410,423	1,170,066
2023-2027	960,614	209,453	1,170,067
2028-2029	334,982	16,036	351,018
Total	$ 2,655,957	$ 1,205,260	$ 3,861,217

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 $28,344 and $27,339 for June 30, 2012 and 2011 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 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, 2012, the employer rate was 9.539% of annual covered salary. The contribution requirements of plan members and the District are established and may be amended by PERS.

For 2011-2012, the District's annual pension cost was $112,612, 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, 2012, 2011, and 2010 were $112,612, $101,119 and $97,381, 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 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 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 has entered into a contract with Piazza Construction for $1,489,274 (including change orders), for the 2013 Capital Improvement Project. As of June 30, 2012, 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 $207,037 (including change orders), for the CIP 2013 Capital Improvement Project. As of June 30, 2012, the District has paid Coastland Engineering Inc. a total of $85,140.

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 ($108 and $112 for the calendar year 2011 and 2012 respectively).

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 $2,640, which covered current premiums, but did not include any additional prefunding of benefits. Currently, there are 2 retirees who are receiving benefits.

Annual OPEB and Net OPEB Obligation

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

Note 12: Post Retirement Health Insurance (Continued)

Annual OPEB and Net OPEB Obligation (Continued)

Annual required contribution	$	6,244
Interest on net OPEB obligation		252
Adjustment to ARC		(402)
Annual OPEB cost (expense)		6,094
Contributions made		(2,640)
Increase in net OPEB obligation		3,454
Net OPEB obligation - beginning of fiscal year		7,630
Net OPEB obligation - end of fiscal year	$	11,084

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
6/30/2012	6,094	43%	11,084

Funded Status and Funding Progress

As of June 30, 2012, the most recent Alternate Measurement Method valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was $338,796, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $338,796. The covered payroll (annual payroll of active employees covered by the plan) was $679,328, 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. 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.

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.

Note 13: Subsequent Event

In August 2012, the District entered into an oral agreement with Crystal Communications to replace the District's radio system in-lieu of past due rent owed to the District by Crystal Communications. The approximate value of the equipment is $26,000.

Management of the District has evaluated subsequent events through December 18, 2012, the date these financial statements were available to be issued, and has determined there were no material events requiring disclosure.

Required Supplementary Information
June 30, 2012

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%