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

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

For the Year Ended June 30, 2009

SONOMA COUNTY WATER AGENCY
FOR THE YEAR ENDED JUNE 30, 2009

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NEWPORT BEACH
SAN MARCOS
SAN DIEGO

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 year ended June 30, 2009, 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, 2009, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note D to the basic financial statements, effective July 1, 2008, the Water Agency implemented Governmental Accounting Standards Board (GASB) Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2009 on our consideration of the Water Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

Macias Gini & O'Connell LLP

Certified Public Accountants

Sacramento, California
November 9, 2009

Management's Discussion and Analysis

SONOMA COUNTY WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2009
(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 year ended June 30, 2009. We encourage readers to consider the information presented here in conjunction with the Water Agency's financial statements (pages 15 - 25) and the accompanying notes to the financial statements (pages 26 - 58).

Financial Highlights

- The assets of the Water Agency exceeded its liabilities at the close of the most recent fiscal year by $352,927,614 (net assets). Of this amount $37,358,798 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

- The government's total net assets increased by $3,627,441 during the current fiscal year. The governmental activities realized an increase in net assets of $6,114,145 while the business-type activities recorded a decrease of $2,486,704.

- As of the close of the current fiscal year, the Water Agency's governmental funds reported combined ending fund balances of $127,964,636, an increase of $4,919,915 in comparison with the prior year. Approximately 27% of this total amount, $33,961,904 is available for spending at the Water Agency's discretion (unreserved, undesignated fund balance).

- At the end of the current fiscal year, unreserved, undesignated fund balance for the General Fund, which includes Spring Lake Park and the Waste/Recycled Water Loan fund, was $8,182,157 or 23% of total General Fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Water Agency's basic financial statements. The Water Agency's basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the 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).

Overview of the Financial Statements (continued)

Government-wide financial statements (continued)

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

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

Fund financial statements

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

Governmental funds

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental 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.

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

Overview of the Financial Statements (continued)

Proprietary funds

The Water Agency maintains two different types of proprietary funds: enterprise funds and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Agency uses enterprise funds to account for its water and sanitation services. Internal service funds are an accounting device used to accumulate and allocate costs internally among the Water Agency's various functions. The Water Agency uses an internal service fund to account for equipment, 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. The basic proprietary fund financial statements can be found on pages 21 - 24.

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.

The basic fiduciary fund financial statement can be found on page 25 of this report.

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. The notes to the basic financial statements can be found on pages 26 – 58.

Required Supplementary Information

Schedules presenting budgetary comparison information for the Water Agency's general fund and special revenue funds can be found on pages 59 - 62.

Combining statements in connection with governmental funds and proprietary funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 63 - 72.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Water Agency, assets exceeded liabilities by $352,927,614 at the close of the most recent fiscal year.

The largest portion of the Water Agency's net assets (53%) reflects its investment in capital assets (e.g., land, construction in progress, infrastructure, buildings, machinery and equipment); less any related debt used to acquire those assets that is still outstanding. The Water Agency uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Water Agency's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Sonoma County Water Agency's
Condensed Statement of Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2007/08	2008/09	2007/08	2008/09	2007/08	2008/09
Current and other assets	$125,068,398	$129,744,335	$ 59,549,996	$ 53,987,003	$ 184,618,394	$183,731,338
Capital assets	152,083,594	150,547,639	205,644,485	213,633,182	357,728,079	364,180,821
Total assets	277,151,992	280,291,974	265,194,481	267,620,185	542,346,473	547,912,159
Current liabilities	7,170,235	6,956,905	7,316,238	9,017,626	14,486,473	15,974,531
Noncurrent liabilities	112,214,397	109,453,564	66,345,430	69,556,450	178,559,827	179,010,014
Total liabilities	119,384,632	116,410,469	73,661,668	78,574,076	193,046,300	194,984,545
Invested in capital assets, net of related debt	39,903,525	41,035,367	142,850,345	146,824,999	182,753,870	187,860,366
Restricted	114,451,405	117,902,026	10,171,511	9,806,424	124,622,916	127,708,450
Unrestricted	3,412,430	4,944,112	38,510,957	32,414,686	41,923,387	37,358,798
Total net assets	$157,767,360	$163,881,505	$ 191,532,813	$189,046,109	$ 349,300,173	$352,927,614

A portion of the Water Agency's net assets, $127,708,450 (36%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, $37,358,798, may be used to meet the Water Agency's ongoing obligations to citizens and creditors.

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

The Water Agency's net assets increased by $3,627,441 during the current fiscal year. This increase is a net result of revenues exceeding expenses in the governmental activities and expenses exceeding revenues in the business-type activities.

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

	Governmental Activities		Business-Type Activities		Total	
	2007/08	2008/09	2007/08	2008/09	2007/08	2008/09
Revenues:						
Program Revenues:						
Charges for services	$ 431,807	$ 390,969	$ 33,775,464	$ 33,188,478	$ 34,207,271	$33,579,447
Operating grants and contributions	-	-	1,497,429	1,086,087	1,497,429	1,086,087
Capital grants and contributions	1,197,411	449,198	4,978,906	263,656	6,176,317	712,854
General Revenues:						
Property taxes	19,342,783	19,455,086	39,441	41,224	19,382,224	19,496,310
Investment earnings	9,832,932	6,197,798	2,213,910	1,208,115	12,046,842	7,405,913
Miscellaneous	189,185	261,518	29,807	90,655	218,992	352,173
Total revenues	30,994,118	26,754,569	42,534,957	35,878,215	73,529,075	62,632,784
Expenses:						
General government	3,219,345	2,678,374	-	-	3,219,345	2,678,374
Flood control	10,354,776	9,148,324	-	-	10,354,776	9,148,324
Warm Springs Dam	824,097	1,651,684	-	-	824,097	1,651,684
Interest on long-term debt	3,645,558	3,560,417	-	-	3,645,558	3,560,417
Water transmission	-	-	31,003,297	30,294,749	31,003,297	30,294,749
Water supply	-	-	4,457,917	6,373,050	4,457,917	6,373,050
Sanitation	-	-	6,406,908	5,298,745	6,406,908	5,298,745
Total expenses	18,043,776	17,038,799	41,868,122	41,966,544	59,911,898	59,005,343
Increase in net assets before transfers	12,950,342	9,715,770	666,835	(6,088,329)	13,617,177	3,627,441
Transfers	(2,462,000)	(3,601,625)	2,462,000	3,601,625	-	-
Increase in net assets	10,488,342	6,114,145	3,128,835	(2,486,704)	13,617,177	3,627,441
Net assets - beginning of year, as restated	147,279,018	157,767,360	188,403,978	191,532,813	335,682,996	349,300,173
Net assets - end of year	$ 157,767,360	$ 163,881,505	$191,532,813	$ 189,046,109	$ 349,300,173	$352,927,614

Governmental Activities

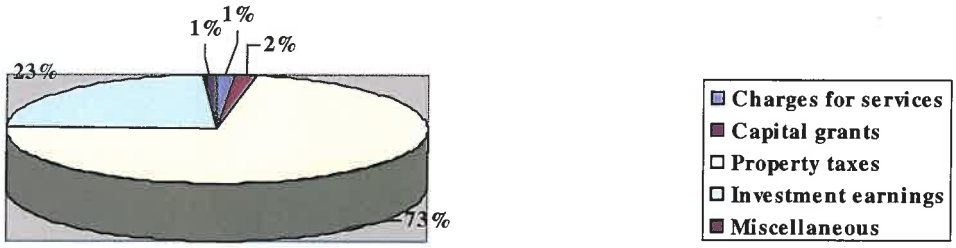
Governmental activities increased the Water Agency's net assets by $6,114,145. Key elements of the Water Agency's governmental activities are identified below.

- Property tax revenues of $19,455,086, including $5,107,981 received for the purpose of debt retirement and satisfaction of maintenance related assurances with the US Army Corps of Engineers for Warm Springs Dam.

- Investment earnings totaling $6,197,798 was due primarily to a $4,853,490 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 US Army Corps of Engineers for Warm Springs Dam. Absent the U.S. Treasury STRIPS, investment gains totaling $1,344,308 were realized.

- Revenues for FY 2008/09 decreased by $4,239,549 from the prior fiscal year while expenses decreased by $1,004,977 over the same period. The revenue decrease is due primarily to a decrease in interest earnings. The expenditure decrease is due primarily to decreases in maintenance projects and studies in the flood control zones, decreases in the estimated contingent liability amount and decreased spending in the general fund offset in part by increases in Warm Springs Dam for work outlined by the biological opinion (refer to Note R to the basic financial statements on page 56).

Revenues by Source – Governmental Activities



Business-type activities

Business-type activities decreased the Water Agency's net assets by $2,486,704. Key elements of the Water Agency's business-type activities are identified below.

- Water sales revenues decreased due primarily to a 9.6% decrease in total acre-feet sold during the year, offset by an average increase of 8.3% in water rates from FY 2007/08.

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

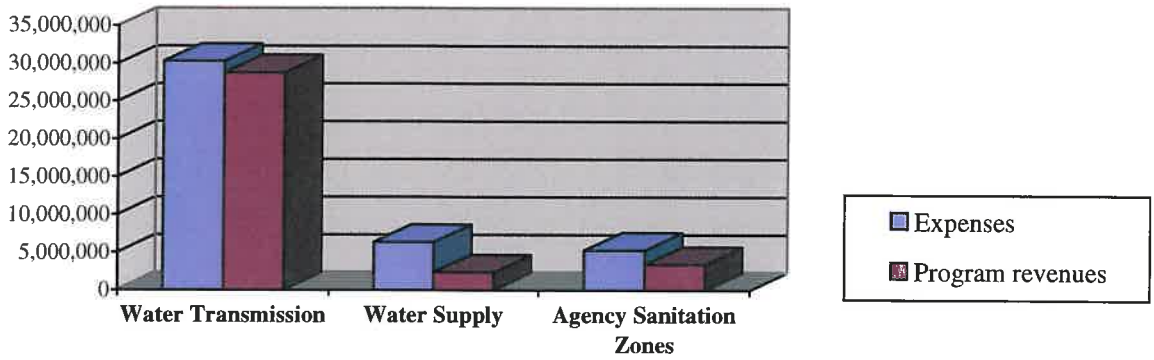
Business-type activities (continued)

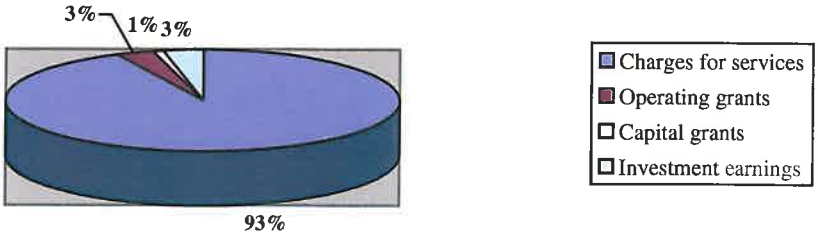
- Grants and contributions totaling $1,349,743 were received during FY 2008/09. Grants include funding from the state towards Prop. 50 washer rebate programs and North San Pablo Bay restoration. Other contributions include funding agreements for water conservation projects and a storage pond use agreement with Town of Windsor.

- Investment earnings for FY 2008/09 totaled $1,208,115.

- Transfers from the Water Agency's General Fund totaling $3,601,625 were received during FY 2008/09. These transfers were for the purpose of financing various projects related to recycled water ($2,382,625), Russian River projects ($153,000), Water Transmission ($1,000,000) and expanded water conservation programs in various sanitation zones ($66,000).

Expenses and Program Revenues – Business-type Activities





Revenues by Source – Business-type activities

Financial Analysis of the Government's Funds

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

Governmental funds

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

As of the end of the current fiscal year, the Water Agency's governmental funds reported combined ending fund balances of $127,964,636, an increase of $4,919,915 in comparison with the prior year. Approximately 27% of this total amount, $33,961,904, constitutes unreserved, undesignated fund balance, which is available for spending at the Water Agency's discretion. The remaining fund balance is reserved or designated to indicate that it is not available for new spending because it has already been committed (1) to pay debt service, $84,910,049, (2) to liquidate contracts and purchase orders of the prior period, $7,955,541, and (3) for contingencies, $75,000.

The General Fund is the chief operating fund of the Water Agency. At the end of the current fiscal year, unreserved, undesignated fund balance of the General Fund, including Spring Lake Park and the Waste/Recycled Water Loan fund was $8,182,157, while total fund balance reached $10,062,610.

The special revenue funds, consisting of six (6) flood control zones and Warm Springs Dam, has a fiscal year end fund balance of $22,276,958 and $10,715,019, respectively, of which a total $25,779,747 is unreserved and the remaining fund balance of $7,212,230 is reserved for encumbrances.

