

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

Independent Auditor's Reports, Management's
Discussion and Analysis, Basic Financial
Statements, Required Supplementary Information, and
Other Supplementary Information

For the Fiscal Year Ended June 30, 2010

**SONOMA COUNTY WATER AGENCY
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

TABLE OF CONTENTS

	<u>Page(s)</u>
Independent Auditor’s 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	26-60
Required Supplementary Information:	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Budgetary Basis – General Fund.....	61
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Budgetary Basis – Flood Control Special Revenue Fund	62
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Budgetary Basis – Warm Springs Dam Special Revenue Fund.....	63
Note to Required Supplementary Information.....	64

**SONOMA COUNTY WATER AGENCY
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

TABLE OF CONTENTS (continued)

	<u>Page(s)</u>
Other Supplementary Information:	
Combining Balance Sheet – Flood Control Special Revenue Funds.....	65-66
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Flood Control Special Revenue Funds.....	67-68
Combining Statement of Net Assets – Sanitation Enterprise Funds.....	69
Combining Statement of Revenues, Expenses and Changes in Net Assets – Sanitation Enterprise Funds.....	70
Combining Statement of Cash Flows – Sanitation Enterprise Funds.....	71
Combining Statement of Net Assets – Internal Service Funds.....	72
Combining Statement of Revenues, Expenses and Changes in Net Assets – Internal Service Funds.....	73
Combining Statement of Cash Flows – Internal Service Funds.....	74
Other Report:	
Independent Auditor’s 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>	75-76



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

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Sonoma County Water Agency (Water Agency), a component unit of the County of Sonoma, California, as of and for the fiscal year ended June 30, 2010, which collectively comprise the Water Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Water Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Sonoma County Water Agency, as of June 30, 2010, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note D to the basic financial statements, effective July 1, 2009, the Water Agency implemented Governmental Accounting Standards Board (GASB) Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2010 on our consideration of the Water Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Water Agency's basic financial statements. The accompanying combining financial statements listed as other supplementary information in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Macinnis & O'Connell LLP

Certified Public Accountants

Sacramento, California
November 30, 2010

Management's Discussion and Analysis

**SONOMA COUNTY WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(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, 2010. 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 \$354,293,885 (net assets). Of this amount \$38,620,121 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$806,646 during the current fiscal year. The Water Agency's governmental activities realized an increase in net assets of \$4,433,972 while its business-type activities reported a decrease of \$3,627,326.
- As of the close of the current fiscal year, the Water Agency's governmental funds reported combined ending fund balances of \$131,413,913, an increase of \$3,449,277. Approximately 30% of this total amount, \$39,399,842 is available for spending at the Water Agency's discretion (unreserved, undesignated fund balance).
- At the end of the current fiscal year, unreserved, undesignated fund balance for the General Fund, which includes Spring Lake Park and the Waste/Recycled Water Loan fund, was \$9,276,537 or approximately 25% of total general fund expenditures, which amounted to \$36,618,331 for the fiscal year ended June 30, 2010.

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, 2010
(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, capital outlay and debt service. 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, 2010
(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 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, 2010
(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 \$354,293,885 as of June 30, 2010.

The largest portion of the Water Agency's net assets (53%) reflects its investment in capital assets (e.g., land, construction in progress, infrastructure, buildings, machinery and equipment); less any related debt used to acquire those assets that 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.

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

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2009	June 30, 2010	June 30, 2009*	June 30, 2010	June 30, 2009	June 30, 2010
Current and other assets	\$ 129,744,335	\$ 133,432,451	\$ 53,987,003	\$ 50,570,307	\$ 183,731,338	\$ 184,002,758
Capital assets	150,547,639	148,940,510	214,192,807	209,386,387	364,740,446	358,326,897
Total assets	280,291,974	282,372,961	268,179,810	259,956,694	548,471,784	542,329,655
Current liabilities	6,956,905	7,285,297	9,017,626	7,460,179	15,974,531	14,745,476
Noncurrent liabilities	109,453,564	106,772,187	69,556,450	66,518,107	179,010,014	173,290,294
Total liabilities	116,410,469	114,057,484	78,574,076	73,978,286	194,984,545	188,035,770
Invested in capital assets, net of related debt	41,035,367	42,182,070	147,384,624	146,238,805	188,419,991	188,420,875
Restricted	117,902,026	118,070,202	9,806,424	9,182,687	127,708,450	127,252,889
Unrestricted	4,944,112	8,063,205	32,414,686	30,556,916	37,358,798	38,620,121
Total net assets	\$ 163,881,505	\$ 168,315,477	\$ 189,605,734	\$ 185,978,408	\$ 353,487,239	\$ 354,293,885

* Certain amounts have been restated from amounts previously reported to reflect the implementation of GASB Statement No. 51.

A portion of the Water Agency's net assets, \$127,252,889 (36%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$38,620,121, may be used to meet the Water Agency's ongoing obligations to citizens and creditors.

As of June 30, 2010, 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 \$806,646 during the fiscal year ended June 30, 2010. This increase is a net result of revenues exceeding expenses in the governmental activities offset by expenses exceeding revenues in the business-type activities.

**SONOMA COUNTY WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)**

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

	Governmental Activities		Business-Type Activities		Total	
	Fiscal Year Ended June 30, 2009	2010	Fiscal Year Ended June 30, 2009*	2010	Fiscal Year Ended June 30, 2009	2010
Revenues:						
Program Revenues:						
Charges for services	\$390,969	\$664,769	\$33,188,478	\$32,192,144	\$33,579,447	\$32,856,913
Operating grants and contributions	-	359,382	1,086,087	3,070,266	1,086,087	3,429,648
Capital grants and contributions	449,198	-	263,656	140,444	712,854	140,444
General Revenues:						
Property taxes	19,455,086	18,911,088	41,224	41,216	19,496,310	18,952,304
Investment earnings	6,197,798	6,074,946	1,208,115	408,379	7,405,913	6,483,325
Miscellaneous	261,518	-	90,655	80,934	352,173	80,934
Total revenues	26,754,569	26,010,185	35,878,215	35,933,383	62,632,784	61,943,568
Expenses:						
General government	2,678,374	2,435,380	-	-	2,678,374	2,435,380
Flood control	9,148,324	8,741,194	-	-	9,148,324	8,741,194
Warm Springs Dam	1,651,684	3,309,084	-	-	1,651,684	3,309,084
Interest on long-term debt	3,560,417	3,472,533	-	-	3,560,417	3,472,533
Water transmission	-	-	29,888,545	28,563,239	29,888,545	28,563,239
Water supply	-	-	6,220,325	9,342,303	6,220,325	9,342,303
Sanitation	-	-	5,298,049	5,273,189	5,298,049	5,273,189
Total expenses	17,038,799	17,958,191	41,406,919	43,178,731	58,445,718	61,136,922
Change in net assets before transfers	9,715,770	8,051,994	(5,528,704)	(7,245,348)	4,187,066	806,646
Transfers	(3,601,625)	(3,618,022)	3,601,625	3,618,022	-	-
Change in net assets	6,114,145	4,433,972	(1,927,079)	(3,627,326)	4,187,066	806,646
Net assets - beginning of year	157,767,360	163,881,505	191,532,813	189,605,734	349,300,173	353,487,239
Net assets - end of year	\$163,881,505	\$168,315,477	\$189,605,734	\$185,978,408	\$353,487,239	\$354,293,885

* Certain amounts have been restated from amounts previously reported to reflect the implementation of GASB Statement No. 51.

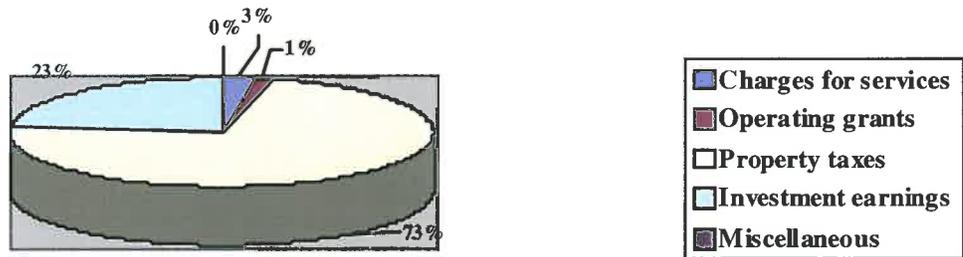
**SONOMA COUNTY WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)**

Governmental Activities

Governmental activities increased the Water Agency's net assets by \$4,433,972. Key elements of the Water Agency's governmental activities are identified below.

- Property tax revenues of \$18,911,088, including \$5,022,072 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 \$6,074,946 was due primarily to a \$5,469,428 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 \$605,518 were realized.
- Revenues for the fiscal year ended June 30, 2010 decreased by \$744,384 from the prior fiscal year while expenses increased by \$919,392 over the same period. The revenue decrease is due primarily to a decrease in property tax revenues due to decreased assessed property values. The expenditure increase is due primarily to increases in maintenance projects and studies in Warm Springs Dam for work outlined by the Biological Opinion related to the protection of endangered salmon species in Dry Creek and the Russian River (refer to Note Q to the basic financial statements).

Revenues by Source – Governmental Activities



Business-type activities

Business-type activities decreased the Water Agency's net assets by \$3,627,326. Key elements of the Water Agency's business-type activities are identified below.

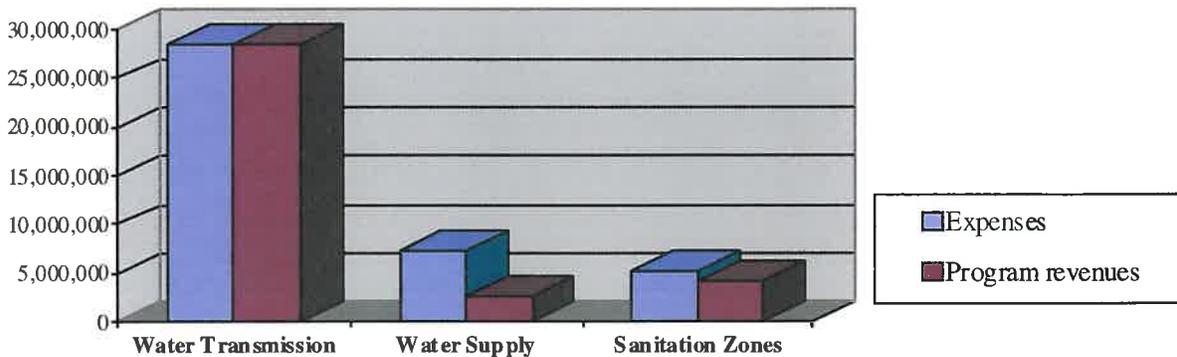
- Water sales revenues decreased \$847,888 from the prior fiscal year. This decrease was due primarily to a 16.5% decrease in total acre-feet sold during the year, offset by an average increase of 19.5% in water rates from the fiscal year ended June 30, 2009.
- Sewer service revenues increased due to 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.

**SONOMA COUNTY WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)**

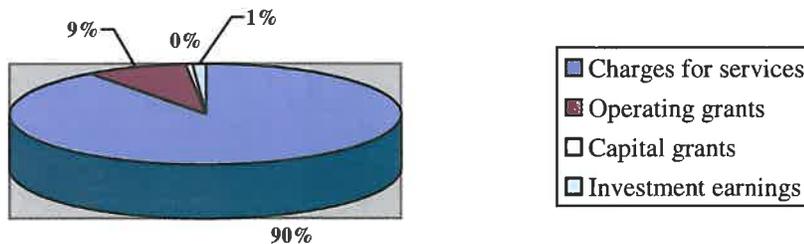
Business-type activities (continued)

- Operating Grants and contributions totaling \$3,070,266 were received during the fiscal year ended June 30, 2010. Grants include funding from the state towards Proposition 50 washer rebate programs, North San Pablo Bay restoration and California Energy Commission renewable energy project. Other contributions include funding agreements for water conservation projects and a storage pond use agreement with the Town of Windsor.
- Investment earnings for the fiscal year ended June 30, 2010 totaled \$408,379.
- Transfers from the Water Agency's General Fund totaling \$5,280,692 were received during the fiscal year ended June 30, 2010. These transfers were for the purpose of financing various projects related to recycled water (\$3,076,000), Russian River projects (\$434,398), expanded water conservation programs in various sanitation zones (\$313,000) and a refund of overhead charges (\$1,157,294). In addition, the Water Transmission fund returned \$1,000,000 to the General Fund due to a higher than anticipated balance in retained earnings and the Equipment Fund returned a net of \$662,670 to other business-type activities due to the Water Agency's intent to reduce its vehicle fleet. The net transfers for Business-type activities totaled \$3,618,022.

Expenses and Program Revenues – Business-type Activities



Revenues by Source – Business-type activities



**SONOMA COUNTY WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)**

Financial Analysis of the Government's Funds

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

Governmental funds

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

As of June 30, 2010, the Water Agency's governmental funds reported combined ending fund balances of \$131,413,913, an increase of \$3,449,277 in comparison with the prior year. Approximately 30% of this total amount, \$39,399,842, constitutes unreserved, undesignated fund balance, which is available for spending at the Water Agency's discretion. The remaining fund balance is reserved or designated to indicate that it is not available for new spending because it has already been committed (1) to pay debt service, \$84,247,669, (2) to liquidate contracts and purchase orders of the prior period, \$6,509,562, (3) for contingencies, \$75,000, and (4) noncurrent assets.

