

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, 2014

**SONOMA COUNTY WATER AGENCY
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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Independent Auditor's Report

Board of Directors
Sonoma County Water Agency
Santa Rosa, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Sonoma County Water Agency (the "Water Agency"), a component unit of the County of Sonoma, California, as of and for the year ended June 30, 2014, 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, 2014, 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.

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Independent Auditor's Report (continued)

Other Matters

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2014, 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.

PricewaterhouseCoopers

Petaluma, California
September 30, 2014

Management's Discussion and Analysis

**SONOMA COUNTY WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(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, 2014. We encourage readers to consider the information presented here in conjunction with the Water Agency's financial statements and the accompanying notes to the financial statements.

Financial Highlights

- The assets of the Water Agency exceeded its liabilities at the close of the most recent fiscal year by \$385,129,551 (net position). Of this amount \$66,426,390 (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 \$9,990,571 during the current fiscal year. This increase in net position is comprised of an increase in the business-type activities of \$9,088,915 and a governmental activities increase of \$901,656.
- As of the close of the current fiscal year, the Water Agency's governmental funds reported combined ending fund balances of \$122,299,468 a decrease of \$3,276,913 from the preceding year. Approximately 6% of this total amount, \$7,487,201 is available for spending at the Water Agency's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$7,487,201 or approximately 16% of total General Fund gross expenditures, which amounted to \$45,984,253 for the fiscal year, ended June 30, 2014.

Overview of the Financial Statements

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

Government-wide financial statements

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

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

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

**SONOMA COUNTY WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)**

Overview of the Financial Statements (continued)

Government-wide financial statements (continued)

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

Fund financial statements

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

Governmental funds

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

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

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

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

**SONOMA COUNTY WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)**

Overview of the Financial Statements (continued)

Proprietary funds

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

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

Fiduciary funds

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

Notes to the basic financial statements

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

Required supplementary information

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

Other supplementary information

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

**SONOMA COUNTY WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)**

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Water Agency, assets exceeded liabilities by \$385,129,551 as of June 30, 2014.

Condensed Statements of Net Position

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014
Current and other assets	\$ 127,271,096	\$ 126,312,709	\$ 64,432,737	\$ 69,818,405	\$ 191,703,833	\$ 196,131,114
Capital assets	146,123,420	145,555,676	210,916,543	209,005,644	357,039,963	354,561,320
Total Assets	273,394,516	271,868,385	275,349,280	278,824,049	548,743,796	550,692,434
Total Deferred Outflows	-	-	-	655,426	-	655,426
Current liabilities	7,108,038	7,929,100	11,510,321	10,212,611	18,618,359	18,141,711
Noncurrent liabilities	97,600,121	94,351,272	56,708,699	53,725,326	154,308,820	148,076,598
Total Liabilities	104,708,159	102,280,372	68,219,020	63,937,937	172,927,179	166,218,309
Net Position:						
Net investment in						
capital assets	48,170,895	50,729,786	155,634,490	155,916,745	203,805,385	206,646,531
Restricted	111,320,194	104,627,246	8,483,536	7,429,384	119,803,730	112,056,630
Unrestricted	9,195,268	14,230,981	43,012,234	52,195,409	52,207,502	66,426,390
Total Net Position	\$ 168,686,357	\$ 169,588,013	\$ 207,130,260	\$ 215,541,538	\$ 375,816,617	\$ 385,129,551

The largest portion of the Water Agency's net position (54%) reflects its investment in capital assets (e.g., land, construction in progress, infrastructure, buildings, and machinery and equipment); less any related debt used to acquire those assets that are still outstanding. The Water Agency uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Water Agency's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A portion of the Water Agency's net position, \$112,056,630 (29%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$66,426,390, may be used to meet the Water Agency's ongoing obligations to citizens and creditors.

As of June 30, 2014, 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 \$9,990,571 during the fiscal year ended June 30, 2014. This increase is a net result of revenues exceeding expenses in the business-type activities, as well as the governmental activities.

**SONOMA COUNTY WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)**

Condensed Statements of Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	Fiscal Year Ended June 30,		Fiscal Year Ended June 30,		Fiscal Year Ended June 30,	
	2013	2014	2013	2014	2013	2014
Revenues:						
Program Revenues:						
Charges for services	\$ 1,188,401	\$ 2,729,929	\$ 44,422,216	\$ 46,811,877	\$ 45,610,617	\$ 49,541,806
Operating grants and contributions	785,690	1,622,316	3,663,120	3,733,673	4,448,810	5,355,989
Capital grants and contributions	3,168	-	2,159,888	1,646,033	2,163,056	1,646,033
General Revenues:						
Property taxes	20,075,888	20,350,239	38,981	39,282	20,114,869	20,389,521
Investment earnings	284,722	1,920,952	415,176	812,853	699,898	2,733,805
Miscellaneous	197,956	1,000	-	4,239	197,956	5,239
Total revenues	22,535,825	26,624,436	50,699,381	53,047,957	73,235,206	79,672,393
Expenses:						
General government	3,649,012	3,209,352	-	-	3,649,012	3,209,352
Flood control	11,299,610	11,447,839	-	-	11,299,610	11,447,839
Warm Springs Dam	4,025,973	6,123,874	-	-	4,025,973	6,123,874
Interest on long-term debt	3,191,498	3,091,715	-	-	3,191,498	3,091,715
Water transmission	-	-	30,341,617	34,006,982	30,341,617	34,006,982
Water supply	-	-	5,827,236	6,308,724	5,827,236	6,308,724
Sanitation	-	-	5,451,593	4,743,336	5,451,593	4,743,336
Total expenses	22,166,093	23,872,780	41,620,446	45,059,042	63,786,539	68,931,822
Change in net position before transfers	369,732	2,751,656	9,078,935	7,988,915	9,448,667	10,740,571
Transfers	(1,784,429)	(1,850,000)	1,234,429	1,100,000	(550,000)	(750,000)
Change in net position	(1,414,697)	901,656	10,313,364	9,088,915	8,898,667	9,990,571
Net position-beginning of year	170,101,054	168,686,357	196,816,896	207,130,260	366,917,950	375,816,617
Change in accounting principle-GASB 65	-	-	-	(677,637)	-	(677,637)
Net position - beginning of year, as restated	170,101,054	168,686,357	196,816,896	206,452,623	366,917,950	375,138,980
Net position - end of year	\$ 168,686,357	\$ 169,588,013	\$ 207,130,260	\$ 215,541,538	\$ 375,816,617	\$ 385,129,551

Governmental Activities

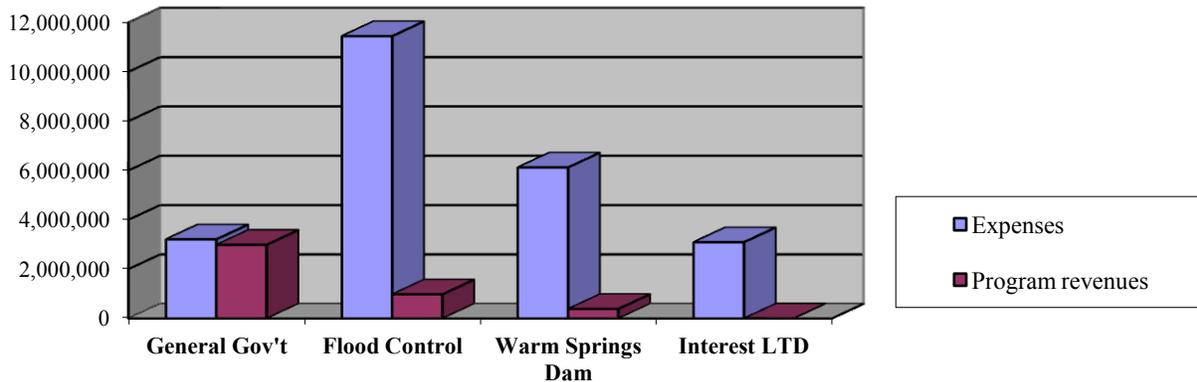
Governmental activities increased the Water Agency's net position by \$901,656. Key elements of the Water Agency's governmental activities are identified below.

- Property tax revenues for the fiscal year totaled \$20,350,239, including \$5,444,212 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.

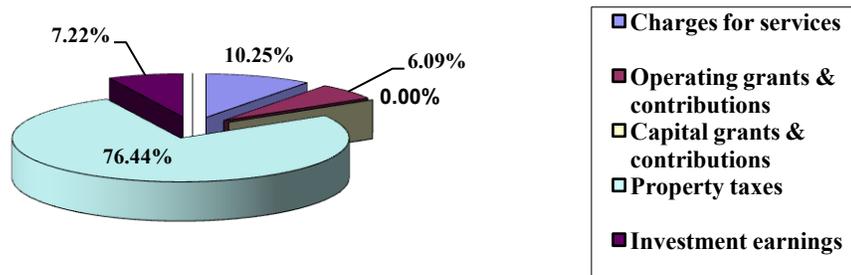
**SONOMA COUNTY WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)**

- Investment earnings totaling \$1,920,952 was due primarily to a \$746,084 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. This increase in the fair market value of the U.S Treasury STRIPS is a significant rebound from the prior year when there was a \$439,984 decrease in fair market value. Additionally there was a \$406,913 increase in fair market value of pooled investments within the county pool. Absent the U.S. Treasury STRIPS and pooled investments fair market value adjustments, investment gains totaling \$327,971 were realized.
- Revenues for the fiscal year ended June 30, 2014 increased by \$4,088,611 from the prior fiscal year while expenditures increased by \$1,706,687 over the same period. The revenue increase is due primarily to an increase of \$1,567,812 in for recognition of an agreement with Sonoma Clean Power for reimbursement of start-up costs, as well as the increase in investment earnings particularly related to the market value of the US Treasury STRIP investments which saw a decrease in market value of \$439,984 in the prior period. The increase in expenses is due primarily to increases in Warm Springs Dam projects of \$2,097,091 offset by decreases in other areas.

Expenses and Program Revenues – Governmental Activities



Revenues by Source – Governmental Activities



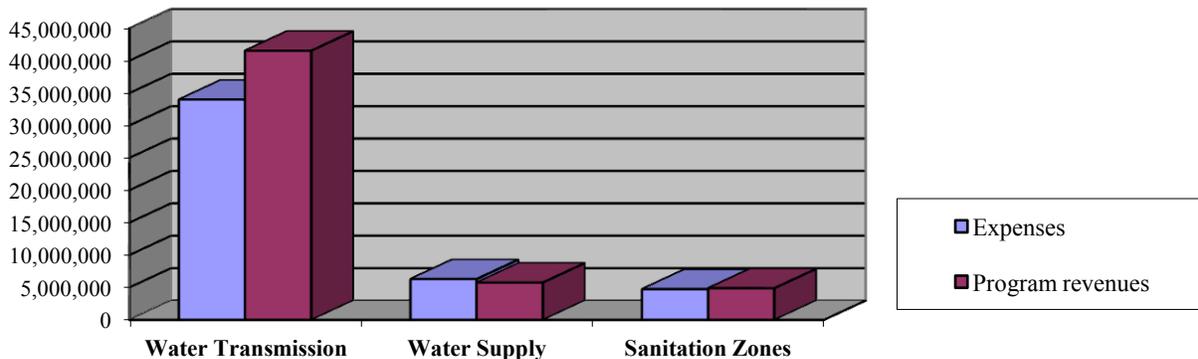
**SONOMA COUNTY WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)**

Business-type Activities

Business-type activities increased the Water Agency's net position by \$9,088,915. Key elements of the Water Agency's business-type activities are identified below.

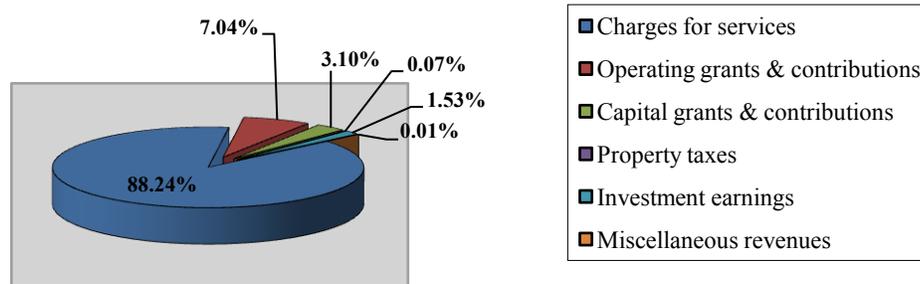
- Water sales revenues increased \$1,953,376 from the prior fiscal year. This increase was due to a 1.3% increase in total acre-feet sold during the year, and an average increase of 3.45% in water rates from the fiscal year ended June 30, 2013.
- Sewer service revenues increased due to increases in the annual rates combined with increases in the total Equivalent Single Family Dwellings (ESDs) serviced by the Water Agency's four sanitation zones.
- Operating Grants and contributions totaling \$3,733,673, represent an increase of \$70,553 from the prior year, were received during the fiscal year ended June 30, 2014. Grants include funding from the state towards North San Pablo Bay restoration project, and Title XVI Water Smart funding for North Bay Water Reuse projects. Other contributions include payments on a storage pond use agreement with the Town of Windsor. The majority of the increase is related to Title XVI Water Smart funding for North Bay Water Reuse projects.
- Investment earnings for the fiscal year ended June 30, 2014 totaled \$812,853. This is an increase of \$397,677 from the prior year due primarily to a \$463,981 increase in fair market value of pooled investments within the county pool offset by decreases in interest rates.
- Transfers from the Water Agency's General Fund totaling \$1,100,000 were received during the fiscal year ended June 30, 2014. More information on these transfers can found in the notes to the financial statements.

