



Sacramento Suburban Water District

**Annual Financial Report
December 31, 2010 and 2009**



**Sacramento Suburban Water District
Board of Directors**

Title	Name	Division	Current Term
President	Neil W. Schild	Division 2	12/2008-12/2012
Vice President	Thomas C. Fellenz	Division 5	12/2010-12/2014
Director	Frederick A. Gayle	Division 1	12/2008-12/2012
Director	Todd L. Robison	Division 3	12/2010-12/2014
Director	Kevin M. Thomas	Division 4	12/2010-12/2014

General Manager
Robert S. Roscoe



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**Sacramento Suburban Water District
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For the Years Ended December 31, 2010 and 2009**

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Request for Information

Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact:

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Financial Section



Gilbert Associates, Inc.
CPAs and Advisors

INDEPENDENT AUDITOR'S REPORT

**Board of Directors
Sacramento Suburban Water District
Sacramento, California**

We have audited the basic financial statements of the Sacramento Suburban Water District (the District), as of and for the years ended December 31, 2010 and 2009, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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, and the State Controller's *Minimum Audit Requirements for California Special Districts*. 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 audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Sacramento Suburban Water District, as of December 31, 2010 and 2009, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 5, 2011 on our consideration of the 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 not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 12 and the Schedule of Funding Progress - Other Postemployment Benefits on page 46 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We 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, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise of the District's basic financial statements. The Schedule of Net Revenues (the Revenue Schedule) as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Revenue Schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC
Sacramento, California

May 5, 2011

Sacramento Suburban Water District
Management's Discussion and Analysis
For the Years Ended December 31, 2010 and 2009

This annual financial report consists of management's representations concerning the finances of the Sacramento Suburban Water District (District). Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report.

The following Management's Discussion and Analysis (MD&A) provides a general overview and analysis of the financial activities and performance of the District for the years ended December 31, 2010, and 2009. Readers are encouraged to consider the information presented here in conjunction with the Independent Auditor's Report, the Basic Financial Statements and related Notes to the Basic Financial Statements (Notes), which follow this analysis.

District

The District's purpose is to deliver a high quality, reliable supply of water and superior service at a reasonable price to its consumers. The District's objectives in support of this mission include managing the District's various water supply sources to ensure their quality and quantity and maximizing the use of existing system capacity to generate revenues to offset other District costs.

Water supply for the District is currently derived from 89 active groundwater wells and surface water from the Placer County Water Agency (PCWA) via the Folsom Reservoir and the City of Sacramento (City) via the American River.

Historically, the District has primarily used groundwater as its water supply source. The District initiated a conjunctive use program, supplementing its groundwater supply with surface water in 1998 to address the declining groundwater table using in-lieu recharge. The District has made significant investments to put surface water supply and conjunctive use facilities in place. Its existing infrastructure and access to regional water resources place the District in a key position to help support regional conjunctive use efforts as well as meeting its own needs.

The distribution system has 735 miles of pipeline that range in size from 48-inches down to 4-inches. Pipeline material consists predominantly of asbestos cement, poly vinyl chloride (PVC), ductile iron, mortar lined coated steel, and cast iron pipe. There are 68 emergency interties with neighboring agencies along the District's boundary. The District has 7 storage tanks that have a collective capacity to hold approximately 16 million gallons of water and 5 booster pumping stations.

The District is located in northwest Sacramento County, California and has approximately 23,032 acres of land in its service area and is substantially built out. The service area is composed of a mixture of land uses that is predominately single family residential with some attached residential and industrial. There are several redevelopment and new growth areas located within the District, with the main ones being McClellan Business Park and the Fair Oaks Boulevard and North Watt Avenue corridors.

The District serves a population of approximately 171,000. Projected population, employment, and housing for the District's service area are based on estimates from the 2010 Census and the Sacramento Area Council of Governments (SACOG). SACOG estimates extend to the year 2035. For analysis purposes, the District estimates it will be built out by the year 2035 and the population will peak at approximately 190,000.

The District operates under the County Water District Law of the State of California Water Code and is governed by a 5-member board of directors each elected to four-year terms on a staggered basis.

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Operational Highlights

During the periods ending December 2010, 2009 and 2008, the District was able to accomplish many critical goals. Among them were the following:

- The District supplied 37,985 acre-feet of water (12.4 billion gallons) to 44,188 customers for the period ended December 31, 2010, compared to 35,105 acre-feet of water to 44,147 customers in 2009, and 38,498 acre-feet of water to 44,091 customers in 2008.
- Of the total water supplied for the period ended December 31, 2010, approximately 53 percent was pumped from the ground, compared to 66 percent for the period ended December 31, 2009, and 61 percent for the period ended December 31, 2008, while the remainder was obtained by purchasing treated surface water.
- The District sold 2,712 acre-feet of surface water entitlements to the State Water Contractors Association under the 2010 Water Transfer Program similar to the 8,462 acre-feet of surface water entitlements sold to the State of California 2009 Drought Water Bank. A net increase in operating income of \$0.5 million and \$1.8 million were realized in 2010 and 2009, respectively.
- The quality of the District's groundwater and surface water sources continues to be excellent. Treatment of such water for possible contaminating constituents is, therefore, relatively straight forward. The District regularly tests for over 200 different constituents in its treated water and reports the results in its "Annual Water Quality Report." Regulations governing drinking water quality that the District must comply with are established at the federal and state levels, with each setting maximum contaminant levels that must not be exceeded.
- The District is continuously working on various major construction projects, most of which are related to the replacement of distribution system pipelines that have out-lived their useful service lives and the installation of water meters as discussed more fully below. In 2010, 9.3 miles of new pipeline was installed, compared to 8.8 miles in 2009 and 6.3 miles in 2008. Additionally, one new well was completed and placed in service in 2010, while two additional well sites are in process of development. Total expenditures for all capital infrastructure projects were \$20.6 million and \$18.6 million in 2010 and 2009, respectively.
- In accordance with state law, the District is continuing its progress to have all its connections on water meters by the year 2025. During 2010, 2,720 new meters were installed, compared to 1,636 in 2009 and 1,625 in 2008. The significant increase in 2010 was due to the District's receipt of approximately \$1.1 million as part of a federal grant from the U.S. Bureau of Reclamation (USBR.) With the grant funding, the District was able to install an additional 936 water meters at no cost to its customers. As of December 31, 2010, approximately 57 percent of the District's connections are on water meters compared to 53 percent at the end of 2009.
- Water conservation efforts continue to be of high priority to the District. Per state law, the District must reduce its per capita water consumption by 20 percent compared to a "baseline period" by the year 2020. Water audits, outreach programs, water metering, and monitoring during periods of peak demand continue to be the primary methods utilized by the District in encouraging water conservation. In December 2010, the State Department of Water Resources (DWR) notified the

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District it was operating in compliance with DWR's best management practices and demand management measures, thus qualifying the District to be eligible for state grant funds in 2011.

Moving forward, the District continues to improve its customer confidence and support as it conducts business through open and transparent communications; practices the highest ethical standards and maintains its integrity in all its endeavors; helps to ensure public health and safety by conducting its operations in strict accordance with all statutory and regulatory requirements; supports sustainable water resources; continues to implement its infrastructure reliability plans; and by emphasizing internal and external collaboration in pursuing its objectives and resolving its issues.

Financial Highlights

- In 2010, the District repaid, in advance, an unfunded pension liability in full in the amount of \$4.2 million, primarily due to the avoidance of paying anticipated future imputed interest costs of approximately \$6.4 million. The District was repaying this unfunded liability over a 30 year period as part of its Annual Required Contribution (ARC) payment to the California Public Employees Retirement System (PERS). Of critical importance to the reader is to recognize that this one-time payment resulted in a decrease of the District's debt coverage ratio (see page 45) to 272 percent for the year ended December 31, 2010, compared to 333 percent for the year ended December 31, 2009. Had this unfunded liability continued to be paid off over 30 years, the debt coverage ratio for 2010 would have been 323 percent. The District fully expects its debt coverage ratio to return to its recent historical levels in 2011.
- The District's stand-alone credit ratings are currently "Aa2" and "AA" as assigned by Moody's Investor Services and Standard and Poors' Corporation, respectively.
- Total assets increased by \$10.7 million over December 31, 2009 to \$296.2 million as of December 31, 2010. The primary reason for the increase continues to be increasing capital assets as the District replaces its aging infrastructure. The source of funds for such capital projects continues to be state and federal grants and, primarily, a portion of customer "Capital Facility Charges" collected monthly. The District does not intend to issue additional debt.
- In addition to capital assets, investments comprise the next most significant classification of assets. The District continues to invest most of its cash in the capital markets and maintains a minimal investment in the state's investment pool. The investment portfolio had an unrealized market value gain of \$0.2 million as of December 31, 2010, compared to \$0.5 million and \$1.2 million as of December 31, 2009 and 2008, respectively.
- As part of its debt management strategy, the \$112 million debt principal outstanding includes both fixed-rate and variable-rate debt. The debt portfolio is comprised of variable-rate debt, which accounts for 69 percent of the portfolio, versus 31 percent of fixed-rate debt. The variable-rate debt is composed of two separate issuances, each supported by an irrevocable direct-pay Letter of Credit provided by separate international banks. The Letters of Credit will expire in June 2012 and September 2013.
- The District realized an overall increase in net assets, as shown in the Statements of Net Assets, of \$9.7 million for the year ended December 31, 2010, compared to \$14.7 million and \$20.1 million for the years ended December 31, 2009 and 2008, respectively. The vast majority of the District's total net assets reflect investments in capital assets, less any related debt used to acquire those assets that are still outstanding. These capital assets are used to provide treated water to District consumers. Consequently, these assets are not available for future spending. As stated above, although the District's investment in capital assets is reported net of related debt, resources

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are needed to repay this debt and must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities. In addition, a portion of the District's net assets represent restricted cash and cash equivalents that are solely made up of debt reserve funds, which are held in escrow for the certificates of participation, Series 2008A-2 and 2009B.

- The District's operating revenues come primarily from its customers. The District charges a metered or flat rate for certain residential customers depending on whether the service connections of such customers have a water meter. All District customers, regardless of the type of service, are charged an operation and maintenance charge and a capital facilities charge. Capital facility charges are established for the purpose of paying for capital project and debt service costs.
- Operating expenses are primarily comprised of the purchase of treated surface water, the electrical and treatment costs of well water, ongoing system repairs and maintenance, and employee salaries and benefits. The volatility of such expenses from one year to another is primarily driven by the amount of surface water purchased in that year compared to the previous year.
- Net non-operating revenues and expenses consist primarily of interest expense on the District's debt, interest and investment income and, for 2010, the pass-through of federal grant monies to four local water purveyors who joined with the District in receiving a federal grant from the USBR for the installation of water meters as discussed above. Interest expense decreased slightly in 2010 relative to 2009, primarily a result of reduced principal balances on outstanding debt and market price variability. Income from investments continues to remain an effective funding source for the District. Nearly all of the District's unrestricted cash is invested in fixed-income market securities. The yield to maturity on the market portfolio as of December 31, 2010, 2009 and 2008 were 1.84 percent, 2.44 percent, and 3.90 percent, respectively.
- The District receives financial assistance from other governmental agencies in the form of grants and allocations. During 2010, the District, along with four other local water purveyors, received a federal grant from the USBR for the installation of water meters. The District's share was approximately \$1.1 million, which allowed 936 additional water meters to be installed in 2010, beyond the goal of the District's Water Meter Replacement Plan that has been established to meet state law, which requires the District to have water meters on all of its connections by the year 2025.

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Description of Basic Financial Statements

The Basic Financial Statements are designed to provide readers with a broad overview of the District's finances. Since the District's primary function is to deliver a high quality, reliable supply of water to its consumers and recover costs through customer fees and charges, the Basic Financial Statements report activities in a manner similar to a private-sector business.

The Statements of Net Assets present information on all the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the District's financial position is improving or deteriorating.

The Statements of Revenues, Expenses and Changes in Net Assets presents information showing how the District's net assets changed during the years ended December 31, 2010 and 2009. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs regardless of the timing of the related cash flows. In other words, the District reports expenses and revenues on an accrual basis rather than a cash basis.

The notes to the Basic Financial Statements (Notes) provide additional information that is essential to a full understanding of the data provided in the Basic Financial Statements.