The Debt Service Fund has a total fund balance of $84,910,049, all of which is reserved for the payment of debt service.

Proprietary funds

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

Unrestricted net assets of the Water Transmission Fund at the end of the year amounted to $21,455,089; the Water Supply Fund reported unrestricted net assets of ($1,717,547); and the Sanitation Fund reported unrestricted net assets of $3,141,103. The negative unrestricted net assets in the Water Supply fund is the result of the required deferred revenue recognition (amortization) of Marin Municipal Water District's water rights payment. Other factors concerning the finances of these three funds have already been addressed in the discussion of the Water Agency's business-type activities.

General Fund Budgetary Highlights

The difference between the original budget and the final amended budget for the Water Agency's general fund reflected an increase in budgeted appropriations, including transfers, of $1,997,823, while budgeted revenues were increased by $51,000 during the fiscal year.

The primary component of the increase in budgeted expenditures consists of a $1,721,823 increase in appropriations for transfers. The Water Agency also increased budgeted services and supplies by $276,000.

General Fund Budgetary Highlights (continued)

The Water Agency's budgeted revenue estimates exceeded the actual revenues due primarily to the delay in re-payment of bridge funding from the Occidental County Sanitation District and decreases in investment earnings and reimbursable work. The actual expenditures were less than the budgeted estimates due primarily to decreases in staff time allocated to overhead projects, facilities rent being less than estimated at the time the budget was prepared and reductions in consultant services and reimbursable work.

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, 2009, amounts to $364,180,821 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, machinery and equipment, dams, collection systems and water storage rights.

Major capital asset events during the current fiscal year included the following projects being completed and placed in service. The amounts shown represent the total life-to-date construction costs of each project.

Business Type Activities:

- Capital expansion within the Common Facilities fund included:

  Mirabel Generator Replacement - $3,314,119
  Wohler/Mirabel 12KV Underground - $2,264,550
  Collector 1& 2 Surge protection - $942,221
  Air Valve Modifications - $918,599

- Capital expansion within the Water Supply fund included:

  HVAC Modifications SVTP - $82,589

- Capital expansion within the Sanitation Zones included:

  Sea Ranch Collection System Video - $271,539
  Geyserville Contact Chamber Coating - $38,234
  Airport – Larkfield – Wikiup Fuel Tank (residual costs) $175,211
  Airport – Larkfield – Wikiup Settling Pond Improvements - $77,786

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

  Admin Building T-1 remodel - $141,573
  New Facility (residual costs) - $54,480

Capital Asset and Debt Administration

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

	Governmental Activities		Business-Type Activities		Total	
	2007/08	2008/09	2007/08	2008/09	2007/08	2008/09
Water storage rights	$ 102,371,000	$ 102,371,000	$ -	$ -	$ 102,371,000	$102,371,000
Land	1,537,914	1,550,209	11,021,314	11,021,314	12,559,228	12,571,523
Construction in progress	112,313	259,792	23,006,090	29,083,443	23,118,403	29,343,235
Infrastructure	45,732,615	44,170,529	-	-	45,732,615	44,170,529
Buildings and improvements	2,034,237	1,948,435	170,249,784	171,489,079	172,284,021	173,437,514
Machinery and equipment	295,515	247,674	1,367,297	2,039,346	1,662,812	2,287,020
Total	$152,083,594	$ 150,547,639	$ 205,644,485	$ 213,633,182	$ 357,728,079	$364,180,821

Additional information on the Water Agency's capital assets can be found in Note H on pages 40 - 42 of this report.

Long-term debt

At the end of the current fiscal year, the Water Agency had a total of $179,108,877 in outstanding debt consisting of bonds, federal contract payable, capital leases and compensated absences. Of this amount $362,000 comprises general obligation bonds which is backed by the full faith and credit of the Water Agency; $16,102,078 is related to capital leases; $30,635,000 in revenue bonds payable from the Water Agency's operating income; $15,255,846 represents funds advanced to the Water Agency from the California Department of Water Resources; $4,711,600 represents advances from Sonoma Valley County Sanitation District for the purchase of the photovoltaic facility by the Power Resources Internal Service Fund; $109,512,272 is a federal long-term contract payable related to the water storage rights at Warm Springs Dam; and $2,530,081 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, 2008	June 30, 2009	Change
General obligation bonds	$ 389,000	$ 362,000	(6.9)%
Capital leases	11,090,672	16,102,078	45.2%
Revenue bonds	31,390,000	30,635,000	(2.4)%
Advances from other governments	20,199,005	19,967,446	(1.1)%
Federal contract payable	112,180,069	109,512,272	(2.4)%
Compensated absences	2,519,036	2,530,081	0.4%
Total	$ 177,767,782	$179,108,877	0.8%

The Water Agency's total debt increased by $1,341,095 (0.8%) during the current fiscal year.

Long-term debt (continued)

The outstanding total of general obligation bonds, revenue bonds, advances from other governments and federal contract payable decreased by 6.9%, 2.4%, 1.2%, and 2.4%, respectively, during fiscal year 2008/09 due to annual principal payments.

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

The increase in capital leases is due to the issuance of a capital lease for the purchase of a warehouse/office facility located at 1315 Airport Blvd in Santa Rosa. The lease amount is $5,835,000 payable over 15 years at an interest rate of 4.3%.

Additional information on the Water Agency's current and long-term debt can be found in Note K on pages 44 - 50 of this report.

Next Year's Budgets and Rates

During the current year, unreserved, undesignated fund balance in the general fund increased to $8,182,157. The Agency has appropriated $1,073,732 of this amount for spending in the 2009-2010 fiscal year budget.

Both the water and sewer rates were increased for the 2009/10 budget year. The water rates were increased by an average of 19.49%, while the sewer rates increased an average of 7.65%.

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	$ 484.44	$ 484.44	$484.44
Revenue bond charges:			
Aqueduct revenue bonds charge	0.00	0.00	57.33
Storage facility revenue bonds charge	19.70	19.70	19.70
Common facilities revenue bonds charge	60.65	60.65	60.65
Aqueduct capital charge	-	-	-
Total	$ 564.79	$ 564.79	$622.12

Next Year's Budgets and Rates (continued)

Rate per Equivalent Single-Family Dwelling

	2008/09	2009/10	Change
Sanitation Zone			
Sea Ranch	$ 774	$ 824	6.46%
Penngrove	889	969	9.00%
Geyserville	703	752	6.97%
Airport-Larkfield-Wikiup	509	550	8.06%

Number of Equivalent Single-Family Dwellings by Sanitation Zone

	2008/09	2009/10	Change
Sanitation Zone			
Sea Ranch	567	573	1.06%
Penngrove	510	514	0.78%
Geyserville	340	348	2.35%
Airport-Larkfield-Wikiup	3,564	3,623	1.66%

Request for Additional Information:

This financial report is designed to provide a general overview of the Water Agency's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Sonoma County Auditor-Controller/Treasurer-Tax Collector's Office, Fiscal Division, 585 Fiscal Drive, Room 100, Santa Rosa, CA 95403.

Basic Financial Statements

SONOMA COUNTY WATER AGENCY
STATEMENT OF NET ASSETS
JUNE 30, 2009

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Current assets			
Cash and investments	$ 127,237,376	$ 40,505,264	$ 167,742,640
Accounts receivable, net	1,444,817	5,241,609	6,686,426
Prepaid expenses	-	1,490,263	1,490,263
Internal balances	1,062,142	(1,062,142)	-
Total current assets	129,744,335	46,174,994	175,919,329
Noncurrent assets:			
Restricted assets:			
Cash - revenue bond funds	-	2,227,385	2,227,385
Cash and investments with trustee	-	2,846,066	2,846,066
Cash - capital leases	-	1,004,338	1,004,338
Cash - capital projects	-	1,164,144	1,164,144
Total restricted assets	-	7,241,933	7,241,933
Deposits with others	-	13,000	13,000
Deferred charges	-	557,076	557,076
Capital assets (net of accumulated depreciation)			
Intangible asset - water storage rights (Warm Springs Dam)	102,371,000	-	102,371,000
Land	1,550,209	11,021,314	12,571,523
Construction in progress	259,792	29,083,443	29,343,235
Infrastructure	44,170,529	-	44,170,529
Buildings and improvements	1,948,435	171,489,079	173,437,514
Equipment	247,674	2,039,346	2,287,020
Total capital assets	150,547,639	213,633,182	364,180,821
Total noncurrent assets	150,547,639	221,445,191	371,992,830
Total assets	280,291,974	267,620,185	547,912,159

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

SONOMA COUNTY WATER AGENCY
STATEMENT OF NET ASSETS (CONTINUED)
JUNE 30, 2009

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
LIABILITIES			
Current liabilities payable from unrestricted assets:			
Accounts payable and accrued expenses	1,749,916	3,028,942	4,778,858
Due to other governments	-	1,007,208	1,007,208
Other current liabilities	-	2,200,000	2,200,000
Compensated absences	68,881	-	68,881
Unearned revenue	29,783	172,163	201,946
Interest payable	2,354,492	-	2,354,492
Long-term contracts payable	2,753,833	-	2,753,833
Total current liabilities payable from unrestricted assets	6,956,905	6,408,313	13,365,218
Current liabilities payable from restricted assets:			
Deposits from others	-	4,230	4,230
Interest payable	-	808,945	808,945
General obligation bonds payable	-	28,000	28,000
Capital leases	-	1,004,338	1,004,338
Revenue bonds payable	-	763,800	763,800
Total current liabilities payable from restricted assets	-	2,609,313	2,609,313
Noncurrent liabilities:			
Compensated absences	2,461,200	-	2,461,200
General obligation bonds payable	-	334,000	334,000
Capital leases	-	15,097,740	15,097,740
Revenue bonds payable	-	29,612,860	29,612,860
Long-term contracts payable	106,758,439	-	106,758,439
Advances from other governments	-	18,960,237	18,960,237
Pollution remediation obligation	233,925	-	233,925
Unearned revenue	-	5,551,613	5,551,613
Total noncurrent liabilities	109,453,564	69,556,450	179,010,014
Total liabilities	116,410,469	78,574,076	194,984,545
NET ASSETS			
Invested in capital assets, net of related debt	41,035,367	146,824,999	187,860,366
Restricted for flood control	22,276,958	-	22,276,958
Restricted for Warm Springs Dam	10,715,019	-	10,715,019
Restricted for debt service	84,910,049	3,208,249	88,118,298
Restricted for capital projects	-	3,233,509	3,233,509
Restricted for recycled water and water conservation	-	3,364,666	3,364,666
Unrestricted	4,944,112	32,414,686	37,358,798
Total net assets	$ 163,881,505	$ 189,046,109	$ 352,927,614

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

SONOMA COUNTY WATER AGENCY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	$ 2,678,374	$ 390,969	$ -	$ 142,652	$ (2,144,753)	$ -	$ (2,144,753)
Flood control	9,148,324	-	-	79,971	(9,068,353)	-	(9,068,353)
Warm Springs Dam	1,651,684	-	-	226,575	(1,425,109)	-	(1,425,109)
Interest on long-term debt	3,560,417	-	-	-	(3,560,417)	-	(3,560,417)
Total governmental activities	17,038,799	390,969	-	449,198	(16,198,632)	-	(16,198,632)
Business-type activities:							
Water transmission	30,294,749	28,343,008	421,972	-	-	(1,529,769)	(1,529,769)
Water supply	6,373,050	1,820,507	535,128	-	-	(4,017,415)	(4,017,415)
Sanitation	5,298,745	3,024,963	128,987	263,656	-	(1,881,139)	(1,881,139)
Total business-type activities	41,966,544	33,188,478	1,086,087	263,656	-	(7,428,323)	(7,428,323)
Total primary government	$ 59,005,343	$ 33,579,447	$ 1,086,087	$ 712,854	(16,198,632)	(7,428,323)	(23,626,955)
General revenues:							
Taxes:							
Property taxes, levied for general purposes					14,347,105	-	14,347,105
Property taxes, levied for debt service and assurances					5,107,981	41,224	5,149,205
Unrestricted investment earnings					6,197,798	1,208,115	7,405,913
Miscellaneous					261,518	90,655	352,173
Transfers					(3,601,625)	3,601,625	-
Total general revenues and transfers					22,312,777	4,941,619	27,254,396
Change in net assets					6,114,145	(2,486,704)	3,627,441
Net assets - beginning of year, as restated					157,767,360	191,532,813	349,300,173
Net assets - end of year					$ 163,881,505	$ 189,046,109	$ 352,927,614

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

SONOMA COUNTY WATER AGENCY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2009