Expenses and Program Revenues – Business-type Activities



**SONOMA COUNTY WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)**

Revenues by Source – Business-type activities



Financial Analysis of the Government's Funds

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

Governmental funds

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

As of June 30, 2014, the Water Agency's governmental funds reported combined ending fund balances of \$122,299,468, a decrease of \$3,276,913 in comparison with the prior year. Approximately 6% of this total amount, \$7,487,201, constitutes unassigned fund balance, which is available for spending at the Water Agency's discretion. The remaining fund balance is categorized based on the relative level of restriction for its use in accordance with GASB Statement No 54, which is further discussed in the accompanying notes to the financial statements.

The General Fund is the chief operating fund of the Water Agency. At the end of the current fiscal year, unassigned fund balance of the General Fund is \$7,487,201. Assigned fund balance totals \$6,045,621 and is comprised of activities related to the operation of Spring Lake Park, the Waste/Recycled Water Loan Fund and the Sustainability Fund. Restricted fund balance totals \$250,000 and is related to a legally enforceable agreement with the Town of Windsor. The General Fund also reports a non-spendable fund balance of \$2,100,665 reflecting an advance to the Power ISF. Total fund balance for the General Fund as of June 30, 2014 is \$15,883,487.

The special revenue funds, consisting of six (6) flood control zones and Warm Springs Dam, reported fiscal year end fund balances of \$20,777,787 and \$18,101,742, respectively. A total of \$20,667,787 is restricted for flood control with \$110,000 non-spendable in the form of a note receivable. The Warm Springs Dam special revenue fund reported \$12,260,944 which is restricted for operation and maintenance of the Warm Springs Dam, and \$5,840,798 which is non-spendable and represents a deposit with the California Department of Fish and Game.

The Debt Service Fund has a total fund balance of \$67,536,452, all of which is restricted for the payment of debt service on the USACE contract for Warm Springs Dam.

**SONOMA COUNTY WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)**

Proprietary funds

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

Unrestricted net position of the Water Transmission Fund as of the fiscal year ended June 30, 2014 amounted to \$44,403,783. The Water Supply Fund reported a deficit balance in unrestricted net position of \$1,682,027 as the result of the required unearned revenue recognition (amortization) of Marin Municipal Water District's water rights payment received in June 2005. The sanitation funds reported unrestricted net position of \$4,227,171.

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 \$1,800,355, while budgeted revenues were increased by \$125,000 during the fiscal year ended June 30, 2014.

The primary component of the increase in budgeted expenditures consists of an \$822,136 increase in appropriations for salaries and benefits due to overtime work on various construction projects, and the addition of full-time positions such as Environmental Specialist and Technical Writing Specialist. The Water Agency also increased budgeted capital expenditures by \$70,000 and transfers by \$235,000 to support Airport-Larkfield-Wikiup Sanitation Zone.

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

Capital Asset and Debt Administration

Capital Assets

The Water Agency's investment in capital assets for its governmental and business-type activities as of June 30, 2014, amounts to \$354,561,320 (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, 2014 included the completion of the following projects. (The amounts shown represent the total life-to-date construction costs of each project).

**SONOMA COUNTY WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)**

Business-type activities:

- Capital expansion within the Water Transmission Fund included:
 - Forestville Water Tank - \$1,016,768
 - Isolation Valves - \$458,392
 - Rogers Creek Fault Crossing - \$5,171,018
- Capital expansion within the Water Supply Fund included:
 - Russian River GIS-Land Use Study - \$284,601
- Capital expansion within the Equipment/Facilities Internal Service Fund included:
 - Geyserville Wind Turbine - \$242,323
 - Fleet Center Relocation - \$5,978,399
 - Airport Service Center - \$485,305
- Capital expansion within Airport Larkfield Wikiup Sanitation Zone:
 - Treatment Plant Gas Scrubber - \$354,594

Capital Assets
(net of accumulated depreciation and amortization)

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014
Land	\$ 1,582,224	\$ 1,582,224	\$ 10,774,804	\$ 10,667,484	\$ 12,357,028	\$ 12,249,708
Land improvements	-	-	-	1,963,206	-	1,963,206
Construction in progress	1,646,615	2,755,549	31,826,157	24,503,753	33,472,772	27,259,302
Water storage rights	102,371,000	102,371,000	4,996,395	4,996,395	107,367,395	107,367,395
Intangible asset - easements	76,149	86,737	713,833	110,857	789,982	197,594
Intangible asset - software	679,607	543,686	1,277,687	1,295,905	1,957,294	1,839,591
Infrastructure	37,922,186	36,360,100	-	121,580,084	37,922,186	157,940,184
Buildings and improvements	1,619,205	1,539,536	157,773,860	39,175,348	159,393,065	40,714,884
Machinery and equipment	226,434	316,844	3,553,807	4,712,612	3,780,241	5,029,456
Total capital assets	\$ 146,123,420	\$ 145,555,676	\$ 210,916,543	\$ 209,005,644	\$ 357,039,963	\$ 354,561,320

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

**SONOMA COUNTY WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)**

Long-Term Debt

As of June 30, 2014, the Water Agency had a total of \$149,126,869 in outstanding debt. Of this amount \$207,000 comprises general obligation bonds which are backed by the full faith and credit of the Water Agency; \$10,606,351 is related to capital leases; \$26,160,000 in revenue bonds payable from the Water Agency's operating income; \$11,985,100 represents funds advanced to the Water Agency from the California Department of Water Resources; \$2,597,143 represents advances from the Sonoma Valley County Sanitation District; \$94,825,890 is a federal long-term contract payable related to Warm Springs Dam; and \$2,745,385 is comprised of amounts payable to employees for unused sick and vacation leave upon termination.

Outstanding Current and Long-Term Debt

	June 30,	June 30,	Change	
	2013	2014	\$	%
General obligation bonds	\$ 241,000	\$ 207,000	\$ (34,000)	-14.1%
Capital leases	11,805,507	10,606,351	(1,199,156)	-10.2%
Revenue bonds	27,135,000	26,160,000	(975,000)	-3.6%
Advances from other governments	16,436,206	14,582,243	(1,853,963)	-11.3%
Federal contract payable	97,952,525	94,825,890	(3,126,635)	-3.2%
Compensated absences	2,727,126	2,745,385	18,259	0.7%
Total	\$ 156,297,364	\$ 149,126,869	\$ (7,170,495)	-4.6%

The Water Agency's total debt decreased by \$7,170,495 (-4.6%) during the fiscal year ended June 30, 2014.

The outstanding total of general obligation bonds, capital leases, revenue bonds, advances from other governments and federal contract payable decreased by 14.11%, 10.16%, 3.59%, 11.28%, and 3.19%, respectively, during the fiscal year ended June 30, 2014 due to annual principal payments.

Compensated absences increased due to sick and vacation leave usage being less than the amounts earned and accrued.

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

Next Year's Budgets and Rates

As of the fiscal year ended June 30, 2014, unassigned fund balance in the General Fund amounts to \$7,487,201. The Agency has appropriated a net cost savings of \$411,469 that will increase this amount in the fiscal year ending June 30, 2015 budget.

Both the water and sewer rates were increased for the fiscal year ending June 30, 2015 budget. Water rates were increased by an average of 3.45%, while sewer rates increased an average of 2.97%.

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

**SONOMA COUNTY WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)**

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

	Santa Rosa Aqueduct	Petaluma Aqueduct	Sonoma Aqueduct
Operations and maintenance	\$ 618.29	\$ 618.29	\$618.29
Revenue bond charges:			
Aqueduct revenue bonds charge	0.00	0.00	62.56
Storage facility revenue bonds charge	26.31	26.31	26.31
Common facilities revenue bonds charge	66.58	66.58	66.58
Aqueduct capital charge	19.50	19.50	19.50
Total	\$ 730.68	\$ 730.68	\$793.24

Sewer Service Rate per Equivalent Single-Family Dwelling

	2013/14	2014/15	Change
Sanitation Zone			
Sea Ranch	\$ 982	\$ 1,014	3.26%
Penngrove	1,293	1,306	1.01%
Geyserville	854	880	3.04%
Airport-Larkfield-Wikiup	738	782	5.96%

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

	2013/14	2014/15	Change
Sanitation Zone			
Sea Ranch	577	582	0.87%
Penngrove	521	520	-0.19%
Geyserville	352	353	0.28%
Airport-Larkfield-Wikiup	3,735	3,778	1.15%

Request for Additional Information:

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

SONOMA COUNTY WATER AGENCY
STATEMENT OF NET POSITION
JUNE 30, 2014

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Current assets:			
Cash and investments	\$ 120,968,797	\$ 56,175,749	\$ 177,144,546
Accounts receivable	1,268,933	9,219,785	10,488,718
Interest receivable	25,555	-	25,555
Notes receivable	110,000	-	110,000
Prepaid expenses	20,947	570,315	591,262
Internal balances	2,100,665	(2,100,665)	-
Total current assets	<u>124,494,897</u>	<u>63,865,184</u>	<u>188,360,081</u>
Noncurrent assets:			
Restricted assets:			
Cash and investments-guarantees	250,000	-	250,000
Cash and investments with trustee	-	2,720,898	2,720,898
Cash - revenue bond funds	-	579,460	579,460
Cash - capital leases	-	1,251,457	1,251,457
Total restricted assets	<u>250,000</u>	<u>4,551,815</u>	<u>4,801,815</u>
Deposits with others	-	13,000	13,000
Advances to other governments	1,567,812	-	1,567,812
Assets held for sale	-	1,388,406	1,388,406
Capital assets, net			
Land	1,582,224	10,667,484	12,249,708
Land improvements	-	1,963,206	1,963,206
Construction in progress	2,755,549	24,503,753	27,259,302
Intangible assets - water storage rights	102,371,000	4,996,395	107,367,395
Intangible assets - permanent easements	46,441	110,857	157,298
Intangible assets - temporary easements	40,296	-	40,296
Intangible assets - software	543,686	1,295,905	1,839,591
Infrastructure	36,360,100	121,580,084	157,940,184
Buildings and improvements	1,539,536	39,175,348	40,714,884
Equipment	316,844	4,712,612	5,029,456
Total capital assets	<u>145,555,676</u>	<u>209,005,644</u>	<u>354,561,320</u>
Total noncurrent assets	<u>147,373,488</u>	<u>214,958,865</u>	<u>362,332,353</u>
Total assets	<u>271,868,385</u>	<u>278,824,049</u>	<u>550,692,434</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	-	655,426	655,426
Total deferred outflows of resources	<u>-</u>	<u>655,426</u>	<u>655,426</u>

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

SONOMA COUNTY WATER AGENCY
STATEMENT OF NET POSITION (CONTINUED)
JUNE 30, 2014

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
LIABILITIES			
Current liabilities payable from unrestricted assets:			
Accounts payable and accrued expenses	2,227,800	3,355,769	5,583,569
Due to other governments	174,639	3,582,082	3,756,721
Compensated absences	217,467	-	217,467
Unearned revenue	42,990	366,359	409,349
Interest payable	2,038,735	-	2,038,735
Long-term contracts payable	3,227,469	-	3,227,469
Total current liabilities payable from unrestricted assets	<u>7,929,100</u>	<u>7,304,210</u>	<u>15,233,310</u>
Current liabilities payable from restricted assets:			
Deposits from others	-	4,230	4,230
Interest payable	-	584,035	584,035
General obligation bonds payable	-	35,000	35,000
Capital leases	-	1,251,457	1,251,457
Revenue bonds payable	-	1,033,679	1,033,679
Total current liabilities payable from restricted assets	<u>-</u>	<u>2,908,401</u>	<u>2,908,401</u>
Noncurrent liabilities:			
Compensated absences	2,527,918	-	2,527,918
General obligation bonds payable	-	172,000	172,000
Capital leases	-	9,354,894	9,354,894
Revenue bonds payable	-	25,898,093	25,898,093
Long-term contracts payable	91,598,421	-	91,598,421
Advances from other governments	-	13,394,262	13,394,262
Pollution remediation obligation	224,933	-	224,933
Unearned revenue	-	4,906,077	4,906,077
Total noncurrent liabilities	<u>94,351,272</u>	<u>53,725,326</u>	<u>148,076,598</u>
Total liabilities	<u>102,280,372</u>	<u>63,937,937</u>	<u>166,218,309</u>
NET POSITION			
Net investment in capital assets	50,729,786	155,916,745	206,646,531
Restricted for flood control	20,777,787	-	20,777,787
Restricted for Warm Springs Dam	18,101,742	-	18,101,742
Restricted for debt service	65,497,717	3,716,833	69,214,550
Restricted for capital projects	-	259,717	259,717
Restricted for recycled water and water conservation	-	3,452,834	3,452,834
Restricted for guarantees	250,000	-	250,000
Unrestricted	14,230,981	52,195,409	66,426,390
Total net position	<u>\$ 169,588,013</u>	<u>\$ 215,541,538</u>	<u>\$ 385,129,551</u>

