

Sonoma County Water Agency
(A Component Unit of the County of Sonoma)

Independent Auditor's Reports, Management's
Discussion and Analysis, Basic Financial
Statements, Required Supplementary Information,
and Supplementary Information

For the Fiscal Year Ended June 30, 2015

**Sonoma County Water Agency
For The Fiscal Year Ended June 30, 2015**

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Independent Auditor's Report

Board of Directors
Sonoma County Water Agency
Santa Rosa, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Sonoma County Water Agency (the "Water Agency"), a component unit of the County of Sonoma, California, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Water Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This responsibility includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Water Agency as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note S to the financial statements, the Water Agency adopted the accounting requirements of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* and Government Accounting Standards Board Statement No. 71 *Pension Transition for Contributions made Subsequent to Measurement Date – an amendment of GASB Statement No. 68*, which resulted in the restatement of previously reported amounts for the year ended June 30, 2015. Our opinion is not modified with respect to this matter.

Independent Auditor's Report (continued)

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Water Agency's basic financial statements. The combining fund information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The combining fund information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining fund information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2015, on our consideration of the Water Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants and 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* in considering the Water Agency's internal control over financial reporting and compliance.



Santa Rosa, California
November 11, 2015

Management's Discussion and Analysis

**Sonoma County Water Agency
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)**

As management of the Sonoma County Water Agency (the "Water Agency"), we offer readers of the Water Agency's financial statements this narrative overview and analysis of the financial activities of the Water Agency for the fiscal year ended June 30, 2015. We encourage readers to consider the information presented here in conjunction with the Water Agency's financial statements and the accompanying notes to the financial statements.

Financial Highlights

- The assets and deferred outflows of the Water Agency exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$369,019,031 (net position). Of this amount \$51,795,845 (unrestricted net position) may be used to meet the Water Agency's ongoing obligations to citizens and creditors.
- The Water Agency's total net position decreased by \$16,110,520 during the current fiscal year. This decrease in net position is comprised of a decrease in the business-type activities of \$2,597,801 and a decrease in governmental activities of \$13,512,719.
- As of the close of the current fiscal year, the Water Agency's governmental funds reported combined ending fund balances of \$117,628,873, a decrease of \$4,670,595 from the preceding year. Approximately 8% of this total amount, \$9,104,242, is available for spending at the Water Agency's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$9,104,242 or approximately 167% of total General Fund expenditures, which amounted to \$5,450,470 for the fiscal year ended June 30, 2015.

Overview of the Financial Statements

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

Government-wide financial statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Water Agency's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the Water Agency's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Water Agency is improving or deteriorating.

The *statement of activities* presents information showing how the Water Agency's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

**Sonoma County Water Agency
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)**

Overview of the Financial Statements (continued)

Government-wide financial statements (continued)

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

Fund financial statements

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

Governmental funds

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

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

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

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

**Sonoma County Water Agency
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)**

Overview of the Financial Statements (continued)

Proprietary funds

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

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

Fiduciary funds

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

Notes to the basic financial statements

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

Required supplementary information

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

Other supplementary information

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

**Sonoma County Water Agency
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)**

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Water Agency, assets and deferred outflows exceeded liabilities and deferred inflows by \$369,019,031 as of June 30, 2015.

Condensed Statements of Net Position

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2014	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014	June 30, 2015
Current and other assets	\$ 126,312,709	\$ 120,621,253	\$ 69,818,405	\$ 69,094,414	\$ 196,131,114	\$ 189,715,667
Capital assets	145,555,676	143,913,344	209,005,644	204,587,034	354,561,320	348,500,378
Total assets	271,868,385	264,534,597	278,824,049	273,681,448	550,692,434	538,216,045
Total deferred outflows	-	3,955,313	655,426	611,893	655,426	4,567,206
Current liabilities	7,929,100	7,040,406	10,212,611	14,423,536	18,141,711	21,463,942
Noncurrent liabilities	94,351,272	102,752,944	53,725,326	46,926,068	148,076,598	149,679,012
Total liabilities	102,280,372	109,793,350	63,937,937	61,349,604	166,218,309	171,142,954
Total deferred inflows	-	2,621,266	-	-	-	2,621,266
Net Position:						
Net investment in						
capital assets	50,729,786	52,314,923	155,916,745	156,110,501	206,646,531	208,425,424
Restricted	104,627,246	97,856,531	7,429,384	10,941,231	112,056,630	108,797,762
Unrestricted	14,230,981	5,903,840	52,195,409	45,892,005	66,426,390	51,795,845
Total Net Position	\$ 169,588,013	\$ 156,075,294	\$ 215,541,538	\$ 212,943,737	\$ 385,129,551	\$ 369,019,031

The largest portion of the Water Agency's net position (56%) reflects its investment in capital assets (e.g., land, construction in progress, infrastructure, buildings, and machinery and equipment); less any related debt used to acquire those assets that are still outstanding. The Water Agency uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Water Agency's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A portion of the Water Agency's net position, \$108,797,762 (29%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$51,795,845, may be used to meet the Water Agency's ongoing obligations to citizens and creditors.

As of June 30, 2015, the Water Agency reports positive balances in all categories of net position for its separate governmental and business-type activities.

The Water Agency's net position decreased by \$16,110,520 during the fiscal year ended June 30, 2015. This decrease is primarily due to a prior period adjustment related to the implementation of GASB Statement No. 68, which defined reporting requirements for employers which participate in pension plans. The GASB 68 prior period adjustment resulted in a \$10,200,097 decrease in net position. In addition, expenses exceeded revenues during the fiscal year ended June 30, 2015.

**Sonoma County Water Agency
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)**

Condensed Statements of Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	Fiscal Year Ended June 30, 2014	Fiscal Year Ended June 30, 2015	Fiscal Year Ended June 30, 2014	Fiscal Year Ended June 30, 2015	Fiscal Year Ended June 30, 2014	Fiscal Year Ended June 30, 2015
Revenues:						
Program Revenues:						
Charges for services	\$ 2,729,929	\$ 986,372	\$ 46,811,877	\$ 41,829,817	\$ 49,541,806	\$ 42,816,189
Operating grants and contributions	1,622,316	1,723,931	3,733,673	4,248,380	5,355,989	5,972,311
Capital grants and contributions	-	-	1,646,033	1,694,864	1,646,033	1,694,864
General Revenues:						
Property taxes	20,350,239	21,953,371	39,282	40,664	20,389,521	21,994,035
Investment earnings	1,920,952	1,448,245	812,853	305,384	2,733,805	1,753,629
Miscellaneous	1,000	-	4,239	-	5,239	-
Total revenues	26,624,436	26,111,919	53,047,957	48,119,109	79,672,393	74,231,028
Expenses:						
General government	3,209,352	6,285,821	-	-	3,209,352	6,285,821
Flood control	11,447,839	10,022,083	-	-	11,447,839	10,022,083
Warm Springs Dam	6,123,874	8,617,924	-	-	6,123,874	8,617,924
Interest on long-term debt	3,091,715	2,988,713	-	-	3,091,715	2,988,713
Water transmission	-	-	34,006,982	40,319,069	34,006,982	40,319,069
Water supply	-	-	6,308,724	6,741,377	6,308,724	6,741,377
Sanitation	-	-	4,743,336	5,166,464	4,743,336	5,166,464
Total expenses	23,872,780	27,914,541	45,059,042	52,226,910	68,931,822	80,141,451
Change in net position before transfers	2,751,656	(1,802,622)	7,988,915	(4,107,801)	10,740,571	(5,910,423)
Transfers	(1,850,000)	(1,510,000)	1,100,000	1,510,000	(750,000)	-
Change in net position	901,656	(3,312,622)	9,088,915	(2,597,801)	9,990,571	(5,910,423)
Net position - beginning of year	168,686,357	169,588,013	207,130,260	215,541,538	375,816,617	385,129,551
Change in accounting principle	-	(10,200,097)	(677,637)	-	(677,637)	(10,200,097)
Net position - beginning of year, as restated	168,686,357	159,387,916	206,452,623	215,541,538	375,138,980	374,929,454
Net position - end of year	\$ 169,588,013	\$ 156,075,294	\$ 215,541,538	\$ 212,943,737	\$ 385,129,551	\$ 369,019,031

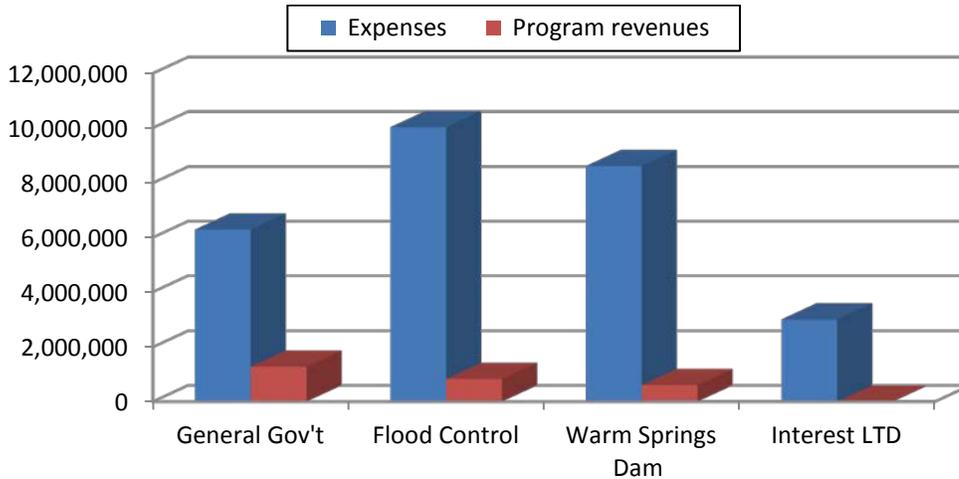
Governmental Activities

Governmental activities decreased the Water Agency's net position by \$3,312,622. Key elements of the Water Agency's governmental activities are identified below.

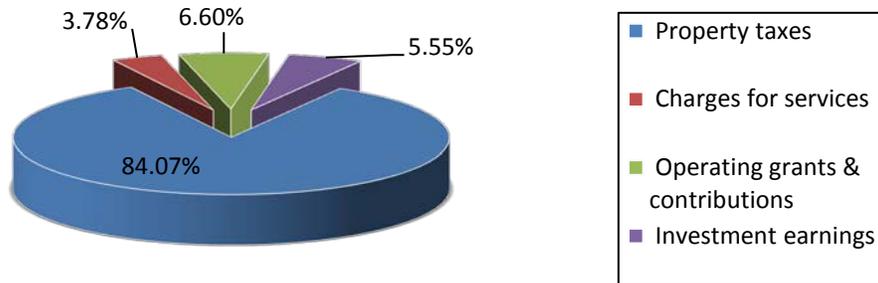
- Property tax revenues for the fiscal year totaled \$21,953,371, including \$5,872,815 received for the purpose of debt retirement and satisfaction of maintenance related assurances with the US Army Corps of Engineers (USACE) for Warm Springs Dam.
- Investment earnings totaling \$1,448,245 was due primarily to a \$881,812 increase in the fair market value of the U.S. Treasury STRIPS held by the Water Agency's debt service fund for the repayment of the contract with the USACE for Warm Springs Dam. Additionally there was a \$251,835 decrease in fair market value of pooled investments within the county pool. Absent the U.S. Treasury STRIPS and pooled investments fair market value adjustments, investment earnings were \$818,268.
- Revenues for the fiscal year ended June 30, 2015 decreased by \$512,517 from the prior fiscal year while expenses increased by \$4,041,761 over the same period. The revenue decrease is due primarily to a decrease of \$1,743,557 in charges for services, offset by increases in other categories. The increase in expenses is due primarily to increases in general government expense of \$3,076,469 as well as an increase in Warm Springs Dam projects of \$2,494,050, offset by decreases in other areas.

**Sonoma County Water Agency
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)**

Expenses and Program Revenues – Governmental Activities



Revenues by Source – Governmental Activities



Business-type Activities

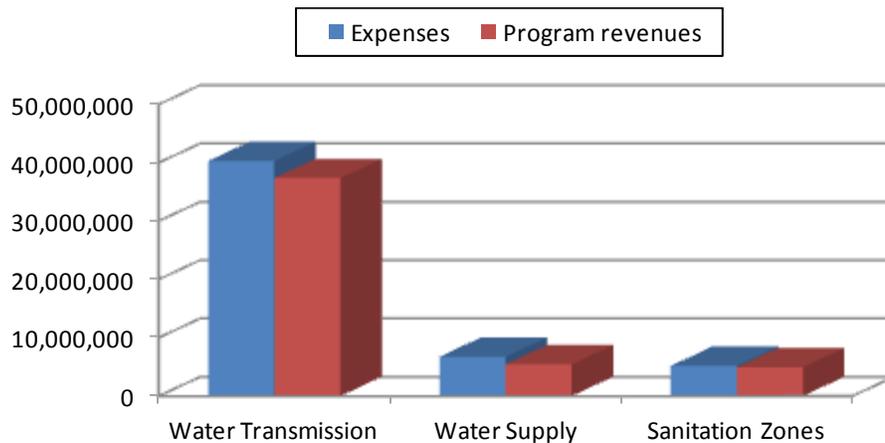
Business-type activities decreased the Water Agency's net position by \$2,597,801. Key elements of the Water Agency's business-type activities are identified below.

- Water sales revenues decreased \$5,503,793 from the prior fiscal year. This decrease was due to a 16.5% decrease in total acre-feet sold during the year due to water conservation efforts related to the drought. This decrease was partially offset by an average increase of 3.45% in water rates from the fiscal year ended June 30, 2014.
- Sewer service revenues increased due to increases in the annual rates combined with increases in the total Equivalent Single Family Dwellings (ESDs) serviced by the Water Agency's four sanitation zones.
- Operating Grants and contributions totaling \$4,248,380, representing an increase of \$514,707 from the prior year, were received during the fiscal year ended June 30, 2015. Grants include Title XVI Water Smart funding for North Bay Water Reuse projects and State Proposition 84 funding for water conservation projects.

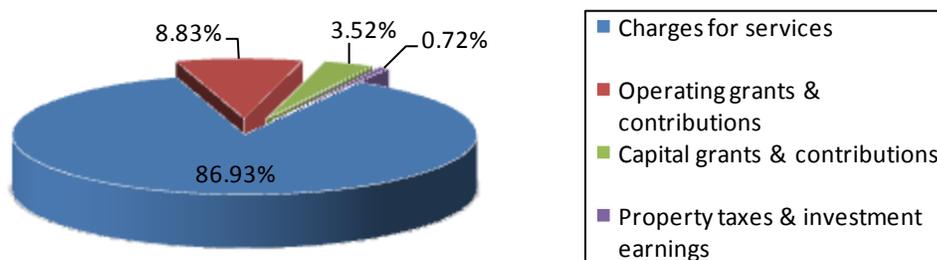
**Sonoma County Water Agency
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)**

- Investment earnings for the fiscal year ended June 30, 2015 totaled \$305,384. This is a decrease of \$507,469 from the prior year due primarily to a \$312,869 decrease in fair market value of pooled investments within the county pool.
- Expenses for Water Transmission included a \$10,616,172 net loss on disposal of capital assets due to \$10,869,380 of abandoned construction in progress costs from the South Transmission Pipeline project net of a \$253,208 gain on the sale of capital assets.
- Transfers from the Water Agency's General Fund totaling \$1,510,000 were received during the fiscal year ended June 30, 2015. More information on these transfers can be found in the notes to the financial statements.

Expenses and Program Revenues – Business-type Activities



Revenues by Source – Business-type activities



Financial Analysis of the Government's Funds

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

Governmental funds

The focus of the Water Agency's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Water Agency's financing requirements.

**Sonoma County Water Agency
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)**

As of June 30, 2015, the Water Agency's governmental funds reported combined ending fund balances of \$117,628,873, a decrease of \$4,670,595 in comparison with the prior year. Approximately 8% of this total amount, \$9,104,242, constitutes unassigned fund balance, which is available for spending at the Water Agency's discretion. The remaining fund balance is categorized based on the relative level of restriction for its use in accordance with GASB Statement No 54, which is further discussed in the accompanying notes to the financial statements.

The General Fund is the chief operating fund of the Water Agency. At the end of the current fiscal year, unassigned fund balance of the General Fund is \$9,104,242. Assigned fund balance totals \$6,557,623 and is comprised of activities related to the operation of Spring Lake Park, the Waste/Recycled Water Loan Fund and the Sustainability Fund. Restricted fund balance totals \$250,000 and is related to a legally enforceable agreement with the Town of Windsor. The General Fund also reports a non-spendable fund balance of \$2,141,132, primarily due to an advance to the Power ISF. Total fund balance for the General Fund as of June 30, 2015 is \$18,052,997.

The special revenue funds, consisting of six (6) flood control zones and Warm Springs Dam, reported fiscal year end fund balances of \$21,241,349 and \$15,812,584, respectively, all of which is restricted fund balance.

The Debt Service Fund has a total fund balance of \$62,521,943, all of which is restricted for the payment of debt service on the USACE contract for Warm Springs Dam.

