



SACRAMENTO COUNTY  
**WATER AGENCY**  
ENTERPRISE FUND

A Component Unit of the County of Sacramento

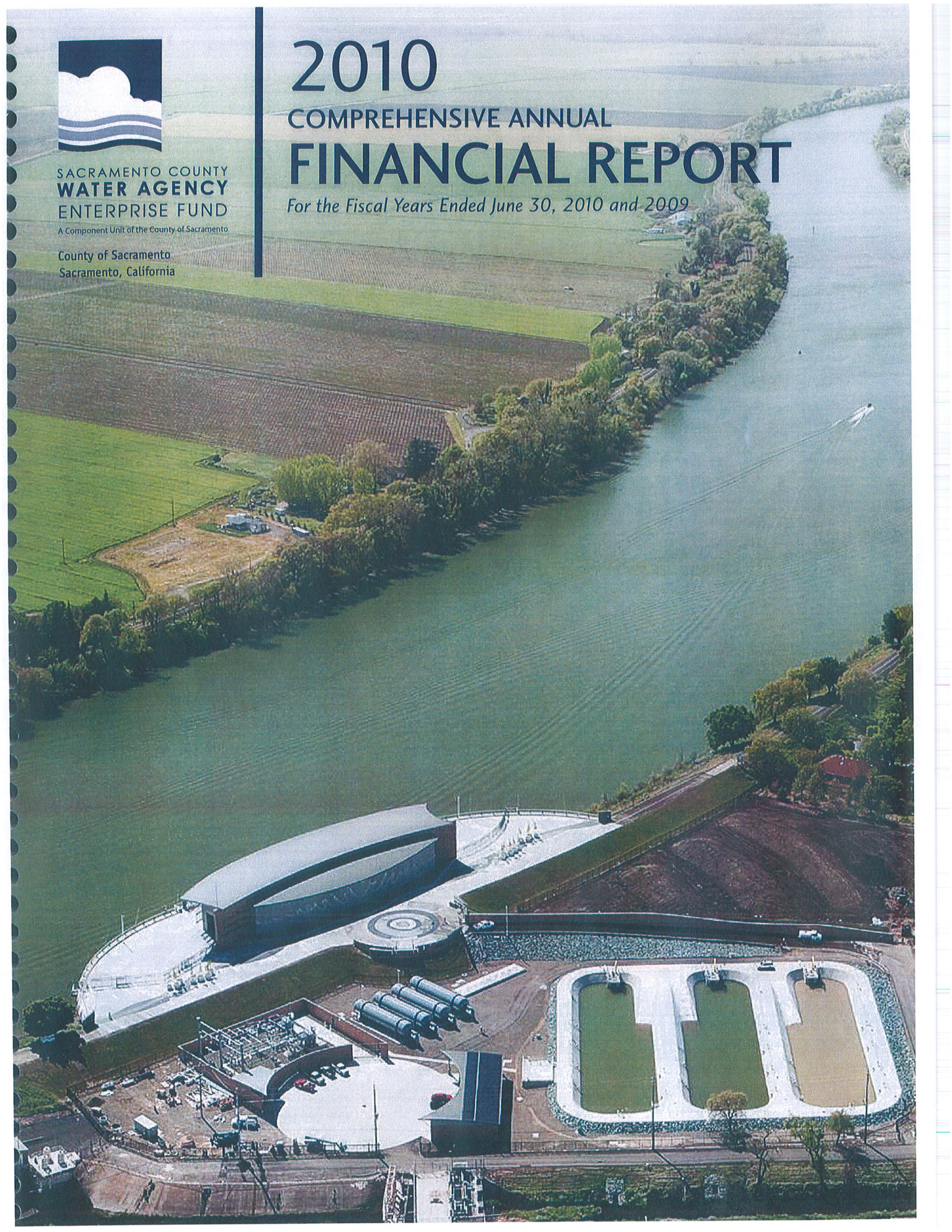
County of Sacramento  
Sacramento, California

# 2010

## COMPREHENSIVE ANNUAL

# FINANCIAL REPORT

*For the Fiscal Years Ended June 30, 2010 and 2009*



# **SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND**

*A Component Unit of the County of Sacramento*

*Sacramento, California*

## **COMPREHENSIVE ANNUAL FINANCIAL REPORT**

*For the Fiscal Years Ended June 30, 2010 and 2009*

**Prepared by:**

Sacramento County Department of Water Resources  
Finance and Administration Division

Susan R. Purdin, CPA, Chief Financial and Administrative Officer  
*Department of Water Resources*

Bill Konigsmark, Accounting Manager  
*Department of Water Resources*

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**Department of Water  
Resources**

Keith DeVore, Director



Including service to the cities of  
Elk Grove and Rancho Cordova

SACRAMENTO COUNTY  
**WATER AGENCY**

November 29, 2010

Honorable Board of Directors  
Sacramento County Water Agency

It is a pleasure to submit the Comprehensive Annual Financial Report (CAFR) of the Sacramento County Water Agency Enterprise Fund (Agency) for the fiscal years ended June 30, 2010 and 2009, as prepared by the staff of the Accounting and Finance Section of the Finance and Administration Division of the Sacramento County Water Agency.

Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the Agency's management. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported to present fairly the financial position and results of operations of the Agency. All disclosures necessary to enable the reader to gain an understanding of the Agency's financial activities have been included in the CAFR.

An independent auditor audits the basic financial statements of the Agency each year. The firm of Vavrinek, Trine, Day & Co., LLP was selected to perform the independent audit for the fiscal years ended June 30, 2010 and 2009. The goal of the independent audit was to provide reasonable assurance that the basic financial statements of the Agency for the fiscal years ended June 30, 2010 and 2009 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the Sacramento County Water Agency Enterprise Fund's financial statements for the fiscal years ended June 30, 2010 and 2009 are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles (GAAP). The independent auditor's report is presented as a component of the financial section of this report.

The independent audit of the basic financial statements of the Agency is part of a broader, federally mandated "Single Audit" at the countywide level. It was designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the basic financial statements, but also on the audited government agency's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available by contacting the Sacramento County Department of Finance, Auditor-Controller Division.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The Agency's MD&A can be found immediately following the report of the independent auditor.

*"Managing Tomorrow's Water Today"*

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Facilities Operations & Admin.: 3847 Branch Center Rd. #1, Sacramento, CA 95827 • (916) 875-RAIN • fax (916) 875-6884  
Elk Grove Office: 9280 W. Stockton Blvd., Suite 220, Elk Grove, CA 95758 • (916) 875-RAIN • fax (916) 875-4046

**PROFILE OF THE WATER AGENCY**

The Agency, created in 1952 pursuant to the Water Agency Act (Act), is a separate legal entity from the County of Sacramento. Although a separate legal entity, the Sacramento County Board of Supervisors acts ex officio as the Agency's Board of Directors while Sacramento County Department of Water Resources' personnel acts as Agency staff.

The sector of the Agency covered by this report is the Water Supply Division. Its purpose is to provide a high quality supply of water to retail and wholesale customers, as well as to construct and operate groundwater and surface water facilities and infrastructure that will continue to provide safe and reliable water for years to come.

To facilitate the collection of fees to run the operations of the Agency, the Act allows for the creation of Zones within Sacramento County. Each Zone covers a geographic area in which a fee or charge is imposed to fund projects or operations of benefit to the area within the Zone. Currently there are three Zones covered by this report – Zone 40, 50 and 41.

The Agency water supply service area spans some 122 square miles and includes portions of the unincorporated area of Sacramento County and the cities of Elk Grove and Rancho Cordova.

**FACTORS AFFECTING FINANCIAL CONDITION**

Development fees and water service fees are the two primary revenue streams that fund activities of the Water Agency Enterprise Fund. As is occurring nationwide, construction activity in the Agency's service area has slowed significantly over the last several fiscal years as compared to the fiscal year 2004-05 record high. The following table reflects historical and current data on the Agency's total impact fees which is a good indicator of economic growth in the area.

<b>Fiscal Year:</b>	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10</b>
<b>Total Impact Fees:</b>	\$24.3M	\$17.1M	\$15.7M	\$7.9M	\$7.4M
<b>Annual Percent Increase (Decrease) From Prior Year:</b>	(25.7)%	(29.6%)	(8.2%)	(49.7%)	(5.9%)

Although construction activity has declined over the last few years, the number of service connections (new water accounts) to the Agency's water system continues to grow at a pace greater than the number of permits issued to connect to the water system. This is another good indicator of economic growth and suggests that absorption of excess inventory is taking place in the Agency's service area. The following table reflects the historical, current and projected growth in number of retail connections:

<b>Fiscal Year:</b>	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10</b>	<b>Projected 2010-11</b>	<b>Projected 2011-12</b>
<b>No. of Connections:</b>	47,760	48,438	49,069	49,719	50,419
<b>Annual Percent Increase (Decrease) From Prior Year:</b>	2.6%	1.4%	1.3%	1.3%	1.4%

Although the Agency's service area has historically relied on the underlying groundwater basin for most of its water supply, the Agency's long term planning has always included the development of a significant supply of surface water to allow for the effective management of groundwater and to meet projected future

demands. Surface water currently accounts for about 10% of total Agency water supply; other sources of supply such as recycled water and recaptured remediated groundwater are also being considered.

The use of groundwater in conjunction with surface water (called "conjunctive use") is a basic element of the Water Agency Master Plan. The importance of conjunctive use is evidenced by the Agency's long-term commitment to the collaborative regional water planning effort called the Sacramento Water Forum. To meet a key Water Forum objective, the Agency has partnered with East Bay Municipal Utility District to construct a joint regional surface water supply project on the Sacramento River near the community of Freeport and adjacent to the City of Sacramento.

**LONG-TERM FINANCIAL PLANNING:** In February 2005, the SCWA Board of Directors approved the SCWA Zone 40 Water Supply Master Plan (WSMP). The purpose of the WSMP is to provide a flexible plan of water management alternatives to meet projected water demands in Zone 40 through the year 2030. The WSMP describes a conjunctive use (groundwater-surface water) program and identifies the major facilities needed for its implementation: a surface water diversion structure, surface water treatment plant, water pipelines, water storage tanks and pump stations, wells and groundwater treatment facilities. The total cost of capital projects identified in the WSMP is estimated at \$726 million (2005 dollars).

To fund the needed surface water treatment plant, diversion structure and related improvements, \$413.4 million in Revenue Bonds were issued in May 2007. This included \$43.2 million to advance refund most of the 2003 Revenue Bonds. The revenue bonds are scheduled to mature on June 1, 2034 and 2039.

**ACCOMPLISHMENTS:** The Agency has continued to deliver a reliable supply of high quality potable water to all of its customers. In fiscal year 2009-10, the Agency completed a number of capital improvement projects including eleven facility improvement projects, five water transmission main projects, and four water well projects.

The Agency also has continued to administer and provide partial funding for the Sacramento Central Groundwater Authority JPA for maintaining the long-term sustainable yield of the Central Basin, overseeing the operation of a Well Protection Program, devising and implementing strategies to safeguard groundwater quality and working collaboratively with other entities in order to promote coordination of water policies and activities throughout the region.

**CURRENT DESIGN AND CONSTRUCTION ACTIVITIES:** The Agency's capital improvement program strategy is to provide infrastructure concurrent with growth, to meet all regulatory requirements, to improve capital program efficiency, and to follow its Master Plan strategy guided by the Agency's annual capital budgeting process. Capital improvement projects currently in the design or construction phase include a major surface water diversion structure and raw water pipeline, a major surface water treatment facility, four tank and booster stations, five groundwater treatment and storage plant expansions, sixteen facility improvement projects, two water wells, and eight transmission main projects.

**FUTURE DESIGN AND CONSTRUCTION ACTIVITIES:** From fiscal year 2010-11 through 2012-13 approximately 69% of the Agency's capital improvement project expenses will be for water production and treatment facilities. Most new transmission pipelines will be installed by developers with reimbursement by the Agency. The Agency's existing infrastructure is well maintained and relatively new and therefore not in need of significant capital replacement.

The Agency intends to construct approximately \$128 million in major water facilities through fiscal year 2012-13, including \$80 million for its share of the construction costs of the Vineyard Surface Water Treatment Plant Project and the Freeport Regional Water Project, which is a joint venture of the Water Agency and the East Bay Municipal Utility District. The jointly owned facilities will consist of a Sacramento River diversion structure and a raw water conveyance pipeline and, under separate contract, the Agency will construct the first phase (50 million gallons per day, mgd) of a 100 mgd surface water treatment plant that is scheduled to begin operation in early fiscal year 2011-12. California Environmental Quality Act (CEQA) requirements for all of these projects have been satisfied.



The remaining \$47.4 million of the \$128 million in capital projects planned for the near-term include the following:

\$ 7.8 million	water treatment wells and facilities
16.4 million	transmission mains
.3 million	pipeline replacement
.2 million	master plans
9.7 million	water meters
2.2 million	water rights
<u>10.8 million</u>	other projects
\$ 47.4 million	total projects planned for near-term

**INTERNAL CONTROLS:** Agency management is responsible for establishing and maintaining internal controls designed to ensure that the assets of the Agency are protected from loss, theft, or misuse and to ensure that accounting data are compiled to allow for the preparation of financial statements, in conformity with generally accepted accounting principles. The internal controls are designed to provide a reasonable, but not absolute, assurance that these objectives are met recognizing that: (1) the cost of control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management.

**BUDGETARY CONTROLS:** The Agency prepares an annual operating and capital budget which is presented to the Board of Directors for review and approval. The budget, as approved by the Board, serves as an approved plan for operational control and performance evaluation, and provides the financial basis for the Agency's operations.

The Department of Water Resources and the County of Sacramento impose controls that require the use of requisitions, purchase orders, contracts and specific approval for purchases of goods and services. Procedures have been established to verify expenses and ensure budgeted amounts are not exceeded. Monthly comparisons of actual to budgeted revenues and expenses will identify any significant variances that may require the Agency to take corrective action.

**DEBT ADMINISTRATION:** The Sacramento County Water Financing Authority issued \$50 million of revenue bonds in June 2003 to finance Agency capital improvement projects. In May 2007 an additional \$413 million of revenue bonds were issued, at which time \$41.7 million of the 2003 bond issue was advance refunded. The additional bonds were issued to finance Agency capital improvement projects. The Agency's strong financial performance is indicated by the bond ratings of this debt issue, which were Aaa (Insured) by Moody's and AAA (Insured) by Standard and Poor's. Underlying ratings were A2 by Moody's and A+ by Standard and Poor's. The Agency's continued strength is evidenced by Moody's reaffirmation of its A2 rating in August of 2009. As a result of Moody's April 2010 bond recalibration the Agency's current rating with Moody's is Aa3.

**CASH MANAGEMENT:** The Agency's unrestricted cash and investments are maintained in Sacramento County's pooled cash fund. The County Treasurer is responsible for managing the investment of pooled cash fund resources.

Cash temporarily idle during the year was invested in money market mutual funds, negotiable certificates of deposit, time certificates, commercial paper, municipal notes, and U.S. Treasury and Agency investments. The average yield on investments during fiscal 2009-10 was 0.9978 percent. The yield rate for a one-year U.S. Treasury note during the same period was 0.39 percent.

The County Pooled Investment Fund Policy is designed to minimize credit and market risks while maintaining a competitive yield on its portfolio. All collateral on deposits was held either by the County, its

agents, or a financial institution's trust department in the County's name. The investment pool is subject to oversight by the Treasury Oversight Committee.

### **AWARDS AND ACKNOWLEDGEMENTS**

The Agency's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2009 was awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (GFOA). The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. Such a report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is only valid for a period of one year. We believe our current report continues to conform to the Certificate of Achievement Program requirements and we will be submitting our report for the current year to the GFOA to determine its eligibility for another certificate.


The preparation of the CAFR on a timely basis could not have been accomplished without the efficient and dedicated services of the accounting staff of the Department of Water Resources. Each staff member has our sincere appreciation for the contributions made in the preparation of this report.

We also wish to thank staff of the Sacramento County Department of Finance for their cooperation and assistance. And in closing, the Sacramento County Agency's Board of Directors must also be recognized for its unfailing support of the highest standards of professionalism in the financial management of the Agency.