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

**SONOMA COUNTY WATER AGENCY
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 3,209,352	\$ 2,645,169	\$ 342,295	\$ -	\$ (221,888)	\$ -	\$ (221,888)
Flood control	11,447,839	84,741	893,456	-	(10,469,642)	-	(10,469,642)
Warm Springs Dam	6,123,874	19	386,565	-	(5,737,290)	-	(5,737,290)
Interest on long-term debt	3,091,715	-	-	-	(3,091,715)	-	(3,091,715)
Total governmental activities	<u>23,872,780</u>	<u>2,729,929</u>	<u>1,622,316</u>	<u>-</u>	<u>(19,520,535)</u>	<u>-</u>	<u>(19,520,535)</u>
Business-type activities:							
Water transmission	34,006,982	40,184,486	160,191	1,201,556	-	7,539,251	7,539,251
Water supply	6,308,724	2,225,130	3,537,618	-	-	(545,976)	(545,976)
Sanitation	4,743,336	4,402,261	35,864	444,477	-	139,266	139,266
Total business-type activities	<u>45,059,042</u>	<u>46,811,877</u>	<u>3,733,673</u>	<u>1,646,033</u>	<u>-</u>	<u>7,132,541</u>	<u>7,132,541</u>
Total primary government	<u>\$ 68,931,822</u>	<u>\$ 49,541,806</u>	<u>\$ 5,355,989</u>	<u>\$ 1,646,033</u>	<u>(19,520,535)</u>	<u>7,132,541</u>	<u>(12,387,994)</u>
General revenues:							
Taxes:							
Property taxes, levied for general purposes					14,906,027	-	14,906,027
Property taxes, levied for debt service and assurances					5,444,212	39,282	5,483,494
Unrestricted investment earnings					1,920,952	812,853	2,733,805
Gain on disposal of capital assets					1,000	4,239	5,239
Transfers to related governments					(750,000)	-	(750,000)
Transfers					(1,100,000)	1,100,000	-
Total general revenues and transfers					<u>20,422,191</u>	<u>1,956,374</u>	<u>22,378,565</u>
Change in net position					901,656	9,088,915	9,990,571
Net position - beginning of year					168,686,357	207,130,260	375,816,617
Change in accounting principle - GASB 65					-	(677,637)	(677,637)
Net position - beginning of year, as restated					<u>168,686,357</u>	<u>206,452,623</u>	<u>375,138,980</u>
Net position - end of year					<u>\$ 169,588,013</u>	<u>\$ 215,541,538</u>	<u>\$ 385,129,551</u>

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

**SONOMA COUNTY WATER AGENCY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014**

	Special Revenue Funds			Debt Service	Total Governmental Funds
	General	Flood Control	Warm Springs Dam		
Assets					
Cash and investments	\$ 13,541,414	\$ 20,809,790	\$ 19,081,141	\$ 67,536,452	\$ 120,968,797
Restricted cash and investments	250,000	-	-	-	250,000
Accounts receivable	276,329	777,901	214,703	-	1,268,933
Prepaid expenses	20,947	-	-	-	20,947
Interest receivable	25,555	-	-	-	25,555
Notes receivable	-	110,000	-	-	110,000
Advances to other funds	2,100,665	-	-	-	2,100,665
Advances to other governments	1,567,812	-	-	-	1,567,812
Total assets	\$ 17,782,722	\$ 21,697,691	\$ 19,295,844	\$ 67,536,452	\$ 126,312,709
Liabilities					
Accounts payable	\$ 288,433	\$ 831,028	\$ 1,108,339	\$ -	\$ 2,227,800
Due to other governments	-	88,876	85,763	-	174,639
Unearned revenue	42,990	-	-	-	42,990
Total liabilities	331,423	919,904	1,194,102	-	2,445,429
Deferred inflow of resources					
Unavailable revenue-advances to other governments	1,567,812	-	-	-	1,567,812
Total deferred inflow of resources	1,567,812	-	-	-	1,567,812
Fund balances:					
Non-Spendable	2,100,665	110,000	5,840,798	-	8,051,463
Restricted	250,000	20,667,787	12,260,944	67,536,452	100,715,183
Assigned	6,045,621	-	-	-	6,045,621
Unassigned	7,487,201	-	-	-	7,487,201
Total fund balances	15,883,487	20,777,787	18,101,742	67,536,452	122,299,468
Total liabilities, deferred inflows of resources and fund balances	\$ 17,782,722	\$ 21,697,691	\$ 19,295,844	\$ 67,536,452	\$ 126,312,709

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

Fund balances - total governmental funds	\$ 122,299,468
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.	145,555,676
Other long term assets are not available to pay current period expenditures and are therefore, are reported as unavailable revenue in the funds.	1,567,812
Some liabilities are not due and payable in the current period, therefore, are not recorded in the funds as follows:	
Interest payable	(2,038,735)
Compensated absences	(2,745,385)
Pollution remediation obligation	(224,933)
Long-term contracts payable	<u>(94,825,890)</u>
Net position of governmental activities	<u>\$ 169,588,013</u>

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

SONOMA COUNTY WATER AGENCY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	<u>Special Revenue Funds</u>				Total Governmental Funds
	<u>General</u>	<u>Flood Control</u>	<u>Warm Springs Dam</u>	<u>Debt Service</u>	
REVENUES					
Property taxes	\$ 6,995,366	\$ 7,910,661	\$ 5,444,212	\$ -	\$ 20,350,239
Investment earnings	230,596	286,947	265,009	1,138,400	1,920,952
Intergovernmental	342,295	893,456	386,565	-	1,622,316
Charges for services	1,076,203	38,922	-	-	1,115,125
Miscellaneous	1,154	45,819	19	-	46,992
Total revenues	<u>8,645,614</u>	<u>9,175,805</u>	<u>6,095,805</u>	<u>1,138,400</u>	<u>25,055,624</u>
EXPENDITURES					
Current:					
General government:					
Salaries and benefits	32,376,633	-	-	-	32,376,633
Services and supplies	13,471,867	-	-	-	13,471,867
Costs applied	(42,920,897)	-	-	-	(42,920,897)
Flood control:					
Services and supplies	-	9,796,877	-	-	9,796,877
Pollution remediation	-	2,902	-	-	2,902
Refund-2005/06 flood event close-out	-	88,876	-	-	88,876
Warm Springs Dam:					
Services and supplies	-	-	6,032,945	-	6,032,945
Refund-2005/06 flood event close-out	-	-	85,763	-	85,763
Capital outlay	135,753	761,163	366,083	-	1,262,999
Debt service:					
Principal	-	-	-	3,126,635	3,126,635
Interest and fiscal charges	-	-	-	3,158,937	3,158,937
Total expenditures	<u>3,063,356</u>	<u>10,649,818</u>	<u>6,484,791</u>	<u>6,285,572</u>	<u>26,483,537</u>
Excess (deficiency) of revenues over (under) expenditures	5,582,258	(1,474,013)	(388,986)	(5,147,172)	(1,427,913)
OTHER FINANCING SOURCES (USES)					
Transfers to related governments	(750,000)	-	-	-	(750,000)
Transfers out	(1,100,000)	-	-	-	(1,100,000)
Proceeds from sale of capital assets	1,000	-	-	-	1,000
Total other financing sources (uses)	<u>(1,849,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,849,000)</u>
Net change in fund balances	3,733,258	(1,474,013)	(388,986)	(5,147,172)	(3,276,913)
Fund balances - beginning of year	<u>12,150,229</u>	<u>22,251,800</u>	<u>18,490,728</u>	<u>72,683,624</u>	<u>125,576,381</u>
Fund balances - end of year	<u>\$ 15,883,487</u>	<u>\$ 20,777,787</u>	<u>\$ 18,101,742</u>	<u>\$ 67,536,452</u>	<u>\$ 122,299,468</u>

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

**SONOMA COUNTY WATER AGENCY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Net change in fund balances - total governmental funds	\$ (3,276,913)
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	1,262,999
Depreciation expense	(1,830,741)
Other long-term assets are not available to pay for current period expenditures and therefore, are reported as unavailable revenue in the funds.	1,567,812
Repayment of principal is an expenditure in the governmental funds, but the repayment reduces the long-term liabilities in the statement of net position.	3,126,635
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	67,221
Change in compensated absences	(18,259)
Change in pollution remediation obligation	2,902
Change in net position of governmental activities	\$ 901,656

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

SONOMA COUNTY WATER AGENCY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014

Business-type Activities - Enterprise Funds					
ASSETS	Water Transmission	Water Supply	Sanitation	Total	Internal Service Funds
Current assets:					
Cash and investments	\$ 42,402,783	\$ 2,948,356	\$ 4,511,685	\$ 49,862,824	\$ 6,312,925
Accounts receivable	7,323,432	1,721,185	94,205	9,138,822	80,963
Prepaid expenses	3,349	-	-	3,349	566,966
Total current assets	49,729,564	4,669,541	4,605,890	59,004,995	6,960,854
Noncurrent assets:					
Restricted assets:					
Cash and investments with trustee	2,720,898	-	-	2,720,898	-
Cash - revenue bond funds	259,717	-	319,743	579,460	-
Cash - capital leases	-	-	-	-	1,251,457
Total restricted assets	2,980,615	-	319,743	3,300,358	1,251,457
Deposits with others	13,000	-	-	13,000	-
Assets held for sale	-	-	-	-	1,388,406
Capital assets, net					
Land	6,710,009	-	1,621,444	8,331,453	2,336,031
Land improvements	-	1,963,206	-	1,963,206	-
Construction in progress	23,343,327	-	476,051	23,819,378	684,375
Intangible assets - water storage rights	4,996,395	-	-	4,996,395	-
Intangible assets - permanent easements	95,658	-	15,199	110,857	-
Intangible assets - software	908,644	284,601	-	1,193,245	102,660
Infrastructure	100,521,924	948,301	20,109,859	121,580,084	-
Buildings and improvements	-	-	-	-	39,175,348
Equipment	848,568	22,444	115,936	986,948	3,725,664
Total capital assets	137,424,525	3,218,552	22,338,489	162,981,566	46,024,078
Total noncurrent assets	140,418,140	3,218,552	22,658,232	166,294,924	48,663,941
Total assets	190,147,704	7,888,093	27,264,122	225,299,919	55,624,795
DEFERRED OUTFLOWS OF RESOURCES					
Deferred charge on refunding	322,149	-	333,277	655,426	-
Total deferred outflows of resources	322,149	-	333,277	655,426	-

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

SONOMA COUNTY WATER AGENCY
STATEMENT OF NET POSITION (CONTINUED)
PROPRIETARY FUNDS
JUNE 30, 2014

	<u>Business-type Activities - Enterprise Funds</u>				<u>Internal Service Funds</u>
	<u>Water Transmission</u>	<u>Water Supply</u>	<u>Sanitation</u>	<u>Total</u>	
LIABILITIES					
Current liabilities payable from unrestricted assets:					
Accounts payable and accrued expenses	1,982,933	339,242	268,733	2,590,908	764,861
Due to other governments	2,127,331	977,142	-	3,104,473	477,609
Unearned revenue	-	129,107	-	129,107	237,252
Total current liabilities payable from unrestricted assets	<u>4,110,264</u>	<u>1,445,491</u>	<u>268,733</u>	<u>5,824,488</u>	<u>1,479,722</u>
Current liabilities payable from restricted assets:					
Deposits from others	4,230	-	-	4,230	-
Interest payable	420,280	-	51,470	471,750	112,285
General obligation bonds payable	-	-	35,000	35,000	-
Capital leases	-	-	-	-	1,251,457
Revenue bonds payable	767,422	-	266,257	1,033,679	-
Total current liabilities payable from restricted assets	<u>1,191,932</u>	<u>-</u>	<u>352,727</u>	<u>1,544,659</u>	<u>1,363,742</u>
Noncurrent liabilities:					
General obligation bonds payable	-	-	172,000	172,000	-
Capital leases	-	-	-	-	9,354,894
Revenue bonds payable	21,663,004	-	4,235,089	25,898,093	-
Advances from other governments	11,274,729	-	-	11,274,729	2,119,533
Advances from other funds	-	-	-	-	2,100,665
Unearned revenue	-	4,906,077	-	4,906,077	-
Total noncurrent liabilities	<u>32,937,733</u>	<u>4,906,077</u>	<u>4,407,089</u>	<u>42,250,899</u>	<u>13,575,092</u>
Total liabilities	<u>38,239,929</u>	<u>6,351,568</u>	<u>5,028,549</u>	<u>49,620,046</u>	<u>16,418,556</u>
NET POSITION					
Net investment in capital assets	101,914,188	3,218,552	17,963,420	123,096,160	32,820,585
Restricted for:					
Debt service	2,309,388	-	268,273	2,577,661	1,139,172
Capital projects	259,717	-	-	259,717	-
Recycled water and water conservation	3,342,848	-	109,986	3,452,834	-
Unrestricted	44,403,783	(1,682,027)	4,227,171	46,948,927	5,246,482
Total net position	<u>\$ 152,229,924</u>	<u>\$ 1,536,525</u>	<u>\$ 22,568,850</u>	<u>176,335,299</u>	<u>\$ 39,206,239</u>
Adjustment to reflect the net position of the internal service funds reported as business-type activities				<u>39,206,239</u>	
Net position of business-type activities				<u>\$ 215,541,538</u>	

