

**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, 2013

**SONOMA COUNTY WATER AGENCY  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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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 basic financial statements 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, 2013, 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 an opinion 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.

#### ***Opinion***

In our opinion, the basic 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, 2013, 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.

*Local partnership. Global solutions.*

## **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 and management's discussion and analysis 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 October 8, 2013, on our considerations 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.

*PricewaterhouseCoopers*

Petaluma, California  
October 8, 2013

## **Management's Discussion and Analysis**

**SONOMA COUNTY WATER AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(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, 2013. 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 of the Water Agency exceeded its liabilities at the close of the most recent fiscal year by \$375,816,617 (net position). Of this amount \$52,207,502 (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 increased by \$8,898,667 during the current fiscal year. This increase in net position is comprised of an increase in the business-type activities of \$10,313,364 and a governmental activities decrease of \$1,414,697.
- As of the close of the current fiscal year, the Water Agency's governmental funds reported combined ending fund balances of \$125,576,381, a decrease of \$3,604,069 from the preceding year. Approximately 4% of this total amount, \$5,986,297 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 \$5,986,297 or approximately 14% of total General Fund gross expenditures, which amounted to \$44,221,271 for the fiscal year ended June 30, 2013.

**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 (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(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 (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(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 (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(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 exceeded liabilities by \$375,816,617 as of June 30, 2013.

**Condensed Statements of Net Position**

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2012	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012	June 30, 2013
Current and other assets	\$ 130,786,124	\$ 127,271,096	\$ 56,331,571	\$ 64,432,737	\$ 187,117,695	\$ 191,703,833
Capital assets	147,310,260	146,123,420	209,474,040	210,916,543	356,784,300	357,039,963
Total assets	278,096,384	273,394,516	265,805,611	275,349,280	543,901,995	548,743,796
Current liabilities	7,009,224	7,108,038	8,894,912	11,510,321	15,904,136	18,618,359
Noncurrent liabilities	100,986,106	97,600,121	60,093,803	56,708,699	161,079,909	154,308,820
Total liabilities	107,995,330	104,708,159	68,988,715	68,219,020	176,984,045	172,927,179
Net Position:						
Net investment in capital assets	46,328,783	48,170,895	151,501,197	155,634,490	197,829,980	203,805,385
Restricted	117,533,507	111,320,194	8,620,858	8,483,536	126,154,365	119,803,730
Unrestricted	6,238,764	9,195,268	36,694,841	43,012,234	42,933,605	52,207,502
Total net position	\$ 170,101,054	\$ 168,686,357	\$ 196,816,896	\$ 207,130,260	\$ 366,917,950	\$ 375,816,617

The largest portion of the Water Agency's net position (54%) 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, \$119,803,730 (32%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$52,207,502, may be used to meet the Water Agency's ongoing obligations to citizens and creditors.

As of June 30, 2013, 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 increased by \$8,898,667 during the fiscal year ended June 30, 2013. This increase is a net result of revenues exceeding expenses in the business-type activities, while expenses exceeded revenues in the governmental activities.

**SONOMA COUNTY WATER AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)**

**Condensed Statements of Changes in Net Position**

	Governmental Activities		Business-Type Activities		Total	
	Fiscal Year Ended June 30,		Fiscal Year Ended June 30,		Fiscal Year Ended June 30,	
	2012	2013	2012	2013	2012	2013
Revenues:						
Program Revenues:						
Charges for services	\$ 783,598	\$ 1,188,401	\$ 38,555,474	\$ 44,422,216	\$ 39,339,072	\$ 45,610,617
Operating grants and contributions	562,399	785,690	6,363,090	3,663,120	6,925,489	4,448,810
Capital grants and contributions	35,401	3,168	1,315,844	2,159,888	1,351,245	2,163,056
General Revenues:						
Property taxes	18,853,029	20,075,888	38,007	38,981	18,891,036	20,114,869
Investment earnings	5,908,377	284,722	478,282	415,176	6,386,659	699,898
Miscellaneous	-	197,956	9,447	-	9,447	197,956
Total revenues	26,142,804	22,535,825	46,760,144	50,699,381	72,902,948	73,235,206
Expenses:						
General government	4,763,130	3,649,012	-	-	4,763,130	3,649,012
Flood control	10,300,602	11,299,610	-	-	10,300,602	11,299,610
Warm Springs Dam	2,864,948	4,025,973	-	-	2,864,948	4,025,973
Interest on long-term debt	3,288,164	3,191,498	-	-	3,288,164	3,191,498
Water transmission	-	-	26,946,964	30,341,617	26,946,964	30,341,617
Water supply	-	-	8,510,170	5,827,236	8,510,170	5,827,236
Sanitation	-	-	5,510,887	5,451,593	5,510,887	5,451,593
Total expenses	21,216,844	22,166,093	40,968,021	41,620,446	62,184,865	63,786,539
Change in net position before transfers	4,925,960	369,732	5,792,123	9,078,935	10,718,083	9,448,667
Transfers	(1,050,000)	(1,784,429)	330,000	1,234,429	(720,000)	(550,000)
Change in net position	3,875,960	(1,414,697)	6,122,123	10,313,364	9,998,083	8,898,667
Net position - beginning of year	166,225,094	170,101,054	190,694,773	196,816,896	356,919,867	366,917,950
Net position - end of year	\$ 170,101,054	\$ 168,686,357	\$ 196,816,896	\$ 207,130,260	\$ 366,917,950	\$ 375,816,617

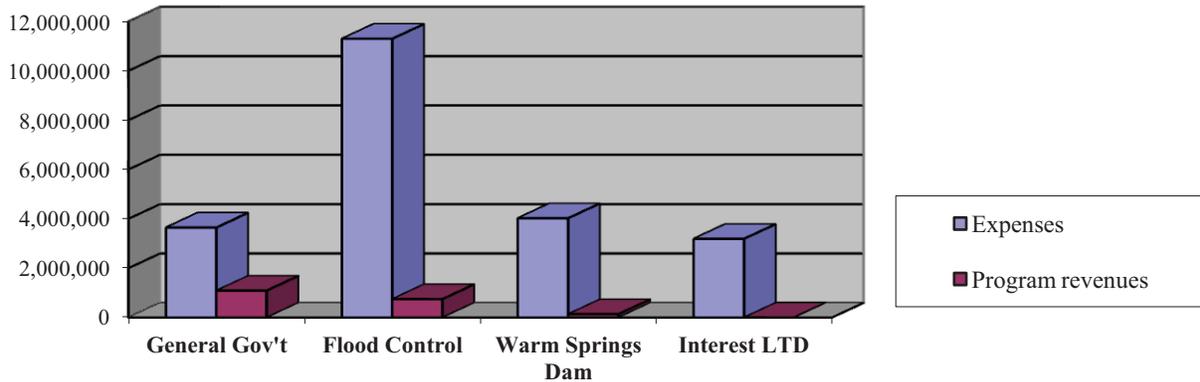
**SONOMA COUNTY WATER AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)**

***Governmental Activities***

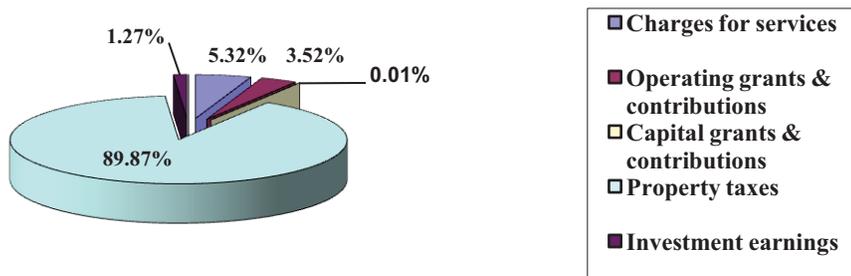
Governmental activities decreased the Water Agency's net position by \$1,414,697. Key elements of the Water Agency's governmental activities are identified below.

- Property tax revenues for the fiscal year totaled \$20,075,888, including \$5,379,082 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 \$284,722 was due primarily to a \$439,984 decrease 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. Absent the U.S. Treasury STRIPS, investment gains totaling \$724,706 were realized.
- Revenues for the fiscal year ended June 30, 2013 decreased by \$3,606,979 from the prior fiscal year while expenditures increased by \$949,249 over the same period. The revenue decrease is due primarily to the decrease in investment earnings particularly related to the market value of the US Treasury STRIP investments which saw an increase in market value of \$5.2 million in the prior period. The increase in expenses is due primarily to increases in Warm Springs Dam projects of \$1.16 million offset by decreases in other areas.

*Expenses and Program Revenues – Governmental Activities*



*Revenues by Source – Governmental Activities*



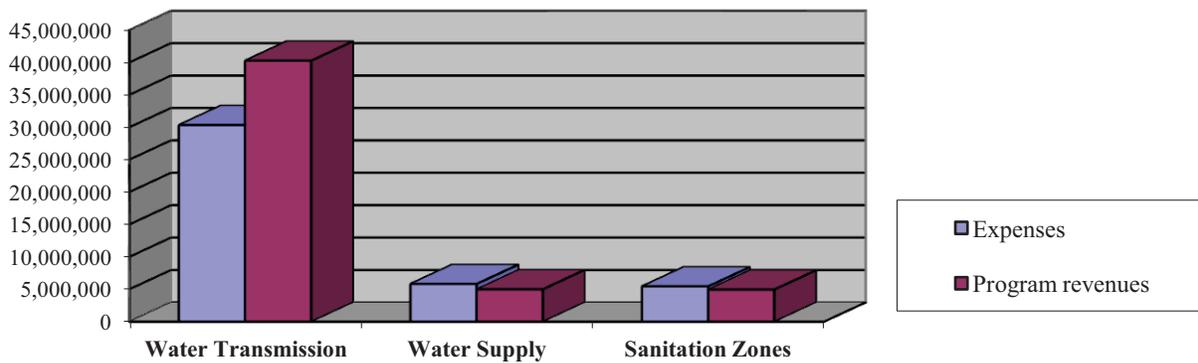
**SONOMA COUNTY WATER AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)**

***Business-type Activities***

Business-type activities increased the Water Agency's net position by \$10,313,364. Key elements of the Water Agency's business-type activities are identified below.

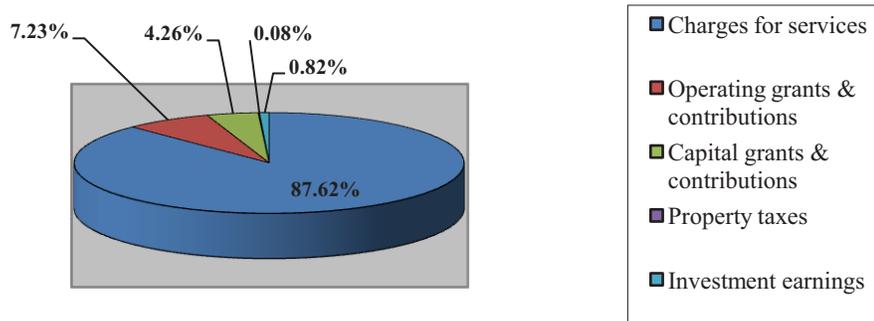
- Water sales revenues increased \$5,585,904 from the prior fiscal year. This increase was due to an 11.8% increase in total acre-feet sold during the year, and an average increase of 5.79% in water rates from the fiscal year ended June 30, 2012.
- Sewer service revenues increased due to increases in 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 \$3,663,120, represent a decrease of \$2,699,970 from the prior year, were received during the fiscal year ended June 30, 2013. Grants include funding from the state towards Proposition 50 washer rebate programs, North San Pablo Bay restoration project, California Energy Commission renewable energy project, American Recovery and Reinvestment Act (ARRA) pass through funding for North Bay Water Reuse projects, and Title XVI Water Smart funding for North Bay Water Reuse projects. Other contributions include payments on a storage pond use agreement with the Town of Windsor. The majority of the decrease is related to the completion and close-out of the ARRA pass through grant during the fiscal year.
- Investment earnings for the fiscal year ended June 30, 2013 totaled \$415,176. This is a decrease of \$63,106 from the prior year due to decreases in interest rates.
- Transfers from the Water Agency's General Fund totaling \$1,234,429 were received during the fiscal year ended June 30, 2013. More information on these transfers can found in the notes to the financial statements.

*Expenses and Program Revenues – Business-type Activities*



**SONOMA COUNTY WATER AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)**

*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.

As of June 30, 2013, the Water Agency's governmental funds reported combined ending fund balances of \$125,576,381, a decrease of \$3,604,069 in comparison with the prior year. Approximately 5% of this total amount, \$5,986,297, 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 \$5,986,297. Assigned fund balance totals \$4,558,922 and is comprised of activities related to the operation of Spring Lake Park, the Waste/Recycled Water Loan Fund and the Sustainability Fund. The General Fund also reports a non-spendable fund balance of \$1,605,010 reflecting an advance to the Power ISF. Total fund balance for the General Fund as of June 30, 2013 is \$12,150,229.

The special revenue funds, consisting of six (6) flood control zones and Warm Springs Dam, reported fiscal year end fund balances of \$22,251,800 and \$18,490,728, respectively. A total of \$22,141,800 is restricted for flood control with \$110,000 non-spendable in the form of a note receivable. The Warm Springs Dam special revenue fund reported \$12,649,930 which is restricted for operation and maintenance of the Warm Springs Dam, and \$5,840,798 which is non-spendable and represents a deposit with the California Department of Fish and Game.

The Debt Service Fund has a total fund balance of \$72,683,624, all of which is restricted for the payment of debt service on the USACE contract for Warm Springs Dam.

**SONOMA COUNTY WATER AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)**

*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, 2013 amounted to \$36,437,146. The Water Supply Fund reported a deficit balance in unrestricted net position of \$1,821,604 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 \$3,311,582.

