SWEETWATER SPRINGS WATER DISTRICT

TO: Board of Directors **AGENDA NO. V-A**

FROM: Steve Mack, General Manager

Meeting Date: **February 4, 2010**

Subject: **Resolution 10-01, Accepting the Final Audit for the Fiscal Year Ending June 30, 2009**

RECOMMENDED ACTION:

Approve Resolution 10-01, Accepting the Final Audit for the Fiscal Year Ending June 30, 2009.

FISCAL IMPACT:

(Preparation of the FY 2008-09 Audit cost $6,700.00.)

DISCUSSION:

Our FY 2008-09 Audit was prepared by Michael Celentano, CPA. Mr. Celentano will be available by telephone to answer any questions you have about the Audit.

Staff recommends the Board approve Resolution 10-01, Accepting the Final Audit for the Fiscal Year Ending June 30, 2009.

Resolution No. 10-01

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE SWEETWATER SPRINGS WATER DISTRICT ACCEPTING THE FINAL AUDIT FOR THE FISCAL YEAR ENDING JUNE 30, 2009

WHEREAS, the Sweetwater Springs Water District is required to have annual audits performed relative to the spending of public funds; and

WHEREAS, Michael Celentano, CPA, provides said auditing service and is under contract with the District to perform such audits;

NOW, THEREFORE BE IT RESOLVED, that the Board of Directors of the Sweetwater Springs Water District has reviewed the audit as prepared by the Michael Celentano, CPA, for the year ending June 30, 2009, and accepts the information contained therein.

This Resolution was adopted this 4th day of February, 2010, on roll call by the following vote:

Jim Quigley _____
Gaylord Schaap _____
Victoria Wikle _____
Wanda Smith _____
Sukey Robb-Wilder _____

_____
Jim Quigley
President of the Board

ATTEST:

_____
Julie A. Kenny
Clerk of the Board

SWEETWATER SPRINGS WATER DISTRICT

FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

SWEETWATER SPRINGS WATER DISTRICT
FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

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Management Discussion & Analysis (Unaudited)

Management has prepared this overview and analysis of the financial activities of the Sweetwater Springs Water District for the fiscal year ended June 30, 2009. It serves as an introduction to the financial statements contained in the Audit Report. Please read this report in conjunction with the financial statements listed in the Table of Contents of the Audit Report.

FINANCIAL HIGHLIGHTS

- The District's Net Assets increased by $949,892 or 14.5%, to $7,490,777. Both assets and liabilities increased compared to FY 2007-08, but assets increased more, largely due to unspent loan proceeds boosting cash balances at the end of the year, and partial grant funding on capital expenditures.

- The District's net income before "other" income/expenses and depreciation expense totaled $827,438, down 22.6% from FY 2007-08. This was due in part to a decrease in non-operating revenue, but mostly due to an increase in operating expenses.

- The District had Other Income totaling $646,913 from Community Development Commission (CDC) grant funding for the CIP Phase IV-A project. CIP IV-A consists of two (2) projects totaling an estimated $1,967,000. CDC matching grant funding is secured for 50% of these projected costs. Project 1 and most of Project 2 was constructed and completed in FY 2008-09. As of the end of the year, approximately $329,247 remained to be completed in FY 2009-10.

- The District's depreciation expenses (an accounting, or non-cash, expense) were $524,458 in FY 2008-09, about the an increase of 23.3% from FY 2006-07, as the CIP Phase III-B project that was completed in FY 2006-07 began accumulating depreciation in FY 2007-08.

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

All of the current year's revenues and expenses are accounted for in the Statement of Activities and Changes in Net Assets. This statement measures the success of the District's operations over the past year and can be used to determine the District's creditworthiness and whether the District has successfully recovered all its costs through its user fees and other charges.

The final required Financial Statement is the Statement of Cash Flows. Not discussed in this Management Discussion, 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.

FINANCIAL ANALYSIS OF THE DISTRICT

Our analysis of the District begins with the Statement of Net Assets. This Statement will help answer the question "Is the District, as a whole, better off or worse off as a result of the year's activities?" 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. However, other, non-financial factors – such as changes in the economy, population growth, or laws – must also be considered in evaluating the District's financial health.