Respectfully submitted,



Keith DeVore  
Director  
Department of Water Resources  
Municipal Services Agency



Susan R. Purdin, CPA  
Chief Financial & Administrative Officer  
Department of Water Resources  
Municipal Services Agency

**Sacramento County Water Agency  
Enterprise Fund**

**Board of Directors**

<b>Roger Dickinson</b>	Supervisor, First District
<b>Jimmie Yee</b>	Supervisor, Second District
<b>Susan Peters</b>	Supervisor, Third District
<b>Roberta MacGlashan</b>	Supervisor, Fourth District
<b>Don Nottoli</b>	Supervisor, Fifth District

**Officials**

**Paul J. Hahn**

Administrator, Municipal Services Agency

**Keith C. DeVore**

Director, Department of Water Resources  
Municipal Services Agency

**Herb Niederberger Jr.**

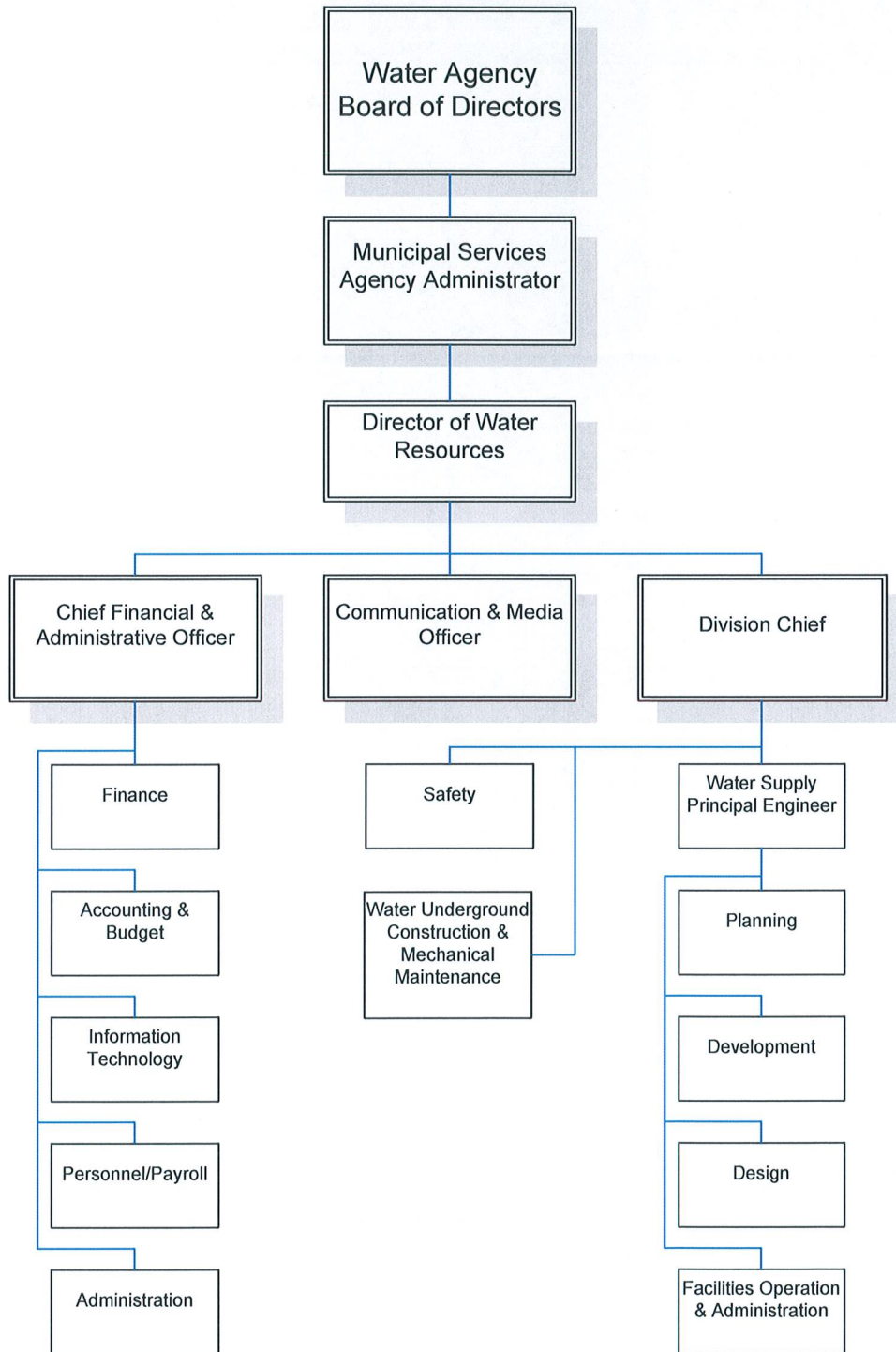
Division Chief, Department of Water Resources  
Municipal Services Agency

**Susan R. Purdin, CPA**

Chief Financial & Administrative Officer  
Department of Water Resources  
Municipal Services Agency

**Sacramento County Water Agency  
Enterprise Fund**

**Organizational Chart**



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# Certificate of Achievement for Excellence in Financial Reporting

Presented to

Sacramento County  
Water Agency Enterprise Fund  
California

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2009

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



A stylized, handwritten signature in black ink, consisting of several loops and a long horizontal stroke extending to the right.

President

A handwritten signature in black ink that reads "Jeffrey R. Emer".

Executive Director

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## INDEPENDENT AUDITORS' REPORT

Honorable Board of Supervisors  
County of Sacramento, California

We have audited the accompanying financial statements of the Sacramento County Water Agency Enterprise Fund (the Agency), an enterprise fund of the County of Sacramento, California (the County), as of and for the years ended June 30, 2010 and 2009, as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Agency are intended to present the financial position and the changes in financial position and, where applicable, cash flows of only that portion of the business-type activities of the County that is attributable to the transactions of the Agency. They do not purport to, and do not, present fairly the financial position of the County as of June 30, 2010 and 2009, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Sacramento County Water Agency Enterprise Fund, an enterprise fund of the County of Sacramento, California, as of June 30, 2010 and 2009, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 5 to the financial statements, the Agency adopted the provisions of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, in 2010. As described in Note 7 to the financial statements, the Agency adopted the provisions of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, in 2010.



In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2010, on our consideration of the 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 on pages 3 through 7, is not a required part of the basic financial statements, but is 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 audits were conducted for the purpose of forming an opinion on the basic financial statements. The introductory section, statistical and bond disclosure sections listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such additional information has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion on it.

*Vaurinik, Trine, Day & Co. LLP*

Sacramento, California  
November 29, 2010

**SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)(Continued)  
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009

This section of the Agency's comprehensive annual financial report presents a discussion and analysis of the Agency's financial performance during the fiscal years ending June 30, 2010 and 2009. Please read it in conjunction with the transmittal letter at the front of this report and the Agency's basic financial statements following this section.

### FINANCIAL HIGHLIGHTS

- The assets of the Agency exceeded liabilities at June 30, 2010 by \$389.8 million (*net assets*). Of this amount, \$51.3 million (*unrestricted net assets*) could be used in meeting the ongoing obligations to customers and creditors. \$28.8 million was restricted for revenue bond reserves, debt service, and capital construction purposes (*restricted net assets*) and \$309.7 million was invested in capital assets, net of related debt. At June 30, 2009, the net assets of the Agency exceeded liabilities by \$363.4 million (*net assets*). Of this amount, \$74.5 million was unrestricted, \$28.7 million was restricted for revenue bond reserves, debt service, and capital construction purposes (*restricted net assets*) and \$260.2 million was invested in capital assets, net of related debt.
- The Agency's total net assets increased by \$26.3 and \$18.6 during fiscal years 2009-10 and 2008-09, respectively. These increases were attributable to the Agency's normal operations, contributions, increased water rates, and its operating income for the respective fiscal years.
- The Agency's total long-term debt obligations increased by \$7.4 million during the 2009-10 fiscal year. This net increase was mainly due to a change in the negative SWAP liability that was recognized in implementation of GASB 53. During fiscal year 2008-09, long-term debt obligations increased by \$51.7 million which was primarily the result of the negative SWAP liability recognized in the implementation of GASB 53, the acquisition of additional water capacity rights during the year and an initial accrual for compensated absences.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Agency's basic financial statements. The Agency's basic financial statements are comprised of two components: the fund financial statements and notes to the financial statements.

**Fund Financial Statements** are designed to provide readers with a broad overview of the Agency's finances.

The *Statements of Net Assets* presents information on all Agency 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 Agency is improving or deteriorating.

The *Statements of Revenues, Expenses, and Changes in Net Assets* presents information showing how net assets changed during the most recent two fiscal years. 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 result in cash flows in future fiscal periods (e.g., uncollected service charges).

The *Statements of Cash Flows* present information about the cash receipts and cash payments of the Agency during the two most recent fiscal years. When used with related disclosures and information in the other financial statements, the information provided in these statements should help financial report users assess the Agency's ability to generate future net cash flows, its ability to meet its obligations as they come due and its need for external financing. It also provides insight into the reasons for differences between operating income and associated cash receipts and payments; and the effects on the Agency's

**SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)(Continued)**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009**

financial position of its cash and its non-cash investing, capital and related financing transactions during the year.

**Notes to the Basic Financial Statements** provide additional information that is essential to a full understanding of the data provided in the Agency's financial statements. The notes are included immediately following the financial statements within this report.

**FINANCIAL ANALYSIS**

As previously noted, net assets may serve over time as a useful indicator of the Agency's financial position. As of June 30, 2010, and 2009, net assets exceeded liabilities by \$389.8 million and \$363.4 million, respectively. During the fiscal year ended June 30, 2010 and 2009, net assets increased \$26.3 and \$18.6 million, respectively.

The following table summarizes the changes between assets, liabilities and net assets as of June 30, 2010 and 2009:

**Agency's Condensed Statements of Net Assets**  
(Amounts Expressed in Thousands)

	<u>2010</u>	<u>% Change</u>	<u>2009</u>	<u>% Change</u>	<u>2008</u>
Current assets	\$ 54,704	-33.3%	\$ 81,971	20.6%	\$ 67,980
Restricted and other noncurrent assets	135,547	-32.6%	201,117	-37.2%	320,109
Capital assets, net	<u>705,652</u>	21.2%	<u>582,381</u>	42.7%	<u>408,133</u>
Total assets	<u>895,903</u>	3.5%	<u>865,469</u>	8.7%	<u>796,222</u>
Current and other liabilities	20,848	-8.5%	22,790	38.2%	16,488
Long-term obligations	<u>485,278</u>	1.3%	<u>479,239</u>	10.2%	<u>434,900</u>
Total liabilities	<u>506,126</u>	0.8%	<u>502,029</u>	11.2%	<u>451,388</u>
Net assets:					
Invested in capital assets, net of related debt	309,671	19.0%	260,183	5.7%	246,219
Restricted	28,829	0.3%	28,746	-0.6%	28,909
Unrestricted	<u>51,277</u>	-31.2%	<u>74,511</u>	6.9%	<u>69,706</u>
Total net assets	<u>\$ 389,777</u>	7.2%	<u>\$ 363,440</u>	5.4%	<u>\$ 344,834</u>

The largest portion of the Agency's net assets (79.4% and 71.6% at June 30, 2010 and 2009, respectively) reflects its investment in capital assets (e.g., land, water rights, structures and improvements, equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The Agency uses these capital assets to provide services to customers; consequently, these assets are not available for future spending. Although the Agency's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A portion of the Agency's net assets (7.4% and 7.9% at June 30, 2010 and 2009) is restricted for revenue bond reserves, debt service, and capital construction projects.

**SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)(Continued)**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009**

The remaining amount (13.2% and 20.5% at June 30, 2010 and 2009, respectively) may be used to meet the Agency's ongoing obligations to customers and creditors.

Current assets decreased from June 30, 2009 to June 30, 2010 by 33.3% primarily due to payments for pay as you go projects and using existing cash and investments to pay down bond debt. From June 30, 2008 to June 30, 2009, current assets increased by 20.6% mainly due to an increase in unrestricted cash.

In implementation of GASB 53, June 30, 2009 non-current assets were restated to recognize the deferred asset related to a corresponding negative SWAP liability. From June 30, 2009 to June 30, 2010 and from June 30, 2008 to June 30, 2009, the decrease in restricted and other non-current assets of 32.6% and 37.2% respectively was mainly due to paying for capital projects with bond funds.

The following table summarizes changes in net assets for the fiscal years ended June 30, 2010 and 2009:

<b>Agency's Changes in Net Assets</b>					
(Amounts Expressed in Thousands)					
	2010	%	2009	%	2008
		Change		Change	
Operating revenues					
Charges for services	\$ 37,018	11.0%	\$ 33,339	23.4%	\$ 27,016
Development fees	7,424	-5.9%	7,890	-49.7%	15,678
Other revenues	993	63.3%	608	623.8%	84
Nonoperating revenues					
Interest income	794	-46.7%	1,490	-91.7%	18,029
Increase (decrease) in fair value of investments	(599)	-75.6%	(2,451)	-180.1%	3,061
Other revenues	429	-25.9%	579	496.9%	97
Total revenues	<u>46,059</u>	11.1%	<u>41,455</u>	-35.2%	<u>63,965</u>
Operating expenses:					
County Labor - Dept of Water Resources	6,521	-15.4%	7,711	0.0%	-
Services and supplies	7,992	-4.4%	8,363	-49.5%	16,546
Other Charges	1,992	-3.7%	2,068	0.0%	905
Depreciation and amortization	7,015	-16.7%	8,418	25.3%	6,716
Nonoperating expenses					
Interest expense	473	-80.5%	2,428	-85.8%	17,060
Arbitrage rebate adjustment	(1,329)	26.8%	(1,048)	0.0%	2,377
Total expenses	<u>22,664</u>	-18.9%	<u>27,940</u>	-35.9%	<u>43,604</u>
Increase in net assets before contributions	23,395	73.1%	13,515	-33.6%	20,361
Net transfers in / (out)	92	100.0%	-		-
Capital contributions	<u>2,850</u>	-44.0%	<u>5,091</u>	-65.4%	<u>14,702</u>
Change in net assets	26,337		18,606		35,063
Net assets, beginning of year, as restated	<u>363,440</u>		<u>344,834</u>		<u>309,771</u>
Net assets, end of year	<u>\$ 389,777</u>	7.2%	<u>\$ 363,440</u>	5.4%	<u>\$ 344,834</u>

**SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)(Continued)**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009**

Total revenues increased \$4.6 million in 2009-10 and decreased \$22.5 million in 2008-09. Charges for services increased 11% and 23.4% in 2009-10 and 2008-09 respectively due mainly to increased water fees. Development fees decreased 5.9% and 49.7% in 2009-10 and 2008-09 respectively due to decreases in development permits. Effective July 1, 2009 the monthly service fees in Zone 40 increased from \$16.47 to \$21.17 for the typical flat rate single family residence while monthly service fees in Zone 41 increased from \$26.33 to \$29.62.

Total expenses decreased \$5.3 million in 2009-10 and decreased \$15.7 million in 2008-09. Decreases in both years was due largely to cost cutting measures imposed during the year and the capitalization of interest expense associated with bond funded long-term construction projects.

Total interest income decreased \$0.7 million and \$16.5 million during 2009-10 and 2008-09 respectively. The decrease in both years was mainly due to fewer unspent bond proceeds earning interest and the capitalization of interest income earned on bond proceeds.

Capital contributions decreased \$2.2 million and \$9.6 million in 2009-10 and 2008-09 respectively. Decreases were mainly due to changes in new residential development activity as well as timing of project completion.

**CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITY**

**Capital Assets**, net of accumulated depreciation and amortization, totaled \$705.7 and \$582.4 million at June 30, 2010 and 2009, respectively. This corresponded to an increase of \$123.3 and \$126.4 million during those fiscal years. The following table summarizes the changes in capital assets by fiscal year:

**Agency's Changes in Capital Assets**  
(Amounts Expressed in Thousands)

	<u>2010</u>	%	<u>2009</u>	%	<u>2008</u>
		<u>Change</u>		<u>Change</u>	
Land	\$ 10,640	0.0%	\$ 10,640	18.4%	\$ 8,988
Water facility rights, rights to use and permanent easements	24,054	8.7%	22,137	76.1%	12,568
Structures, Improvements and equipment	300,272	4.4%	287,706	10.1%	261,413
Construction in progress	433,696	36.4%	318,012	83.9%	172,962
Less accumulated depreciation and amortization	<u>(63,009)</u>	12.3%	<u>(56,114)</u>	17.4%	<u>(47,798)</u>
	<u>\$ 705,653</u>	21.2%	<u>\$ 582,381</u>	42.7%	<u>\$ 408,133</u>

From July 1, 2009 to June 30, 2010, construction in progress increased \$115.7 million due to progress on existing construction projects that began in prior fiscal years but were incomplete at year-end. As these projects are completed, assets will be placed into use and they will be transferred to structures, improvements and equipment.

**SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)(Continued)**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009**

Additional information on the Agency's capital assets can be found in Note 4 of this report.

**Long-term obligations, including current portion**, totaled \$496 and \$488.5 million at June 30, 2010 and 2009, respectively. These amounts were comprised of revenue bonds, compensated absences, water facility rights, arbitrage rebate payable, escrow retention payable, reimbursement agreements and derivative instrument liability related to the negative value of the swap agreements.

**Agency's Long-Term Obligations**  
(Amounts Expressed in Thousands)

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Revenue bonds	\$ 421,106	\$ 428,431	\$ 429,771
Derivative instrument liability	47,437	33,563	-
Compensated absences	1,060	922	-
Arbitrage rebate payable	-	1,329	2,377
Capital facilities - City	7,903	8,750	561
Water rights - USBR	4,000	4,000	4,000
Transformer right to use - SMUD	1,904	-	-
Escrow retentions	10,038	9,542	-
Post employment health care benefits	126	125	-
Reimbursement agreements	2,413	1,865	92
	<u>          </u>	<u>          </u>	<u>          </u>
Total Long-Term Obligations	<u>\$ 495,987</u>	<u>\$ 488,527</u>	<u>\$ 436,801</u>

In implementation of GASB 53, June 30, 2009 long-term obligations were restated to recognize a negative SWAP liability. The net increase for the year ended June 30, 2010 was \$7.5 million and was mainly due to an increase in the previously mentioned negative SWAP liability. The net increase for the year ended June 30, 2009 was mainly due to escrow retention liabilities incurred.

Additional information on the Agency's long-term obligations can be found in Note 6 of this report.

**REQUEST FOR INFORMATION**

This financial report is designed to provide a general overview of the Agency's finances for all those with an interest. Questions concerning any of the information provided in the report or requests for additional financial information should be addressed to Susan R. Purdin, CPA, Chief Financial and Administrative Officer; Sacramento County Agency, 827 7<sup>th</sup> Street #301, Sacramento, CA 95814 or phone (916) 874-3190.

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**SACRAMENTO COUNTY**  
**WATER AGENCY ENTERPRISE FUND**

*A Component Unit of the County of Sacramento  
Sacramento, California*

**Basic Financial Statements**

For the Fiscal Years Ended June 30, 2010 and 2009



**SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND**  
**STATEMENTS OF NET ASSETS**  
**JUNE 30, 2010 AND 2009**

<b>ASSETS</b>	<b>2010</b>	<b>2009</b>
<b>CURRENT ASSETS:</b>		
Cash & investments	\$ 46,573,024	\$ 71,785,765
Restricted cash & investments	2,103,306	2,103,306
Accounts receivable	5,279,674	4,728,884
Affordable housing fees receivable	-	3,075,942
Due from other funds of the County of Sacramento	748,289	277,636
<b>TOTAL CURRENT ASSETS</b>	<b>54,704,293</b>	<b>81,971,533</b>
<b>NONCURRENT ASSETS:</b>		
Restricted assets	84,658,762	163,983,149
Deferred charges, net	3,450,147	3,570,421
Deferred outflow of resources	47,437,218	33,562,781
<b>Capital assets:</b>		
Land	10,640,211	10,640,211
Intangible Assets	24,053,948	22,137,424
Structures & improvements	299,371,528	286,804,353
Equipment	900,306	900,306
Construction in progress	433,695,615	318,012,326
Total capital assets	768,661,608	638,494,620
Less accumulated depreciation & amortization	(63,008,779)	(56,113,659)
Total capital assets, net of accumulated depreciation and amortization	705,652,829	582,380,961
<b>TOTAL NONCURRENT ASSETS</b>	<b>841,198,956</b>	<b>783,497,312</b>
<b>TOTAL ASSETS</b>	<b>895,903,249</b>	<b>865,468,845</b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES:</b>		
Warrants payable	194,708	410,111
Accounts and retentions payable	8,314,983	11,172,833
Interest payable	1,513,438	1,552,031
Due to other funds of the County of Sacramento	115,416	366,574
Current portion of long-term obligations	10,709,957	9,288,275
<b>TOTAL CURRENT LIABILITIES</b>	<b>20,848,502</b>	<b>22,789,824</b>
<b>NONCURRENT LIABILITIES:</b>		
Revenue bonds payable	413,465,629	421,105,719
Compensated absences	181,449	922,118
Arbitrage rebate payable	-	1,329,162
Derivative instrument liability	47,437,218	33,562,781
Other long-term obligations	24,193,493	22,319,077
<b>TOTAL NONCURRENT LIABILITIES</b>	485,277,789	479,238,857
<b>TOTAL LIABILITIES</b>	<b>506,126,291</b>	<b>502,028,681</b>
<b>NET ASSETS:</b>		
Invested in capital assets, net of related debt	309,670,548	260,183,106
Restricted for revenue bond reserve	25,713,903	25,713,903
Restricted for debt service	1,012,638	929,211
Restricted for capital construction	2,103,306	2,103,306
Unrestricted	51,276,563	74,510,638
<b>TOTAL NET ASSETS</b>	<b>\$ 389,776,958</b>	<b>\$ 363,440,164</b>

See accompanying notes to the basic financial statements.

**SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND  
STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009**

	2010	2009
<b>OPERATING REVENUES:</b>		
Water service charges	\$ 35,096,499	\$ 30,806,859
Development fees	7,424,055	7,889,728
Connection fees	214,856	203,706
Services to others	1,706,228	2,326,994
Other	993,588	608,340
Total operating revenues	45,435,226	41,835,627
<b>OPERATING EXPENSES:</b>		
County labor - Department of Water Resources	6,520,695	7,711,292
Services & supplies	7,991,660	8,362,894
Other charges	1,992,159	2,067,784
Depreciation & amortization	7,015,394	8,418,060
Total operating expenses	23,519,908	26,560,030
Operating income	21,915,318	15,275,597
<b>NONOPERATING REVENUES (EXPENSES):</b>		
Interest income	793,556	1,490,169
Increase (decrease) in fair value of investments	(599,131)	(2,450,614)
Intergovernmental revenue	429,439	579,114
Interest expense	(472,931)	(2,427,731)
Arbitrage rebate	1,329,162	1,047,722
Total nonoperating revenues (expenses)	1,480,095	(1,761,340)
Income before contributions and transfers	23,395,413	13,514,257
<b>CAPITAL CONTRIBUTIONS</b>	2,850,077	5,091,834
<b>TRANSFERS IN</b>	631,037	-
<b>TRANSFERS OUT</b>	(539,733)	-
Changes in net assets	26,336,794	18,606,091
NET ASSETS, BEGINNING OF THE YEAR	363,440,164	344,834,073
NET ASSETS, END OF THE YEAR	\$ 389,776,958	\$ 363,440,164

See accompanying notes to the basic financial statements.

**SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND  
STATEMENTS OF CASH FLOWS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009**

	2010	2009
<b>Cash flows from operating activities:</b>		
Receipts from customers	\$ 42,840,570	\$ 36,089,816
Receipts from other operating activities	993,588	1,900,774
Payments to employees	(6,311,052)	(6,369,919)
Payments to suppliers for goods and services	(13,308,230)	(10,492,455)
Net cash provided by operating activities	24,214,876	21,128,216
<b>Cash flows from noncapital financing activities:</b>		
Transfers from other funds	631,037	-
Transfers to other funds	(539,733)	-
Net cash flows from noncapital financing activities	91,304	-
<b>Cash flows from capital and related financing activities:</b>		
Acquisition and construction of capital assets	(96,829,674)	(155,432,477)
Principal payments on long-term obligations	(9,721,406)	(2,370,464)
Increase in retentions payable placed in escrow account	496,604	8,580,698
Interest payments on long-term obligations	(18,702,212)	(19,149,867)
Net cash provided by (used for) capital and related financing activities	(124,756,688)	(168,372,110)
<b>Cash flows from investing activities:</b>		
Proceeds from sales and maturities of investments	57,678,410	72,041,953
Purchases of investments	(2,672,378)	(7,700,364)
Interest received	3,623,223	11,225,241
Net cash provided by (used for) investing activities	58,629,255	75,566,830
Net (decrease) / increase in cash and cash equivalents	(41,821,253)	(71,677,064)
Cash and cash equivalents, beginning of year	154,116,531	225,793,595
<b>Cash and cash equivalents, end of year</b>	<b>\$ 112,295,278</b>	<b>\$ 154,116,531</b>
<b>Reconciliation of cash and cash equivalents to the statement of net assets:</b>		
Cash and investments	\$ 46,573,024	\$ 71,785,765
Restricted cash & investments	2,103,306	2,103,306
Restricted assets	84,658,762	163,983,149
Less: Non cash and cash equivalents in restricted assets	(21,039,814)	(83,755,689)
Total cash and cash equivalents	\$ 112,295,278	\$ 154,116,531
<b>Reconciliation of operating income to net cash provided by operating activities</b>		
Operating Income	\$ 21,915,318	\$ 15,275,597
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	7,015,394	8,418,060
Impact fee credits applied	(3,655,567)	(2,540,847)
Change in assets and liabilities:		
Accounts receivable and deferred housing fee receivable	2,525,152	(2,472,715)
Due from other funds of the County of Sacramento	(470,653)	1,168,525
Payables	(3,073,253)	(24,250)
Payroll liabilities	209,643	1,341,373
Due to other funds of the County of Sacramento	(251,158)	(37,527)
Total adjustments	2,299,558	5,852,619
Net cash provided by operating activities	\$ 24,214,876	\$ 21,128,216
<b>Schedule of noncash investing, capital and financing activities:</b>		
Contributed assets	\$ 2,850,077	\$ 5,091,834
Amortization of bond premiums	\$ 350,089	\$ 350,090
Change in fair market value of investments	\$ (599,131)	\$ (2,450,614)

See accompanying notes to the basic financial statements.

**SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying basic financial statements of the Sacramento County Agency Enterprise Fund (Agency), have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Under GASB Statement Number 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Agency has elected not to apply Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989. The more significant of the Agency's accounting policies are described below.

**REPORTING ENTITY**

The Agency, created in 1952 pursuant to the Agency Act (Act), is a separate legal entity from the County of Sacramento. Although a separate legal entity, the Sacramento County Board of Supervisors acts ex officio as the Agency's Board of Directors while Sacramento County Department of Water Resources' personnel acts as Agency staff. The Department of Water Resources (Department) is a department within the Municipal Services Agency of the County of Sacramento. The Municipal Services Agency is administered by the Municipal Services Agency Administrator who reports to the County Executive and the County Board of Supervisors. Department staff manages the County's surface water and groundwater resources through the powers of the County and the Agency.

The sector of the Agency covered by this report is the Water Supply division. Its purpose is to provide a high quality supply of water to retail and wholesale customers, as well as to construct and operate groundwater and surface water facilities and infrastructure that will continue to provide safe and reliable water for future years. This sector of the Agency is accounted for as an enterprise fund with no financial accountability for any component units.

The activity in this fund is also included in the appropriate basic financial statements for the County as a whole. The following is a list of Zones included within the Sacramento County Agency Enterprise Fund.

Enterprise Fund

- Sacramento County Agency – Zone 40
- Sacramento County Agency – Zone 41
- Sacramento County Agency – Zone 50

In 2003 the Agency entered into a Joint Exercise of Powers Agreement with the County of Sacramento to form the Sacramento County Water Financing Authority (Authority) for the purpose of facilitating the financing of the acquisition and/or construction of real and personal property for the Agency. The Board of Directors of the Agency serve as the Authority's governing board. For financial reporting purposes, the Master Installment Purchase Contract between the Agency and the Authority has been eliminated and the financial data of the Authority related to this contract has been included with the Agency's.

**BUDGETARY PROCESS**

The Agency prepares an annual operating and capital budget, which is approved and adopted by the County Board of Supervisors. The budget serves as an approved plan to facilitate financial control and operational evaluation.

**SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

The Agency uses the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Agency distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Agency's operations. The principal operating revenues of the Agency consist of water service fees and development fees. The principal operating expenses of the Agency are labor costs and services and supplies for water resources and water quality. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing activities and result from non-exchange transactions or ancillary activities. When both restricted and unrestricted resources are available for use, it is the Agency's policy to use restricted resources first then unrestricted resources as they are needed.

**CASH EQUIVALENTS AND INVESTMENTS**

For purposes of the statements of cash flows, the Agency considers all short-term highly liquid investments with an original maturity of three months or less, including restricted cash and investments and amounts held in the County's investment pool, to be cash and cash equivalents. Amounts held in the County's investment pool are available on demand to individual entities; thus, they are considered highly liquid and cash equivalents for purposes of the statements of cash flows.

At June 30, 2010 and 2009, the Agency's investments are stated at fair value in accordance with GASB Statement No. 31. However, the value of the pool shares in the County that may be withdrawn is determined on an amortized cost basis, which is different than the fair value of the Agency's position in the pool.

**DEFERRED CHARGES**

Deferred charges of \$3,450,147 as of June 30, 2010 and \$3,570,421 as of June 30, 2009, net of accumulated amortization, consist of costs incurred for the issuance of the 2003 and 2007 revenue bonds. Amortization of issuance costs is computed using the straight-line method, over the life of the related obligation.

In implementation of GASB 53, June 30, 2009 noncurrent assets were restated in the amount of \$33,562,781 to reflect deferred outflows related to a negative SWAP liability. At June 30, 2010, the deferred outflows balance was \$47,437,218. These deferred costs will not amortize but will change each year in an amount that is parallel to the changes in the fair market value of the SWAP to which it applies.

**WATER FACILITY RIGHTS**

Water facility rights are comprised of the rights to the usage of water, water facilities and a water storage tank. When useful lives are defined, amortization of water facility rights is computed using the straight-line method over the defined useful life of the related asset. In implementation of GASB 51, when useful lives are not defined, useful lives are considered to be indefinite. Therefore, such assets are not amortized but are periodically considered for potential impairment.

**PERMANENT EASEMENTS**

Permanent easements are comprised of rights of way acquired from property owners which will allow access to Agency facilities.

**SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**CAPITAL ASSETS**

Capital assets are stated at cost except for capital assets contributed to the Agency, which are stated at their market value on the date contributed. When capital assets are retired or otherwise disposed of, the cost and related depreciation are removed from the accounts and any resulting gain or loss is reflected in non-operating revenues or expenses for the period.

Depreciation and amortization of capital assets is computed under the straight-line method over the following estimated useful lives:

Equipment	5 to 10 years
Structures and improvements	10 to 50 years
Intangible assets with defined useful lives	50 years
Intangible assets without defined useful lives	Not amortized

The Agency's policy is to capitalize all capital assets with a cost greater than \$5,000 and a useful life of more than one year.

Maintenance and repair costs are expensed as incurred. Significant renewals or improvements greater than \$5,000 are capitalized and depreciated over their revised estimated useful lives. Costs incurred for major improvements or construction of assets are carried in construction in progress until the project is completed at which time costs related to the project are capitalized in the appropriate asset account.

As of July 1, 2010 the \$5,000 threshold for buildings, structures, and improvements will increase to \$25,000. All infrastructure will be capitalized regardless of the cost.

**CAPITALIZATION OF INTEREST**

Interest costs relating to the acquisition or construction of capital assets are capitalized as a component of the cost of the capital assets. In situations where capital assets are financed with the proceeds of tax-exempt debt, the amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project, with interest earned on invested proceeds over the same period. Total capitalized interest relating to projects completed or in progress during the fiscal year ended June 30, 2010 and 2009 was \$15,751,722 and \$7,816,502 respectively.

**COMPENSATED ABSENCES**

Agency employees accrue vacation in varying amounts based on job classification and length of service. Additionally, certain employees are allowed compensated time off in lieu of overtime compensation and/or working on holidays.

Sick leave is earned by regular, full-time employees. Any sick leave hours not used during the period are carried forward to following years, with no limit to the number of hours that can be accumulated. Any sick leave hours unused at the time of an employee's retirement are added to the actual period of service when computing retirement benefits. Upon retirement, management employees have the option of receiving payment for one half of accrued sick leave with the balance included in the calculation of retirement benefits.

It is the policy of the County not to pay accumulated sick leave to employees who terminate prior to retirement. The liability for compensated absences earned through year-end, but not yet taken, is accrued in the accompanying financial statements. Compensated absences liability activity for the fiscal year ended June 30, 2010 can be found in Note 6 on long term liabilities.

**SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND**  
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)  
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**RISK MANAGEMENT**

The County maintains an "All Risk" pooled blanket property insurance program with limits in the aggregate amount of \$2.261 billion. These coverages apply to all County-owned buildings and personal property, including the real and personal property of the Agency. Boiler and Machinery coverage is provided in the aggregate amount of \$100 million limit any one loss and includes Agency real and personal property. Flood coverage for Agency real and personal property is provided with limits in the aggregate amount of \$2.261 billion. Effective March 31, 2008, earthquake limits were capped at \$25 million occurrence and aggregate.

The Agency participates in the County's self-insurance and excess insurance program for liability. Limits are capped at \$2 million and \$25 million respectively. Annual premiums are based primarily on claims experience. Current premiums are charged to expense when paid.

During the past three fiscal years, there were no instances or settlements, which exceeded insurance coverage.

**RECLASSIFICATIONS**

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

**2. CASH AND INVESTMENTS**

The Agency maintains specific cash deposits and investments with the County and participates in the investment pool of the County, which is not rated by credit rating agencies. At June 30, 2010, the carrying amounts of the Agency's cash held by the County Treasurer's investment pool were \$46,573,024 unrestricted and \$2,103,306 restricted for capital construction and at June 30, 2009 the carrying amounts of the Agency's cash held by the County Treasurer's investment pool were \$71,785,765 unrestricted and \$2,103,306 restricted for capital construction. The weighted average maturity of the Treasurer's investment pool was 170 and 212 days at June 30, 2010 and 2009, respectively.

Investment policies and related credit, custodial credit, concentration of credit, and interest rate risk applicable to the Agency's pooled funds are those of the County and are disclosed in the County's basic financial statements. The County Treasurer's investment pool is subject to oversight by the Treasury Oversight Committee.

**3. RESTRICTED ASSETS**

The County Treasurer, acting in a fiduciary capacity, invests bond proceeds in accordance with long-term obligation covenants. Bond reserves are held by an outside fiscal agent as required by the bond indentures.

At June 30, 2010 and 2009, all cash held by fiscal agents was covered by federal depository insurance or by collateral held by the County's financial institutions in the County's name.

**SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009**

**3. RESTRICTED ASSETS (Continued)**

The Agency's restricted assets held with fiscal agent as of June 30, 2010 and 2009 are classified in the accompanying financial statements as follows:

	<u>2010</u>	<u>2009</u>
Noncurrent Assets:		
Restricted Assets		
Cash held by Financial Institution - Retention	\$ 9,987,439	\$ 8,580,698
Cash held by County Fiscal Agent	65,830	(37,875)
Investments held by County Fiscal Agent	48,720,614	129,164,746
Investments Held by Financial Institution as Bond Trustee	<u>25,713,903</u>	<u>25,713,903</u>
Total Restricted Assets Held by Fiscal Agent and Trustee	74,434,517	154,878,649
Interest Receivable on Bond Proceeds	170,976	561,677
Total Noncurrent Restricted Assets	<u>\$ 84,658,762</u>	<u>\$ 163,983,149</u>

**Investments Authorized by Debt Agreements**

Investment of debt proceeds held by the County fiscal agent and bond trustee is governed by provisions of the debt agreements rather than the general provisions of the California Government Code or the Agency's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment In One Issuer</u>
Defeasance Securities	None	None	None
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances	360 days	None	None
Commercial Paper	270 days	None	None
Money Market Fund	None	None	None
Pre-refunded municipal obligations	None	None	None
Municipal Obligations	None	None	None
County of Sacramento Pooled Investment Fund	None	None	None
Investment Agreements	None	None	None



**SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009**

**3. RESTRICTED ASSETS (Continued)**

**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 of its fair value to changes in market interest rates. The Agency's investments held by bond trustees are monitored for interest rate risk by measuring the weighted average maturity.

Investment Type	Fair Value at June 30, 2010	Weighted Average Maturity (in years)	Fair Value at June 30, 2009	Weighted Average Maturity (in years)
Held by County Fiscal Agent:				
Government Securities	\$ 48,720,606	0.33	\$ 127,700,421	0.27
Mutual Funds	8	0.25	1,464,325	0.25
Held by Bond Trustee:				
Guaranteed Investment Contracts	<u>25,713,903</u>	28.33	<u>25,713,903</u>	29.33
Total	<u>\$ 74,434,517</u>		<u>\$ 154,878,649</u>	

**Credit Risk**

This is the risk that an issuer or other counterparty to a debt instrument will not fulfill its obligations. The Agency is permitted to hold investments of issuers with a short-term rating of superior capacity and a minimum long-term rating of upper medium grade by the top two nationally recognized statistical rating organizations (rating agencies). For short-term rating, the issuers' rating must be A-1 and P-1, and the long-term rating must be A- and A3 respectively by Standard & Poor's and Moody's rating agencies. In addition, the Agency is permitted to invest in the State's Local Agency Investment Fund, collateralized certificate of deposits and notes issued by the County that are not rated.

Investment Type	Fair Value at June 30, 2010	Ratings as of June 30, 2010	Fair Value at June 30, 2009	Ratings as of June 30, 2009
Held by Bond Trustee:				
Government Securities	-	Aaa/AAA	\$ 56,130,441	Aaa/AAA
Government Securities	\$ 48,720,606	P-1/A-1+	71,569,980	P-1/A-1+
Mutual Funds	8	AAAm	1,464,325	AAAm
Guaranteed Investment Contracts	<u>25,713,903</u>	Not Rated	<u>25,713,903</u>	Not Rated
Total	<u>\$ 74,434,517</u>		<u>\$ 154,878,649</u>	

**SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009**

**3. RESTRICTED ASSETS (Continued)**

**Concentration of Credit Risk**

This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Investments in any one issuer that represent five percent or more of the Agency's total investments are shown below as of June 30, 2010 and 2009. Mutual funds are excluded from this disclosure.

Issuer	Investment Type	Fair Value at June 30, 2010	Fair Value at June 30, 2009
Federal Farm Credit Bonds	Government Securities	-	\$ 22,061,875
Federal Home Loan Bank Note	Government Securities	-	34,068,566
Federal Home Loan Bank Discount Note	Government Securities	\$ 45,168,000	68,908,000
Assured Guaranty	Guaranteed Investment Contracts	22,595,237	22,595,237

**Custodial Credit Risk**

This is the risk that in the event a financial institution or counterparty fails, the Agency would not be able to recover the value of its deposits and investments. As of June 30, 2010 and 2009, one hundred percent of the Agency's investments are held in the Agency's name and is not exposed to custodial credit risk. At June 30, 2010 and 2009, cash held by financial institutions for retention in the amount of \$9,987,439 and \$8,580,698 respectively are insured up to federal depository insurance limits of \$250,000. The amounts exceeding the federal depository insurance limits are uninsured and uncollateralized. The Agency does not have a policy for custodial credit risk.

At June 30, 2010 and 2009 the Agency's bond reserves are in guaranteed investment contracts originally issued by AIG/SDG Corporation and FSA Capital Management Services LLC and are valued at cost.

Due to FSA's ratings of Aa3/AAA by Moody's and S&P, collateral was required on the investment agreement. On December 8, 2008, AAA rated securities totaling at least 105% in FNMA/FHLMC securities and 104% in US Treasury Bills of the investment balance were delivered pursuant to a custody agreement between Bank of New York Mellon as custodian and Union Bank as trustee for the Agency, and in accordance with the investment agreement between FSA and Union Bank. On July 1, 2009, Assured Guaranty Municipal Corp purchased FSA from Dexia SA. All agreements were assumed by Assured Guaranty and no changes to the GIC or custody agreement terms were made. Assured Guaranty credit ratings are the same (Aa3/AAA by Moody's and S&P).

Due to AIG's ratings being downgraded to A2/A- by Moody's and S&P, collateral was required on the investment agreement. As a result, on May 23, 2008, AAA/Aaa rated securities totaling at least 105% of the investment balance were delivered pursuant to a custody agreement between Wells Fargo Bank as custodian and Union Bank, trustee for the Agency and in accordance with the investment agreement between AIG Matched Funding Corp. and Union Bank. On March 2, 2009 Moody's further downgraded AIG's ratings from A2 to A3. There is no limitation on amounts invested in this type of investment.

**SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009**

**4. CAPITAL ASSETS**

Capital asset activity for the years ended June 30, 2010 and 2009 were as follows:

	<u>July 1, 2009</u>	<u>Increase</u>	<u>Decrease</u>	<u>June 30, 2010</u>
Capital assets not being depreciated				
Land	\$ 10,640,211	\$ -	\$ -	\$ 10,640,211
Water Facility Rights	20,864,027			20,864,027
Rights to Use		1,903,815		1,903,815
Permanent Easements	-	12,710		12,710
Construction in progress	318,012,326	125,407,658	(9,724,370)	433,695,614
Capital assets not being depreciated	<u>349,516,564</u>	<u>127,324,183</u>	<u>(9,724,370)</u>	<u>467,116,377</u>
Capital assets being depreciated				
Water rights and permanent easements	1,273,397	-	-	1,273,397
Structures & improvements	286,804,353	12,567,175	-	299,371,528
Equipment	900,306	-	-	900,306
Capital assets being depreciated	<u>288,978,056</u>	<u>12,567,175</u>	<u>-</u>	<u>301,545,231</u>
Less accumulated depreciation & amortization				
Water Rights	(1,802,279)	1,573,067	-	(229,212)
Structures & improvements	(53,481,307)	(8,458,308)	-	(61,939,615)
Equipment	(830,073)	(9,879)	-	(839,952)
Total accumulated depreciation & amortization	<u>(56,113,659)</u>	<u>(6,895,120)</u>	<u>-</u>	<u>(63,008,779)</u>
Total capital assets, being depreciated, net	<u>232,864,397</u>	<u>5,672,055</u>	<u>-</u>	<u>238,536,452</u>
Net capital assets	<u>\$ 582,380,961</u>	<u>\$ 132,996,238</u>	<u>\$ (9,724,370)</u>	<u>\$ 705,652,829</u>
	<u>July 1, 2008</u>	<u>Increase</u>	<u>Decrease</u>	<u>June 30, 2009</u>
Capital assets not being depreciated				
Land	\$ 8,988,383	\$ 1,651,828	\$ -	\$ 10,640,211
Water Facility Rights		20,864,027		20,864,027
Construction in progress	172,961,963	175,551,795	(30,501,432)	318,012,326
Capital assets not being depreciated	<u>181,950,346</u>	<u>198,067,650</u>	<u>(30,501,432)</u>	<u>349,516,564</u>
Capital assets being depreciated				
Water Rights	1,273,397	-	-	1,273,397
Structures & improvements	260,579,945	26,224,408	-	286,804,353
Equipment	833,877	66,429	-	900,306
Capital assets being depreciated	<u>262,687,219</u>	<u>26,290,837</u>	<u>-</u>	<u>288,978,056</u>
Less accumulated depreciation & amortization				
Water Rights	(1,494,457)	(307,822)		(1,802,279)
Structures & improvements	(45,575,083)	(7,906,224)	-	(53,481,307)
Equipment	(728,771)	(101,302)		(830,073)
Total accumulated depreciation & amortization	<u>(47,798,311)</u>	<u>(8,315,348)</u>	<u>-</u>	<u>(56,113,659)</u>
Total capital assets, being depreciated, net	<u>214,888,908</u>	<u>17,975,489</u>	<u>-</u>	<u>232,864,397</u>
Net capital assets	<u>\$ 396,839,254</u>	<u>\$ 216,043,139</u>	<u>\$ (30,501,432)</u>	<u>\$ 582,380,961</u>

Depreciation and amortization on capital assets and intangible assets included in the statement of revenues, expenses and changes in net assets for the years ended June 30, 2010 and 2009 was \$7,015,394 and \$8,315,348, respectively. For the year ended June 30, 2010, there was a one-time decrease in amortization expense in the amount of \$1,880,889 due to implementation of GASB 51.

Beginning in FY 2001-02, the Agency began granting developers credit for infrastructure dedications that would ultimately offset a portion of the impact fees. In other words, when a developer builds a water

**SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009**

**4. CAPITAL ASSETS (continued)**

pipeline required by the Agency as a condition of development, the developer is granted a credit for the value of the pipeline. Subsequently when building permits are issued for the development, the credits, which have been apportioned among the developable parcels, are applied towards the impact fees. The value of infrastructure credits is determined for certain improvements by a schedule in Agency Code, and for other improvements by engineer's cost estimate.

In 2009-10, of the \$7,424,055 in Zone 40 impact fee revenue, approximately \$3,768,488 was cash income and \$3,655,567 was in the value of impact fee credits applied. In 2008-09, of the \$7,889,728 in Zone 40 impact fee revenue, approximately \$5,348,881 was cash income and \$2,540,847 was in the value of impact fee credits applied.

Included in 2009-10 intergovernmental revenue are First Five (Proposition 10) grant revenues of \$85,966 and various ARRA Water Systems grant revenues of \$343,473. Included in 2008-09 Intergovernmental revenue are First Five (Proposition 10) grant revenues of \$579,114. These grant funds were used to construct the fluoridation project and various water system improvement projects located within the Agency's service area.

The Agency has entered into an agreement with Sacramento Municipal Utilities District (SMUD) for the use of a redundant back-up power transformer for the Vineyard Surface Water Treatment Plant. Its purpose is to provide power if both electricity and the primary back-up transformer fail. Costs in the amount of \$1,903,815 were placed in intangible assets to reflect the indefinite right to use being purchased in this agreement.

**5. WATER FACILITY RIGHTS**

In April 2000, the Agency and the City of Sacramento (City) entered into an agreement to treat and deliver (wheel) surface water. The Agency payments to the City are called a "Capital Facilities Use Fee." The payments will entitle the Agency to use the designated facilities for the remaining useful life of the facilities. This agreement contained an option allowing the Agency to purchase additional capacity until terminated by written mutual agreement. In February 2009, the Agency opted to exercise this option and purchase the additional capacity. At June 30, 2010 and 2009, water facility rights related to this asset were \$13,864,027 and \$13,864,027, less accumulated amortization of \$0 and \$1,073,535, respectively. A one-time reduction in accumulated amortization resulted from the implementation of GASB 51 which disallows annual amortization of intangible assets that have indefinite, undefined lives.

The Agency has shared the costs of a water storage tank with Citizens Utilities. The payments entitle the Agency to use the storage capacity for the duration of the tank's useful life of 50 years. At June 30, 2010 and 2009, water facility rights related to the Citizens Utilities asset was \$1,273,397 and \$1,273,397, less accumulated amortization of \$229,211 and \$203,744, respectively.

The Agency has entered into an agreement with Sacramento Municipal Utilities District (SMUD) which provides for the assignment of thirty thousand acre feet of SMUD's CVP water supply to the Agency. Under this contract the Agency has agreed to pay the United States certain costs that are allocated to the assigned contract amount. At June 30, 2010 and June 30, 2009, water facility rights related to this contract was \$7,000,000 and \$7,000,000 respectively less accumulated amortization of \$0 and \$525,000 respectively. A one-time reduction in accumulated amortization resulted from the implementation of GASB 51 which disallows annual amortization of intangible assets that have indefinite, undefined lives.

**SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009**

**6. LONG-TERM OBLIGATIONS**

<b>Revenue Bonds:</b>	<b>June 30</b>	
	<b>2010</b>	<b>2009</b>
2003 series, 3.5% to 5.0% due 2010 to 2034	\$ 3,305,000	\$ 4,320,000
Plus unamortized premium	390,496	406,766
	<u>3,695,496</u>	<u>4,726,766</u>
2007 series, 3.75% to 5.0% due 2010 - 2039	407,460,000	413,420,000
Plus unamortized premium	11,243,728	11,631,443
Less deferred amount on refunding	<u>(1,293,505)</u>	<u>(1,347,401)</u>
	<u>417,410,223</u>	<u>423,704,042</u>
Total revenue bonds payable	<u>\$ 421,105,719</u>	<u>\$ 428,430,808</u>

On June 12, 2003, the Agency (through the Sacramento County Water Financing Authority) issued \$23,850,000 of serial revenue bonds and \$26,945,000 of term revenue bonds. The interest rates on the serial bonds range from 2.0% to 5.0% while the interest rates on the term bonds range from 4.75% to 5.00%. The maturity dates on the serial bonds range from June 1, 2005 to June 1, 2023; the maturity dates on the term bonds range from June 1, 2028 and June 1, 2034. The purpose of this issue was to finance or reimburse the costs of acquisition and construction of certain additions, betterments and improvements to the Agency's Water System.