		Special Revenue Funds			
	General	Flood Control	Warm Springs Dam	Debt Service	Total Governmental Funds
Assets					
Cash and investments	$ 8,132,683	$ 22,957,333	$ 11,237,311	$ 84,910,049	$ 127,237,376
Accounts receivable	1,444,817	-	-	-	1,444,817
Advances to other funds	1,062,142	-	-	-	1,062,142
Total assets	$ 10,639,642	$ 22,957,333	$ 11,237,311	$ 84,910,049	$ 129,744,335
Liabilities and fund balances					
Liabilities:					
Accounts payable	$ 547,249	$ 680,375	$ 522,292	$ -	$ 1,749,916
Unearned revenue	29,783	-	-	-	29,783
Total liabilities	577,032	680,375	522,292	-	1,779,699
Fund balances					
Reserved for:					
Encumbrances	743,311	4,654,261	2,557,969	-	7,955,541
Debt service	-	-	-	84,910,049	84,910,049
Advances to other funds	1,062,142	-	-	-	1,062,142
Unreserved:					
Designated for contingencies	75,000	-	-	-	75,000
Undesignated	8,182,157	17,622,697	8,157,050	-	33,961,904
Total fund balances	10,062,610	22,276,958	10,715,019	84,910,049	127,964,636
Total liabilities and fund balances	$ 10,639,642	$ 22,957,333	$ 11,237,311	$ 84,910,049	$ 129,744,335

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

Fund balances - total governmental funds	$ 127,964,636
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	150,547,639
Some liabilities are not due and payable in the current period, therefore, are not recorded in the funds as follows:	
Interest payable	(2,354,492)
Compensated absences	(2,530,081)
Pollution remediation obligation	(233,925)
Long-term contracts payable	(109,512,272)
Net assets of governmental activities (page 16)	$ 163,881,505

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 YEAR ENDED JUNE 30, 2009

		Special Revenue Funds			
	General	Flood Control	Warm Springs Dam	Debt Service	Total Governmental Funds
REVENUES					
Property taxes	$ 6,629,364	$ 7,717,741	$ 5,107,981	$ -	$ 19,455,086
Investment earnings	237,819	502,989	335,779	5,121,211	6,197,798
Intergovernmental	142,652	79,971	226,575	-	449,198
Charges for services	390,969	-	-	-	390,969
Miscellaneous	216,096	45,422	-	-	261,518
Total revenues	7,616,900	8,346,123	5,670,335	5,121,211	26,754,569
EXPENDITURES					
Current:					
General government:					
Salaries and benefits	26,462,564	-	-	-	26,462,564
Services and supplies	9,805,967	-	-	-	9,805,967
Costs applied	(33,766,593)	-	-	-	(33,766,593)
Flood control:					
Services and supplies	-	7,545,429	-	-	7,545,429
Pollution remediation	-	50,617	-	-	50,617
Warm Springs Dam:					
Services and supplies	-	-	1,651,684	-	1,651,684
Capital outlay	44,043	153,746	-	-	197,789
Debt service:					
Principal	-	-	-	2,667,797	2,667,797
Interest and fiscal charges	-	-	-	3,617,775	3,617,775
Total expenditures	2,545,981	7,749,792	1,651,684	6,285,572	18,233,029
Excess (deficiency) of revenues over (under)expenditures	5,070,919	596,331	4,018,651	(1,164,361)	8,521,540
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	6,285,571	6,285,571
Transfers out	(3,601,625)	-	(6,285,571)	-	(9,887,196)
Total other financing sources (uses)	(3,601,625)	-	(6,285,571)	6,285,571	(3,601,625)
Net change in fund balances	1,469,294	596,331	(2,266,920)	5,121,210	4,919,915
Fund balances - beginning of year	8,593,316	21,680,627	12,981,939	79,788,839	123,044,721
Fund balances - end of year	$ 10,062,610	$ 22,276,958	$ 10,715,019	$ 84,910,049	$ 127,964,636

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 YEAR ENDED JUNE 30, 2009

Net change in fund balances - total governmental funds (page 19)	$ 4,919,915
Amounts reported for governmental activities in the statement of activities (page 17) 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 capital outlay exceeded depreciation expense.	
Capital outlay	197,789
Depreciation expense	(1,727,477)
Loss on disposal of capital assets	(6,267)
Repayment of principal is an expenditure in the governmental funds, but the repayment reduces the long-term liabilities in the statement of net assets	2,667,797
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	57,358
Change in compensated absences	(11,045)
Change in pollution remediation obligation	16,075
Change in net assets of governmental activities (page 17)	$ 6,114,145

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

SONOMA COUNTY WATER AGENCY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2009

	Enterprise Funds				
ASSETS	**Water Transmission**	**Water Supply**	**Sanitation**	**Total Enterprise Funds**	**Internal Service Funds**
Current assets:					
Cash and investments	$ 23,807,056	$ 3,682,708	$ 3,281,450	$ 30,771,214	$ 9,734,050
Accounts receivable	4,018,067	862,292	141,478	5,021,837	219,772
Due from other funds	-	-	18,480	18,480	143,547
Prepaid expenses	-	-	-	-	1,490,263
Total current assets	27,825,123	4,545,000	3,441,408	35,811,531	11,587,632
Noncurrent assets:					
Restricted assets:					
Cash - revenue bond funds	2,069,365	-	158,020	2,227,385	-
Cash with trustee	2,845,739	-	327	2,846,066	-
Cash - capital leases	-	-	-	-	1,004,338
Cash - capital projects	-	-	-	-	1,164,144
Total restricted assets	4,915,104	-	158,347	5,073,451	2,168,482
Deposits with others	13,000	-	-	13,000	-
Deferred charges	438,388	-	118,688	557,076	-
Capital assets, net of accumulated depreciation:					
Land	6,710,009	-	1,621,444	8,331,453	2,689,861
Construction in progress	20,203,923	2,271,824	1,075,796	23,551,543	5,531,900
Buildings and improvements	114,985,301	3,832,575	23,744,319	142,562,195	28,926,884
Equipment	223,026	9,146	37,543	269,715	1,769,631
Total capital assets	142,122,259	6,113,545	26,479,102	174,714,906	38,918,276
Total noncurrent assets	147,488,751	6,113,545	26,756,137	180,358,433	41,086,758
Total assets	175,313,874	10,658,545	30,197,545	216,169,964	52,674,390

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

SONOMA COUNTY WATER AGENCY
STATEMENT OF NET ASSETS (CONTINUED)
PROPRIETARY FUNDS
JUNE 30, 2009

	Enterprise Funds				
	Water Transmission	Water Supply	Sanitation	Total Enterprise Funds	Internal Service Funds
LIABILITIES					
Current liabilities payable from unrestricted assets:					
Accounts payable and accrued expenses	1,301,895	581,827	317,798	2,201,520	827,422
Due to other funds	-	-	-	-	162,027
Due to other governments	618,363	-	-	618,363	388,845
Other current liabilities	2,200,000	-	-	2,200,000	-
Unearned revenue	168	129,107	42,888	172,163	-
Total current liabilities payable from unrestricted assets	4,120,426	710,934	360,686	5,192,046	1,378,294
Current liabilities payable from restricted assets:					
Deposits from others	4,230	-	-	4,230	-
Interest payable	576,971	-	62,245	639,216	169,729
General obligation bonds payable	-	-	28,000	28,000	-
Capital leases	-	-	-	-	1,004,338
Revenue bonds payable	563,180	-	200,620	763,800	-
Total current liabilities payable from restricted assets	1,144,381	-	290,865	1,435,246	1,174,067
Noncurrent liabilities:					
General obligation bonds payable	-	-	334,000	334,000	-
Capital leases	-	-	-	-	15,097,740
Revenue bonds payable	24,557,309	-	5,055,551	29,612,860	-
Advances from other governments	14,637,482	-	-	14,637,482	4,322,755
Advances from other funds	-	-	-	-	1,062,142
Unearned revenue	-	5,551,613	-	5,551,613	-
Total noncurrent liabilities	39,194,791	5,551,613	5,389,551	50,135,955	20,482,637
Total liabilities	44,459,598	6,262,547	6,041,102	56,763,247	23,034,998
NET ASSETS					
Invested in capital assets, net of related debt	101,745,925	6,113,545	20,860,931	128,720,401	18,104,598
Restricted for:					
Debt service	2,277,538	-	96,102	2,373,640	834,609
Capital projects	2,069,365	-	-	2,069,365	1,164,144
Recycled water and water conservation	3,306,359	-	58,307	3,364,666	-
Unrestricted	21,455,089	(1,717,547)	3,141,103	22,878,645	9,536,041
Total net assets	$ 130,854,276	$ 4,395,998	$ 24,156,443	159,406,717	$ 29,639,392
Adjustment to reflect the net assets of the internal service funds reported as business-type activities				29,639,392	
Net assets of business-type activities				$ 189,046,109	

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 YEAR ENDED JUNE 30, 2009

	Enterprise Funds				
	Water Transmission	Water Supply	Sanitation	Total	Internal Service Funds
OPERATING REVENUE					
Water sales	$ 26,844,345	$ 1,771,044	$ -	$ 28,615,389	$ -
Water services	30,701	-	-	30,701	-
Power sales	1,115,365	-	-	1,115,365	6,344,177
Flat charges	-	-	2,836,039	2,836,039	-
Sanitation services	-	-	112,955	112,955	-
Equipment rental	-	-	-	-	2,053,829
Real estate rental	-	-	50,000	50,000	2,827,853
Miscellaneous	352,597	49,463	25,969	428,029	31,928
Total operating revenue	28,343,008	1,820,507	3,024,963	33,188,478	11,257,787
OPERATING EXPENSES					
Services and supplies	26,540,673	6,214,572	3,167,430	35,922,675	6,791,496
Depreciation and amortization	4,966,501	181,063	1,063,421	6,210,985	1,415,241
Total operating expenses	31,507,174	6,395,635	4,230,851	42,133,660	8,206,737
Operating income (loss)	(3,164,166)	(4,575,128)	(1,205,888)	(8,945,182)	3,051,050
NONOPERATING REVENUES (EXPENSES)					
Taxes and assessments	-	-	41,224	41,224	-
Investment earnings	784,403	93,627	92,693	970,723	237,392
Interest expense	(671,681)	-	(249,455)	(921,136)	(751,480)
Conservation expense	-	-	(7,693)	(7,693)	-
Gain on sale of capital assets	-	-	-	-	207,176
Loss on disposal of capital assets	(179,346)	-	(1,024,279)	(1,203,625)	(116,521)
Intergovernmental revenue	421,972	535,128	128,987	1,086,087	-
Total nonoperating revenue	355,348	628,755	(1,018,523)	(34,420)	(423,433)
Income (loss) before capital contributions and transfers	(2,808,818)	(3,946,373)	(2,224,411)	(8,979,602)	2,627,617
Capital contributions - connection fees	-	-	263,656	263,656	-
Transfers in	1,000,000	2,535,625	66,000	3,601,625	-
Change in net assets	(1,808,818)	(1,410,748)	(1,894,755)	(5,114,321)	2,627,617
Net assets - beginning of year	132,663,094	5,806,746	26,051,198		27,011,775
Net assets - end of year	$ 130,854,276	$ 4,395,998	$ 24,156,443		$ 29,639,392
Adjustment to reflect the change in net assets of internal service funds reported as business-type activities				2,627,617	
Change in net assets of business-type activities				$ (2,486,704)	