A summary of the District's Statement of Net Assets in FY 2008-09 compared to FY 2007-08 is presented in Table 1.

Table 1
Condensed Statement of Net Assets

	FYE 2009	FYE 2008	$ Change	% Change
Cash	6,371,965	3,499,462	2,872,503	82.1%
Capital Assets	15,939,663	14,918,963	1,020,700	6.8%
Other Assets	766,909	806,210	(39,301)	-4.9%
Total Assets	**23,078,537**	**19,224,635**	**3,853,902**	**20.0%**
Bond & Loan principal debt outstanding	14,893,138	12,245,167	2,647,971	21.6%
Other long-term liabilities	101,775	157,764	(55,989)	-35.5%
Other short-term liabilities	592,847	280,819	312,028	111.1%
Total Liabilities	**15,587,760**	**12,683,750**	**2,904,010**	**22.9%**
Capital assets net of related debt	679,050	2,325,555	(1,646,505)	-70.8%
Restricted cash	2,914,132	1,050,539	1,863,593	177.4%
Unrestricted cash	3,457,833	2,448,923	1,008,910	41.2%
Net other assets	439,762	715,868	(276,106)	-38.6%
Total Net Assets	**7,490,777**	**6,540,885**	**949,892**	**14.5%**

As can be seen from the table above, net assets increased by $949,892 to $7,490,777 at FYE 2009, up from $6,540,885 at FYE 2008.

Of note, the District spent $1,375,935 in capital improvement projects this year, financed 50% by a new $3,000,000 loan, and 50% by CDC grant proceeds.

On the asset side, this activity increased capital assets and significantly increased District cash on hand at the end of the year, because $1,867,255 of the new loan proceeds were unspent and available as of the end of the fiscal year. On the liabilities side, the new loan increased debt outstanding.

The Statement of Activities and Changes in Net Assets (Income Statement) provides additional information concerning revenues and expenses that impacted net assets. Table 2 below compares the District's Statement of Activities and Changes in Net Assets in FY 2008-09 versus FY 2007-08.

Table 2
Condensed Statement of Activities and Changes to Net Assets

	FYE 2009	FYE 2008	$ Change	% Change
Water Sales	1,957,737	1,926,813	30,924	1.6%
Property Tax Assessment (flat charge)	751,758	785,315	(33,557)	-4.3%
Non-Operating Revenues	237,111	325,153	(88,042)	-27.1%
Total Revenues	**2,946,606**	**3,037,281**	**(90,675)**	**-3.0%**
Operating Expenses:				
Salaries & Benefits	997,640	908,542	89,098	9.8%
Services & Supplies	577,573	502,276	75,297	15.0%
Total Operating Expenses	**1,575,213**	**1,410,818**	**164,395**	**11.7%**
Non-Operating Expenses:				
Interest	543,955	556,898	(12,943)	-2.3%
Other	0	0	0	0.0%
Total Non-Operating Expenses	**543,955**	**556,898**	**(12,943)**	**-2.3%**
Total Expenses	**2,119,168**	**1,967,716**	**151,452**	**7.7%**
Income before Other Items and Depreciation Expense	**827,438**	**1,069,565**	**(242,127)**	**-22.6%**
Other income	646,913	77,863	569,050	730.8%
Other expense	0	0	0	0.0%
Depreciation Expense	(524,458)	(517,208)	(7,250)	1.4%
Change in Net Assets (Net Income)	**949,893**	**630,220**	**319,673**	**50.7%**

As the table shows, Income before Other Items and Depreciation Expense was $242,127 less (22.6% less) in FY 2008-09 than FY 2007-08, in part due to a decrease in non-operating revenues but mostly due to increases in expenses across the board.

Non-operating revenues were down $88,042 from last year. Of note in this category, the District received a one-time reimbursement in the sum of $82,855 from Cal Trans for work done on a Cal Trans project.

