

SONOMA COUNTY WATER AGENCY
(A Component Unit of the County of Sonoma)

Independent Auditors' Report, Management's
Discussion and Analysis, Basic Financial
Statements, Required Supplementary Information,
and Other Supplementary Information

For the Fiscal Year Ended June 30, 2012

**SONOMA COUNTY WATER AGENCY
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

TABLE OF CONTENTS

	<u>Page(s)</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis (Required Supplementary Information)	3-14
Basic Financial Statements:	
Government-wide Financial Statements	
Statement of Net Assets	15-16
Statement of Activities	17
Fund Financial Statements	
Balance Sheet – Governmental Funds	18
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	20
Statement of Net Assets – Proprietary Funds	21-22
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds	23
Statement of Cash Flows – Proprietary Funds.....	24
Statement of Fiduciary Assets and Liabilities – Agency Fund.....	25
Notes to the Basic Financial Statements.....	26-63
Required Supplementary Information (Budgetary Comparison Information):	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budgetary Basis – General Fund.....	64
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budgetary Basis – Flood Control Special Revenue Fund	65
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budgetary Basis – Warm Springs Dam Special Revenue Fund.....	66
Note to Budgetary Comparison Information	67

**SONOMA COUNTY WATER AGENCY
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

TABLE OF CONTENTS (continued)

	<u>Page(s)</u>
Other Supplementary Information:	
Combining Balance Sheet – Flood Control Special Revenue Funds	68-69
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Flood Control Special Revenue Funds.....	70-71
Combining Statement of Net Assets – Sanitation Enterprise Funds	72
Combining Statement of Revenues, Expenses and Changes in Net Assets – Sanitation Enterprise Funds.....	73
Combining Statement of Cash Flows – Sanitation Enterprise Funds.....	74
Combining Statement of Net Assets – Internal Service Funds.....	75
Combining Statement of Revenues, Expenses and Changes in Net Assets – Internal Service Funds.....	76
Combining Statement of Cash Flows – Internal Service Funds.....	77
Compliance:	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	78-79

Independent Auditors' Report

Board of Directors
Sonoma County Water Agency
Santa Rosa, California

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, and each major fund of the Sonoma County Water Agency (the "Water Agency"), a component unit of the County of Sonoma, California, as of and for the year ended June 30, 2012, which collectively comprise the Water Agency's basic financial statements as listed in the table of contents. These basic 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Water Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Sonoma County Water Agency as of June 30, 2012, and the respective changes in financial position, and, where applicable, cash flows 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 October 19, 2012, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants and agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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Independent Auditors' Report (continued)
Sonoma County Water Agency

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Water Agency's basic financial statements. The combining fund information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The combining fund information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining fund information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Prindle & Baker LLP

Petaluma, California
October 19, 2012

Management's Discussion and Analysis

**SONOMA COUNTY WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)**

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, 2012. We encourage readers to consider the information presented here in conjunction with the Water Agency's financial statements and the accompanying notes to the financial statements.

Financial Highlights

- The assets of the Water Agency exceeded its liabilities at the close of the most recent fiscal year by \$366,917,950 (net assets). Of this amount \$42,933,605 (unrestricted net assets) may be used to meet the Water Agency's ongoing obligations to citizens and creditors.
- The Water Agency's total net assets increased by \$9,998,083 during the current fiscal year. This increase in net assets is comprised of an increase in the business-type activities of \$6,122,123 and a governmental activities increase of \$3,875,960.
- As of the close of the current fiscal year, the Water Agency's governmental funds reported combined ending fund balances of \$129,180,450, an increase of \$1,446,570 from the preceding year. Approximately 3% of this total amount, \$3,928,987 is available for spending at the Water Agency's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the General Fund, was \$3,928,987 or approximately 9% of total general fund gross expenditures, which amounted to \$42,059,538 for the fiscal year ended June 30, 2012.

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 basic 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 Water Agency'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).

**SONOMA COUNTY WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)**

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 interest on long-term debt. The business-type activities of the Water Agency include water transmission, water supply and sanitation services.

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 funds balance sheet and the governmental funds 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 funds balance sheet and in the governmental funds 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 the general fund and special revenue funds, as required by generally accepted accounting principles, to demonstrate compliance with this budget.

**SONOMA COUNTY WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)**

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 Water 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, facilities rental, and power activities. Because 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 funds is also provided in the proprietary fund financial statements.

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 statements 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.

Notes to the basic 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.

Required supplementary information

Schedules presenting budgetary comparison information for the Water Agency's general fund and special revenue funds are supplementary information required by generally accepted accounting principles and immediately follows the notes to the basic financial statements.

Other supplementary information

Combining statements in connection with governmental funds and proprietary funds are presented immediately following the required supplementary information.

**SONOMA COUNTY WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)**

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 \$366,917,950 as of June 30, 2012.

**Sonoma County Water Agency's
Condensed Statement of Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2011	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011	June 30, 2012
Current and other assets	\$ 129,551,369	\$ 130,786,124	\$ 53,051,756	\$ 56,331,571	\$ 182,603,125	\$ 187,117,695
Capital assets	148,013,084	147,310,260	209,474,223	209,474,040	357,487,307	356,784,300
Total assets	277,564,453	278,096,384	262,525,979	265,805,611	540,090,432	543,901,995
Current liabilities	7,114,485	7,009,224	8,464,533	8,894,912	15,579,018	15,904,136
Noncurrent liabilities	104,224,874	100,986,106	63,366,673	60,093,803	167,591,547	161,079,909
Total liabilities	111,339,359	107,995,330	71,831,206	68,988,715	183,170,565	176,984,045
Net Assets:						
Invested in capital assets, net of related debt	44,097,288	46,328,783	148,479,032	151,501,197	192,576,320	197,829,980
Restricted	116,791,458	117,533,507	7,671,398	8,620,858	124,462,856	126,154,365
Unrestricted	5,336,348	6,238,764	34,544,343	36,694,841	39,880,691	42,933,605
Total net assets	\$ 166,225,094	\$ 170,101,054	\$ 190,694,773	\$ 196,816,896	\$ 356,919,867	\$ 366,917,950

The largest portion of the Water Agency's net assets (54%) reflects its investment in capital assets (e.g., land, construction in progress, infrastructure, buildings, and machinery and equipment); less any related debt used to acquire those assets that are 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.

A portion of the Water Agency's net assets, \$126,154,365 (34%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$42,933,605, may be used to meet the Water Agency's ongoing obligations to citizens and creditors.

As of June 30, 2012, the Water Agency reports positive balances in all categories of net assets for its separate governmental and business-type activities.

The Water Agency's net assets increased by \$9,998,083 during the fiscal year ended June 30, 2012. This increase is a net result of revenues exceeding expenses in both the governmental and business-type activities.

**SONOMA COUNTY WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)**

**Sonoma County Water Agency's
Condensed Statement of Changes in Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	Fiscal Year Ended June 30, 2011	2012	Fiscal Year Ended June 30, 2011	2012	Fiscal Year Ended June 30, 2011	2012
Revenues:						
Program Revenues:						
Charges for services	\$ 693,531	\$ 783,598	\$ 35,996,589	\$ 38,555,474	\$ 36,690,120	\$ 39,339,072
Operating grants and contributions	572,847	562,399	1,866,359	6,363,090	2,439,206	6,925,489
Capital grants and contributions	21,831	35,401	433,781	1,315,844	455,612	1,351,245
General Revenues:						
Property taxes	18,325,641	18,853,029	38,944	38,007	18,364,585	18,891,036
Investment earnings	2,510,438	5,908,377	283,744	478,282	2,794,182	6,386,659
Miscellaneous	-	-	-	9,447	-	9,447
Total revenues	22,124,288	26,142,804	38,619,417	46,760,144	60,743,705	72,902,948
Expenses:						
General government	5,866,906	4,763,130	-	-	5,866,906	4,763,130
Flood control	8,276,305	10,300,602	-	-	8,276,305	10,300,602
Warm Springs Dam	3,226,944	2,864,948	-	-	3,226,944	2,864,948
Interest on long-term debt	3,381,811	3,288,164	-	-	3,381,811	3,288,164
Water transmission	-	-	27,961,893	26,946,964	27,961,893	26,946,964
Water supply	-	-	4,612,143	8,510,170	4,612,143	8,510,170
Sanitation	-	-	4,791,721	5,510,887	4,791,721	5,510,887
Total expenses	20,751,966	21,216,844	37,365,757	40,968,021	58,117,723	62,184,865
Change in net assets before transfers	1,372,322	4,925,960	1,253,660	5,792,123	2,625,982	10,718,083
Transfers	(3,462,705)	(1,050,000)	3,462,705	330,000	-	(720,000)
Change in net assets	(2,090,383)	3,875,960	4,716,365	6,122,123	2,625,982	9,998,083
Net assets - beginning of year	168,315,477	166,225,094	185,978,408	190,694,773	354,293,885	356,919,867
Net assets - end of year	\$ 166,225,094	\$ 170,101,054	\$ 190,694,773	\$ 196,816,896	\$ 356,919,867	\$ 366,917,950

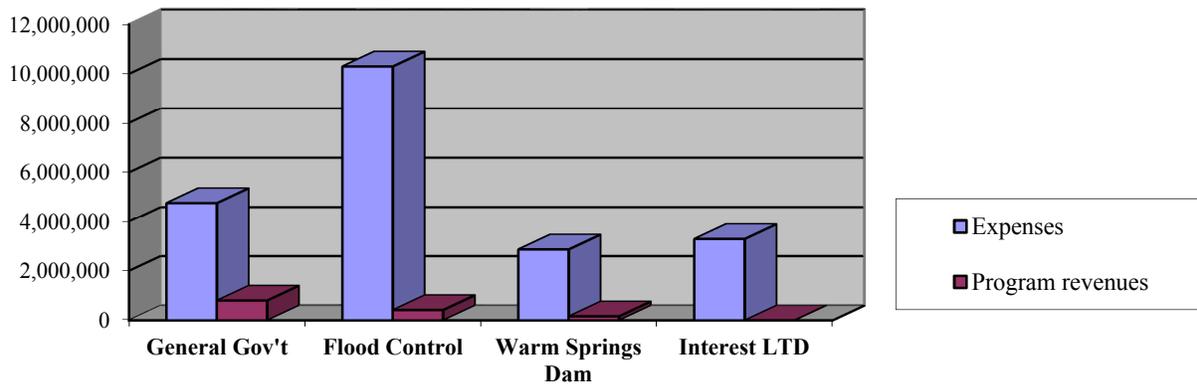
**SONOMA COUNTY WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)**

Governmental Activities

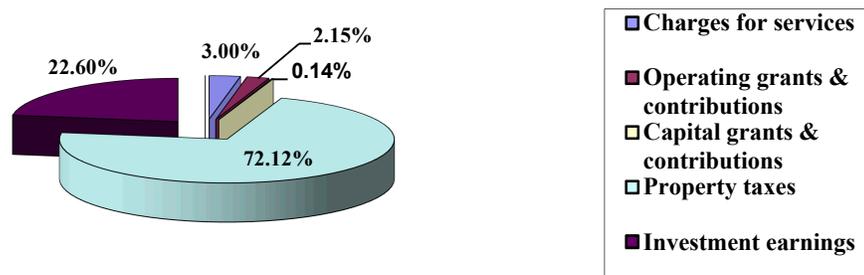
Governmental activities increased the Water Agency's net assets by \$3,875,960. Key elements of the Water Agency's governmental activities are identified below.

- Property tax revenues for the fiscal year totaled \$18,853,029, including \$5,000,869 received for the purpose of debt retirement and satisfaction of maintenance related assurances with the US Army Corps of Engineers (USACE) for Warm Springs Dam.
- Investment earnings totaling \$5,908,377 was due primarily to a \$5,218,586 increase in the fair market value of the U.S. Treasury STRIPS held by the Water Agency's debt service fund for the repayment of the contract with the USACE for Warm Springs Dam. Absent the U.S. Treasury STRIPS, investment gains totaling \$689,791 were realized.
- Revenues for the fiscal year ended June 30, 2012 increased by \$4,018,516 from the prior fiscal year while expenses increased by \$464,878 over the same period. The revenue increase is due primarily to the increase in investment earnings particularly related to the market value of the US Treasury STRIP investments. The expenditure increase is due primarily to increases in flood control projects (\$2 million) offset by decreases in other areas including the reclassification of transfers to sanitation districts from operating expenses to transfers to related governments.

Expenses and Program Revenues – Governmental Activities



Revenues by Source – Governmental Activities



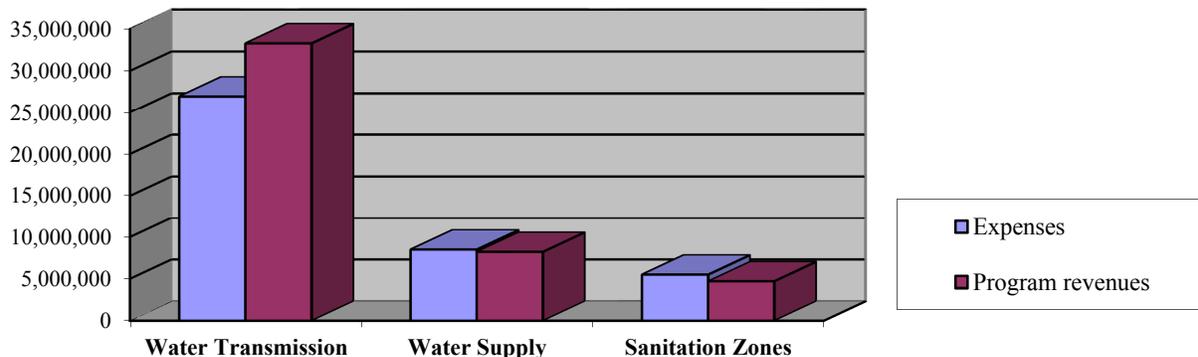
**SONOMA COUNTY WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)**

Business-type Activities

Business-type activities increased the Water Agency's net assets by \$6,122,123. Key elements of the Water Agency's business-type activities are identified below.

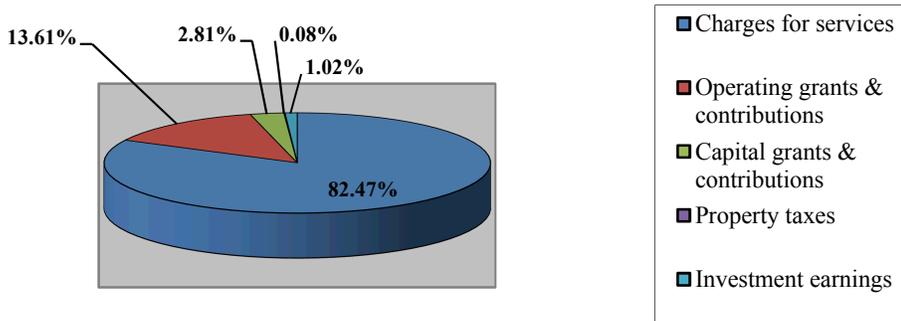
- Water sales revenues increased \$2,449,463 from the prior fiscal year. This increase was due to a 3.1% increase in total acre-feet sold during the year, and an average increase of 4.74% in water rates from the fiscal year ended June 30, 2011.
- Sewer service revenues increased due to increases in the annual rates combined with increases in the total Equivalent Single Family Dwellings (ESDs) serviced by the Water Agency's four sanitation zones.
- Operating Grants and contributions totaling \$6,363,090, representing an increase of \$4,496,731 from the prior year, were received during the fiscal year ended June 30, 2012. Grants include funding from the state towards Proposition 50 washer rebate programs, North San Pablo Bay restoration project, California Energy Commission renewable energy project, American Recovery and Reinvestment Act (ARRA) pass through funding for North Bay Water Reuse projects and EPA funding for the Occidental Storage and Reclamation project. Other contributions include payments on a storage pond use agreement with the Town of Windsor. The majority of the increase is related to the ARRA pass through grant which totaled \$5,116,055.
- Investment earnings for the fiscal year ended June 30, 2012 totaled \$478,282. This is an increase of \$194,538 from the prior year due to increases in interest rates.
- Transfers from the Water Agency's General Fund totaling \$330,000 were received during the fiscal year ended June 30, 2012. These transfers were for the purpose of financing various programs within the sanitation zones.

Expenses and Program Revenues – Business-type Activities



**SONOMA COUNTY WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)**

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.

