Sonoma County Water Agency

Basic Financial Statements

Year Ended June 30, 2006

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Independent Auditors' Report

To the Board of Directors
Sonoma County Water Agency
Santa Rosa, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **Sonoma County Water Agency**, (the "Water Agency"), a component unit of the County of Sonoma, as of and for the year ended June 30, 2006, which collectively comprise the Water Agency's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of the **Water Agency's** management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **Sonoma County Water Agency** as of June 30, 2006, and the respective changes in financial position, and cash flows, where applicable, thereof, for the year 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 September 7, 2006, on our consideration of the **Water Agency's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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The Management's Discussion and Analysis ("MD&A") on pages 3 - 14 and the budgetary comparison information on pages 61 - 63 are not a required part of the basic financial statements but are supplementary information required by the 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 the **Sonoma County Water Agency's** basic financial statements. The accompanying combining financial information listed as supplementary information in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the **Sonoma County Water Agency**. Such information 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.

Pisinki & Bunker LLP

Santa Rosa, California
September 7, 2006

Management's Discussion and Analysis

As management of the Sonoma County Water Agency (the "Water Agency"), we offer readers of the Water Agency's financial statements this narrative overview and analysis of the financial activities of the Water Agency for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with the Water Agency's financial statements (pages 15 - 29) and the accompanying notes to the financial statements (pages 30 - 60).

Financial Highlights

- The assets of the Water Agency exceeded its liabilities at the close of the most recent fiscal year by $328,367,280 (net assets). Of this amount $28,577,072 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

- The government's total net assets increased by $1,721,697 during the current fiscal year. The governmental activities realized a decrease in net assets of ($2,971,974) while the business type activities recorded an increase of $4,693,671.

- As of the close of the current fiscal year, the Water Agency's governmental funds reported combined ending fund balances of $108,832,145, a decrease of $2,489,231 in comparison with the prior year. Approximately 20% of this total amount, $21,317,202 is available for spending at the government's discretion (unreserved, undesignated fund balance).

- At the end of the current fiscal year, unreserved fund balance for the general fund, which includes Spring Lake Park and the Waste/Recycled Water Loan fund, was $2,158,124 or 7.0% of total general fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Water Agency's basic financial statements. The Water Agency's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Water Agency's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Water Agency'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 financial position of the Water Agency is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Overview of the Financial Statements (continued)

Government-wide financial statements (continued)

Both the government-wide financial statements distinguish functions of the Water Agency that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Water Agency include general government, flood control, Warm Springs Dam and debt service. The business-type activities of the Water Agency include water transmission, water supply, and sanitation services.

The government-wide financial statements can be found on pages 15 - 17 of this report.

Fund financial statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Water Agency, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Water Agency can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds

Governmental funds are used to account for essentially the same functions reported in governmental *activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Water Agency maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, special revenue funds (Flood Control and Warm Springs Dam), and the debt service fund, all of which are considered to be major funds.

The Water Agency adopts an annual appropriated budget for its general fund, special revenue funds, and debt service fund. Budgetary comparison statements have been provided for these funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 18 - 20 of this report.

Overview of the Financial Statements (continued)

Proprietary funds

The Water Agency maintains two different types of proprietary funds: Enterprise Funds and Internal Service Funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Agency uses enterprise funds to account for its water and sanitation services. Internal service funds are an accounting device used to accumulate and allocate costs internally among the Water Agency's various functions. The Water Agency uses an internal service fund to account for equipment and facilities rental activities. Because both of these services predominantly benefit business-type rather than governmental functions, they have been included within business-type activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water transmission, water supply, and sanitation services, all of which are considered to be major funds. Information for the internal service fund is also provided in the proprietary fund financial statement. The basic proprietary fund financial statements can be found on pages 21 - 28.

Fiduciary funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are not available to support the Water Agency's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statement can be found on page 29 of this report.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 30 - 60.

Required Supplementary Information

Schedules presenting budgetary comparison information for the Water Agency's governmental funds can be found on pages 61 - 63.

Combining statements in connection with governmental funds and proprietary funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 65 - 72.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Water Agency, assets exceeded liabilities by $328,367,280 at the close of the most recent fiscal year.

The largest portion of the Water Agency's net assets (55%) reflects its investment in capital assets (e.g., land, construction in progress, infrastructure, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The Water Agency uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Water Agency's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Sonoma County Water Agency's Net Assets

	Governmental		Business-Type		Total	
	2004/05	2005/06	2004/05	2005/06	2004/05	2005/06
Current and other assets	$ 114,385,670	$ 111,248,082	$ 55,463,066	$ 54,850,679	$ 169,848,736	$ 166,098,761
Capital assets	158,301,099	158,187,454	175,986,802	183,949,234	334,287,901	342,136,688
Total assets	272,686,769	269,435,536	231,449,868	238,799,913	504,136,637	508,235,449
Current liabilities	3,350,776	2,415,937	6,831,849	8,043,854	10,182,625	10,459,791
Noncurrent liabilities	118,892,946	119,548,526	48,415,483	49,859,852	167,308,429	169,408,378
Total liabilities	122,243,722	121,964,463	55,247,332	57,903,706	177,491,054	179,868,169
Invested in capital assets, net of related debt	41,543,201	40,919,233	132,691,873	138,858,808	174,235,074	179,778,041
Restricted	108,437,325	104,969,434	14,270,027	15,042,733	122,707,352	120,012,167
Unrestricted	462,521	1,582,406	29,240,636	26,994,666	29,703,157	28,577,072
Total net assets	$ 150,443,047	$ 147,471,073	$ 176,202,536	$180,896,207	$ 326,645,583	$ 328,367,280

A portion of the Water Agency's net assets, $120,012,167 (37%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets ($28,577,072) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Water Agency is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The government's net assets increased by $1,721,697 during the current fiscal year. This increase is a result of revenues exceeding expenditures / expenses in both the governmental and business-type activities.

Sonoma County Water Agency's Changes in Net Assets

	Governmental		Business-Type		Total	
	2004/05	2005/06	2004/05	2005/06	2004/05	2005/06
Revenues:						
Program Revenues:						
Charges for Services	$ 644,341	$ 677,290	$ 29,637,352	$ 32,010,469	$ 30,281,693	$ 32,687,759
Capital Grants and Contributions	281,689	249,088	2,655,365	1,014,132	2,937,054	1,263,220
General Revenues:						
Property Taxes	12,501,248	14,336,086	38,657	40,758	12,539,905	14,376,844
Investment Earnings	8,975,119	(1,103,205)	1,066,422	1,792,014	10,041,541	688,809
Miscellaneous	295,728	246,551	164,846	243,674	460,574	490,225
Total Revenues	22,698,125	14,405,810	33,562,642	35,101,047	56,260,767	49,506,857
Expenses:						
General Government	3,547,566	4,388,948	-	-	3,547,566	4,388,948
Flood Control	5,700,693	6,695,989	-	-	5,700,693	6,695,989
Warm Springs Dam	468,937	954,111	-	-	468,937	954,111
Interest on long-term debt	3,749,469	3,781,113	-	-	3,749,469	3,781,113
Water Transmission	-	-	27,353,386	23,745,893	27,353,386	23,745,893
Water Supply	-	-	3,478,823	3,982,807	3,478,823	3,982,807
Sanitation	-	-	3,432,335	3,761,853	3,432,335	3,761,853
Total Expenses	13,466,665	15,820,161	34,264,544	31,490,553	47,731,209	47,310,714
Increase in Net Assets Before Transfers	9,231,460	(1,414,351)	(701,902)	3,610,494	8,529,558	2,196,143
Transfers	(1,151,139)	(1,557,623)	1,073,327	1,083,177	(77,812)	(474,446)
Special Item – Dissolution of Graton Sanitation Zone	-	-	(2,819,830)	-	(2,819,830)	-
Increase in Net Assets	8,080,321	(2,971,974)	(2,448,405)	4,693,671	5,631,916	1,721,697
Net Assets - beginning of year	142,362,726	150,443,047	178,650,941	176,202,536	321,013,667	326,645,583
Net Assets - end of year	$ 150,443,047	$ 147,471,073	$176,202,536	$ 180,896,207	$326,645,583	$328,367,280

Governmental Activities

Governmental activities decreased the Water Agency's net assets by ($2,971,974). Key elements of the Agency's governmental activities are identified below.

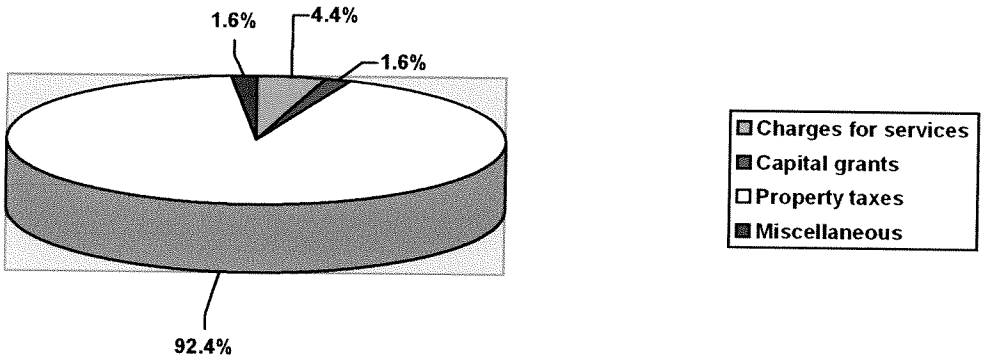
- Property tax revenues of $14,336,086 including $4,338,106 received for the purpose of debt retirement and satisfaction of maintenance related assurances with the US Army Corps of Engineers for Warm Springs Dam.

- Investment loss totaling ($1,103,205) due primarily to a ($2,599,529) decrease in the fair market value of STRIPS held by the Water Agency's debt service fund for the repayment of the contract with the US Army Corps of Engineers for Warm Springs Dam. Absent the STRIPS, investment gains totaling $1,496,324 were realized.

Sonoma County Water Agency's Changes in Net Assets (continued)

Revenues by Source – Governmental Activities

- Revenues for 2005-06 decreased by ($8,292,315) over the prior fiscal year while expenses increased by $2,353,496 over the same period. This revenue decrease is due primarily to the decrease in fair market value of STRIPS compared to 2004-05 ($10,660,445) offset by the aforementioned increase in property tax revenue.



Business-type activities

Business-type activities increased the Water Agency's net assets by $4,693,671. Key elements of the Agency's Business-type activities are identified below.

- Water sales revenues increased 7.2%, due primarily to a 2.5% increase in water rates during 2005/06 combined with a 3.2% increase in total acre-feet sold during the year.

- Sewer service revenues increased due to increases in the annual rates combined with increases in the total Equivalent Single Family Dwelling (ESDs) serviced by the Water Agency's four sanitation zones.

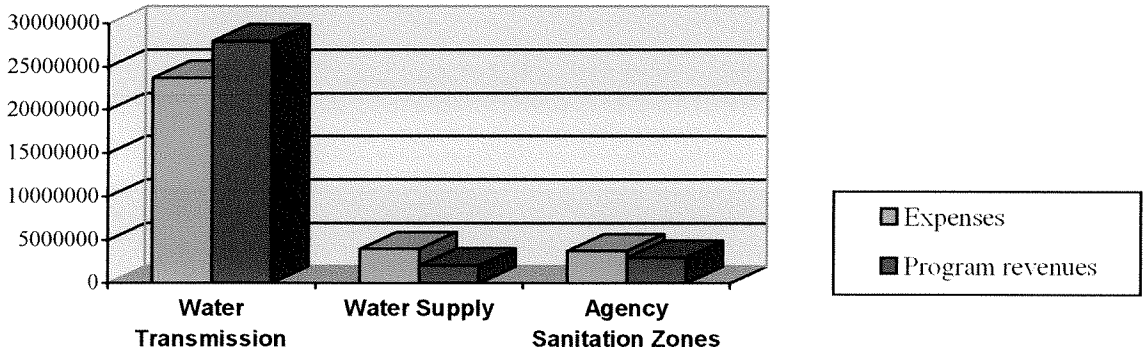
- Capital Grants and contributions totaling $1,014,132 were received in fiscal year 05/06. Grants include funding from the state towards: Prop 13 watershed restoration, North San Pablo Bay restoration, and North County Agricultural Reuse project. Connection fee revenue was also received in ALW, Geyserville, and Penngrove sanitation zones.

- Investment Earnings for FY 2005-06 totaled $1,792,014.

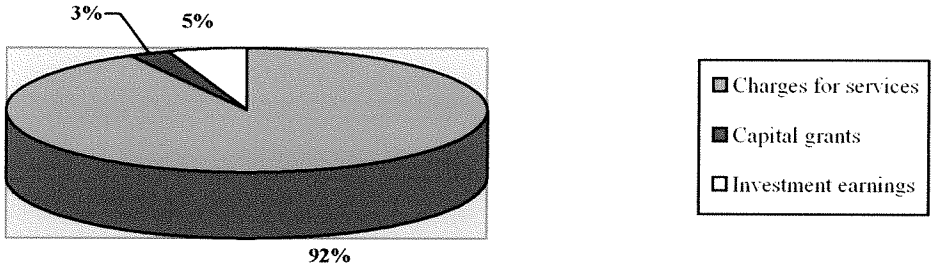
- Transfers from the Water Agency's General Fund totaling $1,083,177 were received during 2005-06. These transfers were for the purpose of financing various capital projects related to recycled water ($600,000), and various sanitation projects ($513,000). A transfer was processed to the Water Agency's general fund ($29,823) from the internal service fund.

Sonoma County Water Agency's Changes in Net Assets (continued)

Expenses and Program Revenues – Business-type Activities



Revenues by Source – Business-type activities



Financial Analysis of the Government's Funds

As noted earlier, the Water Agency uses fund accounting to ensure and demonstrate compliance with legal and governmental accounting requirements.

Governmental funds

The focus of the Water Agency's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Water Agency's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Water Agency's governmental funds reported combined ending fund balances of $108,832,145 a decrease of $2,489,231 in comparison with the prior year. Approximately 20% of this total amount ($21,317,202) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) to pay debt service ($74,740,124), 2) to liquidate contracts and purchase orders of the prior period ($12,199,819), and 3) for contingencies ($575,000).