On the expense side, total expenses increased $151,452 (7.7%) Salaries and Benefits increased with the hire of a full-time General Manager, and Services & Supplies were also up 15%, mostly due to increases in the areas of Distribution System Repairs, Treatment System Repairs, Generator Maintenance, Vehicle Maintenance, Legal, and Audit/Accounting charges. Except for Generator Maintenance and Audit/Accounting charges most of the increases were anticipated and budgeted.

After accounting for Other Items and Depreciation Expense, the District's Change in Net Assets increased from $630,220 in FY 2007-08 to $949,893 in FY 2008-09 – an increase of 50.7%. But for Other Income in the form of grant proceeds, Net Assets would have decreased.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Debt Administration

At the beginning of FY 2008-09, the District owed a total of $10,321,307 in bond debt, and $1,923,860 in State loans, for a total of $12,245,167. During the year, the District took out a 20-year, $3,000,000 private placement loan at an interest rate of 4.75%. This loan requires annual payments in the sum of $234,013. During the year, the District made scheduled principal payments of $192,000 on the bonds, $114,273 on the state loans, and $45,757 on the private placement loan. As of the end of FY 2008-09, the District owed $10,129,307 on the bonds, $1,809,587 on the state loans, and $2,954,243 on the private placement loan for a total of $14,893,137. With interest, yearly payments on District bond and loan debt are approximately $1,087,163.

In addition to bond debt and loans, the District owed approximately $135,000 on a Construction Claim at the end of FY 2008-09. The District will make payments on this Claim in increasing amounts thru FY 2010-11.

Capital Assets

Capital assets increased by $891,214 in FY 2008-09. During the year, the District purchased a truck ($30,777.15) and made various site improvements ($6,713.21). In addition, $1,306,334.79 was spent on CIP IV-A, a two-project construction phase. The first of the two projects was completed (see details below) and most of the second project. Another $69,600.93 was spent on CIP IV-B project engineering costs.

As discussed earlier, in FY 2007-08 the District secured matching funding from the CDC via an application made to the Russian River Redevelopment Oversight Committee for two CIP IV-A projects totaling $1,987,000. Project 1 was completed in FY 2008-09 and improvements included the following:

CIP IV-A, Project 1 / Piazza Construction **(Completed June, 2009 – app. $800,000)**
Replacement of pipe and service connections on Monte Cristo Avenue, Hwy. 116 Monte Rio, Riverside Drive, E. Guernewood Road, Center Way Extension and Camino del Arroyo creek crossing
Replacement of 2,500' of 6" main on Monte Cristo Avenue. The main was rerouted to eliminate 1,000' of pipe and created a loop that eliminated two dead ends. (Actual amount of new 6" installed was 1,500'.)
Replacement of 100' of 6: main on Hwy. 116 at the eastern entrance to Monte Cristo.
Replacement of 1,600' of 6" main and service connections on Riverside Drive.
Replacement of 1,150' of 6: main and services on East Guernewood Road.
Replacement of 460' of 4: main and services on Center Way Extension.
Replacement of 60' of 6: main (encased in concrete) at creek crossing from Camino del Arroyo to Fern Way.
Replacement of 2 hydrants and addition of 2 hydrants

At FYE, Project 2, which includes over 7500' of mainline replacement in the Terraces (MR), was more than halfway complete.

In FY 2009-10 the District budgeted $40,000 for various in-house construction projects. An additional $1,052,000 was budgeted to complete CIP IV-B, Project 1. This project includes replacing Schoolhouse Tank with a 65,000 gallon tank, installing a booster station at Upper Schoolhouse, and replacing 1600 lf of existing main on Riverlands Ave. in Monte Rio.

To help pay for CIP IV-B, the District made a second application for matching funding from the Russian River Redevelopment Oversight Committee (RRROC). Like the first application, this application requests 50% contribution for two projects totaling approximately $2.4 million, to be completed over the next two years.[1] Project 1, described above, is slated for FY 2009-10. Project 2 is scheduled for FY 2010-11, and includes an additional 6,000 feet of mainline replacement in Monte Rio.

Scheduled projects are subject to change depending on available funding and unforeseen projects and/or circumstances.