As of June 30, 2012, the Water Agency's governmental funds reported combined ending fund balances of \$129,180,450, an increase of \$1,446,570 in comparison with the prior year. Approximately 3% of this total amount, \$3,928,987, constitutes unassigned fund balance, which is available for spending at the Water Agency's discretion. The remaining fund balance is categorized based on the relative level of restriction for its use in accordance with GASB Statement No 54, which is further discussed in the accompanying notes to the financial statements.

The General Fund is the chief operating fund of the Water Agency. At the end of the current fiscal year, unassigned fund balance of the General Fund is \$3,928,987. Assigned fund balance totals \$3,953,877 and is comprised of activities related to operation of Spring Lake Park, the Waste/Recycled Water Loan Fund and the Sustainability Fund. The General Fund also reports a non-spendable fund balance of \$1,592,999 for an advance to the ISF Power Fund. Total fund balance for the General Fund is \$9,475,863.

The special revenue funds, consisting of six (6) flood control zones and Warm Springs Dam, reported fiscal year end fund balances of \$23,496,230 and \$17,055,592, respectively. A total of \$23,386,230 is restricted for flood control with \$110,000 non-spendable in the form of a note receivable. The Warm Springs Dam special revenue fund has \$9,004,511 which is restricted for operation and maintenance of the Warm Springs Dam, and \$8,051,081 which is non-spendable and represents a deposit with the California Department of Fish and Game.

The Debt Service Fund has a total fund balance of \$79,152,765, all of which is restricted for the payment of debt service on the USACE contract for Warm Springs Dam.

**SONOMA COUNTY WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)**

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 Fund as of the fiscal year ended June 30, 2012 amounted to \$29,481,475. The Water Supply Fund reported a deficit balance in unrestricted net assets of \$1,922,103 as the result of the required unearned revenue recognition (amortization) of Marin Municipal Water District's water rights payment received in June 2005. The sanitation funds reported unrestricted net assets of \$2,801,672. Other factors concerning the finances of these three funds have been previously 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 an increase in budgeted appropriations, including transfers, of \$7,254,388, while budgeted revenues were increased by \$1,755,000 during the fiscal year ended June 30, 2012.

The primary component of the increase in budgeted expenditures consists of a \$3,485,000 increase in appropriations for transfers to support improvement projects at the new operations building, and renewable energy projects. The Water Agency also increased budgeted services and supplies by \$1,417,626, salaries and benefits by \$1,765,639 and capital outlays by \$886,123 for software development and renewable energy projects.

The Water Agency's budgeted revenue estimates exceeded the actual revenue received due primarily to actual reimbursements being lower than the estimate. Actual expenditures were less than the budgeted estimates due primarily to lower than anticipated costs in consultant and legal services, reimbursable work, capital projects and transfers to other funds.

Capital Asset and Debt Administration

Capital Assets

The Water Agency's investment in capital assets for its governmental and business-type activities as of June 30, 2012, amounts to \$356,784,300 (net of accumulated depreciation and amortization). This investment in capital assets includes land, intangible assets such as water storage rights and permanent easements, buildings and improvements (including dams and collection systems), and machinery and equipment.

Major capital asset events during the fiscal year ended June 30, 2012 included the completion of the following projects. (The amounts shown represent the total life-to-date construction costs of each project).

**SONOMA COUNTY WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)**

Capital Asset and Debt Administration (continued)

Business-type activities:

- Capital expansion within the Water Transmission Fund included:
 - Santa Rosa 42" Isolation Valve - \$226,339
 - Sonoma Valley Groundwater Monitoring Wells - \$190,604
 - Kawana Tank Fence Replacement - \$193,733

- Capital expansion within the Equipment/Facilities Internal Service Fund included:
 - 204 Concourse Operation & Maintenance facility Land - \$2,025,000
 - 204 Concourse Operation & Maintenance facility - \$10,493,629

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

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2011	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011	June 30, 2012
Land	\$ 1,582,224	\$ 1,582,224	\$ 11,021,314	\$ 13,046,314	\$ 12,603,538	\$ 14,628,538
Construction in progress	795,746	1,144,147	28,686,882	23,106,550	29,482,628	24,250,697
Water storage rights	102,371,000	102,371,000	4,996,395	4,996,395	107,367,395	107,367,395
Intangible asset - easements	-	44,840	13,703	13,700	13,703	58,540
Intangible asset - software	271,571	815,528	315,206	262,431	586,777	1,077,959
Infrastructure	41,046,357	39,484,271	-	-	41,046,357	39,484,271
Buildings and improvements	1,777,332	1,698,876	161,981,328	165,276,199	163,758,660	166,975,075
Machinery and equipment	168,854	169,374	2,459,395	2,772,451	2,628,249	2,941,825
Total net assets	\$ 148,013,084	\$ 147,310,260	\$ 209,474,223	\$ 209,474,040	\$ 357,487,307	\$ 356,784,300

Additional information on the Water Agency's capital assets can be found in the notes to the financial statements.

Long-Term Debt

As of June 30, 2012, the Water Agency had a total of \$162,271,355 in outstanding debt. Of this amount \$273,000 comprises general obligation bonds which are backed by the full faith and credit of the Water Agency; \$12,951,535 is related to capital leases; \$28,215,000 in revenue bonds payable from the Water Agency's operating income; \$13,348,068 represents funds advanced to the Water Agency from the California Department of Water Resources; \$3,495,410 represents advances from the Sonoma Valley County Sanitation District; \$100,981,477 is a federal long-term contract payable; and \$3,006,865 is comprised of amounts payable to employees for unused sick and vacation leave upon termination.

**SONOMA COUNTY WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)**

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

	June 30,	June 30,	Change	
	2011	2012	\$	%
General obligation bonds	\$ 304,000	\$ 273,000	\$ (31,000)	-10.2%
Capital leases	14,048,238	12,951,535	(1,096,703)	-7.8%
Revenue bonds	29,050,000	28,215,000	(835,000)	-2.9%
Advances from other governments	17,919,301	16,843,478	(1,075,823)	-6.0%
Federal contract payable	103,915,796	100,981,477	(2,934,319)	-2.8%
Compensated absences	3,137,981	3,006,865	(131,116)	-4.2%
Total	\$ 168,375,316	\$ 162,271,355	\$ (6,103,961)	-3.6%

The Water Agency's total debt decreased by \$6,103,961 (-3.6%) during the fiscal year ended June 30, 2012.

The outstanding total of general obligation bonds, capital leases, revenue bonds, advances from other governments and federal contract payable decreased by 10.2%, 7.8%, 2.9%, 6.0%, and 2.8%, respectively, during the fiscal year ended June 30, 2012 due to annual principal payments.

Compensated absences decreased due to sick and vacation leave usage being in excess of the amounts earned and accrued.

Additional information on the Water Agency's current and long-term debt can be found in the notes to the financial statements.

Next Year's Budgets and Rates

During the fiscal year ended June 30, 2012, unassigned fund balance in the General Fund amounts to \$3,928,987. The Agency has appropriated \$907,648 of this amount for spending in the fiscal year ending June 30, 2013 budget.

Both the water and sewer rates were increased for the fiscal year ending June 30, 2013 budget. Water rates were increased by an average of 5.72%, while sewer rates increased an average of 5.70%.

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

**SONOMA COUNTY WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)**

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

	Santa Rosa Aqueduct	Petaluma Aqueduct	Sonoma Aqueduct
Operations and maintenance	\$ 562.80	\$ 562.80	\$562.80
Revenue bond charges:			
Aqueduct revenue bonds charge	0.00	0.00	68.31
Storage facility revenue bonds charge	23.45	23.45	23.45
Common facilities revenue bonds charge	76.53	76.53	76.53
Aqueduct capital charge	9.25	9.25	9.25
Total	\$ 672.03	\$ 672.03	\$740.34

Sewer Service Rate per Equivalent Single-Family Dwelling

	2011/12	2012/13	Change
Sanitation Zone			
Sea Ranch	\$ 904	\$ 949	4.98%
Penngrove	1,140	1,231	7.98%
Geyserville	821	837	1.95%
Airport-Larkfield-Wikiup	642	690	7.48%

**Number of Equivalent Single-Family Dwellings
by Sanitation Zone**

	2011/12	2012/13	Change
Sanitation Zone			
Sea Ranch	576	577	0.17%
Penngrove	515	520	0.97%
Geyserville	352	352	0.00%
Airport-Larkfield-Wikiup	3,700	3,723	0.62%

Request for Additional Information:

This financial report is designed to provide a general overview of the Water Agency'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-Treasurer-Tax Collector's Office, Fiscal Services Division, 585 Fiscal Drive, Room 100, Santa Rosa, CA 95403.

Basic Financial Statements

SONOMA COUNTY WATER AGENCY
STATEMENT OF NET ASSETS
JUNE 30, 2012

ASSETS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Current assets:			
Cash and investments	\$ 128,805,929	\$ 43,034,567	\$ 171,840,496
Accounts receivable	277,196	6,931,951	7,209,147
Notes receivable	110,000	-	110,000
Prepaid expenses	-	855,296	855,296
Internal balances	1,592,999	(1,592,999)	-
Total current assets	<u>130,786,124</u>	<u>49,228,815</u>	<u>180,014,939</u>
Noncurrent assets:			
Restricted assets:			
Cash and investments with trustee	-	3,127,952	3,127,952
Cash - revenue bond funds	-	2,231,308	2,231,308
Cash - capital leases	-	1,146,029	1,146,029
Cash - capital projects	-	100,429	100,429
Total restricted assets	<u>-</u>	<u>6,605,718</u>	<u>6,605,718</u>
Deposits with others	-	13,000	13,000
Deferred charges	-	484,038	484,038
Capital assets, net			
Land	1,582,224	13,046,314	14,628,538
Construction in progress	1,144,147	23,106,550	24,250,697
Intangible assets - water storage rights	102,371,000	4,996,395	107,367,395
Intangible assets - permanent easements	1,040	13,700	14,740
Intangible assets - temporary easements	43,800	-	43,800
Intangible assets - software	815,528	262,431	1,077,959
Infrastructure	39,484,271	-	39,484,271
Buildings and improvements	1,698,876	165,276,199	166,975,075
Equipment	169,374	2,772,451	2,941,825
Total capital assets	<u>147,310,260</u>	<u>209,474,040</u>	<u>356,784,300</u>
Total noncurrent assets	<u>147,310,260</u>	<u>216,576,796</u>	<u>363,887,056</u>
Total assets	<u>278,096,384</u>	<u>265,805,611</u>	<u>543,901,995</u>

The accompanying notes are an integral part of these financial statements.

SONOMA COUNTY WATER AGENCY
STATEMENT OF NET ASSETS (CONTINUED)
JUNE 30, 2012

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
LIABILITIES			
Current liabilities payable from unrestricted assets:			
Accounts payable and accrued expenses	1,568,532	2,688,869	4,257,401
Due to other governments	-	2,685,351	2,685,351
Compensated absences	203,519	-	203,519
Unearned revenue	37,142	496,902	534,044
Interest payable	2,171,080	-	2,171,080
Long-term contracts payable	3,028,951	-	3,028,951
Total current liabilities payable from unrestricted assets	<u>7,009,224</u>	<u>5,871,122</u>	<u>12,880,346</u>
Current liabilities payable from restricted assets:			
Deposits from others	-	4,230	4,230
Other current liability	-	250,000	250,000
Interest payable	-	737,731	737,731
General obligation bonds payable	-	32,000	32,000
Capital leases	-	1,146,029	1,146,029
Revenue bonds payable	-	853,800	853,800
Total current liabilities payable from restricted assets	<u>-</u>	<u>3,023,790</u>	<u>3,023,790</u>
Noncurrent liabilities:			
Compensated absences	2,803,346	-	2,803,346
General obligation bonds payable	-	241,000	241,000
Capital leases	-	11,805,506	11,805,506
Revenue bonds payable	-	27,151,459	27,151,459
Long-term contracts payable	97,952,526	-	97,952,526
Advances from other governments	-	15,731,546	15,731,546
Pollution remediation obligation	230,234	-	230,234
Unearned revenue	-	5,164,292	5,164,292
Total noncurrent liabilities	<u>100,986,106</u>	<u>60,093,803</u>	<u>161,079,909</u>
Total liabilities	<u>107,995,330</u>	<u>68,988,715</u>	<u>176,984,045</u>
NET ASSETS			
Invested in capital assets, net of related debt	46,328,783	151,501,197	197,829,980
Restricted for flood control	23,496,230	-	23,496,230
Restricted for Warm Springs Dam	17,055,592	-	17,055,592
Restricted for debt service	76,981,685	3,802,476	80,784,161
Restricted for capital projects	-	2,074,281	2,074,281
Restricted for recycled water and water conservation	-	2,744,101	2,744,101
Unrestricted	6,238,764	36,694,841	42,933,605
Total net assets	<u>\$ 170,101,054</u>	<u>\$ 196,816,896</u>	<u>\$ 366,917,950</u>

The accompanying notes are an integral part of these financial statements.

**SONOMA COUNTY WATER AGENCY
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 4,763,130	\$ 613,505	\$ 152,243	\$ 35,401	\$ (3,961,981)	\$ -	\$ (3,961,981)
Flood control	10,300,602	73,812	343,451	-	(9,883,339)	-	(9,883,339)
Warm Springs Dam	2,864,948	96,281	66,705	-	(2,701,962)	-	(2,701,962)
Interest on long-term debt	3,288,164	-	-	-	(3,288,164)	-	(3,288,164)
Total governmental activities	<u>21,216,844</u>	<u>783,598</u>	<u>562,399</u>	<u>35,401</u>	<u>(19,835,446)</u>	<u>-</u>	<u>(19,835,446)</u>
Business-type activities:							
Water transmission	26,946,964	32,581,560	97,122	609,915	-	6,341,633	6,341,633
Water supply	8,510,170	2,124,639	6,089,878	16,724	-	(278,929)	(278,929)
Sanitation	5,510,887	3,849,275	176,090	689,205	-	(796,317)	(796,317)
Total business-type activities	<u>40,968,021</u>	<u>38,555,474</u>	<u>6,363,090</u>	<u>1,315,844</u>	<u>-</u>	<u>5,266,387</u>	<u>5,266,387</u>
Total primary government	<u>\$ 62,184,865</u>	<u>\$ 39,339,072</u>	<u>\$ 6,925,489</u>	<u>\$ 1,351,245</u>	<u>(19,835,446)</u>	<u>5,266,387</u>	<u>(14,569,059)</u>
General revenues:							
Taxes:							
Property taxes, levied for general purposes					13,852,160	-	13,852,160
Property taxes, levied for debt service and assurances					5,000,869	38,007	5,038,876
Unrestricted investment earnings					5,908,377	478,282	6,386,659
Gain on disposal of capital assets					-	9,447	9,447
Transfers to related governments					(720,000)	-	(720,000)
Transfers					<u>(330,000)</u>	<u>330,000</u>	<u>-</u>
Total general revenues and transfers					<u>23,711,406</u>	<u>855,736</u>	<u>24,567,142</u>
Change in net assets					3,875,960	6,122,123	9,998,083
Net assets - beginning of year					166,225,094	190,694,773	356,919,867
Net assets - end of year					<u>\$ 170,101,054</u>	<u>\$ 196,816,896</u>	<u>\$ 366,917,950</u>

The accompanying notes are an integral part of these financial statements.

**SONOMA COUNTY WATER AGENCY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012**

	<u>Special Revenue Funds</u>				Total Governmental Funds
	General	Flood Control	Warm Springs Dam	Debt Service	
Assets					
Cash and investments	\$ 8,317,887	\$ 23,608,105	\$ 17,727,172	\$ 79,152,765	\$ 128,805,929
Accounts receivable	41,178	226,125	9,893	-	277,196
Notes receivable	-	110,000	-	-	110,000
Advances to other funds	1,592,999	-	-	-	1,592,999
Total assets	<u>\$ 9,952,064</u>	<u>\$ 23,944,230</u>	<u>\$ 17,737,065</u>	<u>\$ 79,152,765</u>	<u>\$ 130,786,124</u>
Liabilities and fund balances					
Liabilities:					
Accounts payable	\$ 439,059	\$ 448,000	\$ 681,473	\$ -	\$ 1,568,532
Unearned revenue	37,142	-	-	-	37,142
Total liabilities	<u>476,201</u>	<u>448,000</u>	<u>681,473</u>	<u>-</u>	<u>1,605,674</u>
Fund balances:					
Non-Spendable	1,592,999	110,000	8,051,081	-	9,754,080
Restricted	-	23,386,230	9,004,511	79,152,765	111,543,506
Assigned	3,953,877	-	-	-	3,953,877
Unassigned	3,928,987	-	-	-	3,928,987
Total fund balances	<u>9,475,863</u>	<u>23,496,230</u>	<u>17,055,592</u>	<u>79,152,765</u>	<u>129,180,450</u>
Total liabilities and fund balances	<u>\$ 9,952,064</u>	<u>\$ 23,944,230</u>	<u>\$ 17,737,065</u>	<u>\$ 79,152,765</u>	<u>\$ 130,786,124</u>

Reconciliation of the balance sheet for government funds to the statement of net assets:

Fund balances - total governmental funds	\$ 129,180,450
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, therefore, not reported in the funds	147,310,260
Some liabilities are not due and payable in the current period, therefore, are not recorded in the funds as follows:	
Interest payable	(2,171,080)
Compensated absences	(3,006,865)
Pollution remediation obligation	(230,234)
Long-term contracts payable	(100,981,477)
Net assets of governmental activities	<u>\$ 170,101,054</u>

The accompanying notes are an integral part of these financial statements.