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

SONOMA COUNTY WATER AGENCY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	Enterprise Funds				
	Water Transmission	Water Supply	Sanitation	Total	Internal Service Funds
Cash flows from operating activities					
Cash receipts from customers	$ 29,239,752	$ 1,864,273	$ 2,978,779	$ 34,082,804	$ -
Cash receipts from interfund services provided	-	-	-	-	11,342,049
Cash payments for interfund services used	(14,020,271)	(2,900,788)	(1,557,338)	(18,478,397)	(1,891,814)
Cash payments to suppliers	(13,205,313)	(3,212,786)	(1,613,968)	(18,032,067)	(5,315,702)
Net cash provided by (used for) operating activities	2,014,168	(4,249,301)	(192,527)	(2,427,660)	4,134,533
Cash flows from noncapital financing activities					
Taxes and assessments	-	-	41,224	41,224	-
Transfers in	1,000,000	2,535,625	66,000	3,601,625	-
Conservation program	-	-	(7,693)	(7,693)	-
Intergovernmental revenue	421,972	598,394	171,875	1,192,241	-
Net cash provided by noncapital financing activities	1,421,972	3,134,019	271,406	4,827,397	-
Cash flows from capital and related financing activities					
Purchases of capital assets	(7,427,800)	(78,458)	(843,281)	(8,349,539)	(1,894,082)
Principal paid on long-term debt	(1,141,450)	-	(242,000)	(1,383,450)	(823,593)
Principal paid on advances from other funds	-	-	-	-	(155,500)
Principal paid on advances from other governments	-	-	-	-	(373,178)
Interest paid on long-term debt	(1,601,850)	-	(262,566)	(1,864,416)	(844,785)
Proceeds from issuance of long-term debt	743,068	-	-	743,068	1,177,211
Proceeds from sale of capital assets	-	-	-	-	16,565
Connection fees	-	-	263,656	263,656	-
Net cash used for capital and related financing activities	(9,428,032)	(78,458)	(1,084,191)	(10,590,681)	(2,897,362)
Cash flows from investing activities					
Repayment on advances to other funds - principal	-	-	17,736	17,736	137,764
Repayment on advances to other funds - interest	-	-	2,235	2,235	11,809
Interest received	784,403	93,627	90,458	968,488	225,583
Net cash provided by investing activities	784,403	93,627	110,429	988,459	375,156
Net increase (decrease) in cash and cash equivalents	(5,207,489)	(1,100,113)	(894,883)	(7,202,485)	1,612,327
Cash and cash equivalents - beginning of year	33,929,649	4,782,821	4,334,680	43,047,150	10,290,205
Cash and cash equivalents - end of year	$ 28,722,160	$ 3,682,708	$ 3,439,797	$ 35,844,665	$ 11,902,532
Reconciliation to the statement of net assets:					
Cash and investments	$ 23,807,056	$ 3,682,708	$ 3,281,450	$ 30,771,214	$ 9,734,050
Restricted cash and investments	4,915,104	-	158,347	5,073,451	2,168,482
Cash and cash equivalents	$ 28,722,160	$ 3,682,708	$ 3,439,797	$ 35,844,665	$ 11,902,532
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	$ (3,164,166)	$ (4,575,128)	$ (1,205,888)	$ (8,945,182)	$ 3,051,050
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation and amortization	4,966,501	181,063	1,063,421	6,210,985	1,415,241
Change in assets and liabilities:					
Receivables, net	896,688	43,766	(46,184)	894,270	84,262
Prepaid expenses	-	-	-	-	(1,051,968)
Accounts and other payables	(684,911)	100,998	(3,876)	(587,789)	635,948
Unearned revenue	56	-	-	56	-
Net cash provided by (used for) operating activities	$ 2,014,168	$ (4,249,301)	$ (192,527)	$ (2,427,660)	$ 4,134,533
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisition of capital assets through capital lease	$ -	$ -	$ -	$ -	$ 4,657,789
Acquisition of capital assets through accounts payable and other current liabilities	1,610,559	-	24,285	1,634,844	49,451
Increase in capital assets for capitalized interest	917,864	-	30,803	948,667	171,901

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, 2009

ASSETS		
Cash and investments	$	14,100
LIABILITIES		
Deposits from others	$	14,100

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 Standards

Note E. Restatement of Net Assets

Note F. Cash and Investments

Note G. Accounts Receivable

Note H. Capital Assets

Note I. Unearned Revenue

Note J. Interfund Transactions

Note K. Long-Term Obligations

Note L. Debt Defeasance

Note M. Pollution Remediation Obligation

Note N. Employees' Retirement Plan

Note O. Postemployment Benefits

Note P. Related Party Transactions

Note Q. Risk Management

Note R. Commitments and Contingencies

Note S. Economic Dependence

Note T. Future Governmental Accounting Standards

Note U. Subsequent Event

Note A. Defining the Financial Reporting Entity

The Sonoma County Water Agency (the Water Agency) was created in 1949 by an act of the California Legislature. The Water Agency is a countywide special district responsible for domestic water supply delivery to eight prime contractors (the cities of Santa Rosa, Petaluma, Sonoma, Rohnert Park, 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 have also been included in the County's annual financial statements.

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

Note B. Summary of Significant Accounting Policies

Government-wide and Fund Financial Statements

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

Note B. Summary of Significant Accounting Policies (Continued)

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

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 the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Water Agency must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Water Agency on a reimbursement basis.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. 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 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 (a) all Governmental Accounting Standards Board (GASB) pronouncements and (b) 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). 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.

Note B. Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

Warm Springs Dam: This fund is established to account for specific revenue sources, primarily taxes, for the purpose of accumulating resources for the payment of principal and interest on the long-term federal contract payable to the U.S. Army Corps of Engineers for Water Storage Rights at Warm Springs Dam and for operation and maintenance costs.

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.

Note B. Summary of Significant Accounting Policies (Continued)

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

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

Water Transmission: This fund accounts for the transportation of water and generation of electrical power for services to 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.

Encumbrances

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

Note B. Summary of Significant Accounting Policies (Continued)

Cash and Investments

The Water Agency's cash and investments are pooled with the Sonoma County Treasurer except for restricted funds held by an outside trustee. The Sonoma County Treasurer also acts as a disbursing agent for the Water Agency. The fair value of the investments in the pool is determined quarterly. Realized and unrealized gains or losses and interest earned on pooled investments are allocated quarterly to the 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.

Restricted Assets - Enterprise Funds

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

Deferred Charges - Enterprise Funds

Deferred charges consist of debt issuance costs of $557,076 as of June 30, 2009, net of accumulated amortization. These costs are amortized over the term of the related bond issuance using the straight-line method.

Note B. Summary of Significant Accounting Policies (Continued)

Capital Assets

Capital assets (including infrastructure) are reported in the applicable governmental or business-type activity columns in the government-wide financial statements and proprietary fund financial statements. Such assets are stated at cost or, if historical cost is not available, at 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 initial, individual cost of more than $5,000 and an estimated useful life in excess of one year.

Capital assets used in operations are depreciated using the straight-line method over the estimated useful lives in the government-wide statements and proprietary funds. Estimated useful lives of capital assets are as follows: utility plant and equipment, 3 - 50 years; transmission system and reservoirs, 10 - 50 years; infrastructure, 35 - 75 years. Water storage rights are recorded at historical cost and are not amortized due to its inexhaustible life. For further information regarding capital assets refer to Note H on pages 40 – 42.

Capitalized Interest

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

Bond Discounts and Premiums and Deferred Amount on Refunding

Bond discounts and premiums are deferred and amortized using the straight-line method over the term of the outstanding bonds. Unamortized bond discounts reduce the carrying value of the related debt and unamortized bond premiums increase the carrying value of the related debt. Deferred amount on refunding of revenue bonds, results from the difference between the carrying amount of the defeased/refunded debt and its reacquisition price. Deferred amounts on refunding are amortized over the remaining life of the refunded debt or the remaining life of the newly issued debt, whichever is shorter. The unamortized portion of the deferred amount on refunding is reported as a direct reduction or addition to the carrying amount of the refunding debt.

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.

Note B. Summary of Significant Accounting Policies (Continued)

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 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.

Note B. Summary of Significant Accounting Policies (Continued)

Net Assets and Fund Balance

Government-wide Financial Statements

Net assets consist of the following three components:

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

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

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

Fund Financial Statements

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

Fund Balance Designated for Contingencies:	
General Fund	$ 75,000

Interfund Transactions

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

Note B. Summary of Significant Accounting Policies (Continued)

Interfund Transactions (continued)

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

Connection Fees

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

Prudent Reserve

In March 2008 the Water Advisory Committee (WAC) adopted a resolution setting out guidelines for the collection, maintenance and use of prudent reserves in the Water Agency's Water Transmission 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 June 30, 2009 is $2,402,456.

Estimates

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

Note C. Stewardship, Compliance and Accountability

Budget and Budgetary Accounting

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

Note D. Implementation of New Governmental Accounting Standards

Effective July 1, 2008, the Water Agency implemented the following new GASB statement:

Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, issued in November 2006. This Statement establishes accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The Statement establishes once any of five specified obligating events occurs, that a government is required to estimate the components of the expected pollution remediation outlays and determine whether the outlays for those components should be recorded as a liability or, if appropriate, capitalized when goods and services are acquired.

Note E. Restatement of Net Assets

Effective July 1, 2008, the Water Agency has restated and decreased beginning net assets of governmental activities by $250,000, to $157,767,360 from the amount previously reported of $158,017,360 in accordance with the implementation requirements of GASB Statement No. 49. The Water Agency has included the related financial statement disclosures required by GASB Statement No. 49 in Note M on page 51.

Note F. Cash and Investments

Authorized Investments

The Water Agency follows the practice of pooling cash and investments of all funds with the County Treasurer except for funds required to be held with third party fiscal agents or trustees under the provisions of bond indentures and lease agreements. The Treasury 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 County 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

Note F. Cash and Investments (Continued)

Authorized Investments (continued)

- Repurchase agreements
- Reverse repurchase agreements
- Money market mutual funds
- Collateralized mortgage obligations
- Collateralized time deposits
- Joint powers authority pools

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, 2009 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	$ 167,742,640
Cash and investments restricted for revenue bond funds	2,227,385
Cash and investments with trustee	2,846,066
Cash and investments restricted for notes payable	1,004,338
Cash and investments restricted for capital projects	1,164,144
Fiduciary funds:	
Cash and investments	14,100
Total cash and investments	$ 174,998,673

Cash and investments as of June 30, 2009 consist of the following:

Investment in County Treasury Pool:	
Unrestricted	$ 98,073,011
Restricted for revenue bonds	2,227,385
Restricted for capital leases	1,004,338
Restricted for capital projects	1,529
Nonpooled cash and investments:	
Cash on hand	750
Investments	69,682,979
Restricted for revenue bonds	2,846,066
Restricted for capital projects	1,162,615
Total cash and investments	$174,998,673

As of June 30, 2009, the Water Agency's investments consisted of $101,306,263 in the Treasury Pool managed by the County Treasurer, which is not rated by credit rating agencies, and had a weighted average maturity of approximately 265 days. The credit rating and other information regarding specific investments maintained in the Treasury Pool as of June 30, 2009 are disclosed in the County's 2008/2009 Comprehensive Annual Financial Report.

Note F. Cash and Investments (Continued)

The Agency reported $69,682,979 of nonpooled cash and investments in U.S. Treasury STRIPS, which represent funds that are specifically to be used for the repayment of the Water Agency's $109,512,272 contract payable to the U.S. Army Corps of Engineers (refer to Note K on pages 44 – 50).

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 values of the Water Agency's investments to market interest rate fluctuations is provided by the following table:

		Maturity			
Investment Type	Amount	12 Months or less	13 to 24 Months	25 to 60 Months	More than 60 Months
County Treasury Pool	$ 101,306,263	$101,306,263	$ -	$ -	$ -
U.S. Treasury STRIPS	69,682,979	6,104,084	6,069,591	17,267,688	40,241,616
Money market mutual fund	4,008,681	4,008,681	-	-	-
Total	$ 174,997,923	$111,419,028	$ 6,069,591	$ 17,267,688	$40,241,616

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.

Note F. Cash and Investments (Continued)

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.

Concentration of Credit Risk

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

Credit Risk

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

Investment Type	Total	Minimum Legal Rating	Exempt From Disclosure	Rating at year end AAA	Rating at year end Not Rated
County Treasury Pool	$ 101,306,263	N/A	$ -	$ -	$101,306,263
U.S. Treasury STRIPS	69,682,979	N/A	69,682,979	-	-
Money market mutual fund	4,008,681	AAA	-	4,008,681	-
Total	$ 174,997,923		$ 69,682,979	$ 4,008,681	$101,306,263

Note G. Accounts Receivable

Accounts receivable as of June 30, 2009 was comprised of the following:

	Accounts	Intergovern-mental	Total Receivables
Governmental Activities:			
General Fund	$ 61,590	$ 1,383,227	$ 1,444,817
Business-Type Activities:			
Water Transmission	$ 3,968,066	$ 50,001	$ 4,018,067
Water Supply	775,518	86,774	862,292
Sanitation	141,478	-	141,478
Internal Service Funds	219,772	-	219,772
Total Business-Type Activities	$ 5,104,834	$ 136,775	$ 5,241,609

Note H. Capital Assets

Capital asset activity for the year ended June 30, 2009 was as follows:

	July 1, 2008	Additions	Retirements	Transfers	June 30, 2009
Governmental activities:					
Capital assets, not being depreciated:					
Intangible assets - water storage rights	$102,371,000	$ -	$ -	$ -	$102,371,000
Land	1,537,914	12,295	-	-	1,550,209
Construction in progress	112,313	153,746	(6,267)	-	259,792
Total capital assets, not being depreciated	104,021,227	166,041	(6,267)	-	104,181,001
Capital assets, being depreciated:					
Infrastructure	64,834,097	-	-	-	64,834,097
Buildings and improvements	3,419,740	-	-	-	3,419,740
Equipment	1,022,517	31,748	(17,001)	-	1,037,264
Total capital assets being depreciated	69,276,354	31,748	(17,001)	-	69,291,101
Less accumulated depreciation for:					
Infrastructure	(19,101,482)	(1,562,086)	-	-	(20,663,568)
Buildings and improvements	(1,385,503)	(85,802)	-	-	(1,471,305)
Equipment	(727,002)	(79,589)	17,001	-	(789,590)
Total accumulated depreciation	(21,213,987)	(1,727,477)	17,001	-	(22,924,463)
Total capital assets, being depreciated, net	48,062,367	(1,695,729)	-	-	46,366,638
Capital assets, net	$152,083,594	$(1,529,688)	$ (6,267)	$ -	$150,547,639

Note H. Capital Assets (Continued)

	July 1, 2008	Additions	Retirements	Transfers	June 30, 2009
Business-type activities					
Capital assets, not being depreciated:					
Land	$ 11,021,314	$ -	$ -	$ -	$ 11,021,314
Construction in progress	23,006,090	15,704,179	(1,069,196)	(8,557,630)	29,083,443
Total capital assets, not being depreciated	34,027,404	15,704,179	(1,069,196)	(8,557,630)	40,104,757
Capital assets, being depreciated:					
Buildings and improvements	238,598,621	-	(1,186,256)	8,557,630	245,969,995
Equipment	7,920,646	1,251,461	(1,037,758)	-	8,134,349
Total capital assets, being depreciated	246,519,267	1,251,461	(2,224,014)	8,557,630	254,104,344
Less accumulated depreciation for:					
Buildings and improvements	(68,348,837)	(7,138,988)	1,006,909	-	(74,480,916)
Equipment	(6,553,349)	(462,892)	921,238	-	(6,095,003)
Total accumulated depreciation	(74,902,186)	(7,601,880)	1,928,147	-	(80,575,919)
Total capital assets, being depreciated, net	171,617,081	(6,350,419)	(295,867)	8,557,630	173,528,425
Capital assets, net	$205,644,485	$ 9,353,760	$ (1,365,063)	$ -	$ 213,633,182

The total amount of interest capitalized into capital assets of business-type activities during the year ended June 30, 2009 amounted to $1,120,568.

