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, 2016

Sonoma County Water Agency
For The Fiscal Year Ended June 30, 2016

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PISENTI & BRINKER LLP
Certified Public Accountants and Advisors
Local Partnership. Global Solutions.

Independent Auditor's Report

Board of Directors
Sonoma County Water Agency
Santa Rosa, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Sonoma County Water Agency (the "Water Agency"), a component unit of the County of Sonoma, California, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Water Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Water Agency as of June 30, 2016, 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.

Independent Auditor's Report (continued)

Other Matters

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2016, on our consideration of the Water Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants and agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Water Agency's internal control over financial reporting and compliance.

Pisenti & Brinker LLP

Santa Rosa, California
October 26, 2016

Management's Discussion and Analysis

Sonoma County Water Agency
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(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, 2016. We encourage readers to consider the information presented here in conjunction with the Water Agency's financial statements and the accompanying notes to the financial statements.

Financial Highlights

- The assets and deferred outflows of the Water Agency exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by $371,534,164 (net position). Of this amount $56,582,937 (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 $2,515,133 during the current fiscal year. This increase in net position includes an increase in the business-type activities of $3,077,584 and a decrease in governmental activities of $562,451.

- As of the close of the current fiscal year, the Water Agency's governmental funds reported combined ending fund balances of $117,898,867, an increase of $269,994 from the preceding year. Approximately 10% of this total amount, $11,635,437, was 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 $11,635,437 or approximately 66% of total General Fund expenditures, which amounted to $17,695,385 for the fiscal year ended June 30, 2016.

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 the Water Agency's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference 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).

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.

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.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Water Agency, assets and deferred outflows exceeded liabilities and deferred inflows by $371,534,164 as of June 30, 2016.

Condensed Statements of Net Position

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2015	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015	June 30, 2016
Current and other assets	$ 120,621,253	$ 120,010,686	$ 69,094,414	$ 74,274,002	$ 189,715,667	$ 194,284,688
Capital assets	143,913,344	142,206,328	204,587,034	209,327,070	348,500,378	351,533,398
Total assets	264,534,597	262,217,014	273,681,448	283,601,072	538,216,045	545,818,086
Total deferred outflows	3,955,313	14,911,817	611,893	759,813	4,567,206	15,671,630
Current liabilities	8,871,026	9,605,875	14,423,536	9,506,288	23,294,562	19,112,163
Noncurrent liabilities	100,922,324	109,472,174	46,926,068	58,833,276	147,848,392	168,305,450
Total liabilities	109,793,350	119,078,049	61,349,604	68,339,564	171,142,954	187,417,613
Total deferred inflows	2,621,266	2,537,939	-	-	2,621,266	2,537,939
Net Position:						
Net investment in capital assets	52,314,923	53,939,461	156,110,501	152,563,649	208,425,424	206,503,110
Restricted	97,856,531	94,399,627	10,941,231	14,048,490	108,797,762	108,448,117
Unrestricted	5,903,840	7,173,755	45,892,005	49,409,182	51,795,845	56,582,937
Total Net Position	$ 156,075,294	$ 155,512,843	$ 212,943,737	$ 216,021,321	$ 369,019,031	$ 371,534,164

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

A portion of the Water Agency's net position, $108,448,117 (29%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, $56,582,937, may be used to meet the Water Agency's ongoing obligations to citizens and creditors.

As of June 30, 2016, 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 $2,515,133, which consisted of a decrease of $562,451 in governmental activities and an increase of $3,077,584 in business-type activities.

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,	
	2015	2016	2015	2016	2015	2016
Revenues:						
Program Revenues:						
Charges for services	$ 986,372	$ 11,040,676	$ 41,829,817	$ 39,283,503	$ 42,816,189	$ 50,324,179
Operating grants and contributions	1,723,931	3,033,039	4,248,380	3,160,775	5,972,311	6,193,814
Capital grants and contributions	-	100,477	1,694,864	1,567,521	1,694,864	1,667,998
General Revenues:						
Property taxes	21,953,371	23,629,448	40,664	46,892	21,994,035	23,676,340
Investment earnings	1,448,245	2,138,047	305,384	528,362	1,753,629	2,666,409
Total revenues	26,111,919	39,941,687	48,119,109	44,587,053	74,231,028	84,528,740
Expenses:						
General government	6,285,821	19,245,527	-	-	6,285,821	19,245,527
Flood control	10,022,083	10,737,135	-	-	10,022,083	10,737,135
Warm Springs Dam	8,617,924	6,720,953	-	-	8,617,924	6,720,953
Interest on long-term debt	2,988,713	2,882,389	-	-	2,988,713	2,882,389
Water transmission	-	-	40,319,069	31,458,257	40,319,069	31,458,257
Water supply	-	-	6,741,377	5,803,845	6,741,377	5,803,845
Sanitation	-	-	5,166,464	5,165,501	5,166,464	5,165,501
Total expenses	27,914,541	39,586,004	52,226,910	42,427,603	80,141,451	82,013,607
Change in net position before transfers	(1,802,622)	355,683	(4,107,801)	2,159,450	(5,910,423)	2,515,133
Transfers	(1,510,000)	(918,134)	1,510,000	918,134	-	-
Change in net position	(3,312,622)	(562,451)	(2,597,801)	3,077,584	(5,910,423)	2,515,133
Net position - beginning of year	169,588,013	156,075,294	215,541,538	212,943,737	385,129,551	369,019,031
Prior period adjustment	(10,200,097)	-	-	-	(10,200,097)	-
Net position - beginning of year, as restated	159,387,916	156,075,294	215,541,538	212,943,737	374,929,454	369,019,031
Net position - end of year	$ 156,075,294	$ 155,512,843	$ 212,943,737	$ 216,021,321	$ 369,019,031	$ 371,534,164

Governmental Activities

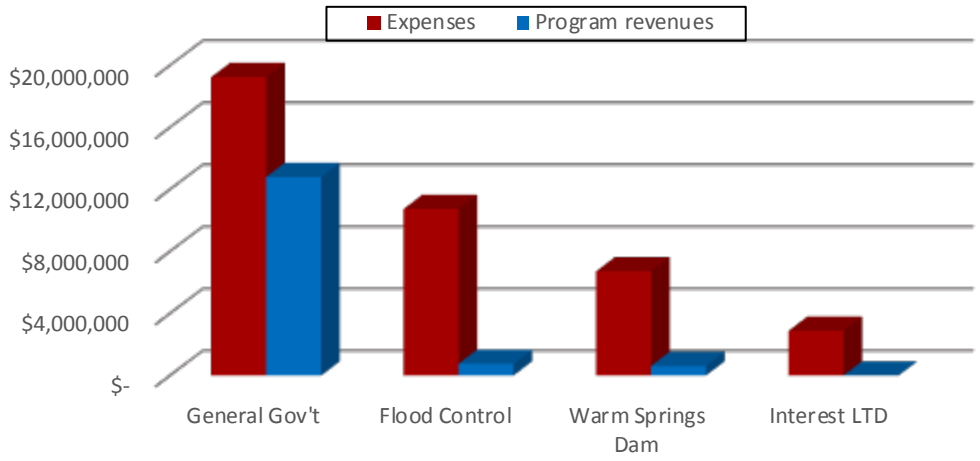
Governmental activities decreased the Water Agency's net position by $562,451. Key elements of the Water Agency's governmental activities are identified below.

- Property tax revenues for the fiscal year totaled $23,629,448, including $6,480,857 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.

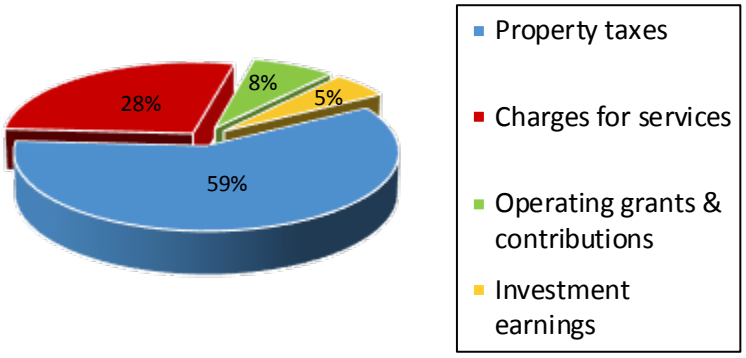
- Investment earnings of $2,138,047 included a $1,274,093 increase in the fair market value of the U.S. Treasury STRIPS held by the Water Agency's debt service fund for the repayment of the contract with the USACE for Warm Springs Dam and $507,430 in interest earnings on cash in the county treasury pool.

- Revenues for the fiscal year ended June 30, 2016 increased by $13,829,768 from the prior fiscal year while expenses increased by $11,671,463 over the same period. The majority ($11,247,597) of the increase in both revenues and expenses was due to a change in accounting practice. In prior years, some services provided to sanitation districts were treated as reductions in expenses for the Water Agency General Fund. Starting in the year ended June 30, 2016, the same services were treated as revenues for the General Fund. In addition, property tax revenues increased by $1,676,077 and grants and contributions increased by $1,409,585.

Expenses and Program Revenues – Governmental Activities



Revenues by Source – Governmental Activitie



Business-type Activities

Business-type activities increased the Water Agency's net position by $3,077,584. Key elements of the Water Agency's business-type activities are identified below.

- Water sales revenues decreased $2,603,719 from the prior fiscal year. This decrease was due to a 13% decrease in total acre-feet sold during the year due to water conservation efforts related to the drought. This decrease was partially offset by an average increase of 4.6% in water rates from the fiscal year ended June 30, 2015.

- 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 for the fiscal year totaled $3,160,775, representing a decrease of $1,087,605 from the prior year. Grants included Title XVI Water Smart funding for North Bay Water Reuse projects and State Proposition 84 funding for water conservation projects.

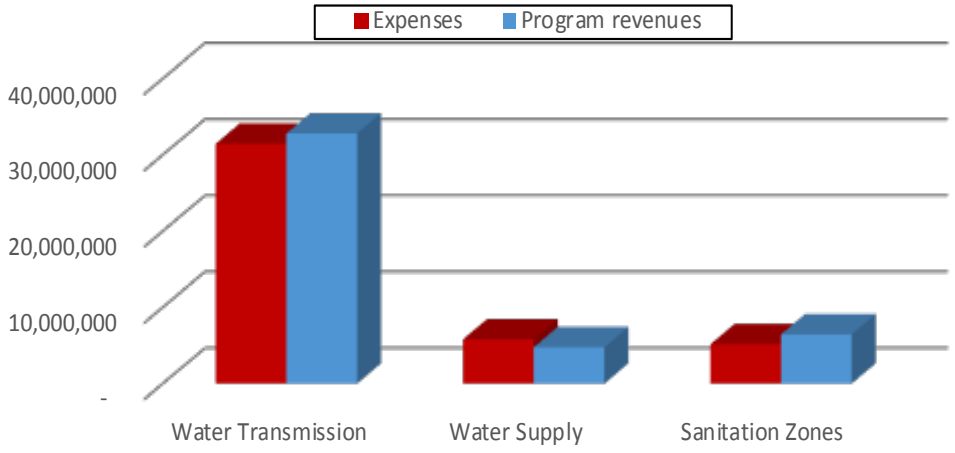
- Investment earnings for the fiscal year ended June 30, 2016 totaled $528,362, including $485,923 in interest earnings on pooled investments. This is an increase of $222,978 from the prior year.

- Expenses for Water Transmission decreased by $8,860,812 from the prior year. This decrease was primarily due to a one-time loss of $10,869,380 incurred during the prior fiscal year for an abandoned construction project.

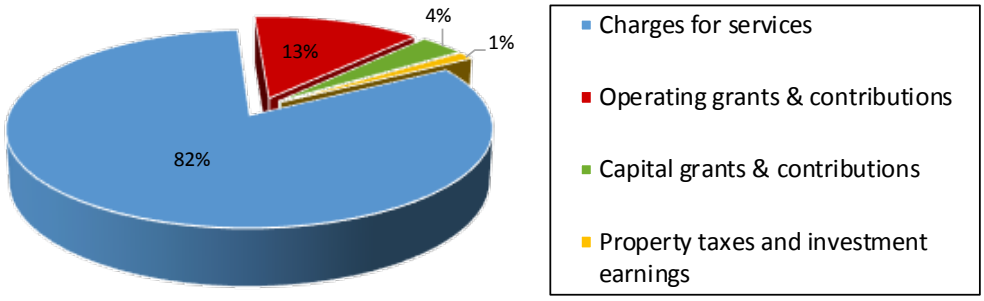
- Water Supply expenses decreased by $937,532, primarily due to a decrease of $1,115,906 in grant pass-through expenses.

- Transfers from the Water Agency's General Fund totaling $918,134 were received during the fiscal year ended June 30, 2016. More information on these transfers can be found in the notes to the financial statements.

Expenses and Program Revenues – Business-type Activities



Revenues by Source – Business-type activities



Financial Analysis of the Government's Funds

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

Governmental funds

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

As of June 30, 2016, the Water Agency's governmental funds reported combined ending fund balances of $117,898,867, an increase of $269,994 in comparison with the prior year. Approximately 10% of this total amount, $11,635,437, 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 was $11,635,437. Assigned fund balance totaled $7,158,891 and consisted of encumbered contracts and activities related to the operation of Spring Lake Park, the Waste/Recycled Water Loan Fund and the Sustainability Fund. Restricted fund balance totaled $250,000, related to a legally enforceable agreement with the Town of Windsor. The General Fund also reported a non-spendable fund balance of $2,807,196, primarily due to an advance to the Power ISF. Total fund balance for the General Fund as of June 30, 2016 was $21,851,524.