The General Fund is the chief operating fund of the Water Agency. At the end of the current fiscal year, unreserved, undesignated fund balance of the General Fund, including Spring Lake Park and the Waste/Recycled Water Loan Fund was \$9,276,537, while total fund balance reached \$11,048,426.

The special revenue funds, consisting of six (6) flood control zones and Warm Springs Dam, reported fiscal year end fund balances of \$23,442,322 and \$12,675,496, respectively, of which a total of \$30,123,305 is unreserved, \$110,000 is reserved for notes receivable and the remaining fund balance of \$5,884,513 reserved for encumbrances.

The Debt Service Fund has a total fund balance of \$84,247,669, all of which is reserved for the payment of debt service on the USACE contract for Warm Springs Dam.

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, 2010 amounted to \$24,027,575. The Water Supply Fund reported a deficit balance in unrestricted net assets of (\$2,701,796) as the result of the required deferred revenue recognition (amortization) of Marin Municipal Water District's water rights payment. The Sanitation Fund reported unrestricted net assets of \$3,234,969. Other factors concerning the finances of these three funds have been previously addressed in the discussion of the Water Agency's business-type activities.

**SONOMA COUNTY WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)**

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 \$3,366,327, while budgeted revenues were decreased by \$431,237 during the fiscal year ended June 30, 2010.

The primary component of the increase in budgeted expenditures consists of a \$3,021,019 increase in appropriations for transfers. The Water Agency also increased budgeted services and supplies by \$1,114,563 and decreased budgeted salaries and benefits by \$833,255, a result of decreasing overall staff by seven positions.

The Water Agency's actual revenues exceeded the budgeted revenue estimates due primarily to a higher than anticipated property tax allocation. Actual expenditures were less than the budgeted estimates due primarily to reductions in facilities rent and lower than anticipated costs in consultant and legal services, reimbursable work, 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, 2010, amounts to \$358,326,897 (net of accumulated depreciation and amortization). This investment in capital assets includes land, intangible assets such as permanent easements, buildings and improvements, machinery and equipment, dams, collection systems and water storage rights.

Major capital asset events during the fiscal year ended June 30, 2010 included the completion of the following projects. The amounts shown represent the total life-to-date construction costs of each project.

Business Type Activities:

- Capital expansion within the Water Transmission fund included:

- Collector Six (final costs) - \$2,839,756
 - Oakmont Pipeline (final costs) - \$736,390
 - Kawana Springs Tank # 2 (residual costs) - \$478,836

- Capital expansion within the Sanitation Zones included:

- Sea Ranch Collection System Replacement - \$83,398
 - Penngrove Sewer Rehabilitation Project - \$524,239
 - Airport – Larkfield – Wikiup Microfiltration Enhancements \$437,090
 - Airport – Larkfield – Wikiup Irrigation Pump Replacements - \$95,939

- Capital expansion within the Equipment Facilities Internal Service Fund included:

- Administration Building – Video Monitor System - \$37,254

**SONOMA COUNTY WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)**

Capital Asset and Debt Administration (continued)

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

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2009	June 30, 2010	June 30, 2009*	June 30, 2010	June 30, 2009	June 30, 2010
Water storage rights	\$ 102,371,000	\$ 102,371,000	\$ 4,996,395	\$ 4,996,395	\$ 107,367,395	\$ 107,367,395
Intangible assets	-	-	-	12,544	-	12,544
Land	1,550,209	1,573,126	11,021,314	11,021,314	12,571,523	12,594,440
Construction in progress	259,792	342,705	29,643,068	26,188,770	29,902,860	26,531,475
Infrastructure	44,170,529	42,608,443	166,492,684	-	210,663,213	42,608,443
Buildings and improvements	1,948,435	1,862,633	-	165,073,776	1,948,435	166,936,409
Machinery and equipment	247,674	182,603	2,039,346	2,093,588	2,287,020	2,276,191
Total net assets	\$ 150,547,639	\$ 148,940,510	\$ 214,192,807	\$ 209,386,387	\$ 364,740,446	\$ 358,326,897

* Certain amounts have been restated from amounts previously reported to reflect the implementation of GASB Statement No. 51.

Additional information on the Water Agency's capital assets can be found in Note H of this report.

Long-term debt

As of June 30, 2010, the Water Agency had a total of \$173,756,708 in outstanding debt. Of this amount \$334,000 comprises general obligation bonds which is backed by the full faith and credit of the Water Agency; \$15,097,740 is related to capital leases; \$29,855,000 in revenue bonds payable from the Water Agency's operating income; \$14,637,477 represents funds advanced to the Water Agency from the California Department of Water Resources; \$4,322,755 represents advances from Sonoma Valley County Sanitation District; \$106,758,440 is a federal long-term contract payable; and \$2,751,296 is comprised of amounts payable to employees for unused sick and vacation leave upon termination.

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

	June 30,	June 30,	Change	
	2009	2010	\$	%
General obligation bonds	\$ 362,000	\$ 334,000	\$ (28,000)	-7.7%
Capital leases	16,102,078	15,097,740	(1,004,338)	-6.2%
Revenue bonds	30,635,000	29,855,000	(780,000)	-2.5%
Advances from other governments	19,967,446	18,960,232	(1,007,214)	-5.0%
Federal contract payable	109,512,272	106,758,440	(2,753,832)	-2.5%
Compensated absences	2,530,081	2,751,296	221,215	8.7%
Total	\$ 179,108,877	\$ 173,756,708	\$ (5,352,169)	-3.0%

The Water Agency's total debt decreased by \$5,352,169 (-3.0%) during the fiscal year ended June 30, 2010.

**SONOMA COUNTY WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)**

Long-term debt (continued)

The outstanding total of general obligation bonds, capital leases, revenue bonds, advances from other governments and federal contract payable decreased by 7.7%, 6.2%, 2.5%, 5.0%, and 2.5%, respectively, during the fiscal year ended June 30, 2010 due to annual principal payments.

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

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

Next Year's Budgets and Rates

During the fiscal year ended June 30, 2010, unreserved, undesignated fund balance in the General Fund increased to \$9,276,537. The Agency has appropriated \$1,188,940 of this amount for spending in the fiscal year ending June 30, 2011 budget.

Both the water and sewer rates were increased for the fiscal year ending June 30, 2011 budget. Water rates were increased by an average of 7.27%, while sewer rates increased an average of 7.69%.

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.

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

	Santa Rosa Aqueduct	Petaluma Aqueduct	Sonoma Aqueduct
Operations and maintenance	\$ 517.29	\$ 517.29	\$517.29
Revenue bond charges:			
Aqueduct revenue bonds charge	0.00	0.00	70.55
Storage facility revenue bonds charge	22.93	22.93	22.93
Common facilities revenue bonds charge	63.70	63.70	63.70
Aqueduct capital charge	0.00	0.00	0.00
Total	\$ 603.92	\$ 603.92	\$674.47

**SONOMA COUNTY WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)**

Next Year's Budgets and Rates (continued)

Sewer Service Rate per Equivalent Single-Family Dwelling

	2009/10	2010/11	Change
Sanitation Zone			
Sea Ranch	\$ 824	\$ 878	6.55%
Penngrove	969	1,056	8.98%
Geyserville	752	805	7.05%
Airport-Larkfield-Wikiup	550	594	8.00%

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

	2009/10	2010/11	Change
Sanitation Zone			
Sea Ranch	573	574	0.17%
Penngrove	514	514	0.00%
Geyserville	348	352	1.15%
Airport-Larkfield-Wikiup	3,623	3,667	1.21%

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, 2010**

ASSETS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Current assets:			
Cash and investments	\$ 132,059,613	\$ 36,781,749	\$ 168,841,362
Accounts receivable	190,998	6,740,959	6,931,957
Notes receivable	110,000	-	110,000
Prepaid expenses	-	928,969	928,969
Internal balances	1,071,840	(1,071,840)	-
Total current assets	<u>133,432,451</u>	<u>43,379,837</u>	<u>176,812,288</u>
Noncurrent assets:			
Restricted assets:			
Cash and investments with trustee	-	2,850,724	2,850,724
Cash - revenue bond funds	-	1,637,263	1,637,263
Cash - capital leases	-	1,049,502	1,049,502
Cash - capital projects	-	857,251	857,251
Total restricted assets	<u>-</u>	<u>6,394,740</u>	<u>6,394,740</u>
Deposits with others	-	13,000	13,000
Accounts receivable	-	250,000	250,000
Deferred charges	-	532,730	532,730
Capital assets, net			
Land	1,573,126	11,021,314	12,594,440
Construction in progress	342,705	26,188,770	26,531,475
Intangible asset - water storage rights	102,371,000	4,996,395	107,367,395
Intangible asset - other	-	12,544	12,544
Infrastructure	42,608,443	-	42,608,443
Buildings and improvements	1,862,633	165,073,776	166,936,409
Equipment	182,603	2,093,588	2,276,191
Total capital assets	<u>148,940,510</u>	<u>209,386,387</u>	<u>358,326,897</u>
Total noncurrent assets	<u>148,940,510</u>	<u>216,576,857</u>	<u>365,517,367</u>
Total assets	<u>282,372,961</u>	<u>259,956,694</u>	<u>542,329,655</u>

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

SONOMA COUNTY WATER AGENCY
STATEMENT OF NET ASSETS (CONTINUED)
JUNE 30, 2010

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
LIABILITIES			
Current liabilities payable from unrestricted assets:			
Accounts payable and accrued expenses	1,986,265	3,595,527	5,581,792
Due to other governments	-	1,040,930	1,040,930
Compensated absences	128,830	-	128,830
Unearned revenue	32,273	164,228	196,501
Interest payable	2,295,285	-	2,295,285
Long-term contracts payable	2,842,644	-	2,842,644
Total current liabilities payable from unrestricted assets	<u>7,285,297</u>	<u>4,800,685</u>	<u>12,085,982</u>
Current liabilities payable from restricted assets:			
Deposits from others	-	4,230	4,230
Interest payable	-	786,962	786,962
General obligation bonds payable	-	30,000	30,000
Capital leases	-	1,049,502	1,049,502
Revenue bonds payable	-	788,800	788,800
Total current liabilities payable from restricted assets	<u>-</u>	<u>2,659,494</u>	<u>2,659,494</u>
Noncurrent liabilities:			
Compensated absences	2,622,466	-	2,622,466
General obligation bonds payable	-	304,000	304,000
Capital leases	-	14,048,238	14,048,238
Revenue bonds payable	-	28,824,061	28,824,061
Long-term contracts payable	103,915,796	-	103,915,796
Advances from other governments	-	17,919,302	17,919,302
Pollution remediation obligation	233,925	-	233,925
Unearned revenue	-	5,422,506	5,422,506
Total noncurrent liabilities	<u>106,772,187</u>	<u>66,518,107</u>	<u>173,290,294</u>
Total liabilities	<u>114,057,484</u>	<u>73,978,286</u>	<u>188,035,770</u>
NET ASSETS			
Invested in capital assets, net of related debt	42,182,070	146,238,805	188,420,875
Restricted for flood control	23,442,322	-	23,442,322
Restricted for Warm Springs Dam	12,675,496	-	12,675,496
Restricted for debt service	81,952,384	3,313,878	85,266,262
Restricted for capital projects	-	2,302,670	2,302,670
Restricted for recycled water and water conservation	-	3,566,139	3,566,139
Unrestricted	8,063,205	30,556,916	38,620,121
Total net assets	<u>\$ 168,315,477</u>	<u>\$ 185,978,408</u>	<u>\$ 354,293,885</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, 2010

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	\$ 2,435,380	\$ 600,971	\$ 134,804	\$ -	\$ (1,699,605)	\$ -	\$ (1,699,605)
Flood control	8,741,194	63,494	143,921	-	(8,533,779)	-	(8,533,779)
Warm Springs Dam	3,309,084	304	80,657	-	(3,228,123)	-	(3,228,123)
Interest on long-term debt	3,472,533	-	-	-	(3,472,533)	-	(3,472,533)
Total governmental activities	17,958,191	664,769	359,382	-	(16,934,040)	-	(16,934,040)
Business-type activities:							
Water transmission	28,563,239	27,197,878	1,269,488	-	-	(95,873)	(95,873)
Water supply	9,342,303	1,660,960	1,012,051	11,399	-	(6,657,893)	(6,657,893)
Sanitation	5,273,189	3,333,306	788,727	129,045	-	(1,022,111)	(1,022,111)
Total business-type activities	43,178,731	32,192,144	3,070,266	140,444	-	(7,775,877)	(7,775,877)
Total primary government	\$ 61,136,922	\$ 32,856,913	\$ 3,429,648	\$ 140,444	(16,934,040)	(7,775,877)	(24,709,917)
General revenues:							
Taxes:							
Property taxes, levied for general purposes					13,889,016	-	13,889,016
Property taxes, levied for debt service and assurances					5,022,072	41,216	5,063,288
Unrestricted investment earnings					6,074,946	408,379	6,483,325
Gain on disposal of capital assets					-	80,934	80,934
Transfers					(3,618,022)	3,618,022	-
Total general revenues and transfers					21,368,012	4,148,551	25,516,563
Change in net assets					4,433,972	(3,627,326)	806,646
Net assets - beginning of year, as restated					163,881,505	189,605,734	353,487,239
Net assets - end of year					\$ 168,315,477	\$ 185,978,408	\$ 354,293,885