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

Governmental activities:

General government	$ 165,391
Flood control	1,562,086
Total depreciation expense - governmental activities	$ 1,727,477

Note H. Capital Assets (Continued)

Business-type activities:

Water Transmission	$ 4,948,749
Water Supply	181,063
Sanitation	1,056,827
Internal Service Funds	1,415,241
Total depreciation expense - business-type activities	$ 7,601,880

Intangible Asset – Warm Springs Dam Project

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

In March 1992, the cost of the project to the Water Agency was established at $102,371,000. The estimated cost of the Water Agency's portion of the project is approximately 30% of the total project joint use construction costs and accrued interest. The liability for the contract is shown as a long-term contracts payable within the governmental activities (refer to Note K on pages 44-45). Repayment of this obligation comes from the proceeds of a countywide levied property tax.

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

Note I. Unearned Revenue

Revenue under a supplemental water supply agreement with the Marin Municipal Water District is deferred and recognized over the term of the agreement on a straight-line basis (nine years plus an additional forty years at the option of Marin Municipal Water District). As of June 30, 2009, unearned revenue totaled $5,680,720, of which the amount recognizable within one year is reported as a component of current liabilities in the accompanying statement of net assets. The annual amount that will be recognized as intergovernmental revenue over the term of the agreement is $129,107.

Note J. Interfund Transactions

A summary of interfund activity as of and for the year ended June 30, 2009 is as follows:

Interfund Transfers

Transfer from	Transfer to	Amount	Purpose
Warm Springs Dam	Debt Service Fund	$ 6,285,571	Transfer funds for scheduled principal and interest debt service payment
General Fund	Water Supply Fund	2,535,625	Provide funding towards portion of Water Supply projects
General Fund	Water Transmission Fund	1,000,000	Provide funding towards increase in power costs
General Fund	Sanitation Fund	66,000	Provide funding towards expanded water conservation program
Total transfers		$ 9,887,196	

Advances from Other Funds

The Water Agency entered into a Memorandum of Agreement effective July 1, 2007 with all funds under its direct management to form the Power Resources internal service fund. The purpose of the Power Resources fund is to pool electrical energy supplies, create a blended energy rate for all Water Agency activities and provide a broader base for financing future renewable energy projects. The Power Resources internal service fund entered into two interfund loans for the purchase of the existing photovoltaic facilities at the Water Agency's administration building and the Airport-Larkfield-Wikiup sewer treatment plant.

In addition, the Power Resources internal service fund is eligible to draw up to $1,000,000 per year for up to eight years from the Water Agency's general fund as needed to acquire electrical power assets and meet debt service payments. Repayment of these draws, together with accrued interest, is to begin in FY 2015/16 and continue until 2033. Interest is to accrue at the County's pooled investment rate of return. As of June 30, 2009, the Power Resources internal service fund has drawn $1,000,000 from the general fund. Interest accrued as of June 30, 2009 amounted to $62,142.

Note J. Interfund Transactions (Continued)

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

	Maturity Dates	Interest Rates	Authorized & Issued	Outstanding June 30, 2009
General Fund	2033	1.935%	$ 1,062,142	$ 1,062,142
Sanitation Fund:				
Airport-Larkfield-Wikiup	2010	4.198%	53,237	18,480
Internal Service Funds:				
Equipment Facilities	2010	4.198%	413,525	143,547
				1,224,169
Less due to other funds – current portion				(162,027)
Total advances from other funds				$ 1,062,142

Note K. Long-Term Obligations

Long-term obligations as of June 30, 2009, consist of the following:

	Governmental Activities	Business-type Activities
General obligation bonds	$ -	$ 362,000
Capital leases	-	16,102,078
Water revenue bonds payable	-	25,030,000
Water and wastewater revenue bonds payable	-	5,605,000
Advances from other governments	-	19,967,445
Long-term contracts payable	109,512,272	-
Compensated absences	2,530,081	-
	$ 112,042,353	$67,066,523

Governmental Activities:

Long-Term Contracts Payable:

	Maturity Dates	Interest Rates	Authorized and Issued	Outstanding June 30, 2009
1986 Federal contract payable	2034	3.225%	$ 102,371,000	$109,512,272

Note K. Long-Term Obligations (Continued)

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

Compensated Absences:

As of June 30, 2009, vested vacation and sick leave for Water Agency employees amounted to $2,530,081. There were no compensated absences which 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 years. Compensated absences are generally liquidated by the General Fund.

Business-type Activities:

General Obligation Bonds Payable:

	Maturity Dates	Interest Rates	Authorized & Issued	Outstanding June 30, 2009
Sanitation Zones				
1977 Penngrove	2017	5%	$300,000	$ 123,000
1980 Geyserville	2020	5%	500,000	239,000
Total general obligation bonds payable				$ 362,000

Capital Leases:

	Maturity Dates	Interest Rates	Authorized & Issued	Outstanding June 30, 2009
Capital Lease – LaSalle Bank	2016	4.65%	$ 8,800,000	$ 6,663,181
Capital Lease – Banc of America	2020	4.54%	2,000,000	1,472,385
Capital Lease – Banc of America	2020	4.08%	2,750,000	2,271,996
Capital Lease – Municipal Finance	2023	4.30%	5,835,000	5,694,516
Total capital leases				$16,102,078

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

Note K. Long-Term Obligations (Continued)

Business-type Activities (continued)

On July 1, 2003, the Water Agency purchased an office facility on Aviation Boulevard in Santa Rosa and financed the purchase with a capital lease with LaSalle Bank. The Agency also signed two 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, 2009:

Buildings and improvements	$23,643,986
Less: accumulated depreciation	(1,856,413)
Total	$ 21,787,573

Water Revenue Bonds Payable:

	Maturity Date	Interest Rates	Authorized and Issued	Outstanding June 30, 2009
Water Revenue Bonds, 2003 Series A	2032	2.00 - 5.00%	$ 15,680,000	$ 13,930,000
Deferred amount for unamortized discount				(23,098)
Water Revenue Bonds 2006 Series A	2036	4.00 - 5.00%	11,500,000	11,100,000
Deferred amount for unamortized premium				113,587
Total water revenue bonds payable, net				$ 25,120,489

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 finance certain related costs.

Note K. Long-Term Obligations (Continued)

Business-type Activities (continued)

Water and Wastewater Revenue Bonds Payable:

	Maturity Date	Interest Rates	Authorized and Issued	Outstanding June 30, 2009
California Statewide Communities Development Authority (CSCDA) 2005C Revenue Bonds	2027	2.70 - 5.00%	$ 6,220,000	$5,605,000
Deferred amount for unamortized premium				112,631
Deferred amount on refunding				(461,460)
Total water and wastewater revenue bonds payable, net				$5,256,171

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 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. 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 Dates	Interest Rates	Authorized & Issued	Outstanding June 30, 2009
State Revolving Fund	2027	2.79%	$15,857,295	$ 15,255,845
Sonoma Valley County Sanitation District (CSD)	2019	4.198%	5,442,922	4,711,600
Total advances from other governments				$ 19,967,445

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, 2009, the Water Agency has received loan funds in the amount of $15,857,295. The project has been certified complete and principal repayment began during the 2008/2009 year.

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 for power resources. 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 is $5,442,922 with an interest rate of 4.198% and a term of 12 years. The outstanding balance as of June 30, 2009 is $4,711,600.

Note K. Long-Term Obligations (Continued)

Business-type Activities (continued)

Changes in Long-Term Obligations

A summary of changes in long-term obligations for the year ended June 30, 2009 is as follows:

	July 1 2008	Increases	Decreases	June 30, 2009	Amounts Due Within One Year
Governmental activities:					
Long-term contracts payable	$112,180,069	$ -	$ (2,667,797)	$ 109,512,272	$2,753,833
Compensated absences	2,519,036	2,226,282	(2,215,237)	2,530,081	68,881
Total governmental activities	114,699,105	2,226,282	(4,883,034)	112,042,353	2,822,714
Business-type activities:					
General obligation bonds	389,000	-	(27,000)	362,000	28,000
Capital leases					
LaSalle Bank	7,092,921	-	(429,739)	6,663,181	449,955
Banc of America Leasing	1,573,627	-	(101,242)	1,472,385	105,890
Banc of America Leasing	2,424,124	-	(152,128)	2,271,996	158,400
Municipal Finance	-	5,835,000	(140,484)	5,694,516	290,093
Water revenue bonds					
Series 2003A	14,265,000	-	(335,000)	13,930,000	345,000
Deferred amount for unamortized discount	(24,124)	-	1,026	(23,098)	(1,027)
Series 2006A	11,305,000	-	(205,000)	11,100,000	215,000
Deferred amount for unamortized premium	117,794	-	(4,207)	113,587	4,207
Water and wastewater revenue bonds					
Series 2005C	5,820,000	-	(215,000)	5,605,000	220,000
Deferred amount for unamortized premium	118,889	-	(6,258)	112,631	6,257
Deferred amount on refunding	(487,097)	-	25,637	(461,460)	(25,637)
Advances from other governments					
State Revolving Fund	15,114,227	743,068	(601,450)	15,255,845	618,363
Sonoma Valley CSD	5,084,778	-	(373,178)	4,711,600	388,845
Total business-type activities	62,794,140	6,578,068	(2,564,023)	66,808,185	2,803,346
Total	$177,493,245	$ 8,804,350	$ (7,447,057)	$ 178,850,538	$5,626,060

Note K. Long-Term Obligations (Continued)

Debt Service Requirements

The annual principal and interest requirements on the outstanding long-term obligations as of June 30, 2009 (excluding compensated absences), are as follows:

General Obligation Bonds

Year ending June 30,	Principal	Interest	Total
2010	$ 28,000	$ 17,825	$ 45,825
2011	30,000	16,400	46,400
2012	31,000	14,900	45,900
2013	32,000	13,325	45,325
2014	34,000	11,700	45,700
2015 - 2019	180,000	31,475	211,475
2020	27,000	1,350	28,350
Total general obligation bonds	$ 362,000	$ 106,975	$ 468,975

Capital Leases

Year ending June 30,	Principal	Interest	Total
2010	$ 1,004,338	$ 703,187	$ 1,707,526
2011	1,049,503	658,024	1,707,527
2012	1,096,701	610,824	1,707,525
2013	1,146,029	561,497	1,707,526
2014	1,197,581	509,944	1,707,525
2015 - 2019	7,927,583	1,378,661	9,306,243
2020 - 2024	2,680,343	258,674	2,939,017
Total capital leases	$ 16,102,078	$ 4,680,811	$20,782,889

Water Revenue Bonds

Year ending June 30,	Principal	Interest	Total
2010	$ 560,000	$ 1,144,295	$1,704,295
2011	575,000	1,124,035	1,699,035
2012	600,000	1,101,423	1,701,423
2013	625,000	1,076,923	1,701,923
2014	650,000	1,051,423	1,701,423
2015 - 2019	3,660,000	4,829,361	8,489,361
2020 - 2024	4,525,000	3,936,655	8,461,655
2025 - 2029	5,655,000	2,755,978	8,410,978
2030 - 2034	6,205,000	1,206,125	7,411,125
2035 - 2037	1,975,000	200,750	2,175,750
Total water revenue bonds	$ 25,030,000	$ 18,426,968	$43,456,968

