

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
and Supplementary Information

For the Year Ended June 30, 2008

**SONOMA COUNTY WATER AGENCY
FOR THE YEAR ENDED JUNE 30, 2008**

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

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Sonoma County Water Agency (Water Agency), a component unit of the County of Sonoma, California, as of and for the year ended June 30, 2008, 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, 2008, 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 E to the basic financial statements, effective July 1, 2007, the Water Agency implemented Government Accounting Standards Board (GASB) Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and No. 50, *Pension Disclosures*.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2008 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 on pages 3 through 14 and 59 through 62 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 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.

Macinn Mini & O'Connell LLP

Certified Public Accountants

Sacramento, California

November 18, 2008

Management's Discussion and Analysis

**SONOMA COUNTY WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008
(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, 2008. We encourage readers to consider the information presented here in conjunction with the Water Agency's financial statements (pages 15 - 26) and the accompanying notes to the financial statements (pages 27 - 58).

Financial Highlights

- The assets of the Water Agency exceeded its liabilities at the close of the most recent fiscal year by \$349,550,173 (net assets). Of this amount \$42,173,387 (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 \$13,867,177 during the current fiscal year. The governmental activities realized an increase in net assets of \$10,738,342 while the business-type activities recorded an increase of \$3,128,835.
- As of the close of the current fiscal year, the Water Agency's governmental funds reported combined ending fund balances of \$123,044,721, an increase of \$9,711,672 in comparison with the prior year. Approximately 29% of this total amount, \$35,360,473 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 \$6,598,871 or 18% 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.

**SONOMA COUNTY WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008
(UNAUDITED)**

Overview of the Financial Statements (Continued)

Government-wide Financial Statements (Continued)

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).

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.

**SONOMA COUNTY WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008
(UNAUDITED)**

Overview of the Financial Statements (Continued)

Governmental Funds (Continued)

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.

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 - 25.

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 26 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 27 - 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.

**SONOMA COUNTY WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008
(UNAUDITED)**

Overview of the Financial Statements (Continued)

Required Supplementary Information (Continued)

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 - 73.

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 \$349,550,173 at the close of the most recent fiscal year.

The largest portion of the Water Agency's net assets (52%) 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	
	2006/07	2007/08	2006/07	2007/08	2006/07	2007/08
Current and other assets	\$115,362,187	\$125,068,398	\$ 58,542,582	\$ 59,549,996	\$ 173,904,769	\$184,618,394
Capital assets	153,649,025	152,083,594	195,667,710	205,644,485	349,316,735	357,728,079
Total assets	269,011,212	277,151,992	254,210,292	265,194,481	523,221,504	542,346,473
Current liabilities	7,158,591	7,170,235	5,979,938	7,316,238	13,138,529	14,486,473
Noncurrent liabilities	114,573,603	111,964,397	59,826,376	66,345,430	174,399,979	178,309,827
Total liabilities	121,732,194	119,134,632	65,806,314	73,661,668	187,538,508	192,796,300
Invested in capital assets, net of related debt	38,884,508	39,903,525	143,713,233	142,850,345	182,597,741	182,753,870
Restricted	106,959,969	114,451,405	8,186,166	10,171,511	115,146,135	124,622,916
Unrestricted	1,434,541	3,662,430	36,504,579	38,510,957	37,939,120	42,173,387
Total net assets	\$ 147,279,018	\$158,017,360	\$ 188,403,978	\$191,532,813	\$ 335,682,996	\$349,550,173

A portion of the Water Agency's net assets, \$124,622,916 (36%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$42,173,387, may be used to meet the Water Agency's ongoing obligations to citizens and creditors.

**SONOMA COUNTY WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008
(UNAUDITED)**

Government-wide Financial Analysis (Continued)

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 \$13,867,177 during the current fiscal year. This increase is a result of revenues exceeding expenses in both the governmental and business-type activities.

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

	Governmental Activities		Business-Type Activities		Total	
	2006/07	2007/08	2006/07	2007/08	2006/07	2007/08
Revenues:						
Program Revenues:						
Charges for services	\$ 567,835	\$ 431,807	\$ 34,129,864	\$ 33,775,464	\$ 34,697,699	\$34,207,271
Operating grants and contributions	-	-	129,107	1,497,429	129,107	1,497,429
Capital grants and contributions	551,897	1,197,411	4,505,308	4,978,906	5,057,205	6,176,317
General Revenues:						
Property taxes	19,985,146	19,342,783	42,455	39,441	20,027,601	19,382,224
Investment earnings	6,239,894	9,832,932	2,560,625	2,213,910	8,800,519	12,046,842
Miscellaneous	1,347,287	189,185	40,010	29,807	1,387,297	218,992
Total revenues	28,692,059	30,994,118	41,407,369	42,534,957	70,099,428	73,529,075
Expenses:						
General government	3,315,164	3,219,345	-	-	3,315,164	3,219,345
Flood control	8,114,684	10,104,776	-	-	8,114,684	10,104,776
Warm Springs Dam	799,079	824,097	-	-	799,079	824,097
Interest on long-term debt	3,728,038	3,645,558	-	-	3,728,038	3,645,558
Water transmission	-	-	26,096,811	31,003,297	26,096,811	31,003,297
Water supply	-	-	4,520,222	4,457,917	4,520,222	4,457,917
Sanitation	-	-	3,715,124	6,406,908	3,715,124	6,406,908
Total expenses	15,956,965	17,793,776	34,332,157	41,868,122	50,289,122	59,661,898
Increase in net assets before transfers	12,735,094	13,200,342	7,075,212	666,835	19,810,306	13,867,177
Transfers	(2,382,200)	(2,462,000)	2,382,200	2,462,000	-	-
Increase in net assets	10,352,894	10,738,342	9,457,412	3,128,835	19,810,306	13,867,177
Net assets - beginning of year, as restated	136,926,124	147,279,018	178,946,566	188,403,978	315,872,690	335,682,996
Net assets - end of year	\$ 147,279,018	\$ 158,017,360	\$188,403,978	\$ 191,532,813	\$ 335,682,996	\$349,550,173

**SONOMA COUNTY WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008
(UNAUDITED)**

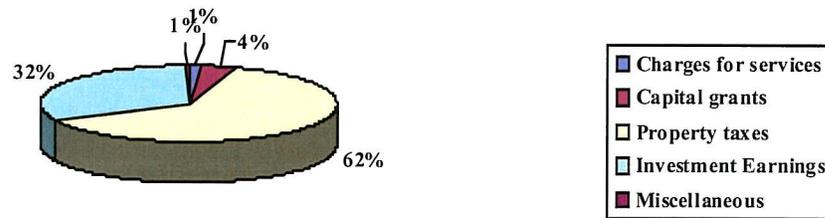
Government-wide Financial Analysis (Continued)

Governmental Activities

Governmental activities increased the Water Agency's net assets by \$10,738,342. Key elements of the Water Agency's governmental activities are identified below.

- Property tax revenues of \$19,342,783, including \$5,034,396 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 \$9,832,932 was due primarily to a \$7,530,239 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 \$2,302,693 were realized.
- Revenues for FY 2007/08 increased by \$2,302,059 over the prior fiscal year while expenses increased by \$1,836,811 over the same period. The revenue increase is due primarily to the increase in fair market value of the U.S. Treasury STRIPS. The expenditure increase is due primarily to short term funding provided to the Occidental County Sanitation District and to increases in maintenance projects and studies in the flood control zones.

Revenues by Source – Governmental Activities



Business-type Activities

Business-type activities increased the Water Agency's net assets by \$3,128,835. Key elements of the Water Agency's business-type activities are identified below.

- Water sales revenues decreased 5.1%, due primarily to a 7.6% decrease in total acre-feet sold during the year, even though there was an average increase of 2.3% in water rates from FY 2006/07.
- 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.

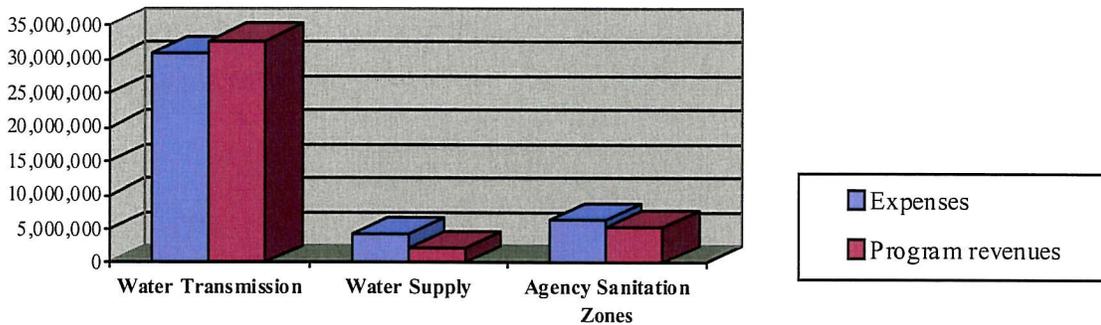
**SONOMA COUNTY WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008
(UNAUDITED)**

Government-wide Financial Analysis (Continued)

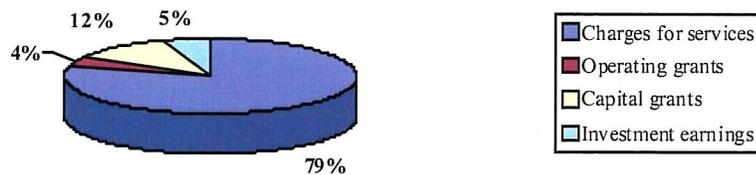
Business-type Activities (Continued)

- Grants and contributions totaling \$6,476,335 were received during FY 2007/08. Grants include funding from the state towards Prop. 50 washer rebate programs and North San Pablo Bay restoration. Other contributions included state and federal disaster funding for projects related to the FY 2005/06 flood event and transfer of capital assets (photovoltaic facilities) received by the Power Resources Internal Service Fund from the Sonoma Valley County Sanitation District.
- Investment earnings for FY 2007/08 totaled \$2,213,910.
- Transfers from the Water Agency's General Fund totaling \$2,462,000 were received during FY 2007/08. These transfers were for the purpose of financing various projects related to recycled water (\$1,690,000), Russian River projects (\$150,000), and various sanitation projects (\$622,000).

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.

**SONOMA COUNTY WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008
(UNAUDITED)**

Financial Analysis of the Government's Funds (Continued)

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 \$123,044,721, an increase of \$9,711,672 in comparison with the prior year. Approximately 29% of this total amount, \$35,360,473, 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, \$79,788,839, (2) to liquidate contracts and purchase orders of the prior period, \$6,278,429, and (3) for contingencies, \$575,000.

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 \$6,598,871, while total fund balance reached \$8,593,316.

The special revenue funds, consisting of six (6) flood control zones and Warm Springs Dam, has a fiscal year end fund balance of \$21,680,627 and \$12,981,939, respectively, of which a total \$28,761,602 is unreserved, \$500,000 is designated for contingencies and the remaining fund balance of \$5,400,964 is reserved for encumbrances.

The Debt Service Fund has a total fund balance of \$79,788,839, 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 \$26,016,046; the Water Supply Fund reported unrestricted net assets of (\$467,472); and the Sanitation Fund reported unrestricted net assets of \$4,053,405. 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 \$3,233,174, while budgeted revenues were increased by \$369,176 during the fiscal year.

**SONOMA COUNTY WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008
(UNAUDITED)**

General Fund Budgetary Highlights (Continued)

The primary component of the increase in budgeted expenditures consists of a \$1,063,093 increase in appropriations for services and supplies. The Water Agency also increased budgeted transfers by \$2,276,949 which was offset by a \$500,000 decrease in contingencies.

The Water Agency's actual revenue exceeded the budgeted estimates due primarily to increases in investment earnings and property tax allocations. The actual expenditures were less than the budgeted estimates due primarily to decreases in staff time allocated to overhead projects and facilities rent being less than estimated at the time the budget was prepared.