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

**SONOMA COUNTY WATER AGENCY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010**

	<u>Special Revenue Funds</u>				Total Governmental Funds
	General	Flood Control	Warm Springs Dam	Debt Service	
Assets					
Cash and investments	\$ 10,161,631	\$ 23,939,532	\$ 13,710,781	\$ 84,247,669	\$ 132,059,613
Accounts receivable	177,998	13,000	-	-	190,998
Notes receivable	-	110,000	-	-	110,000
Advances to other funds	1,071,840	-	-	-	1,071,840
Total assets	\$ 11,411,469	\$ 24,062,532	\$ 13,710,781	\$ 84,247,669	\$ 133,432,451
Liabilities and fund balances					
Liabilities:					
Accounts payable	\$ 330,770	\$ 620,210	\$ 1,035,285	\$ -	\$ 1,986,265
Unearned revenue	32,273	-	-	-	32,273
Total liabilities	363,043	620,210	1,035,285	-	2,018,538
Fund balances:					
Reserved for:					
Encumbrances	625,049	3,118,206	2,766,307	-	6,509,562
Debt service	-	-	-	84,247,669	84,247,669
Notes receivable	-	110,000	-	-	110,000
Advances to other funds	1,071,840	-	-	-	1,071,840
Unreserved:					
Designated for contingencies	75,000	-	-	-	75,000
Undesignated	9,276,537	20,214,116	9,909,189	-	39,399,842
Total fund balances	11,048,426	23,442,322	12,675,496	84,247,669	131,413,913
Total liabilities and fund balances	\$ 11,411,469	\$ 24,062,532	\$ 13,710,781	\$ 84,247,669	\$ 133,432,451

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

Fund balances - total governmental funds	\$ 131,413,913
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	148,940,510
Some liabilities are not due and payable in the current period, therefore, are not recorded in the funds as follows:	
Interest payable	(2,295,285)
Compensated absences	(2,751,296)
Pollution remediation obligation	(233,925)
Long-term contracts payable	(106,758,440)
Net assets of governmental activities (page 17)	<u>\$ 168,315,477</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, 2010

	<u>Special Revenue Funds</u>				Total Governmental Funds
	General	Flood Control	Warm Springs Dam	Debt Service	
REVENUES					
Property taxes	\$ 6,448,966	\$ 7,440,050	\$ 5,022,072	\$ -	\$ 18,911,088
Investment earnings	110,145	199,851	141,758	5,623,192	6,074,946
Intergovernmental	234,556	143,921	80,657	-	459,134
Charges for services	407,982	-	-	-	407,982
Miscellaneous	93,237	63,494	304	-	157,035
Total revenues	<u>7,294,886</u>	<u>7,847,316</u>	<u>5,244,791</u>	<u>5,623,192</u>	<u>26,010,185</u>
EXPENDITURES					
Current:					
General government:					
Salaries and benefits	26,954,228	-	-	-	26,954,228
Services and supplies	9,621,806	-	-	-	9,621,806
Costs applied	(34,532,122)	-	-	-	(34,532,122)
Flood control:					
Services and supplies	-	7,179,108	-	-	7,179,108
Warm Springs Dam:					
Services and supplies	-	-	3,309,084	-	3,309,084
Capital outlay	42,297	82,913	-	-	125,210
Debt service:					
Principal	-	-	-	2,753,832	2,753,832
Interest and fiscal charges	-	-	-	3,531,740	3,531,740
Total expenditures	<u>2,086,209</u>	<u>7,262,021</u>	<u>3,309,084</u>	<u>6,285,572</u>	<u>18,942,886</u>
Excess (deficiency) of revenues over (under) expenditures	5,208,677	585,295	1,935,707	(662,380)	7,067,299
OTHER FINANCING SOURCES (USES)					
Transfers in	1,270,505	580,069	24,770	-	1,875,344
Transfers out	(5,493,366)	-	-	-	(5,493,366)
Total other financing sources (uses)	<u>(4,222,861)</u>	<u>580,069</u>	<u>24,770</u>	<u>-</u>	<u>(3,618,022)</u>
Net change in fund balances	985,816	1,165,364	1,960,477	(662,380)	3,449,277
Fund balances - beginning of year	10,062,610	22,276,958	10,715,019	84,910,049	127,964,636
Fund balances - end of year	<u>\$ 11,048,426</u>	<u>\$ 23,442,322</u>	<u>\$ 12,675,496</u>	<u>\$ 84,247,669</u>	<u>\$ 131,413,913</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, 2010**

Net change in fund balances - total governmental funds (page 20) \$ 3,449,277

Amounts reported for governmental activities in the statement of activities (page 18)
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. This is the amount by which depreciation expense exceeded capital outlay.

Capital outlay	125,210
Depreciation expense	(1,732,339)

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces the long-term liabilities in the statement of net assets	2,753,832
--	-----------

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	59,207
Change in compensated absences	(221,215)

Change in net assets of governmental activities (page 18)	\$ 4,433,972
---	--------------

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

**SONOMA COUNTY WATER AGENCY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2010**

ASSETS	Business-type Activities - Enterprise Funds				
	Water Transmission	Water Supply	Sanitation	Total	Internal Service Funds
Current assets:					
Cash and investments	\$ 24,031,051	\$ 1,826,008	\$ 2,913,217	\$ 28,770,276	\$ 8,011,473
Accounts receivable	4,655,568	1,246,971	812,007	6,714,546	26,413
Prepaid expenses	103,500	-	-	103,500	825,469
Total current assets	<u>28,790,119</u>	<u>3,072,979</u>	<u>3,725,224</u>	<u>35,588,322</u>	<u>8,863,355</u>
Noncurrent assets:					
Restricted assets:					
Cash and investments with trustee	2,850,724	-	-	2,850,724	-
Cash - revenue bond funds	1,445,419	-	191,844	1,637,263	-
Cash - capital leases	-	-	-	-	1,049,502
Cash - capital projects	-	-	-	-	857,251
Total restricted assets	<u>4,296,143</u>	<u>-</u>	<u>191,844</u>	<u>4,487,987</u>	<u>1,906,753</u>
Deposits with others	13,000	-	-	13,000	-
Accounts receivable	-	250,000	-	250,000	-
Deferred charges	420,636	-	112,094	532,730	-
Capital assets, net					
Land	6,710,009	-	1,621,444	8,331,453	2,689,861
Construction in progress	18,797,283	626,135	778	19,424,196	6,764,574
Intangible asset - water storage rights	4,996,395	-	-	4,996,395	-
Intangible asset - other	-	-	12,544	12,544	-
Buildings and improvements	109,747,207	3,646,006	23,788,711	137,181,924	27,891,852
Equipment	267,202	7,317	54,514	329,033	1,764,555
Total capital assets	<u>140,518,096</u>	<u>4,279,458</u>	<u>25,477,991</u>	<u>170,275,545</u>	<u>39,110,842</u>
Total noncurrent assets	<u>145,247,875</u>	<u>4,529,458</u>	<u>25,781,929</u>	<u>175,559,262</u>	<u>41,017,595</u>
Total assets	<u>174,037,994</u>	<u>7,602,437</u>	<u>29,507,153</u>	<u>211,147,584</u>	<u>49,880,950</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, 2010**

	<u>Business-type Activities - Enterprise Funds</u>				
	<u>Water Transmission</u>	<u>Water Supply</u>	<u>Sanitation</u>	<u>Total</u>	<u>Internal Service Funds</u>
LIABILITIES					
Current liabilities payable from unrestricted assets:					
Accounts payable and accrued expenses	1,890,936	473,162	293,333	2,657,431	938,096
Due to other governments	635,762	-	-	635,762	405,168
Unearned revenue	168	129,107	34,953	164,228	-
Total current liabilities payable from unrestricted assets	<u>2,526,866</u>	<u>602,269</u>	<u>328,286</u>	<u>3,457,421</u>	<u>1,343,264</u>
Current liabilities payable from restricted assets:					
Deposits from others	4,230	-	-	4,230	-
Interest payable	567,324	-	60,412	627,736	159,226
General obligation bonds payable	-	-	30,000	30,000	-
Capital leases	-	-	-	-	1,049,502
Revenue bonds payable	578,180	-	210,620	788,800	-
Total current liabilities payable from restricted assets	<u>1,149,734</u>	<u>-</u>	<u>301,032</u>	<u>1,450,766</u>	<u>1,208,728</u>
Noncurrent liabilities:					
General obligation bonds payable	-	-	304,000	304,000	-
Capital leases	-	-	-	-	14,048,238
Revenue bonds payable	23,979,130	-	4,844,931	28,824,061	-
Advances from other governments	14,001,714	-	-	14,001,714	3,917,588
Advances from other funds	-	-	-	-	1,071,840
Unearned revenue	-	5,422,506	-	5,422,506	-
Total noncurrent liabilities	<u>37,980,844</u>	<u>5,422,506</u>	<u>5,148,931</u>	<u>48,552,281</u>	<u>19,037,666</u>
Total liabilities	<u>41,657,444</u>	<u>6,024,775</u>	<u>5,778,249</u>	<u>53,460,468</u>	<u>21,589,658</u>
NET ASSETS					
Invested in capital assets, net of related debt	101,323,310	4,279,458	20,088,440	125,691,208	20,547,597
Restricted for:					
Debt service	2,292,170	-	131,432	2,423,602	890,276
Capital projects	1,445,419	-	-	1,445,419	857,251
Recycled water and water conservation	3,292,076	-	274,063	3,566,139	-
Unrestricted	24,027,575	(2,701,796)	3,234,969	24,560,748	5,996,168
Total net assets	<u>\$ 132,380,550</u>	<u>\$ 1,577,662</u>	<u>\$ 23,728,904</u>	<u>157,687,116</u>	<u>\$ 28,291,292</u>
Adjustment to reflect the net assets of the internal service funds reported as business-type activities				<u>28,291,292</u>	
Net assets of business-type activities				<u>\$ 185,978,408</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, 2010

	Business-type Activities - Enterprise Funds				
	Water Transmission	Water Supply	Sanitation	Total	Internal Service Funds
OPERATING REVENUE					
Water sales	\$ 26,192,490	\$ 1,575,011	\$ -	\$ 27,767,501	\$ -
Water services	30,232	-	-	30,232	-
Power sales	761,488	-	-	761,488	5,052,301
Flat charges	-	-	3,061,102	3,061,102	-
Sanitation services	-	-	165,389	165,389	-
Equipment rental	-	-	-	-	2,239,097
Real estate rental	-	-	50,000	50,000	3,021,230
Miscellaneous	213,668	85,949	56,815	356,432	23,241
Total operating revenue	<u>27,197,878</u>	<u>1,660,960</u>	<u>3,333,306</u>	<u>32,192,144</u>	<u>10,335,869</u>
OPERATING EXPENSES					
Services and supplies	22,527,848	6,915,634	3,217,406	32,660,888	8,321,776
Depreciation and amortization	5,166,700	188,398	1,140,466	6,495,564	1,455,780
Total operating expenses	<u>27,694,548</u>	<u>7,104,032</u>	<u>4,357,872</u>	<u>39,156,452</u>	<u>9,777,556</u>
Operating income (loss)	<u>(496,670)</u>	<u>(5,443,072)</u>	<u>(1,024,566)</u>	<u>(6,964,308)</u>	<u>558,313</u>
NONOPERATING REVENUES (EXPENSES)					
Taxes and assessments	-	-	41,216	41,216	-
Investment earnings	245,851	20,395	42,809	309,055	99,324
Interest expense	(645,260)	-	(243,721)	(888,981)	(651,177)
Conservation revenue	-	-	610,670	610,670	-
Conservation expense	-	-	(723,720)	(723,720)	-
Gain on sale of capital assets	-	-	-	-	80,934
Loss on disposal of capital assets	(178,552)	(2,271,825)	-	(2,450,377)	(6,984)
Intergovernmental revenue	1,269,488	1,023,450	178,057	2,470,995	-
Total nonoperating revenue (expenses), net	<u>691,527</u>	<u>(1,227,980)</u>	<u>(94,689)</u>	<u>(631,142)</u>	<u>(477,903)</u>
Income (loss) before capital contributions and transfers	<u>194,857</u>	<u>(6,671,052)</u>	<u>(1,119,255)</u>	<u>(7,595,450)</u>	<u>80,410</u>
Capital contributions - connection fees	-	-	117,045	117,045	-
Capital contributions - other	-	-	12,000	12,000	140,647
Transfers in	1,930,198	3,700,138	562,671	6,193,007	387,850
Transfers out	(1,000,000)	-	-	(1,000,000)	(1,962,835)
Change in net assets	<u>1,125,055</u>	<u>(2,970,914)</u>	<u>(427,539)</u>	<u>(2,273,398)</u>	<u>(1,353,928)</u>
Net assets - beginning of year as restated	<u>131,255,495</u>	<u>4,548,576</u>	<u>24,156,443</u>		<u>29,645,220</u>
Net assets - end of year	<u>\$ 132,380,550</u>	<u>\$ 1,577,662</u>	<u>\$ 23,728,904</u>		<u>\$ 28,291,292</u>
Adjustment to reflect the change in net assets of internal service funds reported as business-type activities				<u>(1,353,928)</u>	
Change in net assets of business-type activities				<u>\$ (3,627,326)</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, 2010**