Note K. Long-Term Obligations (Continued)

Water and Wastewater Revenue Bonds

Year ending June 30,	Principal	Interest	Total
2010	$ 220,000	$ 237,481	$ 457,481
2011	230,000	230,501	460,501
2012	235,000	222,944	457,944
2013	245,000	214,901	459,901
2014	255,000	206,274	461,274
2015 - 2019	1,410,000	880,243	2,290,243
2020 - 2024	1,740,000	529,094	2,269,094
2025 - 2027	1,270,000	90,297	1,360,297
Total water and wastewater revenue bonds	$ 5,605,000	$ 2,611,735	$8,216,735

Long-Term Contracts Payable - 1986 Federal Contract

Year ending June 30,	Principal	Interest	Total
2010	$ 2,753,833	$ 3,531,740	$6,285,573
2011	2,842,644	3,442,928	6,285,572
2012	2,934,319	3,351,252	6,285,571
2013	3,028,951	3,256,620	6,285,571
2014	3,126,635	3,158,937	6,285,572
2015 - 2019	17,212,315	14,215,542	31,427,857
2020 - 2024	20,172,687	11,255,171	31,427,858
2025 - 2029	23,642,217	7,785,640	31,427,857
2030 - 2034	27,708,477	3,719,380	31,427,857
2035	6,090,194	196,377	6,286,571
Total long-term contracts payable	$109,512,272	$ 53,913,587	$163,425,859

Note L. Debt Defeasance

In September 2005, the Water Agency and the CSCDA, issued Water and Wastewater Revenue Bonds (Series 2005C) totaling $6,220,000. The proceeds of the bonds were used to purchase U.S. government securities, which were deposited into an irrevocable trust with an escrow agent to advance refund the Water Agency's Series 2000B revenue bonds totaling $6,000,000, with maturity dates through October 2026. As a result, the Series 2000B revenue bonds are considered defeased and the related liability is not reported in the Water Agency's financial statements. As of June 30, 2009, $5,325,000 of the Series 2000B revenue bonds was still outstanding.

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

In accordance with GASB Statement No. 49, the Agency has estimated its potential pollution remediation liability as of June 30, 2009 by utilizing the expected cash flow technique. This methodology examined estimated costs for pre-clean up activities, remediation/clean-up activities, regulatory agency costs, and post remediation monitoring costs. The estimated liability for the Agency as of June 30, 2009 is $233,925.

Note N. 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 then shall 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.

Note N. Employees' Retirement Plan (Continued)

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, 2009, 2008 and 2007. The Plan is required to contribute at an actuarially determined rate which was 26.76% of annual covered payroll for the period July 1, 2008 to May 18, 2009 and increased to 27.98% for the remainder of the 2008/09 year. The prior contribution rate was 26.01% and 24.77% of annual covered payroll for the years ended June 30, 2008 and 2007, respectively. Contribution requirements of the Plan members and the Water Agency are established and may be amended by the Board of Retirement. The Water Agency's total payroll for covered employees for the plan years ended December 31, 2008, 2007 and 2006 was $17,287,276, $16,214,538, and $15,219,130, respectively, which represents approximately 5.39%, 5.20% and 5.14%, respectively, of the Retirement Association's payroll for covered employees.

Annual Pension Cost

The Water Agency's contributions to the Plan for the years ended 2009, 2008 and 2007 were $3,436,238 $3,309,186 and $2,771,642, respectively, which was equal to its annual required contribution for each year.

Note O. Postemployment Benefits

Plan Description

In addition to the pension benefits described in Note N the Water Agency participates and contributes to the County's Postemployment Healthcare Plan (PHP), a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the Retirement Association. The PHP provides retiree health care benefits, in accordance with County resolutions, to all active, covered employees that (a) participate in the defined benefit pension plan and (b) who retire from the Water Agency on or after attaining age 50 with at least 10 years of service. Authority to establish and amend benefit provisions of the PHP resides with the County Board of Supervisors. The Retirement Association issues a publicly available financial report, however, the financial statements and required supplementary information of the PHP are not included.

Funding Policy

The County paid approximately 85% of the health care insurance premium for retirees and their eligible dependents until May 2009. In May 2009, the County adopted a new funding plan for health care premiums. The County now pays no more than $500 per month for insurance premiums. The retiree can choose one of three health care plans. The County reimburses a fixed amount of $96.40 per month for a Medicare supplement for each retiree aged 65 and over covered under Medicare Parts A and B. The PHP funding policy provides for periodic contributions by the County. The contribution rate is determined on an annual basis by the Retirement Association and authorized by the County Board of Supervisors. The contribution rate is based on the annual required contribution of the employers (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 PHP over a period not to exceed thirty years.

Note O. Postemployment Benefits (Continued)

The Water Agency recognizes expenditures for the cost of retiree health care benefits on a biweekly 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 year ended June 30, 2009, 2008 and 2007 was $1,214,844 $1,183,559,and $1,136,743, respectively. The $1,214,844 of premium payments recognized for the year ended June 30, 2009, was 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.

Note P. 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. A summary of the overhead costs charged to the sanitation districts by the Water Agency for administrative support for the year ended June 30, 2009 is as follows:

Occidental County Sanitation District	$	409,562
Russian River County Sanitation District		1,457,193
Sonoma Valley County Sanitation District		4,391,241
South Park County Sanitation District		58,759

The Water Agency and sanitation districts implemented an expanded water conservation rebate program. The Agency funded these programs during the year ended June 30, 2009 as follows:

Occidental County Sanitation District	$	77,500
Russian River County Sanitation District		50,000
South Park County Sanitation District		23,500

Also, for the year ended June 30, 2009, the Water Agency provided the Occidental County Sanitation District $69,198 in funding to assist the District in meeting operating and construction expenses.

Note Q. Risk Management

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 year ended June 30, 2009, the Water Agency paid annual premiums to the County for this insurance coverage in the amount of $279,116. Settlements have not exceeded coverage for each of the past three fiscal years.

Note R. Commitments and Contingencies

Construction

The Water Agency has active construction projects as of June 30, 2009. The projects include expansion and/or improvements of several flood control, water storage and wastewater treatment facilities. As of June 30, 2009, the Water Agency's commitments to construction projects are as follows:

Project	Spent-to-Date	Remaining Commitment
Flood Control:		
Zone 1A – Laguna Mark West	$ 225,184	$ -
Zone 2A – Petaluma Basin	34,608	-
Sanitation facilities	1,075,796	12,944
Water Transmission	-	27,000
Water storage facilities	90,717	27,681
Common facilities	17,429,674	1,123,788
Pipeline facilities	2,683,531	28,627
Internal service facilities	5,531,900	20,500
Water supply facilities	2,271,824	-
Total	$ 29,343,234	$1,240,540

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

The commitments for water storage and related facilities are being financed by revenue bonds and a construction loan provided by 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.

The contractors of the Pumphouse and Connecting Pipeline for Wohler Collector 6, filed claims in February 2007 in excess of $4,000,000 and thereafter, filed a lawsuit seeking this amount. In July 2009, the Agency and the contractor reached a mediated settlement. The contractor agreed to dismiss its lawsuit with prejudice for payment from the Water Agency in the amount of $1,300,000, consisting of the Water Agency's release of the contract amount (retained for liquidated damages) of $841,000 and an additional payment of $459,000. Payment of the settlement was made on August 17, 2009.

Note R. Commitments and Contingencies (Continued)

The contractor hired to construct an above-ground fuel storage tank at the Airport-Larkfield-Wikiup wastewater treatment plant filed claims and a lawsuit against the Water Agency seeking approximately $450,000. However, the Water Agency filed claims and assessed liquidated damages against the contractor in excess of $400,000. In January 2009, the parties reached a settlement following mediation. The contractor agreed to dismiss its lawsuit with prejudice in exchange for a payment of $166,000. This settlement amount included release of the contract balance of $149,000 and an additional amount of $17,000 for change order work. Payment of the settlement was made on March 10, 2009.

The Water Agency prepared the 2005 Urban Water Management Plan (UWMP) and the Board adopted the UWMP in December 2006. Several petitioners sued the Agency claiming that the UWMP was invalid, resulting in a trial court ruling partially in favor of the plaintiffs. Petitioners then made a claim for attorneys' fees of almost $900,000. The Agency has appealed the decision and the matter is currently pending in the California Court of Appeal for the First District. Whether and to what extent petitioners will ultimately receive an attorneys' fee award will depend upon the outcome of the appeal and a later determination on the fee request by the trial court.

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.

Note S. Economic Dependence

Four major customers purchased water from the Water Agency during the year ended June 30, 2009. Water sales revenue for the year ended June 30, 2009 and accounts receivable as of June 30, 2009 associated with those customers are as follows:

	Water Sales	% of Total Water Sales
City of Santa Rosa	$ 9,614,508	34.3%
Marin Municipal	4,846,885	17.3%
City of Petaluma	4,359,812	15.6%
North Marin County	4,111,302	14.7%
	$ 22,932,507	81.9%

	Accounts Receivable	% of Total Water Accounts Receivable
City of Santa Rosa	$ 998,818	28.1%
North Marin County	892,504	25.1%
Marin Municipal	672,136	18.9%
City of Petaluma	484,439	13.6%
	$ 3,047,897	85.7%

Note T. Future Governmental Accounting Standards

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

Statement No. 51 – *Accounting and Financial Reporting for Intangible Assets,* issued in June 2007. This statement establishes accounting and financial reporting requirements for intangible assets to reduce inconsistencies in the accounting and financial reporting of such assets among state and local governments. This statement also provides authoritative guidance that specifically addresses the nature of intangible assets including internally generated intangible assets. GASB Statement No. 51 is effective for financial statements for years beginning after June 15, 2009.

Statement No. 53 – *Accounting and Financial Reporting for Derivative Instruments,* issued in June 2008. This statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. GASB Statement No. 53 is effective for financial statements for years beginning after June 15, 2009.

Note T. Future Governmental Accounting Standards (Continued)

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

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.

Note U. Subsequent Event

On September 15, 2009 the Board of Directors adopted a resolution directing the Water Agency General Manager/Chief Engineer, among other things, to redirect its efforts towards the pursuit of new water supply strategies and no longer pursue the development and implementation of the Water Project as described in the Draft Environmental Impact Report dated June 2008. The Water Agency's intentions are to continue the projects with modifications. The extent of the potential loss on assets is not known at this time.

As a result of terminating the work on the large water supply project, the City of Santa Rosa filed a claim against the Water Agency, on behalf of several of the Water Agency's water contractors, claiming the Water Agency had breached its agreements with the water contractors by terminating the project. The claim seeks declaratory and injunctive relief against the Water Agency to continue work on the project. Since the project costs are ultimately passed on to the water contractors through water rates, the Water Agency does not believe any damages will be suffered if the water contractors were to prevail.