On May 9, 2007, the Agency (through the Sacramento County Water Financing Authority) issued \$184,500,000 of serial 2007A (Fixed Rate) revenue bonds and \$228,920,000 of term series 2007B (Index Rate) revenue bonds. The interest rates on the 2007A bonds range from 3.75% to 5.0%. The variable interest rates on the 2007B bonds range from 0.911% – 0.931% and 0.997% – 1.017% at June 30, 2010 and 2009, respectively. Proceeds from this debt issue were used to finance or reimburse the costs of acquisition and construction of certain additions, betterments and improvements to the Agency's Water System and to advance refund the majority of the 2003 revenue bonds.

Specifically, net proceeds of \$44,285,000 was used to purchase securities which were deposited in an irrevocable trust with an escrow agent to provide for a portion of future debt service payments on \$41,740,000 of the 2003 revenue bonds. As a result of the refunding, these bonds are considered to be defeased and the liability for the bonds has been removed from long-term debt. The defeased 2003 revenue bonds outstanding at June 30, 2010 and 2009 was \$41,740,000 and \$41,740,000, respectively.

Future debt service requirements at June 30, 2010 are as follows:

Fiscal Years ending June 30:	Principal	Interest	Total
2011	\$ 7,290,000	\$ 18,420,178	\$ 25,710,178
2012	7,605,000	18,105,528	25,710,528
2013	7,910,000	17,852,059	25,762,059
2014	8,240,000	17,439,812	25,679,812
2015	8,650,000	17,035,312	25,685,312
2016-2020	49,905,000	78,648,015	128,553,015
2021-2025	63,335,000	65,239,031	128,574,031
2026-2030	80,230,000	48,330,629	128,560,629
2031-2035	96,020,000	29,362,642	125,382,642
2036-2039	81,580,000	8,788,679	90,368,679
	<u>410,765,000</u>	<u>319,221,885</u>	<u>729,986,885</u>
Plus: Unamortized Premium	11,634,224	-	11,634,224
Less: Deferred amount on refunding	<u>(1,293,505)</u>	<u>-</u>	<u>(1,293,505)</u>
	<u>\$ 421,105,719</u>	<u>\$ 319,221,885</u>	<u>\$ 740,327,604</u>

**SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009**

**6. LONG-TERM OBLIGATIONS (Continued)**

The Federal Tax Reform Act of 1986 required issuers of tax-exempt debt to make payments to the United States Treasury of investment income received at yields that exceed the issuer's tax-exempt borrowing rates. The U.S. Treasury requires payment every five years. At June 30, 2010 and June 30, 2009, excess investment income payable related to the 2007 bonds amounted to \$0 and \$1,329,162 respectively. At June 30, 2010 and June 30, 2009, excess investment income payable related to the 2003 bonds amounted to \$0 and \$0 respectively.

2003 Revenue Bond and 2007 Revenue Bond Covenants: Pursuant to the Indenture between the County and Union Bank of California, N.A., as trustee, and the Master Installment Purchase Contract between the Sacramento County Water Financing Authority and the Agency, the Agency is required to faithfully perform and abide by all of the covenants, undertakings, and provisions of the above agreement so long as any of the bonds are outstanding. Specific covenants include the following:

- Punctual payment of interest and principal will be made when due.
- Proceeds of the bonds will be used by the Agency, as agent for the Authority, to pay the costs of financing the acquisition and construction (together with the incidental costs and expenses related thereto) of the Projects approved by the Board of Directors.
- Rates, fees and charges will be fixed and collected at least sufficient to yield adjusted annual net revenues, as defined, equal to at least the amount required by the coverage requirement for the fiscal year.

For fiscal years 2010 and 2009, the Agency was in compliance with the preceding covenants.

The Agency has also agreed to pay the City of Sacramento for use of Sacramento River water facilities for diverting, treating and conveying surface water. The Agency agreed to pay the City in ten annual installments an amount that included payment of principal and interest at a rate equal to the City's pool rate of return. The principal, based on the present value of the Agency's share of the facilities at the time of the agreement was \$4,294,140. The final payment occurred during the 2009 in fiscal year.

In the initial agreement with the City of Sacramento, a provision existed which allowed the Agency to acquire additional wheeling capacity. During the 2009 fiscal year, the Agency exercised that option and purchased additional capacity. The Agency agreed to pay the City in ten annual installments an amount that included payment of principal and interest at a rate equal to the City's pool rate of return. The principal, based on the present value of the Agency's share of the facilities at the time of the agreement was \$9,569,887. Annual principal and interest payments are \$1,144,904 with the final payment occurring during the 2018 fiscal year.

Annual requirements to maturity for the right to use City of Sacramento capital facilities are as follows:

	Capital Facilities - City of Sacramento		
	Principal	Interest	Total
Fiscal years ending June 30,			
2011	\$ 876,203	\$ 268,701	\$ 1,144,904
2012	905,994	238,910	1,144,904
2013	936,798	208,106	1,144,904
2014	968,649	176,255	1,144,904
2015	1,001,583	143,321	1,144,904
2016-2018	3,213,741	220,970	3,434,711
	<u>\$ 7,902,968</u>	<u>\$ 1,256,263</u>	<u>\$ 9,159,231</u>

**SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009**

**6. LONG-TERM OBLIGATIONS (Continued)**

The Agency has entered into an agreement with Sacramento Municipal Utilities District (SMUD) which provides for the assignment of thirty thousand acre feet of SMUD's CVP water supply to the Agency. Under this contract the Agency has agreed to pay the United States certain costs that are allocated to the assigned contract amount. At June 30, 2010 the principal balance remaining of the agreement is approximately \$4 million. Under the terms of the agreement, the Agency will pay approximately \$2 million at such time the Agency takes delivery of the assigned water, or at such time as the Vineyard Surface Water Treatment Plant becomes operational or October 1, 2011, whichever event occurs first. The remainder due will be paid over ten years beginning on October 1 in the calendar year after payment of the \$2 million.

The Agency has entered into an agreement with Sacramento Municipal Utilities District (SMUD) for the use of a second back-up power transformer for the Vineyard Surface Water Treatment Plant. Its purpose is to provide power if both electricity and the primary back-up transformer fail. This agreement requires an initial deposit, 48 equal monthly payments, and a balloon payment in 2014. While ownership of the transformer will remain with SMUD, the Agency is purchasing the right to use this asset indefinitely. Total cost of the transformer is \$1,903,815 and will be paid off in 2014.

Annual requirements to maturity for the right to use the SMUD transformer are as follows:

Fiscal years ending June 30,	Transformer - SMUD		
	Principal	Imputed Interest	Total
2011	\$ 87,195	\$ 109,814	\$ 197,009
2012	7,453	118,862	126,315
2013	8,291	118,024	126,315
2014	8,681	117,634	126,315
2015	1,792,195	19,601	1,811,796
	<u>\$ 1,903,815</u>	<u>\$ 483,935</u>	<u>\$ 2,387,750</u>

**SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009**

**6. LONG-TERM OBLIGATIONS (Continued)**

Changes in long-term debt obligations for the fiscal years ended June 30, 2010 and 2009 were as follows:

	July 1, 2009	Increase	Decrease	June 30, 2010	Due Within One Year
2003 revenue bonds	\$ 4,320,000	\$ -	\$ (1,015,000)	\$ 3,305,000	\$ 1,060,000
Less premium	406,766	-	(16,270)	390,496	16,270
2007 revenue bonds	413,420,000	-	(5,960,000)	407,460,000	6,230,000
Less premium	11,631,443	-	(387,715)	11,243,728	387,715
Deferred amount on refunding	(1,347,401)	-	53,896	(1,293,505)	(53,896)
Compensated absences	922,118	902,152	(763,918)	1,060,352	878,903
Arbitrage rebate payable	1,329,162	-	(1,329,162)	-	-
Derivative instrument liability	33,562,781	13,874,437	-	47,437,218	-
Water rights-SMUD assignment	4,000,000	-	-	4,000,000	-
SMUD transformer	-	1,903,815	-	1,903,815	87,195
Capital facilities-City 2	8,750,359	-	(847,391)	7,902,968	876,203
Post employment health care benefits	124,984	105,082	(103,692)	126,374	-
Reimbursement agreements	1,865,141	1,682,875	(1,135,099)	2,412,917	1,066,618
Escrow retentions	9,541,779	496,604	-	10,038,383	160,949
<b>Total</b>	<b>\$ 488,527,132</b>	<b>\$ 18,964,965</b>	<b>\$ (11,504,351)</b>	<b>\$ 495,987,746</b>	<b>\$ 10,709,957</b>

	July 1, 2008	Increase	Decrease	June 30, 2009	Due Within One Year
2003 revenue bonds	\$ 5,310,000	\$ -	\$ (990,000)	\$ 4,320,000	\$ 1,015,000
Less premium	423,037	-	(16,271)	406,766	16,271
2007 revenue bonds	413,420,000	-	-	413,420,000	5,960,000
Less premium	12,019,157	-	(387,714)	11,631,443	387,714
Deferred amount on refunding	(1,401,297)	-	53,896	(1,347,401)	(53,896)
Compensated absences	-	922,118	-	922,118	-
Arbitrage rebate payable	2,376,884	-	(1,047,722)	1,329,162	-
Derivative instrument liability	-	33,562,781	-	33,562,781	-
Water rights-SMUD assignment	4,000,000	-	-	4,000,000	-
Capital facilities-City 1	560,936	-	(560,936)	-	-
Capital facilities-City 2	-	9,569,887	(819,528)	8,750,359	847,392
Post employment health care benefits	-	124,984	-	124,984	-
Reimbursement agreements	92,186	4,932,355	(3,159,400)	1,865,141	1,115,794
Escrow retentions	-	9,541,779	-	9,541,779	-
<b>Total</b>	<b>\$ 436,800,903</b>	<b>\$ 58,653,904</b>	<b>\$ (6,927,675)</b>	<b>\$ 488,527,132</b>	<b>\$ 9,288,275</b>

**Other Long-term Obligations**

The Agency enters into various reimbursement agreements with developers for construction of water supply facilities within the Agency's jurisdiction. Impact fees are imposed to pay for the construction of new water supply facilities. The reimbursement agreement is created when the amount payable to the developers for construction of water supply facilities exceeds the amount of impact fees due.



**SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009**

**7. DERIVATIVE INSTRUMENTS**

For the fiscal year ended June 30, 2010, the Agency implemented GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The Agency's interest rate swaps are considered to be cash flow hedging derivative instruments (i.e effective). The Agency used the consistent critical terms method to evaluate hedge effectiveness for the interest rate swaps. The Agency determined that the critical terms of the 2007B variable rate bonds and the interest rate swaps are the same, and the changes in cash flows of the interest rate swaps substantially offset the changes in cash flows of the 2007B variable rate bonds.

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2010, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2010 financial statements are as follows (debit (credit)):

<b><u>Fair Value at June 30, 2010</u></b>	<b><u>Changes in Fair Value</u></b>				
	<b><u>Notional Amount</u></b>	<b><u>Classification</u></b>	<b><u>Change in Fair Value</u></b>	<b><u>Classification</u></b>	<b><u>Fair Value</u></b>
<i>Cash Flow Hedges:</i>					
Pay-fixed interest rate swap	\$128,965,000	Deferred outflow of resources	\$(7,562,131)	Debt	\$(25,322,204)
Pay-fixed interest rate swap	99,955,000	Deferred outflow of resources	\$(6,312,306)	Debt	\$(22,115,014)
<b>Total</b>	<b>\$228,920,000</b>		<b>\$(13,874,437)</b>		<b>\$(47,437,218)</b>

<b><u>Fair Value at June 30, 2009</u></b>	<b><u>Changes in Fair Value</u></b>				
	<b><u>Notional Amount</u></b>	<b><u>Classification</u></b>	<b><u>Change in Fair Value</u></b>	<b><u>Classification</u></b>	<b><u>Fair Value</u></b>
<i>Cash Flow Hedges:</i>					
Pay-fixed interest rate swap	\$128,965,000	Deferred outflow of resources	\$(17,760,073)	Debt	\$(17,760,073)
Pay-fixed interest rate swap	99,955,000	Deferred outflow of resources	\$(15,802,708)	Debt	\$(15,802,708)
<b>Total</b>	<b>\$228,920,000</b>		<b>\$(33,562,781)</b>		<b>\$(33,562,781)</b>

The fair values of the interest rate swaps are estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

**SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009**

**7. DERIVATIVE INSTRUMENTS (Continued)**

**Objectives and Terms of Hedging Derivative Instruments**

Concurrently with the sale of the Series 2007 Bonds, the Agency entered into the Series 2007B Swaps, whereby the Agency receives payments initially calculated by reference to a negotiated rate and thereafter calculated by reference to a percentage of the taxable three month LIBOR Index plus a spread equal to the LIBOR-Based Interest Rate payable with respect to the Series 2007 Bonds, and makes payments that are calculated by reference to a fixed interest rate.

The agreements were executed on April 26, 2007, with an effective date May 9, 2007, with Bear Stearns Financial Products Inc. in connection with the Series 2007B variable rate portion of the 2007 Sacramento County Water Financing Authority Revenue Bonds totaling \$228,920,000 (\$128,965,000 for 2034 Term and \$99,955,000 for 2039 Term). In order to avoid the interest rate risk associated with the variable rate bonds and to protect exposure against higher interest rates in the future, the Agency executed two swap agreements with Bear Stearns.

On April 21, 2009 the Agency Board of Directors approved the assignment of the swaps from Bear Stearns Financial Products Inc. to JPMorgan Chase Bank, N.A. This was done in an effort to provide the Agency with a stronger counterparty for the swap transactions in the long term.

The following table displays the objective and terms of the Agency's hedging derivative instruments outstanding at June 30, 2010 and 2009, along with the credit rating of the associated counterparty:

<b>Inst.</b>	<b>Type</b>	<b>Objective</b>	<b>Notional Amount</b>	<b>Effective Date</b>	<b>Maturity Date</b>	<b>Terms</b>	<b>Counterparty Credit Rating</b>
<b>A</b>	<b>Pay-fixed interest rate swap</b>	Hedge of changes in cash flows on the 2007 Series B bonds	\$128,965,000	5/9/2007	6/1/2034	Pay 4.193%; receive 67% of USD-LIBOR-BBA plus 55 bps	AA- (S&P) Aa1 (Moody's)
<b>B</b>	<b>Pay-fixed interest rate swap</b>	Hedge of changes in cash flows on the 2007 Series B bonds	\$99,955,000	5/9/2007	6/1/2039	Pay 4.221%; receive 67% of USD-LIBOR-BBA plus 57 bps	AA- (S&P) Aa1 (Moody's)

**Risks**

*Credit Risk:* The Agency is not exposed to credit risk resulting from a failure of the counterparty to perform because of the swaps negative fair value. If the swaps had positive fair value greater than \$10 million, the Agency would be exposed to credit risk from the counterparty. The swap counterparty was rated AA- by Standard & Poor's and Aa1 by Moody's Investors Services.

*Interest rate risk:* The Agency is exposed to interest rate risk on its interest rate swaps. On its pay-fixed, receive-variable interest rate swap, as the LIBOR index decreases, the Agency's net payment on the swap increases.

*Basis Risk:* The swaps are not exposed to basis risk since there is no difference between the rate paid on the variable rate bonds and the floating amount received from the hedging derivative instruments.

**SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009**

**7. DERIVATIVE INSTRUMENTS (Continued)**

*Termination Risk:* The Agency or the counterparty may terminate the swaps if the other party fails to perform under the terms of the contract. If the swaps were terminated, the variable-rate bonds would no longer carry a synthetic interest rate. If the swaps are terminated, other than by the counterparty exercising its option under the agreement, and at the time of termination the swaps are in a liability position, the Agency would be liable to the counterparty for the payment equal to the liability, subject to netting arrangements.

**Derivative Instrument Payments and Hedged Debt**

As of June 30, 2010, aggregate debt service requirements of the Agency's 2007B variable rate bonds and net receipts/payments on associated hedging derivative instruments are presented below:

Fiscal Year	Variable Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
2011		\$ 2,105,452	\$ 7,521,151	\$ 9,626,603
2012		2,105,452	7,521,151	9,626,603
2013		2,105,452	7,574,632	9,680,084
2014		2,105,452	7,494,410	9,599,862
2015		2,105,452	7,494,410	9,599,862
2016-2020		10,527,261	37,605,754	48,133,015
2021-2025	\$ 5,955,000	10,474,469	37,442,312	53,871,781
2026-2030	45,365,000	9,841,688	35,155,441	90,362,129
2031-2035	96,020,000	6,457,642	22,905,001	125,382,643
2036-2039	81,580,000	1,937,970	6,850,709	90,368,679
Totals	<u>\$ 228,920,000</u>	<u>\$ 49,766,290</u>	<u>\$ 177,564,971</u>	<u>\$ 456,251,261</u>

The above amounts assume that current interest rates on variable-rate bonds and the current reference rates of hedging derivative instruments will remain the same for their term. As these rates vary, interest payments on variable-rate bonds and net receipts/payments on the hedging derivative instruments will vary. The hedging derivative instruments column reflects only net receipts/payments on derivative instruments that qualify for hedge accounting.

