

NEW ISSUE - FULL BOOK-ENTRY

RATING: Standard & Poor's: "AAA"
See "Rating"

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to certain qualifications described herein, under existing law, the interest on the 2019 Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "TAX MATTERS."



**Sonoma
Water**

\$11,010,000
SONOMA COUNTY WATER AGENCY
Water Revenue Bonds,
2019 Series A

Dated: Date of Delivery

Due: July 1, as shown on inside cover

Authority for Issuance. The bonds captioned above (the "2019 Bonds") are being issued by the Sonoma County Water Agency ("Sonoma Water") under the Master Ordinance of Sonoma Water originally adopted December 28, 1970, as amended and supplemented to date and as further amended and supplemented by the Tenth Supplemental Ordinance adopted on April 30, 2019 (collectively, the "Ordinance"). MUFJ Union Bank, N.A., San Francisco, California, is appointed as trustee for the 2019 Bonds (the "Trustee") under the Ordinance. See "THE 2019 BONDS – Authority for Issuance."

Outstanding and Future Parity Debt. The 2019 Bonds are being issued on a parity with Sonoma Water's outstanding bonds captioned "Sonoma County Water Agency, Water Revenue Refunding Bonds, 2012 Series A," issued on July 11, 2012, in the original principal amount of \$12,265,000 (the "2012 Bonds"), "Sonoma County Water Agency, Water Revenue Bonds, 2015 Series A," issued on October 29, 2015, in the original principal amount of \$22,055,000 (the "2015A Bonds"), "Sonoma County Water Agency, Water Revenue Bonds, 2015 Series A-T (Federally Taxable)," issued on October 29, 2015, in the original principal amount of \$1,810,000 (the "2015A-T Bonds"; together with the 2015A Bonds, the "2015 Bonds"; and the 2012 Bonds, 2015 Bonds and 2019 Bonds, collectively, the "Bonds"), and an outstanding State of California loan (the "State Revolving Fund Loan"). Additional series of bonds may be issued that are payable from Net Revenues on a parity with the Bonds and the State Revolving Fund Loan, subject to the conditions contained in the Ordinance. See "OUTSTANDING INDEBTEDNESS" and "SECURITY FOR THE 2019 BONDS – Issuance of Parity Obligations."

Security for the 2019 Bonds. The 2019 Bonds are special obligations of Sonoma Water, payable solely from "Net Revenues" of Sonoma Water's water transmission system (the "Water Transmission System"), and amounts on deposit in the funds and accounts established under the Ordinance as and to the extent provided in the Ordinance. See "SECURITY FOR THE 2019 BONDS."

Use of Proceeds. The 2019 Bonds are being issued to provide funds to (i) finance the acquisition and construction of certain improvements to the Water Transmission System, (ii) provide a reserve account for the 2019 Bonds, and (iii) pay the costs of issuing the 2019 Bonds. See "FINANCING PLAN."

Bond Terms; Book-Entry Only. The 2019 Bonds will bear interest at the rates shown on the inside cover, payable semiannually on January 1 and July 1 of each year, commencing on January 1, 2020, and will be issued in fully registered form without coupons in the denomination of \$5,000 or any integral multiple of \$5,000. The 2019 Bonds will be issued in book-entry only form, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Purchasers of the 2019 Bonds will not receive certificates representing their interests in the 2019 Bonds. Payments of the principal of, premium, if any, and interest on the 2019 Bonds will be made by to DTC, which is obligated in turn to remit such principal, premium, if any, and interest to its DTC Participants for subsequent disbursement to the beneficial owners of the 2019 Bonds. See "THE 2019 BONDS – General Provisions."

Redemption. The 2019 Bonds are subject to optional redemption and special mandatory redemption from insurance or condemnation proceeds prior to maturity. See "THE 2019 BONDS – Redemption."

NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF SONOMA WATER IS PLEDGED TO THE PAYMENT OF THE 2019 BONDS OR INTEREST THEREON. THE 2019 BONDS ARE NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF, OR CHARGE, OR LIEN, OR ENCUMBRANCE UPON, ANY OF THE PROPERTY OF SONOMA WATER OR ANY OF ITS INCOME OR RECEIPTS, EXCEPT THE NET REVENUES OF THE WATER TRANSMISSION SYSTEM AND AMOUNTS ON DEPOSIT IN THE FUNDS AND ACCOUNTS ESTABLISHED UNDER THE ORDINANCE AS AND TO THE EXTENT PROVIDED IN THE ORDINANCE.

MATURITY SCHEDULE
(see inside cover)

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE OF BONDS. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION WITH RESPECT TO THE PURCHASE OF THE 2019 BONDS. INVESTMENT IN THE BONDS INVOLVES RISKS THAT MAY NOT BE APPROPRIATE FOR SOME INVESTORS. SEE "BOND OWNERS' RISKS."

The 2019 Bonds are offered when, as and if issued and accepted by the Underwriter, subject to approval as to their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. Certain legal matters will also be passed upon for Sonoma Water by Jones Hall, A Professional Law Corporation, as Disclosure Counsel. Certain legal matters will be passed upon for Sonoma Water by the Sonoma County Counsel. It is anticipated that the 2019 Bonds, in book-entry only form, will be available through the facilities of DTC on or about July 3, 2019.

The date of this Official Statement is: June 13, 2019

MATURITY SCHEDULE

SONOMA COUNTY WATER AGENCY Water Revenue Bonds, 2019 Series A

\$11,010,000 Serial Bonds (Base CUSIP†: 835577)

Maturity (July 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP†
2020	\$340,000	5.000%	1.110%	103.836	JL2
2021	360,000	5.000	1.120	107.631	JM0
2022	375,000	5.000	1.130	111.363	JN8
2023	395,000	5.000	1.140	115.030	JP3
2024	415,000	5.000	1.160	118.581	JQ1
2025	435,000	5.000	1.210	121.850	JR9
2026	460,000	5.000	1.270	124.888	JS7
2027	485,000	5.000	1.370	127.398	JT5
2028	505,000	5.000	1.450	129.834	JU2
2029	535,000	5.000	1.550	131.828	JV0
2030	560,000	5.000	1.650	130.749 ^C	JW8
2031	590,000	5.000	1.750	129.681 ^C	JX6
2032	615,000	4.000	2.100	117.048 ^C	JY4
2033	640,000	4.000	2.150	116.558 ^C	JZ1
2034	665,000	3.000	2.650	103.055 ^C	KA4
2035	685,000	3.000	2.790	101.820 ^C	KB2
2036	705,000	3.000	2.870	101.122 ^C	KC0
2037	725,000	3.000	2.950	100.429 ^C	KD8
2038	750,000	3.000	3.020	99.712	KE6
2039	770,000	3.000	3.000	100.000	KF3

† CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of The American Bankers Association. Neither the Agency nor the underwriter takes any responsibility for the accuracy of the CUSIP data.

C: Priced to first optional redemption of July 1, 2029, at par.

SONOMA COUNTY WATER AGENCY

Board of Directors

David Rabbitt, *Chair*

Susan Gorin, *Vice Chair*
Lynda Hopkins, *Chair Pro tem*

James Gore, *Director*
Shirlee Zane, *Director*

Agency Staff

Grant Davis, *General Manager*

James Jasperse, *Chief Engineer and Director of Groundwater Management*

Pamela Jeane, *Assistant General Manager - Water and Wastewater Operations*

Michael Thompson, *Assistant General Manager*

Lynne Rosselli, *Interim Division Manager – Administrative Services*

Agency Officials (Ex Officio)

Bruce Goldstein, *County Counsel*

Erick Roeser, *Auditor-Controller Treasurer-Tax Collector*

Jonathan Kadlec, *Assistant Treasurer*

Bond Counsel and Disclosure Counsel

Jones Hall, A Professional Law Corporation
San Francisco, California

Municipal Advisor

KNN Public Finance, LLC
Oakland, California

Trustee

MUFG Union Bank, N.A.
San Francisco, California

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

No Offering May Be Made Except by this Official Statement. No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations with respect to the 2019 Bonds other than as contained in this Official Statement, and if given or made, such other information or representation must not be relied upon as having been authorized.

No Unlawful Offers or Solicitations. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

Effective Date. This Official Statement speaks only as of its date, and the information and expressions of opinion contained in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale of the 2019 Bonds will, under any circumstances, create any implication that there has been no change in the affairs of Sonoma Water or the Water Transmission System since the date of this Official Statement.

Use of this Official Statement. This Official Statement is submitted in connection with the sale of the 2019 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not a contract with the purchasers of the 2019 Bonds.

Preparation of this Official Statement. The information contained in this Official Statement has been obtained from sources that are believed to be reliable, but this information is not guaranteed as to accuracy or completeness.

Document References and Summaries. All references to and summaries of the Master Ordinance or other documents contained in this Official Statement are subject to the provisions of those documents and do not purport to be complete statements of those documents.

Stabilization of and Changes to Offering Prices. The Underwriter may overallocate or take other steps that stabilize or maintain the market price of the 2019 Bonds at a level above that which might otherwise prevail in the open market. If commenced, the Underwriter may discontinue such market stabilization at any time. The Underwriter may offer and sell the 2019 Bonds to certain dealers, dealer banks and banks acting as agent at prices lower than the public offering prices stated on the cover page of this Official Statement, and those public offering prices may be changed from time to time by the Underwriter.

Bonds are Exempt from Securities Laws Registration. The issuance and sale of the 2019 Bonds have not been registered under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, in reliance upon exemptions for the issuance and sale of municipal securities provided under Section 3(a)(2) of the Securities Act of 1933 and Section 3(a)(12) of the Securities Exchange Act of 1934.

Estimates and Projections. Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words.

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. SONOMA WATER DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN ITS EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED OCCUR.

Internet Site. Sonoma Water maintains an internet site; however, none of the information contained on that internet site is incorporated by reference in this Official Statement.

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OFFICIAL STATEMENT

\$11,010,000
SONOMA COUNTY WATER AGENCY
Water Revenue Bonds,
2019 Series A

INTRODUCTION

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. Capitalized terms used but not defined in this Official Statement have the meanings given in the Ordinance (as defined below). See “APPENDIX A – Summary of Certain Provisions of the Ordinance.”

Authority for Issuance. The bonds captioned above (the “**2019 Bonds**”) are being issued by the Sonoma County Water Agency (“**Sonoma Water** ”) under the Master Ordinance of Sonoma Water originally adopted on December 28, 1970 (the “**Master Ordinance**”), as amended and supplemented to date and as further amended and supplemented by the Tenth Supplemental Ordinance adopted on April 30, 2019 (the “**Tenth Supplemental Ordinance**” and, collectively with the Master Ordinance, the “**Ordinance**”), and a resolution of the Board of Directors of Sonoma Water (the “**Board**”) adopted on April 30, 2019 (the “**Bond Resolution**”). MUFJ Union Bank, N.A., San Francisco, California, is appointed as trustee for the 2019 Bonds (the “**Trustee**”) under the Ordinance. See “THE 2019 BONDS – Authority for Issuance.”

Security for the 2019 Bonds. The 2019 Bonds are special obligations of Sonoma Water, payable solely from “Net Revenues” of Sonoma Water’s water transmission system (the “**Water Transmission System**”), and amounts on deposit in the funds and accounts established under the Ordinance as and to the extent provided in the Ordinance. “**Net Revenues**” are generally defined in the Ordinance as the “Gross Revenues” received from the Water Transmission System, less the amount of Maintenance and Operation Costs of the Water Transmission System. See “SECURITY FOR THE 2019 BONDS.”

Water Supply Agreements. Sonoma Water provides water through the Water Transmission System on a wholesale basis to its customers (collectively, the “**Water Contractors**”), which consist of municipalities or public water districts that distribute water to their retail customers in Sonoma and Marin Counties. Sonoma Water supplies water to its Water Contractors, and derives the majority of the Gross Revenues of the Water Transmission System, primarily under two agreements:

- The Restructured Agreement for Water Supply (the “**Restructured Water Supply Agreement**”), which was executed in 2006 by Sonoma Water and the Cities of Santa Rosa, Rohnert Park, Petaluma, Sonoma, and Cotati, and the Valley of the Moon Water District, the Town of Windsor, and the North Marin Water District (the “**Prime Contractors**”). The Restructured Water Supply Agreement extends until June 30, 2040, or until all “Revenue Bond Obligations” (as defined therein) are paid.

- The Renewal of the Third Amended Offpeak Water Supply Agreement and the Amended Agreement for the Sale of Water between Sonoma Water and Marin Municipal Water District (“**MMWD**”), effective July 1, 2015 (collectively, the “**Renewal of Water Supply Agreement**”). The Renewal of Water Supply Agreement extends until June 30, 2025, and is renewable at the option of MMWD.

See “SONOMA WATER AND THE WATER TRANSMISSION SYSTEM – Water Supply Agreements.”

Outstanding and Future Parity Debt. The 2019 Bonds are being issued on a parity with Sonoma Water’s outstanding bonds captioned “Sonoma County Water Agency, Water Revenue Refunding Bonds, 2012 Series A,” issued on July 11, 2012, in the original principal amount of \$12,265,000 (the “**2012 Bonds**”), “Sonoma County Water Agency, Water Revenue Bonds, 2015 Series A,” issued on October 29, 2015, in the original principal amount of \$22,055,000 (the “**2015A Bonds**”), “Sonoma County Water Agency, Water Revenue Bonds, 2015 Series A-T (Federally Taxable),” issued on October 29, 2015, in the original principal amount of \$1,810,000 (the “**2015A-T Bonds**”; together with the 2015A Bonds, the “**2015 Bonds**”), and an outstanding State of California loan (the “**State Revolving Fund Loan**”). The 2012 Bonds, the 2015 Bonds and the 2019 Bonds are sometimes referred to collectively in this Official Statement as, the “**Bonds**.” See “WATER TRANSMISSION SYSTEM FINANCIAL INFORMATION – Outstanding Indebtedness.”

Additional series of bonds or other debt may be issued that are payable from Net Revenues on a parity with the Bonds and the State Revolving Fund Loan, subject to the conditions contained in the Ordinance. See “SECURITY FOR THE 2019 BONDS – Issuance of Parity Obligations.”

Purpose of the 2019 Bonds. The 2019 Bonds are being issued to provide funds to:

- (i) finance the acquisition and construction of certain improvements to the Water Transmission System,
- (ii) provide a reserve account for the 2019 Bonds, and
- (iii) pay the costs of issuing the 2019 Bonds.

See “FINANCING PLAN.”

Rate Covenant. Under the Ordinance, Sonoma Water is obligated to fix, prescribe, revise, and collect charges for the Water Transmission System during each Fiscal Year that are sufficient to yield Net Revenues of at least 115% of Debt Service on the 2012 Bonds, 2015 Bonds, 2019 Bonds and Parity Obligations (hereafter defined) in that Fiscal Year. See “SECURITY FOR THE 2019 BONDS – Rate Covenants.”

Reserve Account. Under the Ordinance, a 2019 Subaccount of the Reserve Account will be established be held and maintained by the Trustee. On the Closing Date, the Trustee will deposit in the 2019 Subaccount of the Reserve Account the amount of \$785,950 with proceeds of the 2019 Bonds, which equals the Reserve Requirement for the 2019 Bonds. The 2019 Subaccount of the Reserve Account shall only secure the 2019 Bonds, and the 2019 Bonds shall not be secured by any other amounts on deposit in the Reserve Account. If the balance in the Reserve Account is less than the Reserve Requirement, Sonoma Water is obligated to restore the deficiency by transfers to the Trustee for deposit to the Reserve Account from the first moneys which become available in the Agency Fund (after payment of Maintenance and Operation Costs and Debt Service). See “SECURITY FOR THE 2019 BONDS – Reserve Account.”

Risks of Investment. The 2019 Bonds are repayable only from certain money available to Sonoma Water from the Water Transmission System. For a discussion of some of the risks associated with the purchase of the 2019 Bonds, see “BOND OWNERS’ RISKS.”

THE 2019 BONDS ARE NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF, OR CHARGE, OR LIEN, OR ENCUMBRANCE UPON, ANY OF THE PROPERTY OF SONOMA WATER OR ANY OF ITS INCOME OR RECEIPTS, EXCEPT THE NET REVENUES OF THE WATER TRANSMISSION SYSTEM AND AMOUNTS ON DEPOSIT IN THE FUNDS AND ACCOUNTS ESTABLISHED UNDER THE ORDINANCE AS AND TO THE EXTENT PROVIDED IN THE ORDINANCE.

FINANCING PLAN

The 2019 Improvements

Sonoma Water currently intends to use a portion of the proceeds of the 2019 Bonds to finance the cost of the “**2019 Improvements**,” which are defined in the Tenth Supplemental Ordinance to include facilities and improvements to increase the reliability and capacity of the Water Transmission System, including, but not limited to, the following projects:

- Caisson 6 Valve Replacement and Vault;
- Ely Booster Pump Station Flood Protection;
- Mainline Valve at Vinehill Ranch;
- Mark West Creek Crossing and Russian River Crossing Hazard Mitigation Mirabel Chlorine Building Water Line;
- Mirabel Dam Bladder Replacement;
- Mirabel Pump 8 Replacement;
- Mirabel-River Road Fiber Optic Line;
- Petaluma Aqueduct Relocation for Caltrans Marin Sonoma Narrows Segment C2;
- River Diversion System Motor Control Center Replacement;
- Santa Rosa Aqueduct-Santa Rosa Creek Crossing Hazard Mitigation;
- Sonoma Booster Station Electrical Upgrade and Pumping Reliability;
- Warm Springs Dam Hydro-turbine Retrofit;
- Wohler Pump 4 Replacement;
- Wohler Pump 11 Replacement;
- and any other improvements that are approved to be financed with proceeds of the 2019 Bonds by the Board.

Estimated Sources and Uses of Funds

The estimated sources and uses of funds relating to the 2019 Bonds are as follows:

Sources:	Total
Principal Amount	\$11,010,000.00
<i>Plus</i> Net Original Issue Premium	1,482,730.80
TOTAL SOURCES	\$12,492,730.80
Uses:	
Deposit to Reserve Account [1]	\$785,950.00
Deposit to Cost of Issuance Fund [2]	249,655.46
Deposit to Construction Fund [3]	11,457,125.34
TOTAL USES	\$12,492,730.80

- [1] Equal to the Reserve Requirement with respect to the 2019 Bonds at Closing. See “SECURITY FOR THE 2019 BONDS – Reserve Account.”
- [2] Represents funds to be used to pay Costs of Issuance, which include underwriter’s discount, legal fees, financial advisor’s fee, printing costs, rating agency fees, and other miscellaneous expenses.
- [3] Represents funds to be used to finance the costs of the 2019 Improvements. See “– The 2019 Improvements” above.

THE 2019 BONDS

This section provides summaries of the 2019 Bonds and certain provisions of the Tenth Supplemental Ordinance and the Ordinance. See APPENDIX A for a more complete summary of the Tenth Supplemental Ordinance and the Ordinance. Capitalized terms used but not defined in this section have the meanings given in APPENDIX A.

Authority for Issuance

The 2019 Bonds are being issued by Sonoma Water under the Ordinance, the Tenth Supplemental Ordinance, the Bond Resolution, and Section 30.17 of the Sonoma County Flood Control and Water Conservation District Act (and the applicable provisions of the Revenue Bond Law of 1941 incorporated therein). Under the Tenth Supplemental Ordinance and the Bond Resolution, the Board of Sonoma Water has authorized the issuance of the 2019 Bonds in a principal amount not to exceed \$14,500,000.

General Bond Terms

Bond Terms. The 2019 Bonds will be dated their date of delivery and issued in fully registered form without coupons in denominations of \$5,000 or any integral multiple of \$5,000. The 2019 Bonds will mature in the amounts and on the dates, and bear interest at the rates per annum, set forth on the inside cover page of this Official Statement.

Payments. Interest on the 2019 Bonds will be payable on January 1 and July 1 of each year to maturity, beginning January 1, 2020 (each an “**Interest Payment Date**”).

Interest on the 2019 Bonds will be payable on each Interest Payment Date to the person whose name appears on the Bond Registration Books as the Owner thereof as of the Record Date immediately preceding each such Interest Payment Date, such interest to be paid by check or draft of the Trustee mailed by first class mail to the Owner or, at the option of any Owner of at least \$1,000,000 aggregate principal amount of the 2019 Bonds with respect to which written instructions have been filed with the Trustee prior to the applicable Record Date, by wire transfer, at the address of such Owner as it appears on the Bond Registration Books.

If there exists a default in payment of interest due on such Interest Payment Date, such interest will be payable on a payment date established by the Trustee to the persons in whose names the 2019 Bonds are registered at the close of business on a special record date for the payment of such defaulted interest established by notice mailed by the Trustee to the registered Owners of the 2019 Bonds not less than 15 days preceding such special record date.

Principal of and premium (if any) on any 2019 Bond will be paid upon presentation and surrender thereof at the designated office of the Trustee. Both the principal of and interest and premium (if any) on the 2019 Bonds will be payable in lawful money of the United States of America.

However, as long as Cede & Co. is the registered owner of the 2019 Bonds, as described below, payments of the principal of, premium, if any, and interest on the 2019 Bonds will be made directly to DTC, or its nominee, Cede & Co.

Calculation of Interest. The 2019 Bonds will be dated their date of delivery and bear interest based on a 360-day year comprised of twelve 30-day months from the Interest Payment Date next preceding its date of authentication, unless said date of authentication is an Interest Payment Date, in which event such interest is payable from such date of authentication, and unless said date of authentication is prior to December 15, 2019, in which event such interest is payable from their date of delivery; provided, however, that if, as of the date of authentication of any 2019 Bond, interest thereon is in default, such 2019 Bond will bear interest from the date to which interest has previously been paid or made available for payment thereon in full.

Record Date. The Ordinance defines “**Record Date**” as the 15th calendar day of the month immediately preceding an Interest Payment Date.

Book-Entry Only System. The 2019 Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company (“**DTC**”), New York, New York, as the initial securities depository for the 2019 Bonds. Ownership interests in the 2019 Bonds may be purchased in book-entry form only. Purchasers of the 2019 Bonds will not receive physical bonds representing their ownership interests in the 2019 Bonds purchased.

Principal and interest payments with respect to the 2019 Bonds are payable directly to DTC by the Trustee. Upon receipt of payments of principal and interest, DTC will in turn distribute such payments to the beneficial owners of the 2019 Bonds. See “APPENDIX F – DTC and the Book-Entry Only System.”

So long as the 2019 Bonds are registered in the name of Cede & Co., as nominee of DTC, references in this Official Statement to the “owners” mean Cede & Co., and not the purchasers or Beneficial Owners of the 2019 Bonds. See “APPENDIX F – DTC and the Book-Entry Only System.”

Redemption

Optional Redemption. The 2019 Bonds maturing on or before July 1, 2029, are not subject to optional redemption prior to maturity. The 2019 Bonds maturing on or after July 1, 2030, are subject to redemption prior to their respective maturity dates, at the option of Sonoma Water, as a whole or in part on any Business Day, in any order directed by Sonoma Water, and if Sonoma Water fails to direct the order, pro rata among maturities, and by lot within a maturity, on any Business Day on or after July 1, 2029, from any source of available funds, at a redemption price equal to the principal amount of the 2019 Bonds to be redeemed, plus accrued interest thereon to the date of redemption, without premium.

Special Mandatory Redemption from Net Proceeds of Insurance or Condemnation. The 2019 Bonds are also subject to redemption as a whole or in part on any date, in any order directed by Sonoma Water, and if Sonoma Water fails to direct the order, pro rata among maturities, and by lot within a maturity, to the extent of the Net Proceeds of hazard insurance not used to repair or rebuild the Water Transmission System or the Net Proceeds of condemnation awards received with respect to the Water Transmission System to be used for such purpose pursuant to the Ordinance, at a redemption price equal to the principal amount of the 2019 Bonds to be redeemed, plus interest accrued thereon to the date fixed for redemption, without premium.

Purchase in Lieu of Redemption. In lieu of redemption of 2019 Bonds as described above, amounts in the Redemption Account of the Debt Service Fund may also be used and withdrawn by the Trustee at any time, upon the Request of Sonoma Water filed with the Trustee,

for the purchase of 2019 Bonds at public or private sale as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Debt Service Fund) as Sonoma Water may in its discretion determine, but not to exceed the principal amount of such 2019 Bonds plus the redemption premium applicable on the next ensuing optional redemption date. Sonoma Water will, at the time of any such purchase, pay to the Trustee for deposit in the Debt Service Fund the amount of any deficiency in the Debt Service Fund which may be caused by such purchase.

Selection of 2019 Bonds for Redemption. Whenever provision is made for the redemption of any series of Bonds or portion thereof by lot, and less than all of the Bonds of such series or portion thereof are called for redemption, Sonoma Water will direct the order of redemption, and if Sonoma Water fails, the Trustee will select the Bonds to be redeemed, from the outstanding Bonds of such series or portion thereof not previously called for redemption, by lot in any manner which the Trustee deems fair.

Notice of Redemption. Unless waived by the Owner of any 2019 Bonds to be redeemed, notice of any redemption of 2019 Bonds will be given, at the expense of Sonoma Water, by the Trustee by mailing a copy of a redemption notice by first class mail at least 30 days and not more than 60 days prior to the date fixed for redemption to the Owner of the 2019 Bond or 2019 Bonds to be redeemed at the address shown on the Bond Registration Books; provided, that neither the failure to receive such notice nor any immaterial defect in any notice will affect the sufficiency of the proceedings for the redemption of the 2019 Bonds.

However, while the 2019 Bonds are subject to DTC's book-entry system, the Trustee will be required to give notice of redemption only to DTC as provided in the letter of representations executed by Sonoma Water and received and accepted by DTC. DTC and the Participants will have sole responsibility for providing any such notice of redemption to the beneficial owners of the 2019 Bonds to be redeemed. Any failure of DTC to notify any Participant, or any failure of Participants to notify the Beneficial Owner of any 2019 Bonds to be redeemed, of a notice of redemption or its content or effect will not affect the validity of the notice of redemption, or alter the effect of redemption set forth in the Ordinance.

Cancellation of Redemption Notice. Notwithstanding anything in the Ordinance to the contrary, Sonoma Water has the right to cancel the notice of any optional redemption by providing written notice of such cancellation to the Trustee not less than five days prior to the date set for redemption.

Effect of Redemption. If notice of redemption is given as described above, the 2019 Bonds or portions of 2019 Bonds so to be redeemed will, on the redemption date, become due and payable at the Redemption Price therein specified, and from and after such date (unless Sonoma Water defaults in the payment of the Redemption Price) such 2019 Bonds or portions of 2019 Bonds will cease to have interest accrue thereon.

Upon surrender of such 2019 Bonds for redemption in accordance with the redemption notice, such 2019 Bonds will be paid by the Trustee at the Redemption Price. Installments of interest due on or prior to the redemption date will be payable as provided in the Ordinance for payment of interest.

DEBT SERVICE SCHEDULE

2019 Bonds

Annual debt service on the 2019 Bonds is presented below.

Fiscal Year Ending June 30	2019 Bonds Principal	2019 Bonds Interest	Total Annual Debt Service
2020	\$ --	\$223,464.17	\$223,464.17
2021	340,000.00	443,450.00	783,450.00
2022	360,000.00	425,950.00	785,950.00
2023	375,000.00	407,575.00	782,575.00
2024	395,000.00	388,325.00	783,325.00
2025	415,000.00	368,075.00	783,075.00
2026	435,000.00	346,825.00	781,825.00
2027	460,000.00	324,450.00	784,450.00
2028	485,000.00	300,825.00	785,825.00
2029	505,000.00	276,075.00	781,075.00
2030	535,000.00	250,075.00	785,075.00
2031	560,000.00	222,700.00	782,700.00
2032	590,000.00	193,950.00	783,950.00
2033	615,000.00	166,900.00	781,900.00
2034	640,000.00	141,800.00	781,800.00
2035	665,000.00	119,025.00	784,025.00
2036	685,000.00	98,775.00	783,775.00
2037	705,000.00	77,925.00	782,925.00
2038	725,000.00	56,475.00	781,475.00
2039	750,000.00	34,350.00	784,350.00
2040	770,000.00	11,550.00	781,550.00
Total:	\$11,010,000.00	\$4,878,539.17	\$15,888,539.17

Outstanding Parity Debt

The table below sets forth debt service requirements payable from Net Revenues of the Water Transmission System, which includes the debt service on the 2012 Bonds, 2015 Bonds, 2019 Bonds and the State Revolving Fund Loan. See “WATER TRANSMISSION SYSTEM FINANCIAL INFORMATION – Outstanding Indebtedness.”

**DEBT SERVICE SCHEDULE
Outstanding Parity Debt**

Fiscal Year Ending June 30	2012 Bonds	State Revolving Fund Loan	2015 Bonds	2019 Bonds	Total Combined Debt Service
2019	\$839,675.00	\$1,040,231.58	\$1,481,187.51	\$ --	\$3,361,094.09
2020	834,075.00	1,040,231.58	1,484,556.26	223,464.17	3,582,327.01
2021	835,300.00	1,040,231.58	1,482,925.01	783,450.00	4,141,906.59
2022	838,000.00	1,040,231.58	1,482,706.26	785,950.00	4,146,887.84
2023	834,800.00	1,040,231.58	1,477,081.26	782,575.00	4,134,687.84
2024	833,850.00	1,040,231.58	1,484,331.26	783,325.00	4,141,737.84
2025	832,100.00	1,040,231.58	1,479,331.26	783,075.00	4,134,737.84
2026	828,125.00	1,040,231.58	1,477,206.26	781,825.00	4,127,387.84
2027	831,475.00	1,040,231.58	1,476,831.26	784,450.00	4,132,987.84
2028	830,625.00	1,040,231.58	1,472,831.26	785,825.00	4,129,512.84
2029	824,250.00	520,295.89	1,474,331.26	781,075.00	3,599,952.15
2030	827,275.00	--	1,477,306.26	785,075.00	3,089,656.26
2031	824,625.00	--	1,479,231.26	782,700.00	3,086,556.26
2032	826,300.00	--	1,470,256.26	783,950.00	3,080,506.26
2033	827,225.00	--	1,475,306.26	781,900.00	3,084,431.26
2034	--	--	1,473,468.76	781,800.00	2,255,268.76
2035	--	--	1,469,796.88	784,025.00	2,253,821.88
2036	--	--	1,474,062.50	783,775.00	2,257,837.50
2037	--	--	1,466,243.75	782,925.00	2,249,168.75
2038	--	--	851,809.38	781,475.00	1,633,284.38
2039	--	--	855,821.88	784,350.00	1,640,171.88
2040	--	--	853,400.00	781,550.00	1,634,950.00
2041	--	--	849,612.50	--	849,612.50
Total	\$12,467,700.00	\$10,922,611.69	\$31,469,634.55	\$15,888,539.17	\$70,748,485.41

SECURITY FOR THE 2019 BONDS

This section provides summaries of the security for the 2019 Bonds, and certain provisions of the Tenth Supplemental Ordinance and the Ordinance. See APPENDIX A for a more complete summary of the Tenth Supplemental Ordinance and the Ordinance. Capitalized terms used but not defined in this section have the meanings given in APPENDIX A.

Pledge of Net Revenues

General. The 2019 Bonds are special obligations of Sonoma Water, payable solely from Net Revenues of the Water Transmission System and from amounts on deposit in the funds and accounts established under the Ordinance as and to the extent provided in the Ordinance.

Limited Obligation of Sonoma Water. NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF SONOMA WATER IS PLEDGED TO THE PAYMENT OF THE 2019 BONDS OR INTEREST THEREON. THE 2019 BONDS ARE NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF, OR CHARGE, OR LIEN, OR ENCUMBRANCE UPON, ANY OF THE PROPERTY OF SONOMA WATER OR ANY OF ITS INCOME OR RECEIPTS, EXCEPT THE NET REVENUES OF THE WATER TRANSMISSION SYSTEM AND THE AMOUNTS ON DEPOSIT UNDER THE ORDINANCE TO THE EXTENT PROVIDED IN THE ORDINANCE.

Net Revenues. The Ordinance defines “**Net Revenues**” with respect to the Water Transmission System as, for any period of computation, the amount of the Gross Revenues received from the Water Transmission System during such period, less the amount of Maintenance and Operation Costs of the Water Transmission System becoming payable during such period.

Gross Revenues. The Ordinance defines “**Revenues**,” “**Gross Revenues**,” and “**Revenues of the Transmission System**” as all charges received for, and all other income and receipts derived by Sonoma Water from, the ownership or operation of the Water Transmission System, or arising from the Water Transmission System, including:

- income derived from the sale or use of water or charges or rentals for capacity in any facilities of the Water Transmission System, together with
- any receipts derived from the sale of any property pertaining to the Water Transmission System or incidental to the operation of the Water Transmission System (including the sale of electrical power),
- receipts derived from the investment of funds held by Sonoma Water or the Trustee under the Ordinance, or from any services performed by Sonoma Water in connection with or incidental to the Water Transmission System, or
- from any other source whatsoever directly or indirectly derived from the Water Transmission System including Capital Charges and Maintenance and Operation Charges relating to the Water Transmission System received from any Water Contractor under any Agreement.

The Ordinance *excludes* from the definition of “Revenues,” in every case, the following:

(1) any moneys derived from the levy or collection of taxes upon any taxable property in Sonoma Water,

(2) capital cost cash payments and interest thereon received by Sonoma Water from North Marin Water District, pursuant to the Restructured Water Supply Agreement,

(3) other capital cost cash payments and interest thereon received by Sonoma Water in connection with the future expansion of the Water Transmission System and which are made to pay all or a pro rata portion of such expansion and are in lieu of periodic payments for water which would amortize the capital cost of such improvements pursuant to an Agreement,

(4) any monies derived pursuant to the section of the Restructured Water Supply Agreement regarding payment of the Russian River Projects Charge and the Russian River Conservation Charge,

(5) any monies derived pursuant to the Supplemental Agreement with respect to the Russian River Conservation Charge and the Russian River Project Charge,

(6) any moneys received from Marin Municipal Water District for firm water supply pursuant to Section 8 of Exhibit B of the Supplemental Agreement,

(7) any monies received under any Agreement with respect to the Russian River Project, and

(8) any monies derived from payments of the following under the Restructured Water Supply Agreement: the Water Management Planning Sub-Charge made pursuant to Section 4.13, the Watershed Planning and Restoration Sub-Charge made pursuant to Section 4.14, the Recycled Water and Local Supply Sub-Charge made pursuant to Section 4.15, and Water Conservation Sub-Charge made pursuant to Section 4.16 (see “SONOMA WATER AND THE WATER TRANSMISSION SYSTEM – Sonoma Water’s Water Supply Sources and Water Rights – Water Supply Agreements”).

Maintenance and Operation Costs. The Ordinance defines “**Maintenance and Operation Costs**,” when used with respect to the Water Transmission System, as the reasonable and necessary costs of and charges for maintenance and operation of the Water Transmission System, but only if those costs and charges are in conformity with generally accepted accounting principles, and exclusive in all cases of depreciation or obsolescence charges or reserves therefor, amortization of intangibles or other bookkeeping entries of a similar nature, and all interest charges and charges for the payment of principal, or amortization, of bonded or other indebtedness of Sonoma Water.

Maintenance and Operation Costs include (among other things) the reasonable expenses of management, repair and other expenses necessary to maintain and preserve the Water Transmission System in good repair and working order, and reasonable amounts for administration, overhead, insurance, taxes (if any) and other similar costs.

The term “Maintenance and Operation Costs” does *not* include costs, or charges made therefor, for capital additions, replacements, betterments, extensions or improvements to or

retirements from the Water Transmission System, which under generally accepted accounting principles are properly chargeable to the capital account or the reserve for depreciation, and does not include losses from the sale, abandonment, reclassification, revaluation or other disposition of any properties of Sonoma Water, or such property items which are capitalized pursuant to the then existing accounting practice of Sonoma Water.

Allocation of Revenues

Under the Ordinance, all Gross Revenues are held in trust by the Treasurer in the Agency Fund and will be applied, transferred, used and withdrawn only for the following purposes:

(1) *Maintenance and Operation Costs.* The Treasurer will first pay from the moneys in the Agency Fund the budgeted Maintenance and Operation Costs as such Maintenance and Operation Costs become due and payable.

(2) *Parity Debt Service Fund.* On or before the second Business Day prior to each Interest Payment Date, beginning as provided in the Supplemental Ordinance issuing the Parity Obligations, the Treasurer will transfer from the Agency Fund to the Trustee for deposit in the Debt Service Fund:

(i) an amount equal to the aggregate amount of interest to become due and payable on all Outstanding Parity Obligations on the next succeeding Interest Payment Date, plus

(ii) on or before the second Business Day prior to each Principal Installment Date, beginning as provided in the Supplemental Ordinance issuing the Parity Obligations, an amount equal to the aggregate amount of Principal Installments becoming due and payable on all Outstanding Parity Obligations on the next succeeding Principal Installment Date.

All interest earnings and profits or losses on the investment of amounts in the Debt Service Fund will be deposited in or charged to the Debt Service Fund and applied to the purposes thereof. No transfer and deposit need be made into the Debt Service Fund if the amount contained therein, taking into account investment earnings and profits, is at least equal to the Interest Requirement or Principal Installments to become due on the next Interest Payment Date or Principal Installment Date upon all Outstanding Parity Obligations.

(3) *Parity Reserve Account.* After making the payments, allocations and transfers provided for in subsections (1) and (2) above, if the Supplemental Ordinance for Parity Obligations requires a Reserve Account, then if the balance in the Reserve Account is less than the Reserve Requirement, the deficiency will be restored by transfers from the first moneys which become available in the Agency Fund to the Trustee for deposit in the Reserve Account, pro rata among each Series, such transfers to be made no later than the times provided in the section of the Ordinance governing method and frequency of valuation of amount in the funds held under the Ordinance. Sonoma Water will first apply available monies to reinstate any Qualified Surety Bond in full prior to replenishing cash held in the Reserve Account.

(4) *Financial Product Agreements for Parity Obligations.* After making the payments, allocations and transfers provided for in subsection (1) through (3) above, the

Treasurer will transfer to the provider under the Financial Product Agreement any amounts due under the Financial Product Agreement.

(5) *Subordinate Debt Service Fund.* After making the payments, allocations, and transfers provided for in Sections (1) through (4) above, on or before the second Business Day prior to each Interest Payment Date, beginning as provided in the Supplemental Ordinance issuing the Bonds, the Treasurer will transfer from the Agency Fund to the Trustee for deposit in the Subordinate Debt Service Fund:

(i) an amount equal to the aggregate amount of interest to become due and payable on all Outstanding Bonds on the next succeeding Interest Payment Date, plus

(ii) on or before the second Business Day prior to each Principal Installment Date, beginning as provided in the Supplemental Ordinance issuing the Bonds, an amount equal to the aggregate amount of Principal Installments becoming due and payable on all Outstanding Bonds on the next succeeding Principal Installment Date.

All interest earnings and profits or losses on the investment of amounts in the Subordinate Debt Service Fund will be deposited in or charged to the Subordinate Debt Service Fund and applied to the purposes thereof. No transfer and deposit need be made into the Subordinate Debt Service Fund if the amount contained therein, taking into account investment earnings and profits, is at least equal to the Interest Requirement or Principal Installments to become due on the next Interest Payment Date or Principal Installment Date upon all Outstanding Bonds.

(6) *Subordinate Reserve Account.* After making the payments, allocations and transfers provided for in subsections (1) and (5) above, if the Supplemental Ordinance requires a Subordinate Reserve Account, then if the balance in the Subordinate Reserve Account is less than the Subordinate Reserve Requirement, the deficiency will be restored by transfers from the first moneys which become available in the Agency Fund to the Trustee for deposit in the Subordinate Reserve Account, such transfers to be made no later than the times provided in the section of the Ordinance governing method and frequency of valuation of amount in the funds held under the Ordinance.

(7) *Financial Product Agreements for Subordinate Obligations.* After making the payments, allocations and transfers provided for in subsection (1) through (6) above, the Treasurer will transfer to the provider under the Financial Product Agreement any amounts due under the Financial Product Agreement.

(8) *Surplus.* As long as all of the foregoing payments, allocations and transfers are made at the times and in the manner set forth above in subsections (1) to (7), inclusive, any moneys remaining in the Agency Fund may at any time be treated as surplus and applied for any lawful purpose.

Debt Service Fund

Interest. The Trustee will withdraw from the Debt Service Fund, prior to each Interest Payment Date, an amount equal to the Interest Requirement payable on such Interest Payment Date, and cause those funds to be applied to the payment of interest when due.

Principal. The Trustee will withdraw from the Debt Service Fund, prior to each Principal Installment Date, an amount equal to the principal amount of the Outstanding Serial Bonds, if any, maturing on that Principal Installment Date, and cause those funds to be applied to the payment of the principal of those Bonds when due.

2019 Subaccount of the Reserve Account

Establishment. Under the Ordinance, a 2019 Subaccount of the Reserve Account will be established be held and maintained by the Trustee to secure the 2019 Bonds. On the Closing Date, the Trustee will deposit in the 2019 Subaccount of the Reserve Account the amount of \$785,950 with proceeds of the 2019 Bonds, which equals the Reserve Requirement for the 2019 Bonds. See “FINANCING PLAN - Estimated Sources and Uses of Funds.”

No Cross-Collateralization. The 2019 Subaccount of the Reserve Account will only secure the 2019 Bonds, and the 2019 Bonds shall not be secured by any other amounts on deposit in the Reserve Account.

The 2012 Bonds and the 2015 Bonds are secured by amounts on deposit in separate subaccounts of the Reserve Account, as specified by Sonoma Water. Amounts on deposit in such accounts or subaccounts are not available to pay debt service on the 2019 Bonds.

Reserve Requirement. The “Reserve Requirement” is defined under the Ordinance as an amount equal to the lesser of Maximum Annual Debt Service on the 2019 Bonds, 10% of the principal amount of the 2019 Bonds, or 125% of Average Annual Debt Service on the 2019 Bonds.

The Reserve Requirement for an issue of Parity Obligations may, but need not be, increased by any Parity Obligations Instrument establishing the terms and conditions of any Parity Obligations.

Conditions for Cross-Collateralization Among Parity Obligations. To the extent the Reserve Requirement for a Series of Bonds is funded by a Qualified Surety Bond, the Reserve Account will only secure such Series of Bonds (subject to the limitations described above). Notwithstanding the above, as provided in any Supplemental Ordinance, any Series of Parity Obligations secured by a Reserve Account funded with cash and investments may be held and invested in a common account with any other Series funded with cash and investments for the equal and ratable benefit, *pari passu* of all Series so secured. The Reserve Requirement for such common account will be calculated with respect to all Series in the common account as the minimum Reserve Requirement of any Series so secured.

Transfers When Balance Exceeds Reserve Requirement. If the balance in the Reserve Account exceeds the Reserve Requirement, the Trustee will transfer the excess to the Agency Fund at least semiannually.

Deposits When Balance Falls Below Reserve Requirement. If the balance in the Reserve Account is less than the Reserve Requirement, Sonoma Water is required to restore the deficiency by transfers from the Agency Fund to the Trustee for deposit to the Reserve Account of the first moneys which become available (after payment of Maintenance and Operation Costs and Debt Service).

Surety Bond. Sonoma Water may satisfy the Reserve Requirement by delivering to the Trustee a Qualified Surety Bond, as described and defined in the Ordinance. The Trustee is

entitled to draw upon the Surety Bond when required to make transfers from the Reserve Account to the Debt Service Fund.

Springing Amendments in Ninth Supplemental Ordinance Affecting Reserve Accounts for Future Parity Bonds. The Ninth Supplemental Ordinance to the Master Ordinance, adopted on October 6, 2015, includes the following amendments that will take effect upon the payment or defeasance in full of the 2012 Bonds:

Ability to Establish Different Reserve Requirements for Future Series of Bonds. The Reserve Requirement for a particular Series of Bonds (other than the 2015 Bonds) will be as provided in the Supplemental Ordinance or resolution providing for the issuance of such Series of Bonds. If Sonoma Water determines that the Reserve Requirement for a Series of Bonds will be less than the lesser of (i) Maximum Annual Debt Service on such Series; (ii) 10% of the principal amount of such Series; or (iii) 125% of Average Annual Debt Service on such Series, Sonoma Water will have the Trustee establish a separate subaccount within the Reserve Account that will only secure such Series of Bonds, and such Series of Bonds will not be secured by any other amounts on deposit in the Reserve Account. Accordingly, the definition of Reserve Requirement will, upon the payment or defeasance in full of the 2012 Bonds, be amended to mean, for any particular Series (other than the 2015 Bonds), the amount set forth in the Supplemental Ordinance or resolution providing for the issuance of such Series of Bonds.

Changes to Qualified Surety Bond Definition. The definition of Qualified Surety Bond will be amended to mean an irrevocable standby or direct pay letter of credit or surety bond issued by a commercial bank or insurance company and deposited with the Trustee provided that all of the following requirements are met at the time of acceptance thereof by the Trustee: (a) the long-term credit rating of such bank or insurance company is "A" or better from each Rating Agency which then maintains a rating on the Bonds; (b) such letter of credit or surety bond has a term of at least 12 months; (c) such letter of credit or surety bond has a stated amount at least equal to the portion of the Reserve Requirement with respect to which funds are proposed to be released pursuant to the Ordinance; and (d) the Trustee is authorized pursuant to the terms of such letter of credit or surety bond to draw thereunder an amount equal to any deficiencies which may exist from time to time in the Debt Service Fund for the purpose of making payments required pursuant to the Ordinance.

Rate Covenants

Sonoma Water makes the following covenants in the Ordinance with respect to charges for the Water Transmission System:

Sum Sufficient. Sonoma Water covenants to fix, prescribe, revise and collect charges for the Water Transmission System during each Fiscal Year which are at least sufficient, after making allowances for contingencies and error in the estimates, to pay the following amounts in the following order:

- (i) all Maintenance and Operation Costs of the Water Transmission System estimated by Sonoma Water to become due and payable in such Fiscal Year;
- (ii) the Debt Service on the Bonds and the Parity Obligations;

(iii) all other payments required for compliance with the Ordinance and the Parity Obligation Instruments pursuant to which any Parity Obligations relating to the Water Transmission System are issued;

(iv) the Debt Service on the Subordinate Obligations (if any);

(v) any other payments required for compliance pursuant to the Subordinate Obligation Instruments relating to the Water Transmission System; and

(vi) all payments required to meet any other obligations or Indebtedness of Sonoma Water which are charges, liens, encumbrances upon or payable from the Net Revenues of the Water Transmission System.

Coverage Test. Sonoma Water covenants to fix, prescribe, revise, and collect rates and charges for the Water Transmission System during each Fiscal Year that are sufficient to yield Net Revenues equal to at least 115% of the Debt Service on the Bonds and any Parity Obligations in such Fiscal Year.

Outstanding Parity Revenue Bonds and Debt

The 2019 Bonds are being issued on a parity with Sonoma Water's outstanding 2012 Bonds, 2015 Bonds, and the State Revolving Fund Loan. See "WATER TRANSMISSION SYSTEM FINANCIAL INFORMATION – Outstanding Indebtedness."

Issuance of Parity Obligations

In addition to the 2012 Bonds, 2015 Bonds and 2019 Bonds, Sonoma Water may, by Parity Obligations Instrument, issue or incur Parity Obligations payable from Net Revenues to be derived from the Water Transmission System, subject to the following conditions precedent to the issuance and delivery of such Parity Obligations:

(i) Sonoma Water is in compliance with all covenants set forth in the Ordinance.

(ii) The Net Revenues of the Water Transmission System for the latest Fiscal Year or any more recent 12-month period selected by Sonoma Water ending not more than 60 days prior to the adoption of the Parity Obligations Instrument under which such Parity Obligations are issued plus, at the option of Sonoma Water, any or all of the items designated (i), (ii), and (iii) below, are at least equal to 115% of Maximum Annual Debt Service, with Maximum Annual Debt Service calculated on all Parity Obligations to be Outstanding immediately subsequent to the issuance of such Parity Obligations which have a lien on Net Revenues of the Water Transmission System. The items that may be added to Net Revenues for the purpose of issuing or incurring Parity Obligations are the following:

(A) An allowance for Net Revenues from Capital Charges relating to the Water Transmission System assessed by Sonoma Water during any part of such Fiscal Year or such 12-month period.

(B) An allowance for earnings arising from any increase in the Maintenance and Operation Charges relating to the Water Transmission System

which has become effective prior to the incurring of such additional indebtedness but which, during all or any part of such Fiscal Year or such 12-month period, was not in effect, in an amount equal to the amount by which the Net Revenues would have been increased if such increase in Maintenance and Operation Charges had been in effect during the whole of such Fiscal Year or such 12-month period, all as shown in the written report of an Independent Consultant engaged by Sonoma Water.

(C) An allowance from any increase in Capital Charges, Maintenance and Operation Charges or other Charges assessed by Sonoma Water and relating to the Water Transmission System under any Agreement or other contract between Sonoma Water and any Water Contractor during any part of such Fiscal Year of such 12-month period.

The Parity Obligations Instrument providing for the issuance of such Parity Obligations under the Ordinance must provide that:

(i) The proceeds of such Parity Obligations will be applied to the acquisition, construction, improvement, financing or refinancing of additional facilities, improvements or extensions of existing facilities within the Water Transmission System, or otherwise for facilities, improvements or property which Sonoma Water determines are of benefit to the Water Transmission System, or for the purpose of refunding any Obligations in whole or in part, including all costs (including costs of issuing such Parity Obligations and including capitalized interest on such Parity Obligations during any period which Sonoma Water deems necessary or advisable) relating thereto.

(ii) Money or a Qualified Surety Bond as authorized by the Ordinance may, but need not, be deposited in a Reserve Account for such Parity Obligations from the proceeds of the sale of such Parity Obligations or otherwise equal to the Reserve Requirement; provided however, the Reserve Account will only secure the Series of Parity Obligations in the related Parity Obligations Instrument.

Subordinate Obligations

Under the Ordinance, Sonoma Water may issue Subordinate Obligations that are junior and subordinate to the payment of the principal of and interest on the Parity Obligations, and that are payable as to both principal and interest (and also Reserve Requirements, if any) only out of Net Revenues after the prior payment of all amounts required to be paid under the Ordinance from Net Revenues for principal, interest and Reserve Requirements on the Parity Obligations then outstanding (including Refunding Bonds), as they become due and payable.

Eminent Domain Proceeds

If all or any part of the Water Transmission System is taken by eminent domain proceedings, the Net Proceeds realized by Sonoma Water therefrom will be deposited by Sonoma Water with the Trustee in a special fund in trust and applied by Sonoma Water to the cost of acquiring or constructing or financing Improvements to the Water Transmission System if:

(i) Sonoma Water first secures and files with the Trustee a Certificate of Sonoma Water showing (i) the estimated loss in annual Net Revenues, if any, suffered, or to be suffered, by Sonoma Water by reason of such eminent domain proceedings, (ii) a general

description of the Improvements to the Water Transmission System then proposed to be acquired or constructed by Sonoma Water from such Net Proceeds, and (iii) an estimate of the additional Net Revenues to be derived from such Improvements; and

(ii) the Trustee, on the basis of such Certificate of Sonoma Water, determines that such additional Net Revenues will sufficiently offset the loss of Net Revenues, resulting from such eminent domain proceedings so impaired, which determination will be final and conclusive.

If these conditions are met, Sonoma Water will then promptly proceed with the acquisition or construction or financing of such Improvements substantially in accordance with such Certificate of Sonoma Water, and payments for those Improvements will be made by the Trustee from such Net Proceeds and from other moneys of Sonoma Water lawfully available therefore. Any balance of such net Proceeds not required by Sonoma Water for these purposes will be deposited in the Agency Fund.