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

SONOMA COUNTY WATER AGENCY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	<u>Business-type Activities - Enterprise Funds</u>				<u>Internal Service Funds</u>
	<u>Water Transmission</u>	<u>Water Supply</u>	<u>Sanitation</u>	<u>Total</u>	
OPERATING REVENUE					
Water sales	\$ 39,312,638	\$ 1,877,980	\$ -	\$ 41,190,618	\$ -
Water services	26,184	-	-	26,184	-
Power sales	715,029	-	-	715,029	6,262,803
Flat charges	-	-	4,121,171	4,121,171	-
Sanitation services	-	-	274,868	274,868	-
Equipment rental	-	-	-	-	1,868,598
Real estate rental	-	-	-	-	4,427,870
Miscellaneous	130,635	347,150	6,222	484,007	4,338
Total operating revenue	<u>40,184,486</u>	<u>2,225,130</u>	<u>4,402,261</u>	<u>46,811,877</u>	<u>12,563,609</u>
OPERATING EXPENSES					
Services and supplies	27,450,432	2,834,584	3,437,204	33,722,220	8,728,614
Depreciation and amortization	5,687,238	186,701	1,191,286	7,065,225	1,856,269
Total operating expenses	<u>33,137,670</u>	<u>3,021,285</u>	<u>4,628,490</u>	<u>40,787,445</u>	<u>10,584,883</u>
Operating income (loss)	<u>7,046,816</u>	<u>(796,155)</u>	<u>(226,229)</u>	<u>6,024,432</u>	<u>1,978,726</u>
NONOPERATING REVENUES (EXPENSES)					
Taxes and assessments	-	-	39,282	39,282	-
Investment earnings	588,431	40,634	76,522	705,587	107,266
Interest expense	(529,540)	-	(207,048)	(736,588)	(362,650)
Conservation program expense	(481,864)	-	(65,065)	(546,929)	-
Gain (Loss) on disposal of capital assets	(107,573)	-	(32,557)	(140,130)	80,975
Other expense (grant pass through)	(154,039)	(3,302,477)	-	(3,456,516)	-
Refund-2005/06 flood event close-out	(1,214,445)	-	-	(1,214,445)	-
Intergovernmental revenue	160,191	3,537,618	35,864	3,733,673	-
Total nonoperating revenue (expenses), net	<u>(1,738,839)</u>	<u>275,775</u>	<u>(153,002)</u>	<u>(1,616,066)</u>	<u>(174,409)</u>
Income (loss) before capital contributions and transfers	<u>5,307,977</u>	<u>(520,380)</u>	<u>(379,231)</u>	<u>4,408,366</u>	<u>1,804,317</u>
Capital contributions - connection fees	-	-	417,777	417,777	-
Capital contributions - other	1,201,556	-	26,700	1,228,256	130,199
Transfers in	350,000	500,000	250,000	1,100,000	-
Change in net position	<u>6,859,533</u>	<u>(20,380)</u>	<u>315,246</u>	<u>7,154,399</u>	<u>1,934,516</u>
Net position - beginning of year, as previously reported	145,955,715	1,556,905	22,345,917		37,271,723
Change in accounting principle-GASB 65	(585,324)	-	(92,313)		-
Net position - beginning of year, as restated	<u>145,370,391</u>	<u>1,556,905</u>	<u>22,253,604</u>		<u>37,271,723</u>
Net position - end of year	<u>\$ 152,229,924</u>	<u>\$ 1,536,525</u>	<u>\$ 22,568,850</u>		<u>\$ 39,206,239</u>
Adjustment to reflect the change in net position of internal service funds reported as business-type activities				<u>1,934,516</u>	
Change in net position of business-type activities				<u>\$ 9,088,915</u>	

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

**SONOMA COUNTY WATER AGENCY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	Business-type Activities - Enterprise Funds				Internal Service Funds
	Water Transmission	Water Supply	Sanitation	Total	
Cash flows from operating activities:					
Cash receipts from customers	\$ 39,951,624	\$ 2,437,556	\$ 4,403,421	\$ 46,792,601	\$ -
Cash receipts from interfund services provided	-	-	-	-	12,573,061
Cash payments for interfund services used	(18,134,035)	(2,584,155)	(2,166,504)	(22,884,694)	(2,425,214)
Cash payments to suppliers	(8,488,325)	(800,154)	(1,743,285)	(11,031,764)	(6,500,118)
Conservation program outlays	(481,864)	-	(65,065)	(546,929)	-
Net cash provided by (used for) operating activities	<u>12,847,400</u>	<u>(946,753)</u>	<u>428,567</u>	<u>12,329,214</u>	<u>3,647,729</u>
Cash flows from noncapital financing activities:					
Taxes and assessments	-	-	39,282	39,282	-
Transfers in	-	500,000	250,000	750,000	-
Other expenses - grant pass through	(205,608)	(2,775,911)	-	(2,981,519)	-
Intergovernmental receipts	494,889	2,883,585	5,450	3,383,924	-
Net cash provided by noncapital financing activities	<u>289,281</u>	<u>607,674</u>	<u>294,732</u>	<u>1,191,687</u>	<u>-</u>
Cash flows from capital and related financing activities:					
Purchases of capital assets	(6,259,918)	(26,744)	(249,244)	(6,535,906)	(4,008,026)
Principal paid on general obligation and revenue bonds	(720,000)	-	(289,000)	(1,009,000)	-
Principal paid on capital leases	-	-	-	-	(1,199,156)
Principal paid on advances from other governments	(690,936)	-	-	(690,936)	(458,367)
Interest paid on long-term debt	(1,195,559)	-	(217,473)	(1,413,032)	(638,216)
Proceeds from interfund borrowing	-	-	-	-	486,474
Proceeds from sale of capital assets	30,983	-	-	30,983	114,561
Connection fees	-	-	419,604	419,604	-
Capital contributions - intergovernmental	1,262,464	-	208,564	1,471,028	-
Transfers in	350,000	-	-	350,000	-
Net cash used for capital and related financing activities	<u>(7,222,966)</u>	<u>(26,744)</u>	<u>(127,549)</u>	<u>(7,377,259)</u>	<u>(5,702,730)</u>
Cash flows from investing activities:					
Interest received	588,431	40,634	76,522	705,587	107,266
Net increase (decrease) in cash and cash equivalents	6,502,146	(325,189)	672,272	6,849,229	(1,947,735)
Cash and cash equivalents - beginning of year	38,881,252	3,273,545	4,159,156	46,313,953	9,512,117
Cash and cash equivalents - end of year	<u>\$ 45,383,398</u>	<u>\$ 2,948,356</u>	<u>\$ 4,831,428</u>	<u>\$ 53,163,182</u>	<u>\$ 7,564,382</u>
Reconciliation to the statement of net position:					
Cash and investments	\$ 42,402,783	\$ 2,948,356	\$ 4,511,685	\$ 49,862,824	\$ 6,312,925
Restricted cash and investments	2,980,615	-	319,743	3,300,358	1,251,457
Cash and cash equivalents	<u>\$ 45,383,398</u>	<u>\$ 2,948,356</u>	<u>\$ 4,831,428</u>	<u>\$ 53,163,182</u>	<u>\$ 7,564,382</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	\$ 7,046,816	\$ (796,155)	\$ (226,229)	\$ 6,024,432	\$ 1,978,726
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Conservation program outlays	-	-	(65,065)	(65,065)	-
Depreciation and amortization	5,687,238	186,701	1,191,287	7,065,226	1,856,270
Change in assets and liabilities:					
Accounts receivable	(232,694)	212,426	1,160	(19,108)	9,452
Prepaid expenses	(3,349)	-	-	(3,349)	(312,944)
Other liabilities	(168)	-	-	(168)	-
Accounts payable and accrued expenses	349,557	(549,725)	(472,586)	(672,754)	116,225
Net cash provided by (used for) operating activities	<u>\$ 12,847,400</u>	<u>\$ (946,753)</u>	<u>\$ 428,567</u>	<u>\$ 12,329,214</u>	<u>\$ 3,647,729</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisition of capital assets through accounts payable and other current liabilities	\$ 193,756	\$ -	\$ (8,705)	\$ 185,051	\$ 22,044
Increase in capital assets for capitalized interest	640,790	-	27,341	668,131	272,227
Loss on disposal of capital assets	(107,573)	-	-	(107,573)	-
Capital contribution receivable	(1,580,351)	-	-	(1,580,351)	-
Other/grant receivable	-	(742,529)	-	(742,529)	-
Accrual of pass-through grant expense	-	637,035	-	637,035	-
Transfer from capital assets to assets held for sale	-	-	-	-	1,388,406

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, 2014**

ASSETS

Cash and investments	<u>\$ 14,100</u>
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LIABILITIES

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

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

- Note A. Defining the Financial Reporting Entity
- Note B. Summary of Significant Accounting Policies
- Note C. Stewardship, Compliance and Accountability
- Note D. Cash and Investments
- Note E. Accounts Receivable
- Note F. Capital Assets
- Note G. Unearned Revenue
- Note H. Interfund Transactions
- Note I. Long-Term Obligations
- Note J. Pollution Remediation Obligation
- Note K. Employees' Retirement Plan
- Note L. Postemployment Benefits
- Note M. Related Party Transactions
- Note N. Risk Management
- Note O. Commitments and Contingencies
- Note P. Economic Dependence
- Note Q. Beginning Net Position Adjustment
- Note R. Future Governmental Accounting Standards

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Note A. Defining the Financial Reporting Entity

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

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

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

Note B. Summary of Significant Accounting Policies

Government-wide and Fund Financial Statements

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

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

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Note B. Summary of Significant Accounting Policies (continued)

Government-wide and Fund Financial Statements (continued)

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Note B. Summary of Significant Accounting Policies (continued)

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

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

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

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

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

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

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

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

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

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Note B. Summary of Significant Accounting Policies (continued)

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

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

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

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

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

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

Additionally, the Water Agency reports the following fund types:

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

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

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Note B. Summary of Significant Accounting Policies (continued)

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

Encumbrances

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

Cash and Investments

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

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

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

Accounts Receivable

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

Restricted Assets - Proprietary Funds

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

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Note B. Summary of Significant Accounting Policies (continued)

Capital Assets

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

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

Capitalized Interest

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

Bond Discounts and Premiums

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

Deferred outflows/inflows of resources

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

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Note B. Summary of Significant Accounting Policies (continued)

Deferred outflows/inflows of resources (continued)

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenues) until that time. The Water Agency does not have any items that qualify for reporting in this category.

Unearned Revenue

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

Compensated Absences

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

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

Property Tax Revenue

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

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

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Note B. Summary of Significant Accounting Policies (continued)

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

Net Position and Fund Balance

Government-wide Financial Statements and Proprietary Fund Financial Statements

Net position consists of the following three components:

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

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

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

Governmental Fund Financial Statements

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

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

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Note B. Summary of Significant Accounting Policies (continued)

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, 2014.

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

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

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

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Note B. Summary of Significant Accounting Policies (continued)

	<u>Special Revenue</u>				Total
	General Fund	Flood Control	Warm Springs		
			Dam	Debt Service	
Nonspendable					
Advances	\$ 2,100,665	\$ 110,000	\$ -	\$ -	\$ 2,210,665
Letter of Credit	-	-	5,840,798	-	5,840,798
Restricted					
General Fund	250,000	-	-	-	250,000
Flood Control	-	20,667,787	-	-	20,667,787
Warm Springs Dam	-	-	12,260,944	67,536,452	79,797,396
Assigned					
General Fund	1,568,679	-	-	-	1,568,679
Spring Lake Park	2,027,280	-	-	-	2,027,280
Water/wastewater loan fund	587,941	-	-	-	587,941
Energy & Sustainability	1,861,721	-	-	-	1,861,721
Unassigned	7,487,201	-	-	-	7,487,201
Total	\$ 15,883,487	\$ 20,777,787	\$ 18,101,742	\$ 67,536,452	\$ 122,299,468

Interfund Transactions

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

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Note B. Summary of Significant Accounting Policies (continued)

Interfund Transactions (continued)

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

Connection Fees

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

Prudent Reserve

In March 2008 the Water Advisory Committee (WAC) adopted a resolution setting out guidelines for the collection, maintenance and use of prudent reserves in the Water Transmission enterprise fund. Amounts collected via the water rates for reserve are recommended to be set aside to be used in the event of catastrophic losses. The amount collected as of the fiscal year ended June 30, 2014 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.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Note C. Stewardship, Compliance and Accountability

Budget and Budgetary Accounting

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

Note D. Cash and Investments

Authorized Investments

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

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

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

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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, 2014 are classified in the accompanying financial statements as follows:

Statement of net position:

Cash and investments	\$ 177,144,546
Cash and investments - guarantees	250,000
Cash and investments with trustee	2,720,898
Cash and investments restricted for revenue bond funds	579,460
Cash and investments restricted for capital leases	1,251,457
Fiduciary funds:	
Cash and investments	14,100
Total cash and investments	\$ 181,960,461

Cash and investments as of June 30, 2014 consist of the following:

Investment in County Treasury Pool:

Unrestricted	\$ 106,811,295
Restricted for revenue bonds	579,460
Restricted for guarantees	250,000
Restricted for capital leases	1,251,457
Nonpooled cash and investments:	
Cash on hand	750
Deposit with financial institution	5,840,798
Investments - US Treasury STRIPS	52,154,798
Investments - SCEIP Bonds	12,351,005
Money Market mutual funds restricted for revenue bonds	2,720,898
Total cash and investments	\$ 181,960,461

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Note D. Cash and Investments (continued)

As of June 30, 2014, the Water Agency's investments consisted of \$108,892,212 in the Treasury Pool managed by the Treasurer, which is not rated by credit rating agencies, and had a weighted average maturity of approximately 791 days. The credit rating and other information regarding specific investments maintained in the Treasury Pool as of June 30, 2014 are disclosed in the County's June 30, 2014 Comprehensive Annual Financial Report.

The Water Agency reported \$52,154,798 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 \$94,825,890 contract payable to the U.S. Army Corps of Engineers (refer to Note I).

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

The Water Agency has invested \$12,351,005 in the Sonoma County Energy Independence Program (SCEIP) by purchasing their 20 year bonds. SCEIP advances funds to eligible property owners in Sonoma County towards energy improvement projects.

