Note D. Cash and Investments

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

Interest income earned on pooled cash and investments is allocated quarterly to the various funds based on the average daily balances by fund during the quarter. Interest income from cash and investments with fiscal agents or trustees is credited directly to the related fund.

Investment Guidelines

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

Permitted investments include the following:

- U.S. Treasury and Federal Agency securities
- Bonds issued by local agencies
- Registered State Warrants and Municipal Notes
- Negotiable certificates of deposit
- Bankers' acceptances
- Commercial paper
- Medium-term corporate notes
- Local Agency Investment Fund (State Pool) demand deposits
- Repurchase agreements
- Reverse repurchase agreements
- Shares of a mutual fund average life
- Collateralized mortgage obligations

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

Balance Sheet

A reconciliation of cash and investments shown on the accompanying combined balance sheet is as follows:

Cash and investments	$ 131,072,144
Cash with trustee	9,504,920
Restricted cash and investments	1,075,207
Restricted cash with trustee	94,495
	$ 141,746,766

This balance consists of $750 in cash on hand and $141,746,016 in investments.

Note D. Cash and Investments (continued)

Investments

The Water Agency's investments at June 30, 2001 are categorized to give an indication of the level of risk assumed by the Water Agency. Category 1 includes investments that are insured or registered, or for which the securities are held by the Water Agency or its agent in the Water Agency's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Water Agency's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agency but not in the Water Agency's name. Investments in pools managed by other governments or in mutual funds are not required to be categorized.

At June 30, 2001, investments included the following:

	Category			
	1	2	3	Carrying Amount
U.S. Treasury securities held by County Treasurer	$ 56,898,581	$ -	$ -	$ 56,898,581
Investments held by trustee	-	-	-	9,599,415
Investment in County Treasurer's pooled cash	-	-	-	75,248,020
	$ 56,898,581	$ -	$ -	$ 141,746,016

U.S. Treasury Securities

Included in the investments balance are zero-coupon U.S. Government securities which are to be used specifically to fund the repayment of the Water Agency's $114,871,428 contract payable (see Note J). The securities have a yield of approximately 11.12%, with yield described as the percentage increase in fair market value from the prior fiscal year-end. These securities mature in various years ranging from 2001 to 2022.

Note D. Cash and Investments (continued)

Investment in County Treasurer's Pooled Cash

As of June 30, 2001, the weighted average maturity of the Treasury Pool was approximately two years. Forty-seven percent of the securities in the Treasury Pool have maturities of zero to one year, thirty-five percent have maturities of one to three years, and eighteen percent have maturities of three to five years. No securities in the Treasury Pool had maturities in excess of five years.

A portion of the securities in the Treasury Pool have variable interest rates that are tied to certain indices such as LIBOR (floating rate securities). Floating rate securities will influence the performance of the portfolio based on the increase/decrease occurring in interest rates over the short term.

Fair value fluctuates with interest rates, and increasing rates could cause fair value to decline below original cost. County management believes the liquidity in the portfolio is more than adequate to meet cash flow requirements and to preclude the County from having to sell investments below original cost for that purpose.

The net increase in the fair value of the Water Agency's investments during fiscal year 2000-01 was $6,811,085. This amount takes into account all changes in fair value (including purchases and sales) that occurred during the year. The unrealized gain on investments held at year-end amounted to $40,647,723.

Net increase in fair value of investments during the fiscal year 2000-01 by fund, and included in revenue - use of money and property, were as follows:

General Fund	$ 86,180
Special Revenue Funds	254,045
Debt Service Fund	5,738,419
Enterprise Funds	617,043
Internal Service Funds	115,398
	$ 6,811,085

Note E. **Fixed Assets** (continued)

General Fixed Assets Account Group

The following is a summary of the changes in the general fixed assets account group during the fiscal year:

	Balance 6/30/00	Additions	Deletions	Balance 6/30/01
Land	$ 1,286,938	$ -	$ -	$ 1,286,938
Structures and improvements	107,038,661	-	-	107,038,661
Equipment	750,381	168,640	8,417	910,604
Construction in progress	-	86,937	-	86,937
	$ 109,075,980	$255,577	$ 8,417	$ 109,323,140

Warm Springs Dam Project

Pursuant to the Flood Control Act of 1962, a project was authorized for the construction of Warm Springs Dam and Lake Sonoma. The Warm Springs Dam has a total gross storage capacity of 381,000 acre-feet and total water supply storage of 355,000 acre-feet. The Water Agency has contracted for the right to the storage space for 212,000 acre-feet of water. The Water Agency uses the storage space to control and dispose of flood, storm and other waters. Since such flood control activities are a governmental function, the cost of the project has been recorded with Structures and Improvements in the General Fixed Asset Account Group.