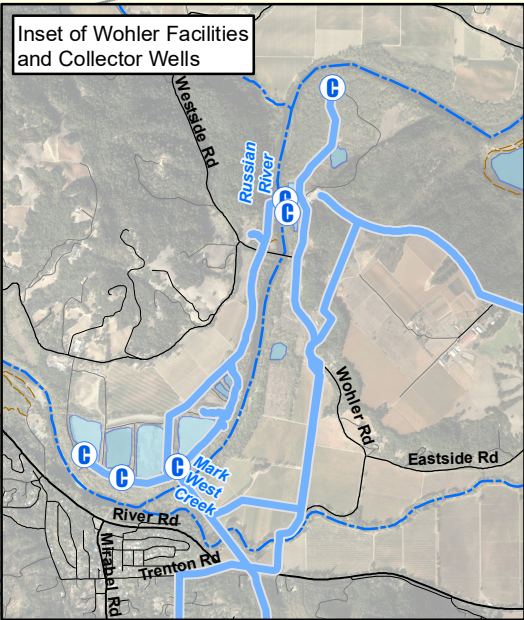
If these conditions are not met, then such Net Proceeds will be applied by the Trustee pro rata to the redemption or purchase of the Bonds of each Series then Outstanding in the proportion which the principal amount of the Outstanding Bonds of each Series bears to the aggregate principal amount of all Bonds then Outstanding. If the Trustee is unable to purchase or redeem Bonds in amounts sufficient to exhaust the available moneys allocable to each such Series, the remainder of such moneys for each such Series will be held in trust by the Trustee and applied to the payment of the Bonds of such Series as they become due by their terms, and, pending such application, such remaining moneys may be invested by the Trustee in the manner provided in the Ordinance for the investment of moneys in the Reserve Account.

Casualty Insurance

Covenant to Maintain. Sonoma Water has covenanted in the Ordinance that it will at all times maintain such insurance on the Water Transmission System as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to such works or properties.

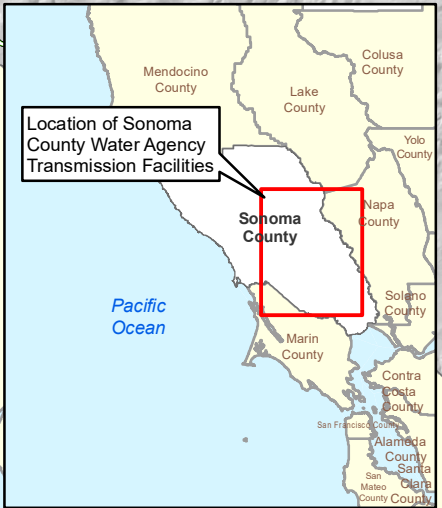
Insurance Proceeds. If any useful part of the Water Transmission System is damaged or destroyed, such part will be restored to use. The Net Proceeds of insurance against accident to or destruction of the physical Transmission System will be used for repairing or rebuilding the damaged or destroyed portions of the Water Transmission System (to the extent that such repair or rebuilding is determined by Sonoma Water to be useful or of continuing value to the Water Transmission System), and to the extent not so applied, will be applied to the redemption of the Outstanding Bonds issued on a pro rata basis, and for such purpose will be paid into the Redemption Account.

- Collector Well
- Storage Tank
- Aqueduct Center Lines



Location of Wohler Inset

DISCLAIMER
 This map document and associated data are distributed for informational purposes only "AS-IS" at the published scale and provided without warranty of any kind expressed or implied. The positional accuracy of the data is approximate and not intended to represent survey map accuracy. The Sonoma County Water Agency assumes no responsibility arising from use of this information.

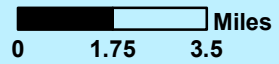


Location of Sonoma County Water Agency Transmission Facilities

Sonoma County Vegetation Mapping and LiDAR Consortium, NASA, University of Maryland, Watershed Sciences, Inc., Tukman Geospatial LLC

S:\Proj\water transmission\pipelines\0702_Admin\Water Revenue Bonds_2019.mxd 4/8/2019

Sonoma County Water Agency
Water Transmission Facilities
 Sonoma County, CA



SONOMA WATER AND THE WATER TRANSMISSION SYSTEM

Background and History

Sonoma Water was created as a special district in 1949 by the California Legislature to act as the local sponsor for federal flood protection and water supply projects known collectively as the Russian River Project. Sonoma Water is a special district of the State of California. The County Board of Supervisors acts as Sonoma Water's Board of Directors.

Sonoma Water is a wholesale water supplier to nine cities and water districts that serve more than 600,000 residents in portions of Sonoma and Marin counties. For economic and demographic information regarding Sonoma Water's service area, see APPENDIX D.

Sonoma Water manages and operates the Russian River water supply system conjunctively with the U.S. Army Corps of Engineers. It also manages eight sanitation districts and zones in Sonoma County, and engages in flood control operations in certain areas of Sonoma County. Sonoma Water's sanitation and flood control operations are funded separately and independently from its water supply operations.

Additional information regarding Sonoma Water can be found on its internet site at www.scwa.ca.gov. *This internet address is included for reference only and the information on the Internet site is not a part of this Official Statement and is not incorporated by reference into this Official Statement.*

Management and Operation

Governance. Under Sonoma Water's enabling act, the Board of Supervisors of the County of Sonoma is, ex officio, the Board of Directors of Sonoma Water (the "**Board**"). The County Administrator, County Clerk, County Assessor, County Treasurer-Tax Collector, County Auditor-Controller, County Counsel, and County Purchasing Agent are, unless otherwise provided by the Board, ex officio such officers of Sonoma Water.

Officers. The General Manager, who serves at the pleasure of the Board, administers Sonoma Water, and plans, organizes, directs and controls all activities and functions of Sonoma Water, subject to the determination of policy by the Board. Brief biographies of the General Manager, and other officers of Sonoma Water, are set forth below.

Grant Davis, General Manager. Prior to joining Sonoma Water, Mr. Davis was Executive Director of The Bay Institute, a science-based nonprofit, dedicated to protecting the San Francisco Bay-Delta Watershed and improving water management in California. Mr. Davis also worked for Congresswoman Lynn Woolsey from 1993-1997. Grant covered energy and water-related legislation. He was also an aide to State Senator Milton Marks of San Francisco and to Assemblywoman Lucy Killea of San Diego. Davis also operated a successful small business, specializing in strategic planning, public relations and campaign management.

Mr. Davis currently serves on the University of California President's Advisory Commission, for the Division of Agriculture and Natural Resources. He is a member of the Governor of California's Water Plan Advisory Commission and previously Vice Chair of the Bay Area Water Forum. In addition, Mr. Davis is a founding board member of the California Utility Executives and Managers Foundation and previous Chair of the San Francisco Bay Joint Venture. Mr. Davis received his BA in political science from the University of California at Berkeley.

James Jasperse, Chief Engineer. Mr. Jasperse is a registered civil engineer and has been with Sonoma Water since 1998. Prior to joining Sonoma Water, he worked as an environmental engineering consultant specializing in groundwater characterization and design of remediation systems. Mr. Jasperse received a Bachelor of Science degree in geology from the University of California at Davis and master’s degree in civil engineering from the University of California at Berkeley. He is an author of published articles on topics such as surface water-groundwater interactions, natural filtration processes, riverbank filtration, and integrated water resource management. Mr. Jasperse is an active member of the Groundwater Resources Association of California and the Association of California Water Agencies Groundwater Committee.

Pamela Jeane, Assistant General Manager - Water and Wastewater Operations. Ms. Jeane is responsible for the continuous operation and permitting of Sonoma Water’s potable water and sanitation facilities. She completed her bachelor’s degree in civil engineering at California State University at Chico. Upon graduation, Ms. Jeane worked overseas for two years. She has been with Sonoma Water since 1991 and is a registered civil engineer in the State of California.

Michael Thompson, Assistant General Manager - Business Operations. Mr. Thompson manages the maintenance of Sonoma Water’s water supply and transmission system, flood protection channels, and wastewater collection and treatment systems. Mr. Thompson, a registered civil engineer, has been with Sonoma Water since 1995. He received a bachelor’s degree in civil engineering from Cal Poly, San Luis Obispo, and master’s degrees in civil engineering and administration from the University of California at Davis.

Lynne Rosselli, Interim Division Manager - Administrative Services. Ms. Rosselli is responsible for planning, coordinating, and administering the administrative, financial, and business operations of Sonoma Water. Ms. Rosselli received a Bachelor of Arts degree in Chemistry from Bowdoin College, and a Master of Environmental Engineering and Science from Stanford University. She has over 10 years’ experience in the management of Public Sector finance.

Employees

Sonoma Water has a staff of 233.75 permanent employees, of which 175.5 employees are represented by one of three labor organizations, depending on job classification, as further described below. No formal bargaining unit represents the 50 management positions, one Department Head, six unrepresented positions and one confidential position.

Organization	Number of Employees Represented	Contract Expiration Date [1]
Service Employees International Union, Local 707	97.75	2/28/2019
International Union of Operating Engineers, Stationary Engineers, Local 39	56.00	7/1/2019
Western Council of Engineers	22.00	7/1/2019

[1] Sonoma Water is currently operating pursuant to expired contracts. Negotiations between the County and labor organizations are underway.

Water Transmission System Overview

General. Sonoma Water diverts water from the Russian River and delivers it to Sonoma Water's customers through the Water Transmission System. The regional location map located in the front of this Official Statement shows the location of Sonoma Water's water supply reservoirs and Water Transmission System facilities.

Production. Sonoma Water's diversion facilities use collector wells to extract underflow of the Russian River. Diversions are reported annually under Sonoma Water's surface water rights. Sonoma Water operates six radial collector wells at the Wohler and Mirabel production facilities adjacent to the Russian River.

The first two collector wells (Collectors 1 and 2) were constructed in the late 1950s in the vicinity of Wohler Bridge. Between 1975 and 1983, Collectors 3, 4, and 5 were constructed near Mirabel Park. Collector 6, located in the Wohler area, was completed in 2006.

A typical collector well consists of a 13- to 18-foot diameter concrete caisson penetrating vertically down to approximately 80 feet below the surface of the natural streambed. Horizontal perforated intake laterals extend radially from the bottom of each caisson into the aquifer. Each collector well houses two vertical turbine pumps driven by electrical motors.

Sonoma Water also operates the Russian River Well Field consisting of seven vertical wells located in the Mirabel area. These wells are currently not operated as primary production facilities but are maintained for standby production and may be used as primary production facilities as needed.

To increase production capacity during peak demand months, Sonoma Water raises an inflatable dam on the Russian River near Mirabel that allows for pump operations to fill four infiltration ponds at Mirabel to increase infiltration along the Russian River. The infiltration ponds recharge the aquifer in the vicinity of Collectors 3, 4, and 5 to improve production capacities. Additionally, backwater conditions along the river result in increased infiltration that extends upstream to the Wohler area, which enhances the production capacities of Collectors 1, 2, and 6.

Transmission. The Water Transmission System begins at Sonoma Water's Russian River diversion facilities located near Forestville with large-diameter pipelines (36-48 inches diameter) that extend out to the Santa Rosa, Petaluma, and Sonoma valleys. The Water Transmission System consists of approximately 90 miles of pipelines that range in diameter from 16 to 54 inches, six booster pump stations, and 18 storage tanks with a combined storage capacity of 130 million gallons. The major pipelines that comprise the system are: the Santa Rosa Aqueduct (built in 1959), the Sonoma Aqueduct (built in 1963), the Petaluma Aqueduct (built in 1962), and the Cotati Intertie (built in 1977).

In addition, Sonoma Water owns the northern portion of the North Marin Aqueduct that extends from the terminus of the Petaluma Aqueduct to the former Kastania Booster Station, located near the border of Marin County with Sonoma County. The remainder of the North Marin Aqueduct is owned and maintained by the North Marin Water District, which delivers the water to its service area and transfers water farther south to the Marin Municipal Water District.

Sonoma Water's major water storage facilities are located at Ralphine (36 million gallons), Cotati (36 million gallons), Kawana Springs (21 million gallons), Kastania (12 million gallons), Sonoma (10 million gallons), Eldridge (8.0 million gallons), and Annadel (5.5 million gallons).

Sonoma Water's Water Supply Sources and Water Rights

Water Supply Agreements. Sonoma Water provides water through the Water Transmission System on a wholesale basis to its customers (collectively, the "**Water Customers**"), which consist of municipalities or public water districts that distribute water to their retail customers in Sonoma and Marin Counties. Sonoma Water supplies water to its Water Customers, and derives the majority of the Gross Revenues of the Water Transmission System, primarily under two agreements:

- The Restructured Agreement for Water Supply (the "**Restructured Water Supply Agreement**"), which was executed in 2006 by Sonoma Water and the Cities of Santa Rosa, Rohnert Park, Petaluma, Sonoma, and Cotati, and the Valley of the Moon Water District, the Town of Windsor, and the North Marin Water District (the "**Prime Contractors**"). The Restructured Water Supply Agreement extends until June 30, 2040, or until all "Revenue Bond Obligations" (as defined therein) are paid.
- The Renewal of the Third Amended Offpeak Water Supply Agreement and the Amended Agreement for the Sale of Water between Sonoma Water and Marin Municipal Water District ("**MMWD**"), effective July 1, 2015 (collectively, the "**Renewal of Water Supply Agreement**"). The Renewal of Water Supply Agreement extends until June 30, 2025, and is renewable at the option of MMWD.

Water Rights. Currently, Sonoma Water holds four water rights permits for water supply issued by the State Water Resources Control Board (the "**SWRCB**"). Under these permits, Sonoma Water is authorized to store up to 122,500 acre-feet per year ("**AFY**") of water in Lake Mendocino and up to 245,000 AFY of water in Lake Sonoma, and to divert or redivert up to 180 cubic feet per second ("**cfs**") of water from the Russian River with a limit of 75,000 AFY.

The permits also establish minimum instream flow requirements for fish and wildlife protection and recreation. These minimum instream flow requirements vary based on the hydrologic classifications of normal, dry, and critical conditions as defined by SWRCB Decision 1610, adopted in 1986. Sonoma Water meets the various instream flow requirements set by Decision 1610 by making storage releases at Coyote Valley Dam (Lake Mendocino) and Warm Springs Dam (Lake Sonoma).

Limitations on Water Rights. Sonoma Water's water rights are subject to four primary limitations:

- (1) riparian rights,
- (2) the rights of pre-1949 appropriators to the natural flow of the Russian River (as augmented by diversions from the Eel River by PG&E's Potter Valley Project),
- (3) all current or future appropriative rights of users located upstream of Lake Mendocino, and
- (4) exports of water by Sonoma Water outside of the Russian River Valley (RRV) are limited by fulfillment of the rights to reservations of Lake Mendocino water in the amounts of 8,000 AFY for use in portions of Mendocino County (which is a co-equal right with Sonoma Water for uses in the RRV) and 10,000 AFY for use in the Russian River basin in Sonoma County (which is a junior right to Sonoma Water for uses in the RRV).

Pending Applications Relating to Water Rights. Sonoma Water has filed petitions and applications with the SWRCB to change certain terms in its water rights permits. In addition to changes in minimum instream flow requirements described below (see “CERTAIN LEGAL AND REGULATORY MATTERS – Petition to Change Minimum Instream Flows in Russian River and Dry Creek”), Sonoma Water is also proposing changes to the “hydrologic index” used to determine the water-year type for purposes of setting minimum instream flows, as well as minor technical changes to permit terms. The SWRCB will consider these changes after Sonoma Water has certified an Environmental Impact Report for the changes. Sonoma Water does not anticipate that these proposed changes, if adopted by the SWRCB, will impair the ability of Sonoma Water to supply water to its customers.

Sonoma Water’s 2015 Urban Water Management Plan concluded that Sonoma Water’s existing water rights will be sufficient to meet current and expected future contractor demand until 2035. See “– Reliability of Water Supply” below.

Reliability of Water Supply.

In Sonoma Water’s 2015 Urban Water Management Plan, Sonoma Water analyzed the reliability of the water supply used by the Water Transmission System. Sonoma Water’s analysis was based upon computer-based hydrological “water balance” models, which take into account the flows into and the diversions and losses out of the Russian River, and the minimum flows required by Decision 1610. The analysis simulated three different historic hydrological periods: an average water year, a single extremely dry water year, and three consecutive dry water years. The 2015 Urban Water Management Plan also estimated the total demands on the Water Transmission System up to the year 2040.

Sonoma Water’s next Urban Water Management Plan is scheduled to be completed by June 30, 2021.

The tables below show the estimated total available supply in the three hydrological periods and the estimated demands, from the 2015 Urban Water Management Plan analysis:

**Table 1
Estimated Water Supply and
Transmission System Demand
(acre-feet^[1] per year)**

	2020	2025	2030	2035	2040
Average Water Year Supply	77,300	77,300	77,300	77,300	77,300
Multiple Dry Year Water Supply	66,260	70,309	73,011	75,117	75,987
Single Dry Year Water Supply	66,260	59,363	60,696	61,567	61,837
Total Transmission System Demands	66,260	70,309	73,011	75,117	75,988

[1] One acre-foot is a volume of water that will cover an acre to a depth of one foot, and equals 43,560 cubic feet, or approximately 325,851 gallons.

Source: 2015 Urban Water Management Plan. Estimates of the demands on the Water Transmission System set forth in the 2015 Urban Water Management Plan may not match those made for purposes of estimating future Agency revenues. The estimates made for purposes of determining future revenues were intentionally more conservative than the estimates in the 2015 Urban Water Management Plan.

Water Quality

Applicable Regulatory Standards. Public water systems in California, including Sonoma Water and its Water Customers, must meet health protective drinking water standards promulgated by the California State Water Resources Control Board Division of Drinking Water (“DDW”). Sonoma Water operates a public drinking water system under a permit from DDW, and is in compliance with the terms of that permit.

Water Quality. The alluvial aquifer under and next to the Russian River from which Sonoma Water extracts water acts as a filter, producing water that meets and exceeds public drinking water system standards. The filtration process, referred to as natural filtration, consists of physical, biological, and chemical mechanisms that work together to purify water as it travels through the alluvial aquifer. The natural filtration process allows Sonoma Water to divert and transmit water without subjecting it to the treatment processes that would be required for diversions of surface water.

Water Quality Testing. Sonoma Water has conducted or commissioned numerous tests and studies on the quality of the water produced by the Water Transmission System over the past 40 years. These tests and studies, which have consistently shown that the water supplied by the Water Transmission System meets all health protective drinking water standards and permit requirements, include the following:

- The Russian River Demonstration Project, completed in 1993 (which evaluated the effectiveness of the aquifer’s natural filtration compared with a water treatment plant);
- The Russian River Caisson 5 Water Quality Evaluation, completed in 1998;
- Testing pursuant to the U.S. EPA’s Information Collection Rule (July 1997 – Dec. 1998, providing EPA with information regarding microbial contaminants and disinfection by-products);
- Testing required by the U.S. EPA’s Unregulated Contaminant Monitoring Regulation (2001-2003, requiring the collection of data for contaminants suspected to be present in drinking water, but that do not have health-based standards set under the Safe Drinking Water Act);
- Drinking Water Source Assessment, submitted to DDW in 2007;
- Annual reports to DDW on the quality of water produced by the Water Transmission System;
- Measurements of the thickness of the alluvial aquifer over time (showing the thickness as remaining stable);
- Continued testing required by DDW that is similar to the testing required by the EPA’s Unregulated Contaminant Monitoring Regulation; and
- The Russian River Collector Multi-Year Operational Analysis, submitted to DDW in 2013 (which evaluated various water quality parameters, comparing data collected in previous projects to data collected in a recent seven-year period to determine if there was a change in water quality).

Sonoma Water's Customers

Sonoma Water supplies water on a wholesale basis to its Water Customers, which are retail water providers located in Sonoma County and Marin County, through the water supply agreements described below. For general and demographic regarding the area served by the Water Customers, see "APPENDIX D – General Information Regarding Sonoma County and Marin County."

Water Supply Agreements. Sonoma Water supplies water to its Water Customers primarily under two agreements:

- The Restructured Water Supply Agreement, which was executed in 2006 by Sonoma Water and its Prime Contractors (the Cities of Santa Rosa, Rohnert Park, Petaluma, Sonoma, and Cotati, and the Valley of the Moon Water District, the Town of Windsor, and the North Marin Water District), generally provides for the finance, construction, and operation of existing and new diversion facilities, transmission lines, storage tanks, booster pumps, conventional wells, and appurtenant facilities. The Restructured Water Supply Agreement provides the contractual relationship between Sonoma Water and its eight Prime Contractors, and includes specific maximum amounts of water that Sonoma Water is obligated to supply to its Prime Contractors. The Restructured Water Supply Agreement extends until June 30, 2036, or until all "Revenue Bond Obligations" (as defined therein) are paid.

- The Renewal of Water Supply Agreement between Sonoma Water and MMWD, effective July 1, 2015. The Renewal of Water Supply Agreement extends until June 30, 2025, and is renewable at the option of MMWD.

For more detailed descriptions of these agreements, see "–Water Supply Agreements" below.

Sonoma Water also supplies small amounts of water from the Water Transmission System to other entities pursuant to separate agreements. See "WATER TRANSMISSION SYSTEM FINANCIAL INFORMATION – Water Transmission System Budget, Rates and Charges."

Competing Sources of Supply. Only Marin Municipal Water District, the City of Rohnert Park and the North Marin Water District have significant alternative sources of water; all other Water Customers have limited available groundwater resources. The amount of local supply used by all Water Customers combined is highly variable, depending in part upon climatic conditions. When less water is available from Russian River supplies, Water Customers use more groundwater. In the last 15 years, the Water Customers' and MMWD's maximum use of local supply on an annual basis has been approximately 31 mgd as an average annual production. The Water Contractors rely on Sonoma Water for most of their water supply.

Historical Water Deliveries. The following table shows average deliveries to Water Customers over the past five Fiscal Years, the maximum month average daily delivery limit and annual maximum delivery limits of each customer (which was premised on the construction of certain additional facilities, as described below), and the agreement under which Sonoma Water supplies water to each Water Customer.

**Table 2
Historical Water Deliveries
Fiscal Years 2013-14 through 2017-18**

Customer	Average Annual Deliveries (acre-feet)	Maximum Month Average Daily Delivery Limit (mgd) [1]	Annual Maximum Delivery Limit (acre-feet)	Agreement
City of Santa Rosa	17,374	56.6	29,100	Restructured Water Supply Agreement
City of Petaluma	8,072	21.8	13,400	Restructured Water Supply Agreement
North Marin Water District	6,377	19.9	14,100	Restructured Water Supply Agreements
Marin Municipal Water District	6,073	12.82 [2]	14,300	Restructured Water Supply Agreement[3]
City of Rohnert Park	3,001	15.0	7,500	Restructured Water Supply Agreement
Valley of the Moon Water District	2,120	8.5	3,200	Restructured Water Supply Agreement
City of Sonoma	1,829	6.3	3,000	Restructured Water Supply Agreement
City of Cotati	542	3.8	1,520	Restructured Water Supply Agreement
Cal-American Water Co. (Larkfield)	298	1.13 [4]	700	Cal American Water Supply Agreement
Forestville Water District	390	1.5 [4]	None	Restructured Water Supply Agreement
Penngrove Water Co.	180	0.5 [4]	None	Municipal Water service Contract
Town of Windsor	476	1.5 [5]	900 [6]	Restructured Water Supply Agreement
Other Customers	364	N/A [7]	N/A [7]	Other water service agreements

[1] Restructured Water Supply Agreement refers to Delivery Limit as Average Daily Rate of Flow During Any Month; mgd = million gallons per day.

[2] Marin Municipal Water District has an average daily and annual delivery limit that is variable under its Supplemental Agreement (Amended Agreement for the Sale of Water between the Sonoma County Water Agency and Marin Municipal Water District) based on the actual deliveries of the previous year or in lieu payments. From May through October, Marin Municipal Water District is limited to 360 acre-feet per month under the Renewal of the Third Amended Offpeak Water Supply Agreement.

[3] Renewal of the Third Amended Offpeak Water Supply Agreement and the Amended Agreement for the Sale of Water between the Sonoma County Water Agency and Marin Municipal Water District.

[4] Under the Restructured Water Supply Agreement, the total deliveries to "Other Agency Customers" (as defined therein) cannot exceed an average of 2.7 mgd in any month, which includes 1.5 mgd to Forestville, 0.8 mgd to Cal-American Water Co., and 0.5 mgd to Penngrove. An Amendment to the Cal-American Water Supply Agreement in 2013 increased the average daily limit from 0.8 mgd to 1.13 mgd for a period of 6 years after sufficient system capacity was identified. See Note 7 for a listing of other customers, which have no individual diversion limits, but are subject to the aggregate 2.7 mgd limit since they are defined as "Other Agency Customers" in the Restructured Water Supply Agreement.

[5] Under the Restructured Water Supply Agreement, the Town of Windsor also may divert 7.2 mgd from the Russian River using its own facilities under Sonoma Water's water rights and the terms of the First Renewal to Agreement for the Sale of Water Among the Sonoma County Water Agency, Windsor Water District and the Town of Windsor.

[6] Town of Windsor's annual maximum delivery limit is 900 acre-feet for water taken from the Water Agency's Santa Rosa Aqueduct. An additional 4,725 acre-feet may be diverted directly by Town of Windsor from the Russian River using its own facilities under Sonoma Water's water rights and the terms of the First Renewal to Agreement for the Sale of Water Among the Sonoma County Water Agency, Windsor Water District and the Town of Windsor.

[7] "Other Customers" as used in the table above means Sonoma Water, the County of Sonoma, Lawndale Mutual Water Company, Kenwood Village Water Company, the City of Sebastopol, the State of California, and Santa Rosa Junior College.

Source: Sonoma Water

Water Supply Agreements

Restructured Water Supply Agreement. Under the Restructured Water Supply Agreement, Sonoma Water is authorized to construct certain future water supply facilities and to deliver water to the Prime Contractors and certain other customers in amounts not greater than the limits set forth above.

The Restructured Water Supply Agreement authorizes Sonoma Water to assess various charges against the Prime Contractors for water delivered by Sonoma Water through the Water Transmission System.

Sonoma Water may also assess specific aqueduct revenue bond charges (“**Capital Charges**”) against the Prime Contractors (except, in some instances, North Marin, as discussed below) to generate revenue sufficient to pay Sonoma Water’s revenue bond obligations with respect to aqueduct facilities. Only those entities benefiting from an aqueduct pay Capital Charges relating to that aqueduct. Similarly, Capital Charges from common facilities revenue bond charges and storage facility revenue bond charges may be assessed against the Prime Contractors to generate revenues sufficient to pay Sonoma Water’s revenue bond obligations with respect to common facilities and storage facilities. All parties pay storage facility charges except North Marin Water District. The respective share of each Prime Contractor for the capital cost of each facility to be constructed by Sonoma Water is specified in the Restructured Water Supply Agreement.

Finally, Sonoma Water may assess a Maintenance and Operation Charge (a uniform per acre foot charge paid by all Water Agency customers) in an amount sufficient to produce water sale revenue to cover Sonoma Water’s Transmission System Maintenance and Operation Costs, plus a prudent reserve as approved by the Water Contractors’ Advisory Committee.

Under the Restructured Water Supply Agreement, North Marin Water District has the option of paying cash in advance to finance its share of the Capital Charges of facilities.

The Restructured Water Supply Agreement obligates the Prime Contractors to pay charges necessary to meet Sonoma Water’s revenue bond obligations notwithstanding any deficiency in the quality or quantity of water to which the Prime Contractors would be entitled under the Restructured Water Supply Agreement.

If one or more Prime Contractors failed to pay for water delivered by Sonoma Water, Sonoma Water’s Board could decide to suspend water deliveries to the defaulting parties or to continue to deliver water and seek recovery of charges owed by the contractors through litigation. Any deficiency in the amount of revenues collected by Sonoma Water in a particular year would be offset by Water Transmission System reserve funds. Because the Restructured Water Supply Agreement permits (and the Ordinance requires) Sonoma Water to assess water charges for the next Fiscal Year in an amount necessary to permit Sonoma Water to generate revenues sufficient to meet Sonoma Water’s operations and maintenance costs and revenue bond obligations for that year, water charges for the next Fiscal Year would be set to ensure the collection of sufficient revenues from the non-defaulting Prime Contractors to meet such costs and obligations. The Restructured Water Supply Agreement expressly provides that it is the intention of the parties to the agreement that the charges assessed by Sonoma Water under agreement “will be sufficient to pay the Revenue Bonds and to meet the Revenue Bond obligations not met from other sources of funds.”

Procedure for Setting Charges under the Restructured Water Supply Agreement.

The Restructured Water Supply Agreement requires that the Maintenance and Operation Charges and Capital Charges for the ensuing Fiscal Year be established on or before April 30. By February 1 of each year Sonoma Water must submit to the Prime Contractors a preliminary budget report for the next Fiscal Year for the Water Transmission System. For purposes of establishing the charges imposed on the Prime Contractors in the next Fiscal Year, the Restructured Water Supply Agreement requires that Sonoma Water assume that the quantity of water to be delivered from each aqueduct of the Water Transmission System will be the same amount of water delivered during the 12 months preceding the establishment of rates, or the average annual amount of water delivered during the preceding 36 months, whichever is less.

The Restructured Water Supply Agreement requires that Sonoma Water set the Maintenance and Operation Charge at an amount sufficient to produce revenues to cover Sonoma Water's estimate of Maintenance and Operation Costs for the next Fiscal Year, including a reasonable allowance for contingencies, and to accumulate a prudent reserve as determined by the Water Contractors' Advisory Committee. The Maintenance and Operation Charge may also be set to produce additional revenues to pay the Capital Charges of common or storage facilities, as determined by the Water Contractors' Advisory Committee. The Capital Charges for aqueduct, common, and storage facilities must be set to produce revenues sufficient to meet Sonoma Water's revenue bond obligations with respect to bonds issued to construct such facilities.

The Renewal of Water Supply Agreement. Sonoma Water's water sales to MMWD are governed by two agreements, last amended in June 2015 and collectively referred to as the "Renewal of Water Supply Agreement. Sonoma Water's obligation to deliver water is contingent on the Water Transmission System capacity. The two agreements are:

(1) the Fourth Amended Offpeak Water Supply Agreement (the "**Offpeak Agreement**") originally entered into in 1975, authorizing delivery of 4,300 AFY at a delivery rate limited to 3.8 mgd from May-September and 8.0 mgd during the "offpeak" period of October-April; and

(2) the Second Amended Agreement for the Sale of Water (the "**Amended Agreement**") originally entered into in 1991, authorizing delivery of an additional 10,000 AFY at a delivery rate limited to 9.0 mgd from May-October but higher during other months.

The Renewal of Water Supply Agreement extends until June 30, 2025, and is renewable at the option of MMWD. MMWD receives only a portion of its water supply from Sonoma Water as a supplement to its own sources.

In order for MMWD to receive Water Agency water at any given time, two conditions must exist: (1) either there must be excess water in the Russian River or Sonoma Water must have an obligation to release stored water when needed by MMWD; and (2) Sonoma Water must have sufficient capacity in the Water Transmission System to move the stored water to the MMWD service area at the times MMWD needs the water.

Under the Renewal of Water Supply Agreement, Sonoma Water is currently obligated to release up to 14,300 AFY from storage for MMWD. However, MMWD's right to Water Transmission System capacity is subordinate to the rights of the Prime Contractors. MMWD cannot insist that the Water Transmission System capacity be used to provide it with water when the Water Transmission System is needed to provide the Prime Contractors with their contract

entitlements. As discussed below, the existing Water Transmission System is not large enough to deliver all of the water which is authorized to be delivered under existing MMWD contracts and to the Prime Contractors during peak demand periods.

Deliveries of water to MMWD are limited by the Renewal of Water Supply Agreement and the Restructured Water Supply Agreement to 12.8 mgd from May 1 to October 31, and 14,300 acre-feet per year. See "Table 2" above.

For purposes of Sonoma Water's assessment of charges against MMWD for water supplied under the Supplemental Water Supply Agreement, water is first accounted as having been delivered under the Offpeak Agreement. Under the Renewal of Water Supply Agreement, the charge to MMWD for water delivered is 1.11 times the highest per-acre-foot charged to any of the Prime Contractors taking water from the Santa Rosa Aqueduct or the Petaluma Aqueduct under the Restructured Water Supply Agreement. The Offpeak Agreement contains a "take or pay" provision requiring MMWD to pay for up to 4,300 acre feet of water, whether or not MMWD actually takes delivery.

Under the Renewal of Water Supply Agreement, MMWD is not required to directly pay Capital Charges relating to specific facilities, as the Prime Contractors are required to do under the Restructured Water Supply Agreement. The Supplemental Water Supply Agreement gives MMWD the option to finance with cash the construction of a new aqueduct generally paralleling the existing Petaluma aqueduct, in return for the right to the capacity in the new aqueduct. If MMWD does not elect this option, Sonoma Water cannot directly assess Capital Charges against MMWD to finance construction of the new aqueduct or other new water supply facilities (although the amount charged to MMWD under the Renewal of Water Supply Agreement will increase due to the increased total charge to other Prime Contractors resulting from any increase in Capital Charges).

Other Water Supply Agreements. Sonoma Water supplies a small amount of water from the Water Transmission System to a limited number of other customers. The amount so supplied is limited by the Restructured Water Supply Agreement to an average of 2.7 mgd in any month. This limit does not include amounts provided to fire service or surplus water customers. The charge to these other customers for water supplied by the Water Transmission System must be at least 120% of the highest per-acre-foot charge paid by any Prime Contractor.

Additionally, Sonoma Water has water supply agreements with several water retailers to provide authorized diversion under Sonoma Water's water rights from the water retailer's own infrastructure along the Russian River. There are currently three active water supply agreements that were renewed for 10-year terms between 2014 and 2016: (1) Town of Windsor (which expires June 30, 2024); (2) City of Healdsburg (which expires on January 1, 2026); and (3) Camp Meeker Recreation and Park District (expires on June 30, 2026). None of the charges or other income received by Sonoma Water under such water supply agreements constitute "Revenues," "Gross Revenues," or "Revenues of the Transmission System" and therefore, are not pledged for payment of the principal and interest on the Bonds or the State Revolving Fund Loan.

Charges Excluded from Revenues Pledged to Bond Obligations. Both MMWD and North Marin pay certain charges (the Russian River Projects Charge and the Russian River Conservation Charge) in lieu of property tax payments received from taxpayers within the jurisdictions of the Prime Contractors within Sonoma County. Revenues from these charges are placed in the Russian River Projects Fund, are not Gross Revenues for purposes of the Ordinance

and are not pledged to pay revenue bond obligations arising from Water Transmission System capital projects.

Similarly, certain payments made by the Prime Contractors under the Restructured Agreement for purposes other than the construction, operation, or maintenance of the Water Transmission System are also not Gross Revenues for purposes of the Ordinance and are not pledged to pay revenue bond obligations arising from Water Transmission System capital projects. These include the payment of the Water Management Planning Sub-Charge made pursuant to Section 4.13, the payment of the Watershed Planning and Restoration Sub-Charge made pursuant to Section 4.14, the payment of the Recycled Water and Local Supply Sub-Charge made pursuant to Section 4.15, and the payment of the Water Conservation Sub-Charge made pursuant to Section 4.16.

See “SECURITY FOR THE 2019 BONDS – Pledge of Net Revenues.”

Rate Setting Not Subject to Proposition 218. Sonoma Water believes that Proposition 218 does not apply to wholesale water charges established under its water supply agreements with its customers because these are contractual agreements with its customers, not “property-related” fees or charges imposed on end users or property owners. See “BOND OWNERS’ RISKS – Proposition 218.”

WATER TRANSMISSION SYSTEM FINANCIAL INFORMATION

Historic Water Deliveries

The following table summarizes historic water deliveries by Sonoma Water in acre-feet for the past ten Fiscal Years, percent change from year to year, and the averages over the last five and ten years.

Table 3
Historic Water Deliveries
Fiscal Years 2013-14 through 2017-18

Fiscal Year Ended June 30	Total Water Delivered (acre-feet)	% Increase / (Decrease)
2009	54,930.5	(9.52)%
2010	45,873.2	(16.49)
2011	47,045.1	2.55
2012	48,526.8	3.15
2013	54,243.8	11.78
2014	54,963.2	1.33
2015	45,868.2	(16.55)
2016	39,904.8	(13.00)
2017	40,355.9	1.13
2018	46,134.0	14.32
5-Year Average	45,445.2	
10-Year Average	47,784.6	

Source: Sonoma Water.

As shown in the table above, water sales for Fiscal Year 2017-18 increased compared to the prior fiscal year due to a rebound in deliveries following the end of the drought. Sonoma Water currently anticipates that water deliveries for Fiscal Year 2018-19 will remain relatively unchanged from the prior Fiscal Year.

Largest Customers

The following table shows the largest customers of Sonoma Water based on revenues received, based on Fiscal Year 2017-18 results.

**Table 4
Largest Customers
(Fiscal Year 2017-18)**

Rank	Customer Name	Annual Dollars	% of Total
1	City of Santa Rosa	\$14,843,259	34.9%
2	City of Petaluma	6,998,333	16.4
3	Marin Municipal Water District	6,554,780	15.4
4	North Marin Water District	5,419,409	12.7
5	City of Rohnert Park	2,563,587	6.0
6	Valley of the Moon Water District	1,910,796	4.5
7	City of Sonoma	1,814,616	4.3
8	Town of Windsor	944,023	2.2
9	City of Cotati	414,702	1.0
10	Forestville Water District	337,979	0.8
	Subtotal Top Ten	\$41,801,484	98.2%
	All Others	749,622	1.8
	Total:	\$42,551,106	100.0%

Source: Sonoma Water.

Water Transmission System Budget, Rates and Charges

Budget and Rate-Setting Process. Under the Restructured Water Supply Agreement, on or before April 30 of each Fiscal Year, the Board must set Sonoma Water’s rates and charges for the next Fiscal Year. The rates and charges approved by the Board are not subject to the approval of any outside governmental agency or body.

Before recommending the level of rates and charges to the Board, Water Agency staff provides estimates of revenues and expenditures for the next Fiscal Year, along with the proposed rates and charges, to the Technical Advisory Committee, comprised of water contractors’ staff. The Technical Advisory Committee recommends the budget and rates to the Water Advisory Committee. The Water Advisory Committee is composed of one representative selected by each of the Prime Contractors, and serves as the collective spokesperson for the Prime Contractors. The Water Advisory Committee may comment upon and recommend changes to the proposed rates and charges. Although the Water Advisory Committee typically concurs with and approves the recommendations of the Technical Advisory Committee and Water Agency staff, Water Advisory Committee approval of rates and charges is not required under the Restructured Water Supply Agreement.

Sonoma Water’s budget is prepared on a cash basis. Sonoma Water is required under its Ordinance to set rates and charges, at a minimum, to produce Net Revenues equal to 1.15 times Debt Service.

The Board adopted Sonoma Water’s operating budget for Fiscal Year 2019-20 (the “**Fiscal Year 2019-20 Budget**”) on April 16, 2019. The Fiscal Year 2019-20 Budget incorporates the rate increase of 4.6% adopted by the Board for Fiscal Year 2019-20, and budgets deliveries based on average annual water deliveries for the past 36 months (or 43,870 AF or 5.30% higher than budgeted deliveries for Fiscal Year 2018-19). The Fiscal Year 2019-20 Budget also accommodates, among other items, an increase in maintenance projects deferred during the drought, large non-routine maintenance projects, habitat enhancement for Dry Creek, and capital projects. The Fiscal Year 2019-20 Budget also includes costs associated with a regional water supply resiliency study to be performed by Jacobs Engineering Group, Inc. to develop an integrated water supply planning process that takes into account the sources of water supply for Sonoma Water and its retail customers.

History of Rate Increases; Comparative Water Rates. The table below lists the percentage rate increases approved by the Board for Fiscal Year 2019-20, the current Fiscal Year and the last five Fiscal Years for the various aqueduct customers.

**Table 5
Wholesale Water Rates
(dollars per acre-foot)**

Fiscal Year	Santa Rosa Aqueduct	% incr. (decr.)	Petaluma Aqueduct	% incr. (decr.)	Sonoma Aqueduct	% incr. (decr.)	Forestville Aqueduct	% incr. (decr.)
2013-14	\$705.30	4.95%	\$705.30	4.95%	\$768.75	3.84%	\$676.30	2.04%
2014-15	730.68	3.60	730.68	3.60	793.24	3.19	711.18	5.16
2015-16	761.05	4.16	761.05	4.16	836.55	5.46	741.53	4.27
2016-17	806.59	5.98	806.59	5.98	894.62	6.94	787.09	6.14
2017-18	846.78	4.98	846.78	4.98	944.56	5.58	846.78	7.58
2018-19	877.88	3.67	877.88	3.67	1001.36	5.98	877.87	3.67
2019-20	918.30	4.60	918.30	4.60	1048.80	4.77	918.30	4.60

Source: Sonoma Water.

For Fiscal Year 2018-19, Sonoma Water’s wholesale water rate averages \$0.87 per month, or \$10.44 per year for a typical household in the City of Santa Rosa, or 0.01% of the median household income of Sonoma Water’s service area.

Sonoma Water’s Long Range Financial Plan calls for water rate increases between 4% and 6% annually to fund capital projects such as hazard mitigation, system improvements, and projects necessary to respond to the Russian River Biological Opinion. See “ – Long Range Financial Plan; Water Supply Strategies Plan.”

Sonoma Water’s 2019-20 wholesale water rates of approximately \$918 per acre-foot is lower than the 2019-20 wholesale water rates of certain other providers in the greater San Francisco Bay area, such as the Santa Clara Valley Water District at \$1,389 per acre-foot, the Zone 7 Water Agency (serving Pleasanton and Livermore) at \$1,470 per acre-foot, the San

Francisco Public Utilities Commission at \$1,786 per acre-foot, and the Contra Costa Water District at \$1,998 per acre-foot.

Billing Procedure; Collections History

All customers are billed monthly. Payments are due and payable on the date rendered and become delinquent 30 days thereafter. The late charge assessed is 10%. For the past 20 years, the rate of delinquencies has remained consistently at 0%. Consequently, there have been no instances of bad debt write-offs for unpaid bills.

Outstanding Indebtedness

The 2019 Bonds are being issued on a parity with Sonoma Water’s outstanding 2012 Bonds, 2015 Bonds and the State Revolving Fund Loan, which are summarized below. Annual debt service payments with respect to the 2012 Bonds, 2015 Bonds and the State Revolving Fund Loan are shown in the parity debt service table contained above under “DEBT SERVICE SCHEDULES – Outstanding Parity Debt.”

**Table 6
Water Transmission System
Outstanding Long-Term Debt**

	Issued	Maturity Date	Interest Rate on Outstanding Debt	Authorized & Issued	Outstanding June 30, 2018
State Revolving Fund Loan	March 2002	June 30, 2028	2.7934%	\$15,857,295	\$ 9,021,479
2012 Bonds	July 2012	July 1, 2032	3.00-5.00%	12,265,000	9,865,000
2015 Bonds	October 2015	July 1, 2040	1.25-5.00%	23,865,000	22,495,000

Source: Sonoma Water.

State Revolving Fund Loan. In March 2002, Sonoma Water entered into a loan contract for the State Revolving Fund Loan with the State of California, Department of Water Resources, for funding the construction of Collector No. 6. The State Revolving Fund Loan was amended October 2002 and was outstanding in the total principal amount of \$8,627,367 as of March 31, 2019.

The term of the State Loan is for 20 years and the annual interest rate is 2.7934%. Interest payments on the loan began on June 27, 2002; principal and reserve payments began in Fiscal Year 2006-07. The State Loan was entered into as a Parity Obligation under the Ordinance.

2012 Bonds. The 2012 Bonds were issued in July 2012 to refund in full Sonoma Water’s outstanding bonds captioned “Sonoma County Water Agency, Water Revenue Bonds, 2003 Series A.”

2015 Bonds. The 2015 Bonds were issued in October 2015 to (i) refund in full Sonoma Water’s outstanding bonds captioned “Sonoma County Water Agency, Water Revenue Bonds, 2006 Series A” and (ii) finance the acquisition and construction of certain improvements to the Water Transmission System.

Future Agency Indebtedness

Within the next five to seven years, Sonoma Water anticipates that it will construct additional Transmission System facilities to increase the reliability of the Water Transmission System. Expected projects include the improvements intended to be financed with the proceeds of the 2019 Bonds (including the Caisson 6 Valve Replacement and Vault, Ely Booster Pump Station Flood Protection, Mainline Valve at Vinehill Ranch, Mark West Creek Crossing and Russian River Crossing Hazard Mitigation, Mirabel Chlorine Building Water Line, Mirabel Dam Bladder Replacement, Mirabel Pump 8 Replacement, Mirabel-River Road Fiber Optic Line, Petaluma Aqueduct Relocation for Caltrans Marin Sonoma Narrows Segment C2, River Diversion System Motor Control Center Replacement, Santa Rosa Aqueduct-Santa Rosa Creek Crossing Hazard Mitigation, Sonoma Booster Station Electrical Upgrade and Pumping Reliability, Warm Springs Dam Hydro-turbine Retrofit, Wohler Pump 4 Replacement, and Wohler Pump 11 Replacement (see “FINANCING PLAN”).

The financing costs of these facilities will be passed on to the Water Contractors as Capital Charges from common facilities charges, storage facilities charges or aqueduct charges, or other charges as applicable, under the existing contractual provisions of the Restructured Water Supply Agreement, the Supplemental Water Supply Agreement, and other water sales agreements.

Investment of Agency Funds

The Agency Fund, into which all Revenues of the Transmission System are initially deposited is held by the Treasurer who deposits the monies in the Sonoma County pool, which is invested in accordance with the Sonoma County Investment Policy. In accordance with State law, the primary objectives, in priority, are safety of principal, liquidity, and yield. A detailed description of the County of Sonoma’s Investment Policy is available from the Treasurer. The Reserve Account and the Debt Service Funds held by the Trustee, and the Construction Fund held by the Treasurer are required to be invested in certain Authorized Investments as defined in the Ordinance.

All investments, including the Authorized Investments and those authorized by law from time to time for investments by public agencies, contain a certain degree of risk. Such risks include, but are not limited to, a lower rate of return than expected and loss or delayed receipt of principal. The occurrence of these events with respect to amounts held under the Ordinance, or other amounts held by Sonoma Water, could have a material adverse effect on Sonoma Water’s finances. For a description of Sonoma Water’s investments at June 30, 2018, see APPENDIX B.

The County of Sonoma’s Investment Policy may be changed at any time by the County Board of Supervisors (subject to the State law provisions relating to Authorized Investments) and as the California Government Code is amended. There can be no assurance, therefore, that the State law and/or the Investment Policy will not be amended in the future to allow for investments which are currently not permitted under State law or the Investment Policy or that the objectives of Sonoma Water with respect to investments or its investment holdings will not change.

Insurance

The following description of Sonoma Water’s insurance coverage is derived from Sonoma Water’s 2017-18 audited financial statements. See APPENDIX B.

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

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

The County maintains "All Risk" property insurance including flood and earthquake through participation in the CSAC-EIA Property Insurance Program. Limits of coverage are \$800,000,000 per occurrence for All Risk, \$600,000,000 for flood (limits vary in FEMA flood zones) and earthquake coverage with shared limits of \$740,000,000. Deductibles for these perils are \$50,000-\$100,000 per occurrence.

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

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

Retirement Plan

The following description of Sonoma Water's retirement plan is derived from Sonoma Water's 2017-18 audited financial statements.

Plan Description. Sonoma Water 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 (the "**Retirement Association**"), a public employee retirement system. Sonoma Water joined the Retirement Association as of October 1, 1963. Substantially all full-time employees of Sonoma Water participate in the 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 Sonoma Water are eligible. The Plan provides benefits as defined by the law upon retirement, death, or disability of members and may be amended by the County Board of Supervisors and then shall be implemented by the Board of Retirement.

All County employees hired on or after January 1, 2013, with the exception of employees who are eligible for reciprocity with another qualified California retirement system, are part of a tier called Plan B. Employees hired before January 1, 2013 are part of the original Plan called Plan A.

The Board of Retirement has the authority to establish and amend benefit provisions and these will then be adopted by the County Board of Supervisors. The Retirement Association 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, California 95403-1069, and

on the internet at www.scretire.com. *This internet address is included for reference only and the information on the Internet site is not a part of this Official Statement and is not incorporated by reference into this Official Statement.*

The financial statements for the County (the primary government) contain additional financial information for the defined pension benefits, which is not presented here because Sonoma Water’s portion cannot be separated from the whole. The County’s audited financial statements are available on the internet at www.sonoma-county.org/auditor/financial_reports.htm. *This internet address is included for reference only and the information on the Internet site is not a part of this Official Statement and is not incorporated by reference into this Official Statement.*

Funding Policy. The contribution requirements of Plan members and the County are determined by an independent actuary, approved by the Board of Retirement, and adopted by the Board of Supervisors. The contribution rates for the fiscal year ended June 30, 2018 were based on the Plan’s valuation dated December 31, 2017. The contribution rates determined in each actuarial valuation take effect at the beginning of the fiscal year starting at least twelve months after the beginning of the valuation year, except when significant benefit or actuarial assumption changes occur.

Plan A members are required to contribute 9.2%-14.7% of their annual covered salary based upon the member’s age at the date of entry into the system and General Plan B members are required to contribute 10.4% of their annual covered salary. Sonoma Water is required to contribute the remaining amounts necessary to finance the coverage of their employees through periodic contributions at actuarially determined rates. Employer and member contributions are funded and recognized through the County payroll systems via employer benefit payments and employee deductions. For the fiscal year ended June 30, 2018, Sonoma Water contributed \$3,946,189 or approximately 17.0% of covered payroll.

Annual Pension Plan Contributions. Sonoma Water’s contributions to the Plan for the three most recent fiscal years for which information is available is set forth below, and was equal to its annual required contribution for each fiscal year.

2016	2017	2018
\$4,481,365	\$3,581,629	\$3,946,189

Net Pension Liability. At June 30, 2018, Sonoma Water reported a liability of \$9,689,254 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Sonoma Water’s proportion of the net pension liability was based on a projection of Sonoma Water’s long-term share of contributions to the pension plan relative to the projected contributions of all Pension Plan participants, actuarially determined. At December 31, 2017, Sonoma Water’s proportion was 5.7%, which was a decrease of 0.3% from its proportion measured as of December 31, 2016.

Other Post-Employment Benefits

The following description of Sonoma Water's post-employment benefits is derived from Sonoma Water's 2017-18 audited financial statements. See APPENDIX B for more detailed information regarding post-employment benefits.

Plan Description. The County maintains an Other Postemployment Healthcare Plan (the "OPEB Plan"), a single employer defined benefit plan which is administered by the County. The authority to establish and amend benefit provisions of the OPEB Plan resides with the County Board of Supervisors. Sonoma Water participates in the OPEB Plan.

The County established an OPEB trust with the Public Agency Retirement Services (the "OPEB Trust") in 2008 to accumulate resources to fund future benefit payments of the OPEB Plan.

In accordance with a County Board of Supervisors approved salary resolution and applicable memorandum of understanding, the OPEB Plan includes unrepresented and represented employees hired prior to January 1, 2009, with at least 10 consecutive years of regular full-time paid employment. The OPEB Plan was closed to new participants on January 31, 2008.