The special revenue funds, consisting of six (6) flood control zones and Warm Springs Dam, reported fiscal year end fund balances of $22,458,622 and $15,648,832, respectively, all of which is restricted fund balance except for $364 in non-spendable fund balance related to prepaid expense.

The Debt Service Fund had a total fund balance of $57,939,889, all of which is restricted for the payment of debt service on the USACE contract for Warm Springs Dam.

Proprietary funds

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

Unrestricted net position of the Water Transmission Fund as of the fiscal year ended June 30, 2016 was $41,224,208. The Water Supply Fund reported a deficit balance in unrestricted net position of $3,159,001 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 $5,331,895.

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 $6,599,439, while budgeted revenues were increased by $210,000 during the fiscal year ended June 30, 2016.

The principal components of the increase in budgeted expenditures were a $3,519,609 in appropriations for services and supplies and an increase of $2,476,696 in appropriations for salaries and benefits. The largest component of the increased budget in services and supplies was a roll-over of the unused portions of encumbered service contracts from the prior year budget. The budgeted increase in salaries and benefits was primarily due to increased costs related to new labor contracts.

The variance between actual amounts and budgeted amounts for charges for services revenue and cost applied reimbursements was due to a change in the way certain services provided by the Water Agency to Sanitation Districts are treated by the General Fund. These services were budgeted as cost-applied reimbursements to the General Fund based on prior year practice. Starting in the fiscal year ended June 30, 2016, these services are treated as revenues to the General Fund, but the budget was not adjusted to reflect this new practice.

General Fund grant revenues, property tax revenues, and investment earnings were also over budget. Excluding the cost-applied component, actual expenditures were less than the budgeted estimates due primarily to lower than anticipated costs in consultant services, computer software, and lab testing.

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, 2016, was $351,533,398 (net of accumulated depreciation and amortization). This investment in capital assets includes land, intangible assets such as water storage rights and permanent easements, buildings and improvements, infrastructure (including dams and collection systems), and machinery and equipment.

Major capital asset events during the fiscal year ended June 30, 2016 included the completion of the following projects. (The amounts shown represent the total life-to-date construction costs of each project).

Governmental activities:

- Capital expansion within the Warm Springs Dam Fund included:
  Temporary easements related to the Dry Creek habitat demonstration project - $567,527

Business-type activities:

- Capital expansion within Airport Larkfield Wikiup Sanitation Fund included:
  Sewer pipeline at Highway 101 Airport Interchange - $927,821

  Bar screen conveyor at Airport Treatment Plant - $125,316

- Capital expansion within the Equipment/Facilities Internal Service Fund included:
  Roof replacement at 404 Aviation - $1,747,073

  Parking lot at Service Center - $613,128

Capital Assets

(net of accumulated depreciation and amortization)

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2015	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015	June 30, 2016
Land	$ 1,582,224	$ 1,582,224	$ 10,662,691	$ 10,662,691	$ 12,244,915	$ 12,244,915
Land improvements	-	-	1,823,924	2,376,845	1,823,924	2,376,845
Construction in progress	2,522,291	2,258,380	25,393,758	34,966,300	27,916,049	37,224,680
Water storage rights	102,371,000	102,371,000	4,996,395	4,996,395	107,367,395	107,367,395
Intangible asset - easements	84,985	625,307	132,686	135,325	217,671	760,632
Intangible asset - software	446,506	-	1,001,065	761,771	1,447,571	761,771
Infrastructure	34,798,016	33,235,930	117,650,548	112,035,532	152,448,564	145,271,462
Buildings and improvements	1,766,051	1,680,154	37,776,973	38,076,772	39,543,024	39,756,926
Machinery and equipment	342,271	453,333	5,148,994	5,315,439	5,491,265	5,768,772
Total capital assets	$ 143,913,344	$ 142,206,328	$ 204,587,034	$ 209,327,070	$ 348,500,378	$ 351,533,398

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

Long-Term Obligations

As of June 30, 2016, the Water Agency had a total of $170,783,538 in outstanding long-term obligations. Of this amount $134,000 was in general obligation bonds which are backed by the full faith and credit of the Water Agency; $5,014,426 was in capital leases; $38,600,000 was revenue bonds payable from the Water Agency's operating income; $10,544,386 was advances to the Water Agency from the California Department of Water Resources; $1,621,874 was advances from the Sonoma Valley County Sanitation District; $88,266,867 was a federal long-term contract payable related to Warm Springs Dam; $2,157,343 was amounts payable to employees for unused vacation leave upon termination; and $24,444,642 was net pension liability.

Outstanding Current and Long-Term Obligations

	June 30, 2015	June 30, 2016	Change	
			$	%
General obligation bonds	$ 172,000	$ 134,000	$ (38,000)	-22%
Capital leases	9,354,745	5,014,426	(4,340,319)	-46%
Revenue bonds	25,170,000	38,600,000	13,430,000	53%
Advances from other governments	15,517,682	12,166,260	(3,351,422)	-22%
Federal contract payable	91,598,421	88,266,867	(3,331,554)	-4%
Compensated absences	1,964,151	2,157,343	193,192	10%
Net pension liability	12,464,325	24,444,642	11,980,317	96%
Total	$ 156,241,324	$ 170,783,538	$ 14,542,214	9%

The Water Agency's total debt increased by $14,542,214 (9%) during the fiscal year ended June 30, 2016.

The outstanding total of general obligation bonds, capital leases, and federal contract payable decreased by 22%, 46%, and 4% respectively, during the fiscal year ended June 30, 2016, due to annual principal payments.

The outstanding advances from other governments balance decreased by $3,351,422, or 22%. Of this decrease, $1,228,007 represents principal payments. The remaining decrease of $2,123,415 represents a pass-through grants payable balance, which was paid during the fiscal year ended June 30, 2016. The pass-through grants payable balance, which is no longer included in the advances from other governments balance, was $481,323 as of June 30, 2016. Pass-through grants payable is now presented as a separate line item in current liabilities section of the financial statements.

Revenue bonds payable increased by 53% during the fiscal year ended June 30, 2016 due to the issuance of the 2015 Series A and AT (2015 bonds) revenue bonds. The 2015 bonds refunded and defeased the 2006 revenue bonds, funded the reserve account for the 2015 revenue bonds, and will finance the construction of improvements to the water transmission system.

Compensated absences increased because employees used less sick and vacation leave than they earned and accrued.

Net pension liability increased by $11,980,317, primarily as a result of the change in actuarial assumptions and an unfavorable return on investment during calendar year 2015.

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 June 30, 2016, unassigned fund balance in the General Fund was $11,635,437. The Agency has appropriated a net cost of $9,262,530 that will decrease this amount in the fiscal year ending June 30, 2017 budget.

Both water and sewer rates were increased for the fiscal year ending June 30, 2017 budget. Water rates were increased by an average of 6.3%, while sewer rates were increased an average of 3.7%.

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

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

	Santa Rosa Aqueduct	Petaluma Aqueduct	Sonoma Aqueduct
Operations and maintenance	$ 691.47	$ 691.47	$ 691.47
Revenue bond charges:			
Aqueduct revenue bonds charge	-	-	75.53
Storage facility revenue bonds charge	35.89	35.89	35.89
Common facilities revenue bonds charge	59.73	59.73	59.73
Aqueduct capital charge	19.50	19.50	32.00
Total	$ 806.59	$ 806.59	$ 894.62

Sewer Service Rate per Equivalent Single-Family Dwelling

Sanitation Zone	2015/16	2016/17	Change
Sea Ranch	$ 1,045	$ 1,076	3.0%
Penngrove	1,326	1,366	3.0%
Geyserville	906	951	5.0%
Airport-Larkfield-Wikiup	821	858	4.5%

Number of Equivalent Single-Family Dwellings
by Sanitation Zone

Sanitation Zone	2015/16	2016/17	Change
Sea Ranch	584	587	0.5%
Penngrove	525	532	1.3%
Geyserville	353	356	0.8%
Airport-Larkfield-Wikiup	3,790	3,850	1.6%

Request for Additional Information:

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

Sonoma County Water Agency
Statement of Net Position
June 30, 2016

	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets:			
Cash and investments	$ 115,578,331	$ 48,179,285	$ 163,757,616
Deposits with others	-	1,753,746	1,753,746
Accounts receivable	1,094,275	9,002,698	10,096,973
Inventories	18,707	-	18,707
Notes receivable	110,000	-	110,000
Prepaid expenses	231,057	818,803	1,049,860
Internal balances	2,728,316	(2,728,316)	-
Total current assets	119,760,686	57,026,216	176,786,902
Noncurrent assets:			
Restricted assets:			
Cash and investments with trustee	-	4,255,108	4,255,108
Cash and investments - guarantees	250,000	-	250,000
Cash - revenue bond funds	-	9,511,729	9,511,729
Cash - state loan reserve	-	1,266,300	1,266,300
Reserves on deposit	-	826,243	826,243
Total restricted assets	250,000	15,859,380	16,109,380
Assets held for resale	-	1,388,406	1,388,406
Capital assets, net			
Land	1,582,224	10,662,691	12,244,915
Land improvements	-	2,376,845	2,376,845
Construction in progress	2,258,380	34,966,300	37,224,680
Intangible assets	102,996,307	5,893,491	108,889,798
Infrastructure	33,235,930	112,035,532	145,271,462
Buildings and improvements	1,680,154	38,076,772	39,756,926
Equipment	453,333	5,315,439	5,768,772
Total capital assets	142,206,328	209,327,070	351,533,398
Total noncurrent assets	142,456,328	226,574,856	369,031,184
Total assets	262,217,014	283,601,072	545,818,086
Deferred Outflows of Resources			
Deferred pensions	14,911,817	-	14,911,817
Deferred charge on refunding	-	759,813	759,813
Total deferred outflows of resources	14,911,817	759,813	15,671,630

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

Sonoma County Water Agency
Statement of Net Position (Continued)
June 30, 2016

	Governmental Activities	Business-Type Activities	Total
Liabilities			
Current liabilities payable from unrestricted assets:			
Accounts payable and accrued expenses	2,055,918	4,453,865	6,509,783
Due to other governments	-	481,323	481,323
Advances from other governments	-	891,393	891,393
Capital leases	-	745,945	745,945
Compensated absences	2,157,343	-	2,157,343
Unearned revenue	55,901	646,199	702,100
Interest payable	1,897,716	56,801	1,954,517
Long-term contracts payable	3,438,997	-	3,438,997
Total current liabilities payable from unrestricted assets	9,605,875	7,275,526	16,881,401
Current liabilities payable from restricted assets:			
Deposits from others	-	31,798	31,798
Interest payable	-	632,754	632,754
General obligation bonds payable	-	40,000	40,000
Revenue bonds payable	-	1,526,210	1,526,210
Total current liabilities payable from restricted assets	-	2,230,762	2,230,762
Noncurrent liabilities:			
Net pension liability	24,444,642	-	24,444,642
General obligation bonds payable	-	94,000	94,000
Capital leases	-	4,268,481	4,268,481
Revenue bonds payable	-	38,682,338	38,682,338
Long-term contracts payable	84,827,870	-	84,827,870
Advances from other governments	-	11,274,867	11,274,867
Pollution remediation obligation	199,662	-	199,662
Unearned revenue	-	4,513,590	4,513,590
Total noncurrent liabilities	109,472,174	58,833,276	168,305,450
Total liabilities	119,078,049	68,339,564	187,417,613
Deferred Inflows of Resources			
Deferred pensions	2,537,939	-	2,537,939
Total deferred inflows of resources	2,537,939	-	2,537,939
Net Position			
Net investment in capital assets	53,939,461	152,563,649	206,503,110
Restricted for flood control	22,458,622	-	22,458,622
Restricted for Warm Springs Dam	15,648,832	-	15,648,832
Restricted for debt service	56,042,173	4,096,276	60,138,449
Restricted for capital projects	-	9,059,924	9,059,924
Restricted for other purposes	250,000	892,290	1,142,290
Unrestricted	7,173,755	49,409,182	56,582,937
Total net position	$ 155,512,843	$ 216,021,321	$ 371,534,164

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, 2016

		Program Revenues			Net (Expense) Revenue and Changes in Net Position		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	$ 19,245,528	$ 10,957,871	$ 1,839,419	$ -	$ (6,448,238)	$ -	$ (6,448,238)
Flood control	10,737,135	36,193	623,628	98,604	(9,978,710)	-	(9,978,710)
Warm Springs Dam	6,720,953	46,612	569,992	1,873	(6,102,476)	-	(6,102,476)
Interest on long-term debt	2,882,388	-	-	-	(2,882,388)	-	(2,882,388)
Total governmental activities	39,586,004	11,040,676	3,033,039	100,477	(25,411,812)	-	(25,411,812)
Business-type activities:							
Water transmission	31,458,257	32,236,696	383,418	182,289	-	1,344,146	1,344,146
Water supply	5,803,845	1,983,368	2,777,086	-	-	(1,043,391)	(1,043,391)
Sanitation	5,165,501	5,063,439	271	1,385,232	-	1,283,441	1,283,441
Total business-type activities	42,427,603	39,283,503	3,160,775	1,567,521	-	1,584,196	1,584,196
Total primary government	$ 82,013,607	$ 50,324,179	$ 6,193,814	$ 1,667,998	(25,411,812)	1,584,196	(23,827,616)
General revenues:							
Taxes:							
Property taxes, levied for general purposes					17,148,591	-	17,148,591
Property taxes, levied for debt service and assurances					6,480,857	46,892	6,527,749
Unrestricted investment earnings					2,138,047	528,362	2,666,409
Transfers					(918,134)	918,134	-
Total general revenues and transfers					24,849,361	1,493,388	26,342,749
Change in net position					(562,451)	3,077,584	2,515,133
Net position - beginning of year					156,075,294	212,943,737	369,019,031
Net position - end of year					$ 155,512,843	$ 216,021,321	$ 371,534,164