**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 \$4,756,068, while budgeted revenues were increased by \$955,348 during the fiscal year ended June 30, 2013.

The primary component of the increase in budgeted expenditures consists of a \$2,074,213 increase in appropriations for salaries and benefits due to staff cash outs of various leave accruals resulting from changes in the pension calculation formula. The Water Agency also increased budgeted services and supplies by \$1,049,300 and transfers by \$1,942,555 to support renewable energy projects.

The Water Agency's actual revenues exceeded the budgeted revenue estimates due primarily to property tax revenues being higher than the estimate due to the dissolution of redevelopment agencies. Actual expenditures were less than the budgeted estimates due primarily to lower than anticipated costs in consultant and legal services, reimbursable work, capital projects.

**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, 2013, amounts to \$357,039,963 (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 (including dams and collection systems), and machinery and equipment.

Major capital asset events during the fiscal year ended June 30, 2013 included the completion of the following projects. (The amounts shown represent the total life-to-date construction costs of each project).

**SONOMA COUNTY WATER AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)**

*Business-type activities:*

- Capital expansion within the Water Transmission Fund included:
  - RRIFR Flow Model - \$326,793
  - HEC/SW/GW Study - \$188,659
  - Santa Rosa Plain Groundwater Study - \$552,579
  - Sonoma Tank Fence Replacement - \$209,994
  
- Capital expansion within the Equipment/Facilities Internal Service Fund included:
  - Telephone System Upgrade - \$374,687
  
- Capital expansion within Airport Larkfield Wikiup Sanitation Zone:
  - Sutter Medical Collection System Easement - \$643,790

**Capital Assets**  
(net of accumulated depreciation and amortization)

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	June 30, 2012	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012	June 30, 2013
Land	\$ 1,582,224	\$ 1,582,224	\$ 13,046,314	\$ 10,774,804	\$ 14,628,538	\$ 12,357,028
Construction in progress	1,144,147	1,646,615	23,106,550	31,826,157	24,250,697	33,472,772
Water storage rights	102,371,000	102,371,000	4,996,395	4,996,395	107,367,395	107,367,395
Intangible asset - easements	44,840	76,149	13,700	713,833	58,540	789,982
Intangible asset - software	815,528	679,607	262,431	1,277,687	1,077,959	1,957,294
Infrastructure	39,484,271	37,922,186	-	-	39,484,271	37,922,186
Buildings and improvements	1,698,876	1,619,205	165,276,199	157,773,860	166,975,075	159,393,065
Machinery and equipment	169,374	226,434	2,772,451	3,553,807	2,941,825	3,780,241
<b>Total capital assets</b>	<b>\$ 147,310,260</b>	<b>\$ 146,123,420</b>	<b>\$ 209,474,040</b>	<b>\$ 210,916,543</b>	<b>\$ 356,784,300</b>	<b>\$ 357,039,963</b>

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

***Long-Term Debt***

As of June 30, 2013, the Water Agency had a total of \$156,297,364 in outstanding debt. Of this amount \$241,000 comprises general obligation bonds which are backed by the full faith and credit of the Water Agency; \$11,805,507 is related to capital leases; \$27,135,000 in revenue bonds payable from the Water Agency's operating income; \$12,676,036 represents funds advanced to the Water Agency from the California Department of Water Resources; \$3,396,397 represents advances from the Sonoma Valley County Sanitation District; \$439 represents advances from Napa Sanitation District; \$109,250 represents advances from North Marin Water District; \$254,084 represents advances from Solano County; \$97,952,525 is a federal long-term contract payable related to Warm Springs Dam; and \$2,727,126 is comprised of amounts payable to employees for unused sick and vacation leave upon termination.

**SONOMA COUNTY WATER AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)**

**Outstanding Current and Long-Term Debt**

	June 30,		Change	
	2012	2013	\$	%
General obligation bonds	\$ 273,000	\$ 241,000	\$ (32,000)	-11.7%
Capital leases	12,951,535	11,805,507	(1,146,028)	-8.8%
Revenue bonds	28,215,000	27,135,000	(1,080,000)	-3.8%
Advances from other governments	16,843,478	16,436,206	(407,272)	-2.4%
Federal contract payable	100,981,477	97,952,525	(3,028,952)	-3.0%
Compensated absences	3,006,865	2,727,126	(279,739)	-9.3%
Total	\$ 162,271,355	\$ 156,297,364	\$ (5,973,991)	-3.7%

The Water Agency's total debt decreased by \$5,973,991 (-3.7%) during the fiscal year ended June 30, 2013.

The outstanding total of general obligation bonds, capital leases, revenue bonds, advances from other governments and federal contract payable decreased by 11.7%, 8.8%, 3.8%, 2.4%, and 3.0%, respectively, during the fiscal year ended June 30, 2013 due to annual principal payments in addition to refunding the Series 2003A Water Revenue Bonds with the issuance of the Series 2012A Water Revenue Bonds.

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

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, 2013, unassigned fund balance in the General Fund amounts to \$5,986,297. The Agency has appropriated \$2,130,024 of this amount for spending in the fiscal year ending June 30, 2014 budget.

Both the water and sewer rates were increased for the fiscal year ending June 30, 2014 budget. Water rates were increased by an average of 4.56%, while sewer rates increased an average of 4.32%.

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 (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)**

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

	Santa Rosa Aqueduct	Petaluma Aqueduct	Sonoma Aqueduct
Operations and maintenance	\$ 588.95	\$ 588.95	\$588.95
Revenue bond charges:			
Aqueduct revenue bonds charge	0.00	0.00	63.45
Storage facility revenue bonds charge	21.04	21.04	21.04
Common facilities revenue bonds charge	66.31	66.31	66.31
Aqueduct capital charge	29.00	29.00	29.00
<b>Total</b>	<b>\$ 705.30</b>	<b>\$ 705.30</b>	<b>\$768.75</b>

**Sewer Service Rate per Equivalent Single-Family Dwelling**

	2012/13	2013/14	Change
Sanitation Zone			
Sea Ranch	\$ 949	\$ 982	3.48%
Penngrove	1,231	1,293	5.04%
Geyserville	837	854	2.03%
Airport-Larkfield-Wikiup	690	738	6.96%

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

	2012/13	2013/14	Change
Sanitation Zone			
Sea Ranch	577	577	0.00%
Penngrove	520	521	0.19%
Geyserville	352	352	0.00%
Airport-Larkfield-Wikiup	3,723	3,735	0.32%

**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, Fiscal Services Division, 585 Fiscal Drive, Room 100, Santa Rosa, CA 95403.

**SONOMA COUNTY WATER AGENCY**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2013**

	<b>GOVERNMENTAL ACTIVITIES</b>	<b>BUSINESS-TYPE ACTIVITIES</b>	<b>TOTAL</b>
<b>ASSETS</b>			
Current assets:			
Cash and investments	\$ 124,960,657	\$ 50,000,230	\$ 174,960,887
Accounts receivable	595,429	9,267,018	9,862,447
Notes receivable	110,000	-	110,000
Prepaid expenses	-	254,022	254,022
Internal balances	1,605,010	(1,605,010)	-
Total current assets	<u>127,271,096</u>	<u>57,916,260</u>	<u>185,187,356</u>
Noncurrent assets:			
Restricted assets:			
Cash and investments with trustee	-	2,718,248	2,718,248
Cash - revenue bond funds	-	1,908,436	1,908,436
Cash - capital leases	-	1,197,581	1,197,581
Cash - capital projects	-	1,575	1,575
Total restricted assets	<u>-</u>	<u>5,825,840</u>	<u>5,825,840</u>
Deposits with others	-	13,000	13,000
Deferred charges	-	677,637	677,637
Capital assets, net			
Land	1,582,224	10,774,804	12,357,028
Construction in progress	1,646,615	31,826,157	33,472,772
Intangible assets - water storage rights	102,371,000	4,996,395	107,367,395
Intangible assets - permanent easements	34,101	713,833	747,934
Intangible assets - temporary easements	42,048	-	42,048
Intangible assets - software	679,607	1,277,687	1,957,294
Infrastructure	37,922,186	-	37,922,186
Buildings and improvements	1,619,205	157,773,860	159,393,065
Equipment	226,434	3,553,807	3,780,241
Total capital assets	<u>146,123,420</u>	<u>210,916,543</u>	<u>357,039,963</u>
Total noncurrent assets	<u>146,123,420</u>	<u>217,433,020</u>	<u>363,556,440</u>
Total assets	<u>273,394,516</u>	<u>275,349,280</u>	<u>548,743,796</u>

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

**SONOMA COUNTY WATER AGENCY**  
**STATEMENT OF NET POSITION (CONTINUED)**  
**JUNE 30, 2013**

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
<b>LIABILITIES</b>			
Current liabilities payable from unrestricted assets:			
Accounts payable and accrued expenses	1,653,355	6,392,788	8,046,143
Due to other governments	-	1,853,963	1,853,963
Compensated absences	180,730	-	180,730
Unearned revenue	41,360	447,892	489,252
Interest payable	2,105,958	-	2,105,958
Long-term contracts payable	3,126,635	-	3,126,635
Total current liabilities payable from unrestricted assets	<u>7,108,038</u>	<u>8,694,643</u>	<u>15,802,681</u>
Current liabilities payable from restricted assets:			
Deposits from others	-	4,230	4,230
Interest payable	-	604,722	604,722
General obligation bonds payable	-	34,000	34,000
Capital leases	-	1,197,581	1,197,581
Revenue bonds payable	-	975,145	975,145
Total current liabilities payable from restricted assets	<u>-</u>	<u>2,815,678</u>	<u>2,815,678</u>
Noncurrent liabilities:			
Compensated absences	2,546,396	-	2,546,396
General obligation bonds payable	-	207,000	207,000
Capital leases	-	10,607,926	10,607,926
Revenue bonds payable	-	26,276,346	26,276,346
Long-term contracts payable	94,825,890	-	94,825,890
Advances from other governments	-	14,582,243	14,582,243
Pollution remediation obligation	227,835	-	227,835
Unearned revenue	-	5,035,184	5,035,184
Total noncurrent liabilities	<u>97,600,121</u>	<u>56,708,699</u>	<u>154,308,820</u>
Total liabilities	<u>104,708,159</u>	<u>68,219,020</u>	<u>172,927,179</u>
<b>NET POSITION</b>			
Net investment in capital assets	48,170,895	155,634,490	203,805,385
Restricted for flood control	22,251,800	-	22,251,800
Restricted for Warm Springs Dam	18,490,728	-	18,490,728
Restricted for debt service	70,577,666	3,611,673	74,189,339
Restricted for capital projects	-	1,618,215	1,618,215
Restricted for recycled water and water conservation	-	3,253,648	3,253,648
Unrestricted	9,195,268	43,012,234	52,207,502
Total net position	<u>\$ 168,686,357</u>	<u>\$ 207,130,260</u>	<u>\$ 375,816,617</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, 2013**

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	\$ 3,649,012	\$ 961,169	\$ 126,748	\$ 3,168	\$ (2,557,927)	\$ -	\$ (2,557,927)
Flood control	11,299,610	131,106	617,582	-	(10,550,922)	-	(10,550,922)
Warm Springs Dam	4,025,973	96,126	41,360	-	(3,888,487)	-	(3,888,487)
Interest on long-term debt	3,191,498	-	-	-	(3,191,498)	-	(3,191,498)
Total governmental activities	<u>22,166,093</u>	<u>1,188,401</u>	<u>785,690</u>	<u>3,168</u>	<u>(20,188,834)</u>	<u>-</u>	<u>(20,188,834)</u>
Business-type activities:							
Water transmission	30,341,617	38,209,541	612,850	1,458,843	-	9,939,617	9,939,617
Water supply	5,827,236	2,090,991	2,912,119	-	-	(824,126)	(824,126)
Sanitation	5,451,593	4,121,684	138,151	701,045	-	(490,713)	(490,713)
Total business-type activities	<u>41,620,446</u>	<u>44,422,216</u>	<u>3,663,120</u>	<u>2,159,888</u>	<u>-</u>	<u>8,624,778</u>	<u>8,624,778</u>
Total primary government	<u>\$ 63,786,539</u>	<u>\$ 45,610,617</u>	<u>\$ 4,448,810</u>	<u>\$ 2,163,056</u>	<u>(20,188,834)</u>	<u>8,624,778</u>	<u>(11,564,056)</u>
General revenues:							
Taxes:							
Property taxes, levied for general purposes					14,696,806	-	14,696,806
Property taxes, levied for debt service and assurances					5,379,082	38,981	5,418,063
Unrestricted investment earnings					284,722	415,176	699,898
Gain on disposal of capital assets					197,956	-	197,956
Transfers to related governments					(550,000)	-	(550,000)
Transfers					(1,234,429)	1,234,429	-
Total general revenues and transfers					<u>18,774,137</u>	<u>1,688,586</u>	<u>20,462,723</u>
Change in net position					(1,414,697)	10,313,364	8,898,667
Net position - beginning of year					<u>170,101,054</u>	<u>196,816,896</u>	<u>366,917,950</u>
Net position - end of year					<u>\$ 168,686,357</u>	<u>\$ 207,130,260</u>	<u>\$ 375,816,617</u>