SONOMA COUNTY WATER AGENCY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>Special Revenue Funds</u>				Total Governmental Funds
	General	Flood Control	Warm Springs Dam	Debt Service	
REVENUES					
Property taxes	\$ 6,515,163	\$ 7,336,997	\$ 5,000,869	\$ -	\$ 18,853,029
Investment earnings	126,575	224,121	189,413	5,368,268	5,908,377
Intergovernmental	190,997	343,451	66,705	-	601,153
Charges for services	498,619	-	-	-	498,619
Miscellaneous	111,533	73,812	96,281	-	281,626
Total revenues	<u>7,442,887</u>	<u>7,978,381</u>	<u>5,353,268</u>	<u>5,368,268</u>	<u>26,142,804</u>
EXPENDITURES					
Current:					
General government:					
Salaries and benefits	29,575,514	-	-	-	29,575,514
Services and supplies	11,604,428	-	-	-	11,604,428
Costs applied	(36,434,260)	-	-	-	(36,434,260)
Flood control:					
Services and supplies	-	8,738,516	-	-	8,738,516
Pollution remediation	-	3,691	-	-	3,691
Warm Springs Dam:					
Services and supplies	-	-	2,864,948	-	2,864,948
Capital outlay	879,596	15,098	113,132	-	1,007,826
Debt service:					
Principal	-	-	-	2,934,319	2,934,319
Interest and fiscal charges	-	-	-	3,351,252	3,351,252
Total expenditures	<u>5,625,278</u>	<u>8,757,305</u>	<u>2,978,080</u>	<u>6,285,571</u>	<u>23,646,234</u>
Excess (deficiency) of revenues over (under) expenditures	1,817,609	(778,924)	2,375,188	(917,303)	2,496,570
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	-	-
Transfers to related governments	(720,000)	-	-	-	(720,000)
Transfers out	(330,000)	-	-	-	(330,000)
Total other financing sources (uses)	<u>(1,050,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,050,000)</u>
Net change in fund balances	767,609	(778,924)	2,375,188	(917,303)	1,446,570
Fund balances - beginning of year	<u>8,708,254</u>	<u>24,275,154</u>	<u>14,680,404</u>	<u>80,070,068</u>	<u>127,733,880</u>
Fund balances - end of year	<u>\$ 9,475,863</u>	<u>\$ 23,496,230</u>	<u>\$ 17,055,592</u>	<u>\$ 79,152,765</u>	<u>\$ 129,180,450</u>

The accompanying notes are an integral part of these financial statements.

**SONOMA COUNTY WATER AGENCY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Net change in fund balances - total governmental funds \$ 1,446,570

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlay 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.

Capital outlay	1,007,826
Depreciation expense	(1,710,650)

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces the long-term liabilities in the statement of net assets	2,934,319
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Some expenses reported in the statement of activities do not require the use of
current financial resources, and therefore, are not reported as expenditures in
governmental funds.

Change in interest payable	63,088
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Change in compensated absences	131,116
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Change in pollution remediation obligation	3,691
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Change in net assets of governmental activities	\$ 3,875,960
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The accompanying notes are an integral part of these financial statements.

SONOMA COUNTY WATER AGENCY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2012

Business-type Activities - Enterprise Funds					
ASSETS	Water Transmission	Water Supply	Sanitation	Total	Internal Service Funds
Current assets:					
Cash and investments	\$ 29,042,299	\$ 2,554,659	\$ 2,916,218	\$ 34,513,176	\$ 8,521,391
Accounts receivable	4,098,144	2,658,353	141,511	6,898,008	33,943
Prepaid expenses	-	-	203,954	203,954	651,342
Total current assets	<u>33,140,443</u>	<u>5,213,012</u>	<u>3,261,683</u>	<u>41,615,138</u>	<u>9,206,676</u>
Noncurrent assets:					
Restricted assets:					
Cash and investments with trustee	3,127,952	-	-	3,127,952	-
Cash - revenue bond funds	1,973,852	-	257,456	2,231,308	-
Cash - capital leases	-	-	-	-	1,146,029
Cash - capital projects	-	-	-	-	100,429
Total restricted assets	<u>5,101,804</u>	<u>-</u>	<u>257,456</u>	<u>5,359,260</u>	<u>1,246,458</u>
Deposits with others	13,000	-	-	13,000	-
Deferred charges	385,132	-	98,906	484,038	-
Capital assets, net					
Land	6,710,009	-	1,621,444	8,331,453	4,714,861
Construction in progress	19,814,551	833,714	811,402	21,459,667	1,646,883
Intangible assets - water storage rights	4,996,395	-	-	4,996,395	-
Intangible assets - permanent easements	-	-	13,700	13,700	-
Intangible assets - software	108,440	-	-	108,440	153,991
Buildings and improvements	104,319,205	3,278,756	21,421,917	129,019,878	36,256,321
Equipment	1,028,808	28,597	136,854	1,194,259	1,578,192
Total capital assets	<u>136,977,408</u>	<u>4,141,067</u>	<u>24,005,317</u>	<u>165,123,792</u>	<u>44,350,248</u>
Total noncurrent assets	<u>142,477,344</u>	<u>4,141,067</u>	<u>24,361,679</u>	<u>170,980,090</u>	<u>45,596,706</u>
Total assets	<u>175,617,787</u>	<u>9,354,079</u>	<u>27,623,362</u>	<u>212,595,228</u>	<u>54,803,382</u>

The accompanying notes are an integral part of these financial statements.

**SONOMA COUNTY WATER AGENCY
STATEMENT OF NET ASSETS (CONTINUED)
PROPRIETARY FUNDS
JUNE 30, 2012**

	<u>Business-type Activities - Enterprise Funds</u>				<u>Internal Service Funds</u>
	<u>Water Transmission</u>	<u>Water Supply</u>	<u>Sanitation</u>	<u>Total</u>	
LIABILITIES					
Current liabilities payable from unrestricted assets:					
Accounts payable and accrued expenses	1,251,379	268,297	324,235	1,843,911	844,958
Due to other governments	672,032	1,573,419	-	2,245,451	439,900
Unearned revenue	168	129,107	33,134	162,409	334,493
Total current liabilities payable from unrestricted assets	<u>1,923,579</u>	<u>1,970,823</u>	<u>357,369</u>	<u>4,251,771</u>	<u>1,619,351</u>
Current liabilities payable from restricted assets:					
Deposits from others	4,230	-	-	4,230	-
Interest payable	544,711	-	56,234	600,945	136,786
Other current liability	250,000	-	-	250,000	-
General obligation bonds payable	-	-	32,000	32,000	-
Capital leases	-	-	-	-	1,146,029
Revenue bonds payable	628,180	-	225,620	853,800	-
Total current liabilities payable from restricted assets	<u>1,427,121</u>	<u>-</u>	<u>313,854</u>	<u>1,740,975</u>	<u>1,282,815</u>
Noncurrent liabilities:					
General obligation bonds payable	-	-	241,000	241,000	-
Capital leases	-	-	-	-	11,805,506
Revenue bonds payable	22,747,769	-	4,403,690	27,151,459	-
Advances from other governments	12,676,036	-	-	12,676,036	3,055,510
Advances from other funds	-	-	-	-	1,592,999
Unearned revenue	-	5,164,292	-	5,164,292	-
Total noncurrent liabilities	<u>35,423,805</u>	<u>5,164,292</u>	<u>4,644,690</u>	<u>45,232,787</u>	<u>16,454,015</u>
Total liabilities	<u>38,774,505</u>	<u>7,135,115</u>	<u>5,315,913</u>	<u>51,225,533</u>	<u>19,356,181</u>
NET ASSETS					
Invested in capital assets, net of related debt	100,253,391	4,141,067	19,103,007	123,497,465	28,003,732
Restricted for:					
Debt service	2,592,011	-	201,222	2,793,233	1,009,243
Capital projects	1,973,852	-	-	1,973,852	100,429
Recycled water and water conservation	2,542,553	-	201,548	2,744,101	-
Unrestricted	29,481,475	(1,922,103)	2,801,672	30,361,044	6,333,797
Total net assets	<u>\$ 136,843,282</u>	<u>\$ 2,218,964</u>	<u>\$ 22,307,449</u>	<u>161,369,695</u>	<u>\$ 35,447,201</u>
Adjustment to reflect the net assets of the internal service funds reported as business-type activities				<u>35,447,201</u>	
Net assets of business-type activities				<u>\$ 196,816,896</u>	

The accompanying notes are an integral part of these financial statements.

SONOMA COUNTY WATER AGENCY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>Business-type Activities - Enterprise Funds</u>				<u>Internal Service Funds</u>
	<u>Water Transmission</u>	<u>Water Supply</u>	<u>Sanitation</u>	<u>Total</u>	
OPERATING REVENUE					
Water sales	\$ 31,658,359	\$ 1,992,979	\$ -	\$ 33,651,338	\$ -
Water services	30,047	-	-	30,047	-
Power sales	612,817	-	-	612,817	5,220,474
Flat charges	-	-	3,597,933	3,597,933	-
Sanitation services	-	-	191,788	191,788	-
Equipment rental	-	-	-	-	2,287,618
Real estate rental	-	-	50,000	50,000	4,174,600
Miscellaneous	280,337	131,660	9,554	421,551	38,028
Total operating revenue	<u>32,581,560</u>	<u>2,124,639</u>	<u>3,849,275</u>	<u>38,555,474</u>	<u>11,720,720</u>
OPERATING EXPENSES					
Services and supplies	22,572,421	2,523,068	4,363,055	29,458,544	7,435,543
Depreciation and amortization	5,587,313	185,454	1,202,821	6,975,588	1,524,617
Total operating expenses	<u>28,159,734</u>	<u>2,708,522</u>	<u>5,565,876</u>	<u>36,434,132</u>	<u>8,960,160</u>
Operating income (loss)	<u>4,421,826</u>	<u>(583,883)</u>	<u>(1,716,601)</u>	<u>2,121,342</u>	<u>2,760,560</u>
NONOPERATING REVENUES (EXPENSES)					
Taxes and assessments	-	-	38,007	38,007	-
Investment earnings	275,269	25,824	85,184	386,277	92,005
Interest expense	(730,751)	-	(249,743)	(980,494)	(239,721)
Conservation program expense	-	-	(73,365)	(73,365)	-
Loss on disposal of capital assets	(224,762)	-	(810)	(225,572)	(17,731)
Other expense (grant pass through)	-	(5,813,672)	-	(5,813,672)	-
Intergovernmental revenue	97,122	6,089,878	176,090	6,363,090	-
Total nonoperating revenue (expenses), net	<u>(583,122)</u>	<u>302,030</u>	<u>(24,637)</u>	<u>(305,729)</u>	<u>(165,447)</u>
Income (loss) before capital contributions and transfers	<u>3,838,704</u>	<u>(281,853)</u>	<u>(1,741,238)</u>	<u>1,815,613</u>	<u>2,595,113</u>
Capital contributions - connection fees	-	-	45,415	45,415	-
Capital contributions - other	609,915	16,724	643,790	1,270,429	65,553
Transfers in	-	-	330,000	330,000	-
Change in net assets	<u>4,448,619</u>	<u>(265,129)</u>	<u>(722,033)</u>	<u>3,461,457</u>	<u>2,660,666</u>
Net assets - beginning of year	<u>132,394,663</u>	<u>2,484,093</u>	<u>23,029,482</u>		<u>32,786,535</u>
Net assets - end of year	<u>\$ 136,843,282</u>	<u>\$ 2,218,964</u>	<u>\$ 22,307,449</u>		<u>\$ 35,447,201</u>
Adjustment to reflect the change in net assets of internal service funds reported as business-type activities				<u>2,660,666</u>	
Change in net assets of business-type activities				<u>\$ 6,122,123</u>	

The accompanying notes are an integral part of these financial statements.

**SONOMA COUNTY WATER AGENCY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Business-type Activities - Enterprise Funds					
	Water Transmission	Water Supply	Sanitation	Total	Internal Service Funds
Cash flows from operating activities:					
Cash receipts from customers	\$ 33,693,419	\$ 2,209,113	\$ 4,024,246	\$ 39,926,778	\$ -
Cash receipts from interfund services provided	-	-	-	-	11,707,544
Cash payments for interfund services used	(17,625,066)	(2,155,380)	(2,638,922)	(22,419,368)	(2,093,946)
Cash payments to suppliers	(4,817,517)	(346,481)	(1,560,950)	(6,724,948)	(5,860,490)
Conservation program outlays	-	-	(73,365)	(73,365)	-
Net cash provided by (used for) operating activities	<u>11,250,836</u>	<u>(292,748)</u>	<u>(248,991)</u>	<u>10,709,097</u>	<u>3,753,108</u>
Cash flows from noncapital financing activities:					
Taxes and assessments	-	-	38,007	38,007	-
Transfers in	-	-	330,000	330,000	-
Other expenses - grant pass through	-	(5,343,079)	-	(5,343,079)	-
Intergovernmental receipts	361,203	6,005,669	132,836	6,499,708	-
Net cash provided by noncapital financing activities	<u>361,203</u>	<u>662,590</u>	<u>500,843</u>	<u>1,524,636</u>	<u>-</u>
Cash flows from capital and related financing activities:					
Purchases of capital assets	(3,891,881)	(81,498)	(95,037)	(4,068,416)	(3,890,076)
Principal paid on general obligation and revenue bonds	(600,000)	-	(266,000)	(866,000)	-
Principal paid on capital leases	-	-	-	-	(1,096,702)
Principal paid on advances from other governments	(653,646)	-	-	(653,646)	(422,177)
Interest paid on long-term debt	(1,488,009)	-	(237,369)	(1,725,378)	(775,285)
Connection fees	-	-	45,415	45,415	-
Capital contributions - other	260,901	1,256	-	262,157	449,378
Net cash used for capital and related financing activities	<u>(6,372,635)</u>	<u>(80,242)</u>	<u>(552,991)</u>	<u>(7,005,868)</u>	<u>(5,734,862)</u>
Cash flows from investing activities:					
Interest received	275,269	25,824	85,184	386,277	92,005
Net increase (decrease) in cash and cash equivalents	5,514,673	315,424	(215,955)	5,614,142	(1,889,749)
Cash and cash equivalents - beginning of year	28,629,430	2,239,235	3,389,629	34,258,294	11,657,598
Cash and cash equivalents - end of year	<u>\$ 34,144,103</u>	<u>\$ 2,554,659</u>	<u>\$ 3,173,674</u>	<u>\$ 39,872,436</u>	<u>\$ 9,767,849</u>
Reconciliation to the statement of net assets:					
Cash and investments	\$ 29,042,299	\$ 2,554,659	\$ 2,916,218	\$ 34,513,176	\$ 8,521,391
Restricted cash and investments	5,101,804	-	257,456	5,359,260	1,246,458
Cash and cash equivalents	<u>\$ 34,144,103</u>	<u>\$ 2,554,659</u>	<u>\$ 3,173,674</u>	<u>\$ 39,872,436</u>	<u>\$ 9,767,849</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	\$ 4,421,826	\$ (583,883)	\$ (1,716,601)	\$ 2,121,342	\$ 2,760,560
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Conservation program outlays	-	-	(73,365)	(73,365)	-
Depreciation and amortization	5,587,313	185,454	1,202,821	6,975,588	1,524,617
Change in assets and liabilities:					
Accounts receivables	1,111,691	84,474	174,971	1,371,136	(13,176)
Prepaid expenses	-	-	203,964	203,964	(440,479)
Accounts payable and accrued expenses	129,838	21,207	(40,781)	110,264	(78,414)
Unearned revenue	168	-	-	168	-
Net cash provided by (used for) operating activities	<u>\$ 11,250,836</u>	<u>\$ (292,748)</u>	<u>\$ (248,991)</u>	<u>\$ 10,709,097</u>	<u>\$ 3,753,108</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisition of capital assets through accounts payable and other current liabilities	\$ 174,075	\$ 3,814	\$ -	\$ 177,889	\$ 79,305
Increase in capital assets for capitalized interest	742,078	-	4,867	746,945	538,729
Contribution of capital assets	-	-	643,790	643,790	-
Loss on disposal of capital assets	(224,762)	-	(810)	(225,572)	(17,731)
Capital contribution receivable	(374,620)	(16,724)	-	(391,344)	(8,985)
Other/grant receivable	-	(1,690,553)	-	(1,690,553)	-
Accrual of pass-through grant expense	-	1,573,419	-	1,573,419	-
Construction in progress reclassified to prepaid expense	-	-	407,908	407,908	-

The accompanying notes are an integral part of these financial statements.