Proprietary funds

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

Unrestricted net position of the Water Transmission Fund as of the fiscal year ended June 30, 2015 amounted to \$40,758,037. The Water Supply Fund reported a deficit balance in unrestricted net position of \$2,592,431 as the result of the required unearned revenue recognition (amortization) of Marin Municipal Water District's water rights payment received in June 2005. The sanitation funds reported unrestricted net position of \$4,398,821.

General Fund Budgetary Highlights

The difference between the original budget and the final amended budget for the Water Agency's General Fund reflected an increase in budgeted appropriations, including transfers, of \$425,133, while budgeted revenues were increased by \$1,004,732 during the fiscal year ended June 30, 2015.

The primary component of the increase in budgeted expenditures consists of a \$2,229,678 increase in appropriations for salaries and benefits due to overtime work on various projects and the addition of full-time positions such as a Technical Writing Specialist and four Maintenance Workers. This increase was partially offset by a decrease of \$1,091,045 in budgeted expenditures for Services & Supplies, and a decrease of \$558,500 in budgeted expenditures for capital outlay and contingencies. Budgeted transfers out also decreased by \$155,000.

The Water Agency General Fund's actual revenues exceeded the budgeted revenue estimates due primarily to property tax revenues being higher than the estimate, as well as increases in park/recreation fees at Spring Lake Park. Actual expenditures were less than the budgeted estimates due primarily to lower than anticipated costs in consultant services, legal services, laboratory supplies, and capital projects.

**Sonoma County Water Agency
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)**

Capital Asset and Debt Administration

Capital Assets

The Water Agency's investment in capital assets for its governmental and business-type activities as of June 30, 2015, amounts to \$348,500,378 (net of accumulated depreciation and amortization). This investment in capital assets includes land, intangible assets such as water storage rights and permanent easements, buildings and improvements, infrastructure (including dams and collection systems), and machinery and equipment.

Major capital asset events during the fiscal year ended June 30, 2015 included the completion of the following projects. (The amounts shown represent the total life-to-date construction costs of each project).

Governmental activities:

- Capital expansion within the General Fund included:
Tract 1607 Lake Sonoma- \$311,374

Business-type activities:

- Capital expansion within the Water Transmission Fund included:
Air Valve Replacement - \$2,563,451
- Loss on disposal of capital assets within the Water Transmission Fund included:
South Transmission Pipeline project - \$10,869,380

Capital Assets
(net of accumulated depreciation and amortization)

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2014	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014	June 30, 2015
Land	\$ 1,582,224	\$ 1,582,224	\$ 10,667,484	\$ 10,662,691	\$ 12,249,708	\$ 12,244,915
Land improvements	-	-	1,963,206	1,823,924	1,963,206	1,823,924
Construction in progress	2,755,549	2,522,291	24,503,753	25,393,758	27,259,302	27,916,049
Water storage rights	102,371,000	102,371,000	4,996,395	4,996,395	107,367,395	107,367,395
Intangible asset - easements	86,737	84,985	110,857	132,686	197,594	217,671
Intangible asset - software	543,686	446,506	1,295,905	1,001,065	1,839,591	1,447,571
Infrastructure	36,360,100	34,798,016	121,580,084	117,650,548	157,940,184	152,448,564
Buildings and improvements	1,539,536	1,766,051	39,175,348	37,776,973	40,714,884	39,543,024
Machinery and equipment	316,844	342,271	4,712,612	5,148,994	5,029,456	5,491,265
Total capital assets	\$ 145,555,676	\$ 143,913,344	\$ 209,005,644	\$ 204,587,034	\$ 354,561,320	\$ 348,500,378

Additional information on the Water Agency's capital assets can be found in the notes to the financial statements.

**Sonoma County Water Agency
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)**

Long-Term Obligations

As of June 30, 2015, the Water Agency had a total of \$156,241,324 in outstanding long-term obligations. Of this amount \$172,000 comprises general obligation bonds which are backed by the full faith and credit of the Water Agency; \$ 9,354,745 is related to capital leases; \$25,170,000 in revenue bonds payable from the Water Agency's operating income; \$11,274,734 represents funds advanced to the Water Agency from the California Department of Water Resources; \$2,119,533 represents advances from the Sonoma Valley County Sanitation District; \$2,123,415 represents amounts due for pass-through grants; \$91,598,421 is a federal long-term contract payable related to Warm Springs Dam; \$1,964,151 is comprised of amounts payable to employees for unused vacation leave upon termination; and \$12,464,325 is net pension liability.

Outstanding Current and Long-Term Obligations

	June 30, 2014 (as restated)	June 30, 2015	Change \$	%
General obligation bonds	\$ 207,000	\$ 172,000	\$ (35,000)	-16.9%
Capital leases	10,606,351	9,354,745	(1,251,606)	-11.8%
Revenue bonds	26,160,000	25,170,000	(990,000)	-3.8%
Advances from other governments	16,976,344	15,517,682	(1,458,662)	-8.6%
Federal contract payable	94,825,890	91,598,421	(3,227,469)	-3.4%
Compensated absences	2,745,384	1,964,151	(781,233)	-28.5%
Net pension liability	13,632,777	12,464,325	(1,168,452)	-8.6%
Total	\$ 165,153,746	\$ 156,241,324	\$ (8,912,422)	-5.4%

The Water Agency's total debt decreased by \$8,912,422 (5.4%) during the fiscal year ended June 30, 2015.

The outstanding total of general obligation bonds, capital leases, revenue bonds, advances from other governments and federal contract payable decreased by 16.9%, 11.8%, 3.8%, 8.6%, and 3.4%, respectively, during the fiscal year ended June 30, 2015, due to annual principal payments.

Compensated absences decreased due to sick and vacation leave usage being more than the amounts earned and accrued. Net pension liability decreased by \$1,168,452 (8.6%) to \$12,464,325.

Additional information on the Water Agency's current and long-term debt can be found in the notes to the financial statements.

Next Year's Budgets and Rates

As of the fiscal year ended June 30, 2015, unassigned fund balance in the General Fund amounts to \$9,104,242. The Agency has appropriated a net cost of \$5,076,638 that will decrease this amount in the fiscal year ending June 30, 2016 budget.

Both the water and sewer rates were increased for the fiscal year ending June 30, 2016 budget. Water rates were increased by an average of 4.6%, while sewer rates increased an average of 2.9%

Following are tables showing the rates charged per acre-foot of water used for municipal purposes by the water contractors, along with sanitation services rates and equivalent single family dwellings by sanitation zone.

**Sonoma County Water Agency
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)**

**Charges per Acre-Foot for Water Used for
Municipal Purposes by Water Contractors**

	Santa Rosa Aqueduct	Petaluma Aqueduct	Sonoma Aqueduct
Operations and maintenance	\$ 662.92	\$ 662.92	\$ 662.92
Revenue bond charges:			
Aqueduct revenue bonds charge	-	-	62.00
Storage facility revenue bonds charge	24.75	24.75	24.75
Common facilities revenue bonds charge	53.88	53.88	53.88
Aqueduct capital charge	19.50	19.50	33.00
Total	\$ 761.05	\$ 761.05	\$ 836.55

Sewer Service Rate per Equivalent Single-Family Dwelling

	2014/15	2015/16	Change
Sanitation Zone			
Sea Ranch	\$ 1,014	\$ 1,045	3.1%
Penngrove	1,306	1,326	1.5%
Geyserville	880	906	3.0%
Airport-Larkfield-Wikiup	782	821	5.0%

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

	2014/15	2015/16	Change
Sanitation Zone			
Sea Ranch	584	584	0.0%
Penngrove	520	525	1.0%
Geyserville	353	353	0.0%
Airport-Larkfield-Wikiup	3,778	3,790	0.3%

Request for Additional Information:

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

Sonoma County Water Agency
Statement of Net Position
June 30, 2015

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Current assets:			
Cash and investments	\$ 114,409,018	\$ 54,165,020	\$ 168,574,038
Accounts receivable	1,535,788	8,300,601	9,836,389
Inventories	27,296	-	27,296
Interest receivable	3,910	-	3,910
Notes receivable	110,000	-	110,000
Prepaid expenses	-	501,213	501,213
Internal balances	2,898,836	(2,898,836)	-
Total current assets	<u>118,984,848</u>	<u>60,067,998</u>	<u>179,052,846</u>
Noncurrent assets:			
Restricted assets:			
Cash and investments-guarantees	250,000	-	250,000
Cash and investments with trustee	-	2,729,731	2,729,731
Cash - revenue bond funds	-	567,960	567,960
Cash - capital leases	-	4,340,319	4,340,319
Total restricted assets	<u>250,000</u>	<u>7,638,010</u>	<u>7,888,010</u>
Advances to other governments	1,386,405	-	1,386,405
Assets held for resale	-	1,388,406	1,388,406
Capital assets, net			
Land	1,582,224	10,662,691	12,244,915
Land improvements	-	1,823,924	1,823,924
Construction in progress	2,522,291	25,393,758	27,916,049
Intangible assets - water storage rights	102,371,000	4,996,395	107,367,395
Intangible assets - permanent easements	46,441	132,686	179,127
Intangible assets - temporary easements	38,544	-	38,544
Intangible assets - software	446,506	1,001,065	1,447,571
Infrastructure	34,798,016	117,650,548	152,448,564
Buildings and improvements	1,766,051	37,776,973	39,543,024
Equipment	342,271	5,148,994	5,491,265
Total capital assets	<u>143,913,344</u>	<u>204,587,034</u>	<u>348,500,378</u>
Total noncurrent assets	<u>145,549,749</u>	<u>213,613,450</u>	<u>359,163,199</u>
Total assets	<u>264,534,597</u>	<u>273,681,448</u>	<u>538,216,045</u>
Deferred Outflows of Resources			
Deferred pensions	3,955,313	-	3,955,313
Deferred charge on refunding	-	611,893	611,893
Total deferred outflows of resources	<u>3,955,313</u>	<u>611,893</u>	<u>4,567,206</u>

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

Sonoma County Water Agency
Statement of Net Position (Continued)
June 30, 2015

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Liabilities			
Current liabilities payable from unrestricted assets:			
Accounts payable and accrued expenses	1,562,936	4,238,515	5,801,451
Advances from other governments	-	3,351,422	3,351,422
Compensated absences	1,964,151	-	1,964,151
Unearned revenue	43,039	770,048	813,087
Interest payable	1,969,345	-	1,969,345
Long-term contracts payable	3,331,555	-	3,331,555
Total current liabilities payable from unrestricted assets	<u>8,871,026</u>	<u>8,359,985</u>	<u>17,231,011</u>
Current liabilities payable from restricted assets:			
Deposits from others	-	59,366	59,366
Interest payable	-	562,187	562,187
General obligation bonds payable	-	38,000	38,000
Capital leases	-	4,340,319	4,340,319
Revenue bonds payable	-	1,063,679	1,063,679
Total current liabilities payable from restricted assets	<u>-</u>	<u>6,063,551</u>	<u>6,063,551</u>
Noncurrent liabilities:			
Net pension liability	12,464,325	-	12,464,325
General obligation bonds payable	-	134,000	134,000
Capital leases	-	5,014,426	5,014,426
Revenue bonds payable	-	24,834,412	24,834,412
Long-term contracts payable	88,266,866	-	88,266,866
Advances from other governments	-	12,166,260	12,166,260
Pollution remediation obligation	191,133	-	191,133
Unearned revenue	-	4,776,970	4,776,970
Total noncurrent liabilities	<u>100,922,324</u>	<u>46,926,068</u>	<u>147,848,392</u>
Total liabilities	<u>109,793,350</u>	<u>61,349,604</u>	<u>171,142,954</u>
Deferred Inflows of Resources			
Deferred pensions	2,621,266	-	2,621,266
Total deferred inflows of resources	<u>2,621,266</u>	<u>-</u>	<u>2,621,266</u>
Net Position			
Net investment in capital assets	52,314,923	156,110,501	208,425,424
Restricted for flood control	21,241,349	-	21,241,349
Restricted for Warm Springs Dam	15,812,584	-	15,812,584
Restricted for debt service	60,552,598	6,920,246	67,472,844
Restricted for capital projects	-	151,347	151,347
Restricted for recycled water and water conservation	-	3,869,638	3,869,638
Restricted for guarantees	250,000	-	250,000
Unrestricted	5,903,840	45,892,005	51,795,845
Total net position	<u>\$ 156,075,294</u>	<u>\$ 212,943,737</u>	<u>\$ 369,019,031</u>

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

**Sonoma County Water Agency
Statement of Activities
For The Fiscal Year Ended June 30, 2015**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 6,285,821	\$ 946,849	\$ 331,378	\$ -	\$ (5,007,594)	\$ -	\$ (5,007,594)
Flood control	10,022,083	39,417	789,684	-	(9,192,982)	-	(9,192,982)
Warm Springs Dam	8,617,924	106	602,869	-	(8,014,949)	-	(8,014,949)
Interest on long-term debt	2,988,713	-	-	-	(2,988,713)	-	(2,988,713)
Total governmental activities	<u>27,914,541</u>	<u>986,372</u>	<u>1,723,931</u>	<u>-</u>	<u>(25,204,238)</u>	<u>-</u>	<u>(25,204,238)</u>
Business-type activities:							
Water transmission	40,319,069	35,493,217	450,084	1,433,948	-	(2,941,820)	(2,941,820)
Water supply	6,741,377	1,643,330	3,795,989	-	-	(1,302,058)	(1,302,058)
Sanitation	5,166,464	4,693,270	2,307	260,916	-	(209,971)	(209,971)
Total business-type activities	<u>52,226,910</u>	<u>41,829,817</u>	<u>4,248,380</u>	<u>1,694,864</u>	<u>-</u>	<u>(4,453,849)</u>	<u>(4,453,849)</u>
Total primary government	<u>\$ 80,141,451</u>	<u>\$ 42,816,189</u>	<u>\$ 5,972,311</u>	<u>\$ 1,694,864</u>	<u>(25,204,238)</u>	<u>(4,453,849)</u>	<u>(29,658,087)</u>
General revenues:							
Taxes:							
Property taxes, levied for general purposes					16,080,556	-	16,080,556
Property taxes, levied for debt service and assurances					5,872,815	40,664	5,913,479
Unrestricted investment earnings					1,448,245	305,384	1,753,629
Transfers					(1,510,000)	1,510,000	-
Total general revenues and transfers					<u>21,891,616</u>	<u>1,856,048</u>	<u>23,747,664</u>
Change in net position					(3,312,622)	(2,597,801)	(5,910,423)
Net position - beginning of year					169,588,013	215,541,538	385,129,551
Change in accounting principle - GASB 68					(10,200,097)	-	(10,200,097)
Net position - beginning of year, as restated					159,387,916	215,541,538	374,929,454
Net position - end of year					<u>\$ 156,075,294</u>	<u>\$ 212,943,737</u>	<u>\$ 369,019,031</u>

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

**Sonoma County Water Agency
Balance Sheet
Governmental Funds
For The Fiscal Year Ended June 30, 2015**

	Special Revenue Funds			Debt Service	Total Governmental Funds
	General	Flood Control	Warm Springs Dam		
Assets					
Cash and investments	\$ 14,727,944	\$ 20,686,387	\$ 16,472,744	\$ 62,521,943	\$ 114,409,018
Restricted cash and investments	250,000	-	-	-	250,000
Accounts receivable	335,691	994,743	205,354	-	1,535,788
Inventories	27,296	-	-	-	27,296
Interest receivable	3,910	-	-	-	3,910
Notes receivable	-	110,000	-	-	110,000
Due from other funds	785,000	-	-	-	785,000
Advances to other funds	2,113,836	-	-	-	2,113,836
Advances to other governments	1,386,405	-	-	-	1,386,405
Total assets	<u>\$ 19,630,082</u>	<u>\$ 21,791,130</u>	<u>\$ 16,678,098</u>	<u>\$ 62,521,943</u>	<u>\$ 120,621,253</u>
Liabilities					
Accounts payable	\$ 147,641	\$ 549,781	\$ 865,514	\$ -	\$ 1,562,936
Unearned revenue	43,039	-	-	-	43,039
Total liabilities	<u>190,680</u>	<u>549,781</u>	<u>865,514</u>	<u>-</u>	<u>1,605,975</u>
Deferred inflow of resources					
Unavailable revenue-advances to other governments	1,386,405	-	-	-	1,386,405
Total deferred inflow of resources	<u>1,386,405</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,386,405</u>
Fund balances:					
Non-Spendable	2,141,132	-	-	-	2,141,132
Restricted	250,000	21,241,349	15,812,584	62,521,943	99,825,876
Assigned	6,557,623	-	-	-	6,557,623
Unassigned	9,104,242	-	-	-	9,104,242
Total fund balances	<u>18,052,997</u>	<u>21,241,349</u>	<u>15,812,584</u>	<u>62,521,943</u>	<u>117,628,873</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 19,630,082</u>	<u>\$ 21,791,130</u>	<u>\$ 16,678,098</u>	<u>\$ 62,521,943</u>	<u>\$ 120,621,253</u>