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, 2008, amounts to \$357,728,079 (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 Storage Facilities fund including:
Capacity Rights Oakmont Pipeline - \$3,236,541
- Capital expansion within the Common Facilities fund including:
Collector 6 – Pump and Collector Capacity - \$19,377,902
- Capital expansion within the Water Supply fund including:
Matanzas Creek Fish Ladder - \$101,056
- Capital expansion within the Sanitation Zones including:
Airport Larkfield, Wikiup – Airport Bypass Project - \$124,945
Airport Larkfield Wikiup – Prefilter Strainers \$71,012
Sea Ranch – Emergency Generator \$52,928
- Capital expansion within the Equipment Facilities Internal Service Fund including:
Administrative Building expansion projects (residual amounts) - \$294,895

**SONOMA COUNTY WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008
(UNAUDITED)**

Capital Asset and Debt Administration (Continued)

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

	Governmental Activities		Business-Type Activities		Total	
	2006/07	2007/08	2006/07	2007/08	2006/07	2007/08
Water storage rights	\$ 102,371,000	\$ 102,371,000	\$ -	\$ -	\$ 102,371,000	\$ 102,371,000
Land	1,537,914	1,537,914	11,020,874	11,021,314	12,558,788	12,559,228
Construction in progress	66,344	112,313	38,723,506	23,006,090	38,789,850	23,118,403
Infrastructure	47,294,701	45,732,615	-	-	47,294,701	45,732,615
Buildings and improvements	2,120,039	2,034,237	144,388,412	170,249,784	146,508,451	172,284,021
Machinery and equipment	259,027	295,515	1,534,918	1,367,297	1,793,945	1,662,812
Total	\$ 153,649,025	\$ 152,083,594	\$ 195,667,710	\$ 205,644,485	\$ 349,316,735	\$ 357,728,079

Additional information on the Water Agency's capital assets can be found in Note H on pages 41 - 43 of this report.

Long-term Debt

At the end of the current fiscal year, the Water Agency had a total of \$177,767,782 in outstanding debt consisting of bonds, federal contract payable, notes payable and compensated absences. Of this amount \$389,000 comprises general obligation bonds which is backed by the full faith and credit of the Water Agency; \$11,090,672 is related to notes payable; \$31,390,000 in revenue bonds payable from the Water Agency's operating income; \$15,114,227 represents funds advanced to the Water Agency from the California Department of Water Resources; \$5,084,778 represents advances from Sonoma Valley County Sanitation District for the purchase of the photovoltaic facility by the Power Resources Internal Service Fund; \$112,180,069 is a federal long-term contract payable related to the water storage rights at Warm Springs Dam; and \$2,519,036 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, 2007	June 30, 2008	Change
General obligation bonds	\$ 414,000	\$ 389,000	(6.0)%
Notes payable	11,765,261	11,090,672	(5.7)%
Revenue bonds	32,120,000	31,390,000	(2.3)%
Advances from other governments	11,401,362	20,199,005	77.2%
Federal contract payable	114,764,517	112,180,069	(2.3)%
Compensated absences	2,471,124	2,519,036	1.9%
Total	\$ 172,936,264	\$ 177,767,782	2.8%

The Water Agency's total debt increased by \$4,831,518 (2.8%) during the current fiscal year.

**SONOMA COUNTY WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008
(UNAUDITED)**

Capital Asset and Debt Administration (Continued)

Long-term Debt (Continued)

The outstanding total of general obligation bonds, notes payable, revenue bonds, and federal contract payable decreased by 6.0%, 5.7%, 2.3%, and 2.3%, respectively, during fiscal year 2007/08 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 advances from other governments is due to the payment of reimbursement request by the California Department of Water Resources on January 4, 2008 in the amount of \$3,712,865 and by the establishment of a \$5,442,922 loan with the Sonoma Valley County Sanitation District for the purchase of its photovoltaic facility. Principal payment on the loan totaled \$358,144 during 2007/08.

Additional information on the Water Agency's current and long-term debt can be found in Note K on pages 45 - 51 of this report.

Next Year's Budgets and Rates

During the current year, unreserved, undesignated fund balance in the general fund increased to \$6,598,871.

Both the water and sewer rates were increased for the 2008/09 budget year. The water rates were increased by an average of 8.22%, while the sewer rates increased an average of 7.00%.

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	\$ 379.96	\$ 379.96	\$379.96
Revenue bond charges:			
Aqueduct revenue bonds charge	0.00	0.00	30.09
Storage facility revenue bonds charge	18.23	18.23	18.23
Common facilities revenue bonds charge	42.93	42.93	42.93
Aqueduct capital charge	30.00	70.00	15.00
Total	\$ 471.12	\$ 511.12	\$486.21

**SONOMA COUNTY WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008
(UNAUDITED)**

Next Year's Budgets and Rates (Continued)

Rate per Equivalent Single-Family Dwelling

	2007/08	2008/09	Change
Sanitation Zone			
Sea Ranch	\$ 737	\$ 774	5.02%
Penngrove	816	889	8.95%
Geyserville	663	703	6.03%
Airport-Larkfield-Wikiup	471	509	8.07%

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

	2007/08	2008/09	Change
Sanitation Zone			
Sea Ranch	563	567	0.71%
Penngrove	511	510	(0.20)%
Geyserville	340	340	0.00%
Airport-Larkfield-Wikiup	3,550	3,564	0.39%

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 101F, Santa Rosa, CA 95403.

Basic Financial Statements

**SONOMA COUNTY WATER AGENCY
STATEMENT OF NET ASSETS
JUNE 30, 2008**

ASSETS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Current assets			
Cash and investments	\$ 122,518,679	\$ 47,712,435	\$ 170,231,114
Accounts receivable, net	1,507,739	6,221,905	7,729,644
Prepaid expenses	-	438,295	438,295
Internal balances	1,041,980	(1,041,980)	-
Total current assets	<u>125,068,398</u>	<u>53,330,655</u>	<u>178,399,053</u>
Noncurrent assets:			
Restricted assets:			
Cash - revenue bond funds	-	2,080,726	2,080,726
Cash and investments with trustee	-	2,861,703	2,861,703
Cash - notes payable	-	682,491	682,491
Total restricted assets	<u>-</u>	<u>5,624,920</u>	<u>5,624,920</u>
Deposits with others	-	13,000	13,000
Deferred charges	-	581,421	581,421
Capital assets (net of accumulated depreciation)			
Intangible asset - water storage rights (Warm Springs Dam)	102,371,000	-	102,371,000
Land	1,537,914	11,021,314	12,559,228
Construction in progress	112,313	23,006,090	23,118,403
Infrastructure	45,732,615	-	45,732,615
Buildings and improvements	2,034,237	170,249,784	172,284,021
Equipment	295,515	1,367,297	1,662,812
Total capital assets	<u>152,083,594</u>	<u>205,644,485</u>	<u>357,728,079</u>
Total noncurrent assets	<u>152,083,594</u>	<u>211,863,826</u>	<u>363,947,420</u>
Total assets	<u>277,151,992</u>	<u>265,194,481</u>	<u>542,346,473</u>

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

**SONOMA COUNTY WATER AGENCY
STATEMENT OF NET ASSETS (CONTINUED)
JUNE 30, 2008**

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
LIABILITIES			
Current liabilities payable from unrestricted assets:			
Accounts payable and accrued expenses	1,501,955	3,592,034	5,093,989
Due to other governments	-	680,520	680,520
Other current liabilities	500,000	700,000	1,200,000
Compensated absences	66,912	-	66,912
Unearned revenue	21,722	129,219	150,941
Interest payable	2,411,850	-	2,411,850
Long-term contracts payable	2,667,796	-	2,667,796
Total current liabilities payable from unrestricted assets	<u>7,170,235</u>	<u>5,101,773</u>	<u>12,272,008</u>
Current liabilities payable from restricted assets:			
Deposits from others	-	4,230	4,230
Interest payable	-	761,324	761,324
General obligation bonds payable	-	27,000	27,000
Notes payable	-	683,111	683,111
Revenue bonds payable	-	738,800	738,800
Total current liabilities payable from restricted assets	<u>-</u>	<u>2,214,465</u>	<u>2,214,465</u>
Noncurrent liabilities:			
Compensated absences	2,452,124	-	2,452,124
General obligation bonds payable	-	362,000	362,000
Notes payable	-	10,407,561	10,407,561
Revenue bonds payable	-	30,376,663	30,376,663
Long-term contracts payable	109,512,273	-	109,512,273
Advances from other governments	-	19,518,485	19,518,485
Unearned revenue	-	5,680,721	5,680,721
Total noncurrent liabilities	<u>111,964,397</u>	<u>66,345,430</u>	<u>178,309,827</u>
Total liabilities	<u>119,134,632</u>	<u>73,661,668</u>	<u>192,796,300</u>
NET ASSETS			
Invested in capital assets, net of related debt	39,903,525	142,850,345	182,753,870
Restricted for flood control	21,680,627	-	21,680,627
Restricted for Warm Springs Dam	12,981,939	-	12,981,939
Restricted for debt service	79,788,839	2,978,511	82,767,350
Restricted for capital projects	-	1,957,788	1,957,788
Restricted for recycled water / water conservation	-	5,235,212	5,235,212
Unrestricted	3,662,430	38,510,957	42,173,387
Total net assets	<u>\$ 158,017,360</u>	<u>\$ 191,532,813</u>	<u>\$ 349,550,173</u>

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

**SONOMA COUNTY WATER AGENCY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 3,219,345	\$ 431,807	\$ -	\$ 282,317	\$ (2,505,221)	\$ -	\$ (2,505,221)
Flood control	10,104,776	-	-	870,421	(9,234,355)	-	(9,234,355)
Warm Springs Dam	824,097	-	-	44,673	(779,424)	-	(779,424)
Interest on long-term debt	3,645,558	-	-	-	(3,645,558)	-	(3,645,558)
Total governmental activities	17,793,776	431,807	-	1,197,411	(16,164,558)	-	(16,164,558)
Business-type activities:							
Water transmission	31,003,297	29,201,585	984,117	2,617,957	-	1,800,362	1,800,362
Water supply	4,457,917	1,705,494	513,002	-	-	(2,239,421)	(2,239,421)
Sanitation	6,406,908	2,868,385	310	2,360,949	-	(1,177,264)	(1,177,264)
Total business-type activities	41,868,122	33,775,464	1,497,429	4,978,906	-	(1,616,323)	(1,616,323)
Total primary government	\$ 59,661,898	\$ 34,207,271	\$ 1,497,429	\$ 6,176,317	(16,164,558)	(1,616,323)	(17,780,881)
General revenues:							
Taxes:							
Property taxes, levied for general purposes					14,308,387	-	14,308,387
Property taxes, levied for debt service and assurances					5,034,396	39,441	5,073,837
Unrestricted investment earnings					9,832,932	2,213,910	12,046,842
Miscellaneous					189,185	29,807	218,992
Transfers					(2,462,000)	2,462,000	-
Total general revenues and transfers					26,902,900	4,745,158	31,648,058
Change in net assets					10,738,342	3,128,835	13,867,177
Net assets - beginning of year, as restated					147,279,018	188,403,978	335,682,996
Net assets - end of year					\$ 158,017,360	\$ 191,532,813	\$ 349,550,173

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

**SONOMA COUNTY WATER AGENCY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008**

	<u>Special Revenue Funds</u>				Total Governmental Funds
	General	Flood Control	Warm Springs Dam	Debt Service	
Assets					
Cash and investments	\$ 6,800,500	\$ 22,550,071	\$ 13,379,269	\$ 79,788,839	\$ 122,518,679
Accounts receivable	1,475,739	32,000	-	-	1,507,739
Advances to other funds	1,041,980	-	-	-	1,041,980
Total assets	\$ 9,318,219	\$ 22,582,071	\$ 13,379,269	\$ 79,788,839	\$ 125,068,398
Liabilities and fund balances					
Liabilities:					
Accounts payable	\$ 703,181	\$ 401,444	\$ 397,330	\$ -	\$ 1,501,955
Other current liabilities	-	500,000	-	-	500,000
Unearned revenue	21,722	-	-	-	21,722
Total liabilities	724,903	901,444	397,330	-	2,023,677
Fund balances					
Reserved for:					
Encumbrances	877,465	4,541,670	859,294	-	6,278,429
Debt service	-	-	-	79,788,839	79,788,839
Advances	1,041,980	-	-	-	1,041,980
Unreserved:					
Designated for contingencies	75,000	500,000	-	-	575,000
Undesignated	6,598,871	16,638,957	12,122,645	-	35,360,473
Total fund balances	8,593,316	21,680,627	12,981,939	79,788,839	123,044,721
Total liabilities and fund balances	\$ 9,318,219	\$ 22,582,071	\$ 13,379,269	\$ 79,788,839	\$ 125,068,398

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

Fund balances - total governmental funds \$ 123,044,721

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 are, therefore, not reported in the funds 152,083,594

Some liabilities are not due and payable in the current period, therefore, are not in the funds as follows:

Interest payable	(2,411,850)
Compensated absences	(2,519,036)
Long-term contracts payable	(112,180,069)

