

**SONOMA COUNTY
WATER AGENCY**

Report to the Board of Directors

For the Fiscal Year Ended June 30, 2010

SONOMA COUNTY WATER AGENCY

**Report to the Board of Directors
For the Fiscal Year Ended June 30, 2010**

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

We have audited the financial statements of the governmental activities, 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 fiscal year ended June 30, 2010, and have issued our report thereon dated November 30, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

In planning and performing our audit, we considered the Water Agency's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions 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 second paragraph 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.

Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 23, 2010. Professional standards also require that we communicate to you the information related to our audit as discussed in the Required Communications section of this report.

We would like to thank the Water Agency's management and staff for the courtesy and cooperation extended to us during the course of our engagement.

This communication is intended solely for the information and use of management, the Board of Directors, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountants

Sacramento, California
November 30, 2010

SONOMA COUNTY WATER AGENCY
Required Communications
For the Fiscal Year Ended June 30, 2010

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Sonoma County Water Agency (Water Agency) are described in Note B to the financial statements. Effective July 1, 2009, the Water Agency implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, the cumulative effect of which has been reported in the Statement of Net Assets. We noted no transactions entered into by the Water Agency during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Water Agency's financial statements were:

- Depreciation expense estimates for capital assets
- Compensated absences liabilities

Depreciation expense is based on management's estimate of the useful lives of the related capital assets. Management's estimate of the Agency's compensated absences liabilities is based on earned vacation and sick leave hours and hourly rate of each employee at year-end. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to each opinion unit's financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

SONOMA COUNTY WATER AGENCY
Required Communications (Continued)
For the Fiscal Year Ended June 30, 2010

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 30, 2010.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Water Agency's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**SONOMA COUNTY WATER AGENCY
Schedule of Uncorrected Misstatements
For the Fiscal Year Ended June 30, 2010**

<u>Financial Statement Line Items and Description by Opinion Unit</u>	<u>Debit</u>	<u>Credit</u>
Business-type Activities		
<i>Water Supply Major Enterprise Fund</i>		
Prepaid expenses	\$ 6,750	
Membership expenses		\$ 6,750
<i>To reclassify the portion of membership expenses related to the fiscal year ending June 30, 2011.</i>		
<i>Water Transmission Major Enterprise Fund</i>		
Membership expenses	44,640	
Net assets		44,640
<i>To recognize membership expenses incurred during the fiscal year ended June 30, 2010 that were recognized during the fiscal year ended June 30, 2009.</i>		
Net assets	203,000	
Consultant services expense		203,000
<i>To recognize consultant service expenses incurred during the fiscal year ended June 30, 2009 that were recognized during the fiscal year ended June 30, 2010.</i>		
Net assets	74,685	
Legal expenses		74,685
<i>To recognize legal service expenses incurred during the fiscal year ended June 30, 2009 that were recognized during the fiscal year ended June 30, 2010.</i>		