Required Supplementary Information

SONOMA COUNTY WATER AGENCY
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2009

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with
	Original	Final	See Note A	Final Budget
REVENUES				
Property taxes	$ 6,506,289	$ 6,506,289	$ 6,629,364	$ 123,075
Fines, forfeitures and penalties	600	600	-	(600)
Investment earnings	141,100	141,100	237,819	96,719
Intergovernmental	405,425	456,425	142,652	(313,773)
Charges for services	452,000	452,000	390,969	(61,031)
Miscellaneous	1,687,427	1,687,427	216,096	(1,471,331)
Total revenues	9,192,841	9,243,841	7,616,900	(1,626,941)
EXPENDITURES				
Current:				
Salaries and benefits	26,910,641	26,910,641	26,462,564	448,077
Services and supplies	14,367,179	14,643,179	9,672,463	4,970,716
Costs applied	(38,154,365)	(38,154,365)	(33,766,593)	(4,387,772)
Capital outlay	165,650	165,650	43,393	122,257
Contingencies	500,000	500,000	-	500,000
Total expenditures	3,789,105	4,065,105	2,411,827	1,653,278
Excess of revenues over expenditures	5,403,736	5,178,736	5,205,073	26,337
OTHER FINANCING USES				
Transfers out	(3,200,000)	(4,921,823)	(3,601,625)	1,320,198
Net changes in fund balance	$ 2,203,736	$ 256,913	1,603,448	$ 1,346,535
GAAP basis difference - encumbrances			(134,154)	
Fund balance - beginning of year			8,593,316	
Fund balance - end of year			$ 10,062,610	

SONOMA COUNTY WATER AGENCY
FLOOD CONTROL SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2009

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with
	Original	Final	See Note A	Final Budget
REVENUES				
Property taxes	$ 7,912,517	$ 7,912,517	$ 7,717,741	$ (194,776)
Investment earnings	326,000	326,000	502,989	176,989
Intergovernmental	80,410	80,410	79,971	(439)
Miscellaneous	-	-	45,422	45,422
Total revenues	8,318,927	8,318,927	8,346,123	27,196
EXPENDITURES				
Current:				
Services and supplies	12,326,833	16,023,858	7,706,572	8,317,286
Pollution remediation	50,155	50,155	2,066	48,089
Capital outlay	3,828,785	2,134,750	153,746	1,981,004
Total expenditures	16,205,773	18,208,763	7,862,384	10,346,379
Net changes in fund balance	$ (7,886,846)	$ (9,889,836)	483,739	$ 10,373,575
GAAP basis difference - encumbrances			112,592	
Fund balance - beginning of year			21,680,627	
Fund balance - end of year			$ 22,276,958	

SONOMA COUNTY WATER AGENCY
WARM SPRINGS DAM SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2009

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with
	Original	Final	See Note A	Final Budget
REVENUES				
Property taxes	$ 4,199,000	$ 4,199,000	$ 5,107,981	$ 908,981
Investment earnings	80,000	80,000	335,779	255,779
Intergovernmental	44,000	44,000	226,575	182,575
Total revenues	4,323,000	4,323,000	5,670,335	1,347,335
EXPENDITURES				
Current:				
Services and supplies	7,891,859	8,462,672	3,350,359	5,112,313
Excess (deficiency) of revenues over (under) expenditures	(3,568,859)	(4,139,672)	2,319,976	(3,764,978)
OTHER FINANCING USES				
Transfers out	(7,285,573)	(7,285,573)	(6,285,571)	1,000,002
Net changes in fund balance	$ (10,854,432)	$ (11,425,245)	(3,965,595)	$ 7,459,650
GAAP basis difference - encumbrances			1,698,675	
Fund balance - beginning of year			12,981,939	
Fund balance - end of year			$ 10,715,019	

SONOMA COUNTY WATER AGENCY
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2009

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	$ 1,603,448	$ 483,739	$ (3,965,595)	$ (1,878,408)
Expenditure charges against prior year encumbrances	(877,465)	(4,541,670)	(859,294)	(6,278,429)
Current year encumbrances	743,311	4,654,262	2,557,969	7,955,542
Net change in fund balance - GAAP basis	$ 1,469,294	$ 596,331	$ (2,266,920)	$ (201,295)

Other Supplementary Information

SONOMA COUNTY WATER AGENCY
COMBINING BALANCE SHEET
FLOOD CONTROL SPECIAL REVENUE FUNDS
JUNE 30, 2009

	Flood Control Funds			
	Zone 1A Laguna Mark West	**Zone 2A Petaluma Basin**	**Zone 3A Valley of the Moon**	**Zone 5A Lower Russian River**
Assets				
Cash and investments	$ 9,311,659	$ 7,863,167	$ 2,495,366	$ 1,628,483
Liabilities and fund balances				
Liabilities:				
Accounts payable	$ 485,062	$ 124,494	$ 66,782	$ 4,037
Fund balances				
Reserved for encumbrances	3,260,686	870,775	518,612	4,188
Unreserved:				
Undesignated	5,565,911	6,867,898	1,909,972	1,620,258
Total fund balances	8,826,597	7,738,673	2,428,584	1,624,446
Total liabilities and fund balances	$ 9,311,659	$ 7,863,167	$ 2,495,366	$ 1,628,483

SONOMA COUNTY WATER AGENCY
COMBINING BALANCE SHEET (CONTINUED)
FLOOD CONTROL SPECIAL REVENUE FUNDS
JUNE 30, 2009

Flood Control Funds			
Zone 7A North Coast	**Zone 8A South Coast**	**Total Flood Control Funds**	
			Assets
$ 77,093	$ 1,581,565	$ 22,957,333	Cash and investments
			Liabilities and fund balances
			Liabilities:
$ -	$ -	$ 680,375	Accounts payable
			Fund balances
-	-	4,654,261	Reserved for encumbrances
			Unreserved:
77,093	1,581,565	17,622,697	Undesignated
77,093	1,581,565	22,276,958	Total fund balances
$ 77,093	$ 1,581,565	$ 22,957,333	**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 YEAR ENDED JUNE 30, 2009

	Flood Control Funds			
	Zone 1A Laguna Mark West	**Zone 2A Petaluma Basin**	**Zone 3A Valley of the Moon**	**Zone 5A Lower Russian River**
REVENUES				
Property taxes	$ 5,289,524	$ 1,325,747	$ 798,706	$ 164,716
Investment earnings	204,525	177,887	50,011	34,912
Intergovernmental	53,980	14,743	8,295	1,658
Miscellaneous	43,820	960	465	96
Total revenue	5,591,849	1,519,337	857,477	201,382
EXPENDITURES				
Current:				
Services and supplies	5,751,966	1,388,396	378,331	24,919
Pollution remediation	50,617	-	-	-
Capital outlay	125,962	27,784	-	-
Total expenditures	5,928,545	1,416,180	378,331	24,919
Net changes in fund balances	(336,696)	103,157	479,146	176,463
Fund balances - beginning of year	9,163,293	7,635,516	1,949,438	1,447,983
Fund balances - end of year	$ 8,826,597	$ 7,738,673	$ 2,428,584	$ 1,624,446

SONOMA COUNTY WATER AGENCY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (CONTINUED)
FLOOD CONTROL SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

Flood Control Funds			
Zone 7A North Coast	**Zone 8A South Coast**	**Total Flood Control Funds**	
			REVENUES
$ -	$ 139,048	$ 7,717,741	Property taxes
1,750	33,904	502,989	Investment earnings
-	1,295	79,971	Intergovernmental
-	81	45,422	Miscellaneous
1,750	174,328	8,346,123	Total revenue
			EXPENDITURES
			Current:
-	1,817	7,545,429	Services and supplies
-	-	50,617	Pollution remediation
-	-	153,746	Capital outlay
-	1,817	7,749,792	Total expenditures
1,750	172,511	596,331	**Net changes in fund balances**
75,343	1,409,054	21,680,627	Fund balances - beginning of year
$ 77,093	$ 1,581,565	$ 22,276,958	Fund balances - end of year

SONOMA COUNTY WATER AGENCY
COMBINING STATEMENT OF NET ASSETS
SANITATION ENTERPRISE FUNDS
JUNE 30, 2009

	Sanitation Funds				
	Sea Ranch	Penngrove	Geyserville	Airport Larkfield Wikiup	Total Sanitation Funds
ASSETS					
Current assets:					
Cash and investments	$ 438,277	$ 749,123	$ 466,759	$ 1,627,291	$ 3,281,450
Accounts receivable, net	5,472	62,493	13,874	59,639	141,478
Due from other funds	-	-	-	18,480	18,480
Total current assets	443,749	811,616	480,633	1,705,410	3,441,408
Noncurrent assets:					
Restricted assets					
Cash - revenue bond funds	-	14,760	58,832	84,428	158,020
Cash with trustee	-	-	-	327	327
Total restricted assets	-	14,760	58,832	84,755	158,347
Deferred charges	-	-	-	118,688	118,688
Capital assets, net of accumulated depreciation:					
Land	-	-	106,213	1,515,231	1,621,444
Construction in progress	14,458	518,547	-	542,791	1,075,796
Buildings and improvements	683,703	672,864	849,775	21,537,977	23,744,319
Equipment	-	11,865	-	25,678	37,543
Total capital assets	698,161	1,203,276	955,988	23,621,677	26,479,102
Total noncurrent assets	698,161	1,218,036	1,014,820	23,825,120	26,756,137
Total assets	1,141,910	2,029,652	1,495,453	25,530,530	30,197,545
LIABILITIES					
Current liabilities payable from unrestricted assets:					
Accounts payable and accrued expenses	37,882	217,855	5,132	56,929	317,798
Unearned revenue	-	-	-	42,888	42,888
Total current liabilities payable from unrestricted assets	37,882	217,855	5,132	99,817	360,686
Current liabilities payable from restricted assets:					
Interest payable	-	2,050	-	60,195	62,245
General obligation bonds payable	-	11,000	17,000	-	28,000
Revenue bonds payable	-	-	-	200,620	200,620
Total current liabilities from restricted assets	-	13,050	17,000	260,815	290,865
Noncurrent liabilities:					
General obligation bonds payable	-	112,000	222,000	-	334,000
Revenue bonds payable	-	-	-	5,055,551	5,055,551
Total noncurrent liabilities	-	112,000	222,000	5,055,551	5,389,551
Total liabilities	37,882	342,905	244,132	5,416,183	6,041,102
NET ASSETS					
Invested in capital assets, net of related debt	698,161	1,080,276	716,988	18,365,506	20,860,931
Restricted for:					
Debt service	-	12,710	58,832	24,560	96,102
Water conservation	-	21,696	7,140	29,471	58,307
Unrestricted	405,867	572,065	468,361	1,694,810	3,141,103
Total net assets	$ 1,104,028	$ 1,686,747	$ 1,251,321	$ 20,114,347	$ 24,156,443

SONOMA COUNTY WATER AGENCY
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
SANITATION ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	Sanitation Funds				
	Sea Ranch	Penngrove	Geyserville	Airport Lakefield Wikiup	Total Sanitation Funds
OPERATING REVENUE					
Flat charges	$ 443,192	$ 448,777	$ 237,431	$ 1,706,639	$ 2,836,039
Sanitation services	139	8,315	6,447	98,054	112,955
Real estate rental	-	-	-	50,000	50,000
Miscellaneous	-	-	-	25,969	25,969
Total operating revenue	443,331	457,092	243,878	1,880,662	3,024,963
OPERATING EXPENSES					
Services and supplies	499,968	473,149	272,681	1,921,632	3,167,430
Depreciation and amortization	34,263	35,414	81,258	912,486	1,063,421
Total operating expenses	534,231	508,563	353,939	2,834,118	4,230,851
Operating loss	(90,900)	(51,471)	(110,061)	(953,456)	(1,205,888)
NONOPERATING REVENUES (EXPENSES)					
Taxes and assessments	-	16,027	25,197	-	41,224
Investment earnings	9,849	23,607	12,258	46,979	92,693
Interest expense	-	-	(10,582)	(238,873)	(249,455)
Conservation program expense	-	(1,804)	(360)	(5,529)	(7,693)
Loss on disposal of capital assets	(1,024,279)	-	-	-	(1,024,279)
Intergovernmental revenue	-	143	179	128,665	128,987
Total nonoperating revenue (expenses)	(1,014,430)	37,973	26,692	(68,758)	(1,018,523)
Loss before capital contributions and transfers	(1,105,330)	(13,498)	(83,369)	(1,022,214)	(2,224,411)
Capital contributions - connection fees	-	2,334	18,672	242,650	263,656
Transfers in - conservation program	-	23,500	7,500	35,000	66,000
Change in net assets	(1,105,330)	12,336	(57,197)	(744,564)	(1,894,755)
Net assets - beginning of year	2,209,358	1,674,411	1,308,518	20,858,911	26,051,198
Net assets - end of year	$ 1,104,028	$ 1,686,747	$ 1,251,321	$ 20,114,347	$ 24,156,443