Net assets of governmental activities (page 16) \$ 158,017,360

SONOMA COUNTY WATER AGENCY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Special Revenue Funds</u>			<u>Debt Service</u>	<u>Total Governmental Funds</u>
	<u>General</u>	<u>Flood Control</u>	<u>Warm Springs Dam</u>		
REVENUES					
Property taxes	\$ 6,573,709	\$ 7,734,678	\$ 5,034,396	\$ -	\$ 19,342,783
Investment earnings	431,700	903,259	555,340	7,942,633	9,832,932
Intergovernmental	282,317	870,421	44,673	-	1,197,411
Charges for services	431,807	-	-	-	431,807
Miscellaneous	84,821	103,827	537	-	189,185
Total revenue	<u>7,804,354</u>	<u>9,612,185</u>	<u>5,634,946</u>	<u>7,942,633</u>	<u>30,994,118</u>
EXPENDITURES					
Current:					
General government:					
Salaries and benefits	25,093,493	-	-	-	25,093,493
Services and supplies	10,535,219	-	-	-	10,535,219
Costs applied	(32,607,036)	-	-	-	(32,607,036)
Flood control:					
Services and supplies	-	8,542,690	-	-	8,542,690
Warm Springs Dam:					
Services and supplies	-	-	824,097	-	824,097
Capital outlay	100,442	45,970	-	-	146,412
Debt service:					
Principal	-	-	-	2,584,448	2,584,448
Interest and fiscal charges	-	-	-	3,701,123	3,701,123
Total expenditures	<u>3,122,118</u>	<u>8,588,660</u>	<u>824,097</u>	<u>6,285,571</u>	<u>18,820,446</u>
Excess of revenues over expenditures	<u>4,682,236</u>	<u>1,023,525</u>	<u>4,810,849</u>	<u>1,657,062</u>	<u>12,173,672</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	3,000,000	3,000,000
Transfers out	(2,462,000)	-	(3,000,000)	-	(5,462,000)
Total other financing sources (uses)	<u>(2,462,000)</u>	<u>-</u>	<u>(3,000,000)</u>	<u>3,000,000</u>	<u>(2,462,000)</u>
Net changes in fund balances	2,220,236	1,023,525	1,810,849	4,657,062	9,711,672
Fund balances - beginning of year	<u>6,373,080</u>	<u>20,657,102</u>	<u>11,171,090</u>	<u>75,131,777</u>	<u>113,333,049</u>
Fund balances - end of year	<u>\$ 8,593,316</u>	<u>\$ 21,680,627</u>	<u>\$ 12,981,939</u>	<u>\$ 79,788,839</u>	<u>\$ 123,044,721</u>

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

**SONOMA COUNTY WATER AGENCY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008**

Net change in fund balances - total governmental funds (page 19) \$ 9,711,672

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	146,412
Depreciation expense	(1,711,843)

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces the long-term liabilities in the statement of net assets	2,584,448
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Some expenses reported in the statement of activities do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds.

Change in interest payable	55,565
Change in compensated absences	(47,912)

Change in net assets of governmental activities (page 17)	\$ 10,738,342
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SONOMA COUNTY WATER AGENCY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2008

ASSETS	Enterprise Funds				
	Water Transmission	Water Supply	Sanitation	Total Enterprise Funds	Internal Service Funds
Current assets:					
Cash and investments	\$ 29,110,311	\$ 4,782,821	\$ 4,211,589	\$ 38,104,721	\$ 9,607,714
Accounts receivable, net	4,914,755	1,098,432	95,294	6,108,481	113,424
Due from other funds	-	-	17,736	17,736	137,764
Prepaid expenses	-	-	-	-	438,295
Total current assets	<u>34,025,066</u>	<u>5,881,253</u>	<u>4,324,619</u>	<u>44,230,938</u>	<u>10,297,197</u>
Noncurrent assets:					
Restricted assets:					
Cash - revenue bond funds	1,957,788	-	122,938	2,080,726	-
Cash with trustee	2,861,550	-	153	2,861,703	-
Cash - notes payable	-	-	-	-	682,491
Total restricted assets	<u>4,819,338</u>	<u>-</u>	<u>123,091</u>	<u>4,942,429</u>	<u>682,491</u>
Deposits with others	13,000	-	-	13,000	-
Deferred charges	456,140	-	125,281	581,421	-
Advances to other funds	-	-	18,480	18,480	143,547
Capital assets, net of accumulated depreciation:					
Land	6,710,009	-	1,621,444	8,331,453	2,689,861
Construction in progress	18,695,058	2,343,168	1,841,857	22,880,083	126,007
Buildings and improvements	112,284,390	3,931,050	24,235,010	140,450,450	29,799,334
Equipment	<u>258,265</u>	<u>-</u>	<u>17,183</u>	<u>275,448</u>	<u>1,091,849</u>
Total capital assets	<u>137,947,722</u>	<u>6,274,218</u>	<u>27,715,494</u>	<u>171,937,434</u>	<u>33,707,051</u>
Total noncurrent assets	<u>143,236,200</u>	<u>6,274,218</u>	<u>27,982,346</u>	<u>177,492,764</u>	<u>34,533,089</u>
Total assets	<u>177,261,266</u>	<u>12,155,471</u>	<u>32,306,965</u>	<u>221,723,702</u>	<u>44,830,286</u>

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

**SONOMA COUNTY WATER AGENCY
STATEMENT OF NET ASSETS (CONTINUED)
PROPRIETARY FUNDS
JUNE 30, 2008**

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	2,529,836	538,897	351,042	3,419,775	172,259
Due to other funds	-	-	-	-	155,500
Due to other governments	307,342	-	-	307,342	373,178
Other current liabilities	700,000	-	-	700,000	-
Unearned revenue	112	129,107	-	129,219	-
Total current liabilities payable from unrestricted assets	<u>3,537,290</u>	<u>668,004</u>	<u>351,042</u>	<u>4,556,336</u>	<u>700,937</u>
Current liabilities payable from restricted assets:					
Deposits from others	4,230	-	-	4,230	-
Interest payable	586,096	-	63,933	650,029	111,295
General obligation bonds payable	-	-	27,000	27,000	-
Notes payable	-	-	-	-	683,111
Revenue bonds payable	543,180	-	195,620	738,800	-
Total current liabilities payable from restricted assets	<u>1,133,506</u>	<u>-</u>	<u>286,553</u>	<u>1,420,059</u>	<u>794,406</u>
Noncurrent liabilities:					
General obligation bonds payable	-	-	362,000	362,000	-
Notes payable	-	-	-	-	10,407,561
Revenue bonds payable	25,120,491	-	5,256,172	30,376,663	-
Advances from other governments	14,806,885	-	-	14,806,885	4,711,600
Advances from other funds	-	-	-	-	1,204,007
Unearned revenue	-	5,680,721	-	5,680,721	-
Total noncurrent liabilities	<u>39,927,376</u>	<u>5,680,721</u>	<u>5,618,172</u>	<u>51,226,269</u>	<u>16,323,168</u>
Total liabilities	<u>44,598,172</u>	<u>6,348,725</u>	<u>6,255,767</u>	<u>57,202,664</u>	<u>17,818,511</u>
NET ASSETS					
Invested in capital assets, net of related debt	97,169,824	6,274,218	21,874,702	125,318,744	17,531,601
Restricted for:					
Debt service	2,284,224	-	123,091	2,407,315	571,196
Capital projects	1,957,788	-	-	1,957,788	-
Recycled water and water conservation	5,235,212	-	-	5,235,212	-
Unrestricted	26,016,046	(467,472)	4,053,405	29,601,979	8,908,978
Total net assets	<u>\$ 132,663,094</u>	<u>\$ 5,806,746</u>	<u>\$ 26,051,198</u>	<u>164,521,038</u>	<u>\$ 27,011,775</u>
Adjustment to reflect the net assets of the internal service funds reported as business-type activities				<u>27,011,775</u>	
Net assets of business-type activities				<u>\$ 191,532,813</u>	

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

SONOMA COUNTY WATER AGENCY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	Enterprise Funds				Internal Service Funds
	Water Transmission	Water Supply	Sanitation	Total	
OPERATING REVENUE					
Water sales	\$ 26,966,976	\$ 1,655,866	\$ -	\$ 28,622,842	\$ -
Water services	42,445	-	-	42,445	-
Power sales	1,397,581	-	-	1,397,581	7,513,834
Flat charges	-	-	2,590,551	2,590,551	-
Sanitation services	-	-	222,473	222,473	-
Equipment rental	-	-	-	-	2,050,968
Real estate rental	-	-	50,000	50,000	2,402,306
Miscellaneous	794,583	49,628	5,361	849,572	116
Total operating revenue	29,201,585	1,705,494	2,868,385	33,775,464	11,967,224
OPERATING EXPENSES					
Services and supplies	28,209,114	4,295,756	3,478,597	35,983,467	8,279,017
Depreciation and amortization	3,889,742	176,010	1,048,068	5,113,820	1,433,446
Total operating expenses	32,098,856	4,471,766	4,526,665	41,097,287	9,712,463
Operating income (loss)	(2,897,271)	(2,766,272)	(1,658,280)	(7,321,823)	2,254,761
NONOPERATING REVENUES (EXPENSES)					
Taxes and assessments	-	-	39,441	39,441	-
Investment earnings	1,465,151	189,804	197,992	1,852,947	360,963
Interest expense	(217,561)	-	(271,820)	(489,381)	(786,733)
Gain on sale of capital assets	-	-	-	-	29,807
Loss on capital asset transfer	-	-	(1,749,482)	(1,749,482)	(1,641,294)
Intergovernmental revenue	984,117	513,002	310	1,497,429	-
Total nonoperating revenues (expenses)	2,231,707	702,806	(1,783,559)	1,150,954	(2,037,257)
Income (loss) before capital contributions and transfers	(665,564)	(2,063,466)	(3,441,839)	(6,170,869)	217,504
Capital contributions - connection fees	-	-	445,071	445,071	-
Capital contributions - other	-	-	-	-	6,175,129
Transfers in	-	1,840,000	622,000	2,462,000	-
Change in net assets	(665,564)	(223,466)	(2,374,768)	(3,263,798)	6,392,633
Net assets - beginning of year	133,328,658	6,030,212	28,425,966		20,619,142
Net assets - end of year	\$ 132,663,094	\$ 5,806,746	\$ 26,051,198		\$ 27,011,775
Adjustment to reflect the change in net assets of internal service funds reported as business-type activities				6,392,633	
Change in net assets of business-type activities				<u>\$ 3,128,835</u>	

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, 2008**

	<u>Enterprise Funds</u>				<u>Internal Service Funds</u>
	<u>Water Transmission</u>	<u>Water Supply</u>	<u>Sanitation</u>	<u>Total</u>	
Cash flows from operating activities					
Cash receipts from customers	\$ 29,837,478	\$ 1,635,428	\$ 2,908,885	\$ 34,381,791	\$ -
Cash receipts from interfund services provided	-	-	-	-	11,866,323
Cash payments for interfund services used	(13,141,066)	(2,082,285)	(1,669,309)	(16,892,660)	(1,226,292)
Cash payments to suppliers	(13,377,945)	(2,093,565)	(1,654,490)	(17,126,000)	(7,453,438)
Net cash provided by (used for) operating activities	<u>3,318,467</u>	<u>(2,540,422)</u>	<u>(414,914)</u>	<u>363,131</u>	<u>3,186,593</u>
Cash flows from noncapital financing activities					
Taxes and assessments	-	-	39,441	39,441	-
Intergovernmental revenue	984,117	263,502	310	1,247,929	-
Transfers in	-	1,840,000	622,000	2,462,000	-
Net cash provided by noncapital financing activities	<u>984,117</u>	<u>2,103,502</u>	<u>661,751</u>	<u>3,749,370</u>	<u>-</u>
Cash flows from capital and related financing activities					
Purchases of capital assets	(5,471,456)	(13,277)	(846,799)	(6,331,532)	(416,185)
Principal paid on long-term debt	(520,000)	-	(253,487)	(773,487)	(656,102)
Principal paid on advances from other funds	-	-	-	-	(149,235)
Principal paid on advances from other governments	-	-	-	-	(358,144)
Interest paid on long-term debt	(1,552,651)	-	(303,686)	(1,856,337)	(742,237)
Proceeds from issuance of long-term debt	3,712,865	-	-	3,712,865	-
Proceeds from interfund borrowings	-	-	-	-	1,000,000
Connection fees	-	-	445,071	445,071	-
Proceeds from sale of capital assets	-	-	-	-	17,284
Net cash used for capital and related financing activities	<u>(3,831,242)</u>	<u>(13,277)</u>	<u>(958,901)</u>	<u>(4,803,420)</u>	<u>(1,304,619)</u>
Cash flows from investing activities					
Repayment on advances to other funds - principal	-	-	17,020	17,020	132,213
Repayment on advances to other funds - interest	-	-	2,235	2,235	17,360
Interest received	1,465,151	189,804	195,757	1,850,712	343,603
Net cash provided by investing activities	<u>1,465,151</u>	<u>189,804</u>	<u>215,012</u>	<u>1,869,967</u>	<u>493,176</u>
Net increase (decrease) in cash and cash equivalents	1,936,493	(260,393)	(497,052)	1,179,048	2,375,150
Cash and cash equivalents - beginning of year	<u>31,993,156</u>	<u>5,043,214</u>	<u>4,831,732</u>	<u>41,868,102</u>	<u>7,915,055</u>
Cash and cash equivalents - end of year	<u>\$ 33,929,649</u>	<u>\$ 4,782,821</u>	<u>\$ 4,334,680</u>	<u>\$ 43,047,150</u>	<u>\$ 10,290,205</u>
Reconciliation to the statement of net assets:					
Cash and investments	\$ 29,110,311	\$ 4,782,821	\$ 4,211,589	\$ 38,104,721	\$ 9,607,714
Restricted cash and investments	4,819,338	-	123,091	4,942,429	682,491
Cash and cash equivalents	<u>\$ 33,929,649</u>	<u>\$ 4,782,821</u>	<u>\$ 4,334,680</u>	<u>\$ 43,047,150</u>	<u>\$ 10,290,205</u>