	Business-type Activities - Enterprise Funds				Internal Service Funds
	Water Transmission	Water Supply	Sanitation	Total	
Cash flows from operating activities:					
Cash receipts from customers	\$ 26,705,104	\$ 1,715,421	\$ 3,273,447	\$ 31,693,972	\$ -
Cash receipts from interfund services provided	-	-	-	-	10,335,816
Cash payments for interfund services used	(17,408,353)	(3,436,224)	(2,074,624)	(22,919,201)	(1,866,081)
Cash payments to suppliers	(5,236,341)	(3,591,138)	(1,146,701)	(9,974,180)	(5,713,956)
Conservation program outlays	-	-	(723,720)	(723,720)	-
Net cash provided by (used for) operating activities	<u>4,060,410</u>	<u>(5,311,941)</u>	<u>(671,598)</u>	<u>(1,923,129)</u>	<u>2,755,779</u>
Cash flows from noncapital financing activities:					
Taxes and assessments	-	-	41,216	41,216	-
Transfers in	1,930,198	3,700,138	562,671	6,193,007	387,850
Transfers out	(1,000,000)	-	-	(1,000,000)	(1,962,835)
Intergovernmental revenue	1,124,761	205,203	170,122	1,500,086	-
Net cash provided by (used for) noncapital financing activities	<u>2,054,959</u>	<u>3,905,341</u>	<u>774,009</u>	<u>6,734,309</u>	<u>(1,574,985)</u>
Cash flows from capital and related financing activities:					
Purchases of capital assets	(4,011,660)	(470,495)	(112,599)	(4,594,754)	(1,219,326)
Principal paid on general obligation and revenue bonds	(560,000)	-	(248,000)	(808,000)	-
Principal paid on capital leases	-	-	-	-	(1,004,338)
Principal paid on advances from other funds	-	-	-	-	(162,027)
Principal paid on advances from other governments	(618,368)	-	-	(618,368)	(388,845)
Interest paid on long-term debt	(1,566,158)	-	(254,882)	(1,821,040)	(907,781)
Proceeds from sale of capital assets	-	-	-	-	274,346
Connection fees	-	-	117,045	117,045	-
Net cash used for capital and related financing activities	<u>(6,756,186)</u>	<u>(470,495)</u>	<u>(498,436)</u>	<u>(7,725,117)</u>	<u>(3,407,971)</u>
Cash flows from investing activities:					
Repayment on advances to other funds - principal	-	-	18,480	18,480	143,547
Repayment on advances to other funds - interest	-	-	776	776	6,026
Interest received	245,851	20,395	42,033	308,279	93,298
Net cash provided by investing activities	<u>245,851</u>	<u>20,395</u>	<u>61,289</u>	<u>327,535</u>	<u>242,871</u>
Net decrease in cash and cash equivalents	(394,966)	(1,856,700)	(334,736)	(2,586,402)	(1,984,306)
Cash and cash equivalents - beginning of year	<u>28,722,160</u>	<u>3,682,708</u>	<u>3,439,797</u>	<u>35,844,665</u>	<u>11,902,532</u>
Cash and cash equivalents - end of year	<u>\$ 28,327,194</u>	<u>\$ 1,826,008</u>	<u>\$ 3,105,061</u>	<u>\$ 33,258,263</u>	<u>\$ 9,918,226</u>
Reconciliation to the statement of net assets:					
Cash and investments	\$ 24,031,051	\$ 1,826,008	\$ 2,913,217	\$ 28,770,276	\$ 8,011,473
Restricted cash and investments	4,296,143	-	191,844	4,487,987	1,906,753
Cash and cash equivalents	<u>\$ 28,327,194</u>	<u>\$ 1,826,008</u>	<u>\$ 3,105,061</u>	<u>\$ 33,258,263</u>	<u>\$ 9,918,226</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	\$ (496,670)	\$ (5,443,072)	\$ (1,024,566)	\$ (6,964,308)	\$ 558,313
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Conservation program outlays	-	-	(723,720)	(723,720)	-
Depreciation and amortization	5,166,700	188,398	1,140,466	6,495,564	1,455,780
Change in assets and liabilities:					
Receivables, net	(492,774)	54,461	(59,859)	(498,172)	(53)
Prepaid expenses	-	-	-	-	664,794
Other liabilities	(900,000)	-	-	(900,000)	-
Accounts payable and accrued expenses	783,154	(111,728)	(3,919)	667,507	76,945
Net cash provided by (used for) operating activities	<u>\$ 4,060,410</u>	<u>\$ (5,311,941)</u>	<u>\$ (671,598)</u>	<u>\$ (1,923,129)</u>	<u>\$ 2,755,779</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisition of capital assets through accounts payable and other current liabilities	\$ 116,446	\$ 3,062	\$ 3,742	\$ 123,250	\$ 83,181
Increase in capital assets for capitalized interest	908,069	-	28,707	936,776	255,800
Contribution of capital assets	-	-	12,000	12,000	140,647
Loss on disposal of capital assets	(178,552)	(2,271,825)	-	(2,450,377)	(6,984)

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, 2010**

ASSETS

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

LIABILITIES

Deposits from others	<u>\$ 14,100</u>
----------------------	------------------

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

Notes to the Basic 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. Implementation of New Governmental Accounting Standard
- Note E. Restatement of Net Assets
- Note F. Cash and Investments
- Note G. Accounts Receivable
- Note H. Capital Assets
- Note I. Unearned Revenue
- Note J. Interfund Transactions
- Note K. Long-Term Obligations
- Note L. Pollution Remediation Obligation
- Note M. Employees' Retirement Plan
- Note N. Postemployment Benefits
- Note O. Related Party Transactions
- Note P. Risk Management
- Note Q. Commitments and Contingencies
- Note R. Economic Dependence
- Note S. Future Governmental Accounting Standards

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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 operates and maintains Spring Lake and Riverfront Parks via contract with the Sonoma County Regional Parks Department.

On January 1, 1995, as part of the countywide reorganization, seven county service areas were transferred from the County 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, 2010**

Note B. Summary of Significant Accounting Policies (continued)

Separate fund financial statements are provided for governmental funds, proprietary funds, and 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, 2010**

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

Flood Control: This fund is established to account for the proceeds of specific revenue sources other than special assessments 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, 2010**

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, 2010**

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. Encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

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, 2010**

Note B. Summary of Significant Accounting Policies (continued)

Deferred Charges

Deferred charges consist of unamortized debt issuance costs of \$532,730 as of June 30, 2010. 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 engineers estimated historical cost. Donated capital assets are recorded at estimated fair value on the date of donation. The Water Agency defines capital assets as assets with an estimated useful life in excess of one year and an initial, individual cost of more than \$5,000 except for software assets. Software assets are recognized with an initial cost of more than \$100,000.

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. Water storage rights and permanent easements are not amortized due to their inexhaustible life. For further information regarding capital assets refer to Note H.

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 deferred and amortized using the straight-line 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, 2010**

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 six weeks, is payable upon termination. Sick leave may be accumulated without limitation. The monetary equivalent of 25% of all unused sick leave is vested and payable to employees who separate from the Water Agency for reasons other than disability.

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, 2010**

Note B. Summary of Significant Accounting Policies (continued)

Net Assets and Fund Balance

Government-wide 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.

Fund Financial Statements

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties to be used for specific purposes. Designations of fund balance represent tentative management plans for financial resource utilization in a future period, such as for general contingencies or capital projects. Such plans or intentions are subject to change in the future, and have not been legally authorized and may not result in expenditures. The following represents amounts which have been designated by the Water Agency's board for contingencies, which represent future unforeseen circumstances:

Fund balance designated for contingencies:

<u>General Fund</u>	<u>\$ 75,000</u>
---------------------	------------------

Interfund Transactions

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

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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 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 Agency's 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, 2010 is \$3,830,946. 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 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, 2010**

Note D. Implementation of New Governmental Accounting Standard

Effective July 1, 2009, the Water Agency implemented GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement establishes accounting and financial reporting requirements for intangible assets to reduce inconsistencies in the accounting and financial reporting of such assets among state and local governments. This statement also provides authoritative guidance that specifically addresses the nature of the intangible assets including internally generated intangible assets.

The Water Agency is reporting non-amortizable intangible assets on its financial statements for the fiscal year ended June 30, 2010. The Water Agency's financial statements have been restated for prior periods for on-going development of software assets. Any temporary easements have been included within the related capital projects.

Note E. Restatement of Net Assets

Effective July 1, 2009, the Water Agency has restated and increased beginning net assets of business-type activities, Water Transmission enterprise fund, Water Supply enterprise fund and the internal service funds from amounts previously reported to comply with the implementation requirements of GASB Statement No. 51. In addition the Agency has identified and reclassified Water Storage Rights in the amount of \$4,996,395 from Buildings and Improvements to Intangible Assets within the Water Transmission Enterprise Fund and the Business-type Activities. The Water Agency has included intangible assets as a part of the capital assets disclosures in Note H. The restatements are summarized as follows.

	Business-type Activities	Water Transmission Fund	Water Supply Fund	Internal Service Funds
Net assets as of June 30, 2009, as originally reported	\$ 189,046,109	\$ 130,854,276	\$ 4,395,998	\$ 29,639,392
Restatements	559,625	401,219	152,578	5,828
Net assets as of July 1, 2009, as restated	<u>\$ 189,605,734</u>	<u>\$ 131,255,495</u>	<u>\$ 4,548,576</u>	<u>\$ 29,645,220</u>

Note F. 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.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Note F. Cash and Investments (continued)

Authorized Investments (continued)

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
- Mutual funds and money market mutual funds
- Collateralized mortgage obligations
- Collateralized time deposits
- Joint powers authority pools
- Investment Trust of California (Caltrust)

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, 2010 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	\$ 168,841,362
Cash and investments with trustee	2,850,724
Cash and investments restricted for revenue bond funds	1,637,263
Cash and investments restricted for capital leases	1,049,502
Cash and investments restricted for capital projects	857,251
Fiduciary funds:	
Cash and investments	14,100
Total cash and investments	\$ 175,250,202

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Note F. Cash and Investments (continued)

Cash and investments as of June 30, 2010 consist of the following:

Investment in County Treasury Pool:	
Unrestricted	\$ 91,955,218
Restricted for revenue bonds	1,637,263
Restricted for capital leases	1,049,502
Restricted for capital projects	1,543
Nonpooled cash and investments:	
Cash on hand	750
Deposit	7,852,087
Investments	69,047,407
Restricted for revenue bonds	2,850,724
Restricted for capital projects	855,708
Total cash and investments	\$ 175,250,202

As of June 30, 2010, the Water Agency's investments consisted of \$94,643,526 in the Treasury Pool managed by the Treasurer, which is not rated by credit rating agencies, and had a weighted average maturity of approximately 486 days. The credit rating and other information regarding specific investments maintained in the Treasury Pool as of June 30, 2010 are disclosed in the County's June 30, 2010 Comprehensive Annual Financial Report.

The Agency reported \$69,047,407 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 \$106,758,440 contract payable to the U.S. Army Corps of Engineers (refer to Note K).

The Agency also reports nonpooled cash and investments in a deposit with North Coast Bank in the amount of \$7,852,087, which satisfies requirements established by the California Department of Fish and Game.