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

Fund balances - total governmental funds	\$ 117,628,873
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds	143,913,344
Other long term assets are not available to pay current period expenditures and are therefore, are reported as unavailable revenue in the funds.	1,386,405
Deferred outflows of resources are reported in the statement of net position but not reported in the funds	3,955,313
Some liabilities are not due and payable in the current period, therefore, are not recorded in the funds as follows:	
Interest payable	(1,969,345)
Compensated absences	(1,964,151)
Net pension liability	(12,464,325)
Pollution remediation obligation	(191,133)
Long-term contracts payable	(91,598,421)
Deferred inflows of resources are reported in the statement of net position but not reported in the funds	<u>(2,621,266)</u>
Net position of governmental activities	<u>\$ 156,075,294</u>

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

Sonoma County Water Agency
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For The Fiscal Year Ended June 30, 2015

	<u>Special Revenue Funds</u>				Total Governmental Funds
	<u>General</u>	<u>Flood Control</u>	<u>Warm Springs Dam</u>	<u>Debt Service</u>	
Revenues					
Property taxes	\$ 7,559,102	\$ 8,521,451	\$ 5,872,815	\$ -	\$ 21,953,368
Investment earnings	111,244	7,567	58,371	1,271,063	1,448,245
Intergovernmental	331,378	789,684	602,869	-	1,723,931
Charges for services	1,072,277	26,650	-	-	1,098,927
Miscellaneous	55,979	12,767	106	-	68,852
Total revenues	<u>9,129,980</u>	<u>9,358,119</u>	<u>6,534,161</u>	<u>1,271,063</u>	<u>26,293,323</u>
Expenditures					
Current:					
General government	5,351,148	-	-	-	5,351,148
Flood control	-	8,161,854	-	-	8,161,854
Warm Springs Dam	-	-	8,609,601	-	8,609,601
Capital outlay	99,322	732,703	213,718	-	1,045,743
Debt service:					
Principal	-	-	-	3,227,469	3,227,469
Interest and fiscal charges	-	-	-	3,058,103	3,058,103
Total expenditures	<u>5,450,470</u>	<u>8,894,557</u>	<u>8,823,319</u>	<u>6,285,572</u>	<u>29,453,918</u>
Excess (deficiency) of revenues over (under) expenditures	3,679,510	463,562	(2,289,158)	(5,014,509)	(3,160,595)
Other financing sources (uses)					
Transfers out	(1,510,000)	-	-	-	(1,510,000)
Total other financing sources (uses)	<u>(1,510,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,510,000)</u>
Net change in fund balances	2,169,510	463,562	(2,289,158)	(5,014,509)	(4,670,595)
Fund balances - beginning of year	<u>15,883,487</u>	<u>20,777,787</u>	<u>18,101,742</u>	<u>67,536,452</u>	<u>122,299,468</u>
Fund balances - end of year	<u>\$ 18,052,997</u>	<u>\$ 21,241,349</u>	<u>\$ 15,812,584</u>	<u>\$ 62,521,943</u>	<u>\$ 117,628,873</u>

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

Sonoma County Water Agency
Reconciliation of the Statement of Revenues, Expenditures, and Changes
In Fund Balances of Governmental Funds to the Statement of Activities
For The Fiscal Year Ended June 30, 2015

Net change in fund balances - total governmental funds	\$ (4,670,595)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>	
Capital outlay	1,045,743
Depreciation expense	(1,875,563)
Disposal of capital assets	(812,514)
<p>Other long-term assets are not available to pay for current period expenditures and therefore, are reported as unavailable revenue in the funds</p>	
	(181,404)
<p>Repayment of principal is an expenditure in the governmental funds, but the repayment reduces the long-term liabilities in the statement of net position.</p>	
	3,227,469
<p>Some expenses reported in the statement of activities do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds.</p>	
Change in interest payable	69,390
Change in compensated absences	781,233
Pension expense	(930,181)
Change in pollution remediation obligation	33,800
	33,800
Change in net position of governmental activities	\$ (3,312,622)

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

Sonoma County Water Agency
Statement of Net Position
Proprietary Funds
For The Fiscal Year Ended June 30, 2015

	Business-type Activities - Enterprise Funds				
	Water Transmission	Water Supply	Sanitation	Total	Internal Service Funds
Assets					
Current assets:					
Cash and investments	\$ 42,726,746	\$ 1,507,313	\$ 4,718,343	\$ 48,952,402	\$ 5,212,618
Accounts receivable	5,374,897	2,855,441	70,263	8,300,601	-
Prepaid expenses	-	-	-	-	501,213
Total current assets	<u>48,101,643</u>	<u>4,362,754</u>	<u>4,788,606</u>	<u>57,253,003</u>	<u>5,713,831</u>
Noncurrent assets:					
Restricted assets:					
Cash and investments with trustee	2,729,731	-	-	2,729,731	-
Cash - revenue bond funds	151,347	-	416,613	567,960	-
Cash - capital leases	-	-	-	-	4,340,319
Total restricted assets	<u>2,881,078</u>	<u>-</u>	<u>416,613</u>	<u>3,297,691</u>	<u>4,340,319</u>
Assets held for resale	-	-	-	-	1,388,406
Capital assets, net					
Land	6,705,216	-	1,621,444	8,326,660	2,336,031
Land improvements	-	1,823,924	-	1,823,924	-
Construction in progress	23,790,803	-	830,148	24,620,951	772,807
Intangible assets - water storage rights	4,996,395	-	-	4,996,395	-
Intangible assets - permanent easements	115,168	-	17,518	132,686	-
Intangible assets - software	667,928	256,141	-	924,069	76,996
Infrastructure	97,731,013	903,958	19,015,577	117,650,548	-
Buildings and improvements	-	-	-	-	37,776,973
Equipment	769,194	21,197	116,218	906,609	4,242,385
Total capital assets	<u>134,775,717</u>	<u>3,005,220</u>	<u>21,600,905</u>	<u>159,381,842</u>	<u>45,205,192</u>
Total noncurrent assets	<u>137,656,795</u>	<u>3,005,220</u>	<u>22,017,518</u>	<u>162,679,533</u>	<u>50,933,917</u>
Total assets	<u>185,758,438</u>	<u>7,367,974</u>	<u>26,806,124</u>	<u>219,932,536</u>	<u>56,647,748</u>
Deferred Outflows of Resources					
Deferred charge on refunding	304,252	-	307,641	611,893	-
Total deferred outflows of resources	<u>304,252</u>	<u>-</u>	<u>307,641</u>	<u>611,893</u>	<u>-</u>

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

**Sonoma County Water Agency
Statement of Net Position (Continued)
Proprietary Funds
For The Fiscal Year Ended June 30, 2015**

	<u>Business-type Activities - Enterprise Funds</u>				<u>Internal Service Funds</u>
	<u>Water Transmission</u>	<u>Water Supply</u>	<u>Sanitation</u>	<u>Total</u>	
Liabilities					
Current liabilities payable from unrestricted assets:					
Accounts payable and accrued expenses	3,185,117	195,016	320,917	3,701,050	537,465
Due to other governments	999,671	1,854,092	-	2,853,763	497,659
Due to other funds	-	-	-	-	170,520
Unearned revenue	302,583	129,107	-	431,690	338,358
Total current liabilities payable from unrestricted assets	<u>4,487,371</u>	<u>2,178,215</u>	<u>320,917</u>	<u>6,986,503</u>	<u>1,544,002</u>
Current liabilities payable from restricted assets:					
Deposits from others	4,230	-	55,136	59,366	-
Interest payable	414,139	-	48,863	463,002	99,185
General obligation bonds payable	-	-	38,000	38,000	-
Capital leases	-	-	-	-	4,340,319
Revenue bonds payable	782,422	-	281,257	1,063,679	-
Total current liabilities payable from restricted assets	<u>1,200,791</u>	<u>-</u>	<u>423,256</u>	<u>1,624,047</u>	<u>4,439,504</u>
Noncurrent liabilities:					
General obligation bonds payable	-	-	134,000	134,000	-
Capital leases	-	-	-	-	5,014,426
Revenue bonds payable	20,880,581	-	3,953,831	24,834,412	-
Advances from other governments	10,544,386	-	-	10,544,386	1,621,874
Advances from other funds	-	-	-	-	2,728,316
Unearned revenue	-	4,776,970	-	4,776,970	-
Total noncurrent liabilities	<u>31,424,967</u>	<u>4,776,970</u>	<u>4,087,831</u>	<u>40,289,768</u>	<u>9,364,616</u>
Total liabilities	<u>37,113,129</u>	<u>6,955,185</u>	<u>4,832,004</u>	<u>48,900,318</u>	<u>15,348,122</u>
Net Position					
Net investment in capital assets	101,872,909	3,005,220	17,501,458	122,379,587	33,730,914
Restricted for:					
Debt service	2,311,362	-	367,750	2,679,112	4,241,134
Capital projects	151,347	-	-	151,347	-
Recycled water and water conservation	3,855,906	-	13,732	3,869,638	-
Unrestricted (deficit)	40,758,037	(2,592,431)	4,398,821	42,564,427	3,327,578
Total net position	<u>\$ 148,949,561</u>	<u>\$ 412,789</u>	<u>\$ 22,281,761</u>	<u>171,644,111</u>	<u>\$ 41,299,626</u>
Adjustment to reflect the net position of the internal service funds reported as business-type activities				<u>41,299,626</u>	
Net position of business-type activities				<u>\$ 212,943,737</u>	

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

Sonoma County Water Agency
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For The Fiscal Year Ended June 30, 2015

	<u>Business-type Activities - Enterprise Funds</u>				<u>Internal Service Funds</u>
	<u>Water Transmission</u>	<u>Water Supply</u>	<u>Sanitation</u>	<u>Total</u>	
Operating Revenue					
Water sales	\$ 34,207,795	\$ 1,479,030	\$ -	\$ 35,686,825	\$ -
Water services	331,020	-	-	331,020	-
Power sales	618,418	-	-	618,418	5,334,277
Flat charges	-	-	4,316,611	4,316,611	-
Sanitation services	-	-	271,654	271,654	-
Equipment rental	-	-	-	-	2,311,559
Real estate rental	-	-	100,000	100,000	4,644,800
Miscellaneous	335,984	164,300	5,005	505,289	53,966
Total operating revenue	<u>35,493,217</u>	<u>1,643,330</u>	<u>4,693,270</u>	<u>41,829,817</u>	<u>12,344,602</u>
Operating Expenses					
Services and supplies	24,534,397	3,009,269	4,180,750	31,724,416	7,902,501
Depreciation and amortization	5,837,423	213,332	1,112,451	7,163,206	1,940,956
Total operating expenses	<u>30,371,820</u>	<u>3,222,601</u>	<u>5,293,201</u>	<u>38,887,622</u>	<u>9,843,457</u>
Operating Income (Loss)	<u>5,121,397</u>	<u>(1,579,271)</u>	<u>(599,931)</u>	<u>2,942,195</u>	<u>2,501,145</u>
Nonoperating Revenues (Expenses)					
Taxes and assessments	-	-	40,664	40,664	-
Investment earnings	276,849	(3,242)	20,954	294,561	10,823
Interest expense	(695,976)	-	(208,237)	(904,213)	(542,524)
Conservation program expense	(114,723)	-	(1,525)	(116,248)	-
Gain on sale of capital assets	-	-	-	-	-
Gain (Loss) on disposal of capital assets	(10,616,172)	-	(2,237)	(10,618,409)	(148,819)
Other expense (grant pass through)	(245,770)	(3,537,212)	-	(3,782,982)	-
Intergovernmental revenue	450,084	3,795,989	2,307	4,248,380	-
Total nonoperating revenue (expenses), net	<u>(10,945,708)</u>	<u>255,535</u>	<u>(148,074)</u>	<u>(10,838,247)</u>	<u>(680,520)</u>
Income (loss) before capital contributions and transfers	<u>(5,824,311)</u>	<u>(1,323,736)</u>	<u>(748,005)</u>	<u>(7,896,052)</u>	<u>1,820,625</u>
Capital contributions - connection fees	-	-	247,896	247,896	-
Capital contributions - other	1,433,948	-	13,020	1,446,968	272,762
Transfers in	1,110,000	200,000	200,000	1,510,000	-
Change in net position	<u>(3,280,363)</u>	<u>(1,123,736)</u>	<u>(287,089)</u>	<u>(4,691,188)</u>	<u>2,093,387</u>
Net position - beginning of year	<u>152,229,924</u>	<u>1,536,525</u>	<u>22,568,850</u>		<u>39,206,239</u>
Net position - end of year	<u>\$ 148,949,561</u>	<u>\$ 412,789</u>	<u>\$ 22,281,761</u>		<u>\$ 41,299,626</u>
Adjustment to reflect the change in net position of internal service funds reported as business-type activities				<u>2,093,387</u>	
Change in net position of business-type activities				<u>\$ (2,597,801)</u>	

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

Sonoma County Water Agency
Statement of Cash Flows
Proprietary Funds
For The Fiscal Year Ended June 30, 2015

	Business-type Activities - Enterprise Funds				Internal Service Funds
	Water Transmission	Water Supply	Sanitation	Total	
Cash flows from operating activities:					
Cash receipts from customers	\$ 36,173,447	\$ 1,478,929	\$ 4,716,814	\$ 42,369,190	\$ -
Cash receipts from interfund services provided	-	-	-	-	12,410,355
Cash payments for interfund services used	(15,473,493)	(1,177,265)	(2,437,726)	(19,088,484)	(2,285,698)
Cash payments to suppliers	(10,074,832)	(1,976,229)	(1,691,049)	(13,742,110)	(5,826,015)
Conservation program outlays	(114,723)	-	(1,525)	(116,248)	-
Net cash provided by (used for) operating activities	<u>10,510,399</u>	<u>(1,674,565)</u>	<u>586,514</u>	<u>9,422,348</u>	<u>4,298,642</u>
Cash flows from noncapital financing activities:					
Taxes and assessments	-	-	40,664	40,664	-
Transfers in	-	200,000	200,000	400,000	-
Refund - 2005/06 flood event close-out	(1,201,808)	-	-	(1,201,808)	-
Other expenses - grant pass through	(178,962)	(2,660,261)	-	(2,839,223)	-
Intergovernmental receipts	133,385	2,697,025	2,705	2,833,115	-
Net cash provided by (used for) noncapital financing activities	<u>(1,247,385)</u>	<u>236,764</u>	<u>243,369</u>	<u>(767,252)</u>	<u>-</u>
Cash flows from capital and related financing activities:					
Purchases of capital assets	(11,173,685)	-	(348,800)	(11,522,485)	(1,338,357)
Principal paid on general obligation and revenue bonds	(730,000)	-	(295,000)	(1,025,000)	-
Principal paid on capital leases	-	-	-	-	(1,251,605)
Principal paid on advances from other governments	(710,366)	-	-	(710,366)	(601,952)
Interest paid on long-term debt	(1,391,286)	-	(206,540)	(1,597,826)	(564,949)
Proceeds from interfund borrowing	-	-	-	-	909,343
Proceeds from sale of capital assets	258,000	-	-	258,000	121,730
Connection fees	-	-	247,895	247,895	-
Capital contributions - other	302,583	-	-	302,583	404,880
Capital contributions - intergovernmental	3,019,317	-	-	3,019,317	-
Deposits	-	-	55,136	55,136	-
Transfers in	1,110,000	-	-	1,110,000	-
Net cash provided by (used for) capital and related financing activities	<u>(9,315,437)</u>	<u>-</u>	<u>(547,309)</u>	<u>(9,862,746)</u>	<u>(2,320,910)</u>
Cash flows from investing activities:					
Interest received	276,849	(3,242)	20,954	294,561	10,823
Net increase (decrease) in cash and cash equivalents	224,426	(1,441,043)	303,528	(913,089)	1,988,555
Cash and cash equivalents - beginning of year	45,383,398	2,948,356	4,831,428	53,163,182	7,564,382
Cash and cash equivalents - end of year	<u>\$ 45,607,824</u>	<u>\$ 1,507,313</u>	<u>\$ 5,134,956</u>	<u>\$ 52,250,093</u>	<u>\$ 9,552,937</u>
Reconciliation to the statement of net position:					
Cash and investments	\$ 42,726,746	\$ 1,507,313	\$ 4,718,343	\$ 48,952,402	\$ 5,212,618
Restricted cash and investments	2,881,078	-	416,613	3,297,691	4,340,319
Cash and cash equivalents	<u>\$ 45,607,824</u>	<u>\$ 1,507,313</u>	<u>\$ 5,134,956</u>	<u>\$ 52,250,093</u>	<u>\$ 9,552,937</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	\$ 5,121,397	\$ (1,579,271)	\$ (599,931)	\$ 2,942,195	\$ 2,501,145
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Conservation program outlays	(114,723)	-	(1,525)	(116,248)	-
Depreciation and amortization	5,837,423	213,332	1,112,451	7,163,206	1,940,956
Change in assets and liabilities:					
Accounts receivable	667,230	(164,401)	23,544	526,373	-
Deposits	13,000	-	-	13,000	-
Prepaid expenses	3,349	-	-	3,349	65,753
Accounts payable and accrued expenses	(1,017,277)	(144,225)	51,975	(1,109,527)	(209,212)
Net cash provided by operating activities	<u>\$ 10,510,399</u>	<u>\$ (1,674,565)</u>	<u>\$ 586,514</u>	<u>\$ 9,422,348</u>	<u>\$ 4,298,642</u>
Noncash Capital and Related Financing Activities:					
Acquisition of capital assets through accounts payable and other current liabilities	\$ 1,174,905	\$ -	\$ 209	\$ 1,175,114	\$ (18,184)
Increase in capital assets for capitalized interest	669,644	-	15,077	684,721	22,495
Increase in capital assets - donated assets	-	-	13,020	13,020	49,950
Loss on disposal of capital assets	(10,869,380)	-	(2,327)	(10,871,707)	-
Capital contribution receivable	1,471,369	-	-	1,471,369	-
Other/grant receivable	-	(2,110,103)	-	(2,110,103)	-
Accrual of pass-through grant expense	66,808	876,951	-	943,759	-

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

**Sonoma County Water Agency
Statement of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2015**

Assets

Cash and investments	\$ 14,100
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Liabilities

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

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

- Note A. Defining the Financial Reporting Entity
- Note B. Summary of Significant Accounting Policies
- Note C. Stewardship, Compliance and Accountability
- Note D. Cash and Investments
- Note E. Accounts Receivable
- Note F. Capital Assets
- Note G. Unearned Revenue
- Note H. Interfund Transactions
- Note I. Long-Term Obligations
- Note J. Pollution Remediation Obligation
- Note K. Deferred Outflows and Inflows of Resources
- Note L. Employees' Retirement Plan
- Note M. Postemployment Benefits
- Note N. Related Party Transactions
- Note O. Risk Management
- Note P. Commitments and Contingencies
- Note Q. Economic Dependence
- Note R. Future Governmental Accounting Standards
- Note S. Beginning Net Position Adjustment
- Note T. Subsequent Event

Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Note A. Defining the Financial Reporting Entity

The Sonoma County Water Agency (the Water Agency) was created in 1949 by an act of the California Legislature. The Water Agency is a countywide special district responsible for domestic water supply delivery to eight prime contractors (the cities of Santa Rosa, Petaluma, Sonoma, Rohnert Park, and Cotati, the Town of Windsor, as well as Valley of the Moon Water District and the North Marin Water District). The Water Agency designs, constructs and maintains flood control facilities. The Water Agency began generating electrical energy in 1988. The Water Agency owns Spring Lake and Riverfront Parks which are operated and maintained by Sonoma County Regional Parks Department via contract.