Interest Rate Risk

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

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

Investment Type	Amount	Maturity			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
County treasury pool	\$ 108,892,212	\$ 108,892,212	\$ -	\$ -	\$ -
U.S. Treasury STRIPS	52,154,798	6,104,512	18,269,579	11,841,014	15,939,693
SCEIP Bonds	12,351,005	458,600	472,462	1,504,805	9,915,138
Money market mutual fund	2,720,898	2,720,898	-	-	-
Total	\$ 176,118,913	\$ 118,176,222	\$ 18,742,041	\$ 13,345,819	\$ 25,854,831

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Note D. Cash and Investments (continued)

Custodial Credit Risk

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

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

At June 30, 2014, the carrying amount and bank balance of the Water Agency's deposit was \$5,840,798. Of the bank balance, \$250,000 was covered by federal deposit insurance and \$5,590,798 was collateralized.

Concentration of Credit Risk

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

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Note D. Cash and Investments (continued)

Credit Risk

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

Investment Type	Minimum Legal Rating	Total	Exempt from Disclosure	Rating at year-end	
				AAA	Not Rated
County treasury pool	N/A	\$ 108,892,212	\$ -	\$ -	\$ 108,892,212
U.S. Treasury STRIPS	N/A	52,154,798	52,154,798	-	-
SCEIP Bonds	N/A	12,351,005	-	-	12,351,005
Money market mutual fund	AAAm	2,720,898	-	2,720,898	-
Total		\$ 176,118,913	\$ 52,154,798	\$ 2,720,898	\$ 121,243,217

Note E. Accounts Receivable

Accounts receivable as of June 30, 2014 is comprised of the following:

	Accounts	Inter- governmental	Total
Governmental Activities:			
General Fund	\$ 69,390	\$ 206,939	\$ 276,329
Flood Control special revenue fund	9,980	767,921	777,901
Warm Springs Dam special revenue	7,177	207,526	214,703
Total Governmental Activities	\$ 86,547	\$ 1,182,386	\$ 1,268,933
Business-type Activities:			
Water Transmission enterprise fund	\$ 5,482,753	\$ 1,840,679	\$ 7,323,432
Water Supply enterprise fund	638,549	1,082,636	1,721,185
Sanitation enterprise fund	91,383	2,822	94,205
Internal Service Funds	-	80,963	80,963
Total Business-Type Activities	\$ 6,212,685	\$ 3,007,100	\$ 9,219,785

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Note F. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2014 was as follows:

	July 1, 2013	Additions	Retirements	Transfers	June 30, 2014
<i>Governmental activities:</i>					
Capital assets, not being depreciated/amortized:					
Land	\$ 1,582,224	\$ -	\$ -	\$ -	\$ 1,582,224
Construction in progress	800,139	768,785	-	-	1,568,924
Intangible assets:					
Intangible work in progress	846,476	340,149	-	-	1,186,625
Water storage rights	102,371,000	-	-	-	102,371,000
Other intangible assets	34,101	12,340	-	-	46,441
Total capital assets not being depreciated/amortized	105,633,940	1,121,274	-	-	106,755,214
Capital assets, being depreciated:					
Infrastructure	64,834,097	-	-	-	64,834,097
Buildings and improvements	3,426,490	-	-	-	3,426,490
Intangible assets - easements	43,800	-	-	-	43,800
Intangible assets - software	854,324	-	-	-	854,324
Equipment	1,084,782	141,723	(30,704)	-	1,195,801
Total capital assets, being depreciated	70,243,493	141,723	(30,704)	-	70,354,512
Less: accumulated depreciation for:					
Infrastructure	(26,911,911)	(1,562,086)	-	-	(28,473,997)
Buildings and improvements	(1,807,285)	(79,669)	-	-	(1,886,954)
Intangible assets	(176,469)	(137,673)	-	-	(314,142)
Equipment	(858,348)	(51,313)	30,704	-	(878,957)
Total accumulated depreciation	(29,754,013)	(1,830,741)	30,704	-	(31,554,050)
Total capital assets, being depreciated, net	40,489,480	(1,689,018)	-	-	38,800,462
Total capital assets, net	\$ 146,123,420	\$ (567,744)	\$ -	\$ -	\$ 145,555,676

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Note F. Capital Assets (continued)

	July 1, 2013	Additions	Retirements	Transfers	June 30, 2014
<i>Business-type activities</i>					
Capital assets, not being depreciated/amortized:					
Land	\$ 10,774,804	\$ -	\$ (107,320)	\$ -	\$ 10,667,484
Construction in progress	31,427,979	6,795,764	(23,710)	(13,736,800)	24,463,233
Intangible assets:					
Intangible work in progress	398,178	65,498	(138,556)	(284,600)	40,520
Water storage rights	4,996,395	-	-	-	4,996,395
Permanent easements	713,833	40,814	-	(643,790)	110,857
Total capital assets not being depreciated/amortized	48,311,189	6,902,076	(269,586)	(14,665,190)	40,278,489
Capital assets, being depreciated:					
Infrastructure	-	12,000	-	220,901,957	220,913,957
Buildings and improvements	263,272,383	-	(6,766,153)	(210,022,820)	46,483,410
Land improvements	-	-	-	3,471,453	3,471,453
Intangible Assets - software	1,383,236	-	-	284,600	1,667,836
Equipment	10,225,583	1,689,625	(690,363)	30,000	11,254,845
Total capital assets, being depreciated	274,881,202	1,701,625	(7,456,516)	14,665,190	283,791,501
Less: accumulated depreciation for:					
Infrastructure	-	(6,528,190)	-	(92,805,683)	(99,333,873)
Buildings and improvements	(105,498,522)	(1,469,255)	5,485,067	94,174,648	(7,308,062)
Land improvements	-	(139,282)	-	(1,368,965)	(1,508,247)
Intangible Assets - software	(105,550)	(266,381)	-	-	(371,931)
Equipment	(6,671,778)	(518,386)	647,931	-	(6,542,233)
Total accumulated depreciation	(112,275,850)	(8,921,494)	6,132,998	-	(115,064,346)
Total capital assets, being depreciated, net	162,605,352	(7,219,869)	(1,323,518)	14,665,190	168,727,155
Total capital assets, net	\$ 210,916,541	\$ (317,793)	\$ (1,593,104)	\$ -	\$ 209,005,644

During the fiscal year ended June 30, 2014, the agency reclassified as infrastructure its water transmission system which was previously classified as buildings and improvements. The total amount of interest capitalized into capital assets of business-type activities during the fiscal year ended June 30, 2014 amounted to \$940,358.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Note F. Capital Assets (continued)

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

Governmental activities:

General government	\$ 268,655
Flood control	1,562,086
Total depreciation expense - governmental activities	\$ 1,830,741

Business-type activities:

Water Transmission	\$ 5,687,238
Water Supply	186,701
Sanitation	1,191,286
Internal Service Funds	1,856,269
Total depreciation expense - business type activities	\$ 8,921,494

Intangible Asset – Warm Springs Dam Project

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

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

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

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Note G. Unearned Revenue

On June 30, 2005 the Water Agency received \$6,326,257 under a supplemental water supply agreement with the Marin Municipal Water District (MMWD), dated January 25, 1996. This amount was deferred and is being recognized on a straight-line basis over 49 years which represents the original nine-year term of the agreement plus the 40-year renewal option, which MMWD is likely to exercise. As of June 30, 2014, unearned revenue remaining from the agreement in the amount of \$5,035,184 is reported in the Water Supply fund.

The General Fund has collected \$42,990 in camping reservation fees for Spring Lake Park that will be recognized as revenue earned during the next fiscal year.

The Power Resources internal service fund received \$369,495 of funding for the installation of additional photovoltaic capacity at the Sonoma Valley treatment plant. A capital contribution will be recognized as expenses are incurred. As of June 30, 2014 the remaining contribution considered unearned is \$237,252.

Note H. Interfund Transactions

A summary of interfund activity as of and for the fiscal year ended June 30, 2014 is as follows:

General Fund	Sanitation Fund	\$ 250,000	Funding for operations and construction
General Fund	Water Supply Fund	500,000	Funding for water supply projects
General Fund	Water Transmission	350,000	Funding for water transmission projects
Total interfund transfers		\$ 1,100,000	

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Note H. Interfund Transactions (continued)

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

The Power Resources internal service fund is eligible to draw up to \$1,000,000 per year for up to eight years from the Water Agency's general fund as needed to acquire electrical power assets and meet debt service payments. Repayment of these draws, together with accrued interest, is to begin in the fiscal year ending June 30, 2016 and continue until 2033. Interest is to accrue at the County's pooled investment rate of return. As of June 30, 2014, the Power Resources internal service fund has drawn \$1,986,474 from the General Fund. Interest accrued as of the fiscal year ended June 30, 2014 amounted to \$114,191.

Advances from Other Funds

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

	Maturity Date	Interest Rates	Authorized & Issued	Outstanding June 30, 2014	Due Within One Year
General Fund	2033	0.754%	\$ 2,100,665	\$ 2,100,665	\$ -

Note I. Long-Term Obligations

Governmental Activities:

Long-Term Contract Payable:

	Maturity Date	Interest Rates	Authorized & Issued	Outstanding June 30, 2014
1986 Federal contract payable	2034	3.225%	\$ 102,371,000	\$ 94,825,890

Annual payments on the contract commenced on November 1, 1993, and will continue until 2034. The annual payments include principal and interest at a rate of 3.225%. The repayment of this obligation comes from earnings on investments in the debt service fund and the proceeds of a voter approved countywide levied property tax. The amount of the payments began at \$930,562 and increase to a maximum of \$6,285,572 annually until 2034.

Compensated Absences:

As of June 30, 2014, vested vacation and sick leave for Water Agency employees amounted to \$2,745,385. There were no compensated absences that are considered due or matured. The current amount reflected in the government-wide statement of net position is an average of the actual payoff amount over the prior three fiscal years. Compensated absences are generally liquidated by the General Fund.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Note I. Long-Term Obligations (continued)

Business-type Activities:

General Obligation Bonds Payable:	Maturity Date	Interest Rates	Authorized & Issued	Outstanding June 30, 2014
<u>Sanitation Zones</u>				
1977 Penngrove	2017	5.00%	\$ 300,000	\$ 61,000
1980 Geyserville	2020	5.00%	500,000	146,000
Total general obligation bonds payable				\$ 207,000

Capital Leases:	Maturity Date	Interest Rates	Authorized & Issued	Outstanding June 30, 2014
Capital lease - Deutsche Bank	2016	4.65%	\$ 8,800,000	\$ 4,191,555
Capital lease - Deutsche Bank	2020	4.54%	2,000,000	890,464
Capital lease - SunTrust	2020	4.08%	2,750,000	1,411,968
Capital lease - City National Bank	2023	4.30%	5,835,000	4,112,364
Total capital leases				\$ 10,606,351

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

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

The assets acquired under capital leases consist of the following as of June 30, 2014:

Buildings and improvements	\$ 31,504,825
Less: accumulated depreciation	(5,415,741)
Total	\$ 26,089,084

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Note I. Long-Term Obligations (continued)

Business-type Activities (continued)

Water Revenue Bonds Payable:

	Maturity Date	Interest Rates	Authorized & Issued	Outstanding June 30, 2014
Water revenue bonds, 2012, series A	2032	0.30-5.00%	\$ 12,265,000	\$ 11,795,000
Add: deferred amount for unamortized premium				597,874
Water revenue bonds, 2006, series A	2036	4.00-5.00%	11,500,000	9,945,000
Add: deferred amount for unamortized premium				92,552
Total water revenue bonds payable, net				\$ 22,430,426

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

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

Annual principal and interest payments for both bond issues are expected to require approximately 10% of water transmission fund net revenues. The total principal outstanding on the Water Revenue Bonds as of June 30, 2014 is \$21,740,000 and scheduled interest payments total \$10,547,074 which equals the remaining income pledged by the Water Agency through the fiscal year ending June 30, 2037. Principal and interest paid for the fiscal year ended June 30, 2014 and total water transmission net revenues were \$1,566,264 and \$15,034,232, respectively.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Note I. Long-Term Obligations (continued)

Business-type Activities (continued)

Water and Wastewater Revenue Bonds Payable:

	Maturity Date	Interest Rates	Authorized & Issued	Outstanding June 30, 2014
California Statewide Communities Development Authority (CSDCDA) 2005C revenue bonds	2027	2.70-5.00%	\$ 6,220,000	\$ 4,420,000
Add: deferred amount for unamortized premium				81,346
Total water and wastewater revenue bonds payable, net				\$ 4,501,346

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, 2014 is \$4,420,000 and scheduled interest payments total \$1,499,633 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, 2014 and total customer net revenues were \$461,274 and \$1,328,356, respectively. These bond proceeds were used to finance a portion of the cost of upgrades to the Airport-Larkfield-Wikiup Sanitation Zone's treatment plant, wastewater pipelines, storage ponds and irrigation system in connection with the Storage, Reclamation and Treatment Facilities Project.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Note I. Long-Term Obligations (continued)

Business-type Activities (continued)

	Maturity Date	Interest Rates	Authorized & Issued	Outstanding June 30, 2014
State Revolving Fund	2027	2.79%	\$ 15,857,295	\$ 11,985,100
Sonoma Valley County Sanitation District	2019	4.198%	5,442,922	2,597,142
Department of Homeland Security	2015	N/A	1,214,445	1,214,445
Napa Sanitation District	2015	N/A	966,552	966,552
Solano County	2015	N/A	202,515	202,515
Sonoma County Sanitation District	2015	N/A	10,590	10,590
Total advances from other governments				\$ 16,976,344

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, 2014, 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, 2014 is \$11,985,100 and scheduled interest payments total \$2,578,322 which equals the remaining income pledged by the Water Agency through the fiscal year ending June 30, 2028. Annual principal and interest payments are expected to require approximately 7% of water transmission net revenues. Principal and interest paid for the fiscal year ended June 30, 2014 and total customer net revenues were \$1,040,232 and \$15,034,232, respectively.