**SONOMA COUNTY WATER AGENCY
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUND
JUNE 30, 2012**

ASSETS

Cash and investments	\$ <u>14,100</u>
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LIABILITIES

Deposits from others	\$ <u>14,100</u>
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The accompanying notes are an integral part of these financial statements.

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. Accounts Receivable
- Note F. Capital Assets
- Note G. Unearned Revenue
- Note H. Interfund Transactions
- Note I. Long-Term Obligations
- Note J. Pollution Remediation Obligation
- Note K. Employees' Retirement Plan
- Note L. Postemployment Benefits
- Note M. Related Party Transactions
- Note N. Risk Management
- Note O. Commitments and Contingencies
- Note P. Economic Dependence
- Note Q. Subsequent Event
- Note R. Future Governmental Accounting Standards

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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, and Cotati, the Town of Windsor, as well as Valley of the Moon Water District and the North Marin Water District). The Water Agency designs, constructs and maintains flood control facilities. The Water Agency began generating electrical energy in 1988. The Water Agency owns Spring Lake and Riverfront Parks which are operated and maintained by Sonoma County Regional Parks via contract.

On January 1, 1995, as part of the countywide reorganization, seven county service areas were transferred from the County of Sonoma (the County) to the Water Agency. Since then, three 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, who act ex-officio as the Board of Directors (Board) of the Water Agency. The exercise of this oversight responsibility causes the Water Agency to be an integral part of the County's reporting entity, and therefore, a component unit of the County. The Water Agency's basic financial statements are included in the County's Comprehensive Annual Financial Report.

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) display information on the Water Agency as a whole. These financial statements include the financial activities of the Water Agency's nonfiduciary activities. The effect of interfund activity has been removed from these financial 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 charged to external parties and charges for services provided.

The statement of net assets presents the financial condition of the governmental and business-type activities of the Water Agency at fiscal year end. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is 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.

SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Note B. Summary of Significant Accounting Policies (continued)

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide and proprietary funds financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The agency (fiduciary) fund financial statement applies the accrual basis of accounting, but does not have a measurement focus. 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 the timing of the related cash flows. 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. Property taxes are recognized as revenues in the year for which the taxes are levied. Grants and similar items are recognized in the year in which all eligibility requirements imposed by the provider have been satisfied. Eligibility requirements include timing requirements, which specify when the resources are required to be used or 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. Under this method, 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 three hundred sixty five days of the end of the current period, except for property taxes which are considered available if collected within 60 days of the end of the year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, pollution remediation obligations and claims and judgments, are recorded only when payment is due (matured). This approach differs from the manner in which the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements and the governmental fund financial statements.

For its business-type activities and proprietary funds, the Water Agency applies all Governmental Accounting Standards Board (GASB) pronouncements and only Financial Accounting Standards Board (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 accounting principles generally accepted in the United States of America (GAAP).

SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Note B. Summary of Significant Accounting Policies (continued)

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

Governments have the option of following private-sector guidance issued subsequent to November 30, 1989, as such, the Water Agency has elected not to follow private-sector guidance subsequent to November 30, 1989.

Proprietary funds distinguish between operating and nonoperating revenues and expenses. 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 proprietary funds 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 financial statements 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 Water Agency are included in this fund. The fund is charged with all costs of operating the Water Agency for which a separate fund has not been established.

Special Revenue Funds: These funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects..

Flood Control: This fund is established to account for the proceeds of specific revenue sources other than special assessments 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 to account for specific revenue sources, primarily taxes, for the purpose of accumulating resources to pay for the operation and maintenance costs of the Warm Springs Dam.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Note B. Summary of Significant Accounting Policies (continued)

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

Debt Service Fund: This fund is established for the purpose of accumulating resources for the payment of principal and interest related to the Water Agency's contract with the U.S. Army Corps of Engineers for water supply storage space at Warm Springs Dam.

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 eight prime contractors (the cities of Santa Rosa, Petaluma, Sonoma, Rohnert Park and Cotati, Valley of the Moon Water District, North Marin Water District, and the Town of Windsor).

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 earnings, interest expense and gain or loss on disposal of capital assets. The Water Agency maintains separate internal service funds for equipment, facilities, and power resources.

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 the measurement of the results from operations. Funds held are surety deposits pertaining to river access for gravel mining.

SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Note B. Summary of Significant Accounting Policies (continued)

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

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.

Cash and Investments

The Water Agency's cash and investments are pooled with the Sonoma County Treasurer (Treasurer) except for restricted funds held by an outside trustee. The 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 various funds based on the average daily cash balances for that quarter in the County Treasury Investment Pool (the Treasury Pool), an external investment pool. Interest earnings from cash and investments held with third party fiscal agents or trustees is recognized directly to the related fund.

The Water Agency's cash and investments are reported at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, and is determined from published data provided by the exchanges, computerized pricing sources, the National Association of Securities Dealers' National Market System, securities custodians and other authoritative sources.

For purposes of the statement of cash flows for proprietary funds, 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 are also treated as cash and cash equivalents.

Accounts Receivable

The Water Agency's accounts receivable are reported at their estimated net realizable value and consist primarily of water sales to local water districts and cities. The Water Agency does not record an allowance for uncollectible receivables as it deems all receivables as fully collectible.

Restricted Assets - Proprietary Funds

Restricted assets in the Enterprise Funds represent cash and investments in the Water Transmission, and Sanitation funds that are restricted for debt service pursuant to various bond covenants. Restricted assets also include cash and investments in internal service funds for capital lease related expenses and capital projects.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Note B. Summary of Significant Accounting Policies (continued)

Deferred Charges

Deferred charges consist of unamortized debt issuance costs of \$484,038 as of June 30, 2012. These costs are amortized over the term of the related bond issuance using the straight-line method.

Capital Assets

Capital assets (including infrastructure and intangible assets) 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 the estimated historical cost as determined by Water Agency engineers. Donated capital assets are recorded at estimated fair value on the date of donation. The Water Agency defines capital assets as assets with an estimated useful life in excess of one year and an initial, individual cost of more than \$5,000.

Capital assets used in operations are depreciated/amortized using the straight-line method over the estimated useful lives in the government-wide statements and proprietary funds. Estimated useful lives of capital assets are as follows: utility plant and equipment, 3 - 50 years and transmission system and reservoirs, 10 - 50 years, which are reported as buildings and improvements; infrastructure, 35 - 75 years; software, 7 years; temporary easements, 7 years unless otherwise defined in the easement agreement. Water storage rights and permanent easements are not amortized due to their inexhaustible life. For further information regarding capital assets refer to Note F.

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 for the acquisition or construction of specified assets.

Bond Discounts and Premiums and Deferred Amount on Refunding

Bond discounts and premiums are reported in the applicable business-type activity columns in the government-wide financial statements and proprietary fund financial statements and are deferred and amortized using the straight-line method, which approximates the effective interest method, over the term of the outstanding bonds. Unamortized bond discounts reduce the carrying value of the related debt and unamortized bond premiums increase the carrying value of the related debt. Deferred amount on refunding of revenue bonds, results from the difference between the carrying amount of the defeased/refunded debt and its reacquisition price. Deferred amounts on refunding are amortized over the remaining life of the refunded debt or the remaining life of the newly issued debt, whichever is shorter. The unamortized portion of the deferred amount on refunding is reported as a direct reduction or addition to the carrying amount of the refunding debt.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Note B. Summary of Significant Accounting Policies (continued)

Unearned Revenue

In the government-wide financial statements and fund financial statements, unearned revenue represents amounts for which asset recognition criteria have been met, however, revenue recognition criteria have not been satisfied.

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 between seven and twelve weeks depending on employee's bargaining unit, 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.

Since vacation and sick leave balances do not require the use of current 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 and are recorded in the period earned. In accordance with GASB Statement No. 16, *Accounting for Compensated Absences*, the liability amount for compensated absences includes the estimated employer liability for taxes and workers' compensation premiums.

Property Tax Revenue

Property taxes, including tax rates, are regulated by the State of California (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 has adopted the Alternative Method of Property Tax Allocation known as the Teeter Plan. 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 the County.

Property taxes are recognized as revenue when levied in the government-wide statements and in governmental funds, as amounts 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 the assessed valuations occur due to sales transactions or the completion of construction. Property tax collection and valuation information is disclosed in the County's Comprehensive Annual Financial Report.

SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Note B. Summary of Significant Accounting Policies (continued)

Net Assets and Fund Balance

Government-wide Financial Statements and Proprietary Fund Financial Statements

Net assets consist of the following three components:

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. Invested in capital assets, net of related debt, excludes unspent debt proceeds.

Restricted net assets – These amounts represent external restrictions imposed by creditors, contributors, grantors, laws or regulations of other governments, constitutional provisions, and enabling legislation.

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

Governmental Fund Financial Statements

Governmental funds report fund balances in specifically defined classifications in accordance with the criteria established by GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The Water Agency classifies fund balances into the following five categories:

Nonspendable Fund Balance – Amounts that cannot be spent because they are not in spendable form or are legally and contractually required to be maintained intact. This balance includes advances not to be converted to cash in the next fiscal year and deposits with the Department of Fish and Game.

Restricted Fund Balance – Amounts that are restricted by external parties such as creditors or imposed by grants, laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. These amounts include resources to be used for flood control activities funded by property tax allocations, and resources resulting from voter approved special assessments to be used for the operation, maintenance and debt service for Warm Springs Dam.

Committed Fund Balance – Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action by the entity's "highest level of decision-making authority"; which the Water Agency considers to be the Board. These purposes can only be changed or cancelled by a similar Board action. The Water Agency does not report any fund balances in this classification as of June 30, 2012.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Note B. Summary of Significant Accounting Policies (continued)

Net Assets and Fund Balance (continued)

Assigned Fund Balance – Amounts intended for specific purposes by the Water Agency. Intent is expressed by the Board and delegated to the General Manager for assignment.

Unassigned Fund Balance – Amounts that constitute the residual balances of the General Fund that have no restrictions placed upon them. Unassigned fund balance is available for any purpose.

When expenditure is made for a purpose for which amounts are available in multiple classifications, the fund balance will be depleted in the following order: restricted, committed, assigned and unassigned.

	General Fund	Special Revenue			Total
		Flood Control	Warm Springs Dam	Debt Service	
Nonspendable					
Advances	\$1,592,999	\$ 110,000	\$ -	\$ -	\$ 1,702,999
Letter of Credit	-	-	8,051,081	-	8,051,081
Restricted					
Flood Control	-	23,386,230	-	-	23,386,230
Warm Springs Dam	-	-	9,004,511	79,152,765	88,157,276
Assigned					
General Fund	1,236,860	-	-	-	1,236,860
Spring Lake Park Water/wastewater loan fund	1,602,486	-	-	-	1,602,486
Energy & Sustainability	579,947	-	-	-	579,947
	534,584	-	-	-	534,584
Unassigned	3,928,987	-	-	-	3,928,987
Total	\$9,475,863	\$23,496,230	\$17,055,592	\$79,152,765	\$129,180,450

Interfund Transactions

Quasi-external transactions are intra-governmental transactions that would be treated as revenues and expenditures/expenses if they involved organizations outside the government unit. These 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.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Note B. Summary of Significant Accounting Policies (continued)

Interfund Transactions (continued)

Costs applied as reported in the General Fund consist of expenditures incurred by the General Fund that have been allocated to the Water Agency's Special Revenue and Enterprise Funds. 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 and proprietary funds are netted in conjunction with the reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance for reporting in the government-wide financial statements.

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, *Accounting and Financial Reporting for Certain Nonexchange Transactions*.

Prudent Reserve

In March 2008 the Water Advisory Committee (WAC) adopted a resolution setting out guidelines for the collection, maintenance and use of prudent reserves in the Water Transmission enterprise fund. Amounts collected via the water rates for reserve are recommended to be set aside to be used in the event of catastrophic losses. The amount collected as of the fiscal year ended June 30, 2012 is \$4,125,504. This amount is included in the unrestricted net assets.

Estimates

The preparation of the basic financial statements requires management to make estimates and assumptions that affects certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note C. Stewardship, Compliance and Accountability

Budget and Budgetary Accounting

The Board 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 major expenditure/expense classes or transfers between capital assets and operating expenses. Such transfers require approval by the County Administrator and/or Board. Revisions that change total appropriations must be approved by the Board. Annual appropriations that have not been encumbered lapse at fiscal year-end.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Note D. Cash and Investments

Authorized Investments

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

The Water Agency's pooled cash and investments are invested pursuant to investment policy guidelines established by the Treasurer and approved by the County Board of Supervisors. 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, the 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 maturity terms. Permitted investments include the following:

- U.S. Treasury and Federal Agency securities
- Bonds and notes 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) deposits
- Repurchase agreements
- Reverse repurchase agreements
- Securities lending agreements
- Mutual funds and money market mutual funds
- Collateralized mortgage obligations
- Collateralized time deposits
- Joint powers authority pools
- Investment Trust of California (Caltrust)

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Note D. Cash and Investments (continued)

Authorized Investments (continued)

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

Cash and investments as of June 30, 2012 are classified in the accompanying financial statements as follows:

Statement of net assets:

Cash and investments	\$ 171,840,496
Cash and investments with trustee	3,127,952
Cash and investments restricted for revenue bond funds	2,231,308
Cash and investments restricted for capital leases	1,146,029
Cash and investments restricted for capital projects	100,429
Fiduciary funds:	
Cash and investments	14,100
Total cash and investments	\$ 178,460,314

Cash and investments as of June 30, 2012 consist of the following:

Investment in County Treasury Pool:

Unrestricted	\$ 94,188,863
Restricted for revenue bonds	2,231,308
Restricted for capital leases	1,146,029
Restricted for capital projects	1,566
Nonpooled cash and investments:	
Cash on hand	750
Deposit	8,051,081
Investments - US Treasury STRIPS	64,058,698
Investments - SCEIP Bonds	5,555,204
Restricted for revenue bonds	3,127,952
Restricted for capital projects	98,863
Total cash and investments	\$ 178,460,314

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Note D. Cash and Investments (continued)

As of June 30, 2012, the Water Agency's investments consisted of \$97,567,766 in the Treasury Pool managed by the Treasurer, which is not rated by credit rating agencies, and had a weighted average maturity of approximately 1,176 days. The credit rating and other information regarding specific investments maintained in the Treasury Pool as of June 30, 2012 are disclosed in the County's June 30, 2012 Comprehensive Annual Financial Report.

The Water Agency reported \$64,058,698 of nonpooled cash and investments in U.S. Treasury STRIPS, which represent funds that are to be used specifically for the repayment of the Water Agency's \$100,981,477 contract payable to the U.S. Army Corps of Engineers (refer to Note I).

The Water Agency reports nonpooled cash and investments in a deposit with North Coast Bank in the amount of \$8,051,081, which satisfies requirements established by the California Department of Fish and Game.

The Water Agency has invested \$5,555,204 in the Sonoma County Energy Independence Program (SCEIP) by purchasing their 20 year bonds. SCEIP advances funds to eligible property owners in Sonoma County towards energy improvement projects.