Financial Analysis of the Government's Funds (continued)

Governmental funds (continued)

The general fund is the chief operating fund of the Water Agency. At the end of the current fiscal year, unreserved fund balance of the general fund, including Spring Lake Park and the Waste/Recycled Water Loan fund was $2,158,124, while total fund balance reached $3,862,711.

The special revenue fund, consisting of six (6) flood control zones and Warm Springs Dam has a fiscal year end fund balance of $30,229,310, of which $19,159,078 is unreserved, $500,000 is designated for contingencies and the remaining fund balance of $10,570,232 is reserved for encumbrances.

The Debt Service Fund has a total fund balance of $74,740,124, all of which is reserved for the payment of debt service.

Proprietary funds

The Water Agency's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the water transmission services at the end of the year amounted to $17,783,952, Water Supply amounted to $855,799 and those for the sanitation services amounted to $5,046,670. Other factors concerning the finances of these three funds have already been addressed in the discussion of the Water Agency's business-type activities.

General Fund Budgetary Highlights

The difference between the original budget and the final amended budget for the Water Agency's general fund reflected a increase in budgeted appropriations of $1,458,037, while budgeted revenues were increased by $85,760 during the fiscal year.

The primary components of the increase in budgeted expenses consists of; 1) a $1,018,638 increase in appropriations for services and supplies offset by a $496,000 decrease in contingencies, 2) a $15,630 increase in appropriations for interest expense related to a note with the County of Sonoma, and 3) a $919,769 increase in transfers.

Capital Asset and Debt Administration

Capital assets

The Water Agency's investment in capital assets for its governmental and business type activities at June 30, 2006, amounts to $342,136,688 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, machinery and equipment, dams, collection systems and water storage rights.

Capital Asset and Debt Administration (continued)

Major capital asset events during the current fiscal year included the following:

Business Type Activities:

- Capital expansion within the Common Facilities fund including:

  Wohler site improvements – $4,128,000
  Riverfront Park - $1,461,000
  Pump / Collector Pipeline - $5,755,000
  Ely Booster Transfer switch - $1,267,000

- Capital expansion within the Water Supply fund including:

  Mumford Dam Fish Passage - $1,478,000
  Crocker Creek Fish Passage - $471,500

- Capital expansion within the Sanitation Zones including:

  Sea Ranch – Storage Pond - $158,900
  Geyserville – Influent Headworks - $46,900

Sonoma County Water Agency's Capital Assets
(net of accumulated depreciation)

	Governmental		Business-Type		Total	
	2004/05	2005/06	2004/05	2005/06	2004/05	2005/06
Intangible assets -water storage rights (Warm Springs Dam)	$ 102,371,000	$102,371,000	$ -	$ -	$ 102,371,000	$ 102,371,000
Land	1,824,010	1,537,557	9,655,701	9,665,178	11,479,711	11,202,735
Infrastructure	47,386,427	45,904,746	-	-	47,386,427	45,904,746
Buildings and improvements	2,291,644	2,205,841	118,574,418	130,219,442	120,866,062	132,425,283
Construction in progress	4,077,460	5,877,238	45,428,950	42,165,006	49,506,410	48,042,244
Machinery and equipment	350,558	291,072	2,327,733	1,899,608	2,678,291	2,190,680
Total	$158,301,099	$158,187,454	$ 175,986,802	$183,949,234	$ 334,287,901	$342,136,688

Additional information on the Water Agency's capital assets can be found in Note E on pages 44 - 46 of this report.

Capital Asset and Debt Administration (continued)

Long-term debt

At the end of the current fiscal year, the Water Agency had a total of $165,072,094 in outstanding debt consisting of bonds, Federal contract payable, notes payable and compensated absences. Of this amount $439,000 comprises debt backed by the full faith and credit of the government, $21,130,000 is a special obligation payable from the Water Agency's operating income, $117,268,221 is a federal contract payable related to the water storage rights at Warm Springs Dam, $12,553,206 is related to capital leases, $2,280,035 is comprised of amounts payable to employees for unused sick and vacation leave upon termination, and $11,401,362 represents funds advanced to the Water Agency from other governmental entities.

Sonoma County Water Agency's Outstanding Current and Long Term Debt

	June 30, 2005	June 30, 2006	Change
General Obligation Bonds	$ 462,000	$ 439,000	(5.0) %
Notes Payable	10,269,727	12,553,206	22.2 %
Revenue Bonds	21,225,000	21,130,000	(0.5) %
Advances from other governments/Due to other funds	11,401,362	11,401,362	0.0 %
Federal Contract Payable	116,757,898	117,268,221	0.4 %
Compensated Absences	2,135,048	2,280,305	6.8 %
Total	$ 162,251,035	$ 165,072,094	1.7 %

The Water Agency's total debt increased by $2,821,059 (1.7%) during the current fiscal year.

The outstanding total of general obligation bonds decreased 5.0% during fiscal year 05/06 due to annual principal payments. The outstanding total of notes payable increased 22.2% during fiscal year 05/06 and was due to the issuance of a note in the amount of $2,750,000 to finance a photovoltaic project for the Airport-Larkfield-Wikiup sanitation zone.

The increase in the Federal contract payable is the net effect of principal reduction due to the annual debt payments, and the addition of accrued interest on the unpaid principal. The terms of the agreement with the Federal government stipulate that interest accrued on the contract prior to the time of the first payment be compounded annually and added to the principal.

Compensated absences increased due to sick and vacation leave being accrued in excess of the actual usage.

The decrease in revenue bonds is primarily related to principal reduction due to the required annual debt payments. The 2000B revenue bonds in the Airport-Larkfield-Wikiup sanitation zone were refunded with the issuance of the 2005C revenue bonds on September 7, 2005. The remaining principal balance of the 2000B bonds at the time of issuance was $5,840,000 and was replaced by $6,220,000 in 2005C revenue bonds. Actual principal payments during 2005/06 totaled $475,000.

Additional information on the Water Agency's current and long-term debt can be found in Note J on pages 48 - 54 of this report.

Next Year's Budgets and Rates

During the current year, unreserved fund balance in the general fund increased to $2,158,124. The Water Agency has appropriated $213,964 of this amount for spending in the 2006-2007 fiscal year budget.

Both the water and sewer rates were increased for the 2006-2007 budget year. The water rates were increased by an average of 4.44%, while the sewer rates increased an average of 6.53%.

Following are tables showing the rates charged per acre-foot of water used for municipal purposes by water contractors, along with sanitation services rates and equivalent single family dwellings by sanitation zone.

Charges per Acre-Foot for Water Used for Municipal Purposes by Water Contractors

	Santa Rosa Aqueduct	Petaluma Aqueduct	Forestville Aqueduct	Sonoma Aqueduct
Operations & Maintenance	$ 358.79	$ 358.79	$ 358.79	$ 358.79
Revenue Bonds Charges				
Aqueduct Rev. Bonds Charge	0.00	0.00	0.00	31.31
Storage Fac. Rev. Bonds Charge	15.89	15.89	15.89	15.89
Common Fac. Rev Bonds Charge	36.62	36.62	36.62	36.62
Aqueduct Capital Charge	20.00	40.00	00	.00
Total	$ 431.30	$ 451.30	$ 411.30	$ 442.61

Rate per Equivalent Single-Family Dwelling

	2005/06	2006/07	Change
Sanitation Zone			
Sea Ranch	$ 675	$ 716	6.07%
Penngrove	$ 697	$ 756	8.46%
Geyserville	$ 616	$ 644	4.55%
Airport/Larkfield/Wikiup	$ 415	$ 444	6.99%

Number of Equivalent Single-Family Dwellings by Sanitation Zone

	2005/06	2006/07	Change
Sanitation Zone			
Sea Ranch	536	549	2.43%
Penngrove	497	503	1.21%
Geyserville	332	341	2.71%
Airport/Larkfield/Wikiup	3,252	3,587	10.30%

Request for Additional Information:

This financial report is designed to provide a general overview of the Water Agency's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Sonoma County Auditor-Controller's Office, Fiscal Division, 585 Fiscal Drive, Room 101F, Santa Rosa, CA 95403.

Basic Financial Statements

Government-wide Financial Statements

Statement of Net Assets

June 30, 2006

	Governmental Activities	Business-type Activities	Total
Assets			
Current assets			
Cash and investments	$ 110,987,688	$ 37,863,214	$ 148,850,902
Receivables	260,394	5,332,659	5,593,053
Inventories	-	220,645	220,645
Total current assets	111,248,082	43,416,518	154,664,600
Noncurrent assets			
Restricted assets			
Cash - revenue bond funds	-	3,005,057	3,005,057
Cash and investments with trustee	-	1,665,592	1,665,592
Cash - notes payable	-	634,510	634,510
Cash - capital projects	-	3,471,973	3,471,973
Deposits with others	-	88,000	88,000
Total restricted assets	-	8,865,132	8,865,132
Prepaid expenses	-	2,198,720	2,198,720
Deferred charges	-	370,309	370,309
Capital assets (net of accumulated depreciation):			
Intangible asset - water storage rights (Warm Springs Dam)	102,371,000	-	102,371,000
Land	1,537,557	9,665,178	11,202,735
Infrastructure	45,904,746	-	45,904,746
Buildings and improvements	2,205,841	130,219,442	132,425,283
Construction in progress	5,877,238	42,165,006	48,042,244
Equipment	291,072	1,899,608	2,190,680
Total capital assets	158,187,454	183,949,234	342,136,688
Total noncurrent assets	158,187,454	195,383,395	353,570,849
Total assets	269,435,536	238,799,913	508,235,449

The accompanying Notes to the Basic Financial Statements are an integral part of this Statement

June 30, 2006

	Governmental Activities	Business-type Activities	Total
Liabilities			
Current liabilities payable from unrestricted assets			
Accounts payable and accrued expenses	2,403,413	6,215,123	8,618,536
Deferred revenue	12,524	129,107	141,631
Total current liabilities payable from unrestricted assets	2,415,937	6,344,230	8,760,167
Current liabilities payable from restricted assets			
Deposits from others	-	4,230	4,230
Interest payable	-	525,885	525,885
General obligation bonds payable	-	25,000	25,000
Notes payable	-	634,509	634,509
Revenue bonds payable	-	510,000	510,000
Total current liabilities payable from restricted assets	-	1,699,624	1,699,624
Total current liabilities	2,415,937	8,043,854	10,459,791
Noncurrent liabilities			
Compensated absences	2,280,305	-	2,280,305
General obligation bonds payable	-	414,000	414,000
Notes payable	-	11,918,697	11,918,697
Revenue bonds payable	-	20,186,858	20,186,858
Long-term contracts payable	117,268,221	-	117,268,221
Advances from other governments	-	11,401,362	11,401,362
Deferred revenue	-	5,938,935	5,938,935
Total noncurrent liabilities	119,548,526	49,859,852	169,408,378
Total liabilities	121,964,463	57,903,706	179,868,169
Net assets			
Invested in capital assets, net of related debt	40,919,233	138,858,808	179,778,041
Restricted for flood control	21,171,916	-	21,171,916
Restricted for Warm Springs Dam	9,057,394	-	9,057,394
Restricted for deposits	-	83,770	83,770
Restricted for debt service	74,740,124	4,878,274	79,618,398
Restricted for capital projects	-	3,471,973	3,471,973
Restricted for recycled water/ water conservation	-	6,707,716	6,707,716
Unrestricted	1,582,406	26,994,666	28,577,072
Total net assets	$ 147,471,073	$ 180,995,207	$ 328,466,280

The accompanying Notes to the Basic Financial Statements are an integral part of this Statement

Statement of Activities

For the Year Ended June 30, 2006

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charge for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Functions/Programs							
Governmental activities:							
General government	$ 4,388,948	$ 677,290	$ -	$ 121,732	$ (3,589,926)	$ -	$ (3,589,926)
Flood control	6,695,989	-	-	81,954	(6,614,035)	-	(6,614,035)
Warm Springs Dam	954,111	-	-	45,402	(908,709)	-	(908,709)
Interest on long-term debt	3,781,113	-	-	-	(3,781,113)	-	(3,781,113)
Total governmental activities	15,820,161	677,290	-	249,088	(14,893,783)	-	(14,893,783)
Business-type activities:							
Water transmission	23,745,893	27,954,956	-	-	-	4,209,063	4,209,063
Water supply	3,982,807	1,621,151	129,107	320,860	-	(1,911,689)	(1,911,689)
Sanitation	3,761,853	2,434,362	-	564,165	-	(763,326)	(763,326)
Total business-type activities	$ 31,490,553	$ 32,010,469	$ 129,107	$ 885,025	-	1,534,048	1,534,048
					(14,893,783)	1,534,048	(13,359,735)
General revenues:							
Taxes:							
Property taxes, levied for general purposes					9,997,980	-	9,997,980
Property taxes, levied for debt service/assurances					4,338,106	40,758	4,378,864
Unrestricted investment earnings (loss)					(1,103,205)	1,792,014	688,809
Miscellaneous					246,551	243,674	490,225
Transfers					(1,083,177)	1,083,177	-
Transfers to/from related governments					(474,446)	-	(474,446)
Total general revenues and transfers					11,921,809	3,159,623	15,081,432
Change in net assets					(2,971,974)	4,693,671	1,721,697
Net assets at beginning of year					150,443,047	176,202,536	326,645,583
Net assets at end of year					$ 147,471,073	$ 180,896,207	$ 328,367,280

The accompanying Notes to the Basic Financial Statements are an integral part of this Statement