The Power Resources internal service fund entered into a loan with the Sonoma Valley County Sanitation District for the purchase of its existing photovoltaic facility. The loan amount was \$5,442,922 with an interest rate of 4.198% and a term of 12 years. The outstanding balance as of June 30, 2014 is \$2,597,142 with a current portion of \$477,609.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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, 2014 is as follows:

	July 1, 2013	Increases	Decreases	June 30, 2014	Amounts Due Within One Year
<u>Governmental activities:</u>					
Long-term contracts payable	\$ 97,952,525	\$ -	\$ (3,126,635)	\$ 94,825,890	\$ 3,227,469
Compensated absences	2,727,126	2,005,177	(1,986,919)	2,745,384	217,467
Total governmental activities	100,679,651	2,005,177	(5,113,554)	97,571,274	3,444,936
<u>Business-type activities:</u>					
General obligation bonds	241,000	-	(34,000)	207,000	35,000
Capital leases:					
Deutsche Bank	4,732,337	-	(540,782)	4,191,555	566,221
Deutsche Bank	1,018,754	-	(128,290)	890,464	132,532
SunTrust	1,598,140	-	(186,172)	1,411,968	193,846
Municipal Finance	4,456,275	-	(343,911)	4,112,364	358,858
Water revenue bonds:					
Series 2006A	10,195,000	-	(250,000)	9,945,000	260,000
Deferred amount for unamortized premium	96,759	-	(4,207)	92,552	-
Series 2012A	12,265,000	-	(470,000)	11,795,000	470,000
Deferred amount for unamortized premium	631,089	-	(33,215)	597,874	-
Water and wastewater revenue bonds:					
Series 2005C	4,675,000	-	(255,000)	4,420,000	260,000
Deferred amount for unamortized premium	87,603	-	(6,257)	81,346	-
Advances from other governments:					
State Revolving Fund	12,676,036	-	(690,936)	11,985,100	710,371
Department of Homeland Security	-	1,214,445	-	1,214,445	1,214,445
Napa Sanitation District	-	966,552	-	966,552	966,552
Solano County	-	202,515	-	202,515	202,515
Sonoma Valley CSD	3,055,510	10,590	(458,368)	2,607,732	488,199
Total business-type activities	55,728,503	2,394,102	(3,401,138)	54,721,467	5,858,539
Total	\$ 156,408,154	\$ 4,399,279	\$ (8,514,692)	\$ 152,292,741	\$ 9,303,475

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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, 2014 (excluding compensated absences), are as follows:

Long-term contracts payable - 1986 Federal contract

Fiscal year ending June 30,	Principal	Interest	Total
2015	\$ 3,227,468	\$ 3,058,103	\$ 6,285,571
2016	3,331,555	2,954,017	6,285,572
2017	3,438,997	2,846,574	6,285,571
2018	3,549,905	2,735,667	6,285,572
2019	3,664,390	2,621,182	6,285,572
2020-2024	20,172,686	11,255,171	31,427,857
2025-2029	23,642,217	7,785,640	31,427,857
2030-2034	27,708,477	3,719,380	31,427,857
2035	6,090,195	196,377	6,286,572
Total long-term contracts payable	\$ 94,825,890	\$ 37,172,111	\$ 131,998,001

General obligation bonds

Fiscal year ending June 30,	Principal	Interest	Total
2015	\$ 35,000	\$ 10,000	\$ 45,000
2016	38,000	8,225	46,225
2017	40,000	6,300	46,300
2018	41,000	4,300	45,300
2019	26,000	2,650	28,650
2020	27,000	1,350	28,350
Total general obligation bonds	\$ 207,000	\$ 32,825	\$ 239,825

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Note I. Long-Term Obligations (continued)

Capital leases

Fiscal year ending June 30,	Principal	Interest	Total
2015	\$ 1,249,881	\$ 456,069	\$ 1,705,950
2016	4,340,240	399,764	4,740,004
2017	745,863	207,042	952,905
2018	778,162	174,743	952,905
2019	811,861	141,043	952,904
2020-2024	2,680,344	258,673	2,939,017
Total capital leases	\$ 10,606,351	\$ 1,637,334	\$ 12,243,685

Water revenue bonds

Fiscal year ending June 30,	Principal	Interest	Total
2015	\$ 730,000	\$ 834,419	\$ 1,564,419
2016	745,000	815,754	1,560,754
2017	765,000	795,204	1,560,204
2018	790,000	771,379	1,561,379
2019	820,000	741,564	1,561,564
2020-2024	4,560,000	3,209,502	7,769,502
2025-2029	5,530,000	2,191,702	7,721,702
2030-2034	5,825,000	1,036,175	6,861,175
2035-2037	1,975,000	151,375	2,126,375
Total water revenue bonds	\$ 21,740,000	\$ 10,547,074	\$ 32,287,074

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Note I. Long-Term Obligations (continued)

Water and wastewater revenue bonds

Fiscal year ending June 30,	Principal	Interest	Total
2015	\$ 260,000	\$ 197,066	\$ 457,066
2016	275,000	187,165	462,165
2017	280,000	176,619	456,619
2018	290,000	165,574	455,574
2019	305,000	153,819	458,819
2020-2024	1,740,000	529,093	2,269,093
2025-2028	1,270,000	90,297	1,360,297
Total water and wastewater revenue bonds	\$ 4,420,000	\$ 1,499,633	\$ 5,919,633

Advances from other governments

Fiscal year ending June 30,	Principal	Interest	Total
2015	\$ 3,582,082	\$ 438,888	\$ 4,020,970
2016	1,228,013	398,856	1,626,869
2017	1,269,449	357,420	1,626,869
2018	1,312,340	314,529	1,626,869
2019	1,356,738	270,131	1,626,869
2020-2024	4,316,414	884,744	5,201,158
2025-2028	3,911,308	249,798	4,161,106
Total advances from other governments	\$ 16,976,344	\$ 2,914,366	\$ 19,890,710

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Note J. Pollution Remediation Obligation

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

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

In accordance with GASB Statement No. 49, the Agency has estimated its potential pollution remediation liability as of June 30, 2014 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, 2014 is \$224,933. Discussions with the NC Regional Board and the City of Santa Rosa Fire Department continue and since no agreement has been reached the estimated obligation continues to be considered long term.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Note K. Employees' Retirement Plan

Plan Description

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

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

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

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

Funding Policy

Plan A members were required to contribute between 7% - 14% of their annual covered salary, depending upon their age at their date of entry into the plan and Plan B members are required to contribute 10.28% of their annual covered salary. The Water Agency is required to contribute at a contractually determined rate which was 42.29% for the fiscal year ended June 30, 2014 for members hired prior to 1/1/2013. The Water Agency is required to contribute at a contractually determined rate of 37.72% for members hired on or after 1/1/2013. Contribution requirements of the Plan members and the Water Agency are established and may be amended by the Board of Retirement.

Annual Pension Cost

The Water Agency's contractually required contributions to the Plan for the fiscal years ended June 30, 2014, 2013, and 2012 were \$3,066,161, \$3,190,669, and \$2,635,110 respectively.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Note L. Postemployment Benefits

Plan Description

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

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

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

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

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Note L. Postemployment Benefits (continued)

Plan Description (continued)

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

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

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

Funding Policy

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

The Water Agency recognizes expenditures for the cost of retiree health care benefits on a bi-weekly basis as part of the payroll process. The expenditures recognized are based upon the contribution rate which is applied to the Water Agency's covered payroll. The amount of supplemental health care premiums, inclusive of both the defined benefit plan and defined contribution plan, paid for fiscal years ended June 30, 2014, 2013, and 2012 was \$1,551,713, \$1,317,667 and \$1,215,948, respectively.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Note L. Postemployment Benefits (continued)

Funding Policy (continued)

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

Note M. Related Party Transactions

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

The Water Agency allocates overhead costs to the sanitation districts via the use of an overhead rate charged on labor applicable to the districts. The overhead rate is reviewed periodically by management to determine its effectiveness. In addition, the Water Agency allocates other services to the districts based on project coding. A summary of the total cash payments from the sanitation districts by the Water Agency for the fiscal year ended June 30, 2014 is as follows:

Occidental County Sanitation District	\$	705,375
Russian River County Sanitation District		2,449,935
Sonoma Valley County Sanitation District		5,278,381
South Park County Sanitation District		92,979
	<u>\$</u>	<u>8,526,670</u>

For the fiscal year ended June 30, 2014, the Water Agency provided the Occidental County Sanitation District \$750,000 in funding to assist the District in meeting operating and construction expenses.

The Water Agency is acting as the pass through agency for one federal grant to Sonoma Valley County Sanitation District. The grant is from Bureau of Reclamation for projects related to the North San Pablo Bay Water Reclamation and Reuse project, and SVCSD Recycled Water Pipeline. Grant proceeds amounted to \$927,144 of which \$10,590 is outstanding.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Note N. Risk Management

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

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

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

The County maintains "All Risk" property insurance including flood and earthquake through participation in the CSAC-EIA Property Insurance Program. Limits of coverage are \$600,000,000 per occurrence for All Risk, \$300,000,000 for flood and \$80,000,000 per occurrence for earthquake. Deductibles for most perils are \$50,000 per occurrence.

During the fiscal year ended June 30, 2014, the Water Agency paid annual premiums to the County for this insurance coverage in the amount of \$173,168. Settlements have not exceeded coverage for each of the past three fiscal years.

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Note O. Commitments and Contingencies

Construction

The Water Agency has active construction projects as of June 30, 2014. The projects include expansion and/or improvements of several flood control, water storage and wastewater treatment facilities. As of June 30, 2014, the Water Agency's commitments to construction projects are as follows:

Project	Spent-to-Date	Remaining Commitment
Water transmission facilities:		
Water Storage facilities	\$ 3,294,044	\$ 146,894
Pipeline facilities	3,729,352	206,785
Common facilities	16,314,508	834,762
Internal service facilities	684,375	956,154
Sanitation facilities	476,051	46,649
Total	\$ 24,498,330	\$ 2,191,244

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

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

Nonexchange Financial Guarantees

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

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Note O. 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.

On July 30, 2013, a motion was filed seeking an order of reimbursement of attorneys fees resulting from a previous action dismissing a cross-complaint filed by the Agency relating to diversion of water from the Russian River. The Agency is one of 3 parties named in the motion which requests that the court find that each party is jointly and severally liable. In the motion, petitioners seek an attorney fee award and an order for reimbursement of their costs of suit for approximately \$1.6 Million. The petitioners may seek an additional award for the fees and costs associated with their subsequent work on this motion. All parties, including the Agency, intend to vigorously oppose this motion. The potential loss to the Agency cannot be estimated at this time and therefore a liability has not been recorded with respect to this matter.

The Department of Homeland Security recently conducted an interim audit of disaster relief funding related to the 2005-06 flood events. The Water Agency had several projects included in the testing. Additional audit work was performed in fiscal year 2013-2014 and the amount of disaster relief funding required to be returned has been determined. The Water Agency has recorded a total liability of \$1,389,084 for repayment of these funds.

Other Regulatory Matters

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

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

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Note P. Economic Dependence

Four major customers purchased water from the Water Agency during the fiscal year ended June 30, 2014. Water sales revenue for the fiscal year ended June 30, 2014 and accounts receivable as of June 30, 2014 associated with those customers are as follows:

	Water Sales	% of Total Water Sales
City of Santa Rosa	\$ 13,434,365	32.95%
City of Petaluma	6,489,405	15.92%
Marin Municipal	6,406,192	15.71%
North Marin County	6,108,404	14.98%
	\$ 32,438,366	79.56%

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

**SONOMA COUNTY WATER AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

During the fiscal year ended June 30, 2014, the Water Agency implemented the provisions of GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, which establishes accounting and financial reporting standards for deferred outflows of resources and deferred inflows of resources. Refer to the Water Agency's Summary of Significant Accounting Policies (Note B.) for additional information on these financial statement elements. GASB 65 also requires that debt issuance costs, other than prepaid insurance, be recognized as an expense in the period incurred. A \$677,637 decrease in net position due to previously amortizable debt issuance costs was reported as a beginning net position adjustment. Additionally, the Water Agency's deferred loss on refunding of debt was reclassified as a deferred outflow of resources.