Statements of Net Assets

Condensed Statements of Net Assets

	2010	2009 Restated*	Change	2008	Change
Assets :					
Current assets	\$ 17,055,789	\$ 18,554,180	\$ (1,498,391)	\$ 29,193,559	\$ (10,639,379)
Non-current assets	47,567,362	47,964,839	(397,477)	32,509,345	15,455,494
Capital assets, net	231,528,147	218,900,721	12,627,426	207,329,300	11,571,421
Total assets	\$ 296,151,298	\$ 285,419,740	\$ 10,731,558	\$ 269,032,204	\$ 16,387,536
Liabilities:					
Current liabilities	\$ 9,387,300	\$ 7,242,140	\$ 2,145,160	\$ 7,297,030	\$ (54,890)
Non-current liabilities	110,234,884	111,367,745	(1,132,861)	109,622,312	1,745,433
Total liabilities	119,622,184	118,609,885	1,012,299	116,919,342	1,690,543
Net assets:					
Net investment in capital assets	125,609,682	110,209,200	15,400,482	99,013,649	11,195,551
Restricted for debt service	6,642,397	6,762,518	(120,121)	6,310,385	452,133
Unrestricted	44,277,035	49,838,137	(5,561,102)	46,788,828	3,049,309
Total net assets	176,529,114	166,809,855	9,719,259	152,112,862	14,696,993
Total liabilities and net assets	\$ 296,151,298	\$ 285,419,740	\$ 10,731,558	\$ 269,032,204	\$ 16,387,536

* See Note 1.C.10 and Note 8.

The District's net assets increased by \$9.7 million from \$166.8 million at December 31, 2009, to \$176.5 million as of December 31, 2010.

Primary reasons for the \$9.7 million increase in net assets for 2010 are as follows:

- Capital assets, net, increased \$12.6 million due primarily to the construction and replacement of a small portion of the District's transmission and distribution system, wells, water infrastructure appurtenances such as fire hydrants, pressure reduction valves, water valves, and the installation of water meters. Many other new construction projects are in various stages of completion with incurred costs as of December 31, 2010 amounting to \$9.9 million (Note 6.)

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- Total liabilities increased by \$1.0 million to \$119.6 million as of December 31, 2010. The increase in 2010 was primarily due to an increase in the negative fair value of the District's payor swap of \$1.8 million and an increase of \$1.5 million in accounts payable and accrued expenses as advanced purchases of pipeline were made as such costs were anticipated to increase at the beginning of 2011. Mitigating such increases were scheduled debt repayments totaling \$3.1 million.

Based on the changes in total assets and total liabilities, the components of net assets as of December 31, 2010 are:

- The largest component of District net assets is the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are not available for future spending. Such net assets increased by \$15.4 million to \$125.6 million as of December 31, 2010.
- Restricted net assets increases consist solely of debt reserves held in escrow on two of the District's debt obligations.
- At the end of 2010 and 2009, the District showed a positive balance in its unrestricted net assets of \$44.3 million and \$49.8 million respectively. The \$5.6 million decrease in unrestricted net assets compared to 2009 was due primarily to the early payment of the unfunded pension liability and insufficient revenues necessary to cover the cost of the capital projects of the District.

Statements of Revenues, Expenses and Changes in Net Assets

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	2010	2009	Change	2008	Change
Revenues:					
Operating revenues	\$ 40,534,724	\$ 41,889,150	\$ (1,354,426)	\$ 36,806,932	\$ 5,082,218
Non-operating revenues	1,935,839	1,504,023	431,816	10,545,043	(9,041,020)
Total revenues	42,470,563	43,393,173	(922,610)	47,351,975	(3,958,802)
Expenses:					
Operating expenses	20,696,778	16,791,855	3,904,923	15,991,241	800,614
Depreciation and amortization	9,141,660	8,791,776	349,884	8,294,452	497,324
Non-operating expenses	5,318,228	5,287,481	30,747	6,398,802	(1,111,321)
Total expenses	35,156,666	30,871,112	4,285,554	30,684,495	186,617
Net revenue before capital contributions	7,313,897	12,522,061	(5,208,164)	16,667,480	(4,145,419)
Capital contributions	2,405,362	2,174,932	230,430	3,450,107	(1,275,175)
Change in net assets	9,719,259	14,696,993	(4,977,734)	20,117,587	(5,420,594)
Net assets, beginning of year	166,809,855	152,112,862	14,696,993	131,995,275	20,117,587
Net assets, end of year	\$ 176,529,114	\$ 166,809,855	\$ 9,719,259	\$ 152,112,862	\$ 14,696,993

The District's operating revenues decreased by \$1.4 million (3.2 percent) compared to the year ended December 31, 2009, primarily due to a reduction in sales of 5,750 acre-feet of surface water entitlements (\$1.7 million.) In 2009, the District had the opportunity to sell 8,462 acre-feet of surface water entitlements to the State of California 2009 Drought Water Bank for \$2.3 million. In 2010, the District was able to sell 2,712 acre-feet of surface water entitlements to the State Water Contractors Association in the 2010 Water Transfer Program for \$0.6 million.

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In 2009, operating revenues increased by \$5.1 million due to a water rate increase of 13 percent effective January 1, 2009, that was primarily directed at increasing customer capital facility fee charges to fund some of the District's infrastructure most immediate needs. The District's water consumption charge is also increasing but at a slower pace as the District is encouraging water conservation through its pricing efforts. Additionally, operating revenues of \$2.3 million were received from the sale of raw surface water under the provisions of the State of California 2009 Drought Water Bank program.

Operating Revenues

	<u>2010</u>	<u>2009</u>	<u>Change</u>	<u>2008</u>	<u>Change</u>
Operating Revenues:					
Water consumption sales	\$ 10,966,745	\$ 11,031,346	\$ (64,601)	\$ 10,896,578	\$ 134,768
Water consumption sales - raw water	636,638	2,347,132	(1,710,494)	-	2,347,132
Water service charge	7,174,165	7,414,620	(240,455)	8,050,277	(635,657)
Capital facilities charge	20,492,678	19,976,601	516,077	16,436,040	3,540,561
Wheeling water charge	273,490	148,525	124,965	294,975	(146,450)
Other charges for services	991,008	970,926	20,082	1,129,062	(158,136)
Total operating revenue	<u><u>\$ 40,534,724</u></u>	<u><u>\$ 41,889,150</u></u>	<u><u>\$ (1,354,426)</u></u>	<u><u>\$ 36,806,932</u></u>	<u><u>\$ 5,082,218</u></u>

Non-operating revenues consist primarily of interest and investment income, rental income and gains on disposal of certain capital assets. In 2010, non-operating revenues increased by \$0.4 million primarily as a result of increased interest and investment income of \$0.2 million and a \$0.2 million gain on the disposal of standby diesel fueled generators that no longer met new regulations established by the California Air Resources Board.

Operating Expenses

	<u>2010</u>	<u>2009</u>	<u>Change</u>	<u>2008</u>	<u>Change</u>
Operating Expenses:					
Source of supply	\$ 2,138,672	\$ 1,846,669	\$ 292,003	\$ 1,843,149	\$ 3,520
Source of supply - raw water	151,254	487,297	(336,043)	-	487,297
Pumping	3,264,608	3,461,228	(196,620)	3,252,797	208,431
Transmission and distribution	3,583,362	3,837,952	(254,590)	3,543,558	294,394
Water conservation	415,407	490,237	(74,830)	483,089	7,148
Customer accounts	967,878	959,324	8,554	918,525	40,799
Administrative and general (note 13)	10,175,597	5,709,148	4,466,449	5,950,123	(240,975)
Total operating expenses	<u><u>\$ 20,696,778</u></u>	<u><u>\$ 16,791,855</u></u>	<u><u>\$ 3,904,923</u></u>	<u><u>\$ 15,991,241</u></u>	<u><u>\$ 800,614</u></u>

For 2010, operating expenses increased by \$3.9 million (23.3 percent) over 2009. This increase was primarily attributable to the District repaying, in advance, a \$4.2 million unfunded pension liability as described above and the increased utilization of treated surface water in 2010 over 2009, which is obtained at a higher cost than pumping groundwater. Mitigating such increases was a \$0.3 million reduction in the purchase of surface water for sale.

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In 2009, District operating expenses increased by \$0.8 million due to a variety of factors. Operating expenses increased as \$0.5 million of raw surface water was purchased for sale under the provisions of the State of California 2009 Drought Water Bank program. Groundwater pumping costs increased due to a reduction in the volume of surface water utilized by the District. Transmission and distribution expenses increased by \$0.3 million as part of the costs incurred in constructing certain District capital projects. Administrative and general expenses decreased by \$0.2 million primarily due to a reduction in the expense for the allowance for bad debts and consultant costs.

Non-operating expenses consist primarily of interest expense on the District's debt. Interest expense decreased slightly in 2010 relative to 2009, primarily a result of reduced principal balances on outstanding debt and market price variability.

Capital Asset Administration

The District assesses and manages its infrastructure and other capital asset needs through prudent and cost focused planning taking into consideration both current and future water resource availability, consumer peak-demand needs, maximization of the use of existing facilities, consideration for climactic changes, and other such assessments that can be used to sustain service to both current and future consumers. Such planning includes assessing each asset's risk of failure and its consequences on District operations. The assessment of infrastructure asset needs have been thoroughly reviewed by District engineering staff and outside consultants. For each infrastructure asset group a long-term plan has been developed or is in the process of being developed. Infrastructure plans in place as of December 31, 2010, include: Distribution System Replacement Plan; Water Meter Replacement Plan; Groundwater Well Facility Asset Management Plan; and a Water System Master Plan. Long-term planning for other infrastructure asset groups that are in the process of development include: Reservoir and Booster Pump Stations; and a Building/Structures plan.

Despite such plans having a long-term focus, typically to the end of each assets useful service life, such plans are reviewed and reassessed periodically. Therefore, changes in funding are also made periodically to address such necessary reassessments.

Changes in capital asset amounts for 2010 were as follows:

	<u>Balance 2009</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2010</u>
Capital assets:				
Non-depreciable assets	\$ 14,754,469	\$ 20,733,290	\$ (23,005,045)	\$ 12,482,714
Depreciable & amortizable assets	295,392,272	24,040,841	(92,223)	319,340,890
Accumulated depreciation & amortization	(91,246,020)	(9,141,660)	92,223	(100,295,457)
Total capital assets, net	<u>\$ 218,900,721</u>	<u>\$ 35,632,471</u>	<u>\$ (23,005,045)</u>	<u>\$ 231,528,147</u>

Changes in capital asset amounts for 2009 were as follows:

	<u>Balance 2008</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2009</u>
Capital assets:				
Non-depreciable assets	\$ 4,925,313	\$ 19,581,010	\$ (9,751,854)	\$ 14,754,469
Depreciable assets	285,409,837	10,547,727	(565,292)	295,392,272
Accumulated depreciation	(83,005,849)	(8,791,776)	551,605	(91,246,020)
Total capital assets, net	<u>\$ 207,329,301</u>	<u>\$ 21,336,961</u>	<u>\$ (9,765,541)</u>	<u>\$ 218,900,721</u>

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Debt Administration

The District manages its borrowings in such a way as to mitigate the risks inherent in debt issuances within an acceptable tolerance level. By managing borrowings and their repayment, the District can reduce various debt risk exposures such as market risk, credit bank risk, renewal risk, basis risk and tax risk, yet all the while provide the District with options to be utilized in future periods if and when needed. The District considers managing such risks more beneficial than eliminating such risks, as it is estimated the District has saved \$8.1 million in interest expense since its first debt refunding in 2005, and those subsequent, relative to issuing fixed-rate debt at the time of refunding.

In 2010, as part of its debt management strategy, the District issued an irrevocable direct-pay Letter of Credit provided by Lloyds TSB Bank, plc, to replace the irrevocable direct-pay Letter of Credit provided by Allied Irish Banks, plc, on its variable-rate refunding certificate of participation, Series 2008A-2.

In order to avoid rollover risk in 2010 and 2011, the District currently has in place two irrevocable direct-pay Letters of Credit that will expire in June 2012 and September 2013.

In 2009, one of the credit providers the District utilized on two irrevocable direct-pay Letters of Credit had their credit rating downgraded. Interest expense began to rise, so the decision was made to refinance both of these issuances. One issuance was refunded with a new irrevocable direct-pay Letter of Credit provider and the other was refinanced and reissued as fixed-rate debt.

In addition, the District has had in place since 2005 a payor swap (pay fixed-rate, receive variable-rate) in order to take advantage of low interest rates in the marketplace in existence at the time of the issuance of the Series 2005A debt. The purchase of this derivative primarily mitigates market risk for the District.