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

**SONOMA COUNTY WATER AGENCY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2013**

	<u>Special Revenue Funds</u>				<b>Total Governmental Funds</b>
	<b>General</b>	<b>Flood Control</b>	<b>Warm Springs Dam</b>	<b>Debt Service</b>	
<b>Assets</b>					
Cash and investments	\$ 11,058,312	\$ 21,993,278	\$ 19,225,443	\$ 72,683,624	\$ 124,960,657
Accounts receivable	39,716	548,536	7,177	-	595,429
Notes receivable	-	110,000	-	-	110,000
Advances to other funds	1,605,010	-	-	-	1,605,010
<b>Total assets</b>	<u>\$ 12,703,038</u>	<u>\$ 22,651,814</u>	<u>\$ 19,232,620</u>	<u>\$ 72,683,624</u>	<u>\$ 127,271,096</u>
<b>Liabilities and fund balances</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 511,449	\$ 400,014	\$ 741,892	\$ -	\$ 1,653,355
Unearned revenue	41,360	-	-	-	41,360
<b>Total liabilities</b>	<u>552,809</u>	<u>400,014</u>	<u>741,892</u>	<u>-</u>	<u>1,694,715</u>
<b>Fund balances:</b>					
Non-Spendable	1,605,010	110,000	5,840,798	-	7,555,808
Restricted	-	22,141,800	12,649,930	72,683,624	107,475,354
Assigned	4,558,922	-	-	-	4,558,922
Unassigned	5,986,297	-	-	-	5,986,297
<b>Total fund balances</b>	<u>12,150,229</u>	<u>22,251,800</u>	<u>18,490,728</u>	<u>72,683,624</u>	<u>125,576,381</u>
<b>Total liabilities and fund balances</b>	<u>\$ 12,703,038</u>	<u>\$ 22,651,814</u>	<u>\$ 19,232,620</u>	<u>\$ 72,683,624</u>	<u>\$ 127,271,096</u>

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

Fund balances - total governmental funds	\$ 125,576,381
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	146,123,420
Some liabilities are not due and payable in the current period, therefore, are not recorded in the funds as follows:	
Interest payable	(2,105,958)
Compensated absences	(2,727,126)
Pollution remediation obligation	(227,835)
Long-term contracts payable	<u>(97,952,525)</u>
Net position of governmental activities	<u>\$ 168,686,357</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, 2013**

	<u>Special Revenue Funds</u>				<b>Total Governmental Funds</b>
	<u>General</u>	<u>Flood Control</u>	<u>Warm Springs Dam</u>	<u>Debt Service</u>	
<b>REVENUES</b>					
Property taxes	\$ 6,921,699	\$ 7,775,107	\$ 5,379,082	\$ -	\$ 20,075,888
Investment earnings	110,437	171,098	186,757	(183,570)	284,722
Intergovernmental	129,916	617,582	41,360	-	788,858
Charges for services	918,787	-	-	-	918,787
Miscellaneous	42,382	131,106	96,126	-	269,614
Total revenues	<u>8,123,221</u>	<u>8,694,893</u>	<u>5,703,325</u>	<u>(183,570)</u>	<u>22,337,869</u>
<b>EXPENDITURES</b>					
Current:					
General government:					
Salaries and benefits	31,421,616	-	-	-	31,421,616
Services and supplies	12,315,809	-	-	-	12,315,809
Costs applied	(40,358,889)	-	-	-	(40,358,889)
Flood control:					
Services and supplies	-	9,737,524	-	-	9,737,524
Pollution remediation	-	2,399	-	-	2,399
Warm Springs Dam:					
Services and supplies	-	-	4,024,221	-	4,024,221
Capital outlay	483,846	199,400	243,968	-	927,214
Debt service:					
Principal	-	-	-	3,028,951	3,028,951
Interest and fiscal charges	-	-	-	3,256,620	3,256,620
Total expenditures	<u>3,862,382</u>	<u>9,939,323</u>	<u>4,268,189</u>	<u>6,285,571</u>	<u>24,355,465</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	4,260,839	(1,244,430)	1,435,136	(6,469,141)	(2,017,596)
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers to related governments	(550,000)	-	-	-	(550,000)
Transfers out	(1,234,429)	-	-	-	(1,234,429)
Proceeds from sale of capital assets	197,956	-	-	-	197,956
Total other financing sources (uses)	<u>(1,586,473)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,586,473)</u>
<b>Net change in fund balances</b>	2,674,366	(1,244,430)	1,435,136	(6,469,141)	(3,604,069)
Fund balances - beginning of year	<u>9,475,863</u>	<u>23,496,230</u>	<u>17,055,592</u>	<u>79,152,765</u>	<u>129,180,450</u>
Fund balances - end of year	<u>\$ 12,150,229</u>	<u>\$ 22,251,800</u>	<u>\$ 18,490,728</u>	<u>\$ 72,683,624</u>	<u>\$ 125,576,381</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, 2013**

Net change in fund balances - total governmental funds	\$ (3,604,069)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital outlay	927,214
Depreciation expense	(1,830,398)
Loss on disposal of capital assets	(283,656)
Repayment of principal is an expenditure in the governmental funds, but the repayment reduces the long-term liabilities in the statement of net position.	3,028,951
Some expenses reported in the statement of activities do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds.	
Change in interest payable	65,123
Change in compensated absences	279,739
Change in pollution remediation obligation	<u>2,399</u>
Change in net position of governmental activities	<u><u>\$ (1,414,697)</u></u>

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

**SONOMA COUNTY WATER AGENCY**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2013**

	<b>Business-type Activities - Enterprise Funds</b>				
	<b>Water Transmission</b>	<b>Water Supply</b>	<b>Sanitation</b>	<b>Total</b>	<b>Internal Service Funds</b>
<b>ASSETS</b>					
Current assets:					
Cash and investments	\$ 34,546,364	\$ 3,273,545	\$ 3,867,360	\$ 41,687,269	\$ 8,312,961
Accounts receivable	7,556,110	1,408,685	292,771	9,257,566	9,452
Prepaid expenses	-	-	-	-	254,022
Total current assets	<u>42,102,474</u>	<u>4,682,230</u>	<u>4,160,131</u>	<u>50,944,835</u>	<u>8,576,435</u>
Noncurrent assets:					
Restricted assets:					
Cash and investments with trustee	2,718,248	-	-	2,718,248	-
Cash - revenue bond funds	1,616,640	-	291,796	1,908,436	-
Cash - capital leases	-	-	-	-	1,197,581
Cash - capital projects	-	-	-	-	1,575
Total restricted assets	<u>4,334,888</u>	<u>-</u>	<u>291,796</u>	<u>4,626,684</u>	<u>1,199,156</u>
Deposits with others	13,000	-	-	13,000	-
Deferred charges	585,324	-	92,313	677,637	-
Capital assets, net					
Land	6,710,009	-	1,621,444	8,331,453	2,443,351
Construction in progress	25,231,230	257,857	594,245	26,083,332	5,742,825
Intangible assets - water storage rights	4,996,395	-	-	4,996,395	-
Intangible assets - permanent easements	56,343	-	657,490	713,833	-
Intangible assets - software	1,149,361	-	-	1,149,361	128,326
Buildings and improvements	99,186,719	3,095,132	20,272,347	122,554,198	35,219,662
Equipment	953,818	25,520	136,930	1,116,268	2,437,539
Total capital assets	<u>138,283,875</u>	<u>3,378,509</u>	<u>23,282,456</u>	<u>164,944,840</u>	<u>45,971,703</u>
Total noncurrent assets	<u>143,217,087</u>	<u>3,378,509</u>	<u>23,666,565</u>	<u>170,262,161</u>	<u>47,170,859</u>
Total assets	<u>185,319,561</u>	<u>8,060,739</u>	<u>27,826,696</u>	<u>221,206,996</u>	<u>55,747,294</u>

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

**SONOMA COUNTY WATER AGENCY**  
**STATEMENT OF NET POSITION (CONTINUED)**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2013**

	<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>	
<b>LIABILITIES</b>					
Current liabilities payable from unrestricted assets:					
Accounts payable and accrued expenses	3,155,542	888,967	750,027	4,794,536	1,598,252
Due to other governments	945,020	450,576	-	1,395,596	458,367
Unearned revenue	168	129,107	32,129	161,404	286,488
Total current liabilities payable from unrestricted assets	<u>4,100,730</u>	<u>1,468,650</u>	<u>782,156</u>	<u>6,351,536</u>	<u>2,343,107</u>
Current liabilities payable from restricted assets:					
Deposits from others	4,230	-	-	4,230	-
Interest payable	425,984	-	53,934	479,918	124,804
General obligation bonds payable	-	-	34,000	34,000	-
Capital leases	-	-	-	-	1,197,581
Revenue bonds payable	739,525	-	235,620	975,145	-
Total current liabilities payable from restricted assets	<u>1,169,739</u>	<u>-</u>	<u>323,554</u>	<u>1,493,293</u>	<u>1,322,385</u>
Noncurrent liabilities:					
General obligation bonds payable	-	-	207,000	207,000	-
Capital leases	-	-	-	-	10,607,926
Revenue bonds payable	22,108,277	-	4,168,069	26,276,346	-
Advances from other governments	11,985,100	-	-	11,985,100	2,597,143
Advances from other funds	-	-	-	-	1,605,010
Unearned revenue	-	5,035,184	-	5,035,184	-
Total noncurrent liabilities	<u>34,093,377</u>	<u>5,035,184</u>	<u>4,375,069</u>	<u>43,503,630</u>	<u>14,810,079</u>
Total liabilities	<u>39,363,846</u>	<u>6,503,834</u>	<u>5,480,779</u>	<u>51,348,459</u>	<u>18,475,571</u>
<b>NET POSITION</b>					
Net investment in capital assets	102,505,953	3,378,509	18,637,767	124,522,229	31,112,261
Restricted for:					
Debt service	2,301,034	-	237,862	2,538,896	1,072,777
Capital projects	1,616,640	-	-	1,616,640	1,575
Recycled water and water conservation	3,094,942	-	158,706	3,253,648	-
Unrestricted	36,437,146	(1,821,604)	3,311,582	37,927,124	5,085,110
Total net position	<u>\$ 145,955,715</u>	<u>\$ 1,556,905</u>	<u>\$ 22,345,917</u>	<u>169,858,537</u>	<u>\$ 37,271,723</u>
Adjustment to reflect the net position of the internal service funds reported as business-type activities				<u>37,271,723</u>	
Net position of business-type activities				<u>\$ 207,130,260</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, 2013**

	<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>	
<b>OPERATING REVENUE</b>					
Water sales	\$ 37,236,068	\$ 2,001,174	\$ -	\$ 39,237,242	\$ -
Water services	28,421	-	-	28,421	-
Power sales	835,759	-	-	835,759	6,030,688
Flat charges	-	-	3,824,684	3,824,684	-
Sanitation services	-	-	245,670	245,670	-
Equipment rental	-	-	-	-	2,217,811
Real estate rental	-	-	50,000	50,000	4,378,453
Miscellaneous	109,293	89,817	1,330	200,440	5,571
Total operating revenue	<u>38,209,541</u>	<u>2,090,991</u>	<u>4,121,684</u>	<u>44,422,216</u>	<u>12,632,523</u>
<b>OPERATING EXPENSES</b>					
Services and supplies	24,552,075	2,577,580	4,237,508	31,367,163	9,045,260
Depreciation and amortization	5,542,295	186,701	1,172,158	6,901,154	1,886,471
Total operating expenses	<u>30,094,370</u>	<u>2,764,281</u>	<u>5,409,666</u>	<u>38,268,317</u>	<u>10,931,731</u>
<b>Operating income (loss)</b>	<u>8,115,171</u>	<u>(673,290)</u>	<u>(1,287,982)</u>	<u>6,153,899</u>	<u>1,700,792</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Taxes and assessments	-	-	38,981	38,981	-
Investment earnings	279,565	24,778	29,435	333,778	81,398
Interest expense	(862,066)	-	(231,982)	(1,094,048)	(604,861)
Conservation program expense	(325,000)	-	(49,180)	(374,180)	-
Gain (Loss) on disposal of capital assets	(264,205)	(549,786)	-	(813,991)	480,101
Other expense (grant pass through)	(254,084)	(2,525,880)	-	(2,779,964)	-
Intergovernmental revenue	612,850	2,912,119	138,151	3,663,120	-
Total nonoperating revenue (expenses), net	<u>(812,940)</u>	<u>(138,769)</u>	<u>(74,595)</u>	<u>(1,026,304)</u>	<u>(43,362)</u>
<b>Income (loss) before capital contributions and transfers</b>	<u>7,302,231</u>	<u>(812,059)</u>	<u>(1,362,577)</u>	<u>5,127,595</u>	<u>1,657,430</u>
Capital contributions - connection fees	-	-	507,181	507,181	-
Capital contributions - other	1,458,843	-	193,864	1,652,707	134,022
Transfers in	351,359	150,000	700,000	1,201,359	383,070
Transfers out	-	-	-	-	(350,000)
<b>Change in net position</b>	<u>9,112,433</u>	<u>(662,059)</u>	<u>38,468</u>	<u>8,488,842</u>	<u>1,824,522</u>
Net position - beginning of year	<u>136,843,282</u>	<u>2,218,964</u>	<u>22,307,449</u>		<u>35,447,201</u>
<b>Net position - end of year</b>	<u>\$ 145,955,715</u>	<u>\$ 1,556,905</u>	<u>\$ 22,345,917</u>		<u>\$ 37,271,723</u>
Adjustment to reflect the change in net position of internal service funds reported as business-type activities				<u>1,824,522</u>	
Change in net position of business-type activities				<u>\$ 10,313,364</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, 2013**