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 its fair value is to changes in market interest rates. One of the ways that the County Treasurer manages the Water Agency's 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 information about the sensitivity of the fair value of the Water Agency's investments to market interest rate fluctuations is provided by the following table:

Investment Type	Amount	Maturity			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
County treasury pool	\$ 97,567,766	\$ 97,567,766	\$ -	\$ -	\$ -
U.S. Treasury STRIPS	64,058,698	6,104,512	6,087,601	24,060,965	27,805,620
SCEIP Bonds	5,555,204	206,268	212,503	676,827	4,459,606
Money market mutual fund	2,976,815	2,976,815	-	-	-
Total	\$ 170,158,483	\$ 106,855,361	\$ 6,300,104	\$ 24,737,792	\$ 32,265,226

SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Note D. Cash and Investments (continued)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The 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. 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 state 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) California law also allows financial institutions to secure the Water Agency's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.
- 3) The California Government Code limits the total of all securities lending transactions to 20% of the fair value of the investment portfolio.

At June 30, 2012, the carrying amount and bank balance of the Water Agency's deposit was \$8,051,081. Of the bank balance, \$250,000 was covered by federal deposit insurance and \$7,801,081 was collateralized.

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 California Government Code. Other than the Water Agency's investments in U.S. Treasury STRIPS and its investments pooled with the County, which are not subject to concentration of credit risk, there were no investments in any one issuer that represented 5% or more of the total fair value of the Water Agency's investments.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Note D. Cash and Investments (continued)

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	Minimum Legal Rating	Total	Exempt from Disclosure	Rating at year-end	
				AAA	Not Rated
County treasury pool	N/A	\$ 97,567,766	\$ -	\$ -	\$ 97,567,766
U.S. Treasury STRIPS	N/A	64,058,698	64,058,698	-	-
SCEIP Bonds	N/A	5,555,204	-	-	5,555,204
Money market mutual fund	AAAm	2,976,815	-	2,976,815	-
Total		\$ 170,158,483	\$ 64,058,698	\$ 2,976,815	\$ 103,122,970

Note E. Accounts Receivable

Accounts receivable as of June 30, 2012 is comprised of the following:

	Accounts	Inter- governmental	Total
Governmental Activities:			
General Fund	\$ 10,362	\$ 30,816	\$ 41,178
Flood Control special revenue fund	-	226,125	226,125
Warm Springs Dam special revenue	9,893	-	9,893
Total Governmental Activities	\$ 20,255	\$ 256,941	\$ 277,196
Business-type Activities:			
Water Transmission enterprise fund	\$ 3,702,463	\$ 395,681	\$ 4,098,144
Water Supply enterprise fund	897,005	1,761,348	2,658,353
Sanitation enterprise fund	141,511	-	141,511
Internal Service Funds	24,958	8,985	33,943
Total Business-Type Activities	\$ 4,765,937	\$ 2,166,014	\$ 6,931,951

SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Note F. Capital Assets

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

	July 1, 2011	Additions	Retirements	Transfers	June 30, 2012
<i>Governmental activities:</i>					
Capital assets, not being depreciated/amortized:					
Land	\$ 1,582,224	\$ -	\$ -	\$ -	\$ 1,582,224
Construction in progress	795,746	949,704	-	(601,303)	1,144,147
Intangible assets:					
Water storage rights	102,371,000	-	-	-	102,371,000
Other intangible assets	-	1,040	-	-	1,040
Total capital assets not being depreciated/amortized	104,748,970	950,744	-	(601,303)	105,098,411
Capital assets, being depreciated:					
Infrastructure	64,834,097	-	-	-	64,834,097
Buildings and improvements	3,419,740	-	-	6,750	3,426,490
Intangible assets - easements	-	32,000	-	11,800	43,800
Intangible assets - software	271,571	-	-	582,753	854,324
Equipment	992,435	25,082	(28,050)	-	989,467
Total capital assets, being depreciated	69,517,843	57,082	(28,050)	601,303	70,148,178
Less: accumulated depreciation for:					
Infrastructure	(23,787,740)	(1,562,086)	-	-	(25,349,826)
Buildings and improvements	(1,642,408)	(85,206)	-	-	(1,727,614)
Intangible assets	-	(38,796)	-	-	(38,796)
Equipment	(823,581)	(24,562)	28,050	-	(820,093)
Total accumulated depreciation	(26,253,729)	(1,710,650)	28,050	-	(27,936,329)
Total capital assets, being depreciated, net	43,264,114	(1,653,568)	-	601,303	42,211,849
Total capital assets, net	\$ 148,013,084	\$ (702,824)	\$ -	\$ -	\$ 147,310,260

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Note F. Capital Assets (continued)

	July 1, 2011	Additions	Retirements	Transfers	June 30, 2012
<i>Business-type activities</i>					
Capital assets, not being depreciated/amortized:					
Land	\$ 11,021,314	\$ -	\$ -	\$ 2,025,000	\$ 13,046,314
Construction in progress	28,686,882	8,251,008	(649,392)	(13,181,948)	23,106,550
Intangible assets:					
Water storage rights	4,996,395	-	-	-	4,996,395
Permanent easements	13,703	-	(3)	-	13,700
Total capital assets not being depreciated/amortized	44,718,294	8,251,008	(649,395)	(11,156,948)	41,162,959
Capital assets, being depreciated:					
Buildings and improvements	251,533,618	-	-	11,131,465	262,665,083
Intangible Assets - software	315,206	-	-	-	315,206
Equipment	8,390,872	885,329	(190,155)	25,483	9,111,529
Total capital assets, being depreciated	260,239,696	885,329	(190,155)	11,156,948	272,091,818
Less: accumulated depreciation for:					
Buildings and improvements	(89,552,290)	(7,836,592)	-	-	(97,388,882)
Intangible Assets - software	-	(52,775)	-	-	(52,775)
Equipment	(5,931,477)	(586,492)	178,889	-	(6,339,080)
Total accumulated depreciation	(95,483,767)	(8,475,859)	178,889	-	(103,780,737)
Total capital assets, being depreciated, net	164,755,929	(7,590,530)	(11,266)	11,156,948	168,311,081
Total capital assets, net	\$ 209,474,223	\$ 660,478	\$ (660,661)	\$ -	\$ 209,474,040

The total amount of interest capitalized into capital assets of business-type activities during the fiscal year ended June 30, 2012 amounted to \$1,285,674.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Note F. Capital Assets (continued)

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

Governmental activities:

General government	\$ 148,564
Flood control	1,562,086
Total depreciation expense - governmental activities	\$ 1,710,650

Business-type activities:

Water Transmission	\$ 5,569,561
Water Supply	185,454
Sanitation	1,196,227
Internal Service Funds	1,524,617
Total depreciation expense - business type activities	\$ 8,475,859

Intangible Asset – 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 contracts payable within the governmental activities (refer to Note I).

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.

**SONOMA COUNTY WATER AGENCY
 NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Note G. Unearned Revenue

On June 30, 2005 the Water Agency received \$6,326,257 under a supplemental water supply agreement with the Marin Municipal Water District (MMWD), dated January 25, 1996. This amount was been deferred and is being recognized on a straight-line basis over 49 years which represents the original nine-year term of the agreement plus the 40-year renewal option, which MMWD is likely to exercise. As of June 30, 2012, unearned revenue remaining from the agreement in the amount of \$5,293,399 is reported in the Water Supply fund.

The Airport Larkfield Wikiup sanitation zone entered into an agreement with the Town of Windsor for storage within the zone’s reservoirs of up to 50 million gallons of tertiary-treated recycled water. The Town of Windsor pays an annual fee for the storage based on a water year which is defined as October 1 through September 30. As a result, one quarter of the revenue received, totaling \$33,134, is reported in the Sanitation Fund and considered unearned.

The General Fund has collected \$37,142 in camping reservation fees for Spring Lake Park that will be recognized as revenue earned during the next fiscal year.

The Power Resources internal service fund received \$369,495 of funding for the installation of additional photovoltaic capacity at the Sonoma Valley treatment plant. Revenue will be recognized as expenses are incurred. As of June 30, 2012 the remaining revenue considered unearned is \$334,493.

Note H. Interfund Transactions

A summary of interfund activity as of and for the fiscal year ended June 30, 2012 is as follows:

Interfund transfers

Transfer from	Transfer to	Amount	Purpose
General Fund	Sanitation Fund	\$ 330,000	Funding for operations and construction
Total interfund transfers		\$ 330,000	

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Note H. Interfund Transactions (continued)

The Water Agency entered into a Memorandum of Agreement effective July 1, 2007 with all funds under its direct management to form the Power Resources internal service fund. The purpose of the Power Resources internal service fund is to pool electrical energy supplies, create a blended energy rate for all Water Agency activities and provide a broader base for financing future renewable energy projects.

The Power Resources internal service fund is eligible to draw up to \$1,000,000 per year for up to eight years from the Water Agency's general fund as needed to acquire electrical power assets and meet debt service payments. Repayment of these draws, together with accrued interest, is to begin in the fiscal year ending June 30, 2016 and continue until 2033. Interest is to accrue at the County's pooled investment rate of return. As of June 30, 2012, the Power Resources internal service fund has drawn \$1,500,000 from the general fund. Interest accrued as of the fiscal year ended June 30, 2012 amounted to \$92,999.

Advances from Other Funds

Advances from other funds recorded in the internal service funds consist of the following:

	Maturity Date	Interest Rate	Authorized & Issued	Outstanding June 30, 2012	Due Within One Year
General Fund	2033	0.927%	\$ 1,592,999	\$ 1,592,999	\$ -

Note I. Long-Term Obligations

Governmental Activities:

Long-Term Contract Payable:

	Maturity Date	Interest Rate	Authorized & Issued	Outstanding June 30, 2012
1986 Federal contract payable	2034	3.225%	\$ 102,371,000	\$ 100,981,477

Annual payments on the contract commenced on November 1, 1993, and will continue until 2034. The annual payments include principal and interest at a rate of 3.225%. The repayment of this obligation comes from earnings on investments in the debt service fund and the proceeds of a voter approved countywide levied property tax. The amount of the payments began at \$930,562 and increase to a maximum of \$6,285,572 annually until 2034.

Compensated Absences:

As of June 30, 2012, vested vacation and sick leave for Water Agency employees amounted to \$3,006,865. There were no compensated absences that are considered due or matured. The current amount reflected in the government-wide statement of net assets is an average of the actual payoff amount over the prior three fiscal years. Compensated absences are generally liquidated by the General Fund.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Note I. Long-Term Obligations (continued)

Business-type Activities:

General Obligation Bonds Payable:	Maturity Date	Interest Rates	Authorized & Issued	Outstanding June 30, 2012
<u>Sanitation Zones</u>				
1977 Penngrove	2017	5.00%	\$ 300,000	\$ 88,000
1980 Geyserville	2020	5.00%	500,000	185,000
Total general obligation bonds payable				\$ 273,000

Capital Leases:	Maturity Date	Interest Rates	Authorized & Issued	Outstanding June 30, 2012
Capital lease - Deutsche Bank	2016	4.65%	\$ 8,800,000	\$ 5,248,824
Capital lease - Deutsche Bank	2020	4.54%	2,000,000	1,139,907
Capital lease - SunTrust	2020	4.08%	2,750,000	1,776,943
Capital lease - Municipal Finance	2023	4.30%	5,835,000	4,785,861
Total capital leases				\$ 12,951,535

The Water Agency has entered into various lease agreements, as the lessee, for financing the acquisition of facilities and equipment. The lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception of the lease.

On July 1, 2003, the Water Agency purchased an office facility on Aviation Boulevard in Santa Rosa and financed the purchase with a capital lease with Banc of America. During the fiscal year ended June 30, 2012 Banc of America assigned this lease to Deutsche Bank. The Agency also signed two additional capital leases with Banc of America Leasing and Capital, LLC. The first lease was executed on June 23, 2005 for facilities improvements with a maturity on April 1, 2020. This lease was also assigned to Deutsche Bank. The second lease was executed on February 17, 2006 for the acquisition of solar paneling with a maturity date of October 1, 2020. This lease was assigned to SunTrust. On September 23, 2008 the Agency purchased an office/warehouse facility on Airport Boulevard and financed the purchase and improvements with a capital lease with Municipal Finance Corporation. Municipal Finance Corporation has assigned the lease to City National Bank.

The assets acquired under capital leases consist of the following as of June 30, 2012:

Buildings and improvements	\$ 24,728,561
Less: accumulated depreciation	(3,552,509)
Total	\$ 21,176,052

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Note I. Long-Term Obligations (continued)

Business-type Activities (continued)

Water Revenue Bonds Payable:

	Maturity Date	Interest Rates	Authorized & Issued	Outstanding June 30, 2012
Water revenue bonds, 2003, series A	2032	2.00-5.00%	\$15,680,000	\$12,860,000
Less: deferred amount for unamortized discount				(20,017)
Water revenue bonds, 2006, series A	2036	4.00-5.00%	11,500,000	10,435,000
Add: deferred amount for unamortized premium				100,966
Total water revenue bonds payable, net				\$23,375,949

The 2003 Series A Bonds are special obligations of the Water Agency, payable solely from the 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 bond proceeds were 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 the 2003 Series A Bond proceeds are part of the water supply and transmission system project.

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 to finance certain related costs. The 2006 Series A bonds are payable solely from the net revenues of the Water Agency's water transmission system, and amounts on deposit in the related funds and accounts.

Annual principal and interest payments for both bond issues are expected to require approximately 15% of water transmission fund net revenues. The total principal outstanding on the Water Revenue Bonds as of June 30, 2012 is \$23,295,000 and scheduled interest payments total \$15,007,839 which equals the remaining income pledged by the Water Agency through the fiscal year ending June 30, 2037. Principal and interest paid for the fiscal year ended June 30, 2012 and total water transmission net revenues were \$1,701,423 and \$10,991,445, respectively.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Note I. Long-Term Obligations (continued)

Business-type Activities (continued)

Water and Wastewater Revenue Bonds Payable:

	Maturity Date	Interest Rates	Authorized & Issued	Outstanding June 30, 2012
California Statewide Communities Development Authority (CSCDA) 2005C revenue bonds	2027	2.70-5.00%	\$6,220,000	\$4,920,000
Add: deferred amount for unamortized premium				93,860
Less: deferred amount on refunding				(384,550)
Total water and wastewater revenue bonds payable, net				\$4,629,310

The terms covering the California Statewide Communities Development Authority (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 sanitation fund revenues and such other funds 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. The total principal outstanding on the 2005C Water and Wastewater Revenue Bonds as of June 30, 2012 is \$4,920,000 and scheduled interest payments total \$1,920,808 which equals the remaining income pledged by the sanitation zone through the fiscal year ending June 30, 2027. Principal and interest paid for the fiscal year ended June 30, 2012 and total customer net revenues were \$457,944 and (\$38,639), respectively. These bond proceeds were 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.

Advances from Other Governments:

	Maturity Date	Interest Rates	Authorized & Issued	Outstanding June 30, 2012
State Revolving Fund	2027	2.79%	\$ 15,857,295	\$ 13,348,068
Sonoma Valley County Sanitation District	2019	4.198%	5,442,922	3,495,410
Total advances from other governments				\$ 16,843,478

The Water Agency constructed a collector well located adjacent to the Russian River at Wohler Road. The State of California Department of Water Resources has loaned the Water Agency up to \$15,858,989 to assist in the financing of this project. As of June 30, 2012, the Water Agency has received loan funds in the amount of \$15,857,295. The total principal outstanding on the State Revolving Fund advance as of June 30, 2012 is \$13,348,068 and scheduled interest payments total \$3,295,817 which equals the remaining income pledged by the Water Agency through the fiscal year ending June 30, 2028. Annual principal and interest payments are expected to require approximately 9% of water transmission net revenues. Principal and interest paid for the fiscal year ended June 30, 2012 and total customer net revenues were \$1,040,232 and \$10,991,445, respectively.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Note I. Long-Term Obligations (continued)

Business-type Activities (continued)

The Power Resources internal service fund entered into a loan with the Sonoma Valley County Sanitation District for the purchase of its existing photovoltaic facility. The loan amount was \$5,442,922 with an interest rate of 4.198% and a term of 12 years. The outstanding balance as of June 30, 2012 is \$3,495,410 with a current portion of \$439,900.