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

**SONOMA COUNTY WATER AGENCY
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008**

	Enterprise Funds				Internal Service Funds
	Water Transmission	Water Supply	Sanitation	Total	
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	\$ (2,897,271)	\$ (2,766,272)	\$ (1,658,280)	\$ (7,321,823)	\$ 2,254,761
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation and amortization	3,889,742	176,010	1,048,068	5,113,820	1,433,446
Change in assets and liabilities:					
Receivables, net	635,781	(70,066)	40,500	606,215	(100,901)
Prepaid expenses	1,574,732	-	40,779	1,615,511	(429,849)
Inventory	-	-	-	-	-
Accounts and other payables	115,371	119,906	191,621	426,898	29,136
Unearned revenue	112	-	-	112	-
Due to other funds	-	-	(77,602)	(77,602)	-
Net cash provided by (used for) operating activities	\$ 3,318,467	\$ (2,540,422)	\$ (414,914)	\$ 363,131	\$ 3,186,593
 Noncash Capital and Related Financing Activities:					
Transfer of capital assets related to photovoltaic project	\$ -	\$ -	\$ (4,375,716)	\$ (4,375,716)	\$ 12,602,991
Transfer of outstanding capital lease obligation associated with photovoltaic project	-	-	2,591,484	2,591,484	(2,572,997)
Long-term advance from other governments in exchange for capital assets related to photovoltaic project	-	-	-	-	(5,442,922)
Acquisition of capital assets included in accounts payable	626,978	58,067	36,591	721,636	28,997

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, 2008**

ASSETS

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

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

Notes to the Basic Financial Statements

The notes to the basic financial statements include a summary of significant accounting policies and other notes considered essential to fully disclose and fairly present the transactions and financial position of the Water Agency as follows:

- Note A. Defining the Financial Reporting Entity
- Note B. Summary of Significant Accounting Policies
- Note C. Stewardship, Compliance and Accountability
- Note D. Restatement of Net Assets
- Note E. Implementation of Governmental Accounting Standards Board (GASB) Statements
- 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. Employees' Retirement Plan
- Note N. Postemployment Benefits
- Note O. Related Party Transactions
- Note P. Risk Management
- Note Q. Commitments and Contingencies
- Note R. Economic Dependence
- Note S. Future Governmental Accounting Standards
- Note T. Subsequent Event

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

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, Town of Windsor, and Cotati, as well as Valley of the Moon 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 Park 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.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008**

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 fiscal period. 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).

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008**

Note B. Summary of Significant Accounting Policies (Continued)

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. 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 Water Transmission Fund, the Water Supply Fund and the Sanitation Fund 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 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.

Debt Service Fund: This fund includes the debt service annual obligations related to the Water Agency's contract with the U.S. Army Corps of Engineers for water supply storage space at Warm Springs Dam.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008**

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, and North Marin Water Districts 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 on sale 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.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008**

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, except that the guaranteed investment contract is recorded at cost. Guaranteed investment contracts are non-marketable interest bearing agreements with or guaranteed by certain financial institutions. The agreements provide for a guaranteed return on principal over a specified period. A guaranteed investment contract is a general obligation instrument issued by a financial institution, subject to any applicable legal restrictions. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, and is determined from published data provided by the exchanges, computerized pricing sources, the National Association of Securities Dealers' National Market System, securities custodians and other authoritative sources.

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

Accounts Receivable

The Water Agency's accounts receivable are reported at their estimated net realizable value and consist primarily of water sales to local water districts and cities. The Water Agency has established an allowance for uncollectible accounts in the amount of \$20,250 as of June 30, 2008. If the amount becomes uncollectible, the accounts will be written-off and charged against the allowance account when the determination has been made.

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.

Deferred Charges - Enterprise Funds

Deferred charges consist of debt issuance costs of \$581,421 as of June 30, 2008, net of accumulated amortization. These costs are amortized over the term of the related bond issuance using the straight-line method.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008**

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 G.

Capitalized Interest

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

Bond Discounts and Premiums and Deferred Amount on Refunding

Bond discounts and premiums are 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.

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.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008**

Note B. Summary of Significant Accounting Policies (Continued)

Compensated Absences

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 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.

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,.

**SONOMA COUNTY WATER AGENCY
 NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED JUNE 30, 2008**

Note B. Summary of Significant Accounting Policies (Continued)

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
Flood Control	500,000
	\$575,000

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.

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*.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008**

Note B. Summary of Significant Accounting Policies (Continued)

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 will be set aside to be used in the event of catastrophic losses. The amount collected as of June 30, 2008 is \$1,028,831.

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. Restatement of Net Assets

Effective July 1, 2007, the Water Agency has restated and decreased beginning net assets of governmental activities by \$8,023,704, to \$147,279,018 from the amount previously reported of \$155,302,722. The Water Agency determined that certain expenses related to various flood control projects were incorrectly classified as construction in progress.

Note E. Implementation of Governmental Accounting Standards Board (GASB) Statements

Effective July 1, 2007, the Water Agency implemented the following new GASB statements:

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45 addresses how governmental entities should account for and report their costs and obligations related to postemployment healthcare and other non-pension benefits. Collectively, these benefits are commonly referred to as other postemployment benefits, or OPEB. The Water Agency offers postretirement medical and dental benefits. The statement generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB cost for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008**

**Note E. Implementation of Governmental Accounting Standards Board (GASB) Statements
(Continued)**

Effective July 1, 2007, the Water Agency implemented the following new GASB statements
(Continued):

This statement's provisions may be applied prospectively and does not require governmental entities to fund their OPEB plans. An employer may establish its OPEB liability at zero as of the beginning of the initial year of implementation; however the unfunded actuarial liability is required to be amortized over future periods. The Water Agency has elected to implement the requirements of GASB Statement No. 45 on a prospective basis.

GASB Statement No. 45 also established disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time.

GASB Statement No. 50, *Pension Disclosures*, which more closely aligns the financial reporting requirements for pensions with those for OPEB and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

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.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008**

Note F. Cash and Investments (Continued)

Authorized Investments (Continued)

Permitted investments include the following:

- U.S. Treasury and Federal Agency securities
- Bonds and notes issued by local agencies
- Registered state warrants and municipal notes
- Negotiable certificates of deposit
- Bankers' acceptances
- Commercial paper
- Medium-term corporate notes
- Local Agency Investment Fund (State Pool) deposits
- Repurchase agreements
- Reverse repurchase agreements
- 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 100F, Santa Rosa, California, 95403.

Cash and investments as of June 30, 2008 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	\$ 170,231,114
Cash and investments restricted for revenue bond funds	2,080,726
Cash and investments with trustee	2,861,703
Cash and investment restricted for notes payable	682,491
Fiduciary funds:	
Cash and investments	14,100
<hr/>	
Total cash and investments	\$ 175,870,134
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Cash and investments as of June 30, 2008 consist of the following:

Investment in County Treasurer's Pool:	
Unrestricted	\$ 99,309,975
Restricted for revenue bonds	2,080,726
Restricted for notes payable	682,491
Restricted for capital projects	
Nonpooled cash and investments:	
Cash on hand	750
Investments	70,934,489
Restricted for revenue bonds	2,861,703
<hr/>	
Total cash and investments	\$175,870,134
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**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008**

Note F. Cash and Investments (Continued)

As of June 30, 2008, the Water Agency's investments consisted of \$102,073,192 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 394 days. The credit rating and other information regarding specific investments maintained in the Treasury Pool as of June 30, 2008 are disclosed in the County's 2007-2008 Comprehensive Annual Financial Report.

Also, the Agency reported \$70,934,489 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 \$112,180,069 contract payable to the U.S. Army Corps of Engineers (refer to Note J).

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:

Investment Type	Amount	Maturity			
		12 Months or less	13 to 24 Months	25 to 60 Months	More than 60 Months
County Treasury Pool	\$ 102,073,192	\$ -	\$102,073,192	\$ -	\$ -
U.S. Treasury STRIPS	70,934,489	6,091,447	5,941,081	16,687,773	42,214,188
Guaranteed investment contract	988,088	-	-	-	988,088
Money market mutual fund	1,873,615	1,873,615	-	-	-
Total	\$ 175,869,384	\$ 7,965,062	\$108,014,273	\$ 16,687,773	\$43,202,276

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008**

Note F. Cash and Investments (Continued)

Custodial Credit Risk

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

- 1) The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by depository regulated under stated law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies.
- 2) 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.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008**

Note F. Cash and Investments (Continued)

Credit Risk (Continued)

Investment Type	Total	Minimum Legal Rating	Exempt From Disclosure	Rating at year end	
				AAA	Not Rated
County Treasury Pool	\$ 102,073,192	Not rated	\$ -	\$ -	\$102,073,192
U.S. Treasury STRIPS	70,934,489	N/A	70,934,489	-	-
Guaranteed investment contract	988,088	N/A	-	-	988,088
Money market mutual fund	1,873,615	AAA	-	1,873,615	-
Total	\$ 175,869,384		\$ 70,934,489	\$ 1,873,615	\$103,061,280

Note G. Accounts Receivable

Accounts receivable as of June 30, 2008 was comprised of the following:

	<u>Accounts</u>	<u>Inter- governmental</u>	<u>Total Receivables</u>
Governmental Activities:			
General Fund	\$ 40,623	\$ 1,435,116	\$ 1,475,739
Flood Control	32,000	-	32,000
Total Governmental Activities	\$ 72,623	\$ 1,435,116	\$ 1,507,739
Business-Type Activities:			
Water Transmission	\$ 4,774,702	\$ 140,053	\$ 4,914,755
Water Supply	819,284	279,148	1,098,432
Sanitation	95,294	-	95,294
Internal Service Funds	113,424	-	113,424
Total Business-Type Activities	\$ 5,802,704	\$ 419,201	\$ 6,221,905

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008**

Note H. Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows:

	July 1, 2007 as restated	Additions	Retirements	Transfers	June 30, 2008
<i>Governmental Activities:</i>					
Capital assets, not being depreciated:					
Intangible assets - water storage rights	\$102,371,000	\$ -	\$ -	\$ -	\$102,371,000
Land	1,537,914	-	-	-	1,537,914
Construction in progress	66,343	45,970	-	-	112,313
Total capital assets, not being depreciated	103,975,257	45,970	-	-	104,021,227
Capital assets, being depreciated:					
Infrastructure	64,834,097	-	-	-	64,834,097
Buildings and improvements	3,419,740	-	-	-	3,419,740
Equipment	959,942	100,443	(37,868)	-	1,022,517
Total capital assets being depreciated	69,213,779	100,443	(37,868)	-	69,276,354
Less accumulated depreciation for:					
Infrastructure	(17,539,396)	(1,562,086)	-	-	(19,101,482)
Buildings and improvements	(1,299,701)	(85,802)	-	-	(1,385,503)
Equipment	(700,915)	(63,955)	37,868	-	(727,002)
Total accumulated depreciation	(19,540,012)	(1,711,843)	37,868	-	(21,213,987)
Total capital assets, being depreciated, net	49,673,767	(1,611,400)	-	-	48,062,367
Capital assets, net	\$153,649,024	\$(1,565,430)	\$ -	\$ -	\$152,083,594

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008**

Note H. Capital Assets (Continued)

	July 1, 2007	Additions	Retirements	Transfers	June 30, 2008
<i>Business-type Activities</i>					
Capital assets, not being depreciated:					
Land	\$ 11,020,874	\$ 440	\$ -	\$ -	\$11,021,314
Construction in progress	38,723,506	7,992,354	(51,324)	(23,658,446)	23,006,090
Total capital assets, not being depreciated	49,744,380	7,992,794	(51,324)	(23,658,446)	34,027,404
Capital assets, being depreciated:					
Buildings and improvements	206,712,900	-	-	31,885,721	238,598,621
Equipment	7,855,770	330,950	(266,074)	-	7,920,646
Total capital assets, being depreciated	214,568,670	330,950	(266,074)	31,885,721	246,519,267
Less accumulated depreciation for:					
Buildings and improvements	(62,324,488)	(6,024,349)	-	-	(68,348,837)
Equipment	(6,320,852)	(498,571)	266,074	-	(6,553,349)
Total accumulated depreciation	(68,645,340)	(6,522,920)	266,074	-	(74,902,186)
Total capital assets, being depreciated, net	145,923,330	(6,191,970)	-	31,885,721	171,617,081
Capital assets, net	\$195,667,710	\$ 1,800,824	\$ (51,324)	\$ 8,227,275	\$205,644,485

The total amount of interest capitalized into capital assets of business-type activities during the year ended June 30, 2008 amounted to \$1,355,897.