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

Sonoma County Water Agency
Balance Sheet
Governmental Funds
June 30, 2016

		Special Revenue Funds			
	General	Flood Control	Warm Springs Dam	Debt Service	Total Governmental Funds
Assets					
Cash and investments	$ 18,767,620	$ 22,249,427	$ 16,621,395	$ 57,939,889	$ 115,578,331
Restricted cash and investments	250,000	-	-	-	250,000
Accounts receivable	100,019	865,376	128,880	-	1,094,275
Prepaid expenses	230,693	364	-	-	231,057
Inventories	18,707	-	-	-	18,707
Notes receivable	-	110,000	-	-	110,000
Due from other funds	170,520	-	-	-	170,520
Advances to other funds	2,557,796	-	-	-	2,557,796
Total assets	$ 22,095,355	$ 23,225,167	$ 16,750,275	$ 57,939,889	$ 120,010,686
Liabilities					
Accounts payable	$ 187,930	$ 766,545	$ 1,101,443	$ -	$ 2,055,918
Unearned revenue	55,901	-	-	-	55,901
Total liabilities	243,831	766,545	1,101,443	-	2,111,819
Fund balances:					
Non-Spendable	2,807,196	364	-	-	2,807,560
Restricted	250,000	22,458,258	15,648,832	57,939,889	96,296,979
Assigned	7,158,891	-	-	-	7,158,891
Unassigned	11,635,437	-	-	-	11,635,437
Total fund balances	21,851,524	22,458,622	15,648,832	57,939,889	117,898,867
Total liabilities, deferred inflows of resources and fund balances	$ 22,095,355	$ 23,225,167	$ 16,750,275	$ 57,939,889	$ 120,010,686

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

Fund balances - total governmental funds	$ 117,898,867
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 are not reported in the funds	142,206,328
Deferred outflows of resources are reported in the statement of net position but not reported in the funds	14,911,817
Some liabilities are not due and payable in the current period and therefore are not recorded in the funds:	
Interest payable	(1,897,716)
Compensated absences	(2,157,343)
Net pension liability	(24,444,642)
Pollution remediation obligation	(199,662)
Long-term contracts payable	(88,266,867)
Deferred inflows of resources are reported in the statement of net position but not reported in the funds	(2,537,939)
Net position of governmental activities	$ 155,512,843

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, 2016

		Special Revenue Funds			
	General	Flood Control	Warm Springs Dam	Debt Service	Total Governmental Funds
Revenues					
Property taxes	$ 8,036,843	$ 9,111,748	$ 6,480,857	$ -	$ 23,629,448
Investment earnings	191,508	138,216	104,805	1,703,518	2,138,047
Intergovernmental	1,839,419	722,232	571,865	-	3,133,516
Charges for services	12,306,674	30,936	-	-	12,337,610
Miscellaneous	37,602	5,257	46,612	-	89,471
Total revenues	22,412,046	10,008,389	7,204,139	1,703,518	41,328,092
Expenditures					
Current:					
General government	17,502,809	-	-	-	17,502,809
Flood control	-	8,560,561	-	-	8,560,561
Warm Springs Dam	-	-	6,675,502	-	6,675,502
Capital outlay	192,576	230,555	692,389	-	1,115,520
Debt service:					
Principal	-	-	-	3,331,555	3,331,555
Interest and fiscal charges	-	-	-	2,954,017	2,954,017
Total expenditures	17,695,385	8,791,116	7,367,891	6,285,572	40,139,964
Excess (deficiency) of revenues over (under) expenditures	4,716,661	1,217,273	(163,752)	(4,582,054)	1,188,128
Other financing sources (uses)					
Transfers out	(918,134)	-	-	-	(918,134)
Total other financing sources (uses)	(918,134)	-	-	-	(918,134)
Net change in fund balances	3,798,527	1,217,273	(163,752)	(4,582,054)	269,994
Fund balances - beginning of year	18,052,997	21,241,349	15,812,584	62,521,943	117,628,873
Fund balances - end of year	$ 21,851,524	$ 22,458,622	$ 15,648,832	$ 57,939,889	$ 117,898,867

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

Sonoma County Water Agency
Recociliation 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, 2016

Net change in fund balances - total governmental funds	$ 269,994
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	1,115,520
Depreciation expense	(1,773,307)
Disposal of capital assets	(1,049,230)
Some revenues were reported in the statement of activities when earned, but are reported in the fund statements when earned and available to pay liabilities of the current period.	(1,386,405)
Payment of a long-term payable is an expenditure in the governmental funds, but the repayment reduces the long-term liabilities in the statement of net position.	3,331,555
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	71,629
Change in compensated absences	(193,192)
Change in accrued net pension liability	(940,486)
Change in pollution remediation obligation	(8,529)
Change in net position of governmental activities	$ (562,451)

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

Sonoma County Water Agency
Statement of Net Position
Proprietary Funds
June 30, 2016

	Business-type Activities - Enterprise Funds				
Assets	**Water Transmission**	**Water Supply**	**Sanitation**	**Total**	**Internal Service Funds**
Current assets:					
Cash and investments	$ 36,621,099	$ 713,070	$ 5,148,462	$ 42,482,631	$ 5,696,654
Deposits with others	-	-	-	-	1,753,746
Accounts receivable	6,990,037	1,490,627	522,034	9,002,698	-
Prepaid expenses	12,101	1,366	1,222	14,689	804,114
Total current assets	43,623,237	2,205,063	5,671,718	51,500,018	8,254,514
Noncurrent assets:					
Restricted assets:					
Cash and investments with trustee	4,255,108	-	-	4,255,108	-
Cash - revenue bond funds	9,059,924	-	451,805	9,511,729	-
Cash - state loan reserve	1,266,300	-	-	1,266,300	-
Reserves on deposit	-	-	-	-	826,243
Total restricted assets	14,581,332	-	451,805	15,033,137	826,243
Assets held for resale	-	-	-	-	1,388,406
Capital assets, net					
Land	6,705,216	-	1,621,444	8,326,660	2,336,031
Land improvements	-	1,684,641	-	1,684,641	692,204
Construction in progress	34,137,306	-	512,339	34,649,645	316,655
Intangible assets	5,538,775	227,681	75,705	5,842,161	51,330
Infrastructure	92,224,617	859,616	18,951,299	112,035,532	-
Buildings and improvements	-	-	-	-	38,076,772
Equipment	657,561	19,951	105,947	783,459	4,531,980
Total capital assets	139,263,475	2,791,889	21,266,734	163,322,098	46,004,972
Total noncurrent assets	153,844,807	2,791,889	21,718,539	178,355,235	48,219,621
Total assets	197,468,044	4,996,952	27,390,257	229,855,253	56,474,135
Deferred Outflows of Resources					
Deferred charge on refunding	477,809	-	282,004	759,813	-
Total deferred outflows of resources	477,809	-	282,004	759,813	-

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

Sonoma County Water Agency
Statement of Net Position
Proprietary Funds (Continued)
June 30, 2016

	Water Transmission	Water Supply	Sanitation	Total	Internal Service Funds
Liabilities					
Current liabilities payable from unrestricted assets:					
Accounts payable and accrued expenses	3,334,568	296,581	309,414	3,940,563	513,302
Interest payable	-	-	-	-	56,801
Due to other governments	123,673	357,650	-	481,323	-
Advances from other governments	372,842	-	-	372,842	518,551
Capital leases	-	-	-	-	745,945
Due to other funds	-	-	-	-	170,520
Unearned revenue	117,535	196,243	-	313,778	332,421
Total current liabilities payable from unrestricted assets	3,948,618	850,474	309,414	5,108,506	2,337,540
Current liabilities payable from restricted assets:					
Deposits from others	4,230	-	27,568	31,798	-
Interest payable	586,719	-	46,035	632,754	-
General obligation bonds payable	-	-	40,000	40,000	-
Revenue bonds payable	1,239,953	-	286,257	1,526,210	-
Total current liabilities payable from restricted assets	1,830,902	-	399,860	2,230,762	-
Noncurrent liabilities:					
General obligation bonds payable	-	-	94,000	94,000	-
Revenue bonds payable	35,014,764	-	3,667,574	38,682,338	-
Advances from other governments	10,171,544	-	-	10,171,544	1,103,323
Capital leases	-	-	-	-	4,268,481
Advances from other funds	-	-	-	-	2,557,796
Unearned revenue	-	4,513,590	-	4,513,590	-
Total noncurrent liabilities	45,186,308	4,513,590	3,761,574	53,461,472	7,929,600
Total liabilities	50,965,828	5,364,064	4,470,848	60,800,740	10,267,140
Net Position					
Net investment in capital assets	92,942,181	2,791,889	17,460,907	113,194,977	39,368,672
Restricted for:					
Debt service	3,690,506	-	405,770	4,096,276	-
Capital projects	9,059,924	-	-	9,059,924	-
Other purposes	63,206	-	2,841	66,047	826,243
Unrestricted (deficit)	41,224,208	(3,159,001)	5,331,895	43,397,102	6,012,080
Total net position	$ 146,980,025	$ (367,112)	$ 23,201,413	169,814,326	$ 46,206,995
Adjustment to reflect the net position of the internal service funds reported as business-type activities				46,206,995	
Net position of business-type activities				$ 216,021,321	

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, 2016

	Business-type Activities - Enterprise Funds				
	Water Transmission	Water Supply	Sanitation	Total	Internal Service Funds
Operating Revenue					
Water sales	$ 31,147,906	$ 1,935,200	$ -	$ 33,083,106	$ -
Water services	24,664	-	-	24,664	-
Power sales	589,644	-	-	589,644	4,754,118
Flat charges	-	-	4,534,777	4,534,777	-
Sanitation services	-	-	281,042	281,042	-
Equipment rental	-	-	-	-	2,381,557
Real estate rental	-	-	150,000	150,000	4,387,000
Miscellaneous	474,482	48,168	97,620	620,270	2,677,559
Total operating revenue	32,236,696	1,983,368	5,063,439	39,283,503	14,200,234
Operating Expenses					
Services and supplies	28,718,318	3,183,021	4,272,120	36,173,459	6,835,934
Depreciation and amortization	5,867,911	213,332	1,147,290	7,228,533	2,014,280
Total operating expenses	34,586,229	3,396,353	5,419,410	43,401,992	8,850,214
Operating Income (Loss)	(2,349,533)	(1,412,985)	(355,971)	(4,118,489)	5,350,020
Nonoperating Revenues (Expenses)					
Taxes and assessments	-	-	46,892	46,892	-
Investment earnings	434,183	7,304	37,734	479,221	49,141
Interest expense and debt issuance cost	(1,171,228)	-	(189,728)	(1,360,956)	(405,400)
Conservation program expense	-	-	(4,778)	(4,778)	-
Gain (Loss) on disposal of capital assets	(4,690)	-	-	(4,690)	(92,329)
Other expense (grant pass through)	(92,109)	(2,421,306)	-	(2,513,415)	-
Intergovernmental revenue	383,418	2,777,086	271	3,160,775	5,937
Total nonoperating revenue (expenses), net	(450,426)	363,084	(109,609)	(196,951)	(442,651)
Income (loss) before capital contributions and transfers	(2,799,959)	(1,049,901)	(465,580)	(4,315,440)	4,907,369
Capital contributions - connection fees	-	-	680,839	680,839	-
Capital contributions - other	182,289	-	704,393	886,682	-
Transfers in	648,134	270,000	-	918,134	-
Change in net position	(1,969,536)	(779,901)	919,652	(1,829,785)	4,907,369
Net position - beginning of year	148,949,561	412,789	22,281,761		41,299,626
Net position - end of year	$ 146,980,025	$ (367,112)	$ 23,201,413		$ 46,206,995
Adjustment to reflect the change in net position of internal service funds reported as business-type activities				4,907,369	$ -
Change in net position of business-type activities				$ 3,077,584	

