

**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,
Other Supplementary Information, and Single Audit

For the Fiscal Year Ended June 30, 2011

**SONOMA COUNTY WATER AGENCY
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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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, 2011, 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, 2011, 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, 2010, the Water Agency implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2011 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.

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

Our audit was conducted for the purpose of forming an opinion 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 and the schedule of expenditures of federal awards, as required by OMB Circular A-133, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Macinn Mini & O'Connell LLP

Sacramento, California
December 7, 2011

Management's Discussion and Analysis

**SONOMA COUNTY WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(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, 2011. 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 \$356,919,867 (net assets). Of this amount \$39,880,691 (unrestricted net assets) may be used to meet the Water Agency's ongoing obligations to citizens and creditors.
- The Water Agency's total net assets increased by \$2,625,982 during the current fiscal year. This increase in net assets is comprised of an increase in the business-type activities of \$4,716,365 and a governmental activities decrease of \$2,090,383.
- As of the close of the current fiscal year, the Water Agency's governmental funds reported combined ending fund balances of \$127,733,880, a decrease of \$3,680,033 from the preceding year. Approximately 3% of this total amount, \$3,774,342 is available for spending at the Water Agency's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the General Fund, was \$3,774,342 or approximately 9% of total general fund gross expenditures, which amounted to \$40,742,201 for the fiscal year ended June 30, 2011.

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, 2011
(UNAUDITED)**

Overview of the Financial Statements (continued)

Government-wide financial statements (continued)

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

Fund financial statements

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

Governmental funds

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

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

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

The Water Agency adopts an annual appropriated budget for its general fund, special revenue funds, and debt service fund. Budgetary comparison statements have been provided for the general fund and special revenue funds, as required by generally accepted accounting principles, to demonstrate compliance with this budget.

**SONOMA COUNTY WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)**

Overview of the Financial Statements (continued)

Proprietary funds

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

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

Fiduciary funds

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

Notes to the basic financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information

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

Other Supplementary Information

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

**SONOMA COUNTY WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(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 \$356,919,867 as of June 30, 2011.

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

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2010	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010	June 30, 2011
Current and other assets	\$ 133,432,451	\$ 129,551,369	\$ 50,570,307	\$ 53,051,756	\$ 184,002,758	\$ 182,603,125
Capital assets	148,940,510	148,013,084	209,386,387	209,474,223	358,326,897	357,487,307
Total assets	282,372,961	277,564,453	259,956,694	262,525,979	542,329,655	540,090,432
Current liabilities	7,285,297	7,114,485	7,460,179	8,464,533	14,745,476	15,579,018
Noncurrent liabilities	106,772,187	104,224,874	66,518,107	63,366,673	173,290,294	167,591,547
Total liabilities	114,057,484	111,339,359	73,978,286	71,831,206	188,035,770	183,170,565
Invested in capital assets, net of related debt	42,182,070	44,097,288	146,238,805	148,479,032	188,420,875	192,576,320
Restricted	118,070,202	116,791,458	9,182,687	7,671,398	127,252,889	124,462,856
Unrestricted	8,063,205	5,336,348	30,556,916	34,544,343	38,620,121	39,880,691
Total net assets	\$ 168,315,477	\$ 166,225,094	\$ 185,978,408	\$ 190,694,773	\$ 354,293,885	\$ 356,919,867

The largest portion of the Water Agency's net assets (54%) reflects its investment in capital assets (e.g., land, construction in progress, infrastructure, buildings, machinery and equipment); less any related debt used to acquire those assets that are still outstanding. The Water Agency uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Water Agency's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A portion of the Water Agency's net assets, \$124,462,856 (35%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$39,880,691, may be used to meet the Water Agency's ongoing obligations to citizens and creditors.

As of June 30, 2011, 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 \$2,625,982 during the fiscal year ended June 30, 2011. This increase is a net result of expenses exceeding revenues in the governmental activities offset by revenues exceeding expenses in the business-type activities.

**SONOMA COUNTY WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)**

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

	Governmental Activities		Business-Type Activities		Total	
	Fiscal Year Ended June 30,		Fiscal Year Ended June 30,		Fiscal Year Ended June 30,	
	2010	2011	2010	2011	2010	2011
Revenues:						
Program Revenues:						
Charges for services	\$ 664,769	\$ 693,531	\$ 32,192,144	\$ 35,996,589	\$ 32,856,913	\$ 36,690,120
Operating grants and contributions	359,382	572,847	3,070,266	1,866,359	3,429,648	2,439,206
Capital grants and contributions	-	21,831	140,444	433,781	140,444	455,612
General Revenues:						
Property taxes	18,911,088	18,325,641	41,216	38,944	18,952,304	18,364,585
Investment earnings	6,074,946	2,510,438	408,379	283,744	6,483,325	2,794,182
Miscellaneous	-	-	80,934	-	80,934	-
Total revenues	26,010,185	22,124,288	35,933,383	38,619,417	61,943,568	60,743,705
Expenses:						
General government	2,435,380	5,866,906	-	-	2,435,380	5,866,906
Flood control	8,741,194	8,276,305	-	-	8,741,194	8,276,305
Warm Springs Dam	3,309,084	3,226,944	-	-	3,309,084	3,226,944
Interest on long-term debt	3,472,533	3,381,811	-	-	3,472,533	3,381,811
Water transmission	-	-	28,563,239	27,961,893	28,563,239	27,961,893
Water supply	-	-	9,342,303	4,612,143	9,342,303	4,612,143
Sanitation	-	-	5,273,189	4,791,721	5,273,189	4,791,721
Total expenses	17,958,191	20,751,966	43,178,731	37,365,757	61,136,922	58,117,723
Change in net assets before transfers	8,051,994	1,372,322	(7,245,348)	1,253,660	806,646	2,625,982
Transfers	(3,618,022)	(3,462,705)	3,618,022	3,462,705	-	-
Change in net assets	4,433,972	(2,090,383)	(3,627,326)	4,716,365	806,646	2,625,982
Net assets - beginning of year	163,881,505	168,315,477	189,605,734	185,978,408	353,487,239	354,293,885
Net assets - end of year	\$ 168,315,477	\$ 166,225,094	\$ 185,978,408	\$ 190,694,773	\$ 354,293,885	\$ 356,919,867

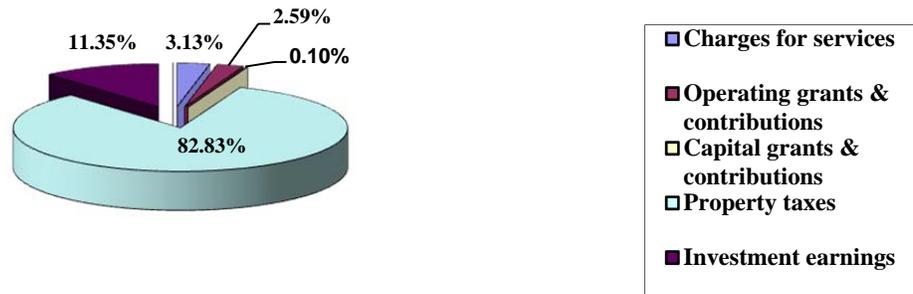
**SONOMA COUNTY WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)**

Governmental Activities

Governmental activities decreased the Water Agency's net assets by \$2,090,383. Key elements of the Water Agency's governmental activities are identified below.

- Property tax revenues for the fiscal year totaled \$18,325,641, including \$4,930,401 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 \$2,510,438 was due primarily to a \$2,002,705 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 \$507,733 were realized.
- Revenues for the fiscal year ended June 30, 2011 decreased by \$3,885,897 from the prior fiscal year while expenses increased by \$2,793,775 over the same period. The revenue decrease is due primarily to a decrease in investment earnings particularly related to the market value of the US Treasury STRIP investments. The expense increase is due primarily to increases in energy sustainability projects (\$1.12 million) and facilities rent (\$1.8 million) in the General Fund offset in part by decreases in other areas.

Revenues by Source – Governmental Activities



Business-type activities

Business-type activities increased the Water Agency's net assets by \$4,716,365. Key elements of the Water Agency's business-type activities are identified below.

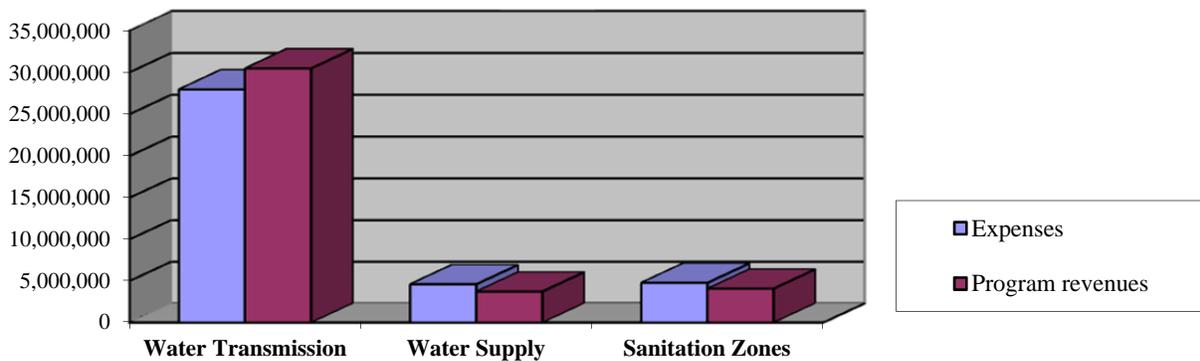
- Water sales revenues increased \$3,434,374 from the prior fiscal year. This increase was due to a 2.6% increase in total acre-feet sold during the year, and an average increase of 7.27% in water rates from the fiscal year ended June 30, 2010.
- Sewer service revenues increased due to increases in the 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, 2011
(UNAUDITED)**

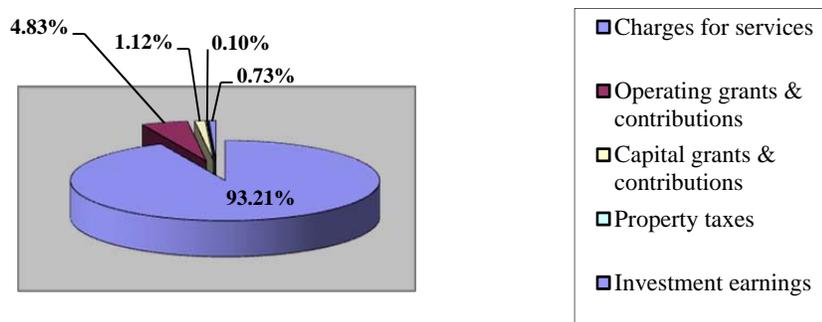
Business-type activities (continued)

- Operating Grants and contributions totaling \$1,866,359, representing a reduction of \$1,203,907 or 39% from the prior year, were received during the fiscal year ended June 30, 2011. Grants include funding from the state towards Proposition 50 washer rebate programs, North San Pablo Bay restoration project, California Energy Commission renewable energy project, American Recovery and Reinvestment Act (ARRA) pass through funding for North Bay Water Reuse projects and EPA funding for the Occidental Storage and Reclamation project. Other contributions include a storage pond use agreement with the Town of Windsor.
- Investment earnings for the fiscal year ended June 30, 2011 totaled \$283,744. This is a decrease of \$124,635 from the prior year due to decreases in interest rates.
- Transfers from the Water Agency's General Fund totaling \$3,462,705 were received during the fiscal year ended June 30, 2011. These transfers were for the purpose of financing various projects related to recycled water (\$1,800,000), improvements to the operations and maintenance building acquired in September 2008 (\$1,246,605) and for various programs within the sanitation zones (\$416,100).

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, 2011
(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.

As of June 30, 2011, the Water Agency's governmental funds reported combined ending fund balances of \$127,733,880, a decrease of \$3,680,033 in comparison with the prior year. Approximately 3% of this total amount, \$3,774,342, constitutes unassigned fund balance, which is available for spending at the Water Agency's discretion. The remaining fund balance is categorized based on the relative level of restriction for its use in accordance with GASB Statement No 54, which is further discussed in the accompanying notes to the financial statements.

The General Fund is the chief operating fund of the Water Agency. At the end of the current fiscal year, unassigned fund balance of the General Fund is \$3,774,342. Assigned fund balance totals \$3,355,545 and is comprised of activities related to the operation of Spring Lake Park, the Waste/Recycled Water Loan Fund and the Sustainability Fund. The General Fund also reports a non-spendable fund balance of \$1,578,367 for an advance to the ISF Power fund. Total fund balance for the General Fund is \$8,708,254.

The special revenue funds, consisting of six (6) flood control zones and Warm Springs Dam, reported fiscal year end fund balances of \$24,275,154 and \$14,680,404, respectively. A total of \$24,275,154 is restricted for flood control, \$6,709,396 is restricted for operation and maintenance of Warm Springs Dam and \$7,971,008 is non-spendable.

The Debt Service Fund has a total fund balance of \$80,070,068, all of which is restricted 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, 2011 amounted to \$26,061,612. The Water Supply Fund reported a deficit balance in unrestricted net assets of \$1,770,664 as a 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 \$2,864,847. 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, 2011
(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 \$4,749,406, while budgeted revenues were increased by \$370,493 during the fiscal year ended June 30, 2011.