Changes in long-term debt amounts for 2010 were as follows:

	Balance 2009	Additions	Principal Payments	Balance 2010
Long-term debt:				
2005B Certificates of participation	\$ 1,645,000	\$ -	\$ (1,520,000)	\$ 125,000
2008A-2 Certificates of participation	35,860,000	-	(900,000)	34,960,000
2009A Certificates of participation	42,000,000	-	-	42,000,000
2009B Certificates of participation	35,295,000	-	(680,000)	34,615,000
Total long-term debt	\$ 114,800,000	\$ -	\$ (3,100,000)	\$ 111,700,000

Changes in long-term debt amounts for 2009 were as follows:

	Balance 2008	Additions	Principal Payments	Balance 2009
Long-term debt:				
2004 Certificates of participation	\$ 41,275,000	\$ -	\$ (41,275,000)	\$ -
2005B Certificates of participation	3,110,000	-	(1,465,000)	1,645,000
2008A-1 Certificates of participation	36,725,000	-	(36,725,000)	-
2008A-2 Certificates of participation	36,725,000	-	(865,000)	35,860,000
2009A Certificates of participation	-	42,000,000	-	42,000,000
2009B Certificates of participation	-	36,155,000	(860,000)	35,295,000
Total long-term debt	\$ 117,835,000	\$ 78,155,000	\$ (81,190,000)	\$ 114,800,000

Sacramento Suburban Water District
Management's Discussion and Analysis
For the Years Ended December 31, 2010 and 2009

Calendar 2011 Budget

Annually, the District adopts non-appropriated budgets for planning and control purposes. The budgets are adopted on a cash flow basis. Budgetary controls are set at the department level. The General Manager has the discretion of reallocating budgeted funds between accounts/activities within each budget.

The District utilizes two primary budgets to manage its activities. One is an annual Capital Budget (divided into two parts - intermediate-term capital and long-term capital) and the other is an Operations and Maintenance Budget. The long-term capital budget is intended to cover all District infrastructure projects that incorporate significant costs or long lead times and planning to complete. The intermediate-term capital budget is intended to incorporate expenditures for operational capital items, such as vehicles, field equipment, back hoes, and computer equipment. The operations and maintenance budget covers all recurring operational costs, such as the purchase and treatment of water, repairs and maintenance, employee salaries and benefits and other such expenditures.

On October 18, 2010, the board of directors approved a \$20.3 million long-term capital budget, a \$0.9 million intermediate-term capital budget, and a \$16.8 million operations and maintenance budget for the calendar year 2011.

Conditions Affecting Current Financial Position

At this time, management is unaware of any conditions that would have a significant impact on the District's financial position, net assets, or operating results in future periods.

Basic Financial Statements

Sacramento Suburban Water District
Statements of Net Assets
December 31, 2010 and 2009

<i>Assets</i>	2010	2009 Restated (Note 1.C.10 and Note 8)
Current assets:		
Cash and cash equivalents (note 2)	\$ 6,641,556	\$ 8,628,774
Restricted cash and cash equivalents (notes 2 and 3)	6,642,397	6,762,518
Receivables, net (note 4)	2,687,283	2,247,158
Inventory	498,182	544,058
Prepays and other current assets	586,371	371,672
Total current assets	<u>17,055,789</u>	<u>18,554,180</u>
Non-current assets:		
Investments (note 2)	40,180,363	42,349,962
Deferred charges (note 5)	1,003,132	1,071,148
Deferred outflows on effective swap (note 1.C.10 and Note 8)	6,383,867	4,543,729
Capital assets not being depreciated (note 6)	12,482,714	14,754,469
Capital assets being depreciated and amortized, net (note 6)	219,045,433	204,146,252
Total non-current assets	<u>279,095,509</u>	<u>266,865,560</u>
Total assets	<u>296,151,298</u>	<u>285,419,740</u>
<i>Liabilities and Net Assets</i>		
Current liabilities:		
Accounts payable and accrued expenses	3,941,771	2,491,558
Accrued interest payable	547,112	471,047
Deferred revenue and customer deposits	1,092,117	672,535
Compensated absences, current portion (note 7)	491,300	507,000
Current portion of long-term debt (note 8)	3,315,000	3,100,000
Total current liabilities	<u>9,387,300</u>	<u>7,242,140</u>
Non-current liabilities:		
Compensated absences (note 7)	244,419	161,347
Long-term debt, net of current portion (note 8)	103,606,598	106,662,669
Fair value of interest rate swap (note 1.C.10 and Note 8)	6,383,867	4,543,729
Total non-current liabilities	<u>110,234,884</u>	<u>111,367,745</u>
Total liabilities	<u>119,622,184</u>	<u>118,609,885</u>
Net assets:		
Invested in capital assets, net of related debt (note 9)	125,609,682	110,209,200
Restricted (note 10)	6,642,397	6,762,518
Unrestricted (note 11)	44,277,035	49,838,137
Total net assets	<u>\$ 176,529,114</u>	<u>\$ 166,809,855</u>

See accompanying notes to the basic financial statements

Sacramento Suburban Water District
Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended December 31, 2010 and 2009

	2010	2009
Operating Revenues:		
Water consumption sales	\$ 10,966,745	\$ 11,031,346
Water consumption sales - raw water	636,638	2,347,132
Water service charge	7,174,165	7,414,620
Capital facilities charge	20,492,678	19,976,601
Wheeling water charge	273,490	148,525
Other charges for services	991,008	970,926
Total operating revenues	40,534,724	41,889,150
Operating Expenses:		
Source of supply	2,138,672	1,846,669
Source of supply - raw water	151,254	487,297
Pumping	3,264,608	3,461,228
Transmission and distribution	3,583,362	3,837,952
Water conservation	415,407	490,237
Customer accounts	967,878	959,324
Administrative and general (note 13)	10,175,597	5,709,148
Total operating expenses	20,696,778	16,791,855
Operating revenue before depreciation	19,837,946	25,097,295
Depreciation and amortization	(9,141,660)	(8,791,776)
Operating income	10,696,286	16,305,519
Non-operating revenues (expenses)		
Rental revenue	392,587	351,730
Interest and investment revenue	1,266,708	1,112,312
Interest expense	(5,133,013)	(5,183,532)
Other non-operating revenues	33,914	40,482
Grant revenue pass-through to subrecipients	3,243,256	-
Other non-operating expenses	(185,215)	(103,949)
Subrecipient grant expenses	(3,243,256)	-
Gain (loss) on disposal of capital assets, net	242,630	(501)
Total non-operating revenues (expenses), net	(3,382,389)	(3,783,458)
Net revenue before capital contributions	7,313,897	12,522,061
Capital contributions:		
Facility development charges	121,322	424,014
Developer capital contributions	1,194,227	1,750,918
Federal, state and local capital grants	1,089,813	-
Total capital contributions	2,405,362	2,174,932
Change in net assets	9,719,259	14,696,993
Net assets, beginning of year	166,809,855	152,112,862
Net assets, end of year	\$ 176,529,114	\$ 166,809,855

See accompanying notes to the basic financial statements

Sacramento Suburban Water District
Statements of Cash Flows
For the Years Ended December 31, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Cash receipts from customers	\$ 40,607,195	\$ 42,409,855
Cash paid to suppliers for goods and services	(15,553,492)	(13,276,387)
Cash paid to employees for services	(3,688,522)	(3,737,849)
Net cash provided by operating activities	21,365,181	25,395,619
Cash flows from non-capital financing activities:		
Rental revenue received	392,587	351,730
Grant receipts	3,243,256	-
Other revenue received	33,914	40,482
Pass-through to subrecipients	(3,243,256)	-
Other expenses paid	(117,199)	(31,006)
Net cash provided by non-capital financing activities	309,302	361,206
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(20,574,859)	(18,625,965)
Proceeds from disposal of capital assets	242,630	13,185
Principal payments on long-term debt	(3,100,000)	(81,190,000)
Arbitrage payment on long-term debt	-	(322,512)
Interest payments on long-term debt	(4,798,019)	(4,595,609)
Proceeds from issuing new long-term debt	-	79,774,698
Issuance costs incurred on long-term debt	-	(738,448)
Facility development charges received	271,735	229,280
Capital contributions received	682,177	-
Net cash used by capital and related financing activities	(27,276,336)	(25,455,371)
Cash flows from investing activities:		
Purchase of investment securities	(60,724,848)	(60,294,890)
Proceeds from sales and maturities of investment securities	63,098,216	48,832,885
Interest received on investment securities	1,121,146	1,482,912
Net cash provided (used) by investing activities	3,494,514	(9,979,093)
Net decrease in cash and cash equivalents	(2,107,339)	(9,677,639)
Cash and cash equivalents at beginning of year	15,391,292	25,068,931
Cash and cash equivalents at end of year	\$ 13,283,953	\$ 15,391,292
Reconciliation of cash and cash equivalents to the statements of net assets:		
Cash and cash equivalents	\$ 6,641,556	\$ 8,628,774
Restricted cash and cash equivalents	6,642,397	6,762,518
Total cash and cash equivalents	\$ 13,283,953	\$ 15,391,292

Continued on next page

Sacramento Suburban Water District
Statements of Cash Flows, continued
For the Years Ended December 31, 2010 and 2009

	2010	2009
Reconciliation of operating revenues to net cash provided by operating activities:		
Operating income	\$ 10,696,286	\$ 16,305,519
Adjustments to reconcile operating revenue to net cash provided by operating activities:		
Depreciation and amortization	9,141,660	8,791,776
Allowance for doubtful accounts	16,307	(32,699)
Changes in operating assets and liabilities:		
(Increase) decrease in operating assets:		
Accounts receivable	(114,384)	565,316
Other receivables	7,383	(9,312)
Inventory	45,876	25,537
Prepays and other current assets	(214,700)	252,603
Increase (decrease) in operating liabilities:		
Accounts payable	1,293,644	(294,508)
Deferred revenue	163,165	(2,600)
Accrued compensated absences	67,372	51,779
Accrued expenses	262,572	(257,792)
Total adjustments	10,668,895	9,090,100
Net cash provided by operating activities	\$ 21,365,181	\$ 25,395,619
Non-cash investing, capital and financing transactions:		
Receipt on capital assets as contributions in aid of construction	\$ 1,194,227	\$ 1,750,918
Change in fair value of investments	(286,618)	(758,417)
Change in arbitrage liabilities on long-term debt	-	(108,793)
Change in defeasance costs on long-term debt	-	1,005,441
Amortization of issuance costs on long-term debt	68,016	72,943
Amortization of premium on long-term debt	(83,777)	41,889
Amortization of defeasance costs on long-term debt	342,706	320,862

See accompanying notes to the basic financial statements

Sacramento Suburban Water District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2010 and 2009

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Reporting Entity

The Sacramento Suburban Water District (District) provides water to residential, commercial and industrial customers with a total population of approximately 158,000 people within its boundaries. The water supply of the District is a combination of both surface water and groundwater. The District was formed on February 1, 2002 under the County Water District Law (California Water Code Sections 30000-33901) by the consolidation of the Northridge Water District and the Arcade Water District. The consolidation was approved and ordered by the Sacramento County Local Agency Formation Commission under the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (California Government Code Sections 56000-57550). The District is located in northwest Sacramento County, California and includes a portion of the unincorporated area of Sacramento County, as well as portions of Antelope, Carmichael, Citrus Heights, Foothill Farms, North Highlands, the City of Sacramento, and all of McClellan Business Park (formerly McClellan Air Force Base). The District is currently governed by a five member Board of Directors elected by the voters within the District for staggered, four year terms, every two years.

The Arcade Water District which created the Arcade Water District Financing Corporation (Corporation) is now officially doing business as the Sacramento Suburban Water District Financing Corporation, to provide assistance in the issuance of debt. The Corporation is a nonprofit public benefit Corporation organized under the laws of the State of California. The Corporation is governed by a board of five directors, each of whom must be a member of the District's Board. Although legally separate from the District, the Corporation is reported as if it were part of the District, because it shares a common Board of Directors with the District, and its sole purpose is to provide financing to the District. Debt issued by the Corporation is reflected as debt of the District in the basic financial statements. The Corporation does not issue separate financial statements.

B. Basis of Accounting and Principles of Presentation

The basic financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The District is accounted for as an enterprise fund type of the proprietary fund group and applies all applicable Governmental Accounting Standards Board (GASB) pronouncements in its accounting and reporting. In addition, the District follows Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

The basic financial statements reflect the flow of economic resources measurement focus and the full accrual basis of accounting. Under the full accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred regardless of the timing of related cash flows.

Certain amounts in the 2009 basic financial statements have been reclassified in order to conform to the 2010 presentation.

C. Assets, Liabilities and Net Assets

1. Use of Estimates

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the basic financial statements and the reported changes in net assets during the reporting period. Therefore, actual results may differ from those estimates.

Sacramento Suburban Water District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2010 and 2009

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

C. Assets, Liabilities and Net Assets, continued

2. Unrestricted and Restricted Cash and Cash Equivalents

For the purpose of the Statements of Cash Flows, the District considers all short-term debt securities (including those for restricted assets) purchased with an original maturity of three months or less at the date of purchase to be cash and cash equivalents. The District also invests funds with the Local Agency Investment Fund (LAIF). Due to the high liquidity of this investment, these funds are classified as a cash equivalent.