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.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Note F. Cash and Investments (continued)

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	\$ 94,643,525	\$ -	\$ 94,643,525	\$ -	\$ -
U.S. Treasury STRIPS	69,047,407	6,104,023	6,088,333	17,647,174	39,207,877
Money market mutual fund	3,706,433	3,706,433	-	-	-
Total	\$ 167,397,365	\$ 9,810,456	\$ 100,731,858	\$ 17,647,174	\$ 39,207,877

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, 2010, the carrying amount and bank balance of the Water Agency's deposit was \$7,852,087. Of the bank balance, \$250,000 was covered by federal deposit insurance and \$7,602,087 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, which is not subject to concentration of credit risk, there were no nonpooled 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, 2010**

Note F. 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	\$ 94,643,525	\$ -	\$ -	\$ 94,643,525
U.S. Treasury STRIPS	N/A	69,047,407	69,047,407	-	-
Money market mutual fund	AAA	3,706,433	-	3,706,433	-
Total		\$ 167,397,365	\$ 69,047,407	\$ 3,706,433	\$ 94,643,525

Note G. Accounts Receivable

Accounts receivable as of June 30, 2010 is comprised of the following:

	Accounts	Inter- governmental	Total
Governmental Activities:			
General Fund	\$ 27,648	\$ 150,350	\$ 177,998
Flood Control special revenue fund	13,000	-	13,000
Total Governmental Activities	\$ 40,648	\$ 150,350	\$ 190,998
Business-type Activities:			
Water Transmission enterprise fund	\$ 4,460,840	\$ 194,728	\$ 4,655,568
Water Supply enterprise fund	721,057	775,914	1,496,971
Sanitation enterprise fund	812,007	-	812,007
Internal Service Funds	26,413	-	26,413
Total Business-Type Activities	\$ 6,020,317	\$ 970,642	\$ 6,990,959

The Water Agency does not expect to collect \$250,000 of its accounts receivable recorded in the Water Supply Enterprise Fund within the next fiscal year.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Note H. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2010 was as follows:

	July 1, 2009, as restated	Additions	Retirements	Transfers	June 30, 2010
<i>Governmental activities:</i>					
Capital assets, not being depreciated/amortized:					
Land	\$ 1,550,209	\$ 22,917	\$ -	\$ -	\$ 1,573,126
Construction in progress	259,792	82,913	-	-	342,705
Intangible assets:					
Water storage rights	102,371,000	-	-	-	102,371,000
Total capital assets not being depreciated/amortized	104,181,001	105,830	-	-	104,286,831
Capital assets, being depreciated:					
Infrastructure	64,834,097	-	-	-	64,834,097
Buildings and improvements	3,419,740	-	-	-	3,419,740
Equipment	1,037,264	19,380	-	-	1,056,644
Total capital assets, being depreciated	69,291,101	19,380	-	-	69,310,481
Less: accumulated depreciation for:					
Infrastructure	(20,663,568)	(1,562,086)	-	-	(22,225,654)
Buildings and improvements	(1,471,305)	(85,802)	-	-	(1,557,107)
Equipment	(789,590)	(84,451)	-	-	(874,041)
Total accumulated depreciation	(22,924,463)	(1,732,339)	-	-	(24,656,802)
Total capital assets, being depreciated, net	46,366,638	(1,712,959)	-	-	44,653,679
Total capital assets, net	\$ 150,547,639	\$ (1,607,129)	\$ -	\$ -	\$ 148,940,510

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Note H. Capital Assets (continued)

	July 1, 2009, as restated	Additions	Retirements	Transfers	June 30, 2010
<i>Business-type activities</i>					
Capital assets, not being depreciated/amortized:					
Land	\$ 11,021,314	\$ -	\$ -	\$ -	\$ 11,021,314
Construction in progress	29,643,068	5,001,686	(2,457,361)	(5,998,623)	26,188,770
Intangible assets:					
Water storage rights	4,996,395	-	-	-	4,996,395
Permanent easements	-	12,544	-	-	12,544
Total capital assets not being depreciated/amortized	45,660,777	5,014,230	(2,457,361)	(5,998,623)	42,219,023
Capital assets, being depreciated:					
Buildings and improvements	240,973,600	-	-	5,998,623	246,972,223
Equipment	8,134,349	563,709	(835,922)	-	7,862,136
Total capital assets, being depreciated	249,107,949	563,709	(835,922)	5,998,623	254,834,359
Less: accumulated depreciation for:					
Buildings and improvements	(74,480,916)	(7,417,531)	-	-	(81,898,447)
Equipment	(6,095,003)	(509,467)	835,922	-	(5,768,548)
Total accumulated depreciation	(80,575,919)	(7,926,998)	835,922	-	(87,666,995)
Total capital assets, being depreciated, net	168,532,030	(7,363,289)	-	5,998,623	167,167,364
Total capital assets, net	\$ 214,192,807	\$ (2,349,059)	\$ (2,457,361)	\$ -	\$ 209,386,387

The total amount of interest capitalized into capital assets of business-type activities during the fiscal year ended June 30, 2010 amounted to \$1,192,576.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Note H. Capital Assets (continued)

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

Governmental activities:

General government	\$ 170,253
Flood control	1,562,086
Total depreciation expense - governmental activities	1,732,339

Business-type activities:

Water Transmission	\$ 5,148,948
Water Supply	188,398
Sanitation	1,133,872
Internal Service Funds	1,455,780
Total depreciation expense - business type activities	7,926,998

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 K). Repayment of this obligation comes from the proceeds of a voter approved countywide levied property tax.

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

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Note I. Unearned Revenue

Revenue under a supplemental water supply agreement with the Marin Municipal Water District is deferred and recognized over the term of the agreement on a straight-line basis (nine years plus an additional forty years at the option of Marin Municipal Water District). As of June 30, 2010, unearned revenue in the Water Supply fund totaled \$5,551,613, of which the amount recognizable within one year is reported as a component of current liabilities in the accompanying statement of net assets. The annual amount that will be recognized as intergovernmental revenue over the term of the agreement is \$129,107.

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 \$34,953, is considered unearned. The General fund and Water Transmission fund has collected \$168 and \$32,273, respectively that will be recognized during the next fiscal year.

Note J. Interfund Transactions

A summary of interfund activity as of and for the fiscal year ended June 30, 2010 is as follows:

Interfund transfers

Transfer from	Transfer to	Amount	Purpose
General Fund	Flood Control	\$ 192,087	Refund of salary and overhead charges
General Fund	Warm Springs Dam Fund	20,587	Refund of salary and overhead charges
General Fund	Water Transmission Fund	825,148	Refund of salary and overhead charges
General Fund	Water Supply Fund	3,667,971	Funding for water supply projects and refund of salary and overhead charges
General Fund	Sanitation Fund	399,723	Funding for water conservation program and refund of salary and overhead charges
General Fund	Internal Service Funds	387,850	Funding for geothermal projects and refund of salary and overhead charges
Water Transmission Fund	General Fund	1,000,000	Return of unused funds transferred in 2009.
Internal Service Funds	General Fund	270,505	Refund of equipment rental charges
Internal Service Funds	Flood Control Fund	387,982	Refund of equipment rental charges
Internal Service Funds	Warm Springs Dam Fund	4,183	Refund of equipment rental charges
Internal Service Funds	Water Transmission Fund	1,105,050	Refund of equipment rental charges
Internal Service Funds	Water Supply Fund	32,167	Refund of equipment rental charges
Internal Service Funds	Sanitation Fund	162,948	Refund of equipment rental charges
Total transfers		\$ 8,456,201	

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Note J. 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 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 entered into two interfund loans for the purchase of the existing photovoltaic facilities at the Water Agency's administration building and the Airport-Larkfield-Wikiup sewer treatment plant. These advances were paid in full during the fiscal year ended June 30, 2010.

In addition, 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, 2010, the Power Resources internal service fund has drawn \$1,000,000 from the general fund. Interest accrued as of the fiscal year ended June 30, 2010 amounted to \$71,840.

Advances from Other Funds

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

	Maturity Date	Interest Rates	Authorized & Issued	Outstanding June 30, 2010	Due Within One Year
General Fund	2033	1.935%	\$ 1,071,840	\$ 1,071,840	\$ -

Note K. Long-Term Obligations

Long-term obligations as of June 30, 2010, consist of the following:

	Governmental Activities	Business-type Activities
General obligation bonds	\$ -	\$ 334,000
Capital leases	-	15,097,740
Water revenue bonds payable	-	24,470,000
Water and wastewater revenue bonds payable	-	5,385,000
Advances from other governments	-	18,960,232
Long-term contracts payable	106,758,440	-
Compensated absences	2,751,296	-
Total	\$ 109,509,736	\$ 64,246,972

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Note K. Long-Term Obligations (continued)

Governmental Activities:

Long-Term Contracts Payable:

	Maturity Date	Interest Rates	Authorized & Issued	Outstanding June 30, 2010
1986 Federal contract payable	2034	3.225%	\$ 102,371,000	\$ 106,758,440

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 payments of principal and interest are currently funded by property tax revenues received by the Water Agency. The amount of the payments began at \$930,562 and increase to a maximum of \$6,285,571 annually until 2034.

Compensated Absences:

As of June 30, 2010, vested vacation and sick leave for Water Agency employees amounted to \$2,751,296. 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.

Business-type Activities:

General Obligation Bonds Payable:	Maturity Date	Interest Rates	Authorized & Issued	Outstanding June 30, 2010
<u>Sanitation Zones</u>				
1977 Penngrove	2017	5.00%	\$ 300,000	\$ 112,000
1980 Geyserville	2020	5.00%	500,000	222,000
Total general obligation bonds payable				\$ 334,000

Capital Leases:	Maturity Date	Interest Rates	Authorized & Issued	Outstanding June 30, 2010
Capital lease - Banc of America	2016	4.65%	\$ 8,800,000	\$ 6,213,226
Capital lease - Banc of America	2020	4.54%	2,000,000	1,366,495
Capital lease - Banc of America	2020	4.08%	2,750,000	2,113,597
Capital lease - Municipal Finance	2023	4.30%	5,835,000	5,404,422
Total capital leases				\$ 15,097,740

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. The Water Agency's capital lease activity is described on the following page.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Note K. Long-Term Obligations (continued)

Business-type Activities (continued)

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. 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. The second lease was executed on February 17, 2006 for the acquisition of solar paneling with a maturity date of October 1, 2020. 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, 2010:

Buildings and improvements	\$ 24,409,445
Less: accumulated depreciation	(2,421,778)
Total	\$ 21,987,667

Water Revenue Bonds Payable:

	Maturity Date	Interest Rates	Authorized & Issued	Outstanding June 30, 2010
Water revenue bonds, 2003, series A	2032	2.00-5.00%	\$ 15,680,000	\$ 13,585,000
Less: deferred amount for unamortized discount				(22,070)
Water revenue bonds, 2006, series A	2036	4.00-5.00%	11,500,000	10,885,000
Add: deferred amount for unamortized premium				109,380
Total water revenue bonds payable, net				\$ 24,557,310

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.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Note K. Long-Term Obligations (continued)

Business-type Activities (continued)

Water and Wastewater Revenue Bonds Payable:

	Maturity Date	Interest Rates	Authorized & Issued	Outstanding June 30, 2010
California Statewide Communities Development Authority (CSDCDA) 2005C revenue bonds	2027	2.70-5.00%	\$ 6,220,000	\$ 5,385,000
Add: deferred amount for unamortized premium				106,374
Less: deferred amount on refunding				(435,823)
Total water and wastewater revenue bonds payable, net				\$ 5,055,551

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. Annual principal and interest payments are expected to require approximately 80% of net revenues. The total principal outstanding on the 2005C Water and Wastewater Revenue Bonds as of June 30, 2010 is \$5,385,000 and scheduled interest payments total \$2,374,253. Principal and interest paid for the fiscal year ended June 30, 2010 and total customer net revenues were \$457,481 and \$567,632, respectively. These bond proceeds are being used to finance a portion of the cost of upgrades to the Airport-Larkfield-Wikiup Sanitation Zone's treatment plant, wastewater pipelines, storage ponds and irrigation system in connection with the Storage, Reclamation and Treatment Facilities Project.

Advances from Other Governments:

	Maturity Date	Interest Rates	Authorized & Issued	Outstanding June 30, 2010
State Revolving Fund	2027	2.79%	\$ 15,857,295	\$ 14,637,477
Sonoma Valley County Sanitation District	2019	4.198%	5,442,922	4,322,755
Total advances from other governments				\$ 18,960,232

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, 2010, the Water Agency has received loan funds in the amount of \$15,857,295. The project has been certified complete and principal repayment began during the fiscal year ended June 30, 2009.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Note K: 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, 2010 is \$4,322,755 with a current portion of \$405,168.