Changes in Long-Term Obligations

A summary of changes in long-term obligations for the fiscal year ended June 30, 2012 is as follows:

	July 1, 2011	Increases	Decreases	June 30, 2012	Amounts Due Within One Year
Governmental activities:					
Long-term contracts payable	\$ 103,915,796	\$ -	\$ (2,934,319)	\$ 100,981,477	\$ 3,028,951
Compensated absences	3,137,981	1,794,821	(1,925,937)	3,006,865	203,519
Total governmental activities	107,053,777	1,794,821	(4,860,256)	103,988,342	3,232,470
Business-type activities:					
General obligation bonds	304,000	-	(31,000)	273,000	32,000
Capital leases:					
Deutsche Bank	5,742,106	-	(493,282)	5,248,824	516,487
Deutsche Bank	1,255,743	-	(115,836)	1,139,907	121,153
SunTrust	1,948,669	-	(171,726)	1,776,943	178,803
Municipal Finance	5,101,720	-	(315,859)	4,785,861	329,586
Water revenue bonds:					
Series 2003A	13,230,000	-	(370,000)	12,860,000	385,000
Deferred amount for unamortized discount	(21,043)	-	1,026	(20,017)	(1,027)
Series 2006A	10,665,000	-	(230,000)	10,435,000	240,000
Deferred amount for unamortized premium	105,173	-	(4,207)	100,966	4,207
Water and wastewater revenue bonds:					
Series 2005C	5,155,000	-	(235,000)	4,920,000	245,000
Deferred amount for unamortized premium	100,117	-	(6,257)	93,860	6,257
Deferred amount on refunding	(410,187)	-	25,637	(384,550)	(25,637)
Advances from other governments:					
State Revolving Fund	14,001,714	-	(653,646)	13,348,068	672,032
Sonoma Valley CSD	3,917,587	-	(422,177)	3,495,410	439,900
Total business-type activities	61,095,599	-	(3,022,327)	58,073,272	3,143,761
Total	\$ 168,149,376	\$ 1,794,821	\$ (7,882,583)	\$ 162,061,614	\$ 6,376,231

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Note I. Long-Term Obligations (continued)

Debt Service Requirements

The annual principal and interest requirements on the outstanding long-term obligations as of June 30, 2012 (excluding compensated absences), are as follows:

Long-term contracts payable - 1986 Federal contract

Fiscal year ending June 30,	Principal	Interest	Total
2013	\$ 3,028,951	\$ 3,256,620	\$ 6,285,571
2014	3,126,635	3,158,937	6,285,572
2015	3,227,469	3,058,103	6,285,572
2016	3,331,555	2,954,017	6,285,572
2017	3,438,997	2,846,574	6,285,571
2018-2022	18,931,890	12,495,968	31,427,858
2023-2027	22,188,013	9,239,844	31,427,857
2028-2032	26,004,163	5,423,695	31,427,858
2033-2035	17,703,804	1,153,910	18,857,714
Total long-term contracts payable	\$ 100,981,477	\$ 43,587,668	\$ 144,569,145

General obligation bonds

Fiscal year ending June 30,	Principal	Interest	Total
2013	\$ 32,000	\$ 13,325	\$ 45,325
2014	34,000	11,700	45,700
2015	35,000	10,000	45,000
2016	38,000	8,225	46,225
2017	40,000	6,300	46,300
2018-2020	94,000	8,300	102,300
Total general obligation bonds	\$ 273,000	\$ 57,850	\$ 330,850

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Note I. Long-Term Obligations (continued)

Capital leases

Fiscal year ending June 30,	Principal	Interest	Total
2013	\$ 1,146,029	\$ 561,497	\$ 1,707,526
2014	1,197,581	509,945	1,707,526
2015	1,251,457	456,069	1,707,526
2016	4,340,240	399,764	4,740,004
2017	745,863	207,042	952,905
2018-2022	3,505,671	541,344	4,047,015
2023-2024	764,694	33,115	797,809
Total capital leases	\$ 12,951,535	\$ 2,708,776	\$ 15,660,311

Water revenue bonds

Fiscal year ending June 30,	Principal	Interest	Total
2013	\$ 625,000	\$ 1,076,923	\$ 1,701,923
2014	650,000	1,051,423	1,701,423
2015	675,000	1,024,923	1,699,923
2016	700,000	997,154	1,697,154
2017	730,000	967,723	1,697,723
2018-2022	4,150,000	4,326,769	8,476,769
2023-2027	5,165,000	3,265,843	8,430,843
2028-2032	6,520,000	1,865,831	8,385,831
2033-2037	4,080,000	431,250	4,511,250
Total water revenue bonds	\$ 23,295,000	\$ 15,007,839	\$ 38,302,839

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Note I. Long-Term Obligations (continued)

Water and wastewater revenue bonds

Fiscal year ending June 30,	Principal	Interest	Total
2013	\$ 245,000	\$ 214,901	\$ 459,901
2014	255,000	206,274	461,274
2015	260,000	197,066	457,066
2016	275,000	187,165	462,165
2017	280,000	176,619	456,619
2018-2022	1,590,000	689,424	2,279,424
2023-2027	2,015,000	249,359	2,264,359
Total water and wastewater revenue bonds	\$ 4,920,000	\$ 1,920,808	\$ 6,840,808

Advances from other governments

Fiscal year ending June 30,	Principal	Interest	Total
2013	\$ 1,111,932	\$ 514,937	\$ 1,626,869
2014	1,149,303	477,566	1,626,869
2015	1,187,981	438,888	1,626,869
2016	1,228,013	398,856	1,626,869
2017	1,269,449	357,420	1,626,869
2018-2022	5,186,777	1,187,655	6,374,432
2023-2027	4,691,006	510,152	5,201,158
2028	1,019,017	21,395	1,040,412
Total advances from other governments	\$ 16,843,478	\$ 3,906,869	\$ 20,750,347

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Note J. Pollution Remediation Obligation

The Water Agency purchased a parcel as part of a litigation settlement in 2000 to resolve claims related to possible lead-contaminated fill used in connection with a Water Agency flood control project. As owner of the parcel, the Water Agency is responsible for clean-up costs related to the fill. The Water Agency has investigated the extent of lead contamination on the property and the adjacent area. The North Coast Regional Water Quality Control Board (“NC Regional Board”) required the Water Agency to perform an updated Human Health Risk Assessment and an Ecological Risk Assessment as a condition of obtaining site closure for the parcel. The Water Agency submitted these assessments and a Closure Work Plan to the NC Regional Board in July 2008 and is awaiting a response from the NC Regional Board and the City of Santa Rosa Fire Department. The City of Santa Rosa Fire Department is the agency with responsibility and jurisdiction for managing the site cleanup.

The Closure Work Plan proposes to perform a lot line adjustment separating the front portion of the property where there are no human health issues based on the risk assessment so that the existing house can be put on the market and sold. For the back half of the property, the work plan proposes to incorporate the affected site into the City of Santa Rosa’s bike path project changing the risk of human exposure so that no significant clean up will be required. It is anticipated that there will need to be annual monitoring and soil removal on the back half of the property, as well as a deed restriction and long-term easement. However, the NC Regional Board and the Santa Rosa Fire Department have not yet approved the work plan.

In accordance with GASB Statement No. 49, the Agency has estimated its potential pollution remediation liability as of June 30, 2012 by utilizing the expected cash flow technique. This methodology examined estimated costs for pre-cleanup activities, remediation/clean-up activities, regulatory agency costs, and post remediation-monitoring costs. The estimated liability for the Agency as of June 30, 2012 is \$230,234. Discussions with the NC Regional Board and the City of Santa Rosa Fire Department continue and since no agreement has been reached the estimated obligation continues to be considered long term.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Note K. Employees' Retirement Plan

Plan Description

The Water Agency contributes to the County's cost sharing multiple-employer defined benefit pension plan (the Plan) that is administered by the Sonoma County Employees' Retirement Association (the Retirement Association), a public employee retirement system. 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. The Plan provides retirement, disability, death and survivor benefits and cost-of-living adjustments to plan members and beneficiaries. 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. The Board of Retirement has the authority to establish and amend benefit provisions and these shall then be adopted by the County Board of Supervisors. The Retirement Association issues an annual financial report that includes financial statements and required supplementary information for the Plan which can be obtained by writing to the Sonoma County Employees' Retirement Association, 433 Aviation Blvd., Suite 100, Santa Rosa, CA 95403-1069.

The financial statements for the County (the primary government) contain additional financial information for the defined pension benefits, which is not presented here because the Water Agency's portion cannot be separated from the whole.

Funding Policy

Plan members were required to contribute between 7% - 14% of their annual covered salary, depending upon their age at their date of entry, of their annual covered salary as of June 30, 2012, 2011 and 2010. The Water Agency is required to contribute at a contractually determined rate which was 34.31% for the fiscal year ended June 30, 2012. Contribution requirements of the Plan members and the Water Agency are established and may be amended by the Board of Retirement.

Annual Pension Cost

The Water Agency's contributions to the Plan for the fiscal years ended 2012, 2011, and 2010 were \$4,614,562, \$3,996,682, and \$3,764,270 respectively.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Note L. Postemployment Benefits

Plan Description

The employees of the Water Agency participate in the County administered postemployment healthcare plan (PH Plan), a cost sharing multiple-employer defined benefit postemployment healthcare plan. On June 30, 2008, the County established another postemployment health benefit (OPEB) trust with the Public Agency Retirement Services (PARS) which is used to accumulate resources to fund future benefits, however it does not represent the activities of the PH Plan. In addition, the County entered into a Memorandum of Understanding (MOU) with the Retirement Association to perform retiree health benefit administrative services, although retiree healthcare eligibility is determined by the Human Resources-Risk Management Division of the County.

The County offers either a defined benefit or defined contribution plan in accordance with County Salary Resolution No. 95-0926. Retirees may choose one of four medical plans for either the defined benefit or defined contribution plan. Authority to establish and amend benefit provisions of the PH Plan resides with the County Board of Supervisors. For purposes of accounting and financial reporting, the PH Plan is treated as a single employer plan as the majority of the participants are employees of the County.

Participants must retire from Water Agency service, be covered under a medical plan of the County at the time of retirement, and be eligible to receive a monthly pension from the Retirement Association's defined benefit pension plan at the time of retirement. Benefits are as follows:

- Employees hired prior to 1/1/1990 receive 'retiree plus family' coverage without any service requirements. Employees hired on or after 1/1/1990 but before 1/1/2009 (a) with ten years of Water Agency service are eligible to receive Water Agency subsidized 'retiree only' medical coverage or (b) with twenty years of Water Agency service are eligible to receive Water Agency-subsidized 'retiree and one dependent' medical coverage, with the retiree bearing the full cost of premiums for covering additional dependents.
- Effective 6/1/09, the Water Agency began to phase in a contribution maximum toward the cost of the PH Plan over a five year period. Retirees and the Water Agency share in the cost of monthly premium for medical coverage. The fiscal year 2008-2009 Water Agency contribution will be adjusted incrementally each year until it reaches a \$500 per month maximum contribution.

SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Note L. Postemployment Benefits (continued)

Plan Description (continued)

After the phase in period has elapsed the Water Agency will contribute the same dollar amount as it contributes toward the cost of the offered medical plans for active unrepresented Administrative Management employees. Retirees may enroll eligible dependents in the Water Agency's offered medical plan elected by the retiree, but the retiree is responsible for all premium costs in excess of the Water Agency's contribution. Effective 4/10/07, disability retirees are subject to the same service requirements as regular retirees.

For employees hired on or after 1/1/2009, the Water Agency contributes to a Defined Contribution Retiree Medical Benefit Plan for each employee in the form of a deposit into a Health Reimbursement Arrangement (HRA) account. Any eligible retiree and eligible dependent(s) may enroll in a County offered medical plan, but the retiree is responsible for all costs. Upon completion of two full years of consecutive Sonoma County regular service in pay status the Water Agency provides (a) an initial contribution of \$2,400 to an HRA account established in the employees name, the initial contribution of \$2,400 is based on full-time status and is prorated based on their allocated position and (b) contributes \$.58 per pay status hour, not including overtime, for each eligible employee. Once the employee has worked two full years of service and the initial contribution to their HRA account is made, there are no further service requirements and no requirement to be covered under a medical plan sponsored by the County at the time of retirement or in retirement to receive this benefit.

The Water Agency reimburses retirees a fixed amount of \$96.40 per month for Medicare Part B premiums, to encourage participation in Medicare for over-65 retirees.

Funding Policy

The PH Plan funding policy provides for periodic contributions by the Water Agency. The contribution rate is determined on an annual basis and is authorized by the County Board of Supervisors.

The Water Agency recognizes expenditures for the cost of retiree health care benefits on a bi-weekly basis as part of the payroll process. The expenditures recognized are based upon the contribution rate which is applied to the Water Agency's covered payroll. The amount of supplemental health care premiums paid for the fiscal years ended June 30, 2012, 2011, and 2010 was \$1,215,948, \$1,203,229 and \$1,237,947, respectively.

**SONOMA COUNTY WATER AGENCY
 NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Note L. Postemployment Benefits (continued)

Funding Policy (continued)

The financial statements for the County (the primary government) contain the financial information for the postemployment benefits, which is not presented here because the Water Agency's share cannot be separated from the whole.

Note M. Related Party Transactions

The Water Agency is a special district under the Board of Supervisors, and as such, has the same board members as the County. The Water Agency manages and provides administration, engineering, operational, and maintenance services for the Occidental County Sanitation District (Occidental), Russian River County Sanitation District (Russian River), Sonoma Valley County Sanitation District (Sonoma Valley) and the South Park County Sanitation District (South Park), which are all component units of the County. Since, both the Water Agency and the four sanitation districts are component units of the County, the sanitation districts and the Water Agency are considered related parties.

The Water Agency allocates overhead costs to the sanitation districts via the use of an overhead rate charged on labor applicable to the districts. The overhead rate is reviewed periodically by management to determine its effectiveness. In addition, the Water Agency allocates other services to the districts based on project coding. A summary of the total costs charged to the sanitation districts by the Water Agency for the fiscal year ended June 30, 2012 is as follows:

Occidental County Sanitation District	\$ 418,442
Russian River County Sanitation District	2,273,242
Sonoma Valley County Sanitation District	5,871,805
South Park County Sanitation District	107,508
	<u>\$ 8,670,997</u>

For the fiscal year ended June 30, 2012, the Water Agency provided the Occidental County Sanitation District \$720,000 in funding to assist the District in meeting operating and construction expenses.

The Water Agency is acting as the pass through agency for federal grants to Occidental and Sonoma Valley. The grant for Occidental is from the Environmental Protection Agency for the Storage and Reclamation project. Grant proceeds recorded amount to \$185,933 of which \$170,503 is outstanding. The grant for Sonoma Valley is an American Recovery and Reinvestment Act (ARRA) grant from the Bureau of Reclamation for projects related to the North San Pablo Bay Water Reclamation and Reuse project. Grant proceeds amounted to \$957,860 of which \$133,897 is outstanding.

SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Note N. Risk Management

The Water Agency is exposed to various risks of loss related torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Water Agency is covered by the County'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 \$25,000,000.

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 \$10,000,000 and a \$25,000 deductible.

The County maintains "All Risk" property insurance including flood and earthquake through participation in the CSAC-EIA Property Insurance Program. Limits of coverage are \$610,000,000 per occurrence for All Risk, \$602,500,000 for flood and \$82,500,000 per occurrence for earthquake. Deductibles for most perils are \$50,000 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 ended June 30, 2012, the Water Agency paid annual premiums to the County for this insurance coverage in the amount of \$163,119. Settlements have not exceeded coverage for each of the past three fiscal years.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Note O. Commitments and Contingencies

Construction

The Water Agency has active construction projects as of June 30, 2012. The projects include expansion and/or improvements of several flood control, water storage and wastewater treatment facilities. As of June 30, 2012, the Water Agency's commitments to construction projects are as follows:

<u>Project</u>	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
General Funds:		
General - Software Development	\$ 231,375	\$ 263,671
General - Construction	200,931	
Sustainability	281,304	
Flood Control:		
Zone 1A – Laguna Mark West	322,395	9,284
Warm Springs Dam	108,142	2,810
Water transmission facilities	924,085	
Water Storage facilities	575,775	115,254
Pipeline facilities	4,164,188	68,260
Common facilities	14,150,503	1,057,874
Internal service facilities	1,421,307	170,270
ISF Power Resources	225,576	29,500
Sanitation facilities	811,402	14
Water supply facilities	833,714	29,966
Total	<u>\$ 24,250,697</u>	<u>\$ 1,746,903</u>

The balances spent-to-date includes 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 the 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.