ECONOMIC FACTORS AND FY 2009-10 PROJECTED EXPENDITURES

District operations were only mildly affected by the poor economy in FY 2008-09. District reserves are conservatively managed via the County of Sonoma's investment pool and a CD at the Redwood Credit Union. Interest rates were lower than in previous years, but the loss in interest revenue was manageable. The bulk of the District's income is tied to water sales and flat charge revenue, both unaffected by economic events. Of more interest to the District is the increasing call for water conservation as the County deals with lowered flows into and out of Lake Mendocino, referred to as a permanent "regulatory drought". The District joined the County's effort to encourage conservation, and the success of this effort mildly impacted water sales in FY 2008-09. District management will continue to closely monitor this issue and its impact not just on water sales but on water quality.

In FY 2009-10, the District budgeted $280,000 for in-house transfer from operating surpluses to a designated capital improvement account, less than the $320,000 actually transferred in FY 2008-09. This amount may be increased if unanticipated operating surpluses occur as they have the last few years. The FY 2009-10 Budget does not include an expenditures for CIP IV-A. It was anticipated that CIP IV-A would be completed in FY 2008-09. As noted above, $1,052,000 was budgeted to complete CIP IV-B, Project 1.

Projected grant proceeds consist of the matching funds from the CDC for the remainder of the CIP IV-A project. In addition to grants and in-house funding, as already discussed, at FYE the District had approximately $1.8 million left of the $3,000,000 private placement loan proceeds acquired at the beginning of the fiscal year. In FY 2009-10, the District will pursue additional funding from the CDC for the CIP IV-B projects.

Rates were increased in FY 2009-10 to meet the increased debt load from the private placement loan. Beyond that rate increase, management has generally identified the need for additional revenue to complete the 10-year Capital Improvement Program.

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.

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[1] In December, 2009, the District was approved for CDC grant funding for CIP IV-B up to $1,994,250 of the $2.4 million project.

MICHAEL A. CELENTANO
Certified Public Accountant
205 West Gobbi Street
Ukiah, CA 95482

Board of Directors
Sweetwater Springs Water District
Guerneville, CA 95446

Independent Auditor's Report

I have audited the accompanying financial statements of Sweetwater Springs Water District as of and for the year ended June 30, 2009 and 2008 as listed in the table of contents. These financial statements are the responsibility of management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards accepted in the United States of America and the State controller's Minimum Audit requirements for California Special Districts. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the Sweetwater Springs Water District financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Sweetwater Springs Water District, as of June 30, 2009 and 2008, and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles used in the United States of America.

The management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

Michael A Celentano
Certified Public Accountant

November 17, 2009

Phone (707) 468-8911 E-Mail: maccpa@sonic.net Fax (707) 468-3881

SWEETWATER SPRINGS WATER DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2009 AND 2008

ASSETS	2009	2008
Current Assets		
Cash and investments - Note 2	$ 3,456,268	$ 2,448,923
Accounts receivable	401,013	390,881
Flat charges receivable	50,639	71,547
Inventory	30,000	30,000
Prepaid expenses - Note 3	28,525	28,526
Total Current Assets	3,966,445	2,969,877
Non Current Assets		
Restricted		
Cash and investments - Note 2	2,915,697	1,050,539
Prepaid expenses - Note 3	256,731	285,256
Total Non Current Assets	3,172,428	1,335,795
Capital Assets - Note 4	15,939,663	14,918,963
Total Assets	$ 23,078,536	$ 19,224,635

The accompanying notes are an integral part of these statements

SWEETWATER SPRINGS WATER DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2009 AND 2008

LIABILITIES	2009	2008
Current Liabilities		
Accounts payable	$ 260,358	$ 28,451
Salaries and benefits payable	50,014	39,127
Interest payable	232,475	178,241
Current portion of long term debt	466,330	339,130
Total Current Liabilities	1,009,177	584,949
Non Current Liabilities		
Customer deposits	14,007	18,003
Road maintenance obligations	2,768	4,761
Total Non Current Liabilities	16,775	22,764
Long Term Liabilities		
General Obligation Bonds Payable - Note 5	10,129,307	10,321,307
California Safe Drinking Water Bonds Payable - Note 6	1,809,587	1,923,860
Citizens Business Bank (COP) Payable - Note 7	2,954,243	
Construction claim payable - Note 8	135,000	170,000
	15,028,137	12,415,167
Less: Current portion shown above	466,330	339,130
Total Long Term Liabilities	14,561,807	12,076,037
Total Liabilities	$ 15,587,759	$ 12,683,750
Net Assets		
Investment in capital assets - net of related debt	661,650	2,325,555
Restricted - Note 11	2,915,697	1,050,539
Unrestricted	3,913,430	3,164,791
Net Assets	$ 7,490,777	$ 6,540,885