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

Governmental Activities:

General government	\$ 149,757
Flood control	1,562,086
Total depreciation expense - governmental activities	\$ 1,711,843

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008**

Note H. Capital Assets (Continued)

Business-type Activities:

Water Transmission	\$ 3,871,990
Water Supply	176,010
Sanitation	1,041,474
Internal Service Funds	1,433,446
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Total depreciation expense - business-type activities	\$ 6,522,920
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Intangible Asset – Warm Springs Dam Project

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

In March 1992, the cost of the project to the Water Agency was established at \$102,371,000. The estimated cost of the Water Agency's portion of the project is approximately 30% of the total project joint use construction costs and accrued interest. The liability for the contract is shown as a long-term contracts payable within the governmental activities (refer to Note J). 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, 2008, unearned revenue totaled \$5,809,828, 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.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008**

Note J. Interfund Transactions

A summary of interfund activity as of and for the year ended June 30, 2008 is as follows:

Interfund Transfers

Transfer from	Transfer to	Amount	Purpose
Warm Springs Dam	Debt Service Fund	\$ 3,000,000	Transfer funds for scheduled principal and interest debt service payment
General Fund	Water Supply Fund	1,840,000	Provide funding to cover portion of Water Supply projects
General Fund	Sanitation Fund	622,000	Provide funding to cover operating and construction expenses
Total transfers		\$ 5,462,000	

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, 2008, the Power Resources internal service fund has drawn \$1,000,000 from the general fund. Interest accrued as of June 30, 2008 amounted to \$41,980.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008**

Note J. Interfund Transactions (Continued)

Advances from Other Funds (Continued)

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

	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>Authorized & Issued</u>	<u>Outstanding June 30, 2008</u>
General Fund	2033	4.198%	\$ 1,041,980	\$ 1,041,980
Sanitation Fund:				
Airport-Larkfield-Wikiup	2010	4.198%	53,237	36,216
Internal Service Funds:				
Equipment Facilities	2010	4.198%	413,525	281,311
				1,359,507
Less due to other funds – current portion				(155,500)
Total advances from other funds				\$ 1,204,007

Note K. Long-Term Obligations

Long-term obligations as of June 30, 2008, consist of the following:

	Governmental Activities	Business-type Activities
General obligation bonds	\$ -	\$ 389,000
Notes payable	-	11,090,672
Water revenue bonds payable	-	25,570,000
Water and wastewater revenue bonds payable	-	5,820,000
Advance from other governments	-	20,199,005
Long-term contracts payable	112,180,069	-
Compensated absences	2,519,036	-
	\$ 114,699,105	\$63,068,677

Governmental Activities:

Long-Term Contracts Payable:

	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>Authorized and Issued</u>	<u>Outstanding June 30, 2008</u>
1986 Federal contract payable	2034	3.225%	\$ 102,371,000	\$112,180,069

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008**

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 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, 2008, vested vacation and sick leave for Water Agency employees amounted to \$2,519,036. 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 fiscal years. Compensated absences are generally liquidated by the General Fund.

Business-type Activities

General Obligation Bonds Payable:

	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>Authorized & Issued</u>	<u>Outstanding June 30, 2008</u>
<u>Sanitation Zones</u>				
1977 Penngrove	2017	5%	\$ 300,000	\$ 134,000
1980 Geyserville	2020	5%	500,000	255,000
Total general obligation bonds payable				\$ 389,000

Notes Payable:

	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>Authorized & Issued</u>	<u>Outstanding June 30, 2008</u>
Note Payable – LaSalle Bank	2016	4.65%	\$ 8,800,000	\$ 7,092,921
Note Payable – Banc of America	2020	4.54%	2,000,000	1,573,627
Note Payable – Banc of America	2020	4.08%	2,750,000	2,424,124
Total notes payable				\$11,090,672

On July 1, 2003, the Water Agency purchased an office facility on Aviation Boulevard in Santa Rosa and financed the purchase with a note payable with LaSalle Bank. The Agency also signed two notes payable with Banc of America Leasing and Capital, LLC. The first note was executed on June 23, 2005 for facilities improvements with a maturity on April 1, 2020. The second note was executed on February 17, 2006 for the acquisition of solar paneling with a maturity date of October 1, 2020.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008**

Note K. Long-Term Obligations (Continued)

Business-type Activities (Continued)

Water Revenue Bonds Payable:

	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>Authorized and Issued</u>	<u>Outstanding June 30, 2008</u>
Water Revenue Bonds, 2003 Series A	2032	2.00 - 5.00%	\$ 15,680,000	\$ 14,265,000
Deferred amount for unamortized discount				(24,123)
Water Revenue Bonds 2006 Series A	2036	4.00 - 5.00%	11,500,000	11,305,000
Deferred amount for unamortized premium				117,794
Total water revenue bonds payable, net				\$ 25,663,671

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.

Water and Wastewater Revenue Bonds Payable:

	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>Authorized and Issued</u>	<u>Outstanding June 30, 2008</u>
California Statewide Communities Development Authority (CSCDA) 2005C Revenue Bonds	2027	2.70 - 5.00%	\$ 6,220,000	\$5,820,000
Deferred amount for unamortized premium				118,889
Deferred amount on refunding				(487,097)
Total water and wastewater revenue bonds payable, net				\$5,451,792

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008**

Note K. Long-Term Obligations (Continued)

Business-type Activities (Continued)

The terms covering the 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:

	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>Authorized & Issued</u>	<u>Outstanding June 30, 2008</u>
State Revolving Fund Loan	2027	2.79%	\$15,114,227	\$ 15,114,227
Sonoma Valley County Sanitation District (CSD)	2019	4.198%	5,442,922	5,084,778
Total advances from other governments				\$ 20,199,005

The Water Agency is in the process of constructing a collector well to be 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, 2008, the Water Agency has received loan funds in the amount of \$15,114,227. Repayment of this loan will commence upon completion of the project.

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, 2008 is \$5,084,778.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008**

Note K. Long-Term Obligations (Continued)

Changes in Long-Term Obligations

A summary of changes in long-term obligations for the year ended June 30, 2008 is as follows:

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008	Amounts Due Within One Year
<u>Governmental activities</u>					
Long-term contracts payable	\$114,764,517	\$ -	\$(2,584,448)	\$ 112,180,069	\$2,667,796
Compensated absences	2,471,124	1,906,264	(1,858,352)	2,519,036	66,912
Total governmental activities	117,235,641	1,906,264	(4,442,800)	114,699,105	2,734,708
<u>Business-type activities</u>					
General obligation bonds	414,000	-	(25,000)	389,000	27,000
Long-term notes payable					
LaSalle Bank	7,503,353	-	(410,432)	7,092,921	429,739
Banc of America Leasing	1,670,424	-	(96,797)	1,573,627	101,243
Banc of America Leasing	2,591,484	-	(167,360)	2,424,124	152,129
Water revenue bonds					
Series 2003A	14,590,000	-	(325,000)	14,265,000	335,000
Deferred amount for unamortized discount	(25,150)	-	1,026	(24,124)	(1,027)
Series 2006A	11,500,000	-	(195,000)	11,305,000	205,000
Deferred amount for unamortized premium	122,001	-	(4,207)	117,794	4,207
Water and wastewater revenue bonds					
Series 2005C	6,030,000	-	(210,000)	5,820,000	215,000
Deferred amount for unamortized premium	125,147	-	(6,257)	118,890	6,257
Deferred amount on refunding	(512,734)	-	25,637	(487,097)	(25,637)
Advance from other governments					
State Revolving Fund	11,401,362	3,712,865	-	15,114,227	307,342
Sonoma Valley CSD	-	5,442,922	(358,144)	5,084,778	373,178
Total business-type activities	55,409,887	9,155,787	(1,771,534)	62,794,140	2,129,431
Total	\$172,645,528	\$11,062,051	\$(6,214,334)	\$ 177,493,245	\$4,864,139

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008**

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, 2008 (excluding compensated absences), are as follows:

General Obligation Bonds

Year ending June 30,	Principal	Interest	Total
2009	\$ 27,000	\$ 19,175	\$ 46,175
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 - 2018	188,000	40,525	228,525
2019 - 2020	53,000	4,000	57,000
Total general obligation bonds	\$ 389,000	\$ 126,150	\$ 515,150

Notes Payable

Year ending June 30,	Principal	Interest	Total
2009	\$ 683,111	\$ 492,542	\$ 1,175,653
2010	714,244	461,409	1,175,653
2011	746,800	428,853	1,175,653
2012	780,844	394,810	1,175,654
2013	816,443	359,210	1,175,653
2014 - 2018	6,437,638	963,862	7,401,500
2019 - 2021	911,592	55,026	966,618
Total notes payable	\$ 11,090,672	\$ 3,155,712	\$14,246,384

Water Revenue Bonds

Year ending June 30,	Principal	Interest	Total
2009	\$ 540,000	\$ 1,163,068	\$1,703,068
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 - 2018	3,515,000	4,977,701	8,492,701
2019 - 2023	4,330,000	4,137,387	8,467,387
2024 - 2028	5,405,000	3,018,327	8,423,327
2029 - 2033	6,850,000	1,532,500	8,382,500
2034 - 2037	2,570,000	265,000	2,835,000
Total water revenue bonds	\$ 25,570,000	\$ 19,540,659	\$45,110,659

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008**

Note K. Long-Term Obligations (Continued)

Water & Wastewater Revenue Bonds

Year ending June 30,	Principal	Interest	Total
2009	\$ 215,000	\$ 243,791	\$ 458,791
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 - 2018	1,360,000	932,698	2,292,698
2019 - 2023	1,665,000	612,694	2,277,694
2024 - 2027	1,650,000	160,516	1,810,516
Total water and wastewater revenue bonds	\$ 5,820,000	\$ 2,855,526	\$8,675,526

Long-Term Contracts Payable - 1986 Federal Contract

Year ending June 30,	Principal	Interest	Total
2009	\$ 2,667,796	\$ 3,617,775	\$6,285,571
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 - 2018	16,674,560	14,753,297	31,427,857
2019 - 2023	19,542,443	11,885,415	31,427,858
2024 - 2028	22,903,577	8,524,281	31,427,858
2029 - 2033	26,842,797	4,585,060	31,427,857
2034 - 2035	11,989,149	582,994	12,572,143
Total long-term contracts payable	\$112,180,069	\$ 57,531,362	\$169,711,431

Note L. Debt Defeasance

In September 2005, the Water Agency and the California Statewide Communities Development Authority, 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, 2008, \$5,505,000 of the Series 2000B revenue bonds was still outstanding.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008**

Note M. Employees' Retirement Plan

Plan Description

The Water Agency contributes to the County's cost sharing multiple-employer defined benefit pension plan (the Plan) that is administered by the Sonoma County Employees' Retirement Association (the Retirement Association), a public employee retirement system. The Water Agency joined the Retirement Association as of October 1, 1963. Substantially all full-time employees of the Water Agency participate in this plan. The Plan provides retirement, disability, death and survivor benefits and cost-of-living adjustments to plan members and beneficiaries. All permanent employees working at least half time of a full-time position for the Water Agency are eligible. Benefits are based on the employee's final average salary, years of service, and age at the time of retirement. The Plan is governed by the California Government Code, Title 3, Division 4, Part 3, Chapter 3. The Board of Retirement has the authority to establish and amend benefit provisions and 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.