On January 1, 1995, as part of the countywide reorganization, seven county service areas were transferred from the County of Sonoma (the County) to the Water Agency. Since then, three sanitation zones have been reorganized and transferred to their own districts. The four remaining sanitation zones provide wastewater treatment, reclamation, and disposal services.

The Water Agency is governed by the Board of Supervisors of the County, who act ex-officio as the Board of Directors (Board) of the Water Agency. The exercise of this oversight responsibility causes the Water Agency to be an integral part of the County's reporting entity, and therefore, a component unit of the County. The Water Agency's basic financial statements are included in the County's Comprehensive Annual Financial Report.

Note B. Summary of Significant Accounting Policies

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) display information on the Water Agency as a whole. These financial statements include the financial activities of the Water Agency's nonfiduciary activities. The effect of interfund activity has been removed from these financial statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on user fees charged to external parties and charges for services provided.

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

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015**

Note B. Summary of Significant Accounting Policies (continued)

Government-wide and Fund Financial Statements (continued)

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Note B. Summary of Significant Accounting Policies (continued)

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

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

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

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

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

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

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

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

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

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015**

Note B. Summary of Significant Accounting Policies (continued)

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

Debt Service Fund: This fund is established for the purpose of accumulating resources for the payment of principal and interest related to the Water Agency's contract with the U.S. Army Corps of Engineers for water supply storage space at Warm Springs Dam.

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

Water Transmission: This fund accounts for the transportation of water and generation of electrical power for services to eight prime contractors (the cities of Santa Rosa, Petaluma, Sonoma, Rohnert Park and Cotati, Valley of the Moon Water District, North Marin Water District, and the Town of Windsor).

Water Supply: This fund accounts for the water supply and erosion control activities along the Russian River to secure and defend the Water Agency's appropriative water rights. This fund also includes program costs to convert recycled water to beneficial use.

Sanitation: This fund accounts for the sanitation services and for the engineering, administration and operational services of four zones: Sea Ranch, Penngrove, Geyserville and Airport-Larkfield-Wikiup.

Additionally, the Water Agency reports the following fund types:

Internal Service Funds: These funds are established to account for the financing of goods or services provided by one department or agency to other departments of the Water Agency or other governmental units on a cost reimbursement basis. These activities are recorded as operating revenue in the internal services funds, while expenses to provide the services are recorded as operating expenses. Nonoperating revenue and expenses include investment earnings, interest expense and gain or loss on disposal of capital assets. The Water Agency maintains separate internal service funds for equipment, facilities and power resources.

Agency Fund: This fund is used to account for assets held by the Water Agency on behalf of others as their agent. This fund is custodial in nature and does not involve the measurement of the results from operations. Funds held are surety deposits pertaining to river access for gravel mining.

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015**

Note B. Summary of Significant Accounting Policies (continued)

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

Encumbrances

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

Cash and Investments

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

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

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

Accounts Receivable

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

Restricted Assets - Proprietary Funds

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

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015**

Note B. Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets include land, land improvements, buildings and improvements, machinery and equipment, infrastructure, and intangible assets. Assets that are purchased or constructed are reported at historical cost or at estimated historical cost if actual historical cost is not available. Capital projects spanning multiple years are recorded as construction in progress. Interest costs incurred during the construction phase of capital projects are included in the capitalized value of the assets constructed. Donated capital assets are valued at their estimated fair value on the date of donation.

Maintenance and repair costs are charged to operations when incurred. Improvements to existing assets that significantly increase performance, change capacities or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

Assets acquired under capital lease are amortized over the lesser of the useful life of the asset or the lease term. Depreciation and amortization are recognized using the straight-line method over the estimated useful life of the asset. For further information regarding capital assets refer to Note F.

The capitalization thresholds and estimated useful lives for capital assets are as follows:

	Capitalization Threshold	Estimated Useful Life
Land	\$ -	N/A
Land improvements	25,000	15 to 50 years
Buildings and improvements:		
Buildings	25,000	50 years
Building improvements	25,000	15 to 20 years
Machinery and equipment	5,000	5 to 20 years
Infrastructure	100,000	25 to 75 years
Intangible Assets		
Computer software	25,000	3 to 10 years
Temporary easements	-	Life of easement
Permanent easements	-	N/A
Water storage rights	-	N/A
Construction in progress	Projects expected to exceed the capitalization threshold for the applicable asset class	

Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Note B. Summary of Significant Accounting Policies (continued)

Capitalized Interest

Interest incurred during the construction phase of the capital assets of business-type activities is reflected in the capitalized value of the asset constructed. Interest incurred and subject to capitalization is reduced by interest income earned on unspent debt proceeds.

Bond Discounts and Premiums

Bond discounts and premiums are reported in the applicable business-type activity columns in the government-wide financial statements and proprietary fund financial statements and are deferred and amortized using the straight-line method over the term of the outstanding bonds, approximating the effective interest method. Unamortized bond discounts reduce the carrying value of the related debt and unamortized bond premiums increase the carrying value of the related debt.

Deferred outflows/inflows of resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expenses) until then. The Water Agency has two items that qualify for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenues) until that time. The Water Agency has one item that qualifies for reporting in this category. Refer to Note K for additional information on deferred inflows and outflows of resources.

Unearned Revenue

In the government-wide financial statements and fund financial statements, unearned revenue represents amounts for which asset recognition criteria have been met, but revenue recognition criteria have not been satisfied. For governmental fund financial statements, amounts must be earned, measurable, and available (collectible within the current period or soon enough after to pay liabilities of the current period) to meet the revenue recognition criteria. For proprietary fund statements and government-wide statements, amounts must be earned in order to meet revenue recognition criteria, regardless of when the amounts are collected.

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015**

Note B. Summary of Significant Accounting Policies (continued)

Compensated Absences

Water Agency employees are entitled to certain compensated absences based on their length of employment. Vacation pay, which may be generally accumulated up to between seven and twelve weeks depending on employee's bargaining unit, is payable upon termination. Sick leave may be accumulated without limitation.

Since vacation leave balances do not require the use of current financial resources, no liability is recorded within the governmental funds. However, vacation leave balances are reflected in the government-wide statement of net position and are recorded in the period earned. In accordance with GASB Statement No. 16, *Accounting for Compensated Absences*, the liability amount for compensated absences includes the estimated employer liability for taxes and workers' compensation premiums.

Property Tax Revenue

Property taxes, including tax rates, are regulated by the State of California (the State) and are administered locally by the County. The County is responsible for assessing, collecting and distributing property taxes in accordance with state law. The County is responsible for the allocation of property taxes to the Water Agency.

The County has adopted the Alternative Method of Property Tax Allocation known as the Teeter Plan. State Revenue and Taxation Code allows counties to distribute secured real property and supplemental property taxes on an accrual basis resulting in full payment to the Water Agency each fiscal year. Any subsequent delinquent payments and related penalties and interest will revert to the County.

Property taxes are recognized as revenue when levied for governmental funds, as amounts are considered to be both measurable and available. Liens on real property are established January 1 for the ensuing fiscal year. The property tax is levied as of July 1 on all taxable property located in the County. Secured property taxes are due in two equal installments on November 1 and February 1, and are delinquent after December 10 and April 10, respectively. Additionally, supplemental property taxes are levied on a pro rata basis when changes in the assessed valuations occur due to sales transactions or the completion of construction. Property tax collection and valuation information is disclosed in the County's Comprehensive Annual Financial Report.

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015**

Note B. Summary of Significant Accounting Policies (continued)

Net Position and Fund Balance

Government-wide Financial Statements and Proprietary Fund Financial Statements

Net position consists of the following three components:

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

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

Unrestricted net position – This amount consists of all net position that does not meet the definition of net investment in capital assets or restricted net position.

Governmental Fund Financial Statements

Governmental funds report fund balances in specifically defined classifications in accordance with the criteria established by GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The Water Agency classifies fund balances into the following five categories:

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

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

Committed Fund Balance – Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action by the entity’s “highest level of decision-making authority”; which the Water Agency considers to be the Board. These purposes can only be changed or cancelled by a similar Board action. The Water Agency does not report any fund balances in this classification as of June 30, 2015.

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

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015**

Note B. Summary of Significant Accounting Policies (continued)

Net Position and Fund Balance (continued)

Governmental Fund Financial Statements (continued)

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

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

	Special Revenue				Total
	General Fund	Flood Control	Warm Springs Dam	Debt Service	
Nonspendable					
Advances	\$ 2,113,836	\$ -	\$ -	\$ -	\$ 2,113,836
Inventories	27,296	-	-	-	27,296
Restricted					
General Fund	250,000	-	-	-	250,000
Spring Lake Park Flood Control	-	21,241,349	-	-	21,241,349
Warm Springs Dam	-	-	15,812,584	62,521,943	78,334,527
Assigned					
General					
Government	2,092,189	-	-	-	2,092,189
Spring Lake Park Water/wastewater loan fund	2,066,897	-	-	-	2,066,897
Energy & Sustainability	592,940	-	-	-	592,940
Unassigned	1,805,597	-	-	-	1,805,597
	9,104,242	-	-	-	9,104,242
Total	\$ 18,052,997	\$ 21,241,349	\$ 15,812,584	\$ 62,521,943	\$ 117,628,873

Interfund Transactions

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

Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Note B. Summary of Significant Accounting Policies (continued)

Connection Fees

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

Prudent Reserve

In March 2008 the Water Advisory Committee (WAC) adopted a resolution setting out guidelines for the collection, maintenance and use of prudent reserves in the Water Transmission enterprise fund. Amounts collected via the water rates for reserve are recommended to be set aside to be used in the event of catastrophic losses. The amount collected as of the fiscal year ended June 30, 2015 is \$4,125,504. This amount is included in unrestricted net position.

Estimates

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

Note C. Stewardship, Compliance and Accountability

Budget and Budgetary Accounting

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

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015**

Note D. Cash and Investments

Authorized Investments

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

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

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

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015**

Note D. Cash and Investments (continued)

Authorized Investments (continued)

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

Cash and investments as of June 30, 2015 are classified in the accompanying financial statements as follows:

Statement of net position:

Cash and investments	\$ 168,574,038
Cash and investments - guarantees	250,000
Cash and investments with trustee	2,729,731
Cash and investments restricted for revenue bond funds	567,960
Cash and investments restricted for capital leases	4,340,319
Fiduciary funds:	
Cash and investments	14,100
Total cash and investments	\$ 176,476,148

Cash and investments as of June 30, 2015 consist of the following:

Investment in County Treasury Pool:

Unrestricted	\$ 111,122,247
Restricted for revenue bonds	567,960
Restricted for guarantees	250,000
Restricted for capital leases	4,340,319
Nonpooled cash and investments:	
Cash on hand	750
Investments - US Treasury STRIPS	46,931,610
Investments - SCEIP Bonds	10,533,531
Money Market mutual funds restricted for revenue bonds	2,729,731
Total cash and investments	\$ 176,476,148

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015**

Note D. Cash and Investments (continued)

As of June 30, 2015, the Water Agency's investments consisted of \$116,280,526 in the Treasury Pool managed by the Treasurer, which is not rated by credit rating agencies, and had a weighted average maturity of approximately 600 days. The credit rating and other information regarding specific investments maintained in the Treasury Pool as of June 30, 2015 are disclosed in the County's June 30, 2015 Comprehensive Annual Financial Report.

The Water Agency reported \$46,931,610 of nonpooled cash and investments in U.S. Treasury STRIPS, which represent funds that are to be used specifically for the repayment of the Water Agency's \$91,598,421 contract payable to the U.S. Army Corps of Engineers (refer to Note I).

The Water Agency has invested \$10,533,531 in the Sonoma County Energy Independence Program (SCEIP) by purchasing their 20 year bonds. SCEIP advances funds to eligible property owners in Sonoma County towards energy improvement projects.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity its fair value is to changes in market interest rates. One of the ways that the County Treasurer manages the Water Agency's exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments, and by timing cash flows from maturities so that a portion of the portfolio is maturing, or coming close to maturity, evenly over time, as necessary, to provide the cash flow and liquidity needed for operations.

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

Investment Type	Amount	Maturity			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
County treasury pool	\$ 116,280,526	\$ -	\$ 116,280,526	\$ -	\$ -
U.S. Treasury STRIPS	46,931,610	6,104,817	12,206,459	12,027,583	16,592,751
SCEIP Bonds	10,533,531	303,987	326,588	1,126,076	8,776,880
Money market mutual fund	2,729,731	2,729,731	-	-	-
Total	\$ 176,475,398	\$ 9,138,535	\$ 128,813,573	\$ 13,153,659	\$ 25,369,631

Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Note D. Cash and Investments (continued)

Custodial Credit Risk

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

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

Concentration of Credit Risk

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

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015**

Note D. Cash and Investments (continued)

Credit Risk

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

Investment Type	Minimum Legal Rating	Total	Exempt from Disclosure	Rating at year-end	
				AAAm	Not Rated
County treasury pool	N/A	\$ 116,280,526	\$ -	\$ -	\$ 116,280,526
U.S. Treasury STRIPS	N/A	46,931,610	46,931,610	-	-
SCEIP Bonds	N/A	10,533,531	-	-	10,533,531
Money market mutual fund	AAAm	2,729,731	-	2,729,731	-
Total		\$ 176,475,398	\$ 46,931,610	\$ 2,729,731	\$ 126,814,057

Note E. Accounts Receivable

Accounts receivable as of June 30, 2015 is comprised of the following:

	Accounts	Inter- governmental	Total
Governmental Activities:			
General Fund	\$ 64,123	\$ 271,568	\$ 335,691
Flood Control special revenue fund	20,500	974,243	994,743
Warm Springs Dam special revenue	-	205,354	205,354
Total Governmental Activities	\$ 84,623	\$ 1,451,165	\$ 1,535,788
Business-type Activities:			
Water Transmission enterprise fund	\$ 4,815,524	\$ 559,373	\$ 5,374,897
Water Supply enterprise fund	802,949	2,052,492	2,855,441
Sanitation enterprise fund	67,839	2,424	70,263
Total Business-Type Activities	\$ 5,686,312	\$ 2,614,289	\$ 8,300,601

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015**

Note F. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2015 was as follows:

	July 1, 2014	Additions	Retirements	Transfers	June 30, 2015
<i>Governmental activities:</i>					
Capital assets, not being depreciated/amortized:					
Land	\$ 1,582,224	\$ -	\$ -	\$ -	\$ 1,582,224
Construction in progress	1,568,924	484,914	(314,297)	(311,374)	1,428,167
Intangible assets:					
Intangible work in progress	1,186,625	461,506	(498,217)	(55,790)	1,094,124
Water storage rights	102,371,000	-	-	-	102,371,000
Other intangible assets	46,441	-	-	-	46,441
Total capital assets not being depreciated/amortized	106,755,214	946,420	(812,514)	(367,164)	106,521,956
Capital assets, being depreciated:					
Infrastructure	64,834,097	-	-	-	64,834,097
Buildings and improvements	3,426,490	-	-	311,374	3,737,864
Intangible assets - easements	43,800	-	-	-	43,800
Intangible assets - software	854,324	-	-	55,790	910,114
Equipment	1,195,801	99,325	(114,528)	-	1,180,598
Total capital assets, being depreciated	70,354,512	99,325	(114,528)	367,164	70,706,473
Less: accumulated depreciation for:					
Infrastructure	(28,473,997)	(1,562,084)	-	-	(30,036,081)
Buildings and improvements	(1,886,954)	(84,859)	-	-	(1,971,813)
Intangible assets	(314,142)	(154,721)	-	-	(468,863)
Equipment	(878,957)	(73,899)	114,528	-	(838,328)
Total accumulated depreciation	(31,554,050)	(1,875,563)	114,528	-	(33,315,085)
Total capital assets, being depreciated, net	38,800,462	(1,776,238)	-	367,164	37,391,388
Total capital assets, net	\$ 145,555,676	\$ (829,818)	\$ (812,514)	\$ -	\$ 143,913,344

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015**

Note F. Capital Assets (continued)

	July 1, 2014	Additions	Retirements	Transfers	June 30, 2015
<i>Business-type activities</i>					
Capital assets, not being depreciated/amortized:					
Land	\$ 10,667,484	\$ -	\$ (4,793)	\$ -	\$ 10,662,691
Construction in progress	24,463,233	14,589,668	(11,139,930)	(2,675,700)	25,237,271
Intangible assets:					
Intangible work in progress	40,520	137,796	-	(21,829)	156,487
Water storage rights	4,996,395	-	-	-	4,996,395
Permanent easements	110,857	-	-	21,829	132,686
Total capital assets not being depreciated/amortized	40,278,489	14,727,464	(11,144,723)	(2,675,700)	41,185,530
Capital assets, being depreciated:					
Infrastructure	220,913,957	-	-	2,675,700	223,589,657
Buildings and improvements	46,483,410	-	-	-	46,483,410
Land improvements	3,471,453	-	-	-	3,471,453
Intangible assets - software	1,667,836	-	-	-	1,667,836
Equipment	11,254,845	1,105,059	(739,507)	-	11,620,397
Total capital assets, being depreciated	283,791,501	1,105,059	(739,507)	2,675,700	286,832,753
Less: accumulated depreciation for:					
Infrastructure	(99,333,873)	(6,605,236)	-	-	(105,939,109)
Buildings and improvements	(7,308,062)	(1,398,375)	-	-	(8,706,437)
Land improvements	(1,508,247)	(139,282)	-	-	(1,647,529)
Intangible assets - software	(371,931)	(294,840)	-	-	(666,771)
Equipment	(6,542,233)	(666,439)	737,269	-	(6,471,403)
Total accumulated depreciation	(115,064,346)	(9,104,172)	737,269	-	(123,431,249)
Total capital assets, being depreciated, net	168,727,155	(7,999,113)	(2,238)	2,675,700	163,401,504
Total capital assets, net	\$ 209,005,644	\$ 6,728,351	\$ (11,146,961)	\$ -	\$ 204,587,034

The total amount of interest capitalized into capital assets of business-type activities during the fiscal year ended June 30, 2015 amounted to \$707,216.

The Water Agency reported a \$10,869,380 expense during the fiscal year ended June 30, 2015 for a loss on disposal of capital assets related to the abandonment of the South Transmission Pipeline Project.

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015**

Note F. Capital Assets (continued)

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

Governmental activities:

General government	\$ 305,154
Flood control	1,570,409
Total depreciation expense - governmental activities	\$ 1,875,563

Business-type activities:

Water Transmission	\$ 5,837,423
Water Supply	213,332
Sanitation	1,112,451
Internal Service Funds	1,940,966
Total depreciation expense - business type activities	\$ 9,104,172

Intangible Asset – Warm Springs Dam Project

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

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

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

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015**

Note G. Unearned Revenue

On June 30, 2005 the Water Agency received \$6,326,257 under a supplemental water supply agreement with the Marin Municipal Water District (MMWD), dated January 25, 1996. This amount was deferred and is being recognized on a straight-line basis over 49 years which represents the original nine-year term of the agreement plus the 40-year renewal option, which MMWD is likely to exercise. As of June 30, 2015, unearned revenue remaining from the agreement in the amount of \$4,906,077 is reported in the Water Supply fund.

On September 16, 2014 the Water Agency received \$352,600 in advanced funding from the City of Petaluma to finance groundwater studies in Petaluma Valley. As of June 30, 2015, unearned revenue remaining from the agreement in the amount of \$302,583 is reported in the Water Transmission fund.

The General Fund has collected \$43,039 in camping reservation fees for Spring Lake Park that will be recognized as revenue earned during the next fiscal year.

The Power Resources internal service fund has received \$680,912 of funding for upgrades to metering and communication systems related to the photovoltaic system at the Sonoma Valley treatment plant. A capital contribution will be recognized as expenses are incurred. As of June 30, 2015 the remaining contribution considered unearned is \$338,358.

Note H. Interfund Transactions

A summary of interfund activity as of and for the fiscal year ended June 30, 2015 is as follows:

Interfund transfers

Transfer from	Transfer to	Amount	Purpose
General Fund	Sanitation Fund	\$ 200,000	Funding for operations and construction
General Fund	Water Supply Fund	200,000	Funding for recycled water projects
General Fund	Water Transmission	1,110,000	Funding for water transmission projects
Total interfund transfers		\$ 1,510,000	

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015**

Note H. Interfund Transactions (continued)

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

The Power Resources internal service fund is eligible to draw up to \$1,000,000 per year for up to eight years from the Water Agency's general fund as needed to acquire electrical power assets and meet debt service payments. Repayment of these draws, together with accrued interest, is to begin in the fiscal year ending June 30, 2016 and continue until 2033. Interest is to accrue at the County's pooled investment rate of return. As of June 30, 2015, the Power Resources internal service fund has drawn \$2,771,474 from the General Fund. Interest accrued as of the fiscal year ended June 30, 2015 amounted to \$127,362.

Advances from Other Funds

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

	Maturity Date	Interest Rate	Authorized & Issued	Outstanding June 30, 2015	Due Within One Year
General Fund	2033	Variable	\$ 2,898,836	\$ 2,898,836	\$ 170,520

Note I. Long-Term Obligations

Governmental Activities:

Long-Term Contract Payable:

	Maturity Date	Interest Rates	Authorized & Issued	Outstanding June 30, 2015
1986 Federal contract payable	2034	3.225%	\$ 102,371,000	\$ 91,598,421

Annual payments on the Water Agency's water supply contract with the US Army Corps of Engineer for the Warm Springs Dam project commenced on November 1, 1993, and will continue until 2034. The annual payments include principal and interest at a rate of 3.225%. The repayment of this obligation comes from earnings on investments in the debt service fund and the proceeds of a voter approved countywide levied property tax. The amount of the payments began at \$930,562 and increase to a maximum of \$6,285,572 annually until 2034.

Compensated Absences:

As of June 30, 2015, vested vacation leave for Water Agency employees amounted to \$1,964,151. There were no compensated absences that are considered due or matured. Compensated absences are generally liquidated by the General Fund.

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015**

Note I. Long-Term Obligations (continued)

Business-type Activities:

General Obligation Bonds Payable:	Maturity Date	Interest Rates	Authorized & Issued	Outstanding June 30, 2015
<u>Sanitation Zones</u>				
1977 Penngrove	2017	5.00%	\$ 300,000	\$ 47,000
1980 Geyserville	2020	5.00%	500,000	125,000
Total general obligation bonds payable				\$ 172,000

Capital Leases:	Maturity Date	Interest Rates	Authorized & Issued	Outstanding June 30, 2015
Capital lease - Deutsche Bank	2016	4.65%	\$ 8,800,000	\$ 3,625,334
Capital lease - Deutsche Bank	2020	4.54%	2,000,000	757,784
Capital lease - SunTrust	2020	4.08%	2,750,000	1,218,122
Capital lease - City National Bank	2023	4.30%	5,835,000	3,753,505
Total capital leases				\$ 9,354,745

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

On July 1, 2003, the Water Agency purchased an office facility on Aviation Boulevard in Santa Rosa and financed the purchase with a capital lease with Banc of America. During the fiscal year ended June 30, 2012 Banc of America assigned this lease to Deutsche Bank. The Agency also signed two additional capital leases with Banc of America Leasing and Capital, LLC. The first lease was executed on June 23, 2005 for facilities improvements with a maturity date of April 1, 2020. This lease was also assigned to Deutsche Bank. The second lease was executed on February 17, 2006 for the acquisition of solar paneling with a maturity date of October 1, 2020. This lease was assigned to SunTrust. On September 23, 2008 the Agency purchased an office/warehouse facility on Airport Boulevard and financed the purchase and improvements with a capital lease with Municipal Finance Corporation. Municipal Finance Corporation has assigned the lease to City National Bank.

The assets acquired under capital leases consist of the following as of June 30, 2015:

Buildings and improvements	\$ 31,504,825
Less: accumulated depreciation	(6,237,963)
Total	\$ 25,266,862

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015**

Note I. Long-Term Obligations (continued)

Business-type Activities (continued)

Water Revenue Bonds Payable:

	Maturity Date	Interest Rates	Authorized & Issued	Outstanding June 30, 2015
Water revenue bonds, 2012, series A	2032	0.30-5.00%	\$ 12,265,000	\$ 11,325,000
Add: deferred amount for unamortized premium				564,658
Water revenue bonds, 2006, series A	2036	4.00-5.00%	11,500,000	9,685,000
Add: deferred amount for unamortized premium				88,345
Total water revenue bonds payable, net				\$ 21,663,003

In July 2012 the Sonoma County Water Agency issued the Water Revenue Refunding Bonds 2012 Series A (2012A) to refund and defease the outstanding principal (\$12,475,000) of the 2003 Series A Bonds, provide a reserve account for the 2012A Bonds and pay the costs of issuing the 2012A Bonds. The 2012 Series A Bonds are payable solely from the net revenues of the Water Agency's transmission system, and amounts on deposit in the related funds and accounts. Neither the full faith and credit nor the taxing power of the Water Agency is pledged to the payment of 2012 Series A Bonds or interest thereon.

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

Annual principal and interest payments for both bond issues are expected to require approximately 11% of water transmission fund net revenues. The total principal outstanding on the Water Revenue Bonds as of June 30, 2015 is \$21,010,000 and scheduled interest payments total \$9,712,656 which equals the remaining income pledged by the Water Agency through the fiscal year ending June 30, 2037. Principal and interest paid for the fiscal year ended June 30, 2015 and total water transmission net revenues were \$1,564,419 and \$14,229,701, respectively.

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015**

Note I. Long-Term Obligations (continued)

Business-type Activities (continued)

Water and Wastewater Revenue Bonds Payable:

	Maturity Date	Interest Rates	Authorized & Issued	Outstanding June 30, 2015
California Statewide Communities Development Authority (CSDCDA) 2005C revenue bonds	2027	2.70-5.00%	\$ 6,220,000	\$ 4,160,000
Add: deferred amount for unamortized premium				75,088
Total water and wastewater revenue bonds payable, net				\$ 4,235,088

The terms covering the California Statewide Communities Development Authority (CSCDA) 2005C Water and Wastewater Revenue Bonds provide that the revenue be irrevocably pledged and deposited with a trustee for the security and payment of interest and principal on the bonds. In addition, this pledge shall constitute a first lien on the sanitation fund revenues and such other funds for the payment of the bonds. All funds and accounts held under this bond are required to be used for investments authorized by the CSCDA. The total principal outstanding on the 2005C Water and Wastewater Revenue Bonds as of June 30, 2015 is \$4,160,000 and scheduled interest payments total \$1,302,567 which equals the remaining income pledged by the sanitation zone through the fiscal year ending June 30, 2027. Principal and interest paid for the fiscal year ended June 30, 2015 and total customer net revenues were \$457,066 and \$836,902, respectively. These bond proceeds were used to finance a portion of the cost of upgrades to the Airport-Larkfield-Wikiup Sanitation Zone's treatment plant, wastewater pipelines, storage ponds and irrigation system in connection with the Storage, Reclamation and Treatment Facilities Project.

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015**

Note I. Long-Term Obligations (continued)

Business-type Activities (continued)

	Maturity Date	Interest Rates	Authorized & Issued	Outstanding June 30, 2015
State Revolving Fund	2027	2.79%	\$ 15,857,295	\$ 11,274,734
Sonoma Valley County Sanitation District	2019	4.198%	5,442,922	2,119,533
Napa Sanitation District	2015	N/A	1,854,092	1,854,092
Solano County	2015	N/A	269,323	269,323
Total advances from other governments				\$ 15,517,682

The Water Agency constructed a collector well located adjacent to the Russian River at Wohler Road. The State of California Department of Water Resources has loaned the Water Agency up to \$15,858,989 to assist in the financing of this project. As of June 30, 2015, the Water Agency has received loan funds in the amount of \$15,857,295. The total principal outstanding on the State Revolving Fund advance as of June 30, 2015 is \$11,274,734 and scheduled interest payments total \$2,248,462 which equals the remaining income pledged by the Water Agency through the fiscal year ending June 30, 2028. Annual principal and interest payments are expected to require approximately 7% of water transmission net revenues. Principal and interest paid for the fiscal year ended June 30, 2015 and total customer net revenues were \$1,040,232 and \$14,229,701, respectively. For the combined water transmission revenue bond debt and State Revolving Fund debt, annual principal and interest payments are expected to require approximately 18% of water transmission net revenues.

The Power Resources internal service fund entered into a loan with the Sonoma Valley County Sanitation District for the purchase of its existing photovoltaic facility. The loan amount was \$5,442,922 with an interest rate of 4.198% and a term of 12 years. The outstanding balance as of June 30, 2015 is \$2,119,533 with a current portion of \$497,659.

Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Note I. Long-Term Obligations (continued)

Changes in Long-Term Obligations

A summary of changes in long-term obligations for the fiscal year ended June 30, 2015 is as follows:

	July 1, 2014 (as restated)	Increases	Decreases	June 30, 2015	Amounts Due Within One Year
Governmental activities:					
Long-term contracts payable	\$ 94,825,890	\$ -	\$ (3,227,469)	\$ 91,598,421	\$ 3,331,555
Net pension liability	13,632,777	2,264,228	(3,432,680)	12,464,325	-
Compensated absences	2,745,384	1,110,682	(1,891,915)	1,964,151	1,964,151
Total governmental activities	111,204,051	3,374,910	(8,552,064)	106,026,897	5,295,706
Business-type activities:					
General obligation bonds	207,000	-	(35,000)	172,000	38,000
Capital leases:					
Deutsche Bank	4,191,555	-	(566,221)	3,625,334	3,625,334
Deutsche Bank	890,464	-	(132,680)	757,784	138,695
SunTrust	1,411,968	-	(193,846)	1,218,122	201,835
Municipal Finance	4,112,364	-	(358,859)	3,753,505	374,455
Water revenue bonds:					
Series 2006A	9,945,000	-	(260,000)	9,685,000	270,000
Deferred amount for unamortized premium	92,552	-	(4,207)	88,345	-
Series 2012A	11,795,000	-	(470,000)	11,325,000	475,000
Deferred amount for unamortized premium	597,874	-	(33,216)	564,658	-
Water and wastewater revenue bonds:					
Series 2005C	4,420,000	-	(260,000)	4,160,000	275,000
Deferred amount for unamortized premium	81,346	-	(6,258)	75,088	-
Advances from other governments:					
State Revolving Fund	11,985,100	-	(710,366)	11,274,734	730,348
Dept. of Homeland Security	1,214,445		(1,214,445)	-	-
Napa Sanitation District	966,552	1,513,985	(626,445)	1,854,092	1,854,092
Solano County	202,515	269,323	(202,515)	269,323	269,323
Sonoma Valley CSD	2,607,732		(488,199)	2,119,533	497,659
Total business-type activities	54,721,467	1,783,308	(5,562,257)	50,942,518	8,749,741
Total	\$ 165,925,518	\$ 5,158,218	\$ (14,114,321)	\$ 156,969,415	\$ 14,045,447

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015**

Note I. Long-Term Obligations (continued)

Debt Service Requirements

The annual principal and interest requirements on the outstanding long-term obligations as of June 30, 2015 (excluding compensated absences), are as follows:

Long-term contracts payable - 1986 Federal contract

Fiscal year ending June 30,	Principal	Interest	Total
2016	\$ 3,331,555	\$ 2,954,017	\$ 6,285,572
2017	3,438,997	2,846,574	6,285,571
2018	3,549,905	2,735,667	6,285,572
2019	3,664,390	2,621,182	6,285,572
2020	3,782,566	2,503,006	6,285,572
2021-2025	20,823,256	10,604,602	31,427,858
2026-2030	24,404,678	7,023,179	31,427,857
2031-2035	28,603,074	2,825,782	31,428,856
Total long-term contracts payable	\$ 91,598,421	\$ 34,114,009	\$ 125,712,430

General obligation bonds

Fiscal year ending June 30,	Principal	Interest	Total
2016	\$ 38,000	\$ 8,225	\$ 46,225
2017	40,000	6,300	46,300
2018	41,000	4,300	45,300
2019	26,000	2,650	28,650
2020	27,000	1,350	28,350
Total general obligation bonds	\$ 172,000	\$ 22,825	\$ 194,825

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015**

Note I. Long-Term Obligations (continued)

Capital leases

Fiscal year ending June 30,	Principal	Interest	Total
2016	\$ 4,340,319	\$ 399,764	\$ 4,740,083
2017	745,945	207,042	952,987
2018	778,248	174,743	952,991
2019	811,952	141,043	952,995
2020	844,769	105,882	950,651
2021-2024	1,833,512	152,792	1,986,304
Total capital leases	\$ 9,354,745	\$ 1,181,266	\$ 10,536,011

Water revenue bonds

Fiscal year ending June 30,	Principal	Interest	Total
2016	\$ 745,000	\$ 815,754	\$ 1,560,754
2017	765,000	795,204	1,560,204
2018	790,000	771,379	1,561,379
2019	820,000	741,564	1,561,564
2020	840,000	712,979	1,552,979
2021-2025	4,740,000	3,025,279	7,765,279
2026-2030	5,745,000	1,967,222	7,712,222
2031-2035	5,215,000	815,025	6,030,025
2036-2037	1,350,000	68,250	1,418,250
Total water revenue bonds	\$ 21,010,000	\$ 9,712,656	\$ 30,722,656

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015**

Note I. Long-Term Obligations (continued)

Wastewater revenue bonds

Fiscal year ending June 30,	Principal	Interest	Total
2016	\$ 275,000	\$ 187,165	\$ 462,165
2017	280,000	176,619	456,619
2018	290,000	165,574	455,574
2019	305,000	153,819	458,819
2020	315,000	139,844	454,844
2021-2025	1,830,000	439,844	2,269,844
2026-2027	865,000	39,703	904,703
Total wastewater revenue bonds	\$ 4,160,000	\$ 1,302,568	\$ 5,462,568

Advances from other governments

Fiscal year ending June 30,	Principal	Interest	Total
2016	\$ 3,351,422	\$ 398,861	\$ 3,750,283
2017	1,269,443	357,426	1,626,869
2018	1,312,334	314,535	1,626,869
2019	1,356,733	270,136	1,626,869
2020	816,057	224,175	1,040,232
2021-2025	4,437,799	763,359	5,201,158
2026-2028	2,973,894	147,067	3,120,961
Total advances from other governments	\$ 15,517,682	\$ 2,475,559	\$ 17,993,241

The principal amount due for advances from other governments in the fiscal year ended June 30, 2016 includes \$2,123,415 in pass-through grants.