The primary component of the increase in budgeted expenditures consists of a \$2,657,705 increase in appropriations for transfers to support improvement projects at the new operations building, a recycled water project and renewable energy projects. The Water Agency also increased budgeted services and supplies by \$415,826, salaries and benefits by \$800,000 and capital outlays by \$1,175,875 for software development and renewable energy projects.

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

Capital Asset and Debt Administration

Capital assets

The Water Agency's investment in capital assets for its governmental and business-type activities as of June 30, 2011, amounts to \$357,487,307 (net of accumulated depreciation and amortization). This investment in capital assets includes land, intangible assets such as water storage rights and permanent easements, buildings and improvements (including dams and collection systems), and machinery and equipment.

Major capital asset events during the fiscal year ended June 30, 2011 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:
 - Diversion Alternatives - \$4,521,637

- Capital expansion within the Equipment Facilities Internal Service Fund included:
 - Software Upgrade - \$179,656

**SONOMA COUNTY WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(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, 2010	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010	June 30, 2011
Water storage rights	\$ 102,371,000	\$ 102,371,000	\$ 4,996,395	\$ 4,996,395	\$ 107,367,395	\$ 107,367,395
Intangible asset - easements	-	-	12,544	13,703	12,544	13,703
Land	1,573,126	1,582,224	11,021,314	11,021,314	12,594,440	12,603,538
Construction in progress	342,705	795,746	26,188,770	28,686,882	26,531,475	29,482,628
Infrastructure	42,608,443	41,046,357	-	-	42,608,443	41,046,357
Intangible asset - software	-	271,571	-	315,206	-	586,777
Buildings and improvements	1,862,633	1,777,332	165,073,776	161,981,328	166,936,409	163,758,660
Machinery and equipment	182,603	168,854	2,093,588	2,459,395	2,276,191	2,628,249
Total net assets	\$ 148,940,510	\$ 148,013,084	\$ 209,386,387	\$ 209,474,223	\$ 358,326,897	\$ 357,487,307

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

Long-term debt

As of June 30, 2011, the Water Agency had a total of \$168,375,316 in outstanding debt. Of this amount \$304,000 comprises general obligation bonds which are backed by the full faith and credit of the Water Agency; \$14,048,238 is related to capital leases; \$29,050,000 in revenue bonds payable from the Water Agency's operating income; \$14,001,714 represents funds advanced to the Water Agency from the California Department of Water Resources; \$3,917,587 represents advances from the Sonoma Valley County Sanitation District; \$103,915,796 is a federal long-term contract payable; and \$3,137,981 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	
	2010	2011	\$	%
General obligation bonds	\$ 334,000	\$ 304,000	\$ (30,000)	-9.0%
Capital leases	15,097,740	14,048,238	(1,049,502)	-7.0%
Revenue bonds	29,855,000	29,050,000	(805,000)	-2.7%
Advances from other governments	18,960,232	17,919,301	(1,040,931)	-5.5%
Federal contract payable	106,758,440	103,915,796	(2,842,644)	-2.7%
Compensated absences	2,751,296	3,137,981	386,685	14.1%
Total	\$ 173,756,708	\$ 168,375,316	\$ (5,381,392)	-3.1%

The Water Agency's total debt decreased by \$5,381,392 (-3.1%) during the fiscal year ended June 30, 2011.

**SONOMA COUNTY WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(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 9.0%, 7.0%, 2.7%, 5.5%, and 2.7%, respectively, during the fiscal year ended June 30, 2011 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 J of this report.

Next Year's Budgets and Rates

During the fiscal year ended June 30, 2011, unassigned fund balance in the General Fund amounts to \$3,774,342. The Agency has not appropriated any of this amount for spending in the fiscal year ending June 30, 2012 budget.

Both the water and sewer rates were increased for the fiscal year ending June 30, 2012 budget. Water rates were increased by an average of 4.74%, while sewer rates increased an average of 5.22%.

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	\$ 547.37	\$ 547.37	\$547.37
Revenue bond charges:			
Aqueduct revenue bonds charge	0.00	0.00	69.22
Storage facility revenue bonds charge	23.09	23.09	23.09
Common facilities revenue bonds charge	63.66	63.66	63.66
Aqueduct capital charge	0.00	0.00	0.00
Total	\$ 634.12	\$ 634.12	\$703.34

**SONOMA COUNTY WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)**

Next Year's Budgets and Rates (continued)

Sewer Service Rate per Equivalent Single-Family Dwelling

	2010/11	2011/12	Change
Sanitation Zone			
Sea Ranch	\$ 878	\$ 904	2.96%
Penngrove	1,056	1,140	7.95%
Geyserville	805	821	1.99%
Airport-Larkfield-Wikiup	594	642	8.08%

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

	2010/11	2011/12	Change
Sanitation Zone			
Sea Ranch	574	576	0.35%
Penngrove	514	515	0.19%
Geyserville	352	352	0.00%
Airport-Larkfield-Wikiup	3,667	3,700	0.90%

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, 2011

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
ASSETS			
Current assets:			
Cash and investments	\$ 127,824,558	\$ 39,907,034	\$ 167,731,592
Accounts receivable	38,444	7,981,984	8,020,428
Notes receivable	110,000	-	110,000
Prepaid expenses	-	210,863	210,863
Internal balances	1,578,367	(1,578,367)	-
Total current assets	<u>129,551,369</u>	<u>46,521,514</u>	<u>176,072,883</u>
Noncurrent assets:			
Restricted assets:			
Cash and investments with trustee	-	2,864,934	2,864,934
Cash - revenue bond funds	-	1,946,814	1,946,814
Cash - capital leases	-	1,096,702	1,096,702
Cash - capital projects	-	100,408	100,408
Total restricted assets	<u>-</u>	<u>6,008,858</u>	<u>6,008,858</u>
Deposits with others	-	13,000	13,000
Deferred charges	-	508,384	508,384
Capital assets, net			
Land	1,582,224	11,021,314	12,603,538
Construction in progress	795,746	28,686,882	29,482,628
Intangible assets - water storage rights	102,371,000	4,996,395	107,367,395
Intangible assets - permanent easements	-	13,703	13,703
Intangible assets - software	271,571	315,206	586,777
Infrastructure	41,046,357	-	41,046,357
Buildings and improvements	1,777,332	161,981,328	163,758,660
Equipment	168,854	2,459,395	2,628,249
Total capital assets	<u>148,013,084</u>	<u>209,474,223</u>	<u>357,487,307</u>
Total noncurrent assets	<u>148,013,084</u>	<u>216,004,465</u>	<u>364,017,549</u>
Total assets	<u>277,564,453</u>	<u>262,525,979</u>	<u>540,090,432</u>

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

**SONOMA COUNTY WATER AGENCY
STATEMENT OF NET ASSETS (CONTINUED)
JUNE 30, 2011**

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
LIABILITIES			
Current liabilities payable from unrestricted assets:			
Accounts payable and accrued expenses	1,778,239	3,408,631	5,186,870
Due to other governments	-	2,178,649	2,178,649
Compensated absences	128,509	-	128,509
Unearned revenue	39,250	163,186	202,436
Interest payable	2,234,168	-	2,234,168
Long-term contracts payable	2,934,319	-	2,934,319
Total current liabilities payable from unrestricted assets	<u>7,114,485</u>	<u>5,750,466</u>	<u>12,864,951</u>
Current liabilities payable from restricted assets:			
Deposits from others	-	4,230	4,230
Interest payable	-	763,335	763,335
General obligation bonds payable	-	31,000	31,000
Capital leases	-	1,096,702	1,096,702
Revenue bonds payable	-	818,800	818,800
Total current liabilities payable from restricted assets	<u>-</u>	<u>2,714,067</u>	<u>2,714,067</u>
Noncurrent liabilities:			
Compensated absences	3,009,472	-	3,009,472
General obligation bonds payable	-	273,000	273,000
Capital leases	-	12,951,536	12,951,536
Revenue bonds payable	-	28,005,260	28,005,260
Long-term contracts payable	100,981,477	-	100,981,477
Advances from other governments	-	16,843,478	16,843,478
Pollution remediation obligation	233,925	-	233,925
Unearned revenue	-	5,293,399	5,293,399
Total noncurrent liabilities	<u>104,224,874</u>	<u>63,366,673</u>	<u>167,591,547</u>
Total liabilities	<u>111,339,359</u>	<u>71,831,206</u>	<u>183,170,565</u>
NET ASSETS			
Invested in capital assets, net of related debt	44,097,288	148,479,032	192,576,320
Restricted for flood control	24,275,154	-	24,275,154
Restricted for Warm Springs Dam	14,680,404	-	14,680,404
Restricted for debt service	77,835,900	3,431,105	81,267,005
Restricted for capital projects	-	1,823,188	1,823,188
Restricted for recycled water and water conservation	-	2,417,105	2,417,105
Unrestricted	5,336,348	34,544,343	39,880,691
Total net assets	<u>\$ 166,225,094</u>	<u>\$ 190,694,773</u>	<u>\$ 356,919,867</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, 2011**

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	\$ 5,866,906	\$ 638,454	\$ 296,376	\$ 21,831	\$ (4,910,245)	\$ -	\$ (4,910,245)
Flood control	8,276,305	55,077	198,746	-	(8,022,482)	-	(8,022,482)
Warm Springs Dam	3,226,944	-	77,725	-	(3,149,219)	-	(3,149,219)
Interest on long-term debt	3,381,811	-	-	-	(3,381,811)	-	(3,381,811)
Total governmental activities	<u>20,751,966</u>	<u>693,531</u>	<u>572,847</u>	<u>21,831</u>	<u>(19,463,757)</u>	<u>-</u>	<u>(19,463,757)</u>
Business-type activities:							
Water transmission	27,961,893	30,299,370	20,356	152,881	-	2,510,714	2,510,714
Water supply	4,612,143	2,027,827	1,708,516	4,596	-	(871,204)	(871,204)
Sanitation	4,791,721	3,669,392	137,487	276,304	-	(708,538)	(708,538)
Total business-type activities	<u>37,365,757</u>	<u>35,996,589</u>	<u>1,866,359</u>	<u>433,781</u>	<u>-</u>	<u>930,972</u>	<u>930,972</u>
Total primary government	<u>\$ 58,117,723</u>	<u>\$ 36,690,120</u>	<u>\$ 2,439,206</u>	<u>\$ 455,612</u>	<u>(19,463,757)</u>	<u>930,972</u>	<u>(18,532,785)</u>
General revenues:							
Taxes:							
Property taxes, levied for general purposes					13,395,240	-	13,395,240
Property taxes, levied for debt service and assurances					4,930,401	38,944	4,969,345
Unrestricted investment earnings					2,510,438	283,744	2,794,182
Transfers					(3,462,705)	3,462,705	-
Total general revenues and transfers					<u>17,373,374</u>	<u>3,785,393</u>	<u>21,158,767</u>
Change in net assets					(2,090,383)	4,716,365	2,625,982
Net assets - beginning of year					168,315,477	185,978,408	354,293,885
Net assets - end of year					<u>\$ 166,225,094</u>	<u>\$ 190,694,773</u>	<u>\$ 356,919,867</u>

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

**SONOMA COUNTY WATER AGENCY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011**

	<u>Special Revenue Funds</u>				<u>Total Governmental Funds</u>
	<u>General</u>	<u>Flood Control</u>	<u>Warm Springs Dam</u>		
Assets					
Cash and investments	\$ 7,704,688	\$ 24,547,250	\$ 15,502,552	\$ 80,070,068	\$ 127,824,558
Accounts receivable	38,444	-	-	-	38,444
Notes receivable	-	110,000	-	-	110,000
Advances to other funds	1,578,367	-	-	-	1,578,367
	<u>1,578,367</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,578,367</u>
Total assets	<u>\$ 9,321,499</u>	<u>\$ 24,657,250</u>	<u>\$ 15,502,552</u>	<u>\$ 80,070,068</u>	<u>\$ 129,551,369</u>
Liabilities and fund balances					
Liabilities:					
Accounts payable	\$ 573,995	\$ 382,096	\$ 822,148	\$ -	\$ 1,778,239
Unearned revenue	39,250	-	-	-	39,250
	<u>39,250</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>39,250</u>
Total liabilities	<u>613,245</u>	<u>382,096</u>	<u>822,148</u>	<u>-</u>	<u>1,817,489</u>
Fund balances:					
Non-Spendable	1,578,367	-	7,971,008	-	9,549,375
Restricted	-	24,275,154	6,709,396	80,070,068	111,054,618
Assigned	3,355,545	-	-	-	3,355,545
Unassigned	3,774,342	-	-	-	3,774,342
	<u>3,774,342</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,774,342</u>
Total fund balances	<u>8,708,254</u>	<u>24,275,154</u>	<u>14,680,404</u>	<u>80,070,068</u>	<u>127,733,880</u>
Total liabilities and fund balances	<u>\$ 9,321,499</u>	<u>\$ 24,657,250</u>	<u>\$ 15,502,552</u>	<u>\$ 80,070,068</u>	<u>\$ 129,551,369</u>