In March 1992, the cost of the project to the Water Agency was established at $102,371,000. The estimated cost of the Water Agency's portion of the project is 30.2% of the total project joint use construction costs and accrued interest. The liability for the contract is shown in the General Long-Term Debt Account Group (Note J). Repayment of this obligation comes from the proceeds of a countywide levied property tax.

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

Note E. **Fixed Assets** (continued)

Proprietary Funds

The following is a summary of proprietary fund type fixed assets at June 30, 2001:

	Water Transmission Funds	Sanitation Funds	Total Enterprise Funds	Internal Service Fund
Land	$ 2,790,676	$ 2,018,856	$ 4,809,532	$ 389,568
Buildings and improvements	94,366,205	19,556,591	113,922,796	6,425,671
Equipment	869,656	116,976	986,632	4,947,748
	98,026,537	21,692,423	119,718,960	11,762,987
Less accumulated depreciation	(32,293,117)	(6,065,469)	(38,358,586)	(5,257,226)
	65,733,420	15,626,954	81,360,374	6,505,761
Construction in progress	22,518,844	8,926,997	31,445,841	262,818
	$ 88,252,264	$ 24,553,951	$ 112,806,215	$ 6,768,579

The total amount of interest capitalized during the year amounted to $343,001.

Note F. **Employees' Retirement Plan**

Plan Description

The Water Agency contributes to Sonoma County's single-employer public employee retirement plan (the "Plan") that is administered by the Sonoma County Employees' Retirement Association (the "Retirement Association"). The Water Agency joined the Retirement Association as of October 1, 1963. Substantially all full-time employees of the Water Agency participate in this plan. All permanent employees working at least half time of a full-time position for the Water Agency are eligible. Benefits are based on the employee's final average salary, years of service, and age at the time of retirement. The Plan is governed by the California Government Code, Title 3, Division 4, Part 3, Chapter 3.

The financial statements for the County of Sonoma (the primary government) contain additional financial information for the defined pension benefits, which is not presented here because the Water Agency portion cannot be separated from the whole. In addition, an audit report of the Retirement Association regarding the financial position of the Plan and other information for the year ended December 31, 2000, is on file at the County Auditors' Office.

Note F. Employees' Retirement Plan (continued)

Funding Status

Plan members were required to contribute 4.86% - 9.37%, depending upon their age at their date of entry, of their annual covered salary at June 30, 2001. The Water Agency is required to contribute at an actuarially determined rate which was 11.92% of annual covered payroll at June 30, 2001. The Water Agency's contributions to the Plan during the years ended June 30, 1999, 2000, and 2001 were $1,073,857, $1,144,455 and $1,297,363, respectively, equal to the required contribution each year.

The Water Agency's total payroll for covered employees for the plan year ended December 31, 2000 was $11,297,162 which represents approximately 5.7% of the Retirement Association's payroll for covered employees.

Note G. Post Employment Benefits

In addition to the pension benefits described in Note F, the Water Agency provides post-retirement health care benefits, in accordance with County resolutions, to all active, covered employees who retire from the Water Agency on or after attaining age 50 with at least 10 years of service. The Water Agency pays approximately 87% of the health care insurance premium for the retirees and their eligible dependents. The retiree can choose one of three health care providers. The Water Agency reimburses a fixed amount of $45.50 per month for a Medicare supplement for each retiree aged 65 and over covered under Medicare Parts A and B. The cost of post-retirement health care benefits are recognized as an expenditure as the Water Agency reimburses the County for premiums paid. The financial statement for the County of Sonoma (the primary government) contains the financial information for the post-employment benefits, which is not presented here because the Water Agency portion cannot be separated from the whole.

Note H. Deferred Compensation Plan

The Water Agency participates in the County of Sonoma deferred compensation plan (the "Plan") which was created in accordance with California Government Code Section 53212 and Internal Revenue Code Section 457. The Plan, available to permanent employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or an unforeseeable emergency.

In 1998, the County amended the Plan's documents to comply with a new federal law. The Plan's assets have been placed into a trust for the exclusive benefit of the employees and their beneficiaries. The County is the administrator of the Plan but the assets are held by an independent investment manager and, therefore are not recorded as assets of the County. Each employee directs the investment of the assets in his or her account.