Basic Financial Statements

Fund Financial Statements

Sonoma County Water Agency
Balance Sheet
Governmental Funds

June 30, 2006

	General Fund	Special Revenue Funds: Flood Control	Special Revenue Funds: Warm Springs Dam	Debt Service Fund	Total Governmental Funds
Assets					
Cash and investments	$ 4,271,133	$ 22,158,365	$ 9,818,066	$ 74,740,124	$ 110,987,688
Accounts receivable	71,656	188,738	-	-	260,394
Total assets	$ 4,342,789	$ 22,347,103	$ 9,818,066	$ 74,740,124	$ 111,248,082
Liabilities and fund balances					
Liabilities					
Accounts payable	$ 467,554	$ 1,175,187	$ 760,672	$ -	$ 2,403,413
Deferred revenues	12,524	-	-	-	12,524
Total liabilities	480,078	1,175,187	760,672	-	2,415,937
Fund balances					
Reserved for:					
Encumbrances	1,629,587	9,600,904	969,328	-	12,199,819
Inventories	-	-	-	-	-
Debt service	-	-	-	74,740,124	74,740,124
Unreserved					
Designated for contingencies	75,000	500,000	-	-	575,000
Undesignated	2,158,124	11,071,012	8,088,066	-	21,317,202
Total fund balances	3,862,711	21,171,916	9,057,394	74,740,124	108,832,145
Total liabilities and fund balances	$ 4,342,789	$ 22,347,103	$ 9,818,066	$ 74,740,124	

Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are, therefore, not reported in the funds.	158,187,454
Some liabilities, including long-term contracts payable, are not due in the current period and, therefore, are not reported in the funds.	(119,548,526)
Net assets of governmental activities	$ 147,471,073

The accompanying Notes to the Basic Financial Statements are an integral part of this Statement

Sonoma County Water Agency
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

For the Year Ended June 30, 2006

		Special Revenue Funds			
	General Fund	Flood Control	Warm Springs Dam	Debt Service Fund	Total Governmental Funds
Revenue					
Property taxes	$ 4,633,977	$ 5,364,001	$ 4,338,108	$ -	$ 14,336,086
Investment earnings	211,087	823,544	373,856	(2,511,692)	(1,103,205)
Intergovernmental	121,732	81,954	45,402	-	249,088
Charges for services	677,290	-	-	-	677,290
Miscellaneous	199,154	46,928	469	-	246,551
Total revenue	5,843,240	6,316,427	4,757,835	(2,511,692)	14,405,810
Expenditures					
Current					
Salaries and benefits	21,852,137	-	-	-	21,852,137
Services and supplies	8,929,653	5,213,648	954,111	-	15,097,412
Costs applied	(26,747,086)	-	-	-	(26,747,086)
Capital outlay	63,727	1,800,438	-	-	1,864,165
Debt service					
Principal	-	-	-	1,256,106	1,256,106
Interest and fiscal charges	15,626	-	1,766,429	1,999,058	3,781,113
Total expenditures	4,114,057	7,014,086	2,720,540	3,255,164	17,103,847
Excess of revenue over (under) expenditures	1,729,183	(697,659)	2,037,295	(5,766,856)	(2,698,037)
Other financing sources (uses)					
Long-term contract proceeds	-	-	1,766,429	-	1,766,429
Transfers to related governments	(474,446)	-	-	-	(474,446)
Transfers in	29,823	-	-	4,255,166	4,284,989
Transfers out	(1,113,000)	-	(4,255,166)	-	(5,368,166)
Total other financing sources (uses)	(1,557,623)	-	(2,488,737)	4,255,166	208,806
Net changes in fund balances	171,560	(697,659)	(451,442)	(1,511,690)	(2,489,231)
Fund balances at beginning of year	3,691,151	21,869,575	9,508,836	76,251,814	111,321,376
Fund balances at end of year	$ 3,862,711	$ 21,171,916	$ 9,057,394	$ 74,740,124	$ 108,832,145

The accompanying Notes to the Basic Financial Statements are an integral part of this Statement

Sonoma County Water Agency
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

	For the Year Ended June 30, 2006
Net change in fund balances - total governmental funds (page 19)	$ (2,489,231)
Amounts reported for governmental activities in the statement of activities (page 17) are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays ($1,864,165) exceeded depreciation ($1,655,428) and adjustments ($35,900) in the current period	172,837
Repayment of principal is an expenditure in the governmental funds, but the repayment reduces the long-term liabilities in the statement of net assets.	1,256,106
Change in compensated absences reported in the statement of activities does not require the use of current financial resources and therefore, is not reported as expenditures in governmental funds.	(145,257)
Long-term contract proceeds which increases the long-term liabilities in the statement of net assets.	(1,766,429)
Changes in net assets of governmental activities (page 17)	$ (2,971,974)

The accompanying Notes to the Basic Financial Statements are an integral part of this Statement

Sonoma County Water Agency
Statement of Net Assets
Proprietary Funds

June 30, 2006

	Business-type Activities				
	Enterprise Funds				
	Water Transmission	Water Supply	Sanitation	Total	Internal Service Funds
Assets					
Current assets					
Cash and investments	$ 22,130,535	$ 6,373,764	$ 5,425,692	$ 33,929,991	$ 3,933,223
Receivables	4,204,367	1,070,012	58,280	5,332,659	-
Inventories	220,645	-	-	220,645	-
Total current assets	26,555,547	7,443,776	5,483,972	39,483,295	3,933,223
Noncurrent assets					
Restricted assets					
Cash - revenue bond funds	2,912,244	-	92,813	3,005,057	-
Cash and investments with trustee	1,664,304	-	1,288	1,665,592	-
Cash - notes payable	-	-	141,484	141,484	493,026
Cash - capital projects	-	-	2,787,354	2,787,354	684,619
Deposits	88,000	-	-	88,000	-
Total restricted assets	4,664,548	-	3,022,939	7,687,487	1,177,645
Prepaid expenses	2,138,272	-	47,788	2,186,060	12,660
Deferred charges	231,840	-	138,469	370,309	-
Capital assets (net of accumulated depreciation):					
Land	5,360,359	-	1,614,958	6,975,317	2,689,861
Buildings and improvements	85,806,889	4,927,721	24,635,665	115,370,275	14,849,167
Construction in progress	34,916,963	3,555,343	1,393,305	39,865,611	2,299,395
Equipment	486,950	-	27,531	514,481	1,385,127
Total capital assets	126,571,161	8,483,064	27,671,459	162,725,684	21,223,550
Total noncurrent assets	133,605,821	8,483,064	30,880,655	172,969,540	22,413,855
Total assets	$ 160,161,368	$ 15,926,840	$ 36,364,627	$ 212,452,835	$ 26,347,078

The accompanying Notes to the Basic Financial Statements are an integral part of this Statement

June 30, 2006

	Business-type Activities				
	Enterprise Funds				
	Water Transmission	Water Supply	Sanitation	Total	Internal Service Funds
Liabilities					
Current liabilities payable from unrestricted assets					
Accounts payable and accrued expenses	$ 4,433,991	$ 519,935	$ 623,559	$ 5,577,485	$ 637,638
Deferred revenue	-	129,107	-	129,107	-
Total current liabilities payable from unrestricted assets	4,433,991	649,042	623,559	5,706,592	637,638
Current liabilities payable from restricted assets					
Deposits from others	4,230	-	-	4,230	-
Interest payable	332,729	-	94,822	427,551	98,334
General obligation bonds payable	-	-	25,000	25,000	-
Notes payable	-	-	141,484	141,484	493,025
Revenue bonds payable	320,000	-	190,000	510,000	-
Total current liabilities payable from restricted assets	656,959	-	451,306	1,108,265	591,359
Total current liabilities	5,090,950	649,042	1,074,865	6,814,857	1,228,997
Noncurrent liabilities					
General obligation bonds payable	-	-	414,000	414,000	-
Notes payable	-	-	2,591,484	2,591,484	9,327,213
Revenue bonds payable	14,563,824	-	5,623,034	20,186,858	-
Advances from other governments	11,401,362	-	-	11,401,362	-
Deferred revenue	-	5,938,935	-	5,938,935	-
Total noncurrent liabilities	25,965,186	5,938,935	8,628,518	40,532,639	9,327,213
Total liabilities	31,056,136	6,587,977	9,703,383	47,347,496	10,556,210

June 30, 2006

	Business-type Activities				
	Enterprise Funds				
	Water Transmission	Water Supply	Sanitation	Total	Internal Service Funds
Net assets					
Invested in capital assets, net of related debt	$ 100,285,975	$ 8,483,064	$ 18,686,457	$ 127,455,496	$ 11,403,312
Restricted for deposits	83,770	-	-	83,770	-
Restricted for debt service	4,243,819	-	140,763	4,384,582	394,692
Restricted for capital projects	-	-	2,787,354	2,787,354	684,619
Restricted for recycled water/ water conservation	6,707,716	-	-	6,707,716	-
Unrestricted	17,783,952	855,799	5,046,670	23,686,421	3,308,245
Total net assets	$ 129,105,232	$ 9,338,863	$ 26,661,244	165,105,339	$ 15,790,868
Adjustment to reflect the consolidation of internal service funds net assets related to the enterprise funds				15,790,868	
Total net assets of business-type activities				$ 180,896,207	

The accompanying Notes to the Basic Financial Statements are an integral part of this Statement

Sonoma County Water Agency
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds

For the Year Ended June 30, 2006

	Business-type Activities				
	Enterprise Funds				
	Water Transmission	Water Supply	Sanitation	Total	Internal Service Funds
Operating revenue					
Water sales	$ 26,801,652	$ 1,621,151	$ -	$ 28,422,803	$ -
Water services	65,792	-	-	65,792	-
Power sales	1,087,512	-	-	1,087,512	-
Flat charges	-	-	2,244,849	2,244,849	-
Sanitation services	-	-	189,513	189,513	-
Equipment rental	-	-	-	-	1,856,235
Real estate rental	-	-	-	-	2,183,243
Miscellaneous	230,988	2,413	10,273	243,674	3,365
Total operating revenue	28,185,944	1,623,564	2,444,635	32,254,143	4,042,843
Operating expenses					
Services and supplies	21,061,630	3,855,698	2,509,291	27,426,619	2,084,668
Depreciation and amortization	3,120,963	137,109	991,030	4,249,102	1,072,773
Total operating expenses	24,182,593	3,992,807	3,500,321	31,675,721	3,157,441
Operating income (loss)	4,003,351	(2,369,243)	(1,055,686)	578,422	885,402
Nonoperating revenue (expenses)					
Taxes and assessments	-	-	40,758	40,758	-
Investment earnings	1,132,606	257,204	223,965	1,613,775	178,239
Interest expense	11	-	(321,050)	(321,039)	(379,195)
Intergovernmental revenue - capital	-	320,860	413	321,273	-
Intergovernmental revenue - non-capital	-	129,107	-	129,107	-
Total nonoperating revenue (expense)	1,132,617	707,171	(55,914)	1,783,874	(200,956)

The accompanying Notes to the Basic Financial Statements are an integral part of this Statement

For the Year Ended June 30, 2006

	Business-type Activities				
	Enterprise Funds				
	Water Transmission	Water Supply	Sanitation	Total	Internal Service Funds
Net income (loss) before contributions and transfers	5,135,968	(1,662,072)	(1,111,600)	2,362,296	684,446
Capital contribution:					
Connection fees	-	-	544,804	544,804	-
Other	-	-	18,948	18,948	-
Transfers in	-	600,000	513,000	1,113,000	-
Transfers out	-	-	-	-	(29,823)
Change in net assets	5,135,968	(1,062,072)	(34,848)	4,039,048	654,623
Net assets at beginning of year	123,969,264	10,400,935	26,696,092		15,136,245
Net assets at end of year	$ 129,105,232	$ 9,338,863	$ 26,661,244		$ 15,790,868

Adjustments to reflect the consolidation of internal service funds activities related to enterprise funds	654,623
Change in net assets of business-type activities	$ 4,693,671

The accompanying Notes to the Basic Financial Statements are an integral part of this Statement

For the Year Ended June 30, 2006

	Business-type Activities				
	Enterprise Funds				
	Water Transmission	Water Supply	Sanitation	Total	Internal Service Funds
Cash flows from operating activities					
Receipts from customers	$ 27,404,700	$ 1,328,790	$ 2,480,357	$ 31,213,847	$ -
Receipts for interfund charges	-	-	-	-	4,042,843
Payments for interfund services used	(13,861,262)	(1,853,625)	(1,556,817)	(17,271,704)	(1,423,884)
Payments to suppliers	(8,949,333)	(2,258,395)	(939,196)	(12,146,924)	(647,140)
Net cash provided by (used in) operating activities	4,594,105	(2,783,230)	(15,656)	1,795,219	1,971,819
Cash flows from noncapital financing activities					
Taxes and assessments	-	-	40,758	40,758	-
Transfers in	-	600,000	513,000	1,113,000	-
Intergovernmental revenue	-	-	413	413	-
Net cash provided by noncapital financing activities	-	600,000	554,171	1,154,171	-
Cash flows from capital and related financing activities					
Purchase of capital assets	(9,211,826)	(27,476)	(677,314)	(9,916,616)	(1,531,330)
Principal paid on capital debt	(315,000)	-	(200,033)	(515,033)	(449,489)
Interest paid on capital debt	(987,094)	-	(340,802)	(1,327,896)	(449,707)
Proceeds from long-term debt	-	-	2,750,000	2,750,000	-
Proceeds from Federal/State grants	-	786,823	-	786,823	-
Capital contributions - connection fees	-	-	1,979,247	1,979,247	-
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	(29,823)
Net cash provided by (used in) capital and related financing activities	(10,513,920)	759,347	3,511,098	(6,243,475)	(2,460,349)

The accompanying Notes to the Basic Financial Statements are an integral part of this Statement

For the Year Ended June 30, 2006

	Business-type Activities				
	Enterprise Funds				
	Water Transmission	Water Supply	Sanitation	Total	Internal Service Funds
Cash flows from investing activities					
Interest income	1,132,606	257,204	217,708	1,607,518	178,239
Net increase (decrease) in cash and cash equivalents	(4,787,209)	(1,166,679)	4,267,321	(1,686,567)	(310,291)
Balances at beginning of year	31,494,292	7,540,443	4,181,310	43,216,045	5,421,159
Balances at end of year	$ 26,707,083	$ 6,373,764	$ 8,448,631	$ 41,529,478	$ 5,110,868
Cash and cash equivalents includes the following at June 30, 2006:					
Cash and investments	$ 22,130,535	$ 6,373,764	$ 5,425,692	$ 33,929,991	$ 3,933,223
Restricted cash and investments	4,576,548	-	3,022,939	7,599,487	1,177,645
	$ 26,707,083	$ 6,373,764	$ 8,448,631	$ 41,529,478	$ 5,110,868