3. Receivables and Allowance for Uncollectible Accounts

The District extends credit to customers in the normal course of operations. When management deems customer accounts uncollectible, the District goes through various steps to collect on the account. If uncollectible, the District adjusts its uncollectible accounts using the allowance method.

4. Inventory

Inventory consists primarily of water meters, pipe, valves and pipe-fittings for construction and repair to the District's water transmission and distribution system. Inventory is valued at weighted-average cost. The difference between weighted-average cost and actual cost is considered immaterial. Inventory items are charged to expense at the time the individual items are withdrawn from inventory or consumed.

5. Prepaid Expenses

Certain payments to vendors reflect costs or deposits applicable to future accounting periods and are recorded as prepaid current assets in the basic financial statements.

6. Investments and Investment Policy

In 2002, the District adopted an investment policy directing the District Treasurer/Finance Director to invest funds in various types of financial instruments.

Investments are reported in the accompanying Statements of Net Assets at fair value determined using quoted market prices, where available. Changes in fair value that occur during the year are recognized as interest and investment revenue reported for that year. Interest and investment revenue includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or maturity of investments.

7. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. Donated assets are recorded at estimated fair market value at the date of donation. Maintenance and repairs are charged to operations when incurred. It is the District's policy to capitalize all capital assets with a cost of more than \$3,000 for water system infrastructure assets, \$500 for office furniture and computer and communication equipment, and \$1,000 for all other assets. Costs of capital assets sold or retired (and the related amounts of accumulated depreciation or amortization) are eliminated from the Statements of Net Assets in the year of sale or retirement, and the resulting gain or loss is recognized in non-operating revenues (expenses). In cases where an improvement or replacement is made to an existing capital asset and the existing capital asset's book value is not separately identifiable, the cost of the new capital asset is capitalized as it is assumed the existing capital asset's book value is negligible.

Sacramento Suburban Water District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2010 and 2009

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

C. Assets, Liabilities and Net Assets, continued

Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

- | | |
|---|----------------|
| • Pipelines, Reservoirs, and Pumping Stations | 10 to 80 years |
| • Building and Building Improvements | 10 to 40 years |
| • Vehicles and Equipment | 5 years |
| • Furniture and Fixtures | 4 to 7 years |

In June 2007, GASB issued Statement No. 51, “Accounting and Financial Reporting for Intangible Assets” (GASB 51). This Statement requires governments to recognize and report intangible assets in the Statements of Net Assets as a capital asset if it is identifiable, such as property easements. GASB 51 also establishes a specific-conditioned approach to recognizing intangible assets that are internally generated, such as internally generated software. The District implemented GASB 51 in 2010. See Note 6 for further details.

8. Compensated Absences

Compensated absences are accrued and reported as a liability in the period earned. Amounts payable are included in the Statements of Net Assets. The District’s policy provides vacation leave to employees at a rate of 12 days up to 25 days per year based on the number of years of employment and is considered earned on a pro-rata basis as of each payroll period throughout the year. Earned vacation leave is paid to employees upon separation from the District. Employees under age 55 are paid once a year for all earned vacation leave exceeding 400 hours at their current hourly rate of pay. Sick leave accrues at the rate of 96 hours per year and is considered earned on a pro-rata basis as of each payroll period throughout the year. Earned sick leave is paid to employees who are age 55 and older upon retirement at their current hourly rate of pay or may be contributed to the California Public Employee Retirement System (PERS) defined benefit pension plan provided by the District for additional service credit (See Note 13.) Employees under age 55 are paid once a year for all earned sick leave exceeding 240 hours at one-half of their current hourly rate of pay.

9. Long-Term Debt Discounts, Premiums and Issuance Costs

Long-term debt discounts and premiums, as well as issuance costs, are deferred and amortized over the life of the related debt using the straight-line method. Long-term debt is reported net of the applicable debt discounts or premiums. Long-term debt issuance costs are reported as deferred charges and amortized over the term of the related debt.

10. Interest Rate Swap

In 2005, the District entered into an interest rate Swap agreement to manage interest rate risk and reduce debt service costs on variable-rate debt issued simultaneously with the Swap.

Sacramento Suburban Water District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2010 and 2009

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

C. Assets, Liabilities and Net Assets, continued

In June 2008, GASB issued Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments" (GASB 53). This Statement requires governments to measure and report most derivative instruments at fair value in their basic financial statements that are prepared using the economic resources measurement focus and the full accrual basis of accounting. This requirement of reporting derivatives at fair value on the face of the financial statements gives the users of the financial statements a clearer look into the risks their governments are sometimes exposed to when they enter into these transactions and how the risks are managed. GASB 53 also addresses hedge accounting requirements and improves disclosure, provides a summary of the government's derivative activity, its objectives for entering into derivative instruments, and their significant terms and risks. The District implemented GASB 53 in 2010 retrospectively. See Note 8 for further details.

11. Net Assets

GAAP, as applied to government units, requires that the difference between assets and liabilities be reported as net assets. Net assets are either classified as restricted, unrestricted, or invested in capital assets, net of related debt.

- **Invested in Capital Assets, Net of Related Debt** – Net assets that are invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation and amortization, and reduced by any debt outstanding against the acquisition, construction or improvement of those assets. These net assets are considered non-expendable.
- **Restricted Net Assets** – This component of net assets consists of external constraints placed on them by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted Net Assets** – This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt." Amounts included as unrestricted net assets are available for designation for specific purposes as established by the District's Board of Directors.

When both restricted and unrestricted resources are available for use when an expense is incurred for which both restricted and unrestricted net assets are available, it is the District's policy to use restricted resources first then unrestricted resources as they are needed.

12. Water Consumption Sales, Service Charges and Capital Facility Charges (Water Sales)

Water sales to District customers are billed on a monthly basis. Invoices for customers who pay on a set basis are billed in advance, while customers who pay based on a consumption basis are billed in arrears. Consumption amounts are determined on a weekly basis throughout a monthly period. Estimated unbilled water sales revenue for consumption use are accrued and recorded in the period the water was used. Capital facility charges are applied to all District customers based on their respective service size connection. Such charges are for the purpose of generating revenue for capital asset projects and debt service payments. Wheeling charges are revenues received from neighboring water purveyors who utilize the District's transmission and distribution system. Other charges for services consist of customer related revenues for various services provided by the District including penalty charges. All other revenues are considered non-operating revenues.

Sacramento Suburban Water District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2010 and 2009

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

C. Assets, Liabilities and Net Assets, continued

13. Capital Contributions

Capital contributions represent cash, easements, and capital asset additions contributed to the District by property owners, granting agencies or real estate developers desiring services that require capital expenditures or capacity commitment.

14. Budgetary Policies

The District adopts an annual non-appropriated operating expense and capital project budget for planning, control, and evaluation purposes. Budgetary control and evaluation are affected by comparisons of actual operating expenses and capital project costs with planned operating expenses and capital project costs for the year. As required by certain debt covenants, the annual operating budget is also evaluated, along with anticipated revenues, such that net revenues, as defined by the various debt covenants, are equal to or exceed a minimum of 115 percent of the anticipated debt service for the budget year.

(2) Cash, Cash Equivalents and Investments

As a public agency, the District's investment practices are prescribed by various provisions of the California Government Code, as well as by Board policy. The District's investment policy is approved biennially by the Board of Directors and describes the District Treasurer/Finance Director's investment authority, practices, and limitations. The basic investment policy objectives of the District, in order of importance are - safety of principal, liquidity, interest rate risk hedging, and return on investments.

Cash and investments as of December 31, 2010 and 2009 are classified in the Statements of Net Assets as follows:

	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$ 6,641,556	\$ 8,628,774
Restricted cash and cash equivalents	6,642,397	6,762,518
Investments	40,180,363	42,349,962
Total	<u>\$ 53,464,316</u>	<u>\$ 57,741,254</u>

Restricted cash and cash equivalents are amounts established by Indentures of Trust per certain long-term debt covenants. See Note 3 for further details.

Sacramento Suburban Water District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2010 and 2009

(2) Cash, Cash Equivalents and Investments, continued

Cash, cash equivalents, and investments by investment type as of December 31, 2010 and 2009 consist of the following:

	<u>2010</u>	<u>2009</u>
Cash on hand	\$ 2,200	\$ 2,200
Deposits with financial institutions	2,925,250	1,702,963
Total cash	<u>2,927,450</u>	<u>1,705,163</u>
California Local Agency Investment Fund (LAIF)	207,942	6,874,554
Money market funds	2,207,138	49,057
Commercial paper	1,299,026	-
Held by bond trustee		
Restricted money market funds	6,642,397	6,762,518
Total cash equivalents	<u>10,356,503</u>	<u>13,686,129</u>
Negotiable certificates of deposit	2,202,439	-
U.S. treasury notes/bonds	10,549,507	10,928,866
Federal agency securities	16,399,481	23,680,552
Corporate notes	8,731,155	4,649,256
Corporate notes - FDIC insured *	2,297,781	3,091,288
Total investments	<u>40,180,363</u>	<u>42,349,962</u>
Total	<u>\$ 53,464,316</u>	<u>\$ 57,741,254</u>

* Notes issued under the "Temporary Liquidity Guarantee Program." Such principal and interest on bonds issued under this program are guaranteed by the FDIC. The program has now ended for new issuances.

Sacramento Suburban Water District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2010 and 2009

(2) Cash, Cash Equivalents and Investments, continued

Investments Authorized by the California Government Code and the District's Investment Policy

The table below identifies the investment types that are authorized in accordance with 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 custodial credit risk, interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity (1)	Maximum Percentage Of Portfolio	Maximum Investment in One Issuer
U.S. treasury notes/bonds	5 years	None	None
Federal agency securities	5 years	None	None
Repurchase agreements	1 year	50%	None
Banker's acceptances	180 days	40%	25%
Commercial paper ⁽²⁾	270 days	25%	10%
Negotiable certificates of deposit	5 years	30%	25%
Medium-term notes	5 years	20%	25%
Time deposits	1 year	None	None
Money market mutual funds	N/A	15%	10%
Mortgage backed and asset backed securities	5 years	10%	None
LAIF	N/A	(3)	None

(1) The California Government Code provides authority to the Board to permit maturities beyond 5 years for certain investments. Current Board policy provides for maturities longer than 5 years for funds established by Indentures of Trust. Under current policy, not more than 20 percent of the portfolio may be invested in maturities longer than 3 years.

(2) Limited to funds invested in California Government Code authorized instruments.

(3) California Government Code limits the District's investment for operating and reserve funds in LAIF to \$40 million. There is no ceiling on bond proceeds invested in LAIF.

Investments Authorized by Debt Agreements

Investments of debt proceeds held in trust per certain debt covenants are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy.

Investment in LAIF Pool

The District is a voluntary participant in LAIF that is regulated by the California Government Code under oversight by the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the Statements of Net Assets as a cash equivalent based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

Cash equivalents and investments contain certain risks. The District has implemented various provisions to address such risks that include, amongst other risks, interest rate risk, credit risk, concentration of credit risk, and custodial credit risk.

Sacramento Suburban Water District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2010 and 2009

(2) Cash, Cash Equivalents and Investments, continued

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates on investments with or without embedded options will adversely affect the fair value of an investment. The District manages this risk by adjusting the effective duration (a calculation for a fixed-income instruments with an embedded option when the value is calculated to include the expected change in cash flows caused by the option as interest rates change. Effective duration measures the responsiveness of a bond's price to interest rate changes, and illustrates the fact that the embedded option will also affect the bond's price) of the investment portfolio against a nationally recognized benchmark index that most closely relates to the District's investment objectives. The District selected the "Merrill Lynch Zero-to-Five U.S. Treasury Index" as its benchmark index. The District's duration targets are reviewed monthly and, dependent on the evaluation of various market and non-market factors (such as cash-flow needs of the District), a duration goal is set. As of December 31, 2010 and 2009, the effective duration of the "Merrill Lynch Zero-to-Five U.S. Treasury Index" was 2.19 and 2.22, respectively. The District's cash equivalent and investment portfolios' effective duration on the same dates were as follows:

Weighted-average effective duration of cash equivalents were as follows:

<u>Cash Equivalent Type</u>	December 31,			
	2010		2009	
	Fair Value	Duration	Fair Value	Duration
LAIF	\$ 207,942	-	\$ 6,874,554	-
Money market funds	8,849,535	-	6,811,575	-
Commercial paper	1,299,026	0.27	-	-
Weighted Average Duration	\$ 10,356,503	0.03	\$ 13,686,129	-

Weighted-average effective duration on investments were as follows:

<u>Investment Type</u>	December 31,			
	2010		2009	
	Fair Value	Duration	Fair Value	Duration
U.S. treasury notes/bonds	\$ 10,549,507	2.51	\$ 10,928,866	2.88
Federal agency securities	16,399,481	1.97	23,680,552	1.28
Corporate notes	8,731,155	2.77	4,649,256	1.92
Corporate notes - FDIC insured *	2,297,781	0.79	3,091,288	1.78
Negotiable certificates of deposit	2,202,439	0.46	-	-
Weighted Average Duration	\$ 40,180,363	2.14	\$ 42,349,962	1.80

* Notes issued under the "Temporary Liquidity Guarantee Program." Such principal and interest on bonds issued under this program are guaranteed by the FDIC. The program has now ended for new issuances.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The District manages such risk by purchasing investments with nationally recognized credit ratings that meet or exceed District credit rating requirements at the time of purchase. Credit ratings utilized are those provided by Standard and Poor's Corporation, where applicable. Additionally, regular monitoring of the credit ratings of purchased securities held in the portfolio is performed to evaluate individual securities for potential sale.