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, 2016

	Business-type Activities - Enterprise Funds				
	Water Transmission	Water Supply	Sanitation	Total	Internal Service Funds
Cash flows from operating activities:					
Cash receipts from customers	$ 30,412,711	$ 1,762,054	$ 5,021,706	$ 37,196,471	$ -
Cash receipts from interfund services provided	-	-	-	-	11,620,245
Cash payments for interfund services used	(17,961,349)	(1,380,282)	(2,284,491)	(21,626,122)	(2,077,351)
Cash payments to suppliers	(9,826,127)	(1,702,541)	(2,030,867)	(13,559,535)	(5,128,681)
Net cash provided by (used for) operating activities	2,625,235	(1,320,769)	706,348	2,010,814	4,414,213
Cash flows from noncapital financing activities:					
Taxes and assessments	-	-	46,892	46,892	-
Transfers in	-	270,000	-	270,000	-
Other expenses - grant pass through	(238,083)	(4,082,860)	-	(4,320,943)	-
Intergovernmental receipts	485,671	4,332,082	271	4,818,024	-
Net cash provided by noncapital financing activities	247,588	519,222	47,163	813,973	-
Cash flows from capital and related financing activities:					
Purchases of capital assets	(10,396,529)	-	(103,104)	(10,499,633)	(2,885,853)
Principal paid on general obligation and revenue bonds	(745,000)	-	(313,000)	(1,058,000)	-
Principal paid on capital leases	-	-	-	-	(4,340,317)
Principal paid on advances from other funds	-	-	-	-	(170,520)
Principal paid on advances from other governments	(730,348)	-	-	(730,348)	(497,659)
Interest and debt issuance costs paid	(2,097,502)	-	(179,007)	(2,276,509)	(511,882)
Proceeds from revenue bond issuance	24,920,012	-	-	24,920,012	-
Retirement of revenue bonds	(9,415,000)	-	-	(9,415,000)	-
Proceeds from sale of capital assets	-	-	-	-	86,594
Connection fees	-	-	269,177	269,177	-
Capital contributions - intergovernmental	103,834	-	-	103,834	-
Transfers In	648,134	-	-	648,134	-
Net cash provided by (used for) capital and related financing activities	2,287,601	-	(325,934)	1,961,667	(8,319,637)
Cash flows from investing activities:					
Interest received	434,183	7,304	37,734	479,221	49,141
Net increase (decrease) in cash and cash equivalents	5,594,607	(794,243)	465,311	5,265,675	(3,856,283)
Cash and cash equivalents - beginning of year	45,607,824	1,507,313	5,134,956	52,250,093	9,552,937
Cash and cash equivalents - end of year	$ 51,202,431	$ 713,070	$ 5,600,267	$ 57,515,768	$ 5,696,654
Reconciliation to the statement of net position:					
Cash and investments	$ 36,621,099	$ 713,070	$ 5,148,462	$ 42,482,631	$ 5,696,654
Restricted cash and investments	14,581,332	-	451,805	15,033,137	-
Cash and cash equivalents	$ 51,202,431	$ 713,070	$ 5,600,267	$ 57,515,768	$ 5,696,654
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	$ (2,349,533)	$ (1,412,985)	$ (355,971)	$ (4,118,489)	$ 5,350,020
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Conservation program outlays	-	-	(4,778)	(4,778)	-
Depreciation and amortization	5,867,911	213,332	1,147,290	7,228,533	2,014,280
Change in assets and liabilities:	-	-	-		-
Accounts receivable	(1,787,704)	(221,314)	(40,110)	(2,049,128)	-
Deposits with others	-	-	-	-	(1,753,746)
Prepaid expenses	(12,101)	(1,365)	(1,222)	(14,688)	(302,902)
Reserves on deposit	-	-	-	-	(826,243)
Accounts payable and accrued expenses	906,662	101,563	(38,861)	969,364	(67,196)
Net cash provided by (used for) operating activities	$ 2,625,235	$ (1,320,769)	$ 706,348	$ 2,010,814	$ 4,414,213
Noncash investing, capital, or financing activities:					
Acquisition of capital assets through accounts payable and other current liabilities	$ 1,567,793	$ -	$ -	$ 1,567,793	$ 104,990
Increase in capital assets - donated assets	-	-	704,393	704,393	-
Loss on disposal of capital assets	(4,690)	-	-	(4,690)	(178,923)
Capital contributions receivable	71,828	-	411,662	483,490	-
Grants receivable	334,390	301,253	-	635,643	-
Accrual of pass-through grant expense	123,349	192,539	-	315,888	-
Increase in capital assets for capitalized interest	756,997	-	21,638	778,635	64,099

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, 2016

Assets		
Cash and investments	$	14,100
Liabilities		
Deposits from others	$	14,100

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

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

Note A. Defining the Financial Reporting Entity

Note B. Summary of Significant Accounting Policies

Note C. Stewardship, Compliance and Accountability

Note D. Cash and Investments

Note E. Accounts Receivable

Note F. Capital Assets

Note G. Unearned Revenue

Note H. Interfund Transactions

Note I. Long-Term Obligations

Note J. Pollution Remediation Obligation

Note K. Deferred Outflows and Inflows of Resources

Note L. Employees' Retirement Plan

Note M. Postemployment Benefits

Note N. Related Party Transactions

Note O. Risk Management

Note P. Commitments and Contingencies

Note Q. Economic Dependence

Note R. Future Governmental Accounting Standards

Note A. Defining the Financial Reporting Entity

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

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

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

Note B. Summary of Significant Accounting Policies

Government-wide and Fund Financial Statements

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

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

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.

Note B. Summary of Significant Accounting Policies (continued)

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

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

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

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

*Governmental fund type*s: 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.

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.

Note B. Summary of Significant Accounting Policies (continued)

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

Encumbrances

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

Cash and Investments

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

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

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

Accounts Receivable

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

Restricted Assets - Proprietary Funds

Restricted assets in the enterprise funds represent cash and investments in the Water Transmission and Sanitation funds that are restricted for debt service and capital projects pursuant to various bond covenants. In addition, the Power Resources internal service fund records a restricted asset related to reserves held by a power pooling authority. These reserves will be refunded when the Agency withdraws from the authority.

Note B. Summary of Significant Accounting Policies (continued)

Capital Assets

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

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

Depreciation and amortization are recognized using the straight-line method over the estimated useful life of the asset. For further information regarding capital assets refer to Note F.

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

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

Note B. Summary of Significant Accounting Policies (continued)

Capitalized Interest

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

Bond Discounts and Premiums

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

Deferred outflows/inflows of resources

In addition to assets, the statement of net position reports deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future periods. The Water Agency has two items that qualify for reporting in this category.

In addition to liabilities, the statement of net position reports deferred inflows of resources. Deferred inflows of resource represent an acquisition of net position that applies to future periods. The Water Agency has one item that qualifies for reporting in this category. Refer to Note K for additional information on deferred inflows and outflows of resources.

Unearned Revenue

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

Note B. Summary of Significant Accounting Policies (continued)

Compensated Absences

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

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

Property Tax Revenue

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

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

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

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 the long-term portion of advances and prepaid expenses.

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, 2016.

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.

Note B. Summary of Significant Accounting Policies (continued)

Net Position and Fund Balance (continued)

Governmental Fund Financial Statements (continued)

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

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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			
	General Fund	Flood Control	Warm Springs Dam	Debt Service	Total
Nonspendable					
Advances	$ 2,557,796	$ -	$ -	$ -	$ 2,557,796
Prepaid expense	230,693	364	-	-	231,057
Inventories	18,707	-	-	-	18,707
Restricted					
General government	250,000	-	-	-	250,000
Flood control	-	22,458,258	-	-	22,458,258
Warm Springs Dam	-	-	15,648,832	57,939,889	73,588,721
Assigned					
General government	1,751,969	-	-	-	1,751,969
Spring Lake Park	2,169,529	-	-	-	2,169,529
Water/wastewater loan	596,750	-	-	-	596,750
Energy & sustainability	2,640,643	-	-	-	2,640,643
Unassigned	11,635,437	-	-	-	11,635,437
Total	$ 21,851,524	$ 22,458,622	$ 15,648,832	$ 57,939,889	$ 117,898,867

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.

Note B. Summary of Significant Accounting Policies (continued)

Connection Fees

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

Prudent Reserve

In March 2008 the Water Advisory Committee (WAC) adopted a resolution setting out guidelines for the collection, maintenance and use of prudent reserves in the Water Transmission enterprise fund. Amounts collected via the water rates for reserve are recommended to be set aside to be used in the event of catastrophic losses. The amount collected as of the fiscal year ended June 30, 2016 is $4,125,504. This amount is included in unrestricted net position.

Estimates

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

Note C. Stewardship, Compliance and Accountability

Budget and Budgetary Accounting

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

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)

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, 2016 are classified in the accompanying financial statements as follows:

Statement of net position:		
Cash and investments	$	163,757,616
Cash and investments - guarantees		250,000
Cash and investments with trustee		4,255,108
Cash and investments restricted for revenue bond funds		9,511,729
Cash and investments- SRF loan reserve		1,266,300
Fiduciary funds:		
Cash and investments		14,100
Total cash and investments	$	179,054,853

Cash and investments as of June 30, 2016 consist of the following:

Investment in County Treasury Pool:		
Unrestricted	$	122,715,109
Restricted for guarantees		250,000
Restricted for revenue bonds		9,511,729
Restricted for SRF loan reserve		1,266,300
Nonpooled cash and investments:		
Cash on hand		750
Restricted cash with trustee		2,748,425
Investments - US Treasury STRIPS		29,890,703
Investments - SCEIP Bonds		11,165,154
Money market mutual funds restricted for revenue bonds		1,506,683
Total cash and investments	$	179,054,853

Note D. Cash and Investments (continued)

As of June 30, 2016, the Water Agency's investments consisted of $133,743,138 in the Treasury Pool managed by the Treasurer, which is not rated by credit rating agencies, and had a weighted average maturity of approximately 828 days. The credit rating and other information regarding specific investments maintained in the Treasury Pool as of June 30, 2016 are disclosed in the County's June 30, 2016 Comprehensive Annual Financial Report.

The Water Agency reported $29,890,703 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 $88,266,867 contract payable to the U.S. Army Corps of Engineers (refer to Note I).

The Water Agency has invested $11,165,154 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:

		Maturity			
Investment Type	Amount	12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
County treasury pool	$ 133,743,138	$ -	$ -	$ 133,743,138	$ -
U.S. Treasury STRIPS	29,890,703	-	12,134,909	6,036,975	11,718,819
SCEIP Bonds	11,165,154	312,461	360,108	1,241,653	9,250,932
Money market mutual fund	1,506,683	1,506,683	-	-	-
Total	$ 176,305,678	$ 1,819,144	$ 12,495,017	$ 141,021,766	$ 20,969,751

Note D. Cash and Investments (continued)

Custodial Credit Risk

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

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

2) California law also allows financial institutions to secure the Water Agency’s deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

3) The California Government Code limits the total of all securities lending transactions to 20% of the fair value of the investment portfolio.

Concentration of Credit Risk

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

Note D. Cash and Investments (continued)

Credit Risk

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

Investment Type	Minimum Legal Rating	Total	Exempt from Disclosure	Rating at year-end AAAm	Rating at year-end Not Rated
County treasury pool	N/A	$ 133,743,138	$ -	$ -	$ 133,743,138
U.S. Treasury STRIPS	N/A	29,890,703	29,890,703	-	-
SCEIP Bonds	N/A	11,165,154	-	-	11,165,154
Money market mutual fund	AAAm	1,506,683	-	1,506,683	-
Total		$ 176,305,678	$29,890,703	$1,506,683	$ 144,908,292

Fair Value Measurements

The Water Agency categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Water Agency has the following recurring fair value measurements as of June 30, 2016:

- U.S. Treasury Strips are valued using quoted prices in active markets for identical assets (Level 1).
- The Sonoma County Treasury Pool is valued using significant other observable inputs (Level 2).
- SCEIP bonds are valued using significant unobservable inputs (Level 3).

Investment Type	Amount	Fair Value Measuring Using Level 1	Level 2	Level 3
County treasury pool	$ 133,743,138	$ -	$ 133,743,138	$ -
U.S. Treasury STRIPS	29,890,703	29,890,703	-	-
SCEIP Bonds	11,165,154	-	-	11,165,154
Total	$ 174,798,995	$ 29,890,703	$ 133,743,138	$ 11,165,154

Note E. Accounts Receivable

Accounts receivable as of June 30, 2016 consists of the following:

	Accounts	Inter-governmental	Total
Governmental Activities:			
General Fund	$ 74,950	$ 25,069	$ 100,019
Flood Control special revenue fund	22,029	843,347	865,376
Warm Springs Dam special revenue	-	128,880	128,880
Total Governmental Activities	$ 96,979	$ 997,296	$ 1,094,275
Business-type Activities:			
Water Transmission enterprise fund	$ 6,508,001	$ 482,036	$ 6,990,037
Water Supply enterprise fund	1,024,264	466,363	1,490,627
Sanitation enterprise fund	521,233	801	522,034
Total Business-Type Activities	$ 8,053,498	$ 949,200	$ 9,002,698

Note F. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2016 was as follows:

	July 1, 2015	Additions	Retirements	Transfers	June 30, 2016
Governmental activities:					
Capital assets, not being depreciated/amortized:					
Land	$ 1,582,224	$ -	$ -	$ -	$ 1,582,224
Construction in progress	1,428,167	143,208	(603,252)	-	968,123
Intangible assets:					
Intangible work in progress	1,094,124	775,818	(12,158)	(567,527)	1,290,257
Water storage rights	102,371,000	-	-	-	102,371,000
Other intangible assets	46,441	-	-	-	46,441
Total capital assets not being depreciated/amortized	106,521,956	919,026	(615,410)	(567,527)	106,258,045
Capital assets, being depreciated:					
Infrastructure	64,834,097	-	-	-	64,834,097
Buildings and improvements	3,737,864	-	-	-	3,737,864
Intangible assets - easements	43,800	-	-	567,527	611,327
Intangible assets - software	910,114	-	(910,114)	-	-
Equipment	1,180,598	196,495	(99,414)	-	1,277,679
Total capital assets being depreciated	70,706,473	196,495	(1,009,528)	567,527	70,460,967
Less: accumulated depreciation for:					
Infrastructure	(30,036,081)	(1,562,086)	-	-	(31,598,167)
Buildings and improvements	(1,971,813)	(85,897)	-	-	(2,057,710)
Intangible assets	(468,863)	(40,083)	476,485	-	(32,461)
Equipment	(838,328)	(85,241)	99,223	-	(824,346)
Total accumulated depreciation	(33,315,085)	(1,773,307)	575,708	-	(34,512,684)
Total capital assets, being depreciated, net	37,391,388	(1,576,812)	(433,820)	567,527	35,948,283
Total capital assets, net	$ 143,913,344	$ (657,786)	$(1,049,230)	$ -	$ 142,206,328