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

Fund balances - total governmental funds	\$ 127,733,880
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	148,013,084
Some liabilities are not due and payable in the current period, therefore, are not recorded in the funds as follows:	
Interest payable	(2,234,168)
Compensated absences	(3,137,981)
Pollution remediation obligation	(233,925)
Long-term contracts payable	<u>(103,915,796)</u>
Net assets of governmental activities	<u>\$ 166,225,094</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, 2011

	<u>Special Revenue Funds</u>				<u>Total Governmental Funds</u>
	<u>General</u>	<u>Flood Control</u>	<u>Warm Springs Dam</u>	<u>Debt Service</u>	
REVENUES					
Property taxes	\$ 6,286,289	\$ 7,108,951	\$ 4,930,401	\$ -	\$ 18,325,641
Investment earnings	95,021	149,910	157,536	2,107,971	2,510,438
Intergovernmental	396,605	198,746	77,725	-	673,076
Charges for services	467,917	-	-	-	467,917
Miscellaneous	92,139	55,077	-	-	147,216
Total revenues	<u>7,337,971</u>	<u>7,512,684</u>	<u>5,165,662</u>	<u>2,107,971</u>	<u>22,124,288</u>
EXPENDITURES					
Current:					
General government:					
Salaries and benefits	27,519,843	-	-	-	27,519,843
Services and supplies	12,443,319	-	-	-	12,443,319
Costs applied	(34,631,763)	-	-	-	(34,631,763)
Flood control:					
Services and supplies	-	6,652,635	-	-	6,652,635
Warm Springs Dam:					
Services and supplies	-	-	3,226,944	-	3,226,944
Capital outlay	779,039	27,217	38,810	-	845,066
Debt service:					
Principal	-	-	-	2,842,644	2,842,644
Interest and fiscal charges	-	-	-	3,442,928	3,442,928
Total expenditures	<u>6,110,438</u>	<u>6,679,852</u>	<u>3,265,754</u>	<u>6,285,572</u>	<u>22,341,616</u>
Excess (deficiency) of revenues over (under) expenditures	1,227,533	832,832	1,899,908	(4,177,601)	(217,328)
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	105,000	-	105,000
Transfers out	(3,567,705)	-	-	-	(3,567,705)
Total other financing sources (uses)	<u>(3,567,705)</u>	<u>-</u>	<u>105,000</u>	<u>-</u>	<u>(3,462,705)</u>
Net change in fund balances	(2,340,172)	832,832	2,004,908	(4,177,601)	(3,680,033)
Fund balances - beginning of year	11,048,426	23,442,322	12,675,496	84,247,669	131,413,913
Fund balances - end of year	<u>\$ 8,708,254</u>	<u>\$ 24,275,154</u>	<u>\$ 14,680,404</u>	<u>\$ 80,070,068</u>	<u>\$ 127,733,880</u>

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, 2011**

Net change in fund balances - total governmental funds \$ (3,680,033)

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

Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay.

Capital outlay	845,066
Depreciation expense	(1,710,193)
Loss on disposal of capital assets	(62,299)

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces the long-term liabilities in the statement of net assets	2,842,644
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Some expenses reported in the statement of activities do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds.

Change in interest payable	61,117
Change in compensated absences	<u>(386,685)</u>

Change in net assets of governmental activities	<u><u>\$ (2,090,383)</u></u>
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The accompanying notes are an integral part of these financial statements.

SONOMA COUNTY WATER AGENCY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2011

ASSETS	Business-type Activities - Enterprise Funds				
	Water Transmission	Water Supply	Sanitation	Total	Internal Service Funds
Current assets:					
Cash and investments	\$ 24,041,716	\$ 2,239,235	\$ 3,165,595	\$ 29,446,546	\$ 10,460,488
Accounts receivable	4,866,865	2,772,257	274,173	7,913,295	68,689
Prepaid expenses	-	-	-	-	210,863
Total current assets	<u>28,908,581</u>	<u>5,011,492</u>	<u>3,439,768</u>	<u>37,359,841</u>	<u>10,740,040</u>
Noncurrent assets:					
Restricted assets:					
Cash and investments with trustee	2,864,934	-	-	2,864,934	-
Cash - revenue bond funds	1,722,780	-	224,034	1,946,814	-
Cash - capital leases	-	-	-	-	1,096,702
Cash - capital projects	-	-	-	-	100,408
Total restricted assets	<u>4,587,714</u>	<u>-</u>	<u>224,034</u>	<u>4,811,748</u>	<u>1,197,110</u>
Deposits with others	13,000	-	-	13,000	-
Deferred charges	402,884	-	105,500	508,384	-
Capital assets, net					
Land	6,710,009	-	1,621,444	8,331,453	2,689,861
Construction in progress	16,306,399	786,888	482,848	17,576,135	11,110,747
Intangible assets - water storage rights	4,996,395	-	-	4,996,395	-
Intangible assets - permanent easements	3	-	13,700	13,703	-
Intangible assets - software	135,550	-	-	135,550	179,656
Buildings and improvements	109,085,344	3,462,381	22,602,150	135,149,875	26,831,453
Equipment	898,230	5,488	152,848	1,056,566	1,402,829
Total capital assets	<u>138,131,930</u>	<u>4,254,757</u>	<u>24,872,990</u>	<u>167,259,677</u>	<u>42,214,546</u>
Total noncurrent assets	<u>143,135,528</u>	<u>4,254,757</u>	<u>25,202,524</u>	<u>172,592,809</u>	<u>43,411,656</u>
Total assets	<u>172,044,109</u>	<u>9,266,249</u>	<u>28,642,292</u>	<u>209,952,650</u>	<u>54,151,696</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, 2011**

	<u>Business-type Activities - Enterprise Funds</u>				<u>Internal Service Funds</u>
	<u>Water Transmission</u>	<u>Water Supply</u>	<u>Sanitation</u>	<u>Total</u>	
LIABILITIES					
Current liabilities payable from unrestricted assets:					
Accounts payable and accrued expenses	1,107,661	256,824	371,429	1,735,914	1,672,717
Due to other governments	653,646	1,102,826	-	1,756,472	422,177
Unearned revenue	-	129,107	34,079	163,186	-
Total current liabilities payable from unrestricted assets	<u>1,761,307</u>	<u>1,488,757</u>	<u>405,508</u>	<u>3,655,572</u>	<u>2,094,894</u>
Current liabilities payable from restricted assets:					
Deposits from others	4,230	-	-	4,230	-
Interest payable	556,711	-	58,372	615,083	148,252
General obligation bonds payable	-	-	31,000	31,000	-
Capital leases	-	-	-	-	1,096,702
Revenue bonds payable	603,180	-	215,620	818,800	-
Total current liabilities payable from restricted assets	<u>1,164,121</u>	<u>-</u>	<u>304,992</u>	<u>1,469,113</u>	<u>1,244,954</u>
Noncurrent liabilities:					
General obligation bonds payable	-	-	273,000	273,000	-
Capital leases	-	-	-	-	12,951,536
Revenue bonds payable	23,375,950	-	4,629,310	28,005,260	-
Advances from other governments	13,348,068	-	-	13,348,068	3,495,410
Advances from other funds	-	-	-	-	1,578,367
Unearned revenue	-	5,293,399	-	5,293,399	-
Total noncurrent liabilities	<u>36,724,018</u>	<u>5,293,399</u>	<u>4,902,310</u>	<u>46,919,727</u>	<u>18,025,313</u>
Total liabilities	<u>39,649,446</u>	<u>6,782,156</u>	<u>5,612,810</u>	<u>52,044,412</u>	<u>21,365,161</u>
NET ASSETS					
Invested in capital assets, net of related debt	100,151,086	4,254,757	19,724,060	124,129,903	24,349,129
Restricted for:					
Debt service	2,316,993	-	165,662	2,482,655	948,450
Capital projects	1,722,780	-	-	1,722,780	100,408
Recycled water and water conservation	2,142,192	-	274,913	2,417,105	-
Unrestricted	26,061,612	(1,770,664)	2,864,847	27,155,795	7,388,548
Total net assets	<u>\$ 132,394,663</u>	<u>\$ 2,484,093</u>	<u>\$ 23,029,482</u>	<u>157,908,238</u>	<u>\$ 32,786,535</u>
Adjustment to reflect the net assets of the internal service funds reported as business-type activities				<u>32,786,535</u>	
Net assets of business-type activities				<u>\$ 190,694,773</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, 2011

	<u>Business-type Activities - Enterprise Funds</u>				<u>Internal Service Funds</u>
	<u>Water Transmission</u>	<u>Water Supply</u>	<u>Sanitation</u>	<u>Total</u>	
OPERATING REVENUE					
Water sales	\$ 29,270,301	\$ 1,931,574	\$ -	\$ 31,201,875	\$ -
Water services	30,037	-	-	30,037	-
Power sales	774,631	-	-	774,631	6,145,582
Flat charges	-	-	3,341,010	3,341,010	-
Sanitation services	-	-	217,128	217,128	-
Equipment rental	-	-	-	-	2,211,017
Real estate rental	-	-	50,000	50,000	4,865,616
Miscellaneous	224,401	96,253	61,254	381,908	77,370
Total operating revenue	<u>30,299,370</u>	<u>2,027,827</u>	<u>3,669,392</u>	<u>35,996,589</u>	<u>13,299,585</u>
OPERATING EXPENSES					
Services and supplies	24,564,175	3,357,875	3,805,186	31,727,236	7,730,690
Depreciation and amortization	5,305,689	185,454	1,200,526	6,691,669	1,502,367
Total operating expenses	<u>29,869,864</u>	<u>3,543,329</u>	<u>5,005,712</u>	<u>38,418,905</u>	<u>9,233,057</u>
Operating income (loss)	<u>429,506</u>	<u>(1,515,502)</u>	<u>(1,336,320)</u>	<u>(2,422,316)</u>	<u>4,066,528</u>
NONOPERATING REVENUES (EXPENSES)					
Taxes and assessments	-	-	38,944	38,944	-
Investment earnings	180,818	11,647	30,123	222,588	61,156
Interest expense	(700,274)	-	(249,327)	(949,601)	(482,107)
Conservation program expense	-	-	(5,642)	(5,642)	-
Loss on disposal of capital assets	(69,174)	-	(7,091)	(76,265)	(455,256)
Other expense (grant pass through)	-	(1,102,826)	-	(1,102,826)	-
Intergovernmental revenue	20,356	1,708,516	137,487	1,866,359	-
Total nonoperating revenue (expenses), net	<u>(568,274)</u>	<u>617,337</u>	<u>(55,506)</u>	<u>(6,443)</u>	<u>(876,207)</u>
Income (loss) before capital contributions and transfers	<u>(138,768)</u>	<u>(898,165)</u>	<u>(1,391,826)</u>	<u>(2,428,759)</u>	<u>3,190,321</u>
Capital contributions - connection fees	-	-	276,304	276,304	-
Capital contributions - other	152,881	4,596	-	157,477	58,317
Transfers in	-	1,800,000	416,100	2,216,100	1,246,605
Change in net assets	<u>14,113</u>	<u>906,431</u>	<u>(699,422)</u>	<u>221,122</u>	<u>4,495,243</u>
Net assets - beginning of year	<u>132,380,550</u>	<u>1,577,662</u>	<u>23,728,904</u>		<u>28,291,292</u>
Net assets - end of year	<u>\$ 132,394,663</u>	<u>\$ 2,484,093</u>	<u>\$ 23,029,482</u>		<u>\$ 32,786,535</u>
Adjustment to reflect the change in net assets of internal service funds reported as business-type activities				<u>4,495,243</u>	
Change in net assets of business-type activities				<u>\$ 4,716,365</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, 2011**