	<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>	
<b>Cash flows from operating activities:</b>					
Cash receipts from customers	\$ 36,653,908	\$ 2,137,022	\$ 4,128,343	\$ 42,919,273	\$ -
Cash receipts from interfund services provided	-	-	-	-	12,648,029
Cash payments for interfund services used	(18,058,302)	(1,853,107)	(2,700,910)	(22,612,319)	(2,362,773)
Cash payments to suppliers	(6,613,321)	(101,778)	(928,583)	(7,643,682)	(6,482,323)
Conservation program outlays	(325,000)	-	(49,180)	(374,180)	-
Net cash provided by operating activities	<u>11,657,285</u>	<u>182,137</u>	<u>449,670</u>	<u>12,289,092</u>	<u>3,802,933</u>
<b>Cash flows from noncapital financing activities:</b>					
Taxes and assessments	-	-	38,983	38,983	-
Transfers in	97,207	150,000	700,000	947,207	-
Transfers out	-	-	-	-	(350,000)
Other expenses - grant pass through	-	(3,648,723)	-	(3,648,723)	-
Intergovernmental receipts	22,550	3,969,924	174,918	4,167,392	-
Net cash provided by (used for) noncapital financing activities	<u>119,757</u>	<u>471,201</u>	<u>913,901</u>	<u>1,504,859</u>	<u>(350,000)</u>
<b>Cash flows from capital and related financing activities:</b>					
Purchases of capital assets	(4,732,233)	(2,025)	(408,124)	(5,142,382)	(4,725,582)
Principal paid on general obligation and revenue bonds	(875,000)	-	(277,000)	(1,152,000)	-
Principal paid on capital leases	-	-	-	-	(1,146,029)
Principal paid on advances from other governments	(672,032)	-	-	(672,032)	(439,900)
Interest paid on long-term debt	(1,488,995)	-	(227,754)	(1,716,749)	(708,235)
Proceeds from revenue bond issuance	12,265,000	-	-	12,265,000	-
Bond premiums received	664,304	-	-	664,304	-
Retirement of revenue bonds	(12,475,000)	-	-	(12,475,000)	-
Payment of bond issuance costs	(406,464)	-	-	(406,464)	-
Proceeds from sale of capital assets	8,037	26,071	-	34,108	2,751,611
Connection fees	-	-	505,354	505,354	-
Capital contributions - other	-	16,724	-	16,724	95,002
Capital contributions - intergovernmental	138,773	-	-	138,773	-
Transfers in	254,152	-	-	254,152	383,070
Net cash provided by (used for) capital and related financing activities	<u>(7,319,458)</u>	<u>40,770</u>	<u>(407,524)</u>	<u>(7,686,212)</u>	<u>(3,790,063)</u>
<b>Cash flows from investing activities:</b>					
Interest received	279,565	24,778	29,435	333,778	81,398
Net increase (decrease) in cash and cash equivalents	4,737,149	718,886	985,482	6,441,517	(255,732)
Cash and cash equivalents - beginning of year	34,144,103	2,554,659	3,173,674	39,872,436	9,767,849
Cash and cash equivalents - end of year	<u>\$ 38,881,252</u>	<u>\$ 3,273,545</u>	<u>\$ 4,159,156</u>	<u>\$ 46,313,953</u>	<u>\$ 9,512,117</u>
<b>Reconciliation to the statement of net position:</b>					
Cash and investments	\$ 34,546,364	\$ 3,273,545	\$ 3,867,360	\$ 41,687,269	\$ 8,312,961
Restricted cash and investments	4,334,888	-	291,796	4,626,684	1,199,156
Cash and cash equivalents	<u>\$ 38,881,252</u>	<u>\$ 3,273,545</u>	<u>\$ 4,159,156</u>	<u>\$ 46,313,953</u>	<u>\$ 9,512,117</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b>					
Operating income (loss)	\$ 8,115,171	\$ (673,290)	\$ (1,287,982)	\$ 6,153,899	\$ 1,700,792
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Conservation program outlays	-	-	(49,180)	(49,180)	-
Depreciation and amortization	5,542,295	186,701	1,172,157	6,901,153	1,886,472
Change in assets and liabilities:					
Accounts receivable	(1,555,633)	46,031	6,660	(1,502,942)	15,506
Prepaid expenses	-	-	203,954	203,954	397,320
Accounts payable and accrued expenses	(444,548)	622,695	404,061	582,208	(197,157)
Net cash provided by operating activities	<u>\$ 11,657,285</u>	<u>\$ 182,137</u>	<u>\$ 449,670</u>	<u>\$ 12,289,092</u>	<u>\$ 3,802,933</u>
<b>NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:</b>					
Acquisition of capital assets through accounts payable and other current liabilities	\$ 2,197,786	\$ -	\$ 21,728	\$ 2,219,514	\$ 1,039,899
Increase in capital assets for capitalized interest	328,040	-	12,849	340,889	103,403
Loss on disposal of capital assets	(264,205)	(549,786)	-	(813,991)	-
Capital contribution receivable	(1,676,221)	-	-	(1,676,221)	-
Other/grant receivable	-	(557,709)	-	(557,709)	-
Accrual of pass-through grant expense	-	450,576	-	450,576	-

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, 2013**

**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. Employees' Retirement Plan
- Note L. Postemployment Benefits
- Note M. Related Party Transactions
- Note N. Risk Management
- Note O. Commitments and Contingencies
- Note P. Economic Dependence
- Note Q. Future Governmental Accounting Standards

**SONOMA COUNTY WATER AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**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 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, 2013**

**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, 2013**

**Note B. Summary of Significant Accounting Policies (continued)**

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

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

When both restricted and unrestricted net position 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, 2013**

**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, 2013**

**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 consist primarily of 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, 2013**

**Note B. Summary of Significant Accounting Policies (continued)**

*Deferred Charges*

Deferred charges consist of unamortized debt issuance costs. These costs are amortized over the term of the related bond issuance using the straight-line method.

*Capital Assets*

Capital assets (including infrastructure and intangible assets) are reported in the applicable governmental or business-type activity columns in the government-wide financial statements and proprietary fund financial statements. Such assets are stated at cost or, if historical cost is not available, at the estimated historical cost as determined by Water Agency engineers. Donated capital assets are recorded at estimated fair value on the date of donation. The Water Agency defines capital assets as assets with an estimated useful life in excess of one year and an initial, individual cost of more than \$5,000.

Capital assets used in operations are depreciated/amortized using the straight-line method over the estimated useful lives in the government-wide statements and proprietary funds. Estimated useful lives of capital assets are as follows: utility plant and equipment, 3 - 50 years and transmission system and reservoirs, 10 - 50 years, which are reported as buildings and improvements; infrastructure, 35 - 75 years; software, 7 years; temporary easements, 7 years unless otherwise defined in the easement agreement. Water storage rights and permanent easements are not amortized due to their inexhaustible life. For further information regarding capital assets refer to Note F.

*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 and Deferred Amount on Refunding*

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

**SONOMA COUNTY WATER AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**Note B. Summary of Significant Accounting Policies (continued)**

*Unearned Revenue*

In the government-wide financial statements and fund financial statements, unearned revenue represents amounts for which asset recognition criteria have been met, however, revenue recognition criteria have not been satisfied.

*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 and sick leave balances do not require the use of current financial resources, no liability is recorded within the governmental funds. However, vacation and sick leave balances are reflected in the government-wide statement of net 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 in the government-wide statements and in governmental funds, as amounts are considered to be both measurable and available. Liens on real property are established January 1 for the ensuing fiscal year. The property tax is levied as of July 1 on all taxable property located in the County. Secured property taxes are due in two equal installments on November 1 and February 1, and are delinquent after December 10 and April 10, respectively. Additionally, supplemental property taxes are levied on a pro rata basis when changes in the assessed valuations occur due to sales transactions or the completion of construction. Property tax collection and valuation information is disclosed in the County's Comprehensive Annual Financial Report.

**SONOMA COUNTY WATER AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**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, 2013.

**SONOMA COUNTY WATER AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**Note B. Summary of Significant Accounting Policies (continued)**

*Net Position and Fund Balance (continued)*

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.

Unassigned Fund Balance – Amounts that constitute the residual balances of the General Fund 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	
<b>Nonspendable</b>					
Advances	\$ 1,605,010	\$ 110,000	\$ -	\$ -	\$ 1,715,010
Letter of Credit	-	-	5,840,798	-	5,840,798
<b>Restricted</b>					
Flood Control	-	22,141,800	-	-	22,141,800
Warm Springs Dam	-	-	12,649,930	72,683,624	85,333,554
<b>Assigned</b>					
General Fund	1,295,931	-	-	-	1,295,931
Spring Lake Park Water/wastewater loan fund	1,794,496	-	-	-	1,794,496
Energy & Sustainability	584,485	-	-	-	584,485
Unassigned	884,010	-	-	-	884,010
	5,986,297	-	-	-	5,986,297
<b>Total</b>	<b>\$12,150,229</b>	<b>\$ 22,251,800</b>	<b>\$ 18,490,728</b>	<b>\$ 72,683,624</b>	<b>\$ 125,576,381</b>

*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, 2013**

**Note B. Summary of Significant Accounting Policies (continued)**

*Interfund Transactions (continued)*

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

*Connection Fees*

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

*Prudent Reserve*

In March 2008 the Water Advisory Committee (WAC) adopted a resolution setting out guidelines for the collection, maintenance and use of prudent reserves in the Water 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, 2013 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.

*Adoption of GASB Statement No. 63 - Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*

The Water Agency adopted this pronouncement as of July 1, 2012. The adoption primarily had the effect of replacing the term "net assets" with "net position" and did not affect the recorded assets or liabilities of the Water Agency. Additionally, no deferred outflows or inflows of resources were recognized as a result of the adoption of this statement.

**SONOMA COUNTY WATER AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**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.

**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, 2013**

**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, 2013 are classified in the accompanying financial statements as follows:

Statement of net position:

Cash and investments	\$ 174,960,887
Cash and investments with trustee	2,718,248
Cash and investments restricted for revenue bond funds	1,908,436
Cash and investments restricted for capital leases	1,197,581
Cash and investments restricted for capital projects	1,575
Fiduciary funds:	
Cash and investments	14,100
<b>Total cash and investments</b>	<b>\$ 180,800,827</b>

Cash and investments as of June 30, 2013 consist of the following:

Investment in County Treasury Pool:

Unrestricted	\$ 100,592,236
Restricted for revenue bonds	1,908,436
Restricted for capital leases	1,197,581
Restricted for capital projects	1,575
Nonpooled cash and investments:	
Cash on hand	750
Deposit with financial institution	5,840,798
Investments - US Treasury STRIPS	57,513,713
Investments - SCEIP Bonds	11,027,490
Money Market mutual funds restricted for revenue bonds	2,718,248
<b>Total cash and investments</b>	<b>\$ 180,800,827</b>

**SONOMA COUNTY WATER AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**Note D. Cash and Investments (continued)**

As of June 30, 2013, the Water Agency's investments consisted of \$103,699,828 in the Treasury Pool managed by the Treasurer, which is not rated by credit rating agencies, and had a weighted average maturity of approximately 1,102 days. The credit rating and other information regarding specific investments maintained in the Treasury Pool as of June 30, 2013 are disclosed in the County's June 30, 2013 Comprehensive Annual Financial Report.

The Water Agency reported \$57,513,713 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 \$97,952,526 contract payable to the U.S. Army Corps of Engineers (refer to Note I).

The Water Agency reports nonpooled cash and investments in a deposit with North Coast Bank in the amount of \$5,840,798, which satisfies requirements established by the California Department of Fish and Game.

The Water Agency has invested \$11,027,490 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	\$ 103,699,828	\$ 103,699,828	\$ -	\$ -	\$ -
U.S. Treasury STRIPS	57,513,713	6,104,390	6,090,653	29,771,216	15,547,454
SCEIP Bonds	11,027,490	409,457	421,833	1,343,552	8,852,648
Money market mutual fund	2,718,248	2,718,248	-	-	-
<b>Total</b>	<b>\$ 174,959,279</b>	<b>\$ 112,931,923</b>	<b>\$ 6,512,486</b>	<b>\$ 31,114,768</b>	<b>\$ 24,400,102</b>

**SONOMA COUNTY WATER AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**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.

At June 30, 2013, the carrying amount and bank balance of the Water Agency's deposit was \$5,840,798. Of the bank balance, \$250,000 was covered by federal deposit insurance and \$5,590,798 was collateralized.