Note F. Capital Assets (continued)

	June 30, 2015	Additions	Retirements	Transfers	June 30, 2016
Business-type activities					
Capital assets, not being depreciated/amortized:					
Land	$ 10,662,691	$ -	$ -	$ -	$ 10,662,691
Construction in progress	25,237,271	12,452,159	(97,503)	(2,864,061)	34,727,866
Intangible assets:					
Intangible work in progress	156,487	148,881	(1,110)	(65,824)	238,434
Water storage rights	4,996,395	-	-	-	4,996,395
Permanent easements	132,686	-	-	2,639	135,325
Total capital assets not being depreciated/amortized	41,185,530	12,601,040	(98,613)	(2,927,246)	50,760,711
Capital assets, being depreciated:					
Infrastructure	223,589,657	688,585	-	364,553	224,642,795
Buildings and improvements	46,483,410	-	-	1,795,727	48,279,137
Land improvements	3,471,453	-	-	707,625	4,179,078
Intangible assets - software	1,667,836	-	-	59,341	1,727,177
Equipment	11,620,397	876,837	(626,180)	-	11,871,054
Total capital assets being depreciated	286,832,753	1,565,422	(626,180)	2,927,246	290,699,241
Less: accumulated depreciation for:					
Infrastructure	(105,939,109)	(6,668,154)	-	-	(112,607,263)
Buildings and improvements	(8,706,437)	(1,410,928)	(85,000)	-	(10,202,365)
Land improvements	(1,647,529)	(154,704)	-	-	(1,802,233)
Intangible assets - software	(666,771)	(298,635)	-	-	(965,406)
Equipment	(6,471,403)	(710,392)	626,180	-	(6,555,615)
Total accumulated depreciation	(123,431,249)	(9,242,813)	541,180	-	(132,132,882)
Total capital assets, being depreciated, net	163,401,504	(7,677,391)	(85,000)	2,927,246	158,566,359
Total capital assets, net	$ 204,587,034	$4,923,649	$ (183,613)	$ -	$ 209,327,070

The total amount of interest capitalized into capital assets of business-type activities during the fiscal year ended June 30, 2016 was $842,734. The carrying value of an impaired asset was reduced by a direct increase of $85,000 to accumulated depreciation.

Note F. Capital Assets (continued)

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

Governmental activities:	
General government	$ 175,220
Flood control	1,562,086
Warm Springs dam	36,001
Total depreciation expense - governmental activities	$ 1,773,307

Business-type activities:	
Water Transmission	$ 5,867,911
Water Supply	213,332
Sanitation	1,147,290
Internal Service Funds	2,014,280
Total depreciation expense - business type activities	$ 9,242,813

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.

Note G. Unearned Revenue

On June 30, 2005 the Water Agency received a lump sum payment of $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. The water supply agreement was renewed in 2015 for a 10-year term, with an option to renew through July 1, 2040. At the time of the 2015 renewal, there were 38 years remaining in the amortization period of the lump sum payment. Based on the terms of the renewal, the remaining amortization period was reduced to 25 years. As of June 30, 2016, unearned revenue remaining from the agreement in the amount of $4,709,833 is reported in the Water Supply fund.

On September 16, 2014 the Water Agency received $352,600 in advanced funding from the City of Petaluma to finance groundwater studies in Petaluma Valley. As of June 30, 2016, unearned revenue remaining from the agreement in the amount of $76,064 was reported in the Water Transmission fund.

On May 11, 2016 the Water Agency received $41,471 in advanced funding from the City of Sonoma for the relocation of two flow meters. As of June 30, 2016, the Water Transmission fund reported the entire $41,471 as unearned revenue.

The General Fund has collected $55,901 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 $739,229 of funding for upgrades to metering and communication systems related to the photovoltaic system at the Sonoma Valley treatment plant. Capital contributions were recognized as expenses were incurred. In October 2015 the photovoltaic upgrade project was abandoned. The remaining balance of $332,421 will be allocated to other projects or returned.

Note H. Interfund Transactions

A summary of interfund activity as of and for the fiscal year ended June 30, 2016 is as follows:

Interfund transfers

Transfer from	Transfer to	Amount	Purpose
General Fund	Water Supply Fund	$ 270,000	Funding for water supply projects
General Fund	Water Transmission	648,134	Funding for water transmission projects
Total interfund transfers		$ 918,134	

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 was eligible to draw up to $1,000,000 per year for up to eight years from the Water Agency's general fund to acquire electrical power assets and meet debt service payments. During that eight-year period, the Power Resources internal service fund drew $2,771,474 from the General Fund. Accrued interest of $127,362 was added to the principal balance. Repayment began in the fiscal year ending June 30, 2016 and will continue until 2033. Interest accrues at the County's pooled investment rate of return. The remaining balance as of June 30, 2016 was $2,728,316.

Advances from Other Funds

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

	Maturity Date	Interest Rate	Authorized & Issued	Outstanding June 30, 2016
General Fund	2033	Variable	$ 2,898,836	$ 2,728,316

Note I. Long-Term Obligations

Governmental Activities

Long-Term Contract Payable:

	Maturity Date	Interest Rates	Authorized & Issued	Outstanding June 30, 2016
1986 Federal contract payable	2034	3.225%	$ 102,371,000	$ 88,266,867

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

Compensated Absences:

As of June 30, 2016, vested vacation leave for Water Agency employees was $2,157,343. There were no compensated absences that were considered due or matured. Compensated absences are generally liquidated by the General Fund.

Note I. Long-Term Obligations (continued)

Business-type Activities:

General Obligation Bonds Payable:	Maturity Date	Interest Rates	Authorized & Issued	Outstanding June 30, 2016
Sanitation Zones				
1977 Penngrove	2017	5.00%	$ 300,000	$ 32,000
1980 Geyserville	2020	5.00%	500,000	102,000
Total general obligation bonds payable				$ 134,000

Capital Leases:	Maturity Date	Interest Rates	Authorized & Issued	Outstanding June 30, 2016
Capital lease - Deutsche Bank	2020	4.54%	$ 2,000,000	$ 619,090
Capital lease - SunTrust	2020	4.08%	2,750,000	1,016,286
Capital lease - City National Bank	2023	4.30%	5,835,000	3,379,050
Total capital leases				$ 5,014,426

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 have been recorded at the present value of the future minimum lease payments as of the inception of the lease.

In 2003, the Water Agency financed the purchase of an office facility on Aviation Boulevard in Santa Rosa with a capital lease from Banc of America. The lease was later assigned to Deutsche Bank. The Water Agency made the final payment on this lease during the fiscal year ended June 30, 2016. In 2005 the Water Agency financed facilities improvements with a lease from Banc of America. This lease, which matures in 2020, was also assigned to Deutsche Bank. In 2006 the Agency signed a lease with Capital LLC for the acquisition of solar paneling. This lease was assigned to SunTrust and matures in 2020. In 2008 the Agency financed the purchase and improvements of an office/warehouse facility on Airport Boulevard 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, 2016:

Buildings and improvements	$ 31,504,825
Less: accumulated depreciation	(7,361,728)
Total	$ 24,143,097

Note I. Long-Term Obligations (continued)

Business-type Activities (continued)

Water Revenue Bonds Payable:

	Maturity Date	Interest Rates	Authorized & Issued	Outstanding June 30, 2016
Water revenue bonds, 2015, series A and AT	2040	2.30 - 5.20%	$ 23,865,000	$ 23,865,000
Add: deferred amount for unamortized premium				1,008,274
Water revenue bonds, 2012, series A	2032	0.30 - 5.00%	$ 12,265,000	10,850,000
Add: deferred amount for unamortized premium				531,443
Total water revenue bonds payable, net				$ 36,254,717

In October 2015 the Water Agency issued the Water Revenue Bonds 2015 Series A and AT (2015 Bonds) to refund and defease the outstanding principal ($9,415,000) of the 2006 Series A (2006A) Bonds, to finance facilities and improvements, and to pay bond issuance costs. The 2015 Bonds are payable solely from the net revenues of the Water Agency's transmission system and amounts on deposit in the related funds and accounts. Neither the full faith and credit nor the taxing power of the Water Agency is pledged to the payment of the principal or interest of the 2015 Bonds.

The 2015 bonds have a total par amount of $23,865,000 and reach final maturity on July 1, 2040. 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, 2016. Interest rates are from 2.3% to 5.2%.

Refunding of 2006A Revenue Bonds

Of the $23,865,000 in 2015 revenue bonds issued, $9,375,000 was used to refund the remaining principal of the 2006A 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 - 2006A bonds (defeased debt)	$ 9,415,000	$ 5,819,965	$ 15,234,965
New debt used for refunding - 2015 bonds	9,375,000	3,791,969	13,166,969
Difference in cash flows	$ 40,000	$ 2,027,996	$ 2,067,996

A deferred loss of $201,027 was recognized on the refunding.

Note I. Long-Term Obligations (continued)

Business-type Activities (continued)

In July 2012 the 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. The 2012A Bonds are payable solely from the net revenues of the Water Agency's transmission system and amounts on deposit in the related funds and accounts. Neither the full faith and credit nor the taxing power of the Water Agency is pledged to the payment the principal or interest of the 2012A Bonds.

Annual principal and interest payments for both bond issues are expected to require approximately 30% of water transmission fund net revenues. The total principal outstanding on the Water Revenue Bonds as of June 30, 2016 is $34,715,000 and scheduled interest payments total $13,873,406 which equals the remaining income pledged by the Water Agency through the fiscal year ending June 30, 2041. Principal and interest paid for the fiscal year ended June 30, 2016 and total water transmission net revenues were $1,478,330 and $4,872,438, respectively.

Water and Wastewater Revenue Bonds Payable:

	Maturity Date	Interest Rates	Authorized & Issued	Outstanding June 30, 2016
California Statewide Communities Development Authority (CSDCDA) 2005C revenue bonds	2027	2.70 - 5.00%	$ 6,220,000	$ 3,885,000
Add: deferred amount for unamortized premium				68,831
Total water and wastewater revenue bonds payable, net				$ 3,953,831

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, 2016 is $3,885,000 and scheduled interest payments total $1,115,402 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, 2016 and total customer net revenues were $462,165 and $1,510,163, 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.

Note I. Long-Term Obligations (continued)

Business-type Activities (continued)

Advances from Other Governments:

	Maturity Date	Interest Rates	Authorized & Issued	Outstanding June 30, 2016
State Revolving Fund	2027	2.790%	$ 15,857,295	$ 10,544,386
Sonoma Valley County Sanitation District	2019	4.198%	5,442,922	1,621,874
Total advances from other governments				$ 12,166,260

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, 2016, 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, 2016 is $10,544,386 and scheduled interest payments total $1,938,659, 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 21% of water transmission net revenues. Principal and interest paid for the fiscal year ended June 30, 2016 and total customer net revenues were $1,040,232 and $4,872,438, respectively. For the combined water transmission revenue bond debt and State Revolving Fund debt, annual principal and interest payments are expected to require approximately 52% of water transmission net revenues.

The Power Resources internal service fund entered into a loan with the Sonoma Valley County Sanitation District for the purchase of its existing photovoltaic facility. The loan amount was $5,442,922 with an interest rate of 4.198% and a term of 12 years. The outstanding balance as of June 30, 2016 is $1,621,874 with a current portion of $518,551.