**Contingencies**

The Agency's swap assignment agreement includes provisions relating to the posting of collateral for the swap counterparty and the Agency. The swap Credit Support Annex, which is part of the swap agreement, is a one-way CSA where the counterparty has the obligation to post depending on the thresholds. Conversely, the Agency does not have to post unless (1) A rating event occurs (the Agency gets downgraded below A2 by Moody's or A by S&P and (2) An insurer event occurs which could be a combination of several events but most likely (a) the insurer gets downgraded and (b) the insurer has failed to payout an obligation of greater than \$30 million and (3) The Agency chooses the option to post collateral. The two other options available to the Agency are to provide a letter of credit or to assign the agreement to another entity.

Should the Agency be downgraded below Baa2 by Moody's or BBB by S&P and an insurer event has occurred, the counterparty has the option to terminate the swap. As June 30, 2010 and 2009, the negative fair value of the swaps amounted to \$47,437,218 and \$33,562,781, respectively.

**SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009**

**8. POST-EMPLOYMENT HEALTH CARE BENEFITS**

**Plan Description**

The Agency's labor forces are employees of the Sacramento County Department of Water Resources. Benefits provided to County employees include medical and dental insurance and subsidy/offset payments as authorize by the Board of Supervisors on an annual basis. Without annual authorization by the Board, the benefit is terminated.

All annuitants are eligible to enroll in a retiree medical and/or dental insurance plan in a given calendar year if (1) they began receiving a continuing retirement allowance from Sacramento County Employees Retirement System (SCERS) during that calendar year, or (2) they were enrolled in the annual plan previously approved by the County, or (3) they previously waived coverage but elected to enroll during the County authorized enrollment period with a coverage date effective January of the given calendar year (continuous coverage).

Annuitants who retired for any reason on or before May 31, 2007 are eligible to receive a County-paid medical or dental insurance subsidy/offset payment during calendar year 2010. Annuitants who retire after May 31, 2007 are not entitled to any subsidy/offset payments. The amount of subsidy/offset payments for the calendar year 2010 ranged from \$72 to \$144 depending upon the years of service credit.

The amount of any medical subsidy/offset payments made available to annuitants (who retired on or before May 31, 2007) shall be calculated based upon the annuitant's SCERS service credit. The amount of any dental subsidy/offset payments made available to annuitants shall be set by the Board of Supervisors.

Neither SCERS nor the County guarantees that a subsidy/offset payment will be made available to annuitants for the purchase of County-sponsored medical and/or dental insurance. Subsidy/offset payments are not a vested benefit of County employment or SCERS membership.

**Funding Policy**

The County currently pays for post-employment health care benefits (OPEB) of annuitants who retired on or before May 31, 2007 on a pay-as-you-go basis. These financial statements assume that pay-as-you-go will continue.

Additional details, actuarial assumptions, funded status of the plan and required supplementary information can be found in the County's Comprehensive Annual Financial Report.

**Annual OPEB Cost and Net OPEB Obligation**

The Agency's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ended June 30, 2010 are shown in the table on the next page. The net OPEB obligation is owed to the County and included in Other long-term obligations on the Statement of Net Assets.

**SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009**

**8. POST-EMPLOYMENT HEALTH CARE BENEFITS (Continued)**

Annual required contribution	\$	105,856
Interest on net OPEB obligation		1,882
Adjustment to annual required contribution		(2,656)
Other adjustment		-
Annual OPEB cost (expense)		105,082
Contributions made		(103,692)
Increase in net OPEB obligation		1,390
Net OPEB obligation-beginning of year		124,984
Net OPEB obligation-end of year	\$	126,374
 Annual OPEB cost contributed to the plan		 98.7%

**9. DEFINED PENSION BENEFIT PLAN**

All permanent full-time employees of the Agency participate in the Sacramento County Employees' Retirement System (System), a cost-sharing multiple-employer defined benefit public employee retirement system. A separate stand-alone report for the System may be obtained from the County Department of Finance located at 700 H Street, Sacramento, California 95814. The payroll for Agency employees covered by the System and direct charging to the Agency Enterprise Fund for the fiscal year ended June 30, 2010 and 2009 was \$6,690,282 and \$7,952,976 respectively. The Agency's total payroll for employees direct charging to the Agency Enterprise Fund for the fiscal year ended June 30, 2010 and 2009 was \$7,105,754 and \$8,597,882 respectively. Retirement benefits are based on member years of service and compensation. Additionally, the System provides for benefits upon death or disability of eligible members. Upon reaching five years of service, members have earned the right to receive a retirement benefit, subject to certain restrictions if retirement is prior to attaining age 50 or less than 10 year service has been achieved.

Under the actuarial funding method used by the System, investments are valued at market and all unrealized gains and losses are recognized over the next five years. Therefore, contribution rates reflect the impact of market fluctuations on investments during the five-year period after they occur rather than upon disposition of the investment.

Member contributions are required by law and are based on age of entry into the System. Fund contributions are actuarially determined to provide for the balance of contributions needed. The authority for both benefit provisions and contribution obligations is derived from the County Employees Retirement Act of 1937, Section 31450 et seq. of the California Government Code.

The contribution requirement for the year ended June 30, 2010 was \$1,069,794 and consisted of \$719,829 from the Agency and \$349,965 from its employees charging directly to the Agency Enterprise Fund; these contributions represent 10.8 percent and 5.2 percent of covered payroll, respectively. For the year ended June 30, 2009, the contribution requirement was \$1,396,831 and consisted of \$1,072,567 from the Agency and \$324,264 from its employees charging directly to the Agency Enterprise Fund; these contributions represent 13.5 percent and 4.1 percent of covered payroll, respectively.

For additional information regarding retirement contributions for the year ended June 30, 2010, please refer to the County of Sacramento Comprehensive Annual Financial Report.

**SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND**  
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)  
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009

**10. JOINT VENTURE**

The Freeport Regional Water Authority (FRWA) was established in 2002 by a joint exercise of powers agreement between East Bay Municipal Utility District and the Agency. The purpose of this partnership is to construct a joint regional surface water supply project on the Sacramento River near the community of Freeport and adjacent to the City of Sacramento. The jointly owned facilities will consist of a Sacramento River diversion structure and a raw water conveyance pipeline. Associated with this project is the construction of the Agency's Vineyard Surface Water Treatment Plant which is scheduled to be in operation in early fiscal year 2011-12. FRWA is governed by a four person Board of Directors, two from each member agency. Each member agency pays their share of the construction of the water facilities quarterly. The Agency has no equity interest in the FRWA.

Copies of the FRWA's financial statements may be obtained from the FRWA Authority Treasurer, MS#801, P.O. Box 24055, Oakland, CA 94623-1055.

**11. COMMITMENTS AND CONTINGENCIES**

The Agency has entered into contracts for the construction of certain projects. At June 30, 2010 the unexpended balance of the contract commitments was approximately \$92,770,302.

The Agency is a defendant in various matters of litigation. Of these matters, management and the Agency's legal counsel do not anticipate any material effect on the June 30, 2010 financial statements.

**12. TRANSFERS**

Transfers in from the County for the period ending June 30, 2010 totaled \$631,037. These transfers resulted from money set aside in prior years to fund a new Department of Water Resources administration building that was postponed until a later date. During the year, monies were transferred back to the Sacramento County Water Agency Enterprise fund where they will remain until it is decided that building construction will occur.

Transfers out of the fund totaling \$539,733 for the period ending June 30, 2010 are primarily made up of the Fund's share of retirement costs. There were no Transfers in or out for the period ending June 30, 2009.

**13. NEW PRONOUNCEMENTS**

GASB Statement No. 51 - *Accounting and Financial Reporting for Intangible Assets* establishes accounting and financial reporting requirements for intangible assets. The statement requires that all intangible assets not specifically excluded by scope provisions be classified as capital assets. This statement was implemented during the fiscal year ending June 30, 2010.

GASB Statement No. 53 - *Accounting and Financial Reporting for Derivative Instruments* establishes the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. This statement was implemented during the fiscal year ending June 30, 2010.

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# SACRAMENTO COUNTY

## WATER AGENCY ENTERPRISE FUND

*A Component Unit of the County of Sacramento  
Sacramento, California*

### **Statistical Section**

For the Fiscal Years Ended June 30, 2010 and 2009

This part of the Sacramento County Agency Enterprise Fund's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

<b>Contents</b>	<b>Page</b>
Financial Trends <i>These schedules contain trend information to help understand how the Agency's financial performance and well-being have changed over time.</i>	34
Operating Information <i>These schedules contain service and infrastructure data to help understand how the information in the Agency's financial report relates to the services the Agency provides and the activities it performs.</i>	36
Debt Capacity <i>These schedules present information to help assess the affordability of the Agency's current levels of outstanding debt and the agency's ability to issue additional debt in the future.</i>	44
Revenue Capacity <i>These schedules contain information to help assess all of the Agency's revenue sources.</i>	45
Demographic and Economic Information <i>These schedules offer demographic and economic indicators to help understand the environment within which the Agency's financial activities take place.</i>	46

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.



**SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND**  
**NET ASSETS BY COMPONENT**  
Fiscal Years 2000-01 through 2009-10

	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>Restated 2003-04 **</u>	<u>Restated 2004-05 **</u>
Invested in capital assets, net of related debt	\$ 82,550,081	\$ 98,294,617	\$123,803,250	\$133,628,003	\$172,629,544
Restricted for revenue bond reserve	-	-	-	-	-
Restricted for debt service	-	-	-	-	-
Restricted for capital construction	-	-	-	-	-
Unrestricted	37,665,351	41,029,655	48,085,727	72,492,887	77,665,127
<b>Total activities net assets</b>	<u>\$120,215,432</u>	<u>\$139,324,272</u>	<u>\$171,888,977</u>	<u>\$206,120,890</u>	<u>\$250,294,671</u>

\*\* During the fiscal year ended June 30, 2006, the Agency discovered that purchased infrastructure from fiscal years ended June 30, 1997 through June 30, 2005, was inadvertently included in the capital contributions and capital assets financial statements line items, which resulted in the duplication in these accounts. As a result of this, certain 2004 and 2005 amounts have been restated.

\*\*\* Restated as of June 30, 2007 to reflect the acquisition of water rights from the U.S. Bureau of Reclamation which had been omitted.

Source: Audited Financial Statements for fiscal years 2000-01 through 2009-10.

**SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND**  
**NET ASSETS BY COMPONENT (Continued)**  
Fiscal Years 2000-01 through 2009-10

	<u>2005-06</u>	<u>Restated 2006-07 ***</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
Invested in capital assets, net of related debt	\$199,197,215	\$231,461,170	\$271,933,420	\$260,183,106	\$309,670,548
Restricted for revenue bond reserve	-	-	3,195,000	25,713,903	25,713,903
Restricted for debt service	-	-	-	929,211	1,012,638
Restricted for capital construction	-	-	-	2,103,306	2,103,306
Unrestricted	81,049,107	78,309,716	69,705,653	74,510,638	51,276,563
<b>Total activities net assets</b>	<u>\$280,246,322</u>	<u>\$309,770,886</u>	<u>\$344,834,073</u>	<u>\$363,440,164</u>	<u>\$389,776,958</u>

\*\* During the fiscal year ended June 30, 2006, the Agency discovered that purchased infrastructure from fiscal years ended June 30, 1997 through June 30, 2005, was inadvertently included in the capital contributions and capital assets financial statements line items, which resulted in the duplication in these accounts. As a result of this, certain 2004 and 2005 amounts have been restated.

\*\*\* Restated as of June 30, 2007 to reflect the acquisition of water rights from the U.S. Bureau of Reclamation which had been omitted.

Source: Audited Financial Statements for fiscal years 2000-01 through 2009-10.

**SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND**  
**TOTAL ANNUAL REVENUES**  
Fiscal Years 2000-01 through 2009-10

	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>
Operating revenues:					
Charges for services	\$ 23,910,932	\$ 25,905,443	\$ 37,241,248	\$ 46,004,929	\$ 49,611,528
Water service charges ^^	-	-	-	-	-
Development fees ^	-	-	-	-	-
Connection fees ^^	-	-	-	-	-
Services to others ^^^	-	-	-	-	-
Other	296,397	1,430,793	767,308	867,775	1,095,827
Total operating revenues	<u>24,207,329</u>	<u>27,336,236</u>	<u>38,008,556</u>	<u>46,872,704</u>	<u>50,707,355</u>
Non operating revenues:					
Interest income	1,946,150	1,301,628	925,066	1,306,457	2,355,259
Intergovernmental	254,799	223,988	18,009	14,543	19,646
Increase (decrease) in fair value	-	-	-	-	-
Other revenues	98,308	-	-	-	-
Total non operating revenues	<u>2,299,257</u>	<u>1,525,616</u>	<u>943,075</u>	<u>1,321,000</u>	<u>2,374,905</u>
Total revenues	<u>\$ 26,506,586</u>	<u>\$ 28,861,852</u>	<u>\$ 38,951,631</u>	<u>\$ 48,193,704</u>	<u>\$ 53,082,260</u>

^ Through 2004-05, Development fees were combined with Charges for Services

^^ Through 2007-08, Water Service Charges and Connection Fees were combined with Charges for Services

^^^ Through 2007-08, Services to Others was reported as a reduction in the operating expenses to which they applied.

Source: Audited Financial Statements for fiscal years 2000-01 through 2009-10.

**SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND**  
**TOTAL ANNUAL REVENUES (Continued)**  
Fiscal Years 2000-01 through 2009-10

	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
Operating revenues:					
Charges for services	\$ 19,747,906	\$ 22,283,106			
Water service charges ^^	-	-	\$ 26,562,373	\$ 30,806,859	\$ 35,096,499
Development fees ^	24,365,027	17,125,443	15,678,450	7,889,728	7,424,055
Connection fees ^^	-	-	453,558	203,706	214,856
Services to others ^^^	-	-	-	2,326,994	1,706,228
Other	923,920	252,339	83,754	608,340	993,588
Total operating revenues	<u>45,036,853</u>	<u>39,660,888</u>	<u>42,778,135</u>	<u>41,835,627</u>	<u>45,435,226</u>
Non operating revenues:					
Interest income	3,865,836	6,483,646	18,029,671	1,490,169	793,556
Intergovernmental	7,200	-	96,569	579,114	429,439
Increase (decrease) in fair value			3,060,978	(2,450,614)	(599,131)
Other revenues	-	-	-	-	-
Total non operating revenues	<u>3,873,036</u>	<u>6,483,646</u>	<u>21,187,218</u>	<u>(381,331)</u>	<u>623,864</u>
Total revenues	<u>\$ 48,909,889</u>	<u>\$ 46,144,534</u>	<u>\$ 63,965,353</u>	<u>\$ 41,454,296</u>	<u>\$ 46,059,090</u>

<sup>^</sup> Through 2004-05, Development fees were combined with Charges for Services

<sup>^^</sup> Through 2007-08, Water Service Charges and Connection Fees were combined with Charges for Services

<sup>^^^</sup> Through 2007-08, Services to Others was reported as a reduction in the operating expenses to which they applied.

Source: Audited Financial Statements for fiscal years 2000-01 through 2009-10.

**SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND**  
**TOTAL ANNUAL EXPENSES**  
Fiscal Years 2000-01 through 2009-10

	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>
Operating expenses:					
County Labor-Department of Water Resources <sup>*****</sup>		-	-	-	-
Services and supplies	\$ 7,436,384	\$ 10,323,793	\$ 10,381,723	\$ 13,724,375	\$ 12,957,088
Other charges <sup>*****</sup>	-	-	-	-	-
Depreciation and amortization	2,648,294	2,921,036	3,473,791	4,285,185	4,561,818
Total operating expenses	<u>10,084,678</u>	<u>13,244,829</u>	<u>13,855,514</u>	<u>18,009,560</u>	<u>17,518,906</u>
Nonoperating expenses:					
Interest expense	267,268	280,832	331,882	2,316,880	2,349,173
Arbitrage rebate	-	-	-	-	-
Total expenses	<u>\$ 10,351,946</u>	<u>\$ 13,525,661</u>	<u>\$ 14,187,396</u>	<u>\$ 20,326,440</u>	<u>\$ 19,868,079</u>

\*\*\* Restated as of June 30, 2007 to reflect the acquisition of water rights from the U.S. Bureau of Reclamation which had been omitted.