*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, 2013**

**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	
				AAA	Not Rated
County treasury pool	N/A	\$ 103,699,828	\$ -	\$ -	\$ 103,699,828
U.S. Treasury STRIPS	N/A	57,513,713	57,513,713	-	-
SCEIP Bonds	N/A	11,027,490	-	-	11,027,490
Money market mutual fund	AAAm	2,718,248	-	2,718,248	-
<b>Total</b>		<b>\$ 174,959,279</b>	<b>\$ 57,513,713</b>	<b>\$ 2,718,248</b>	<b>\$ 114,727,318</b>

**Note E. Accounts Receivable**

Accounts receivable as of June 30, 2013 is comprised of the following:

	Accounts	Inter- governmental	Total
<b>Governmental Activities:</b>			
General Fund	\$ 39,716	\$ -	\$ 39,716
Flood Control special revenue fund	4,000	544,536	548,536
Warm Springs Dam special revenue	7,177	-	7,177
<b>Total Governmental Activities</b>	<b>\$ 50,893</b>	<b>\$ 544,536</b>	<b>\$ 595,429</b>
<b>Business-type Activities:</b>			
Water Transmission enterprise fund	\$ 5,250,059	\$ 2,306,051	\$ 7,556,110
Water Supply enterprise fund	850,975	557,710	1,408,685
Sanitation enterprise fund	94,370	198,401	292,771
Internal Service Funds	9,452	-	9,452
<b>Total Business-Type Activities</b>	<b>\$ 6,204,856</b>	<b>\$ 3,062,162</b>	<b>\$ 9,267,018</b>

**SONOMA COUNTY WATER AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**Note F. Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2013 was as follows:

	July 1, 2012	Additions	Retirements	Transfers	June 30, 2013
<i>Governmental activities:</i>					
Capital assets, not being depreciated/amortized:					
Land	\$ 1,582,224	\$ -	\$ -	\$ -	\$ 1,582,224
Construction in progress	806,568	276,813	(85,286)	(197,956)	800,139
Intangible assets:					
Intangible work in progress	337,579	508,897	-	-	846,476
Water storage rights	102,371,000	-	-	-	102,371,000
Other intangible assets	1,040	33,061	-	-	34,101
Total capital assets not being depreciated/amortized	105,098,411	818,771	(85,286)	(197,956)	105,633,940
Capital assets, being depreciated:					
Infrastructure	64,834,097	-	-	-	64,834,097
Buildings and improvements	3,426,490	-	-	-	3,426,490
Intangible assets - easements	43,800	-	-	-	43,800
Intangible assets - software	854,324	-	-	-	854,324
Equipment	989,467	108,443	(13,128)	-	1,084,782
Total capital assets, being depreciated	70,148,178	108,443	(13,128)	-	70,243,493
Less: accumulated depreciation for:					
Infrastructure	(25,349,826)	(1,562,085)	-	-	(26,911,911)
Buildings and improvements	(1,727,614)	(79,671)	-	-	(1,807,285)
Intangible assets	(38,796)	(137,673)	-	-	(176,469)
Equipment	(820,093)	(50,969)	12,714	-	(858,348)
Total accumulated depreciation	(27,936,329)	(1,830,398)	12,714	-	(29,754,013)
Total capital assets, being depreciated, net	42,211,849	(1,721,955)	(414)	-	40,489,480
Total capital assets, net	\$ 147,310,260	\$ (903,184)	\$ (85,700)	\$ (197,956)	\$ 146,123,420

**SONOMA COUNTY WATER AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**Note F. Capital Assets (continued)**

	July 1, 2012	Additions	Retirements	Transfers	June 30, 2013
<i>Business-type activities</i>					
Capital assets, not being depreciated/amortized:					
Land	\$ 13,046,314	\$ -	\$ (2,271,510)	\$ -	\$ 10,774,804
Construction in progress	21,305,252	11,674,618	(269,575)	(1,282,316)	31,427,979
Intangible assets:					
Intangible work in progress	1,801,298	173,895	(508,984)	(1,068,031)	398,178
Water storage rights	4,996,395	-	-	-	4,996,395
Permanent easements	13,700	25,117	-	675,016	713,833
<b>Total capital assets not being depreciated/amortized</b>	<b>41,162,959</b>	<b>11,873,630</b>	<b>(3,050,069)</b>	<b>(1,675,331)</b>	<b>48,311,189</b>
Capital assets, being depreciated:					
Buildings and improvements	262,665,083	-	-	607,300	263,272,383
Intangible Assets - software	315,206	-	-	1,068,031	1,383,237
Equipment	9,111,529	1,487,847	(373,792)	-	10,225,584
<b>Total capital assets, being depreciated</b>	<b>272,091,818</b>	<b>1,487,847</b>	<b>(373,792)</b>	<b>1,675,331</b>	<b>274,881,204</b>
Less: accumulated depreciation for:					
Buildings and improvements	(97,388,882)	(8,109,640)	-	-	(105,498,522)
Intangible Assets - software	(52,775)	(52,775)	-	-	(105,550)
Equipment	(6,339,080)	(671,058)	338,360	-	(6,671,778)
<b>Total accumulated depreciation</b>	<b>(103,780,737)</b>	<b>(8,833,473)</b>	<b>338,360</b>	<b>-</b>	<b>(112,275,850)</b>
<b>Total capital assets, being depreciated, net</b>	<b>168,311,081</b>	<b>(7,345,626)</b>	<b>(35,432)</b>	<b>1,675,331</b>	<b>162,605,354</b>
<b>Total capital assets, net</b>	<b>\$ 209,474,040</b>	<b>\$ 4,528,004</b>	<b>\$ (3,085,501)</b>	<b>\$ -</b>	<b>\$ 210,916,543</b>

The total amount of interest capitalized into capital assets of business-type activities during the fiscal year ended June 30, 2013 amounted to \$444,292.

**SONOMA COUNTY WATER AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**Note F. Capital Assets (continued)**

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

*Governmental activities:*

General government	\$ 268,312
Flood control	1,562,086
Total depreciation expense - governmental activities	\$ 1,830,398

*Business-type activities:*

Water Transmission	\$ 5,594,737
Water Supply	186,701
Sanitation	1,165,564
Internal Service Funds	1,886,472
Total depreciation expense - business type activities	\$ 8,833,474

*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, 2013**

**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, 2013, unearned revenue remaining from the agreement in the amount of \$5,164,291 is reported in the Water Supply fund.

The Airport Larkfield Wikiup sanitation zone entered into an agreement with the Town of Windsor for storage within the zone's reservoirs of up to 50 million gallons of tertiary-treated recycled water. The Town of Windsor pays an annual fee for the storage based on a water year which is defined as October 1 through September 30. As a result, one quarter of the revenue received, totaling \$32,129, is reported in the Sanitation Fund and considered unearned.

The General Fund has collected \$41,360 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 received \$369,495 of funding for the installation of additional photovoltaic capacity at the Sonoma Valley treatment plant. A capital contribution will be recognized as expenses are incurred. As of June 30, 2013 the remaining contribution considered unearned is \$286,488.

**Note H. Interfund Transactions**

A summary of interfund activity as of and for the fiscal year ended June 30, 2013 is as follows:

*Interfund transfers*

<b>Transfer from</b>	<b>Transfer to</b>	<b>Amount</b>	<b>Purpose</b>
General Fund	Sanitation Fund	\$ 350,000	Funding for operations and construction
General Fund	Water Supply Fund	150,000	Funding for water supply projects
General Fund	Water Transmission	351,359	Funding for water transmission projects
General Fund	Internal Service Funds	383,070	Funding for improvements to new operations & maintenance facility
Internal Service Funds	Sanitation Fund	350,000	Funding for capital projects
Total interfund transfers		\$ 1,584,429	

**SONOMA COUNTY WATER AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**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, 2013, the Power Resources internal service fund has drawn \$1,500,000 from the general fund. Interest accrued as of the fiscal year ended June 30, 2013 amounted to \$105,010.

*Advances from Other Funds*

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

	Maturity Date	Interest Rates	Authorized & Issued	Outstanding June 30, 2013	Due Within One Year
General Fund	2033	0.754%	\$ 1,605,010	\$ 1,605,010	\$ -

**Note I. Long-Term Obligations**

*Governmental Activities:*

Long-Term Contract Payable:

	Maturity Date	Interest Rates	Authorized & Issued	Outstanding June 30, 2013
1986 Federal contract payable	2034	3.225%	\$ 102,371,000	\$ 97,952,525

Annual payments on the contract 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, 2013, vested vacation and sick leave for Water Agency employees amounted to \$2,727,126. There were no compensated absences that are considered due or matured. The current amount reflected in the government-wide statement of net position is an average of the actual payoff amount over the prior three fiscal years. 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, 2013**

**Note I. Long-Term Obligations (continued)**

*Business-type Activities:*

General Obligation Bonds Payable:	Maturity Date	Interest Rates	Authorized & Issued	Outstanding June 30, 2013
<u>Sanitation Zones</u>				
1977 Penngrove	2017	5.00%	\$ 300,000	\$ 75,000
1980 Geyserville	2020	5.00%	500,000	166,000
<b>Total general obligation bonds payable</b>				<b>\$ 241,000</b>

Capital Leases:	Maturity Date	Interest Rates	Authorized & Issued	Outstanding June 30, 2013
Capital lease - Deutsche Bank	2016	4.65%	\$ 8,800,000	\$ 4,732,337
Capital lease - Deutsche Bank	2020	4.54%	2,000,000	1,018,754
Capital lease - SunTrust	2020	4.08%	2,750,000	1,598,140
Capital lease - City National Bank	2023	4.30%	5,835,000	4,456,275
<b>Total capital leases</b>				<b>\$ 11,805,506</b>

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 on 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, 2013:

Buildings and improvements	\$ 31,504,825
Less: accumulated depreciation	(4,454,107)
<b>Total</b>	<b>\$ 27,050,718</b>

**SONOMA COUNTY WATER AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**Note I. Long-Term Obligations (continued)**

*Business-type Activities (continued)*

Water Revenue Bonds Payable:

	Maturity Date	Interest Rates	Authorized & Issued	Outstanding June 30, 2013
Water revenue bonds, 2012, series A	2032	0.30-5.00%	\$ 12,265,000	\$ 12,265,000
Add: deferred amount for unamortized premium				631,089
Less: deferred amount on refunding				(340,046)
Water revenue bonds, 2006, series A	2036	4.00-5.00%	11,500,000	10,195,000
Add: deferred amount for unamortized premium				96,759
<b>Total water revenue bonds payable, net</b>				<b>\$ 22,847,802</b>

On July 11, 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 2003A Bonds were redeemed on July 23, 2012.

The 2012A bonds have a total par amount of \$12,265,000 and reach final maturity on July 1, 2032. Principal will be payable on July 1st of each year. Interest will be payable on January 1 and July 1 of each year. Payments commenced on January 1, 2013. Interest rates are from 0.30% to 5.00%. The 2012 Series A Bonds are payable solely from the net revenues of the Water Agency's transmission system, and amount 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.

*Refunding of 2003A Revenue Bonds*

Of the \$12,475,000 in 2012A series A revenue bonds issued, \$12,475,000 was used to refund the remaining principal of the 2003 series A revenue bonds. The original cash flows required to service the refunded debt and to complete the refunding are as follows:

	Principal	Interest	Total
Original cash flows-			
2003 Series A Bonds (defeased debt)	\$ 12,475,000	\$ 7,242,025	\$ 19,717,025
New debt used for refunding-			
2012 Series A Revenue Bonds	12,265,000	4,587,809	16,852,809
Difference in cash flows	\$ 210,000	\$ 2,654,216	\$ 2,864,216

A deferred loss of \$357,943 was recognized on the refunding.

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.

**SONOMA COUNTY WATER AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**Note I. Long-Term Obligations (continued)**

*Business-type Activities (continued)*

Annual principal and interest payments for both bond issues are expected to require approximately 10% of water transmission fund net revenues. The total principal outstanding on the Water Revenue Bonds as of June 30, 2013 is \$22,460,000 and scheduled interest payments total \$11,393,338 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, 2013 and total water transmission net revenues were \$1,320,147 and \$15,386,610, respectively.

Water and Wastewater Revenue Bonds Payable:

	Maturity Date	Interest Rates	Authorized & Issued	Outstanding June 30, 2013
California Statewide Communities Development Authority (CSDCDA) 2005C revenue bonds	2027	2.70-5.00%	\$ 6,220,000	\$ 4,675,000
Add: deferred amount for unamortized premium				87,603
Less: deferred amount on refunding				(358,913)
<u>Total water and wastewater revenue bonds payable, net</u>				<u>\$ 4,403,690</u>

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, 2013 is \$4,675,000 and scheduled interest payments total \$1,705,907 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, 2013 and total customer net revenues were \$459,901 and \$1,120,202, 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, 2013**

**Note I. Long-Term Obligations (continued)**

*Business-type Activities (continued)*

Advances from Other Governments:

	Maturity Date	Interest Rates	Authorized & Issued	Outstanding June 30, 2013
State Revolving Fund	2027	2.79%	\$ 15,857,295	\$ 12,676,036
Sonoma Valley County Sanitation District	2019	4.198%	5,442,922	3,055,510
Napa Sanitation District	2014	N/A	439	439
North Marin Water District	2014	N/A	109,250	109,250
Solano County	2014	N/A	254,084	254,084
Sonoma Valley County Sanitation District	2014	N/A	340,887	340,887
<b>Total advances from other governments</b>				<b>\$ 16,436,206</b>

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, 2013, 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, 2013 is \$12,676,036 and scheduled interest payments total \$2,927,618 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, 2013 and total customer net revenues were \$1,040,232 and \$15,386,610, respectively.

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, 2013 is \$3,055,510 with a current portion of \$458,367.