	Business-type Activities - Enterprise Funds				
	Water Transmission	Water Supply	Sanitation	Total	Internal Service Funds
Cash flows from operating activities:					
Cash receipts from customers	\$ 29,953,925	\$ 1,767,405	\$ 3,596,556	\$ 35,317,886	\$ -
Cash receipts from interfund services provided	-	-	-	-	13,289,266
Cash payments for interfund services used	(18,413,482)	(1,613,203)	(2,084,188)	(22,110,873)	(1,973,727)
Cash payments to suppliers	(6,977,716)	(1,971,496)	(1,645,582)	(10,594,794)	(5,153,204)
Conservation program outlays	-	-	(5,642)	(5,642)	-
Net cash provided by (used for) operating activities	<u>4,562,727</u>	<u>(1,817,294)</u>	<u>(138,856)</u>	<u>2,606,577</u>	<u>6,162,335</u>
Cash flows from noncapital financing activities:					
Taxes and assessments	-	-	38,944	38,944	-
Transfers in	-	1,800,000	361,100	2,161,100	-
Conservation program receipts	-	-	610,670	610,670	-
Intergovernmental receipts	185,340	555,022	136,613	876,975	-
Net cash provided by noncapital financing activities	<u>185,340</u>	<u>2,355,022</u>	<u>1,147,327</u>	<u>3,687,689</u>	<u>-</u>
Cash flows from capital and related financing activities:					
Purchases of capital assets	(2,009,258)	(150,267)	(578,879)	(2,738,404)	(3,962,920)
Principal paid on general obligation and revenue bonds	(575,000)	-	(260,000)	(835,000)	-
Principal paid on capital leases	-	-	-	-	(1,049,502)
Principal paid on advances from other governments	(635,763)	-	-	(635,763)	(405,168)
Interest paid on long-term debt	(1,528,505)	-	(246,451)	(1,774,956)	(839,493)
Proceeds from interfund borrowing	-	-	-	-	500,000
Proceeds from sale of capital assets	-	-	-	-	26,359
Connection fees	-	-	276,304	276,304	-
Capital contributions - other	121,877	14,119	-	135,996	-
Transfers in	-	-	55,000	55,000	1,246,605
Net cash used for capital and related financing activities	<u>(4,626,649)</u>	<u>(136,148)</u>	<u>(754,026)</u>	<u>(5,516,823)</u>	<u>(4,484,119)</u>
Cash flows from investing activities:					
Interest received	180,818	11,647	30,123	222,588	61,156
Net increase in cash and cash equivalents	302,236	413,227	284,568	1,000,031	1,739,372
Cash and cash equivalents - beginning of year	28,327,194	1,826,008	3,105,061	33,258,263	9,918,226
Cash and cash equivalents - end of year	<u>\$ 28,629,430</u>	<u>\$ 2,239,235</u>	<u>\$ 3,389,629</u>	<u>\$ 34,258,294</u>	<u>\$ 11,657,598</u>
Reconciliation to the statement of net assets:					
Cash and investments	\$ 24,041,716	\$ 2,239,235	\$ 3,165,595	\$ 29,446,546	\$ 10,460,488
Restricted cash and investments	4,587,714	-	224,034	4,811,748	1,197,110
Cash and cash equivalents	<u>\$ 28,629,430</u>	<u>\$ 2,239,235</u>	<u>\$ 3,389,629</u>	<u>\$ 34,258,294</u>	<u>\$ 11,657,598</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	\$ 429,506	\$ (1,515,502)	\$ (1,336,320)	\$ (2,422,316)	\$ 4,066,528
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Conservation program outlays	-	-	(5,642)	(5,642)	-
Depreciation and amortization	5,305,689	185,454	1,200,526	6,691,669	1,502,367
Change in assets and liabilities:					
Receivables, net	(345,277)	(260,422)	(72,836)	(678,535)	(10,319)
Prepaid expenses	-	-	-	-	614,606
Other liabilities	-	-	-	-	-
Accounts payable and accrued expenses	(827,023)	(226,824)	75,416	(978,431)	(10,847)
Unearned revenue	(168)	-	-	(168)	-
Due to other funds	-	-	-	-	-
Net cash provided by (used for) operating activities	<u>\$ 4,562,727</u>	<u>\$ (1,817,294)</u>	<u>\$ (138,856)</u>	<u>\$ 2,606,577</u>	<u>\$ 6,162,335</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisition of capital assets through accounts payable and other current liabilities	\$ 160,196	\$ 13,548	\$ 6,422	\$ 180,166	\$ 828,650
Increase in capital assets for capitalized interest	814,438	-	14,464	828,902	352,940
Loss on disposal of capital assets	(69,174)	-	(7,091)	(76,265)	(455,256)

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, 2011**

ASSETS

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

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

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

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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, 2011**

Note B. Summary of Significant Accounting Policies (continued)

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide and proprietary funds financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The agency (fiduciary) fund financial statement applies the accrual basis of accounting, but does not have a measurement focus. All assets and all liabilities associated with the operations of the Water Agency are included on the statement of net assets. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Nonexchange transactions, in which the Water Agency receives (or gives) value without directly giving (or receiving) equal value in exchange, include property taxes and grants. Property taxes are recognized as revenues in the year for which the taxes are levied. Grants and similar items are recognized in the year in which all eligibility requirements imposed by the provider have been satisfied. Eligibility requirements include timing requirements, which specify when the resources are required to be used or when use is first permitted; matching requirements, in which the Water Agency must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Water Agency on a reimbursement basis.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Water Agency considers revenues to be available if they are collected within three hundred sixty five days of the end of the current period, except for property taxes which are considered available if collected within 60 days of the end of the year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, pollution remediation obligations and claims and judgments, are recorded only when payment is due (matured). This approach differs from the manner in which the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements and the governmental fund financial statements.

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

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Note B. Summary of Significant Accounting Policies (continued)

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

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

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

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

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

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

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

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

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

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

SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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, 2011**

Note B. Summary of Significant Accounting Policies (continued)

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

Encumbrances

Encumbrance accounting is employed as an extension of the budgetary process. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded to reserve that portion of the applicable appropriation, is employed in the governmental fund types.

Cash and Investments

The Water Agency's cash and investments are pooled with the Sonoma County Treasurer (Treasurer) except for restricted funds held by an outside trustee. The Treasurer also acts as a disbursing agent for the Water Agency. The fair value of the investments in the pool is determined quarterly. Realized and unrealized gains or losses and interest earned on pooled investments are allocated quarterly to the various funds based on the average daily cash balances for that quarter in the County Treasury Investment Pool (the Treasury Pool), an external investment pool. Interest earnings from cash and investments held with third party fiscal agents or trustees is recognized directly to the related fund.

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

For purposes of the statement of cash flows for proprietary funds, the Water Agency considers all pooled cash and investments as cash and cash equivalents because the County Treasurer's investment pool is used as a demand deposit account. Cash with trustee and restricted cash and investments with a maturity of three months or less are also treated as cash and cash equivalents.

Accounts Receivable

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

Restricted Assets - Proprietary Funds

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

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Note B. Summary of Significant Accounting Policies (continued)

Deferred Charges

Deferred charges consist of unamortized debt issuance costs of \$508,384 as of June 30, 2011. 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.

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

Capitalized Interest

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

Bond Discounts and Premiums and Deferred Amount on Refunding

Bond discounts and premiums are reported in the applicable business-type activity columns in the government-wide financial statements and proprietary fund financial statements and are deferred and amortized using the straight-line method 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, 2011**

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, 2011**

Note B. Summary of Significant Accounting Policies (continued)

Net Assets and Fund Balance

Government-wide Financial Statements and Proprietary Fund Financial Statements

Net assets consist of the following three components:

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

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

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

Governmental Fund Financial Statements

Governmental funds report fund balances in specifically defined classifications in accordance with the criteria established by GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This new standard has substantially changed the categories and terminology used to describe the components of fund balance. The Water Agency classified fund balances into the following five categories:

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

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

Committed Fund Balance – Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action by the entity’s “highest level of decision-making authority”; which the Water Agency considers to be the Board. These purposes can only be changed or cancelled by a similar Board action. The Water Agency is not reporting any fund balances in this classification as of June 30, 2011.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Note B. Summary of Significant Accounting Policies (continued)

Net Assets and Fund Balance (continued)

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

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

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

	General Fund	Special Revenue			Total
		Flood Control	Warm Springs Dam	Debt Service	
Nonspendable					
Advances	\$1,578,367	\$ -	\$ -	\$ -	\$ 1,578,367
Letter of Credit	-	-	7,971,008	-	7,971,008
Restricted					
Flood Control	-	24,275,154	-	-	24,275,154
Warm Springs Dam	-	-	6,709,396	80,070,068	86,779,464
Assigned					
General Fund	928,616	-	-	-	928,616
Spring Lake Park Water/wastewater loan fund	1,513,527	-	-	-	1,513,527
Energy & Sustainability	574,820	-	-	-	574,820
	338,582	-	-	-	338,582
Unassigned	3,774,342	-	-	-	3,774,342
Total	\$8,708,254	\$24,275,154	\$14,680,404	\$80,070,068	\$127,733,880

Interfund Transactions

Quasi-external transactions are intra-governmental transactions that would be treated as revenues and expenditures/expenses if they involved organizations outside the government unit. These transactions are accounted for as revenue, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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. Transfers between governmental and proprietary funds are netted in conjunction with the reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance for reporting in the government-wide financial statements.

Connection Fees

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

Prudent Reserve

In March 2008 the Water Advisory Committee (WAC) adopted a resolution setting out guidelines for the collection, maintenance and use of prudent reserves in the Water Transmission enterprise fund. Amounts collected via the water rates for reserve are recommended to be set aside to be used in the event of catastrophic losses. The amount collected as of the fiscal year ended June 30, 2011 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/expense classes or transfers between capital assets and operating expenses. Such transfers require approval by the County Administrator and/or Board. Revisions that change total appropriations must be approved by the Board. Annual appropriations that have not been encumbered lapse at fiscal year-end.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Note D. Implementation of New Governmental Accounting Standard

Effective July 1, 2010, the Water Agency implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. 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. The purpose of the statement is to enhance the usefulness of fund balance information by providing clearer classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions.

Note E. Cash and Investments

Authorized Investments

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

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

- U.S. Treasury and Federal Agency securities
- Bonds and notes issued by local agencies
- Registered state warrants and municipal notes
- Negotiable certificates of deposit
- Bankers' acceptances
- Commercial paper
- Medium-term corporate notes
- Local Agency Investment Fund (State Pool) deposits
- Repurchase agreements
- Reverse repurchase agreements
- Securities lending agreements
- Mutual funds and money market mutual funds
- Collateralized mortgage obligations
- Collateralized time deposits
- Joint powers authority pools
- Investment Trust of California (Caltrust)

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Note E. Cash and Investments (continued)

Authorized Investments (continued)

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

Cash and investments as of June 30, 2011 are classified in the accompanying financial statements as follows:

Statement of net assets:

Cash and investments	\$ 167,731,592
Cash and investments with trustee	2,864,934
Cash and investments restricted for revenue bond funds	1,946,814
Cash and investments restricted for capital leases	1,096,702
Cash and investments restricted for capital projects	100,408
Fiduciary funds:	
Cash and investments	14,100
Total cash and investments	\$ 173,754,550

Cash and investments as of June 30, 2011 consist of the following:

Investment in County Treasury Pool:

Unrestricted	\$ 94,828,822
Restricted for revenue bonds	1,946,814
Restricted for capital leases	1,096,702
Restricted for capital projects	1,552
Nonpooled cash and investments:	
Cash on hand	750
Deposit	7,971,008
Investments	64,945,112
Restricted for revenue bonds	2,864,934
Restricted for capital projects	98,856
Total cash and investments	\$ 173,754,550

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Note E. Cash and Investments (continued)

As of June 30, 2011, the Water Agency's investments consisted of \$97,873,890 in the Treasury Pool managed by the Treasurer, which is not rated by credit rating agencies, and had a weighted average maturity of approximately 751 days. The credit rating and other information regarding specific investments maintained in the Treasury Pool as of June 30, 2011 are disclosed in the County's June 30, 2011 Comprehensive Annual Financial Report.

The Agency reported \$64,945,112 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 \$103,915,796 contract payable to the U.S. Army Corps of Engineers (refer to Note J).

The Agency also reports nonpooled cash and investments in a deposit with North Coast Bank in the amount of \$7,971,008, 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.

The information about the sensitivity of the fair value of the Water Agency's investments to market interest rate fluctuations is provided by the following table:

Investment Type	Amount	Maturity			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
County treasury pool	\$ 97,873,890	\$ -	\$ -	\$ 97,873,890	\$ -
U.S. Treasury STRIPS	64,945,112	6,104,390	6,088,761	29,122,254	23,629,707
Money market mutual fund	2,963,790	2,963,790	-	-	-
Total	\$ 165,782,792	\$ 9,068,180	\$ 6,088,761	\$ 126,996,144	\$ 23,629,707

SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Note E. Cash and Investments (continued)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that is in the possession of another party. The California Government Code and the County's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits and securities lending transactions:

- 1) The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies.
- 2) California law also allows financial institutions to secure the Water Agency's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.
- 3) The California Government Code limits the total of all securities lending transactions to 20% of the fair value of the investment portfolio.

At June 30, 2011, the carrying amount and bank balance of the Water Agency's deposit was \$7,971,008. Of the bank balance, \$250,000 was covered by federal deposit insurance and \$7,721,008 was collateralized.

Concentration of Credit Risk

The investment policy of the Water Agency contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by California Government Code. Other than the Water Agency's investments in U.S. Treasury STRIPS and its investments pooled with the County, which are not subject to concentration of credit risk, there were no investments in any one issuer that represented 5% or more of the total fair value of the Water Agency's investments.

SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Note E. Cash and Investments (continued)

Credit Risk

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

Investment Type	Minimum Legal Rating	Total	Exempt from Disclosure	Rating at year-end	
				AAA	Not Rated
County treasury pool	N/A	\$ 97,873,890	\$ -	\$ -	\$ 97,873,890
U.S. Treasury STRIPS	N/A	64,945,112	64,945,112	-	-
Money market mutual fund	AAA	2,963,790	-	2,963,790	-
Total		\$ 165,782,792	\$ 64,945,112	\$ 2,963,790	\$ 97,873,890

Note F. Accounts Receivable

Accounts receivable as of June 30, 2011 is comprised of the following:

	Accounts	Inter- governmental	Total
Governmental Activities:			
General Fund	\$ 20,191	\$ 18,253	\$ 38,444
Total Governmental Activities	\$ 20,191	\$ 18,253	\$ 38,444
Business-type Activities:			
Water Transmission enterprise fund	\$4,806,117	\$ 60,748	\$4,866,865
Water Supply enterprise fund	981,479	1,790,778	2,772,257
Sanitation enterprise fund	274,173	-	274,173
Internal Service Funds	68,689	-	68,689
Total Business-Type Activities	\$6,130,458	\$ 1,851,526	\$7,981,984

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Note G. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2011 was as follows:

	July 1, 2010	Additions	Retirements	Transfers	June 30, 2011
<i>Governmental activities:</i>					
Capital assets, not being depreciated/amortized:					
Land	\$ 1,573,126	\$ 9,098	\$ -	\$ -	\$ 1,582,224
Construction in progress	342,705	514,625	(61,584)	-	795,746
Intangible assets:					
Water storage rights	102,371,000	-	-	-	102,371,000
Total capital assets not being depreciated/amortized	104,286,831	523,723	(61,584)	-	104,748,970
Capital assets, being depreciated:					
Infrastructure	64,834,097	-	-	-	64,834,097
Buildings and improvements	3,419,740	-	-	-	3,419,740
Intangible assets - software	-	271,571	-	-	271,571
Equipment	1,056,644	49,772	(113,981)	-	992,435
Total capital assets, being depreciated	69,310,481	321,343	(113,981)	-	69,517,843
Less: accumulated depreciation for:					
Infrastructure	(22,225,654)	(1,562,086)	-	-	(23,787,740)
Buildings and improvements	(1,557,107)	(85,301)	-	-	(1,642,408)
Equipment	(874,041)	(62,806)	113,266	-	(823,581)
Total accumulated depreciation	(24,656,802)	(1,710,193)	113,266	-	(26,253,729)
Total capital assets, being depreciated, net	44,653,679	(1,388,850)	(715)	-	43,264,114
Total capital assets, net	\$ 148,940,510	\$ (865,127)	\$ (62,299)	\$ -	\$ 148,013,084

SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Note G. Capital Assets (continued)

	July 1, 2010	Additions	Retirements	Transfers	June 30, 2011
<i>Business-type activities</i>					
Capital assets, not being depreciated/amortized:					
Land	\$ 11,021,314	\$ -	\$ -	\$ -	\$ 11,021,314
Construction in progress	26,188,770	7,909,445	(524,429)	(4,886,904)	28,686,882
Intangible assets:					
Water storage rights	4,996,395	-	-	-	4,996,395
Permanent easements	12,544	1,159	-	-	13,703
Total capital assets not being depreciated/amortized	42,219,023	7,910,604	(524,429)	(4,886,904)	44,718,294
Capital assets, being depreciated:					
Buildings and improvements	246,972,223	-	(10,303)	4,571,698	251,533,618
Intangible Assets - software	-	-	-	315,206	315,206
Equipment	7,862,136	878,442	(349,706)	-	8,390,872
Total capital assets, being depreciated	254,834,359	878,442	(360,009)	4,886,904	260,239,696
Less: accumulated depreciation for:					
Buildings and improvements	(81,898,447)	(7,664,146)	10,303	-	(89,552,290)
Equipment	(5,768,548)	(505,544)	342,615	-	(5,931,477)
Total accumulated depreciation	(87,666,995)	(8,169,690)	352,918	-	(95,483,767)
Total capital assets, being depreciated, net	167,167,364	(7,291,248)	(7,091)	4,886,904	164,755,929
Total capital assets, net	\$ 209,386,387	\$ 619,356	\$ (531,520)	\$ -	\$ 209,474,223

The total amount of interest capitalized into capital assets of business-type activities during the fiscal year ended June 30, 2011 amounted to \$1,181,842.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Note G. Capital Assets (continued)

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

Governmental activities:

General government	\$ 148,107
Flood control	1,562,086
Total depreciation expense - governmental activities	\$ 1,710,193

Business-type activities:

Water Transmission	\$ 5,287,937
Water Supply	185,454
Sanitation	1,193,932
Internal Service Funds	1,502,367
Total depreciation expense - business type activities	\$ 8,169,690

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 J).

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, 2011**

Note H. Unearned Revenue

On June 30, 2005 the Water Agency received \$6,326,257 under a supplemental water supply agreement with the Marin Municipal Water District (MMWD), dated January 25, 1996. This amount was been deferred and is being recognized on a straight-line basis over 49 years which represents the original nine-year term of the agreement plus the 40-year renewal option, which MMWD is likely to exercise. As of June 30, 2011, unearned revenue remaining from the agreement in the amount of \$5,422,506 is reported in the Water Supply fund.

The Airport Larkfield Wikiup sanitation zone entered into an agreement with the Town of Windsor for storage within the zone’s reservoirs of up to 50 million gallons of tertiary-treated recycled water. The Town of Windsor pays an annual fee for the storage based on a water year which is defined as October 1 through September 30. As a result, one quarter of the revenue received, totaling \$34,079, is reported in the Sanitation Fund and considered unearned.

The General Fund has collected \$39,250 in camping reservation fees for Spring Lake Park that will be recognized as revenue earned during the next fiscal year.

Note I. Interfund Transactions

A summary of interfund activity as of and for the fiscal year ended June 30, 2011 is as follows:

Interfund transfers

Transfer from	Transfer to	Amount	Purpose
General Fund	Warm Springs Dam Fund	\$ 105,000	Funding for Dry Creek Tributary Rehabilitation project
General Fund	Water Supply Fund	1,800,000	Funding for water supply projects
General Fund	Sanitation Fund	416,100	Funding for operations and construction
General Fund	Internal Service Funds	1,246,605	Funding for improvements to new operations & maintenance facility
Total interfund transfers		\$ 3,567,705	

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Note I. Interfund Transactions (continued)

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

The Power Resources internal service fund is eligible to draw up to \$1,000,000 per year for up to eight years from the Water Agency's general fund as needed to acquire electrical power assets and meet debt service payments. Repayment of these draws, together with accrued interest, is to begin in the fiscal year ending June 30, 2016 and continue until 2033. Interest is to accrue at the County's pooled investment rate of return. As of June 30, 2011, the Power Resources internal service fund has drawn \$1,500,000 from the general fund. Interest accrued as of the fiscal year ended June 30, 2011 amounted to \$78,367.

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, 2011	Due Within One Year
General Fund	2033	0.609%	\$ 1,578,367	\$ 1,578,367	\$ -

Note J. Long-Term Obligations

Governmental Activities:

Long-Term Contract Payable:

	Maturity Date	Interest Rates	Authorized & Issued	Outstanding June 30, 2011
1986 Federal contract payable	2034	3.225%	\$ 102,371,000	\$ 103,915,796

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

Compensated Absences:

As of June 30, 2011, vested vacation and sick leave for Water Agency employees amounted to \$3,137,981. There were no compensated absences that are considered due or matured. The current amount reflected in the government-wide statement of net assets is an average of the actual payoff amount over the prior three fiscal years. Compensated absences are generally liquidated by the General Fund.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Note J. Long-Term Obligations (continued)

Business-type Activities:

General Obligation Bonds Payable:	Maturity Date	Interest Rates	Authorized & Issued	Outstanding June 30, 2011
<u>Sanitation Zones</u>				
1977 Penngrove	2017	5.00%	\$ 300,000	\$ 100,000
1980 Geyserville	2020	5.00%	500,000	204,000
Total general obligation bonds payable				\$ 304,000

Capital Leases:	Maturity Date	Interest Rates	Authorized & Issued	Outstanding June 30, 2011
Capital lease - Banc of America	2016	4.65%	\$ 8,800,000	\$ 5,742,106
Capital lease - Banc of America	2020	4.54%	2,000,000	1,255,743
Capital lease - Banc of America	2020	4.08%	2,750,000	1,948,669
Capital lease - Municipal Finance	2023	4.30%	5,835,000	5,101,720
Total capital leases				\$ 14,048,238

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

On July 1, 2003, the Water Agency purchased an office facility on Aviation Boulevard in Santa Rosa and financed the purchase with a capital lease with Banc of America. 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, 2011:

Buildings and improvements	\$ 24,728,561
Less: accumulated depreciation	(2,987,143)
Total	\$ 21,741,418

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Note J. Long-Term Obligations (continued)

Business-type Activities (continued)

Water Revenue Bonds Payable:

	Maturity Date	Interest Rates	Authorized & Issued	Outstanding June 30, 2011
Water revenue bonds, 2003, series A	2032	2.00-5.00%	\$ 15,680,000	\$ 13,230,000
Less: deferred amount for unamortized discount				(21,043)
Water revenue bonds, 2006, series A	2036	4.00-5.00%	11,500,000	10,665,000
Add: deferred amount for unamortized premium				105,173
Total water revenue bonds payable, net				\$ 23,979,130

The 2003 Series A Bonds are special obligations of the Water Agency, payable solely from the net revenues of the Water Agency's water transmission system, and amounts on deposit in the related funds and accounts. Neither the full faith and credit nor the taxing power of the Water Agency is pledged to the payment of 2003 Series A Bonds or interest thereon. The bond proceeds were used to construct and equip certain facilities and improvements known as the Wohler/Forestville Pipeline, Kawana Springs Tank No. 2, the Eldridge to Madrone portion of the Annadel-Sonoma Pipeline, the funding of a reserve fund, and the payment of issuance costs. The facilities constructed with the 2003 Series A Bond proceeds are part of the water supply and transmission system project.

In July 2006, the Water Agency issued Water Revenue Bonds 2006 Series A for the purpose of acquiring and constructing certain facilities for, and improvements to, the transmission system, and to finance certain related costs. The 2006 Series A bonds are payable solely from the net revenues of the Water Agency's water transmission system, and amounts on deposit in the related funds and accounts.

Annual principal and interest payments for both bond issues are expected to require approximately 28% of water transmission fund net revenues. Principal and interest paid for the fiscal year ended June 30, 2011 and total water transmission net revenues were \$1,699,035 and \$6,089,251, respectively. The total principal outstanding for both bond issues as of June 30, 2011 is \$23,895,000 and scheduled interest payments total \$16,109,262.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Note J. Long-Term Obligations (continued)

Business-type Activities (continued)

Water and Wastewater Revenue Bonds Payable:

	Maturity Date	Interest Rates	Authorized & Issued	Outstanding June 30, 2011
California Statewide Communities Development Authority (CSDCDA) 2005C revenue bonds	2027	2.70-5.00%	\$ 6,220,000	\$ 5,155,000
Add: deferred amount for unamortized premium				100,117
Less: deferred amount on refunding				(410,187)
Total water and wastewater revenue bonds payable, net				\$ 4,844,930

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 82% of net revenues. The total principal outstanding on the 2005C Water and Wastewater Revenue Bonds as of June 30, 2011 is \$5,155,000 and scheduled interest payments total \$2,143,752. Principal and interest paid for the fiscal year ended June 30, 2011 and total customer net revenues were \$460,501 and \$564,025, 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, 2011
State Revolving Fund	2027	2.79%	\$ 15,857,295	\$ 14,001,714
Sonoma Valley County Sanitation District	2019	4.198%	5,442,922	3,917,587
Total advances from other governments				\$ 17,919,301

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, 2011, the Water Agency has received loan funds in the amount of \$15,857,295.

SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Note J: 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, 2011 is \$3,917,587 with a current portion of \$422,177.