The accompanying notes are an integral part of these statements

SWEETWATER SPRINGS WATER DISTRICT
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
Operating Revenues		
Charges for services	$ 1,957,737	$ 1,926,813
Total Operating Revenue	1,957,737	1,926,813
Operating Expenses		
Salaries and employee benefits	997,640	908,542
Service and supplies	577,573	502,025
Depreciation	524,458	517,208
Total Operating Expenses	2,099,671	1,927,775
Operating Income (Loss)	(141,934)	(962)
Non-Operating Revenues (Expenses)		
Interest income	149,925	131,692
Rents	70,796	69,660
Other non-operating revenue	16,390	40,946
Interest expense	(543,955)	(556,898)
Total Non-Operating Revenues (Expenses)	(306,844)	(314,600)
Income (Loss) Before Contributions	(448,778)	(315,562)
Contributions		
Capital grants	646,912	160,468
Flat charges	751,758	785,315
Total Contributions	1,398,670	945,783
Net Income	949,892	630,221
Net Assets, July 1,	6,540,885	5,910,664
Net Assets, June 30,	$ 7,490,777	$ 6,540,885

The accompanying notes are an integral part of these statements

SWEETWATER SPRINGS WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
Cash Flows From Operating Activities		
Cash received from customers	$ 1,965,881	$ 1,927,762
Payments to suppliers for goods and services	(559,140)	(484,742)
Payments to employees and related items	(986,753)	(902,219)
Net Cash Provided (Used) by Operating Activities	419,988	540,801
Cash Flows From Non Capital and Related Financing Activities		
Rents	70,796	69,660
Other revenues	16,390	40,946
Increase (decrease) in customer deposits	(3,996)	5,451
(Decrease) in road maintenance obligations	(1,993)	(4,984)
Net Cash Provided by Non Capital and Related Financing Activities	81,197	111,073
Cash Flows From Capital and Related Financing Activities		
Proceeds from COP	3,000,000	
Flat charges	772,666	754,120
Grant contributions	628,636	145,609
Principal payments on the long term debt	(387,030)	(330,739)
Acquisition of capital assets	(1,244,922)	(480,488)
Interest paid	(547,959)	(553,110)
Net Cash (Used) by Capital and Related Financing Activities	2,221,391	(464,608)
Cash Flows From Investing Activities		
Interest income	149,925	131,692
Net Cash Provided From Investing Activities	149,925	131,692
Net Change in Cash and Cash Equivalents	2,872,501	318,958
Cash and Cash Equivalents, July 1,	3,499,462	3,180,504
Cash and Cash Equivalents, June 30,	$ 6,371,963	$ 3,499,462
Supplemental Disclosures:		
Interest Expense During the Year	$ 543,955	$ 556,898
Interest Capitalized During the Year	$ 129,486	$ -

The accompanying notes are an integral part of these statements

SWEETWATER SPRINGS WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities	2009	2008
Operating income (loss)	$ (141,934)	$ (962)
Adjustments to reconcile operating income to net cash from operating activities:		
Salaries and employee benefits	28,526	28,526
Depreciation	524,458	517,208
(Increase) decrease in current assets:		
Accounts receivable	8,144	949
Increase (decrease) in current liabilities		
Accounts payable	(10,093)	(11,243)
Salaries and benefits payable	10,887	6,323
Net Cash Provided by Operating Activities	$ 419,988	$ 540,801

The accompanying notes are an integral part of these statements

SWEETWATER SPRINGS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

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

Accounting Policies

The District's accounting and reporting policies conform to the generally accepted accounting principles as applicable to state and local governments.