Note J. Pollution Remediation Obligation

The Water Agency purchased a parcel as part of a litigation settlement in 2000 to resolve claims related to possible lead-contaminated fill used in connection with a Water Agency flood control project. As owner of the parcel, the Water Agency is responsible for clean-up costs related to the fill. The Water Agency has investigated the extent of lead contamination on the property and the adjacent area. The North Coast Regional Water Quality Control Board (“NC Regional Board”) required the Water Agency to perform an updated Human Health Risk Assessment and an Ecological Risk Assessment as a condition of obtaining site closure for the parcel. The Water Agency submitted these assessments and a Closure Work Plan to the NC Regional Board in July 2008 and is awaiting a response from the NC Regional Board and the City of Santa Rosa Fire Department. The City of Santa Rosa Fire Department is the agency with responsibility and jurisdiction for managing the site cleanup.

Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Note J. Pollution Remediation Obligation (continued)

The Closure Work Plan proposes to perform a lot line adjustment separating the front portion of the property where there are no human health issues based on the risk assessment so that the existing house can be put on the market and sold. The Water Agency filed an application for a lot line adjustment with the City of Santa Rosa in May 2015. City of Santa Rosa staff are reviewing the application. For the back half of the property, the work plan proposes to incorporate the affected site into the City of Santa Rosa's bike path project changing the risk of human exposure so that no significant cleanup will be required. It is anticipated that there will need to be annual monitoring and soil removal on the back half of the property, as well as a deed restriction and long-term easement. However, the NC Regional Board and the Santa Rosa Fire Department have not yet approved the work plan.

In accordance with GASB Statement No. 49, the Agency has estimated its potential pollution remediation liability as of June 30, 2015 by utilizing the expected cash flow technique. This methodology examined estimated costs for pre-cleanup activities, remediation/clean-up activities, regulatory agency costs, and post remediation-monitoring costs. The estimated liability for the Agency as of June 30, 2015 is \$191,133. Discussions with the NC Regional Board and the City of Santa Rosa Fire Department continue and since no agreement has been reached the estimated obligation continues to be considered long term.

Note K. Deferred Outflows and Inflows of Resources

In accordance with GASB Statement No. 63 - *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* the Water Agency recognizes deferred outflows and inflows of resources in the government-wide and proprietary fund net position statements. Deferred outflows of resources are a consumption of net position that is applicable to a future reporting period while deferred inflows of resources are an acquisition of net position that is applicable to a future reporting period.

The Water Agency reported two items as deferred outflows of resources. One item is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The other item reported as a deferred outflow of resources is deferred pension which is explained in detail in Note L.

The Water Agency reported only one item as a deferred inflow of resources. This was an deferred inflow of resources for pensions, which is explained in detail in Note L.

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015**

Note L. Employees' Retirement Plan

Plan Description

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

The California Public Employees' Pension Reform Act of 2013 (PEPRA) was signed into law by Governor Jerry Brown on September 12, 2012, with an effective date of January 1, 2013. All General and Safety employees hired on or after January 1, 2013, with the exception of employees who are eligible for reciprocity with another qualified California retirement system, are part of a new tier called Plan B.

SCERA issues an annual financial report that includes financial statements and required supplementary information for the Plan which can be obtained by writing to the Sonoma County Employees' Retirement Association, 433 Aviation Blvd., Suite 100, Santa Rosa, CA 95403-1069.

The financial statements for the County (the primary government) contain additional financial information for the defined pension benefits, which is not presented here.

Funding Policy

The contribution requirements of Plan members and the County are determined by an independent actuary, approved by the SCERA Board of Retirement, and adopted by the Board of Supervisors. The contribution rates for the fiscal year ended June 30, 2015 were based on the Plan's valuation dated December 31, 2012. The contribution rates determined in each actuarial valuation take effect at the beginning of the fiscal year starting at least twelve months after the beginning of the valuation year, except when significant benefit or actuarial assumption changes occur. Plan A members are required to contribute 7% -13% of their annual covered salary based upon the member's age at the date of entry into the system and Plan B members are required to contribute 7.25% for General Plan B Employees and 11.75% for Safety Plan B Employees of their annual covered salary. The County is required to contribute the remaining amounts necessary to finance the coverage of their employees through periodic contributions at actuarially determined rates. Employer and member contributions are funded and recognized through the County and District payroll systems via employer benefit payments and employee deductions. For the fiscal year ended June 30, 2015, the Water Agency contributed \$3,432,680 or approximately 18.37% of covered payroll.

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015**

Note L. Employees' Retirement Plan (continued)

Pension Liability, Pension Expense, and Deferred Outflows or Resources and Deferred Inflows of Resources Related to Pension

At June 30, 2015, the Water Agency reported a liability of \$12,464,325 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Water Agency's proportion of the net pension liability was based on a projection of the Water Agency's long-term share of contributions to the pension plan relative to the projected contributions of all Pension Plan participants, actuarially determined. At December 31, 2014, the Water Agency's proportion was 5.75%, which was an increase of 2.68% from its proportion measured as of December 31, 2013.

For the year ended June 30, 2015, the Water Agency recognized pension expense of \$2,610,527 in the governmental activities column of the government-wide statements. Pension expense represents the change in the net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or methods, and plan benefits. At June 30, 2015, the Water Agency reported deferred outflows of resources and deferred inflows of resources related to the pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience:	\$ -	\$ 2,621,266
Net difference between projected and actual earnings on retirement plan investments:	2,008,875	-
Changes in proportion and differences between Water Agency contributions and proportionate share of contributions:	266,092	-
Water Agency contributions subsequent to the measurement date:	1,680,346	-
	\$ 3,955,313	\$ 2,621,266

Deferred outflows of resources and deferred inflows of resources above represent the unamortized portion of changes to net pension liability to be recognized in future periods in a systematic and rational manner.

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015**

Note L. Employees' Retirement Plan (continued)

Pension Liability, Pension Expense, and Deferred Outflows or Resources and Deferred Inflows of Resources Related to Pension (continued)

\$1,680,346 reported as deferred outflows of resources related to pensions resulting from Water Agency contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (reduction of expense) as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2016	\$ (335,921)
2017	(335,921)
2018	(176,676)
2019	\$ 502,219
	<u>(346,299)</u>

Actuarial Assumptions

The total pension liabilities in the January 1, 2014 actuarial valuations were determined using the following actuarial assumptions:

Valuation date:	December 31, 2014
Measurement date:	December 31, 2014
Actuarial cost method:	Entry Age Actuarial Cost Method
Actuarial assumptions -	
Inflation:	3.25%
Projected salary increase:	4.5% - 10.00%
Investment rate of return:	7.50%

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015**

Note L. Employees' Retirement Plan (continued)

Sensitivity of the Water Agency's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The discount rate used to measure the Total Pension Liability was 7.5 percent as of December 31, 2014, the measurement date. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates.

The following presents the Water Agency's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Water Agency's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

	1% Decrease 6.50%	Discount Rate 7.50%	1% Increase 8.50%
Water Agency's proportionate share of the net pension plan liability (asset):	\$ 28,599,460	\$ 12,464,325	\$ (1,098,123)

Note M. Postemployment Benefits

Plan Description

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

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

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015**

Note M. Postemployment Benefits (continued)

Plan Description (continued)

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

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

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

For employees hired on or after 1/1/2009, the Water Agency contributes to a Defined Contribution Retiree Medical Benefit Plan for each employee in the form of a deposit into a Health Reimbursement Arrangement (HRA) account. Any eligible retiree and eligible dependent(s) may enroll in a County offered medical plan, but the retiree is responsible for all costs. Upon completion of two full years of consecutive Sonoma County regular service in pay status the Water Agency provides (a) an initial contribution of \$2,400 to an HRA account established in the employees name, the initial contribution of \$2,400 is based on full-time status and is prorated based on their allocated position and (b) contributes \$.58 per pay status hour, not including overtime, for each eligible employee. Once the employee has worked two full years of service and the initial contribution to their HRA account is made, there are no further service requirements and no requirement to be covered under a medical plan sponsored by the County at the time of retirement or in retirement to receive this benefit.

For employees hired before 1/1/2009, the Water Agency reimburses retirees for Medicare Part B premiums. The reimbursement amount has been frozen at the 2008 rate of \$96.40 per month.

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015**

Note M. Postemployment Benefits (continued)

Funding Policy

The PH Plan funding policy provides for periodic contributions by the Water Agency. The contribution rate is determined on an annual basis and is authorized by the County Board of Supervisors.

The Water Agency recognizes expenditures for the cost of retiree health care benefits on a bi-weekly basis as part of the payroll process. The expenditures recognized are based upon the contribution rate which is applied to the Water Agency's covered payroll. The amount of supplemental health care premiums, inclusive of both the defined benefit plan and defined contribution plan, paid for fiscal years ended June 30, 2015, 2014, and 2013 was \$1,640,088, \$1,551,713 and \$1,317,667, respectively.

The financial statements for the County (the primary government) contain the financial information for the postemployment benefits, which is not presented here because the Water Agency's share cannot be separated from the whole.

Note N. Related Party Transactions

The Water Agency is a special district under the Board of Supervisors, and as such, has the same board members as the County. The Water Agency manages and provides administration, engineering, operational, and maintenance services for the Occidental County Sanitation District, Russian River County Sanitation District, Sonoma Valley County Sanitation District and the South Park County Sanitation District, which are all component units of the County. Since, both the Water Agency and the four sanitation districts are component units of the County, the sanitation districts and the Water Agency are considered related parties.

The Water Agency allocates overhead costs to the sanitation districts via the use of an overhead rate charged on labor applicable to the districts. The overhead rate is reviewed periodically by management to determine its effectiveness. In addition, the Water Agency allocates other services to the districts based on project coding. A summary of the total cash payments from the sanitation districts to the Water Agency for the fiscal year ended June 30, 2015 is as follows:

Occidental County Sanitation District	\$	705,496
Russian River County Sanitation District		2,523,473
Sonoma Valley County Sanitation District		5,766,750
South Park County Sanitation District		159,741
		9,155,460
	\$	9,155,460

For the fiscal year ended June 30, 2015, the Water Agency provided the Occidental County Sanitation District \$950,000 in funding to assist the District in meeting operating and construction expenses.

Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Note O. Risk Management

The Water Agency is exposed to various risks of loss related torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Water Agency is covered by the County's self-insurance program, which is accounted for in the County's Risk Management Internal Service Fund. The Water Agency is covered under this program for general liability, auto liability, public employees' performance/dishonesty and property insurance.

The County maintains a self-insured retention of \$1,000,000 per occurrence for general and automobile liability. Excess liability coverage is maintained through participation in the California State Association of Counties, Excess Insurance Authority (CSAC-EIA). Limits of this coverage are \$25,000,000.

The County maintains "All Risk" property insurance including flood and earthquake through participation in the CSAC-EIA Property Insurance Program. Limits of coverage are \$600,000,000 per occurrence for All Risk, \$415,000,000 for flood (limits vary in FEMA flood zones) and earthquake coverage with shared limits of \$560,000,000. Deductibles for these perils are \$50,000 per occurrence.

The County of Sonoma is permissibly self-insured for workers' compensation for its employees and volunteers. Excess workers' compensation coverage is obtained through participation in the CSAC-EIA.

The Water Agency pays an annual premium to the County for this insurance coverage. Settled claims have not exceeded this coverage for any of the past three fiscal years.

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015**

Note P. Commitments and Contingencies

Construction

The Water Agency has active construction projects as of June 30, 2015. The projects include expansion and/or improvements of several water transmission, water storage and wastewater treatment facilities. As of June 30, 2015, the Water Agency's commitments to construction projects are as follows:

Project	Spent-to-Date	Remaining Commitment
Water transmission facilities:		
Water transmission system	\$ 44,272	\$ -
Watershed planning/restoration	24,067	3,356
Water Storage facilities	3,728,677	125,566
Pipeline facilities	934,835	73,257
Common facilities	19,058,952	6,807,486
Internal service facilities	772,808	1,123,082
Sanitation facilities	830,148	26,399
Total	\$ 25,393,759	\$ 8,159,146

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

The commitments for water storage and related facilities are being financed by revenue bonds and a construction loan provided by the State of California Department of Water Resources secured by water and wastewater revenues. These projects are also being funded by existing resources from the business-type activities.

Nonexchange Financial Guarantees

In June 2012, the Water Agency entered into an agreement with Town of Windsor to guarantee the debt of utility customers participating in the Windsor Efficiency PAYS Program. The program allows Town of Windsor utility customers to purchase and finance an array of resource efficiency measures through their utility bills. The program and collection mechanisms are structured such that it is unlikely that the Town of Windsor would need to exercise the guarantee. The maximum cumulative guarantee under the agreement is \$250,000.

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015**

Note P. Commitments and Contingencies (continued)

Pending Litigation, Claims and Assessments

The Water Agency is directly and indirectly involved in various claims, legal actions and complaints relating principally to violations of the Clean Water Act, environmental protection laws, property damage and disputes over water rights. The ultimate amount of liability is contingent upon the final settlement of these claims.

In 2014, an amended motion was filed seeking an order of reimbursement of attorney fees resulting from a previous action dismissing a cross-complaint filed by the Agency relating to diversion of water from the Russian River. The Agency was one of three parties named in the motion which requested that the court find that each party is jointly and severally liable. In the motion, petitioners requested an attorney fee award of approximately \$1.46 million. On April 24, 2015, the court ruled that the Water Agency was not liable for any attorney fee award. In June, 2015 this decision was appealed. While it is unlikely that the Court of Appeal will reverse the trial court's decision, it is possible. If the Court of Appeal were to issue such a ruling, it is possible, although unlikely, the Court would rule that the Agency is liable for the entire amount that petitioners sought in their amended motion, in addition to fees that petitioners have and will incur in this appeal. The Agency will vigorously oppose any request for any attorney fees award against the Agency.

A cross-complaint has been filed against the Water Agency in a personal injury action based on an alleged dangerous condition on a public sidewalk. The cross-complaint alleges that the sidewalk was damaged by an independent contractor hired by the Water Agency. The Water Agency tendered its defense pursuant to the contractor's general liability policy, which the contractor's insurance company has accepted. Liability to the Water Agency depends on whether the alleged injury occurred in the location of the contractor's work, whether the contractor damaged the sidewalk while performing work for the Water Agency, and whether the condition of the sidewalk was "dangerous" as required by law. If the Water Agency is held liable, it intends to first seek recovery from the contractor's insurance company. The potential loss to the Agency cannot be estimated at this time and therefore a liability has not been recorded with respect to this matter.