Note R. Future Governmental Accounting Standards

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

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

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

Required Supplementary Information

**SONOMA COUNTY WATER AGENCY
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGETARY BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> (Budgetary Basis)	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>See Note A</u>	<u>Final Budget</u>
REVENUES				
Property taxes	\$ 6,651,098	\$ 6,651,098	\$ 6,995,366	\$ 344,268
Investment earnings	76,930	76,930	230,596	153,666
Intergovernmental	291,517	291,517	342,295	50,778
Charges for services	797,694	797,694	1,076,203	278,509
Miscellaneous	54,500	179,500	1,154	(178,346)
Total revenues	<u>7,871,739</u>	<u>7,996,739</u>	<u>8,645,614</u>	<u>648,875</u>
EXPENDITURES				
Current:				
Salaries and benefits	31,555,935	32,378,071	32,376,633	1,438
Services and supplies	16,138,105	16,811,324	13,627,526	3,183,798
Costs applied	(40,000,000)	(40,000,000)	(42,920,897)	2,920,897
Capital outlay	652,000	722,000	158,130	563,870
Contingencies	300,000	300,000	-	300,000
Total expenditures	<u>8,646,040</u>	<u>10,211,395</u>	<u>3,241,392</u>	<u>6,970,003</u>
Excess(deficiency) of revenues over (under) expenditures	<u>(774,301)</u>	<u>(2,214,656)</u>	<u>5,404,222</u>	<u>7,618,878</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	2,100,000	2,100,000	2,100,000	-
Transfers to related government	-	-	(750,000)	(750,000)
Transfers out	(3,715,000)	(3,950,000)	(3,200,000)	750,000
Proceeds from sale of capital assets	-	-	1,000	1,000
Total other financing sources (uses)	<u>(1,615,000)</u>	<u>(1,850,000)</u>	<u>(1,849,000)</u>	<u>1,000</u>
Net changes in fund balance	<u>\$ (2,389,301)</u>	<u>\$ (4,064,656)</u>	3,555,222	<u>\$ 7,619,878</u>
GAAP basis difference - encumbrances			178,036	
Fund balance - beginning of year			<u>12,150,229</u>	
Fund balance - end of year			<u>\$ 15,883,487</u>	

**SONOMA COUNTY WATER AGENCY
FLOOD CONTROL SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGETARY BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>	<u>See Note A</u>	
REVENUES				
Property taxes	\$ 7,441,589	\$ 7,441,589	\$ 7,910,661	\$ 469,072
Investment earnings	85,345	85,343	286,947	201,604
Intergovernmental	74,016	1,100,213	893,456	(206,757)
Miscellaneous	68,455	840,255	84,741	(755,514)
Total revenues	<u>7,669,405</u>	<u>9,467,400</u>	<u>9,175,805</u>	<u>(291,595)</u>
EXPENDITURES				
Current:				
Services and supplies	9,263,800	15,394,272	9,403,025	5,991,247
Pollution remediation	-	-	2,902	(2,902)
Refund- 2005/06 flood event closeout	-	-	88,876	(88,876)
Capital outlay	250,000	272,942	1,087,692	(814,750)
Total expenditures	<u>9,513,800</u>	<u>15,667,214</u>	<u>10,582,495</u>	<u>5,084,719</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,844,395)</u>	<u>(6,199,814)</u>	<u>(1,406,690)</u>	<u>4,793,124</u>
Net changes in fund balance	<u>\$ (1,844,395)</u>	<u>\$ (6,199,814)</u>	<u>(1,406,690)</u>	<u>\$ 4,793,124</u>
GAAP basis difference - encumbrances			(67,323)	
Fund balance - beginning of year			<u>22,251,800</u>	
Fund balance - end of year			<u>\$ 20,777,787</u>	

**SONOMA COUNTY WATER AGENCY
WARM SPRINGS DAM SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGETARY BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis) See Note A</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes	\$ 5,122,170	\$ 5,122,170	\$ 5,444,212	\$ 322,042
Investment earnings	11,700	11,700	265,009	253,309
Intergovernmental	42,071	442,071	386,565	(55,506)
Miscellaneous	-	-	19	19
Total revenues	<u>5,175,941</u>	<u>5,575,941</u>	<u>6,095,805</u>	<u>519,864</u>
EXPENDITURES				
Current:				
Services and supplies	5,206,198	8,149,084	5,995,538	2,153,546
Refund- 2005/06 flood event closeout	-	-	85,763	(85,763)
Capital outlay	618,854	653,854	366,083	287,771
Total expenditures	<u>5,825,052</u>	<u>8,802,938</u>	<u>6,447,384</u>	<u>2,355,554</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(649,111)</u>	<u>(3,226,997)</u>	<u>(351,579)</u>	<u>2,875,418</u>
Net changes in fund balance	<u>\$ (649,111)</u>	<u>\$ (3,226,997)</u>	<u>(351,579)</u>	<u>\$ 2,875,418</u>
GAAP basis difference - encumbrances			(37,407)	
Fund balance - beginning of year			<u>18,490,728</u>	
Fund balance - end of year			<u>\$ 18,101,742</u>	

**SONOMA COUNTY WATER AGENCY
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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:

	General Fund	<u>Special Revenue Funds</u>		Total
		Flood Control	Warm Springs Dam	
Net change in fund balance	\$ 3,555,222	\$ (1,406,690)	\$ (351,579)	\$ 1,796,953
Expenditure charges against prior year encumbrances	(1,152,296)	(975,369)	(2,128,856)	(4,256,521)
Current year encumbrances	1,330,332	908,046	2,091,449	4,329,827
Net change in fund balance GAAP basis	\$ 3,733,258	\$ (1,474,013)	\$ (388,986)	\$ 1,870,259

Supplementary Information

**SONOMA COUNTY WATER AGENCY
COMBINING BALANCE SHEET
FLOOD CONTROL SPECIAL REVENUE FUNDS
JUNE 30, 2014**

	Flood Control Funds			
	Zone 1A Laguna Mark West	Zone 2A Petaluma Basin	Zone 3A Valley of the Moon	Zone 5A Lower Russian River
Assets				
Cash and investments	\$ 4,597,838	\$ 8,462,627	\$ 3,365,413	\$ 2,148,748
Accounts receivable	777,901	-	-	-
Notes receivable	-	-	110,000	-
Total assets	\$ 5,375,739	\$ 8,462,627	\$ 3,475,413	\$ 2,148,748
Liabilities and fund balances				
Liabilities:				
Accounts payable	\$ 589,356	\$ 63,198	\$ 156,868	\$ 9,486
Due to other governments	-	17,165	71,711	-
Total liabilities	589,356	80,363	228,579	9,486
Fund balances:				
Non-spendable	-	-	110,000	-
Restricted	4,786,383	8,382,264	3,136,834	2,139,262
Total liabilities and fund balances	\$ 5,375,739	\$ 8,462,627	\$ 3,475,413	\$ 2,148,748

**SONOMA COUNTY WATER AGENCY
COMBINING BALANCE SHEET
FLOOD CONTROL SPECIAL REVENUE FUNDS
JUNE 30, 2014**

Flood Control Funds			
Zone 7A North Coast	Zone 8A South Coast	Total Flood Control Funds	
\$ 87,921	\$ 2,147,243	\$ 20,809,790	Assets
-	-	777,901	Cash and investments
-	-	110,000	Accounts receivable
<u>\$ 87,921</u>	<u>\$ 2,147,243</u>	<u>\$ 21,697,691</u>	Notes receivable
			Total assets
\$ 9,033	\$ 3,087	\$ 831,028	Liabilities and fund balances
-	-	88,876	Liabilities:
<u>9,033</u>	<u>3,087</u>	<u>919,904</u>	Accounts payable
			Due to other governments
			Total liabilities
-	-	110,000	Fund balances:
<u>78,888</u>	<u>2,144,156</u>	<u>20,667,787</u>	Non-spendable
			Restricted
<u>\$ 87,921</u>	<u>\$ 2,147,243</u>	<u>\$ 21,697,691</u>	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, 2014**

	Flood Control Funds			
	Zone 1A Laguna Mark West	Zone 2A Petaluma Basin	Zone 3A Valley of the Moon	Zone 5A Lower Russian River
REVENUES				
Property taxes	\$ 5,269,024	\$ 1,444,576	\$ 874,711	\$ 182,786
Investment earnings	61,616	117,566	47,693	29,196
Intergovernmental	866,339	13,699	8,332	3,839
Charges for services	38,922	-	-	-
Miscellaneous	516	31,753	-	-
Total revenues	<u>6,236,417</u>	<u>1,607,594</u>	<u>930,736</u>	<u>215,821</u>
EXPENDITURES				
Current:				
Services and supplies	6,834,554	1,957,053	721,656	162,657
Pollution remediation	2,902	-	-	-
Flood event close-out	-	17,165	71,711	-
Capital outlay	273,515	-	487,648	-
Total expenditures	<u>7,110,971</u>	<u>1,974,218</u>	<u>1,281,015</u>	<u>162,657</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(874,554)</u>	<u>(366,624)</u>	<u>(350,279)</u>	<u>53,164</u>
Net change in fund balances	(874,554)	(366,624)	(350,279)	53,164
Fund balances - beginning of year	<u>5,660,937</u>	<u>8,748,888</u>	<u>3,597,113</u>	<u>2,086,098</u>
Fund balances - end of year	<u>\$ 4,786,383</u>	<u>\$ 8,382,264</u>	<u>\$ 3,246,834</u>	<u>\$ 2,139,262</u>

**SONOMA COUNTY WATER AGENCY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 FLOOD CONTROL SPECIAL REVENUE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Flood Control Funds			
Zone 7A North Coast	Zone 8A South Coast	Total Flood Control Funds	
\$ -	\$ 139,564	\$ 7,910,661	REVENUES
1,178	29,698	286,947	Property taxes
-	1,247	893,456	Investment earnings
-	-	38,922	Intergovernmental
13,550	-	45,819	Charges for services
14,728	170,509	9,175,805	Miscellaneous
			Total revenues
			EXPENDITURES
			Current:
13,550	107,407	9,796,877	Services and supplies
-	-	2,902	Pollution remediation
-	-	88,876	Flood event close-out
-	-	761,163	Capital outlay
13,550	107,407	10,649,818	Total expenditures
			Excess (deficiency) of revenues over (under) expenditures
1,178	63,102	(1,474,013)	
			Net change in fund balances
1,178	63,102	(1,474,013)	
77,710	2,081,054	22,251,800	Fund balances - beginning of year
\$ 78,888	\$ 2,144,156	\$ 20,777,787	Fund balances - end of year

**SONOMA COUNTY WATER AGENCY
COMBINING STATEMENT OF NET POSITION
SANITATION ENTERPRISE FUNDS
JUNE 30, 2014**

	Sanitation Funds				
	Sea Ranch	Penngrove	Geyserville	Larkfield Wikiup	Sanitation Funds
ASSETS					
Current assets:					
Cash and investments	\$ 840,630	\$ 968,367	\$ 620,330	\$ 2,082,358	\$ 4,511,685
Accounts receivable	5,748	8,744	31,252	48,461	94,205
Total current assets	<u>846,378</u>	<u>977,111</u>	<u>651,582</u>	<u>2,130,819</u>	<u>4,605,890</u>
Noncurrent assets:					
Restricted assets					
Cash - revenue bond funds	-	5,317	40,530	273,896	319,743
Total restricted assets	<u>-</u>	<u>5,317</u>	<u>40,530</u>	<u>273,896</u>	<u>319,743</u>
Capital assets, net					
Land	-	-	106,213	1,515,231	1,621,444
Construction in progress	-	61,871	-	414,180	476,051
Intangible assets - permanent easements	-	-	-	15,199	15,199
Infrastructure	313,412	982,094	530,820	18,283,533	20,109,859
Buildings and improvements	-	-	-	-	-
Equipment	-	30,804	5,990	79,142	115,936
Total capital assets	<u>313,412</u>	<u>1,074,769</u>	<u>643,023</u>	<u>20,307,285</u>	<u>22,338,489</u>
Total noncurrent assets	<u>313,412</u>	<u>1,080,086</u>	<u>683,553</u>	<u>20,581,181</u>	<u>22,658,232</u>
Total assets	<u>1,159,790</u>	<u>2,057,197</u>	<u>1,335,135</u>	<u>22,712,000</u>	<u>27,264,122</u>
DEFERRED OUTFLOWS OF RESOURCES					
Deferred charge on refunding	-	-	-	333,277	333,277
Total deferred outflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>333,277</u>	<u>333,277</u>
LIABILITIES					
Current liabilities payable from unrestricted assets:					
Accounts payable and accrued expenses	23,135	207,088	1,958	36,552	268,733
Unearned revenue	-	-	-	-	-
Total current liabilities payable from unrestricted assets	<u>23,135</u>	<u>207,088</u>	<u>1,958</u>	<u>36,552</u>	<u>268,733</u>
Current liabilities payable from restricted assets:					
Interest payable	-	1,017	-	50,453	51,470
General obligation bonds payable	-	14,000	21,000	-	35,000
Revenue bonds payable	-	-	-	266,257	266,257
Total current liabilities payable from restricted assets	<u>-</u>	<u>15,017</u>	<u>21,000</u>	<u>316,710</u>	<u>352,727</u>
Noncurrent liabilities:					
General obligation bonds payable	-	47,000	125,000	-	172,000
Revenue bonds payable	-	-	-	4,235,089	4,235,089
Total noncurrent liabilities	<u>-</u>	<u>47,000</u>	<u>125,000</u>	<u>4,235,089</u>	<u>4,407,089</u>
Total liabilities	<u>23,135</u>	<u>269,105</u>	<u>147,958</u>	<u>4,588,351</u>	<u>5,028,549</u>
NET POSITION					
Net invested in capital assets	313,412	1,013,769	497,023	16,139,216	17,963,420
Restricted for:					
Debt service	-	4,300	40,530	223,443	268,273
Recycled water and water conservation	-	-	15,093	94,893	109,986
Unrestricted	<u>823,243</u>	<u>770,023</u>	<u>634,531</u>	<u>1,999,374</u>	<u>4,227,171</u>
Total net position	<u>\$ 1,136,655</u>	<u>\$ 1,788,092</u>	<u>\$ 1,187,177</u>	<u>\$ 18,456,926</u>	<u>\$ 22,568,850</u>