Changes in Long-Term Obligations

A summary of changes in long-term obligations for the fiscal year ended June 30, 2011 is as follows:

	July 1, 2010	Increases	Decreases	June 30, 2011	Amounts Due Within One Year
<u>Governmental activities:</u>					
Long-term contracts payable	\$ 106,758,440	\$ -	\$ (2,842,644)	\$ 103,915,796	\$ 2,934,319
Compensated absences	2,751,296	1,909,512	(1,522,827)	3,137,981	128,509
Total governmental activities	109,509,736	1,909,512	(4,365,471)	107,053,777	3,062,828
<u>Business-type activities:</u>					
General obligation bonds	334,000	-	(30,000)	304,000	31,000
Capital leases:					
Banc of America	6,213,226	-	(471,120)	5,742,106	493,282
Banc of America	1,366,495	-	(110,752)	1,255,743	115,836
Banc of America	2,113,597	-	(164,928)	1,948,669	171,725
Municipal Finance	5,404,422	-	(302,702)	5,101,720	315,859
Water revenue bonds:					
Series 2003A	13,585,000	-	(355,000)	13,230,000	370,000
Deferred amount for unamortized discount	(22,070)	-	1,027	(21,043)	(1,027)
Series 2006A	10,885,000	-	(220,000)	10,665,000	230,000
Deferred amount for unamortized premium	109,380	-	(4,207)	105,173	4,207
Water and wastewater revenue bonds:					
Series 2005C	5,385,000	-	(230,000)	5,155,000	235,000
Deferred amount for unamortized premium	106,374	-	(6,257)	100,117	6,257
Deferred amount on refunding	(435,823)	-	25,636	(410,187)	(25,637)
Advances from other governments:					
State Revolving Fund	14,637,477	-	(635,763)	14,001,714	653,646
Sonoma Valley CSD	4,322,755	-	(405,168)	3,917,587	422,177
Total business-type activities	64,004,833	-	(2,909,234)	61,095,599	3,022,325
Total	\$ 173,514,569	\$ 1,909,512	\$ (7,274,705)	\$ 168,149,376	\$ 6,085,153

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Note J. Long-Term Obligations (continued)

Debt Service Requirements

The annual principal and interest requirements on the outstanding long-term obligations as of June 30, 2011 (excluding compensated absences), are as follows:

Long-term contracts payable - 1986 Federal contract

Fiscal year ending June 30,	Principal	Interest	Total
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	3,331,555	2,954,017	6,285,572
2017-2021	18,340,411	13,087,446	31,427,857
2022-2026	21,494,806	9,933,052	31,427,858
2027-2031	25,191,729	6,236,128	31,427,857
2032-2035	23,239,921	1,903,365	25,143,286
Total long-term contracts payable	\$ 103,915,796	\$ 46,938,920	\$ 150,854,716

General obligation bonds

Fiscal year ending June 30,	Principal	Interest	Total
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	38,000	8,225	46,225
2017-2020	134,000	14,600	148,600
Total general obligation bonds	\$ 304,000	\$ 72,750	\$ 376,750

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Note J. Long-Term Obligations (continued)

Capital leases

Fiscal year ending June 30,	Principal	Interest	Total
2012	\$ 1,096,702	\$ 610,824	\$ 1,707,526
2013	1,146,029	561,497	1,707,526
2014	1,197,581	509,945	1,707,526
2015	1,251,457	456,069	1,707,526
2016	4,340,240	399,764	4,740,004
2017-2021	3,768,187	699,861	4,468,048
2022-2024	1,248,042	81,640	1,329,682
Total capital leases	\$ 14,048,238	\$ 3,319,600	\$ 17,367,838

Water revenue bonds

Fiscal year ending June 30,	Principal	Interest	Total
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	700,000	997,154	1,697,154
2017-2021	3,975,000	4,504,844	8,479,844
2022-2026	4,940,000	3,500,757	8,440,757
2027-2031	6,215,000	2,180,690	8,395,690
2032-2036	4,825,000	653,875	5,478,875
2037	690,000	17,250	707,250
Total water revenue bonds	\$ 23,895,000	\$ 16,109,262	\$ 40,004,262

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Note J. Long-Term Obligations (continued)

Water and wastewater revenue bonds

Fiscal year ending June 30,	Principal	Interest	Total
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	275,000	187,165	462,165
2017-2021	1,525,000	759,449	2,284,449
2022-2026	1,915,000	346,219	2,261,219
2027	445,000	9,734	454,734
Total water and wastewater revenue bonds	\$ 5,155,000	\$ 2,143,752	\$ 7,298,752

Advances from other governments

Fiscal year ending June 30,	Principal	Interest	Total
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	1,228,013	398,856	1,626,869
2017-2021	5,593,608	1,367,463	6,961,071
2022-2026	4,562,662	638,496	5,201,158
2027-2028	2,009,979	70,664	2,080,643
Total advances from other governments	\$ 17,919,301	\$ 4,457,916	\$ 22,377,217

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Note K. Pollution Remediation Obligation

The Water Agency purchased a parcel as part of a litigation settlement in 2000 to resolve claims related to possible lead-contaminated fill used in connection with a Water Agency flood control project. As owner of the parcel, the Water Agency is responsible for clean-up costs related to the fill. The Water Agency has investigated the extent of lead contamination on the property and the adjacent area. The North Coast Regional Water Quality Control Board (“NC Regional Board”) required the Water Agency to perform an updated Human Health Risk Assessment and an Ecological Risk Assessment as a condition of obtaining site closure for the parcel. The Water Agency submitted these assessments and a Closure Work Plan to the NC Regional Board in July 2008 and is awaiting a response from the NC Regional Board and the City of Santa Rosa Fire Department. The City of Santa Rosa Fire Department is the agency with responsibility and jurisdiction for managing the site cleanup. The Closure Work Plan proposes to perform a lot line adjustment separating the front portion of the property where there are no human health issues based on the risk assessment so that the existing house can be put on the market and sold. For the back half of the property, the work plan proposes to incorporate the affected site into the City of Santa Rosa’s bike path project changing the risk of human exposure so that no significant clean up will be required. It is anticipated that there will need to be annual monitoring and soil removal on the back half of the property, as well as a deed restriction and long-term easement. However, the NC Regional Board and the Santa Rosa Fire Department have not yet approved the work plan.

In accordance with GASB Statement No. 49, the Agency has estimated its potential pollution remediation liability as of June 30, 2011 by utilizing the expected cash flow technique. This methodology examined estimated costs for pre-cleanup activities, remediation/clean-up activities, regulatory agency costs, and post remediation-monitoring costs. The estimated liability for the Agency as of June 30, 2011 is \$233,925. Discussions with the NC Regional Board and the City of Santa Rosa Fire Department continue and since no agreement has been reached the estimated obligation continues to be considered long term.

SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Note L. 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, 2011, 2010 and 2009. The Water Agency is required to contribute at an actuarially determined rate which was 32.48% for the fiscal year ended June 30, 2011. Contribution requirements of the Plan members and the Water Agency are established and may be amended by the Board of Retirement.

Annual Pension Cost

The Water Agency's contributions to the Plan for the fiscal years ended 2011, 2010, and 2009 were \$3,996,682, \$3,764,270, and \$3,224,051 respectively, which was equal to its annual required contribution for each fiscal year.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Note M. Postemployment Benefits

Plan Description

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

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

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

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

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

SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Note M. Postemployment Benefits (continued)

Plan Description (continued)

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, 2011, 2010, and 2009 was \$1,203,229, \$1,237,947 and \$1,214,844, respectively. The premium payments recognized for the fiscal years ended June 30, 2011, 2010 and 2009, were equal to the Water Agency's annual required contribution.

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.

**SONOMA COUNTY WATER AGENCY
 NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
 FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Note N. 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, 2011 is as follows:

Occidental County Sanitation District	\$	398,058
Russian River County Sanitation District		2,268,739
Sonoma Valley County Sanitation District		6,286,985
South Park County Sanitation District		122,935
		9,076,717
	\$	9,076,717

For the fiscal year ended June 30, 2011, the Water Agency provided the Occidental County Sanitation District \$300,000 in funding to assist the District in meeting operating expenses.

The Water Agency is acting as the pass through agency for federal grants to Occidental and Sonoma Valley. The grant for Occidental is from the Environmental Protection Agency for the Storage and Reclamation project. The current amount earned on the grant is \$8,725. The grant for Sonoma Valley is an American Recovery and Reinvestment Act (ARRA) grant from the Bureau of Reclamation for projects related to the North San Pablo Bay Water Reclamation and Reuse project. The current amount earned on the grant is \$393,695.

SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Note O. 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, 2011, the Water Agency paid annual premiums to the County for this insurance coverage in the amount of \$198,742. 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, 2011**

Note P. Commitments and Contingencies

Construction

The Water Agency has active construction projects as of June 30, 2011. The projects include expansion and/or improvements of several flood control, water storage and wastewater treatment facilities. As of June 30, 2011, the Water Agency's commitments to construction projects are as follows:

<u>Project</u>	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
General Funds:		
General - Software Development	\$ 350,744	
Sustainability	97,854	
Flood Control:		
Zone 1A – Laguna Mark West	308,338	\$ 9,284
Warm Springs Dam	38,810	
Water transmission facilities	949,672	90,144
Water Storage facilities	282,933	25,000
Pipeline facilities	3,094,008	370,314
Common facilities	11,979,786	809,860
Internal service facilities	11,050,469	717,185
ISF Power Resources	60,278	
Sanitation facilities	482,848	
Water supply facilities	786,888	57,793
Total	<u>\$ 29,482,628</u>	<u>\$ 2,079,580</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, 2011**

Note P. Commitments and Contingencies (continued)

Pending Litigation, Claims and Assessments (continued)

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

Other Regulatory Matters

In 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, 2011**

Note Q. Economic Dependence

Four major customers purchased water from the Water Agency during the fiscal year ended June 30, 2011. Water sales revenue for the fiscal year ended June 30, 2011 and accounts receivable as of June 30, 2011 associated with those customers are as follows:

	Water Sales	% of Total Water Sales
City of Santa Rosa	\$ 11,190,815	35.87%
Marin Municipal	4,907,207	15.73%
City of Petaluma	4,356,023	13.96%
North Marin County	4,015,679	12.87%
	<u>\$ 24,469,724</u>	<u>78.42%</u>

	Accounts Receivable	% of Total Accounts Receivable
City of Santa Rosa	\$ 2,127,817	27.9%
Marin Municipal	1,092,097	14.3%
City of Petaluma	902,395	11.8%
North Marin County	808,561	10.6%
	<u>\$ 4,930,870</u>	<u>64.5%</u>

Note R. Subsequent Event

On August 5, 2011, Standard & Poor's lowered its long-term credit rating on debt of the U.S. government from AAA to AA+. That action affected Standard & Poor's view of U.S. public finance debt instruments that are directly or indirectly backed by the U.S. As a result, on August 8, 2011, Standard & Poor's lowered its long-term credit ratings of U.S. government-sponsored enterprises and public debt issues that have credit enhancement guarantees by those government-sponsored enterprises to AA+. These credit downgrades relate to the credit risk associated with the Agency's investments in U.S. government securities.

SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Note S. Future Governmental Accounting Standards

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

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

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

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

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

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

Required Supplementary Information

**SONOMA COUNTY WATER AGENCY
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGETARY BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	<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	\$ 6,340,981	\$ 6,340,981	\$ 6,286,289	\$ (54,692)
Investment earnings	43,350	43,350	95,021	51,671
Intergovernmental	290,389	407,516	396,605	(10,911)
Charges for services	352,800	356,166	467,917	111,751
Miscellaneous	447,100	447,100	92,139	(354,961)
Total revenues	<u>7,474,620</u>	<u>7,595,113</u>	<u>7,337,971</u>	<u>(257,142)</u>
EXPENDITURES				
Current:				
Salaries and benefits	27,460,001	28,260,001	27,519,843	740,158
Services and supplies	12,677,209	13,093,035	12,740,136	352,899
Costs applied	(35,110,000)	(35,110,000)	(34,631,763)	(478,237)
Capital outlay	276,350	1,452,225	785,789	666,436
Contingencies	300,000	-	-	-
Total expenditures	<u>5,603,560</u>	<u>7,695,261</u>	<u>6,414,005</u>	<u>1,281,256</u>
Excess of revenues over expenditures	<u>1,871,060</u>	<u>(100,148)</u>	<u>923,966</u>	<u>1,024,114</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	1,540,000	1,790,000	1,591,028	(198,972)
Transfers out	(4,600,000)	(7,257,705)	(5,158,733)	2,098,972
Total other financing sources (uses)	<u>(3,060,000)</u>	<u>(5,467,705)</u>	<u>(3,567,705)</u>	<u>1,900,000</u>
Net changes in fund balance	<u>\$ (1,188,940)</u>	<u>\$ (5,567,853)</u>	<u>(2,643,739)</u>	<u>\$ 2,924,114</u>
GAAP basis difference - encumbrances			303,567	
Fund balance - beginning of year			<u>11,048,426</u>	
Fund balance - end of year			<u>\$ 8,708,254</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, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> <u>(Budgetary Basis)</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>See Note A</u>	<u>Final Budget</u>
REVENUES				
Property taxes	\$ 7,286,922	\$ 7,286,922	\$ 7,108,951	\$ (177,971)
Investment earnings	79,500	79,500	149,910	70,410
Intergovernmental	75,063	75,063	198,746	123,683
Miscellaneous	36,500	49,800	55,077	5,277
Total revenues	<u>7,477,985</u>	<u>7,491,285</u>	<u>7,512,684</u>	<u>21,399</u>
EXPENDITURES				
Current:				
Services and supplies	11,941,206	13,952,628	6,732,707	7,219,921
Capital outlay	705,000	1,733,840	36,501	1,697,339
Total expenditures	<u>12,646,206</u>	<u>15,686,468</u>	<u>6,769,208</u>	<u>8,917,260</u>
Net changes in fund balance	<u>\$ (5,168,221)</u>	<u>\$ (8,195,183)</u>	743,476	<u>\$ (8,895,861)</u>
GAAP basis difference - encumbrances			89,356	
Fund balance - beginning of year			<u>23,442,322</u>	
Fund balance - end of year			<u>\$ 24,275,154</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, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> (Budgetary Basis)	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>See Note A</u>	<u>Final Budget</u>
REVENUES				
Property taxes	\$ 4,123,966	\$ 4,123,966	\$ 4,930,401	\$ 806,435
Investment earnings	10,000	10,000	157,536	147,536
Intergovernmental	41,894	41,894	77,725	35,831
Total revenues	<u>4,175,860</u>	<u>4,175,860</u>	<u>5,165,662</u>	<u>989,802</u>
EXPENDITURES				
Current:				
Services and supplies	5,109,479	5,873,793	2,231,977	3,641,816
Capital outlay	1,135,600	1,135,600	38,810	1,096,790
Total expenditures	<u>6,245,079</u>	<u>7,009,393</u>	<u>2,270,787</u>	<u>4,738,606</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,069,219)</u>	<u>(2,833,533)</u>	<u>2,894,875</u>	<u>(3,748,804)</u>
OTHER FINANCING SOURCES				
Transfers in	-	105,000	105,000	-
Total other financing sources	<u>-</u>	<u>105,000</u>	<u>105,000</u>	<u>-</u>
Net changes in fund balance	<u>\$ (2,069,219)</u>	<u>\$ (2,728,533)</u>	2,999,875	<u>\$ 5,728,408</u>
GAAP basis difference - encumbrances			(994,967)	
Fund balance - beginning of year			<u>12,675,496</u>	
Fund balance - end of year			<u>\$ 14,680,404</u>	