Sacramento Suburban Water District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2010 and 2009

2) Cash, Cash Equivalents and Investments, continued

Credit Risk, continued

Cash equivalents credit ratings as of December 31, 2010 were as follows:

<u>Cash Equivalent Type</u>		<u>Minimum Legal Rating</u>	<u>Ratings as of Year-End</u>		
			<u>Not Rated</u>	<u>AAA/AA</u>	<u>AA-/A-1</u>
LAIF	\$ 207,942	-	\$ 207,942	\$ -	\$ -
Money market funds	8,849,535	-	-	8,849,535	-
Commercial paper	1,299,026	A	-	-	1,299,026
Total cash equivalents	<u>\$ 10,356,503</u>		<u>\$ 207,942</u>	<u>\$ 8,849,535</u>	<u>\$ 1,299,026</u>

Investment credit ratings as of December 31, 2010 were as follows:

<u>Investment Type</u>		<u>Minimum Legal Rating</u>	<u>Ratings as of Year-End</u>			
			<u>Not Rated</u>	<u>AAA/AA</u>	<u>AA-/A-1</u>	<u>A+/A</u>
U.S. treasury notes/bonds	\$ 10,549,507	-	\$ 10,549,507	\$ -	\$ -	\$ -
Federal agency securities	16,399,481	-	-	16,399,481	-	-
Corporate notes	8,731,155	A	-	2,669,965	3,847,378	2,213,812
Corporate notes - FDIC insured *	2,297,781	A	-	2,297,781	-	-
Negotiable certificates of deposit	2,202,439	A	-	-	2,202,439	-
Total investments	<u>\$ 40,180,363</u>		<u>\$ 10,549,507</u>	<u>\$ 21,367,227</u>	<u>\$ 6,049,817</u>	<u>\$ 2,213,812</u>

* Notes issued under the "Temporary Liquidity Guarantee Program." Such principal and interest on bonds issued under this program are guaranteed by the FDIC. The program has now ended for new issuances.

Cash equivalents credit ratings as of December 31, 2009 were as follows:

<u>Cash Equivalent Type</u>		<u>Minimum Legal Rating</u>	<u>Ratings as of Year-End</u>	
			<u>Not Rated</u>	<u>AAA/AA</u>
LAIF	\$ 6,874,554	-	\$ 6,874,554	\$ -
Money market funds	6,811,575	AAA	-	6,811,575
Total cash equivalents	<u>\$ 13,686,129</u>		<u>\$ 6,874,554</u>	<u>\$ 6,811,575</u>

Investment credit ratings as of December 31, 2009 were as follows:

<u>Investment Type</u>		<u>Minimum Legal Rating</u>	<u>Ratings as of Year-End</u>			
			<u>TSY</u>	<u>AAA/AA</u>	<u>AA-/A-1</u>	<u>A+/A</u>
U.S. treasury notes/bonds	\$ 10,928,866	-	\$ 10,928,866	\$ -	\$ -	\$ -
Federal agency securities	23,680,552	-	-	23,680,552	-	-
Corporate notes	4,649,256	A	-	1,789,729	1,328,985	1,530,542
Corporate notes - FDIC insured *	3,091,288	A	-	3,091,288	-	-
Total investments	<u>\$ 42,349,962</u>		<u>\$ 10,928,866</u>	<u>\$ 28,561,569</u>	<u>\$ 1,328,985</u>	<u>\$ 1,530,542</u>

* Notes issued under the "Temporary Liquidity Guarantee Program." Such principal and interest on bonds issued under this program are guaranteed by the FDIC. The program has now ended for new issuances.

Sacramento Suburban Water District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2010 and 2009

(2) Cash, Cash Equivalents and Investments, continued

Concentration of Credit Risk

At December 31, 2010 and 2009, the District had the following investments (obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government not listed) representing five percent or more of its investments:

<u>Issuer</u>	<u>Investment Type</u>	<u>2010</u>		<u>2009</u>	
Federal National Mortgage Association	Federal agency securities	\$ 6,566,543	16.34%	\$ 7,605,428	17.96%
Federal Home Loan Bank	Federal agency securities	-	-	9,606,281	22.68%
Federal Home Loan Mortgage	Federal agency securities	7,826,782	19.48%	5,405,392	12.76%

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District 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 requires California banks and savings and loan associations to secure a local government agency's deposits by pledging government securities as collateral. Cash deposits were \$3,462,951 and \$2,080,817 as of December 31, 2010 and 2009, respectively.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the District 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 contain legal and policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to the District's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

(3) Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents are amounts established by debt covenants on certain long-term debt issuances.

Restricted cash and cash equivalents as of December 31 were as follows:

	<u>2010</u>	<u>2009</u>
2005B Certificates of Participation Reserve Fund	\$ 1	\$ -
2008A Certificates of Participation Reserve Fund	3,124,867	3,124,607
2009A Certificates of Participation Reserve Fund	-	81,447
2009B Certificates of Participation Reserve Fund	3,517,529	3,556,464
Total	<u>\$ 6,642,397</u>	<u>\$ 6,762,518</u>

Sacramento Suburban Water District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2010 and 2009

(4) Receivables, Net

Receivables as of December 31 consist of the following:

	<u>2010</u>	<u>2009</u>
Water sales and services receivable	\$ 2,371,944	\$ 2,264,943
Allowance for doubtful accounts	(309,148)	(292,842)
Accrued interest receivable	216,850	275,057
Grant receivable	407,637	-
Total	<u>\$ 2,687,283</u>	<u>\$ 2,247,158</u>

(5) Deferred Charges

Deferred charges consist solely of long-term debt issuance costs that are amortized using the straight-line method over the remaining life of the respective debt.

Changes in deferred charges for the year ended December 31, 2010 are as follows:

	<u>Balance 2009</u>	<u>Additions/ (Deletion)</u>	<u>Amortization</u>	<u>Balance 2010</u>
2005B Certificates of Participation	\$ 31,721	\$ -	\$ (17,303)	\$ 14,418
2008A-2 Certificates of Participation	317,895	-	(16,879)	301,016
2009A Certificates of Participation	348,994	-	(14,053)	334,941
2009B Certificates of Participation	372,538	-	(19,781)	352,757
Total	<u>\$ 1,071,148</u>	<u>\$ -</u>	<u>\$ (68,016)</u>	<u>\$ 1,003,132</u>

Changes in deferred charges for the year ended December 31, 2009 are as follows:

	<u>Balance 2008</u>	<u>Additions/ (Deletion)</u>	<u>Amortization</u>	<u>Balance 2009</u>
2004 Certificates of Participation	\$ 692,511	\$ (679,108)	\$ (13,403)	\$ -
2005B Certificates of Participation	49,024	-	(17,303)	31,721
2008A Certificates of Participation	669,549	(326,335)	(25,319)	317,895
2009A Certificates of Participation	-	356,021	(7,027)	348,994
2009B Certificates of Participation	-	382,429	(9,891)	372,538
Total	<u>\$ 1,411,084</u>	<u>\$ (266,993)</u>	<u>\$ (72,943)</u>	<u>\$ 1,071,148</u>

Sacramento Suburban Water District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2010 and 2009

(6) Capital Assets

Changes in capital assets for the year ended December 31, 2010 were as follows:

	<u>Balance 2009</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2010</u>
Non-depreciable assets:				
Land	\$ 1,486,023	\$ 116,329	\$ -	\$ 1,602,352
Permanent easements	424,734	523,732	-	948,466
Construction-in-progress	12,843,712	20,093,229	(23,005,045)	9,931,896
Total non-depreciable assets	<u>14,754,469</u>	<u>20,733,290</u>	<u>(23,005,045)</u>	<u>12,482,714</u>
Depreciable and amortizable assets:				
Land improvements	839,204	87,745	-	926,949
Pumping and wells	57,381,999	4,519,166	-	61,901,165
Hydrants, PRV stations, valves	106,175,914	4,741,128	-	110,917,042
Purchased trans & dist pipelines	92,632,122	9,633,367	-	102,265,489
Storage facilities - reservoirs	12,951,569	193,714	-	13,145,283
Water meters	14,419,006	4,384,092	-	18,803,098
Buildings	2,432,232	-	-	2,432,232
Buildings improvements	2,989,792	28,706	-	3,018,498
Machinery and equipment	788,031	96,193	-	884,224
Fleet equipment	1,388,771	35,070	(92,223)	1,331,618
Office equipment	283,723	50,253	-	333,976
Computer software	2,334,262	104,002	-	2,438,264
Computer hardware & equipment	775,647	167,405	-	943,052
Total depreciable & amortizable assets	<u>295,392,272</u>	<u>24,040,841</u>	<u>(92,223)</u>	<u>319,340,890</u>
Accumulated depreciation and amortization:				
Land improvements	(566,420)	(46,982)	-	(613,402)
Pumping and wells	(19,415,605)	(2,138,011)	-	(21,553,616)
Hydrants, PRV stations, valves	(46,067,789)	(3,234,012)	-	(49,301,801)
Purchased trans & dist pipelines	(10,118,125)	(1,159,188)	-	(11,277,313)
Storage facilities - reservoirs	(1,572,874)	(322,162)	-	(1,895,036)
Water meters	(6,532,352)	(1,144,745)	-	(7,677,097)
Buildings	(999,336)	(59,574)	-	(1,058,910)
Buildings improvements	(2,344,279)	(121,054)	-	(2,465,333)
Machinery and equipment	(559,492)	(78,831)	-	(638,323)
Fleet equipment	(1,037,269)	(115,455)	92,223	(1,060,501)
Office equipment	(162,420)	(32,971)	-	(195,391)
Computer software	(1,325,064)	(571,240)	-	(1,896,304)
Computer hardware & equipment	(544,995)	(117,435)	-	(662,430)
Total accum. depr. & amortization	<u>(91,246,020)</u>	<u>(9,141,660)</u>	<u>92,223</u>	<u>(100,295,457)</u>
Total depr. & amortizable assets, net	<u>204,146,252</u>	<u>14,899,181</u>	<u>-</u>	<u>219,045,433</u>
Total capital assets, net	<u>\$ 218,900,721</u>	<u>\$ 35,632,471</u>	<u>\$ (23,005,045)</u>	<u>\$ 231,528,147</u>

Sacramento Suburban Water District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2010 and 2009

(6) Capital Assets, continued

Changes in capital assets for the year ended December 31, 2009 were as follows:

	<u>Balance 2008</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2009</u>
Non-depreciable assets:				
Land and land rights	\$ 1,895,757	\$ 15,000	\$ -	\$ 1,910,757
Construction-in-progress	3,029,556	17,913,212	(8,099,056)	12,843,712
Total non-depreciable assets	<u>4,925,313</u>	<u>17,928,212</u>	<u>(8,099,056)</u>	<u>14,754,469</u>
Depreciable assets:				
Land improvements	792,600	46,604	-	839,204
Pumping and wells	56,431,979	950,020	-	57,381,999
Hydrants, PRV stations, valves	103,406,791	2,769,123	-	106,175,914
Purchased trans & dist pipelines	88,482,129	4,149,993	-	92,632,122
Storage facilities - reservoirs	12,951,569	-	-	12,951,569
Water meters	12,653,662	1,765,344	-	14,419,006
Buildings	2,432,232	-	-	2,432,232
Buildings improvements	2,631,119	358,673	-	2,989,792
Machinery and equipment	732,606	79,991	(24,566)	788,031
Fleet equipment	1,523,572	89,059	(223,860)	1,388,771
Office equipment	459,711	6,719	(182,707)	283,723
Computer systems	2,911,867	332,201	(134,159)	3,109,909
Total depreciable assets	<u>285,409,837</u>	<u>10,547,727</u>	<u>(565,292)</u>	<u>295,392,272</u>
Accumulated depreciation:				
Land improvements	(522,542)	(43,878)	-	(566,420)
Pumping and wells	(17,301,014)	(2,114,591)	-	(19,415,605)
Hydrants, PRV stations, valves	(42,905,199)	(3,162,590)	-	(46,067,789)
Purchased trans & dist pipelines	(9,010,820)	(1,107,305)	-	(10,118,125)
Storage facilities - reservoirs	(1,250,713)	(322,161)	-	(1,572,874)
Water meters	(5,519,187)	(1,013,165)	-	(6,532,352)
Buildings	(939,762)	(59,574)	-	(999,336)
Buildings improvements	(2,248,577)	(95,702)	-	(2,344,279)
Machinery and equipment	(510,507)	(73,551)	24,566	(559,492)
Fleet equipment	(1,133,683)	(127,446)	223,860	(1,037,269)
Office equipment	(279,538)	(52,343)	169,461	(162,420)
Computer systems	(1,384,308)	(619,469)	133,718	(1,870,059)
Total accumulated depreciation	<u>(83,005,850)</u>	<u>(8,791,775)</u>	<u>551,605</u>	<u>(91,246,020)</u>
Total depreciable assets, net	<u>202,403,987</u>	<u>1,755,952</u>	<u>(13,687)</u>	<u>204,146,252</u>
Total capital assets, net	<u>\$ 207,329,300</u>	<u>\$ 19,684,164</u>	<u>\$ (8,112,743)</u>	<u>\$ 218,900,721</u>

Major capital asset additions during 2010 and 2009 include construction and major upgrades to the transmission and distribution system, fire hydrants, valves, PRV stations, water meters, and wells. A significant portion of these additions were constructed by the District and transferred out of construction-in-progress upon completion of these various projects.