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, 2016 is as follows:

	July 1, 2015	Increases	Decreases	June 30, 2016	Amounts Due Within One Year
Governmental activities:					
Long-term contracts payable	$ 91,598,421	$ -	$ (3,331,554)	$ 88,266,867	$ 3,438,997
Net pension liability	12,464,325	16,046,279	(4,065,962)	24,444,642	-
Compensated absences	1,964,151	2,691,589	(2,498,397)	2,157,343	2,157,343
Total governmental activities	106,026,897	18,737,868	(9,895,913)	114,868,852	5,596,340
Business-type activities:					
General obligation bonds	172,000	-	(38,000)	134,000	40,000
Capital leases:					
Deutsche Bank	3,625,334	-	(3,625,334)	-	-
Deutsche Bank	757,784	-	(138,694)	619,090	145,061
SunTrust	1,218,122	-	(201,836)	1,016,286	210,155
Municipal Finance	3,753,505	-	(374,455)	3,379,050	390,729
Water revenue bonds:					
Series 2006A	9,685,000	-	(9,685,000)	-	-
Deferred amount for unamortized premium	88,345	-	(88,345)	-	-
Series 2012A	11,325,000	-	(475,000)	10,850,000	485,000
Deferred amount for unamortized premium	564,658	-	(33,215)	531,443	33,215
Series 2015A and AT	-	23,865,000	-	23,865,000	675,000
Deferred amount for unamortized premium	-	1,055,012	(46,738)	1,008,274	46,738
Water and wastewater revenue bonds:					
Series 2005C	4,160,000	-	(275,000)	3,885,000	280,000
Deferred amount for unamortized premium	75,088	-	(6,257)	68,831	6,257
Advances from other governments:					
State Revolving Fund	11,274,734	-	(730,348)	10,544,386	372,842
Napa Sanitation District	1,854,092	-	(1,854,092)	-	-
Solano County	269,323	-	(269,323)	-	-
Sonoma Valley CSD	2,119,533	-	(497,659)	1,621,874	518,551
Total business-type activities	50,942,518	24,920,012	(18,339,296)	57,523,234	3,203,548
Total	$ 156,969,415	$ 43,657,880	$ (28,235,209)	$ 172,392,085	$ 8,799,888

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, 2016 (excluding compensated absences), are as follows:

Long-term contracts payable - 1986 Federal contract

Fiscal year ending June 30,	Principal	Interest	Total
2017	$ 3,438,997	$ 2,846,574	$ 6,285,571
2018	3,549,905	2,735,667	6,285,572
2019	3,664,389	2,621,182	6,285,571
2020	3,782,566	2,503,006	6,285,572
2021	3,904,554	2,381,018	6,285,572
2022-2026	21,494,806	9,933,052	31,427,858
2027-2031	25,191,729	6,236,128	31,427,857
2032-2035	23,239,921	1,903,365	25,143,286
Total long-term contracts payable	$ 88,266,867	$ 31,159,992	$ 119,426,859

General obligation bonds

Fiscal year ending June 30,	Principal	Interest	Total
2017	$ 40,000	$ 6,300	$ 46,300
2018	41,000	4,300	45,300
2019	26,000	2,650	28,650
2020	27,000	1,350	28,350
Total general obligation bonds	$ 134,000	$ 14,600	$ 148,600

Note I. Long-Term Obligations (continued)

Capital leases

Fiscal year ending June 30,	Principal	Interest	Total
2017	$ 745,945	$ 207,042	$ 952,987
2018	778,248	174,743	952,991
2019	811,952	141,043	952,995
2020	844,769	105,882	950,651
2021	585,470	71,151	656,621
2022-2024	1,248,042	81,640	1,329,682
Total capital leases	$ 5,014,426	$ 781,501	$ 5,795,927

Water revenue bonds

Fiscal year ending June 30,	Principal	Interest	Total
2017	$ 1,160,000	$ 1,162,913	$ 2,322,913
2018	1,195,000	1,133,159	2,328,159
2019	1,225,000	1,095,863	2,320,863
2020	1,260,000	1,058,631	2,318,631
2021	1,305,000	1,013,225	2,318,225
2022-2026	7,445,000	4,122,531	11,567,531
2027-2031	8,895,000	2,623,781	11,518,781
2032-2036	7,710,000	1,306,416	9,016,416
2037-2041	4,520,000	356,887	4,876,887
Total water revenue bonds	$ 34,715,000	$ 13,873,406	$ 48,588,406

Water and wastewater revenue bonds

Fiscal year ending June 30,	Principal	Interest	Total
2017	$ 280,000	$ 176,619	$ 456,619
2018	290,000	165,574	455,574
2019	305,000	153,819	458,819
2020	315,000	139,844	454,844
2021	335,000	123,594	458,594
2022-2026	1,915,000	346,218	2,261,218
2027	445,000	9,734	454,734
Total water and wastewater revenue bonds	$ 3,885,000	$ 1,115,402	$ 5,000,402

Note I. Long-Term Obligations (continued)

Advances from other governments

Fiscal year ending June 30,	Principal	Interest	Total
2017	$ 891,393	$ 215,360	$ 1,106,753
2018	1,301,700	325,169	1,626,869
2019	1,345,799	281,070	1,626,869
2020	804,816	235,415	1,040,231
2021	827,455	212,777	1,040,232
2022-2026	4,499,782	701,376	5,201,158
2027-2029	2,495,315	105,530	2,600,845
Total advances from other governments	$ 12,166,260	$ 2,076,697	$ 14,242,957

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. Since that time, a number of required closure activities have been completed. 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, which has been completed, 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 cleanup will be required. It is anticipated that there will need to be annual monitoring and soil removal on the back half of the property, as well as a deed restriction and long-term easement. However, the NC Regional Board and the Santa Rosa Fire Department have not yet approved the work plan.

In accordance with GASB Statement No. 49, the Agency has estimated its potential pollution remediation liability as of June 30, 2016 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, 2016 is $199,662. Discussions with the NC Regional Board and the City of Santa Rosa Fire Department continue and since no agreement has been reached the estimated obligation continues to be considered long term.

Note K. Deferred Outflows and Inflows of Resources

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

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

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

Note L. Employees' Retirement Plan

Plan Description

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

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

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

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

Note L. Employees' Retirement Plan (continued)

Funding Policy

The contribution requirements of Plan members and the County are determined by an independent actuary, approved by the SCERA Board of Retirement, and adopted by the Board of Supervisors. The contribution rates for the fiscal year ended June 30, 2016 were based on the Plan's valuation dated December 31, 2013. The contribution rates determined in each actuarial valuation take effect at the beginning of the fiscal year starting at least twelve months after the beginning of the valuation year, except when significant benefit or actuarial assumption changes occur. Plan A members are required to contribute 7% -13% of their annual covered salary based upon the member's age at the date of entry into the system and Plan B members are required to contribute 7.25% for General Plan B Employees and 11.75% for Safety Plan B Employees of their annual covered salary. The County is required to contribute the remaining amounts necessary to finance the coverage of their employees through periodic contributions at actuarially determined rates. Employer and member contributions are funded and recognized through the County payroll system via employer benefit payments and employee deductions. For the fiscal year ended June 30, 2016, the Water Agency contributed $4,065,962 or approximately 19.80% of covered payroll.

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

At June 30, 2016, the Water Agency reported a liability of $24,444,642 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Water Agency's proportion of the net pension liability was based on a projection of the Water Agency's long-term share of contributions to the pension plan relative to the projected contributions of all Pension Plan participants, actuarially determined. At December 31, 2015, the Water Agency's proportion was 5.92%, which was an increase of 0.17% from its proportion measured as of December 31, 2014.

Note L. Employees' Retirement Plan (continued)

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

For the year ended June 30, 2016, the Water Agency recognized pension expense of $940,486 in the governmental activities column of the government-wide statements. Pension expense represents the change in the net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or methods, and plan benefits. At June 30, 2016, the Water Agency reported deferred outflows of resources and deferred inflows of resources related to the pension from the following sources:

	Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 2,537,939
Changes in assumptions	3,558,769	-
Net difference between projected and actual earnings on retirement plan investments	8,110,061	-
Changes in proportion and differences between Water Agency contributions and proprotionate share of contributions	1,147,238	-
Water Agency contributions subsequent to the measurement date	2,095,749	-
	$ 14,911,817	$ 2,537,939

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

Deferred outflows of resources related to pensions resulting from Water Agency contributions subsequent to the measurement date totaling $2,095,749 will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense (reduction of expense) as follows:

Year Ending June 30	Amount
2017	$ 2,592,968
2018	2,768,486
2019	3,300,406
2020	1,616,269
	$ 10,278,129

Note L. Employees' Retirement Plan (continued)

Actuarial Assumptions

The total pension liability was determined based on the December 31, 2015 actuarial valuation, using the following actuarial assumptions:

Valuation date:	December 31, 2015
Measurement date:	December 31, 2015
Actuarial cost method:	Entry Age Actuarial Cost Method
Actuarial assumptions -	
Inflation:	3.25%
Projected salary increase:	4.0% - 9.5%
Investment rate of return:	7.25%

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

The discount rate used to measure the Total Pension Liability was 7.25 percent as of December 31, 2015, the measurement date. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates.

The following presents the Water Agency's proportionate share of the net pension liability calculated using the discount rate of 7.25 percent, as well as what the Water Agency's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25 percent) or 1-percentage point higher (8.25 percent) than the current rate.

	1% Decrease 6.25%	Discount Rate 7.25%	1% Increase 8.25%
Water Agency's proportionate share of the net pension plan liability	$ 42,778,405	$ 24,444,642	$ 9,123,212

Note M. Postemployment Benefits

Plan Description

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

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

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 January 1, 1990 receive 'retiree plus family' coverage without any service requirements. Employees hired on or after January 1, 1990 but before January 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 June 1, 2009, the Water Agency began to phase in a contribution maximum toward the cost of the PH Plan over a five year period. Since the end of the phase-in period, the Water Agency contributes the same dollar amount for retirees as it contributes for active unrepresented Administrative Management employees. The contribution level during the fiscal year ended June 30, 2016 was $500 per month.

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 April 1, 2007, disability retirees are subject to the same service requirements as regular retirees.

Note M. Postemployment Benefits (continued)

Plan Description (continued)

For employees hired on or after January 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 January 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, 2016, 2015, and 2014 was $1,958,253, $1,640,088, and $1,551,713, respectively.

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

Note N. Related Party Transactions

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

The Water Agency allocates overhead costs to the sanitation districts via the use of an overhead rate charged on labor applicable to the districts. The overhead rate is reviewed periodically by management to determine its effectiveness. In addition, the Water Agency allocates other services to the districts based on project coding. Direct labor and overhead charged to the sanitation districts is recognized as revenue by the Water Agency. A summary of the total cash payments from the sanitation districts to the Water Agency for the fiscal year ended June 30, 2016 is as follows:

Occidental County Sanitation District	$ 650,841
Russian River County Sanitation District	2,521,979
Sonoma Valley County Sanitation District	7,726,967
South Park County Sanitation District	347,810
	$ 11,247,597

For the fiscal year ended June 30, 2016, the Water Agency provided the Occidental County Sanitation District $850,000 in funding to assist the District in meeting operating and construction expenses.

The Water Agency is the Administrative Agent for the North Bay Water Reuse Authority (NBWRA), an unincorporated, cooperative group of public agencies. Because the NBWRA Board of Directors is made up of representatives from the participating districts, NBWRA is a jointly governed organization. There were no transactions between the Water Agency and NBWRA in the fiscal year ended June 30, 2016 outside the ordinary course of operations.

The Water Agency is one of fifteen water districts and irrigation districts which participate in an independent special agency called the Power and Water Resources Authority (PWRPA). PWRPA was established in 2004 to study, promote, develop, conduct, design, finance, acquire, construct, and/or operate water and energy related projects and programs. Because the PWRPA Board of Directors is made up of representatives from the participating districts, PWRPA is a jointly governed organization.

During the fiscal year ended June 30, 2016, the Water Agency recognized $2,661,969 in miscellaneous revenue related to reserve accounts established by PWRPA in prior years. Of this amount, $1,753,746 represents funds on deposit, available to the Water Agency on demand. An additional $908,224 represents prior year amounts deposited in a reserve account for PWRPA. This reserve account, which is adjusted annually based on the Water Agency's proportionate share of energy use averaged over five years, represents a long-term restricted asset.

Note O. Risk Management

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

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

The County maintains "All Risk" property insurance including flood and earthquake through participation in the CSAC-EIA Property Insurance Program. Limits of coverage are $600,000,000 per occurrence for All Risk, $490,000,000 for flood (limits vary in FEMA flood zones) and earthquake coverage with shared limits of $690,000,000. Deductibles for these perils are $50,000 per occurrence.

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

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

Note P. Commitments and Contingencies

Construction

The Water Agency has active construction projects as of June 30, 2016. The projects include expansion and/or improvements of several water transmission, water storage and wastewater treatment facilities. As of June 30, 2016, the Water Agency's commitments to construction projects are as follows:

Project	Spent-to-Date	Remaining Commitment
Water transmission facilities:		
Recycled water/local supply	$ 296,704	$ 22,330
Water storage facilities	4,260,326	92,969
Common facilities	28,360,091	1,162,931
Santa Rosa aqueduct	52,251	-
Sonoma aqueduct	1,040,841	126,171
Internal service facilities	316,655	38,110
Sanitation facilities	512,339	26,215
Total	$ 34,839,207	$ 1,468,726

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

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

Nonexchange Financial Guarantees

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

Note P. Commitments and Contingencies (continued)

Pending Litigation, Claims and Assessments

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

In 2014, an amended motion was filed seeking an order of reimbursement of attorney fees resulting from a previous action dismissing a cross-complaint filed by the Agency relating to diversion of water from the Russian River. The Agency was one of three parties named in the motion which requested that the court find that each party is jointly and severally liable. In the motion, petitioners requested an attorney fee award of approximately $1.46 million. On April 24, 2015, the court ruled that the Water Agency was not liable for any attorney fee award. In June, 2015 this decision was appealed. In April 2016 the case was fully briefed in the Court of Appeal. While it is unlikely that the Court of Appeal will reverse the trial court's decision, it is possible. If the Court of Appeal were to issue such a ruling, it is possible, although unlikely, the Court would rule that the Agency is liable for the entire amount that petitioners sought in their amended motion, in addition to fees that petitioners have and will incur in this appeal. The Agency will vigorously oppose any request for any attorney fees award against the Agency.

On September 14, 2016, a notice of commencement of action was filed against a contractor, an insurance company, and the Water Agency, in a case involving a stop payment notice filed against the contractor. The stop payment notice claims that the contractor, hired by the Water Agency, owes the claimant $689,783 plus interest, service charges, and costs. The Water Agency intends to tender an indemnity claim seeking dismissal. It is too early to tell whether there is any potential liability for the Water Agency related to this notice.