**SONOMA COUNTY WATER AGENCY
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Note A. Budgetary Presentation

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

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

		Special Revenue Funds		
	General Fund	Flood Control	Warm Springs Dam	Total
Net change in fund balance	\$ (2,643,739)	\$ 743,476	\$ 2,999,875	\$ 1,099,612
Expenditure charges against prior year encumbrances	(625,049)	(3,118,206)	(2,766,307)	(6,509,562)
Current year encumbrances	928,616	3,207,562	1,771,340	5,907,518
Net change in fund balance GAAP basis	\$ (2,340,172)	\$ 832,832	\$ 2,004,908	\$ 497,568

Other Supplementary Information

**SONOMA COUNTY WATER AGENCY
COMBINING BALANCE SHEET
FLOOD CONTROL SPECIAL REVENUE FUNDS
JUNE 30, 2011**

	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	\$ 8,768,010	\$ 8,933,987	\$ 2,977,234	\$ 1,912,839
Accounts receivable	-	-	-	-
Notes receivable	-	-	110,000	-
Total assets	<u>\$ 8,768,010</u>	<u>\$ 8,933,987</u>	<u>\$ 3,087,234</u>	<u>\$ 1,912,839</u>
Liabilities and fund balances				
Liabilities:				
Accounts payable	<u>\$ 223,759</u>	<u>\$ 57,357</u>	<u>\$ 96,210</u>	<u>\$ 1,408</u>
Fund balances:				
Restricted	<u>8,544,251</u>	<u>8,876,630</u>	<u>2,991,024</u>	<u>1,911,431</u>
Total liabilities and fund balances	<u>\$ 8,768,010</u>	<u>\$ 8,933,987</u>	<u>\$ 3,087,234</u>	<u>\$ 1,912,839</u>

**SONOMA COUNTY WATER AGENCY
 COMBINING BALANCE SHEET (CONTINUED)
 FLOOD CONTROL SPECIAL REVENUE FUNDS
 JUNE 30, 2011**

Flood Control Funds			
Zone 7A North Coast	Zone 8A South Coast	Total Flood Control Funds	
\$ 78,893	\$ 1,876,287	\$ 24,547,250	Assets
-	-	-	Cash and investments
-	-	110,000	Accounts receivable
<u>\$ 78,893</u>	<u>\$ 1,876,287</u>	<u>\$ 24,657,250</u>	Notes receivable
			Total assets
			 Liabilities and fund balances
<u>\$ 3,362</u>	<u>\$ -</u>	<u>\$ 382,096</u>	Liabilities:
			Accounts payable
<u>75,531</u>	<u>1,876,287</u>	<u>24,275,154</u>	Fund balances:
			Restricted
<u>\$ 78,893</u>	<u>\$ 1,876,287</u>	<u>\$ 24,657,250</u>	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, 2011**

	Flood Control Funds			
	Zone 1A Laguna Mark West	Zone 2A Petaluma Basin	Zone 3A Valley of the Moon	Zone 5A Lower Russian River
REVENUES				
Property taxes	\$ 4,805,766	\$ 1,246,019	\$ 766,567	\$ 157,949
Investment earnings	54,740	54,238	17,307	11,663
Intergovernmental	137,021	36,118	19,816	4,509
Miscellaneous	38,220	-	3,857	-
Total revenues	5,035,747	1,336,375	807,547	174,121
EXPENDITURES				
Current:				
Services and supplies	5,368,221	744,323	479,686	36,211
Capital outlay	27,217	-	-	-
Total expenditures	5,395,438	744,323	479,686	36,211
Excess (deficiency) of revenues over (under) expenditures	(359,691)	592,052	327,861	137,910
Net change in fund balances	(359,691)	592,052	327,861	137,910
Fund balances - beginning of year	8,903,942	8,284,578	2,663,163	1,773,521
Fund balances - end of year	\$ 8,544,251	\$ 8,876,630	\$ 2,991,024	\$ 1,911,431

**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, 2011**

Flood Control Funds			
Zone 7A North Coast	Zone 8A South Coast	Total Flood Control Funds	
\$ -	\$ 132,650	\$ 7,108,951	REVENUES
538	11,424	149,910	Property taxes
-	1,282	198,746	Investment earnings
13,000	-	55,077	Intergovernmental
13,538	145,356	7,512,684	Miscellaneous
			Total revenues
			EXPENDITURES
			Current:
17,840	6,354	6,652,635	Services and supplies
-	-	27,217	Capital outlay
17,840	6,354	6,679,852	Total expenditures
			Excess (deficiency) of revenues over (under) expenditures
(4,302)	139,002	832,832	
(4,302)	139,002	832,832	Net change in fund balances
79,833	1,737,285	23,442,322	Fund balances - beginning of year
\$ 75,531	\$ 1,876,287	\$ 24,275,154	Fund balances - end of year

**SONOMA COUNTY WATER AGENCY
COMBINING STATEMENT OF NET ASSETS
SANITATION ENTERPRISE FUNDS
JUNE 30, 2011**

	Sanitation Funds				Total Sanitation Funds
	Sea Ranch	Penngrove	Geyserville	Airport Larkfield Wikiup	
ASSETS					
Current assets:					
Cash and investments	\$ 498,791	\$ 677,328	\$ 585,128	\$ 1,404,348	\$ 3,165,595
Accounts receivable	5,268	129,661	21,494	117,750	274,173
Total current assets	<u>504,059</u>	<u>806,989</u>	<u>606,622</u>	<u>1,522,098</u>	<u>3,439,768</u>
Noncurrent assets:					
Restricted assets					
Cash - general obligation bond funds	-	11,835	52,115	160,084	224,034
Deferred charges	-	-	-	105,500	105,500
Capital assets, net					
Land	-	-	106,213	1,515,231	1,621,444
Construction in progress	-	3,689	-	479,159	482,848
Intangible assets - permanent easements	-	-	-	13,700	13,700
Buildings and improvements	588,291	1,115,790	685,714	20,212,355	22,602,150
Equipment	-	45,023	8,558	99,267	152,848
Total capital assets	<u>588,291</u>	<u>1,164,502</u>	<u>800,485</u>	<u>22,319,712</u>	<u>24,872,990</u>
Total noncurrent assets	<u>588,291</u>	<u>1,176,337</u>	<u>852,600</u>	<u>22,585,296</u>	<u>25,202,524</u>
Total assets	<u>1,092,350</u>	<u>1,983,326</u>	<u>1,459,222</u>	<u>24,107,394</u>	<u>28,642,292</u>
LIABILITIES					
Current liabilities payable from unrestricted assets:					
Accounts payable and accrued expenses	28,491	247,734	7,375	87,829	371,429
Unearned revenue	-	-	-	34,079	34,079
Total current liabilities payable from unrestricted assets	<u>28,491</u>	<u>247,734</u>	<u>7,375</u>	<u>121,908</u>	<u>405,508</u>
Current liabilities payable from restricted assets:					
Interest payable	-	1,667	-	56,705	58,372
General obligation bonds payable	-	12,000	19,000	-	31,000
Revenue bonds payable	-	-	-	215,620	215,620
Total current liabilities payable from restricted assets	<u>-</u>	<u>13,667</u>	<u>19,000</u>	<u>272,325</u>	<u>304,992</u>
Noncurrent liabilities:					
General obligation bonds payable	-	88,000	185,000	-	273,000
Revenue bonds payable	-	-	-	4,629,310	4,629,310
Total noncurrent liabilities	<u>-</u>	<u>88,000</u>	<u>185,000</u>	<u>4,629,310</u>	<u>4,902,310</u>
Total liabilities	<u>28,491</u>	<u>349,401</u>	<u>211,375</u>	<u>5,023,543</u>	<u>5,612,810</u>
NET ASSETS					
Invested in capital assets, net of related debt	588,291	1,064,502	596,485	17,474,782	19,724,060
Restricted for:					
Debt service	-	10,168	52,115	103,379	165,662
Recycled water and water conservation	-	5,972	18,898	250,043	274,913
Unrestricted	475,568	553,283	580,349	1,255,647	2,864,847
Total net assets	<u>\$ 1,063,859</u>	<u>\$ 1,633,925</u>	<u>\$ 1,247,847</u>	<u>\$ 19,083,851</u>	<u>\$ 23,029,482</u>

SONOMA COUNTY WATER AGENCY
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
SANITATION ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Sanitation Funds				Total Sanitation Funds
	Sea Ranch	Penngrove	Geyserville	Airport Lakefield Wikiup	
OPERATING REVENUE					
Flat charges	\$ 505,377	\$ 536,247	\$ 277,194	\$ 2,022,192	\$ 3,341,010
Sanitation services	796	14,155	2,085	200,092	217,128
Real estate rental	-	-	-	50,000	50,000
Miscellaneous	-	-	-	61,254	61,254
Total operating revenue	<u>506,173</u>	<u>550,402</u>	<u>279,279</u>	<u>2,333,538</u>	<u>3,669,392</u>
OPERATING EXPENSES					
Services and supplies	425,805	607,851	228,264	2,543,266	3,805,186
Depreciation and amortization	90,239	47,085	78,979	984,223	1,200,526
Total operating expenses	<u>516,044</u>	<u>654,936</u>	<u>307,243</u>	<u>3,527,489</u>	<u>5,005,712</u>
Operating loss	<u>(9,871)</u>	<u>(104,534)</u>	<u>(27,964)</u>	<u>(1,193,951)</u>	<u>(1,336,320)</u>
NONOPERATING REVENUES (EXPENSES)					
Taxes and assessments	-	14,947	23,997	-	38,944
Investment earnings	3,253	6,026	9,582	11,262	30,123
Interest expense	-	(5,012)	(10,650)	(233,665)	(249,327)
Conservation program expense	(683)	(1,414)	(629)	(2,916)	(5,642)
Loss on disposal of capital assets	-	-	-	(7,091)	(7,091)
Intergovernmental revenue	-	139	158	137,190	137,487
Total nonoperating revenue (expenses), net	<u>2,570</u>	<u>14,686</u>	<u>22,458</u>	<u>(95,220)</u>	<u>(55,506)</u>
Loss before capital contributions and transfers	<u>(7,301)</u>	<u>(89,848)</u>	<u>(5,506)</u>	<u>(1,289,171)</u>	<u>(1,391,826)</u>
Capital contributions - connection fees	-	7,103	-	269,201	276,304
Transfers in	-	60,000	-	356,100	416,100
Change in net assets	<u>(7,301)</u>	<u>(22,745)</u>	<u>(5,506)</u>	<u>(663,870)</u>	<u>(699,422)</u>
Net assets - beginning 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>
Net assets - end of year	<u>\$ 1,063,859</u>	<u>\$ 1,633,925</u>	<u>\$ 1,247,847</u>	<u>\$ 19,083,851</u>	<u>\$ 23,029,482</u>