The following is a summary of the more significant policies:

Basis of Presentation

The statement of Net Assets and Statement of Activities display information about the reporting District as a whole.

The District is comprised of only one fund, the Enterprise Fund. Enterprise funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flows. All assets and liabilities are included on the Statement of Net Assets.

Basis of Accounting

The District Statement of Net Assets and Statement of Activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset is used. Revenues, expenses, gains, losses, assets and liabilities resulting from an exchange are recognized when the exchange takes place.

When an expense is incurred for the purpose for which both restricted and unrestricted net assets are available, the Districts policy is to apply restricted net assets first.

Budget

The District is required to adopt an annual budget for the District's general operations each fiscal year. 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 supplementary information.

Deposits and Investments

It is the District's policy for deposits and investments to either be insured by the FDIC or collateralized. The District's deposits and investments are categorized to give an indication of the level of risk assumed by the District as of June 30, 2009 and 2008. The categories are described as follows:

Category 1 Insured, registered or collateralized, with securities held by the entity or its agent in the entity's name.

Category 2 Uninsured and unregistered or collateralized, with securities held by the counter party's trust department or agent in the entity's name.

Category 3 Uninsured and unregistered, or uncollateralized, with securities held by the counter party, or its trust department or agent but not held in the entity's name.

Deposits and investments as of June 30, 2009 and 2008 consisted of Category 1 type only.

Statement of Cash Flows

For purposes of the Statement of Cash Flows, the District considers cash balances purchased with maturities of less than ninety days to be cash equivalents.

Receivables

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

Inventory

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

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost or estimated historical cost if actual cost is not available. Donated assets are valued at their fair market value on the date donated. Assets with a value of $1,000 or less are expensed in the years acquired.

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

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

Vacation and Sick Leave

Vacation pay is accrued by the District in the period earned. At June 30, 2009 and 2008 accrued vacation pay amounted to $40,367 and $32,899, respectively.

Vacation accruals may not exceed twice an employee's current annual entitlement. The maximum vacation accrual is 20 days per year for employees who have eleven years or more of service. On termination of employment, an employee will be paid all accrued but unused vacation.

Sick leave is accumulated at the rate of 12 days per calendar year, with a maximum of 24 days. No sick pay is paid to employees who terminate their employment with the District.

Flat Charges Receivable

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

Proprietary Fund Financial Statements

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

Proprietary Fund Financial Statements include a Statement of Net Assets, A Statement of Activities and Changes in Net Assets, and a Statement of Cash Flows for each proprietary fund.

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or non-current) are included on the Statement of Net Assets. The Statement of Activities and Changes in Net Assets presents increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. In these funds, receivables have been recorded as revenue and provisions have been made for uncollectible amounts. In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Government Entities that Use Proprietary Fund Accounting*, the District applies all GASB pronouncements currently in effect as well as Financial Accounting Standard Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989.

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 operations of the fund. All other expenses are reported as non-operating expenses.

Note 2 - Cash and Investments

The District maintains a portion of its cash with the Sonoma County Treasury in a general operating account, debt service accounts and construction accounts. Cash for day to day operations is held in the general operating account. Cash restricted to long-term debt repayment is held in the debt service accounts, and cash restricted to water improvements is held in the construction accounts. The restrictions arise from provisions of the General Obligation Bond Issue of 1990, Series 1992 and California Safe Drinking Water Loan contracts E58330 and E58340.

In addition to the accounts with the Sonoma County Treasury, the District maintains accounts with West America Bank and Redwood Credit Union. The West America accounts are used primarily as a depository for water sales collections, service and supply expenditures, and for payroll expenditures and related payroll taxes. The accounts with West America Bank are federally insured up to $250,000. The account at Redwood Credit Union is a certificate of deposit and is federally insured and collateralized.