Other Regulatory Matters

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

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

Note Q. Economic Dependence

Four major customers purchased water from the Water Agency during the fiscal year ended June 30, 2016. Water sales revenue for the fiscal year ended June 30, 2016 and accounts receivable as of June 30, 2016 associated with those customers are as follows:

		Water Sales	% of Total Water Sales
City of Santa Rosa	$	11,442,998	35.6%
City of Petaluma		5,287,745	16.4%
Marin Municipal Water District		4,836,514	15.0%
North Marin Water District		4,505,839	14.0%
	$	26,073,096	73.9%

		Accounts Receivable	% of Total Accounts Receivable
City of Santa Rosa	$	2,242,805	31.0%
City of Petaluma		1,101,062	15.2%
Marin Municipal Water District		1,498,048	20.7%
North Marin Water District		1,463,459	20.3%
	$	6,305,374	91.5%

Note R. Future Governmental Accounting Standards

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

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

Effective for fiscal years beginning after June 15, 2016, this Statement addresses the financial reports of defined benefit OPEB plans that are administered through trusts that meet specified criteria.

GASB Statement No. 77 – Tax Abatement Disclosures

Effective for periods beginning after December 15, 2015, this Statement requires state and local governments, for the first time, to disclose information about tax abatement agreements. It requires governments to disclose information about their own tax abatements separately from information about tax abatements that are entered into by other governments and reduce the reporting government's tax revenues.

Note R. Future Governmental Accounting Standards (continued)

GASB Statement No. 78 – Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans

Effective for periods beginning after December 15, 2015, this Statement amends the scope and applicability of GASB 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that: (1) is not a state or local governmental pension plan; (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers; and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan).

GASB Statement No. 79 – Certain External Investment Pools and Pool Participants

Effective for fiscal years beginning after June 15, 2015, except for the provisions in paragraphs 18, 19, 23–26, and 40, which are effective for reporting periods beginning after December 15, 2015. This Statement permits qualifying external investment pools to measure pool investments at amortized cost for financial reporting purposes and provides guidance that will allow many pools to continue to qualify for amortized cost accounting.

GASB Statement No. 80 – Blending Requirements for Certain Component Units

Effective for periods beginning after June 15, 2016, this statement clarifies the display requirements in GASB Statement No. 14 - *The Financial Reporting Entity* by requiring these component units to be blended into the primary state or local government's financial statements in a manner similar to a department or activity of the primary government.

GASB Statement No. 82 – Pension Issues

Effective for reporting periods beginning after June 15, 2016, this statement addresses, among other things: presentation of payroll-related measures in required supplementary information; selection of assumptions and the treatment of deviations from guidance in Actuarial Standards of Practice for financial purposes; and classification of payments made by employers to satisfy plan member contribution requirements.

The impact on the basic financial statements of the Water Agency of these pronouncements is unknown at this time.

Required Supplementary Information

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

	6/30/2016	6/30/2015	6/30/2014
Water Agency's Proportionate Share of Net Pension Liability			
Water Agency's proportion of the net pension liability	5.92%	5.75%	5.60%
Water Agency's proportionate share of the net pension liability	$ 24,444,642	$ 12,464,325	$ 13,632,777
Water Agency's covered employee payroll	20,532,602	18,691,146	18,033,509
Water Agency's proportionate share of the net pension liability as a percentage of its covered-employee payroll	119.05%	66.69%	75.60%
Plan fiduciary net position as a percentage of the total pension	84.63%	90.88%	89.76%

	6/30/2016	6/30/2015
Water Agency's Pension Contributions		
Actuarially determined contribution	$ 4,065,962	$ 3,432,680
Contributions in relation to the actuarially determined	4,065,962	3,432,680
Contribution deficiency (excess)	$ -	$ -
Water Agency's covered-employee payroll	$ 20,532,602	$ 18,691,146
Contributions as a percentage of covered-employee payroll	19.80%	18.37%

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

Sonoma County Water Agency
General Fund
Schedule of Revenues, Expenditures and Changes In Fund Balance - Budgetary Basis
For the Fiscal Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with
	Original	Final	See Note A	Final Budget
Revenues				
Property taxes	$ 7,241,530	$ 7,241,530	$ 8,036,843	$ 795,313
Investment earnings	69,400	69,400	191,508	122,108
Intergovernmental	308,878	393,878	1,839,419	1,445,541
Charges for services	894,180	994,180	12,306,674	11,312,494
Miscellaneous	129,500	154,500	37,602	(116,898)
Total revenues	8,643,488	8,853,488	22,412,046	13,558,558
Expenditures				
Current:				
Salaries and benefits	35,330,346	37,807,042	37,522,113	284,929
Services and supplies	17,795,035	21,314,644	14,371,592	6,943,052
Costs applied	(42,700,000)	(42,700,000)	(34,686,588)	(8,013,412)
Capital outlay	393,500	428,500	192,576	235,924
Contingencies	300,000	300,000	-	300,000
Total expenditures	11,118,881	17,150,186	17,399,693	(249,507)
Excess (deficiency) of revenues over (under) expenditures	(2,475,393)	(8,296,698)	5,012,353	13,309,051
Other Financing Sources (Uses)				
Transfers in	300,000	300,000	-	(300,000)
Transfers out	(650,000)	(1,218,134)	(918,134)	300,000
Total other financing sources (uses)	(350,000)	(918,134)	(918,134)	-
Net changes in fund balance	$ (2,825,393)	$ (9,214,832)	$ 4,094,219	$ 13,309,051
GAAP basis difference - encumbrances			(295,692)	
Fund balance - beginning of year			18,052,997	
Fund balance - end of year			$ 21,851,524	

Sonoma County Water Agency
Flood Control Special Revenue Funds
Schedule of Revenues, Expenditures and Changes In Fund Balance - Budgetary Basis
For the Fiscal Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with
	Original	Final	See Note A	Final Budget
Revenues				
Property taxes	$ 8,177,294	$ 8,177,294	$ 9,111,748	$ 934,454
Investment earnings	127,140	127,140	138,216	11,076
Intergovernmental	89,006	89,006	722,232	633,226
Miscellaneous	42,000	122,765	36,193	(86,572)
Total revenues	8,435,440	8,516,205	10,008,389	1,492,184
Expenditures				
Current:				
Services and supplies	8,642,841	15,784,792	8,465,741	7,319,051
Pollution remediation	-	-	7,546	(7,546)
Capital outlay	275,000	598,776	69,514	529,262
Total expenditures	8,917,841	16,383,568	8,542,801	7,840,767
Excess (deficiency) of revenues over (under) expenditures	(482,401)	(7,867,363)	1,465,588	9,332,951
Net changes in fund balance	$ (482,401)	$ (7,867,363)	$ 1,465,588	$ 9,332,951
GAAP basis difference - encumbrances			(248,315)	
Fund balance - beginning of year			21,241,349	
Fund balance - end of year			$ 22,458,622	

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, 2016

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with
	Original	Final	See Note A	Final Budget
Revenues				
Property taxes	$ 5,601,061	$ 5,601,061	$ 6,480,857	$ 879,796
Investment earnings	84,500	84,500	104,805	20,305
Intergovernmental	848,075	848,075	571,865	(276,210)
Miscellaneous	-	-	46,612	46,612
Total revenues	6,533,636	6,533,636	7,204,139	670,503
Expenditures				
Current:				
Services and supplies	9,082,862	15,913,135	10,409,856	5,503,279
Capital outlay	250,000	740,126	664,389	75,737
Total expenditures	9,332,862	16,653,261	11,074,245	5,579,016
Excess (deficiency) of revenues over (under) expenditures	(2,799,226)	(10,119,625)	(3,870,106)	6,249,519
Net changes in fund balance	$ (2,799,226)	$ (10,119,625)	$ (3,870,106)	$ 6,249,519
GAAP basis difference - encumbrances			3,706,354	
Fund balance - beginning of year			15,812,584	
Fund balance - end of year			$ 15,648,832	

Sonoma County Water Agency
Note to Required Supplementary Information
For the Fiscal Year Ended June 30, 2016

Note A. Budgetary Presentation

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

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

		Special Revenue Funds		
	General Fund	Flood Control	Warm Springs Dam	Total
Net change in fund balance	$ 4,094,219	$ 1,465,588	$ (3,870,106)	$ 1,689,701
Expenditure charges against prior year encumbrances	(2,130,930)	(3,618,880)	$ (1,681,323)	(7,431,133)
Current year encumbrances	1,835,238	3,370,565	$ 5,387,677	10,593,480
Net change in fund balance GAAP basis	$ 3,798,527	$ 1,217,273	$ (163,752)	$ 4,852,048

Supplementary Information

Sonoma County Water Agency
Combining Balance Sheet
Flood Control Special Revenue Funds
June 30, 2016

	Flood Control Funds			
	Zone 1A Laguna Mark West	Zone 2A Petaluma Basin	Zone 3A Valley of the Moon	Zone 5A Lower Russian River
Assets				
Cash and investments	$ 6,338,610	$ 8,230,280	$ 3,160,824	$ 2,159,092
Accounts receivable	819,740	45,636	-	-
Prepaid expenses	364	-	-	-
Notes receivable	-	-	110,000	-
Total assets	$ 7,158,714	$ 8,275,916	$ 3,270,824	$ 2,159,092
Liabilities and fund balances				
Liabilities:				
Accounts payable	$ 184,116	$ 531,338	$ 47,521	$ 1,188
Fund balances:				
Non-spendable	364	-	-	-
Restricted	6,974,234	7,744,578	3,223,303	2,157,904
Total fund balances	6,974,598	7,744,578	3,223,303	2,157,904
Total liabilities and fund balances	$ 7,158,714	$ 8,275,916	$ 3,270,824	$ 2,159,092

Sonoma County Water Agency
Combining Balance Sheet
Flood Control Special Revenue Funds
June 30, 2016

Flood Control Funds			
Zone 7A North Coast	Zone 8A South Coast	Total Flood Control Funds	
			Assets
$ 74,794	$ 2,285,827	$ 22,249,427	Cash and investments
-	-	865,376	Accounts receivable
-	-	364	Prepaid expenses
-	-	110,000	Notes receivable
$ 74,794	$ 2,285,827	$ 23,225,167	Total assets
			Liabilities and fund balances
			Liabilities:
$ -	$ 2,382	$ 766,545	Accounts payable
			Fund balances:
-	-	364	Non-spendable
74,794	2,283,445	22,458,258	Restricted
74,794	2,283,445	22,458,622	Total fund balances
$ 74,794	$ 2,285,827	$ 23,225,167	**Total liabilities and fund balances**

Sonoma County Water Agency
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Flood Control Special Revenue Funds
For the Fiscal Year Ended June 30, 2016

	Flood Control Funds			
	Zone 1A Laguna Mark West	**Zone 2A Petaluma Basin**	**Zone 3A Valley of the Moon**	**Zone 5A Lower Russian River**
Revenues				
Property taxes	$ 6,064,572	$ 1,658,263	$ 1,018,564	$ 211,985
Investment earnings	38,415	51,523	19,914	13,608
Intergovernmental	633,053	78,062	8,308	1,610
Charges for services	30,936	-	-	-
Miscellaneous	128	23	4,492	614
Total revenues	6,767,104	1,787,871	1,051,278	227,817
Expenditures				
Current:				
Services and supplies	4,689,952	2,509,123	892,943	309,870
Pollution remediation	7,546	-	-	-
Capital outlay	225,940	-	4,615	-
Total expenditures	4,923,438	2,509,123	897,558	309,870
Excess (deficiency) of revenues over (under) expenditures	1,843,666	(721,252)	153,720	(82,053)
Net change in fund balances	1,843,666	(721,252)	153,720	(82,053)
Fund balances - beginning of year	5,130,932	8,465,830	3,069,583	2,239,957
Fund balances - end of year	$ 6,974,598	$ 7,744,578	$ 3,223,303	$ 2,157,904

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, 2016

Flood Control Funds			
Zone 7A North Coast	**Zone 8A South Coast**	**Total Flood Control Funds**	
			Revenues
$ -	$ 158,364	$ 9,111,748	Property taxes
477	14,279	138,216	Investment earnings
-	1,199	722,232	Intergovernmental
-	-	30,936	Charges for services
-	-	5,257	Miscellaneous
477	173,842	10,008,389	Total revenues
			Expenditures
			Current:
-	151,127	8,553,015	Services and supplies
-	-	7,546	Pollution remediation
-	-	230,555	Capital outlay
-	151,127	8,791,116	Total expenditures
477	22,715	1,217,273	**Excess (deficiency) of revenues over (under) expenditures**
477	22,715	1,217,273	**Net change in fund balances**
74,317	2,260,730	21,241,349	Fund balances - beginning of year
$ 74,794	$ 2,283,445	$ 22,458,622	Fund balances - end of year

Sonoma County Water Agency
Combining Statement of Net Position
Sanitation Enterprise Funds
June 30, 2016