Pending Litigation, Claims and Assessments

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.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Note O. Commitments and Contingencies (continued)

Pending Litigation, Claims and Assessments (continued)

The Department of Homeland Security recently conducted an interim audit of disaster relief funding related to the 2005-06 flood events. The Water Agency had several projects included in the testing. Preliminary findings indicate the Water Agency may need to return a portion of the disaster relief funding received. The full extent of that will not be known until a final audit is conducted once the event is closed.

Other Regulatory Matters

In September 2008, the National Marine Fisheries Service issued a “Biological Opinion” analyzing the impact of the Water Agency’s existing water supply activities on three fish species listed under the federal Endangered Species Act (ESA), and containing a “Reasonable and Prudent Alternative” describing measures that the Water Agency must take over a 15-year period in order to obtain an incidental take statement under the federal ESA. The Agency intends to fund such obligations from several sources, including revenues from the Water Agency’s water transmission system and balances in the Water Agency’s Warm Springs Dam fund.

The Endangered Species Act also affects the manner and the extent to which the Water Agency can maintain flood control channels. Water Agency 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 potentially increases the Water Agency's degree of exposure to individual property owners and possible litigation in the event of wet weather and any resulting flooding.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Note P. Economic Dependence

Four major customers purchased water from the Water Agency during the fiscal year ended June 30, 2012. Water sales revenue for the fiscal year ended June 30, 2012 and accounts receivable as of June 30, 2012 associated with those customers are as follows:

	Water Sales	% of Total Water Sales
City of Santa Rosa	\$ 10,988,208	32.65%
Marin Municipal	5,360,430	15.93%
North Marin County	5,039,684	14.98%
City of Petaluma	5,014,761	14.90%
	\$ 26,403,083	78.46%

	Accounts Receivable	% of Total Accounts Receivable
City of Santa Rosa	\$ 1,180,282	17.5%
Marin Municipal	1,091,827	16.2%
North Marin County	692,050	10.2%
City of Petaluma	630,410	9.3%
	\$ 3,594,569	53.2%

Note Q. Subsequent Event

On July 11, 2012, the Sonoma County Water Agency issued the Water Revenue Refunding Bonds 2012 Series A (2012A) to refund and defease the outstanding principal (\$12,475,000) of the 2003 Series A Bonds, provide a reserve account for the 2012A Bonds and pay the costs of issuing the 2012A Bonds. The 2003A Bonds were redeemed on July 23, 2012.

The 2012A bonds have a total par amount of \$12,265,000 and reach final maturity on July 1, 2032. Principal will be payable on July 1st of each year. Interest will be payable on January 1 and July 1 of each year. Payments commence on January 1, 2013. Interest rates are from 0.30% to 5.00%. The 2012A bonds have a net present value savings of \$2,122,222.

On June 20, 2012, as part of the 2012 Series A Bonds financing process, Standard & Poor's raised its long-term rating to 'AA' from 'AA-' on the Water Agency's water revenue bonds outstanding and assigned its 'AA' long-term rating to the Water Agency's 2012 Series A Bonds. Also on June 20, 2012, Fitch affirmed its municipal bond long-term rating of 'AA+' on the Water Agency's water revenue bonds outstanding and assigned the long-term rating of 'AA+' to the Water Agency's 2012 Series A Bonds.

SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Note R. Future Governmental Accounting Standards

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

GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, issued in December 2010. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

This Statement also supersedes *GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement. GASB Statement No. 62 is effective for financial statements for fiscal years beginning after December 15, 2011.

GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position, issued in June 2011. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. *Concepts Statement No. 4, Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. GASB Statement No. 63 is effective for financial statements for fiscal years beginning after December 15, 2011.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Note R. Future Governmental Accounting Standards (Continued)

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, issued in March 2012. The objective of this Statement is to either (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). These determinations are based on the definitions of those elements in *Concepts Statement No. 4, Elements of Financial Statements*. GASB Statement No. 65 is effective for financial statements for fiscal years beginning after December 15, 2012.

GASB Statement No. 67, *Financial Reporting for Pension Plans* and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, issued in June 2012. These statements result from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. These statements will increase the financial reporting requirements for cost sharing multiple-employer plans such as the County's, in which the Water Agency participates. GASB Statement No. 67 is effective for years beginning after June 15, 2013 and GASB Statement No. 68 is effective for years beginning after June 15, 2014.

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

Required Supplementary Information

**SONOMA COUNTY WATER AGENCY
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGETARY BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>See Note A</u>	<u>Final Budget</u>
REVENUES				
Property taxes	\$ 6,400,883	\$ 6,400,883	\$ 6,515,163	\$ 114,280
Investment earnings	59,911	59,911	126,575	66,664
Intergovernmental	292,385	427,385	190,997	(236,388)
Charges for services	348,800	433,800	498,619	64,819
Miscellaneous	407,500	407,500	111,533	(295,967)
Total revenues	<u>7,509,479</u>	<u>7,729,479</u>	<u>7,442,887</u>	<u>(286,592)</u>
EXPENDITURES				
Current:				
Salaries and benefits	27,816,753	29,582,392	29,575,514	6,878
Services and supplies	12,910,138	14,327,764	11,982,469	2,345,295
Costs applied	(36,310,000)	(36,310,000)	(36,434,260)	124,260
Capital outlay	830,600	1,716,723	1,163,157	553,566
Contingencies	300,000	-	-	-
Total expenditures	<u>5,547,491</u>	<u>9,316,879</u>	<u>6,286,880</u>	<u>3,029,999</u>
Excess of revenues over expenditures	<u>1,961,988</u>	<u>(1,587,400)</u>	<u>1,156,007</u>	<u>2,743,407</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	210,000	1,745,000	1,745,000	-
Transfers to related government	-	-	(720,000)	(720,000)
Transfers out	(2,120,000)	(5,605,000)	(2,075,000)	3,530,000
Total other financing sources (uses)	<u>(1,910,000)</u>	<u>(3,860,000)</u>	<u>(1,050,000)</u>	<u>2,810,000</u>
Net changes in fund balance	<u>\$ 51,988</u>	<u>\$ (5,447,400)</u>	106,007	<u>\$ 5,553,407</u>
GAAP basis difference - encumbrances			661,602	
Fund balance - beginning of year			<u>8,708,254</u>	
Fund balance - end of year			<u>\$ 9,475,863</u>	

**SONOMA COUNTY WATER AGENCY
FLOOD CONTROL SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGETARY BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> <u>(Budgetary Basis)</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>See Note A</u>	<u>Final Budget</u>
REVENUES				
Property taxes	\$ 7,214,608	\$ 7,214,608	\$ 7,336,997	\$ 122,389
Investment earnings	62,453	62,453	224,121	161,668
Intergovernmental	76,071	76,071	343,451	267,380
Miscellaneous	52,000	636,696	73,812	(562,884)
Total revenues	<u>7,405,132</u>	<u>7,989,828</u>	<u>7,978,381</u>	<u>(11,447)</u>
EXPENDITURES				
Current:				
Services and supplies	12,670,339	17,608,685	9,071,177	8,537,508
Pollution remediation	-	-	3,691	(3,691)
Capital outlay	95,000	515,000	15,098	499,902
Total expenditures	<u>12,765,339</u>	<u>18,123,685</u>	<u>9,089,966</u>	<u>9,033,719</u>
Net changes in fund balance	<u>\$ (5,360,207)</u>	<u>\$ (10,133,857)</u>	(1,111,585)	<u>\$ (9,045,166)</u>
GAAP basis difference - encumbrances			332,661	
Fund balance - beginning of year			<u>24,275,154</u>	
Fund balance - end of year			<u>\$ 23,496,230</u>	

**SONOMA COUNTY WATER AGENCY
WARM SPRINGS DAM SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGETARY BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> <u>(Budgetary Basis)</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>See Note A</u>	<u>Final Budget</u>
REVENUES				
Property taxes	\$ 4,291,971	\$ 4,291,971	\$ 5,000,869	\$ 708,898
Investment earnings	550	550	189,413	188,863
Intergovernmental	43,007	43,007	66,705	23,698
Miscellaneous	-	-	96,281	96,281
Total revenues	<u>4,335,528</u>	<u>4,335,528</u>	<u>5,353,268</u>	<u>1,017,740</u>
EXPENDITURES				
Current:				
Services and supplies	9,457,548	10,295,079	2,750,033	7,545,046
Capital outlay	500,000	500,000	115,943	384,057
Total expenditures	<u>9,957,548</u>	<u>10,795,079</u>	<u>2,865,976</u>	<u>7,929,103</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(5,622,020)</u>	<u>(6,459,551)</u>	<u>2,487,292</u>	<u>(6,911,363)</u>
Net changes in fund balance	<u>\$ (5,622,020)</u>	<u>\$ (6,459,551)</u>	<u>2,487,292</u>	<u>\$ 8,946,843</u>
GAAP basis difference - encumbrances			(112,104)	
Fund balance - beginning of year			<u>14,680,404</u>	
Fund balance - end of year			<u>\$ 17,055,592</u>	

**SONOMA COUNTY WATER AGENCY
NOTE TO BUDGETARY COMPARISON INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Note A. Budgetary Presentation

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 purposes of 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 to 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	Flood	Warm	Total
	Fund	Control	Springs Dam	Total
Net change in fund balance	\$ 106,007	\$ (1,111,585)	\$ 2,487,292	\$ 1,481,714
Expenditure charges against prior year encumbrances	(928,616)	(3,207,562)	(1,771,340)	(5,907,518)
Current year encumbrances	1,590,218	3,540,223	1,659,236	6,789,677
Net change in fund balance GAAP basis	\$ 767,609	\$ (778,924)	\$ 2,375,188	\$ 2,363,873

Supplementary Information

**SONOMA COUNTY WATER AGENCY
 COMBINING BALANCE SHEET
 FLOOD CONTROL SPECIAL REVENUE FUNDS
 JUNE 30, 2012**

	Flood Control Funds			
	Zone 1A Laguna Mark West	Zone 2A Petaluma Basin	Zone 3A Valley of the Moon	Zone 5A Lower Russian River
Assets				
Cash and investments	\$ 7,347,046	\$ 8,932,798	\$ 3,204,685	\$ 2,076,146
Accounts receivable	226,125	-	-	-
Notes receivable	-	-	110,000	-
Total assets	<u>\$ 7,573,171</u>	<u>\$ 8,932,798</u>	<u>\$ 3,314,685</u>	<u>\$ 2,076,146</u>
Liabilities and fund balances				
Liabilities:				
Accounts payable	\$ 304,523	\$ 51,167	\$ 87,654	\$ 1,269
Fund balances:				
Non-spendable	-	-	110,000	-
Restricted	7,268,648	8,881,631	3,117,031	2,074,877
Total liabilities and fund balances	<u>\$ 7,573,171</u>	<u>\$ 8,932,798</u>	<u>\$ 3,314,685</u>	<u>\$ 2,076,146</u>

**SONOMA COUNTY WATER AGENCY
 COMBINING BALANCE SHEET (CONTINUED)
 FLOOD CONTROL SPECIAL REVENUE FUNDS
 JUNE 30, 2012**

Flood Control Funds			
Zone 7A North Coast	Zone 8A South Coast	Total Flood Control Funds	
\$ 79,509	\$ 1,967,921	\$ 23,608,105	Assets
-	-	226,125	Cash and investments
-	-	110,000	Accounts receivable
\$ 79,509	\$ 1,967,921	\$ 23,944,230	Notes receivable
			Total assets
			Liabilities and fund balances
			Liabilities:
\$ 3,387	\$ -	\$ 448,000	Accounts payable
-	-	110,000	Fund balances:
76,122	1,967,921	23,386,230	Non-spendable
-	-	-	Restricted
\$ 79,509	\$ 1,967,921	\$ 23,944,230	Total liabilities and fund balances

**SONOMA COUNTY WATER AGENCY
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FLOOD CONTROL SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	Flood Control Funds			
	Zone 1A Laguna Mark West	Zone 2A Petaluma Basin	Zone 3A Valley of the Moon	Zone 5A Lower Russian River
REVENUES				
Property taxes	\$ 4,950,525	\$ 1,296,068	\$ 787,190	\$ 170,390
Investment earnings	78,851	81,206	28,295	17,915
Intergovernmental	297,690	20,385	19,585	4,507
Miscellaneous	47,188	13,074	-	-
Total revenues	<u>5,374,254</u>	<u>1,410,733</u>	<u>835,070</u>	<u>192,812</u>
EXPENDITURES				
Current:				
Services and supplies	6,631,068	1,405,732	599,063	29,366
Pollution remediation	3,691	-	-	-
Capital outlay	15,098	-	-	-
Total expenditures	<u>6,649,857</u>	<u>1,405,732</u>	<u>599,063</u>	<u>29,366</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,275,603)</u>	<u>5,001</u>	<u>236,007</u>	<u>163,446</u>
Net change in fund balances	(1,275,603)	5,001	236,007	163,446
Fund balances - beginning of year	<u>8,544,251</u>	<u>8,876,630</u>	<u>2,991,024</u>	<u>1,911,431</u>
Fund balances - end of year	<u>\$ 7,268,648</u>	<u>\$ 8,881,631</u>	<u>\$ 3,227,031</u>	<u>\$ 2,074,877</u>

**SONOMA COUNTY WATER AGENCY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES (CONTINUED)
 FLOOD CONTROL SPECIAL REVENUE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

<u>Flood Control Funds</u>			
<u>Zone 7A North Coast</u>	<u>Zone 8A South Coast</u>	<u>Total Flood Control Funds</u>	
\$ -	\$ 132,824	\$ 7,336,997	REVENUES
717	17,137	224,121	Property taxes
-	1,284	343,451	Investment earnings
13,550	-	73,812	Intergovernmental
<u>14,267</u>	<u>151,245</u>	<u>7,978,381</u>	Miscellaneous
			Total revenues
			EXPENDITURES
			Current:
13,676	59,611	8,738,516	Services and supplies
-	-	3,691	Pollution remediation
-	-	15,098	Capital outlay
<u>13,676</u>	<u>59,611</u>	<u>8,757,305</u>	Total expenditures
			Excess (deficiency) of revenues over (under) expenditures
591	91,634	(778,924)	
			Net change in fund balances
591	91,634	(778,924)	
<u>75,531</u>	<u>1,876,287</u>	<u>24,275,154</u>	Fund balances - beginning of year
<u>\$ 76,122</u>	<u>\$ 1,967,921</u>	<u>\$ 23,496,230</u>	Fund balances - end of year

**SONOMA COUNTY WATER AGENCY
COMBINING STATEMENT OF NET ASSETS
SANITATION ENTERPRISE FUNDS
JUNE 30, 2012**

	Sanitation Funds				Total Sanitation Funds
	Sea Ranch	Penngrove	Geyserville	Airport Larkfield Wikip	
ASSETS					
Current assets:					
Cash and investments	\$ 577,390	\$ 783,674	\$ 630,238	\$ 924,916	\$ 2,916,218
Accounts receivable	5,850	13,093	33,997	88,571	141,511
Prepaid expenses	-	-	-	203,954	203,954
Total current assets	<u>583,240</u>	<u>796,767</u>	<u>664,235</u>	<u>1,217,441</u>	<u>3,261,683</u>
Noncurrent assets:					
Restricted assets					
Cash - revenue bond funds	-	10,029	47,259	200,168	257,456
Total restricted assets	<u>-</u>	<u>10,029</u>	<u>47,259</u>	<u>200,168</u>	<u>257,456</u>
Deferred charges	-	-	-	98,906	98,906
Advances to other funds	-	-	-	-	-
Capital assets, net					
Land	-	-	106,213	1,515,231	1,621,444
Construction in progress	-	49,107	-	762,295	811,402
Intangible assets - permanent easements	-	-	-	13,700	13,700
Buildings and improvements	498,052	1,069,892	613,062	19,240,911	21,421,917
Equipment	-	40,283	7,702	88,869	136,854
Total capital assets	<u>498,052</u>	<u>1,159,282</u>	<u>726,977</u>	<u>21,621,006</u>	<u>24,005,317</u>
Total noncurrent assets	<u>498,052</u>	<u>1,169,311</u>	<u>774,236</u>	<u>21,920,080</u>	<u>24,361,679</u>
Total assets	<u>1,081,292</u>	<u>1,966,078</u>	<u>1,438,471</u>	<u>23,137,521</u>	<u>27,623,362</u>
LIABILITIES					
Current liabilities payable from unrestricted assets:					
Accounts payable and accrued expenses	30,205	270,016	2,854	21,160	324,235
Unearned revenue	-	-	-	33,134	33,134
Total current liabilities payable from unrestricted assets	<u>30,205</u>	<u>270,016</u>	<u>2,854</u>	<u>54,294</u>	<u>357,369</u>
Current liabilities payable from restricted assets:					
Interest payable	-	1,467	-	54,767	56,234
General obligation bonds payable	-	13,000	19,000	-	32,000
Revenue bonds payable	-	-	-	225,620	225,620
Total current liabilities payable from restricted assets	<u>-</u>	<u>14,467</u>	<u>19,000</u>	<u>280,387</u>	<u>313,854</u>
Noncurrent liabilities:					
General obligation bonds payable	-	75,000	166,000	-	241,000
Revenue bonds payable	-	-	-	4,403,690	4,403,690
Total noncurrent liabilities	<u>-</u>	<u>75,000</u>	<u>166,000</u>	<u>4,403,690</u>	<u>4,644,690</u>
Total liabilities	<u>30,205</u>	<u>359,483</u>	<u>187,854</u>	<u>4,738,371</u>	<u>5,315,913</u>
NET ASSETS					
Invested in capital assets, net of related debt	498,052	1,071,282	541,977	16,991,696	19,103,007
Restricted for:					
Debt service	-	8,562	47,259	145,401	201,222
Recycled water and water conservation	-	427	15,093	186,028	201,548
Unrestricted	553,035	526,324	646,288	1,076,025	2,801,672
Total net assets	<u>\$ 1,051,087</u>	<u>\$ 1,606,595</u>	<u>\$ 1,250,617</u>	<u>\$ 18,399,150</u>	<u>\$ 22,307,449</u>