Retirees and the County share in the cost of monthly premiums for medical coverage. The County contribution toward plan member premiums is a \$500 per month maximum contribution, an amount which is equal to the County's current contribution toward the cost of active, unrepresented Administrative Management employees' medical plans. Retirees may enroll eligible dependents in the County medical plan elected by the retiree, but the retiree is responsible for all premium costs in excess of the County's contribution. In the case of a Safety employee's line-of-duty death pursuant to the California labor code, dependents of the deceased employee are eligible to receive County-subsidized medical coverage. In addition to the monthly contribution, the County reimburses retirees hired prior to January 1, 2009, a fixed amount of \$96.40 per month for Medicare Part B premiums.

For employees hired on or after January 1, 2009, Sonoma Water 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. Eligibility for this benefit is based upon completion of two full years of consecutive County regular service as a contributing member of the Retirement Association. Upon completion of the initial eligibility requirements, the County provides (a) an initial contribution of \$2,400 to an HRA account established in the employee's name; this initial contribution of \$2,400 is based on full-time status and is prorated based on the employee's allocated position, and (b) thereafter contributes \$.58 per pay status hour, not including overtime, into the HRA account for each eligible employee. Once an employee has worked the two full years of service and the initial contribution into their HRA account is made, there are no further service requirements. All contributions into the HRA account are made only while an employee is in active pay status, and upon separation of employment, there are no further post-employment contributions. Participants may access their HRA account at age 50 or upon retirement from the County, whichever is earlier, and may defer this date. There is no requirement to be enrolled in a County offered medical plan to receive this benefit. Retirees and dependents that elect coverage under a County-sponsored plan are responsible for all costs.

Changes in Reporting Requirements – GASB 75. In fiscal year 2017-18, Sonoma Water implemented "Governmental Accounting Standards Board ("GASB") Statements No. 75, Accounting and Financial Reporting for Postemployment Benefits other than Pensions, and No.

85, Omnibus 2017” (“**GASB Statement No. 75**”). GASB Statement No. 75 established standards of accounting and financial reporting for defined benefit and defined contribution other postemployment healthcare (“**OPEB**”) plans that are provided to the employees of state and local governmental employers through OPEB plans that are administered through trusts or equivalent arrangements. GASB Statement No. 75 replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The standards set forth in GASB Statement No. 75 parallel the pension standard issued in 2012— “GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*.” As result of the implementation of GASB Statement No. 75, Sonoma Water reported a beginning balance adjustment of \$24,219,023 in the General fund to reduce net position for the prior period actuarially determined OPEB liability of \$26,233,147 net of \$2,014,124 of employer contributions that represent prior period deferred outflows of resources

Funding Policy. The OPEB Plan funding policy provides for periodic contributions by the County. The contribution rate as a percentage of covered payroll is 8.8%, and is authorized annually by the County Board of Supervisors to finance the costs of benefits for plan members, with an additional amount to finance the unfunded accrued liability. Contributions to the OPEB Plan from Sonoma Water were \$1,918,003 for the year ended June 30, 2018. Employees are not required to contribute to the OPEB Plan.

Annual OPEB Plan Contributions. Sonoma Water’s contributions to the OPEB Plan for the two most recent fiscal years for which information is available is set forth below, and was equal to its annual required contribution for each fiscal year.

2017	2018
\$2,070,018	\$1,918,003

Net OPEB Liability. At June 30, 2018, Sonoma Water reported a liability of \$24,082,900 for its proportionate share of the net OPEB liability. Sonoma Water’s covered payroll is used as the basis for determining its proportion of the OPEB amounts. At June 30, 2017, Sonoma Water’s proportion was 7.12%. At June 30, 2018, Sonoma Water’s proportion was 7.17%, an increase of 0.05%.

The financial statements for the County (the primary government) contain the financial information for the postemployment benefits, which is not presented here because Sonoma Water’s share cannot be separated from the whole. The County’s audited financial statements are available on the internet at www.sonoma-county.org/auditor/financial_reports.htm. *This internet address is included for reference only and the information on the Internet site is not a part of this Official Statement and is not incorporated by reference into this Official Statement.*

Audited Financial Statements

The information set forth in this section has been derived by Sonoma Water from its audited financial statements. The most recent audited financial statements of Sonoma Water for the Fiscal Year ended June 30, 2018, were prepared by Pisenti & Brinker LLP, and are included as APPENDIX B.

The audit reports state the financial statements were examined in accordance with generally accepted auditing standards and contain opinions that the financial statements present fairly the financial position of the various funds maintained by Sonoma Water. For a description of the various funds and Sonoma Water’s significant accounting policies, see APPENDIX B.

The financial statements should be read in their entirety. *Sonoma Water has not requested nor did Sonoma Water obtain permission from the auditor to include the audited financial statements as an appendix to this Official Statement. Accordingly, the auditor has not performed any post-audit review of the financial condition or operations of Sonoma Water or the Water Transmission System. In addition, the auditor has not reviewed this Official Statement.*

System Management

This section describes certain policies, plans, and procedures Sonoma Water maintains to ensure adequate management of its finances and the Water Transmission System.

Long Range Financial Plan. Sonoma Water has adopted a Water Transmission System Long Range Financial Plan (the “LRFP”). The LRFP is a 30-year financial plan that addresses water demand, capacity projects, hazard mitigation projects, large maintenance projects, and Biologic Opinion projects. The LRFP calculates rates to support future system needs and calls for water rate increases between 4% to 6% annually to fund such projects.

Water Supply Strategies Plan. In 2010, the Board approved nine water supply strategies developed to increase water supply system reliability, resilience, and efficiency. The plan is updated from time to time, with updates presented to the Board. Sonoma Water anticipates presenting its latest updated Water Supply Strategies Plan to the Board in June 2019.

Equipment Assessment. Sonoma Water uses computerized maintenance management system software to manage and maintain assets on a routine basis. Sonoma Water also implements large non-routine maintenance projects, such as cathodic protection upgrades and storage tank recoats, to further protect Water Transmission System assets.

Capital Improvement Plan

Sonoma Water maintains a five-year capital improvement plan in collaboration with the County as part of the County’s five-year capital improvement plan. Sonoma Water’s current capital improvement plan covers Fiscal Years 2018-2023 (the “**Capital Improvement Plan**”) and identifies projects to be constructed in those years. Generally, hazard mitigation projects have the highest priority in Sonoma Water’s capital improvement plans. The Capital Improvement Plan for the Water Transmission System totals \$59.5 million and is primarily focused on hazard mitigation and system improvements. The Capital Improvement Plan also includes \$31 million for projects necessary to respond to the Russian River Biological Opinion, which will be funded separately from Water Transmission System revenues. Sonoma Water has the flexibility to alter funding or timing of construction of projects to maintain the overall health of the Water Transmission System.

Historic Operating Results and Debt Service Coverage

The following table sets forth a summary of the Water Transmission System operating results of Sonoma Water for the last five Fiscal Years, and has been derived by Sonoma Water from its audited financial statements for the Fiscal Years indicated, but excludes certain non-cash items and certain other adjustments.

Governmental Funds (including General and Special Tax Revenue Funds), Fiduciary Funds, and Enterprise Funds in relating to the Water Transmission System (Russian River Project Fund, Recycled Water Fund, and Sanitation Zone Funds) are not pledged for payment of the principal and interest on the Bonds.

The following summary for the Fiscal Year ended June 30 for the years indicated is qualified in its entirety by reference to Sonoma Water's financial statements, including the notes thereto.

The Auditor has not reviewed the information set forth in the following table.

Table 7
Water Transmission System
Historical Debt Service Coverage
(Fiscal Year Ending June 30)

	2014	2015	2016	2017	2018
Operating Revenues:					
Water Sales [1]	\$30,535,783	\$26,045,694	\$23,573,529	\$26,317,297	\$31,907,459
Installation Charges [2]	26,184	48,434	24,664	23,820	23,820
Power Sales [3]	715,029	618,418	589,644	210,280	144,524
Total Operating Revenues	31,276,996	26,712,546	24,187,837	26,551,397	32,075,803
Other Revenues/(Expenses) [4]	(1,078,664)	985,009	1,292,083	1,359,741	1,191,215
Total Gross Revenues	30,198,332	27,697,555	25,479,920	27,911,138	33,267,018
Maintenance & Operations Costs [5]	21,195,693	18,703,700	20,583,651	22,676,138	23,448,139
Net Revenues	9,002,639	8,993,855	4,896,269	5,235,000	9,818,879
Debt Service [6]					
State Loan [7]	1,040,232	1,040,232	1,040,232	1,040,232	1,040,232
2006 Bonds	722,179	721,979	498,390	-	-
2012 Bonds	844,085	842,440	839,375	839,825	842,400
2015 Bonds [8]	-	-	140,566	1,483,088	1,485,759
Total Debt Service:	\$2,606,496	2,604,651	2,518,563	3,363,145	3,368,391
Debt Service Coverage	345%	345%	194%	156%	292%

[1] Includes maintenance & operations charges, revenue bond charges and aqueduct charges, as those terms are defined and used in the Restructured Water Supply Agreement.

[2] Represents charges for water services and connection fees.

[3] The hydroelectric project was financed by Sonoma Water's Water Transmission Enterprise Fund, and power sales revenues are pledged for payment of debt service on the Bonds.

[4] Represents intergovernmental funds (grants) investment earnings, and other miscellaneous revenues and expenses.

[5] Excludes non-cash expense of depreciation.

[6] See "–Outstanding Indebtedness" above.

[7] Debt Service shown excludes a reserve to be funded through 2015 in order to fund the remaining reserve requirement in annual installments of approximately 10% of the principal and interest amount due (except for the final year in which the reserve requirement is met).

[8] Represents the Sonoma County Water Agency, Water Revenue Bonds, 2006 Series A, which were refunded and defeased with a portion of the proceeds of the 2015 Bonds.

Source: Sonoma Water.

Projected Operating Results and Debt Service Coverage

General. Projected operating results for the current and next four Fiscal Years are set forth below, all on a cash basis.

Table 8
Water Transmission System
Projected Debt Service Coverage
(Fiscal Year Ending June 30)

	2019 [1]	2020 [2]	2021 [3]	2022 [3]	2023[3]
Operating Revenues [2] :					
Water Sales [4]	\$31,686,304	\$34,521,153	\$35,901,999	\$37,338,079	\$38,831,602
Installation Charges [5]	9,925	-	-	-	-
Power Sales [6]	200,000	100,000	100,000	100,000	100,000
Total Operating Revenues	31,896,229	34,621,153	36,001,999	37,438,079	38,931,602
Other Revenue / (Expenses) [7]	322,800	170,520	170,520	170,520	170,520
Total Gross Revenues	32,219,029	34,791,673	36,172,519	37,608,599	39,102,122
Maintenance & Operations Costs [8]	24,273,020	27,465,370	28,563,985	29,706,544	30,894,806
Net Revenues	7,946,009	7,326,303	7,608,534	7,902,055	8,207,316
Debt Service					
State Loan [9]	1,040,232	1,040,232	1,040,232	1,040,232	1,040,232
2012 Bonds	839,675	834,075	835,300	838,000	834,800
2015 Bonds [10]	1,481,188	1,484,556	1,482,925	1,482,706	1,477,081
2019 Bonds	--	223,464	783,450	785,950	782,575
Total Projected Debt Service	3,361,095	3,582,327	4,141,907	4,146,888	4,134,688
Debt Service Coverage Ratio	236%	205%	184%	191%	198%

[1] Based on adopted Fiscal Year 2018-19 Budget; reflects rates approved by the Board as shown on Table 5.

[2] Based on the Fiscal Year 2019-20 budget; reflects rates approved by the Board as shown on Table 5.

[3] Water sales are projected to average 4% over the five year period. Includes maintenance & operations, revenue bond, and aqueduct subcharges. Based conservatively on budgeted water deliveries in Fiscal Year 2018-19 and Fiscal Year 2019-20, and 1% increases thereafter.

[4] Includes maintenance & operations, revenue bond, and aqueduct subcharges. The Urban Water Management Planning, Recycled Water and Local Supply, Watershed Planning and Water Conservation subcharges are excluded from pledged water sales. Excludes installation charges.

[5] Connection fees and water services.

[6] The hydroelectric project was financed by Sonoma Water's Water Transmission Enterprise Fund, and power sales revenues are pledged for payment of debt service on the Bonds. Power sales increase with water sales and are expected to escalate 4% per year.

[7] Represents intergovernmental funds (grants) and investment earnings.

[8] Includes water production, water operation and maintenance, general and administrative, and other expenses. Excludes "non-cash" expense of depreciation. Excludes the Urban Water Management Planning, Recycled Water and Local Supply, Watershed Planning and Water Conservation subcharges.

[9] Represents the State Revolving Fund Loan. See "Outstanding Indebtedness" above.

[10] Reflects combined debt service on the 2015 Bonds.

Source: Sonoma Water.

The projections set forth in the previous table are forward-looking statements, as such term is defined in the Securities Act of 1933, as amended, and reflect certain significant assumptions concerning future events and circumstances. While Sonoma Water believes its

assumptions are reasonable, there can be no assurance that the assumed conditions will in fact occur. Sonoma Water's projections may be affected (favorably or unfavorably) by unforeseen future events. Therefore, the results projected above cannot be assured.

CERTAIN REGULATORY AND LEGAL MATTERS

Obligations of Sonoma Water with respect to the Russian River Project

General. Two federal projects assure the water supply diverted and delivered by Sonoma Water through the Water Transmission System:

- the Coyote Valley Dam on the Russian River northeast of the city of Ukiah in Mendocino County (forming Lake Mendocino), and
- the Warm Springs Dam on Dry Creek (a tributary of the Russian River) northwest of the city of Healdsburg in Sonoma County (forming Lake Sonoma).

These projects (jointly referred to as the “**Russian River Project**”) are operated by the U.S. Army Corps of Engineers for flood control and Sonoma Water water supply purposes.

Because Sonoma Water was the local sponsor for the dams and partially financed their construction, Sonoma Water has the right to control releases from the water supply pools of both reservoirs.

Coyote Valley Dam Project. Sonoma Water made a payment of \$5,598,000 to the United States in 1956 that satisfied the entire local cost-sharing obligation for the Coyote Valley Dam Project, except for the obligation to maintain downstream erosion control.

Warm Springs Dam Project. Sonoma Water's obligations with respect to the Warm Springs Dam project are set forth in a First Amended Contract between Sonoma Water and the United States dated October 1, 1982 (the “**First Amended Contract**”). Sonoma Water's repayment obligation under the First Amended Contract includes 30.2% of the total Warm Springs Dam Project joint use construction costs, a percentage of the Warm Springs Dam Project operation, maintenance, major replacement, and major rehabilitation costs (beginning at 6.7% in 1992, which increased to 32.5% in 2005), and 30.2% of dam safety assurance program costs.

Sonoma Water's annual payment for its share of construction costs is \$6,285,571.47, with the last annual payment due in 2034. The percentage of operation, maintenance, and major replacement and rehabilitation costs Sonoma Water must pay under the First Amended Agreement is currently 32.5%. For Fiscal Year 2018-19, Sonoma Water's annual operation and maintenance cost budget for Warm Springs Dam is \$860,000. The total operation and maintenance cost has traditionally increased by 10% each year.

The First Amended Contract provides that Sonoma Water's allocated share of any major replacement costs, rehabilitation costs, and dam safety assurance programs may be paid either as they are incurred or amortized over a period not to exceed 25 years. The U.S. Army Corps of Engineers has incurred no major replacement costs to date.

The First Amended Contract also obligates Sonoma Water to comply with all applicable federal and state laws and regulations while acting under its Warm Springs Dam Project rights.

Sonoma Water is also required under separate agreements to maintain certain downstream channel improvements.

Agency Sources of Payments for Russian River Project. Sonoma Water's obligations with respect to the Russian River Project are paid through the imposition of property taxes on properties within Sonoma County. These taxes are levied subject to Article 13A, section (1)(b)(1) of the California Constitution, which authorizes property taxes in excess of the otherwise applicable 1% of assessed value limit in order to pay indebtedness approved by the voters prior to the enactment of Proposition 13 in 1978, as implemented by California Revenue and Taxation Code section 96.31.

Revenues from the Russian River Projects Charge and Russian River Conservation Charge imposed upon MMWD and North Marin Water District under the Supplemental Water Supply Agreement and the Restructured Water Supply Agreement are also available to pay Sonoma Water's Russian River Project obligations.

Sonoma Water has funded a sinking fund to pay future Russian River Project obligations. As of June 30, 2018, the sinking fund consisted of \$17,816,525 held in cash and \$28,073,314 held in investments.

The Endangered Species Act Consultation and the Russian River Biological Opinion

Two salmonid species inhabiting the Russian River watershed (Chinook salmon and steelhead) have been listed as "threatened" under the federal Endangered Species Act, and one species – Coho salmon – has been listed as "endangered" under the federal Endangered Species Act ("**ESA**") and under the California Endangered Species Act. Protective regulations promulgated under the federal Endangered Species Act prohibit the "take" of these species. "Take" is broadly defined in the federal Endangered Species Act and its implementing regulations; it includes not only intentionally killing a protected species, but also actions that unintentionally result in actual harm to a member of a protected species, including adverse modification of habitat. Civil and criminal penalties may be imposed under the federal Endangered Species Act for the "take" of protected species.

Because Sonoma Water's water supply facilities and operations have the potential to adversely affect the three listed species, Sonoma Water entered into a Memorandum of Understanding in December 1997 to participate in a consultation under Section 7 of the federal Endangered Species Act. The other signatories to the Memorandum of Understanding included the U.S. Army Corps of Engineers, the National Marine Fisheries Service, and the Mendocino County Russian River Flood Control and Water Conservation Improvement District. The National Marine Fisheries Service issued its Biological Opinion for Water Supply, Flood Control Operations, and Channel Maintenance conducted by the U.S. Army Corps of Engineers, Sonoma Water, and the Mendocino County Russian River Flood Control and Water Conservation Improvement District in the Russian River Watershed (Russian River Biological Opinion) on September 24, 2008. The California Department of Fish and Wildlife issued a consistency determination on November 9, 2009, finding that the National Marine Fisheries Service's Russian River Biological Opinion was consistent with the requirements of the California Endangered Species Act and adopting the measures identified in the Russian River Biological Opinion.

The Biological Opinion requires Sonoma Water and the U.S. Army Corps of Engineers to implement a series of actions to modify existing water supply and flood control activities that, in concert with habitat enhancement, are intended to minimize impacts to listed salmon species and

enhance their habitats within the Russian River and its tributaries. In return, the Biological Opinion contains an “incidental take statement” that allows Sonoma Water to “take” listed salmonid species (within limits specified in the Biological Opinion) while operating its water transmission system and flood control activities, without violating the federal Endangered Species Act. (The California Department of Fish and Wildlife consistency determination (the “**Consistency Determination**”) gives similar protection to Sonoma Water under the California Endangered Species Act.) The Biological Opinion is in effect until September 2023.

Sonoma Water must carry out the following general categories of water-supply related actions under the Biological Opinion:

- Modifying minimum instream flows in the Russian River and Dry Creek
- Enhancing salmon habitat in Dry Creek and its tributaries
- Developing a feasibility study of a bypass pipeline around Dry Creek that would be considered if habitat enhancement is unsuccessful
- Changing Russian River estuary management
- Improving water diversion infrastructure at Sonoma Water’s Wohler and Mirabel facilities
- Modifying flood control maintenance activities on the mainstem Russian River and its tributaries
- Continued participation in the Coho Broodstock program at the Warm Springs Dam Fish Hatchery

The source of revenues necessary to pay for Sonoma Water’s costs of complying with the Biological Opinion varies. Compliance projects that exclusively and directly involve the Water Transmission System are paid for by Sonoma Water’s customers through rates. Remaining projects are paid for through a combination of water rates and property tax revenues.

Under the Consistency Determination and state law, Sonoma Water is required to provide assurances that it will have adequate funding to implement and comply with the Biological Opinion and the Department of Fish and Wildlife Incidental Take Statement as it pertains to coho-related activities. Financial security provisions required under the Consistency Determination are guided by a Memorandum of Agreement signed by Sonoma Water and Department of Fish and Wildlife on October 5, 2009.

To comply with the Consistency Determination and the terms of the Memorandum of Agreement, Sonoma Water is required to obtain a standby letter of credit for each phase of work in the principal amounts set forth in the agreement. The Department of Fish and Wildlife’s ability to draw on the standby letter of credit is subject to a number of conditions. Most importantly, the Department of Fish and Wildlife must give Sonoma Water written notice of any alleged default by Sonoma Water in its Biological Opinion obligations, as well as an opportunity to cure any such default. If the Department of Fish and Wildlife draws on the standby letter of credit, it must use all proceeds to complete coho-related work under the Biological Opinion.

As required under the Consistency Determination, Sonoma Water has caused U.S. Bank National Association (“**US Bank**”) has issued an Irrevocable Standby Letter of Credit (the “**US Bank Letter of Credit**”) for the benefit of the Department of Fish and Wildlife in the stated amount of \$12,765,840 with a current expiration date of December 31, 2021 (the “**Current Expiration Date**”). In connection with the US Bank Letter of Credit, Sonoma Water entered into a Continuing Reimbursement Agreement dated as of December 22, 2014 (the “**Reimbursement Agreement**”), between Sonoma Water and US Bank. Sonoma Water anticipates requesting that US Bank

extend the expiration date of the US Bank Letter of Credit prior to the Current Expiration Date for the remaining two years of the Biological Opinion, but cannot provide any assurance that US Bank will so extend the expiration date of the US Bank Letter of Credit.

Sonoma Water's obligations under the Reimbursement Agreement are secured by a first lien in favor of US Bank in an account established with, and held by, MUFG Union Bank, N.A. (the "**Collateral Account**"). Sonoma Water is required to maintain a balance in the Collateral Account of no less than \$17.4 million at all times ("**Minimum Deposit Amount**") during the term of the US Bank Letter of Credit. A portion of the amounts on deposit in the Collateral Account have been invested in U.S. Treasury Separate Trading of Registered Interest and Principal of Securities ("**STRIPS**"). Under certain circumstances, amounts on deposit in the Collateral Account may be used to repay the U.S. Army Corps of Engineers for the cost of constructing and maintaining Warm Springs Dam. As of June 30, 2018, the amount on deposit in cash and investments in the Collateral Account totaled \$17,765,402. *Sonoma Water's obligations under the Reimbursement Agreement are not secured in whole or in part by, or are otherwise payable from, Net Revenues of the Water Transmission System. Amounts on deposit in the Collateral Account are not available to pay debt service on the Bonds, the State Revolving Loan Fund or any other Parity Obligations.*

Sonoma Water has met the requirements of the Biological Opinion since its issuance, and has worked closely with National Marine Fisheries Service and California Department of Fish and Wildlife on the implementation of projects under the Biological Opinion.

Sonoma Water is continuing to carry out various activities required by the Biological Opinion. The current status of Water Agency activities related to the Biological Opinion is available on-line at www.sonomawater.org/rrifr. *This internet address is included for reference only and the information on the Internet site is not a part of this Official Statement and is not incorporated by reference into this Official Statement.*

Petition to Change Minimum Instream Flows in Russian River and Dry Creek

The National Marine Fisheries Service concluded in the Biological Opinion that the artificially elevated summertime minimum flows in the Russian River and Dry Creek that are currently required by Sonoma Water's water rights permits under Decision 1610 result in high water velocities that reduce the quality and quantity of rearing habitat for coho salmon and steelhead. Additionally, the National Marine Fisheries Service concluded that maintaining these flows disrupts lagoon formation in the Russian River estuary and that allowing a lagoon to develop would likely enhance juvenile steelhead habitat.

The National Marine Fisheries Service's Biological Opinion concludes that reducing Decision 1610 minimum instream flow requirements will enable alternative flow management scenarios that will increase available rearing habitat in Dry Creek and the upper Russian River, and provide a lower, closer-to-natural inflow to the estuary between late spring and early fall, thereby enhancing the potential for maintaining a seasonal freshwater lagoon that would likely support increased production of juvenile steelhead. The National Marine Fisheries Service also concluded that, in addition to providing fishery benefits, the lower instream flow requirements "should promote water conservation and limit effects on in-stream river recreation." The National Marine Fisheries Service stated that the following changes may achieve these goals:

During Normal Years:

1. Reduce the minimum flow requirement for the Russian River from the East Fork to Dry Creek from 185 cfs to 125 cfs between June 1 and August 31; and from 150 cfs to 125 cfs between September 1 and October 31.
2. Reduce the minimum flow requirement for the Russian River between the mouth of Dry Creek and the mouth of the Russian River from 125 cfs to 70 cfs.
3. Reduce the minimum flow requirement for Dry Creek from Warm Springs Dam to the Russian River from 80 cfs to 40 cfs from May 1 to October 31.

During Dry Years:

1. Reduce the minimum flow requirement for the Russian River between the mouth of Dry Creek and the mouth of the Russian River from 85 cfs to 70 cfs.

The Biological Opinion also specifies specific maximum flow releases from Warm Springs and Coyote Valley Dams, which, if exceeded, would result in an unacceptable take of listed salmonids, both before and after changes to minimum instream flow requirements under Decision 1610.

As required by the Biological Opinion, in September 2009 Sonoma Water filed a petition with the State Water Resources Control Board to permanently change the Decision 1610 minimum instream flow requirements to those recommended in the Biological Opinion under the Reasonable and Prudent Alternative (“**RPA**”), in order to avoid jeopardizing the populations of and improve habitat conditions for endangered Central California Coast coho salmon and threatened Central California Coast steelhead. In August 2016, Sonoma Water filed a new petition and requested that the 2009 petition be cancelled as the work completed for the Fish Flow Project Draft Environmental Impact Report (“**EIR**”) had identified a new set of proposed minimum instream flow requirements and a new hydrologic index that were determined to be preferable to the RPA. The petition presently is pending before the State Water Resources Control Board, which will act on this petition after the responses to comments to the Draft EIR are finalized and the EIR is certified. As required by the Biological Opinion, Sonoma Water is requesting the State Water Resources Control Board to reduce mainstem, but not Dry Creek, minimum flows each year, when necessary to meet summertime minimum flows less than the RPA recommendations, on an interim basis until the State Water Resources Control Board acts on the petition for permanent changes. To date the SWRCB has granted these requests.

Pacific Gas & Electric’s Potter Valley Project

Diversions from the Eel River watershed through PG&E’s Potter Valley Project provide an additional supply of water to Lake Mendocino and the Russian River. Operation of the Potter Valley Project is licensed by the Federal Energy Regulatory Commission. PG&E’s license to operate the Potter Valley Project expires in April 2022. Diversions from the Eel River watershed are subject to the terms of the Federal Energy Regulatory Commission license.

In 2004, the Federal Energy Regulatory Commission issued its final order on an application filed by PG&E in 1998 to amend the Federal Energy Regulatory Commission license to include an Eel River flow proposal that reduces the amount of water diverted into the Russian River watershed for the benefit of Eel River fisheries. PG&E’s application followed a 10-year

fishery study, and was required by the existing the Federal Energy Regulatory Commission license. Sonoma Water and several other parties intervened in the proceeding and filed alternative flow proposals with the Federal Energy Regulatory Commission. The Federal Energy Regulatory Commission order implemented a modified Potter Valley Project flow regime based upon a Biological Opinion issued by the National Marine Fisheries Service as part of a consultation initiated by the Federal Energy Regulatory Commission under Section 7 of the federal Endangered Species Act.

On January 25, 2019, PG&E announced that it was withdrawing from the Federal Energy Regulatory Commission relicensing process for the Potter Valley Project. The Federal Energy Regulatory Commission thereafter set a deadline of July 1, 2019 for any interested parties to submit a notice of intent and preliminary application document to pursue a license for the Potter Valley Project. On May 17, 2019, Sonoma Water, Mendocino Inland Water and Power Commission, and California Trout, Inc. (collectively, the “**Planning Agreement Partners**”) entered into an agreement to allow the three entities to submit a notice of intent conditioned on the results of a planned feasibility study. While the three entities intend to submit a notice of intent and prepare a feasibility study to examine the possibility of licensing the Potter Valley Project, there can be no assurance that the Planning Agreement Partners will actually submit a notice of intent and prepare a feasibility study or about the results of any feasibility study, notice of intent, or application to the Federal Energy Regulatory Commission.

The current Federal Energy Regulatory Commission-ordered Potter Valley Project flow requirements have decreased the water supply reliability of Lake Mendocino and the Upper Russian River. The new flow requirements have resulted in an adverse impact on the water supply available to Sonoma Water to meet minimum instream flow requirements in the Russian River during dry years. However, because Sonoma Water primarily relies on water stored behind Warm Springs Dam in Lake Sonoma for its Water Transmission System deliveries, and because this supply is not affected by changes in Potter Valley Project diversions, any future change in Potter Valley Project diversions likely to be implemented by the Federal Energy Regulatory Commission, whether as a result of an application by the Planning Agreement Partners to license the Potter Valley Project or otherwise, would have only limited impacts on the water supply available to Sonoma Water for delivery to its Water Transmission System customers.

Separately, on January 29, 2019, PG&E filed a petition in the United States Bankruptcy Court for the Northern District of California, seeking relief under Chapter 11 of Title 11 of the United States Code and on May 1, 2019 PG&E filed a motion seeking to extend the period in which it has the exclusive right to file a plan of reorganization from May 29, 2019 to November 29, 2019.

BOND OWNERS' RISKS

The following describes certain special considerations and risk factors affecting the payment of and security for the 2019 Bonds. The following discussion is not meant to be an exhaustive list of the risks associated with the purchase of any Bonds and the order presented does not necessarily reflect the relative importance of the various risks. Potential investors in the 2019 Bonds are advised to consider the following special factors along with all other information in this Official Statement in evaluating the 2019 Bonds. There can be no assurance that other considerations will not materialize in the future.

Net Revenues; Rate Covenant

Net Revenues are dependent upon the demand for water sales, which can be affected by population factors and more stringent drinking water regulations. There can be no assurance that water service demand will be consistent with the levels contemplated in this Official Statement. A decrease in the demand for water could require an increase in rates or charges in order to comply with the rate covenant contained in the Ordinance. Sonoma Water's ability to meet its rate covenant is dependent upon its capacity to increase rates without driving down demand to a level insufficient to meet debt service on the 2019 Bonds and any future Parity Bonds.

Water Agency Expenses

There can be no assurance that expenses of Sonoma Water will be consistent with the levels contemplated in this Official Statement. Changes in technology, changes in quality standards, and increases in the cost of operation or other expenses could require substantial increases in rates or charges in order to comply with the rate covenant in the Ordinance. Such rate increases could drive down demand for water and related services or otherwise increase the possibility of nonpayment of the Bonds.

Limitations on Remedies Available to Bond Owners

The ability of Sonoma Water to comply with its covenants under the Ordinance and to generate Net Revenues sufficient to pay principal of and interest on the Bonds may be adversely affected by actions and events outside of the control of Sonoma Water, and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or payers of assessments, fees and charges. Furthermore, any remedies available to the owners of the Bonds upon the occurrence of an event of default under the Ordinance are in many respects dependent upon judicial actions, which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

In addition to the limitations on Bondholder remedies contained in the Ordinance, the rights and obligations under the Bonds and the Ordinance may be subject to the following: the United States Bankruptcy Code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; usual equity principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State of California and its governmental bodies in the interest of serving a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or state government, if initiated, could subject the Owners of the Bonds to judicial discretion and interpretation of their rights in

bankruptcy or otherwise, and consequently may entail risks of delay, limitation or modification of their rights.

Seismic and Environmental Considerations

General. Sonoma Water is located in a seismically active area of California. If there were to be an occurrence of severe seismic activity in the area of Sonoma Water, there could be an interruption in the service provided by the Water Transmission System, resulting in a temporary reduction in the amount of Net Revenues available to pay debt service when due on the Bonds.

Other environmental conditions, such as flooding, landslides or wildfires, could affect or interrupt the service provided by the Water Transmission System, resulting in a temporary reduction in the amount of Net Revenues available to pay debt service when due on the Bonds.

Wildfires. In recent years, wildfires have caused extensive damage throughout the State. Certain of these fires have burned thousands of acres and destroyed hundreds and in some cases thousands of homes. In some instances, entire neighborhoods have been destroyed. Several fires which occurred in 2017 damaged or destroyed property in areas that were not previously considered to be at risk from such events, including areas in Sonoma County. Most recently, in November 2018, the Camp Fire occurred in Butte County, California. The Camp Fire is the deadliest and most destructive wildfire in the recorded history of the State burning more than 150,000 acres and destroying more than 11,500 structures, including most of the structures in the City of Paradise, California. Some commentators believe that climate change will lead to even more frequent and damaging wildfires in the future.

The most significant direct impact to Sonoma Water's systems from wildfires is primarily the effects of post-fire sedimentation or landslides into Lake Mendocino, Lake Sonoma, or the Russian River. Lake Sonoma is the main water supply for the Russian River and people in Sonoma and northern Marin counties. A stand-replacing wildfire could result in catastrophic post-fire sedimentation or landslides into Lake Sonoma that would threaten the water supply function, infrastructure, downstream forest health, and water quality for both drinking water and habitat including endangered species of this critical watershed. Wildfires often degrade water quality due to increased sedimentation, dissolved organic carbon, metals, and nutrients.

Flooding. Floods are the most frequent natural hazard impacting Sonoma County, causing the greatest property losses and accounting for the highest number of local, Gubernatorial, and Presidential disasters. Flooding is defined as the overflow of excess water from a water body onto adjacent lands. Flooding typically results from large-scale weather systems generating prolonged rainfall. Causes of flooding in Sonoma County can include thunderstorms, severe winter storms, tsunamis, sea level rise, dam failures, and, most commonly, atmospheric rivers.

Atmospheric rivers are narrow bands of enhanced water vapor which provide approximately half of the major rainfall in the Russian River watershed. Atmospheric rivers typically form over the North Pacific Ocean, and when they make landfall in California the moisture-laden air results in heavy, localized precipitation; they can transport water vapor as much as 15 times greater than the average flow of water at the mouth of the Mississippi River. Atmospheric rivers have caused 34 out of the 39 floods in the Russian River watershed from the last 60 years.

Floods are capable of undermining buildings and bridges, eroding shorelines and riverbanks, tearing out trees, washing out access routes, and causing loss of life and injuries. A “floodplain” is the area adjacent to a watercourse or other body of water that is subject to recurring inundation from floods. Floods on small streams usually peak and recede quickly in Sonoma County, while floods on the lower Russian River may not peak for two days or more after the start of a storm and may exceed flood stage for four days or more.

Damaging floods occur most frequently along the Russian River, Petaluma River, and Sonoma Creek, and the tributaries in these watersheds. Floods in Sonoma County occur during the winter months, develop within 24 to 48 hours after the storm event, and recede within three days after the end of the storm. In the lower Russian River floods are characterized by high velocity and significant depth of flow due to the relatively narrow floodplain. Flooding frequently occurs in this portion of the river, especially in the residential and commercial districts of Mirabel Park, Duncans Mills, Monte Rio, Rio Nido, and Guerneville.

Recently, in March 2019, the region surrounding Sonoma Water suffered from one of the most significant flooding events in the past few decades. Thousands of people were affected along the Russian River and its tributaries. The Water Transmission System remained fully operational during the flood. As the floodwaters have begun to recede, Sonoma Water has assessed its flood control facilities including channels and reservoirs and developed a workplan that prioritizes channels for vegetation management, sediment removal, and bank stabilization in order to address repairs and maintain flood conveyance capacity. Sonoma Water will be implementing this workplan through the summer of 2019. The impact of the storms experienced the most recent winter were similar to that which Sonoma Water encounters in a normal winter.

California Drought Conditions

California is subject to droughts from time to time. In particular, the State recently experienced six consecutive years of below-average rain and snow, causing severe drought conditions in all 58 counties. On January 17, 2014, Governor Brown proclaimed a state of emergency due to the severe drought conditions faced by the State. On April 1, 2015, for the first time in California’s history, Governor Edmund G. Brown directed the State Water Resources Control Board to implement mandatory water reductions in cities and towns across California to reduce water usage by 25%.

Water year 2017 had above-average precipitation and snowpack, and on April 7, 2017, Governor Brown issued Executive Order B-40-17, officially ending the drought state of emergency in all California counties except Fresno, Kings, Tulare, and Tuolumne. However, there can be no assurance that drought conditions will not arise again, causing water rationing and adversely affecting property use and values.

The impact of the recent drought on Sonoma Water’s primary water supply reservoir (Lake Sonoma) was much less severe than the drought’s impacts on water suppliers in other parts of California, particularly those who rely on snowpack for water supply. Nevertheless, implementation of mandatory water reductions imposed by the State Water Resources Control Board on Sonoma Water’s wholesale customers reduced the amount of water sold by Sonoma Water.

Sonoma Water cannot predict if and when drought conditions will return, what effect drought conditions may have on revenues of the Water Transmission System, or whether or to what extent water reduction requirements may affect Sonoma Water.

Potential Impact of Climate Change

The issue of climate change has become an important factor in water resources planning. There is evidence that increasing concentrations of greenhouse gases have caused and will continue to cause a rise in temperatures around the world, which will result in a wide range of changes in climate patterns. Moreover, there is evidence that a warming trend occurred during the latter part of the 20th century and will likely continue through the 21st century. These changes will have a direct effect on water resources in the State, and numerous studies on climate and water in the State have been conducted to determine the potential impacts. Based on these studies, global warming could result in the following types of water resources impacts in the State, including impacts on Sonoma Water:

- Changes in the timing, intensity, and variability of precipitation, and an increased amount of precipitation falling as rain instead of as snow,
- Long-term changes in watershed vegetation and increased incidence of wildfires that could affect water quality,
- Sea level rise resulting in saltwater intrusion into coastal groundwater aquifers,
- Increased water temperatures with accompanying adverse effects on some fisheries,
- Increases in evaporation and concomitant increased irrigation need, and
- Changes in urban and agricultural water demand.

However, other than the general trends listed above, there is no clear scientific consensus on exactly how global warming will quantitatively affect water supplies available to Sonoma Water.

Loss of Tax-Exemption

As discussed under the caption “TAX MATTERS,” interest on the 2019 Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the 2019 Bonds were issued, as a result of future acts or omissions of Sonoma Water in violation of its covenants in the Ordinance. Should such an event of taxability occur, the 2019 Bonds are not subject to special redemption and will remain Outstanding until maturity or until redeemed under other provisions set forth in the Ordinance.

Proposition 218

General. On November 5, 1996, the voters of the State approved Proposition 218, the so-called “Right to Vote on Taxes Act.” Proposition 218 added Articles XIII C and XIII D to the State Constitution, which affect the ability of local governments to levy and collect both existing and future taxes, assessments, fees and charges. Proposition 218, which generally became effective on November 6, 1996, changed, among other things, the procedure for the imposition of any new or increased “fee” or “charge,” which is defined as “any levy other than an ad valorem tax, a special tax or an assessment, imposed by a [local government] upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property related service” (and referred to herein as a “property-related fee or charge”).

Specifically, Article XIII D requires that, before any property-related fee or charge may be imposed or increased, written notice must be given to the record owner of each parcel of land affected by such fee or charge. The municipality must then hold a hearing upon the proposed imposition or increase at least 45 days after the written notice is mailed, and, if written protests against the proposal are presented by a majority of the owners of the identified parcels, the municipality may not impose or increase the property-related fee or charge.

Further, revenues derived from a property-related fee or charge may not exceed the funds required to provide the “property-related service” and may not be used for any purpose other than that for which the fee or charge was imposed. Further, the amount of a property-related fee or charge may not exceed the proportional cost of the service attributable to the parcel, and no property-related fee or charge may be imposed for a service unless that service is actually used by, or is immediately available to, the owner of the property in question.

Judicial Interpretation of Proposition 218. Since Proposition 218 was enacted in 1996, appellate court cases and an Attorney General opinion have indicated that fees and charges levied for water and wastewater services are not property-related fees and charges and thus are not subject to the above described requirements regarding notice, hearing and protests in connection with any increase in the fees and charges being imposed.

However, in *Richmond v. Shasta Community Services District* (9 Cal. Rptr. 3rd 121), the California Supreme Court addressed the applicability of the notice, hearing and protest provisions of Article XIII D to certain charges related to water service. In *Richmond*, the Court held that connection charges are not subject to Proposition 218. The Court also indicated in dicta that a fee for ongoing water service through an existing connection could, under certain circumstances, constitute a property-related fee and charge, with the result that a local government imposing such a fee and charge must comply with the notice, hearing and protest requirements of Article XIII D.

In July 2004 the California Court of Appeal, Fourth District, held, in *Bighorn-Desert View Water Agency v. Beringson* (120 Cal. App 4th 890), that the costs of water services are not property related or incidents of property ownership because they are based on consumption and not on property ownership. The Court had reached this conclusion in an earlier decision in the *Bighorn* case, but the California Supreme Court had directed the California Court of Appeal to reconsider its decision in light of the *Richmond* case mentioned above. The California Supreme Court has granted a petition for hearing in the *Bighorn* case. The Commission is unable to predict when the California Supreme Court will hear the case, or what the outcome of that hearing will be.

Most recently, in *Howard Jarvis Taxpayers Association v. City of Fresno* (March 23, 2005), the California Court of Appeal, Fifth District concluded that water, sewer and trash fees are property-related fees subject to Proposition 218 and must comply with Article XIII D. The California Supreme Court denied the City of Fresno’s petition for review of the Court of Appeal’s decision on June 15, 2005.

Proposition 218 and Sonoma Water’s Water Rates and its Customers’ Water Service Charges. Sonoma Water believes that Proposition 218 does not apply to wholesale water charges established under its water supply agreements with its customers because these are contractual agreements with its customers, not “property-related” fees or charges imposed on end users or property owners. However, it is possible that some or all elements of Proposition 218

could be held to apply to retail water rates established by those customers, which are municipal water utilities that provide water to end users.

The provisions of Proposition 218 have not been fully interpreted by the courts. Sonoma Water is unable to predict how Article XIII C and Article XIII D will be interpreted by the courts, including any ruling by the California Supreme Court on the *Bighorn* case, and what, if any, further implementing legislation will be enacted. There can be no assurance that Article XIII C and Article XIII D will not be interpreted or amended to limit the ability of Sonoma Water’s customers to impose, levy, charge and collect increased fees and charges for water sold to their end users and rate payers. The applicability of Article XIII C and Article XIII D may depend on the particular rate structures of the individual water utilities.

Environmental Regulation

The kind and degree of water treatment is regulated, to a large extent, by the federal government and the State of California. Treatment standards set forth in federal and state law control the operations of the Water Transmission System and mandate its use of technology. If the federal government, acting through the Environmental Protection Agency, or the State of California, acting through the Department of Health Services, or additional federal or state legislation, should impose stricter water quality standards upon the Water Transmission System (either on purchased water or on groundwater), or if any of Sonoma Water’s collector wells were to be considered to be under the influence of surface water (and therefore subject to regulations regarding surface water), Sonoma Water’s expenses could increase accordingly and rates and charges would have to be increased to offset those expenses.

It is not possible to predict the direction which federal or state regulation will take with respect to drinking water quality standards, although it is likely that both will impose more stringent standards with attendant higher costs.

As noted earlier, Sonoma Water is subject to the provisions of a Biological Opinion issued by the National Marine Fisheries Service for the benefit of listed salmonid species in the Russian River. Although in effect until 2023, the Biological Opinion could be reopened by the National Marine Fisheries Service if the amount of “take” of salmonids exceeds the amount specified in the Biological Opinion, or if the National Marine Fisheries Service discovers new information indicating Sonoma Water’s operations could affect salmonids in a manner or to an extent not previously considered. Changes to the Biological Opinion could affect the amount of water Sonoma Water could divert for delivery to its customers.

Secondary Market for Bonds

There can be no guarantee that there will be a secondary market for the 2019 Bonds or, if a secondary market exists, that any 2019 Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then-prevailing circumstances. Such prices could be substantially different from the original purchase price.

Future Parity Obligations

As described in “SECURITY FOR THE 2019 BONDS – Parity Obligations” above, the Ordinance permits Sonoma Water to issue Parity Bonds, its obligations under which would be payable on a parity with the payment of debt service of the Bonds. In the event of a decline in Net Revenues available to pay debt service on the Bonds, the existence of Parity Bonds could adversely affect Sonoma Water’s ability to pay debt service on the 2019 Bonds.

TAX MATTERS

Federal Tax Status. In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the 2019 Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax.

The opinions set forth in the preceding paragraph are subject to the condition that Sonoma Water comply with all requirements of the Internal Revenue Code of 1986, as amended (the “**Tax Code**”) that must be satisfied subsequent to the issuance of the 2019 Bonds in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. Sonoma Water has made certain representations and covenants in order to comply with each such requirement. Inaccuracy of those representations, or failure to comply with certain of those covenants, may cause the inclusion of such interest in gross income for federal income tax purposes, which may be retroactive to the date of issuance of the 2019 Bonds.

Tax Treatment of Original Issue Discount and Premium. If the initial offering price to the public at which a 2019 Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes “original issue discount” for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public at which a 2019 Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes “original issue premium” for purposes of federal income taxes and State of California personal income taxes. *De minimis* original issue discount and original issue premium are disregarded.

Under the Tax Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the 2019 Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such 2019 Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such 2019 Bond. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the 2019 Bonds who purchase the 2019 Bonds after the initial offering of a substantial amount of such maturity. Owners of such 2019 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of 2019 Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering to the public at the first price at which a substantial amount of such 2019 Bonds is sold to the public.

Under the Tax Code, original issue premium is amortized on an annual basis over the term of a 2019 Bond (said term being the shorter of the 2019 Bond’s maturity date or its call date). The amount of original issue premium amortized each year reduces the adjusted basis of the owner of the 2019 Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a 2019 Bond is amortized each year over the term to maturity of the 2019 Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). Amortized 2019 Bond premium is not deductible for federal income tax purposes. Owners of premium 2019 Bonds, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to State of California personal income tax and federal income tax consequences of owning such 2019 Bonds.

California Tax Status. In the further opinion of Bond Counsel, interest on the 2019 Bonds is exempt from California personal income taxes.

Other Tax Considerations. Current and future legislative proposals, if enacted into law, clarification of the Tax Code or court decisions may cause interest on the 2019 Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals, clarification of the Tax Code or court decisions may also affect the market price for, or marketability of, the 2019 Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, such legislation would apply to bonds issued prior to enactment.

The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of such opinion, and Bond Counsel has expressed no opinion with respect to any proposed legislation or as to the tax treatment of interest on the 2019 Bonds, or as to the consequences of owning or receiving interest on the 2019 Bonds, as of any future date. Prospective purchasers of the 2019 Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

Owners of the 2019 Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the 2019 Bonds may have federal or state tax consequences other than as described above. Other than as expressly described above, Bond Counsel expresses no opinion regarding other federal or state tax consequences arising with respect to the 2019 Bonds, the ownership, sale or disposition of the 2019 Bonds, or the amount, accrual or receipt of interest on the 2019 Bonds.

CERTAIN LEGAL MATTERS

Jones Hall, A Professional Law Corporation, Bond Counsel, will render an opinion with respect to the validity of the 2019 Bonds, the form of which opinion is set forth in APPENDIX E. Certain legal matters will also be passed upon for Sonoma Water by Jones Hall, as Disclosure Counsel. Certain legal matters will be passed upon for Sonoma Water by the Office of County Counsel.

LITIGATION

No litigation is pending or threatened concerning the validity of the 2019 Bonds. Sonoma Water is not aware of any litigation pending or threatened questioning the political existence of Sonoma Water or contesting Sonoma Water's power to fix water rates and charges, or the power of the Board or in any way questioning or affecting:

- (i) the proceedings under which the 2019 Bonds are to be issued;
- (ii) the validity of any provision of the 2019 Bonds or the Ordinance;
- (iii) the pledge of Net Revenues by Sonoma Water under the Ordinance; or
- (iv) the titles to office of the present members of the Board.

There are a number of suits and claims pending against Sonoma Water, which may include personal injury, wrongful death and other suits and claims against which Sonoma Water may self-insure. The aggregate amount of the self-insured liabilities of Sonoma Water which may result from such suits and claims will not, in the opinion of Sonoma Water, materially impair the ability of Sonoma Water to pay principal of or interest on the 2019 Bonds as the same become due.

There is no litigation pending, with service of process having been accomplished, against Sonoma Water which if determined adversely to Sonoma Water would, in the opinion of Sonoma Water, materially impair the ability of Sonoma Water to pay principal of and interest on the 2019 Bonds as they become due.

RATING

S&P Global Ratings ("**S&P**") has assigned its municipal bond rating of "AAA" to the 2019 Bonds.

This rating reflects only the views of the rating agency, and an explanation of the significance of this rating, and any outlook assigned to or associated with this rating, should be obtained from the rating agency.

Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. Sonoma Water has provided certain additional information and materials to the rating agency (some of which does not appear in this Official Statement).

There is no assurance that any rating will continue for any given period of time or that ratings will not be revised downward or withdrawn entirely by the rating agency, if in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of any rating on the 2019 Bonds may have an adverse effect on the market price or marketability of the 2019 Bonds.

CONTINUING DISCLOSURE

Sonoma Water will covenant for the benefit of owners of the 2019 Bonds to provide certain financial information and operating data relating to Sonoma Water and the Water Transmission System by not later than nine months after the end of Sonoma Water's fiscal year, or March 31, of each year (based on Sonoma Water's current fiscal year-end of June 30), commencing March 31, 2020, with the report for the 2018-19 fiscal year (the "**Annual Report**") and to provide notices of the occurrence of certain listed events.

These covenants have been made in order to assist the Underwriter in complying with Securities Exchange Commission Rule 15c2-12(b)(5) (the "**Rule**"). The specific nature of the information to be contained in the Annual Report or the notices of listed events by Sonoma Water is set forth in "APPENDIX C – Form of Continuing Disclosure Agreement."

Sonoma Water previously entered into numerous disclosure undertakings under the Rule in connection with its issuance of long-term obligations. Based on a review undertaken by KNN Public Finance, LLC, Sonoma Water is not aware of any instances in the past five years of any material failures by it to comply with its continuing disclosure undertakings under the Rule with respect to any bond issue of Sonoma Water.

Sonoma Water's Board acts as the governing board of certain other sanitation districts, including the South Park County Sanitation District. In connection with the incurrence of long-term obligations of the South Park County Sanitation District in connection with the issuance of bonds by the California Statewide Communities Development Authority in 2005, Sonoma Water entered into a disclosure undertaking under the Rule (the "**South Park County Sanitation District Undertaking**"). Based on a review undertaken by KNN Public Finance, LLC, Sonoma Water believes it has not failed to comply in all material aspects with any previous undertakings relating to any such sanitation districts in the past five years, except that on at least two occasions Sonoma Water failed to include certain operating data in the annual reports required under the South Park County Sanitation District Undertaking.

MUNICIPAL ADVISOR

KNN Public Finance, LLC has served as Municipal Advisor to Sonoma Water with respect to the sale of the 2019 Bonds. The Municipal Advisor has assisted in various matters relating to the planning, structuring and sale of the 2019 Bonds. The Municipal Advisor has not independently verified any of the data contained in the Official Statement or conducted a detailed investigation of the affairs of Sonoma Water to determine the accuracy or completeness of the Official Statement.

UNDERWRITING

The 2019 Bonds were sold at competitive sale held on June 13, 2019, and were awarded to Morgan Stanley & Co, LLC (the "**Underwriter**"), whose proposal represented the lowest true interest rate for the 2019 Bonds. The 2019 Bonds are being purchased by the Underwriter at a purchase price of \$12,467,585.83, which represents the aggregate principal amount of the 2019 Bonds (\$11,010,000), plus net original issue premium of \$1,482,730.80 less an underwriter's discount of \$25,144.97.