Changes in Long-Term Obligations

A summary of changes in long-term obligations for the fiscal year ended June 30, 2010 is as follows:

	July 1, 2009	Increases	Decreases	June 30, 2010	Amounts Due Within One Year
<u>Governmental activities:</u>					
Long-term contracts payable	\$ 109,512,272	\$ -	\$ (2,753,832)	\$ 106,758,440	\$ 2,842,644
Compensated absences	2,530,081	1,807,668	(1,586,453)	2,751,296	128,830
Total governmental activities	112,042,353	1,807,668	(4,340,285)	109,509,736	2,971,474
<u>Business-type activities:</u>					
General obligation bonds	362,000	-	(28,000)	334,000	30,000
Capital leases:					
Banc of America	6,663,181	-	(449,955)	6,213,226	471,120
Banc of America	1,472,385	-	(105,890)	1,366,495	110,752
Banc of America	2,271,996	-	(158,399)	2,113,597	164,928
Municipal Finance	5,694,516	-	(290,094)	5,404,422	302,702
Water revenue bonds:					
Series 2003A	13,930,000	-	(345,000)	13,585,000	355,000
Deferred amount for unamortized discount	(23,098)	-	1,028	(22,070)	(1,027)
Series 2006A	11,100,000	-	(215,000)	10,885,000	220,000
Deferred amount for unamortized premium	113,587	-	(4,207)	109,380	4,207
Water and wastewater revenue bonds:					
Series 2005C	5,605,000	-	(220,000)	5,385,000	230,000
Deferred amount for unamortized premium	112,631	-	(6,257)	106,374	6,257
Deferred amount on refunding	(461,460)	-	25,637	(435,823)	(25,637)
Advances from other governments:					
State Revolving Fund	15,255,845	-	(618,368)	14,637,477	635,762
Sonoma Valley CSD	4,711,600	-	(388,845)	4,322,755	405,168
Total business-type activities	66,808,183	-	(2,803,350)	64,004,833	2,909,232
Total	\$ 178,850,536	\$ 1,807,668	\$ (7,143,635)	\$ 173,514,569	\$ 5,880,706

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Note K. Long-Term Obligations (continued)

Debt Service Requirements

The annual principal and interest requirements on the outstanding long-term obligations as of June 30, 2010 (excluding compensated absences), are as follows:

General obligation bonds

Fiscal year ending June 30,	Principal	Interest	Total
2011	\$ 30,000	\$ 16,400	\$ 46,400
2012	31,000	14,900	45,900
2013	32,000	13,325	45,325
2014	34,000	11,700	45,700
2015	35,000	10,000	45,000
2016-2020	172,000	22,825	194,825
Total general obligation bonds	\$ 334,000	\$ 89,150	\$ 423,150

Capital leases

Fiscal year ending June 30,	Principal	Interest	Total
2011	\$ 1,049,502	\$ 658,024	\$ 1,707,526
2012	1,096,701	610,824	1,707,525
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
2016-2020	7,522,958	1,028,473	8,551,431
2011-2024	1,833,512	152,792	1,986,304
Total capital leases	\$ 15,097,740	\$ 3,977,624	\$ 19,075,364

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Note K. Long-Term Obligations (continued)

Water revenue bonds

Fiscal year ending June 30,	Principal	Interest	Total
2011	\$ 575,000	\$ 1,124,035	\$ 1,699,035
2012	600,000	1,101,423	1,701,423
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
2016-2020	3,810,000	4,672,036	8,482,036
2021-2025	4,730,000	3,724,388	8,454,388
2026-2030	5,925,000	2,477,146	8,402,146
2031-2035	5,530,000	912,750	6,442,750
2036-2037	1,350,000	68,250	1,418,250
Total water revenue bonds	\$ 24,470,000	\$ 17,233,297	\$ 41,703,297

Water and wastewater revenue bonds

Fiscal year ending June 30,	Principal	Interest	Total
2011	\$ 230,000	\$ 230,501	\$ 460,501
2012	235,000	222,944	457,944
2013	245,000	214,901	459,901
2014	255,000	206,274	461,274
2015	260,000	197,066	457,066
2016-2020	1,465,000	823,020	2,288,020
2021-2025	1,830,000	439,844	2,269,844
2026-2027	865,000	39,703	904,703
Total water and wastewater revenue bonds	\$ 5,385,000	\$ 2,374,253	\$ 7,759,253

Advances from other governments

Fiscal year ending June 30,	Principal	Interest	Total
2011	\$ 1,040,930	\$ 585,938	\$ 1,626,868
2012	1,075,823	551,046	1,626,869
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
2016-2020	5,982,603	1,565,105	7,547,708
2021-2025	4,437,830	763,328	5,201,158
2026-2028	2,973,830	147,045	3,120,875
Total advances from other governments	\$ 18,960,232	\$ 5,043,853	\$ 24,004,085

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Note K. Long-Term Obligations (continued)

Long-term contracts payable - 1986 Federal contract

Fiscal year ending June 30,	Principal	Interest	Total
2011	\$ 2,842,644	\$ 3,442,928	\$ 6,285,572
2012	2,934,319	3,351,252	6,285,571
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
2016-2020	17,767,412	13,660,445	31,427,857
2021-2025	20,823,256	10,604,602	31,427,858
2026-2030	24,404,678	7,023,179	31,427,857
2031-2035	28,603,076	2,825,782	31,428,858
Total long-term contracts payable	\$ 106,758,440	\$ 50,381,848	\$ 157,140,288

Note L. 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 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, 2010 by utilizing the expected cash flow technique. This methodology examined estimated costs for pre-clean up activities, remediation/clean-up activities, regulatory agency costs, and post remediation-monitoring costs. The estimated liability for the Agency as of June 30, 2010 is \$233,925.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Note M. 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, 2010, 2009 and 2008. The Water Agency is required to contribute at an actuarially determined rate which was 22.02% for the fiscal year ended June 30, 2010. Contribution requirements of the Plan members and the Water Agency are established and may be amended by the Board of Retirement. The Water Agency's total payroll for covered employees for the plan years ended December 31, 2009, 2008, and 2007 was \$17,927,565, \$17,287,276, and \$16,214,538, respectively, which represents approximately 5.54%, 5.17%, and 5.56% respectively, of the Retirement Association's payroll for covered employees.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Note M. Employees' Retirement Plan (continued)

Annual Pension Cost

The Water Agency's contributions to the Plan for the fiscal years ended 2010, 2009, and 2008 were \$3,764,270, \$3,224,051 and \$2,866,266 respectively, which was equal to its annual required contribution for each year.

Note N. Postemployment Benefits

Plan Description

The employee's 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, 2010**

Note N. Postemployment Benefits (continued)

Plan Description (continued)

After the phase in period has elapsed the Water Agency contributes 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 by an independent actuary and is authorized by the County Board of Supervisors. The contribution rate is based on the annual required contribution (ARC), an amount that is actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the PH Plan over a period not to exceed thirty years.

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, 2010, 2009, and 2008 was \$1,237,947, \$1,214,844 and \$1,183,559, respectively. The premium payments recognized for the fiscal years ended June 30, 2010, 2009 and 2008, were equal to the Water Agency's annual required contribution.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Note N. 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 O. 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, Russian River County Sanitation District, Sonoma Valley County Sanitation District and the South Park County Sanitation District, 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, 2010 is as follows:

Occidental County Sanitation District	\$ 514,535
Russian River County Sanitation District	2,226,996
Sonoma Valley County Sanitation District	6,021,320
South Park County Sanitation District	93,322
	\$ 8,856,173

The Water Agency continued to fund an expanded water conservation rebate program for the Occidental and Russian River County Sanitation Districts. Water Agency funding for this program during the fiscal year ended June 30, 2010 is as follows:

Occidental County Sanitation District	\$ 15,000
Russian River County Sanitation District	190,000
	\$ 205,000

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Note O. Related Party Transactions (continued)

The Water Agency provided a refund to the Sonoma Valley County Sanitation District, the Occidental County Sanitation District and the Russian River County Sanitation District for administrative and overhead charges. The amounts refunded during the fiscal year ended June 30, 2010 are as follows:

Occidental County Sanitation District	\$	61,391
Sonoma Valley County Sanitation District		991,403
Russian River County Sanitation District		225,097
South Park County Sanitation District		33,020
		\$ 1,310,911

Also, for the fiscal year ended June 30, 2010, the Water Agency provided the Occidental County Sanitation District \$300,000 in funding to assist the District in meeting operating and construction expenses.

Note P. 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 \$15,000,000.

The County also maintains public employee faithful performance/employee dishonesty coverage through a joint-purchase program provided by National Union Fire Insurance Company and administered by CSAC-EIA with limits of \$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 \$600,000,000 per occurrence including flood and \$80,000,000 per occurrence for earthquake. Deductibles for most perils are \$50,000 per occurrence, with flood at \$200,000 per county per occurrence and earthquake at 5% of total insured values per unit, per occurrence, subject to a \$500,000 minimum per occurrence. For losses within the deductible, the County maintains a deductible self-insured pool for losses in excess of \$5,000.

During the fiscal year ended June 30, 2010, the Water Agency paid annual premiums to the County for this insurance coverage in the amount of \$215,162. 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, 2010**

Note Q. Commitments and Contingencies

Construction

The Water Agency has active construction projects as of June 30, 2010. The projects include expansion and/or improvements of several flood control, water storage and wastewater treatment facilities. As of June 30, 2010, the Water Agency's commitments to construction projects are as follows:

<u>Project</u>	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Flood Control:		
Zone 1A – Laguna Mark West	\$ 281,121	\$ -
Zone 2A – Petaluma Basin	61,584	-
Water storage facilities	142,378	25,000
Common facilities	15,144,599	42,468
Pipeline facilities	2,861,516	-
Internal service facilities	6,592,424	55,445
Water transmission facilities	648,790	-
ISF equipment	172,150	-
Sanitation facilities	778	4
Water supply facilities	626,135	49,138
Total	<u>\$ 26,531,475</u>	<u>\$ 172,055</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, 2010**

Note Q. Commitments and Contingencies (continued)

Other Regulatory Matters

In June 2005, the NC Regional Board issued an Administrative Civil Liability (ACL) to the Water Agency with a mandatory penalty for violations of effluent limitations that occurred during periods of discharge to receiving waters from January 2000 through August 2004. A mandatory penalty was assessed against the Water Agency. However, the majority of the penalty is eligible to be permanently suspended if the Executive Officer of the NC Regional Board determines that reasonable progress is being made toward completion of a compliance project and the suspended amount is spent toward completion of the compliance project within five years from the date of the ACL. Annual reports are being submitted to the NC Regional Board to report the progress on the selected compliance project.

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, 2010**

Note R. Economic Dependence

Four major customers purchased water from the Water Agency during the fiscal year ended June 30, 2010. Water sales revenue for the fiscal year ended June 30, 2010 and accounts receivable as of June 30, 2010 associated with those customers are as follows:

	Water Sales	% of Total Water Sales
City of Santa Rosa	\$ 9,903,759	35.67%
Marin Municipal	5,189,705	18.69%
City of Petaluma	3,792,756	13.66%
North Marin County	3,692,284	13.30%
	\$ 22,578,504	81.31%

	Accounts Receivable	% of Total Accounts Receivable
City of Santa Rosa	\$ 1,961,490	33.2%
Marin Municipal	759,632	12.9%
City of Petaluma	830,406	14.1%
North Marin County	701,469	11.9%
	\$ 4,252,997	72.1%

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Note S. Future Governmental Accounting Standards

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

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, issued in February 2009. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB Statement No. 54 improves the financial reporting by providing fund balance categories and classifications that will be more easily understood. The reserve component of fund balance will be eliminated and replaced with a restricted classification to enhance the consistency between information reported in the government-wide and the governmental fund financial statements to avoid confusion about the relationship between reserved fund balance and restricted net assets. The fund balance disclosures will give users information necessary to understand the processes under which constraints are imposed upon the use of resources and how those constraints may be modified or eliminated. GASB Statement No. 54 is effective for financial statements for fiscal years beginning after June 15, 2010.

The impact on the basic financial statements of the Water Agency of this pronouncement which has 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, 2010**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with
	Original	Final	See Note A	Final Budget
REVENUES				
Property taxes	\$ 6,552,172	\$ 6,120,935	\$ 6,448,966	\$ 328,031
Investment earnings	77,250	77,250	110,145	32,895
Intergovernmental	292,006	292,006	234,556	(57,450)
Charges for services	392,800	392,800	407,982	15,182
Miscellaneous	64,200	64,200	93,237	29,037
Total revenues	<u>7,378,428</u>	<u>6,947,191</u>	<u>7,294,886</u>	<u>347,695</u>
EXPENDITURES				
Current:				
Salaries and benefits	27,824,963	26,991,708	26,954,228	37,480
Services and supplies	12,235,576	13,350,139	9,503,544	3,846,595
Costs applied	(37,945,068)	(37,945,068)	(34,532,122)	(3,412,946)
Capital outlay	220,000	284,000	42,297	241,703
Contingencies	500,000	500,000	-	500,000
Total expenditures	<u>2,835,471</u>	<u>3,180,779</u>	<u>1,967,947</u>	<u>1,212,832</u>
Excess of revenues over expenditures	<u>4,542,957</u>	<u>3,766,412</u>	<u>5,326,939</u>	<u>1,560,527</u>
OTHER FINANCING USES				
Transfers in	-	1,270,878	1,270,505	(373)
Transfers out	(5,360,000)	(9,651,897)	(5,493,366)	4,158,531
Total other financing sources (uses)	<u>(5,360,000)</u>	<u>(8,381,019)</u>	<u>(4,222,861)</u>	<u>4,158,158</u>
Net changes in fund balance	<u>\$ (817,043)</u>	<u>\$ (4,614,607)</u>	1,104,078	<u>\$ 5,718,685</u>
GAAP basis difference - encumbrances			(118,262)	
Fund balance - beginning of year			<u>10,062,610</u>	
Fund balance - end of year			<u>\$ 11,048,426</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, 2010**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with
	Original	Final	See Note A	Final Budget
REVENUES				
Property taxes	\$ 7,605,942	\$ 6,948,340	\$ 7,440,050	\$ 491,710
Investment earnings	211,750	211,750	199,851	(11,899)
Intergovernmental	77,597	77,597	143,921	66,324
Miscellaneous	35,000	35,000	63,494	28,494
Total revenues	<u>7,930,289</u>	<u>7,272,687</u>	<u>7,847,316</u>	<u>574,629</u>
EXPENDITURES				
Current:				
Services and supplies	12,726,432	13,952,608	5,643,052	8,309,556
Pollution remediation	301,604	301,604	-	301,604
Capital outlay	935,000	1,101,081	82,913	1,018,168
Total expenditures	<u>13,963,036</u>	<u>15,355,293</u>	<u>5,725,965</u>	<u>9,629,328</u>
Excess (deficiency) of revenues over (under) expenditures	(6,032,747)	(8,082,606)	2,121,351	(9,054,699)
Other Financing Sources				
Transfers in	-	580,069	580,069	-
Net changes in fund balance	<u>\$ (6,032,747)</u>	<u>\$ (7,502,537)</u>	2,701,420	<u>\$ (9,054,699)</u>
GAAP basis difference - encumbrances			(1,536,056)	
Fund balance - beginning of year			<u>22,276,958</u>	
Fund balance - end of year			<u>\$ 23,442,322</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, 2010**