For the Year Ended June 30, 2006

	Business-type Activities				
	Enterprise Funds				
	Water Transmission	Water Supply	Sanitation	Total	Internal Service Funds
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Operating income (loss)	$ 4,003,351	$ (2,369,243)	$ (1,055,686)	$ 578,422	$ 885,402
Adjustments to reconcile operating income (loss) to net cash provided by operating activities					
Depreciation expense and amortization expense	3,120,963	137,109	991,030	4,249,102	1,072,773
Change in assets and liabilities					
Receivables, net	(781,242)	(294,773)	35,722	(1,040,293)	-
Inventory	3,063	-	-	3,063	-
Prepaid expenses	(2,138,272)	-	(47,788)	(2,186,060)	(12,660)
Accounts payable and other payables	386,242	(256,323)	61,066	190,985	26,304
Net cash provided by (used in) operating activities	$ 4,594,105	$ (2,783,230)	$ (15,656)	$ 1,795,219	$ 1,971,819
Noncash investing, capital and financing activities:					
Increase in Project costs included in accounts payable	$ 196,281	$ 2,284	$ 22,588	$ 221,153	$ 542,740
Net decrease in fair value of investment in County Treasurer's pooled cash	$ 58,896	$ 15,039	$ 19,880	$ 93,815	$ 12,028
Refunding of Series 2000B Revenue Bonds through the issuance of Series 2005C Revenue Bonds	$ -	$ -	$ 5,240,035	$ 5,240,035	$ -
Recognition of deferred revenue	$ -	$ 129,107	$ -	$ 129,107	$ -

The accompanying Notes to the Basic Financial Statements are an integral part of this Statement

Sonoma County Water Agency
Statement of Fiduciary Assets and Liabilities
Fiduciary Funds

	June 30, 2006	
		Agency Fund
Assets		
Current restricted assets		
Cash and investments	$	14,100
Total current restricted assets	$	14,100
Liabilities		
Current liabilities payable from restricted assets		
Deposits from others	$	14,100
Total current liabilities payable from restricted assets	$	14,100

The accompanying Notes to the Basic Financial Statements are an integral part of this Statement

The notes to the basic financial statements include a summary of significant accounting policies and other notes considered essential to fully disclose and fairly present the transactions and financial position of the Water Agency as follows:

Note A. Defining the Financial Reporting Entity

Note B. Summary of Significant Accounting Policies

Note C. Stewardship, Compliance and Accountability

Note D. Cash and Investments

Note E. Capital Assets

Note F. Employees' Retirement Plan

Note G. Post Employment Benefits

Note H. Deferred Compensation Plan

Note I. Interfund Accounts

Note J. Long-Term Obligations

Note K. Debt Defeasance

Note L. Deferred Revenue

Note M. Related Party Transactions

Note N. Commitments and Contingencies

Note O. Future Governmental Accounting Standard

Note P. Subsequent Event

Note A. Defining the Financial Reporting Entity

The Sonoma County Water Agency (the "Water Agency") was created in 1949 by an act of the California Legislature. The Water Agency is a countywide special district responsible for domestic water supply delivery to eight prime contractors (the cities of Santa Rosa, Petaluma, Sonoma, Rohnert Park, Town of Windsor, and Cotati, as well as Valley of the Moon, and North Marin Water Districts). The Water Agency designs, constructs and maintains flood control facilities. The Water Agency began generating electrical energy in 1988. The Water Agency operates and maintains Spring Lake Park via contract with the Sonoma County Regional Parks Department.

On January 1, 1995, as part of the countywide reorganization, seven county service areas were transferred from the County to the Water Agency. Since then, two sanitation zones have been reorganized and transferred to their own districts. The sanitation zones provide wastewater treatment, reclamation, and disposal services.

The Water Agency is governed by the Board of Supervisors of the County of Sonoma, who act ex-officio as the Board of Directors of the Water Agency. The exercise of this oversight responsibility causes the Water Agency to be an integral part of the County of Sonoma's reporting entity. Therefore, the Water Agency's basic financial statements have also been included as a component unit in the County's annual financial report for the fiscal year ended June 30, 2006.

There are no other organizations or agencies whose basic financial statements should be combined and presented with these basic financial statements.

Note B. Summary of Significant Accounting Policies

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) displays information on the Sonoma County Water Agency as a whole. These financial statements include the financial activities of the Water Agency's nonfiduciary activities. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on user fees and charges for support.

The statement of net assets presents the financial condition of the governmental and business-type activities of the Water Agency at year end. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

Note B. Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements. All assets and all liabilities associated with the operations of the Water Agency are included on the statement of net assets. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of when the related cash flows takes place. Nonexchange transactions, in which the Water Agency receives (or gives) value without directly giving (or receiving) equal value in exchange, include property taxes and grants. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Water Agency must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Water Agency on a reimbursement basis.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Water Agency considers revenues to be available if they are collected within 360 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due (matured). This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Government fund financial statements, therefore, include reconciliations with brief explanations to better identify their relationship between the government-wide statements and the statements for governmental funds.

For its business-type activities and enterprise funds, the Water Agency applies (a) all GASB pronouncements and (b) only FASB Statements and Interpretations, APB opinions, and Accounting Research Bulletins issued on or before November 30, 1989, except for those that conflict with a GASB pronouncement. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

Note B. Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water Transmission Fund, the Water Supply Fund and the Sanitation Fund are charges to customers for sales and services. Operating expenses include the cost of services and supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted net assets are available, unrestricted resources are used only after the restricted resources are depleted.

The Water Agency's financials are presented utilizing the following major funds:

Governmental fund types: These are the funds through which most governmental functions typically are financed. The major funds included in this category are as follows:

General Fund: This fund is established to account for resources devoted to financing the general services that the Water Agency performs. General tax revenues and other sources of revenue used to finance the fundamental operations of the agency are included in this fund. The fund is charged with all costs of operating the agency for which a separate fund has not been established.

Special Revenue Funds: These funds are used to account for assets, liabilities, revenues and expenditures related to activities supported by specific taxes or other designated revenue sources. These funds are generally required by state, charter or ordinance to finance specific government functions.

Flood Control: This fund is established to account for the proceeds of specific revenue sources other than special assessments, expendable trusts, or major capital projects that are legally restricted to expenditures related to flood control. Six flood control zones account for the maintenance of existing flood control structures and the construction of new projects in the following areas: Zone 1A - Laguna Mark West, Zone 2A- Petaluma Basin, Zone 3A - Valley of the Moon, Zone 5A - Lower Russian River, Zone 7A - North Coast, Zone 8A - South Coast.

Warm Springs Dam: This fund is established for the purpose of accumulating resources for the payment of interest and principal on the long-term federal contract payable to the U.S. Army Corps of Engineers for Water Storage Rights at Warm Springs Dam.

Debt Service Fund: This fund includes the debt service annual obligations related to the Water Agency's contract with the U.S. Army Corps of Engineers for water supply storage space at Warm Springs Dam.

Note B. Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

Proprietary fund types: These funds account for operations that are organized to be self-supporting through user charges. The major funds included in this category are as follows:

Water Transmission: This fund accounts for the transportation of water and generation of electrical power for services to seven prime contractors (the cities of Santa Rosa, Petaluma, Sonoma, Rohnert Park and Cotati, Valley of the Moon, and North Marin Water Districts).

Water Supply: This fund accounts for the water supply and erosion control activities along the Russian River to secure and defend the Water Agency's appropriative water rights. This fund also includes program costs to convert recycled water to beneficial use.

Sanitation: This fund accounts for the sanitation services and for the engineering, administration and operational services of four zones: Sea Ranch, Penngrove, Geyserville and Airport-Larkfield-Wikiup.

Additionally, the Water Agency reports the following fund types:

Internal Service Funds: These funds are established to account for the financing of goods or services provided by one department or agency to other departments of the Water Agency or other governmental units on a cost reimbursement basis. These activities are recorded as operating revenue in the internal services funds, while expenses to provide the services are recorded as operating expenses. Nonoperating revenue and expenses include investment income, interest expenses and gain on sale of internal services fund assets. The Water Agency maintains separate internal service funds for equipment and facilities.

Agency Fund: This fund is used to account for assets held by the Water Agency on behalf of others as their agent. This fund is custodial in nature and does not involve measurement of results of operations. Funds held are surety deposits pertaining to river access for gravel mining.

Encumbrances

Encumbrance accounting is employed as an extension of the budgetary process. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded to reserve that portion of the applicable appropriation, is employed in the governmental fund types. Encumbrances outstanding at year-end are reported as reservations of the fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

Note B. Summary of Significant Accounting Policies (continued)

Cash and Investments

The Water Agency's cash and investments are pooled with the Sonoma County Treasurer except for restricted funds held by an outside trustee. The Sonoma County Treasurer also acts as a disbursing agent for the Water Agency. The fair value of the investments in the pool is determined quarterly. Realized and unrealized gains or losses and interest earned on pooled investments are allocated quarterly to the appropriate funds based on their respective average daily balance for that quarter in the County Treasury Investment Pool (the "Treasury Pool"), an external investment pool.

Receivables

The Water Agency's accounts receivable are reported at their estimated realizable value and consist primarily of water sales to local water districts and cities.

Inventories

Inventory for the proprietary fund is valued at lower of average cost or market. Inventory in the Water Transmission Fund consists of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed.

Restricted Assets - Enterprise Funds

Restricted assets in the Enterprise Funds primarily represent cash and investments in the Water Transmission, Water Supply and Sanitation funds that are restricted for debt service pursuant to various debt covenants. Restricted assets also include amounts for customer deposits.

Deferred Charges - Enterprise Funds

Deferred charges are composed of debt issuance costs of $370,309 for the year ended June 30, 2006, from issuance of debt, net of accumulated amortization. These costs are amortized over the term of the issuance using the straight-line method which approximates the effective interest method.

Capital Assets

Capital assets (including infrastructure) are reported in the applicable governmental or business-type activity columns in the government-wide financial statements and proprietary fund financial statements. Such assets are stated at cost or, if historical cost is not available, at engineers estimated historical cost. Donated capital assets are recorded at estimated fair value on the date of donation. The Water Agency defines capital assets as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Capital assets acquired are capitalized in the respective fund to which it applies.

Note B. Summary of Significant Accounting Policies (continued)

Capital Assets (continued)

Capital assets used in operations are depreciated using the straight-line method over the estimated useful lives in the government-wide statements and proprietary funds. Estimated useful lives of the assets are as follows: utility plant and equipment, 3 - 50 years; transmission system and reservoirs, 10 - 50 years; infrastructure, 35 - 75 years. Water storage rights are recorded at historical cost and are not amortized due to inexhaustible life. For information describing capital assets, see Note E.

Capitalized Interest

Interest incurred during the construction phase of the capital assets of business-type activities is reflected in the capitalized value of the asset constructed. Interest incurred is netted against interest earned on the invested proceeds over the same period only when proceeds of tax exempt debt is externally restricted to the acquisition or construction of specified assets.

Bond and Certificates of Participation Discounts

Bond and certificates of participation discounts related to debt of proprietary fund types are deferred and amortized using the straight-line method which approximates the effective interest method over the term of issuance. These discounts are netted against the related debt.

Deferred Revenue

In the Government-wide Financial Statements, deferred revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. In the Fund Financial Statements, deferred revenue is recorded when transactions have not yet met the revenue recognition criteria based on the modified accrual basis of accounting. The Water Agency records deferred revenue for transactions for which revenues have not been earned, or for which funds are not available to meet current financial obligations.

Compensated Absences

Water Agency employees are entitled to certain compensated absences based on their length of employment. Vacation pay, which may be generally accumulated up to six weeks, is payable upon termination. Sick leave may be accumulated without limitation. The monetary equivalent of 25% of all unused sick leave is vested and payable to employees who separate from the Water Agency for reasons other than disability.

Because vacation and sick leave balances do not require the use of financial resources, no liability is recorded within the governmental funds. However, vacation and sick leave balances are reflected in the government-wide statement of net assets. The accrued liability for vacation and sick leave relating to the proprietary funds is recorded in those funds in the period earned. In compliance with GASB Statement No. 16, *Accounting for Compensated Absences*, the amount reported included estimated employer liability for taxes and workers' compensation premiums.

Note B. Summary of Significant Accounting Policies (continued)

Property Tax Revenue

Property taxes, including tax rates, are regulated by the State and are administered locally by the County. The County is responsible for assessing, collecting and distributing property taxes in accordance with state law. The County is responsible for the allocation of property taxes to the Water Agency.

The County of Sonoma has adopted the Teeter Alternative Method of Property Tax Allocation known as the "Teeter Plan". The State Revenue and Taxation Code allows counties to distribute secured real property and supplemental property taxes on an accrual basis resulting in full payment to the Water Agency each fiscal year. Any subsequent delinquent payments and related penalties and interest will revert to Sonoma County.

Property taxes are recognized as revenue when levied for because they are considered to be both measurable and available. Liens on real property are established January 1 for the ensuing fiscal year. The property tax is levied as of July 1 on all taxable property located in the County. Secured property taxes are due in two equal installments on November 1 and February 1, and are delinquent after December 10 and April 10, respectively. Additionally, supplemental property taxes are levied on a pro rata basis when changes in assessed valuation occur due to sales transactions or the completion of construction. Property tax collection and valuation information is disclosed in the County of Sonoma's financial statements.

Net Assets and Fund Equity

Government-wide Financial Statements

Net assets consists of three components representing restricted and unrestricted amounts:

Net Assets Invested in Capital Assets, Net of Related Debt – This amount consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets, net of related debt, excludes unspent debt proceeds.

Restricted Net Assets – The amounts represent external restrictions imposed by creditors, contributors, grantors or laws or regulation of other governments.

Unrestricted Net Assets – This amount consist of all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets."