Sacramento Suburban Water District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2010 and 2009

(6) Capital Assets, continued

Construction-In-Progress

The District has been involved in various construction projects throughout the year. The balances of the various construction projects that comprise the construction-in-progress balances at December 31 are as follows:

	<u>2010</u>	<u>2009</u>
Verner well	\$ -	\$ 1,982,900
Well rehabilitation/pump improvements	359,972	378,630
Meter retrofit	232,877	393,244
Emergency generator compliance	-	815,710
Bohemian Village main replacement	-	2,173,448
Terry Lynn acres main replacement	-	5,949,816
Mew Broadmoor main Replacement	7,285,281	-
Country Club Vista main replacement	864,023	-
Highlands main replacement	560,757	-
Various other distribution main replacements	27,130	512,160
Various other minor projects	601,856	637,804
Construction-in-progress	<u>\$ 9,931,896</u>	<u>\$ 12,843,712</u>

There were no impairment of District assets as defined by GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries" as of December 31, 2010 and 2009.

(7) Compensated Absences

Compensated absences are comprised of unpaid vacation and sick leave which is accrued as earned. The District's liability for compensated absences is determined annually.

The changes to compensated absences balances at December 31 are as follows:

<u>Balance</u> <u>2009</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance</u> <u>2010</u>	<u>Due Within</u> <u>One Year</u>
\$ 668,347	\$ 558,663	\$ (491,291)	\$ 735,719	\$ 491,300
<u>Balance</u> <u>2008</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance</u> <u>2009</u>	<u>Due Within</u> <u>One Year</u>
\$ 616,568	\$ 558,799	\$ (507,020)	\$ 668,347	\$ 507,000

Sacramento Suburban Water District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2010 and 2009

(8) Long-Term Debt

Description of the District's Long-Term Debt

The District's long-term debt consists of Refunding Revenue Certificates of Participation (COP obligations) issued for the purpose of refunding debt originally issued to fund portions of the District's capital improvement program (CIP). The COP obligations are secured by a pledge of the District's net revenues. Such COP obligations contain certain restrictive covenants, with which the District has complied. With the exception of the 2005 Series B COP obligation, all COP obligations contain call provisions. COP obligations maturing after the earliest applicable call date are subject to optional, mandatory or extraordinary redemption prior to maturity, without premium.

Long-term debt activities for the year ended December 31, 2010 are as follows:

	Balance 2009	Additions	Deletion	Balance 2010	Current Portion
2005B Certificates of Participation	\$ 1,645,000	\$ -	\$ (1,520,000)	\$ 125,000	\$ 125,000
2008A-2 Certificates of Participation	35,860,000	-	(900,000)	34,960,000	1,660,000
2009A Certificates of Participation	42,000,000	-	-	42,000,000	-
2009B Certificates of Participation	35,295,000	-	(680,000)	34,615,000	1,530,000
Total principal	<u>114,800,000</u>	<u>-</u>	<u>(3,100,000)</u>	<u>111,700,000</u>	<u>\$ 3,315,000</u>
Unamortized bond premium	1,577,809	-	(83,777)	1,494,032	
Defeasance costs	(6,615,140)	-	342,706	(6,272,434)	
Total long-term debt	<u>\$ 109,762,669</u>	<u>\$ -</u>	<u>\$ (2,841,071)</u>	<u>\$ 106,921,598</u>	

Long-term debt activities for the year ended December 31, 2009 are as follows:

	Balance 2008	Additions	Deletion	Balance 2009	Current Portion
2004 Certificates of Participation	\$ 41,275,000	\$ -	\$ (41,275,000)	\$ -	\$ -
2005B Certificates of Participation	3,110,000	-	(1,465,000)	1,645,000	1,520,000
2008A-1 Certificates of Participation	36,725,000	-	(36,725,000)	-	-
2008A-2 Certificates of Participation	36,725,000	-	(865,000)	35,860,000	900,000
2009A Certificates of Participation	-	42,000,000	-	42,000,000	-
2009B Certificates of Participation	-	36,155,000	(860,000)	35,295,000	680,000
Total principal	<u>117,835,000</u>	<u>78,155,000</u>	<u>(81,190,000)</u>	<u>114,800,000</u>	<u>\$ 3,100,000</u>
Arbitrage liability	431,305	-	(431,305)	-	
Unamortized bond premium	-	1,619,698	(41,889)	1,577,809	
Defeasance costs	(5,930,561)	(1,005,441)	320,862	(6,615,140)	
Total long-term debt	<u>\$ 112,335,744</u>	<u>\$ 78,769,257</u>	<u>\$ (81,342,332)</u>	<u>\$ 109,762,669</u>	

Sacramento Suburban Water District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2010 and 2009

(8) Long-Term Debt, continued

The future scheduled annual maturities of all long-term debt as of December 31, 2010 are as follows:

Year	Principal	Interest ⁽¹⁾	Total
2011	\$ 3,315,000	\$ 3,771,861	\$ 7,086,861
2012	3,480,000	3,619,441	7,099,441
2013	3,545,000	3,467,358	7,012,358
2014	3,695,000	3,307,365	7,002,365
2015	3,855,000	3,137,011	6,992,011
2016-2020	21,715,000	12,826,404	34,541,404
2021-2025	21,580,000	7,600,695	29,180,695
2026-2030	28,990,000	3,309,731	32,299,731
2031-2034	21,525,000	648,850	22,173,850
Total	111,700,000	<u>\$ 41,688,716</u>	<u>\$ 153,388,716</u>
Less current portion	(3,315,000)		
Unamortized bond premium	1,494,032		
Defeasance costs	<u>(6,272,434)</u>		
Total non- current long-term debt	<u>\$ 103,606,598</u>		

⁽¹⁾ Includes estimated market rates, facility fees, remarketing fees and SWAP payments in effect as of December 31, 2010.

2005 Series B COP

In April 2005, the District issued a \$7,850,000 taxable serial COP obligation, 2005 Series B at a true interest cost of 4.99 percent to advance refund a portion of the Series 2001 COP obligation. This COP obligation matures on November 1, 2011 and is not subject to prepayment. The final maturity of the District's 2005 Series B COP obligation is November 1, 2011. Interest expense on the COP obligation for 2011 is anticipated to be \$5,073.

2008 Series A-2 COP

In May 2008, the District issued a \$37,535,000 COP obligation, 2008 Series A-2 at a variable interest rate, to refund a portion of the 2005 Series A COP obligation. The COP obligation was issued with an irrevocable direct-pay letter-of-credit which was set to expire on May 13, 2011. In order to take advantage of lower interest rates, during 2010, the irrevocable direct-pay letter-of-credit provider (provider) was substituted with a different provider. The new irrevocable direct-pay letter-of-credit expires on September 6, 2013. This term debt's maturity is November 1, 2028 and is subject to optional, mandatory and extraordinary sinking fund prepayment and optional and mandatory tender redemption provisions, without premium.

In connection with the issuance of the 2008 Series A-1 and A-2 COP obligations, the District entered into an amended and restated Swap Confirmation with Citibank, N.A. New York (Citibank.) Pursuant to the amended and restated Swap Confirmation, the District pays a fixed-rate of 3.283 percent on the outstanding notional amount of the Swap and receives from Citibank a percentage of 1-Month LIBOR plus a fixed spread (see Interest Rate Swap below).

Sacramento Suburban Water District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2010 and 2009

(8) Long-Term Debt, continued

As of December 31, 2010 the future debt service schedule of the District's 2008 Series A-2 COP obligation is as follows:

Year	2008 Series A-2 COP		Interest Rate ⁽¹⁾	Total
	Principal	Interest ⁽²⁾	Swap, Net	
2011	\$ 1,660,000	\$ 378,048	\$ 1,021,715	\$ 3,059,763
2012	1,800,000	359,700	972,127	3,131,827
2013	1,840,000	340,007	918,906	3,098,913
2014	1,910,000	319,824	864,359	3,094,183
2015	1,985,000	298,869	807,725	3,091,594
2016-2020	11,010,000	1,152,239	3,114,047	15,276,286
2021-2025	8,890,000	556,863	1,504,981	10,951,844
2026-2028	5,865,000	135,024	364,916	6,364,940
Total	34,960,000	\$ 3,540,574	\$ 9,568,776	\$ 48,069,350
Less current portion	(1,660,000)			
Defeasance costs	(2,666,261)			
Total non-current COP obligation	\$ 30,633,739			

⁽¹⁾ Based on a 3.283 percent fixed-rate per the amended and restated Swap Confirmation dated May 13, 2008.

⁽²⁾ Includes estimated interest payment at an assumed rate of 1.09 percent (December 31, 2010 market rate plus facility and remarketing fee).

2009 Series A COP

In June 2009, the District issued a \$42,000,000 COP obligation, 2009 Series A at a variable interest rate, to refund a \$41,275,000 COP obligation, Series 2004. The COP obligation was issued with an irrevocable direct-pay letter-of-credit which expires on June 30, 2012. This term debt's maturity is November 1, 2034 and is subject to optional, mandatory and extraordinary sinking fund prepayment and optional and mandatory tender redemption provisions, without premium.

As discussed further in the Interest Rate Swap section in this note, one-half of the Swap has been determined to serve as an effective cash flow hedge on the Series 2009 A COP obligation in accordance with the provisions of GASB 53 even though not all of the Swap terms match the terms of the 2009 Series A COP obligation.

Sacramento Suburban Water District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2010 and 2009

(8) Long-Term Debt, continued

2009 Series A COP, continued

As of December 31, 2010 the future debt service schedule of the District's 2009 Series A COP obligation is as follows:

Year	2009 Series A COP		Interest Rate ⁽¹⁾	Total
	Principal	Interest ⁽²⁾	Swap, Net	
2011	\$ -	\$ 531,300	\$ 1,021,838	\$ 1,553,138
2012	-	531,300	972,127	1,503,427
2013	-	531,300	918,930	1,450,230
2014	-	531,300	864,482	1,395,782
2015	-	531,300	807,700	1,339,000
2016-2020	-	2,656,500	3,112,845	5,769,345
2021-2025	3,685,000	2,604,013	1,503,827	7,792,840
2026-2030	16,790,000	2,094,292	364,793	19,249,085
2031-2034	21,525,000	648,850	-	22,173,850
Total	42,000,000	\$ 10,660,155	\$ 9,566,542	\$ 62,226,697
Less current portion	-			
Defeasance costs	(638,898)			
Total non-current COP obligation	\$ 41,361,102			

⁽¹⁾ Based on a 3.283 percent fixed-rate per the amended and restated Swap Confirmation dated May 13, 2008.

⁽²⁾ Includes estimated interest payment at an assumed rate of 1.265 percent (December 31, 2010 market rate plus facility and remarketing fee).

2009 Series B COP

In June 2009, the District issued a \$36,155,000 COP obligation, 2009 Series B at a true interest cost of 4.54 percent, to refund a \$36,725,000 COP obligation, 2008 Series A-1. This serial debt's maturity extends to November 1, 2028 and is subject to optional and extraordinary redemption provisions, without premium.