The Underwriter will be obligated to take and pay for all of the 2019 Bonds if any are taken. The Underwriter intends to offer the 2019 Bonds to the public at the offering prices set forth on the inside cover page of this Official Statement. After the initial public offering, the public offering price may be varied from time to time by the Underwriter.

Morgan Stanley & Co. LLC., an underwriter of the 2019 Bonds, has entered into a distribution agreement with its affiliate, Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the 2019 Bonds.

PROFESSIONAL FEES

In connection with the issuance of the 2019 Bonds, fees payable to the following professionals involved in the offering are contingent upon the issuance and delivery of the 2019 Bonds: Jones Hall, A Professional Law Corporation, as Bond Counsel and Disclosure Counsel; KNN Public Finance, LLC as municipal advisor to Sonoma Water; and MUFG Union Bank, N.A., as Trustee.

EXECUTION

The execution of this Official Statement and its delivery have been authorized by the Board of Sonoma Water.

SONOMA COUNTY WATER AGENCY

/s/ Grant Davis

Grant Davis,
General Manager

APPENDIX A
SUMMARY OF CERTAIN PROVISIONS OF
THE ORDINANCE

Certain provisions of the Master Ordinance, as supplemented through the Tenth Supplemental Ordinance adopted on April 30, 2019, are summarized below. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Master Ordinance.

Definitions

Act

"Act" means the Sonoma County Water Agency Act (Cal. Stat. 1949, c. 994, as amended).

Agency

"Agency" means the Sonoma County Water Agency (formerly known as the Sonoma County Flood Control and Water Conservation District), a public district duly organized and existing under the Act, located in the County of Sonoma, State of California.

Agency Fund

"Agency Fund" shall mean the Fund established by the Treasurer to receive and hold in trust all Gross Revenues.

Agreement

"Agreement" means the Restructured Agreement for Water Supply entered into in 2006 among the Agency, the City of Cotati, the City of Petaluma, the City of Rohnert Park, the City of Santa Rosa, the City of Sonoma, the Forestville Water District, the North Marin Water District, the Valley of the Moon Water District, and the Town of Windsor.

Authorized Investments

"Authorized Investments" means any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein:

(1) Direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury, and CATS and TIGRS) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.

(2) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself).

- (A) **U.S. Export-Import Bank** (Eximbank) Direct obligations or fully guaranteed certificates of beneficial ownership
- (B) **Farmers Home Administration** (FmHA) Certificates of beneficial ownership
- (C) **Federal Financing Bank**
- (D) **Federal Housing Administration Debentures (FHA)**
- (E) **General Services Administration** Participation certificates
- (F) **Government National Mortgage Association** (GNMA or "Ginnie Mae")
GNMA - guaranteed mortgage-backed bonds GNMA - guaranteed pass-through obligations
- (G) **U.S. Maritime Administration**
Guaranteed Title XI
- (H) **U.S. Department of Housing and Urban Development (HUD)**
Project Notes
Local Authority Bonds
New Communities Debentures - U.S. government guaranteed debentures
U.S. Public Housing Notes and Bonds - U.S. government guaranteed public housing notes and bonds

(3) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

- (A) **Federal Home Loan Bank System**
Senior debt obligations
- (B) **Federal Home Loan Mortgage Corporation** (FHLMC or "Freddie Mac")
Participation Certificates
Senior debt obligations
- (C) **Federal National Mortgage Association** (FNMA or "Fannie Mae")
Mortgage-backed securities and senior debt obligations
- (D) **Student Loan Marketing Association** (SLMA or "Sallie Mae")
Senior debt obligations
- (E) **Resolution Funding Corp** (REFCORP) obligations
- (F) **Farm Credit System**
Consolidated systemwide bonds and notes

(4) Money market funds (other than money market funds with a floating net asset value) registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of

AAAm-G, AAA-m, or AA-m and if rated by Moody's rated Aaa, Aa1 or Aa2, including funds for which the Trustee or an affiliate provides investment advice or other services.

(5) Certificates of deposit secured at all times by collateral described in (1) and/or (2) above. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks. The collateral must be held by a third party and the bondholders must have a perfected first security interest in the collateral.

(6) Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BIF and SAIF.

(7) Investment Agreements, including GIC's, Forward Purchase Agreements and Reserve Fund Put Agreements.

(8) Commercial paper rated, at the time of purchase, "Prime-1" by Moody's and "A-1" or better by S&P.

(9) Bonds or notes issued by any state or municipality which are rated by Moody's and S&P in one of the two highest rating categories assigned by such agencies.

(10) Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime-1" or "A3" or better by Moody's and "A-1" or "A" or better by S&P.

(11) Any State pooled investment fund in which the Agency is permitted by statute or required to invest.

(12) Investment agreements approved in writing by the Bond Insurer (supported by appropriate opinions of counsel); and

(13) Other forms of investments (including repurchase agreements) approved in writing by the Bond Insurer.

Authorized Official

"Authorized Official" means the General Manager, Controller, Chief Financial Officer, or any other officer of the Agency duly authorized by the Board of Directors for that purpose.

Average Annual Debt Service

"Average Annual Debt Service" means the total Debt Service for the entire period during which the Bonds are Outstanding divided by the number of Fiscal Years or portions thereof during which the Bonds are Outstanding.

BMA Index Rate

"BMA Index Rate" means the rate published in The Bond Market Association Municipal Swap Index, produced by Municipal Market Data, a Thomson Financial Services Company, or its successors.

Bonds

"Bonds" means collectively the 2012 Series A Bonds, the 2015 Series A Bonds, the 2015 Series A-T Bonds, the 2019 Bonds, and any Parity Obligations or Subordinate Obligations authorized to be issued and at any time Outstanding pursuant to the Master Ordinance under any Supplemental Ordinance provided for or under any Parity Obligations Instrument or Subordinate Obligations Instrument, and any Parity Obligations or Subordinate Obligations issued solely for the purpose of refunding any or all of such Parity Obligations or Subordinate Obligations. Irrespective of the Series designation, the Bonds issued hereunder shall constitute a Series of 1971 Water Revenue Bonds.

Capital Charges

"Capital Charges" means collectively Capital Charges relating to the Transmission System assessed by the Agency and derived from (a) the Santa Rosa Aqueduct Capital Charge, the Forestville Aqueduct Capital Charge, the Sonoma Aqueduct Capital Charge, the Petaluma Aqueduct Capital Charge, the Aqueduct Facilities Revenues Bonds Charge, the Storage Facilities Revenue Bonds Charge, the Common Facilities Revenue Bonds Charge and the North Marin Revenue Bonds Charge assessed by the Agency pursuant to the Agreement, (b) the Marin Municipal Water District under the Supplemental Agreement (excluding Capital Charges with respect to the Russian River Project Charge and the Russian River Conservation Charge and excluding lump sum payments contemplated by Section 8 of Exhibit B of the Supplemental Agreement), and (c) under any other Agreement between the Agency and any Water Contractor or under any amendment to any Agreement referenced in this paragraph, relating to the Transmission System provided however any Capital Charges or other charges relating to the Russian River Project, whether part of such Agreement or not, shall be excluded under the Master Ordinance.

Construction Fund

"Construction Fund" shall mean the Revenue Construction Fund No. 1 established by the Treasurer to hold in trust proceeds of any Bonds.

Controller

"Controller" means the Sonoma County Auditor-Controller, or successor.

Continuing Disclosure Agreement

"Continuing Disclosure Agreement," means, collectively: with respect to the 2012 Series A Bonds, that certain Continuing Disclosure Agreement executed by the Agency and dated the date of original execution and delivery of the 2012 Series A Bonds, as originally executed and as it may be amended from time to time in accordance with the terms thereof; with respect to the 2015 Series A Bonds and 2015 Series A-T Bonds, that certain Continuing Disclosure Agreement executed by the Agency and dated the date of original execution and delivery of the 2015 Series A Bonds and 2015 Series A-T Bonds, as originally executed and as it may be amended from time to time in accordance with the terms thereof; and with respect to the 2019 Bonds, that certain Continuing Disclosure Agreement executed by the Agency and dated the date of original execution and delivery of the 2019 Bonds, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

Debt Service

"Debt Service," when used with respect to any Long-term Indebtedness, means, as of any date of calculation and with respect to any period, the sum of (1) the interest falling due on such Long-term Indebtedness during such period, and (2) the scheduled principal (or mandatory sinking fund or installment purchase price or lease rental or similar) payments or deposits required with respect to such Long-term Indebtedness during such period; computed on the assumption that no portion of such Long-term Indebtedness shall cease to be Outstanding during such period except by reason of the application of such scheduled payments; provided, however, that for purposes of such computation:

(a) as to any such Long-term Indebtedness bearing interest at other than a fixed rate, for periods for which the actual interest rate cannot yet be determined the interest rate on such Long-term Indebtedness shall be assumed to be equal to a rate of 120% of the BMA Index, or if the BMA Index is unavailable, another nationally recognized tax-exempt variable rate index to be selected by the Agency prior to the date of calculation and if such Long-term Indebtedness is subject to put or tender, then it shall be amortized over a term of twenty (20) years (or the stated term of such Long-term Indebtedness, if shorter);

(b) as to Balloon Indebtedness, until twelve (12) months prior to the maturity or due date with respect to such Balloon Indebtedness (at which time such Balloon Indebtedness shall be assumed to be payable in accordance with its terms unless there shall have been obtained a binding commitment on commercially reasonable terms of a responsible financial institution to refinance the portion of such Balloon Indebtedness coming due within such twelve (12) month period), the principal and interest requirements shall be calculated as if such Long-term Indebtedness were initially issued (i) for a term of twenty (20) years (or the stated term of the Balloon Indebtedness, if shorter), (ii) with annual amortization calculated on a level debt service basis commencing upon completion of the acquisition, construction, renovation or replacement of any capital assets financed with the proceeds thereof or, if no capital assets are then being financed, upon the first anniversary of the date of issuance of such Long-term Indebtedness, and (iii) with interest at a rate equal to the Thirty-Year Revenue Bond Index most recently published in The Bond Buyer prior to the date of calculation;

(c) if interest is capitalized with respect to any such Long-term Indebtedness, Debt Service on such Long-term Indebtedness shall be included in computations of Maximum Annual Debt Service and Maximum Annual Debt Service under the Master Ordinance only in proportion to the amount of interest payable in the then-current Fiscal Year from sources other than amounts capitalized to pay such interest;

(d) debt service requirements on guaranties shall be assumed to be equal to one hundred percent (100%) of the principal and interest components on the indebtedness being guaranteed as if such indebtedness were Long-term Indebtedness of the Agency; provided that if (i) no payment has ever been made on such Guaranty or at least two years have elapsed from the last of such payments and (ii) a certificate of an Independent Certified Public Accountant to the effect that for the most recent Fiscal Year of the entity whose indebtedness is being guaranteed, Net Revenues of the entity was at least equal to two hundred percent (200%) of Maximum Annual Debt Service of such entity, then 20% of the principal and interest components on the indebtedness being guaranteed shall be included in calculations of Debt Service;

(e) if moneys or Federal Securities have been deposited with a trustee or escrow agent in an amount, together with earnings thereon, sufficient to pay the principal of or interest on Long-term Indebtedness as it comes due, such principal or interest, as the case may be, shall not be included in computations of Debt Service;

(f) if such date of calculation occurs within twelve (12) months of the maturity or due date of any Long-term Indebtedness and there is a reserve fund for such Long-term Indebtedness, then an amount equal to such reserve fund shall not be included in computations of Debt Service for such Long-term Indebtedness;

(g) amounts that may be required to reimburse a bank or other credit facility provider with respect to a reimbursement agreement or repayment contract for a letter of credit or similar credit facility shall not be included in computations of Debt Service to the extent that the underlying obligation secured by such credit facility has already been included in computations of Debt Service;

(h) If the Agency has entered into a Financial Product Agreement resulting in a variable interest rate with respect to Long-term Indebtedness the interest on which is payable by its terms at a fixed rate, the interest rate on such Long-term Indebtedness for future periods when the actual interest rate cannot yet be determined shall be assumed (but only during the period the Financial Product Agreement is in effect) to be equal to the sum of (i) the fixed rate or rates stated in such Long-term Indebtedness, minus (ii) the fixed rate paid by the Qualified Provider to the Agency, plus (iii) the lesser of (a) the interest rate cap, if any, provided by a Qualified Provider with respect to such Financial Product Agreement (but only during the period that such interest rate cap is in effect) and (b) 120% of the weighted average variable interest rate paid by the Agency to the Qualified Provider during the 24 full calendar months immediately preceding the date of calculation of Maximum Annual Debt Service or, with respect to a Financial Product Agreement entered into during such 24-month period, (1) if the interest on the variable rate component of such Financial Product Agreement paid by the Agency to the Qualified Provider is excluded from gross income for federal income tax purposes, 120% of the average of the most recent 24-month published Bond Buyer 25 Revenue Bond Index, or (2) in any other case, 120% of the average of the prime rate of the Trustee (or the principal banking affiliate of the Trustee) in effect during such 24-month period; and

(i) If a Financial Product Agreement resulting in a fixed interest rate has been entered into by the Agency with respect to a Long-term Indebtedness the interest on which is payable by its terms pursuant to a variable interest rate formula, and such Financial Product Agreement is coterminous with such Long-term Indebtedness, interest on such Long-term Indebtedness shall be included in the calculation of Maximum Annual Debt Service by including for each Fiscal Year an amount equal to the net interest expense of the Agency with respect to such Long-term Indebtedness in such Fiscal Year giving effect to such Financial Product Agreement.

Debt Service Fund

"Debt Service Fund" means the fund by that name established and held by the Trustee pursuant to the Master Ordinance.

DTC

"DTC" means The Depository Trust Company, New York, New York, and its successors and assigns.

Federal Securities

"Federal Securities" means any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein:

(a) direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America); and

(b) obligations of any department, agency or instrumentality of the United States of America the timely payment of principal of and interest on which are unconditionally and fully guaranteed by the United States of America.

Financial Product Agreement

"Financial Product Agreement" shall mean an interest rate swap, cap, collar or other hedge agreement having been entered into by the Agency with a Qualified Provider not for investment purposes but with respect to Indebtedness (which Indebtedness shall be specifically identified in the Certificate of the Agency) for the purpose of (1) reducing or otherwise managing the Agency's risk of interest rate changes or (2) effectively converting the Agency's interest rate exposure, in whole or in part, from a fixed rate exposure to a variable rate exposure, or from a variable rate exposure to a fixed rate exposure.

Fiscal Year

"Fiscal Year," as of the date of adoption of the Master Ordinance, means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other period hereafter selected and designated by the Agency as its official Fiscal Year period.

Improvement

"Improvement" means any addition, extension, improvement, equipment, machinery or other facilities to or for the Transmission System.

Independent Certified Public Accountant

"Independent Certified Public Accountant" means any certified public accountant or firm of such accountants appointed and paid by the Agency, and who, or each of whom:

(a) is in fact independent and not under domination of the Agency;

(b) does not have any substantial identity of interest, direct or indirect, with the Agency; and

(c) is not and no member of which is connected with the Agency as an officer or employee of the Agency, but who may be regularly retained to make annual or other audits of the books of or reports to the Agency.

Independent Consultant

"Independent Consultant" means any financial or engineering consultant (including without limitation any Independent Certified Public Accountant) with an established reputation in the field of municipal finance or a firm of such consultants appointed and paid by the Agency, and who, or each of whom:

(a) is in fact independent and not under domination of the Agency;

(b) does not have any substantial identity of interest, direct or indirect, with the Agency; and

(c) is not and no member of which is connected with the Agency as an officer or employee of the Agency, but who may be regularly retained to make annual or other audits of the books of or reports to the Agency.

Information Services

"Information Services" means Financial Information, Inc. "Daily Called Bond Service," 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Mergent/FIS, Inc., 5250 77 Center Drive, Suite 150, Charlotte, North Carolina 28217, Attention: Called Bond Dept.; Kenny S&P, 55 Water Street, 45th Floor, New York, New York 10041, Attention: Notification Department; or, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other services providing information with respect to called bonds, or any other such services as the Issuer may designate in writing to the Trustee.

Interest Payment Date

"Interest Payment Date" means, with respect to the Outstanding Bonds, January 1 and July 1 of each year, and with respect to any Parity Obligations, any date on which interest is due and payable thereon, and continuing so long as any Bonds or Parity Obligations remain Outstanding.

Interest Requirement

"Interest Requirement" means, as of any particular date of calculation, the amount equal to any unpaid interest then due and payable, plus an amount which will on the next succeeding Interest Payment Date be equal to the interest to become due and payable on the Bonds on such next succeeding Interest Payment Date.

Long-Term Indebtedness

"Long-term Indebtedness" means Indebtedness having an original maturity greater than one year or renewable at the option of the Agency for a period greater than one year from the date of original incurrence or issuance thereof unless, by the terms of such Indebtedness, no

Indebtedness is permitted to be outstanding thereunder for a period of at least 30 consecutive days during each calendar year.

Maintenance and Operation Charges

"Maintenance and Operation Charges" are those charges designated as Maintenance and Operation Charges relating to the Transmission System assessed by the Agency pursuant to the Agreement.

Maintenance and Operation Costs

"Maintenance and Operation Costs" means, when used with respect to the Transmission System, the reasonable and necessary costs of and charges for maintenance, and operation of the Transmission System, but only if said costs and charges are in conformity with generally accepted accounting principles, and exclusive in all cases of depreciation or obsolescence charges or reserves therefor, amortization of intangibles or other bookkeeping entries of a similar nature, and also exclusive of all interest charges and charges for the payment of principal, or amortization, of bonded or other indebtedness of the Agency.

Such Maintenance and Operation Costs of the Transmission System include (among other things) the reasonable expenses of management, repair and other expenses necessary to maintain and preserve the Transmission System in good repair and working order, and reasonable amounts for administration, overhead, insurance, taxes (if any) and other similar costs.

Said term does not include costs, or charges made therefor, for capital additions, replacements, betterments, extensions or improvements to or retirements from the Transmission System, which under generally accepted accounting principles are properly chargeable to the capital account or the reserve for depreciation, and does not include losses from the sale, abandonment, reclassification, revaluation or other disposition of any properties of the Agency nor such property items which are capitalized pursuant to the then existing accounting practice of the Agency.

Master Ordinance

"Master Ordinance" means the Ordinance adopted by the Board of the Agency on December 3, 2002, as amended and supplemented to date as originally adopted December 28, 1970, including all Supplemental Ordinances thereto.

Maximum Annual Debt Service

"Maximum Annual Debt Service" means, as of the date of calculation, the maximum amount of Debt Service for the current or any future Fiscal Year.

Net Revenues

"Net Revenues" means, with respect to the Transmission System, for any period of computation, the amount of the Gross Revenues received from the Transmission System during such period, less the amount of Maintenance and Operation Costs of the Transmission System becoming payable during such period.

Outstanding

"Outstanding," when used as of any particular time with reference to Bonds, means (subject to the provisions of the Ordinance regarding disqualified Bonds) all Bonds theretofore executed, issued and delivered by the Agency under the Ordinance except:

- (a) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation;
- (b) Bonds paid or deemed to have been paid within the meaning of the provisions of the Ordinance; and
- (c) Bonds in lieu of or in substitution for which other bonds have been executed, issued and delivered by the Agency pursuant to the Ordinance or any Parity Obligations Instrument.

Parity Obligations

"Parity Obligations" means the 2012 Series A Bonds, the 2015 Series A Bonds, the 2015 Series A-T Bonds, the State Loan, and other Revenue Bonds, variable rate, commercial paper, auction rate securities, notes or any other bonds or obligations authorized by law from time to time (including without limitation long-term contracts, loans, sub-leases or other legal financing arrangements) of the Agency payable from and secured by a pledge of and lien upon any of the Net Revenues equally and ratably with the Outstanding Bonds of the Agency and any other Indebtedness issued or incurred and pursuant to a Parity Obligations Instrument.

Parity Obligations Instrument

"Parity Obligations Instrument" means a Supplemental Ordinance, resolution, ordinance, trust indenture, contract, lease, installment sale agreement, or other financing arrangement adopted, entered into or executed and delivered by the Agency, and under which Parity Obligations are issued.

Principal Installment

"Principal Installment" means with respect to any particular Principal Installment Date, an amount equal to the sum of (i) the aggregate principal amount of Outstanding Serial Bonds payable on such Principal Installment Date as determined by the applicable Parity Obligations Instrument (but not including Sinking Fund Installments) and (ii) the aggregate of Sinking Fund Installments with respect to all Outstanding Term Bonds payable on such Principal Installment Date as determined hereby and by the applicable Parity Obligations Instrument.

Qualified Surety Bond

"Qualified Surety Bond" means an irrevocable standby or direct-pay letter of credit or surety bond issued by a commercial bank or insurance company and deposited with the Trustee pursuant to the Master Ordinance provided that all of the following requirements are met at the time of acceptance thereof by the Trustee: (a) the long-term credit rating of such bank or insurance company is rated in the highest rating category from each Rating Agency which then maintains a rating on the Bonds; (b) such letter of credit or surety bond has a term of at least 12 months; (c) such letter of credit or surety bond has a stated amount at least equal to the portion

of the Reserve Requirement with respect to which funds are proposed to be released; and (d) the Trustee is authorized pursuant to the terms of such letter of credit or surety bond to draw thereunder an amount equal to any deficiencies which may exist from time to time in the Debt Service Fund for the purpose of making required payments.

Redemption Price

"Redemption Price" means, with respect to any Bond, the principal amount thereof, plus the applicable premium, if any, payable upon redemption thereof pursuant to the Master Ordinance and the Parity Obligations Instrument pursuant to which the same was issued.

Request of the Agency

"Request of the Agency" means a request in writing signed by an Authorized Official of the Agency, or by any other officer of the Agency duly authorized by the Board of Directors for that purpose.

Reserve Account

"Reserve Account" means the Account by that name established and held by the Trustee pursuant to the Master Ordinance.

Reserve Requirement

"Reserve Requirement" means, for any particular Series, if required, an amount equal to the lesser of: (i) Maximum Annual Debt Service on such Series; (ii) 10% of the principal amount of such Series; or (iii) 125% of Average Annual Debt Service on such Series.

Revenue Bonds

"Revenue Bonds" means the Outstanding Bonds, together with all Parity Obligations and Subordinate Obligations issued under a Parity Obligations Instrument or a Subordinate Obligations Instrument.

Revenues

"Revenues," "Gross Revenues," or "Revenues of the Transmission System" means all charges received for, and all other income and receipts derived by the Agency from, the ownership or operation of the Transmission System, or arising from the Transmission System, including income derived from the sale or use of water or charges or rentals for capacity in any facilities of the Transmission System, together with any receipts derived from the sale of any property pertaining to the Transmission System or incidental to the operation of the Transmission System (including the sale of electrical power), receipts derived from the investment of funds held by the Agency or the Trustee under the Master Ordinance, or from any services performed by the Agency in connection with or incidental to the Transmission System, or from any other source whatsoever directly or indirectly derived from the Transmission System including Capital Charges and Maintenance and Operation Charges relating to the Transmission System received from any Water Contractor under any Agreement, but exclusive in every case (1) of any moneys derived from the levy or collection of taxes upon any taxable property in the Agency, (2) of capital cost cash payments and interest thereon received by the Agency from North Marin Water District, (3) of other capital cost cash payments and interest thereon received by the Agency in connection

with the future expansion of the Transmission System and which are made to pay all or a pro rata portion of such expansion and are in lieu of periodic payments for water which would amortize the capital cost of such improvements pursuant to an Agreement, (4) of any monies derived pursuant to Section 4.17 of the Agreement, (5) of any monies derived pursuant to the Supplemental Agreement with respect to the Russian River Conservation Charge and the Russian River Project Charge, (6) of any moneys received from Marin Municipal Water District for firm water supply pursuant to Section 8 of Exhibit B of the Supplemental Agreement, and (7) of any monies received under any Agreement with respect to the Russian River Project.

Notwithstanding the definition of Revenues set forth above, Revenues shall not include, for purposes of the Outstanding Bonds or for any Parity Obligations, certain payments and credits set forth in the Agreement. Additionally, certain of these payments shall be deemed to be Revenues for purposes of the State Loan only to the extent such amounts are needed to pay debt service on the State Loan.

Russian River Project

"Russian River Project" means the cooperative endeavor of the United States and the Agency consisting of Coyote Valley Dam, Warm Springs Dam, and the water supply produced thereby and the associated facilities such as downstream bank stabilization works, recreational facilities, and fish mitigation and enhancement facilities.

Serial Bonds

"Serial Bonds" means all Bonds other than Term Bonds.

State

"State" means the State of California.

State Loan

"State Loan" means the Loan Agreement dated March 15, 2001, as amended October 23, 2002, in the principal amount of \$15,858,989, entered into by the Agency and the State of California Department of Water Resources.

Subordinate Obligations

"Subordinate Obligations" means all subordinated Revenue Bonds, fixed or variable rate, commercial paper, auction rate securities, notes or any other bonds or obligations authorized by law from time to time (including without limitation long-term contracts, loans, sub-leases or other legal financing arrangements) of the Agency payable from and secured by a pledge of and junior lien upon any of the Net Revenues subordinate and junior to the lien of the Parity Obligations, and any other Indebtedness payable from Net Revenues issued or incurred pursuant to a Subordinate Obligation Instrument.

Subordinate Obligations Instrument

"Subordinate Obligations Instrument" means a Supplemental Ordinance, resolution, ordinance, trust indenture, contract lease, installment sale agreement, or other financing

arrangement adopted, entered into or executed and delivered by the Agency, and under which Subordinate Obligations are issued.

Supplemental Ordinance

"Supplemental Ordinance" means the Sixth Supplemental Ordinance and any ordinance then in full force and effect which has been duly adopted by the Board under the Act, or any act supplementary thereto or amendatory thereof, amendatory of or supplemental to the Master Ordinance; but only if and to the extent that such Supplemental Ordinance is specifically authorized.

Term Bonds

"Term Bonds" means, any Outstanding Bonds or Parity Obligations which are payable prior to their stated maturity by operation of Sinking Fund Installments.

Transmission System

"Transmission System" means the water transmission and distribution system now operated by the Agency, or contractually inuring to the benefit of the Agency to the extent of such contractual inurement, including pumping plants, wells, intake works, aqueducts, intercepting and connecting pipelines, together with additional water storage facilities, pumping plants, water treatment facilities, pipelines and distribution facilities, and the hydroelectric plant located and Warm Springs Dam, together with all additions, betterments and Improvements thereto and all other works, properties or structures now or hereafter used to deliver water to any Water Contractor, but excluding the Russian River Project.

Treasurer

"Treasurer" means the Sonoma County Treasurer.

Funds and Accounts

Cost of Issuance Fund. There is created in the Master Ordinance a fund to be known as the "Sonoma County Revenue Bonds 2019 Cost of Issuance Fund" (the "Cost of Issuance Fund"), which shall be held in trust by the Agency and used solely for the purpose of the payment of Costs of Issuance upon receipt by the Agency of invoices therefor, on or after the Closing Date. Any funds remaining in the Cost of Issuance Fund 90 days after the Closing Date, shall be transferred by the Agency to the Trustee for deposit in the Debt Service Fund.

Issuance of Parity Obligations

In addition to the Outstanding Bonds and the State Loan, the Agency may, by Parity Obligations Instrument, issue or incur Parity Obligations payable from Net Revenues to be derived from the Transmission System, to provide financing for the Transmission System, in such principal amount as shall be determined by the Agency. The Agency may issue or incur any such Parity Obligations subject to the following specific conditions which are made conditions precedent to the issuance and delivery of such Parity Obligations:

(a) The Agency shall be in compliance with all covenants set forth in the Master Ordinance.

(b) The Net Revenues of the Transmission System, calculated on generally acceptable accounting principles as applicable to governmental entities, as shown by the books of the Agency for the latest Fiscal Year or any more recent 12-month period selected by the Agency ending not more than 60 days prior to the adoption of the Parity Obligations Instrument pursuant to which such Parity Obligations are issued, as shown by the books of the Agency, plus, at the option of the Agency, any or all of the items hereinafter in this paragraph designated (i), (ii), and (iii), shall at least equal 115% of Maximum Annual Debt Service, with Maximum Annual Debt Service calculated on all Parity Obligations to be Outstanding immediately subsequent to the issuance of such Parity Obligations which have a lien on Net Revenues of the Transmission System. The items any or all of which may be added to such Net Revenues for the purpose of issuing or incurring Parity Obligations are the following:

(i) An allowance for Net Revenues from Capital Charges relating to the Transmission System assessed by the Agency during any part of such Fiscal Year or such 12-month period;

(ii) An allowance for earnings arising from any increase in the Maintenance and Operation Charges relating to the Transmission System which has become effective prior to the incurring of such additional indebtedness but which, during all or any part of such Fiscal Year or such 12-month period, was not in effect, in an amount equal to the amount by which the Net Revenues would have been increased if such increase in Maintenance and Operation Charges had been in effect during the whole of such Fiscal Year or such 12-month period, all as shown in the written report of an Independent Consultant engaged by the Agency; and

(iii) An allowance from any increase in Capital Charges, Maintenance and Operation Charges or other Charges assessed by the Agency and relating to the Transmission System under any Agreement or other contract between the

Agency and any Water Contractor during any part of such Fiscal Year of such 12-month period.

(c) The Parity Obligations Instrument providing for the issuance of such Parity Obligations under the Master Ordinance shall provide that:

(i) The proceeds of such Parity Obligations shall be applied to the acquisition, construction, improvement, financing or refinancing of additional facilities, Improvements or extensions of existing facilities within the Transmission System, or otherwise for facilities, improvements or property which the Agency determines are of benefit to the Transmission System, or for the purpose of refunding any Obligations in whole or in part, including all costs (including costs of issuing such Parity Obligations and including capitalized interest on such Parity Obligations during any period which the Agency deems necessary or advisable) relating thereto;

(ii) Money or a Qualified Surety Bond as authorized by Section 5.05(b) of the Master Ordinance may, but need not, be deposited in a Reserve Account for such Parity Obligations from the proceeds of the sale of such Parity Obligations or otherwise equal to the Reserve Requirement; provided however, the Reserve Account shall only secure the Series of Parity Obligations in the related Parity Obligations Instrument unless otherwise provided as set forth in Section 18.03 of the Master Ordinance.

State Loans

The Agency has borrowed money from the State under the State Loan to finance improvements to the Transmission System. The Agency has pledged a lien upon its Net Revenues to secure the principal, interest and reserve payments due on the State Loan as a Parity Obligation with the Outstanding Bonds and all other Parity Obligations to be issued under the Ordinance.

Limit on Indebtedness

Nothing in the Master Ordinance shall prohibit or impair the authority of the Agency to issue Subordinate Obligations payable from Net Revenues which are subordinate to the lien established under the Master Ordinance, upon such terms and in such principal amounts as the Agency may determine; provided, that the Agency may issue or incur any such Subordinate Obligations subject to the provisions of the Master Ordinance and the terms of a Supplemental Ordinance.

Pledge of Net Revenues: Agency Fund

(a) The Agency for the benefit of the Owners, places a lien upon that portion of the Net Revenues which is necessary to pay the principal or Redemption Price of and interest on the Bonds in any Fiscal Year, together with all moneys on deposit in the Debt Service Fund, and such portion of the Net Revenues is hereby irrevocably pledged to the punctual payment of the principal or Redemption Price and interest on the Bonds, and any Parity Obligations. The Net Revenues shall not be used for any other purpose while any of the Bonds remain Outstanding, except that out of Net Revenues there may be apportioned and paid such sums for such purposes, as are expressly permitted by Article V of the Master Ordinance. Said pledge shall constitute a first,

direct and exclusive charge and lien on the Net Revenues, for the payment of the principal or Redemption Price of and interest on the Bonds in accordance with the terms thereof, and any Parity Obligations.

(b) The Net Revenues constitute a trust fund for the security and payment of the principal or Redemption Price of and interest on the Bonds. The general fund of the Agency is not liable and the credit or taxing power of the Agency is not pledged for the payment of the principal or Redemption Price of and interest on the Bonds. The Owner of the Bonds shall not compel the exercise of the taxing power by the Agency or the forfeiture of its property, or upon any of its income, receipts, or revenues except the Net Revenues of the Transmission System. The Net Revenues shall immediately be subject to the pledge, and the pledge shall constitute a lien and security interest which shall immediately attach to the Net Revenues and be effective, binding, and enforceable against the pledgor, its successors, purchasers of the Net Revenues, creditors, and all others asserting the rights therein, to the extent set forth, and in accordance with, the Master Ordinance irrespective of whether those parties have notice of the pledge and without the need for any physical delivery, recordation, filing, or further act.

Receipt and Deposit of Revenues

The Agency covenants and agrees that all Gross Revenues, when and as received, will be received and held by the Agency in trust under the Master Ordinance and will be deposited by the Agency in a fund to be established by the Controller and designated as the "Agency Fund." The Gross Revenues will be accounted for through and held in trust in the Agency Fund and the Agency shall only have such beneficial right or interest in any of such money as in the Master Ordinance provided. All such Gross Revenues shall be transferred, disbursed, allocated and applied solely to the uses and purposes in Article V of the Master Ordinance set forth, and shall be accounted for separately and apart from all other money, funds, accounts or other resources of the Agency.

Establishment of Funds and Accounts and Allocation of Revenues thereto

The Debt Service Fund, as a special fund, and the Redemption Account and the Reserve Account, as special accounts therein, are created by Article V of the Master Ordinance.

The Debt Service Fund and the Redemption Account and the Reserve Account, if required, shall be held and maintained by the Trustee.

All Gross Revenues shall be held in trust by the Treasurer in the Agency Fund and shall be applied, transferred, used and withdrawn only for the purposes hereinafter authorized. Provided, however, if the Agency issues Bonds under the Master Ordinance, it may establish such further Funds and Accounts pursuant to a Supplemental Ordinance so long as Parity Obligations maintain a lien on Net Revenues senior to the lien of Subordinate Obligations.

(1) **Maintenance and Operation Costs.** The Treasurer shall first pay from the moneys in the Agency Fund the budgeted Maintenance and Operation Costs as such Maintenance and Operation Costs become due and payable.

(2) **Parity Debt Service Fund.** On or before the second Business Day prior to each Interest Payment Date, beginning as provided in the Supplemental Ordinance issuing the Parity Obligations, the Treasurer shall transfer from the Agency Fund to the Trustee for deposit in the Debt Service Fund (i) an amount equal to the aggregate amount

of interest to become due and payable on all Outstanding Parity Obligations on the next succeeding Interest Payment Date, plus (ii) on or before the second Business Day prior to each Principal Installment Date, beginning as provided in the Supplemental Ordinance issuing the Parity Obligations, an amount equal to the aggregate amount of Principal Installments (including any Sinking Fund Installments) becoming due and payable on all Outstanding Parity Obligations on the next succeeding Principal Installment Date. All interest earnings and profits or losses on the investment of amounts in the Debt Service Fund shall be deposited in or charged to the Debt Service Fund and applied to the purposes thereof. No transfer and deposit need be made into the Debt Service Fund if the amount contained therein, taking into account investment earnings and profits, is at least equal to the Interest Requirement or Principal Installments to become due on the next Interest Payment Date or Principal Installment Date upon all Outstanding Parity Obligations.

(3) **Parity Reserve Account.** After making the payments, allocations and transfers provided for in subsections (1) and (2) above, if the Supplemental Ordinance for Parity Obligations requires a Reserve Account, then if the balance in the Reserve Account is less than the Reserve Requirement, the deficiency shall be restored by transfers from the first moneys which become available in the Agency Fund to the Trustee for deposit in the Reserve Account, pro rata among each Series, such transfers to be made no later than the times provided in the Master Ordinance, provided the Agency shall apply available monies to reinstate the Qualified Surety Bond in full prior to replenishment of cash held in the Reserve Account.

(4) **Financial Product Agreements for Parity Obligations.** After making the payments, allocations and transfers provided for in subsection (1) through (3) above, the Treasurer shall transfer to the provider under the Financial Product Agreement any amounts due under the Financial Product Agreement

(5) **Subordinate Debt Service Fund.** After making the payments, allocation, and transfers provided for in Sections (1) through (4) above, on or before the second Business Day prior to each Interest Payment Date, beginning as provided in the Supplemental Ordinance issuing the Bonds, the Treasurer shall transfer from the Agency Fund to the Trustee for deposit in the Subordinate Debt Service Fund (i) an amount equal to the aggregate amount of interest to become due and payable on all Outstanding Bonds on the next succeeding Interest Payment Date, plus (ii) on or before the second Business Day prior to each Principal Installment Date, beginning as provided in the Supplemental Ordinance issuing the Bonds, an amount equal to the aggregate amount of Principal Installments (including any Sinking Fund Installments) becoming due and payable on all Outstanding Bonds on the next succeeding Principal Installment Date. All interest earnings and profits or losses on the investment of amounts in the Subordinate Debt Service Fund shall be deposited in or charged to the Subordinate Debt Service Fund and applied to the purposes thereof. No transfer and deposit need be made into the Subordinate Debt Service Fund if the amount contained therein, taking into account investment earnings and profits, is at least equal to the Interest Requirement or Principal Installments to become due on the next Interest Payment Date or Principal Installment Date upon all Outstanding Bonds.

(6) **Subordinate Reserve Account.** After making the payments, allocations and transfers provided for in subsections (1) and (5) above, if the Supplemental Ordinance requires a Subordinate Reserve Account, then if the balance in the Subordinate Reserve

Account is less than the Subordinate Reserve Requirement, the deficiency shall be restored by transfers from the first moneys which become available in the Agency Fund to the Trustee for deposit in the Subordinate Reserve Account, such transfers to be made no later than the times provided in the Master Ordinance.

(7) **Financial Product Agreements for Subordinate Obligations.** After making the payments, allocations and transfers provided for in subsection (1) through (6) above, the Treasurer shall transfer to the provider under the Financial Product Agreement any amounts due under the Financial Product Agreement.

(8) **Surplus.** As long as all of the foregoing payments, allocations and transfers are made at the times and in the manner set forth above in subsections (1) to (7), inclusive, any moneys remaining in the Agency Fund may at any time be treated as surplus and applied for any lawful purpose.

Application of Debt Service Fund

(a) The Trustee shall withdraw from the Debt Service Fund, prior to each Interest Payment Date, an amount equal to the Interest Requirement payable on such Interest Payment Date, and shall cause the same to be applied to the payment of said interest when due and is hereby authorized to apply the same to the principal of such interest by check or draft (or by wire transfer, as the case may be).

(b) The Trustee shall withdraw from the Debt Service Fund, prior to each Principal Installment Date, an amount equal to the principal amount of the Outstanding Serial Bonds, if any, maturing on said Principal Installment Date and any Sinking Fund Installments due and payable on said Principal Installment Date, and shall cause the same to be applied to the payment of the principal of said Bonds when due and is hereby authorized to apply the same to such payment upon presentation and surrender of the Bonds as they become due and payable.

(c) All withdrawals and transfers under the provisions of subsection (a) or subsection (b) of this Section shall be made not earlier than one (1) day prior to the Interest Payment Date or Principal Installment Date to which they relate, and the amount so withdrawn or transferred shall, for the purposes of this Ordinance, be deemed to remain in and be part of the appropriate Account until such Interest Payment Date or Principal Installment Date.

Application of Reserve Account.

(a) **In General.** If at any time there shall not be sufficient amounts in the Debt Service Fund to make payment of Principal Installments or Redemption Price of or interest on the Bonds, the Trustee shall provide notice of such fact to the Agency (provided that no such notice shall be required to be given with respect to a withdrawal of amounts in excess of the Reserve Requirement or of withdrawals in connection with the refunding of the Bonds in whole or in part) and draw on the Reserve Account and pay into the appropriate fund or account the amount of the deficiency. Any amounts in the Reserve Account in excess of the Reserve Requirement (whether derived from interest or gain on investment or otherwise) shall, on the date provided in the Supplemental Ordinance authorizing that Series of Bonds, be paid by the Trustee to the Agency for deposit in the Agency Fund.

(b) **Qualified Surety Bond.** In the event the Agency satisfies the Reserve Requirement by delivering to the Trustee a Qualified Surety Bond, such Qualified Surety Bond,

and any subsequent Qualified Surety Bond, shall provide that the Trustee is entitled to draw amounts thereunder by tendering to the Qualified Provider at least three days prior to an Interest Payment Date a demand for payment under the Qualified Surety Bond and to make transfers from the Reserve Account to the Debt Service Fund in the event of a deficiency in any such account, provided that, in any such event, the Trustee shall first apply to any such deficiency the amount of cash (including cash represented by investments) then on deposit in the Reserve Account. The Trustee shall maintain records, verified with the Qualified Provider as to the amount available to be drawn under the Qualified Surety Bond and as to the amounts paid and owing the Qualified Provider.

(c) **Cash to the Agency.** To the extent that the Reserve Requirement has been satisfied by delivery of a Qualified Surety Bond under the Master Ordinance, any cash or Authorized Investments on deposit in the Reserve Account shall be paid by the Trustee to the Agency.

Application of Redemption Account

On or before the date which is at least two Business Days prior to any Interest Payment Date on which Bonds are subject to optional redemption or on which any Parity Obligations are subject to optional redemption to the provisions of the Parity Obligations Instrument authorizing such Parity Obligations, the Treasurer shall transfer from the Agency Fund to the Trustee for deposit in the Redemption Account an amount at least equal to the Redemption Price (excluding accrued interest, which is payable from the Debt Service Fund) of such Bonds to be redeemed on such Interest Payment Date.

In addition, the Treasurer shall transfer to the Trustee for deposit in the Redemption Account all amounts required to redeem any Bonds which are subject to optional redemption and any Parity Obligations which are subject to optional redemption pursuant to any similar provision of the Parity Obligations Instrument authorizing such Parity Obligations, when and as such amounts become available.

Amounts in the Redemption Account shall be applied by the Trustee solely for the purpose of paying the Redemption price of Bonds to be redeemed and to pay the purchase price in the same manner and subject to the same limitation as purchasers of Bonds under the Master Ordinance or the Redemption Price of any Parity Obligations to be redeemed pursuant to similar provisions of the Parity Obligations Instrument authorizing such Parity Obligations. If after all of the Bonds have been paid or deemed to have been paid, there are moneys remaining in the Redemption Account, such moneys shall be transferred by the Trustee to the Treasurer for deposit in the Agency Fund.

Covenants of the Agency; Special Tax Covenants

Punctual Payment

The Agency will punctually pay or cause to be paid the principal and interest (and premium, if any) to become due in respect of all the Bonds, in strict conformity with the terms of the Bonds and of the Master Ordinance, but only out of Net Revenues as provided in the Master Ordinance, and it will faithfully observe and perform all of the conditions, covenants and requirements of the Master Ordinance and all supplemental ordinances and resolutions and of the Bonds.

Against Encumbrances

The Agency will not create, or permit the creation of, any mortgage or lien upon the Transmission System or any property essential to the proper operation of the Transmission System or to the maintenance of the Net Revenues. The Agency will not create, or permit the creation of, any pledge, lien, charge or encumbrance upon the Net Revenues except as provided in the Master Ordinance.

Against Sale, Eminent Domain

(a) The Agency will not sell, lease or otherwise dispose of the Transmission System or any part thereof essential to the proper operation of the Transmission System or to the maintenance of the Net Revenues except as expressly permitted in the Master Ordinance. The Agency will not enter into any lease or agreement which impairs the operation of the Transmission System or any part thereof necessary to secure adequate Net Revenues for the payment of the interest on and principal or Redemption Price, if any, on the Bonds, or which would otherwise impair the rights of the Holders with respect to the Net Revenues or the operation of the Transmission System. Any real or personal property which has become non-operative or which is not needed for the efficient and proper operation of the Transmission System, or any material or equipment which has worn out, may be disposed of in such a manner as the Agency determines.

(b) If all or any part of the Transmission System shall be taken by eminent domain proceedings, the Net Proceeds realized by the Agency therefrom shall be deposited by the Agency with the Trustee in a special fund in trust and applied by the Agency to the cost of acquiring or constructing or financing Improvements to the Transmission System if (A) the Agency first secures and files with the Trustee a Certificate of the Agency showing (i) the estimated loss in annual Net Revenues, if any, suffered, or to be suffered, by the Agency by reason of such eminent domain proceedings, (ii) a general description of the Improvements to the Transmission System then proposed to be acquired or constructed by the Agency from such Net Proceeds, and (iii) an estimate of the additional Net Revenues to be derived from such Improvements; and (B) the Trustee, on the basis of such Certificate of the Agency, determines that such additional Net Revenues will sufficiently offset the loss of Net Revenues, resulting from such eminent domain proceedings so impaired, which determination shall be final and conclusive. If the foregoing conditions are met, the Agency shall then promptly proceed with the acquisition or construction or financing of such Improvements substantially in accordance with such Certificate of the Agency and payments therefor shall be made by the Trustee from such Net Proceeds and from other moneys of the Agency lawfully available therefor, and any balance of such net Proceeds not required by the Agency for the purposes aforesaid shall be deposited in the Agency Fund. If the foregoing conditions are not met, then such Net Proceeds shall be applied by the Trustee pro rata to the redemption or purchase of the Bonds of each Series then Outstanding in the proportion which the principal amount of the Outstanding Bonds of each Series bears to the aggregate principal amount of all Bonds then Outstanding. If the Trustee is unable to purchase or redeem Bonds in amounts sufficient to exhaust the available moneys allocable to each such Series, the remainder of such moneys for each such Series shall be held in trust by the Trustee and applied to the payment of the Bonds of such Series as the same become due by their terms, and, pending such application, such remaining moneys may be invested by the Trustee in the manner provided in the Master Ordinance for the investment of moneys in the Reserve Account.

Maintenance and Operation of Transmission System in Efficient and Economical Manner

The Agency covenants and agrees to maintain and operate the Transmission System in an efficient and economical manner and to operate, maintain and preserve the Transmission System in good repair and working order.

Payment of Taxes, Etc.

The Agency will pay and discharge all taxes, assessments and other governmental charges which may hereafter be lawfully imposed upon the Transmission System or any part thereof or upon any Net Revenues when the same shall be come due. The Agency will duly observe and conform with all valid requirements of any governmental authority relative to the Transmission System or any part thereof, and will comply with all requirements with respect to any state or federal grants received to assist in paying for the costs of the acquisition, construction or financing of any Improvements to the Transmission System.

Insurance

The Agency covenants that it shall at all times maintain such insurance on the Transmission System as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to such works or properties. If any useful part of the Transmission System shall be damaged or destroyed, such part shall be restored to use. The Net Proceeds of insurance against accident to or destruction of the physical Transmission System shall be used for repairing or rebuilding the damaged or destroyed portions of the Transmission

System, (to the extent that such repair or rebuilding is determined by the Agency to be useful or of continuing value to the Transmission System) and to the extent not so applied, shall be applied to the redemption of the Outstanding Bonds issued on a pro rata basis, and for such purpose shall be paid into the Redemption Account.

Any such insurance shall be in the form of policies or contracts for insurance with insurers of good standing and shall be payable to the Agency, or may be in the form of self-insurance by the Agency. The Agency shall establish such fund or funds or reserves as it determines, in its sole judgment, are necessary to provide for its share of any such self-insurance.

Accounting Records and Financial Statements

The Agency covenants that it shall keep proper books of record and accounts of the Transmission System, separate from all other records and accounts, in which complete and correct entries shall be made of all transactions relating to the Transmission System. Said books shall, upon reasonable request, be subject to the inspection of the Owners of not less than 10% of the Outstanding Bonds or their representatives authorized in writing.

The Agency covenants that it will cause the books and accounts of the Transmission System to be audited annually by an Independent Certified Public Accountant and will make available for inspection by the Bond Owners at the office of the Trustee in San Francisco, California, upon reasonable request, a copy of the report of such Independent Certified Public Accountant.

The Agency covenants that it will cause to be prepared annually, not more than 180 days after the close of each Fiscal Year, as a part of its regular annual financial report, a summary statement showing the amount of Gross Revenues and the amount of all other funds collected which are required to be pledged or otherwise made available as security for payment of principal of and interest on the Bonds, the disbursements from the Gross Revenues and other funds in reasonable detail. The Agency shall furnish a copy of the statement to the Trustee, and upon written request, to any Bond Owner.

Amounts of Rates and Charges

(a) The Agency shall fix, prescribe, revise and collect Charges for the Transmission System during each Fiscal Year which are at least sufficient, after making allowances for contingencies and error in the estimates, to pay the following amounts in the following order:

- (i) all Maintenance and Operation Costs of the Transmission System estimated by the Agency to become due and payable in such Fiscal Year;
- (ii) the Debt Service on the Bonds and the Parity Obligations;
- (iii) all other payments required for compliance with the Master Ordinance and the Parity Obligation Instruments pursuant to which any Parity Obligations relating to the Transmission System shall have been issued;
- (iv) the Debt Service on the Subordinate Obligations;
- (v) any other payments required for compliance pursuant to the Subordinate Obligation Instruments relating to the Transmission System shall have been issued; and

(vi) all payments required to meet any other obligations or Indebtedness of the Agency which are charges, liens, encumbrances upon or payable from the Net Revenues of the Transmission System.

Discharge of Claims

The Agency covenants that in order to fully preserve and protect the priority and security of the Bonds, the Agency shall pay from the Net Revenues and discharge all lawful claims for labor, materials and supplies furnished for or in connection with the Transmission System which, if unpaid, may become a lien or charge upon the Net Revenues prior or superior to the lien of the Bonds and impair the security of the Bonds. The Agency shall also pay from the Net Revenues all taxes and assessments or other governmental charges lawfully levied or assessed upon or in respect of the Transmission System or upon any part thereof or upon any of the Net Revenues therefrom.

Acquisition, Construction or Financing Improvements to the Transmission System

The Agency will acquire, construct, or finance Improvements to the Transmission System to be financed with the proceeds of any Bonds with all practicable dispatch, and such Improvements will be made in an expeditious manner and in conformity with laws so as to complete the same as soon as possible.

Protection of Security and Rights of Owners

The Agency will preserve and protect the security of the Bonds and the rights of the Owners, and will warrant and defend their rights against all claims and demands of all persons. From and after the sale and delivery of any Bonds by the Agency, such Bonds shall be incontestable by the Agency.

Maintenance of Tax-Exemption

The Agency shall take all actions necessary to assure the exclusion of interest on the Bonds from the gross income of the Owners of the Bonds to the same extent as such interest is permitted to be excluded from gross income under the Tax Code as in effect on the date of issuance of the Bonds.

Continuing Disclosure

The Agency and the Trustee covenant and agree that they will comply with and carry out all of the provisions of the Continuing Disclosure Agreement applicable to each party. Notwithstanding any other provision of the Master Ordinance, failure of the Agency or the Trustee to comply with the Continuing Disclosure Agreement shall not be considered a Default; however, the Trustee, at the written request of any Participating Underwriter or the Owners of at least 25% aggregate principal amount of Outstanding Bonds, shall (but only to the extent indemnified to its satisfaction from and against any loss, cost, liability or expense of any kind whatsoever, including without limitation, fees and expenses of its attorneys and additional fees and expenses of the Trustee) or any Bondholder or Beneficial Owner (as defined in the Continuing Disclosure Agreement) may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Agency or the Trustee, as the case may be, to comply with its obligations under the Master Ordinance.

No Arbitrage

The Agency shall not take, nor permit nor suffer to be taken any action with respect to the proceeds of any of the Bonds which would cause any of the Bonds to be "arbitrage bonds" within the meaning of the Tax Code.

Private Activity Bond Limitation

The Agency shall assure that the proceeds of the Bonds are not so used as to cause the Bonds to satisfy the private business test of Section 141(b) of the Tax Code or the private loan financing test of Section 141(c) of the Tax Code.