**SONOMA COUNTY WATER AGENCY
COMBINING STATEMENT OF CASH FLOWS
SANITATION ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	Sanitation Funds				Total Sanitation Funds
	Sea Ranch	Penngrove	Geyserville	Airport Larkfield Wikiup	
Cash flows from operating activities:					
Cash receipts from customers	\$ 503,298	\$ 501,202	\$ 280,625	\$ 2,311,431	\$ 3,596,556
Cash payments for interfund services used	(65,002)	(115,171)	(198,563)	(1,705,452)	(2,084,188)
Cash payments to suppliers	(364,825)	(476,873)	(24,069)	(779,815)	(1,645,582)
Conservation program outlays	(683)	(1,414)	(629)	(2,916)	(5,642)
Net cash provided by (used for) operating activities	<u>72,788</u>	<u>(92,256)</u>	<u>57,364</u>	<u>(176,752)</u>	<u>(138,856)</u>
Cash flows from noncapital financing activities:					
Taxes and assessments	-	14,947	23,997	-	38,944
Transfers in	-	60,000	-	301,100	361,100
Conservation program receipts	-	-	-	610,670	610,670
Intergovernmental receipts	-	139	158	136,316	136,613
Net cash provided by noncapital financing activities	<u>-</u>	<u>75,086</u>	<u>24,155</u>	<u>1,048,086</u>	<u>1,147,327</u>
Cash flows from capital and related financing activities:					
Purchase of capital assets	(3,742)	(32,710)	(8,558)	(533,869)	(578,879)
Principal paid on general obligation and revenue bonds	-	(12,000)	(18,000)	(230,000)	(260,000)
Interest paid on long-term debt	-	(5,300)	(10,650)	(230,501)	(246,451)
Connection fees	-	7,103	-	269,201	276,304
Transfers in	-	-	-	55,000	55,000
Net cash used for capital and related financing activities	<u>(3,742)</u>	<u>(42,907)</u>	<u>(37,208)</u>	<u>(670,169)</u>	<u>(754,026)</u>
Cash flows from investing activities:					
Interest received	3,253	6,026	9,582	11,262	30,123
Net cash provided by investing activities	<u>3,253</u>	<u>6,026</u>	<u>9,582</u>	<u>11,262</u>	<u>30,123</u>
Net increase (decrease) in cash and cash equivalents	72,299	(54,051)	53,893	212,427	284,568
Cash and cash equivalents - beginning of year	426,492	743,214	583,350	1,352,005	3,105,061
Cash and cash equivalents - end of year	<u>\$ 498,791</u>	<u>\$ 689,163</u>	<u>\$ 637,243</u>	<u>\$ 1,564,432</u>	<u>\$ 3,389,629</u>
Reconciliation to the statement of net assets:					
Cash and investments	\$ 498,791	\$ 677,328	\$ 585,128	\$ 1,404,348	\$ 3,165,595
Restricted cash and investments	-	11,835	52,115	160,084	224,034
Cash and cash equivalents	<u>\$ 498,791</u>	<u>\$ 689,163</u>	<u>\$ 637,243</u>	<u>\$ 1,564,432</u>	<u>\$ 3,389,629</u>
Reconciliation of operating loss to net cash provided by (used for) operating activities:					
Operating loss	\$ (9,871)	\$ (104,534)	\$ (27,964)	\$ (1,193,951)	\$ (1,336,320)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities:					
Conservation program outlays	(683)	(1,414)	(629)	(2,916)	(5,642)
Depreciation and amortization	90,239	47,085	78,979	984,223	1,200,526
Change in assets and liabilities:					
Receivables, net	(2,875)	(49,200)	1,346	(22,107)	(72,836)
Accounts payable and accrued expenses	(4,022)	15,807	5,632	57,999	75,416
Net cash provided by (used for) operating activities	<u>\$ 72,788</u>	<u>\$ (92,256)</u>	<u>\$ 57,364</u>	<u>\$ (176,752)</u>	<u>\$ (138,856)</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisition of capital assets through accounts payable	\$ -	\$ 6,422	\$ -	\$ -	\$ 6,422
Increase in capital assets for capitalized interest	-	88	-	14,376	14,464
Loss on disposal of capital assets	-	-	-	(7,091)	(7,091)

**SONOMA COUNTY WATER AGENCY
COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICES FUNDS
JUNE 30, 2011**

	<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	\$ 8,180,609	\$ 2,279,879	\$ 10,460,488
Accounts receivable	-	68,689	68,689
Prepaid expenses	-	210,863	210,863
Total current assets	<u>8,180,609</u>	<u>2,559,431</u>	<u>10,740,040</u>
Noncurrent assets:			
Restricted assets			
Cash - capital leases	809,141	287,561	1,096,702
Cash - capital projects	100,408	-	100,408
Total restricted assets	<u>909,549</u>	<u>287,561</u>	<u>1,197,110</u>
Capital assets, net			
Land	2,689,861	-	2,689,861
Construction in progress	11,050,469	60,278	11,110,747
Intangible assets - software	179,656	-	179,656
Buildings and improvements	12,105,887	14,725,566	26,831,453
Equipment	1,393,102	9,727	1,402,829
Total capital assets	<u>27,418,975</u>	<u>14,795,571</u>	<u>42,214,546</u>
Total noncurrent assets	<u>28,328,524</u>	<u>15,083,132</u>	<u>43,411,656</u>
Total assets	<u>36,509,133</u>	<u>17,642,563</u>	<u>54,151,696</u>
LIABILITIES			
Current liabilities payable from unrestricted assets:			
Accounts payable and accrued expenses	994,931	677,786	1,672,717
Due to other governments	-	422,177	422,177
Total current liabilities payable from unrestricted assets	<u>994,931</u>	<u>1,099,963</u>	<u>2,094,894</u>
Current liabilities payable from restricted assets:			
Interest payable	114,126	34,126	148,252
Capital leases	809,141	287,561	1,096,702
Total current liabilities payable from restricted assets	<u>923,267</u>	<u>321,687</u>	<u>1,244,954</u>
Noncurrent liabilities:			
Capital leases	10,034,686	2,916,850	12,951,536
Advances from other governments	-	3,495,410	3,495,410
Advances from other funds	-	1,578,367	1,578,367
Total noncurrent liabilities	<u>10,034,686</u>	<u>7,990,627</u>	<u>18,025,313</u>
Total liabilities	<u>11,952,884</u>	<u>9,412,277</u>	<u>21,365,161</u>
NET ASSETS			
Invested in capital assets, net of related debt	16,675,556	7,673,573	24,349,129
Restricted for:			
Debt service	695,015	253,435	948,450
Capital projects	100,408	-	100,408
Unrestricted	7,085,270	303,278	7,388,548
Total net assets	<u>\$ 24,556,249</u>	<u>\$ 8,230,286</u>	<u>\$ 32,786,535</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, 2011

	<u>Internal Service Funds</u>		<u>Total Internal Service Funds</u>
	<u>Equipment Facilities</u>	<u>Power Resources</u>	
OPERATING REVENUE			
Power sales	\$ -	\$ 6,145,582	\$ 6,145,582
Equipment rental	2,211,017	-	2,211,017
Real estate rental	4,865,616	-	4,865,616
Miscellaneous	5,014	72,356	77,370
Total operating revenue	<u>7,081,647</u>	<u>6,217,938</u>	<u>13,299,585</u>
OPERATING EXPENSES			
Services and supplies	2,789,155	4,941,535	7,730,690
Depreciation and amortization	1,090,892	411,475	1,502,367
Total operating expenses	<u>3,880,047</u>	<u>5,353,010</u>	<u>9,233,057</u>
Operating income	<u>3,201,600</u>	<u>864,928</u>	<u>4,066,528</u>
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	54,085	7,071	61,156
Interest expense	(153,658)	(328,449)	(482,107)
Loss on disposal of capital assets	(397,381)	(57,875)	(455,256)
Total nonoperating expenses, net	<u>(496,954)</u>	<u>(379,253)</u>	<u>(876,207)</u>
Income before capital contributions and transfers	2,704,646	485,675	3,190,321
Capital contributions - other	-	58,317	58,317
Transfers in	1,246,605	-	1,246,605
Change in net assets	3,951,251	543,992	4,495,243
Net assets - beginning of year	<u>20,604,998</u>	<u>7,686,294</u>	<u>28,291,292</u>
Net assets - end of year	<u>\$ 24,556,249</u>	<u>\$ 8,230,286</u>	<u>\$ 32,786,535</u>

**SONOMA COUNTY WATER AGENCY
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	<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	\$ 7,081,647	\$ 6,207,619	\$ 13,289,266
Cash payments for interfund services used	(1,794,602)	(179,125)	(1,973,727)
Cash payments to suppliers	(887,282)	(4,265,922)	(5,153,204)
Net cash provided by operating activities	<u>4,399,763</u>	<u>1,762,572</u>	<u>6,162,335</u>
Cash flows from capital and related financing activities:			
Purchase of capital assets	(3,941,278)	(21,642)	(3,962,920)
Principal paid on capital leases	(773,822)	(275,680)	(1,049,502)
Principal paid on advances from other governments	-	(405,168)	(405,168)
Interest paid on long-term debt	(512,672)	(326,821)	(839,493)
Proceeds from interfund borrowing	-	500,000	500,000
Proceeds from sale of capital assets	26,359	-	26,359
Transfers in	1,246,605	-	1,246,605
Net cash used for capital and related financing activities	<u>(3,954,808)</u>	<u>(529,311)</u>	<u>(4,484,119)</u>
Cash flows from investing activities:			
Interest received	54,085	7,071	61,156
Net increase in cash and cash equivalents	499,040	1,240,332	1,739,372
Cash and cash equivalents - beginning of year	<u>8,591,118</u>	<u>1,327,108</u>	<u>9,918,226</u>
Cash and cash equivalents - end of year	<u>\$ 9,090,158</u>	<u>\$ 2,567,440</u>	<u>\$ 11,657,598</u>
Reconciliation to the statement of net assets:			
Cash and investments	\$ 8,180,609	\$ 2,279,879	\$ 10,460,488
Restricted cash and investments	<u>909,549</u>	<u>287,561</u>	<u>1,197,110</u>
Cash and cash equivalents	<u>\$ 9,090,158</u>	<u>\$ 2,567,440</u>	<u>\$ 11,657,598</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 3,201,600	\$ 864,928	\$ 4,066,528
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation and amortization	1,090,892	411,475	1,502,367
Change in assets and liabilities:			
Receivables, net	-	(10,319)	(10,319)
Prepaid expenses	-	614,606	614,606
Accounts payable and accrued expenses	107,271	(118,118)	(10,847)
Net cash provided by operating activities	<u>\$ 4,399,763</u>	<u>\$ 1,762,572</u>	<u>\$ 6,162,335</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition of capital assets through accounts payable	\$ 828,650	\$ -	\$ 828,650
Increase in capital assets for capitalized interest	350,979	1,961	352,940
Loss on disposal of capital assets	(397,381)	(57,875)	(455,256)

Single Audit

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

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133**

Compliance

We have audited Sonoma County Water Agency's (Agency) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Agency's major federal program for the fiscal year ended June 30, 2011. The Agency's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Agency's management. Our responsibility is to express an opinion on the Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Agency's compliance with those requirements.

In our opinion, the Agency complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the fiscal year ended June 30, 2011.

Internal Control Over Compliance

Management of Agency is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Agency's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Agency's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, 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 Meiri & O'Connell LLP

Sacramento, California
December 7, 2011

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, 2011, which collectively comprise the Water Agency’s basic financial statements and have issued our report thereon dated December 7, 2011. Our report contained an explanatory paragraph describing the Water Agency’s implementation of a new governmental accounting standard, effective July 1, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Water Agency is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Water Agency’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the 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 management, the Board of Directors, others within the entity, 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 Mini & O'Connell LLP

Sacramento, California
December 7, 2011

**SONOMA COUNTY WATER AGENCY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance (CFDA) Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Interior			
<u>Direct Programs</u>			
Water Reclamation and Reuse Program	15.504	02FC200141	\$ 11,787
ARRA - Water Reclamation and Reuse Program	15.504	ARRA - R10AC20R87	1,115,088
Subtotal Direct Federal Programs			<u>1,126,875</u>
Total Department of Interior			<u>1,126,875</u>
U.S. Environmental Protection Agency			
<u>Direct Programs</u>			
Congressionally Mandated Projects	66.202	XP-00T56501	<u>6,467</u>
U.S. Department of Homeland Security			
<u>Passed through the California Emergency Management Agency</u>			
Hazard Mitigation Grant Program	97.039	HMGP #1731-38-16	<u>68,348</u>
Total Expenditures of Federal Awards			<u><u>\$ 1,201,690</u></u>

**SONOMA COUNTY WATER AGENCY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Note 1 General

The accompanying Schedule of Expenditures of Federal Awards (SEFA) presents the expenditures of all federal award programs of the Sonoma County Water Agency (Water Agency) for the year ended June 30, 2011. Expenditures of federal awards received directly from federal agencies, as well as federal awards passed through other governmental agencies are included in the SEFA. The Water Agency’s reporting entity is defined in Note A to the Water Agency’s financial statements.

Note 2 Basis of Presentation

Expenditures as presented in the SEFA are reported on the modified accrual basis of accounting. Expenditures are recognized when they become a demand on current available financial resources.

Note 3 Catalog of Federal Domestic Assistance (CFDA) Numbers

The CFDA numbers included in the accompanying SEFA were determined based on the program name, review of grant contract information, and the office of Management and Budget’s Catalog of Federal Domestic Assistance.

Note 4 Amounts Provided the Subrecipients

Of the total of federal expenditures presented in the SEFA, the following amounts were passed through to subrecipients:

Program Title	CFDA Number	Amount provided to Subrecipient
Water Reclamation and Reuse Program	15.504	\$ 1,094,101
Congressionally Mandated Projects	66.202	6,467
Total		\$ 1,100,568

**SONOMA COUNTY WATER AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued	Unqualified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Type of auditor’s report issued on compliance for major programs	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
15.504	Water Reclamation and Reuse Program

**SONOMA COUNTY WATER AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Section I – Summary of Auditor’s Results (Continued)

Dollar threshold used to distinguish between type A and type B programs:	\$ 300,000
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

None

Section III – Federal Award Findings and Questioned Costs

None

**SONOMA COUNTY WATER AGENCY
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

None.