	<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	\$ 4,304,824	\$ 4,304,824	\$ 5,022,072	\$ 717,248
Investment earnings	10,500	10,500	141,758	131,258
Intergovernmental	43,011	43,011	80,657	37,646
Miscellaneous	-	-	304	304
Total revenues	<u>4,358,335</u>	<u>4,358,335</u>	<u>5,244,791</u>	<u>886,456</u>
EXPENDITURES				
Current:				
Services and supplies	4,044,920	6,710,503	3,517,422	3,193,081
Capital Outlay	2,922,459	3,805,784	-	3,805,784
Total expenditures	<u>6,967,379</u>	<u>10,516,287</u>	<u>3,517,422</u>	<u>6,998,865</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,609,044)</u>	<u>(6,157,952)</u>	<u>1,727,369</u>	<u>(6,112,409)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	24,770	24,770	-
Transfers out	<u>(2,000,000)</u>	<u>(2,000,000)</u>	-	<u>2,000,000</u>
Total other financing sources (uses)	<u>(2,000,000)</u>	<u>(1,975,230)</u>	<u>24,770</u>	<u>2,000,000</u>
Net changes in fund balance	<u>\$ (4,609,044)</u>	<u>\$ (8,133,182)</u>	1,752,139	<u>\$ 9,885,321</u>
GAAP basis difference - encumbrances			208,338	
Fund balance - beginning of year			<u>10,715,019</u>	
Fund balance - end of year			<u>\$ 12,675,496</u>	

**SONOMA COUNTY WATER AGENCY
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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:

	General Fund	Special Revenue Funds		Total
		Flood Control	Warm Springs Dam	
Net change in fund balance	\$ 1,104,078	\$ 2,701,420	\$ 1,752,139	\$ 5,557,637
Expenditure charges against prior year encumbrances	(743,311)	(4,654,262)	(2,557,969)	(7,955,542)
Current year encumbrances	625,049	3,118,206	2,766,307	6,509,562
Net change in fund balance GAAP basis	\$ 985,816	\$ 1,165,364	\$ 1,960,477	\$ 4,111,657

Other Supplementary Information

**SONOMA COUNTY WATER AGENCY
COMBINING BALANCE SHEET
FLOOD CONTROL SPECIAL REVENUE FUNDS
JUNE 30, 2010**

	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	\$ 9,368,917	\$ 8,364,254	\$ 2,616,171	\$ 1,777,205
Accounts receivable	-	-	-	-
Notes receivable	-	-	110,000	-
Total assets	<u>\$ 9,368,917</u>	<u>\$ 8,364,254</u>	<u>\$ 2,726,171</u>	<u>\$ 1,777,205</u>
Liabilities and fund balances				
Liabilities:				
Accounts payable	<u>\$ 464,975</u>	<u>\$ 79,676</u>	<u>\$ 63,008</u>	<u>\$ 3,684</u>
Fund balances				
Reserved for encumbrances	2,199,133	634,570	275,574	2,279
Unreserved:				
Undesignated	<u>6,704,809</u>	<u>7,650,008</u>	<u>2,387,589</u>	<u>1,771,242</u>
Total fund balances	<u>8,903,942</u>	<u>8,284,578</u>	<u>2,663,163</u>	<u>1,773,521</u>
Total liabilities and fund balances	<u>\$ 9,368,917</u>	<u>\$ 8,364,254</u>	<u>\$ 2,726,171</u>	<u>\$ 1,777,205</u>

SONOMA COUNTY WATER AGENCY
 COMBINING BALANCE SHEET (CONTINUED)
 FLOOD CONTROL SPECIAL REVENUE FUNDS
 JUNE 30, 2010

Flood Control Funds			
Zone 7A North Coast	Zone 8A South Coast	Total Flood Control Funds	
\$ 75,700	\$ 1,737,285	\$ 23,939,532	Assets
13,000	-	13,000	Cash and investments
-	-	110,000	Accounts receivable
\$ 88,700	\$ 1,737,285	\$ 24,062,532	Notes receivable
			Liabilities and fund balances
\$ 8,867	\$ -	\$ 620,210	Liabilities:
			Accounts payable
6,650	-	3,118,206	Fund balances
			Reserved for encumbrances
73,183	1,737,285	20,324,116	Unreserved:
79,833	1,737,285	23,442,322	Undesignated
			Total fund balances
\$ 88,700	\$ 1,737,285	\$ 24,062,532	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, 2010**

	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	\$ 5,063,409	\$ 1,284,171	\$ 791,983	\$ 160,888
Investment earnings	76,942	70,629	21,994	14,959
Intergovernmental	95,231	21,283	21,293	4,797
Miscellaneous	50,494	-	-	-
Total revenues	<u>5,286,076</u>	<u>1,376,083</u>	<u>835,270</u>	<u>180,644</u>
EXPENDITURES				
Current:				
Services and supplies	5,649,647	872,240	609,352	33,996
Capital outlay	55,937	26,976	-	-
Total expenditures	<u>5,705,584</u>	<u>899,216</u>	<u>609,352</u>	<u>33,996</u>
Excess (deficiency) of revenues over (under) expenditures	(419,508)	476,867	225,918	146,648
OTHER FINANCING SOURCES				
Transfers in	496,853	69,038	8,661	2,427
Net change in fund balances	77,345	545,905	234,579	149,075
Fund balances - beginning of year	8,826,597	7,738,673	2,428,584	1,624,446
Fund balances - end of year	<u>\$ 8,903,942</u>	<u>\$ 8,284,578</u>	<u>\$ 2,663,163</u>	<u>\$ 1,773,521</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, 2010**

<u>Flood Control Funds</u>			
<u>Zone 7A North Coast</u>	<u>Zone 8A South Coast</u>	<u>Total Flood Control Funds</u>	
\$ -	\$ 139,599	\$ 7,440,050	REVENUES
682	14,645	199,851	Property taxes
-	1,317	143,921	Investment earnings
13,000	-	63,494	Intergovernmental
<u>13,682</u>	<u>155,561</u>	<u>7,847,316</u>	Miscellaneous
			Total revenues
			EXPENDITURES
			Current:
10,945	2,928	7,179,108	Services and supplies
-	-	82,913	Capital outlay
<u>10,945</u>	<u>2,928</u>	<u>7,262,021</u>	Total expenditures
			Excess (deficiency) of revenues over (under) expenditures
2,737	152,633	585,295	
			OTHER FINANCING SOURCES
3	3,087	580,069	Transfers in
2,740	155,720	1,165,364	Net change in fund balances
<u>77,093</u>	<u>1,581,565</u>	<u>22,276,958</u>	Fund balances - beginning of year
<u>\$ 79,833</u>	<u>\$ 1,737,285</u>	<u>\$ 23,442,322</u>	Fund balances - end of year

**SONOMA COUNTY WATER AGENCY
COMBINING STATEMENT OF NET ASSETS
SANITATION ENTERPRISE FUNDS
JUNE 30, 2010**

	Sanitation Funds				Total Sanitation Funds
	Sea Ranch	Penngrove	Geyserville	Airport Larkfield Wikiup	
ASSETS					
Current assets:					
Cash and investments	\$ 426,492	\$ 729,205	\$ 527,076	\$ 1,230,444	\$ 2,913,217
Accounts receivable, net	2,393	80,461	22,840	706,313	812,007
Total current assets	<u>428,885</u>	<u>809,666</u>	<u>549,916</u>	<u>1,936,757</u>	<u>3,725,224</u>
Noncurrent assets:					
Restricted assets					
Cash - revenue bond funds	-	14,009	56,274	121,561	191,844
Deferred charges	-	-	-	112,094	112,094
Capital assets, net					
Land	-	-	106,213	1,515,231	1,621,444
Construction in progress	-	-	-	778	778
Intangible assets - other	-	-	-	12,544	12,544
Buildings and improvements	678,530	1,161,689	764,693	21,183,799	23,788,711
Machinery and equipment	-	10,678	-	43,836	54,514
Total capital assets	<u>678,530</u>	<u>1,172,367</u>	<u>870,906</u>	<u>22,756,188</u>	<u>25,477,991</u>
Total noncurrent assets	<u>678,530</u>	<u>1,186,376</u>	<u>927,180</u>	<u>22,989,843</u>	<u>25,781,929</u>
Total assets	<u>1,107,415</u>	<u>1,996,042</u>	<u>1,477,096</u>	<u>24,926,600</u>	<u>29,507,153</u>
LIABILITIES					
Current liabilities payable from unrestricted assets:					
Accounts payable and accrued expenses	36,255	225,505	1,743	29,830	293,333
Unearned revenue	-	-	-	34,953	34,953
Total current liabilities payable from unrestricted assets	<u>36,255</u>	<u>225,505</u>	<u>1,743</u>	<u>64,783</u>	<u>328,286</u>
Current liabilities payable from restricted assets:					
Interest payable	-	1,867	-	58,545	60,412
General obligation bonds payable	-	12,000	18,000	-	30,000
Revenue bonds payable	-	-	-	210,620	210,620
Total current liabilities payable from restricted assets	<u>-</u>	<u>13,867</u>	<u>18,000</u>	<u>269,165</u>	<u>301,032</u>
Noncurrent liabilities:					
General obligation bonds payable	-	100,000	204,000	-	304,000
Revenue bonds payable	-	-	-	4,844,931	4,844,931
Total noncurrent liabilities	<u>-</u>	<u>100,000</u>	<u>204,000</u>	<u>4,844,931</u>	<u>5,148,931</u>
Total liabilities	<u>36,255</u>	<u>339,372</u>	<u>223,743</u>	<u>5,178,879</u>	<u>5,778,249</u>
NET ASSETS					
Invested in capital assets, net of related debt	678,530	1,060,367	648,906	17,700,637	20,088,440
Restricted for:					
Debt service	-	12,142	56,274	63,016	131,432
Recycled water and water conservation	-	7,386	19,527	247,150	274,063
Unrestricted	392,630	576,775	528,646	1,736,918	3,234,969
Total net assets	<u>\$ 1,071,160</u>	<u>\$ 1,656,670</u>	<u>\$ 1,253,353</u>	<u>\$ 19,747,721</u>	<u>\$ 23,728,904</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, 2010

	Sanitation Funds				Total Sanitation Funds
	Sea Ranch	Penngrove	Geyserville	Airport Lakefield Wikiup	
OPERATING REVENUE					
Flat charges	\$ 472,646	\$ 488,192	\$ 253,529	\$ 1,846,735	\$ 3,061,102
Sanitation services	1,174	8,734	2,000	153,481	165,389
Real estate rental	-	-	-	50,000	50,000
Miscellaneous	-	-	-	56,815	56,815
Total operating revenue	<u>473,820</u>	<u>496,926</u>	<u>255,529</u>	<u>2,107,031</u>	<u>3,333,306</u>
OPERATING EXPENSES					
Services and supplies	414,369	532,794	236,650	2,033,593	3,217,406
Depreciation and amortization	88,571	36,600	85,081	930,214	1,140,466
Total operating expenses	<u>502,940</u>	<u>569,394</u>	<u>321,731</u>	<u>2,963,807</u>	<u>4,357,872</u>
Operating loss	<u>(29,120)</u>	<u>(72,468)</u>	<u>(66,202)</u>	<u>(856,776)</u>	<u>(1,024,566)</u>
NONOPERATING REVENUES (EXPENSES)					
Taxes and assessments	-	15,915	25,301	-	41,216
Investment earnings	4,232	13,355	5,054	20,168	42,809
Interest expense	-	-	(11,525)	(232,196)	(243,721)
Conservation program revenue	-	-	-	610,670	610,670
Conservation program expense	(97,615)	(44,311)	(12,613)	(569,181)	(723,720)
Intergovernmental revenue	-	140	171	177,746	178,057
Total nonoperating revenue (expenses), net	<u>(93,383)</u>	<u>(14,901)</u>	<u>6,388</u>	<u>7,207</u>	<u>(94,689)</u>
Loss before capital contributions and transfers	<u>(122,503)</u>	<u>(87,369)</u>	<u>(59,814)</u>	<u>(849,569)</u>	<u>(1,119,255)</u>
Capital contributions - connection fees	-	3,075	-	113,970	117,045
Capital contributions - other	-	-	-	12,000	12,000
Transfers in	13,635	24,217	36,846	174,973	249,671
Transfers in - conservation program	76,000	30,000	25,000	182,000	313,000
Change in net assets	<u>(32,868)</u>	<u>(30,077)</u>	<u>2,032</u>	<u>(366,626)</u>	<u>(427,539)</u>
Net assets - beginning of year	<u>1,104,028</u>	<u>1,686,747</u>	<u>1,251,321</u>	<u>20,114,347</u>	<u>24,156,443</u>
Net assets - end of year	<u>\$ 1,071,160</u>	<u>\$ 1,656,670</u>	<u>\$ 1,253,353</u>	<u>\$ 19,747,721</u>	<u>\$ 23,728,904</u>