\*\*\*\*\* Through 2007-08, County Labor-Department of Water Resources and Other charges combined with Services and supplies

Source: Audited Financial Statements for fiscal years 2000-01 through 2009-10.

**SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND**  
**TOTAL ANNUAL EXPENSES (Continued)**  
Fiscal Years 2000-01 through 2009-10

	<u>2005-06</u>	<u>Restated 2006-07 ***</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
Operating expenses:					
County Labor-Department of Water Resources^^	-	-	-	\$ 7,711,292	\$ 6,520,695
Services and supplies	\$ 15,880,618	\$ 17,457,241	\$ 16,545,826	8,362,894	7,991,660
Other charges^^^^	-	-	905,094	2,067,784	1,992,159
Depreciation and amortization	6,236,571	5,640,369	6,716,323	8,418,060	7,015,394
Total operating expenses	<u>22,117,189</u>	<u>23,097,610</u>	<u>24,167,243</u>	<u>26,560,030</u>	<u>23,519,908</u>
Nonoperating expenses:					
Interest expense	2,223,140	2,753,340	17,059,847	2,427,731	472,931
Arbitrage rebate	-	-	2,376,884	(1,047,722)	(1,329,162)
Total expenses	<u>\$ 24,340,329</u>	<u>\$ 25,850,950</u>	<u>\$ 43,603,974</u>	<u>\$ 27,940,039</u>	<u>\$ 22,663,677</u>

\*\*\* Restated as of June 30, 2007 to reflect the acquisition of water rights from the U.S. Bureau of Reclamation which had been omitted.

^^^^ Through 2007-08, County Labor-Department of Water Resources and Other charges combined with Services and supplies

Source: Audited Financial Statements for fiscal years 2000-01 through 2009-10.

**SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND**  
**CHANGES IN NET ASSETS**

Fiscal Years 2000-01 through 2009-10

	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>Restated 2003-04 **</u>	<u>Restated 2004-05 **</u>
<b>Operating Revenues:</b>					
Charges for services	\$ 23,910,932	\$ 25,905,443	\$ 37,241,248	\$ 46,004,929	\$ 49,611,528
Water service charges ^^	-	-	-	-	-
Development fees ^	-	-	-	-	-
Connection fees ^^	-	-	-	-	-
Services to others ^^^	-	-	-	-	-
Other	296,397	1,430,793	767,308	867,775	1,095,827
Total operating revenues	<u>24,207,329</u>	<u>27,336,236</u>	<u>38,008,556</u>	<u>46,872,704</u>	<u>50,707,355</u>
<b>Nonoperating revenues:</b>					
Interest income	1,946,150	1,301,628	925,066	1,306,457	2,355,259
Intergovernmental	254,799	223,988	18,009	14,543	19,646
Increase (decrease) in fair value	-	-	-	-	-
Other revenues	98,308	-	-	-	-
Total non-operating revenue	<u>2,299,257</u>	<u>1,525,616</u>	<u>943,075</u>	<u>1,321,000</u>	<u>2,374,905</u>
Total revenues	<u>26,506,586</u>	<u>28,861,852</u>	<u>38,951,631</u>	<u>48,193,704</u>	<u>53,082,260</u>
<b>Operating expenses:</b>					
County Labor-Department of Water Resources^^^^	-	-	-	-	-
Services and supplies	7,436,384	10,323,793	10,381,723	13,724,375	12,957,088
Other charges^^^^	-	-	-	-	-
Depreciation and Amortization	2,648,294	2,921,036	3,473,791	4,285,185	4,561,818
Total operating expenses	<u>10,084,678</u>	<u>13,244,829</u>	<u>13,855,514</u>	<u>18,009,560</u>	<u>17,518,906</u>
<b>Nonoperating expenses:</b>					
Interest expense	267,268	280,832	331,882	2,316,880	2,349,173
Arbitrage rebate	-	-	-	-	-
Total non-operating expenses	<u>267,268</u>	<u>280,832</u>	<u>331,882</u>	<u>2,316,880</u>	<u>2,349,173</u>
Total expenses	<u>10,351,946</u>	<u>13,525,661</u>	<u>14,187,396</u>	<u>20,326,440</u>	<u>19,868,079</u>
Net income before transfers / contributions	16,154,640	15,336,191	24,764,235	27,867,264	33,214,181
Capital contributions	37,533,122	3,772,649	-	16,126,263	10,959,600
Transfers in	-	-	7,800,470	-	-
Transfers out	(784,447)	-	-	-	-
Change in net assets	<u>52,903,315</u>	<u>19,108,840</u>	<u>32,564,705</u>	<u>43,993,527</u>	<u>44,173,781</u>
Net assets beginning	67,312,117	120,215,432	139,324,272	162,127,363	206,120,890
Net assets ending	<u>\$ 120,215,432</u>	<u>\$ 139,324,272</u>	<u>\$ 171,888,977</u>	<u>\$ 206,120,890</u>	<u>\$ 250,294,671</u>

\*\* During the fiscal year ended June 30, 2006, the Agency discovered that purchased infrastructure from fiscal years ended June 30, 1997 through June 30, 2005, was inadvertently included in the capital contributions and capital assets financial statements line items, which resulted in the duplication in these accounts. As a result of this, certain 2005 amounts have been restated.

\*\*\* Restated as of June 30, 2007 to reflect the acquisition of water rights from the U.S. Bureau of Reclamation which had been omitted.

^ Through 2004-05, Development fees were combined with Charges for Services

^^ Through 2007-08, Water Service Charges and Connection Fees were combined with Charges for Services

^^^ Through 2007-08, Services to Others was reported as a reduction in the operating expenses to which they applied.

^^^^ Through 2007-08, County Labor-Department of Water Resources and Other charges combined with Services and supplies

Source: Audited Financial Statements for fiscal years 2000-01 through 2009-10.

**SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND**  
**CHANGES IN NET ASSETS (Continued)**  
Fiscal Years 2000-01 through 2009-10

	<u>2005-06</u>	<u>Restated 2006-07 ***</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
<b>Operating Revenues:</b>					
Charges for services	\$ 19,747,906	\$ 22,283,106	\$ -	\$ -	\$ -
Water service charges ^^	-	-	26,562,373	30,806,859	35,096,499
Development fees ^	24,365,027	17,125,443	15,678,450	7,889,728	7,424,055
Connection fees ^^	-	-	453,558	203,706	214,856
Services to others ^^^	-	-	-	2,326,994	1,706,228
Other	923,920	252,339	83,754	608,340	993,588
Total operating revenues	<u>45,036,853</u>	<u>39,660,888</u>	<u>42,778,135</u>	<u>41,835,627</u>	<u>45,435,226</u>
<b>Nonoperating revenues:</b>					
Interest income	3,865,836	6,483,646	18,029,671	1,490,169	793,556
Intergovernmental	7,200	-	96,569	579,114	429,439
Increase (decrease) in fair value	-	-	3,060,978	(2,450,614)	(599,131)
Other revenues	-	-	-	-	-
Total non-operating revenue	<u>3,873,036</u>	<u>6,483,646</u>	<u>21,187,218</u>	<u>(381,331)</u>	<u>623,864</u>
Total revenues	<u>48,909,889</u>	<u>46,144,534</u>	<u>63,965,353</u>	<u>41,454,296</u>	<u>46,059,090</u>
<b>Operating expenses:</b>					
County Labor-Department of Water Resources^^^^	-	-	-	7,711,292	6,520,695
Services and supplies	15,880,618	17,457,241	16,545,826	8,362,894	7,991,660
Other charges^^^^	-	-	905,094	2,067,784	1,992,159
Depreciation and Amortization	6,236,571	5,640,369	6,716,323	8,418,060	7,015,394
Total operating expenses	<u>22,117,189</u>	<u>23,097,610</u>	<u>24,167,243</u>	<u>26,560,030</u>	<u>23,519,908</u>
<b>Nonoperating expenses:</b>					
Interest expense	2,223,140	2,753,340	17,059,847	2,427,731	472,931
Arbitrage rebate	-	-	2,376,884	(1,047,722)	(1,329,162)
Total non-operating expenses	<u>2,223,140</u>	<u>2,753,340</u>	<u>19,436,731</u>	<u>1,380,009</u>	<u>(856,231)</u>
Total expenses	<u>24,340,329</u>	<u>25,850,950</u>	<u>43,603,974</u>	<u>27,940,039</u>	<u>22,663,677</u>
Net income before transfers / contributions	24,569,560	20,293,584	20,361,379	13,514,257	23,395,413
Capital contributions	5,382,091	9,230,980	14,701,808	5,091,834	2,850,077
Transfers in	-	-	-	-	631,037
Transfers out	-	-	-	-	(539,733)
Change in net assets	<u>29,951,651</u>	<u>29,524,564</u>	<u>35,063,187</u>	<u>18,606,091</u>	<u>26,336,794</u>
Net assets beginning	250,294,671	280,246,322	309,770,886	344,834,073	363,440,164
Net assets ending	<u>\$ 280,246,322</u>	<u>\$ 309,770,886</u>	<u>\$ 344,834,073</u>	<u>\$ 363,440,164</u>	<u>\$ 389,776,958</u>

\*\* During the fiscal year ended June 30, 2006, the Agency discovered that purchased infrastructure from fiscal years ended June 30, 1997 through June 30, 2005, was inadvertently included in the capital contributions and capital assets financial statements line items, which resulted in the duplication in these accounts. As a result of this, certain 2005 amounts have been restated.

\*\*\* Restated as of June 30, 2007 to reflect the acquisition of water rights from the U.S. Bureau of Reclamation which had been omitted.

^ Through 2004-05, Development fees were combined with Charges for Services

^^ Through 2007-08, Water Service Charges and Connection Fees were combined with Charges for Services

^^^ Through 2007-08, Services to Others was reported as a reduction in the operating expenses to which they applied.

^^^^ Through 2007-08, County Labor-Department of Water Resources and Other charges combined with Services and supplies

Source: Audited Financial Statements for fiscal years 2000-01 through 2009-10.



**SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND**  
**CONNECTIONS AND MONTHLY WATER RATES**  
 Fiscal Years 2000-01 through 2009-10

**CONNECTIONS**

Fiscal Year:	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Number of connections:	25,897	29,440	32,744	36,890	41,451	45,261	46,558	47,760	48,438	49,069
Annual Percent Increase:		13.7%	11.2%	12.7%	12.4%	9.2%	2.9%	2.6%	1.4%	1.3%

**MONTHLY WATER RATE**  
**TYPICAL SINGLE FAMILY CONNECTION**

Zone 40 Monthly water rate: (capital program component)	\$ 5.00	\$ 5.00	\$ 5.50	\$ 7.00	\$ 7.70	\$ 8.47	\$ 8.47	\$ 12.47	\$ 16.47	\$ 21.17
Zone 41 Monthly water rate: (operations component)	<u>\$ 14.11</u>	<u>\$ 14.96</u>	<u>\$ 16.46</u>	<u>\$ 18.44</u>	<u>\$ 19.18</u>	<u>\$ 20.33</u>	<u>\$ 20.33</u>	<u>\$ 23.33</u>	<u>\$ 26.33</u>	<u>\$ 29.62</u>
<b>Total **</b>	<u><u>\$ 19.11</u></u>	<u><u>\$ 19.96</u></u>	<u><u>\$ 21.96</u></u>	<u><u>\$ 25.44</u></u>	<u><u>\$ 26.88</u></u>	<u><u>\$ 28.80</u></u>	<u><u>\$ 28.80</u></u>	<u><u>\$ 35.80</u></u>	<u><u>\$ 42.80</u></u>	<u><u>\$ 50.79</u></u>

\*\* Most, but not all customers pay both the Zone 40 and Zone 41 components.

Note: Through June 30, 2008 the Sacramento County Water Agency Enterprise Fund had no employees. The staff of Sacramento County Department of Water Resources acted ex-officio as staff of the Water Agency per the Sacramento County Water Agency Act.

Restriction on Ability to Raise Rates:

Rate increases for water service are subject to the provisions of Article XIII D Section 6(a) and (b) of the California Constitution, also known as Proposition 218. This section requires: 1) Individual mailed notification of proposed rate increases to all affected parcel owners; 2) a noticed public hearing; and 3) a process whereby written protests from a majority of affected parcel owners will prevent the increase. Lacking the majority protest, the appropriate governing Board may approve the increase.

Source: Sacramento County Water Agency

**SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND**  
**TOP INDUSTRIAL USERS**  
**Largest Industrial Customers of the Agency**  
Fiscal Years 2002-03 and 2006-07 through 2009-10

	2009-10		2008-09		2007-08		2006-07		2002-03 **	
	Annual Water Use		Annual Water Use		Annual Water Use		Annual Water Use		Annual Water Use	
	(AF) *	% of Total	(AF) *	% of Total	(AF) *	% of Total	(AF) *	% of Total	(AF) *	% of Total
Total Consumnes Community Services District	1,510	3.8%	1,821	4.5%	1,642	4.0%				
Elk Grove Community Services District	444	1.1%	685	1.7%	658	1.6%	1,812	4.5%	558	2.0%
United States of America	290	0.7%	360	0.9%	366	0.9%	332	0.8%		
Southgate Recreation / Park District	215	0.5%	243	0.6%	255	0.6%	207	0.5%		
Sacramento Regional Co. Regional Sanitation Di	212	0.5%	240	0.6%	253	0.6%	256	0.6%		
County of Sacramento	193	0.5%	175	0.4%	135	0.3%	129	0.3%		
City of Elk Grove	193	0.5%	220	0.5%	121	0.3%				
Donahue Schriber Realty Group LP (Wells Fargo	166	0.4%	192	0.5%	213	0.5%	227	0.6%		
Aramark	118	0.3%	109	0.3%	111	0.3%	218	0.5%	145	0.5%
Cordova Recreation/Park District	116	0.3%								
North Market Center LLP			116	0.3%	161	0.4%	170	0.4%		
Elk Grove Unified School District							531	1.3%	311	1.1%
PSBP North Pointe LLC							132	0.3%		
Glacier Ice									291	1.0%
Cintas Sales Corporation									84	0.3%
Tledyne									21	0.1%
Pavillion Touchless Car Wash									20	0.1%
Mustafa Arpacı Revocable Trust									16	0.1%
Livingston's Concrete Services									15	0.1%
Williamette Industries									13	
<b>Top Ten Industrial Water Users</b>	<b>3,457</b>	<b>8.8%</b>	<b>4,161</b>	<b>10.2%</b>	<b>3,915</b>	<b>9.5%</b>	<b>4,014</b>	<b>9.9%</b>	<b>1,474</b>	<b>3.3%</b>
<b>Total Water Use</b>	<b>39,428</b>	<b>100.0%</b>	<b>40,605</b>	<b>100.0%</b>	<b>41,401</b>	<b>100.0%</b>	<b>40,719</b>	<b>100.0%</b>	<b>28,079</b>	<b>100.0%</b>

\* AF - Acre Feet

\*\* 2002-03 is the first year of information available.

Source: Sacramento County Water Agency

**SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND**  
**RATIOS OF OUTSTANDING DEBT**  
Fiscal Years 2000-01 through 2009-10

Fiscal Year	Revenue Bonds	Installment Loans and Agreements	Derivative Instruments	Total Outstanding Debt	Number of Service Connections	Total Debt Service / Connection
2001-02				-	29,440	-
2002-03	\$ 50,795,000	\$ 3,230,633		\$ 54,025,633	32,744	\$ 1,650
2003-04	50,795,000	4,627,312		55,422,312	36,890	1,502
2004-05	49,885,000	3,934,326		53,819,326	41,451	1,298
2005-06	48,960,000	1,995,370		50,955,370	45,261	1,126
2006-07	419,695,000	5,705,305		425,400,305	46,558	9,137
2007-08	418,730,000	4,653,122		423,383,122	47,760	8,865
2008-09	417,740,000	14,615,500	\$ 33,562,781	465,918,281	48,438	9,619
2009-10	410,765,000	16,219,700	47,437,218	474,421,918	49,069	9,668

Source: Audited Financial Statements for fiscal years 2000-01 through 2009-10.

**SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND**  
**PLEDGED REVENUE STREAM**  
Fiscal Years 2000-01 through 2009-10  
(Amounts expressed in thousands)

	Adjusted Annual Revenues	Maintenance and Operation Costs <sup>a</sup>	Adjusted Annual Net Revenues	Debt Service Requirements			Coverage
				Principal	Interest	Total	
2000-01	\$ 24,207	\$ 7,436	\$ 16,771	\$ -	\$ -	\$ -	-
2001-02	27,336	10,324	17,012	-	-	-	-
2002-03	36,758	10,382	26,376	-	-	-	-
2003-04	45,423	13,995	31,428	-	2,118	2,118	14.84
2004-05	45,068	13,122	31,946	910	2,184	3,094	10.33
2005-06	40,316	16,027	24,289	925	2,166	3,091	7.86
2006-07	41,467	17,359	24,108	945	1,195	2,140	11.27
2007-08	41,062	17,595	23,467	965	3,263	4,228	5.55
2008-09	40,712	18,560	22,152	990	9,434	10,424	2.13
2009-10	47,293	16,835	30,458	6,975	17,393	24,368	1.25

<sup>a</sup> Maintenance and operation costs are exclusive of depreciation and amortization.

Pledge revenues represent charges for services including impact fees and commercial and residential customer accounts.

Source: Agency's Audited Financial Statements.

**SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND  
DEMOGRAPHIC AND ECONOMIC STATISTICS**

Fiscal Years 2000-01 through 2009-10  
(amounts expressed in thousands)

<u>Fiscal Year</u>	<u>Population</u>	<u>Personal Income *</u>	<u>Per Capita Personal Income *</u>	<u>School Enrollment</u>	<u>Unemployment Rate (%)</u>
1998	1,160	\$ 28,050,979	\$ 23,978	205	5.2
1999	1,178	30,179,191	25,433	210	5.3
2000	1,210	32,018,953	26,535	214	4.8
2001	1,259	35,016,668	28,460*	222	4.2
2002	1,280	37,225,183	29,386*	228	4.7
2003	1,310	38,649,539	29,682*	233	5.2
2004	1,335	40,789,349*	30,668*	235	5.2
2005	1,370	43,742,244*	32,382*	238	4.5
2006	1,386	46,375,880	34,014	239	4.7
2007	1,407	48,313,850	35,197	238	5.3
2008	1,424	50,157,252	36,340	239	6.5
2009	1,433	54,177,837	39,076	238	11.1
2010	1,445	**N/A	**N/A	***N/A	12.1

\* Bureau of Economic Analysis revised population and per capita personal income estimates back to the year 2000

\*\*Not Available until April 2011

\*\*\*Not available until mid-September

Source: California State Department of Finance; Bureau of Economic Analysis, Sacramento County Office of Education, and California State Employment Development Department.

**SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND**  
**PRINCIPAL EMPLOYERS**  
 Fiscal Years 2008-09 and 1999-00

<u>Employer</u>	<u>June 30, 2010</u>			<u>June 30, 2001</u>		
	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total County Employment</u>	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total County Employment</u>
1 Kaiser Permanente	10,081	1	1.65%	10,530	2	1.77%
2 CHW / Mercy Health Care	8,279	2	1.36%	6,000	5	1.01%
3 Sutter / California Health Services	7,314	3	1.20%	16,600	1	2.78%
4 Intel Corporation	6,000	4	0.98%	5,000	9	0.84%
5 Wells Fargo & Co.	3,690	5	0.61%			
6 Raley's Inc./ Bel Air	3,401	6	0.56%	6,430	4	1.08%
7 PRIDE Industries	2,841	7	0.47%			
8 Health Net of California	2,512	8	0.41%			
9 Cache Creek Casino Resort	2,460	9	0.40%			
10 Pacific Gas & Electric Co.	2,169	10	0.36%			
11 Oracle Corporation				8,500	2	1.43%
12 Hewlett-Packard				5,800	6	0.97%
13 Pacific Bell & Subsidiaries				5,658	7	0.95%
14 Horizons West Inc.				5,400	8	0.91%
15 Apple Computers				5,000	10	0.84%
Totals	<u>48,747</u>		<u>8.00%</u>	<u>74,918</u>		<u>12.58%</u>

(a) Pacific Bell merged with AT&T in November 2005. AT&T of California, which ranked 6th last year, did not provide information this year.

Source: California Department of Finance

**SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND**  
**CAPITAL ASSET STATISTICS BY FUNCTION**  
 Fiscal Years 2000-01 through 2009-10

	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
Water mains (miles)	470	503	566	631	651	659	718	743	753
Storage Capacity (thousands of gallons)	16,400	20,400	20,400	27,900	31,400	34,400	39,400	39,400	39,400

Source: Sacramento County Department of Water Resources

**SACRAMENTO COUNTY WATER AGENCY ENTERPRISE FUND**

**SCHEDULE OF INFORMATION FOR CALIFORNIA SENATE BILL 1760**  
For the Fiscal Year Ended June 30, 2010

During 1998-99, the California Senate adopted Bill No. 1760, which requires the Agency to present the following information regarding its operations:

Description of capacity charges:

The Agency receives capacity charges from developers. The charges are development impact fees which provide funds for the planning, design and construction of a safe and reliable water supply infrastructure, including water wells, water treatment plants and transmission mains.

Description of public improvement projects:

The Agency is involved in various on-going capital improvement projects that have been discussed in depth in the Introductory Section of this report. These projects include water wells, water treatment plants and transmission mains, as well as participation in the development of a new regional water supply facility known as the Freeport Regional Water Project. There were no inter-fund loans between the Agency and other County funds or agencies, which involved capacity charges. During 2009-10, capital costs of \$34,963,790 were funded out of capacity charges, interest earnings, other revenues and fund equity. \$88,043,562 was spent on capital costs funded from bond proceeds.

Financial Information:

Net equity provided from capacity charges – Beginning of Year	\$	90,582,282
Net equity provided from capacity charges – End of Year		96,624,661
Interest revenues on capacity charges		210,463
Capacity charges collected during the year		7,132,533

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**SACRAMENTO COUNTY**  
**WATER AGENCY ENTERPRISE FUND**

*A Component Unit of the County of Sacramento  
Sacramento, California*

**Bond Disclosure Section**

For the Fiscal Years Ended June 30, 2010 and 2009

**ANNUAL REPORT FOR THE SACRAMENTO COUNTY  
WATER AGENCY ENTERPRISE FUND  
For the Fiscal Years Ended 2010 and 2009**

On April 8, 2003, the Agency entered into a Joint Exercise of Powers Agreement with Sacramento County to form the Sacramento County Agency Financing Authority (the Authority) for the purpose of facilitating the financing of acquisition and/or construction of real and personal property in and for the Agency. The Board of Directors of the Agency serves as the Authority's governing board. For financial reporting purposes, the Master Installment Purchase Contract between the Agency and the Authority has been eliminated.

This section is provided in accordance with the requirements of the "Continuing Disclosure Certificate (the Certificate) for the Sacramento County Water Financing Authority Revenue Bonds Series 2003, Series 2007A and Series 2007B." The material provided under the Certificate is intended to meet or exceed the requirements of Securities and Exchange Commission Rule 15c2-12(b)(5) (the Rule). The data tables provided herein apply to both the 2003 and 2007 issues.

This Bond Disclosure Section included within the Agency's Comprehensive Annual Financial Report (CAFR) provides the information required by the Continuing Disclosure Certificate. The CAFR, in turn, will be filed with each National Repository specified in the Rule, and with any other repository that shall be identified in the future.

#### **ANNUAL REPORT**

As required by the Certificate, this annual report is incorporated into the CAFR and thus, includes by reference, the audited financial statements of the Agency for the prior fiscal year.

The annual report also contains the following five (5) sections as required in the Certificate:

- (1) Approximate number of connections to which the Agency delivered water
- (2) Zone 40 Monthly Service Fee generally imposed on customers
- (3) Zone 41 Monthly Service Fee generally imposed on customers
- (4) Zone 40 Impact Fees
- (5) Information contained in "Summary of Projected Operating Results" table on page 25 of the 2003 Bonds Official Statement

#### **REPORTING OF SIGNIFICANT EVENTS**

As of July 1, 2009, Ambac, the bond insurer for the Sacramento County Water Financing Authority Revenue Bonds Series 2003, ratings were downgraded to Ba3 by Moody's and BBB by Standard and Poor's, and Fitch had withdrawn its rating. During Fiscal Year 2009-10, Ambac's ratings were further downgraded to Caa2 by Moody's and Standard and Poor's had withdrawn its rating. The Series 2003 Revenue Bonds now carry the Agency's underlying ratings of Aa3 (Moody's) and A+ (Standard and Poor's).

As of July 1, 2009, the original bond insurer for the Sacramento County Water Financing Authority Revenue Bonds Series 2007, Financial Guaranty Insurance Company (FGIC), had this transaction "reinsured" by MBIA Insurance Corporation, which is now National Public Finance Guarantee Corporation, and was rated Baa1 by Moody's and A by Standard and Poor's. At the end of Fiscal Year 2009-10 these ratings had not changed. The Series 2007 Revenue Bonds now carry the Agency's underlying ratings of Aa3 (Moody's) and A+ (Standard and Poor's).

The above insurer downgrades were disclosed as material events when the downgrades were announced. No additional significant events, as identified in Section 5 of the Certificates, have occurred during the fiscal year ended June 30, 2010.

**ANNUAL REPORT FOR THE SACRAMENTO COUNTY  
WATER AGENCY ENTERPRISE FUND  
For the Fiscal Years Ended 2010 and 2009**

As of June 30, 2010, there is no knowledge on the part of the Board of Directors, officers, or employees of Sacramento County Agency of any impending significant event that would require disclosure under the provisions of the Certificate.

**ADDITIONAL INFORMATION**

The Certificate requires that the following information be updated annually:

**Section 3(b)(i) A table indicating the number of connections to which the Agency delivered water.**

Fiscal Year:	2005-06	2006-07	2007-08	2008-09	2009-10
Number of connections:	45,261	46,558	47,760	48,438	49,069
Annual Percent Increase:	9.2%	2.9%	2.6%	1.4%	1.3%

**Section 3(b)(ii) Zone 40 Monthly Service Fee generally imposed on customers.**

The Zone 40 Service Fee tariff has been \$5.00 per month per account from 1986 until 2001-2002. The fee tariff was changed in October 2002 to \$5.50 per month, in October 2003 to \$7.00, in October 2004 to \$7.70 per month, in October 2005 to \$8.47 per month, in July 2007 to \$12.47 per month, in July 2008 to \$16.47 per month, in July 2009 to \$21.17 per month, and again in July 2010 to \$23.97 per month.

**Section 3(b)(iii) Zone 41 Monthly Service Fee generally imposed on customers.**

(for a typical single family residential un-metered customer, per month)

	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010
	\$ 20.33	\$ 20.33	\$ 23.33	\$ 26.33	\$ 29.62

**Section 3(b)(iv) Zone 40 Impact Fees**

Effective Date (Month-Yr)	Mar-06	Mar-07	Mar-08	Mar-09	Mar-10
Development Fee (per EDU) (Domestic, Commercial, Other Service)	\$ 9,192	\$ 11,004	\$ 12,379	\$ 13,166	\$ 13,166
Annual increase	23%	20%	12%	6%	0%
Commercial Service (per acre)	\$ 7,073	\$ 7,446	\$ 7,553	\$ 8,033	\$ 8,033
Annual increase	13%	5%	1%	6%	0%
Other Service (per acre)	\$ 1,391	\$ 1,464	\$ 1,485	\$ 1,557	\$ 1,557
Annual increase	13%	5%	1%	5%	0%

**ANNUAL REPORT FOR THE SACRAMENTO COUNTY  
WATER AGENCY ENTERPRISE FUND**  
For the Fiscal Years Ended 2010 and 2009

**Zone 50 Impact Fees (implemented December 2005)**

Effective Date (Month-Yr)	<b>Mar-06</b>	<b>Mar-07</b>	<b>Mar-08</b>	<b>Mar-09</b>	<b>Mar-10</b>
Development Fee (per EDU) (Domestic, Commercial, Other Service)	\$ 208	\$ 219	\$ 222	\$ 236	\$ 236
Annual increase	4%	5%	1%	6%	0%
Commercial (per acre)	\$ 2,997	\$ 3,155	\$ 3,200	\$ 3,403	\$ 3,403
Annual increase	4%	5%	1%	6%	0%
Other Service (per acre)	\$ 2,997	\$ 3,155	\$ 3,200	\$ 3,403	\$ 3,403
Annual increase	4%	5%	1%	6%	0%

**ANNUAL REPORT FOR THE SACRAMENTO COUNTY  
WATER AGENCY ENTERPRISE FUND  
For the Fiscal Years Ended 2010 and 2009**

**Section 3(b)(v) A table showing the Revenues, Maintenance and Operation Costs, Net Revenues (as these three terms are defined in the Installment Purchase Contract), and Reserve Balances of the Agency.**

**Revenues, Maintenance and Operations Costs, Net Revenue and Certain  
Fund Balances of the Agency for the Fiscal Years Ended June 30  
(Amounts expressed in thousands)**

	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
<b>Revenues:</b>			
Operating Revenues			
Charges for Services	25,437	31,841	35,097
Development Fees	15,679	7,886	7,424
Connection Fees	471	204	215
Other	1,191	1,888	2,699
Total Net Operating Revenues	<u>42,778</u>	<u>41,819</u>	<u>45,435</u>
Nonoperating Revenues			
Total Interest Income	19,105	9,978	3,210
Less: Acquisition & Construction Fund Interest	(14,839)	(7,220)	(1,102)
Interest Earnings on Reserves	<u>(1,343)</u>	<u>(1,337)</u>	<u>(1,337)</u>
Net Interest Income	2,923	1,421	771
Inter governmental revenue	11	13	-
Total nonoperating revenues	<u>2,934</u>	<u>1,434</u>	<u>771</u>
<b>TOTAL REVENUES</b>	<u>45,712</u>	<u>43,253</u>	<u>46,206</u>
Deposit from rate stabilization fund			1,087
<b>ADJUSTED ANNUAL REVENUES (1)</b>	<u><b>45,712</b></u>	<u><b>43,253</b></u>	<u><b>47,293</b></u>
<b>Maintenance &amp; Operating Expenses</b>	<u>17,594</u>	<u>18,560</u>	<u>16,835</u>
<b>NET REVENUES (1)</b>	<u><b>28,118</b></u>	<u><b>24,693</b></u>	<u><b>30,458</b></u>
Impact Fee Credits	<u>(3,619)</u>	<u>(2,541)</u>	<u>(3,656)</u>
Net Revenue Less Impact Fee Credits	24,499	22,152	26,802
<b>Debt Service</b>			
Debt Service on 2003 Bonds	1,189	1,190	1,185
Debt Service on 2007 Bonds	19,719	18,532	24,520
Less Payments from Capitalized Interest	(15,150)	(7,962)	-
Less Int Earnings on Reserve	<u>(1,343)</u>	<u>(1,337)</u>	<u>(1,337)</u>
Adjusted Annual Debt Service	<u><b>4,415</b></u>	<u><b>10,423</b></u>	<u><b>24,368</b></u>
<b>DEBT SERVICE COVERAGE (1)</b>	<u><b>6.37</b></u>	<u><b>2.37</b></u>	<u><b>1.25</b></u>
Debt Svc Coverage Net Impact Fee Credits	5.55	2.13	1.10
Pay-as-you-go capital	22,827	19,891	17,548
Net cash flow of year's operations	<u>(2,743)</u>	<u>(8,162)</u>	<u>(15,114)</u>
Reserves End of Year	69,706	77,543	61,145
Bond Reserve Account End of Year	<u>\$ 25,713</u>	<u>\$ 25,713</u>	<u>\$ 25,713</u>

(1) Calculated in accordance with the Master Installment Purchase Contract

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## ACKNOWLEDGEMENTS

This Comprehensive Annual Financial Report was prepared by the  
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### *About the cover:*

This year's CAFR cover depicts the newly constructed Freeport Regional Water Project (FRWP) Intake Facility. The Intake Facility is a corresponding element to the FRWP, which is a cooperative effort between the Sacramento County Water Agency (Agency) and the East Bay Municipal Utility District of Oakland to supply surface water from the Sacramento River to customers within the boundaries of the Agency and the East Bay area of California. Water will be drawn from the Sacramento River at the Intake Facility, transported east through new 84-inch diameter pipelines and then treated by the Agency Vineyard Surface Water Treatment Plant, which is currently under construction, before being delivered to Agency customers. Completion of this project will ensure the long-term reliability of the water supply, as well as stabilize and maintain a sustainable groundwater basin for all users. The Agency's cost share of this project is being funded by the Sacramento County Water Financing Authority 2007 Bond Issue.



**SACRAMENTO COUNTY  
WATER AGENCY  
ENTERPRISE FUND**

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**WATER AGENCY**  
**ENTERPRISE FUND**

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Sacramento, California