Note B. Summary of Significant Accounting Policies (continued)

Net Assets and Fund Equity (continued)

Fund Financial Statements

In the fund financial statements, governmental funds report reservation or designations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Portions of unrestricted net assets, which are presented in the fund financial statements, may be designated to indicate tentative plans for financial resource utilization in a future period, such as for general contingencies or capital projects. Such plans or intent are subject to change, have not been legally authorized and may not result in expenditures.

Designated Fund Balance	
Contingencies	
General Fund	$ 75,000
Special Revenue – Flood control	500,000
	$ 575,000

Interfund Transactions

Quasi-external transactions are accounted for as revenue, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

Costs applied consist of expenses incurred by the General Fund that have been allocated to the Water Agency's Special Revenue Funds and the Enterprise Fund. In addition, costs applied include amounts which have been reimbursed by the specific sanitation districts that have a contractual relationship with the Water Agency for certain expenses provided and reported in the General Fund. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation.

Connection Fees

Sewer connection fees represent fees received from developers and residents to connect to or extend existing trunk sewer systems. These fees are required to be used for capital purposes. Sewer and water connection fees are recorded as capital contributions in the enterprise funds, in accordance with GASB Statement No. 33.

Note B. Summary of Significant Accounting Policies (continued)

Cash Flows

Statement of cash flows are presented for proprietary fund types. For this purpose, the Water Agency considers all pooled cash and investments as cash and cash equivalents because the County Treasurer's investment pool is used as a demand deposit account. Cash with trustee and restricted cash and investments with a maturity of three months or less when purchased are also treated as cash and cash equivalents.

Estimates

The preparation of the basic financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Note C. Stewardship, Compliance and Accountability

Budget and Budgetary Accounting

The Board of Directors adopts a budget annually to be effective July 1st for the ensuing fiscal year for all governmental and proprietary fund types. The General Manager is authorized to transfer budgeted amounts within any fund except for transfers between the major expenditure classes or transfers between capital assets and operating expenses. Such transfers require approval by the County Administrator and/or Board of Directors. Revisions that change total appropriations must be approved by the Board of Directors. Annual appropriations that have not been encumbered lapse at year-end.

Note D. Cash and Investments

Investment Guidelines

The Water Agency follows the practice of pooling cash and investments of all funds with the County Treasurer except for funds required to be held by outside fiscal agents or trustees under the provisions of bond indentures and lease agreements. The Treasury Oversight Committee has regulatory oversight for all monies deposited into the Treasury Pool.

Interest income earned on pooled cash and investments is allocated quarterly to the various funds based on the average daily balances by fund during the quarter. Interest income from cash and investments with fiscal agents or trustees is credited directly to the related fund.

The Water Agency's pooled cash and investments are invested pursuant to investment policy guidelines established by the County Treasurer and approved by the Board. The objectives of the policy are, in order of priority: safety of capital, liquidity and maximum rate of return. The policy addresses the soundness of financial institutions in which the County will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity.

Note D. Cash and Investments (continued)

Investment Guidelines (continued)

Permitted investments include the following:

- U.S. Treasury and Federal Agency securities
- Bonds issued by local agencies
- Registered State Warrants and Municipal Notes
- Negotiable certificates of deposit
- Bankers' acceptances
- Commercial paper
- Medium-term corporate notes
- Local Agency Investment Fund (State Pool) demand deposits
- Repurchase agreements
- Reverse repurchase agreements
- Shares of a mutual fund average life
- Collateralized mortgage obligations

A copy of the County Investment Policy is available upon request from the Sonoma County Treasurer at 585 Fiscal Drive, Room 100F, Santa Rosa, California, 95403.

Balance Sheet

Cash and investments as of June 30, 2006 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	$ 148,850,902
Cash and investments restricted for revenue bond funds	3,005,057
Cash and investments held by trustee	1,665,592
Cash and investment restricted for notes payable	634,510
Cash and investment restricted for capital projects	3,471,973
Fiduciary funds:	
Cash and investments	14,100
Total cash and investments	$ 157,642,134

Cash and investments as of June 30, 2006 consist of the following:

Investment in County Treasurer's Pooled cash	
Unrestricted	$ 77,317,366
Restricted for revenue bonds	3,005,057
Restricted for notes payable	634,510
Restricted for capital projects	3,471,973
Restricted for Agency fund	14,100
Non-pooled cash and investments	
Cash on hand	750
Investments	71,532,786
Cash and investments held by trustee restricted for revenue bonds	1,665,592
Total cash and investments	$ 157,642,134

Note D. **Cash and Investments** (continued)

Balance Sheet (continued)

Investment in County Treasurer's Pooled Cash

At June 30, 2006, the Water Agency's investments consisted of $84,443,006 in the Treasury Pool managed by the County Treasurer which has a weighted average maturity of approximately less than two years. The credit rating and other information regarding the Treasury pool for the fiscal year 2005-06 are disclosed in the County of Sonoma's 2005-2006 Comprehensive Annual Financial Report.

The net increase in the fair value of the Water Agency's investments in Treasury Pool during fiscal year 2005-06 was $9,215. This amount takes into account all changes in fair value (including purchases and sales) that occurred during the year. The unrealized loss on investments held at year-end amounted to $198,695. The realized gain and loss from securities matured during the current fiscal year are recognized through the net change in the fair value of the investments held in the Treasury Pool.

The net increase (decrease) in fair value of investments by fund, and included in revenue – investment earnings, were as follows:

General Fund	$	(408)
Special Revenue Funds - Flood Control and Warm Springs Dam		6,270
Debt Service Fund		(5,305)
Enterprise Funds - Water Transmission, Water Supply and Sanitation		7,536
Internal Service Funds		1,122
	$	9,215

Non-pooled Cash and Investments

Included in the non-pooled cash and investments balance are $750 cash on-hand, $1,665,592 investments held by trustee, and $71,532,786 investments in U.S. Government securities which are to be used specifically to fund the repayment of the Water Agency's $117,268,221 contract payable (see Note J).

The net decrease in the fair value of the Water Agency's investments in U.S. Government securities during fiscal year 2005-06 was $2,599,529. This amount takes into account all changes in fair value (including purchases and sales) that occurred during the year. The unrealized gain on investments held at year-end amounted to $57,864,496. Realized gain on investments that matured during fiscal year 2005-2006 amounted to $678,252.

Note D. Cash and Investments (continued)

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Agency manages their exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments, and by timing cash flows from maturities so that a portion of the portfolio is maturing, or coming close to maturity, evenly over time, as necessary, to provide the cash flow and liquidity needed for operations. The majority of the Agency's cash and investments is held by the Treasury Pool, which has a weighted maturity of less than two years. The information about the sensitivity of the fair values of the Water Agency's non-pooled investments to market interest rate fluctuations is provided by the following table showing the distribution of the Water Agency's investments by maturity:

		Remaining Maturity			
Investment Type	Amount	12 Months or less	13 to 24 Months	25 to 60 Months	More than 60 Months
County Treasurer's pooled cash	$ 84,443,006	$ 84,443,006	$ -	$ -	$ -
U.S. Government securities	71,532,786	6,070,812	5,767,394	15,676,350	44,018,230
Investment contracts	988,088	-	-	-	988,088
Money market funds	677,504	677,504	-	-	-
Total	$157,641,384	$ 91,191,322	$ 5,767,394	$15,676,350	$ 45,006,318

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that is in the possession of another party.

Note D. **Cash and Investments** (continued)

Custodial Credit Risk (continued)

The California Government Code and the County's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits and securities lending transactions:

1) The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by depository regulated under stated law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies.

2) The California Government Code limits the total of all securities lending transactions to 20% of the fair value of the investment portfolio.

Concentration of Credit Risk

The investment policy of the Water Agency contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Other than the Water Agency's investments in U.S. Government securities, there were no non-pooled investments in any one issuer that represent 5% or more of total Water Agency's investments.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Water Agency follows the County's policy to purchase investments with the minimum ratings required by the California Government Code. Presented below is the minimum rating required by (where applicable) the California Government Code, the County's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

Investment Type	Total	Minimum Legal Rating	Exempt From Disclosure	Rating at year end		
				AAA	Aa	Not Rated
County Treasurer's pooled cash	$ 84,443,006	N/A	$ 84,443,006	$ -	$ -	$ -
U.S. Government securities	71,532,786	N/A	71,532,786	-	-	-
Investment contracts	988,088	A	-	988,088	-	-
Money market funds	677,504	A	-	-	-	677,504
Total	$ 157,641,384		$ 155,975,792	$ 988,088	$ -	$ 677,504

Note E. Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

	Beginning Balance July 1, 2005	Additions	Retirements	Transfers and Adjustments	Ending Balance June 30, 2006
Governmental activities					
Capital assets, not being depreciated:					
Intangible assets - water storage rights	$ 102,371,000	$ -	$ -	$ -	$ 102,371,000
Land	1,824,010	29	(286,482)	-	1,537,557
Construction in progress	4,077,460	1,800,438	(660)	-	5,877,238
Total capital assets, not being depreciated	108,272,470	1,800,467	(287,142)	-	109,785,795
Capital assets, being depreciated:					
Infrastructure	61,962,461	-	-	-	61,962,461
Buildings and improvements	3,419,740	-	-	-	3,419,740
Equipment	881,882	63,698	-	-	945,580
Total capital assets being depreciated	66,264,083	63,698	-	-	66,327,781
Less accumulated depreciation for:					
Infrastructure	(14,576,034)	(1,481,681)	-	-	(16,057,715)
Buildings and improvements	(1,128,096)	(85,803)	-	-	(1,213,899)
Equipment	(531,324)	(87,944)	-	(35,240)	(654,508)
Total accumulated depreciation	(16,235,454)	(1,655,428)	-	(35,240)	(17,926,122)
Total capital assets, being depreciated, net	50,028,629	(1,591,730)	-	(35,240)	48,401,659
Governmental activities capital assets, net	$ 158,301,099	$ 208,737	$ (287,142)	$ (35,240)	$ 158,187,454

Note E. **Capital Assets** (continued)

	Beginning Balance July 1, 2005	Additions	Retirements	Transfers and Adjustments	Ending Balance June 30, 2006
Business-type activities					
Capital assets, not being depreciated:					
Land	$ 9,655,701	$ 9,477	$ -	$ -	$ 9,665,178
Construction in progress	45,428,950	13,202,337	-	(16,466,281)	42,165,006
Total capital assets, not being depreciated	55,084,651	13,211,814	-	(16,466,281)	51,830,184
Capital assets, being depreciated:					
Buildings and improvements	170,934,340	-	-	16,374,552	187,308,892
Equipment	7,685,572	130,778	-	16,729	7,833,079
Total capital assets, being depreciated	178,619,912	130,778	-	16,391,281	195,141,971
Less accumulated depreciation for:					
Buildings and improvements	(52,359,922)	(4,729,528)	-	-	(57,089,450)
Equipment	(5,357,839)	(575,632)	-	-	(5,933,471)
Total accumulated depreciation	(57,717,761)	(5,305,160)	-	-	(63,022,921)
Total capital assets, being depreciated, net	120,902,151	(5,174,382)	-	16,391,281	132,119,050
Business-type activities capital assets, net	$ 175,986,802	$ 8,037,432	$ -	$ (75,000)	$ 183,949,234

The total amount of interest capitalized into capital assets of business-type activities during the years ended June 30, 2006 amounted to $1,130,755.

Depreciation expense was charged to functions within the governmental and business-type activities as follows:

Note E. **Capital Assets** (continued)

Governmental activities

General government	$ 89,985
Spring Lake Park	83,762
Flood Control Zones, including depreciation of infrastructure assets	1,481,681
Total depreciation expense - governmental activities	$ 1,655,428
Water Transmission	$ 3,110,843
Water Supply	137,109
Internal Service	1,072,773
Sanitation	984,435
Total depreciation expense - business-type activities	$ 5,305,160

Warm Springs Dam Project

Pursuant to the Flood Control Act of 1962, a project was authorized for the construction of Warm Springs Dam and Lake Sonoma. The Warm Springs Dam has a total gross storage capacity of 381,000 acre-feet and total water supply storage of 355,000 acre-feet. The Water Agency has contracted for the right to the storage space for 212,000 acre-feet of water. The Water Agency uses the storage space to control and dispose of flood, storm and other waters. Since such flood control activities are a governmental function, the cost of the project has been capitalized as an inexhaustible intangible asset.

In March 1992, the cost of the project to the Water Agency was established at $102,371,000. The estimated cost of the Water Agency's portion of the project is approximately 30% of the total project joint use construction costs and accrued interest. The liability for the contract is shown as a long term contract payable within the governmental activities (Note J). Repayment of this obligation comes from the proceeds of a countywide levied property tax.

The project became operational for water supply on November 1, 1994. The Water Agency does not own any part of the tangible dam facilities. The payments under the contract only entitle the Water Agency to permanent water storage rights.

Note F. **Employees' Retirement Plan**

Plan Description

The Water Agency contributes to Sonoma County's single-employer public employee retirement plan (the "Plan") that is administered by the Sonoma County Employees' Retirement Association (the "Retirement Association"). The Water Agency joined the Retirement Association as of October 1, 1963. Substantially all full-time employees of the Water Agency participate in this plan. All permanent employees working at least half time of a full-time position for the Water Agency are eligible. Benefits are based on the employee's final average salary, years of service, and age at the time of retirement. The Plan is governed by the California Government Code, Title 3, Division 4, Part 3, Chapter 3.

Note F. Employees' Retirement Plan (continued)

Plan Description (continued)

The financial statements for the County of Sonoma (the primary government) contain additional financial information for the defined pension benefits, which is not presented here because the Water Agency portion cannot be separated from the whole. In addition, an audit report of the Retirement Association regarding the financial position of the Plan and other information for the year ended December 31, 2005, is on file at the County Auditors' Office.