**SONOMA COUNTY WATER AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**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, 2013 is as follows:

	July 1, 2012	Increases	Decreases	June 30, 2013	Amounts Due Within One Year
<b>Governmental activities:</b>					
Long-term contracts payable	\$ 100,981,476	\$ -	\$ (3,028,951)	\$ 97,952,525	\$ 3,126,635
Compensated absences	3,006,865	2,097,080	(2,376,819)	2,727,126	180,730
Total governmental activities	103,988,341	2,097,080	(5,405,770)	100,679,651	3,307,365
<b>Business-type activities:</b>					
General obligation bonds	273,000	-	(32,000)	241,000	34,000
Capital leases:					
Deutsche Bank	5,248,824	-	(516,487)	4,732,337	540,782
Deutsche Bank	1,139,907	-	(121,153)	1,018,754	126,715
SunTrust	1,776,943	-	(178,803)	1,598,140	186,173
Municipal Finance	4,785,861	-	(329,586)	4,456,275	343,911
Water revenue bonds:					
Series 2003A	12,860,000	-	(12,860,000)	-	-
Deferred amount for unamortized discount	(20,017)	-	20,017	-	-
Series 2006A	10,435,000	-	(240,000)	10,195,000	250,000
Deferred amount for unamortized premium	100,966	-	(4,207)	96,759	4,207
Series 2012A	-	12,265,000	-	12,265,000	470,000
Deferred amount for unamortized premium	-	664,304	(33,215)	631,089	33,215
Deferred amount on refunding	-	(357,943)	17,897	(340,046)	(17,897)
Water and wastewater revenue bonds:					
Series 2005C	4,920,000	-	(245,000)	4,675,000	255,000
Deferred amount for unamortized premium	93,860	-	(6,257)	87,603	6,257
Deferred amount on refunding	(384,550)	-	25,637	(358,913)	(25,637)
Advances from other governments:					
State Revolving Fund	13,348,068	-	(672,032)	12,676,036	690,936
Napa Sanitation District	-	439	-	439	439
North Marin Water District	-	109,250	-	109,250	109,250
Solano County	-	254,084	-	254,084	254,084
Sonoma Valley CSD	3,495,410	340,887	(439,900)	3,396,397	799,254
Total business-type activities	58,073,272	13,276,021	(15,615,089)	55,734,204	4,060,689
Total	\$ 162,061,613	\$ 15,373,101	\$ (21,020,859)	\$ 156,413,855	\$ 7,368,054

**SONOMA COUNTY WATER AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**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, 2013 (excluding compensated absences), are as follows:

*Long-term contracts payable - 1986 Federal contract*

Fiscal year ending June 30,	Principal	Interest	Total
2014	\$ 3,126,635	\$ 3,158,937	\$ 6,285,572
2015	3,227,468	3,058,103	6,285,571
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
2019-2023	19,542,443	11,885,415	31,427,858
2024-2028	22,903,577	8,524,281	31,427,858
2029-2033	26,842,797	4,585,060	31,427,857
2034-2035	11,989,148	582,994	12,572,142
<b>Total long-term contracts payable</b>	<b>\$ 97,952,525</b>	<b>\$ 40,331,048</b>	<b>\$ 138,283,573</b>

*General obligation bonds*

Fiscal year ending June 30,	Principal	Interest	Total
2014	\$ 34,000	\$ 11,700	\$ 45,700
2015	35,000	10,000	45,000
2016	38,000	8,225	46,225
2017	40,000	6,300	46,300
2018	41,000	4,300	45,300
2019-2020	53,000	4,000	57,000
<b>Total general obligation bonds</b>	<b>\$ 241,000</b>	<b>\$ 44,525</b>	<b>\$ 285,525</b>

**SONOMA COUNTY WATER AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**Note I. Long-Term Obligations (continued)**

*Capital leases*

Fiscal year ending June 30,	Principal	Interest	Total
2014	\$ 1,197,581	\$ 509,945	\$ 1,707,526
2015	1,251,457	456,069	1,707,526
2016	4,340,240	399,764	4,740,004
2017	745,863	207,042	952,905
2018	778,162	174,743	952,905
2019-2023	3,231,864	394,119	3,625,983
2024	260,339	5,597	265,936
<b>Total capital leases</b>	<b>\$ 11,805,506</b>	<b>\$ 2,147,279</b>	<b>\$ 13,952,785</b>

*Water revenue bonds*

Fiscal year ending June 30,	Principal	Interest	Total
2014	\$ 720,000	\$ 846,264	\$ 1,566,264
2015	730,000	834,419	1,564,419
2016	745,000	815,754	1,560,754
2017	765,000	795,204	1,560,204
2018	790,000	771,379	1,561,379
2019-2023	4,395,000	3,383,347	7,778,347
2024-2028	5,325,000	2,409,171	7,734,171
2029-2033	6,420,000	1,272,800	7,692,800
2034-2037	2,570,000	265,000	2,835,000
<b>Total water revenue bonds</b>	<b>\$ 22,460,000</b>	<b>\$ 11,393,338</b>	<b>\$ 33,853,338</b>

**SONOMA COUNTY WATER AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**Note I. Long-Term Obligations (continued)**

*Water and wastewater revenue bonds*

Fiscal year ending June 30,	Principal	Interest	Total
2014	\$ 255,000	\$ 206,274	\$ 461,274
2015	260,000	197,066	457,066
2016	275,000	187,165	462,165
2017	280,000	176,619	456,619
2018	290,000	165,574	455,574
2019-2023	1,665,000	612,694	2,277,694
2024-2027	1,650,000	160,515	1,810,515
Total water and wastewater revenue bonds	\$ 4,675,000	\$ 1,705,907	\$ 6,380,907

*Advances from other governments*

Fiscal year ending June 30,	Principal	Interest	Total
2014	\$ 1,853,963	\$ 477,566	\$ 2,331,529
2015	1,187,981	438,888	1,626,869
2016	1,228,013	398,856	1,626,869
2017	1,269,449	357,420	1,626,869
2018	1,312,340	314,529	1,626,869
2019-2023	4,761,321	1,026,474	5,787,795
2024-2028	4,823,139	378,199	5,201,338
Total advances from other governments	\$ 16,436,206	\$ 3,391,932	\$ 19,828,138

**SONOMA COUNTY WATER AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**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.

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

In accordance with GASB Statement No. 49, the Agency has estimated its potential pollution remediation liability as of June 30, 2013 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, 2013 is \$227,835. 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.

**SONOMA COUNTY WATER AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**Note K. 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 in early September with an effective date of January 1, 2013. The new law is complex and broad-reaching. SCERA worked throughout the fall to analyze and make important policy decisions and implemented the legislation on January 1, 2013. All employees hired after January 1, 2013, with the exception of employees who are eligible for reciprocity with another qualified California retirement system, are part of Plan B which complies with the laws established by PEPRA. The details of the Board's policy decisions have been documented and posted to the SCERA website.

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 because the Water Agency's portion cannot be separated from the whole.

*Funding Policy*

Plan A members were required to contribute between 7% - 14% of their annual covered salary, depending upon their age at their date of entry into the plan and Plan B members are required to contribute 10.28% of their annual covered salary. The Water Agency is required to contribute at a contractually determined rate which was 37.45% for the fiscal year ended June 30, 2013 for members hired prior to 1/1/2013. The Water Agency is required to contribute at a contractually determined rate of 32.00% for members hired on or after 1/1/2013. Contribution requirements of the Plan members and the Water Agency are established and may be amended by the Board of Retirement.

*Annual Pension Cost*

The Water Agency's contractually required contributions to the Plan for the fiscal years ended June 30, 2013, 2012, and 2011 were \$5,337,569, \$4,614,562, and \$3,996,682 respectively.

**SONOMA COUNTY WATER AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**Note L. 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.

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.

**SONOMA COUNTY WATER AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**Note L. Postemployment Benefits (continued)**

*Plan Description (continued)*

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.

*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, 2013, 2012, and 2011 was \$1,317,667, \$1,215,948 and \$1,203,229, respectively.

**SONOMA COUNTY WATER AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**Note L. Postemployment Benefits (continued)**

*Funding Policy (continued)*

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 M. 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 by the Water Agency for the fiscal year ended June 30, 2013 is as follows:

Occidental County Sanitation District	\$ 471,940
Russian River County Sanitation District	2,282,054
Sonoma Valley County Sanitation District	5,859,779
South Park County Sanitation District	<u>145,755</u>
	<u>\$ 8,759,528</u>

For the fiscal year ended June 30, 2013, the Water Agency provided the Occidental County Sanitation District \$550,000 in funding to assist the District in meeting operating and construction expenses.

The Water Agency is acting as the pass through agency for two federal grants to Sonoma Valley County Sanitation District. The first grant from American Recovery and Reinvestment Act (ARRA) grant from the Bureau of Reclamation for projects related to the North San Pablo Bay Water Reclamation and Reuse project. Grant proceeds amounted to \$328,089. The second grant is from Bureau of Reclamation (Non-ARRA) for projects related to the North San Pablo Bay Water Reclamation and Reuse project. Grant proceeds amounted to \$399,463 of which \$340,887 is outstanding.

**SONOMA COUNTY WATER AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**Note N. 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 also maintains public employee faithful performance/employee dishonesty coverage through a joint-purchase program provided by National Union Fire Insurance Company and administered by CSAC-EIA with limits of \$10,000,000 and a \$25,000 deductible.

The County maintains "All Risk" property insurance including flood and earthquake through participation in the CSAC-EIA Property Insurance Program. Limits of coverage are \$610,000,000 per occurrence for All Risk, \$602,500,000 for flood and \$82,500,000 per occurrence for earthquake. Deductibles for most perils are \$50,000 per occurrence. For losses within the deductible, the County maintains a deductible self-insured pool for losses in excess of \$5,000.

During the fiscal year ended June 30, 2013, the Water Agency paid annual premiums to the County for this insurance coverage in the amount of \$150,882. Settlements have not exceeded coverage for each of the past three fiscal years.

**SONOMA COUNTY WATER AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**Note O. Commitments and Contingencies**

*Construction*

The Water Agency has active construction projects as of June 30, 2013. The projects include expansion and/or improvements of several flood control, water storage and wastewater treatment facilities. As of June 30, 2013, the Water Agency's commitments to construction projects are as follows:

<u>Project</u>	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
General Funds:		
General - Software Development	\$ 535,616	\$ 13,367
Water transmission facilities:		
Water Storage facilities	2,868,954	48,903
Pipeline facilities	7,714,195	878,363
Common facilities	14,620,226	418,465
Internal service facilities	5,230,157	201,968
Sanitation facilities	594,245	23,618
Total	<u>\$ 31,563,393</u>	<u>\$ 1,584,684</u>

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.

*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.

On July 30, 2013, a motion was filed seeking an order of reimbursement of attorneys 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 is one of 3 parties named in the motion which requests that the court find that each party is jointly and severally liable. In the motion, petitioners seek an attorney fee award and an order for reimbursement of their costs of suit for approximately \$1.6 Million. The petitioners may seek an additional award for the fees and costs associated with their subsequent work on this motion. All parties, including the Agency, intend to vigorously oppose this motion. 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.

**SONOMA COUNTY WATER AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**Note O. Commitments and Contingencies (continued)**

*Pending Litigation, Claims and Assessments (continued)*

The Department of Homeland Security recently conducted an interim audit of disaster relief funding related to the 2005-06 flood events. The Water Agency had several projects included in the testing. Preliminary findings indicate the Water Agency may need to return a portion of the disaster relief funding received. The full extent of that will not be known until a final audit is conducted once the event is closed.

*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.

**SONOMA COUNTY WATER AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**Note P. Economic Dependence**

Four major customers purchased water from the Water Agency during the fiscal year ended June 30, 2013. Water sales revenue for the fiscal year ended June 30, 2013 and accounts receivable as of June 30, 2013 associated with those customers are as follows:

	<b>Water Sales</b>	<b>% of Total Water Sales</b>
City of Santa Rosa	\$ 13,983,252	35.64%
City of Petaluma	6,331,083	16.14%
Marin Municipal	5,547,274	14.14%
North Marin County	5,336,668	13.60%
	<b>\$ 31,198,277</b>	<b>79.51%</b>

	<b>Accounts Receivable</b>	<b>% of Total Accounts Receivable</b>
City of Santa Rosa	\$ 1,352,242	22.11%
City of Petaluma	1,224,011	20.01%
Marin Municipal	1,699,577	27.79%
North Marin County	521,073	8.52%
	<b>\$ 4,796,903</b>	<b>78.43%</b>

**SONOMA COUNTY WATER AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**Note Q. Future Governmental Accounting Standards**

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

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, issued in March 2012. The objective of this Statement is to either (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). These determinations are based on the definitions of those elements in Concepts Statement No. 4, *Elements of Financial Statement*. GASB Statement No. 65 is effective for financial statements for fiscal years beginning after December 15, 2012.

GASB Statement No. 66, *Technical Corrections – 2012*, an amendment of GASB Statements No. 10 and No. 62, issued in March 2012. The objective of this Statement is to improve accounting and financial reporting by state and local governmental entities by resolving conflicting guidance that resulted from the issuance of two pronouncements—Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Since the release of these Statements, questions have arisen concerning differences between the provisions in Statement 54 and Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, regarding the reporting of risk financing activities. Questions also have arisen about differences between Statement 62 and Statements No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, regarding the reporting of certain operating lease transactions, and No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, concerning the reporting of the acquisition of a loan or a group of loans and the recognition of servicing fees related to mortgage loans that are sold. GASB Statement No. 66 is effective for financial statements for fiscal years beginning after December 15, 2012.

GASB Statement No. 67, *Financial Reporting for Pension Plans* and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, issued in June 2012. These statements result from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity and creating additional transparency. These statements will increase the financial reporting requirements for cost sharing multiple-employer plans such as the County's in which the Water Agency participates. GASB Statement No. 67 is effective for years beginning after June 15, 2013 and GASB Statement No. 68 is effective for years beginning after June 15, 2014.

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.