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, 2008, 2007 and 2006. The Plan is required to contribute at an actuarially determined rate which was 26.01%, 24.77% and 24.77% of annual covered payroll for the years ended June 30, 2008, 2007 and 2006, 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, 2007, 2006 and 2005 was \$16,214,538, \$15,219,130 and \$14,308,571, respectively, which represents approximately 5.20%, 5.14% and 5.39%, 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 2008, 2007 and 2006 were \$3,309,186 \$2,771,642 and \$2,443,825, respectively, which was equal to its annual required contribution each year.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008**

Note N. Postemployment Benefits

Plan Description

In addition to the pension benefits described in Note L 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 pays approximately 85% of the health care insurance premium for retirees and their eligible dependents. 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.

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, 2008, 2007 and 2006 was \$1,183,559, \$1,136,743 and \$837,237, respectively. The \$1,183,559 of premium payments recognized for the year ended June 30, 2008, 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 post-employment benefits, which is not presented here because the Water Agency's share cannot be separated from the whole.

Note O. Related Party Transactions

The Water Agency is a special district under the Board of Supervisors, and as such, has the same board members as the County. The Water Agency manages and provides administration, engineering, operational, and maintenance services for the Occidental County Sanitation District, South Park County Sanitation District, Russian River County Sanitation District and the Sonoma Valley 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.

**SONOMA COUNTY WATER AGENCY
 NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED JUNE 30, 2008**

Note O. Related Party Transactions (Continued)

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, 2008 is as follows:

Occidental County Sanitation District	\$	536,806
Russian River County Sanitation District		1,181,899
Sonoma Valley County Sanitation District		3,730,024
South Park County Sanitation District		58,236

Also, for the year ended June 30, 2008, the Water Agency provided the Occidental County Sanitation District \$2,932,184 in funding to assist the District in meeting operating and construction expenses.

Note P. 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 \$575,000,000 per occurrence including flood and \$60,000,000 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, 2008, the Water Agency paid annual premiums to the County for this insurance coverage in the amount of \$213,126. Settlements have not exceeded coverages for each of the past three fiscal years.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008**

Note Q. Commitments and Contingencies

Construction

The Water Agency has active construction projects as of June 30, 2008. The projects include expansion and/or improvements of several flood control, water storage and wastewater treatment facilities. As of June 30, 2008, the Water Agency's commitments to construction projects are as follows:

Project	Spent-to-Date	Remaining Commitment
Flood Control:		
Zone 1A – Laguna Mark West	\$ 99,221	\$ -
Zone 2A – Petaluma Basin	13,091	-
Sanitation facilities	1,841,857	154,236
Water storage facilities	84,297	27,681
Common facilities	16,204,236	2,140,718
Pipeline facilities	2,406,525	1,045,563
Internal service facilities	126,007	-
Water supply facilities	2,343,168	-
Total	\$ 23,118,402	\$3,368,198

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.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008**

Note Q. Commitments and Contingencies (Continued)

Pending Litigation, Claims and Assessments (Continued)

The Water Agency is liable for clean-up costs related to lead-contaminated fill involving a certain parcel in connection with its flood control project, purchased by the Water Agency as part of a litigation settlement in 2000, and the possible clean-up of the adjacent properties for some lengthy distance. The North Coast Regional Water Control Board (NC Regional Board) is requiring 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 purchased parcel. The Water Agency is in the process of developing its work plan for submittal to the NC Regional Board. The Water Agency will be liable for clean-up costs for at least the purchased parcel. However, the NC Regional Board has not yet specified the level of clean-up which will be required, nor whether the Water Agency may be required to perform further work beyond the boundary of the purchased parcel. Accordingly, costs are unknown, although they are expected to be substantial. Liability could reach into the millions, depending on the extent of contamination and the direction of the NC Regional Board.

The contractors of the Wohler-Forestville Pipeline, the Pumphouse and Connecting Pipeline for Wohler Collector 6, and one of the Water Agency's water storage tanks filed claims for extensions of time and extra work costs plus relief for assessed liquidated damages, which were rejected by the Water Agency. After mediation the Water Agency settled the matter upon payment of \$225,000 (release of liquidated damages and remaining contract amount). Payment of the settlement amount was made in March.

The contractors of the Wohler-Forestville Pipeline, the Pumphouse and Connecting Pipeline for Wohler Collector 6, have also filed supplemental claims in February 2007 in excess of \$4,000,000. At the required mediation the contractor offered to settle the claim for \$2,000,000. This offer was rejected by the Water Agency. The parties are currently conducting discovery and it is too early to predict the outcome of this litigation. The ultimate amount of liability is contingent upon the final settlement of the claims.

The contractor hired to construct an above-ground fuel storage tank at the Airport-Larkfield-Wikiup wastewater treatment plant has filed claims against the Water Agency that exceed \$450,000. However, the Water Agency has filed claims and assessed liquidated damages against the contractor in excess of \$400,000. Negotiations with the contractor and required mediation both failed to produce a settlement and litigation has started. The parties are currently conducting discovery, and it is too early to predict the outcome of this matter.

The contractor hired to re-coat one of the Water Agency's water storage tanks filed a claim in December, 2004 for \$577,068 and also sought relief from liquidated damages assessed totaling about \$105,000. The Water Agency and contractor were unable to resolve the claim. The contractor may litigate its claim and the claim, together with costs and expenses of litigation could exceed \$1,000,000.

The minimum cost of liabilities related to these claims is estimated by management at \$1,200,000 of which, \$500,000 was accrued in the Flood Zone special revenue fund, and \$700,000 was accrued in the Water Transmission enterprise fund.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008**

Note Q. Commitments and Contingencies (Continued)

Other Regulatory Matters

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

The Water Agency is subject to Section VII of the Endangered Species Act. Section VII requires that all affected agencies, including the Water Agency, consult with fish and wildlife officials before performing any work which might disrupt or harm any endangered or threatened species or their habitat. This Act increases the possibility of threatened litigation from various environmental groups and individuals. The Water Agency is also subject to Section X of the Endangered Species Act which deals with habitat conservation planning.

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 increases the Water Agency's degree of exposure to individual property owners and possible litigation in the event of wet weather and possibility of flooding.

Note R. Economic Dependence

Four major customers purchased water from the Water Agency during the year ended June 30, 2008. Water sales revenue for the year ended June 30, 2008 and accounts receivable as of June 30, 2008 associated with those customers are as follows:

	Water Sales	% of total water sales
City of Santa Rosa	\$ 9,945,954	34.8%
Marin Municipal	4,567,716	16.0%
City of Petaluma	4,409,007	15.4%
North Marin County	3,930,646	13.8%
	\$ 22,853,323	80.0%

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008**

Note R. Economic Dependence (Continued)

	Accounts Receivable	% of Total Water Accounts Receivable
City of Santa Rosa	\$ 2,087,700	40.4%
City of Petaluma	993,367	19.2%
Marin Municipal	874,286	16.9%
North Marin County	491,622	9.5%
	\$ 4,446,975	86.0%

Note S. Future Governmental Accounting Standards

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

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. GASB Statement No. 49 is effective for financial statements for years beginning after December 15, 2007.

The impact on the basic financial statements of the Water Agency of this pronouncement which has not yet been adopted, is unknown at this time.

Note T. Subsequent Event

On September 16, 2008 the Board of Directors authorized the Agency to enter into a lease with Municipal Finance Corporation for the purchase and improvement of a building located at 1315 Airport Blvd, Santa Rosa, CA. The lease closed on September 23, 2008. The principal amount of the lease is \$5,835,000 with semi-annual payments of \$265,936 for 15 years at an interest rate of 4.3%.

Required Supplementary Information

**SONOMA COUNTY WATER AGENCY
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> <u>(Budgetary Basis)</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>See Note A</u>	<u>Final Budget</u>
REVENUES				
Property taxes	\$ 5,705,000	\$ 5,705,000	\$ 6,573,709	\$ 868,709
Fines, forfeitures and penalties	600	600	-	(600)
Investment earnings	302,500	302,500	431,700	129,200
Intergovernmental	116,000	335,176	282,317	(52,859)
Charges for services	527,000	677,000	431,807	(245,193)
Miscellaneous	593,382	593,382	84,821	(508,561)
Total revenues	<u>7,244,482</u>	<u>7,613,658</u>	<u>7,804,354</u>	<u>190,696</u>
EXPENDITURES				
Current:				
Salaries and benefits	24,811,426	25,204,558	25,093,493	111,065
Services and supplies	12,753,930	13,817,023	8,720,074	5,096,949
Costs applied	(32,548,990)	(32,548,990)	(32,607,036)	58,046
Capital outlay	210,000	210,000	101,093	108,907
Contingencies	500,000	-	-	-
Total expenditures	<u>5,726,366</u>	<u>6,682,591</u>	<u>1,307,624</u>	<u>5,374,967</u>
Excess of revenues over expenditure:	<u>1,518,116</u>	<u>931,067</u>	<u>6,496,730</u>	<u>5,565,663</u>
OTHER FINANCING USES				
Transfers out	<u>(1,650,000)</u>	<u>(3,926,949)</u>	<u>(3,759,184)</u>	<u>167,765</u>
Net changes in fund balance	<u>\$ (131,884)</u>	<u>\$ (2,995,882)</u>	2,737,546	<u>\$ 5,733,428</u>
GAAP basis difference - encumbrances			(517,310)	
Fund balance - beginning of year			<u>6,373,080</u>	
Fund balance - end of year			<u>\$ 8,593,316</u>	

**SONOMA COUNTY WATER AGENCY
FLOOD CONTROL SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> (Budgetary Basis)	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>See Note A</u>	<u>Final Budget</u>
REVENUES				
Property taxes	\$ 6,038,500	\$ 6,038,500	\$ 7,734,678	\$ 1,696,178
Investment earnings	323,238	323,238	903,259	580,021
Intergovernmental	81,600	170,850	870,421	699,571
Miscellaneous	-	-	103,827	103,827
Total revenues	<u>6,443,338</u>	<u>6,532,588</u>	<u>9,612,185</u>	<u>3,079,597</u>
EXPENDITURES				
Current:				
Services and supplies	16,733,996	18,244,246	5,783,944	12,460,302
Capital outlay	-	-	45,970	(45,970)
Total expenditures	<u>16,733,996</u>	<u>18,244,246</u>	<u>5,829,914</u>	<u>12,414,332</u>
Net changes in fund balance	<u>\$ (10,290.658)</u>	<u>\$ (11,711,658)</u>	3,782,271	<u>\$ 15,493,929</u>
GAAP basis difference - encumbrances			(2,758,746)	
Fund balance - beginning of year			<u>20,657,102</u>	
Fund balance - end of year			<u>\$ 21,680,627</u>	

**SONOMA COUNTY WATER AGENCY
WARM SPRINGS DAM SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis) See Note A</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes	\$ 4,245,000	\$ 4,245,000	\$ 5,034,396	\$ 789,396
Investment earnings	142,500	142,500	555,340	412,840
Intergovernmental	44,000	44,000	44,673	673
Miscellaneous	-	-	537	537
Total revenues	<u>4,431,500</u>	<u>4,431,500</u>	<u>5,634,946</u>	<u>1,203,446</u>
EXPENDITURES				
Current:				
Services and supplies	<u>2,399,755</u>	<u>2,399,755</u>	<u>869,866</u>	<u>1,529,889</u>
Excess of revenues over expenditures	<u>2,031,745</u>	<u>2,031,745</u>	<u>4,765,080</u>	<u>(326,443)</u>
OTHER FINANCING USES				
Transfers out	<u>(7,285,573)</u>	<u>(7,285,573)</u>	<u>(3,000,000)</u>	<u>4,285,573</u>
Net changes in fund balance	<u>\$ (5,253,828)</u>	<u>\$ (5,253,828)</u>	1,765,080	<u>\$ 7,018,908</u>
GAAP basis difference - encumbrances			45,769	
Fund balance - beginning of year			<u>11,171,090</u>	
Fund balance - end of year			<u>\$ 12,981,939</u>	