Federal Guarantee Prohibition

The Agency shall not take any action or permit or suffer any action to be taken if the result of the same would be to cause any of the Bonds to be "federally guaranteed" within the meaning of Section 149(b) of the Tax Code.

Rebate Requirement

The Agency shall take any and all actions necessary to assure compliance with Section 148(f) of the Tax Code, relating to the rebate of excess investment earnings, if any, to the federal government, to the extent that such section is applicable to the Bonds.

Amendments by Consent of Bond Owners

The Master Ordinance and the rights and obligations of the Agency and the Owners of the Bonds may be modified or amended at any time by a Supplemental Ordinance which shall become binding when the written consent of the Owners of a majority in aggregate principal amount of the Series of Bonds then Outstanding to be so modified or amended, exclusive of bonds disqualified as provided in the Master Ordinance, are filed with the Trustee and exclusive of the Owners of any other Series of Bonds, provided however, with respect to any Bonds that are fully insured or credit enhanced, the Bond Insurer or credit enhancer shall be deemed owner of such Bonds for purposes of this Section. No such modification or amendment shall (a) extend the maturity of or reduce the interest rate on any Bond or otherwise alter or impair the obligation of the Agency to pay the principal, interest or redemption premiums at the time and place and at the rate and in the currency provided therein of any Bond without the express written consent of the Owner of such Bond, (b) reduce the percentage of Bonds required for the written consent to any such amendment or modifications, or (c) without its written consent thereto, modify any of the rights or obligations of the Trustee.

Amendment without Consent of Bondholders

The Master Ordinance and the rights and obligations of the Agency and of the Owners of the Bonds may also be modified or amended at any time by a Supplemental Ordinance which shall become binding upon execution and delivery, without consent of any Bond Owners, but only to the extent permitted by law and only for one or more of the following purposes:

(a) to add to the covenants and agreements of the Agency in the Master Ordinance contained, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or power reserved to or conferred upon the Agency; or

(b) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained in the Master Ordinance, or in any other respect whatsoever as the Agency may deem necessary or desirable, provided under any circumstances that such modifications or amendments shall not adversely affect the interests of the Owners of the Bonds;

(c) to provide for the issuance of any Parity Obligations, and to provide the terms and conditions under which such Parity Obligations may be issued, including but not limited to the establishment of special funds and accounts relating to such Parity Obligations and any other provisions relating solely to such Parity Obligations, subject to and in accordance with the provisions of the Master Ordinance; or

(d) to make such additions, deletions or modifications as may be necessary or desirable to assure exemption from federal income taxations of interest on the Bonds.

Disqualified Bonds

Bonds owned or held by or for the account of the Agency (but excluding Bonds held in any employees' retirement fund) shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Bonds in the Master Ordinance provided for, and shall not be entitled to consent to, or take any other action in the Master Ordinance provided for.

Endorsement or Replacement of Bonds after Amendment

After the effective date of any amendment, the Agency may determine that the Bonds shall bear a notation, by endorsement in form approved by the Agency, as to such action, and in that case upon demand of the Owner, of any Bond Outstanding at such effective date and presentation of his Bond for that purpose at the Principal Corporate Trust Office of the Trustee, a suitable notation as to such action shall be made on such Bond. If the Agency shall so determine, new Bonds so modified as, in the opinion of the Agency, shall be necessary to conform to such bond Owners' action shall be prepared and executed, and in that case upon demand of the Owner of any Bond Outstanding at such effective date such new Bonds shall be exchanged at the principal Corporate Trust Office of the Trustee, without cost to each Bond Owner, for Bonds then Outstanding, upon surrender of such Outstanding Bonds.

Effect of Modification or Amendment

When any Supplemental Ordinance modifying or amending the provisions of the Master Ordinance shall become binding, as provided in the Master Ordinance, the Master Ordinance

shall be and be deemed to be modified and amended in accordance therewith and the respective rights, duties and obligations under the Master Ordinance of the Agency, the Trustee and all holders of Bonds outstanding shall thereafter be determined, exercised and enforced subject in all respects to such modification and amendments, and all the terms and conditions of any such Supplemental Ordinance shall be and be deemed to be part of the terms and conditions of the Master Ordinance for any and all purposes.

Amendment by Mutual Consent

The provisions of Article VIII of the Master Ordinance shall not prevent any Bond Owner from accepting any amendment as to the particular Bond held by him, provided, that due notation thereof is made on such Bond.

Events of Default and Acceleration of Maturities

The following events shall be Events of Default under the Master Ordinance:

(a) Default in the due and punctual payment of the principal of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise;

(b) Default in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable;

(c) Default by Agency in the observance of any of the covenants, agreements or conditions on its part in the Master Ordinance or in any Parity Obligations Instrument or in the Bonds contained, and such default shall have continued for a period of 30 days after the Agency shall have been given notice in writing of such default by the Trustee; or

(d) The filing by the Agency of a petition or answer seeking reorganization or arrangement under the federal bankruptcy laws or any other applicable law of the United States of America, or if a court of competent jurisdiction shall approve a petition filed with or without the consent of the Agency, seeking reorganization under the federal bankruptcy laws or any other applicable law of the United States of America, or if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the Agency or of the whole or any substantial part of its property.

Upon the occurrence of an Event of Default, the Trustee shall, at the direction of the owners of a majority of the principal amount of the Bonds, by written notice to the Agency, declare the principal of the Bonds to be immediately due and payable, whereupon that portion of the principal of the Bonds thereby coming due and the interest thereon accrued to the date of payment shall, without further action, become and be immediately due and payable, anything in the Master Ordinance or in the Bonds to the contrary notwithstanding. This provision, however, is subject to the condition that if, at any time after the principal of the Bonds shall have been so declared due and payable and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the Agency shall deposit with the Trustee a sum sufficient to pay all of the principal of and interest on the Bonds having come due prior to such declaration, with interest on such overdue principal and interest calculated at the rate of interest per annum then borne by the Outstanding Bonds, and the reasonable fees and expenses of the Trustee and those of its attorneys, and any and all other defaults known to the Trustee (other than in the payment of the

principal of and interest on the Bonds having come due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Owners of a majority in aggregate principal amount of the Bonds at the time Outstanding may, by written notice to the Agency and to the Trustee, on behalf of the Owners of all of the Outstanding Bonds, rescind and annul such declaration and its consequences. However, no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

Application of Funds Upon Acceleration

All amounts received by the Trustee pursuant to any right given or action taken by the Trustee under the provisions of the Master Ordinance shall be applied by the Trustee in the following order upon presentation of the several Bonds, and the stamping thereon of the amount of the payment if only partially paid, or upon the surrender thereof if fully paid:

First to the payment of the costs and expenses of the Trustee and of Bond Owners in declaring such Event of Default, including reasonable compensation to their agents, attorneys and counsel, and to the payment of the costs and expenses of the Trustee, if any, in carrying out the provisions of Article IX of the Master Ordinance, including reasonable compensation to its agents, attorneys and counsel; and

Second to the payment of the whole amount then owing and unpaid upon the Bonds for interest and principal, with interest on such overdue amounts to the extent permitted by law at the rate of interest then borne by the Outstanding Bonds, and in case such moneys shall be insufficient to pay in full the whole amount so owing and unpaid upon the Bonds, then to the payment of such interest, principal and interest on overdue amounts without preference or priority among such interest, principal and interest on overdue amounts ratably in proportion to the aggregate of such interest, principal and interest on overdue amounts.

Other Remedies; Rights of Bond Owners

Upon the occurrence of an Event of Default, the Trustee may pursue any available remedy, in addition to the remedy specified in the Master Ordinance, at law or in equity to enforce the payment of the principal of, premium, if any, and interest on the Outstanding Bonds, and to enforce any rights of the Trustee under or with respect to the Master Ordinance.

If an Event of Default occurs and continues and if requested to do so by the Owners of at least 25% in aggregate principal amount of Outstanding Bonds and indemnified as provided in the Master Ordinance, the Trustee shall be obligated to exercise such one or more of the rights and powers conferred by Article IX of the Master Ordinance, as the Trustee, being advised by counsel, shall deem most expedient in the interests of the Bond Owners.

No remedy by the terms of the Ordinance conferred upon or reserved to the Trustee (or to the Bond Owners) is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the Trustee or to the Bond Owners now or hereafter existing at law or in equity.

No delay or omission to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or acquiescence therein; such right or power may be exercised from time to time as often as may be deemed expedient.

Power of Trustee to Control Proceedings

In the event that the Trustee, upon the happening of an Event of Default, shall have taken any action, by judicial proceedings or otherwise, pursuant to its duties, whether upon its own discretion or upon the request of the Owners of a majority in principal amount of the Bonds then Outstanding, it shall have full power, in the exercise of its discretion for the best interests of the Owners of the Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, however, that the Trustee shall not, unless there no longer continues an Event of Default, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Owners of a majority in principal amount of the Outstanding Bonds opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation. Any suit, action or proceeding which any Owner of Bonds shall have the right to bring to enforce any right or remedy may be brought by the Trustee for the equal benefit and protection of all Owners of Bonds similarly situated and the Trustee is appointed (and the successive respective Owners of the Bonds issued, by taking and holding the same, shall be conclusively deemed so to have appointed it) the true and lawful attorney-in-fact of the respective Owners of the Bonds for the purpose of bringing any such suit, action or proceeding and to do and perform any and all acts and things for and on behalf of the respective Owners of the Bonds as a class or classes, as may be necessary or advisable in the opinion of the Trustee as such attorney-in-fact.

Appointment of Receivers

Upon the occurrence of an Event of Default, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and of the Bond Owners under the Master Ordinance, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the Net Revenues and other amounts pledged under the Master Ordinance, pending such proceedings, with such powers as the court making such appointment shall confer.

Non-Waiver

Nothing in Article IX of the Master Ordinance or in any other provision of the Master Ordinance, or the Bonds, shall affect or impair the obligation of the Agency, which is absolute and unconditional, to pay the interest on and principal of the Bonds to the respective Owners of the Bonds at the respective dates of maturity, out of the Net Revenues and other moneys pledged for such payment.

A waiver of any default or breach of duty or contract by the Trustee or any Bond Owners shall not affect any subsequent default or breach of duty or contract, or impair any rights or remedies on any such subsequent default or breach. No delay or omission of any Owner of any of the Bonds to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy conferred upon the Trustee or Bond Owners by the Bond Law or by Article IX of the Master Ordinance may be enforced and exercised from time to time and as often as shall be deemed expedient by the Trustee or the Bond Owners, as the case may be.

If a suit, action or proceeding to enforce any right or exercise any remedy is abandoned or determined adversely to the Bond Owners, the Agency and the Bond Owners shall be restored to their former positions, rights and remedies as if such suit, action or proceeding had not been brought or taken.

Limitation on Agency's Obligation

Nothing in the Master Ordinance contained shall be deemed to require the Agency to advance any moneys derived from the levy or collection of taxes upon any taxable property in the Agency for the payment of the principal of or interest on the Bonds or for the due performance by the Agency of any covenant in the Master Ordinance contained. Neither the credit nor the taxing power of the Agency is pledged for the payment of the principal of or interest on the Bonds, and the general fund of the Agency is not liable for the payment of the Bonds or the interest thereon. The holders of the Bonds cannot compel the exercise of the taxing power by the Agency or the forfeiture of its property. The principal of and interest on the Bonds and any premiums upon the redemption of any thereof are not a debt of the Agency nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property or upon any of its income, receipts or revenues except the Revenues of the Transmission System and other funds that may be legally applied, pledged or otherwise made available to their payment as in the Master Ordinance provided. Neither the Agency nor any officer thereof shall be liable or obligated for the payment of the principal of or interest on the Bonds, or for any payment agreed to be made, or contemplated to be made, pursuant to any of the terms of the Master Ordinance, save and except solely and exclusively from the Revenues, or from the proceeds of the Bonds. Nothing shall prevent the Agency from making advances of its own funds howsoever derived to any of the uses and purposes in the Master Ordinance mentioned, provided such funds are derived from any source

legally available for such purpose and may be used by the Agency for such purpose without incurring indebtedness. No property or rights of the Agency shall ever be subject to forfeiture by reason of any default on the part of the Agency, provided, however, that nothing shall operate to excuse the Agency from making the payments required to be made for the benefit of the holders of the Bonds.

Rights and Remedies of Bond Owners

No Owner of any Bond issued under the Master Ordinance shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Master Ordinance, unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of a majority in aggregate principal amount of all the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted or to institute such action, suit or proceeding in its own name; (c) said Owners shall have tendered to the Trustee indemnity reasonably acceptable to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of 60 days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are hereby declared, in every case, to be conditions precedent to the exercise by any Owner of Bonds of any remedy; it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by his or their action to enforce any right under the Master Ordinance, except in the manner provided, and that all proceedings at law or in equity to enforce any provision of the Master Ordinance shall be instituted, had and maintained in the manner provided and for the equal benefit of all Owners of the Outstanding Bonds.

The right of any Owner of any Bond to receive payment of the principal of and interest and premium (if any) on such Bond as provided in the Master Ordinance or to institute suit for the enforcement of any such payment, shall not be impaired or affected without the written consent of such Owner, notwithstanding the foregoing provisions of this Section or any other provision of the Master Ordinance.

Termination of Proceedings

In case the Trustee shall have proceeded to enforce any right under the Master Ordinance by the appointment of a receiver or otherwise, and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely, then and in every such case, the Agency, the Trustee and the Bond Owners shall be restored to their former positions and rights, respectively, with regard to the property subject to this Ordinance, and all rights, remedies and powers of the Trustee shall continue as if no such proceedings had been taken.

Limited Liability of the Agency

Notwithstanding anything in the Master Ordinance contained, the Agency shall not be required to advance any moneys derived from any source of income other than the Net Revenues for the payment of the principal of or interest on the Bonds, or any premiums upon the redemption thereof, or for the performance of any covenants in the Master Ordinance contained (except to the extent any such covenants are expressly payable under the Master Ordinance from the Gross Revenues). The Agency may, however, advance funds for any such purpose, provided that such funds are derived from a source legally available for such purpose and may be used by the Agency for such purpose without incurring indebtedness.

Waiver of Personal Liability

No officer, agent or employee of the Agency shall be individually or personally liable for the payment of the interest on or principal of the Bonds; but nothing contained in the Master Ordinance shall relieve any such officer, agent or employee from the performance of an official duty provided by law.

Parties Interested In the Master Ordinance

(a) Nothing in the Master Ordinance expressed or implied is intended or shall construed to confer upon, or to give to, any person or entity, other than the Agency, the Trustee, the Paying Agent, and the Owners any right, remedy or claim under or by reason of the Master Ordinance, or any covenant, condition or stipulation hereof, and all covenants, stipulations, promises and agreements in the Master Ordinance contained by and on behalf of the Agency shall be for the sole and exclusive benefit of the Agency, the Trustee, and the Owners.

(b) Notwithstanding any other provision of the Master Ordinance, in determining whether the rights of the Owners will be adversely affected by any action taken pursuant to the terms and provisions of the Master Ordinance, the Trustee shall consider the effect on the Owners as if there was no Municipal Bond Insurance Policy.

Discharge of Indebtedness; Defeasance

If the Agency shall pay and discharge any or all of the Outstanding Bonds in any one or more of the following ways:

(a) by well and truly paying or causing to be paid the principal of and interest and premium (if any) on such Bonds, as and when the same become due and payable;

(b) by depositing with the Trustee, in trust, at or before maturity, money which, together with the available amounts then on deposit in the funds and accounts established pursuant to the Master Ordinance, is fully sufficient to pay such Bonds, including all principal, interest and redemption premiums; or

(c) by depositing with a qualified escrow holder, in trust, Defeasance Obligations in such amount as the Agency (verified by an independent Certified Public Accountant) shall determine will, together with the interest to accrue thereon and available moneys then on deposit in the Funds and Accounts established pursuant to the Master Ordinance, be fully sufficient to pay and discharge the indebtedness on such Bonds (including all principal interest and redemption premiums, if any) at or before their respective maturity dates;

and if such Bonds are to be redeemed prior to the maturity thereof notice of such redemption shall have been mailed pursuant to Section/or provision satisfactory to the Trustee shall have been made for the mailing of such notice, then, at the election of the Agency, and notwithstanding that any of such Bonds shall not have been surrendered for payment, the pledge of the Net Revenues and other funds provided in this Ordinance with respect to such Bonds, and all other pecuniary obligations of the Agency under the Master Ordinance with respect to all such Bonds; shall cease and terminate, except only the obligation of the Agency to pay or cause to be paid to the Owners of such Bonds not so surrendered and paid all sums due thereon from amounts set aside for such purpose as aforesaid, and all expenses and costs of the Trustee. Notice of such election shall be filed with the Trustee.

Any funds thereafter held by the Trustee, which are not required for said purposes, shall be paid over to the Agency.

Refunding bonds may be issued at any time without regard to whether an Event of Default exists.

To accomplish defeasance the Agency shall cause to be delivered (i) a report of an Independent Certified Public Accountant verifying the sufficiency of the escrow established to pay the Bonds in full on the maturity or earlier redemption date ("Verification"), (ii) an escrow deposit agreement, and (iii) an opinion of nationally recognized bond counsel to the effect that the Bonds are no longer "Outstanding" under the Master Ordinance; each Verification and defeasance opinion shall be acceptable in form and substance, and addressed to the Agency and the Trustee.

APPENDIX B

**AUDITED FINANCIAL STATEMENTS OF SONOMA WATER
FOR FISCAL YEAR ENDED JUNE 30, 2018**

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SONOMA COUNTY
WATER AGENCY

A Component Unit of the County of Sonoma, California

COMPREHENSIVE ANNUAL
FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2018

Prepared by the County of Sonoma,
Auditor-Controller-Treasurer-Tax Collector
Client Accounting Division

Sonoma County Water Agency

(A Component Unit of the County of Sonoma, California)

Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2018

Prepared by County of Sonoma Auditor-Controller Treasurer Tax Collector,
Client Accounting Division

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Introductory Section





November 2, 2018

To the Board of Directors and Citizens of Sonoma County:

The Comprehensive Annual Financial Report (CAFR) of the Sonoma County Water Agency (Water Agency) for the fiscal year ended June 30, 2018, is hereby submitted in compliance with Sections 1131 of Title 2 of the Official California Code of Regulations.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive internal control framework established for this purpose. The internal control system provides reasonable assurance as to the integrity and reliability of the financial statements, the safeguarding of assets from unauthorized use or disposition, and that business transactions are conducted in compliance with State laws and regulations. Because the cost of internal controls should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The independent auditor's report is located at the front of the financial section of this report. Pisenti & Brinker LLP, a firm of licensed certified public accountants, has issued an unmodified ("clean") opinion on the County's financial statements for the fiscal year ended June 30, 2018.

The Management's Discussion and Analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

Profile of the Government

Mission

The mission of the Sonoma County Water Agency is to effectively manage the water resources in our care for the benefit of people and the environment through resource and environmental stewardship, technical innovation, and responsible fiscal management.

Vision

The Sonoma County Water Agency is a regional leader in water resources management. The Agency strives to look forward, beyond today's issues, to anticipate ways to advance its mission. Additionally, the Agency continues to adapt its mission in response to changing opportunities, keeping the Agency at the forefront of developments in the water industry.

Services Provided

The Water Agency is proud to provide an array of services including, but not limited to, naturally filtered drinking water to 600,000 residents in portions of Sonoma and Marin counties, flood protection, distribution of recycled water, recreational opportunities and wastewater treatment.

The Water Agency is a Special District of the State of California established by the State Legislature in 1949. The Water Agency is a wholesale water provider, delivering potable water in Sonoma and Marin Counties via a network of aqueducts that stretch from the Russian River to the Sonoma/Marin County line; the Water Agency ultimately provides water to 600,000 people in the North Bay. The Water Agency also provides flood protection in the County by maintaining 75 miles of streams and creeks, and operates eight wastewater treatment and reuse systems; four of these systems are independent special districts with their own Boards of Directors.

The Water Agency is governed by a five-member Board of Directors. Each member of the Sonoma County Board of Supervisors fills one seat on the Agency's Board of Directors. The Supervisors are elected to four-year staggered terms, and are elected in district elections.

The General Manager administers the day-to-day operations of the Water Agency in accordance with policies and procedures established by the Board of Directors. The Water Agency employs 230 (229.75 full-time equivalent) employees, some of whom are part-time, plus a small cadre of temporary and seasonal employees as the workload dictates. The Water Agency's Board of Directors meets on Tuesdays of each month in concurrent session with the Sonoma County Board of Supervisors. Meetings are publicly noticed and citizens are encouraged to attend.

Requests for Information

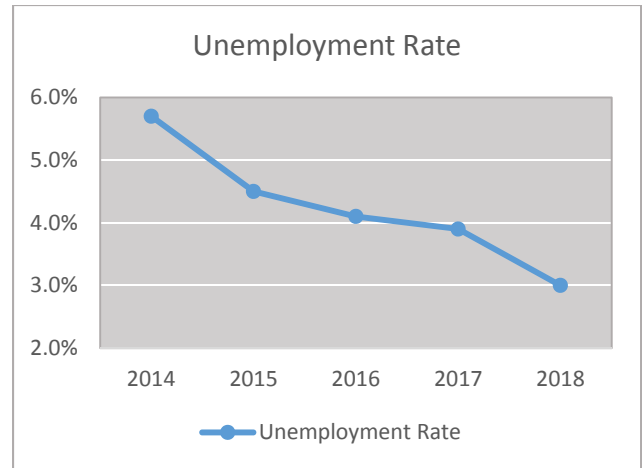
Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Sonoma County Auditor-Controller-Treasurer-Tax Collector, 585 Fiscal Drive, Suite 100, Santa Rosa, California 95403.

Factors Affecting Financial Condition

Financial Indicators

Employment

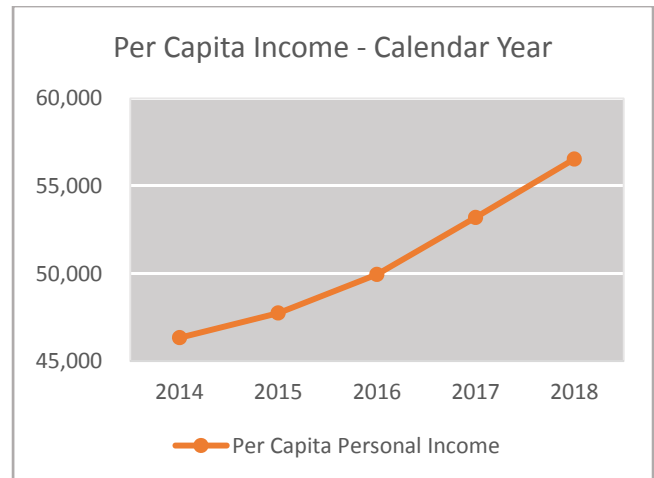
- The unemployment rate in Sonoma County decreased from 3.9% in June 2017 to 3.0% in June 2018. This compares with an unadjusted unemployment rate of 4.2% for California and 4.0% for the nation during the same period.



California Employment Development Department, Labor Market Information Division

Income

- Personal income increased from \$53,204 in calendar year to \$56,538 in 2018. Per capita income is based on the most recently available data.



Source: U.S. Department of Commerce, Bureau of the Census

The Sonoma County labor force has been slowly increasing for the last five years reaching 254,140 in 2017. In 2018, Sonoma County reached its lowest unemployment rate since 2007, 3.0 percent, 1.2 percentage points below the state average.

Education and health services commanded the largest number of jobs in 2017, at 16.7 percent. The second largest source of jobs was government and government enterprises, at 15.9 percent. Approximately 54 percent of employers in Sonoma County employed between one and four employees in 2015.

Total inflation adjusted personal income experienced an increase of 4 percent between 2015 and 2016. The California state average, in comparison, increased 3.3 percent between 2015 and 2016. Inflation adjusted per capita income grew by 5.2 percent, a rate faster than that of California as a whole at 4.1 percent. The median household income in Sonoma County grew by over 7,000 dollars to \$73,496, roughly \$5,800 higher than California as a whole.

In 2016, fair market rent stayed in line with the state average, at \$1,414 for a two-bedroom house. The median home price in Sonoma County in 2016 was \$535,000, rising noticeably above the state median price of \$485,800. Due to recent rising home prices, in 2016 housing was less affordable in Sonoma County compared to California as a whole. That had not happened since 2012. Both Sonoma County and California as a whole were noticeably below the national average on the housing affordability index due to the high cost of living in both Sonoma County and California when compared to the rest of the United States. Commercial vacancy rates fell further in 2016, for office space, retail space and industrial space; a sign of an improving economy

The Water Agency's Water Supply

The Water Agency is a wholesale water supplier to nine cities and water districts that serve more than 600,000 residents in portions of Sonoma and Marin counties. The Russian River provides most of the Water Agency's water supply with groundwater supply from the Santa Rosa Plain as a secondary source. Almost all of the Water Agency's Customers have other water supplies, in addition to those provided by the Water Agency, which include local surface water, local groundwater, and recycled water.

The Russian River watershed drains an area of 1,485 square miles that includes much of Sonoma and Mendocino counties. The headwaters of the Russian River are located in central Mendocino County, approximately 15 miles north of Ukiah. The Russian River is approximately 110 miles in length and flows generally southward to Mirabel Park in Forestville, where it changes course and flows westward to the discharge point at the Pacific Ocean near Jenner, approximately 20 miles west of Santa Rosa.

Two major reservoir projects provide water supply storage in the Russian River watershed: 1) Coyote Valley Dam/Lake Mendocino, located on the East Fork of the Russian River three miles east of Ukiah, and 2) Warm Springs Dam/Lake Sonoma, located on Dry Creek 14 miles northwest of Healdsburg. The Water Agency is the local sponsor for these two federal water supply and flood control projects, collectively referred to as the Russian River Project. Both reservoirs rely largely on atmospheric river-driven storms carrying warm, moisture-laden clouds with huge amounts of water vapor. The Water Agency is spearheading a program to provide more precise atmospheric river rainfall forecasting to enable prudent planning and adaptable reservoir operations to maximize water supply, maintain public safety, and better prepare for drought.

Under agreements with the U.S. Army Corps of Engineers, the Water Agency manages the water supply storage space in these reservoirs to provide a reliable water supply and maintain minimum instream flow requirements for fish and wildlife protection and recreation in the Russian River and Dry Creek. The Water Agency holds water-right permits issued by the State Water Resources Control Board that authorize the Water Agency to store up to 122,500 acre feet/year of water in Lake Mendocino and up to 245,000 acre feet/year of water in Lake Sonoma, and to divert or re-divert up to 180 cubic feet per second of water from the Russian River with a limit of 75,000 acre feet/year.

The primary points of diversion are at the Water Agency's Wohler and Mirabel Park facilities near Forestville. The diversion facilities include six radial collector wells that extract Russian River underflow that has been filtered through approximately 100 feet of natural sand and gravel. This highly-efficient, natural filtration process, with chlorination treatment, produces a clear, potable, high-quality, bacteria-free water. This water is then fed directly into the Water Agency's aqueduct system.

The Water Transmission System extends from the Water Agency's Russian River diversion facilities located near Forestville to the Santa Rosa, Petaluma, and Sonoma valleys. The Water Transmission System consists of over 85 miles of pipelines that range in diameter from 16 to 54 inches, seven booster pump stations, and 18 storage tanks with a combined storage capacity of 129 million gallons.

During fiscal year 2018, water supply capacity in both reservoirs averaged 96 percent and the Water Agency delivered 46,134 acre feet of water compared to 40,356 acre feet the prior fiscal year.

Biological Opinion

On September 24, 2008, the National Marine Fisheries Service issued its Biological Opinion under the federal Endangered Species Act. The Water Agency's water supply and flood control operation and maintenance activities in the Russian River Watershed were considered to likely affect three species of fish listed under the Endangered Species Act: Central California Coast steelhead, Central California Coast coho salmon, and California Coastal Chinook salmon.

The Biological Opinion requires the Water Agency and the U.S. Army Corps of Engineers to implement a series of actions to modify existing water supply and flood control activities that, in concert with habitat enhancement, will preserve, protect, and restore fisheries and maintain existing Russian River water supplies. The Water Agency is committed to preserving the Russian River water supply and protecting Russian River fisheries.

Long Term Financial Planning

The Agency engages in activities that are expressly identified within its act or are necessarily and fairly implied from its statutory purposes. Activities are also limited by the Agency's agreement with its prime water contractors and other agreements which govern the types of activities that can be funded from revenues collected.

Revenue from user charges generated from Water Agency customers supports operations, maintenance, and capital projects. Accordingly, wholesale water and retail sewer rates are reviewed annually. Water and sewer rates are charges imposed on customers for services and are

the primary component of the Water Agency's revenue. Water rates are comprised of a uniform volumetric water use charge; whereas, sewer rates are based principally on fixed charges.

A Five-Year Capital Improvement Plan (CIP) is prepared for each of the Agency's areas of responsibility based on the need to upgrade or replace infrastructure. The Water Agency's CIP identifies projects to be constructed over the next five years and designed to meet the Water Agency's mission and strategic objectives. The projects in the CIP are derived from the objectives in the Water Agency's Strategic Plan and from its Water Supply Strategies Action Plan.

The CIP identifies projects prescribed by the Biological Opinion, seismic and flood hazard mitigation projects, sewer, flood, renewable energy and water infrastructure improvements, and large non-routine maintenance projects.

The CIP includes more than 70 capital projects with an estimated cost of over \$262 million. Whenever possible, alternative sources of revenue such as federal and state grants, existing fund balance, and revenue bond funds are used to finance capital projects. The Water Agency has been and continues to be successful in leveraging funding for its capital projects through partnerships with federal, state, and local agencies.

The Water Agency's financial position continues to be strong as demonstrated by a stable revenue base, effective cost containment, increase in net position, and adequate fund reserves.

Relevant Financial Policies

Internal Control Structure

Agency management is responsible for the establishment and maintenance of the internal control structure that ensures the assets of the Agency are protected from loss, theft or misuse.

The internal control structure also ensures that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The Agency's internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefit likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management.

The Water Agency reviews cash flow and fund balance statements, and revenue and expenditure reports on a monthly basis. Maintenance and construction projects and priorities are regularly reviewed and revised by project managers and senior management. These reviews inform regular updates to long-range financial plans for each of the Agency's areas of responsibility. Long-range plans are integrated into annual updates to operating and capital budgets.

Funds available for capital improvements and replacement are planned for in such a way as to level expenditures from year to year and thus to reduce the impact that sharp rate increases would have on rate payers. The Agency recognizes the value of stable rates for its services and, when possible, attempts to stabilize rates through its long-term financial planning efforts. Rates are established to recover operating and capital costs, and to maintain a prudent reserve. The Agency creates and maintains a prudent level of financial resources within each of its funds to protect against temporary revenue shortfalls or unpredicted one-time expenditures in accordance with minimum fund balance reserve guidelines.

Budgetary Control

The Agency Board of Directors annually adopts an operating and capital budget prior to the new fiscal year. The budget authorizes and provides the basis for reporting and control of financial operations and accountability for the Agency's enterprise operations and capital projects. The budget and reporting applied to the Agency is consistent with the accrual basis of accounting and the financial statement basis.

The Agency also maintains an encumbrance accounting system to accomplish budgetary control. Budget adjustments that increase or decrease revenue projections, appropriations or reserves of any fund require Board approval. Budget and actual comparisons are provided in this report for each fund for which an appropriated annual budget has been adopted. Per county policy, the Water Agency's remaining appropriation balances at the end of the fiscal year are annually re-appropriated for continued use in those same projects in the following fiscal year. Budgets take into account current maintenance and operations costs, long term debt repayments, and a prudent level of financial reserves.

Investment Policy

The Water Agency complies with the Sonoma County Investment Policy. The County Treasury oversees all banking operations for the Water Agency, oversees all public financing, and is the paying agent for all debt and special assessments. Cash is held by the County Treasurer and deposited in the Sonoma County pool, which is invested in accordance with the Sonoma County Investment Policy and California Government Code. The objectives of the policy are, in order of priority, safety of capital, liquidity, and yield. The policy addresses the soundness of financial institutions in which the County will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity. The Treasury Oversight Committee requires an annual audit to ensure the County's Investment Portfolio is in compliance with its policy and California Government Code Section 53601.

Audit and Financial Reporting

State Law and Bond covenants require the Water Agency to obtain an annual audit of its financial statements by an independent Certified Public Accountant. The accounting firm of Pisenti & Brinker LLP has conducted the audit of the Agency's financial statements. Their unmodified Independent Auditor's Report appears in the Financial Section.

Major Initiatives

The Water Agency continues to provide clean reliable water, protect water quality and the environment, treat and reuse wastewater, and improve infrastructure. Highlights of activities and accomplishments for the fiscal year ended June 30, 2018 include the following:

- The Water Agency worked with local stakeholders and other public agencies to begin operations of three Groundwater Sustainability Agencies formed in late FY 2016-17. The Water Agency, under contract with the Groundwater Sustainability Agencies, began development of 20-year groundwater sustainability plans for three groundwater basins to ensure sustainable groundwater management and secured \$3 million in state grants for development of these plans.
- In a landmark Project Partnership Agreement with the U.S. Army Corps of Engineers for the Russian River Biological Opinion Dry Creek Habitat Enhancement Project, the Water Agency improved in-stream conditions for protected salmon and steelhead. The U.S. Army Corps of Engineers share of project costs is 75% of an estimated \$7.5 million in projects, resulting in millions of dollars in cost savings to the Water Agency and local rate payers.
- The Water Agency completed a Preliminary Viability Assessment that demonstrated to the U.S. Army Corps of Engineers that Lake Mendocino Forecast Informed Reservoir Operations can reliably achieve water supply objectives without adversely affecting flood risk. Incremental annual adjustments will be made to store more winter water in the Lake for use during dry months until the Final Viability Assessment is completed.
- To mitigate flood hazards, maximize water supply, and provide more precise rainfall forecasting for atmospheric rivers, the Water Agency in collaboration with state, federal, and local partners identified up to five radar locations and initiated designs under a \$19 million state grant for the Advanced Quantitative Precipitation Information Systems Project. The project will give flood control managers, including the Water Agency, emergency responders, transportation officials, and media outlets more precise information on the location, timing, and intensity of expected rainfall. Two of five radars are anticipated to be fully constructed and operational by the end of FY 2018-2019.
- The first phase of the Green Valley Creek Emergency 2017 Flood Restoration Project was completed. The project removed accumulated sediment and vegetation, captured, relocated, and monitored fish, and resolved flooding on Green Valley Road.
- The Water Agency secured \$1.75 million in state grant funds for and initiated implementation of the Petaluma River Flood Management & Enhancement Project with the City of Petaluma to provide additional flood protection, enhance riparian habitat, and manage sediment.

October 2017 Sonoma County Complex Fires

In the wake of the disastrous fires that struck Sonoma County in October of 2017, the Water Agency participated in numerous efforts to protect our watersheds and water supply. The Water Agency supported regional efforts to install wattles and sandbags, and remove debris and vegetation from flood control channels to minimize the amount of sediment, debris, and potential pollutants entering waterways. The Water Agency continues to identify and monitor potential risks the fires have posed to our watersheds and to the health and safety of our residents, and is taking action to mitigate those risks.

- Working with Sonoma County and the Larkfield Estates community, the Water Agency led efforts to begin design of a collection system to support rebuilding in the Larkfield fire-impacted area. To ease the financial burden, the Water Agency is offering low-interest financing. The collection system will provide property owners with an option in the future should their septic systems fail.
- The Water Agency installed an Early Flood Warning Forecast and Response System to provide real-time stream flows and precipitation data to the National Weather Service for advisories to areas with increased fire-related risk of flash flooding, debris flows, and landslides. The network will communicate with a temporary leased X-band radar system that provides early notification of rainfall location, intensity, and amounts for improved reservoir, wastewater system, and flood protection management, and will inform a four year Advanced Forecasting Project with the National Oceanic and Atmospheric Administration to further protect the Russian River watershed.
- To support fire recovery rebuilding and encourage water efficient landscaping, the Water Agency developed eight scalable open source and pre-approved Landscape Template Plans some of which recommend native fire safer plants, and designed eight open source demonstration gardens with Santa Rosa Junior College. The landscape designs will support rebuilding efforts by reducing permitting efforts and will result in increased water conservation.
- Partnering with Sonoma County, the Open Space District, Pepperwood Foundation, and United States Geological Survey, the Water Agency conducted soil hazard analysis and mapping, and measured watershed response to fire-damaged landscapes to help public agencies plan ongoing recovery efforts and assist the Water Agency in protecting the community's water supply.
- The Water Agency collaborated with the County on a grant application for the Fire Camera Early Warning System to install fire cameras at 14 high-elevation locations throughout the County to provide comprehensive coverage and early detection to mitigate loss of life and property damage.

Awards and Acknowledgements

This is the second year the Water Agency has prepared a comprehensive annual financial report.

The preparation of this CAFR represents the culmination of months of concerted team effort by Agency Management and staff, and team members from the county auditor controller treasurer and tax collector, county administrator's office, and the office of county counsel.

In addition, special thanks to Water Agency staff in all groups for responding so positively to the requests for detailed information that accompanies each annual audit. The role of Pisenti & Brinker LLP is also acknowledged for the significant technical contribution and assistance.

Finally, we wish to express our sincere appreciation to the Water Agency's Board of Directors for their continued support in planning and implementation of the Water Agency's fiscal policies.



Grant Davis

General Manager



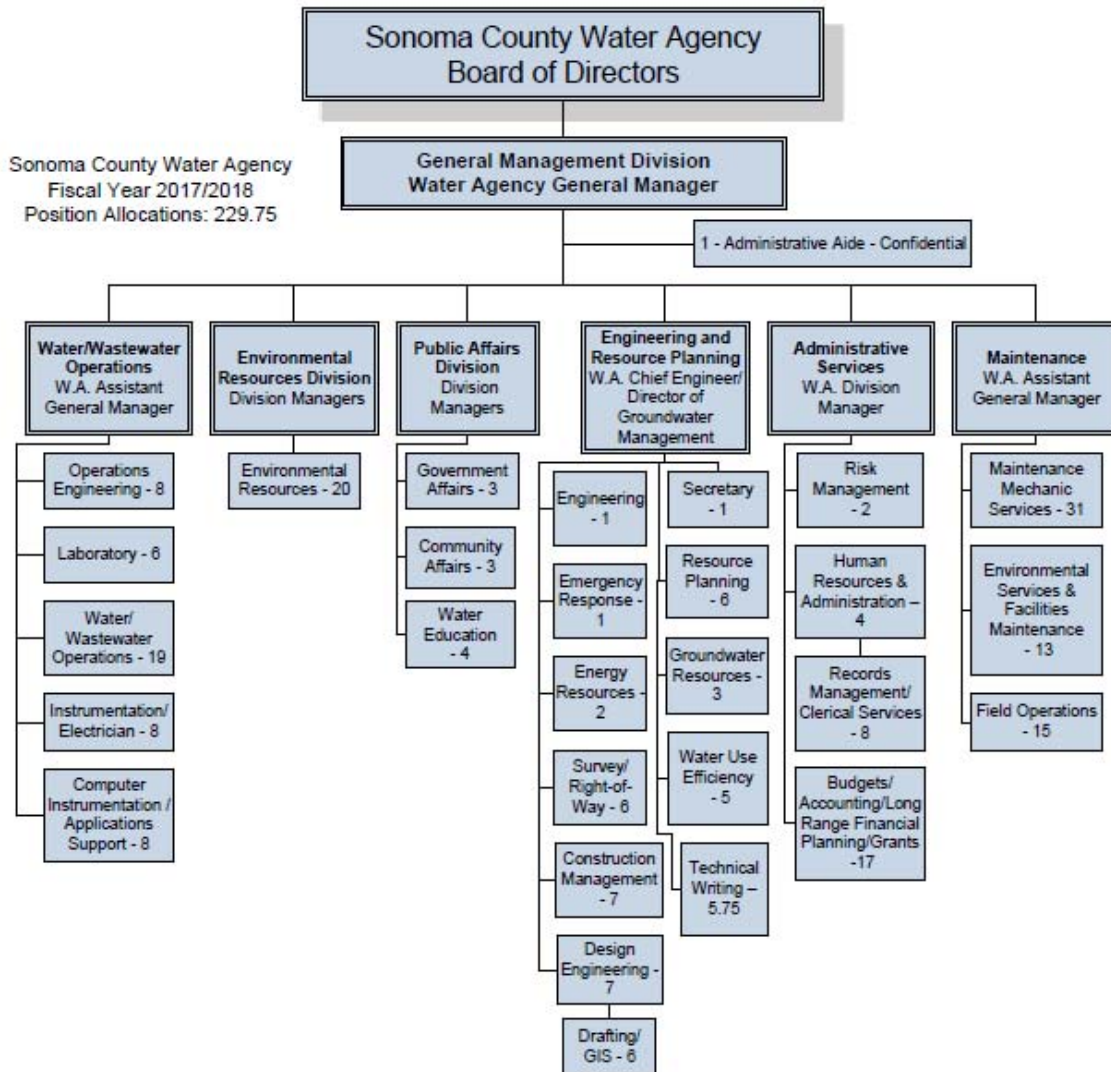
Michael Thompson

Assistant General Manager

Sonoma County Water Agency
Directory of Appointed and Elected Officials
June 30, 2018

General Manager.....Grant Davis
Board of Directors:
 District One.....Susan Gorin
 District Two.....David Rabbitt
 District Three.....Shirlee Zane
 District Four.....James Gore
 District Five.....Lynda Hopkins

**Sonoma County Water Agency
Organizational Chart
June 30, 2018**



Financial Section





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, 2018, 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, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report (continued)

Emphasis of a Matter

As discussed in Note R to the financial statements, the Water Agency has adopted the provisions of *Government Accounting Standards Board Statement No. 75 – Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. As a result, the Water Agency recognized a reduction to its beginning net position for the year ended June 30, 2018 in the amount of \$24,219,023.

Other Matters

Required Supplementary Information

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

Other Information

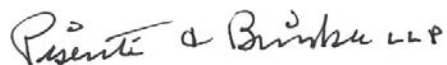
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Water Agency's basic financial statements. The introductory section, the combining fund information, and statistical section are presented for purposes of additional analysis and are 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.

The introductory and statistical information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2018, 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 solely 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 effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Water Agency's internal control over financial reporting and compliance.



Santa Rosa, California

November 2, 2018

**Sonoma County Water Agency
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)**

Management's Discussion and Analysis

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, 2018. We encourage readers to consider the information presented here in conjunction with the additional information in our letter of transmittal, which precedes this section.

Financial Highlights

- The Water Agency implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which establishes accounting and financial reporting by state and local governments for postemployment benefits other than pensions. As a result, the Water Agency restated the June 30, 2017 net position by \$24,219,023 to reflect their proportionate share of the net other postemployment benefits (OPEB) liability of \$26,233,147 net of \$2,014,124 of employer contributions that represent prior period deferred outflows of resources. For the fiscal year ended June 30, 2018, net OPEB liability balance decreased by \$2,150,247 to \$24,082,900.
- The assets and deferred outflows of resources of the Water Agency exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$349,202,477 (net position). Of this amount \$31,163,669 (unrestricted net position) may be used to meet the Water Agency's ongoing obligations to citizens and creditors.
- The Water Agency's total net position increased by \$2,034,660 during the current fiscal year, before accounting for the restatement of beginning net position. This increase in net position includes an increase in business-type activities of \$10,957,055 and a decrease in governmental activities of \$8,922,395.
- As of the close of the current fiscal year, the Water Agency's governmental funds reported combined ending fund balances of \$97,925,862, a decrease of \$13,432,523 from the preceding year. Approximately 6.6% of this total amount, \$6,416,548, was available for spending at the Water Agency's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$6,416,548 or approximately 26.3% of total General Fund expenditures, which amounted to \$24,374,001 for the fiscal year ended June 30, 2018.
- The Water Agency's long-term liabilities decreased by \$22,667,217 during the fiscal year, primarily due to a decrease of \$13,912,143 in net pension liability, principal payments of \$3,550,906 on the Federal contract payable, \$1,528,306 on revenue bonds, and \$2,150,247 decrease in OPEB liability.

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.

**Sonoma County Water Agency
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)**

Overview of the Financial Statements (continued)

Government-wide financial statements

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

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

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

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.

**Sonoma County Water Agency
Management's Discussion and Analysis
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Overview of the Financial Statements (continued)

Fund financial statements (continued)

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.

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.

**Sonoma County Water Agency
Management's Discussion and Analysis
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Overview of the Financial Statements (continued)

Other supplementary information

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

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Water Agency, assets and deferred outflows exceeded liabilities and deferred inflows by \$349,202,477 as of June 30, 2018.

Condensed Statements of Net Position

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2017	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017	June 30, 2018
Current and other assets	\$ 113,858,933	\$ 100,814,164	\$ 74,596,748	\$ 84,532,364	\$ 188,455,681	\$ 185,346,528
Capital assets	141,109,809	140,228,556	210,284,552	206,619,778	351,394,361	346,848,334
Total assets	254,968,742	241,042,720	284,881,300	291,152,142	539,850,042	532,194,862
Total deferred outflows	10,180,977	5,619,331	649,472	599,877	10,830,449	6,219,208
Current liabilities	10,249,504	10,589,346	8,627,825	7,199,000	18,877,329	17,788,346
Noncurrent liabilities	105,076,990	111,569,615	54,045,298	50,738,315	159,122,288	162,307,930
Total liabilities	115,326,494	122,158,961	62,673,123	57,937,315	177,999,617	180,096,276
Total deferred inflows	1,294,034	9,115,317	-	-	1,294,034	9,115,317
Net Position:						
Net investment in capital assets	56,281,939	58,951,592	164,264,829	161,478,637	220,546,768	220,430,229
Restricted	86,833,589	77,808,351	16,664,705	19,800,228	103,498,294	97,608,579
Unrestricted (deficit)	5,413,663	(21,372,170)	41,928,115	52,535,839	47,341,778	31,163,669
Total Net Position	\$ 148,529,191	\$ 115,387,773	\$ 222,857,649	\$ 233,814,704	\$ 371,386,840	\$ 349,202,477

The largest portion of the Water Agency's net position, \$220,430,229 (63.1%), reflects its investment in capital assets (e.g., land, construction in progress, infrastructure, buildings, and machinery and equipment), less any related outstanding debt used to acquire those assets. 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, \$97,608,579 (28.0%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$31,163,669, may be used to meet the Water Agency's ongoing obligations to citizens and creditors.

**Sonoma County Water Agency
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Government-wide Financial Analysis (continued)

As of June 30, 2018, the Water Agency reports positive balances in all categories of net position for its separate governmental and business-type activities except for the unrestricted net position in governmental activities which amounted to a negative \$21,372,170. This deficit is due to the implementation of GASB No. 75. More information on GASB No. 75 can be found in Note K to the financial statements.

The Water Agency's net position decreased by \$22,184,363 as of June 30, 2018. This decrease included a beginning balance adjustment reducing net position by \$24,219,023 due to the implementation of GASB No. 75. In addition, governmental activities reduced net position by \$8,922,395 and business-type activities increased net position by \$10,957,055. The reasons for the changes are discussed in the following sections for governmental activities and business-type activities.

Condensed Statements of Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	Fiscal Year Ended June 30,		Fiscal Year Ended June 30,		Fiscal Year Ended June 30,	
	2017	2018	2017	2018	2017	2018
Revenues:						
Program Revenues:						
Charges for services	\$ 13,543,668	\$ 13,106,104	\$ 41,877,422	\$ 48,632,560	\$ 55,421,090	\$ 61,738,664
Operating grants and contributions	1,253,477	2,560,079	4,699,981	1,588,746	5,953,458	4,148,825
Capital grants and contributions	16,207	296,313	3,987,850	1,974,789	4,004,057	2,271,102
General Revenues:						
Property taxes	25,228,577	26,877,485	49,437	46,928	25,278,014	26,924,413
Investment earnings	447,480	1,136,042	329,230	815,087	776,710	1,951,129
Total revenues	40,489,409	43,976,023	50,943,920	53,058,110	91,433,329	97,034,133
Expenses:						
General government	8,991,653	7,766,110	-	-	8,991,653	7,766,110
Intergovernmental	13,794,014	14,336,168	-	-	13,794,014	14,336,168
Flood control	10,468,135	14,170,068	-	-	10,468,135	14,170,068
Warm Springs Dam	9,861,623	10,822,995	-	-	9,861,623	10,822,995
Interest on long-term debt	2,772,636	2,659,344	-	-	2,772,636	2,659,344
Water transmission	-	-	32,689,918	32,952,295	32,689,918	32,952,295
Water supply	-	-	7,183,788	4,699,307	7,183,788	4,699,307
Sanitation	-	-	5,818,886	7,593,186	5,818,886	7,593,186
Total expenses	45,888,061	49,754,685	45,692,592	45,244,788	91,580,653	94,999,473
Change in net position before transfers	(5,398,652)	(5,778,662)	5,251,328	7,813,322	(147,324)	2,034,660
Transfers	(1,585,000)	(3,143,733)	1,585,000	3,143,733	-	-
Change in net position	(6,983,652)	(8,922,395)	6,836,328	10,957,055	(147,324)	2,034,660
Net position - beginning of year	155,512,843	148,529,191	216,021,321	222,857,649	371,534,164	371,386,840
Restatement of net position - see Note R	-	(24,219,023)	-	-	-	(24,219,023)
Net position - beginning of year, as restated	155,512,843	124,310,168	216,021,321	222,857,649	371,534,164	347,167,817
Net position - end of year	\$ 148,529,191	\$ 115,387,773	\$ 222,857,649	\$ 233,814,704	\$ 371,386,840	\$ 349,202,477

**Sonoma County Water Agency
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Government-wide Financial Analysis (continued)

Governmental Activities

Governmental activities decreased the Water Agency's net position by \$8,922,395 during the fiscal year. Key elements of the Water Agency's governmental activities are identified below.

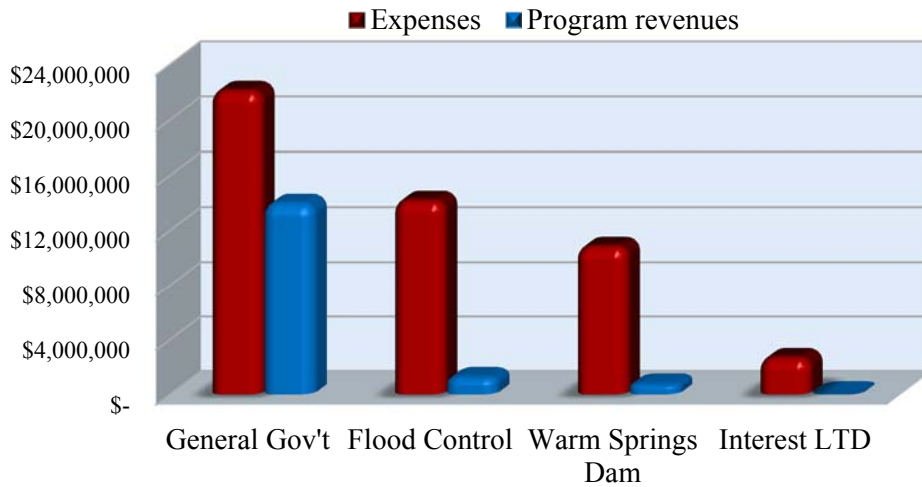
- Program revenues for the fiscal year ended June 30, 2018 increased by \$1,149,144 from the prior fiscal year. This increase consisted of a decrease of \$437,564 in charges for services, an increase of \$1,306,602 in operating grants and contributions, and an increase of \$280,106 in capital grants and contributions.
- Charges for services for the fiscal year totaled \$13,106,104, representing a decrease of \$437,564 from the prior year. This decrease is primarily due to a decrease in revenue related to the operation and maintenance of outside sanitation districts.
- Operating grants and contributions totaled \$2,560,079 for the fiscal year, a \$1,306,602 increase from the prior fiscal year. This decrease is primarily due to increased revenue for Proposition 1 storm water grants and Proposition 84 Integrated Regional Water Management grants.
- Capital grants and contributions increased \$280,106 from the prior fiscal year. This increase is related to increased revenue for a Proposition 1 sustainable groundwater grant.
- Property tax revenue totaled \$26,877,485, including \$7,782,313 received for the purpose of operations, maintenance, and debt service for the Warm Springs Dam. Property tax revenue increased by \$1,648,908 from the prior fiscal year due to an increase in the assessed value of taxable property.
- Investment earnings of \$1,136,042 included \$1,010,026 in interest earnings on cash in the county Treasury Pool. Investment earnings increased by \$688,562 from the prior fiscal year, primarily as a result of an increase in the fair value of investments.
- Expenses for Flood Control increased by \$3,701,933 due to an increase in project costs including an increase in the Santa Rosa Creek Channel Resurface project costs of \$948,010.
- Warm Springs Dam expenses increased by \$961,372 from the prior year, primarily due to an increase of \$1,378,718 in habitat restoration projects in Dry Creek.