**Required Supplementary Information**

**SONOMA COUNTY WATER AGENCY  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGETARY BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	<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>
<b>REVENUES</b>				
Property taxes	\$ 6,309,820	\$ 6,309,820	\$ 6,921,699	\$ 611,879
Investment earnings	39,340	39,340	110,437	71,097
Intergovernmental	291,712	291,712	129,916	(161,796)
Charges for services	657,499	717,499	918,787	201,288
Miscellaneous	104,500	104,500	42,382	(62,118)
Total revenues	<u>7,402,871</u>	<u>7,462,871</u>	<u>8,123,221</u>	<u>660,350</u>
<b>EXPENDITURES</b>				
Current:				
Salaries and benefits	29,688,654	31,762,867	31,421,616	341,251
Services and supplies	13,650,365	14,699,665	13,152,552	1,547,113
Costs applied	(37,250,000)	(37,250,000)	(40,358,889)	3,108,889
Capital outlay	1,071,500	1,071,500	(51,322)	1,122,822
Contingencies	300,000	(10,000)	-	(10,000)
Total expenditures	<u>7,460,519</u>	<u>10,274,032</u>	<u>4,163,957</u>	<u>6,110,075</u>
<b>Excess(deficiency) of revenues over (under) expenditures</b>	<u>(57,648)</u>	<u>(2,811,161)</u>	<u>3,959,264</u>	<u>6,770,425</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	1,300,000	2,195,348	2,112,000	(83,348)
Transfers to related government	-	-	(550,000)	(550,000)
Transfers out	(2,150,000)	(4,092,555)	(3,346,429)	746,126
Proceeds from sale of capital assets	-	-	197,956	197,956
Total other financing sources (uses)	<u>(850,000)</u>	<u>(1,897,207)</u>	<u>(1,586,473)</u>	<u>310,734</u>
Net changes in fund balance	<u>\$ (907,648)</u>	<u>\$ (4,708,368)</u>	2,372,791	<u>\$ 7,081,159</u>
GAAP basis difference - encumbrances			301,575	
Fund balance - beginning of year			<u>9,475,863</u>	
Fund balance - end of year			<u>\$ 12,150,229</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, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> <u>(Budgetary Basis)</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>See Note A</u>	<u>Final Budget</u>
<b>REVENUES</b>				
Property taxes	\$ 7,136,749	\$ 7,136,749	\$ 7,775,107	\$ 638,358
Investment earnings	71,823	71,823	171,098	99,275
Intergovernmental	75,440	75,440	617,582	542,142
Miscellaneous	1,189,000	2,226,357	131,106	(2,095,251)
Total revenues	<u>8,473,012</u>	<u>9,510,369</u>	<u>8,694,893</u>	<u>(815,476)</u>
<b>EXPENDITURES</b>				
Current:				
Services and supplies	9,263,800	15,394,272	9,128,586	6,265,686
Pollution remediation	-	-	2,399	(2,399)
Capital outlay	<u>250,000</u>	<u>272,942</u>	<u>199,400</u>	<u>73,542</u>
Total expenditures	<u>9,513,800</u>	<u>15,667,214</u>	<u>9,330,385</u>	<u>6,336,829</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u>(1,040,788)</u>	<u>(6,156,845)</u>	<u>(635,492)</u>	<u>5,521,353</u>
Net changes in fund balance	<u>\$ (1,040,788)</u>	<u>\$ (6,156,845)</u>	(635,492)	<u>\$ 5,521,353</u>
GAAP basis difference - encumbrances			(608,938)	
Fund balance - beginning of year			<u>23,496,230</u>	
Fund balance - end of year			<u>\$ 22,251,800</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, 2013**

	<b>Budgeted Amounts</b>		<b>Actual Amounts (Budgetary Basis)</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>See Note A</b>	<b>Final Budget</b>
<b>REVENUES</b>				
Property taxes	\$ 4,889,960	\$ 4,889,960	\$ 5,379,082	\$ 489,122
Investment earnings	-	120,000	186,757	66,757
Intergovernmental	42,625	42,625	41,360	(1,265)
Miscellaneous	-	-	96,126	96,126
Total revenues	<u>4,932,585</u>	<u>5,052,585</u>	<u>5,703,325</u>	<u>650,740</u>
<b>EXPENDITURES</b>				
Current:				
Services and supplies	7,851,608	11,879,027	7,399,078	4,479,949
Capital outlay	496,000	518,581	241,158	277,423
Total expenditures	<u>8,347,608</u>	<u>12,397,608</u>	<u>7,640,236</u>	<u>4,757,372</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u>(3,415,023)</u>	<u>(7,345,023)</u>	<u>(1,936,911)</u>	<u>5,408,112</u>
Net changes in fund balance	<u>\$ (3,415,023)</u>	<u>\$ (7,345,023)</u>	<u>(1,936,911)</u>	<u>\$ 5,408,112</u>
GAAP basis difference - encumbrances			3,372,047	
Fund balance - beginning of year			<u>17,055,592</u>	
Fund balance - end of year			<u>\$ 18,490,728</u>	

**SONOMA COUNTY WATER AGENCY  
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**Note A. Budgetary Presentation**

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

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

		<u>Special Revenue Funds</u>		
	General Fund	Flood Control	Warm Springs Dam	Total
Net change in fund balance	\$ 2,372,791	\$ (635,492)	\$ (1,936,911)	\$ (199,612)
Expenditure charges against prior year encumbrances	(1,274,244)	(1,684,781)	(986,679)	(3,945,704)
Current year encumbrances	1,575,819	1,075,843	4,358,726	7,010,388
Net change in fund balance GAAP basis	\$ 2,674,366	\$ (1,244,430)	\$ 1,435,136	\$ 2,865,072

## **Supplementary Information**

**SONOMA COUNTY WATER AGENCY  
COMBINING BALANCE SHEET  
FLOOD CONTROL SPECIAL REVENUE FUNDS  
JUNE 30, 2013**

	<b>Flood Control Funds</b>			
	<b>Zone 1A Laguna Mark West</b>	<b>Zone 2A Petaluma Basin</b>	<b>Zone 3A Valley of the Moon</b>	<b>Zone 5A Lower Russian River</b>
<b>Assets</b>				
Cash and investments	\$ 5,348,258	\$ 8,836,984	\$ 3,545,359	\$ 2,101,655
Accounts receivable	544,536	4,000	-	-
Notes receivable	-	-	110,000	-
Total assets	<u>\$ 5,892,794</u>	<u>\$ 8,840,984</u>	<u>\$ 3,655,359</u>	<u>\$ 2,101,655</u>
<b>Liabilities and fund balances</b>				
Liabilities:				
Accounts payable	<u>\$ 231,857</u>	<u>\$ 92,096</u>	<u>\$ 58,246</u>	<u>\$ 15,557</u>
Fund balances:				
Non-spendable	-	-	110,000	-
Restricted	<u>5,660,937</u>	<u>8,748,888</u>	<u>3,487,113</u>	<u>2,086,098</u>
<b>Total liabilities and fund balances</b>	<u>\$ 5,892,794</u>	<u>\$ 8,840,984</u>	<u>\$ 3,655,359</u>	<u>\$ 2,101,655</u>

**SONOMA COUNTY WATER AGENCY  
COMBINING BALANCE SHEET  
FLOOD CONTROL SPECIAL REVENUE FUNDS  
JUNE 30, 2013**

<b>Flood Control Funds</b>			
<b>Zone 7A North Coast</b>	<b>Zone 8A South Coast</b>	<b>Total Flood Control Funds</b>	
\$ 79,968	\$ 2,081,054	\$ 21,993,278	<b>Assets</b>
-	-	548,536	Cash and investments
-	-	110,000	Accounts receivable
<u>\$ 79,968</u>	<u>\$ 2,081,054</u>	<u>\$ 22,651,814</u>	Notes receivable
			Total assets
			 <b>Liabilities and fund balances</b>
\$ 2,258	\$ -	\$ 400,014	Liabilities:
			Accounts payable
-	-	110,000	Fund balances:
77,710	2,081,054	22,141,800	Non-spendable
			Restricted
<u>\$ 79,968</u>	<u>\$ 2,081,054</u>	<u>\$ 22,651,814</u>	<b>Total liabilities and fund balances</b>

**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, 2013**

	<b>Flood Control Funds</b>			
	<b>Zone 1A Laguna Mark West</b>	<b>Zone 2A Petaluma Basin</b>	<b>Zone 3A Valley of the Moon</b>	<b>Zone 5A Lower Russian River</b>
<b>REVENUES</b>				
Property taxes	\$ 5,099,017	\$ 1,453,336	\$ 903,668	\$ 186,732
Investment earnings	45,614	67,307	25,460	16,373
Intergovernmental	593,049	13,481	8,166	1,644
Miscellaneous	113,556	4,000	-	-
Total revenues	<u>5,851,236</u>	<u>1,538,124</u>	<u>937,294</u>	<u>204,749</u>
<b>EXPENDITURES</b>				
Current:				
Services and supplies	7,274,794	1,670,867	567,212	175,882
Pollution remediation	2,399	-	-	-
Capital outlay	181,754	-	-	17,646
Total expenditures	<u>7,458,947</u>	<u>1,670,867</u>	<u>567,212</u>	<u>193,528</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u>(1,607,711)</u>	<u>(132,743)</u>	<u>370,082</u>	<u>11,221</u>
<b>Net change in fund balances</b>	(1,607,711)	(132,743)	370,082	11,221
Fund balances - beginning of year	<u>7,268,648</u>	<u>8,881,631</u>	<u>3,227,031</u>	<u>2,074,877</u>
Fund balances - end of year	<u>\$ 5,660,937</u>	<u>\$ 8,748,888</u>	<u>\$ 3,597,113</u>	<u>\$ 2,086,098</u>

**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, 2013**

<u>Flood Control Funds</u>			
<u>Zone 7A North Coast</u>	<u>Zone 8A South Coast</u>	<u>Total Flood Control Funds</u>	
\$ -	\$ 132,354	\$ 7,775,107	<b>REVENUES</b>
651	15,693	171,098	Property taxes
-	1,242	617,582	Investment earnings
13,550	-	131,106	Intergovernmental
<u>14,201</u>	<u>149,289</u>	<u>8,694,893</u>	Miscellaneous
			Total revenues
			<b>EXPENDITURES</b>
			Current:
12,613	36,156	9,737,524	Services and supplies
-	-	2,399	Pollution remediation
-	-	199,400	Capital outlay
<u>12,613</u>	<u>36,156</u>	<u>9,939,323</u>	Total expenditures
			<b>Excess (deficiency) of revenues over (under) expenditures</b>
1,588	113,133	(1,244,430)	
			<b>Net change in fund balances</b>
1,588	113,133	(1,244,430)	
<u>76,122</u>	<u>1,967,921</u>	<u>23,496,230</u>	Fund balances - beginning of year
<u>\$ 77,710</u>	<u>\$ 2,081,054</u>	<u>\$ 22,251,800</u>	Fund balances - end of year

**SONOMA COUNTY WATER AGENCY  
COMBINING STATEMENT OF NET POSITION  
SANITATION ENTERPRISE FUNDS  
JUNE 30, 2013**

	Sanitation Funds				Total Sanitation Funds
	Sea Ranch	Penngrove	Geyserville	Airport Larkfield Wikiup	
<b>ASSETS</b>					
Current assets:					
Cash and investments	\$ 628,923	\$ 1,259,260	\$ 583,581	\$ 1,395,596	\$ 3,867,360
Accounts receivable	8,855	14,869	38,105	230,942	292,771
Total current assets	<u>637,778</u>	<u>1,274,129</u>	<u>621,686</u>	<u>1,626,538</u>	<u>4,160,131</u>
Noncurrent assets:					
Restricted assets					
Cash - revenue bond funds	-	7,686	43,567	240,543	291,796
Total restricted assets	<u>-</u>	<u>7,686</u>	<u>43,567</u>	<u>240,543</u>	<u>291,796</u>
Deferred charges	-	-	-	92,313	92,313
Capital assets, net					
Land	-	-	106,213	1,515,231	1,621,444
Construction in progress	-	69,723	-	524,522	594,245
Intangible assets - permanent easements	-	-	-	657,490	657,490
Buildings and improvements	407,813	1,023,993	571,073	18,269,468	20,272,347
Equipment	-	35,544	6,847	94,539	136,930
Total capital assets	<u>407,813</u>	<u>1,129,260</u>	<u>684,133</u>	<u>21,061,250</u>	<u>23,282,456</u>
Total noncurrent assets	<u>407,813</u>	<u>1,136,946</u>	<u>727,700</u>	<u>21,394,106</u>	<u>23,666,565</u>
Total assets	<u>1,045,591</u>	<u>2,411,075</u>	<u>1,349,386</u>	<u>23,020,644</u>	<u>27,826,696</u>
<b>LIABILITIES</b>					
Current liabilities payable from unrestricted assets:					
Accounts payable and accrued expenses	19,713	660,410	476	69,428	750,027
Unearned revenue	-	-	-	32,129	32,129
Total current liabilities payable from unrestricted assets	<u>19,713</u>	<u>660,410</u>	<u>476</u>	<u>101,557</u>	<u>782,156</u>
Current liabilities payable from restricted assets:					
Interest payable	-	1,250	-	52,684	53,934
General obligation bonds payable	-	14,000	20,000	-	34,000
Revenue bonds payable	-	-	-	235,620	235,620
Total current liabilities payable from restricted assets	<u>-</u>	<u>15,250</u>	<u>20,000</u>	<u>288,304</u>	<u>323,554</u>
Noncurrent liabilities:					
General obligation bonds payable	-	61,000	146,000	-	207,000
Revenue bonds payable	-	-	-	4,168,069	4,168,069
Total noncurrent liabilities	<u>-</u>	<u>61,000</u>	<u>146,000</u>	<u>4,168,069</u>	<u>4,375,069</u>
Total liabilities	<u>19,713</u>	<u>736,660</u>	<u>166,476</u>	<u>4,557,930</u>	<u>5,480,779</u>
<b>NET POSITION</b>					
Net invested in capital assets	407,813	1,054,260	518,133	16,657,561	18,637,767
Restricted for:					
Debt service	-	6,436	43,567	187,859	237,862
Recycled water and water conservation	-	-	15,093	143,613	158,706
Unrestricted	618,065	613,719	606,117	1,473,681	3,311,582
Total net position	<u>\$ 1,025,878</u>	<u>\$ 1,674,415</u>	<u>\$ 1,182,910</u>	<u>\$ 18,462,714</u>	<u>\$ 22,345,917</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, 2013**