Notes to Required Supplementary Information

**SONOMA COUNTY WATER AGENCY
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2008**

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:

	<u>Special Revenue Funds</u>			Total
	General Fund	Flood Control	Warm Springs Dam	
Net changes in fund balances	\$ 2,737,546	\$3,782,271	\$1,765,080	\$8,284,897
Expenditure charges against prior year encumbrances	(1,394,776)	(7,300,416)	(813,525)	(9,508,717)
Current year encumbrances	877,465	4,541,670	859,294	6,278,429
Net changes in fund balances				
- GAAP basis	\$ 2,220,235	\$1,023,525	\$ 1,810,849	\$ 5,054,609

Supplementary Information

SONOMA COUNTY WATER AGENCY
 COMBINING BALANCE SHEET
 FLOOD CONTROL SPECIAL REVENUE FUNDS
 JUNE 30, 2008

	Flood Control Funds		
	Zone 1A Laguna Mark West	Zone 2A Petaluma Basin	Zone 3A Valley of the Moon
Assets			
Cash and investments	\$ 9,834,419	\$ 7,746,381	\$ 2,035,763
Accounts receivable	32,000	-	-
Total assets	<u>\$ 9,866,419</u>	<u>\$ 7,746,381</u>	<u>\$ 2,035,763</u>
Liabilities and fund balances			
Liabilities:			
Accounts payable	\$ 203,126	\$ 110,865	\$ 86,325
Other current liabilities	500,000	-	-
Total liabilities	<u>703,126</u>	<u>110,865</u>	<u>86,325</u>
Fund balances			
Reserved for encumbrances	2,936,829	1,295,862	306,723
Unreserved:			
Designated for contingencies	500,000	-	-
Undesignated	5,726,464	6,339,654	1,642,715
Total fund balances	<u>9,163,293</u>	<u>7,635,516</u>	<u>1,949,438</u>
Total liabilities and fund balances	<u>\$ 9,866,419</u>	<u>\$ 7,746,381</u>	<u>\$ 2,035,763</u>

SONOMA COUNTY WATER AGENCY
 COMBINING BALANCE SHEET (CONTINUED)
 FLOOD CONTROL SPECIAL REVENUE FUNDS
 JUNE 30, 2008

	Flood Control Funds			Total Flood Control Funds
	Zone 5A Lower Russian River	Zone 7A North Coast	Zone 8A South Coast	
Assets				
Cash and investments	\$ 1,449,111	\$ 75,343	\$ 1,409,054	\$ 22,550,071
Accounts receivable	-	-	-	32,000
Total assets	<u>\$ 1,449,111</u>	<u>\$ 75,343</u>	<u>\$ 1,409,054</u>	<u>\$ 22,582,071</u>
Liabilities and fund balances				
Liabilities:				
Accounts payable	\$ 1,128	\$ -	\$ -	\$ 401,444
Other current liabilities	-	-	-	500,000
Total liabilities	<u>1,128</u>	<u>-</u>	<u>-</u>	<u>901,444</u>
Fund balances				
Reserved for encumbrances	2,256	-	-	4,541,670
Unreserved:				
Designated for contingencies	-	-	-	500,000
Undesignated	1,445,727	75,343	1,409,054	16,638,957
Total fund balances	<u>1,447,983</u>	<u>75,343</u>	<u>1,409,054</u>	<u>21,680,627</u>
Total liabilities and fund balances	<u>\$ 1,449,111</u>	<u>\$ 75,343</u>	<u>\$ 1,409,054</u>	<u>\$ 22,582,071</u>

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, 2008

	Flood Control Funds		
	Zone 1A Laguna Mark West	Zone 2A Petaluma Basin	Zone 3A Valley of the Moon
REVENUES			
Property taxes	\$ 5,325,762	\$ 1,345,557	\$ 771,581
Investment earnings	424,085	318,790	44,269
Intergovernmental	55,236	15,016	708,041
Miscellaneous	87,091	8,000	8,736
Total revenue	<u>5,892,174</u>	<u>1,687,363</u>	<u>1,532,627</u>
EXPENDITURES			
Current:			
Services and supplies	6,788,489	1,306,176	315,905
Capital outlay	34,807	11,163	-
Total expenditures	<u>6,823,296</u>	<u>1,317,339</u>	<u>315,905</u>
Net changes in fund balances	(931,122)	370,024	1,216,722
Fund balances - beginning of year	<u>10,094,415</u>	<u>7,265,492</u>	<u>732,716</u>
Fund balances - end of year	<u>\$ 9,163,293</u>	<u>\$ 7,635,516</u>	<u>\$ 1,949,438</u>

**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, 2008**

	<u>Flood Control Funds</u>			<u>Total Flood Control Funds</u>
	<u>Zone 5A Lower Russian River</u>	<u>Zone 7A North Coast</u>	<u>Zone 8A South Coast</u>	
REVENUES				
Property taxes	\$ 159,373	\$ -	\$ 132,405	\$ 7,734,678
Investment earnings	57,565	3,150	55,400	903,259
Intergovernmental	90,875	-	1,253	870,421
Miscellaneous	-	-	-	103,827
Total revenue	<u>307,813</u>	<u>3,150</u>	<u>189,058</u>	<u>9,612,185</u>
EXPENDITURES				
Current:				
Services and supplies	130,639	107	1,374	8,542,690
Capital outlay	-	-	-	45,970
Total expenditures	<u>130,639</u>	<u>107</u>	<u>1,374</u>	<u>8,588,660</u>
Net changes in fund balances	177,174	3,043	187,684	1,023,525
Fund balances - beginning of year	<u>1,270,809</u>	<u>72,300</u>	<u>1,221,370</u>	<u>20,657,102</u>
Fund balances - end of year	<u>\$ 1,447,983</u>	<u>\$ 75,343</u>	<u>\$ 1,409,054</u>	<u>\$ 21,680,627</u>

**SONOMA COUNTY WATER AGENCY
COMBINING STATEMENT OF NET ASSETS
SANITATION ENTERPRISE FUNDS
JUNE 30, 2008**

	Sanitation Funds				Total Sanitation Funds
	Sea Ranch	Penngrove	Geyserville	Airport Larkfield Wikiup	
ASSETS					
Current assets:					
Cash and Investments	\$ 500,092	\$ 1,009,066	\$ 560,476	\$ 2,141,955	\$ 4,211,589
Accounts receivable, net	4,769	32,242	9,725	48,558	95,294
Due from other funds	-	-	-	17,736	17,736
Total current assets	<u>504,861</u>	<u>1,041,308</u>	<u>570,201</u>	<u>2,208,249</u>	<u>4,324,619</u>
Noncurrent assets:					
Restricted assets					
Cash - revenue bond funds	-	15,839	60,471	46,628	122,938
Cash with trustee	-	-	-	153	153
Total restricted assets	<u>-</u>	<u>15,839</u>	<u>60,471</u>	<u>46,781</u>	<u>123,091</u>
Deferred charges	-	-	-	125,281	125,281
Advances to other funds	-	-	-	18,480	18,480
Capital assets, net of accumulated depreciation:					
Land	-	-	106,213	1,515,231	1,621,444
Construction in progress	1,292,821	205,976	43,045	300,015	1,841,857
Buildings and improvements	446,427	708,277	892,798	22,187,508	24,235,010
Equipment	-	-	-	17,183	17,183
Total capital assets	<u>1,739,248</u>	<u>914,253</u>	<u>1,042,056</u>	<u>24,019,937</u>	<u>27,715,494</u>
Total noncurrent assets	<u>1,739,248</u>	<u>930,092</u>	<u>1,102,527</u>	<u>24,210,479</u>	<u>27,982,346</u>
Total assets	<u>2,244,109</u>	<u>1,971,400</u>	<u>1,672,728</u>	<u>26,418,728</u>	<u>32,306,965</u>
LIABILITIES					
Current liabilities payable from unrestricted assets:					
Accounts payable and accrued expenses	<u>34,751</u>	<u>160,756</u>	<u>109,210</u>	<u>46,325</u>	<u>351,042</u>
Current liabilities payable from restricted assets:					
Interest payable	-	2,233	-	61,700	63,933
General obligation bonds payable	-	11,000	16,000	-	27,000
Revenue bonds payable	-	-	-	195,620	195,620
Total current liabilities from restricted assets	<u>-</u>	<u>13,233</u>	<u>16,000</u>	<u>257,320</u>	<u>286,553</u>
Noncurrent liabilities:					
General obligation bonds payable	-	123,000	239,000	-	362,000
Revenue bonds payable	-	-	-	5,256,172	5,256,172
Total noncurrent liabilities	<u>-</u>	<u>123,000</u>	<u>239,000</u>	<u>5,256,172</u>	<u>5,618,172</u>
Total liabilities	<u>34,751</u>	<u>296,989</u>	<u>364,210</u>	<u>5,559,817</u>	<u>6,255,767</u>
NET ASSETS					
Invested in capital assets, net of related debt	1,739,248	780,253	787,056	18,568,145	21,874,702
Restricted for:					
Debt service	-	15,839	60,471	46,781	123,091
Unrestricted	<u>470,110</u>	<u>878,319</u>	<u>460,991</u>	<u>2,243,985</u>	<u>4,053,405</u>
Total net assets	<u>\$ 2,209,358</u>	<u>\$ 1,674,411</u>	<u>\$ 1,308,518</u>	<u>\$ 20,858,911</u>	<u>\$ 26,051,198</u>

**SONOMA COUNTY WATER AGENCY
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
SANITATION ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Sanitation Funds</u>				<u>Total Sanitation Funds</u>
	<u>Sea Ranch</u>	<u>Penngrove</u>	<u>Geyserville</u>	<u>Airport Lakefield Wikiup</u>	
OPERATING REVENUE					
Flat charges	\$ 417,585	\$ 410,293	\$ 220,468	\$ 1,542,205	\$ 2,590,551
Sanitation services	3,191	8,244	6,876	204,162	222,473
Real estate rental	-	-	-	50,000	50,000
Miscellaneous	-	-	-	5,361	5,361
Total operating revenue	<u>420,776</u>	<u>418,537</u>	<u>227,344</u>	<u>1,801,728</u>	<u>2,868,385</u>
OPERATING EXPENSES					
Services and supplies	501,699	465,874	547,037	1,963,987	3,478,597
Depreciation and amortization	28,861	35,414	79,328	904,465	1,048,068
Total operating expenses	<u>530,560</u>	<u>501,288</u>	<u>626,365</u>	<u>2,868,452</u>	<u>4,526,665</u>
Operating loss	<u>(109,784)</u>	<u>(82,751)</u>	<u>(399,021)</u>	<u>(1,066,724)</u>	<u>(1,658,280)</u>
NONOPERATING REVENUES (EXPENSES)					
Taxes and assessments	-	15,563	23,878	-	39,441
Investment earnings	32,877	48,566	35,715	80,834	197,992
Interest expense	-	-	(13,072)	(258,748)	(271,820)
Loss on capital asset transfer	-	-	-	(1,749,482)	(1,749,482)
Intergovernmental revenue	-	145	165	-	310
Total nonoperating revenues (expenses)	<u>32,877</u>	<u>64,274</u>	<u>46,686</u>	<u>(1,927,396)</u>	<u>(1,783,559)</u>
Loss before capital contributions and transfers	<u>(76,907)</u>	<u>(18,477)</u>	<u>(352,335)</u>	<u>(2,994,120)</u>	<u>(3,441,839)</u>
Capital contributions - connection fees	-	8,522	14,971	421,578	445,071
Transfers in	-	-	-	622,000	622,000
Change in net assets	<u>(76,907)</u>	<u>(9,955)</u>	<u>(337,364)</u>	<u>(1,950,542)</u>	<u>(2,374,768)</u>
Net assets - beginning of year	<u>2,286,265</u>	<u>1,684,366</u>	<u>1,645,882</u>	<u>22,809,453</u>	<u>28,425,966</u>
Net assets - end of year	<u>\$ 2,209,358</u>	<u>\$ 1,674,411</u>	<u>\$ 1,308,518</u>	<u>\$ 20,858,911</u>	<u>\$ 26,051,198</u>

**SONOMA COUNTY WATER AGENCY
COMBINING STATEMENT OF CASH FLOWS
SANITATION ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2008**