As of December 31, 2010 the future debt service schedule of the District's 2009 Series B COP obligation is as follows:

Year	Principal	Interest	Total
2011	\$ 1,530,000	\$ 813,887	\$ 2,343,887
2012	1,680,000	784,187	2,464,187
2013	1,705,000	758,215	2,463,215
2014	1,785,000	727,400	2,512,400
2015	1,870,000	691,417	2,561,417
2016-2020	10,705,000	2,790,773	13,495,773
2021-2025	9,005,000	1,431,011	10,436,011
2026-2028	6,335,000	350,706	6,685,706
Total	34,615,000	\$ 8,347,596	\$ 42,962,596
Less current portion	(1,530,000)		
Unamortized bond premium	1,494,032		
Defeasance costs	(2,967,275)		
Total non-current COP obligation	\$ 31,611,757		

Sacramento Suburban Water District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2010 and 2009

(8) Long-Term Debt, continued

COP Obligation Defeasance

The 2005 Series A and B COP obligations were used in part to advance refund the outstanding Northridge Water District Series 2001 COP obligation (Series 2001 COP obligation) with the purchase of State-and-Local-Government U.S. Treasury securities. These securities were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the Series 2001 COP obligation. As a result, the Series 2001 COP obligation is considered defeased and the related liability is not reported in the Statements of Net Assets. As of December 31, 2010 and 2009, the outstanding balance in the escrow account for the Series 2001 COP obligation was \$14,190,702 and \$14,821,173, respectively.

Arbitrage Rebate Requirement

The federal Tax Reform Act of 1986 imposes an arbitrage rebate requirement that affects all tax-exempt COP obligations issued by the District. The term arbitrage refers to the required payment to the U.S. Treasury of excess interest earnings received on applicable tax-exempt COP obligation proceeds which, for the District, is solely made up of debt service reserve funds (restricted cash and cash equivalents) that are invested in a higher yield than the yield of the tax-exempt COP obligation issue. The District's ultimate rebate of arbitrage earnings on these issues is contingent on various factors, including future yields on invested proceeds.

As of December 31, 2010 and 2009, the District has no arbitrage rebate liability.

However, during 2009 the District paid an arbitrage rebate liability of \$323,000 on the 2004 Series A COP obligation which equaled the arbitrage liability on the five year anniversary date from the COP obligations original issuance.

Interest Rate Swap

Objective and Terms

In order to take advantage of low interest rates in the marketplace, the District entered into a pay-fixed, receive-variable interest rate Swap upon issuance of the Series 2005 A COP obligation at a cost that was less than what otherwise the District would have paid to issue fixed-rate debt.

The terms of the Swap Agreement and Confirmation, with Citibank, acting as the counterparty, require the District to pay a fixed-rate on the outstanding notional amount of the Swap (amount which equaled the 2005 Series A COP obligation upon issuance and receive from Citibank a percentage of 1-Month LIBOR plus a fixed spread.. The combination of the variable-rate 2005 Series A COP obligation and the pay-fixed, receive-variable Swap created synthetic fixed-rate debt for the District, thus protecting the District against increases in short-term interest rates. Therefore, the Swap served as an effective cash flow hedging instrument for the District.

Obligations of the District under the Swap Agreement are on parity with all District COP obligations, payable from net revenues of the District, but are subordinate if early termination were to occur.

In 2008, the Swap Confirmation was amended and restated upon issuance of the 2008 Series A-1 and A-2 COP obligations. However, the Swap continued to serve as an effective cash flow hedging instrument on these COP obligations.

As the 2008 Series A-1 COP obligation was refunded upon issuance of the 2009 Series B COP obligation, one-half of the Swap has been determined to serve as an effective cash flow hedge on the Series 2009 A COP obligation as determined in accordance with the provisions of GASB 53 even though the Swap terms do not completely match the 2009 Series A COP obligation's terms.

Sacramento Suburban Water District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2010 and 2009

(8) Long-Term Debt, continued

Interest Rate Swap, continued

As the Swap has been determined to serve as an effective cash flow hedging instrument on both the Series 2008 A-2 and Series 2009 A COP obligations, the fair market value of the Swap as of December 31, 2010 is recorded in the Statements of Net Assets. Further, the December 31, 2009 Statements of Net Assets has been restated to record the fair market value of the Swap as required under GASB 53.

Fair Value

The fair value of the Swap as of December 31, 2010 and 2009 was calculated using the par-value measurement method. The par-value method compares the fixed-rate on the Swap with current fixed-rates in the marketplace should the Swap be unwound.

	Notional Amount	Effective Date	Fixed Rate Paid	Variable Rate Rec'd	Fair Value	Swap Term Date	Counterparty ⁽¹⁾ Credit Rating
December 31, 2010	\$ 69,925,000	May 13, 2008	3.283%	60% LIBOR +.18%	\$ (6,383,867)	Nov. 1, 2028	A1/A+/A+
December 31, 2009	\$ 71,725,000	May 13, 2008	3.283%	60% LIBOR +.18%	\$ (4,543,729)	Nov. 1, 2028	Aa3/A+/A+

⁽¹⁾ (Moody's Investor Services, Standard and Poors', and Fitch IBCA, Inc.)

Swap Payments and Associated Debt Service for the Period Ended December 31, 2010:

Year	Adjustable-Rate COP		Interest Rate	Total
	Principal	Interest	Swaps, Net	
2011	\$ 3,325,000	\$ 909,348	\$ 2,043,553	\$ 6,277,901
2012	3,600,000	891,000	1,944,254	6,435,254
2013	3,675,000	871,307	1,837,836	6,384,143
2014	3,825,000	851,124	1,728,841	6,404,965
2015	3,975,000	830,169	1,615,425	6,420,594
2016-2020	22,025,000	3,808,739	6,226,892	32,060,631
2021-2025	17,775,000	3,160,876	3,008,808	23,944,684
2026-2030	11,725,000	2,229,316	729,709	14,684,025
2031-2034	-	648,850	-	648,850
Total	<u>\$ 69,925,000</u>	<u>\$ 14,200,729</u>	<u>\$ 19,135,318</u>	<u>\$ 103,261,047</u>

The Swap contains certain risks. The District has implemented various provisions to address such risks that include, amongst other risks, credit risk, basis risk, termination risk, and tax risk.

Credit Risk

As of December 31, 2010 and 2009, the District was not exposed to credit risk on the Swap as the Swap had negative fair values of \$6,383,867 and \$4,543,729, respectively. However, if interest rates increase and the fair value of the Swap were to become positive, the District would be exposed to credit risk in the amount of the Swap's fair value. If Citibank were to fail to perform according to the terms of the Swap Agreement and the amended and restated Confirmation, the District would face a maximum possible loss equivalent to the Swap's fair value.

Sacramento Suburban Water District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2010 and 2009

(8) Long-Term Debt, continued

Interest Rate Swap, continued

The amended and restated Swap Confirmation contains provisions determining if and when the District or Citibank must provide collateral. The agreement requires full collateralization of the fair value of the Swap for the District and/or Citibank should their respective reduction in credit ratings fall below a minimum fair value threshold. As of December 31, 2010 and 2009, neither the District nor Citibank were required to post collateral.

Basis Risk

Basis risk is the risk that the interest rates paid by the District on its variable-rate COP obligations (2008 Series A-2 and 2009 Series A) differs from the variable interest rate received from Citibank. The District bears basis risk on its Swap. The Swap has basis risk since the District receives a percentage of 1-month LIBOR plus a fixed spread on the notional amount of the Swap compared to the actual market rate paid by the District on its variable-rate COP obligations.

Termination Risk

The District or Citibank may terminate the Swap if they so choose or if the other party fails to perform under the terms of the Agreement and the amended and restated Confirmation. If the Swap is terminated, both of the District's variable-rate COP obligations would no longer carry a synthetic fixed-rate. Also, if at the time of termination the Swap has a negative fair value, the District would be liable to Citibank for a payment equal to the Swap's fair value.

Tax Risk

The Swap exposes the District to tax risk if a permanent mismatch occurs between the variable-rate received from the Swap and the variable-rate paid on the COP obligations due to tax law changes such that the federal or state tax exemption on municipal debt is eliminated or its value reduced.

(9) Net Investment in Capital Assets

The District's net assets invested in its capital assets at December 31 consist of the following:

	<u>2010</u>	<u>2009</u>
Capital assets not being depreciated	\$ 12,482,714	\$ 14,754,469
Capital assets being depreciated and amortized, net	219,045,433	204,146,252
Deferred charges	1,003,132	1,071,148
Revenue Bonds payable	<u>(106,921,597)</u>	<u>(109,762,669)</u>
Net investment in capital assets, considered non-expendable	<u>\$ 125,609,682</u>	<u>\$ 110,209,200</u>

(10) Restricted Net Assets

Restricted net assets balance as of December 31, consists of the following:

	<u>2010</u>	<u>2009</u>
2005B Certificates of Participation Reserve Fund	\$ 1	\$ -
2008A Certificates of Participation Reserve Fund	3,124,867	3,124,607
2009A Certificates of Participation Reserve Fund	-	81,447
2009B Certificates of Participation Reserve Fund	<u>3,517,529</u>	<u>3,556,464</u>
Total restricted net assets	<u>\$ 6,642,397</u>	<u>\$ 6,762,518</u>

This component of net assets consists of external constraints placed on them by creditors.

Sacramento Suburban Water District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2010 and 2009

(11) Unrestricted Net Assets

Designations of unrestricted net assets may be imposed by the Board of Directors to reflect future spending plans or concerns about the availability of future resources. Designations may be modified, amended or removed by Board action. The District's reserve policy does not presently call for the designation of unrestricted net assets.

However, when the District requires a developer to install extension facilities (up-sized line or the extension of facilities beyond the frontage of a parcel), the developer(s) are reimbursed, in whole or in part, for the extension facility by the District based on a portion of funds collected from all developers for that calendar year. If the portion of funds collected from developers in any one calendar year are insufficient to repay the developer(s) who was required to install extension facilities, then repayment will be made annually based on a portion of developer funds received in subsequent years up until ten years after the extension facilities were installed.

(12) Deferred Compensation Plan

For the benefit of its employees, the District participates in a 457 Deferred Compensation Program (Program). The purpose of this Program is to provide employees, who elect to participate, the opportunity to defer receipt of a portion of their salary until termination, retirement, death or unforeseeable emergency. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the deferred compensation for income tax purposes. Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants or their beneficiaries. Therefore, these assets are not the legal property of the District, and are not subject to claims of the District's general creditors. The market value of all plan assets held in trust by the District for its two deferred compensation plans at December 31, 2010 and 2009 amounted to \$2,300,254 and \$1,977,184, respectively.

(13) Defined Benefit Pension Plan

Plan Description

The District contributes to the California Public Employees Retirement System (PERS), cost-sharing multiple-employer public employee defined benefit pension 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 agencies within the State of California. All permanent full and part-time District employees working at least 1,000 hours per year are eligible to participate in PERS. Under PERS, benefits vest after five years of service. Upon retirement, eligible participants are entitled to an annual retirement benefit, payable for life, in an amount equal to a benefit factor multiplied by their average full-time monthly salary for the highest twelve consecutive months of employment for participants in the Miscellaneous 3 percent at 60 plan (thirty-six consecutive months for Miscellaneous 2 percent at 55 participants). Benefit provisions, contribution requirements of participants and the District, and any and all other requirements are established by state statute.

Copies of PERS annual financial report and pertinent past trend information may be obtained from their Executive Offices at 400 P Street, Sacramento, CA 95814.

Sacramento Suburban Water District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2010 and 2009

(13) Defined Benefit Pension Plan, continued

Funding Policy

Active plan members in the PERS plans are required to contribute 8 percent (7 percent for Miscellaneous 2 percent at 55 members) of their annual covered salary. The District is required to contribute at an actuarially determined rate. The current rate is 13.867 percent for the Miscellaneous 3 percent at 60 plan and 9.359 percent for the Miscellaneous 2 percent at 55 plan. The District makes the contributions required of District employees on their behalf and for their account, which amounted to \$300,988, \$296,727 and \$297,443 for the years ended December 31, 2010, 2009 and 2008, respectively. The contribution requirement of plan members and the District are established and may be amended by PERS. The District's contributions for the years ended December 31, 2010, 2009 and 2008 were \$638,977, \$760,605 and \$733,401, respectively, which were equal to the annual required contribution (ARC) for each year. (The ARC is an amount actuarially determined and represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.)