On September 14, 2015, an action related to flooding of a residential property in December 2014 was filed against three parties including the Water Agency. The action alleges that the flooding was caused by the design, planning, maintenance, or construction of a golf course and the adjacent water channel by the three parties named in the motion. The asserted cause of action is based in inverse condemnation, nuisance, trespass, negligence, and negligent infliction of emotional distress. The Water Agency intends to contest liability. Without sufficient time to investigate the factual and legal basis of the claims, it is impossible to determine the likely outcome of the case or estimate the range of potential loss.

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015**

Note P. Commitments and Contingencies (continued)

Other Regulatory Matters

In September 2008, the National Marine Fisheries Service issued a “Biological Opinion” analyzing the impact of the Water Agency’s existing water supply activities on three fish species listed under the federal Endangered Species Act (ESA), and containing a “Reasonable and Prudent Alternative” describing measures that the Water Agency must take over a 15-year period in order to obtain an incidental take statement under the federal ESA. The Agency intends to fund such obligations from several sources, including revenues from the Water Agency’s water transmission system and balances in the Water Agency’s Warm Springs Dam fund.

The Endangered Species Act also affects the manner and the extent to which the Water Agency can maintain flood control channels. Water Agency staff and its contractors cannot disrupt environmentally sensitive areas to perform flood control work to the levels that were appropriate in previous years. This development potentially increases the Water Agency's degree of exposure to individual property owners and possible litigation in the event of wet weather and any resulting flooding.

Note Q. Economic Dependence

Four major customers purchased water from the Water Agency during the fiscal year ended June 30, 2015. Water sales revenue for the fiscal year ended June 30, 2015 and accounts receivable as of June 30, 2015 associated with those customers are as follows:

	Water Sales	% of Total Water Sales
City of Santa Rosa	\$ 9,930,437	28.14%
City of Petaluma	5,147,716	14.59%
Marin Municipal	5,282,488	14.97%
North Marin County	4,131,485	11.71%
	\$ 24,492,126	69.41%

	Accounts Receivable	% of Total Accounts Receivable
City of Santa Rosa	\$ 1,993,911	37.94%
City of Petaluma	481,831	9.17%
Marin Municipal	1,318,473	25.09%
North Marin County	368,670	7.01%
	\$ 4,162,885	79.21%

Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Note R. Future Governmental Accounting Standards

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

GASB Statement No. 72 – Fair Value Measurement and Application

Effective for periods beginning after June 15, 2015, This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

GASB Statement No. 73 – Accounting and Financial Reporting for Pensions and Related Assets That are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.

Effective for fiscal years beginning after June 15, 2015, this Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes.

GASB Statement No. 74 – Financial Reporting for Postemployment Benefit Plans other than Pension Plans

Effective for fiscal years beginning after June 15, 2016, this Statement establishes new accounting and financial reporting requirements for governments whose employees are provided with post employment benefits other than pensions (OPEB) as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities.

GASB Statement No. 75 – Accounting and Financial Reporting for Postemployment Benefit Plans other than Pensions

Effective for fiscal years beginning after June 15, 2017, this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Note R. Future Governmental Accounting Standards continued)

GASB Statement No. 76 – The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments

Effective for fiscal years beginning after June 15, 2015, this Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. Earlier application is permitted.

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

Note S. Beginning Net Position Adjustment – Implementation of New Accounting Principles

During the fiscal year ended June 30, 2015, the Water Agency implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions- an amendment of GASB Statement No. 27*, which establishes accounting and financial reporting standards for employee retirement plans, and GASB Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date-An Amendment of GASB Statement no. 68*, which addresses an issue regarding the transition provisions of Statement No. 68. Refer to the Water Agency's Note L for additional information on employee retirement plans. GASB 68 requires that the effect of net pension liability and associated deferred items from prior fiscal periods be recorded as an adjustment to beginning net position. Accordingly, the Water Agency reported a beginning balance adjustment of \$10,200,097 to reduce net position for the prior period actuarially determined net pension liability of \$13,632,777 net of \$3,432,680 of employer contributions that represent prior period deferred outflows of resources.

Note T. Subsequent Event

On October 29, 2015 the Water Agency issued Water Revenue Bonds 2015 Series A and federally taxable Water Revenue Bonds 2015 Series A-T (collectively referred to as 2015 bonds). The 2015 bonds were issued to refund the remaining principal (\$9,415,000) of the 2006A Series Water Revenue Bonds, provide additional capital project funding (\$13,600,000), as well as pay issuance costs and provide a reserve account for the 2015 bonds. Total premiums received on the 2015 bonds amounted to \$1,055,012.

The 2015 bonds have a total par amount of \$23,865,000 and will reach final maturity in July 2036. Principal will be payable on July 1st of each year with interest payable January 1 and July 1 of each year. Payments commence on January 1, 2016. Interest rates are from 0.875% to 5%. The 2015 bonds have a net present value savings of \$1,471,996.

Required Supplementary Information

**Sonoma County Water Agency
Schedule of Net Pension Liability and Contributions to
Sonoma County Employee Retirement Association -
Last 10 Fiscal Years***

	6/30/2015	6/30/2014
Water Agency's Proportionate Share of Net Pension Liability		
Water Agency's proportion of the net pension liability	5.75%	5.60%
Water Agency's proportionate share of the net pension liability	\$ 12,464,325	\$ 13,632,777
Water Agency's covered employee payroll	\$ 18,691,146	\$ 18,033,509
Water Agency's proportionate share of the net pension liability as a percentage of its covered-employee payroll	66.69%	75.60%
Plan fiduciary net position as a percentage of the total pension liability	90.88%	89.76%

	6/30/2015
Water Agency's Pension Contributions	
Actuarially determined contribution	\$ 3,432,680
Contributions in relation to the actuarially determined contribution	\$ 3,432,680
Contribution deficiency (excess)	-
Water Agency's covered-employee payroll	\$ 18,691,146
Contributions as a percentage of covered-employee payroll	18.37%

* Amounts presented above were determined as of 12/31. Additional years will be presented as they become available.

**Sonoma County Water Agency
General Fund
Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budgetary Basis
For the Fiscal Year Ended June 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> (Budgetary Basis)	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>See Note A</u>	<u>Final Budget</u>
Revenues				
Property taxes	\$ 6,470,828	\$ 6,752,953	\$ 7,559,102	\$ 806,149
Investment earnings	76,930	41,320	111,244	69,924
Intergovernmental	471,787	1,394,878	331,378	(1,063,500)
Charges for services	797,694	807,820	1,072,277	264,457
Miscellaneous	179,500	4,500	55,979	51,479
Total revenues	<u>7,996,739</u>	<u>9,001,471</u>	<u>9,129,980</u>	<u>128,509</u>
Expenditures				
Current:				
Salaries and benefits	32,691,554	34,921,232	34,920,958	274
Services and supplies	17,324,422	16,233,377	14,258,859	1,974,518
Costs applied	(40,000,000)	(40,000,000)	(43,731,823)	3,731,823
Capital outlay	722,000	463,500	63,577	399,923
Contingencies	300,000	-	-	-
Total expenditures	<u>11,037,976</u>	<u>11,618,109</u>	<u>5,511,571</u>	<u>6,106,538</u>
Excess(deficiency) of revenues over (under) expenditures	<u>(3,041,237)</u>	<u>(2,616,638)</u>	<u>3,618,409</u>	<u>6,235,047</u>
Other Financing Sources (Uses)				
Transfers in	2,100,000	750,000	750,000	-
Transfers out	(3,365,000)	(3,210,000)	(2,260,000)	950,000
Total other financing sources (uses)	<u>(1,265,000)</u>	<u>(2,460,000)</u>	<u>(1,510,000)</u>	<u>950,000</u>
Net changes in fund balance	<u>\$ (4,306,237)</u>	<u>\$ (5,076,638)</u>	2,108,409	<u>\$ 7,185,047</u>
GAAP basis difference - encumbrances			61,101	
Fund balance - beginning of year			<u>15,883,487</u>	
Fund balance - end of year			<u>\$ 18,052,997</u>	

**Sonoma County Water Agency
Flood Control Special Revenue Fund
Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budgetary Basis
For the Fiscal Year Ended June 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u> <u>Final Budget</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u> <u>See Note A</u>	
Revenues				
Property taxes	\$ 7,281,886	\$ 7,562,226	\$ 8,521,451	\$ 959,225
Investment earnings	85,345	105,050	7,567	(97,483)
Intergovernmental	1,259,916	135,043	789,684	654,641
Miscellaneous	113,455	776,255	39,417	(736,838)
Total revenues	<u>8,740,602</u>	<u>8,578,574</u>	<u>9,358,119</u>	<u>779,545</u>
Expenditures				
Current:				
Services and supplies	13,726,942	19,197,350	9,018,703	10,178,647
Pollution remediation	-	-	33,800	(33,800)
Capital outlay	<u>764,811</u>	<u>1,840,574</u>	<u>596,971</u>	<u>1,243,603</u>
Total expenditures	<u>14,491,753</u>	<u>21,037,924</u>	<u>9,649,474</u>	<u>11,388,450</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(5,751,151)</u>	<u>(12,459,350)</u>	<u>(291,355)</u>	<u>12,167,995</u>
Net changes in fund balance	<u>\$ (5,751,151)</u>	<u>\$ (12,459,350)</u>	<u>(291,355)</u>	<u>\$ 12,167,995</u>
GAAP basis difference - encumbrances			754,917	
Fund balance - beginning of year			<u>20,777,787</u>	
Fund balance - end of year			<u>\$ 21,241,349</u>	

**Sonoma County Water Agency
Warm Springs Dam Special Revenue Fund
Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budgetary Basis
For the Fiscal Year Ended June 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>See Note A</u>	<u>Final Budget</u>
Revenues				
Property taxes	\$ 5,006,250	\$ 5,224,697	\$ 5,872,815	\$ 648,118
Investment earnings	11,700	78,000	58,371	(19,629)
Intergovernmental	557,991	446,410	602,869	156,459
Miscellaneous	-	-	106	106
Total revenues	<u>5,575,941</u>	<u>5,749,107</u>	<u>6,534,161</u>	<u>785,054</u>
Expenditures				
Current:				
Services and supplies	8,149,084	12,584,184	5,222,049	7,362,135
Capital outlay	653,854	299,000	288,718	10,282
Total expenditures	<u>8,802,938</u>	<u>12,883,184</u>	<u>5,510,767</u>	<u>7,372,417</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(3,226,997)</u>	<u>(7,134,077)</u>	<u>1,023,394</u>	<u>8,157,471</u>
Net changes in fund balance	<u>\$ (3,226,997)</u>	<u>\$ (7,134,077)</u>	<u>1,023,394</u>	<u>\$ 8,157,471</u>
GAAP basis difference - encumbrances			(3,312,552)	
Fund balance - beginning of year			<u>18,101,742</u>	
Fund balance - end of year			<u>\$ 15,812,584</u>	

Sonoma County Water Agency
Note to Required Supplementary Information
For the Fiscal Year Ended June 30, 2015

Note A. Budgetary Presentation

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

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

		Special Revenue Funds		
	General Fund	Flood Control	Warm Springs Dam	Total
Net change in fund balance	\$ 2,108,409	\$ (291,355)	\$ 1,023,394	\$ 2,840,448
Expenditure charges against prior year encumbrances	(2,069,829)	(2,863,963)	(4,993,876)	(9,927,668)
Current year encumbrances	2,130,930	3,618,880	1,681,323	7,431,133
Net change in fund balance GAAP basis	\$ 2,169,510	\$ 463,562	\$ (2,289,159)	\$ 343,913

Supplementary Information

**Sonoma County Water Agency
Combining Balance Sheet
Flood Control Special Revenue Funds
June 30, 2015**

	Flood Control Funds			
	Zone 1A Laguna Mark West	Zone 2A Petaluma Basin	Zone 3A Valley of the Moon	Zone 5A Lower Russian River
Assets				
Cash and investments	\$ 4,457,021	\$ 8,652,982	\$ 2,978,928	\$ 2,260,284
Accounts receivable	956,171	38,572	-	-
Notes receivable	-	-	110,000	-
Total assets	<u>\$ 5,413,192</u>	<u>\$ 8,691,554</u>	<u>\$ 3,088,928</u>	<u>\$ 2,260,284</u>
Liabilities and fund balances				
Liabilities:				
Accounts payable	<u>\$ 282,260</u>	<u>\$ 225,724</u>	<u>\$ 19,345</u>	<u>\$ 20,327</u>
Fund balances:				
Restricted	<u>5,130,932</u>	<u>8,465,830</u>	<u>3,069,583</u>	<u>2,239,957</u>
Total liabilities and fund balances	<u>\$ 5,413,192</u>	<u>\$ 8,691,554</u>	<u>\$ 3,088,928</u>	<u>\$ 2,260,284</u>

**Sonoma County Water Agency
Combining Balance Sheet
Flood Control Special Revenue Funds
June 30, 2015**

Flood Control Funds			
Zone 7A North Coast	Zone 8A South Coast	Total Flood Control Funds	
\$ 74,317	\$ 2,262,855	\$ 20,686,387	Assets
-	-	994,743	Cash and investments
-	-	110,000	Accounts receivable
\$ 74,317	\$ 2,262,855	\$ 21,791,130	Notes receivable
			Total assets
			 Liabilities and fund balances
\$ -	\$ 2,125	\$ 549,781	Liabilities:
			Accounts payable
74,317	2,260,730	21,241,349	Fund balances:
			Restricted
\$ 74,317	\$ 2,262,855	\$ 21,791,130	Total liabilities and fund balances

Sonoma County Water Agency
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Flood Control Special Revenue Funds
For the Fiscal Year Ended June 30, 2015

	Flood Control Funds			
	Zone 1A Laguna Mark West	Zone 2A Petaluma Basin	Zone 3A Valley of the Moon	Zone 5A Lower Russian River
Revenues				
Property taxes	\$ 5,681,546	\$ 1,555,201	\$ 938,024	\$ 198,168
Investment earnings	630	4,423	(568)	1,608
Intergovernmental	651,560	83,506	24,897	28,508
Charges for services	26,650	-	-	-
Miscellaneous	767	12,000	-	-
Total revenues	6,361,153	1,655,130	962,353	228,284
Expenditures				
Current:				
Services and supplies	5,368,412	1,571,564	1,021,293	127,589
Pollution remediation	33,800	-	-	-
Capital outlay	614,392	-	118,311	-
Total expenditures	6,016,604	1,571,564	1,139,604	127,589
Excess (deficiency) of revenues over (under) expenditures	344,549	83,566	(177,251)	100,695
Net change in fund balances	344,549	83,566	(177,251)	100,695
Fund balances - beginning of year	4,786,383	8,382,264	3,246,834	2,139,262
Fund balances - end of year	\$ 5,130,932	\$ 8,465,830	\$ 3,069,583	\$ 2,239,957

**Sonoma County Water Agency
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Flood Control Special Revenue Funds
For the Fiscal Year Ended June 30, 2015**

Flood Control Funds			
Zone 7A North Coast	Zone 8A South Coast	Total Flood Control Funds	
\$ -	\$ 148,512	\$ 8,521,451	Revenues
(54)	1,528	7,567	Property taxes
-	1,213	789,684	Investment earnings
-	-	26,650	Intergovernmental
-	-	12,767	Charges for services
-	-	-	Miscellaneous
<u>(54)</u>	<u>151,253</u>	<u>9,358,119</u>	Total revenues
			Expenditures
			Current:
4,517	34,679	8,128,054	Services and supplies
-	-	33,800	Pollution remediation
-	-	732,703	Capital outlay
<u>4,517</u>	<u>34,679</u>	<u>8,894,557</u>	Total expenditures
(4,571)	116,574	463,562	Excess (deficiency) of revenues over (under) expenditures
(4,571)	116,574	463,562	Net change in fund balances
<u>78,888</u>	<u>2,144,156</u>	<u>20,777,787</u>	Fund balances - beginning of year
<u>\$ 74,317</u>	<u>\$ 2,260,730</u>	<u>\$ 21,241,349</u>	Fund balances - end of year

Sonoma County Water Agency
Combining Statement of Net Position
Sanitation Enterprise Funds
June 30, 2015