SONOMA COUNTY WATER AGENCY
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
SANITATION ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Sanitation Funds				Total Sanitation Funds
	Sea Ranch	Penngrove	Geyserville	Airport Lakefield Wikiup	
OPERATING REVENUE					
Flat charges	\$ 571,132	\$ 665,538	\$ 295,057	\$ 2,589,444	\$ 4,121,171
Sanitation services	1,637	19,705	6,371	247,155	274,868
Real estate rental	-	-	-	-	-
Miscellaneous	-	-	-	6,222	6,222
Total operating revenue	<u>572,769</u>	<u>685,243</u>	<u>301,428</u>	<u>2,842,821</u>	<u>4,402,261</u>
OPERATING EXPENSES					
Services and supplies	372,999	561,709	292,515	2,209,981	3,437,204
Depreciation and amortization	102,402	50,638	41,109	997,137	1,191,286
Total operating expenses	<u>475,401</u>	<u>612,347</u>	<u>333,624</u>	<u>3,207,118</u>	<u>4,628,490</u>
Operating income (loss)	<u>97,368</u>	<u>72,896</u>	<u>(32,196)</u>	<u>(364,297)</u>	<u>(226,229)</u>
NONOPERATING REVENUES (EXPENSES)					
Taxes and assessments	-	14,905	24,377	-	39,282
Investment earnings	12,057	15,295	17,058	32,112	76,522
Interest expense	-	(515)	(7,800)	(198,733)	(207,048)
Conservation program revenue	-	-	-	-	-
Conservation program expense	(10,940)	(5,405)	-	(48,720)	(65,065)
Loss on disposal of capital assets	-	(20,616)	-	(11,941)	(32,557)
Intergovernmental revenue	-	3,585	150	32,129	35,864
Total nonoperating revenue (expenses), net	<u>1,117</u>	<u>7,249</u>	<u>33,785</u>	<u>(195,153)</u>	<u>(153,002)</u>
Income (loss) before capital contributions and transfers	<u>98,485</u>	<u>80,145</u>	<u>1,589</u>	<u>(559,450)</u>	<u>(379,231)</u>
Capital contributions - connection fees	4,292	29,532	2,678	381,275	417,777
Capital contributions - other	8,000	4,000	-	14,700	26,700
Transfers in	-	-	-	250,000	250,000
Change in net position	<u>110,777</u>	<u>113,677</u>	<u>4,267</u>	<u>86,525</u>	<u>315,246</u>
Net position - beginning of year, as previously reported	1,025,878	1,674,415	1,182,910	18,462,714	22,345,917
Change in accounting principle-GASB 65	-	-	-	(92,313)	(92,313)
Net position - beginning of year, as restated	<u>1,025,878</u>	<u>1,674,415</u>	<u>1,182,910</u>	<u>18,370,401</u>	<u>22,253,604</u>
Net position - end of year	<u>\$ 1,136,655</u>	<u>\$ 1,788,092</u>	<u>\$ 1,187,177</u>	<u>\$ 18,456,926</u>	<u>\$ 22,568,850</u>

**SONOMA COUNTY WATER AGENCY
COMBINING STATEMENT OF CASH FLOWS
SANITATION ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	Sanitation Funds				Total Sanitation Funds
	Sea Ranch	Penngrove	Geyserville	Airport Larkfield Wikiup	
Cash flows from operating activities:					
Cash receipts from customers	\$ 575,876	\$ 689,653	\$ 308,280	\$ 2,829,611	\$ 4,403,420
Cash payments for interfund services used	(78,893)	(144,797)	(257,203)	(1,685,611)	(2,166,504)
Cash payments to suppliers	(290,684)	(870,233)	(33,829)	(548,538)	(1,743,284)
Conservation program outlays	(10,940)	(5,405)	-	(48,720)	(65,065)
Net cash provided by (used for) operating activities	<u>195,359</u>	<u>(330,782)</u>	<u>17,248</u>	<u>546,742</u>	<u>428,567</u>
Cash flows from noncapital financing activities:					
Taxes and assessments	-	14,905	24,377	-	39,282
Transfers in	-	-	-	250,000	250,000
Intergovernmental receipts	-	5,300	150	-	5,450
Net cash provided by noncapital financing activities	<u>-</u>	<u>20,205</u>	<u>24,527</u>	<u>250,000</u>	<u>294,732</u>
Cash flows from capital and related financing activities:					
Purchase of capital assets	-	(10,112)	-	(239,132)	(249,244)
Principal paid on general obligation and revenue bonds	-	(14,000)	(20,000)	(255,000)	(289,000)
Interest paid on long-term debt	-	(3,400)	(7,800)	(206,273)	(217,473)
Proceeds from state grants	-	-	-	208,564	208,564
Connection fees	4,292	29,532	2,678	383,102	419,604
Net cash provided by (used for) capital and related financing activities	<u>4,292</u>	<u>2,020</u>	<u>(25,122)</u>	<u>(108,739)</u>	<u>(127,549)</u>
Cash flows from investing activities:					
Interest received	12,056	15,295	17,059	32,112	76,522
Net increase (decrease) in cash and cash equivalents	211,707	(293,262)	33,712	720,115	672,272
Cash and cash equivalents - beginning of year	628,923	1,266,946	627,148	1,636,139	4,159,156
Cash and cash equivalents - end of year	<u>\$ 840,630</u>	<u>\$ 973,684</u>	<u>\$ 660,860</u>	<u>\$ 2,356,254</u>	<u>\$ 4,831,428</u>
Reconciliation to the statement of net position:					
Cash and investments	\$ 840,630	\$ 968,367	\$ 620,330	\$ 2,082,358	\$ 4,511,685
Restricted cash and investments	-	5,317	40,530	273,896	319,743
Cash and cash equivalents	<u>\$ 840,630</u>	<u>\$ 973,684</u>	<u>\$ 660,860</u>	<u>\$ 2,356,254</u>	<u>\$ 4,831,428</u>
Reconciliation of operating loss to net cash provided by (used for) operating activities:					
Operating loss	\$ 97,368	\$ 72,896	\$ (32,196)	\$ (364,297)	\$ (226,229)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities:					
Conservation program outlays	(10,940)	(5,405)	-	(48,720)	(65,065)
Depreciation and amortization	102,401	50,639	41,109	997,138	1,191,287
Change in assets and liabilities:					
Receivables, net	3,107	4,410	6,853	(13,210)	1,160
Prepaid expenses	-	-	-	-	-
Accounts payable and accrued expenses	3,423	(453,322)	1,482	(24,169)	(472,586)
Net cash provided by (used for) operating activities	<u>\$ 195,359</u>	<u>\$ (330,782)</u>	<u>\$ 17,248</u>	<u>\$ 546,742</u>	<u>\$ 428,567</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisition of capital assets through accounts payable	\$ -	\$ -	\$ -	\$ (8,705)	\$ (8,705)
Increase in capital assets for capitalized interest	-	2,652	-	24,689	27,341

SONOMA COUNTY WATER AGENCY
COMBINING STATEMENT OF NET POSITION
INTERNAL SERVICES FUNDS
JUNE 30, 2014

	<u>Internal Service Funds</u>		Total Internal Service Funds
	Equipment Facilities	Power Resources	
ASSETS			
Current assets:			
Cash and Investments	\$ 4,547,134	\$ 1,765,791	\$ 6,312,925
Accounts receivable	80,963	-	80,963
Due from other funds	-	-	-
Prepaid expenses	-	566,966	566,966
Total current assets	<u>4,628,097</u>	<u>2,332,757</u>	<u>6,960,854</u>
Noncurrent assets:			
Restricted assets			
Cash - capital leases	925,079	326,378	1,251,457
Total restricted assets	<u>925,079</u>	<u>326,378</u>	<u>1,251,457</u>
Assets held for resale	1,388,406	-	1,388,406
Capital assets, net			
Land	2,336,031	-	2,336,031
Construction in progress	326,819	357,556	684,375
Intangible assets - software	102,660	-	102,660
Buildings and improvements	25,434,590	13,740,758	39,175,348
Equipment	3,723,232	2,432	3,725,664
Total capital assets	<u>31,923,332</u>	<u>14,100,746</u>	<u>46,024,078</u>
Total noncurrent assets	<u>34,236,817</u>	<u>14,427,124</u>	<u>48,663,941</u>
Total assets	<u>38,864,914</u>	<u>16,759,881</u>	<u>55,624,795</u>
LIABILITIES			
Current liabilities payable from unrestricted assets:			
Accounts payable and accrued expenses	236,756	528,105	764,861
Due to other governments	-	477,609	477,609
Unearned revenue	-	237,252	237,252
Total current liabilities payable from unrestricted assets	<u>236,756</u>	<u>1,242,966</u>	<u>1,479,722</u>
Current liabilities payable from restricted assets:			
Interest payable	87,761	24,524	112,285
Capital leases	925,079	326,378	1,251,457
Total current liabilities payable from restricted assets	<u>1,012,840</u>	<u>350,902</u>	<u>1,363,742</u>
Noncurrent liabilities:			
Capital leases	7,378,840	1,976,054	9,354,894
Advances from other governments	-	2,119,533	2,119,533
Advances from other funds	-	2,100,665	2,100,665
Total noncurrent liabilities	<u>7,378,840</u>	<u>6,196,252</u>	<u>13,575,092</u>
Total liabilities	<u>8,628,436</u>	<u>7,790,120</u>	<u>16,418,556</u>
NET POSITION			
Net investment in capital assets	23,619,413	9,201,172	32,820,585
Restricted for:			
Debt service	837,318	301,854	1,139,172
Unrestricted	<u>5,779,747</u>	<u>(533,265)</u>	<u>5,246,482</u>
Total net position	<u>\$ 30,236,478</u>	<u>\$ 8,969,761</u>	<u>\$ 39,206,239</u>

SONOMA COUNTY WATER AGENCY
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	<u>Internal Service Funds</u>		<u>Total Internal Service Funds</u>
	<u>Equipment Facilities</u>	<u>Power Resources</u>	
OPERATING REVENUE			
Power sales	\$ -	\$ 6,262,803	\$ 6,262,803
Equipment rental	1,868,598	-	1,868,598
Real estate rental	4,427,870	-	4,427,870
Miscellaneous	4,338	-	4,338
Total operating revenue	<u>6,300,806</u>	<u>6,262,803</u>	<u>12,563,609</u>
OPERATING EXPENSES			
Services and supplies	3,635,143	5,093,471	8,728,614
Depreciation and amortization	1,444,794	411,475	1,856,269
Total operating expenses	<u>5,079,937</u>	<u>5,504,946</u>	<u>10,584,883</u>
Operating income	<u>1,220,869</u>	<u>757,857</u>	<u>1,978,726</u>
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	82,306	24,960	107,266
Interest expense	(133,897)	(228,753)	(362,650)
Gain on disposal of capital assets	80,975	-	80,975
Total nonoperating expenses, net	<u>29,384</u>	<u>(203,793)</u>	<u>(174,409)</u>
Income (loss) before capital contributions and transfers	1,250,253	554,064	1,804,317
Capital contributions - other	80,963	49,236	130,199
Change in net position	1,331,216	603,300	1,934,516
Net position - beginning of year	<u>28,905,262</u>	<u>8,366,461</u>	<u>37,271,723</u>
Net position - end of year	<u>\$ 30,236,478</u>	<u>\$ 8,969,761</u>	<u>\$ 39,206,239</u>

**SONOMA COUNTY WATER AGENCY
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	<u>Internal Service Funds</u>		<u>Total Internal Service Funds</u>
	<u>Equipment Facilities</u>	<u>Power Resources</u>	
Cash flows from operating activities:			
Cash receipts from interfund services provided	\$ 6,310,258	\$ 6,262,803	\$ 12,573,061
Cash payments for interfund services used	(2,238,067)	(187,147)	(2,425,214)
Cash payments to suppliers	(1,272,209)	(5,227,909)	(6,500,118)
Net cash provided by operating activities	<u>2,799,982</u>	<u>847,747</u>	<u>3,647,729</u>
Cash flows from noncapital financing activities:			
Cash flows from capital and related financing activities:			
Purchase of capital assets	(3,931,370)	(76,656)	(4,008,026)
Principal paid on capital leases	(884,693)	(314,463)	(1,199,156)
Principal paid on advances from other governments	-	(458,367)	(458,367)
Interest paid on long-term debt	(401,801)	(236,415)	(638,216)
Proceeds from interfund borrowing	-	486,474	486,474
Proceeds from sale of capital assets	114,561	-	114,561
Net cash used for capital and related financing activities	<u>(5,103,303)</u>	<u>(599,427)</u>	<u>(5,702,730)</u>
Cash flows from investing activities:			
Interest received	82,306	24,960	107,266
Net increase (decrease) in cash and cash equivalents	(2,221,015)	273,280	(1,947,735)
Cash and cash equivalents - beginning of year	7,693,228	1,818,889	9,512,117
Cash and cash equivalents - end of year	<u>\$ 5,472,213</u>	<u>\$ 2,092,169</u>	<u>\$ 7,564,382</u>
Reconciliation to the statement of net position:			
Cash and investments	\$ 4,547,134	\$ 1,765,791	\$ 6,312,925
Restricted cash and investments	925,079	326,378	1,251,457
Cash and cash equivalents	<u>\$ 5,472,213</u>	<u>\$ 2,092,169</u>	<u>\$ 7,564,382</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 1,220,869	\$ 757,857	\$ 1,978,726
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation and amortization	1,444,795	411,475	1,856,270
Change in assets and liabilities:			
Receivables, net	9,452	-	9,452
Prepaid expenses	-	(312,944)	(312,944)
Accounts payable and accrued expenses	124,867	(8,642)	116,225
Net cash provided by operating activities	<u>\$ 2,799,983</u>	<u>\$ 847,746</u>	<u>\$ 3,647,729</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition of capital assets through accounts payable	\$ 22,044	\$ -	\$ 22,044
Increase in capital assets for capitalized interest	258,722	13,505	272,227

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

Independent Auditor's Report

Board of Directors
Sonoma County Water Agency
Santa Rosa, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements as listed in the table of contents of the Sonoma County Water Agency (the "Water Agency"), a component unit of the County of Sonoma, California and have issued our report thereon dated September 30, 2014.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

Independent Auditor's Report (continued)

Purpose of this Report

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

We noted certain matters that we reported to management of the Water Agency in a separate letter dated September 30, 2014.

Price & Brinker LLP

Petaluma, California
September 30, 2014