Funding Status

Plan members were required to contribute 7% - 14%, depending upon their age at their date of entry, of their annual covered salary at June 30, 2006, 2005 and 2004. The Plan is required to contribute at an actuarially determined rate which was 24.77%, 21.86% and 18.68% of annual covered payroll at June 30, 2006, 2005 and 2004, respectively. The Water Agency's contributions to the Plan during the years ended 2006, 2005 and 2004 were $2,443,825, $2,024,098 and $2,016,677 respectively, equal to the required contribution each year.

The Water Agency's total payroll for covered employees for the plan years ended December 31, 2005, 2004 and 2003 was $14,308,571, $13,972,162 and $13,843,055, respectively, which represents approximately 5.39%, 5.52% and 5.32%, respectively, of the Retirement Association's payroll for covered employees.

Note G. Post Employment Benefits

In addition to the pension benefits described in Note F, the Water Agency provides post-retirement health care benefits, in accordance with County resolutions, to all active, covered employees who retire from the Water Agency on or after attaining age 50 with at least 10 years of service. The Water Agency pays approximately 85% of the health care insurance premium for the retirees and their eligible dependents. The retiree can choose one of three health care providers. The Water Agency reimburses a fixed amount of $66.60 per month for a Medicare supplement for each retiree aged 65 and over covered under Medicare Parts A and B. The cost of post-retirement health care benefits is recognized as an expenditure as the Water Agency reimburses the County for premiums paid. The financial statement for the County of Sonoma (the primary government) contains the financial information for the post-employment benefits, which is not presented here because the Water Agency portion cannot be separated from the whole.

Note H. Deferred Compensation Plan

The Water Agency participates in the County of Sonoma deferred compensation plan (the "Plan") which was created in accordance with California Government Code Section 53212 and Internal Revenue Code Section 457. The Plan, available to permanent employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or an unforeseeable emergency.

In 1998, the County amended the Plan's documents to comply with a new federal law. The Plan's assets have been placed into a trust for the exclusive benefit of the employees and their beneficiaries. The County is the administrator of the Plan but the assets are held by an independent investment manager and, therefore are not recorded as assets of the County. Each employee directs the investment of the assets in his or her account.

Note I. Interfund Accounts

Transfers

A summary of transfer activity is as follows:

Transfer from	Transfer to	Amount	Purpose
Warm Springs Dam Fund	Debt Service Fund	$ 4,255,166	Transfer funds for scheduled principal and interest payment
General Fund	Water Supply Fund	600,000	Provide funding to cover portion of Recycled Water Projects
General Fund	Sanitation Zone	513,000	Provide funding to cover operating expenses
Internal Service Funds	General Fund	29,823	Transfer to pay for prior year unbudgeted expenses
		$ 5,397,989	

Note J. Long-Term Obligations

Debt at June 30, 2006, consists of the following:

	Governmental Activities	Business-type Activities
General obligation bonds	$ -	$ 439,000
Notes payable	-	12,553,206
Water revenue bonds payable	-	14,910,000
Water and Wastewater revenue bonds payable	-	6,220,000
Advance from other governments	-	11,401,362
Long-term contracts payable	117,268,221	-
Compensated absences	2,280,305	-
	$ 119,548,526	$45,523,568

Note J. **Long-Term Obligations** (continued)

Business-type Activities

General Obligation Bonds

	Maturity Dates	Interest Rates	Authorized & Issued	Outstanding June 30, 2006
Sanitation Zones				
1977 Penngrove	2017	5%	300,000	$ 154,000
1980 Geyserville	2020	5%	500,000	285,000
Total long-term obligation				$ 439,000

Sanitation General Obligation Bonds are repaid from tax revenue.

Notes Payable

	Maturity Dates	Interest Rates	Authorized & Issued	Outstanding June 30, 2006
Note Payable – LaSalle Bank	2016	4.65%	8,800,000	$ 7,895,346
Note Payable – Banc of America	2020	4.54%	2,000,000	1,924,893
Note Payable – Banc of America	2020	4.08%	2,750,000	2,732,967
				$ 12,553,206

On July 1, 2003, the Agency purchased an office facility on Aviation Boulevard, Santa Rosa, California and financed this purchase with a note payable with the LaSalle Bank. The Agency also signed two notes payable with Banc of America Leasing and Capital, LLC. The first note was signed on June 23, 2005 for facilities improvements through April 1, 2020. The second note was signed on February 17, 2006 for solar paneling through October 1, 2020.

Water Revenue Bonds Payable

	Maturity Date	Interest Rates	Authorized and Issued	Outstanding June 30, 2006
Water Revenue Bonds, 2003 Series A	2032	2.00 - 5.00%	$ 15,680,000	$14,910,000
Less deferred amount for unamortized discount				(26,176)
Total bonds payable, net				$14,883,824

Note J. **Long-Term Obligations** (continued)

Business-type Activities (continued)

The 2003 Series A Bonds are special obligations of the Water Agency, payable solely from Net Revenues of the Water Agency's Water Transmission System, and amounts on deposit in the related funds and accounts. Neither the full faith and credit nor the taxing power of the Water Agency is pledged to the payment of 2003 Series A Bonds or interest thereon. The 2003 Series A Bonds are not secured by a legal or equitable pledge of, or charge, or lien, or encumbrance upon, any of the property of the Water Agency or any of its income or receipts, except the Net Revenues of the Water Transmission System and amounts on deposit. These bond proceeds will be used to construct and equip certain facilities and improvements known as the Wohler/Forestville Pipeline, Kawana Springs Tank No. 2, the Eldridge to Madrone portion of the Annadel-Sonoma Pipeline, the funding of a reserve fund, and the payment of issuance costs. The facilities constructed with 2003 Series A Bond proceeds are part of the Water Supply and Transmission System Project.

Water and Wastewater Revenue Bonds Payable

	Maturity Date	Interest Rates	Authorized and Issued	Outstanding June 30, 2006
California Statewide Communities Development Authority (CSCDA) 2005C Revenue Bonds	2027	2.70 - 5.00%	$ 6,220,000	$ 6,220,000
Deferred amount for unamortized premium				131,405
Less deferred amount on refunding				(538,371)
Total bonds payable, net				$ 5,813,034

The terms covering the CSCDA 2005C Water and Wastewater Revenue Bonds provide that the revenue be irrevocably pledged and deposited with a trustee for the security and payment of interest and principal on the bonds. In addition, this pledge shall constitute a first lien on the revenues and such other money for the payment of the bonds. All funds and accounts held under this bond are required to be used for investments authorized by the CSCDA. These bond proceeds are being used to finance a portion of the cost of upgrades to the Airport-Larkfield-Wikiup Sanitation Zone's treatment plant, wastewater pipelines, storage ponds and irrigation system in connection with the Storage, Reclamation and Treatment Facilities Project.

Note J. **Long-Term Obligations** (continued)

Business-type Activities (continued)

Advances from Other Governments

The Water Agency is in the process of constructing a collector well to be located adjacent to the Russian River at Wohler Road. The State of California Department of Water Resources is loaning $15,858,989 to assist in the financing of this project. As of June 30, 2006, the Water Agency had received loan funds in the amount of $11,401,362. Repayment of this loan will commence upon completion of the project.

Governmental Activities

Long-Term Contracts Payable	Maturity Dates	Interest Rates	Authorized and Issued	Outstanding June 30, 2006
1986 Federal contract payable	2034	3.225%	$ 102,371,000	$117,268,221

The terms of the agreement with the Department of the Army Corps of Engineers stipulates that interest accrued on the contract prior to the time of the first payment be compounded annually and added to the principal. Payment made during fiscal year 2005-06 was lower than the total interest accrued on the balance of this long-term contract payable. At June 30, 2006, the principal balance increased by $1,766,429, which is the amount of accrued interest that exceeded the amount paid in 2005-06. This addition does not affect the operating funds of the Water Agency. As of June 30, 2006, total unpaid accrued interest that has been applied to principal per the terms of the agreement amounted to $20,586,317.

Annual payments on the contract commenced on November 1, 1993, and will continue until 2034. The annual payments will include principal and interest at a rate of 3.225%. The payments of principal and interest are currently funded by property tax revenues of the Water Agency. The amount of the payments began at $930,562 and will increase to $6,285,571 at the beginning of fiscal year 2006-07 until 2034.

Compensated Absences

At June 30, 2006, vested vacation and an accrual for vested sick leave for Water Agency employees amounted to $2,280,305. There were no compensated absences which are considered due or matured. The balance of this obligation is recorded as a noncurrent liability. Compensated absences are generally liquidated by the General Fund.

Note J. **Long-Term Obligations** (continued)

Changes in Long-Term Obligations

A summary of changes in long-term obligations is as follows:

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006	Amounts Due Within One Year
Governmental activities					
Long-term contracts payable	$ 116,757,898	$ 1,766,429	$(1,256,106)	$ 117,268,221	$ 2,503,704
Compensated absences	2,135,048	145,257	-	2,280,305	-
Total governmental activities	118,892,946	1,911,686	(1,256,106)	119,548,526	2,503,704
Business-type activities					
General Obligation Bonds	462,000	-	(23,000)	439,000	25,000
Long-term Notes Payable					
LaSalle Bank	8,269,727	-	(374,381)	7,895,346	391,992
Banc of America Leasing	2,000,000	-	(75,107)	1,924,893	101,033
Banc of America Leasing	-	2,750,000	(17,033)	2,732,967	141,484
Water Revenue Bonds Series 2003A	15,225,000	-	(315,000)	14,910,000	320,000
Water and Wastewater Revenue Bonds Series 2000B	6,000,000	-	(6,000,000)	-	-
Water and Wastewater Revenue Bonds Series 2005C	-	6,220,000	-	6,220,000	190,000
Advance from Other Governments	11,401,362	-	-	11,401,362	-
Total business-type activities	43,358,089	8,970,000	(6,804,521)	45,523,568	1,169,509
Total	$ 162,251,035	$10,881,686	$(8,060,627)	$ 165,072,094	$ 3,673,213

Note J. **Long-Term Obligations** (continued)

Annual Requirements

The annual principal and interest requirements on the long-term debt outstanding at June 30, 2006 (excluding compensated absences), are as follows at June 30 of each year listed:

General Obligation Bonds

Year ending June 30,	Principal	Interest	Total
2007	$ 25,000	$ 21,700	$ 46,700
2008	25,000	20,450	45,450
2009	27,000	19,175	46,175
2010	28,000	17,825	45,825
2011	30,000	16,400	46,400
2012 - 2016	170,000	58,150	228,150
2017 - 2020	134,000	14,600	148,600
	$ 439,000	$ 168,300	$ 607,300

Notes Payable

Year ending June 30,	Principal	Interest	Total
2007	$ 634,509	$ 558,962	$ 1,193,471
2008	663,419	530,052	1,193,471
2009	693,650	499,821	1,193,471
2010	725,262	468,209	1,193,471
2011	758,318	435,154	1,193,472
2012 - 2016	7,375,279	1,624,554	8,999,833
2017 - 2020	1,702,769	178,410	1,881,179
	$ 12,553,206	$ 4,295,162	$ 16,848,368

Water Revenue Bonds

Year ending June 30,	Principal	Interest	Total
2007	$ 320,000	$ 662,099	$ 982,099
2008	325,000	654,676	979,676
2009	335,000	645,589	980,589
2010	345,000	635,216	980,216
2011	355,000	623,656	978,656
2012 - 2016	2,000,000	2,892,950	4,892,950
2017 - 2021	2,455,000	2,424,578	4,879,578
2022 - 2026	3,070,000	1,785,875	4,855,875
2027 - 2031	3,870,000	957,113	4,827,113
2032 – 2033	1,835,000	92,875	1,927,875
	$ 14,910,000	$ 11,374,627	$ 26,284,627

Note J. **Long-Term Obligations** (continued)

Water & Wastewater Revenue Bonds

Year ending June 30,	Principal	Interest	Total
2007	$ 190,000	$ 255,046	$ 445,046
2008	210,000	249,689	459,689
2009	215,000	243,791	458,791
2010	220,000	237,481	457,481
2011	230,000	230,501	460,501
2012 - 2016	1,270,000	1,028,350	2,298,350
2017 - 2021	1,525,000	759,449	2,284,449
2022 - 2026	1,915,000	346,219	2,261,219
2027	445,000	9,735	454,735
	$ 6,220,000	$ 3,360,261	$ 9,580,261

Long-Term Contracts Payable - 1986 Federal Contract

Year ending June 30,	Principal	Interest	Total
2007	$ 2,503,704	$ 3,781,868	$ 6,285,572
2008	2,584,448	3,701,123	6,285,571
2009	2,667,797	3,617,775	6,285,572
2010	2,753,833	3,531,739	6,285,572
2011	2,842,644	3,442,927	6,285,571
2012 - 2016	15,648,929	15,778,929	31,427,858
2017 - 2021	18,340,411	13,087,446	31,427,857
2022 - 2026	21,494,806	9,933,052	31,427,858
2027 - 2031	25,191,729	6,236,128	31,427,857
2032 – 2036	23,239,920	1,903,365	25,143,285
Total debt	$117,268,221	$ 65,014,352	$182,282,573

Note K. **Debt Defeasance**

On September 7, 2005, the Water Agency and the California Statewide Communities Development Authority issued Water and Wastewater Revenue Bonds (series 2005C) totaling $6,220,000. The proceeds of the bonds were used to refund in advance of their maturity dates, the Water Agency's Series 2000B Revenue Bonds totaling $6,000,000, with maturity dates through October 1, 2026. This refunding was done to achieve interest cost savings. The net proceeds from the issuance of the revenue bonds were used to purchase U.S. government securities and those securities were deposited in irrevocable trust accounts with an escrow agent and are structured to pay the principal and interest on the refunded bonds as such payments become due. The advance refunding has met the requirements of an in-substance debt defeasance and the defeased bonds have been removed from the Water Agency's financial statements.

Note K. **Debt Defeasance** (continued)

The advance refunding resulted in a difference between the reacquisition price and the net carrying of amount of the old debt of $564,008; this deferred charge is deducted from revenue bonds payable and is charged to operations using a method which approximates the effective interest method over the shorter of the remaining life of the old debt or the life of the new debt. The resulting economic gain (difference between the present value of the debt service payments on the old and new debt) is $179,813.