	Sanitation Funds				Total Sanitation Funds
	Sea Ranch	Penngrove	Geyserville	Airport Larkfield Wukup	
Assets					
Current assets:					
Cash and investments	\$ 1,006,289	\$ 1,025,682	\$ 602,460	\$ 2,083,912	\$ 4,718,343
Accounts receivable	3,549	9,607	13,359	43,748	70,263
Total current assets	<u>1,009,838</u>	<u>1,035,289</u>	<u>615,819</u>	<u>2,127,660</u>	<u>4,788,606</u>
Noncurrent assets:					
Restricted assets					
Cash - revenue bond funds	-	5,374	37,247	373,992	416,613
Total restricted assets	<u>-</u>	<u>5,374</u>	<u>37,247</u>	<u>373,992</u>	<u>416,613</u>
Capital assets, net					
Land	-	-	106,213	1,515,231	1,621,444
Construction in progress	-	66,688	-	763,460	830,148
Intangible assets - permanent easements	-	-	-	17,518	17,518
Infrastructure	290,163	936,116	495,155	17,294,143	19,015,577
Equipment	-	26,065	8,259	81,894	116,218
Total capital assets	<u>290,163</u>	<u>1,028,869</u>	<u>609,627</u>	<u>19,672,246</u>	<u>21,600,905</u>
Total noncurrent assets	<u>290,163</u>	<u>1,034,243</u>	<u>646,874</u>	<u>20,046,238</u>	<u>22,017,518</u>
Total assets	<u>1,300,001</u>	<u>2,069,532</u>	<u>1,262,693</u>	<u>22,173,898</u>	<u>26,806,124</u>
Deferred Outflows of Resources					
Deferred charge on refunding	-	-	-	307,641	307,641
Total deferred outflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>307,641</u>	<u>307,641</u>
Liabilities					
Current liabilities payable from unrestricted assets:					
Accounts payable and accrued expenses	50,912	221,056	2,749	46,200	320,917
Total current liabilities payable from unrestricted assets	<u>50,912</u>	<u>221,056</u>	<u>2,749</u>	<u>46,200</u>	<u>320,917</u>
Current liabilities payable from restricted assets:					
Deposits from others	-	-	-	55,136	55,136
Interest payable	-	783	-	48,080	48,863
General obligation bonds payable	-	15,000	23,000	-	38,000
Revenue bonds payable	-	-	-	281,257	281,257
Total current liabilities payable from restricted assets	<u>-</u>	<u>15,783</u>	<u>23,000</u>	<u>384,473</u>	<u>423,256</u>
Noncurrent liabilities:					
General obligation bonds payable	-	32,000	102,000	-	134,000
Revenue bonds payable	-	-	-	3,953,831	3,953,831
Total noncurrent liabilities	<u>-</u>	<u>32,000</u>	<u>102,000</u>	<u>3,953,831</u>	<u>4,087,831</u>
Total liabilities	<u>50,912</u>	<u>268,839</u>	<u>127,749</u>	<u>4,384,504</u>	<u>4,832,004</u>
Net Position					
Net invested in capital assets	290,163	981,869	484,627	15,744,799	17,501,458
Restricted for:					
Debt service	-	4,591	37,247	325,912	367,750
Recycled water and water conservation	-	-	13,732	-	13,732
Unrestricted	958,926	814,233	599,338	2,026,324	4,398,821
Total net position	<u>\$ 1,249,089</u>	<u>\$ 1,800,693</u>	<u>\$ 1,134,944</u>	<u>\$ 18,097,035</u>	<u>\$ 22,281,761</u>

Sonoma County Water Agency
Combining Statement of Revenues, Expenses and Changes in Net Position
Sanitation Enterprise Funds
For the Fiscal Year Ended June 30, 2015

	Sanitation Funds				Total Sanitation Funds
	Sea Ranch	Penngrove	Geyserville	Airport Lakefield Wikiup	
Operating Revenue					
Flat charges	\$ 591,973	\$ 675,293	\$ 303,899	\$ 2,745,446	\$ 4,316,611
Sanitation services	1,265	13,922	3,877	252,590	271,654
Real estate rental	-	-	-	100,000	100,000
Miscellaneous	-	-	6	4,999	5,005
Total operating revenue	<u>593,238</u>	<u>689,215</u>	<u>307,782</u>	<u>3,103,035</u>	<u>4,693,270</u>
Operating Expenses					
Services and supplies	464,077	654,989	358,103	2,703,581	4,180,750
Depreciation and amortization	23,248	50,718	36,651	1,001,834	1,112,451
Total operating expenses	<u>487,325</u>	<u>705,707</u>	<u>394,754</u>	<u>3,705,415</u>	<u>5,293,201</u>
Operating income (loss)	<u>105,913</u>	<u>(16,492)</u>	<u>(86,972)</u>	<u>(602,380)</u>	<u>(599,931)</u>
Nonoperating Revenues (Expenses)					
Taxes and assessments	-	16,620	24,044	-	40,664
Investment earnings	2,483	4,080	10,189	4,202	20,954
Interest expense	-	-	(6,775)	(201,462)	(208,237)
Conservation program expense	(375)	(125)	-	(1,025)	(1,525)
Loss on disposal of capital assets	-	-	-	(2,237)	(2,237)
Intergovernmental revenue	-	2,164	143	-	2,307
Total nonoperating revenue (expenses), net	<u>2,108</u>	<u>22,739</u>	<u>27,601</u>	<u>(200,522)</u>	<u>(148,074)</u>
Income (loss) before capital contributions and transfers	<u>108,021</u>	<u>6,247</u>	<u>(59,371)</u>	<u>(802,902)</u>	<u>(748,005)</u>
Capital contributions - connection fees	4,413	6,354	3,883	233,246	247,896
Capital contributions - other	-	-	3,255	9,765	13,020
Transfers in	-	-	-	200,000	200,000
Change in net position	<u>112,434</u>	<u>12,601</u>	<u>(52,233)</u>	<u>(359,891)</u>	<u>(287,089)</u>
Net position - beginning of year	<u>1,136,655</u>	<u>1,788,092</u>	<u>1,187,177</u>	<u>18,456,926</u>	<u>22,568,850</u>
Net position - end of year	<u>\$ 1,249,089</u>	<u>\$ 1,800,693</u>	<u>\$ 1,134,944</u>	<u>\$ 18,097,035</u>	<u>\$ 22,281,761</u>

**Sonoma County Water Agency
Combining Statement of Cash Flows
Sanitation Enterprise Funds
For the Fiscal Year Ended June 30, 2015**

	Sanitation Funds				Total Sanitation Funds
	Sea Ranch	Penngrove	Geyserville	Airport Larkfield Wikiup	
Cash flows from operating activities:					
Cash receipts from customers	\$ 595,437	\$ 687,954	\$ 325,675	\$ 3,107,748	\$ 4,716,814
Cash payments for interfund services used	(92,902)	(178,047)	(252,607)	(1,914,170)	(2,437,726)
Cash payments to suppliers	(343,397)	(462,975)	(104,704)	(779,973)	(1,691,049)
Conservation program outlays	(375)	(125)	-	(1,025)	(1,525)
Net cash provided by (used for) operating activities	<u>158,763</u>	<u>46,807</u>	<u>(31,636)</u>	<u>412,580</u>	<u>586,514</u>
Cash flows from noncapital financing activities:					
Taxes and assessments	-	16,620	24,044	-	40,664
Transfers in	-	-	-	200,000	200,000
Intergovernmental receipts	-	2,562	143	-	2,705
Net cash provided by noncapital financing activities	<u>-</u>	<u>19,182</u>	<u>24,187</u>	<u>200,000</u>	<u>243,369</u>
Cash flows from capital and related financing activities:					
Purchase of capital assets	-	(2,352)	-	(346,448)	(348,800)
Principal paid on general obligation and revenue bonds	-	(14,000)	(21,000)	(260,000)	(295,000)
Interest paid on long-term debt	-	(2,699)	(6,775)	(197,066)	(206,540)
Connection fees	4,413	6,354	3,882	233,246	247,895
Deposits	-	-	-	55,136	55,136
Net cash provided by (used for) capital and related financing activities	<u>4,413</u>	<u>(12,697)</u>	<u>(23,893)</u>	<u>(515,132)</u>	<u>(547,309)</u>
Cash flows from investing activities:					
Interest received	2,483	4,080	10,189	4,202	20,954
Net increase (decrease) in cash and cash equivalents	165,659	57,372	(21,153)	101,650	303,528
Cash and cash equivalents - beginning of year	840,630	973,684	660,860	2,356,254	4,831,428
Cash and cash equivalents - end of year	<u>\$ 1,006,289</u>	<u>\$ 1,031,056</u>	<u>\$ 639,707</u>	<u>\$ 2,457,904</u>	<u>\$ 5,134,956</u>
Reconciliation to the statement of net position:					
Cash and investments	\$ 1,006,289	\$ 1,025,682	\$ 602,460	\$ 2,083,912	\$ 4,718,343
Restricted cash and investments	-	5,374	37,247	373,992	416,613
Cash and cash equivalents	<u>\$ 1,006,289</u>	<u>\$ 1,031,056</u>	<u>\$ 639,707</u>	<u>\$ 2,457,904</u>	<u>\$ 5,134,956</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	\$ 105,913	\$ (16,492)	\$ (86,972)	\$ (602,380)	\$ (599,931)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities:					
Conservation program outlays	(375)	(125)	-	(1,025)	(1,525)
Depreciation and amortization	23,248	50,718	36,651	1,001,834	1,112,451
Change in assets and liabilities:					
Receivables, net	2,199	(1,261)	17,893	4,713	23,544
Accounts payable and accrued expenses	27,778	13,967	792	9,438	51,975
Net cash provided by (used for) operating activities	<u>\$ 158,763</u>	<u>\$ 46,807</u>	<u>\$ (31,636)</u>	<u>\$ 412,580</u>	<u>\$ 586,514</u>
Noncash capital and related financing activities:					
Acquisition of capital assets through accounts payable	\$ -	\$ -	\$ -	\$ 209	\$ 209
Increase in capital assets for capitalized interest	-	2,466	-	12,611	15,077
Increase in capital assets - donated assets	-	-	3,255	9,765	13,020
Loss on disposal of capital assets	-	-	-	(2,327)	(2,327)

Sonoma County Water Agency
Combining Statement of Net Position
Internal Service Funds
June 30, 2015

	<u>Internal Service Funds</u>		<u>Total Internal Service Funds</u>
	<u>Equipment Facilities</u>	<u>Power Resources</u>	
Assets			
Current assets:			
Cash and Investments	\$ 2,674,810	\$ 2,537,808	\$ 5,212,618
Prepaid expenses	-	501,213	501,213
Total current assets	<u>2,674,810</u>	<u>3,039,021</u>	<u>5,713,831</u>
Noncurrent assets:			
Restricted assets			
Cash - capital leases	3,999,789	340,530	4,340,319
Total restricted assets	<u>3,999,789</u>	<u>340,530</u>	<u>4,340,319</u>
Assets held for resale	1,388,406	-	1,388,406
Capital assets, net			
Land	2,336,031	-	2,336,031
Construction in progress	631,547	141,260	772,807
Intangible assets - software	76,996	-	76,996
Buildings and improvements	24,457,374	13,319,599	37,776,973
Equipment	4,242,385	-	4,242,385
Total capital assets	<u>31,744,333</u>	<u>13,460,859</u>	<u>45,205,192</u>
Total noncurrent assets	<u>37,132,528</u>	<u>13,801,389</u>	<u>50,933,917</u>
Total assets	<u>39,807,338</u>	<u>16,840,410</u>	<u>56,647,748</u>
Liabilities			
Current liabilities payable from unrestricted assets:			
Accounts payable and accrued expenses	116,801	420,664	537,465
Advances from other governments	-	497,659	497,659
Due to other funds	-	170,520	170,520
Unearned revenue	-	338,358	338,358
Total current liabilities payable from unrestricted assets	<u>116,801</u>	<u>1,427,201</u>	<u>1,544,002</u>
Current liabilities payable from restricted assets:			
Interest payable	78,161	21,024	99,185
Capital leases	3,999,789	340,530	4,340,319
Total current liabilities payable from restricted assets	<u>4,077,950</u>	<u>361,554</u>	<u>4,439,504</u>
Noncurrent liabilities:			
Capital leases	3,379,051	1,635,375	5,014,426
Advances from other governments	-	1,621,874	1,621,874
Advances from other funds	-	2,728,316	2,728,316
Total noncurrent liabilities	<u>3,379,051</u>	<u>5,985,565</u>	<u>9,364,616</u>
Total liabilities	<u>7,573,802</u>	<u>7,774,320</u>	<u>15,348,122</u>
Net Position			
Net investment in capital assets	24,365,493	9,365,421	33,730,914
Restricted for:			
Debt service	3,921,628	319,506	4,241,134
Unrestricted	3,946,415	(618,837)	3,327,578
Total net position	<u>\$ 32,233,536</u>	<u>\$ 9,066,090</u>	<u>\$ 41,299,626</u>

Sonoma County Water Agency
Combining Statement of Revenues, Expenses and Changes in Net Position
Internal Service Funds
For the Fiscal Year Ended June 30, 2015

	<u>Internal Service Funds</u>		<u>Total Internal Service Funds</u>
	<u>Equipment Facilities</u>	<u>Power Resources</u>	
Operating Revenue			
Power sales	\$ -	\$ 5,334,277	\$ 5,334,277
Equipment rental	2,311,559	-	2,311,559
Real estate rental	4,644,800	-	4,644,800
Miscellaneous	53,966	-	53,966
Total operating revenue	<u>7,010,325</u>	<u>5,334,277</u>	<u>12,344,602</u>
Operating Expenses			
Services and supplies	3,357,683	4,544,818	7,902,501
Depreciation and amortization	1,517,375	423,581	1,940,956
Total operating expenses	<u>4,875,058</u>	<u>4,968,399</u>	<u>9,843,457</u>
Operating income	<u>2,135,267</u>	<u>365,878</u>	<u>2,501,145</u>
Nonoperating Revenues (Expenses)			
Investment earnings	11,696	(873)	10,823
Interest expense	(334,085)	(208,439)	(542,524)
Gain (loss) on disposal of capital assets	121,730	(270,549)	(148,819)
Total nonoperating expenses, net	<u>(200,659)</u>	<u>(479,861)</u>	<u>(680,520)</u>
Income (loss) before capital contributions and transfers	1,934,608	(113,983)	1,820,625
Capital contributions - other	<u>62,450</u>	<u>210,312</u>	<u>272,762</u>
Change in net position	1,997,058	96,329	2,093,387
Net position - beginning of year	<u>30,236,478</u>	<u>8,969,761</u>	<u>39,206,239</u>
Net position - end of year	<u>\$ 32,233,536</u>	<u>\$ 9,066,090</u>	<u>\$ 41,299,626</u>

Sonoma County Water Agency
Combining Statement of Cash Flows
Internal Service Funds
For the Fiscal Year Ended June 30, 2015

	<u>Internal Service Funds</u>		<u>Total Internal Service Funds</u>
	<u>Equipment Facilities</u>	<u>Power Resources</u>	
Cash flows from operating activities:			
Cash receipts from interfund services provided	\$ 7,010,325	\$ 5,400,030	\$ 12,410,355
Cash payments for interfund services used	(2,006,750)	(278,948)	(2,285,698)
Cash payments to suppliers	(1,441,432)	(4,384,583)	(5,826,015)
Net cash provided by operating activities	<u>3,562,143</u>	<u>736,499</u>	<u>4,298,642</u>
Cash flows from capital and related financing activities:			
Purchase of capital assets	(1,300,152)	(38,205)	(1,338,357)
Principal paid on capital leases	(925,079)	(326,526)	(1,251,605)
Principal paid on advances from other governments	-	(601,952)	(601,952)
Interest paid on long-term debt	(361,415)	(203,534)	(564,949)
Proceeds from interfund borrowing	-	909,343	909,343
Proceeds from sale of capital assets	121,730	-	121,730
Capital contributions - other	93,463	311,417	404,880
Net cash provided by (used for) capital and related financing activities	<u>(2,371,453)</u>	<u>50,543</u>	<u>(2,320,910)</u>
Cash flows from investing activities:			
Interest received	11,696	(873)	10,823
Net increase (decrease) in cash and cash equivalents	1,202,386	786,169	1,988,555
Cash and cash equivalents - beginning of year	5,472,213	2,092,169	7,564,382
Cash and cash equivalents - end of year	<u>\$ 6,674,599</u>	<u>\$ 2,878,338</u>	<u>\$ 9,552,937</u>
Reconciliation to the statement of net position:			
Cash and investments	\$ 2,674,810	\$ 2,537,808	\$ 5,212,618
Restricted cash and investments	3,999,789	340,530	4,340,319
Cash and cash equivalents	<u>\$ 6,674,599</u>	<u>\$ 2,878,338</u>	<u>\$ 9,552,937</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 2,135,267	\$ 365,878	\$ 2,501,145
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation and amortization	1,517,375	423,581	1,940,956
Change in assets and liabilities:			
Prepaid expenses	-	65,753	65,753
Accounts payable and accrued expenses	(90,499)	(118,713)	(209,212)
Net cash provided by operating activities	<u>\$ 3,562,143</u>	<u>\$ 736,499</u>	<u>\$ 4,298,642</u>
Noncash capital and related financing activities:			
Acquisition of capital assets through accounts payable	\$ (29,455)	\$ 11,271	\$ (18,184)
Increase in capital assets for capitalized interest	17,730	4,765	22,495
Contributed capital assets	49,950	-	49,950

**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit
of Financial Statements Performed in Accordance with
*Government Auditing Standards***

Independent Auditor's Report

Board of Directors
Sonoma County Water Agency
Santa Rosa, California

We have audited, 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, the basic financial statements as listed in the table of contents of the Sonoma County Water Agency (the "Water Agency"), a component unit of the County of Sonoma, California and have issued our report thereon dated November 11, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Water Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Water Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Water Agency's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Water Agency's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit
of Financial Statements Performed in Accordance with
Government Auditing Standards (continued)**

Independent Auditor's Report (continued)

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Water Agency's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Water Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We noted certain matters that we reported to management of the Water Agency in a separate letter dated November 11, 2015.



Santa Rosa, California
November 11, 2015