SONOMA COUNTY WATER AGENCY
COMBINING STATEMENT OF CASH FLOWS
SANITATION ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	Sanitation Funds				
	Sea Ranch	Penngrove	Geyserville	Airport Larkfield Wikiup	Total Sanitation Funds
Cash flows from operating activities					
Cash receipts from customers	$ 442,628	$ 426,841	$ 239,729	$ 1,869,581	$ 2,978,779
Cash payments for interfund services used	(76,097)	(71,569)	(205,847)	(1,203,825)	(1,557,338)
Cash payments to suppliers	(427,911)	(361,596)	(136,061)	(688,400)	(1,613,968)
Net cash used for operating activities	(61,380)	(6,324)	(102,179)	(22,644)	(192,527)
Cash flows from noncapital financing activities					
Taxes and assessments	-	16,027	25,197	-	41,224
Transfers in - conservation program	-	23,500	7,500	35,000	66,000
Conservation program	-	(1,804)	(360)	(5,529)	(7,693)
Intergovernmental revenue	-	143	179	171,553	171,875
Net cash provided by noncapital financing activities	-	37,866	32,516	201,024	271,406
Cash flows from capital and related financing activities					
Purchase of capital assets	(10,284)	(301,080)	(28,273)	(503,644)	(843,281)
Principal paid on long-term debt	-	(11,000)	(16,000)	(215,000)	(242,000)
Interest paid on long-term debt	-	(6,425)	(12,350)	(243,791)	(262,566)
Connection fees	-	2,334	18,672	242,650	263,656
Net cash used for capital and related financing activities	(10,284)	(316,171)	(37,951)	(719,785)	(1,084,191)
Cash flows from investing activities					
Repayment on advances to other funds - principal	-	-	-	17,736	17,736
Repayment on advances to other funds - interest	-	-	-	2,235	2,235
Interest received	9,849	23,607	12,258	44,744	90,458
Net cash provided by investing activities	9,849	23,607	12,258	64,715	110,429
Net decrease in cash and cash equivalents	(61,815)	(261,022)	(95,356)	(476,690)	(894,883)
Cash and cash equivalents - beginning of year	500,092	1,024,905	620,947	2,188,736	4,334,680
Cash and cash equivalents - end of year	$ 438,277	$ 763,883	$ 525,591	$ 1,712,046	$ 3,439,797
Reconciliation to the statement of net assets:					
Cash and investments	$ 438,277	$ 749,123	$ 466,759	$ 1,627,291	$ 3,281,450
Restricted cash and investments	-	14,760	58,832	84,755	158,347
Cash and cash equivalents	$ 438,277	$ 763,883	$ 525,591	$ 1,712,046	$ 3,439,797
Reconciliation of operating loss to net cash used for operating activities:					
Operating loss	$ (90,900)	$ (51,471)	$ (110,061)	$ (953,456)	$ (1,205,888)
Adjustments to reconcile operating loss to net cash used for operating activities					
Depreciation and amortization	34,263	35,414	81,258	912,486	1,063,421
Change in assets and liabilities:					
Receivables, net	(703)	(30,251)	(4,149)	(11,081)	(46,184)
Accounts and accrued expenses	(4,040)	39,984	(69,227)	29,407	(3,876)
Net cash used for operating activities	$ (61,380)	$ (6,324)	$ (102,179)	$ (22,644)	$ (192,527)
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisition of capital assets through accounts payable	$ 7,171	$ 17,114	$ -	$ -	$ 24,285

SONOMA COUNTY WATER AGENCY
COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICES FUNDS
JUNE 30, 2009

	Internal Service Funds		
	Equipment Facilities	Power Resources	Total Internal Service Funds
ASSETS			
Current assets:			
Cash and Iinvestments	$ 8,194,171	$ 1,539,879	$ 9,734,050
Accounts receivable, net	219,772	-	219,772
Due from other funds	143,547	-	143,547
Prepaid expenses	-	1,490,263	1,490,263
Total current assets	8,557,490	3,030,142	11,587,632
Noncurrent assets:			
Restricted assets			
Cash - capital leases	740,048	264,290	1,004,338
Cash - capital projects	1,164,144	-	1,164,144
Total restricted assets	1,904,192	264,290	2,168,482
Capital assets, net of accumulated depreciation:			
Land	2,689,861	-	2,689,861
Construction in progress	5,489,109	42,791	5,531,900
Buildings and improvements	13,383,231	15,543,653	28,926,884
Equipment	1,769,631	-	1,769,631
Total capital assets	23,331,832	15,586,444	38,918,276
Total noncurrent assets	25,236,024	15,850,734	41,086,758
Total assets	33,793,514	18,880,876	52,674,390
LIABILITIES			
Current liabilities payable from unrestricted assets:			
Accounts payable and accrued expenses	90,051	737,371	827,422
Due to other funds	-	162,027	162,027
Due to other governments	-	388,845	388,845
Total current liabilities payable from unrestricted assets	90,051	1,288,243	1,378,294
Current liabilities payable from restricted assets:			
Interest payable	129,847	39,882	169,729
Capital leases	740,048	264,290	1,004,338
Total current liabilities from restricted assets	869,895	304,172	1,174,067
Noncurrent liabilities:			
Capital leases	11,617,649	3,480,091	15,097,740
Advances from other funds	-	1,062,142	1,062,142
Advances from other governments	-	4,322,755	4,322,755
Total noncurrent liabilities	11,617,649	8,864,988	20,482,637
Total liabilities	12,577,595	10,457,403	23,034,998
NET ASSETS			
Invested in capital assets, net of related debt	10,974,135	7,130,463	18,104,598
Restricted for:			
Debt service	610,201	224,408	834,609
Capital projects	1,164,144	-	1,164,144
Unrestricted	8,467,439	1,068,602	9,536,041
Total net assets	$ 21,215,919	$ 8,423,473	$ 29,639,392

SONOMA COUNTY WATER AGENCY
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	Internal Service Funds		
	Equipment Facilities	Power Resources	Total Internal Service Funds
OPERATING REVENUE			
Power sales	$ -	$ 6,344,177	$ 6,344,177
Equipment rental	2,053,829	-	2,053,829
Real estate rental	2,827,853	-	2,827,853
Miscellaneous	31,928	-	31,928
Total operating revenue	4,913,610	6,344,177	11,257,787
OPERATING EXPENSES			
Services and supplies	2,669,240	4,122,256	6,791,496
Depreciation and amortization	1,006,197	409,044	1,415,241
Total operating expenses	3,675,437	4,531,300	8,206,737
Operating income	1,238,173	1,812,877	3,051,050
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	214,900	22,492	237,392
Interest expense	(339,697)	(411,783)	(751,480)
Gain on sale of capital assets	207,176	-	207,176
Loss on disposal of capital assets	(116,521)	-	(116,521)
Total nonoperating revenue (expenses)	(34,142)	(389,291)	(423,433)
Change in net assets	1,204,031	1,423,586	2,627,617
Net assets - beginning of year	20,011,888	6,999,887	27,011,775
Net assets - end of year	$ 21,215,919	$ 8,423,473	$ 29,639,392

SONOMA COUNTY WATER AGENCY
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	Internal Service Funds		
	Equipment Facilities	Power Resources	Total ISF Funds
Cash flows from operating activities			
Cash receipts from interfund services provided	$ 4,997,872	$ 6,344,177	$ 11,342,049
Cash payments for interfund services used	(1,638,081)	(253,733)	(1,891,814)
Cash payments to suppliers	(1,092,193)	(4,223,509)	(5,315,702)
Net cash provided by operating activities	2,267,598	1,866,935	4,134,533
Cash flows from capital and related financing activities			
Purchase of capital assets	(1,851,420)	(42,662)	(1,894,082)
Principal paid on long-term debt	(570,223)	(253,370)	(823,593)
Principal paid on advances from other funds	-	(155,500)	(155,500)
Principal paid on advances from other governments	-	(373,178)	(373,178)
Interest paid on long-term debt	(450,335)	(394,450)	(844,785)
Proceeds from issuance of long-term debt	1,177,211	-	1,177,211
Proceeds from sale of capital assets	16,565	-	16,565
Net cash used for capital and related financing activities	(1,678,202)	(1,219,160)	(2,897,362)
Cash flows from investing activities			
Repayment on advances to other funds - principal	137,764	-	137,764
Repayment on advances to other funds - interest	11,809	-	11,809
Interest received	203,091	22,492	225,583
Net cash provided by investing activities	352,664	22,492	375,156
Net increase in cash and cash equivalents	942,060	670,267	1,612,327
Cash and cash equivalents - beginning of year	9,156,303	1,133,902	10,290,205
Cash and cash equivalents - end of year	$ 10,098,363	$ 1,804,169	$ 11,902,532
Reconciliation to the statement of net assets:			
Cash and investments	$ 8,194,171	$ 1,539,879	$ 9,734,050
Restricted cash and investments	1,904,192	264,290	2,168,482
Cash and cash equivalents	$ 10,098,363	$ 1,804,169	$ 11,902,532
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$ 1,238,173	$ 1,812,877	$ 3,051,050
Reconciliation of operating income to net cash provided by operating activities			
Depreciation and amortization	1,006,197	409,044	1,415,241
Change in assets and liabilities:			
Receivables, net	84,262	-	84,262
Prepaid expenses	-	(1,051,968)	(1,051,968)
Accounts and accrued expenses	(61,034)	696,982	635,948
Net cash provided by operating activities	$ 2,267,598	$ 1,866,935	$ 4,134,533
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition of capital assets through captial lease	$ 4,657,789	$ -	$ 4,657,789
Acquisition of capital assets through accounts payable	49,451	-	49,451

Single Audit

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WALNUT CREEK
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LOS ANGELES
NEWPORT BEACH
SAN MARCOS
SAN DIEGO

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, 2009, which collectively comprise the Water Agency's basic financial statements and have issued our report thereon dated November 9, 2009. Our report contained an explanatory paragraph describing the Water Agency's implementation of a new accounting standard, effective July 1, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Water Agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Water Agency's financial statements that is more than inconsequential will not be prevented or detected by the Water Agency's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Water Agency's internal control.

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

Compliance and Other Matters

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

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

Macias Gini & O'Connell LLP

Certified Public Accountants

Sacramento, California
November 9, 2009

MACIAS GINI & O'CONNELL LLP
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WALNUT CREEK
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To the Board of Directors
Sonoma County Water Agency
Santa Rosa, California

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM, INTERNAL CONTROL OVER COMPLIANCE AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133

Compliance

We have audited the compliance of the Sonoma County Water Agency (Water Agency), a component unit of the County of Sonoma, California, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The Water Agency's major federal programs are 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 the Water Agency's management. Our responsibility is to express an opinion on the Water 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 Water 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 Water Agency's compliance with those requirements.

In our opinion, the Water Agency complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

Management of the Water 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 the Water Agency's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 the Water Agency's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, business-type activities, each major fund and the remaining fund information of the Water Agency as of and for the year ended June 30, 2009, and have issued our report thereon dated November 9, 2009. Our report contained an explanatory paragraph describing the Water Agency's implementation of a new accounting standard, effective July 1, 2008. Our audit was performed for the purpose of forming opinions on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Macias Gini & O'Connell LLP

Certified Public Accountants

Sacramento, California
November 9, 2009

SONOMA COUNTY WATER AGENCY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009

Federal Agency Pass Through Agency Federal Program Title	Pass-Through or Grant Number	CFDA #	Expenditures
RESEARCH AND DEVELOPMENT:			
U.S. Department of Interior			
Direct Program:			
U.S. Bureau of Reclamation			
Water Reclamation and Reuse Program	02FC200141	15.504	$ 377,530
U.S. Department of Homeland Security			
Passed Through:			
Governors Office of Emergency Services			
Disaster Assistance - Public Assistance	FEMA-1628-DR-CA	97.036	337,483
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 715,013

The accompanying notes are an integral part of this schedule.

SONOMA COUNTY WATER AGENCY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009

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, 2009. 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.

2. Basis of Accounting

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.

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.

4. Disaster Assistance – Public Assistance Program (CFDA #97.036)

During the year ended June 30, 2009, the Water Agency received official notice from the Governor's Office of Emergency Services, of the authorization of federal funding pursuant to Project Worksheet (PW) 1764 due to the 2005-2006 Winter Storms (FEMA-1682-DR) event. As a result of the final notification and authorization of federal funding for costs incurred to repair damage to the Mirabel Infiltration Facility, the Water Agency has included $326,998 of federally funded expenditures in the SEFA that were incurred during the years ended 2006/07 and 2007/08.

SONOMA COUNTY WATER AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009

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:

CFDA Number(s)	*Name of Federal Program or Cluster*
15.504	Water Reclamation and Reuse Program
97.036	Disaster Assistance – Public Assistance

SONOMA COUNTY WATER AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009

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 YEAR ENDED JUNE 30, 2009

Capitalization of Construction in Progress

During the year ended June 30, 2008, the Water Agency discovered that certain maintenance projects over a five-year period had been incorrectly capitalized, primarily during the Water Agency's implementation for the retroactive reporting of infrastructure pursuant to Governmental Accounting Standards Board (GASB) Statement No. 34. The project costs were inappropriately capitalized as construction in progress, instead of expensed as maintenance costs. As a result, the Water Agency recorded a prior period adjustment and restated beginning net assets for governmental activities and reduced capital assets by $8,023,704.

Management Response:

The audit of the 2006-2007 financial statements revealed that there had been a misclassification of project costs associated with certain maintenance projects. This discovery led to several changes to our project classification process during 2007-2008. The changes to our processes, which should be sufficient to prevent this type of error from occurring again, are listed below:

The Fiscal Services Unit has revised the "Project Request Form". This form includes more detail for capital projects and asset ownership. All requests will be forwarded to the County of Sonoma Auditor-Controller's Office for approval before project numbers are assigned. These improvements will more accurately identify and communicate proper classification of all projects at the start.

The Auditor-Controller's Office and Agency staff have reviewed and updated the capitalization policy and have worked closely with all Agency managers and project managers to assure understanding of the basic requirements for capitalizing projects.

Semi-annual meetings have been set-up with Administration, Fiscal Services, Engineering and all project managers to review current expenditures, activity and to provide additional training and review of the capitalization policy.

The Fiscal Services Unit is currently developing a project completion notification process to add a final decision point on classification and to assure the timely close-out of projects.

Status of Corrective Action:

Implemented