**Sonoma County Water Agency
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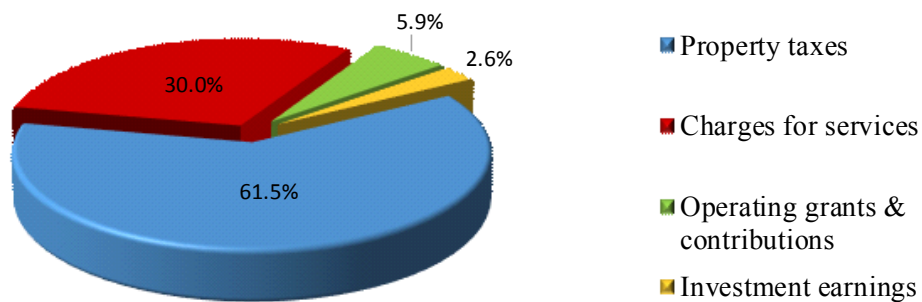
Government-wide Financial Analysis (continued)

Governmental Activities (continued)

Expenses and Program Revenues – Governmental Activities



Revenues by Source – Governmental Activities



**Sonoma County Water Agency
Management's Discussion and Analysis
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Government-wide Financial Analysis (continued)

Business-type Activities

Business-type activities increased the Water Agency's net position by \$10,957,055. Key elements of the Water Agency's business-type activities are identified below.

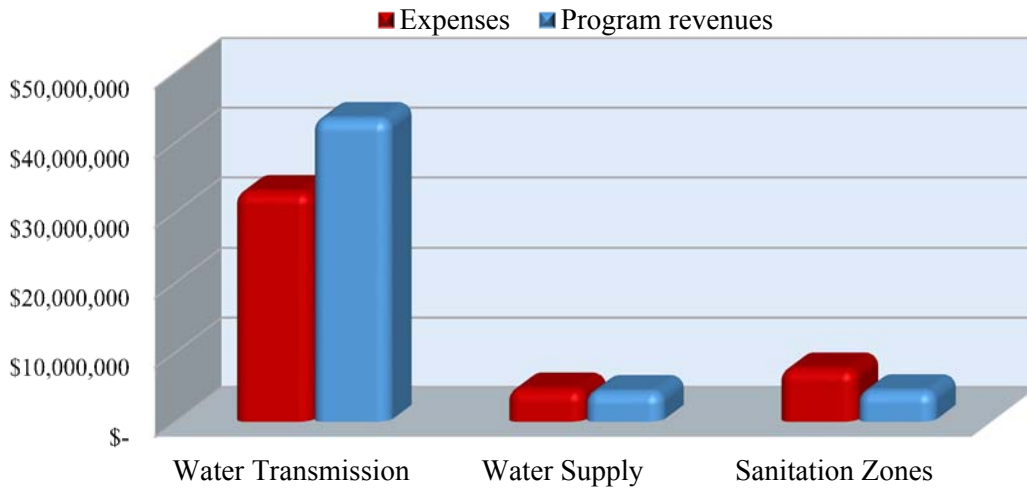
- Water sales revenue increased \$7,327,408 from the prior fiscal year. This increase was due to a 14.3% increase in total acre-feet sold and an average increase of 4.5% in water rates.
- Sanitation revenue increased due to increases in the annual rates combined with increases in the total Equivalent Single Family Dwellings (ESDs) serviced by the Water Agency's four sanitation zones.
- Operating grants and contributions for the fiscal year totaled \$1,588,746, representing a decrease of \$3,111,235 from the prior year. This decrease was primarily due to a decrease in expenses and related funding for the Title XVI Water Smart grant which provides funding for North Bay Water Reuse projects.
- Capital grants and contributions totaled \$1,974,789 for the fiscal year, a decrease of \$2,013,061 from the prior fiscal year. This decrease included a decrease of \$1,717,184 in sewer connection fees, a decrease of \$1,872,214 in capital grants due to the completion of a grant-funded hazard mitigation project, and a \$2,489,540 increase in donations of capital assets by other governments.
- Investment earnings for the fiscal year ended June 30, 2018 totaled \$815,087, representing an increase of \$485,857 from the prior year. This increase was primarily due to an increase in the fair value of investments and an increase in interest earned on cash in the Treasury Pool due to higher cash balances and interest rates.
- Expenses for Water Transmission increased by \$262,377 from the prior year. The increase included increased operating costs for the Petaluma Aqueduct Cathodic upgrade project (\$794,455) and the Dry Creek in-stream habitat mile 4 project (\$369,219).
- Water Supply expenses decreased by \$2,484,481, primarily due to a decrease of \$2,717,642 in grant pass-through expenses.
- Sanitation expenses increased by \$1,774,300. The majority of the increase was related to various treatment plant maintenance projects in the Airport-Larkfield-Wikiup (ALW) sanitation fund, including sludge removal and the replacement of pumps and filters.
- Transfers from the Water Agency's General Fund totaling \$3,143,733 were received during the fiscal year ended June 30, 2018. More information on these transfers can be found in Note G to the financial statements.

**Sonoma County Water Agency
Management's Discussion and Analysis
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(Unaudited)**

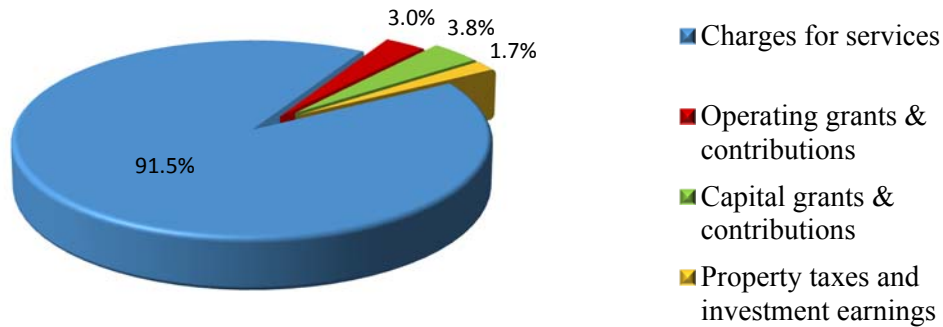
Government-wide Financial Analysis (continued)

Business-type Activities (continued)

Expenses and Program Revenues – Business-type Activities



Revenues by Source – Business-type activities



**Sonoma County Water Agency
Management's Discussion and Analysis
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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, 2018, the Water Agency's governmental funds reported combined ending fund balances of \$97,925,862, a decrease of \$13,432,523 in comparison with the prior year. Approximately 6.6% of this total amount, \$6,416,548, is 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 Note A to the financial statements.

The General Fund is the chief operating fund of the Water Agency. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$6,416,548. Assigned fund balance totaled \$8,708,445 and consisted of encumbered contracts and activities related to the operation of Spring Lake Park, the Waste/Recycled Water Loan Fund and the Sustainability Fund. Restricted fund balance totaled \$250,000, related to a legally enforceable agreement with the Town of Windsor. The General Fund also reported a non-spendable fund balance of \$3,061,298, primarily due to an advance to the Power ISF. Total fund balance for the General Fund as of June 30, 2018 was \$18,435,169.

The General Fund's fund balance decreased by \$4,318,221 which represents a 19.0% decrease in fund balance compared to the prior fiscal year. Some of the significant changes include an increase in salary and benefits costs, a decrease in revenue related to the operation and maintenance of the four sanitation districts, an increase in expenditures for emergency preparedness and response following the October 2017 wildfires, an increase in transfers out to other funds and an increase in intergovernmental funding.

The special revenue funds, consisting of Flood Control and Warm Springs Dam, reported fiscal year end fund balances of \$23,505,987 and \$10,094,867, respectively, all of which is restricted fund balance except for \$1,122 in non-spendable fund balance related to prepaid expense. Warm Springs Dam had a significant decrease in fund balance of \$2,984,127 which represents a 22.8% decrease compared to the prior fiscal year, mainly due to increased expenses related to the habitat restoration projects in Dry Creek.

The Debt Service Fund had a total fund balance of \$45,889,839, all of which is restricted for debt service and other related obligations for Warm Springs Dam. The fund balance decreased by \$5,900,694 which represents an 11.4% decrease compared to the prior fiscal year, primarily due to principal and interest payments on long-term debt.

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Management's Discussion and Analysis
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Financial Analysis of the Government's Funds (continued)

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.

Water Transmission net position increased by \$7,875,017 to \$156,455,828, primarily due to an increase in water sales revenue and capital contributions from the California Department of Transportation for the Petaluma aqueduct relocation program.

Water Supply net position increased by \$1,024,139 to \$1,250,936, primarily due to an increase in water sales revenue.

Sanitation net position decreased by \$2,239,804 to \$22,728,135, primarily as a result of lower connection fees and increased expenses. The reduction in connection fees was related to revenue recognized in fiscal year 2016-17 for sewer connections to several large commercial projects, with fewer new projects connecting in the current fiscal year. Increases in expenses included wildfire response and several large maintenance projects at the ALW treatment plant, including sludge removal, filter replacement and pump replacement.

Internal Service Fund net position increased by \$4,297,703 to \$53,379,805 primarily as a result of the sale of a building in August 2017 for \$4,200,000.

Unrestricted net position of the Water Transmission Fund as of the fiscal year ended June 30, 2018 was \$35,361,831. The Water Supply Fund reported a deficit balance in unrestricted net position of \$1,197,227 as the result of the required amortization of unearned revenue related to Marin Municipal Water District's water rights payment received in June 2005. The Sanitation Funds and the Internal Service Funds reported unrestricted net position of \$6,016,363 and \$12,354,872, respectively.

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 \$18,116,462, while budgeted revenues were increased by \$9,190,910 during the fiscal year ended June 30, 2018. Of the increase in budgeted revenue and expenditures, \$9,113,473 was related to the budgeted income for grant revenues related to the NOAA Advanced Quantitative Precipitation Information System (AQPI) grant. This grant revenue was approved by the Board of Directors post the submittal of the original budget. An offset to this increase in grant revenues was a \$9,255,085 increase in appropriations for the related project, the Bay Area Advanced Quantitative Precipitation Information System. In addition, appropriations for salaries and benefits increased by \$2,583,266 and intergovernmental funding to assist the Districts in meeting operating and construction expenses increased by \$2,692,000.

General Fund intergovernmental revenues were below budget by \$8,498,826. This was primarily due to a delay in earning grant revenues related to the NOAA Advanced Quantitative Precipitation Information system (AQPI) grant. Property tax revenues, charges for services, and investment earnings were over budget, resulting in total revenues being under budget by \$4,936,997.

**Sonoma County Water Agency
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General Fund Budgetary Highlights (continued)

General Fund total expenditures were below budget by \$7,910,821. The largest component was related to a delay in qualified expenditures for the AQPI grant which resulted in \$9,068,739 of unspent appropriations. Other major components of the unspent appropriations included lower than anticipated costs for legal services, rent and lease expenditures, district operations charges, and contributions to other governments and agencies.

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, 2018, was \$346,848,334 (net of accumulated depreciation and amortization). This investment in capital assets includes land, land improvements, intangible assets such as water storage rights and permanent easements, buildings and improvements, infrastructure, and machinery and equipment.

Major capital asset events during the fiscal year ended June 30, 2018 included the completion of the following projects. (The amounts shown represent the total life-to-date construction costs of each project).

Governmental activities:

- Capital expansion within the General Fund included:
Flood detection system equipment - \$284,977

Business-type activities:

- Capital expansion within the Water Transmission Fund included:
Isolation valves - \$6,797,026

Petaluma aqueduct relocation - \$4,142,278

Geyserville treatment plant solar photovoltaic - \$407,745

Capital Assets
(net of accumulated depreciation and amortization)

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2017	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017	June 30, 2018
Land	\$ 1,582,223	\$ 1,582,223	\$ 11,023,905	\$ 11,023,905	\$ 12,606,128	\$ 12,606,128
Land improvements	164,092	151,861	2,190,384	2,003,922	2,354,476	2,155,783
Construction in progress	2,677,799	3,036,882	19,789,010	13,404,664	22,466,809	16,441,546
Water storage rights	102,371,000	102,371,000	4,996,395	4,996,395	107,367,395	107,367,395
Intangible asset - easements	606,857	603,608	144,934	300,352	751,791	903,960
Intangible asset - software	-	-	488,088	281,345	488,088	281,345
Infrastructure	31,700,930	30,196,364	125,732,085	129,717,763	157,433,015	159,914,127
Buildings and improvements	1,594,257	1,509,710	40,242,616	39,418,233	41,836,873	40,927,943
Machinery and equipment	412,651	776,908	5,677,135	5,473,199	6,089,786	6,250,107
Total capital assets	\$ 141,109,809	\$ 140,228,556	\$ 210,284,552	\$ 206,619,778	\$ 351,394,361	\$ 346,848,334

**Sonoma County Water Agency
Management's Discussion and Analysis
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Capital Asset and Debt Administration (continued)

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

Long-Term Obligations

As of June 30, 2018, the Water Agency had a total of \$165,297,772 in outstanding long-term obligations. Of this amount \$53,000 was in general obligation bonds which are backed by the full faith and credit of the Water Agency; \$3,167,925 was in capital leases; \$35,717,050 was revenue bonds payable from the Water Agency's operating income; \$9,021,479 was advances to the Water Agency from the California Department of Water Resources; \$81,276,964 was a federal long-term contract payable related to Warm Springs Dam; \$2,289,200 was amounts payable to employees for unused vacation leave upon termination; \$9,689,254 was net pension liability; and \$24,082,900 was other postemployment benefits.

Outstanding Current and Long-Term Obligations

	June 30,	June 30,	Change	
	2017*	2018	\$	%
General obligation bonds	\$ 94,000	\$ 53,000	\$ (41,000)	-43.6%
Capital leases	3,794,453	3,167,925	(626,528)	-16.5%
Revenue bonds	37,245,356	35,717,050	(1,528,306)	-4.1%
Advances from other governments	9,793,493	9,021,479	(772,014)	-7.9%
Federal contract payable	84,827,870	81,276,964	(3,550,906)	-4.2%
Compensated absences	2,375,273	2,289,200	(86,073)	-3.6%
Net pension liability	23,601,397	9,689,254	(13,912,143)	-58.9%
Other postemployment benefits	26,233,147	24,082,900	(2,150,247)	-8.2%
Total	\$ 187,964,989	\$ 165,297,772	\$(22,667,217)	-12.1%

* The 2017 balances have been restated for the other postemployment benefits amount. See Note R to the financial statements for further information.

The Water Agency's total long-term obligations decreased by \$22,667,217 (12.1%) during the fiscal year ended June 30, 2018.

The outstanding total of general obligation bonds, capital leases, revenue bonds, advances from other governments, and federal contract payable decreased by 43.6%, 16.5%, 4.1%, 7.9%, and 4.2% respectively, during the fiscal year ended June 30, 2018. The decreases were due to regularly scheduled principal payments.

Compensated absences liability decreased by \$86,073 due to multiple vacation payoffs to retirees during the fiscal year ended June 30, 2018.

Net pension liability decreased by \$13,912,143, primarily as a result of better than expected returns on investments held in a trust to address the pension obligation.

Other postemployment benefits decreased by \$2,150,247 which is due to a change in valuation.

**Sonoma County Water Agency
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Capital Asset and Debt Administration (continued)

Long-Term Obligations (continued)

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

Economic Factors and Next Year's Budgets and Rates

As of June 30, 2018, unassigned fund balance in the General Fund was \$6,416,548. The Agency's budgeted net cost in the General Fund of \$4,653,927 in the fiscal year ending June 30, 2019 reduces unassigned fund balance.

Property tax revenues are expected to increase due to the upward trend in assessed value of taxable property.

Capital contributions are expected to decrease because the budget for the year ending June 30, 2018 included non-recurring capital grant revenue.

Expenditures on capital projects are expected to decrease due to the completion of the isolation valves project and the Petaluma aqueduct relocation project. Expenditures on operating projects are also expected to decrease as a result of the completion of the first part of the Dry Creek Habitat projects for the second and third phases.

Water sales and sanitation service revenues are expected to increase. Both water and sewer rates increased for the fiscal year ending June 30, 2019 budget. Water rates increased by an average of 4.5%, while sewer rates increased an average of 4.0%. Flat charges are expected to increase for all sanitation funds except for the ALW sanitation zone. Flat charges were 6.6% below budget in the ALW sanitation zone during the current fiscal year and are estimated to decrease by 6.1% based on the fiscal year ending June 30, 2019 budget. The decrease in revenue is due to businesses and homes lost in the October 2017 wildfires. The impact on revenue is not expected to be long-term.

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

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

	Santa Rosa Aqueduct	Petaluma Aqueduct	Sonoma Aqueduct
Operations and maintenance	\$ 719.00	\$ 719.00	\$ 719.00
Revenue bond charges:			
Aqueduct revenue bonds charge	-	-	142.68
Storage facility revenue bonds charge	41.04	41.04	41.04
Common facilities revenue bonds charge	98.34	98.34	98.34
<u>Aqueduct capital charge</u>	<u>19.50</u>	<u>19.50</u>	<u>-</u>
Total	\$ 877.88	\$ 877.88	\$ 1,001.06

**Sonoma County Water Agency
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)**

Economic Factors and Next Year's Budgets and Rates (continued)

Sewer Service Rate per Equivalent Single-Family Dwelling

Sanitation Zone	17/18	18/19	Change
Sea Ranch	\$ 1,117	\$ 1,159	3.8%
Penngrove	1,414	1,463	3.5%
Geyserville	997	1,042	4.5%
Airport-Larkfield-Wikiup	900	941	4.6%

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

Sanitation Zone	17/18	18/19	Change
Sea Ranch	588	599	1.9%
Penngrove	532	544	2.3%
Geyserville	356	356	0.0%
Airport-Larkfield-Wikiup	3,838	3,914	2.0%

Basic Financial Statements

Sonoma County Water Agency
Statement of Net Position
June 30, 2018

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Current assets:			
Cash and investments	\$ 96,190,311	\$ 67,619,071	\$ 163,809,382
Restricted cash and investments	-	2,171,242	2,171,242
Deposits with others	-	753,746	753,746
Accounts receivable	1,790,013	8,570,643	10,360,656
Inventories	18,348	-	18,348
Prepaid items	226,193	31,152	257,345
Internal balances	2,339,299	(2,339,299)	-
Total current assets	<u>100,564,164</u>	<u>76,806,555</u>	<u>177,370,719</u>
Noncurrent assets:			
Restricted cash and investments	250,000	6,959,298	7,209,298
Reserves on deposit	-	766,511	766,511
Capital assets, net			
Land	1,582,223	11,023,905	12,606,128
Land improvements	151,861	2,003,922	2,155,783
Construction in progress	3,036,882	13,404,664	16,441,546
Intangible assets	102,974,608	5,578,092	108,552,700
Infrastructure	30,196,364	129,717,763	159,914,127
Buildings and improvements	1,509,710	39,418,233	40,927,943
Equipment	776,908	5,473,199	6,250,107
Total capital assets	<u>140,228,556</u>	<u>206,619,778</u>	<u>346,848,334</u>
Total noncurrent assets	<u>140,478,556</u>	<u>214,345,587</u>	<u>354,824,143</u>
Total assets	<u>241,042,720</u>	<u>291,152,142</u>	<u>532,194,862</u>
Deferred Outflows of Resources			
Deferred pensions	3,419,204	-	3,419,204
Deferred other postemployment benefits	2,200,127	-	2,200,127
Deferred charge on refunding	-	599,877	599,877
Total deferred outflows of resources	<u>5,619,331</u>	<u>599,877</u>	<u>6,219,208</u>

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

Sonoma County Water Agency
Statement of Net Position (continued)
June 30, 2018

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Liabilities			
Current liabilities payable from unrestricted assets:			
Accounts payable and accrued expenses	2,780,977	2,765,777	5,546,754
Due to other governments	-	376,833	376,833
Interest payable	1,747,455	36,089	1,783,544
Unearned revenue	107,325	528,664	635,989
Advances from other governments	-	394,113	394,113
Deposits from others	-	193,062	193,062
Capital leases	-	653,266	653,266
Compensated absences	2,289,200	-	2,289,200
Long-term contracts payable	3,664,389	-	3,664,389
Total current liabilities payable from unrestricted assets	<u>10,589,346</u>	<u>4,947,804</u>	<u>15,537,150</u>
Current liabilities payable from restricted assets:			
Interest payable	-	576,521	576,521
General obligation bonds payable	-	26,000	26,000
Revenue bonds payable	-	1,648,675	1,648,675
Total current liabilities payable from restricted assets	<u>-</u>	<u>2,251,196</u>	<u>2,251,196</u>
Total current liabilities	<u>10,589,346</u>	<u>7,199,000</u>	<u>17,788,346</u>
Noncurrent liabilities:			
Unearned revenue	-	4,121,104	4,121,104
Advances from other governments	-	8,627,366	8,627,366
Capital leases	-	2,514,659	2,514,659
General obligation bonds payable	-	27,000	27,000
Revenue bonds payable	-	35,448,186	35,448,186
Long-term contracts payable	77,612,575	-	77,612,575
Net pension liability	9,689,254	-	9,689,254
Other postemployment benefits obligation	24,082,900	-	24,082,900
Pollution remediation obligation	184,886	-	184,886
Total noncurrent liabilities	<u>111,569,615</u>	<u>50,738,315</u>	<u>162,307,930</u>
Total liabilities	<u>122,158,961</u>	<u>57,937,315</u>	<u>180,096,276</u>
Deferred Inflows of Resources			
Deferred pensions	7,709,308	-	7,709,308
Deferred other postemployment benefits	1,406,009	-	1,406,009
Total deferred inflows of resources	<u>9,115,317</u>	<u>-</u>	<u>9,115,317</u>
Net Position			
Net investment in capital assets	58,951,592	161,478,637	220,430,229
Restricted for:			
Flood control	23,321,100	-	23,321,100
Warm Springs Dam	54,237,251	-	54,237,251
Water management planning	-	656,531	656,531
Watershed planning and restoration	-	10,100,843	10,100,843
Recycled water and local supply	-	1,330,365	1,330,365
Water conservation	-	1,994,436	1,994,436
Debt service	-	3,042,844	3,042,844
Capital projects	-	1,908,698	1,908,698
Other purposes	250,000	766,511	1,016,511
Unrestricted (deficit)	<u>(21,372,170)</u>	<u>52,535,839</u>	<u>31,163,669</u>
Total net position	<u>\$ 115,387,773</u>	<u>\$ 233,814,704</u>	<u>\$ 349,202,477</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, 2018**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		Total
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Governmental activities:							
General government	\$ 7,766,110	\$ 1,754,440	\$ 730,480	\$ 227,107	\$ (5,054,083)	\$ -	\$ (5,054,083)
Intergovernmental	14,336,168	11,237,954	-	-	(3,098,214)	-	(3,098,214)
Flood control	14,170,068	113,649	1,142,669	-	(12,913,750)	-	(12,913,750)
Warm Springs Dam	10,822,995	61	686,930	69,206	(10,066,798)	-	(10,066,798)
Interest on long-term debt	2,659,344	-	-	-	(2,659,344)	-	(2,659,344)
Total governmental activities	<u>49,754,685</u>	<u>13,106,104</u>	<u>2,560,079</u>	<u>296,313</u>	<u>(33,792,189)</u>	<u>-</u>	<u>(33,792,189)</u>
Business-type activities:							
Water transmission	32,952,295	40,246,329	422,885	2,750,609	-	10,467,528	10,467,528
Water supply	4,699,307	3,136,365	1,133,744	57,267	-	(371,931)	(371,931)
Sanitation	7,593,186	5,249,866	32,117	(833,087)	-	(3,144,290)	(3,144,290)
Total business-type activities	<u>45,244,788</u>	<u>48,632,560</u>	<u>1,588,746</u>	<u>1,974,789</u>	<u>-</u>	<u>6,951,307</u>	<u>6,951,307</u>
Total primary government	<u>\$ 94,999,473</u>	<u>\$ 61,738,664</u>	<u>\$ 4,148,825</u>	<u>\$ 2,271,102</u>	<u>(33,792,189)</u>	<u>6,951,307</u>	<u>(26,840,882)</u>
General revenues:							
Taxes:							
Property taxes, levied for general purposes					19,095,172	-	19,095,172
Property taxes, levied for debt service and assurances					7,782,313	46,928	7,829,241
Unrestricted investment earnings					1,136,042	815,087	1,951,129
Transfers					(3,143,733)	3,143,733	-
Total general revenues and transfers					<u>24,869,794</u>	<u>4,005,748</u>	<u>28,875,542</u>
Change in net position					(8,922,395)	10,957,055	2,034,660
Net position - beginning of year					148,529,191	222,857,649	371,386,840
Restatement of net position - see Note R					(24,219,023)	-	(24,219,023)
Net position - beginning of year, as restated					<u>124,310,168</u>	<u>222,857,649</u>	<u>347,167,817</u>
Net position - end of year					<u>\$ 115,387,773</u>	<u>\$ 233,814,704</u>	<u>\$ 349,202,477</u>

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

**Sonoma County Water Agency
Balance Sheet
Governmental Funds
June 30, 2018**

	<u>Special Revenue Funds</u>				Total Governmental Funds
	General	Flood Control	Warm Springs Dam	Debt Service	
Assets					
Cash and investments	\$ 16,143,665	\$ 23,521,400	\$ 10,635,407	\$ 45,889,839	\$ 96,190,311
Restricted cash and investments	250,000	-	-	-	250,000
Accounts receivable	609,168	738,160	442,685	-	1,790,013
Prepaid items	225,071	-	1,122	-	226,193
Inventories	18,348	-	-	-	18,348
Due from other funds	170,520	-	-	-	170,520
Advances to other funds	2,816,757	-	-	-	2,816,757
Total assets	<u>\$ 20,233,529</u>	<u>\$ 24,259,560</u>	<u>\$ 11,079,214</u>	<u>\$ 45,889,839</u>	<u>\$ 101,462,142</u>
Liabilities					
Accounts payable	\$ 1,691,952	\$ 752,656	\$ 984,347	\$ -	\$ 3,428,955
Unearned revenue	106,408	917	-	-	107,325
Total liabilities	<u>1,798,360</u>	<u>753,573</u>	<u>984,347</u>	<u>-</u>	<u>3,536,280</u>
Fund balances:					
Nonspendable	3,060,176	-	1,122	-	3,061,298
Restricted	250,000	23,505,987	10,093,745	45,889,839	79,739,571
Assigned	8,708,445	-	-	-	8,708,445
Unassigned	<u>6,416,548</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,416,548</u>
Total fund balances	<u>18,435,169</u>	<u>23,505,987</u>	<u>10,094,867</u>	<u>45,889,839</u>	<u>97,925,862</u>
Total liabilities and fund balances	<u>\$ 20,233,529</u>	<u>\$ 24,259,560</u>	<u>\$ 11,079,214</u>	<u>\$ 45,889,839</u>	<u>\$ 101,462,142</u>

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

Fund balances - total governmental funds	\$ 97,925,862
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds	140,228,556
Deferred outflows of resources are reported in the statement of net position but not reported in the funds	5,619,331
Some liabilities are not due and payable in the current period and therefore are not recorded in the funds:	
Interest payable	(1,747,455)
Compensated absences	(2,289,200)
Net pension liability	(9,689,254)
Other postemployment benefits obligation	(24,082,900)
Pollution remediation obligation	(184,886)
Long-term contracts payable	(81,276,964)
Deferred inflows of resources are reported in the statement of net position but not reported in the funds	(9,115,317)
Net position of governmental activities	<u>\$ 115,387,773</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, 2018

	<u>Special Revenue Funds</u>				<u>Total Governmental Funds</u>
	<u>General</u>	<u>Flood Control</u>	<u>Warm Springs Dam</u>		
Revenues					
Property taxes	\$ 8,950,560	\$ 10,144,613	\$ 7,782,313	\$ -	\$ 26,877,486
Investment earnings	298,972	287,156	164,033	384,881	1,135,042
Intergovernmental	957,587	1,142,669	756,136	-	2,856,392
Charges for services	12,990,576	112,633	61	-	13,103,270
Miscellaneous	1,818	1,016	-	-	2,834
Total revenues	<u>23,199,513</u>	<u>11,688,087</u>	<u>8,702,543</u>	<u>384,881</u>	<u>43,975,024</u>
Expenditures					
Current:					
General government	9,321,669	-	-	-	9,321,669
Intergovernmental	14,336,168	-	-	-	14,336,168
Flood control	-	11,851,261	-	-	11,851,261
Warm Springs Dam	-	-	10,774,266	-	10,774,266
Capital outlay	716,164	66,310	912,404	-	1,694,878
Debt service:					
Principal	-	-	-	3,549,905	3,549,905
Interest and fiscal charges	-	-	-	2,735,667	2,735,667
Total expenditures	<u>24,374,001</u>	<u>11,917,571</u>	<u>11,686,670</u>	<u>6,285,572</u>	<u>54,263,814</u>
Deficiency of revenues under expenditures	(1,174,488)	(229,484)	(2,984,127)	(5,900,691)	(10,288,790)
Other financing uses					
Transfers out	(3,143,733)	-	-	-	(3,143,733)
Total other financing uses	<u>(3,143,733)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,143,733)</u>
Net change in fund balances	(4,318,221)	(229,484)	(2,984,127)	(5,900,691)	(13,432,523)
Fund balances - beginning of year	<u>22,753,390</u>	<u>23,735,471</u>	<u>13,078,994</u>	<u>51,790,530</u>	<u>111,358,385</u>
Fund balances - end of year	<u>\$ 18,435,169</u>	<u>\$ 23,505,987</u>	<u>\$ 10,094,867</u>	<u>\$ 45,889,839</u>	<u>\$ 97,925,862</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, 2018

Net change in fund balances - total governmental funds \$ (13,432,523)

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	1,694,878
Depreciation expense	(1,762,306)

The statement of activities reports gains or losses arising from the sale of capital assets as the difference between the proceeds from sale of capital assets and the book value of the sold capital assets, while the governmental funds report the proceeds from sale of capital assets. The difference is the book value of the sold capital assets. (2,044)

Donations of capital assets to other governments decrease net position in the statement of activities but do not appear in the governmental funds because they are not financial resources. (811,779)

Payment of a long-term payable is an expenditure in the governmental funds, but the repayment reduces the long-term liabilities in the statement of net position. 3,550,906

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	76,322
Change in compensated absences	86,072
Change in accrued net pension liability	735,096
Change in other postemployment benefits obligation	930,241
Change in pollution remediation obligation	12,742

Change in net position of governmental activities \$ (8,922,395)

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

Sonoma County Water Agency
Statement of Net Position
Proprietary Funds
June 30, 2018

Assets	Business-type Activities - Enterprise Funds				
	Water Transmission	Water Supply	Sanitation	Total	Internal Service Funds
Current assets:					
Cash and investments	\$ 43,771,095	\$ 1,075,655	\$ 7,745,858	\$ 52,592,608	\$ 15,026,463
Restricted cash and investments	1,781,966	-	389,276	2,171,242	-
Deposits with others	-	-	-	-	753,746
Due from other funds	-	599,524	-	599,524	48,454
Accounts receivable	6,522,076	1,887,030	135,534	8,544,640	26,003
Prepaid items	17,017	5,203	8,013	30,233	919
Total current assets	<u>52,092,154</u>	<u>3,567,412</u>	<u>8,278,681</u>	<u>63,938,247</u>	<u>15,855,585</u>
Noncurrent assets:					
Restricted cash and investments	6,793,919	-	165,379	6,959,298	-
Reserves on deposit	-	-	-	-	766,511
Capital assets, net					
Land	7,066,430	-	1,621,444	8,687,874	2,336,031
Land improvements	-	1,406,076	-	1,406,076	597,846
Construction in progress	12,981,333	-	403,801	13,385,134	19,530
Intangible assets	5,329,418	170,761	77,913	5,578,092	-
Infrastructure	111,984,329	770,931	16,962,503	129,717,763	-
Buildings and improvements	3,546,474	-	-	3,546,474	35,871,759
Equipment	655,882	100,395	115,741	872,018	4,601,181
Total capital assets	<u>141,563,866</u>	<u>2,448,163</u>	<u>19,181,402</u>	<u>163,193,431</u>	<u>43,426,347</u>
Total noncurrent assets	<u>148,357,785</u>	<u>2,448,163</u>	<u>19,346,781</u>	<u>170,152,729</u>	<u>44,192,858</u>
Total assets	<u>200,449,939</u>	<u>6,015,575</u>	<u>27,625,462</u>	<u>234,090,976</u>	<u>60,048,443</u>
Deferred Outflows of Resources					
Deferred charge on refunding	422,870	-	177,007	599,877	-

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

Sonoma County Water Agency
Statement of Net Position (continued)
Proprietary Funds
June 30, 2018

	<u>Business-type Activities - Enterprise Funds</u>				
	<u>Water Transmission</u>	<u>Water Supply</u>	<u>Sanitation</u>	<u>Total</u>	<u>Internal Service Funds</u>
Liabilities					
Current liabilities payable from unrestricted assets:					
Accounts payable and accrued expenses	1,013,149	151,805	855,897	2,020,851	744,926
Due to other governments	81,346	295,487	-	376,833	-
Interest payable	-	-	-	-	36,089
Unearned revenue	-	196,243	-	196,243	332,421
Advances from other governments	394,113	-	-	394,113	-
Deposits from others	4,230	-	188,832	193,062	-
Capital leases	-	-	-	-	653,266
Due to other funds	-	-	-	-	170,520
Total current liabilities payable from unrestricted assets	<u>1,492,838</u>	<u>643,535</u>	<u>1,044,729</u>	<u>3,181,102</u>	<u>1,937,222</u>
Current liabilities payable from restricted assets:					
Interest payable	556,966	-	19,555	576,521	-
General obligation bonds payable	-	-	26,000	26,000	-
Revenue bonds payable	<u>1,304,953</u>	-	<u>343,722</u>	<u>1,648,675</u>	-
Total current liabilities payable from restricted assets	<u>1,861,919</u>	-	<u>389,277</u>	<u>2,251,196</u>	-
Total current liabilities	<u>3,354,757</u>	<u>643,535</u>	<u>1,434,006</u>	<u>5,432,298</u>	<u>1,937,222</u>
Noncurrent liabilities:					
Unearned revenue	-	4,121,104	-	4,121,104	-
Advances from other governments	8,627,366	-	-	8,627,366	-
Capital leases	-	-	-	-	2,514,659
General obligation bonds payable	-	-	27,000	27,000	-
Revenue bonds payable	32,434,858	-	3,013,328	35,448,186	-
Advances from other funds	-	-	600,000	600,000	2,216,757
Total noncurrent liabilities	<u>41,062,224</u>	<u>4,121,104</u>	<u>3,640,328</u>	<u>48,823,656</u>	<u>4,731,416</u>
Total liabilities	<u>44,416,981</u>	<u>4,764,639</u>	<u>5,074,334</u>	<u>54,255,954</u>	<u>6,668,638</u>
Net Position					
Net investment in capital assets	102,823,693	2,448,163	15,948,359	121,220,215	40,258,422
Restricted for:					
Water management planning	656,531	-	-	656,531	-
Watershed planning and restoration	10,100,843	-	-	10,100,843	-
Recycled water and local supply	1,330,365	-	-	1,330,365	-
Water conservation	1,766,123	-	228,313	1,994,436	-
Reserves on deposit	-	-	-	-	766,511
Debt service	2,507,744	-	535,100	3,042,844	-
Capital projects	1,908,698	-	-	1,908,698	-
Unrestricted (deficit)	<u>35,361,831</u>	<u>(1,197,227)</u>	<u>6,016,363</u>	<u>40,180,967</u>	<u>12,354,872</u>
Total net position	<u>\$ 156,455,828</u>	<u>\$ 1,250,936</u>	<u>\$ 22,728,135</u>	<u>180,434,899</u>	<u>\$ 53,379,805</u>
Adjustment to reflect the net position of the internal service funds reported as business-type activities				<u>53,379,805</u>	
Net position of business-type activities				<u>\$ 233,814,704</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, 2018

Business-type Activities - Enterprise Funds					
	Water Transmission	Water Supply	Sanitation	Total	Internal Service Funds
Operating Revenue					
Water sales	\$ 39,778,515	\$ 2,772,590	\$ -	\$ 42,551,105	\$ -
Water services	23,820	-	-	23,820	-
Power sales	144,524	-	-	144,524	4,829,384
Flat charges	-	-	4,834,622	4,834,622	-
Sanitation services	-	-	249,437	249,437	-
Equipment rental	-	-	-	-	2,762,502
Real estate rental	-	-	-	-	2,876,600
Miscellaneous	299,470	363,775	8,992	672,237	13,162
Total operating revenue	<u>40,246,329</u>	<u>3,136,365</u>	<u>5,093,051</u>	<u>48,475,745</u>	<u>10,481,648</u>
Operating Expenses					
Services and supplies	28,676,002	3,400,344	6,320,344	38,396,690	7,123,806
Depreciation and amortization	6,513,729	222,601	1,162,522	7,898,852	2,226,388
Total operating expenses	<u>35,189,731</u>	<u>3,622,945</u>	<u>7,482,866</u>	<u>46,295,542</u>	<u>9,350,194</u>
Operating Income (Loss)	<u>5,056,598</u>	<u>(486,580)</u>	<u>(2,389,815)</u>	<u>2,180,203</u>	<u>1,131,454</u>
Nonoperating Revenues (Expenses)					
Taxes and assessments	-	-	46,928	46,928	-
Investment earnings	590,128	19,801	77,718	687,647	127,440
Interest expense and debt issuance cost	(814,735)	-	(94,663)	(909,398)	(168,372)
Gain (loss) on disposal of capital assets	(8,591)	-	(521,244)	(529,835)	2,758,448
Real estate rental	-	-	156,812	156,812	-
Offset to connection fees - see Note S	-	-	(913,932)	(913,932)	-
Conservation program	-	-	(9,459)	(9,459)	-
Intergovernmental revenue	422,885	1,133,744	32,117	1,588,746	-
Grant pass-through	(121,268)	(1,100,087)	-	(1,221,355)	-
Total nonoperating revenue (expenses), net	<u>68,419</u>	<u>53,458</u>	<u>(1,225,723)</u>	<u>(1,103,846)</u>	<u>2,717,516</u>
Income (loss) before capital contributions and transfers	5,125,017	(433,122)	(3,615,538)	1,076,357	3,848,970
Capital contributions - connection fees	-	-	50,102	50,102	-
Capital contributions	2,750,000	57,261	30,632	2,837,893	-
Transfers in	-	1,400,000	1,295,000	2,695,000	448,733
Change in net position	7,875,017	1,024,139	(2,239,804)	6,659,352	4,297,703
Net position - beginning of year	<u>148,580,811</u>	<u>226,797</u>	<u>24,967,939</u>		<u>49,082,102</u>
Net position - end of year	<u>\$ 156,455,828</u>	<u>\$ 1,250,936</u>	<u>\$ 22,728,135</u>		<u>\$ 53,379,805</u>
Adjustment to reflect the change in net position of internal service funds reported as business-type activities				<u>4,297,703</u>	
Change in net position of business-type activities				<u>\$ 10,957,055</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, 2018

	Business-type Activities - Enterprise Funds				
	Water				Internal
	Transmission	Water Supply	Sanitation	Total	Service Funds
Cash flows from operating activities:					
Cash receipts from customers	\$ 39,597,243	\$ 1,753,894	\$ 5,471,519	\$ 46,822,656	\$ -
Cash receipts from interfund services provided	-	-	-	-	10,433,195
Cash payments for interfund services used	(18,610,173)	(1,757,115)	(3,166,483)	(23,533,771)	(2,010,032)
Cash payments to suppliers	(9,768,525)	(1,647,947)	(2,367,781)	(13,784,253)	(4,248,687)
Net cash provided by (used for) operating activities	<u>11,218,545</u>	<u>(1,651,168)</u>	<u>(62,745)</u>	<u>9,504,632</u>	<u>4,174,476</u>
Cash flows from noncapital financing activities:					
Taxes and assessments	-	-	46,927	46,927	-
Transfers in	-	1,400,000	1,295,000	2,695,000	-
Other expenses - grant pass through	(121,268)	(3,104,788)	-	(3,226,056)	-
Intergovernmental receipts	544,594	3,151,346	43,726	3,739,666	-
Real estate rental	-	-	156,812	156,812	-
Conservation program	-	-	(9,459)	(9,459)	-
Net cash provided by noncapital financing activities	<u>423,326</u>	<u>1,446,558</u>	<u>1,533,006</u>	<u>3,402,890</u>	<u>-</u>
Cash flows from capital and related financing activities:					
Purchase of capital assets	(5,991,557)	(71,799)	(140,194)	(6,203,550)	(693,258)
Principal paid on general obligation and revenue bonds	(1,195,000)	-	(374,306)	(1,569,306)	-
Principal paid on capital leases	-	-	-	-	(626,527)
Principal paid on interfund borrowing	-	-	-	-	(170,520)
Principal paid on advances from other governments	(776,805)	-	-	(776,805)	-
Interest paid on long-term debt	(1,401,377)	-	(85,983)	(1,487,360)	(191,625)
Interfund loans	-	-	600,000	600,000	-
Proceeds from sale of capital assets	-	-	-	-	4,326,802
Connection fees	-	-	793,555	793,555	-
Capital contributions - intergovernmental	2,921,848	8,736	10,807	2,941,391	-
Transfers in	-	-	-	-	448,733
Net cash provided by (used for) capital and related financing activities	<u>(6,442,891)</u>	<u>(63,063)</u>	<u>803,879</u>	<u>(5,702,075)</u>	<u>3,093,605</u>
Cash flows from investing activities:					
Interest received	590,128	19,801	77,718	687,647	127,439
Net cash provided by investing activities	<u>590,128</u>	<u>19,801</u>	<u>77,718</u>	<u>687,647</u>	<u>127,439</u>
Net increase (decrease) in cash and cash equivalents	5,789,108	(247,872)	2,351,858	7,893,094	7,395,520
Cash and cash equivalents - beginning of year	<u>46,557,872</u>	<u>1,323,527</u>	<u>5,948,655</u>	<u>53,830,054</u>	<u>7,630,943</u>
Cash and cash equivalents - end of year	<u>\$ 52,346,980</u>	<u>\$ 1,075,655</u>	<u>\$ 8,300,513</u>	<u>\$ 61,723,148</u>	<u>\$ 15,026,463</u>
Reconciliation to the statement of net position:					
Cash and investments	\$ 43,771,095	\$ 1,075,655	\$ 7,745,858	\$ 52,592,608	\$ 15,026,463
Restricted cash and investments	8,575,885	-	554,655	9,130,540	-
Cash and cash equivalents	<u>\$ 52,346,980</u>	<u>\$ 1,075,655</u>	<u>\$ 8,300,513</u>	<u>\$ 61,723,148</u>	<u>\$ 15,026,463</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	\$ 5,056,598	\$ (486,580)	\$ (2,389,815)	\$ 2,180,203	\$ 1,131,454
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation and amortization	6,513,729	222,601	1,162,522	7,898,852	2,226,388
Change in assets and liabilities:					
Accounts receivable	(503,238)	(561,704)	378,466	(686,476)	-
Deposits from others	-	-	188,832	188,832	-
Due from other funds	-	(599,524)	-	(599,524)	(48,454)
Other long-term assets	-	-	-	-	(6,465)
Prepaid items	548	1,007	206,484	208,039	772,637
Unearned revenue	(145,847)	(221,243)	-	(367,090)	-
Accounts payable and accrued expenses	296,755	(5,725)	390,766	681,796	98,916
Net cash provided by (used for) operating activities	<u>\$ 11,218,545</u>	<u>\$ (1,651,168)</u>	<u>\$ (62,745)</u>	<u>\$ 9,504,632</u>	<u>\$ 4,174,476</u>
Noncash investing, capital, or financing activities:					
Acquisition of capital assets through current liabilities	\$ (421,129)	\$ (14,538)	\$ -	\$ (435,667)	\$ 38,908
Loss on disposal of capital assets	(8,591)	-	(521,244)	(529,835)	(163,397)
Capital contributions receivable	171,847	(48,525)	(19,825)	103,497	-
Grants receivable	121,708	2,017,601	11,609	2,150,918	-

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, 2018

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.

Notes to the Financial Statements

Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

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. Summary of Significant Accounting Policies
- Note B. Stewardship, Compliance and Accountability
- Note C. Cash and Investments
- Note D. Accounts Receivable
- Note E. Capital Assets
- Note F. Unearned Revenue
- Note G. Inter-fund Transactions
- Note H. Long-Term Obligations
- Note I. Pollution Remediation Obligation
- Note J. Employees' Retirement Plan
- Note K. Other Postemployment Benefits (OPEB)
- Note L. Deferred Compensation Plans
- Note M. Related Party Transactions
- Note N. Risk Management
- Note O. Commitments and Contingencies
- Note P. Economic Dependence
- Note Q. Future Governmental Accounting Standards
- Note R. Beginning Net Position Adjustment
- Note S. Change in Accounting Estimate

Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note A. Summary of Significant Accounting Policies

Defining the Financial Reporting Entity

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

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

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

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 non-fiduciary activities. The effect of inter-fund 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.

The Water Agency uses funds to maintain control over resources segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The Water Agency's funds are categorized in three types: governmental funds, proprietary funds, and fiduciary funds.

Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note A. Summary of Significant Accounting Policies (continued)

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 in 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. 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 when measurable and available. Interest income, certain state and federal grants, and charges for services are considered available if received within three hundred sixty-five days of the end of the current fiscal year. Property taxes which are considered available if collected within 60 days of the end of the fiscal year. Permits and fines are recorded as revenue when received because they are generally not measurable until received. 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.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses result from exchange transactions associated with the principal ongoing activity of the fund. All revenues and expenses not meeting this definition, such as operating grants, investment earnings, and interest expense, are reported as non-operating items. Exchange transactions are those in which each party receives and gives up essentially equal value. Non-operating revenues, such as operating grants, subsidies, and investment earnings, result from non-exchange transactions or ancillary activities.

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

Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note A. Summary of Significant Accounting Policies (continued)

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

The Water Agency's funds are divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds: Governmental funds account for the functions reported as governmental activities in the government-wide statements. The Water Agency reports three types of governmental funds: the General Fund, special revenue funds, and the Debt Service Fund.

General Fund: This fund is established to account for resources devoted to financing the general services performed by the Water Agency. 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. The major funds in this category are Flood Control and Warm Springs Dam.

Flood Control: This fund is established to account for the resources that are legally restricted to expenditures related to flood control. Revenues are primarily derived from property taxes and grants. 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 revenues, primarily property taxes and grants, restricted for the operation and maintenance of the Warm Springs Dam.

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 funds: These funds account for operations that are organized to be self-supporting through user charges. The Water Agency reports two categories of proprietary funds, enterprise funds and internal service funds.

Enterprise Funds: These funds are used to account and report for activities for which a fee is charged to external users for a good or service. The major funds in this category are Water Transmission, Water Supply, and Sanitation.

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018**

Note A. Summary of Significant Accounting Policies (continued)

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

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.

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.

Fiduciary Funds: These funds are used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the Water Agency's own programs. The Water Agency maintains one fund in this category, the Agency Fund.

Agency Fund: 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.

Cash and Investments

In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and External Investment Pools" and GASB Statement No. 72, "Fair Value Measurement and Application", investments are stated at fair value in the statement of net position and balance sheet and the corresponding changes in the fair value of investments are recognized in the year in which the change occurred. The Water Agency follows the practice of pooling cash and investments of all funds with the County Treasurer except for certain restricted funds held by outside custodians, funds held by a trustee or funds in dedicated investments for the benefit of an individual pool participant.

Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note A. Summary of Significant Accounting Policies (continued)

Cash and Investments (continued)

The fair value of investments is determined annually. Interest earned on pooled investments is allocated quarterly to the appropriate funds based on their respective average daily balance for that quarter.

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

Accounts Receivable

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

Restricted Assets and Reserves on Deposit

Restricted assets in the enterprise funds include cash and investments in the Water Transmission and Sanitation funds that are restricted for debt service and capital projects pursuant to various bond covenants. In addition, the Power Resources internal service fund records a restricted asset related to reserves on deposit held by a power pooling authority according to the terms of a Power Aggregation Services Agreement.

Capital Assets

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

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

Depreciation and amortization are recognized using the straight-line method over the estimated useful life of the asset.

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018**

Note A. Summary of Significant Accounting Policies (continued)

Capital Assets (continued)

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

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

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 if the debt is tax-exempt and project-specific.

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 amount of the related debt and unamortized bond premiums increase the carrying amount of the related debt.

Deferred outflows/inflows of resources

In addition to assets, the statement of net position reports deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future periods.

Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note A. Summary of Significant Accounting Policies (continued)

Deferred outflows/inflows of resources (continued)

In addition to liabilities, the statement of net position reports deferred inflows of resources. Deferred inflows of resource represent an acquisition of net position that applies to future periods.

Unearned Revenue

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

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.

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

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources, deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position of the County's Pension Plan (CPP) and additions to/deductions from CPP's fiduciary net position have been determined on the same basis as they are reported by CPP. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other Postemployment Benefits

For purposes of measuring the net other postemployment benefit (OPEB) liability, deferred outflows of resources, deferred inflows of resources related to OPEB, OPEB expense, information about the fiduciary net position of the County's OPEB Plan and additions to/deductions from the County's OPEB Plan fiduciary net position have been determined on the same basis as they are reported by the OPEB Plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note A. Summary of Significant Accounting Policies (continued)

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.

The Water Agency recognizes property tax revenue in the period for which the taxes are levied. Liens on real property are established January 1 for the ensuing fiscal year. 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.

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018**

Note A. Summary of Significant Accounting Policies (continued)

Net Position and Fund Balance (continued)

Governmental Fund Financial Statements

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

Nonspendable Fund Balance – Amounts that cannot be spent because they are not in spendable form or are legally and contractually required to be maintained intact. This balance includes the long-term portion of advances, inventories, and prepaid expenses.

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

Committed Fund Balance – Amounts that can only be used for specific purposes pursuant to constraints imposed by ordinance or resolution by the entity’s “highest level of decision-making authority,” the Board of Directors. 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, 2018.

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, or fund balance deficits in other funds, that have no restrictions placed upon them. Unassigned fund balance is available for any purpose.