	June 30, 2009	June 30, 2008
Unrestricted Cash		
Cash in County Treasury	$2,799,088	$1,778,003
Cash in West America Bank	83,828	125,085
Cash in Redwood Credit Union	573,324	545,766
Petty Cash	28	69
Subtotal Unrestricted Cash	3,456,268	2,448,923
Restricted Cash		
Cash in County Treasury	2,897,390	1,027,064
Cash with West America Bank	18,307	23,475
Subtotal Restricted Cash	2,915,697	1,050,539
Total Cash and Cash Equivalents	$6,371,965	$3,499,462

State law requires uninsured deposits of public agencies to be secured by certain state approved investment securities. The District's deposits are secured as part of an undivided collateral pool covering all public deposits with the financial institution. The market value of the pool must be equal to at least 110% of the total public deposits held by the financial institutions.

The District also invests part of its cash with the County of Sonoma and thus pools their cash with the treasury department. The County's pooled cash and investments are invested pursuant to investment policy guidelines established by the County Treasurer. The objectives of the policy are, in order of priority, preservation of capital, liquidity and yield. The policy addresses the soundness of financial institutions in which the County will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio which may be invested in certain instruments with longer terms to maturity.

Note 3 - Prepaid Expenses

During the year, the District paid its unfunded pension obligation to the Public Employees Retirement System (PERS). This prepayment is being amortized over a fifteen year period.

	2009	2008
Total prepayment	$313,782	$342,308
Amount amortized in current year	(28,526)	(28,526)
Balance as of June 30,	285,256	313,782
Less: Current portion	28,525	28,526
	$256,731	$285,256

Note 4 - Property, Plant and Equipment

The following is a summary of the changes in property, plant and equipment for the fiscal year ended June 30, 2009:

	Balance 7/1/08	Additions	Retirements	Balance 6/30/09
Land	$ 143,053	$	$	$ 143,053
Buildings and improvements	18,327,684	387,382		18,715,066
Equipment and vehicles	507,148	31,923	5,130	533,941
Construction in progress	403,388	1,505,422	379,569	1,529,241
Total cost	19,381,273	1,924,727	384,699	20,921,301
Less accumulated depreciation	(4,462,310)	(524,458)	5,130	(4,981,638)
Net Book Value	$14,918,963	$1,400,269	$ (379,569)	$15,939,663

Depreciation expense of $524,458 and $517,208 were incurred and were recorded as an operating expense for June 30, 2009 and 2008, respectively.

Note 5 - General Obligation Bonds Payable

On November 6, 1990, the voters of the District authorized the issuance of general obligation bonds for the acquisiton 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 1993-94, $250,000 during 1994-95, and $250,000 in 1995-1996.

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.

On April 29, 2003, and pursuant to Resolution No. 03-15, the District authorized the issuance of General Obligation Bond of 1990, Series 2003 in the principal amount of $4,000,000. The bond issued as a single fully registered bond and matures in installments of the same principal amounts on don 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.

Future minimum principal and interest payments are as follows:

Year ended June 30,	Principal	Interest
2009	$ 204,000	$ 482,399
2010	211,000	472,273
2011	224,000	461,661
2011	231,000	450,561
2013	244,000	439,073
2014-2018	1,410,000	2,001,033
2019-2023	1,797,000	1,610,232
2024-2028	2,279,000	1,001,878
2029-2033	1,898,307	527,709
2034-2038	806,000	279,540
2040-2044	825,000	80,482
	10,129,307	$ 7,806,841
Less: Current portion	204,000	
	$ 9,925,307	

Interest expense of $488,863 and $498,326 were incurred and were recorded as a non-operating expense for June 30, 2009 and 2008, respectively.

Note 6 - California Safe Drinking Bonds Payable

On June 24, 1993 the State Department of Water Resources provided a $2,870,000 loan and a $400,000 grant 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.

Future minimum principal and interest payments are as follows:

Year ended June 30,	Principal	Interest
2009	$ 117,532	$ 52,617
2010	121,031	49,118
2011	124,634	45,515
2012	128,466	41,805
2013	132,442	37,984
2014-2018	723,593	128,512
2019-2022	461,889	23,615
	1,809,587	$ 379,166
Less: Current portion	117,532	
	$ 1,692,055	

Interest expense of $54,982 and $58,572 were incurred and were recorded as a non-operating expense for June 30, 2009 and 2008, respectively.