Note L. **Deferred Revenue**

Revenue under a supplemental water supply agreement with Marin Municipal Water District is deferred and recognized over the term of the agreement on a straight-line basis (nine years plus an additional forty years at the option of Marin Municipal Water District). At June 30, 2006, deferred revenue totaled $6,068,042, of which the amount recognizable within one year is included under "Current liabilities" in the accompanying Statement of Net Assets. The annual amount that will be recognized as revenue over the term of the agreement is $129,107.

Note M. **Related Party Transactions**

A summary of transfers to/from related governments is as follows:

Receipt from	Payment to	Amount	Purpose
General Fund	Occidental Sanitation District	$ (250,000)	Advance to District in fiscal year 1999-2000. Reclassified to transfers in fiscal year 2006
General Fund	Occidental Sanitation District	(228,000)	Provide funding to allow District to meet operating expenses
Occidental Sanitation District	General Fund	3,554	Transfer to pay for prior year unbudgeted expenses
		$ (474,446)	

Note N. Commitments and Contingencies

Construction

The Water Agency has active construction projects as of June 30, 2006. The projects include expansion and/or improvements of several water storage and wastewater treatment facilities. At June 30, 2006, the Water Agency's commitments to construction projects are as follows:

Project	Spent-to-date	Remaining Commitment
Sanitation facilities	1,638,777	$ 4,196,960
Water storage facilities	4,526,705	2,262,620
Common facilities	$ 40,008,883	1,963,820
Pipeline facilities	3,417,480	114,256
Internal service facilities	3,322,449	15,753
Water supply facilities	192,623	-
Total	$ 53,106,917	$ 8,553,409

The balances spent-to-date include both internal expenses and expenses paid to outside contractors. The remaining commitment balances relate to commitments with outside contractors only.

The commitments for water storage and related facilities are being financed by revenue bonds and a construction loan provided by State of California Department of Water Resources secured by water and wastewater revenues. These projects are also being funded by existing resources from the business-type activities.

Risk Management

The Water Agency is covered by the County of Sonoma's self-insurance program, which is accounted for in the County's Risk Management Internal Service Fund. The Water Agency is covered under this program for general liability, auto liability, public employees performance/dishonesty and property insurance.

The County maintains a self-insured retention of $1,000,000 per occurrence for general and automobile liability. Excess liability coverage is maintained through participation in the California State Association of Counties, Excess Insurance Authority ("CSAC-EIA"). Limits of this coverage are $15,000,000.

The County also maintains public employee faithful performance/employee dishonesty coverage through a joint-purchase program provided by National Union Fire Insurance Company and administered by CSAC-EIA with limits of $5,000,000 and a $25,000 deductible.

Note N. Commitments and Contingencies (continued)

Risk Management (continued)

The County maintains "All Risk" property insurance including flood and earthquake through participation in the CSAC-EIA Property Insurance Program. Limits of coverage are $200,000,000 per occurrence including flood and $50,000,000 per occurrence for earthquake. Deductibles for most perils are $50,000 per occurrence, with flood at $200,000 per county per occurrence and earthquake at 5% of total insured values per unit, per occurrence, subject to a $500,000 minimum per occurrence. For losses within the deductible, the County maintains a deductible self-insured pool for losses in excess of $5,000.

During the fiscal year 2005-06, the Water Agency paid annual premiums to the County for this insurance coverage in the amount of $86,301. Settlements have not exceeded coverages for each of the past four fiscal years.

Economic Dependence

Four major customers purchased water from the Water Agency during the year ended June 30, 2006. The water sales to, and accounts receivable from, those customers are as follows:

Sales		% of total water sales
Santa Rosa	$ 9,692,469	34.0%
North Marin County	4,718,701	16.6%
Petaluma	4,331,539	15.2%
Marin Municipal	4,051,532	14.2%
	$ 22,794,241	80.0%

Accounts Receivable at June 30, 2006		% of total water accounts receivable
Santa Rosa	$ 2,150,142	45.8%
Marin Municipal	776,794	16.5%
North Marin County	565,138	12.0%
Petaluma	482,877	10.3%
	$ 3,974,951	72.6%

Note N. Commitments and Contingencies (continued)

Pending Litigations and Claims

The Water Agency is directly and indirectly involved in various claims, legal actions and complaints relating principally to violations of the Clean Water Act, environmental protection laws, property damage and disputes over water rights. The ultimate amount of liability is contingent upon the final settlement of these claims. The Water Agency is unable to determine the extent of such liabilities at this time and whether any may be covered by insurance.

Contingencies

The Water Agency is liable for clean-up costs related to lead-contaminated fill involving a certain parcel, purchased by the Water Agency as part of a litigation settlement in 2000, and the possible clean-up of the adjacent properties for some lengthy distance. At this time, the Water Agency is unsure as to when the clean-up will take place. The Water Agency estimates the clean-up costs to range from $500,000 to $1,250,000.

The contractors of the Wohler-Forestville Pipeline, the Pumphouse and Connecting Pipeline for Wohler Collector 6, and one of the Agency's water storage tanks may attempt to litigate claims for extensions of time and extra work costs which were rejected by the Agency. The ultimate amount of liability is contingent upon the final settlement of these claims. At this time, the Water Agency estimates the extent of such liabilities to range from $500,000 to $2,500,000.

In May, 2005, a state prevailing wage final assessment by the State of California Department of Industrial Relation (DIR) was ruled against Underground Construction Management, Inc. (UCM), who was contracted by the Water Agency to complete a water supply project in 2005 for $205,019. While the investigation was ongoing in 2005, the Water Agency amended its contract with UCM and agreed to pay up to $100,000 of any final State assessment imposed by DIR before January 1, 2006. Settlement discussions are underway between UCM and the DIR. At this time, it is unknown as to whether UCM will pursue a claim against the Agency and it is too early to predict the outcome.

The minimum cost of liabilities related to these claims is estimated by management at $1,200,000 of which, $500,000 was accrued in the Flood Zone special revenue fund, and $700,000 was accrued in the Water Transmission enterprise fund.

Other Regulatory Matters

In June 2004, the Federal Energy Regulatory Commission ("FERC") issued and order that could result in a very minor reduction in the Water Agency's water supplies and water-sale revenues in extremely dry years. The order involved operation of PG&E's Potter Valley hydroelectric project, which diverts water from the Eel River watershed into the Russian River watershed for purposes of electric power generation. The FERC order was appealed to the Ninth Circuit Court of Appeals, which upheld the FERC order.

Note N. **Commitments and Contingencies** (continued)

Other Regulatory Matters (continued)

In June 2005, the North Coast Regional Water Quality Control Board ("NCRWQCB") issued an Administrative Civil Liability to the Water Agency with a mandatory penalty for violations of effluent limitations that occurred during periods of discharge to receiving waters from January 2000 through August 2004. The mandatory penalty has been waived as the Water Agency has agreed to follow a five-year compliance project required by the NCRWQCB.

The Sonoma County Water Agency ("SCWA") is subject to Section VII of the Endangered Species Act. Section VII requires that all affected agencies, including the SCWA, consult with fish and wildlife officials before performing any work which might disrupt or harm any endangered or threatened species or their habitat. This Act increases the possibility of threatened litigation from various environmental groups and individuals. The SCWA is also subject to Section X of the Endangered Species Act which deals with habitat conservation planning.

The Endangered Species Act also affects the manner and the extent to which the SCWA can maintain flood control channels. SCWA staff and its contractors cannot disrupt environmentally sensitive areas to perform flood control work to the levels that were appropriate in previous years. This development increases the SCWA's degree of exposure to individual property owners and possible litigation in the event of wet weather and possibility of flooding.

Note O. **Future Governmental Accounting Standards**

The Governmental Accounting Standard Board ("GASB") has released the following new standards:

Statement No. 43, *Financial Reporting for Postemployment Benefit (OPEB) Plans Other than Pension Plans* issued in April 2004. This Statement establishes uniform financial reporting standards for OPEB plans focusing on reporting current financial information about plan net assets held in trust for OPEB and financial activities related to the administration of the trust. GASB No. 43 is effective for financial statements for years beginning after December 15, 2006.

Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefit Other than Pension* issued in June 2004. This Statement establishes standards for the measurement, recognition, and display of Postemployment Benefits expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. GASB No. 45 is effective for financial statements for years beginning after December 15, 2007.

The impact on the basic financial statements of the Water Agency of these pronouncements which have been issued, but not yet adopted, is unknown at this time.

Note P. Subsequent Event

In July 2006, the Water Agency issued Water Revenue Bonds (2006 Series A) for the purpose of acquiring and constructing certain facilities for, and improvements to, the transmission system, and finance certain related costs. Total amount and terms are as follows:

	Maturity Date	Interest Rates	Authorized and Issued
2006 Series A Revenue Bonds	2036	4.00% - 5.00%	$11,500,000

Annual debt service requirements to maturity for the 2006 Series A Revenue Bonds are as follows:

Year ending June 30,	Principal	Interest	Total
2007	$ -	$ 261,013	$ 261,013
2008	195,000	521,803	716,803
2009	205,000	517,479	722,479
2010	215,000	509,079	724,079
2011	220,000	500,379	720,379
2012 - 2016	1,250,000	2,358,894	3,608,894
2017 - 2021	1,520,000	2,080,266	3,600,266
2022 - 2026	1,870,000	1,714,880	3,584,880
2027 - 2031	2,345,000	1,223,578	3,568,578
2032 – 2038	2,990,000	561,000	3,551,000
2039	690,000	17,250	707,250
	$ 11,500,000	$ 10,265,621	$ 21,765,621

Required Supplementary Information

Budgetary Comparison

Sonoma County Water Agency
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund - Budgetary Basis

Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue				
Property taxes	$ 3,869,036	$ 3,869,036	$ 4,633,977	$ 764,941
Fines, forfeitures and penalties	1,200	1,200	-	(1,200)
Investment earnings	90,600	90,600	211,087	120,487
Intergovernmental	86,000	171,760	121,732	(50,028)
Charges for services	608,000	608,000	677,290	69,290
Miscellaneous	4,000	4,000	199,154	195,154
Total revenue	4,658,836	4,744,596	5,843,240	1,098,644
Expenditures				
Current				
Salaries and employee benefits	23,049,045	23,049,045	21,852,137	1,196,908
Services and supplies	10,004,965	11,023,603	9,794,937	1,228,666
Costs applied	(27,661,683)	(27,661,683)	(26,747,086)	(914,597)
Capital outlay	186,435	186,435	63,933	122,502
Interest and fiscal charges	-	15,630	15,626	4
Contingencies	500,000	4,000	-	4,000
Total expenditures	6,078,762	6,617,030	4,979,547	1,637,483
Excess of revenue over expenditures	(1,419,926)	(1,872,434)	863,693	2,736,127
Other financing uses				
Transfers out	(600,000)	(1,519,769)	(1,557,623)	(37,854)
Total other financing uses	(600,000)	(1,519,769)	(1,557,623)	(37,854)
Net changes in fund balances	$ (2,019,926)	$ (3,392,203)	(693,930)	$ 2,698,273
Fund balances at beginning of year			3,691,151	
Adjustment from budgetary basis to GAAP				
Timing difference: Encumbrances			865,490	
Fund balances at end of year			$ 3,862,711	

Sonoma County Water Agency
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Special Revenue Fund - Flood Control Zones - Budgetary Basis

Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue				
Property taxes	$ 2,988,057	$ 2,988,057	$ 5,364,001	$ 2,375,944
Investment earnings	204,750	204,750	823,544	618,794
Intergovernmental	81,600	81,600	81,954	354
Miscellaneous	-	-	46,928	46,928
Total revenue	3,274,407	3,274,407	6,316,427	3,042,020
Expenditures				
Current				
Services and supplies	19,519,441	22,352,542	8,349,855	14,002,687
Capital outlay	-	-	6,705,968	(6,705,968)
Total expenditures	19,519,441	22,352,542	15,055,823	7,296,719
Net changes in fund balances	$(16,245,034)	$(19,078,135)	(8,739,396)	$ 10,338,739
Fund balances at beginning of year			21,869,575	
Adjustment from budgetary basis to GAAP				
Timing difference: Encumbrances			8,041,737	
Fund balances at end of year			$ 21,171,916	

Sonoma County Water Agency
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Special Revenue Fund - Warm Springs Dam - Budgetary Basis

Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue				
Property taxes	$ 3,245,000	$ 3,245,000	$ 4,338,108	$ 1,093,108
Investment earnings	100,000	100,000	373,856	273,856
Intergovernmental	44,000	44,000	45,402	1,402
Miscellaneous	-	-	469	469
Total revenue	3,389,000	3,389,000	4,757,835	1,368,835
Expenditures				
Current				
Services and supplies	310,000	1,578,160	1,448,635	129,525
Debt service				
Interest and fiscal charges	474,805	474,805	2,241,233	(1,766,428)
Total expenditures	784,805	2,052,965	3,689,868	(1,636,903)
Excess (deficiency) of revenue over expenditures	2,604,195	1,336,035	1,067,967	(268,068)
Other financing uses				
Long term contract proceeds	-	-	1,766,429	1,766,429
Transfers in (out)	(4,255,166)	(4,255,166)	(4,255,166)	-
Total other financing uses	(4,255,166)	(4,255,166)	(2,488,737)	1,766,429
Net changes in fund balances	$ (1,650,971)	$ (2,919,131)	(1,420,770)	$ 1,498,361
Fund balances at beginning of year			9,508,836	
Adjustment from budgetary basis to GAAP				
Timing difference: Encumbrances			969,328	
Fund balances at end of year			$ 9,057,394	

Budgetary data, as revised, is presented as required supplementary information for the General and Special Revenue Funds, since the operations of these funds are budgeted annually. Budgets are adopted on a non-GAAP basis. For the purpose of a budgetary presentation, actual GAAP expenditures have been adjusted to include current year encumbrances, to exclude expenditures against prior year encumbrances and to exclude other financing sources and off-setting expenditures related to capital lease additions. In addition, the budgetary presentation reflects the effect of reimbursements which are negative expenditures used to transfer costs between departments within the governmental funds. For GAAP purposes, reimbursements are recorded as expenditures/expenses in the reimbursing fund and as reductions of the expenditures/expenses in the fund that is reimbursed. Reimbursements primarily consist of charges initially incurred by departments responsible for communications, vehicles and data processing and eventually applied to other funds.