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018**

Note A. Summary of Significant Accounting Policies (continued)

Net Position and Fund Balance (continued)

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

	Special Revenue				Total
	General Fund	Flood Control	Warm Springs Dam	Debt Service	
Nonspendable					
Advances	\$ 2,816,757	\$ -	\$ -	\$ -	\$ 2,816,757
Prepaid items	225,071	-	1,122	-	226,193
Inventories	18,348	-	-	-	18,348
Restricted					
General government	250,000	-	-	-	250,000
Flood control	-	23,505,987	-	-	23,505,987
Warm Springs Dam	-	-	10,093,745	45,889,839	55,983,584
Assigned					
General government	4,245,230	-	-	-	4,245,230
Spring Lake Park	2,777,091	-	-	-	2,777,091
Water/wastewater loan	606,945	-	-	-	606,945
Energy & sustainability	1,079,179	-	-	-	1,079,179
Unassigned	6,416,548	-	-	-	6,416,548
Total	\$ 18,435,169	\$ 23,505,987	\$ 10,094,867	\$ 45,889,839	\$ 97,925,862

Encumbrances

Encumbrance accounting is employed as an extension of the budgetary process. Under encumbrance accounting, purchase orders, contracts and other commitments for the expenditure of funds are recorded to reserve that portion of the applicable appropriation. In governmental funds, encumbrances outstanding at year-end for which resources have been restricted, committed, or assigned will be included within those classifications. Encumbrances outstanding for which resources have not been previously restricted, committed, or assigned will be included within restricted, committed, or assigned fund balance based on the source of the constraint.

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018**

Note A. Summary of Significant Accounting Policies (continued)

Inter-fund Transactions

Inter-fund services provided and used are 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. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other inter-fund transactions are reported as transfers. For additional information about inter-fund transactions, refer to Note G.

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 Non-exchange 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, 2018 is \$4,125,504. This amount is included in unrestricted net position.

Estimates

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

Note B. Stewardship, Compliance and Accountability

Budget and Budgetary Accounting

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

Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note C. 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. The list below does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements, rather than the provisions of the County's investment policy. 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)
- Obligations issued or unconditionally guaranteed by the international bank for reconstruction and development, international finance corporation, or inter-American development bank.

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.

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018**

Note C. Cash and Investments (continued)

Financial Statement Presentation

Cash and investments as of June 30, 2018 are classified in the accompanying financial statements as follows:

Statement of net position:

Cash and investments	\$ 163,809,382
Cash and investments - guarantees	250,000
Cash and investments - restricted for debt service and capital projects	9,130,540
Fiduciary funds:	
Cash and investments	14,100
Total cash and investments	\$ 173,204,022

Cash and investments as of June 30, 2018 consist of the following:

County treasury pooled cash and investments:

Unrestricted	\$ 135,745,248
Cash and investments - guarantees	250,000
Cash and investments - restricted for debt service and capital projects	4,842,424

Nonpooled cash and investments:

Cash on hand	750
Restricted cash with trustee	2,770,267
Investments - US Treasury STRIPS	17,265,402
Investments - SCEIP Bonds	10,807,912
Money market mutual funds restricted for revenue bonds	1,522,019
Total cash and investments	\$ 173,204,022

As of June 30, 2018, the Water Agency reported \$140,837,672 in the Treasury Pool. The Treasury Pool is not rated by the credit rating agencies. Refer to the County's June 30, 2018 Comprehensive Annual Financial Report (the last currently available) for interest rate risk, credit rating, custodial credit risk, concentration of credit risk, credit risk, and fair value measure disclosures regarding specific investments in the Treasury Pool.

The Water Agency reported \$17,265,402 of nonpooled cash and investments in U.S. Treasury STRIPS, which represent funds that are to be used for the operation, maintenance, and debt service for Warm Springs Dam.

The Water Agency has invested \$10,807,912 in the Sonoma County Energy Independence Program (SCEIP) by purchasing 20-year bonds. SCEIP advances funds to eligible property owners in Sonoma County towards energy improvement projects.

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018**

Note C. Cash and Investments (continued)

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. The County Treasurer manages exposure to interest rate risk 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 evenly over time as necessary to provide the cash flow and liquidity needed for operations.

As of June 30, 2018, approximately 50.17 percent of the securities in the Treasury Pool had maturities of one year or less. Of the remainder, less than 1 percent had a maturity of more than five years. The weighted average days to maturity was 533 days.

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 (1)	\$ 140,837,672	\$ -	\$ 140,837,672	\$ -	\$ -
U.S. Treasury STRIPS	17,265,402	-	5,925,213	11,340,189	-
SCEIP Bonds	10,807,912	341,178	383,488	1,322,269	8,760,977
Money market mutual fund	1,522,019	1,522,019	-	-	-
Total	\$ 170,433,005	\$ 1,863,197	\$ 147,146,373	\$ 12,662,458	\$ 8,760,977

(1) The table presents the Water Agency's portion of pooled cash based on the weighted average months to maturity of all pooled investments.

Custodial Credit Risk

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. Indirect investment such as the Treasury Pool and money market mutual funds are not subject to custodial credit risk. The California Government Code and the County's investment policy do not contain legal or policy requirements that would limit the Water Agency's exposure to custodial credit risk.

The Water Agency is subject to custodial credit risk though its investments in SCEIP bonds (\$10,807,912) and U.S. Treasury STRIPS (\$17,265,402) held by the County of Sonoma Treasurer on behalf of the Water Agency. SCEIP bonds are contractual assessment revenue bonds registered in the name of the Sonoma County Public Financing Authority. U.S. Treasury Strips are zero-coupon bonds backed by the U.S. government.

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018**

Note C. Cash and Investments (continued)

Concentration of Credit Risk

A Board Resolution authorized the Water Agency to invest up to \$15,000,000 in SCEIP bonds. The investment policy of the Water Agency contains no other limitations on the amount that can be invested in any one issuer beyond that stipulated by California Government Code. Investments in any one issuer (other than U.S. Treasury securities, mutual funds or external investment pools) that represent 5% or more of total Water Agency investments are as follows:

Investment Type	Amount	Percentage Holdings
SCEIP Bonds	\$ 10,807,912	6.3%

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 of purchasing investments meeting ratings requirements established by the California Government Code. Presented below is the minimum rating required by (where applicable) the California Government Code, the County's investment policy, or debt agreements, and the actual rating as of year-end for each investment type.

Investment Type	Minimum Legal Rating	Total	Exempt from Disclosure	Rating at year-end	
				AAAm	Not Rated
County treasury pool	N/A	\$ 140,837,672	\$ -	\$ -	\$ 140,837,672
U.S. Treasury STRIPS	N/A	17,265,402	17,265,402	-	-
SCEIP Bonds	N/A	10,807,912	-	-	10,807,912
Money market mutual fund	AAAm	1,522,019	-	1,522,019	-
Total		\$ 170,433,005	\$ 17,265,402	\$ 1,522,019	\$ 151,645,584

Fair Value Measurements

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

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018**

Note C. Cash and Investments (continued)

Fair Value Measurements (continued)

The Water Agency has the following recurring fair value measurements as of June 30, 2018:

- U.S. Treasury Strips are valued using quoted prices in active markets for identical assets (Level 1).
- SCEIP bonds are valued using the discounted cash flow approach (Level 3).

Investment Type	Amount	Fair Value Measuring Using		
		Level 1	Level 2	Level 3
U.S. Treasury STRIPS	\$ 17,265,402	\$ 17,265,402	\$ -	\$ -
SCEIP Bonds	10,807,912	-	-	10,807,912
Total	\$ 28,073,314	\$ 17,265,402	\$ -	\$ 10,807,912

Note D. Accounts Receivable

Accounts receivable as of June 30, 2018 consists of the following:

	Accounts Receivable	Inter- governmental	Total
Governmental Activities:			
General Fund	\$ 152,633	\$ 456,535	\$ 609,168
Flood Control special revenue fund	6,795	731,365	738,160
Warm Springs Dam special revenue	-	442,685	442,685
Total Governmental Activities	\$ 159,428	\$ 1,630,585	\$ 1,790,013
Business-type Activities:			
Water Transmission enterprise fund	\$ 6,182,244	\$ 339,832	\$ 6,522,076
Water Supply enterprise fund	1,523,430	363,600	1,887,030
Sanitation enterprise fund	112,713	22,821	135,534
Internal service fund	-	26,003	26,003
Total Business-Type Activities	\$ 7,818,387	\$ 752,256	\$ 8,570,643

Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note E. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2018 was as follows:

	July 1, 2017	Increases	Decreases	Transfers & Reclassification	June 30, 2018
<i>Governmental activities:</i>					
Capital assets, not being depreciated/amortized:					
Land	\$ 1,582,223	\$ -	\$ -	\$ -	\$ 1,582,223
Construction in progress	827,073	4,808	(811,779)	-	20,102
Intangible assets:					
Intangible work in progress	1,850,726	1,194,216	(2,044)	(26,118)	3,016,780
Water storage rights	102,371,000	-	-	-	102,371,000
Permanent easements	46,441	-	-	-	46,441
Total capital assets not being depreciated/amortized	106,677,463	1,199,024	(813,823)	(26,118)	107,036,546
Capital assets, being depreciated:					
Infrastructure	64,834,097	-	-	-	64,834,097
Buildings and improvements	3,737,864	-	-	-	3,737,864
Land improvements	183,457	-	-	-	183,457
Intangible assets - easements	620,756	-	-	26,118	646,874
Equipment	1,319,177	495,852	(68,863)	-	1,746,166
Total capital assets being depreciated	70,695,351	495,852	(68,863)	26,118	71,148,458
Less accumulated depreciation for:					
Infrastructure	(33,133,167)	(1,504,566)	-	-	(34,637,733)
Buildings and improvements	(2,143,607)	(84,547)	-	-	(2,228,154)
Land improvements	(19,365)	(12,231)	-	-	(31,596)
Intangible assets	(60,340)	(29,367)	-	-	(89,707)
Equipment	(906,526)	(131,595)	68,863	-	(969,258)
Total accumulated depreciation	(36,263,005)	(1,762,306)	68,863	-	(37,956,448)
Total capital assets, being depreciated, net	34,432,346	(1,266,454)	-	26,118	33,192,010
Total capital assets, net	\$ 141,109,809	\$ (67,430)	\$ (813,823)	\$ -	\$ 140,228,556

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018**

Note E. Capital Assets (continued)

	July 1, 2017	Increases	Decreases	Transfers & Reclassification	June 30, 2018
<i>Business-type activities</i>					
Capital assets, not being depreciated/amortized:					
Land	\$ 11,023,905	\$ -	\$ -	\$ -	\$ 11,023,905
Construction in progress	19,369,285	3,384,412	(678,904)	(9,211,321)	12,863,472
Intangible assets:					
Intangible work in progress	419,725	345,534	-	(224,067)	541,192
Water storage rights	4,996,395	-	-	-	4,996,395
Permanent easements	144,934	-	-	155,418	300,352
Total capital assets not being depreciated/amortized	35,954,244	3,729,946	(678,904)	(9,279,970)	29,725,316
Capital assets, being depreciated:					
Infrastructure	244,969,682	2,750,000	-	8,487,583	256,207,265
Buildings and improvements	51,960,218	-	-	723,738	52,683,956
Land improvements	4,179,078	-	-	-	4,179,078
Intangible assets - software	1,727,177	-	-	68,649	1,795,826
Equipment	12,766,488	692,425	(574,671)	-	12,884,242
Total capital assets being depreciated	315,602,643	3,442,425	(574,671)	9,279,970	327,750,367
Less accumulated depreciation for:					
Infrastructure	(119,237,597)	(7,251,905)	-	-	(126,489,502)
Buildings and improvements	(11,717,602)	(1,548,121)	-	-	(13,265,723)
Land improvements	(1,988,694)	(186,462)	-	-	(2,175,156)
Intangible assets - software	(1,239,089)	(275,392)	-	-	(1,514,481)
Equipment	(7,089,353)	(863,360)	541,670	-	(7,411,043)
Total accumulated depreciation	(141,272,335)	(10,125,240)	541,670	-	(150,855,905)
Total capital assets, being depreciated, net	174,330,308	(6,682,815)	(33,001)	9,279,970	176,894,462
Total capital assets, net	\$ 210,284,552	\$ (2,952,869)	\$ (711,905)	\$ -	\$ 206,619,778

The total amount of interest capitalized into capital assets of business-type activities during the fiscal year ended June 30, 2018 was \$543,389.

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018**

Note E. Capital Assets (continued)

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

Governmental activities:

General government	\$ 195,852
Flood control	1,517,725
Warm Springs dam	48,729
Total depreciation expense - governmental activities	\$ 1,762,306

Business-type activities:

Water Transmission	\$ 6,513,729
Water Supply	222,601
Sanitation	1,162,522
Internal Service Funds	2,226,388
Total depreciation expense - business type activities	\$ 10,125,240

Intangible Asset – Warm Springs Dam Project

The Warm Springs Dam project was authorized by the Flood Control Act of 1962. 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 governmental activities (refer to Note H).

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 entitles the Water Agency to permanent water storage rights.

Note F. Unearned Revenue

On June 30, 2005 the Water Agency received a lump sum payment of \$6,326,257 under a supplemental water supply agreement with the Marin Municipal Water District (MMWD), dated January 25, 1996. This amount was deferred and is being recognized on a straight-line basis. In addition, the Water Agency has received advance funding related to various agreements for services.

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018**

Note F. Unearned Revenue (continued)

As of June 30, 2018, the Water Agency reports the following unearned revenue balances:

Governmental Activities:

Camping reservation fees for Spring Lake Park	\$	75,850
Development and plan review fees		30,558
Cooperative agreement for lease of property for livestock grazing		917
Total Governmental Activities	\$	107,325

Business-Type Activities

Lump-sum payment under the MMWD supplemental water supply agreement	\$	4,317,347
Funding for conforming Public Purpose Program energy projects		332,421
Total Business-Type Activities	\$	4,649,768

Note G. Inter-fund Transactions

A summary of inter-fund activity as of and for the fiscal year ended June 30, 2018 is as follows:

Interfund transfers

Transfer from	Transfer to	Amount	Purpose
General Fund	Internal Service Fund	\$ 448,733	Funding for new equipment purchases
General Fund	Water Supply Fund	1,400,000	Funding for water supply projects
General Fund	Sanitation Fund	1,295,000	Funding for Sanitation System Reinvestment Projects in the Geyserville & Airport-Larkfield-Wikiup Sanitation Zones
Total interfund transfers		\$ 3,143,733	

Advances from Other Funds

The Water Agency entered into a Memorandum of Agreement (MOA) 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 drew \$2,771,474 from the General Fund over an eight year period under the terms of the MOA. Accrued interest of \$127,362 was added to the principal balance. Repayment began in the fiscal year ending June 30, 2016 and will continue until 2032. Interest accrues at the County's pooled investment rate of return. The remaining balance as of June 30, 2018 was \$2,387,277 with a current portion of \$170,520.

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018**

Note G. Inter-fund Transactions (continued)

Advances from Other Funds (continued)

On June 30, 2018, the Water Agency entered into a MOA between the General Fund and Airport-Larkfield-Wikiup sanitation zone to fund the design phase of the Larkfield Estates sewer system. Many homes in the Airport-Larkfield-Wikiup sanitation zone that had been connected to septic systems were destroyed as a result of the northern California wildfires in October 2017. The Water Agency has proposed to construct a sewer system expansion for property owners in the fire-impacted areas.

The General Fund loaned the Airport-Larkfield-Wikiup sanitation zone \$600,000 for design costs of the new sewer system. The loan term is 30 years and will include a ten year grace period during which no payments would be required and no deferred interest added to the principal of the loan. Repayment begins ten years after notice of completion is filed.

Note H. Long-Term Obligations

Governmental Activities

Long-Term Contract Payable:

	Maturity Date	Interest Rates	Authorized & Issued	Outstanding June 30, 2018
1986 Federal contract payable	2034	3.225%	\$ 102,371,000	\$ 81,276,964

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

Compensated Absences:

As of June 30, 2018, vested vacation leave for Water Agency employees was \$2,289,200. There were no compensated absences that were considered due or matured. Compensated absences are generally liquidated by the General Fund.

Net Pension Liability:

As of June 30, 2018, the Water Agency reported \$9,689,254 in net pension liability. Additional information about net pension liability can be found in Note J. Net pension liability is generally liquidated by the General Fund.

Other Postemployment Benefits Obligation:

As of June 30, 2018, the Water Agency reported \$24,082,900 in other postemployment benefits obligation. Additional information about other postemployment benefits can be found in Note K.

Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note H. Long-Term Obligations (continued)

Business-type Activities

General Obligation Bonds Payable:	Maturity Date	Interest Rates	Authorized & Issued	Outstanding June 30, 2018
<u>Sanitation Zones</u>				
1980 Geyserville	2020	5.00%	\$ 500,000	\$ 53,000
Total general obligation bonds payable				\$ 53,000

Capital Leases:	Maturity Date	Interest Rates	Authorized & Issued	Outstanding June 30, 2018
Capital lease - SunTrust	2020	4.08%	\$ 2,750,000	\$ 587,315
Capital lease - City National Bank	2023	4.30%	5,835,000	2,580,610
Total capital leases				\$ 3,167,925

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 were initially recorded at the present value of the future minimum lease payments at the inception of the lease.

In 2006 the Agency signed a lease with Capital LLC for the acquisition of solar paneling. This lease was assigned to SunTrust and matures in 2020. In 2008 the Agency financed the purchase and improvements of an office/warehouse facility on Airport Boulevard with a capital lease from Municipal Finance Corporation. This lease has been assigned to City National Bank and matures in 2023.

The assets acquired under current capital leases consist of the following as of June 30, 2018:

Buildings and improvements	\$ 16,894,345
Less: accumulated depreciation	(3,400,827)
Total	\$ 13,493,518

Water Revenue Bonds Payable:	Maturity Date	Interest Rates	Authorized & Issued	Outstanding June 30, 2018
Water revenue bonds, 2015, series A and AT	2040	2.3 - 5.2%	\$ 23,865,000	\$ 22,495,000
Add: deferred amount for unamortized premium				914,798
Water revenue bonds, 2012, series A	2032	0.30-5.00%	\$ 12,265,000	9,865,000
Add: deferred amount for unamortized premium				465,013
Total water revenue bonds payable, net				\$ 33,739,811

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018**

Note H. Long-Term Obligations (continued)

Business-type Activities (continued)

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

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

The remaining income pledged by the Water Agency through the fiscal year ending June 30, 2041 consists of the outstanding principal of \$32,360,000 and total scheduled interest payments of \$11,577,333. Principal and interest paid for the fiscal year ended June 30, 2018 totaled \$2,328,159.

Water and Wastewater Revenue Bonds Payable:

	Maturity Date	Interest Rates	Authorized & Issued	Outstanding June 30, 2018
Sonoma County Water & Wastewater Financing Authority 2017 Bonds	2027	2.33%	\$ 3,690,356	\$ 3,357,050
Total water and wastewater revenue bonds payable				\$ 3,357,050

On April 4, 2017 the Sonoma County Water and Wastewater Financing Authority issued \$3,690,356 in Water and Wastewater Revenue Bonds (the 2017 Bonds) as conduit debt on behalf of the Water Agency. The bond proceeds were used to refund and defease the remaining balance (\$3,605,000) of the 2005C revenue bonds and pay the costs of issuance of the 2017 bonds.

The 2017 Bonds are payable solely from the net revenues of the Airport-Larkfield-Wikiup sanitation zone and amounts on deposit in the related funds and accounts. Neither the full faith and credit nor the taxing power of the Water Agency is pledged to the payment of the principal or interest of the 2017 Bonds.

The 2017 Bonds mature on October 1, 2026. Principal payments are due on October 1 of each year. Interest payments are due on October 1 and April 1 of each year. The interest rate is 2.33%.

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018**

Note H. Long-Term Obligations (continued)

Business-type Activities (continued)

During the year ended June 30, 2018, principal and interest paid on the Water and Wastewater Revenue Bonds totaled \$414,691.

The State of California Department of Water Resources advanced the Water Agency \$15,857,295 to finance a collector well. The remaining income pledged by the Water Agency through the fiscal year ending June 30, 2028 related to this advance consists of the outstanding principal of \$9,021,479 and total scheduled interest payments of \$1,381,102. During the year ended June 30, 2018, principal and interest paid on the advance totaled \$1,040,232.

Advances from Other Governments:

	Maturity Date	Interest Rates	Authorized & Issued	Outstanding June 30, 2018
State Revolving Fund	2028	2.79%	\$ 15,857,295	\$ 9,021,479
Total advances from other governments				\$ 9,021,479

Changes in Long-Term Obligations

A summary of changes in long-term obligations for the fiscal year ended June 30, 2018 is as follows:

	July 1, 2017	Additions/ Adjustments	Retirements	June 30, 2018	Amounts Due Within One Year
Governmental activities:					
Long-term contracts payable	\$ 84,827,870	\$ -	\$ (3,550,906)	\$ 81,276,964	\$ 3,664,389
Net pension liability	23,601,397	(13,912,143)	-	9,689,254	-
Other postemployment benefits - as restated	26,233,147	(2,150,247)	-	24,082,900	-
Compensated absences	2,375,273	2,133,280	(2,219,353)	2,289,200	2,289,200
Total governmental activities	137,037,687	(13,929,110)	(5,770,259)	117,338,318	5,953,589
Business-type activities:					
General obligation bonds	94,000	-	(41,000)	53,000	26,000
Capital leases:					
SunTrust	806,132	-	(218,817)	587,315	227,835
Municipal Finance	2,988,321	-	(407,711)	2,580,610	425,431
Water revenue bonds:					
Series 2012A	10,365,000	-	(500,000)	9,865,000	515,000
Deferred amount for unamortized premium	498,228	-	(33,215)	465,013	-
Series 2015A and AT	23,190,000	-	(695,000)	22,495,000	710,000
Deferred amount for unamortized premium	961,536	-	(46,738)	914,798	-
Water and wastewater revenue bonds:					
Series 2017	3,690,356	-	(333,306)	3,357,050	343,722
Advances from other governments:					
State Revolving Fund	9,793,493	-	(772,014)	9,021,479	394,113
Total business-type activities	52,387,066	-	(3,047,801)	49,339,265	2,642,101
Total	\$ 189,424,753	\$ (13,929,110)	\$ (8,818,060)	\$ 166,677,583	\$ 8,595,690

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018**

Note H. Long-Term Obligations (continued)

Changes in Long-Term Obligations (continued)

Total additions and adjustments include employer contributions to pension and OPEB funding, pension expense, OPEB expense, changes in deferred inflows and outflows for net pension liability and OPEB liability, and compensated absences accrued during the fiscal year. Total retirements include payment to employees for compensated absences, long-term debt principal payments, and amortization of bond premium.

Debt Service Requirements

The annual principal and interest requirements on the outstanding long-term obligations as of June 30, 2018 (excluding compensated absences, net pension liability and OPEB liability), are as follows:

Governmental Activities

Long-term contracts payable - 1986 Federal contract

Fiscal year ending June 30,	Principal	Interest	Total
2019	\$ 3,664,389	\$ 2,621,182	\$ 6,285,571
2020	3,782,566	2,503,006	6,285,572
2021	3,904,554	2,381,018	6,285,572
2022	4,030,475	2,255,096	6,285,571
2023	4,160,458	2,125,113	6,285,571
2024-2028	22,903,577	8,524,281	31,427,858
2029-2033	26,842,797	4,585,060	31,427,857
2034-2035	11,988,148	582,994	12,571,142
Total long-term contracts payable	\$ 81,276,964	\$ 25,577,750	\$ 106,854,714

Business-type Activities

General obligation bonds

Fiscal year ending June 30,	Principal	Interest	Total
2019	\$ 26,000	\$ 2,650	\$ 28,650
2020	27,000	1,350	28,350
Total general obligation bonds	\$ 53,000	\$ 4,000	\$ 57,000

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018**

Note H. Long-Term Obligations (continued)

Business-type Activities (continued)

Capital leases

Fiscal year ending June 30,	Principal	Interest	Total
2019	\$ 653,266	\$ 141,043	\$ 794,309
2020	681,147	105,882	787,029
2021	585,470	71,151	656,621
2022	483,348	48,525	531,873
2023	504,355	27,518	531,873
2024	260,339	5,597	265,936
Total capital leases	\$ 3,167,925	\$ 399,716	\$ 3,567,641

Water revenue bonds

Fiscal year ending June 30,	Principal	Interest	Total
2019	\$ 1,225,000	\$ 1,095,863	\$ 2,320,863
2020	1,260,000	1,058,631	2,318,631
2021	1,305,000	1,013,225	2,318,225
2022	1,365,000	955,706	2,320,706
2023	1,420,000	891,881	2,311,881
2024-2028	8,070,000	3,476,706	11,546,706
2029-2033	9,420,000	2,086,106	11,506,106
2034-2038	5,865,000	870,381	6,735,381
2039-2041	2,430,000	128,834	2,558,834
Total water revenue bonds	\$ 32,360,000	\$ 11,577,333	\$ 43,937,333

Water and wastewater revenue bonds

Fiscal year ending June 30,	Principal	Interest	Total
2019	\$ 343,722	\$ 74,215	\$ 417,937
2020	347,803	66,159	413,962
2021	359,796	57,915	417,711
2022	361,196	49,516	410,712
2023	371,987	40,973	412,960
2024-2027	1,572,546	74,440	1,646,986
Total water and wastewater revenue bonds	\$ 3,357,050	\$ 363,218	\$ 3,720,268

Advances from other governments

Fiscal year ending June 30,	Principal	Interest	Total
2019	\$ 394,113	\$ 126,003	\$ 520,116
2020	804,816	235,415	1,040,231
2021	827,455	212,777	1,040,232
2022	850,730	189,501	1,040,231
2023	874,661	165,571	1,040,232
2024-2028	4,756,491	444,667	5,201,158
2029	513,213	7,168	520,381
Total advances from other governments	\$ 9,021,479	\$ 1,381,102	\$ 10,402,581

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018**

Note H. Long-Term Obligations (continued)

Business-type Activities (continued)

Aggregate maturities of long-term debt of business-type activities

Fiscal year ending June 30,	Principal	Interest	Total
2019	\$ 2,642,101	\$ 1,439,774	\$ 4,081,875
2020	3,120,766	1,467,437	4,588,203
2021	3,077,721	1,355,068	4,432,789
2022	3,060,274	1,243,248	4,303,522
2023	3,171,003	1,125,944	4,296,947
2024-2028	14,659,376	4,001,410	18,660,786
2029-2033	9,933,213	2,093,274	12,026,487
2034-2038	5,865,000	870,381	6,735,381
2039-2041	2,430,000	128,834	2,558,834
Total business-type activities	\$ 47,959,454	\$ 13,725,370	\$ 61,684,824

Note I. 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. Since that time, a number of required closure activities have been completed.

The Closure Work Plan proposes to perform a lot line adjustment, which has been completed, separating the front portion of the property, where there are no human health issues based on the risk assessment. The Water Agency has notified the requisite agencies of their right to acquire the front portion of the property for the appraised amount of \$880,000. For the back half of the property, the work plan proposes to incorporate the affected site into the City of Santa Rosa’s bike path project, changing the risk of human exposure so that no significant cleanup will be required. It is anticipated that annual monitoring, a deed restriction, and long-term easement will be required. However, the NC Regional Board and the City of Santa Rosa have not yet approved the work plan.

In accordance with GASB Statement No. 49, the Water Agency has estimated its potential pollution remediation liability as of June 30, 2018 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 Water Agency as of June 30, 2018 is \$184,886. 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, 2018**

Note J. Employees' Retirement Plan

Plan Description

The Water Agency contributes to the County's cost sharing multiple-employer defined benefit pension plan (the Plan) administered by the Sonoma County Employees' Retirement Association (SCERA), a public employee retirement system. The Water Agency joined SCERA as of October 1, 1963. 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 for the County are eligible. The Plan provides benefits as defined by the law upon retirement, death, or disability of members and may be amended by the County Board of Supervisors and then shall be implemented by the Board of Retirement.

All County employees hired on or after January 1, 2013, with the exception of employees who are eligible for reciprocity with another qualified California retirement system, are part of a new tier called Plan B. Employees hired before January 1, 2013 are part of the original Plan called Plan A.

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, or can be found online at www.SCETIRE.com.

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

Funding Policy

The contribution requirements of Plan members and the County are determined by an independent actuary, approved by the SCERA Board of Retirement, and adopted by the Board of Supervisors. The contribution rates for the fiscal year ended June 30, 2018 were based on the Plan's valuation dated December 31, 2017. The contribution rates determined in each actuarial valuation take effect at the beginning of the fiscal year starting at least twelve months after the beginning of the valuation year, except when significant benefit or actuarial assumption changes occur. Plan A members are required to contribute 9.2%-14.7% of their annual covered salary based upon the member's age at the date of entry into the system and General Plan B members are required to contribute 10.4% of their annual covered salary. The County is required to contribute the remaining amounts necessary to finance the coverage of their employees through periodic contributions at actuarially determined rates. Employer and member contributions are funded and recognized through the County payroll systems via employer benefit payments and employee deductions. For the fiscal year ended June 30, 2018, the Water Agency contributed \$3,946,189 or approximately 17.0% of covered payroll.

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018**

Note J. Employees' Retirement Plan (continued)

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

At June 30, 2018, the Water Agency reported a liability of \$9,689,254 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Water Agency's proportion of the net pension liability was based on a projection of the Water Agency's long-term share of contributions to the pension plan relative to the projected contributions of all Pension Plan participants, actuarially determined. At December 31, 2017, the Water Agency's proportion was 5.7%, which was a decrease of 0.3% from its proportion measured as of December 31, 2016.

For the year ended June 30, 2018, the Water Agency recognized a pension expense of \$3,211,093 in the governmental activities column of the government-wide statements. Pension expense represents the change in the net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or methods, and plan benefits. At June 30, 2018, the Water Agency reported deferred outflows of resources and deferred inflows of resources related to the pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 48,760	\$ 257,156
Changes in assumptions	998,090	-
Net difference between projected and actual earnings on retirement plan investments	-	6,839,018
Changes in proportion and differences between Water Agency contributions and proportionate share of contributions	439,549	613,134
Water Agency contributions subsequent to the measurement date	1,932,805	-
	\$ 3,419,204	\$ 7,709,308

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

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018**

Note J. Employees' Retirement Plan (continued)

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

Deferred outflows of resources related to pensions resulting from Water Agency contributions subsequent to the measurement date totaling \$1,932,805 will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	Amount
2019	\$ 351,971
2020	(1,262,949)
2021	(2,891,586)
2022	(2,420,345)
	\$ (6,222,909)

Actuarial Assumptions

The total pension liability was determined based on the December 31, 2017 actuarial valuation, using the following actuarial assumptions:

Valuation date:	December 31, 2017
Measurement date:	December 31, 2017
Actuarial cost method:	Entry Age Actuarial Cost Method
Actuarial assumptions -	
Inflation:	3.00%
Projected salary increase:	4.0% - 9.5%
Investment rate of return:	7.25%

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

The discount rate used to measure the Total Pension Liability was 7.25 percent as of the measurement date of December 31, 2017. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates.

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018**

Note J. Employees' Retirement Plan (continued)

Sensitivity of the Water Agency's Proportionate Share of the Net Pension Liability to Change in the Discount Rate (continued)

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

	1% Decrease 6.25%	Discount Rate 7.25%	1% Increase 8.25%
Water Agency's proportionate share of the net pension plan liability (asset)	\$ 28,702,467	\$ 9,689,254	\$ (6,200,068)

Note K. Other Postemployment Health Benefits (OPEB)

Plan Description

The County maintains an Other Postemployment Healthcare Plan (OPEB or Plan). The Plan is a single employer defined benefit plan which is administered by the County. The authority to establish and amend benefit provisions of the Plan resides with the County Board of Supervisors. The Water Agency participates in the OPEB Plan.

The County established an OPEB trust with the Public Agency Retirement Services (PARS) in 2008 to accumulate resources to fund future benefit payments of the Plan. The OPEB trust is reported in the County of Sonoma's Comprehensive Annual Financial Report (CAFR) and can be found www.sonoma-county.org.

In accordance with a County Board of Supervisors approved salary resolution and applicable memorandum of understanding, the Plan includes unrepresented and represented employees hired prior to January 1, 2009, with at least 10 consecutive years of regular full-time paid employment. The Plan was closed to new participants on January 31, 2008.

Benefits Provided

Retirees and the County share in the cost of monthly premiums for medical coverage. The County contribution toward plan member premiums is a \$500 per month maximum contribution, an amount which is equal to the County's current contribution toward the cost of active, unrepresented Administrative Management employees' medical plans. Retirees may enroll eligible dependents in the County medical plan elected by the retiree, but the retiree is responsible for all premium costs in excess of the County's contribution. In the case of a Safety employee's line-of-duty death pursuant to the California labor code, dependents of the deceased employee are eligible to receive County-subsidized medical coverage. In addition to the monthly contribution, the County reimburses retirees hired prior to January 1, 2009, a fixed amount of \$96.40 per month for Medicare Part B premiums.

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018**

Note K. Other Postemployment Health Benefits (OPEB) (continued)

Contributions

The OPEB Plan funding policy provides for periodic contributions by the County. The contribution rate as a percentage of covered payroll is 8.8%, and is authorized annually by the County Board of Supervisors to finance the costs of benefits for plan members, with an additional amount to finance the unfunded accrued liability. Contributions to the OPEB Plan from the Water Agency were \$1,918,003 for the year ended June 30, 2018. Employees are not required to contribute to the OPEB Plan.

Proportionate Share

The net OPEB liability and asset information is reported within certain defined timeframes as listed below:

Reporting Date	June 30, 2018
Valuation Date	June 30, 2017
Measurement Date	June 30, 2017

At June 30, 2018, the Water Agency reported a liability of \$24,082,900 for its proportionate share of the net OPEB liability. The Water Agency’s covered payroll is used as the basis for determining its proportion of the OPEB amounts. At June 30, 2017, the Water Agency’s proportion was 7.12%. At June 30, 2018, the Water Agency’s proportion was 7.17%, an increase of 0.05%.

Actuarial Methods and Assumptions

The Net OPEB Liability (NOL) was measured as of June 30, 2017 and 2016 and determined based on the total OPEB liability from actuarial valuations as of June 30, 2017 and 2016, respectively.

The total OPEB liability was determined by an actuarial valuation as of June 30, 2017 and June 30, 2016 using the following actuarial assumptions, applied to all periods included in the measurement, except the Excise Tax imposed by the Affordable Care Act and related statutes was reflected in the actuarial valuation as of June 30, 2017 and the investment rate of return varied between the years as noted:

Actuarial cost method	Entry Age Normal Cost Method
Inflation	3.00%
Investment rate of return	June 30, 2017: 6.50%, net of OPEB plan investment expense, including inflation June 30, 2016: 7.25%, net of OPEB plan investment expense, including inflation
Projected salary increases	3.50%
Other assumptions	Analysis of actuarial experience per the January 1, 2012 through December 31, 2014 Actuarial Experience Study dated October 2, 2015 and the Economic Actuarial Assumption Study for December 31, 2015 Actuarial Valuation dated September 30, 2015 for the Sonoma County Employees’ Retirement Association (SCERA). Mortality rates were based on the Headcount-Weighted RP-2014 Healthy Annuitant Table

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018**

Note K. Other Postemployment Health Benefits (OPEB) (continued)

Actuarial Methods and Assumptions (continued)

The County Health Plan medical trends grade from 7.0% in 2017/2018 down to 5.0% over 4 years. County Health Plan drug trends grade from 8.0% in 2017/2018 down to 5.0% over 6 years. HMO Medical/Drug trends grade from 6.75% in 2017/2018 down to 5.0% over 7 years. ASO fees assumed trend was 0% in 2017/2018, then 5.0% thereafter.

Investments

The long-term expected rate of return on OPEB Plan investments was determined using a building-block method in which the expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rate of return for each major asset class, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized in the table below.

The County’s Investment Guidelines for OPEB are detailed in the “Investment Guidelines Document – County of Sonoma Post-Employment Health Care Plan Investment Policy Document – June 2017”. The following is the Board’s adopted asset allocation policy for OPEB as of June 2017:

Asset Class	Target Allocation	Long-Term Expected Nominal Rate of Return
Large Cap U.S. Equity	30%	8.7%
Mid Cap U.S. Equity	4%	8.7%
Small Cap U.S. Equity	8%	8.7%
International Equity	8%	9.7%
Global Equity	6%	9.7%
U.S. Core Fixed Income	31%	4.1%
Alternatives	8%	5.9%
Cash	1%	3.1%
Real Estate	4%	7.2%
Total	100%	

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018**

Note K. Other Postemployment Health Benefits (OPEB) (continued)

Investments (continued)

Discount Rate

The discount rates used to measure the Total OPEB Liability (TOL) were 3.78% and 3.05% as of June 30, 2017 and June 30, 2016, respectively. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at rates proportional to the actuarially determined contribution rates. For this purpose, employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries are not included. Based on those assumptions, the OPEB Plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members through the fiscal year ending June 30, 2023. Subsequent to this date, the municipal bond rate of 3.58%, as of June 30, 2017 from the Bond Buyer index, was used as the investment return assumption for employer assets.

Sensitivity of the Water Agency's Proportionate Share of the Net OPEB Liability

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

The following presents the Water Agency's proportionate share of the Net OPEB liability if it were calculated using the discount rate of 3.78%, as well as what the Water Agency's proportionate share of the Net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.78%) or 1-percentage-point higher (4.78%) than the current rate, for measurement period ended June 30, 2017:

1% Decrease (2.78%)	Current Discount Rate (3.78%)	1% Increase (4.78%)
\$ 26,959,420	\$ 24,082,900	\$ 21,634,981

Sensitivity of the Water Agency's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following present the Water Agency's proportionate share of the Net OPEB liability if it were calculated using the trend rate that is 1%, higher as well as using trend rate 1% lower than the current trend rates, for measurement period ended June 30, 2017:

1% Decrease Trend	Current Trend Rates	1% Increase Trend
\$ 23,374,812	\$ 24,082,900	\$ 25,012,664

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018**

Note K. Other Postemployment Health Benefits (OPEB) (continued)

Amortization of Deferred Outflows and Deferred Inflows of Resources

The net difference between projected and actual earnings on OPEB Plan investments is amortized over a 5-year period on a straight-line basis. One-fifth was recognized in OPEB expense during the measurement period, and the remaining net difference between projected and actual investment earnings on OPEB Plan investments at June 30, 2017, is to be amortized over the remaining 4-year period.

The changes in assumptions and differences between expected and actual experience are recognized over the average of the expected remaining service lives of all employees that are provided OPEB through the Plan (active and inactive) determined as of the beginning of the measurement period. For the measurement date ending June 30, 2017, the average is 2.95 years.

For the year ended June 30, 2018 the Water Agency recognized an OPEB expense of \$1,056,324. At June 30, 2018, the Water Agency reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 73,307
Changes in assumptions	-	1,237,298
Net difference between projected and actual earnings on OPEB plan investments	-	95,404
Changes in proportion and differences between contributions and proportionate share of contributions	117,441	-
Contributions subsequent to the measurement date	2,082,686	-
Total	\$ 2,200,127	\$ 1,406,009

The \$2,082,686 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2017 measurement date will be recognized as a reduction of the net OPEB liability during the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized as OPEB expense as follows:

Year Ended June 30	OPEB Expense
2019	\$ (635,730)
2020	(605,136)
2021	(23,851)
2022	(23,851)
	\$ (1,288,568)

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018**

Note K. Other Postemployment Health Benefits (OPEB) (continued)

Defined Contribution Plan Description

For employees hired on or after January 1, 2009, the Water Agency provides a defined contribution into a Retiree Health Reimbursement Arrangement (HRA) account. Eligibility for this benefit is based upon completion of two full years of consecutive County regular service as a contributing member of the Sonoma County Employees Retirement Association. Upon completion of the initial eligibility requirements, the County provides (a) an initial contribution of \$2,400 to an HRA account established in the employee's name; this initial contribution of \$2,400 is based on full-time status and is prorated based on the employee's allocated position, and (b) thereafter contributes \$.58 per pay status hour, not including overtime, into the HRA account for each eligible employee. Once an employee has worked the two full years of service and the initial contribution into their HRA account is made, there are no further service requirements. All contributions into the Retiree HRA are made only while an employee is in active pay status, and upon separation of employment, there are no further post-employment contributions. Participants may access their HRA account at age 50 or upon retirement from the County, whichever is earlier, and may defer this date. There is no requirement to be enrolled in a County offered medical plan to receive this benefit. Retirees and dependents that elect coverage under a County-sponsored plan are responsible for all costs.

Note L. Deferred Compensation Plans

The Deferred Compensation Benefit Plans are administered through a third-party administrator. The Plan is excluded from the Water Agency's financial statements.

The Deferred Compensation Benefit Plan is an employer discretionary, defined contribution plan established and governed under Internal Revenue Code Sections 401(a) and 457(b). The plan is available to employee groups based on bargaining unit and job class.

Employer-only annual contributions are calculated based upon a percentage of employee compensation. For the fiscal year ended June 30, 2018 the Water Agency's contribution was \$254,639.

The Water Agency offers employees an optional deferred compensation plan created in accordance with Section 457 of the Internal Revenue Code. This plan is available to substantially all employees and allows participants to defer a portion of their current income until future years, up to a maximum of \$18,500 per calendar year.

Note M. Related Party Transactions

As a special district under the Board of Supervisors, the Water Agency 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.

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018**

Note M. Related Party Transactions (continued)

The Water Agency allocates overhead costs to the sanitation districts via the use of an overhead rate charged on labor applicable to the districts. The overhead rate is reviewed periodically by management to determine its effectiveness. In addition, the Water Agency allocates other services to the districts based on project coding. Direct labor and overhead charged to the sanitation districts is recognized as revenue in the Water Agency General Fund. A summary of the total cash payments from the sanitation districts to the Water Agency for labor and overhead for the fiscal year ended June 30, 2018 is as follows:

Occidental County Sanitation District	\$ 1,458,623
Russian River County Sanitation District	2,676,965
Sonoma Valley County Sanitation District	6,961,931
South Park County Sanitation District	792,164
	\$ 11,889,683

For the fiscal year ended June 30, 2018, the Water Agency provided the Occidental County Sanitation District, the Russian River County Sanitation District and the Sonoma Valley Sanitation District \$1,897,000, \$745,000 and \$50,000, respectively, in intergovernmental funding to assist the Districts in meeting operating and construction expenses.

The Water Agency is one of fifteen water districts and irrigation districts which participate in the Power and Water Resources Pooling Authority (PWRPA). PWRPA was established in 2004 to study, promote, develop, conduct, design, finance, acquire, construct, and/or operate water and energy related projects and programs. Because the PWRPA Board of Directors is made up of representatives from the participating districts, PWRPA is a jointly governed organization. During the fiscal year ending June 30, 2018, PWRPA recognized a \$6,465 increase in the reserve account. This reserve account, which is adjusted annually based on the Water Agency's proportionate share of energy use averaged over five years, represents a long-term restricted asset.

The Water Agency, in combination with other local agencies, is also a participant in three Groundwater Sustainability Agencies (GSA's): the Santa Rosa Plain Groundwater Sustainability Agency, the Petaluma Valley Groundwater Sustainability Agency and the Sonoma Valley Groundwater Sustainability Agency. The GSA's were established in 2017 to provide sustainable management of groundwater basins at a local level by providing local groundwater agencies with the authority and technical and financial assistance necessary to sustainably manage groundwater. As jointly governed organizations, participants of the GSA's do not retain an ongoing financial interest or responsibility in the organization. Upon dissolution of the GSA's, each participant shall receive its proportionate share of the net assets.

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018**

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 maintains "All Risk" property insurance including flood and earthquake through participation in the CSAC-EIA Property Insurance Program. Limits of coverage are \$800,000,000 per occurrence for All Risk, \$600,000,000 for flood (limits vary in FEMA flood zones) and earthquake coverage with shared limits of \$740,000,000. Deductibles for these perils are \$50,000-\$100,000 per occurrence.

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

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

Note O. Commitments and Contingencies

Construction

The Water Agency has active construction projects as of June 30, 2018. The projects include expansion and/or improvements of several water transmission, water storage and wastewater treatment facilities. As of June 30, 2018, the Water Agency's commitments to construction projects are as follows:

Project	Spent-to-Date	Remaining Commitment
Water transmission facilities:		
Sonoma aqueduct	\$ 1,339,684	\$ 394,080
Water storage facilities	4,123,364	25,000
Common facilities	6,832,738	156,430
Internal service facilities	19,530	865,011
Sanitation facilities	925,045	535,369
Total	\$ 13,240,361	\$ 1,975,890

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018**

Note O. Commitments and Contingencies (continued)

Construction (continued)

The balances spent-to-date include 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.

Non-exchange 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.

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.

The Water Agency is one of three public agencies named as defendants in an action filed in December 2017. The lawsuit concerns groundwater contamination caused by dry cleaning chemicals that were dumped on a site within the Sonoma Valley County Sanitation District (SVCSD). The County of Sonoma, Water Agency, and SVCSD all have older insurance policies that were in effect during the time the dry cleaners were improperly dumping chemicals into the sewer. The complaint alleges damages of \$1.2 million, but the plaintiff has resisted stating its damages in discovery to date. Discovery is ongoing. It is too early to determine the amount of potential liability or potential outcome. There are four insurers providing a defense on behalf of the Sonoma entities. It is expected that the insurers will pay a settlement on behalf of the public entities if a settlement is reached. If the case goes to trial, it is unclear if the insurers will provide indemnity for a prospective judgment taken against the Water Agency, as the insurers have exclusions in their policies which they may argue obviate an obligation to pay. No liability has been recognized because at this time no reasonable estimate of a possible loss can be made.

Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note O. Commitments and Contingencies (continued)

Pending Litigation, Claims and Assessments (continued)

Tied to this lawsuit is a Petition the same Plaintiff has pending in Sonoma County Superior Court. This Petition seeks an Order from the Court overturning a decision made by the Regional Water Quality Control Board (RWQCB) to not name the public entities as responsible parties with respect to delineating and remediating the plume. This Petition is not covered by insurance as it cannot seek damages. However, should the Petition (which is currently stayed pending resolution of the lawsuit) be successful, then the Water Agency could be deemed to be a responsible party on orders issued by the RWQCB as to cleanup of the plume. Typically, requirements under such Orders are joint and several.

In May 2016, the Water Agency awarded a \$3.2 million dollar contract to a contractor for a habitat restoration project in Sonoma County's Dry Creek, outside the limits of the City of Healdsburg. After completion of the project, the contractor filed a claim for extra work claiming tree removal exceeded the quantities in the contract. The claim is in the amount of \$30,000. Water Agency staff identified discrepancies in the claim and contests the validity of the claim for extra work. Water Agency staff and the contractor are in the process of resolving the claim pursuant to the requirements of the contract documents.

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 Water 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, 2018**

Note P. Economic Dependence

Four major customers purchased water from the Water Agency during the fiscal year ended June 30, 2018. Water sales revenue for the fiscal year ended June 30, 2018 and accounts receivable as of June 30, 2018 associated with those customers are as follows:

	Water Sales	% of Total Water Sales
City of Santa Rosa	\$ 14,843,259	34.9%
City of Petaluma	6,998,333	16.4%
Marin Municipal Water District	6,554,780	15.4%
North Marin Water District	5,419,409	12.7%
	\$ 33,815,781	79.4%

	Accounts Receivable	% of Total Accounts Receivable
City of Santa Rosa	\$ 2,693,084	35.8%
Marin Municipal Water District	1,715,319	22.8%
City of Petaluma	1,234,685	16.4%
North Marin Water District	954,226	12.7%
	\$ 6,597,314	87.8%

Note Q. Future Governmental Accounting Standards

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

GASB Statement No. 83 – Certain Asset Retirement Obligations

The requirements of this Statement are effective for the Water Agency’s fiscal year ending June 30, 2019. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018**

Note Q. Future Governmental Accounting Standards (continued)

GASB Statement No. 84 – Fiduciary Activities

The requirements of this Statement are effective for the Water Agency’s fiscal year ending June 30, 2020. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

GASB Statement No. 87 – Leases

The provisions of this Statement are effective for the Water Agency’s fiscal year ending June 30, 2021. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities.

GASB Statement No. 88 – Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements

The provisions of this Statement are effective for the Water Agency’s fiscal year ending June 30, 2019. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

**Sonoma County Water Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018**

Note Q. Future Governmental Accounting Standards (continued)

GASB Statement No. 89 – Accounting for Interest Cost Incurred before the End of a Construction Period

The provisions of this Statement are effective for the Water Agency’s fiscal year ending June 30, 2021. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

Note R. Beginning Net Position Adjustment

During the fiscal year ended June 30, 2018, the Water Agency implemented the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. Refer to the Water Agency’s Note K for additional information on OPEB. GASB 75 requires that the effect of net pension liability and associated deferred items from prior fiscal periods be recorded as an adjustment to beginning net position. Accordingly, the Water Agency reported a beginning balance adjustment of \$24,219,023 in the General fund to reduce net position for the prior period actuarially determined OPEB liability of \$26,233,147 net of \$2,014,124 of employer contributions that represent prior period deferred outflows of resources.

Note S. Change in Accounting Estimate

During the fiscal year ended June 30, 2018, as a result of more accurate tracking of wastewater flows from a hospital within the Airport-Larkfield-Wikiup sanitation zone, the Water Agency reduced a prior year estimated receivable for connection fee and service charges. This change in accounting estimate resulted in a \$913,932 reduction in connection fees and a \$67,371 reduction in sanitation services for the fiscal year ending June 30, 2018.

Required Supplementary Information

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

<u>Measurement Date</u>	<u>12/31/2017</u>	<u>12/31/2016</u>	<u>12/31/2015</u>	<u>12/31/2014</u>	<u>12/31/2013</u>
Water Agency's proportionate share of net pension liability					
Water Agency's proportion of the net pension liability	5.7%	6.0%	5.9%	5.8%	5.6%
Water Agency's proportionate share of the net pension liability	\$ 9,689,254	\$ 23,601,397	\$ 24,444,642	\$ 12,464,325	\$ 13,632,777
Water Agency's covered employee payroll	\$ 23,385,939	\$ 22,207,867	\$ 20,532,602	\$ 18,691,146	\$ 18,033,509
Water Agency's proportionate share of the net pension liability as a percentage of its covered-employee payroll	41.4%	106.3%	119.1%	66.7%	75.6%
Plan fiduciary net position as a percentage of the total pension liability	94.0%	85.9%	84.6%	90.9%	89.8%

	<u>6/30/2018</u>	<u>6/30/2017</u>	<u>6/30/2016</u>	<u>6/30/2015</u>
Water Agency's pension contributions				
Actuarially determined contribution	\$ 3,946,189	\$ 3,581,629	\$ 4,481,365	\$ 3,713,006
Contributions in relation to the actuarially determined contribution	<u>3,946,189</u>	<u>3,581,629</u>	<u>4,481,365</u>	<u>3,713,006</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Water Agency's covered-employee payroll	\$ 23,254,523	\$ 23,047,478	\$ 21,683,256	\$ 18,431,295
Contributions as a percentage of covered-employee payroll	17.0%	15.5%	20.7%	20.1%

* The required supplementary pension schedules are intended to show information for ten years. Additional years' information will be displayed as this information becomes available.