Note 7 - Citizens Business Bank (COP) 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 (COP).

The Cop's 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.

Future minimum principal and interest payments are as follows:

Year ended June 30,	Principal	Interest
2010	$ 94,798	$ 139,214
2011	99,356	134,658
2012	104,131	129,882
2013	109,136	124,877
2014	114,382	119,632
2015-2019	659,851	510,215
2020-2024	834,421	335,645
2025-2028	938,168	114,892
	2,954,243	$ 1,609,015
Less: Current portion	94,798	
	$ 2,859,445	

Interest expense of $129,485 was incurred and was recorded as construction in progress for June 30, 2009.

Note 8 - Construction Claim Payable

The construction claim payable consists entirely of a structured settlement with the CIP Phase III-A general contractor. The amount of $235,000 is net of third party cash contributions. The District will also receive third party service contribution in the amount of $30,000 over the next five years. Payments are due annually through July 15, 2010.

Future minimum payments are as follows:

Year ended June 30,	Payment
2010	$ 50,000
2011	85,000
	$135,000
Less: Current portion	(50,000)
	$ 85,000

Note 9 - Changes in Long Term Debt

The following is a summary of long-term debt for the year ended June 30, 2007:

Type of Debt	Balance 7/1/08	Additions	Reductions	Balance 6/30/09	Due Within One Year
General Obligation	$ 10,321,307	$	$192,000	$10,129,307	$204,000
California Safe Drinking	1,923,860		114,273	1,809,587	117,532
Private Placement		3,000,000	45,757	2,954,243	94,798
Construction Claims	170,000	0	35,000	135,000	50,000
	$12,415,167	$3,000,000	$387,030	$15,028,137	$466,330

Note 10 - Operating Lease

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 is currently on its fifth year of a seven year extension period.

The total rental payments for all leasing arrangements charged to expense were $28,146 and $28,907 for June 30, 2009 and 2008, respectively.

Note 11 - 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 of 1990 and 2001, and California Safe Drinking Water Loan contracts #58330 and #58340.

Note 12 - Defined Benefit Pension Plan (Unaudited)

Effective December 20, 2001, the District entered into the Public Employees Retirement System (PERS). Qualified employees are covered under a multiple-employer defined benefit pension plan maintained by an agency of the

State of California. Employees are members of the Public Employees' Retirement System.

Plan Description: The District contributes to the PERS, an agent multiple-employer public employee defined benefit plan. PERS provides retirement and 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 district ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office, 400 P Street, Sacramento, CA 95814.

Funding Policy: Participants are required to contribute 7% of their annual covered salary. The District makes the contributions required of District employees on their behalf and for their account. The District is required to contribute at an actuarially determined rate; the current rate is 7.9% for non-safety employees of annual covered payroll. The contribution requirements of plan members and the District are established and may be amended by PERS.

Annual Pension Cost: For June 30, 2009, the District's annual pension cost of $90,771 for PERS was equal to the District's required and actual contributions. The required contribution was determined as part of the June 30, 2007, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate return of (net of administrative expenses), (b) projected annual salary increases that vary by duration of service, and (c) 3.25% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.00%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market value).

Three-Year Trend Information For PERS

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/07	$ 84,094	100%	$0
6/30/08	$ 81,471	100%	$0
6/30/09	$ 90,771	100%	$0

Note 13 - Deferred Compensation Plan

Sweetwater Springs Water District has elected to implement Government Accounting Standards Board (GASB) Statement No. 32 *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans,* effective July 1, 1996. GASB Statement No. 32 eliminates the requirements that employers report Internal Revenue Code Section 457 deferred compensation plan assets on their balance sheet unless they are functioning as a fiduciary for those areas.

Note 14 - Joint Powers Agreement

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 including such districts. The relationship between the District and JPA is such that the JPA is not a component unit 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 and employment practices liability, property loss; and boiler and machine coverage.

Note 15 - Contingencies

The District participated in a Federal financial assistance program for the construction improvement to the water system. The program is subject to financial and compliance audits by the grantor or their representatives, the purpose of which is to insure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.