The results of "actual" operations on a budgetary basis are reconciled to the results of operations on a GAAP basis as follows:

		Special Revenue Funds		
	General Fund	Flood Control	Warm Springs Dam	Total
Excess of revenue and other sources under expenditures and other uses - budgetary basis	$ (693,930)	$ (8,739,396)	$(1,420,770)	$ (10,854,096)
Expenditure charges against prior year encumbrances	(764,097)	(1,559,167)	-	(2,323,264)
Current year encumbrances	1,629,587	9,600,904	969,328	12,199,819
Excess of revenue and other sources over (under) expenditures and other uses-GAAP basis	$ 171,560	$ (697,659)	$ (451,442)	$ (977,541)

Supplementary Information

Combining Balance Sheet - Special Revenue Funds - Flood Control

June 30, 2006

	Flood Control Fund						
	Zone 1A Laguna Mark West	Zone 2A Petaluma Basin	Zone 3A Valley of the Moon	Zone 5A Lower Russian River	Zone 7A North Coast	Zone 8A South Coast	Total Flood Control Fund
Assets							
Cash and investments	$ 12,537,466	$ 6,859,490	$ 602,715	$ 1,012,204	$ 69,113	$ 1,077,377	$ 22,158,365
Accounts receivable	38,318	-	150,420	-	-	-	188,738
Total assets	$ 12,575,784	$ 6,859,490	$ 753,135	$ 1,012,204	$ 69,113	$ 1,077,377	$ 22,347,103
Liabilities and fund balances							
Liabilities							
Accounts payable	$ 760,912	$ 54,804	$ 357,302	$ 2,169	$ -	$ -	$ 1,175,187
Total liabilities	760,912	54,804	357,302	2,169	-	-	1,175,187
Fund balances							
Reserved for encumbrances	7,569,018	1,964,677	67,209	-	-	-	9,600,904
Unreserved							
Designated for contingencies	500,000	-	-	-	-	-	500,000
Undesignated	3,745,854	4,840,009	328,624	1,010,035	69,113	1,077,377	11,071,012
Total fund balances	11,814,872	6,804,686	395,833	1,010,035	69,113	1,077,377	21,171,916
Total liabilities and fund balances	$ 12,575,784	$ 6,859,490	$ 753,135	$ 1,012,204	$ 69,113	$ 1,077,377	$ 22,347,103

Sonoma County Water Agency
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Special Revenue Funds - Flood Control

Year Ended June 30, 2006

	Flood Control Fund						
	Zone 1A Laguna Mark West	Zone 2A Petaluma Basin	Zone 3A Valley of the Moon	Zone 5A Lower Russian River	Zone 7A North Coast	Zone 8A South Coast	Total Flood Control Fund
Revenue							
Property taxes	$ 4,232,252	$ 572,702	$ 521,857	$ 19,110	$ -	$ 18,080	$ 5,364,001
Investment earnings	455,828	240,465	45,873	41,502	2,423	37,453	823,544
Intergovernmental	55,475	15,440	8,137	1,624	-	1,278	81,954
Miscellaneous	38,321	8,606	-	1	-	-	46,928
Total revenue	4,781,876	837,213	575,867	62,237	2,423	56,811	6,316,427
Expenditures							
Current							
Services and supplies	3,403,401	551,596	1,021,991	229,928	329	6,403	5,213,648
Capital outlay	1,244,619	28,695	527,124	-	-	-	1,800,438
Total expenditures	4,648,020	580,291	1,549,115	229,928	329	6,403	7,014,086
Net changes in fund balances	133,856	256,922	(973,248)	(167,691)	2,094	50,408	(697,659)
Fund balances at beginning of year	11,681,016	6,547,764	1,369,081	1,177,726	67,019	1,026,969	21,869,575
Fund balances at end of year	$ 11,814,872	$ 6,804,686	$ 395,833	$ 1,010,035	$ 69,113	$ 1,077,377	$ 21,171,916

Sonoma County Water Agency
Combining Statement of Net Assets-
Enterprise Funds - Sanitation Zones

June 30, 2006

	Sea Ranch	Penngrove	Geyserville	Airport Larkfield Wikiup	Total Sanitation Fund
Assets					
Current assets					
Cash and investments	$ 1,186,439	$ 1,268,814	$ 778,968	$ 2,191,471	$ 5,425,692
Receivables	21,600	5,437	5,276	25,967	58,280
Total current assets	1,208,039	1,274,251	784,244	2,217,438	5,483,972
Noncurrent assets					
Restricted assets					
Cash - revenue bond funds	-	18,162	61,332	13,319	92,813
Cash and investment with trustee	-	-	-	1,288	1,288
Cash - notes payable	-	-	-	141,484	141,484
Cash - capital projects	-	-	-	2,787,354	2,787,354
Total restricted assets	-	18,162	61,332	2,943,445	3,022,939
Prepaid expenses	-	-	-	47,788	47,788
Deferred charges	-	-	-	138,469	138,469
Capital assets (net of accumulated depreciation):					
Land	-	-	106,213	1,508,745	1,614,958
Buildings and improvements	538,298	780,117	1,041,807	22,275,443	24,635,665
Construction in progress	560,743	121,527	-	711,035	1,393,305
Equipment	3,620	-	-	23,911	27,531
Total capital assets	1,102,661	901,644	1,148,020	24,519,134	27,671,459
Total noncurrent assets	1,102,661	919,806	1,209,352	27,648,836	30,880,655
Total assets	2,310,700	2,194,057	1,993,596	29,866,274	36,364,627

June 30, 2006

	Sea Ranch	Penngrove	Geyserville	Airport Larkfield Wikiup	Total Sanitation Fund
Liabilities					
Current liabilities payable from unrestricted assets					
Accounts payable and accrued expenses	$ 22,435	$ 398,246	$ 1,971	$ 200,907	$ 623,559
Total current liabilities payable from unrestricted assets	22,435	398,246	1,971	200,907	623,559
Current liabilities payable from restricted assets					
Interest payable	-	2,567	-	92,255	94,822
General obligation bonds payable	-	10,000	15,000	-	25,000
Notes payable	-	-	-	141,484	141,484
Revenue bonds payable	-	-	-	190,000	190,000
Total current liabilities payable from restricted assets	-	12,567	15,000	423,739	451,306
Total current liabilities	22,435	410,813	16,971	624,646	1,074,865
Noncurrent liabilities					
General obligation bonds payable	-	144,000	270,000	-	414,000
Notes payable	-	-	-	2,591,484	2,591,484
Revenue bonds payable	-	-	-	5,623,034	5,623,034
Total noncurrent liabilities	-	144,000	270,000	8,214,518	8,628,518
Total liabilities	22,435	554,813	286,971	8,839,164	9,703,383
Net assets					
Invested in capital assets, net of related debt	1,102,661	747,644	863,020	15,973,132	18,686,457
Restricted for debt service	-	15,595	61,332	63,836	140,763
Restricted for capital projects	-	-	-	2,787,354	2,787,354
Unrestricted (deficit)	1,185,604	876,005	782,273	2,202,788	5,046,670
Total net assets	$ 2,288,265	$ 1,639,244	$ 1,706,625	$ 21,027,110	$ 26,661,244

Sonoma County Water Agency
Combining Statement of Revenues, Expenses and Changes in Net Assets - Enterprise Funds - Sanitation Zones

Year Ended June 30, 2006

	Sea Ranch	Penngrove	Geyserville	Airport Larkfield Wikiup	Total Sanitation Fund
Operating revenue					
Flat charges	$ 367,065	$ 344,116	$ 204,591	$ 1,329,077	$ 2,244,849
Sanitation services	4,500	6,461	2,216	176,336	189,513
Miscellaneous	-	-	-	10,273	10,273
Total operating revenue	371,565	350,577	206,807	1,515,686	2,444,635
Operating expenses					
Services and supplies	339,735	328,566	223,781	1,617,209	2,509,291
Depreciation and amortization	46,998	36,763	76,982	830,287	991,030
Total operating expenses	386,733	365,329	300,763	2,447,496	3,500,321
Operating loss	(15,168)	(14,752)	(93,956)	(931,810)	(1,055,686)
Nonoperating revenue (expenses)					
Taxes and assessments	-	14,965	25,793	-	40,758
Investment earnings	43,935	40,408	29,485	110,137	223,965
Interest expense	33,573	(2,132)	(12,032)	(340,459)	(321,050)
Intergovernmental revenue - capital	-	154	259	-	413
Total nonoperating revenue (expenses)	77,508	53,395	43,505	(230,322)	(55,914)
Net income (loss) before contribution	62,340	38,643	(50,451)	(1,162,132)	(1,111,600)
Transfers in	-	-	-	513,000	513,000
Capital contributions - others	18,948	-	-	-	18,948
Capital contributions - connection fees	-	13,858	4,637	526,309	544,804
Change in net assets	81,288	52,501	(45,814)	(122,823)	(34,848)
Net assets at beginning of year	2,206,977	1,586,743	1,752,439	21,149,933	26,696,092
Net assets at end of year	$ 2,288,265	$ 1,639,244	$ 1,706,625	$ 21,027,110	$ 26,661,244

Sonoma County Water Agency
Combining Statement of Cash Flows -
Enterprise Funds - Sanitation Zones

Year Ended June 30, 2006

	Sea Ranch	Penngrove	Geyserville	Airport Larkfield Wikiup	Total Sanitation Fund
Cash flows from operating activities					
Receipts from customers	$ 376,089	$ 354,880	$ 207,295	$ 1,542,093	$ 2,480,357
Payments for interfund services used	(143,831)	(62,641)	(27,830)	(1,322,515)	(1,556,817)
Payments to suppliers	(188,195)	(240,417)	(196,413)	(314,171)	(939,196)
Net cash provided by (used in) operating activities	44,063	51,822	(16,948)	(94,593)	(15,656)
Cash flows from noncapital financing activities					
Taxes and assessments	-	14,965	25,793	-	40,758
Operating transfer	-	-	-	513,000	513,000
Intergovernmental revenue	-	154	259	-	413
Net cash provided by noncapital financing activities	-	15,119	26,052	513,000	554,171
Cash flows from capital and related financing activities					
Purchase of capital assets	(197,834)	(6,261)	(43,549)	(429,670)	(677,314)
Principal paid on capital debt	-	(9,000)	(14,000)	(177,033)	(200,033)
Interest paid on capital debt	-	(7,925)	(14,384)	(318,493)	(340,802)
Connection fees	-	13,858	4,637	1,960,752	1,979,247
Proceeds from long-term debt	-	-	-	2,750,000	2,750,000
Net cash provided by (used in) capital and related financing activities	(197,834)	(9,328)	(67,296)	3,785,556	3,511,098
Cash flows from investing activities					
Interest income	43,935	40,408	29,485	103,880	217,708
Net increase (decrease) in cash and cash equivalents	(109,836)	98,021	(28,707)	4,307,843	4,267,321
Balances at beginning of year	1,296,275	1,188,955	869,007	827,073	4,181,310
Balances at end of year	$ 1,186,439	$ 1,286,976	$ 840,300	$ 5,134,916	$ 8,448,631

Year Ended June 30, 2006

	Sea Ranch	Penngrove	Geyserville	Airport Larkfield Wikiup	Total Sanitation Fund
Cash and cash equivalent includes the following at June 30, 2006:					
Cash and investments	$ 1,186,439	$ 1,268,814	$ 778,968	$ 2,191,471	$ 5,425,692
Restricted cash and investments	-	18,162	61,332	2,943,445	3,022,939
	$ 1,186,439	$ 1,286,976	$ 840,300	$ 5,134,916	$ 8,448,631
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Operating income (loss)	$ (15,168)	$ (14,752)	$ (93,956)	$ (931,810)	$ (1,055,686)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities					
Depreciation and amortization expense	46,998	36,763	76,982	830,287	991,030
Change in assets and liabilities					
Receivables, net	4,524	4,303	488	26,407	35,722
Prepaid expenses	-	-	-	(47,788)	(47,788)
Accounts payable and other payables	7,709	25,508	(462)	28,311	61,066
Net cash provided by (used in) operating activities	$ 44,063	$ 51,822	$ (16,948)	$ (94,593)	$ (15,656)

Year Ended June 30, 2006

	Sea Ranch	Penngrove	Geyserville	Airport Larkfield Wikiup	Total Sanitation Fund
Noncash investing, capital and financing activities:					
Increase (decrease) in project costs included in accounts payable	$ (67,902)	$ (559)	$ (43,549)	$ 134,598	$ 22,588
Net decrease in fair value of investment in County Treasurer's pooled cash	$ 2,792	$ 3,029	$ 1,978	$ 12,081	$ 19,880
Refunding of Series 2000B Revenue Bonds through the issuance of Series 2005C Revenue Bonds	$ -	$ -	$ 5,240,035	$ -	$ 5,240,035

Compliance

PISENTI & BRINKER LLP
Certified Public Accountants and Advisors
An Independently Owned Member of the RSM McGladrey Network

Independent Auditors' Report on Internal Control and Compliance and on Other Matters Over Financial Reporting Based on Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
Sonoma County Water Agency
Santa Rosa, California

We have audited the basic financial statements of the **Sonoma County Water Agency** as of and for the year ended June 30, 2006, and have issued our report thereon dated September 7, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered **Sonoma County Water Agency's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether the **Sonoma County Water Agency's** basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the management, Board of Supervisors, County of Sonoma, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Pisenti & Brinker LLP

Santa Rosa, California
September 7, 2006

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Section I. Summary of Auditors' Results

Basic Financial Statements

Type of auditors' report issued:	*unqualified*			
Internal control over financial reporting: Material weaknesses identified	_____	yes	_X_	no
Reportable conditions identified not considered to be material weaknesses	_____	yes	_X_	no
Noncompliance material to financial statements noted	_____	yes	_X_	no

Section II. Financial Statement Findings

No matters were noted.