**SONOMA COUNTY WATER AGENCY
COMBINING STATEMENT OF CASH FLOWS
SANITATION ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2010**

	Sanitation Funds				Total Sanitation Funds
	Sea Ranch	Penngrove	Geyserville	Airport Larkfield Wikiup	
Cash flows from operating activities:					
Cash receipts from customers	\$ 476,899	\$ 478,958	\$ 246,563	\$ 2,071,027	\$ 3,273,447
Cash payments for interfund services used	(70,908)	(101,460)	(204,079)	(1,698,177)	(2,074,624)
Cash payments to suppliers	(341,659)	(406,569)	(35,959)	(362,514)	(1,146,701)
Conservation program outlays	(97,615)	(44,311)	(12,613)	(569,181)	(723,720)
Net cash used for operating activities	<u>(33,283)</u>	<u>(73,382)</u>	<u>(6,088)</u>	<u>(558,845)</u>	<u>(671,598)</u>
Cash flows from noncapital financing activities:					
Taxes and assessments	-	15,915	25,301	-	41,216
Transfers in	13,635	24,217	36,846	174,973	249,671
Transfers in - conservation program	76,000	30,000	25,000	182,000	313,000
Intergovernmental revenue	-	140	171	169,811	170,122
Net cash provided by noncapital financing activities	<u>89,635</u>	<u>70,272</u>	<u>87,318</u>	<u>526,784</u>	<u>774,009</u>
Cash flows from capital and related financing activities:					
Purchase of capital assets	(72,369)	(17,114)	-	(23,116)	(112,599)
Principal paid on long-term debt	-	(11,000)	(17,000)	(220,000)	(248,000)
Interest paid on long-term debt	-	(5,875)	(11,525)	(237,482)	(254,882)
Connection fees	-	3,075	-	113,970	117,045
Net cash used for capital and related financing activities	<u>(72,369)</u>	<u>(30,914)</u>	<u>(28,525)</u>	<u>(366,628)</u>	<u>(498,436)</u>
Cash flows from investing activities:					
Repayment on advances to other funds - principal	-	-	-	18,480	18,480
Repayment on advances to other funds - interest	-	-	-	776	776
Interest received	4,232	13,355	5,054	19,392	42,033
Net cash provided by investing activities	<u>4,232</u>	<u>13,355</u>	<u>5,054</u>	<u>38,648</u>	<u>61,289</u>
Net increase (decrease) in cash and cash equivalents	(11,785)	(20,669)	57,759	(360,041)	(334,736)
Cash and cash equivalents - beginning of year	438,277	763,883	525,591	1,712,046	3,439,797
Cash and cash equivalents - end of year	<u>\$ 426,492</u>	<u>\$ 743,214</u>	<u>\$ 583,350</u>	<u>\$ 1,352,005</u>	<u>\$ 3,105,061</u>
Reconciliation to the statement of net assets:					
Cash and investments	\$ 426,492	\$ 729,205	\$ 527,076	\$ 1,230,444	\$ 2,913,217
Restricted cash and investments	-	14,009	56,274	121,561	191,844
Cash and cash equivalents	<u>\$ 426,492</u>	<u>\$ 743,214</u>	<u>\$ 583,350</u>	<u>\$ 1,352,005</u>	<u>\$ 3,105,061</u>
Reconciliation of operating loss to net cash used for operating activities:					
Operating loss	\$ (29,120)	\$ (72,468)	\$ (66,202)	\$ (856,776)	\$ (1,024,566)
Adjustments to reconcile operating loss to net cash used for operating activities:					
Conservation program outlays	(97,615)	(44,311)	(12,613)	(569,181)	(723,720)
Depreciation and amortization	88,571	36,600	85,081	930,214	1,140,466
Change in assets and liabilities:					
Receivables, net	3,079	(17,968)	(8,966)	(36,004)	(59,859)
Accounts payable and accrued expenses	1,802	24,765	(3,388)	(27,098)	(3,919)
Net cash used for operating activities	<u>\$ (33,283)</u>	<u>\$ (73,382)</u>	<u>\$ (6,088)</u>	<u>\$ (558,845)</u>	<u>\$ (671,598)</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisition of capital assets through accounts payable	\$ 3,742	\$ -	\$ -	\$ -	\$ 3,742
Increase in capital assets for capitalized interest	-	5,692	-	23,015	28,707
Contribution of capital assets - designated easements	-	-	-	12,000	12,000

**SONOMA COUNTY WATER AGENCY
COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICES FUNDS
JUNE 30, 2010**

	<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	\$ 6,960,044	\$ 1,051,429	\$ 8,011,473
Accounts receivable	26,360	53	26,413
Prepaid expenses	-	825,469	825,469
Total current assets	<u>6,986,404</u>	<u>1,876,951</u>	<u>8,863,355</u>
Noncurrent assets:			
Restricted assets			
Cash - capital leases	773,823	275,679	1,049,502
Cash - capital projects	857,251	-	857,251
Total restricted assets	<u>1,631,074</u>	<u>275,679</u>	<u>1,906,753</u>
Capital assets, net			
Land	2,689,861	-	2,689,861
Construction in progress	6,670,024	94,550	6,764,574
Buildings and improvements	12,757,243	15,134,609	27,891,852
Machinery and equipment	1,752,396	12,159	1,764,555
Total capital assets	<u>23,869,524</u>	<u>15,241,318</u>	<u>39,110,842</u>
Total noncurrent assets	<u>25,500,598</u>	<u>15,516,997</u>	<u>41,017,595</u>
Total assets	<u>32,487,002</u>	<u>17,393,948</u>	<u>49,880,950</u>
LIABILITIES			
Current liabilities payable from unrestricted assets:			
Accounts payable and accrued expenses	142,194	795,902	938,096
Due to other governments	-	405,168	405,168
Total current liabilities payable from unrestricted assets	<u>142,194</u>	<u>1,201,070</u>	<u>1,343,264</u>
Current liabilities payable from restricted assets:			
Interest payable	122,161	37,065	159,226
Capital leases	773,823	275,679	1,049,502
Total current liabilities payable from restricted assets	<u>895,984</u>	<u>312,744</u>	<u>1,208,728</u>
Noncurrent liabilities:			
Capital leases	10,843,826	3,204,412	14,048,238
Advances from other governments	-	3,917,588	3,917,588
Advances from other funds	-	1,071,840	1,071,840
Total noncurrent liabilities	<u>10,843,826</u>	<u>8,193,840</u>	<u>19,037,666</u>
Total liabilities	<u>11,882,004</u>	<u>9,707,654</u>	<u>21,589,658</u>
NET ASSETS			
Invested in capital assets, net of related debt	13,109,126	7,438,471	20,547,597
Restricted for:			
Debt service	651,662	238,614	890,276
Capital projects	857,251	-	857,251
Unrestricted	5,986,959	9,209	5,996,168
Total net assets	<u>\$ 20,604,998</u>	<u>\$ 7,686,294</u>	<u>\$ 28,291,292</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, 2010

	<u>Internal Service Funds</u>		<u>Total Internal Service Funds</u>
	<u>Equipment Facilities</u>	<u>Power Resources</u>	
OPERATING REVENUE			
Power sales	\$ -	\$ 5,052,301	\$ 5,052,301
Equipment rental	2,239,097	-	2,239,097
Real estate rental	3,021,230	-	3,021,230
Miscellaneous	1,914	21,327	23,241
Total operating revenue	<u>5,262,241</u>	<u>5,073,628</u>	<u>10,335,869</u>
OPERATING EXPENSES			
Services and supplies	3,276,484	5,045,292	8,321,776
Depreciation	1,046,736	409,044	1,455,780
Total operating expenses	<u>4,323,220</u>	<u>5,454,336</u>	<u>9,777,556</u>
Operating income (loss)	<u>939,021</u>	<u>(380,708)</u>	<u>558,313</u>
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	91,091	8,233	99,324
Interest expense	(285,549)	(365,628)	(651,177)
Gain on sale of capital assets	80,934	-	80,934
Loss on disposal of capital assets	-	(6,984)	(6,984)
Total nonoperating expenses, net	<u>(113,524)</u>	<u>(364,379)</u>	<u>(477,903)</u>
Income (loss) before capital contributions and transfers	825,497	(745,087)	80,410
Capital contributions - other	140,647	-	140,647
Transfers in	379,942	7,908	387,850
Transfers out	(1,962,835)	-	(1,962,835)
Change in net assets	(616,749)	(737,179)	(1,353,928)
Net assets - beginning of year, as restated	<u>21,221,747</u>	<u>8,423,473</u>	<u>29,645,220</u>
Net assets - end of year	<u>\$ 20,604,998</u>	<u>\$ 7,686,294</u>	<u>\$ 28,291,292</u>

**SONOMA COUNTY WATER AGENCY
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	<u>Internal Service Funds</u>		<u>Total Internal Service Funds</u>
	<u>Equipment Facilities</u>	<u>Power Resources</u>	
Cash flows from operating activities:			
Cash receipts from interfund services provided	\$ 5,262,241	\$ 5,073,575	\$ 10,335,816
Cash payments for interfund services used	(1,579,091)	(286,990)	(1,866,081)
Cash payments to suppliers	(1,678,980)	(4,034,976)	(5,713,956)
Net cash provided by operating activities	<u>2,004,170</u>	<u>751,609</u>	<u>2,755,779</u>
Cash flows from noncapital financing activities:			
Transfers in	379,942	7,908	387,850
Transfers out	(1,962,835)	-	(1,962,835)
Net cash provided by (used for) noncapital financing activities	<u>(1,582,893)</u>	<u>7,908</u>	<u>(1,574,985)</u>
Cash flows from capital and related financing activities:			
Purchase of capital assets	(1,151,013)	(68,313)	(1,219,326)
Principal paid on capital leases	(740,048)	(264,290)	(1,004,338)
Principal paid on advances from other funds	-	(162,027)	(162,027)
Principal paid on advances from other governments	-	(388,845)	(388,845)
Interest paid on long-term debt	(546,445)	(361,336)	(907,781)
Proceeds from sale of capital assets	274,346	-	274,346
Net cash used for capital and related financing activities	<u>(2,163,160)</u>	<u>(1,244,811)</u>	<u>(3,407,971)</u>
Cash flows from investing activities:			
Repayment on advances to other funds - principal	143,547	-	143,547
Repayment on advances to other funds - interest	6,026	-	6,026
Interest received	85,065	8,233	93,298
Net cash provided by investing activities	<u>234,638</u>	<u>8,233</u>	<u>242,871</u>
Net decrease in cash and cash equivalents	(1,507,245)	(477,061)	(1,984,306)
Cash and cash equivalents - beginning of year	10,098,363	1,804,169	11,902,532
Cash and cash equivalents - end of year	<u>\$ 8,591,118</u>	<u>\$ 1,327,108</u>	<u>\$ 9,918,226</u>
Reconciliation to the statement of net assets:			
Cash and investments	\$ 6,960,044	\$ 1,051,429	\$ 8,011,473
Restricted cash and investments	1,631,074	275,679	1,906,753
Cash and cash equivalents	<u>\$ 8,591,118</u>	<u>\$ 1,327,108</u>	<u>\$ 9,918,226</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 939,021	\$ (380,708)	\$ 558,313
Reconciliation of operating income (loss) to net cash provided by operating activities			
Depreciation	1,046,736	409,044	1,455,780
Change in assets and liabilities:			
Receivables, net	-	(53)	(53)
Prepaid expenses	-	664,794	664,794
Accounts payable and accrued expenses	18,413	58,532	76,945
Net cash provided by operating activities	<u>\$ 2,004,170</u>	<u>\$ 751,609</u>	<u>\$ 2,755,779</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition of capital assets through accounts payable	\$ 83,181	\$ -	\$ 83,181
Increase in capital assets for capitalized interest	253,211	2,589	255,800
Increase in intangible assets for contribution	140,647	-	140,647
Loss on disposal of capital assets	-	(6,984)	(6,984)

Other Report



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

**INDEPENDENT AUDITOR’S 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***

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Sonoma County Water Agency (Water Agency), as of and for the year ended June 30, 2010, which collectively comprise the Water Agency’s basic financial statements and have issued our report thereon dated November 30, 2010. Our report contained an explanatory paragraph describing the Water Agency’s implementation of a new governmental accounting standard, effective July 1, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Water Agency’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the 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 financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors and management of the Water Agency, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Macinnis Gini & O'Connell LLP

Certified Public Accountants

Sacramento, California
November 30, 2010