In 2003, PERS required participation in a "Risk Pool" for all contracting agencies with fewer than 100 employees. Therefore, the District's pension assets were placed in a "3% at 60 Risk Pool". At the time the Risk Pool was established the District's pension liability exceeded its pension assets by \$4,337,479. PERS required that all participating agencies in the Risk Pool have fully funded pension liabilities. Therefore, PERS gave each contracting agency the option of contributing the unfunded liability with a single lump-sum payment or have the agency repay the unfunded liability as a loan over 30 years based on an actuarial determined amortization schedule. The District elected to repay the unfunded liability on an installment basis over 30 years. In 2010, the District repaid its unfunded liability in full in the amount of \$4,188,126, primarily due to the avoidance of paying anticipated future imputed interest costs of approximately \$6,403,683. The District was repaying this unfunded liability as part of its ARC. Upon repayment of the unfunded liability, the District's ARC decreased as a percentage of annual covered payroll from 23.336 percent to the current rate of 13.867 percent.

The District's Miscellaneous 2 percent at 55 PERS plan was placed in a Risk Pool upon its inception in 2006.

(14) Postemployment Benefits

Plan Description

In addition to pension benefits, the District provides certain healthcare benefits through PERS, and dental and vision benefits through private insurance carriers (postemployment benefits) for retired employees, certain former Northridge Water District directors, and their survivor dependents, subject to certain conditions.

During the year ended December 31, 2008, the District implemented GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" (GASB 45) prospectively, which changed the accounting and financial reporting used by government employers for postemployment benefits.

The District made the decision to establish an irrevocable trust to prefund postemployment benefits by participating in the "California Employers' Retiree Benefit Trust (CERBT)", which is an agent-multiple employer plan as defined in GASB Statement No. 43, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans" (GASB 43) and meets the requirements to qualify as a prefunding Trust as defined by Section 115 of the Internal Revenue Code. CERBT is run by PERS for investment purposes. Copies of the CERBT annual financial report may be obtained by contacting PERS at (888) 225-7377 or at their Executive Offices at 400 P Street, Sacramento, CA 95814.

Sacramento Suburban Water District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2010 and 2009

(14) Postemployment Benefits, continued

Plan Description, continued

Prior to establishing the irrevocable trust with CERBT, the District expensed on a pay-as-you-go basis the direct costs of premiums paid on postemployment benefits for current retirees.

Eligibility

Substantially all of the District's full-time employees may become eligible for postemployment benefits after age fifty, and after working for the District for five years if hired before January 1, 2003. If hired after January 1, 2003, eligibility for such benefits is based on a minimum of ten years of qualifying service working with an employer that is a PERS healthcare provider. Retirement from the District is also a condition of eligibility for postemployment benefits (the District must be the last employer prior to retirement.)

In addition, former Northridge Water District directors with twelve years of service are also eligible for postemployment benefits. At December 31, 2010, and 2009, 25 retired employees, directors, and their survivor dependents met those eligibility requirements.

Funding Policy

Employees are not required to make contributions to the plan in order to receive benefits. Contribution requirements of employees and the District are established and may be amended by the Board of Directors. During 2008, the District adopted a policy to fully fund the ARC for postemployment benefits into CERBT. The current ARC rate is 13.10 percent of annual covered payroll.

In accordance with the provisions of GASB 45, as the District is fully funding its ARC the Actuarial Accrued Liability (AAL) is not shown on the Statements of Net Assets.

The ARC was fully funded in the amount of \$495,000 in 2010, which amount included current retiree postemployment costs. Such costs were reimbursed to the District on a quarterly basis throughout 2010. The ARC amount funded includes the normal cost of \$252,000, and \$243,000 to amortize the Unfunded Actuarial Accrued Liability (UAAL).

Funded Status and Funding Progress of the Plan

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2010	\$ 729,000	\$ 4,787,000	\$ 4,058,000	15.23%	\$ 3,780,000	107.35%

The District's annual other postemployment benefit costs (OPEB) for the years ended December 31, 2010, 2009, and 2008 were equal to its ARC amounts for each year of \$495,000, \$478,000 and \$463,000, respectively. As the District fully funds its ARC, there is no reportable net OPEB obligation for each of the years so referenced.

Sacramento Suburban Water District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2010 and 2009

(14) Post Employment Benefits, continued

Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and the pattern of sharing of costs between the employer and plan members to that point. Consistent with the long-term perspective of actuarial calculations, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities for benefits.

Valuation date	January 1, 2010
Actuarial cost method	Projected Unit Credit
Amortization method	Level percent of payroll amortization
Remaining amortization period	28 Years as of the valuation date
Asset valuation method	Market Value
Actuarial assumptions:	
Investment rate of return (discount rate)	7.75%
Projected salary increase	3.25%
Long-term inflation rate	3.00%
Projected medical increase	5.50%
Projected dental increase	5.00%
Projected vision increase	2.00%

(15) Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District and approximately 291 other municipalities (the Members) have entered into a joint powers agreement with the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA) for the purpose of risk sharing to meet the needs of its Members for liability, property and workers' compensation insurance coverage. Each Member selects one representative to serve as a director, with nine directors serving staggered terms as an executive committee. The only transactions between the District and ACWA/JPIA during the years ending December 31, 2010 and 2009 were regularly scheduled premium payments which were not material to the District's financial statements. At December 31, 2010, the District participated in the following programs of the ACWA/JPIA:

- General and auto liability, public officials and employees' errors and omissions: Total risk financing self-insurance limits of \$1,000,000, per occurrence. ACWA/JPIA purchased additional excess coverage layers: \$60 million for general, auto and public officials liability, which increases the limits on the insurance coverage noted above.

In addition to the above, the District also has the following insurance coverage:

- Employee dishonesty coverage up to \$100,000 per loss includes public employee dishonesty, forgery or alteration and theft, and computer fraud.

Sacramento Suburban Water District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2010 and 2009

(15) Risk Management, continued

- Property loss is paid at the replacement cost or at cash value depending on type of property on file, if replaced within two years after the loss, otherwise paid on an actual cash value basis, to a combined total of \$100 million per occurrence, subject to a \$2,500 deductible for buildings, fixed equipment and personal property, and a \$1,000 deductible for mobile equipment and vehicles per occurrence.
- Boiler and machinery coverage for the replacement cost up to \$100 million per occurrence, subject to various deductibles depending on the type of equipment.
- Workers' compensation insurance up to California statutory limits of \$2,000,000 for all work related injuries/illnesses covered by California law.

Settled claims have not exceeded any of the coverage amounts in any of the last three years and there were no reductions in the District's insurance coverage during the years ending December 31, 2010, 2009 and 2008. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of December 31, 2010, 2009, and 2008.

Copies of ACWA/JPIA's annual financial reports and other pertinent information may be obtained from their office at 2100 Professional Drive, Roseville, CA 95661-3700, from their website at www.acwajpia.com, or by calling (800) 231-5742.

(16) Commitments and Contingencies

Sacramento Regional County Sanitation District – Riverwalk Well Field Lease

The District is leasing a 5.5 acre parcel from the Sacramento Regional County Sanitation District for its Riverwalk well field. The effective date of the lease is June 1, 1987 to May 31, 2012. The District has the right and option upon expiration of the initial term of the lease to extend the term of the lease for another 25-years. The original lease amount of \$12,750, paid in advance each year, is adjusted annually on the anniversary date of the lease to reflect any increase or decrease of the National Consumer Price Index of the preceding year. The annual lease costs for calendar years 2010 and 2009 were \$24,577 and \$24,237, respectively. Future estimated lease commitment costs for the period January 1, 2011 to May 31, 2012 are estimated to be \$37,356 as of December 31, 2010.

Placer County Water Agency/Folsom Lake Reservoir – Take-or-Pay Contract

In 1995 (and amended in 2000 & 2008), the District and the Placer County Water Agency (Agency) entered into a 25-year take-or-pay agreement whereby the Agency agreed to make available to the District, subject to water shortage provisions, the following amounts of untreated water at escalating water prices per year.

Sacramento Suburban Water District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2010 and 2009

(16) Commitments and Contingencies, continued

<u>Year</u>	<u>Annual Entitlement</u>	<u>Option to Buy Up to</u>
2000	7,000	- acre feet
2001	11,000	- acre feet
2002	12,000	- acre feet
2003	14,000	- acre feet
2004	16,000	- acre feet
2005	18,000	- acre feet
2006	20,000	- acre feet
2007	22,000	- acre feet
2008*	23,000	- acre feet
2009	12,000	24,000 acre feet
2010	12,000	25,000 acre feet
2011	12,000	26,000 acre feet
2012	12,000	27,000 acre feet
2013	12,000	28,000 acre feet
2014 to 2025	12,000	29,000 acre feet

(*) Contract renegotiated in 2008, effective in 2009, requires 12,000 acre feet per year take-or-pay with the option to buy additional water.

Each year the District shall be required to pay for its annual entitlement or surrender a portion of its rights so that the Agency will be free to put the water to use elsewhere. In order to do this, if the District does not take-or-pay for its annual entitlement for any year, the District's annual entitlement for each year thereafter is reduced by 50% of the amount which the District did not take-or-pay for during the year. The District's annual entitlement is subject to certain temporary or permanent reduction or elimination whenever the Agency notifies the District that the Agency has determined that it will not have sufficient water under certain provisions of the contract.

Each year the District is to pay the Agency for each acre-foot of the District's annual entitlement made available for use in the District's service area in order of the highest of the following three rates: (1) Thirty-five dollars (\$35); (2) One hundred seventy-five percent (175%) of the acre-foot price the Agency charges the City of Roseville and the San Juan Water District that year for water made available to them in the Folsom Lake reservoir for use within Placer County; or (3) One hundred fifty percent (150%) of the total amount, per acre-foot, including any restoration and other fees and charges, which the Agency is required to pay that year to the U.S. Bureau of Reclamation (Reclamation) for water to be used within the Agency pursuant to the Agency's September 18, 1970 contract with Reclamation as amended, supplemented or renewed.

Grant Awards

The District has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such reviews or audits could generate expenditure disallowances under the terms of the grants, it is management's opinion that any required reimbursements would not be material.

Sacramento Suburban Water District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2010 and 2009

(16) Commitments and Contingencies, continued

Litigation

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes the ultimate outcome of such matters, if any, will not materially affect its financial condition as of December 31, 2010.

Construction Contracts

The District has a variety of agreements with private parties relating to the installation, improvement or modification of water facilities and distribution systems within its service area. The financing of such construction contracts is being provided primarily from the District's customers as a "Capital Facilities Charge" included in their monthly invoice. The District is committed to \$1,143,226 of open construction contracts as of December 31, 2010. These include:

Project Name	Approved Contract	Payments To Date	Remaining Commitment
Park Hill main replacement	\$ 2,732,538	\$ (2,324,172)	\$ 408,366
New Broadmoor main replacement	5,319,760	(4,584,900)	734,860
Total	<u>\$ 8,052,298</u>	<u>\$ (6,909,072)</u>	<u>\$ 1,143,226</u>

Supplemental Information Section

Sacramento Suburban Water District
Schedule of Net Revenues
For The Years Ended December 31, 2010 and 2009

Revenue	2010	2009
Water consumption sales	\$ 10,966,745	\$ 11,031,346
Water consumption sales - raw water	636,638	2,347,132
Water service charge	7,174,165	7,414,620
Capital facilities charge	20,492,678	19,976,601
Wheeling water charge	273,490	148,525
Other charges for services	991,008	970,926
Facility development charges	121,322	424,014
Interest and investment revenue	1,266,708	1,112,312
Rental revenue	392,587	351,730
Other revenue	276,544	39,981
Total Revenue	<u>42,591,885</u>	<u>43,817,187</u>
Operation and Maintenance Expenses		
Transmission and distribution	3,583,362	3,837,952
Administrative and general (note 13)	10,175,597	5,709,148
Pumping	3,264,608	3,461,228
Source of supply	2,138,672	1,846,669
Source of supply - raw water	151,254	487,297
Customer accounts	967,878	959,324
Water conservation	415,407	490,237
Other expenses	185,215	103,949
Total Operation and Maintenance Expenses	<u>20,881,993</u>	<u>16,895,804</u>
Net Revenue	<u>\$ 21,709,892</u>	<u>\$ 26,921,383</u>
Debt Service	<u>7,974,084</u>	<u>8,094,558</u>
Coverage Ratio (minimum rate covenant requirement is 115%)	<u>272%</u> ⁽¹⁾	<u>333%</u>
Balance Available for Capital Projects or other Purposes	<u>\$ 13,735,808</u>	<u>\$ 18,826,825</u>

(1) See Management's Discussion and Analysis, Financial Highlights, page 5 and Notes to the Basic Financial Statements 13, page 39.

**Sacramento Suburban Water District
Schedule of Funding Progress
Other Postemployment Benefits (OPEB)**

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2010	\$ 729,000	\$ 4,787,000	\$ 4,058,000	15.23%	\$ 3,780,000	107.35%
1/1/2008	-	4,281,000	4,281,000	-	3,420,000	125.18%