SONOMA COUNTY WATER AGENCY
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
SANITATION ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Sanitation Funds				Total Sanitation Funds
	Sea Ranch	Penngrove	Geyserville	Airport Lakefield Wikiup	
OPERATING REVENUE					
Flat charges	\$ 522,150	\$ 581,480	\$ 282,703	\$ 2,211,600	\$ 3,597,933
Sanitation services	-	7,449	3,177	181,162	191,788
Real estate rental	-	-	-	50,000	50,000
Miscellaneous	-	-	-	9,554	9,554
Total operating revenue	<u>522,150</u>	<u>588,929</u>	<u>285,880</u>	<u>2,452,316</u>	<u>3,849,275</u>
OPERATING EXPENSES					
Services and supplies	450,026	630,952	228,930	3,053,147	4,363,055
Depreciation and amortization	90,239	50,638	73,508	988,436	1,202,821
Total operating expenses	<u>540,265</u>	<u>681,590</u>	<u>302,438</u>	<u>4,041,583</u>	<u>5,565,876</u>
Operating loss	<u>(18,115)</u>	<u>(92,661)</u>	<u>(16,558)</u>	<u>(1,589,267)</u>	<u>(1,716,601)</u>
NONOPERATING REVENUES (EXPENSES)					
Taxes and assessments	-	14,720	23,287	-	38,007
Investment earnings	5,343	59,444	6,146	14,251	85,184
Interest expense	-	(3,427)	(9,725)	(236,591)	(249,743)
Conservation program expense	-	(5,545)	(3,805)	(64,015)	(73,365)
Loss on disposal of capital assets	-	-	-	(810)	(810)
Intergovernmental revenue	-	139	160	175,791	176,090
Total nonoperating revenue (expenses), net	<u>5,343</u>	<u>65,331</u>	<u>16,063</u>	<u>(111,374)</u>	<u>(24,637)</u>
Loss before capital contributions and transfers	<u>(12,772)</u>	<u>(27,330)</u>	<u>(495)</u>	<u>(1,700,641)</u>	<u>(1,741,238)</u>
Capital contributions - connection fees	-	-	3,265	42,150	45,415
Capital contributions - other	-	-	-	643,790	643,790
Transfers in	-	-	-	330,000	330,000
Change in net assets	<u>(12,772)</u>	<u>(27,330)</u>	<u>2,770</u>	<u>(684,701)</u>	<u>(722,033)</u>
Net assets - beginning of year	<u>1,063,859</u>	<u>1,633,925</u>	<u>1,247,847</u>	<u>19,083,851</u>	<u>23,029,482</u>
Net assets - end of year	<u>\$ 1,051,087</u>	<u>\$ 1,606,595</u>	<u>\$ 1,250,617</u>	<u>\$ 18,399,150</u>	<u>\$ 22,307,449</u>

**SONOMA COUNTY WATER AGENCY
COMBINING STATEMENT OF CASH FLOWS
SANITATION ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	Sanitation Funds				Total Sanitation Funds
	Sea Ranch	Penngrove	Geyserville	Airport Larkfield Wikiup	
Cash flows from operating activities:					
Cash receipts from customers	\$ 521,568	\$ 705,497	\$ 273,377	\$ 2,523,804	\$ 4,024,246
Cash payments for interfund services used	(97,247)	(83,675)	(204,381)	(2,253,619)	(2,638,922)
Cash payments to suppliers	(351,065)	(518,573)	(29,070)	(662,242)	(1,560,950)
Conservation program outlays	-	(5,545)	(3,805)	(64,015)	(73,365)
Net cash provided by (used for) operating activities	<u>73,256</u>	<u>97,704</u>	<u>36,121</u>	<u>(456,072)</u>	<u>(248,991)</u>
Cash flows from noncapital financing activities:					
Taxes and assessments	-	14,720	23,287	-	38,007
Transfers in	-	-	-	330,000	330,000
Intergovernmental receipts	-	139	160	132,537	132,836
Net cash provided by noncapital financing activities	<u>-</u>	<u>14,859</u>	<u>23,447</u>	<u>462,537</u>	<u>500,843</u>
Cash flows from capital and related financing activities:					
Purchase of capital assets	-	(50,767)	-	(44,270)	(95,037)
Principal paid on general obligation and revenue bonds	-	(12,000)	(19,000)	(235,000)	(266,000)
Interest paid on long-term debt	-	(4,700)	(9,725)	(222,944)	(237,369)
Connection fees	-	-	3,265	42,150	45,415
Net cash used for capital and related financing activities	<u>-</u>	<u>(67,467)</u>	<u>(25,460)</u>	<u>(460,064)</u>	<u>(552,991)</u>
Cash flows from investing activities:					
Interest received	5,343	59,444	6,146	14,251	85,184
Net cash provided by investing activities	<u>5,343</u>	<u>59,444</u>	<u>6,146</u>	<u>14,251</u>	<u>85,184</u>
Net increase (decrease) in cash and cash equivalents	78,599	104,540	40,254	(439,348)	(215,955)
Cash and cash equivalents - beginning of year	498,791	689,163	637,243	1,564,432	3,389,629
Cash and cash equivalents - end of year	<u>\$ 577,390</u>	<u>\$ 793,703</u>	<u>\$ 677,497</u>	<u>\$ 1,125,084</u>	<u>\$ 3,173,674</u>
Reconciliation to the statement of net assets:					
Cash and investments	\$ 577,390	\$ 783,674	\$ 630,238	\$ 924,916	\$ 2,916,218
Restricted cash and investments	-	10,029	47,259	200,168	257,456
Cash and cash equivalents	<u>\$ 577,390</u>	<u>\$ 793,703</u>	<u>\$ 677,497</u>	<u>\$ 1,125,084</u>	<u>\$ 3,173,674</u>
Reconciliation of operating loss to net cash provided by (used for) operating activities:					
Operating loss	\$ (18,115)	\$ (92,661)	\$ (16,558)	\$ (1,589,267)	\$ (1,716,601)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities:					
Conservation program outlays	-	(5,545)	(3,805)	(64,015)	(73,365)
Depreciation and amortization	90,239	50,638	73,508	988,436	1,202,821
Change in assets and liabilities:					
Receivables, net	(582)	116,568	(12,503)	71,488	174,971
Prepaid expenses	-	-	-	203,964	203,964
Accounts payable and accrued expenses	1,714	28,704	(4,521)	(66,678)	(40,781)
Net cash provided by (used for) operating activities	<u>\$ 73,256</u>	<u>\$ 97,704</u>	<u>\$ 36,121</u>	<u>\$ (456,072)</u>	<u>\$ (248,991)</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:					
Increase in capital assets for capitalized interest	\$ -	\$ 1,073	\$ -	\$ 3,794	\$ 4,867
Increase in capital assets - donated assets	-	-	-	643,790	643,790
Loss on disposal of capital assets	-	-	-	(810)	(810)
Construction in progress reclassified to prepaid expense	-	-	-	407,908	407,908

**SONOMA COUNTY WATER AGENCY
COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICES FUNDS
JUNE 30, 2012**

	<u>Internal Service Funds</u>		<u>Total Internal Service Funds</u>
	<u>Equipment Facilities</u>	<u>Power Resources</u>	
ASSETS			
Current assets:			
Cash and Investments	\$ 6,567,794	\$ 1,953,597	\$ 8,521,391
Accounts receivable	7,858	26,085	33,943
Prepaid expenses	-	651,342	651,342
Total current assets	<u>6,575,652</u>	<u>2,631,024</u>	<u>9,206,676</u>
Noncurrent assets:			
Restricted assets			
Cash - capital leases	846,073	299,956	1,146,029
Cash - capital projects	100,429	-	100,429
Total restricted assets	<u>946,502</u>	<u>299,956</u>	<u>1,246,458</u>
Capital assets, net			
Land	4,714,861	-	4,714,861
Construction in progress	1,421,307	225,576	1,646,883
Intangible assets - software	153,991	-	153,991
Buildings and improvements	21,939,799	14,316,522	36,256,321
Equipment	1,570,897	7,295	1,578,192
Total capital assets	<u>29,800,855</u>	<u>14,549,393</u>	<u>44,350,248</u>
Total noncurrent assets	<u>30,747,357</u>	<u>14,849,349</u>	<u>45,596,706</u>
Total assets	<u>37,323,009</u>	<u>17,480,373</u>	<u>54,803,382</u>
LIABILITIES			
Current liabilities payable from unrestricted assets:			
Accounts payable and accrued expenses	247,080	597,878	844,958
Due to other governments	-	439,900	439,900
Unearned revenue	-	334,493	334,493
Total current liabilities payable from unrestricted assets	<u>247,080</u>	<u>1,372,271</u>	<u>1,619,351</u>
Current liabilities payable from restricted assets:			
Interest payable	105,726	31,060	136,786
Capital leases	846,073	299,956	1,146,029
Total current liabilities payable from restricted assets	<u>951,799</u>	<u>331,016</u>	<u>1,282,815</u>
Noncurrent liabilities:			
Capital leases	9,188,612	2,616,894	11,805,506
Advances from other governments	-	3,055,510	3,055,510
Advances from other funds	-	1,592,999	1,592,999
Total noncurrent liabilities	<u>9,188,612</u>	<u>7,265,403</u>	<u>16,454,015</u>
Total liabilities	<u>10,387,491</u>	<u>8,968,690</u>	<u>19,356,181</u>
NET ASSETS			
Invested in capital assets, net of related debt	19,866,599	8,137,133	28,003,732
Restricted for:			
Debt service	740,347	268,896	1,009,243
Capital projects	100,429	-	100,429
Unrestricted	<u>6,228,143</u>	<u>105,654</u>	<u>6,333,797</u>
Total net assets	<u>\$ 26,935,518</u>	<u>\$ 8,511,683</u>	<u>\$ 35,447,201</u>

SONOMA COUNTY WATER AGENCY
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>Internal Service Funds</u>		<u>Total Internal Service Funds</u>
	<u>Equipment Facilities</u>	<u>Power Resources</u>	
OPERATING REVENUE			
Power sales	\$ -	\$ 5,220,474	\$ 5,220,474
Equipment rental	2,287,618	-	2,287,618
Real estate rental	4,174,600	-	4,174,600
Miscellaneous	26,168	11,860	38,028
Total operating revenue	<u>6,488,386</u>	<u>5,232,334</u>	<u>11,720,720</u>
OPERATING EXPENSES			
Services and supplies	3,135,245	4,300,298	7,435,543
Depreciation and amortization	1,113,142	411,475	1,524,617
Total operating expenses	<u>4,248,387</u>	<u>4,711,773</u>	<u>8,960,160</u>
Operating income	<u>2,239,999</u>	<u>520,561</u>	<u>2,760,560</u>
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	69,812	22,193	92,005
Interest expense	65,623	(305,344)	(239,721)
Loss on disposal of capital assets	(17,731)	-	(17,731)
Total nonoperating expenses, net	<u>117,704</u>	<u>(283,151)</u>	<u>(165,447)</u>
Income before capital contributions and transfers	2,357,703	237,410	2,595,113
Capital contributions - other	<u>21,566</u>	<u>43,987</u>	<u>65,553</u>
Change in net assets	2,379,269	281,397	2,660,666
Net assets - beginning of year	<u>24,556,249</u>	<u>8,230,286</u>	<u>32,786,535</u>
Net assets - end of year	<u>\$ 26,935,518</u>	<u>\$ 8,511,683</u>	<u>\$ 35,447,201</u>

**SONOMA COUNTY WATER AGENCY
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>Internal Service Funds</u>		Total Internal Service Funds
	Equipment Facilities	Power Resources	
Cash flows from operating activities:			
Cash receipts from interfund services provided	\$ 6,481,938	\$ 5,225,606	\$ 11,707,544
Cash payments for interfund services used	(1,908,149)	(185,797)	(2,093,946)
Cash payments to suppliers	(1,225,604)	(4,634,886)	(5,860,490)
Net cash provided by operating activities	<u>3,348,185</u>	<u>404,923</u>	<u>3,753,108</u>
Cash flows from capital and related financing activities:			
Purchase of capital assets	(3,728,930)	(161,146)	(3,890,076)
Principal paid on capital leases	(809,141)	(287,561)	(1,096,702)
Principal paid on advances from other governments	-	(422,177)	(422,177)
Interest paid on long-term debt	(477,354)	(297,931)	(775,285)
Capital contributions - other	21,566	427,812	449,378
Net cash used for capital and related financing activities	<u>(4,993,859)</u>	<u>(741,003)</u>	<u>(5,734,862)</u>
Cash flows from investing activities:			
Interest received	69,812	22,193	92,005
Net cash provided by investing activities	<u>69,812</u>	<u>22,193</u>	<u>92,005</u>
Net increase in cash and cash equivalents	(1,575,862)	(313,887)	(1,889,749)
Cash and cash equivalents - beginning of year	9,090,158	2,567,440	11,657,598
Cash and cash equivalents - end of year	<u>\$ 7,514,296</u>	<u>\$ 2,253,553</u>	<u>\$ 9,767,849</u>
Reconciliation to the statement of net assets:			
Cash and investments	\$ 6,567,794	\$ 1,953,597	\$ 8,521,391
Restricted cash and investments	946,502	299,956	1,246,458
Cash and cash equivalents	<u>\$ 7,514,296</u>	<u>\$ 2,253,553</u>	<u>\$ 9,767,849</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 2,239,999	\$ 520,561	\$ 2,760,560
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation and amortization	1,113,142	411,475	1,524,617
Change in assets and liabilities:			
Receivables, net	(6,448)	(6,728)	(13,176)
Prepaid expenses	-	(440,479)	(440,479)
Accounts payable and accrued expenses	1,492	(79,906)	(78,414)
Net cash provided by operating activities	<u>\$ 3,348,185</u>	<u>\$ 404,923</u>	<u>\$ 3,753,108</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition of capital assets through accounts payable	\$ 79,305	\$ -	\$ 79,305
Increase in capital assets for capitalized interest	534,577	4,152	538,729
Loss on disposal of capital assets	(17,731)	-	(17,731)
Capital contribution receivable	-	(8,985)	(8,985)

Compliance

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

Board of Directors
Sonoma County Water Agency
Santa Rosa, California

We have audited the basic financial statements of Sonoma County Water Agency (the "Water Agency"), a component unit of the County of Sonoma, California as of and for the year ended June 30, 2012, and have issued our report thereon dated October 19, 2012. 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

Management of the Water Agency is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Water Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Water Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Water Agency's internal control over financial reporting

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 basic 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*.

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**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit
of Financial Statements Performed in Accordance with
Government Auditing Standards (continued)**

We noted certain matters that we reported to management of the Water Agency in a separate letter dated October 19, 2012.

This report is intended solely for the information and use of the board of directors, management, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

PricewaterhouseCoopers LLP

Petaluma, California
October 19, 2012