	Sanitation Funds				Total Sanitation Funds
	Sea Ranch	Penngrove	Geyserville	Airport Larkfield Wikiup	
Cash flows from operating activities					
Cash receipts from customers	\$ 438,405	\$ 394,492	\$ 224,817	\$ 1,851,171	\$ 2,908,885
Cash payments for interfund services used	(82,470)	(108,532)	(277,139)	(1,201,168)	(1,669,309)
Cash payments to suppliers	(388,333)	(341,371)	(203,192)	(721,594)	(1,654,490)
Net cash used for operating activities	<u>(32,398)</u>	<u>(55,411)</u>	<u>(255,514)</u>	<u>(71,591)</u>	<u>(414,914)</u>
Cash flows from noncapital financing activities					
Taxes and assessments	-	15,563	23,878	-	39,441
Intergovernmental revenue	-	145	165	-	310
Transfers in	-	-	-	622,000	622,000
Net cash provided by noncapital financing activities	<u>-</u>	<u>15,708</u>	<u>24,043</u>	<u>622,000</u>	<u>661,751</u>
Cash flows from capital and related financing activities					
Purchase of capital assets	(466,567)	(60,883)	(30,494)	(288,855)	(846,799)
Principal paid on long-term debt	-	(10,000)	(15,000)	(228,487)	(253,487)
Interest paid on long-term debt	-	(6,950)	(20,615)	(276,121)	(303,686)
Connection fees	-	8,522	14,971	421,578	445,071
Net cash used for capital and related financing activities	<u>(466,567)</u>	<u>(69,311)</u>	<u>(51,138)</u>	<u>(371,885)</u>	<u>(958,901)</u>
Cash flows from investing activities					
Repayment on advances to other funds - principal	-	-	-	17,020	17,020
Repayment on advances to other funds - interest	-	-	-	2,235	2,235
Interest received	32,877	48,566	35,715	78,599	195,757
Net cash provided by investing activities	<u>32,877</u>	<u>48,566</u>	<u>35,715</u>	<u>97,854</u>	<u>215,012</u>
Net increase (decrease) in cash and cash equivalents	(466,088)	(60,448)	(246,894)	276,378	(497,052)
Cash and cash equivalents - beginning of year	966,180	1,085,353	867,841	1,912,358	4,831,732
Cash and cash equivalents - end of year	<u>\$ 500,092</u>	<u>\$ 1,024,905</u>	<u>\$ 620,947</u>	<u>\$ 2,188,736</u>	<u>\$ 4,334,680</u>
Reconciliation to the statement of net assets:					
Cash and investments	\$ 500,092	\$ 1,009,066	\$ 560,476	\$ 2,141,955	\$ 4,211,589
Restricted cash and investments	-	15,839	60,471	46,781	123,091
Cash and cash equivalents	<u>\$ 500,092</u>	<u>\$ 1,024,905</u>	<u>\$ 620,947</u>	<u>\$ 2,188,736</u>	<u>\$ 4,334,680</u>

SONOMA COUNTY WATER AGENCY
 COMBINING STATEMENT OF CASH FLOWS
 SANITATION ENTERPRISE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2008

	Sanitation Funds				Total Sanitation Funds
	Sea Ranch	Penngrove	Geyserville	Airport Larkfield Wikiup	
Reconciliation of operating loss to net cash used for operating activities:					
Operating loss	\$ (109,784)	\$ (82,751)	\$ (399,021)	\$ (1,066,724)	\$ (1,658,280)
Adjustments to reconcile operating loss to net cash used for operating activities					
Depreciation and amortization	28,861	35,414	79,328	904,465	1,048,068
Change in assets and liabilities:					
Receivables, net	17,629	(24,045)	(2,527)	49,443	40,500
Prepaid expenses	-	-	-	40,779	40,779
Accounts and accrued expenses	34,387	15,971	82,441	58,822	191,621
Due to other funds	(3,491)	-	(15,735)	(58,376)	(77,602)
Net cash used for operating activities	<u>\$ (32,398)</u>	<u>\$ (55,411)</u>	<u>\$ (255,514)</u>	<u>\$ (71,591)</u>	<u>\$ (414,914)</u>
 Noncash Capital and Related Financing Activities:					
Transfer of capital assets related to photovoltaic project	\$ -	\$ -	\$ -	\$ (4,375,716)	\$ (4,375,716)
Transfer of outstanding capital lease obligation associated with photovoltaic project	-	-	-	2,591,484	2,591,484
Acquisition of capital assets included in accounts payable	-	-	18,000	18,591	36,591

**SONOMA COUNTY WATER AGENCY
COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICES FUNDS
JUNE 30, 2008**

	<u>Internal Service Funds</u>		<u>Total Internal Service Funds</u>
	<u>Equipment Facilities</u>	<u>Power Resources</u>	
ASSETS			
Current assets:			
Cash and investments	\$ 8,736,939	\$ 870,775	\$ 9,607,714
Accounts receivable, net	113,424	-	113,424
Due from other funds	137,764	-	137,764
Prepaid expenses	-	438,295	438,295
Total current assets	<u>8,988,127</u>	<u>1,309,070</u>	<u>10,297,197</u>
Noncurrent assets:			
Restricted assets			
Cash - notes payable	419,364	263,127	682,491
Advances to other funds	143,547	-	143,547
Capital assets, net of accumulated depreciation:			
Land	2,689,861	-	2,689,861
Construction in progress	126,007	-	126,007
Buildings and improvements	13,846,638	15,952,696	29,799,334
Equipment	1,091,849	-	1,091,849
Total capital assets	<u>17,754,355</u>	<u>15,952,696</u>	<u>33,707,051</u>
Total noncurrent assets	<u>18,317,266</u>	<u>16,215,823</u>	<u>34,533,089</u>
Total assets	<u>27,305,393</u>	<u>17,524,893</u>	<u>44,830,286</u>
LIABILITIES			
Current liabilities payable from unrestricted assets:			
Accounts payable and accrued expenses	131,871	40,388	172,259
Due to other funds	-	155,500	155,500
Due to other governments	-	373,178	373,178
Total current liabilities payable from unrestricted assets	<u>131,871</u>	<u>569,066</u>	<u>700,937</u>
Current liabilities payable from restricted assets:			
Interest payable	68,713	42,582	111,295
Note payable	420,858	262,253	683,111
Total current liabilities from restricted assets	<u>489,571</u>	<u>304,835</u>	<u>794,406</u>
Noncurrent liabilities:			
Note payable	6,672,063	3,735,498	10,407,561
Advances from other governments	-	4,711,600	4,711,600
Advances from other funds	-	1,204,007	1,204,007
Total noncurrent liabilities	<u>6,672,063</u>	<u>9,651,105</u>	<u>16,323,168</u>
Total liabilities	<u>7,293,505</u>	<u>10,525,006</u>	<u>17,818,511</u>
NET ASSETS			
Invested in capital assets, net of related debt	10,661,434	6,870,167	17,531,601
Restricted for:			
Debt service	350,651	220,545	571,196
Unrestricted	8,999,803	(90,825)	8,908,978
Total net assets	<u>\$ 20,011,888</u>	<u>\$ 6,999,887</u>	<u>\$ 27,011,775</u>

**SONOMA COUNTY WATER AGENCY
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Internal Service Funds</u>		<u>Total Internal Service Funds</u>
	<u>Equipment Facilities</u>	<u>Power Resources</u>	
OPERATING REVENUE			
Power sales	\$ -	\$ 7,513,834	\$ 7,513,834
Equipment rental	2,050,968	-	2,050,968
Real estate rental	2,402,306	-	2,402,306
Miscellaneous	116	-	116
Total operating revenue	<u>4,453,390</u>	<u>7,513,834</u>	<u>11,967,224</u>
OPERATING EXPENSES			
Services and supplies	2,460,057	5,818,960	8,279,017
Depreciation and amortization	1,025,240	408,206	1,433,446
Total operating expenses	<u>3,485,297</u>	<u>6,227,166</u>	<u>9,712,463</u>
Operating income	<u>968,093</u>	<u>1,286,668</u>	<u>2,254,761</u>
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	360,963	-	360,963
Interest expense	(324,823)	(461,910)	(786,733)
Gain on sale of capital assets	29,807	-	29,807
Loss on transfer of capital assets	(1,641,294)	-	(1,641,294)
Total nonoperating revenues (expenses)	<u>(1,575,347)</u>	<u>(461,910)</u>	<u>(2,037,257)</u>
Income (loss) before capital contributions	(607,254)	824,758	217,504
Capital contributions - other	-	6,175,129	6,175,129
Change in net assets	(607,254)	6,999,887	6,392,633
Net assets - beginning of year	<u>20,619,142</u>	<u>-</u>	<u>20,619,142</u>
Net assets - end of year	<u>\$ 20,011,888</u>	<u>\$ 6,999,887</u>	<u>\$ 27,011,775</u>

**SONOMA COUNTY WATER AGENCY
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2008**

	Internal Service Funds		Total Internal Service Funds
	Equipment Facilities	Power Resources	
Cash flows from operating activities			
Cash receipts from interfund services provided	\$ 4,352,489	\$ 7,513,834	\$ 11,866,323
Cash payments for interfund services used	(1,182,759)	(43,533)	(1,226,292)
Cash payments to suppliers	(1,280,104)	(6,173,334)	(7,453,438)
Net cash provided by operating activities	1,889,626	1,296,967	3,186,593
Cash flows from capital and related financing activities			
Purchase of capital assets	(383,516)	(32,669)	(416,185)
Principal paid on long-term debt	(410,432)	(245,670)	(656,102)
Principal paid on advances from other funds	-	(149,235)	(149,235)
Principal paid on advances from other governments	-	(358,144)	(358,144)
Interest paid on long-term debt	(364,890)	(377,347)	(742,237)
Proceeds from interfund borrowings	-	1,000,000	1,000,000
Proceeds from sale of capital assets	17,284	-	17,284
Net cash used for capital and related financing activities	(1,141,554)	(163,065)	(1,304,619)
Cash flows from investing activities			
Repayment on advances to other funds - principal	132,213	-	132,213
Repayment on advances to other funds - interest	17,360	-	17,360
Interest received	343,603	-	343,603
Net cash provided by investing activities	493,176	-	493,176
Net increase in cash and cash equivalents	1,241,248	1,133,902	2,375,150
Cash and cash equivalents - beginning of year	7,915,055	-	7,915,055
Cash and cash equivalents - end of year	\$ 9,156,303	\$ 1,133,902	\$ 10,290,205
Reconciliation to the statement of net assets:			
Cash and investments	\$ 8,736,939	\$ 870,775	\$ 9,607,714
Restricted cash and investments	419,364	263,127	682,491
Cash and cash equivalents	\$ 9,156,303	\$ 1,133,902	\$ 10,290,205
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 968,093	\$ 1,286,668	\$ 2,254,761
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation and amortization	1,025,240	408,206	1,433,446
Change in assets and liabilities:			
Receivables, net	(100,901)	-	(100,901)
Prepaid expenses	8,446	(438,295)	(429,849)
Accounts and accrued expenses	(11,252)	40,388	29,136
Net cash provided by operating activities	\$ 1,889,626	\$ 1,296,967	\$ 3,186,593
Noncash Capital and Related Financing Activities:			
Transfer of capital assets related to photovoltaic project	\$ (3,725,243)	\$ 16,328,234	\$ 12,602,991
Transfer of outstanding capital lease obligation associated with photovoltaic project	1,670,424	(4,243,421)	(2,572,997)
Long-term advance from other governments in exchange for capital assets related to photovoltaic project	-	(5,442,922)	(5,442,922)
Acquisition of capital assets included in accounts payable	28,997	-	28,997

Other Report



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

**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, 2008, which collectively comprise the Water Agency's basic financial statements and have issued our report thereon dated November 18, 2008. Our report contained an explanatory paragraph describing the Water Agency's implementation of new accounting standards, effective July 1, 2007. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of finding and response to be a significant deficiency in internal control over financial reporting.

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 the internal control that might be significant deficiencies, and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described in the accompanying schedule of finding and response is a material weakness.

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*.

The Water Agency's response to the finding identified in our audit is described in the accompanying schedule of finding and response. We did not audit the Water Agency's response and, accordingly, express no opinion on it.

This report is intended solely for the information and use of the Board of Directors and management of the Water Agency and is not intended to be and should not be used by anyone other than these specified parties.

Macias Mini & O'Connell LLP

Certified Public Accountants

Sacramento, California
November 18, 2008

**SONOMA COUNTY WATER AGENCY
SCHEDULE OF FINDING AND RESPONSE
FOR THE YEAR ENDED JUNE 30, 2008**

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 forward 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.