	Sanitation Funds				Total Sanitation Funds
	Sea Ranch	Penngrove	Geyserville	Airport Lakefield Wikiup	
<b>OPERATING REVENUE</b>					
Flat charges	\$ 548,143	\$ 627,896	\$ 289,050	\$ 2,359,595	\$ 3,824,684
Sanitation services	2,481	13,311	2,536	227,342	245,670
Real estate rental	-	-	-	50,000	50,000
Miscellaneous	1,270	-	-	60	1,330
Total operating revenue	<u>551,894</u>	<u>641,207</u>	<u>291,586</u>	<u>2,636,997</u>	<u>4,121,684</u>
<b>OPERATING EXPENSES</b>					
Services and supplies	491,690	592,776	337,732	2,815,310	4,237,508
Depreciation and amortization	90,239	50,638	42,845	988,436	1,172,158
Total operating expenses	<u>581,929</u>	<u>643,414</u>	<u>380,577</u>	<u>3,803,746</u>	<u>5,409,666</u>
<b>Operating loss</b>	<u>(30,035)</u>	<u>(2,207)</u>	<u>(88,991)</u>	<u>(1,166,749)</u>	<u>(1,287,982)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Taxes and assessments	-	14,586	24,395	-	38,981
Investment earnings	4,826	7,733	5,528	11,348	29,435
Interest expense	-	(3,556)	(8,775)	(219,651)	(231,982)
Conservation program expense	-	(6,765)	-	(42,415)	(49,180)
Intergovernmental revenue	-	4,672	136	133,343	138,151
Total nonoperating revenue (expenses), net	<u>4,826</u>	<u>16,670</u>	<u>21,284</u>	<u>(117,375)</u>	<u>(74,595)</u>
<b>Income (loss) before capital contributions and transfers</b>	<u>(25,209)</u>	<u>14,463</u>	<u>(67,707)</u>	<u>(1,284,124)</u>	<u>(1,362,577)</u>
Capital contributions - connection fees	-	3,357	-	503,824	507,181
Capital contributions - other	-	-	-	193,864	193,864
Transfers in	-	50,000	-	650,000	700,000
Change in net position	<u>(25,209)</u>	<u>67,820</u>	<u>(67,707)</u>	<u>63,564</u>	<u>38,468</u>
Net position - beginning of year	<u>1,051,087</u>	<u>1,606,595</u>	<u>1,250,617</u>	<u>18,399,150</u>	<u>22,307,449</u>
Net position - end of year	<u>\$ 1,025,878</u>	<u>\$ 1,674,415</u>	<u>\$ 1,182,910</u>	<u>\$ 18,462,714</u>	<u>\$ 22,345,917</u>

**SONOMA COUNTY WATER AGENCY  
COMBINING STATEMENT OF CASH FLOWS  
SANITATION ENTERPRISE FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	Sanitation Funds				Total Sanitation Funds
	Sea Ranch	Penngrove	Geyserville	Airport Larkfield Wikiup	
<b>Cash flows from operating activities:</b>					
Cash receipts from customers	\$ 548,889	\$ 643,968	\$ 287,478	\$ 2,648,008	\$ 4,128,343
Cash payments for interfund services used	(123,357)	(189,846)	(290,218)	(2,097,489)	(2,700,910)
Cash payments to suppliers	(378,825)	(12,537)	(49,893)	(487,328)	(928,583)
Conservation program outlays	-	(6,765)	-	(42,415)	(49,180)
Net cash provided by (used for) operating activities	<u>46,707</u>	<u>434,820</u>	<u>(52,633)</u>	<u>20,776</u>	<u>449,670</u>
<b>Cash flows from noncapital financing activities:</b>					
Taxes and assessments	-	14,588	24,395	-	38,983
Transfers in	-	50,000	-	650,000	700,000
Intergovernmental receipts	-	135	136	174,647	174,918
Net cash provided by noncapital financing activities	<u>-</u>	<u>64,723</u>	<u>24,531</u>	<u>824,647</u>	<u>913,901</u>
<b>Cash flows from capital and related financing activities:</b>					
Purchase of capital assets	-	(20,315)	-	(387,809)	(408,124)
Principal paid on general obligation and revenue bonds	-	(13,000)	(19,000)	(245,000)	(277,000)
Interest paid on long-term debt	-	(4,075)	(8,775)	(214,904)	(227,754)
Connection fees	-	3,357	-	501,997	505,354
Net cash used for capital and related financing activities	<u>-</u>	<u>(34,033)</u>	<u>(27,775)</u>	<u>(345,716)</u>	<u>(407,524)</u>
<b>Cash flows from investing activities:</b>					
Interest received	4,826	7,733	5,528	11,348	29,435
Net increase (decrease) in cash and cash equivalents	51,533	473,243	(50,349)	511,055	985,482
Cash and cash equivalents - beginning of year	577,390	793,703	677,497	1,125,084	3,173,674
Cash and cash equivalents - end of year	<u>\$ 628,923</u>	<u>\$ 1,266,946</u>	<u>\$ 627,148</u>	<u>\$ 1,636,139</u>	<u>\$ 4,159,156</u>
<b>Reconciliation to the statement of net position:</b>					
Cash and investments	\$ 628,923	\$ 1,259,260	\$ 583,581	\$ 1,395,596	\$ 3,867,360
Restricted cash and investments	-	7,686	43,567	240,543	291,796
Cash and cash equivalents	<u>\$ 628,923</u>	<u>\$ 1,266,946</u>	<u>\$ 627,148</u>	<u>\$ 1,636,139</u>	<u>\$ 4,159,156</u>
<b>Reconciliation of operating loss to net cash provided by (used for) operating activities:</b>					
Operating loss	\$ (30,035)	\$ (2,207)	\$ (88,991)	\$ (1,166,749)	\$ (1,287,982)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities:					
Conservation program outlays	-	(6,765)	-	(42,415)	(49,180)
Depreciation and amortization	90,239	50,638	42,844	988,436	1,172,157
Change in assets and liabilities:					
Receivables, net	(3,005)	2,761	(4,107)	11,011	6,660
Prepaid expenses	-	-	-	203,954	203,954
Accounts payable and accrued expenses	(10,492)	390,393	(2,379)	26,539	404,061
Net cash provided by (used for) operating activities	<u>\$ 46,707</u>	<u>\$ 434,820</u>	<u>\$ (52,633)</u>	<u>\$ 20,776</u>	<u>\$ 449,670</u>
<b>NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:</b>					
Acquisition of capital assets through accounts payable	\$ -	\$ -	\$ -	\$ 21,728	\$ 21,728
Increase in capital assets for capitalized interest	-	302	-	12,547	12,849

**SONOMA COUNTY WATER AGENCY**  
**COMBINING STATEMENT OF NET POSITION**  
**INTERNAL SERVICES FUNDS**  
**JUNE 30, 2013**

	<u>Internal Service Funds</u>		<b>Total Internal Service Funds</b>
	<b>Equipment Facilities</b>	<b>Power Resources</b>	
<b>ASSETS</b>			
Current assets:			
Cash and Investments	\$ 6,806,960	\$ 1,506,001	\$ 8,312,961
Accounts receivable	9,452	-	9,452
Prepaid expenses	-	254,022	254,022
Total current assets	<u>6,816,412</u>	<u>1,760,023</u>	<u>8,576,435</u>
Noncurrent assets:			
Restricted assets			
Cash - capital leases	884,693	312,888	1,197,581
Cash - capital projects	1,575	-	1,575
Total restricted assets	<u>886,268</u>	<u>312,888</u>	<u>1,199,156</u>
Capital assets, net			
Land	2,443,351	-	2,443,351
Construction in progress	5,230,157	512,668	5,742,825
Intangible assets - software	128,326	-	128,326
Buildings and improvements	21,312,184	13,907,478	35,219,662
Equipment	2,432,675	4,864	2,437,539
Total capital assets	<u>31,546,693</u>	<u>14,425,010</u>	<u>45,971,703</u>
Total noncurrent assets	<u>32,432,961</u>	<u>14,737,898</u>	<u>47,170,859</u>
Total assets	<u>39,249,373</u>	<u>16,497,921</u>	<u>55,747,294</u>
<b>LIABILITIES</b>			
Current liabilities payable from unrestricted assets:			
Accounts payable and accrued expenses	1,058,556	539,696	1,598,252
Due to other governments	-	458,367	458,367
Unearned revenue	-	286,488	286,488
Total current liabilities payable from unrestricted assets	<u>1,058,556</u>	<u>1,284,551</u>	<u>2,343,107</u>
Current liabilities payable from restricted assets:			
Interest payable	96,943	27,861	124,804
Capital leases	884,693	312,888	1,197,581
Total current liabilities payable from restricted assets	<u>981,636</u>	<u>340,749</u>	<u>1,322,385</u>
Noncurrent liabilities:			
Capital leases	8,303,919	2,304,007	10,607,926
Advances from other governments	-	2,597,143	2,597,143
Advances from other funds	-	1,605,010	1,605,010
Total noncurrent liabilities	<u>8,303,919</u>	<u>6,506,160</u>	<u>14,810,079</u>
Total liabilities	<u>10,344,111</u>	<u>8,131,460</u>	<u>18,475,571</u>
<b>NET POSITION</b>			
Net investment in capital assets	22,359,656	8,752,605	31,112,261
Restricted for:			
Debt service	787,750	285,027	1,072,777
Capital projects	1,575	-	1,575
Unrestricted	<u>5,756,281</u>	<u>(671,171)</u>	<u>5,085,110</u>
Total net position	<u>\$ 28,905,262</u>	<u>\$ 8,366,461</u>	<u>\$ 37,271,723</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, 2013**

	<u>Internal Service Funds</u>		<u>Total Internal Service Funds</u>
	<u>Equipment Facilities</u>	<u>Power Resources</u>	
<b>OPERATING REVENUE</b>			
Power sales	\$ -	\$ 6,030,688	\$ 6,030,688
Equipment rental	2,217,811	-	2,217,811
Real estate rental	4,378,453	-	4,378,453
Miscellaneous	5,571	-	5,571
Total operating revenue	<u>6,601,835</u>	<u>6,030,688</u>	<u>12,632,523</u>
<b>OPERATING EXPENSES</b>			
Services and supplies	3,463,964	5,581,296	9,045,260
Depreciation and amortization	1,474,996	411,475	1,886,471
Total operating expenses	<u>4,938,960</u>	<u>5,992,771</u>	<u>10,931,731</u>
<b>Operating income</b>	<u>1,662,875</u>	<u>37,917</u>	<u>1,700,792</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Investment earnings	68,354	13,044	81,398
Interest expense	(340,624)	(264,237)	(604,861)
Gain on disposal of capital assets	480,101	-	480,101
Total nonoperating expenses, net	<u>207,831</u>	<u>(251,193)</u>	<u>(43,362)</u>
<b>Income (loss) before capital contributions and transfers</b>	1,870,706	(213,276)	1,657,430
Capital contributions - other	65,968	68,054	134,022
Transfers in	383,070	-	383,070
Transfers out	(350,000)	-	(350,000)
<b>Change in net position</b>	1,969,744	(145,222)	1,824,522
Net position - beginning of year	<u>26,935,518</u>	<u>8,511,683</u>	<u>35,447,201</u>
Net position - end of year	<u>\$ 28,905,262</u>	<u>\$ 8,366,461</u>	<u>\$ 37,271,723</u>

**SONOMA COUNTY WATER AGENCY  
COMBINING STATEMENT OF CASH FLOWS  
INTERNAL SERVICE FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	<u>Internal Service Funds</u>		<u>Total Internal Service Funds</u>
	<u>Equipment Facilities</u>	<u>Power Resources</u>	
<b>Cash flows from operating activities:</b>			
Cash receipts from interfund services provided	\$ 6,600,241	\$ 6,047,788	\$ 12,648,029
Cash payments for interfund services used	(2,149,662)	(213,111)	(2,362,773)
Cash payments to suppliers	(1,450,327)	(5,031,996)	(6,482,323)
Net cash provided by operating activities	<u>3,000,252</u>	<u>802,681</u>	<u>3,802,933</u>
<b>Cash flows from noncapital financing activities:</b>			
Transfers out	<u>(350,000)</u>	<u>-</u>	<u>(350,000)</u>
<b>Cash flows from capital and related financing activities:</b>			
Purchase of capital assets	(4,453,828)	(271,754)	(4,725,582)
Principal paid on capital leases	(846,073)	(299,956)	(1,146,029)
Principal paid on advances from other governments	-	(439,900)	(439,900)
Interest paid on long-term debt	(440,422)	(267,813)	(708,235)
Proceeds from sale of capital assets	2,751,611	-	2,751,611
Capital contributions - other	65,968	29,034	95,002
Transfers in	383,070	-	383,070
Net cash used for capital and related financing activities	<u>(2,539,674)</u>	<u>(1,250,389)</u>	<u>(3,790,063)</u>
<b>Cash flows from investing activities:</b>			
Interest received	<u>68,354</u>	<u>13,044</u>	<u>81,398</u>
Net increase (decrease) in cash and cash equivalents	178,932	(434,664)	(255,732)
Cash and cash equivalents - beginning of year	<u>7,514,296</u>	<u>2,253,553</u>	<u>9,767,849</u>
Cash and cash equivalents - end of year	<u>\$ 7,693,228</u>	<u>\$ 1,818,889</u>	<u>\$ 9,512,117</u>
<b>Reconciliation to the statement of net position:</b>			
Cash and investments	\$ 6,806,960	\$ 1,506,001	\$ 8,312,961
Restricted cash and investments	<u>886,268</u>	<u>312,888</u>	<u>1,199,156</u>
Cash and cash equivalents	<u>\$ 7,693,228</u>	<u>\$ 1,818,889</u>	<u>\$ 9,512,117</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>			
Operating income	\$ 1,662,875	\$ 37,917	\$ 1,700,792
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation and amortization	1,474,996	411,476	1,886,472
Change in assets and liabilities:			
Receivables, net	(1,594)	17,100	15,506
Prepaid expenses	-	397,320	397,320
Accounts payable and accrued expenses	(136,025)	(61,132)	(197,157)
Net cash provided by operating activities	<u>\$ 3,000,252</u>	<u>\$ 802,681</u>	<u>\$ 3,802,933</u>
<b>NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Acquisition of capital assets through accounts payable	\$ 1,036,949	\$ 2,950	\$ 1,039,899
Increase in capital assets for capitalized interest	91,015	12,388	103,403
Loss on disposal of capital assets	-	-	-

**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 October 8, 2013.

**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*.

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**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 October 8, 2013.

*Price & Brinker LLP*

Petaluma, California  
October 8, 2013