	Sanitation Funds				
Assets	**Sea Ranch**	**Penngrove**	**Geyserville**	**Airport Larkfield Wikiup**	**Total Sanitation Funds**
Current assets:					
Cash and investments	$ 989,364	$ 1,045,180	$ 283,993	$ 2,829,925	$ 5,148,462
Accounts receivable	9,835	11,839	15,662	484,698	522,034
Prepaid expenses	-	152	153	917	1,222
Total current assets	999,199	1,057,171	299,808	3,315,540	5,671,718
Noncurrent assets:					
Restricted assets					
Cash - revenue bond funds	-	7,080	37,238	407,487	451,805
Total restricted assets	-	7,080	37,238	407,487	451,805
Capital assets, net					
Land	-	-	106,213	1,515,231	1,621,444
Construction in progress	-	97,558	-	414,781	512,339
Intangible assets	-	2,639	-	73,066	75,705
Infrastructure	266,915	890,137	459,489	17,334,758	18,951,299
Equipment	-	21,325	5,841	78,781	105,947
Total capital assets	266,915	1,011,659	571,543	19,416,617	21,266,734
Total noncurrent assets	266,915	1,018,739	608,781	19,824,104	21,718,539
Total assets	1,266,114	2,075,910	908,589	23,139,644	27,390,257
Deferred Outflows of Resources					
Deferred charge on refunding	-	-	-	282,004	282,004
Total deferred outflows of resources	-	-	-	282,004	282,004
Liabilities					
Current liabilities payable from unrestricted assets:					
Accounts payable and accrued expenses	26,086	236,078	303	46,947	309,414
Total current liabilities payable from unrestricted assets	26,086	236,078	303	46,947	309,414
Current liabilities payable from restricted assets:					
Deposits from others	-	-	-	27,568	27,568
Interest payable	-	533	-	45,502	46,035
General obligation bonds payable	-	16,000	24,000	-	40,000
Revenue bonds payable	-	-	-	286,257	286,257
Total current liabilities payable from restricted assets	-	16,533	24,000	359,327	399,860
Noncurrent liabilities:					
General obligation bonds payable	-	16,000	78,000	-	94,000
Revenue bonds payable	-	-	-	3,667,574	3,667,574
Total noncurrent liabilities	-	16,000	78,000	3,667,574	3,761,574
Total liabilities	26,086	268,611	102,303	4,073,848	4,470,848
Net Position					
Net invested in capital assets	266,915	979,659	469,543	15,744,790	17,460,907
Restricted for:					
Debt service	-	6,547	37,238	361,985	405,770
Recycled water and water conservation	-	-	2,841	-	2,841
Unrestricted	973,113	821,093	296,664	3,241,025	5,331,895
Total net position	$ 1,240,028	$ 1,807,299	$ 806,286	$ 19,347,800	$ 23,201,413

Sonoma County Water Agency
Combining Statement of Revenues, Expenses, and Changes in Net Position
Santation Enterprise Funds
For the Fiscal Year Ended June 30, 2016

	Sanitation Funds				
	Sea Ranch	Penngrove	Geyserville	Airport Larkfield Wikiup	Total Sanitation Funds
Operating Revenue					
Flat charges	$ 611,116	$ 687,226	$ 313,222	$ 2,923,213	$ 4,534,777
Sanitation services	697	16,329	6,297	257,719	281,042
Real estate rental	-	-	-	150,000	150,000
Miscellaneous	-	(2,800)	112	100,308	97,620
Total operating revenue	611,813	700,755	319,631	3,431,240	5,063,439
Operating Expenses					
Services and supplies	607,978	689,077	641,515	2,333,550	4,272,120
Depreciation and amortization	23,248	50,719	38,084	1,035,239	1,147,290
Total operating expenses	631,226	739,796	679,599	3,368,789	5,419,410
Operating income (loss)	(19,413)	(39,041)	(359,968)	62,451	(355,971)
Nonoperating Revenues (Expenses)					
Taxes and assessments	-	18,563	28,329	-	46,892
Investment earnings	6,410	8,068	2,879	20,377	37,734
Interest expense and debt issuance cost	-	-	(5,675)	(184,053)	(189,728)
Conservation program expense	(550)	(525)	-	(3,703)	(4,778)
Intergovernmental revenue	-	136	135	-	271
Total nonoperating revenue (expenses), net	5,860	26,242	25,668	(167,379)	(109,609)
Income (loss) before capital contributions and transfers	(13,553)	(12,799)	(334,300)	(104,928)	(465,580)
Capital contributions - connection fees	4,492	19,405	5,642	651,300	680,839
Capital contributions - other	-	-	-	704,393	704,393
Change in net position	(9,061)	6,606	(328,658)	1,250,765	919,652
Net position - beginning of year	1,249,089	1,800,693	1,134,944	18,097,035	22,281,761
Net position - end of year	$ 1,240,028	$ 1,807,299	$ 806,286	$ 19,347,800	$ 23,201,413

Sonoma County Water Agency
Combining Statement of Cash Flows
Sanitation Enterprise Funds
For the Fiscal Year Ended June 30, 2016

	Sanitation Funds				
	Sea Ranch	Penngrove	Geyserville	Airport Larkfield Wikiup	Total Sanitation Funds
Cash flows from operating activities:					
Cash receipts from customers	$ 605,528	$ 696,899	$ 317,327	$ 3,401,952	$ 5,021,706
Cash payments for interfund services used	(104,350)	(195,071)	(445,756)	(1,539,314)	(2,284,491)
Cash payments to suppliers	(529,005)	(478,038)	(198,357)	(825,467)	(2,030,867)
Net cash provided by (used for) operating activities	(27,827)	23,790	(326,786)	1,037,171	706,348
Cash flows from noncapital financing activities:					
Taxes and assessments	-	18,563	28,329	-	46,892
Intergovernmental receipts	-	136	135	-	271
Net cash provided by noncapital financing activities	-	18,699	28,464	-	47,163
Cash flows from capital and related financing activities:					
Purchase of capital assets	-	(31,783)	-	(71,321)	(103,104)
Principal paid on general obligation and revenue bonds	-	(15,000)	(23,000)	(275,000)	(313,000)
Interest paid on long-term debt	-	(1,975)	(5,675)	(171,357)	(179,007)
Connection fees	4,492	19,405	5,642	239,638	269,177
Net cash provided by (used for) capital and related financing activities	4,492	(29,353)	(23,033)	(278,040)	(325,934)
Cash flows from investing activities:					
Interest received	6,410	8,068	2,879	20,377	37,734
Net increase (decrease) in cash and cash equivalents	(16,925)	21,204	(318,476)	779,508	465,311
Cash and cash equivalents - beginning of year	1,006,289	1,031,056	639,707	2,457,904	5,134,956
Cash and cash equivalents - end of year	$ 989,364	$ 1,052,260	$ 321,231	$ 3,237,412	$ 5,600,267
Reconciliation to the statement of net position:					
Cash and investments	$ 989,364	$ 1,045,180	$ 283,993	$ 2,829,925	$ 5,148,462
Restricted cash and investments	-	7,080	37,238	407,487	451,805
Cash and cash equivalents	$ 989,364	$ 1,052,260	$ 321,231	$ 3,237,412	$ 5,600,267
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	$ (19,413)	$ (39,041)	$ (359,968)	$ 62,451	$ (355,971)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities:					
Conservation program outlays	(550)	(525)	-	(3,703)	(4,778)
Depreciation and amortization	23,248	50,719	38,084	1,035,239	1,147,290
Change in assets and liabilities:					
Accounts receivable	(6,285)	(2,233)	(2,304)	(29,288)	(40,110)
Prepaid expenses	-	(152)	(153)	(917)	(1,222)
Accounts payable and accrued expenses	(24,827)	15,022	(2,445)	(26,611)	(38,861)
Net cash provided by (used for) operating activities	$ (27,827)	$ 23,790	$ (326,786)	$ 1,037,171	$ 706,348
Noncash capital and related financing activities					
Capital contributions receivable	$ -	$ -	$ -	$ 411,662	$ 411,662
Donated asset	-	-	-	704,393	704,393
Increase in capital assets for capitalized interest	-	1,725	-	19,913	21,638

Sonoma County Water Agency
Combining Statement of Net Position
Internal Service Funds
June 30, 2016

	Internal Service Funds		
	Equipment Facilities	Power Resources	Total Internal Service Funds
Assets			
Current assets:			
Cash and Investments	$ 3,063,524	$ 2,633,130	$ 5,696,654
Deposits with others	-	1,753,746	1,753,746
Prepaid expenses	2,155	801,959	804,114
Total current assets	3,065,679	5,188,835	8,254,514
Noncurrent assets:			
Restricted assets:			
Reserves on deposit	-	826,243	826,243
Assets held for resale	1,388,406	-	1,388,406
Capital assets, net			
Land	2,336,031	-	2,336,031
Land improvements	692,204	-	692,204
Construction in progress	11,874	304,781	316,655
Intangible assets - software	51,330	-	51,330
Buildings and improvements	25,178,333	12,898,439	38,076,772
Equipment	4,531,980	-	4,531,980
Total capital assets	32,801,752	13,203,220	46,004,972
Total noncurrent assets	34,190,158	14,029,463	48,219,621
Total assets	37,255,837	19,218,298	56,474,135
Liabilities			
Current liabilities:			
Accounts payable and accrued expenses	86,547	426,755	513,302
Interest payable	39,410	17,391	56,801
Advances from other governments	-	518,551	518,551
Capital leases	390,729	355,216	745,945
Due to other funds	-	170,520	170,520
Unearned revenue	-	332,421	332,421
Total current liabilities	516,686	1,820,854	2,337,540
Noncurrent liabilities:			
Advances from other governments	-	1,103,323	1,103,323
Capital leases	2,988,322	1,280,159	4,268,481
Advances from other funds	-	2,557,796	2,557,796
Total noncurrent liabilities	2,988,322	4,941,278	7,929,600
Total liabilities	3,505,008	6,762,132	10,267,140
Net Position			
Net investment in capital assets	29,422,701	9,945,971	39,368,672
Restricted for reserves on deposit	-	826,243	826,243
Unrestricted	4,328,128	1,683,952	6,012,080
Total net position	$ 33,750,829	$ 12,456,166	$ 46,206,995

Sonoma County Water Agency
Combining Statement of Revenues, Expenses, and Changes in Net Position
Internal Service Funds
For the Fiscal Year Ended June 30, 2016

	Internal Service Funds		
	Equipment Facilities	**Power Resources**	**Total Internal Service Funds**
Operating Revenue			
Power sales	$ -	$ 4,754,118	$ 4,754,118
Equipment rental	2,381,557	-	2,381,557
Real estate rental	4,387,000	-	4,387,000
Miscellaneous	5,439	2,672,120	2,677,559
Total operating revenue	6,773,996	7,426,238	14,200,234
Operating Expenses			
Services and supplies	3,474,363	3,361,571	6,835,934
Depreciation and amortization	1,593,120	421,160	2,014,280
Total operating expenses	5,067,483	3,782,731	8,850,214
Operating income	1,706,513	3,643,507	5,350,020
Nonoperating Revenues (Expenses)			
Investment earnings	30,110	19,031	49,141
Interest expense and debt issuance cost	(220,924)	(184,476)	(405,400)
Gain (loss) on disposal of capital assets	1,594	(93,923)	(92,329)
Intergovernmental revenue	-	5,937	5,937
Total nonoperating expenses, net	(189,220)	(253,431)	(442,651)
Income (loss) before capital contributions and transfers	1,517,293	3,390,076	4,907,369
Change in net position	1,517,293	3,390,076	4,907,369
Net position - beginning of year	32,233,536	9,066,090	41,299,626
Net position - end of year	$ 33,750,829	$ 12,456,166	$ 46,206,995

Sonoma County Water Agency
Combining Statement of Cash Flows
Internal Service Funds
For the Fiscal Year Ended June 30, 2016

	Internal Service Funds		
	Equipment Facilities	Power Resources	Total Internal Service Funds
Cash flows from operating activities:			
Cash receipts from interfund services provided	$ 6,773,996	$ 4,846,249	$ 11,620,245
Cash payments for interfund services used	(1,965,190)	(112,161)	(2,077,351)
Cash payments to suppliers	(1,490,897)	(3,637,784)	(5,128,681)
Net cash provided by operating activities	3,317,909	1,096,304	4,414,213
Cash flows from capital and related financing activities:			
Purchase of capital assets	(2,726,717)	(159,136)	(2,885,853)
Principal paid on capital leases	(3,999,788)	(340,529)	(4,340,317)
Principal paid on advances from other governments	-	(497,659)	(497,659)
Principal paid on interfund borrowing	-	(170,520)	(170,520)
Interest paid on long-term debt	(319,183)	(192,699)	(511,882)
Proceeds from sale of capital assets	86,594	-	86,594
Net cash used for capital and related financing activities	(6,959,094)	(1,360,543)	(8,319,637)
Cash flows from investing activities:			
Interest received	30,110	19,031	49,141
Net decrease in cash and cash equivalents	(3,611,075)	(245,208)	(3,856,283)
Cash and cash equivalents - beginning of year	6,674,599	2,878,338	9,552,937
Cash and cash equivalents - end of year	$ 3,063,524	$ 2,633,130	$ 5,696,654
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$ 1,706,513	$ 3,643,507	$ 5,350,020
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation and amortization	1,593,120	421,160	2,014,280
Change in assets and liabilities:			
Deposits with others	-	(1,753,746)	(1,753,746)
Prepaid expenses	(2,155)	(300,747)	(302,902)
Reserves on deposit	-	(826,243)	(826,243)
Accounts payable and accrued expenses	20,431	(87,627)	(67,196)
Net cash provided by operating activities	$ 3,317,909	$ 1,096,304	$ 4,414,213
Noncash capital and related financing activities:			
Acquisition of capital assets through accounts payable	$ -	$ 104,990	$ 104,990
Loss on disposal of capital assets	(85,000)	(93,923)	(178,923)
Increase in capital assets for capitalized interest	59,509	4,590	64,099

Compliance

PISENTI & BRINKER LLP
Certified Public Accountants and Advisors
Local Partnership. Global Solutions.

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, as of and for the year ended June 30, 2016, and have issued our report thereon dated October 26, 2016.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

Independent Auditor's Report (continued)

Purpose of this Report

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

We noted certain matters that we reported to management of the Water Agency in a separate letter dated October 26, 2016.

Pisanti & Brooks LLP

Santa Rosa, California
October 26, 2016