Sonoma County Water Agency
Schedule of Proportionate Share of the Net OPEB Liability
Last 10 Fiscal Years*

	6/30/2018	6/30/2017
Water Agency's proportionate share of the net OPEB liability		
Water Agency's proportion of the net OPEB liability	7.2%	7.1%
Water Agency's proportionate share of the net OPEB liability	\$ 24,082,900	\$ 26,233,147
Water Agency's covered-employee payroll	\$ 23,047,478	\$ 21,680,235
Water Agency's proportionate share of the OPEB liability as a percentage of its covered-employee payroll	104.5%	121.0%
Plan fiduciary net position as a percentage of the total OPEB liability	12.9%	10.3%

The amounts presented for each fiscal year were determined as of June 30, one year prior to the end of each fiscal year in which amounts are reported.

* The required supplementary information is intended to show information for ten years. Additional years' information will be displayed as this information becomes available.

**Sonoma County Water Agency
General Fund
Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budgetary Basis
For the Fiscal Year Ended June 30, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>See Note A</u>	<u>Final Budget</u>
Revenues				
Property taxes	\$ 7,619,041	\$ 7,619,041	\$ 8,950,560	\$ 1,331,519
Investment earnings	175,577	175,577	298,972	123,395
Intergovernmental	292,940	9,456,413	957,587	(8,498,826)
Charges for services	10,853,542	10,853,542	12,990,576	2,137,034
Miscellaneous	4,500	31,937	1,818	(30,119)
Total revenues	<u>18,945,600</u>	<u>28,136,510</u>	<u>23,199,513</u>	<u>(4,936,997)</u>
Expenditures				
Current:				
General government	6,076,370	21,610,642	11,852,822	9,757,820
Intergovernmental	11,960,000	11,960,000	14,336,168	(2,376,168)
Capital outlay	400,000	1,008,457	779,288	229,169
Contingencies	300,000	300,000	-	300,000
Total expenditures	<u>18,736,370</u>	<u>34,879,099</u>	<u>26,968,278</u>	<u>7,910,821</u>
Excess (deficiency) of revenues over (under) expenditures	<u>209,230</u>	<u>(6,742,589)</u>	<u>(3,768,765)</u>	<u>2,973,824</u>
Other Financing Uses				
Transfers out	<u>(1,420,000)</u>	<u>(3,393,733)</u>	<u>(3,143,733)</u>	<u>250,000</u>
Net changes in fund balance	<u>\$ (1,210,770)</u>	<u>\$ (10,136,322)</u>	(6,912,498)	<u>\$ 3,223,824</u>
GAAP basis difference - encumbrances			2,594,277	
Fund balance - beginning of year			<u>22,753,390</u>	
Fund balance - end of year			<u>\$ 18,435,169</u>	

**Sonoma County Water Agency
Flood Control Special Revenue Funds
Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budgetary Basis
For the Fiscal Year Ended June 30, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>See Note A</u>	<u>Final Budget</u>
Revenues				
Property taxes	\$ 8,723,892	\$ 8,723,892	\$ 10,144,613	\$ 1,420,721
Investment earnings	187,434	187,434	287,156	99,722
Intergovernmental	94,312	344,312	1,142,669	798,357
Miscellaneous	-	-	113,649	113,649
Total revenues	<u>9,005,638</u>	<u>9,255,638</u>	<u>11,688,087</u>	<u>2,432,449</u>
Expenditures				
Current:				
Flood control	12,861,200	18,790,179	14,245,505	4,544,674
Capital outlay	-	114,616	48,007	66,609
Total expenditures	<u>12,861,200</u>	<u>18,904,795</u>	<u>14,293,511</u>	<u>4,611,284</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(3,855,562)</u>	<u>(9,649,157)</u>	<u>(2,605,424)</u>	<u>7,043,733</u>
Net changes in fund balance	<u>\$ (3,855,562)</u>	<u>\$ (9,649,157)</u>	<u>(2,605,424)</u>	<u>\$ 7,043,733</u>
GAAP basis difference - encumbrances			2,375,940	
Fund balance - beginning of year			<u>23,735,471</u>	
Fund balance - end of year			<u>\$ 23,505,987</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, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>See Note A</u>	<u>Final Budget</u>
Revenues				
Property taxes	\$ 5,972,171	\$ 5,972,171	\$ 7,782,313	\$ 1,810,142
Investment earnings	89,000	89,000	164,033	75,033
Intergovernmental	54,656	54,656	756,136	701,480
Charges for services	-	-	61	61
Total revenues	<u>6,115,827</u>	<u>6,115,827</u>	<u>8,702,543</u>	<u>2,586,716</u>
Expenditures				
Current:				
Warm Springs Dam	12,346,569	22,106,508	7,749,457	14,357,051
Capital outlay	<u>497,550</u>	<u>1,192,550</u>	<u>905,238</u>	<u>287,312</u>
Total expenditures	<u>12,844,119</u>	<u>23,299,058</u>	<u>8,654,695</u>	<u>14,644,363</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(6,728,292)</u>	<u>(17,183,231)</u>	<u>47,848</u>	<u>17,231,079</u>
Other Financing Sources				
Transfers in	<u>-</u>	<u>6,000,000</u>	<u>-</u>	<u>6,000,000</u>
Net changes in fund balance	<u>\$ (6,728,292)</u>	<u>\$ (11,183,231)</u>	47,848	<u>\$ 11,231,079</u>
GAAP basis difference - encumbrances			(3,031,975)	
Fund balance - beginning of year			<u>13,078,994</u>	
Fund balance - end of year			<u>\$ 10,094,867</u>	

Sonoma County Water Agency
Note to Required Supplementary Information
For the Fiscal Year Ended June 30, 2018

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. Budgetary data, as revised, for the Debt Service is presented as other supplementary information. 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.

Other Supplementary Information

**Sonoma County Water Agency
Debt Service Fund
Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budgetary Basis
For the Fiscal Year Ended June 30, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis*)</u>	<u>Final Budget</u>
Revenues				
Investment earnings	\$ 1,003,350	\$ 1,003,350	\$ 384,881	\$ (618,469)
Total revenues	<u>1,003,350</u>	<u>1,003,350</u>	<u>384,881</u>	<u>(618,469)</u>
Expenditures				
Current:				
Debt service	<u>6,285,572</u>	<u>6,285,572</u>	<u>6,285,572</u>	<u>-</u>
Total expenditures	<u>6,285,572</u>	<u>6,285,572</u>	<u>6,285,572</u>	<u>-</u>
Deficiency of revenues under expenditures	<u>(5,282,222)</u>	<u>(5,282,222)</u>	<u>(5,900,691)</u>	<u>(618,469)</u>
Other Financing Sources Uses				
Transfers out	<u>-</u>	<u>(6,000,000)</u>	<u>-</u>	<u>(6,000,000)</u>
Net changes in fund balance	<u>\$ (5,282,222)</u>	<u>\$ (11,282,222)</u>	<u>(5,900,691)</u>	<u>\$ 5,381,531</u>
GAAP basis difference - encumbrances			-	
Fund balance - beginning of year			<u>51,790,530</u>	
Fund balance - end of year			<u>\$ 45,889,839</u>	

* See Note to Required Supplementary Information on page 95.

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**Sonoma County Water Agency
Combining Balance Sheet
Flood Control Special Revenue Funds
June 30, 2018**

	Flood Control Funds			
	Zone 1A Laguna Mark West	Zone 2A Petaluma Basin	Zone 3A Valley of the Moon	Zone 5A Lower Russian River
Assets				
Cash and investments	\$ 6,787,706	\$ 8,067,739	\$ 4,007,253	\$ 1,996,614
Accounts receivable	402,381	165,834	169,945	-
Total assets	<u>\$ 7,190,087</u>	<u>\$ 8,233,573</u>	<u>\$ 4,177,198</u>	<u>\$ 1,996,614</u>
Liabilities and fund balances				
Liabilities:				
Accounts payable	\$ 434,037	\$ 225,702	\$ 76,646	\$ 16,271
Unearned revenue	-	917	-	-
Total liabilities	<u>434,037</u>	<u>226,619</u>	<u>76,646</u>	<u>16,271</u>
Fund balances:				
Restricted	<u>6,756,050</u>	<u>8,006,954</u>	<u>4,100,552</u>	<u>1,980,343</u>
Total fund balances	<u>6,756,050</u>	<u>8,006,954</u>	<u>4,100,552</u>	<u>1,980,343</u>
Total liabilities and fund balances	<u>\$ 7,190,087</u>	<u>\$ 8,233,573</u>	<u>\$ 4,177,198</u>	<u>\$ 1,996,614</u>

**Sonoma County Water Agency
Combining Balance Sheet
Flood Control Special Revenue Funds
June 30, 2018**

Flood Control Funds			
Zone 7A North Coast	Zone 8A South Coast	Total Flood Control Funds	
\$ 76,072	\$ 2,586,016	\$ 23,521,400	Assets
-	-	738,160	Cash and investments
-	-	-	Accounts receivable
<u>\$ 76,072</u>	<u>\$ 2,586,016</u>	<u>\$ 24,259,560</u>	Total assets
\$ -	\$ -	\$ 752,656	Liabilities and fund balances
-	-	917	Liabilities:
-	-	753,573	Accounts payable
			Unearned revenue
			Total liabilities
76,072	2,586,016	23,505,987	Fund balances:
<u>76,072</u>	<u>2,586,016</u>	<u>23,505,987</u>	Restricted
			Total fund balances
<u>\$ 76,072</u>	<u>\$ 2,586,016</u>	<u>\$ 24,259,560</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, 2018

	Flood Control Funds			
	Zone 1A Laguna Mark West	Zone 2A Petaluma Basin	Zone 3A Valley of the Moon	Zone 5A Lower Russian River
Revenues				
Property taxes	\$ 6,722,707	\$ 1,840,990	\$ 1,171,046	\$ 235,370
Investment earnings	93,690	94,678	44,903	23,433
Intergovernmental	408,033	351,858	229,933	151,659
Charges for services	112,633	-	-	-
Miscellaneous	1,016	-	-	-
Total revenues	7,338,079	2,287,526	1,445,882	410,462
Expenditures				
Services and supplies	8,371,433	2,063,695	972,761	428,570
Capital outlay	47,365	-	18,945	-
Total expenditures	8,418,798	2,063,695	991,706	428,570
Net change in fund balances	(1,080,719)	223,831	454,176	(18,108)
Fund balances - beginning of year	7,836,769	7,783,123	3,646,376	1,998,451
Fund balances - end of year	\$ 6,756,050	\$ 8,006,954	\$ 4,100,552	\$ 1,980,343

**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, 2018**

Flood Control Funds

Zone 7A North Coast	Zone 8A South Coast	Total Flood Control Funds																																					
<table border="0" style="width: 100%;"> <tr> <td style="width: 50%; text-align: right;">\$</td> <td style="width: 50%; text-align: left;">-</td> </tr> <tr> <td style="text-align: right;">918</td> <td style="text-align: left;">-</td> </tr> <tr> <td style="text-align: right;">-</td> <td style="text-align: left;">-</td> </tr> <tr> <td style="text-align: right;">-</td> <td style="text-align: left;">-</td> </tr> <tr> <td style="text-align: right;">-</td> <td style="text-align: left;">-</td> </tr> <tr> <td style="text-align: right; border-top: 1px solid black;">918</td> <td style="text-align: left; border-top: 1px solid black;">-</td> </tr> </table>	\$	-	918	-	-	-	-	-	-	-	918	-	<table border="0" style="width: 100%;"> <tr> <td style="width: 50%; text-align: right;">\$</td> <td style="width: 50%; text-align: left;">174,500</td> </tr> <tr> <td style="text-align: right;">29,534</td> <td style="text-align: left;">-</td> </tr> <tr> <td style="text-align: right;">1,186</td> <td style="text-align: left;">-</td> </tr> <tr> <td style="text-align: right;">-</td> <td style="text-align: left;">-</td> </tr> <tr> <td style="text-align: right;">-</td> <td style="text-align: left;">-</td> </tr> <tr> <td style="text-align: right; border-top: 1px solid black;">205,220</td> <td style="text-align: left; border-top: 1px solid black;">-</td> </tr> </table>	\$	174,500	29,534	-	1,186	-	-	-	-	-	205,220	-	<table border="0" style="width: 100%;"> <tr> <td style="width: 50%; text-align: right;">\$</td> <td style="width: 50%; text-align: left;">10,144,613</td> </tr> <tr> <td style="text-align: right;">287,156</td> <td style="text-align: left;">-</td> </tr> <tr> <td style="text-align: right;">1,142,669</td> <td style="text-align: left;">-</td> </tr> <tr> <td style="text-align: right;">112,633</td> <td style="text-align: left;">-</td> </tr> <tr> <td style="text-align: right;">1,016</td> <td style="text-align: left;">-</td> </tr> <tr> <td style="text-align: right; border-top: 1px solid black;">11,688,087</td> <td style="text-align: left; border-top: 1px solid black;">-</td> </tr> </table>	\$	10,144,613	287,156	-	1,142,669	-	112,633	-	1,016	-	11,688,087	-	<p>Revenues</p> <p>Property taxes</p> <p>Investment earnings</p> <p>Intergovernmental</p> <p>Charges for services</p> <p>Miscellaneous</p> <p style="padding-left: 20px;">Total revenues</p> <p>Expenditures</p> <p>Services and supplies</p> <p>Capital outlay</p> <p style="padding-left: 20px;">Total expenditures</p> <p>Net change in fund balances</p> <p>Fund balances - beginning of year</p> <p>Fund balances - end of year</p>
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**Sonoma County Water Agency
Combining Statement of Net Position
Sanitation Enterprise Funds
June 30, 2018**

	Sanitation Funds				Total Sanitation Funds
	Sea Ranch	Penngrove	Geyserville	Airport Larkfield Wikiup	
Assets					
Current assets:					
Cash and investments	\$ 1,009,717	\$ 945,710	\$ 561,286	\$ 5,229,145	\$ 7,745,858
Restricted cash and investments	-	-	26,000	363,276	389,276
Accounts receivable	13,485	34,129	29,902	58,018	135,534
Prepaid items	-	7,930	-	83	8,013
Total current assets	<u>1,023,202</u>	<u>987,769</u>	<u>617,188</u>	<u>5,650,522</u>	<u>8,278,681</u>
Noncurrent assets:					
Restricted cash and investments	-	-	14,618	150,761	165,379
Capital assets, net					
Land	-	-	106,213	1,515,231	1,621,444
Construction in progress	-	218,921	-	184,880	403,801
Intangible assets	2,472	2,639	-	72,802	77,913
Infrastructure	220,418	798,180	388,158	15,555,747	16,962,503
Equipment	-	11,846	2,567	101,328	115,741
Total capital assets	<u>222,890</u>	<u>1,031,586</u>	<u>496,938</u>	<u>17,429,988</u>	<u>19,181,402</u>
Total noncurrent assets	<u>222,890</u>	<u>1,031,586</u>	<u>511,556</u>	<u>17,580,749</u>	<u>19,346,781</u>
Total assets	<u>1,246,092</u>	<u>2,019,355</u>	<u>1,128,744</u>	<u>23,231,271</u>	<u>27,625,462</u>
Deferred Outflows of Resources					
Deferred charge on refunding	-	-	-	177,007	177,007
Liabilities					
Current liabilities payable from unrestricted assets:					
Accounts payable and accrued expenses	63,056	270,512	6,077	516,252	855,897
Deposits from others	-	-	-	188,832	188,832
Total current liabilities payable from unrestricted assets	<u>63,056</u>	<u>270,512</u>	<u>6,077</u>	<u>705,084</u>	<u>1,044,729</u>
Current liabilities payable from restricted assets:					
Interest payable	-	-	-	19,555	19,555
General obligation bonds payable	-	-	26,000	-	26,000
Revenue bonds payable	-	-	-	343,722	343,722
Total current liabilities payable from restricted assets	<u>-</u>	<u>-</u>	<u>26,000</u>	<u>363,277</u>	<u>389,277</u>
Total current liabilities	<u>63,056</u>	<u>270,512</u>	<u>32,077</u>	<u>1,068,361</u>	<u>1,434,006</u>
Noncurrent liabilities:					
Advances from other funds	-	-	-	600,000	600,000
General obligation bonds payable	-	-	27,000	-	27,000
Revenue bonds payable	-	-	-	3,013,328	3,013,328
Total noncurrent liabilities	<u>-</u>	<u>-</u>	<u>27,000</u>	<u>3,613,328</u>	<u>3,640,328</u>
Total liabilities	<u>63,056</u>	<u>270,512</u>	<u>59,077</u>	<u>4,681,689</u>	<u>5,074,334</u>
Net Position					
Net invested in capital assets	222,890	1,031,586	443,938	14,249,945	15,948,359
Restricted for debt service	-	-	40,618	494,482	535,100
Restricted for water conservation	-	-	-	228,313	228,313
Unrestricted	960,146	717,257	585,111	3,753,849	6,016,363
Total net position	<u>\$ 1,183,036</u>	<u>\$ 1,748,843</u>	<u>\$ 1,069,667</u>	<u>\$ 18,726,589</u>	<u>\$ 22,728,135</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, 2018

	Sanitation Funds				Total Sanitation Funds
	Sea Ranch	Penngrove	Geyserville	Airport Larkfield Wikiup	
Operating Revenue					
Flat charges	\$ 668,860	\$ 756,462	\$ 347,563	\$ 3,061,737	\$ 4,834,622
Sanitation services	2,119	13,263	6,863	227,192	249,437
Miscellaneous	-	125	-	8,867	8,992
Total operating revenue	<u>670,979</u>	<u>769,850</u>	<u>354,426</u>	<u>3,297,796</u>	<u>5,093,051</u>
Operating Expenses					
Services and supplies	609,740	827,626	544,374	4,338,604	6,320,344
Depreciation and amortization	23,248	50,718	36,521	1,052,035	1,162,522
Total operating expenses	<u>632,988</u>	<u>878,344</u>	<u>580,895</u>	<u>5,390,639</u>	<u>7,482,866</u>
Operating income (loss)	<u>37,991</u>	<u>(108,494)</u>	<u>(226,469)</u>	<u>(2,092,843)</u>	<u>(2,389,815)</u>
Nonoperating Revenues (Expenses)					
Taxes and assessments	-	17,264	29,664	-	46,928
Investment earnings	10,931	15,671	6,889	44,227	77,718
Interest expense and debt issuance cost	-	-	(3,275)	(91,388)	(94,663)
Real estate rental	-	-	-	156,812	156,812
Loss on disposal of capital assets	-	-	-	(521,244)	(521,244)
Offset to connection fees - see Note S	-	-	-	(913,932)	(913,932)
Conservation program	(321)	(417)	-	(8,721)	(9,459)
Intergovernmental revenue	-	186	104	31,827	32,117
Total nonoperating revenue (expenses), net	<u>10,610</u>	<u>32,704</u>	<u>33,382</u>	<u>(1,302,419)</u>	<u>(1,225,723)</u>
Income (loss) before capital contributions and transfers	48,601	(75,790)	(193,087)	(3,395,262)	(3,615,538)
Capital contributions - connection fees	18,959	-	3,850	27,293	50,102
Capital contributions	-	30,632	-	-	30,632
Transfers in	-	-	295,000	1,000,000	1,295,000
Change in net position	67,560	(45,158)	105,763	(2,367,969)	(2,239,804)
Net position - beginning of year	<u>1,115,476</u>	<u>1,794,001</u>	<u>963,904</u>	<u>21,094,558</u>	<u>24,967,939</u>
Net position - end of year	<u>\$ 1,183,036</u>	<u>\$ 1,748,843</u>	<u>\$ 1,069,667</u>	<u>\$ 18,726,589</u>	<u>\$ 22,728,135</u>

Sonoma County Water Agency
Combining Statement of Cash Flows
Sanitation Enterprise Funds
For the Fiscal Year Ended June 30, 2018

	Sanitation Funds				Total Sanitation Funds
	Sea Ranch	Penngrove	Geyserville	Airport Larkfield Wikiup	
Cash flows from operating activities:					
Cash receipts from customers	\$ 665,930	\$ 766,336	\$ 334,344	\$ 3,704,909	\$ 5,471,519
Cash payments for interfund services used	(81,662)	(189,300)	(251,456)	(2,644,065)	(3,166,483)
Cash payments to suppliers	(514,985)	(615,663)	(286,881)	(950,252)	(2,367,781)
Net cash provided by (used for) operating activities	<u>69,283</u>	<u>(38,627)</u>	<u>(203,993)</u>	<u>110,592</u>	<u>(62,745)</u>
Cash flows from noncapital financing activities:					
Taxes and assessments	-	17,263	29,664	-	46,927
Transfers in	-	-	295,000	1,000,000	1,295,000
Intergovernmental receipts	-	942	104	42,680	43,726
Real estate rental	-	-	-	156,812	156,812
Conservation program	(321)	(417)	-	(8,721)	(9,459)
Net cash provided (used for) by noncapital financing activities	<u>(321)</u>	<u>17,788</u>	<u>324,768</u>	<u>1,190,771</u>	<u>1,533,006</u>
Cash flows from capital and related financing activities:					
Purchase of capital assets	(2,472)	(81,409)	-	(56,313)	(140,194)
Principal paid on general obligation and revenue bonds	-	(16,000)	(25,000)	(333,306)	(374,306)
Interest paid on long-term debt	-	(400)	(3,275)	(82,308)	(85,983)
Interfund loans	-	-	-	600,000	600,000
Capital contributions - intergovernmental	-	10,807	-	-	10,807
Connection fees	18,960	-	3,850	770,745	793,555
Net cash provided by (used for) capital and related financing activities	<u>16,488</u>	<u>(87,002)</u>	<u>(24,425)</u>	<u>898,818</u>	<u>803,879</u>
Cash flows from investing activities:					
Interest received	10,931	15,671	6,889	44,227	77,718
Net cash provided by investing activities	<u>10,931</u>	<u>15,671</u>	<u>6,889</u>	<u>44,227</u>	<u>77,718</u>
Net increase (decrease) in cash and cash equivalents	96,381	(92,170)	103,239	2,244,408	2,351,858
Cash and cash equivalents - beginning of year	913,336	1,037,880	498,665	3,498,774	5,948,655
Cash and cash equivalents - end of year	<u>\$ 1,009,717</u>	<u>\$ 945,710</u>	<u>\$ 601,904</u>	<u>\$ 5,743,182</u>	<u>\$ 8,300,513</u>
Reconciliation to the statement of net position:					
Cash and investments	\$ 1,009,717	\$ 945,710	\$ 561,286	\$ 5,229,145	\$ 7,745,858
Restricted cash and investments	-	-	40,618	514,037	554,655
Cash and cash equivalents	<u>\$ 1,009,717</u>	<u>\$ 945,710</u>	<u>\$ 601,904</u>	<u>\$ 5,743,182</u>	<u>\$ 8,300,513</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	\$ 37,991	\$ (108,494)	\$ (226,469)	\$ (2,092,843)	\$ (2,389,815)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation and amortization	23,248	50,718	36,521	1,052,035	1,162,522
Change in assets and liabilities:					
Accounts receivable	(5,047)	(3,514)	(20,083)	407,110	378,466
Deposits from others	-	-	-	188,832	188,832
Prepaid items	-	(7,830)	-	214,314	206,484
Accounts payable and accrued expenses	13,091	30,493	6,038	341,144	390,766
Net cash provided by (used for) operating activities	<u>\$ 69,283</u>	<u>\$ (38,627)</u>	<u>\$ (203,993)</u>	<u>\$ 110,592</u>	<u>\$ (62,745)</u>
Noncash investing, capital, or financing activities:					
Capital contributions receivable	\$ -	\$ (19,825)	\$ -	\$ -	\$ (19,825)
Grants receivable	-	756	-	10,853	11,609
Loss on disposal of capital assets	-	-	-	(521,244)	(521,244)

**Sonoma County Water Agency
Combining Statement of Net Position
Internal Service Funds
June 30, 2018**

	<u>Internal Service Funds</u>		Total Internal Service Funds
	Equipment Facilities	Power Resources	
Assets			
Current assets:			
Cash and investments	\$ 9,951,536	\$ 5,074,927	\$ 15,026,463
Deposits with others	-	753,746	753,746
Due from other funds	48,454	-	48,454
Accounts receivable	26,003	-	26,003
Prepaid items	919	-	919
Total current assets	<u>10,026,912</u>	<u>5,828,673</u>	<u>15,855,585</u>
Noncurrent assets:			
Reserves on deposit	-	766,511	766,511
Capital assets, net			
Land	2,336,031	-	2,336,031
Land improvements	597,846	-	597,846
Construction in progress	19,530	-	19,530
Buildings and improvements	23,414,237	12,457,522	35,871,759
Equipment	<u>4,601,181</u>	<u>-</u>	<u>4,601,181</u>
Total capital assets	<u>30,968,825</u>	<u>12,457,522</u>	<u>43,426,347</u>
Total noncurrent assets	<u>30,968,825</u>	<u>13,224,033</u>	<u>44,192,858</u>
Total assets	<u>40,995,737</u>	<u>19,052,706</u>	<u>60,048,443</u>
Liabilities			
Current liabilities:			
Accounts payable and accrued expenses	188,364	556,562	744,926
Interest payable	30,098	5,991	36,089
Unearned revenue	-	332,421	332,421
Capital leases	425,431	227,835	653,266
Due to other funds	<u>-</u>	<u>170,520</u>	<u>170,520</u>
Total current liabilities	<u>643,893</u>	<u>1,293,329</u>	<u>1,937,222</u>
Noncurrent liabilities:			
Capital leases	2,155,179	359,480	2,514,659
Advances from other funds	<u>-</u>	<u>2,216,757</u>	<u>2,216,757</u>
Total noncurrent liabilities	<u>2,155,179</u>	<u>2,576,237</u>	<u>4,731,416</u>
Total liabilities	<u>2,799,072</u>	<u>3,869,566</u>	<u>6,668,638</u>
Net Position			
Net investment in capital assets	28,388,215	11,870,207	40,258,422
Restricted for reserves on deposit	-	766,511	766,511
Unrestricted	<u>9,808,450</u>	<u>2,546,422</u>	<u>12,354,872</u>
Total net position	<u>\$ 38,196,665</u>	<u>\$ 15,183,140</u>	<u>\$ 53,379,805</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, 2018

	<u>Internal Service Funds</u>		<u>Total Internal Service Funds</u>
	<u>Equipment Facilities</u>	<u>Power Resources</u>	
Operating Revenue			
Power sales	\$ -	\$ 4,829,384	\$ 4,829,384
Equipment rental	2,762,502	-	2,762,502
Real estate rental	2,876,600	-	2,876,600
Miscellaneous	<u>13,162</u>	<u>-</u>	<u>13,162</u>
Total operating revenue	<u>5,652,264</u>	<u>4,829,384</u>	<u>10,481,648</u>
Operating Expenses			
Services and supplies	3,415,054	3,708,752	7,123,806
Depreciation and amortization	<u>1,788,820</u>	<u>437,568</u>	<u>2,226,388</u>
Total operating expenses	<u>5,203,874</u>	<u>4,146,320</u>	<u>9,350,194</u>
Operating income	<u>448,390</u>	<u>683,064</u>	<u>1,131,454</u>
Nonoperating Revenues (Expenses)			
Investment earnings	84,521	42,919	127,440
Interest expense and debt issuance cost	(113,208)	(55,164)	(168,372)
Gain on disposal of capital assets	<u>2,758,448</u>	<u>-</u>	<u>2,758,448</u>
Total nonoperating expenses, net	<u>2,729,761</u>	<u>(12,245)</u>	<u>2,717,516</u>
Income before transfers	3,178,151	670,819	3,848,970
Transfers in	<u>448,733</u>	<u>-</u>	<u>448,733</u>
Change in net position	3,626,884	670,819	4,297,703
Net position - beginning of year	<u>34,569,781</u>	<u>14,512,321</u>	<u>49,082,102</u>
Net position - end of year	<u>\$ 38,196,665</u>	<u>\$ 15,183,140</u>	<u>\$ 53,379,805</u>

**Sonoma County Water Agency
Combining Statement of Cash Flows
Internal Service Funds
For the Fiscal Year Ended June 30, 2018**

	<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	\$ 5,603,810	\$ 4,829,385	\$ 10,433,195
Cash payments for interfund services used	(1,868,352)	(141,680)	(2,010,032)
Cash payments to suppliers	<u>(1,507,048)</u>	<u>(2,741,639)</u>	<u>(4,248,687)</u>
Net cash provided by operating activities	<u>2,228,410</u>	<u>1,946,066</u>	<u>4,174,476</u>
Cash flows from capital and related financing activities:			
Purchase of capital assets	(704,332)	11,074	(693,258)
Principal paid on capital leases	(407,711)	(218,816)	(626,527)
Principal paid on interfund borrowing	-	(170,520)	(170,520)
Interest paid on long-term debt	(124,163)	(67,462)	(191,625)
Proceeds from sale of capital assets	4,326,802	-	4,326,802
Transfers in	<u>448,733</u>	<u>-</u>	<u>448,733</u>
Net cash provided by (used for) capital and related financing activities	<u>3,539,329</u>	<u>(445,724)</u>	<u>3,093,605</u>
Cash flows from investing activities:			
Interest received	<u>84,521</u>	<u>42,918</u>	<u>127,439</u>
Net increase in cash and cash equivalents	5,852,260	1,543,260	7,395,520
Cash and cash equivalents - beginning of year	<u>4,099,276</u>	<u>3,531,667</u>	<u>7,630,943</u>
Cash and cash equivalents - end of year	<u>\$ 9,951,536</u>	<u>\$ 5,074,927</u>	<u>\$ 15,026,463</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 448,390	\$ 683,064	\$ 1,131,454
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation and amortization	1,788,820	437,568	2,226,388
Change in assets and liabilities:			
Due from other funds	(48,454)	-	(48,454)
Prepaid items	947	771,690	772,637
Other long-term assets	-	(6,465)	(6,465)
Accounts payable and accrued expenses	<u>38,707</u>	<u>60,209</u>	<u>98,916</u>
Net cash provided by operating activities	<u>\$ 2,228,410</u>	<u>\$ 1,946,066</u>	<u>\$ 4,174,476</u>
Noncash investing, capital, or financing activities:			
Acquisition of capital assets through current liabilities	\$ 6,991	\$ 31,917	\$ 38,908
Loss on disposal of capital assets	(163,397)	-	(163,397)

Statistical Section



Sonoma County Water Agency

Statistical Section

This part of the Water Agency's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

Contents

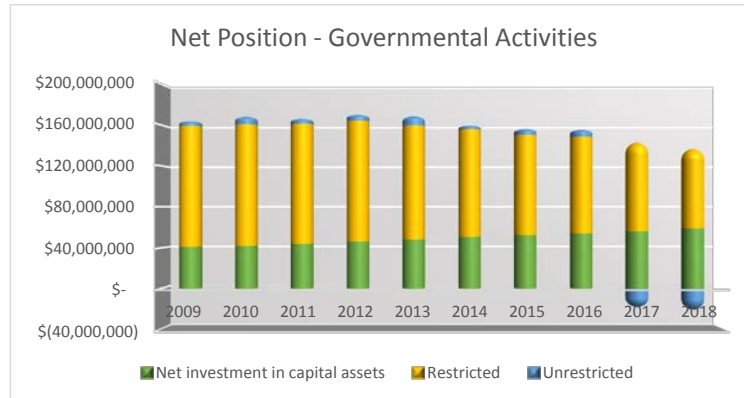
Financial Trends	110
These schedules contain trend information to help the reader understand how the Water Agency's financial performance and well-being have changed over time.	
Revenue Capacity	120
These schedules contain information to help the reader assess the Water Agency's most significant local revenue sources, Water Sales, property taxes, and Sanitation Charges.	
Debt Capacity	131
These schedules present information to help the reader assess the affordability of the Water Agency's current level of outstanding debt and the Water Agency's ability to issue additional debt in the future.	
Demographic and Operating Indicators	137
These schedules offer demographic and economic indicators to help the reader understand the environment within which the Water Agency's financial activities take place.	

**Sonoma County Water Agency
Net Position by Component (Unaudited)
Last Ten Fiscal Years
(accrual basis of accounting)**

	June 30,				
	2009 as restated (1)	2010	2011	2012	2013 as restated (2)
Governmental activities					
Net investment in capital assets	\$ 41,035,367	\$ 42,182,070	\$ 44,097,288	\$ 46,328,783	\$ 48,170,895
Restricted	117,902,026	118,070,202	116,791,458	117,533,507	111,320,194
Unrestricted	<u>4,944,112</u>	<u>8,063,205</u>	<u>5,336,348</u>	<u>6,238,764</u>	<u>9,195,268</u>
Total governmental activities net position	<u>\$ 163,881,505</u>	<u>\$ 168,315,477</u>	<u>\$ 166,225,094</u>	<u>\$ 170,101,054</u>	<u>\$ 168,686,357</u>
Business-type activities					
Net investment in capital assets	\$ 147,384,624	\$ 146,238,805	\$ 148,479,032	\$ 151,501,197	\$ 155,634,490
Restricted	9,806,424	9,182,687	7,671,398	8,620,858	8,483,536
Unrestricted	<u>32,414,686</u>	<u>30,556,916</u>	<u>34,544,343</u>	<u>36,694,841</u>	<u>42,334,597</u>
Total business-type activities net position	<u>\$ 189,605,734</u>	<u>\$ 185,978,408</u>	<u>\$ 190,694,773</u>	<u>\$ 196,816,896</u>	<u>\$ 206,452,623</u>
Primary Government					
Net investment in capital assets	\$ 188,419,991	\$ 188,420,875	\$ 192,576,320	\$ 197,829,980	\$ 203,805,385
Restricted	127,708,450	127,252,889	124,462,856	126,154,365	119,803,730
Unrestricted	<u>37,358,798</u>	<u>38,620,121</u>	<u>39,880,691</u>	<u>42,933,605</u>	<u>51,529,865</u>
Total primary government net position	<u>\$ 353,487,239</u>	<u>\$ 354,293,885</u>	<u>\$ 356,919,867</u>	<u>\$ 366,917,950</u>	<u>\$ 375,138,980</u>

Notes:

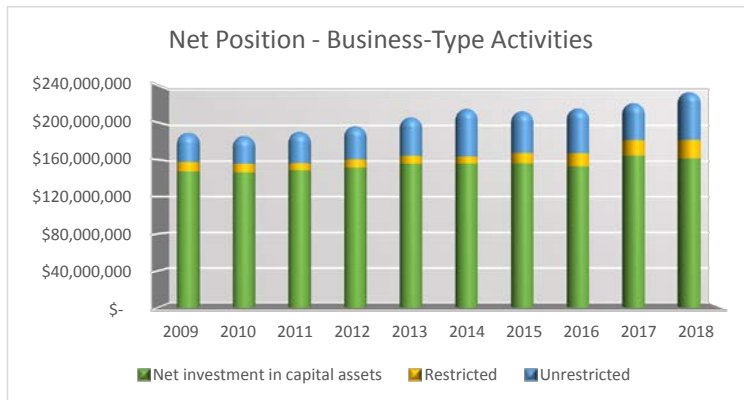
- (1) FY 2008 - 09 net position was restated from \$352,927,614 to \$353,487,239 for the implementation of GASB 51.
- (2) FY 2012 - 13 net position was restated from \$375,816,617 to \$375,138,980 for the implementation of GASB 65.
- (3) FY 2013 - 14 net position was restated from \$385,129,551 to \$374,929,454 for the implementation of GASB 68.
- (4) FY 2016-17 net position was restated from \$371,386,840 to \$346,186,514 for the implementation of GASB 75.



Source: Sonoma County Auditor-Controller-Treasurer-Tax Collector

**Sonoma County Water Agency
Net Position by Component (Unaudited)
Last Ten Fiscal Years
(accrual basis of accounting)**

June 30,					
2014 as restated (3)	2015	2016	2017 as restated (4)	2018	
					Governmental activities
\$ 50,729,786	\$ 52,314,923	\$ 53,939,461	\$ 56,281,939	\$ 58,951,592	Net investment in capital assets
104,627,246	97,856,531	94,399,627	86,833,589	77,808,351	Restricted
<u>4,030,884</u>	<u>5,903,840</u>	<u>7,173,755</u>	<u>(18,805,360)</u>	<u>(21,372,170)</u>	Unrestricted
<u>\$ 159,387,916</u>	<u>\$ 156,075,294</u>	<u>\$ 155,512,843</u>	<u>\$ 124,310,168</u>	<u>\$ 115,387,773</u>	Total governmental activities net position
					Business-type activities
\$ 155,916,745	\$ 156,110,501	\$ 152,563,649	\$ 164,264,829	\$ 161,478,637	Net investment in capital assets
7,429,384	10,941,231	14,048,490	16,664,705	19,800,228	Restricted
<u>52,195,409</u>	<u>45,892,005</u>	<u>49,409,182</u>	<u>40,946,812</u>	<u>52,535,839</u>	Unrestricted
<u>\$ 215,541,538</u>	<u>\$ 212,943,737</u>	<u>\$ 216,021,321</u>	<u>\$ 221,876,346</u>	<u>\$ 233,814,704</u>	Total business-type activities net position
					Primary Government
\$ 206,646,531	\$ 208,425,424	\$ 206,503,110	\$ 220,546,768	\$ 220,430,229	Net investment in capital assets
112,056,630	108,797,762	108,448,117	103,498,294	97,608,579	Restricted
<u>56,226,293</u>	<u>51,795,845</u>	<u>56,582,937</u>	<u>22,141,452</u>	<u>31,163,669</u>	Unrestricted
<u>\$ 374,929,454</u>	<u>\$ 369,019,031</u>	<u>\$ 371,534,164</u>	<u>\$ 346,186,514</u>	<u>\$ 349,202,477</u>	Total primary government net position



Sonoma County Water Agency
Changes in Net Position (Unaudited)
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year Ending June 30,				
	2009 (1)	2010	2011	2012	2013 (2)
Expenses					
Governmental activities:					
General government	\$ 2,678,374	\$ 2,435,380	\$ 5,866,906	\$ 4,763,130	\$ 3,649,012
Intergovernmental	-	-	-	-	-
Flood control	9,148,324	8,741,194	8,276,305	10,300,602	11,299,610
Warm Springs dam	1,651,684	3,309,084	3,226,944	2,864,948	4,025,973
Interest on long-term debt	3,560,417	3,472,533	3,381,811	3,288,164	3,191,498
Total governmental activities	<u>17,038,799</u>	<u>17,958,191</u>	<u>20,751,966</u>	<u>21,216,844</u>	<u>22,166,093</u>
Business-type activities:					
Water transmission	30,294,749	28,563,239	27,961,893	26,946,964	30,341,617
Water supply	6,373,050	9,342,303	4,612,143	8,510,170	5,827,236
Sanitation	5,298,745	5,273,189	4,791,721	5,510,887	5,451,593
Total business-type activities	<u>41,966,544</u>	<u>43,178,731</u>	<u>37,365,757</u>	<u>40,968,021</u>	<u>41,620,446</u>
Total expenses	<u>\$ 59,005,343</u>	<u>\$ 61,136,922</u>	<u>\$ 58,117,723</u>	<u>\$ 62,184,865</u>	<u>\$ 63,786,539</u>
Program revenues					
Governmental activities:					
Charges for services					
General government	\$ 390,969	\$ 600,971	\$ 638,454	\$ 613,505	\$ 961,169
Intergovernmental	-	-	-	-	-
Flood control	-	63,494	55,077	73,812	131,106
Warm Springs dam	-	304	-	96,281	96,126
Operating grants and contributions	-	359,382	572,847	562,399	785,690
Capital grants and contributions	449,198	-	21,831	35,401	3,168
Total governmental activities	<u>840,167</u>	<u>1,024,151</u>	<u>1,288,209</u>	<u>1,381,398</u>	<u>1,977,259</u>
Business-type activities:					
Charges for services					
Water transmission	28,343,008	27,197,878	30,299,370	32,581,560	38,209,541
Water supply	1,820,507	1,660,960	2,027,827	2,124,639	2,090,991
Sanitation	3,024,963	3,333,306	3,669,392	3,849,275	4,121,684
Operating grants and contributions	1,086,087	3,070,266	1,866,359	6,363,090	3,663,120
Capital grants and contributions	263,656	140,444	433,781	1,315,844	2,159,888
Total business-type activities	<u>34,538,221</u>	<u>35,402,854</u>	<u>38,296,729</u>	<u>46,234,408</u>	<u>50,245,224</u>
Total program revenues	<u>\$ 35,378,388</u>	<u>\$ 36,427,005</u>	<u>\$ 39,584,938</u>	<u>\$ 47,615,806</u>	<u>\$ 52,222,483</u>
Net (expense)/revenue					
Governmental activities	\$ (16,198,632)	\$ (16,934,040)	\$ (19,463,757)	\$ (19,835,446)	\$ (20,188,834)
Business-type activities	(7,428,323)	(7,775,877)	930,972	5,266,387	8,624,778
Total primary government net expense	<u>\$ (23,626,955)</u>	<u>\$ (24,709,917)</u>	<u>\$ (18,532,785)</u>	<u>\$ (14,569,059)</u>	<u>\$ (11,564,056)</u>

Notes:

- (1) FY 2008 - 09 net position was restated from \$352,927,614 to \$353,487,239 for the implementation of GASB 51.
- (2) FY 2012 - 13 net position was restated from \$375,816,617 to \$375,138,980 for the implementation of GASB 65.
- (3) FY 2013 - 14 net position was restated from \$385,129,551 to \$374,929,454 for the implementation of GASB 68.
- (4) FY 2015 - 16 reimbursements from outside governments for services were reclassified from a reduction in expense for governmental activities to charges for services. This resulted in an increase in both general government expense and charges for services of \$11,671,473.
- (5) FY 2016 - 2017 expenses incurred from providing services to outside governments were classified from general government expenses to intergovernmental expenses.
- (6) FY 2016-17 net position was restated from \$371,386,840 to \$346,186,514 for the implementation of GASB 75.

Source: Sonoma County Auditor-Controller-Treasurer-Tax Collector

Sonoma County Water Agency
Changes in Net Position (Unaudited)
Last Ten Fiscal Years
(accrual basis of accounting)

Fiscal Year Ending June 30,					
2014	2015	2016	2017	2018	
(3)		(4)	(5), (6)		
Expenses					
Governmental activities:					
\$ 3,209,352	\$ 6,285,821	\$ 19,245,528	\$ 8,991,653	\$ 7,766,110	General government
-	-	-	13,794,014	14,336,168	Intergovernmental
11,447,839	10,022,083	10,737,135	10,468,135	14,170,068	Flood control
6,123,874	8,617,924	6,720,953	9,861,623	10,822,995	Warm Springs dam
3,091,715	2,988,713	2,882,388	2,772,636	2,659,344	Interest on long-term debt
<u>23,872,780</u>	<u>27,914,541</u>	<u>39,586,004</u>	<u>45,888,061</u>	<u>49,754,685</u>	Total governmental activities
Business-type activities:					
34,006,982	40,319,069	31,458,257	32,689,918	32,952,295	Water transmission
6,308,724	6,741,377	5,803,845	7,183,788	4,699,307	Water supply
4,743,336	5,166,464	5,165,501	5,818,886	7,593,186	Sanitation
<u>45,059,042</u>	<u>52,226,910</u>	<u>42,427,603</u>	<u>45,692,592</u>	<u>45,244,788</u>	Total business-type activities
<u>\$ 68,931,822</u>	<u>\$ 80,141,451</u>	<u>\$ 82,013,607</u>	<u>\$ 91,580,653</u>	<u>\$ 94,999,473</u>	Total expenses
Program revenues					
Governmental activities:					
\$ 2,645,169	\$ 946,849	\$ 10,957,871	\$ 1,484,451	\$ 1,754,440	Charges for services
-	-	-	11,984,014	11,237,954	General government
84,741	39,417	36,193	74,488	113,649	Intergovernmental
19	106	46,612	715	61	Flood control
1,622,316	1,723,931	3,033,039	1,253,477	2,560,079	Warm Springs dam
-	-	100,477	16,207	296,313	Operating grants and contributions
<u>4,352,245</u>	<u>2,710,303</u>	<u>14,174,192</u>	<u>14,813,352</u>	<u>15,962,496</u>	Capital grants and contributions
Business-type activities:					
40,184,486	35,493,217	32,236,696	33,936,713	40,246,329	Charges for services
2,225,130	1,643,330	1,983,368	2,289,197	3,136,365	Water transmission
4,402,261	4,693,270	5,063,439	5,651,512	5,249,866	Water supply
3,733,673	4,248,380	3,160,775	4,699,981	1,588,746	Sanitation
1,646,033	1,694,864	1,567,521	3,987,850	1,974,789	Operating grants and contributions
<u>52,191,583</u>	<u>47,773,061</u>	<u>44,011,799</u>	<u>50,565,253</u>	<u>52,196,095</u>	Capital grants and contributions
<u>\$ 56,543,828</u>	<u>\$ 50,483,364</u>	<u>\$ 58,185,991</u>	<u>\$ 65,378,605</u>	<u>\$ 68,158,591</u>	Total business-type activities
Net (expense)/revenue					
\$ (19,520,535)	\$ (25,204,238)	\$ (25,411,812)	\$ (31,074,709)	\$ (33,792,189)	Governmental activities
7,132,541	(4,453,849)	1,584,196	4,872,661	6,951,307	Business-type activities
<u>\$ (12,387,994)</u>	<u>\$ (29,658,087)</u>	<u>\$ (23,827,616)</u>	<u>\$ (26,202,048)</u>	<u>\$ (26,840,882)</u>	Total primary government net expense

Sonoma County Water Agency
Changes in Net Position (Unaudited)
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year Ending June 30,				
	2009 (1)	2010	2011	2012	2013 (2)
General revenues					
Governmental activities:					
Property taxes	\$ 19,455,086	\$ 18,911,088	\$ 18,325,641	\$ 18,853,029	\$ 20,075,888
Unrestricted investment earnings	6,197,798	6,074,946	2,510,438	5,908,377	284,722
Miscellaneous	261,518	-	-	(720,000)	(352,044)
Transfers	(3,601,625)	(3,618,022)	(3,462,705)	(330,000)	(1,234,429)
Total governmental activities	<u>22,312,777</u>	<u>21,368,012</u>	<u>17,373,374</u>	<u>23,711,406</u>	<u>18,774,137</u>
Business-type activities:					
Property taxes	41224	41216	38944	38007	38981
Unrestricted investment earnings	1,208,115	408,379	283,744	478,282	415,176
Miscellaneous	90,655	80,934	-	9,447	-
Transfers	3,601,625	3,618,022	3,462,705	330,000	1,234,429
Total business-type activities	<u>4,941,619</u>	<u>4,148,551</u>	<u>3,785,393</u>	<u>855,736</u>	<u>1,688,586</u>
Total primary government	<u>\$ 27,254,396</u>	<u>\$ 25,516,563</u>	<u>\$ 21,158,767</u>	<u>\$ 24,567,142</u>	<u>\$ 20,462,723</u>
Change in net position					
Governmental activities	\$ 6,114,145	\$ 4,433,972	\$ (2,090,383)	\$ 3,875,960	\$ (1,414,697)
Business-type activities	(2,486,704)	(3,627,326)	4,716,365	6,122,123	10,313,364
Total primary government	<u>\$ 3,627,441</u>	<u>\$ 806,646</u>	<u>\$ 2,625,982</u>	<u>\$ 9,998,083</u>	<u>\$ 8,898,667</u>

Notes:

- (1) FY 2008 - 09 net position was restated from \$352,927,614 to \$353,487,239 for the implementation of GASB 51.
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- (5) FY 2016 2017 general government expenses related to services and contributions provided to outside governments were re-classified as intergovernmental expenses.
- (6) FY 2016-17 net position was restated from \$371,386,840 to \$346,186,514 for the implementation of GASB 75.

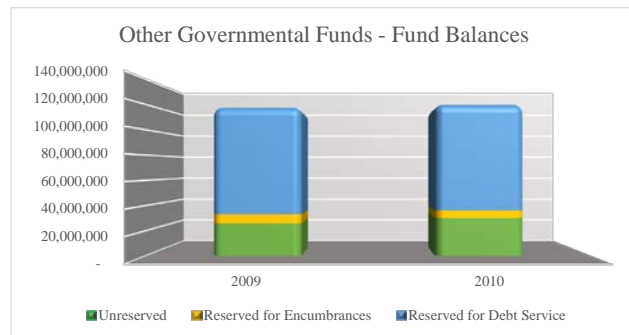
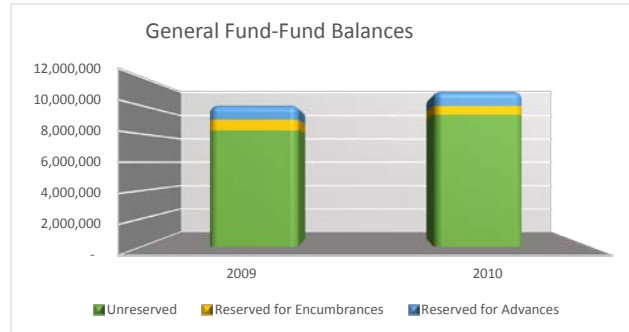
Source: Sonoma County Auditor-Controller-Treasurer-Tax Collector

Sonoma County Water Agency
Changes in Net Position (Unaudited)
Last Ten Fiscal Years
(accrual basis of accounting)

Fiscal Year Ending June 30,					
2014	2015	2016	2017	2018	
(3)		(4)	(5), (6)		
					General revenues
					Governmental activities:
\$ 20,350,239	\$ 21,953,371	\$ 23,629,448	\$ 25,228,577	\$ 26,877,485	Property taxes
1,920,952	1,448,245	2,138,047	447,480	1,136,042	Unrestricted investment earnings
(749,000)	-	-	-	-	Miscellaneous
<u>(1,100,000)</u>	<u>(1,510,000)</u>	<u>(918,134)</u>	<u>(1,585,000)</u>	<u>(3,143,733)</u>	Transfers
<u>20,422,191</u>	<u>21,891,616</u>	<u>24,849,361</u>	<u>24,091,057</u>	<u>24,869,794</u>	Total governmental activities
					Business-type activities:
39282	40664	46,892	49,437	46,928	Property taxes
812,853	305,384	528,362	329,230	815,087	Unrestricted investment earnings
4,239	-	-	-	-	Miscellaneous
<u>1,100,000</u>	<u>1,510,000</u>	<u>918,134</u>	<u>1,585,000</u>	<u>3,143,733</u>	Transfers
<u>1,956,374</u>	<u>1,856,048</u>	<u>1,493,388</u>	<u>1,963,667</u>	<u>4,005,748</u>	Total business-type activities
<u>\$ 22,378,565</u>	<u>\$ 23,747,664</u>	<u>\$ 26,342,749</u>	<u>\$ 26,054,724</u>	<u>\$ 28,875,542</u>	Total primary government
					Change in net position
\$ 901,656	\$ (3,312,622)	\$ (562,451)	\$ (6,983,652)	\$ (8,922,395)	Governmental activities
<u>9,088,915</u>	<u>(2,597,801)</u>	<u>3,077,584</u>	<u>6,836,328</u>	<u>10,957,055</u>	Business-type activities
<u>\$ 9,990,571</u>	<u>\$ (5,910,423)</u>	<u>\$ 2,515,133</u>	<u>\$ (147,324)</u>	<u>\$ 2,034,660</u>	Total primary government

**Sonoma County Water Agency
Fund Balances of Governmental Funds (Unaudited)
Last Ten Fiscal Years
(modified accrual basis of accounting)**

	June 30,	
	2009	2010
General Fund		
Reserved for:		
Encumbrances	\$ 743,311	\$ 625,049
Advances	1,062,142	1,071,840
Unreserved	8,257,157	9,351,537
Total General Fund	<u>\$ 10,062,610</u>	<u>\$ 11,048,426</u>
All other governmental funds		
Reserved for:		
Encumbrances	\$ 7,212,230	\$ 5,884,513
Debt service	84,910,049	84,247,669
Other	-	110,000
Unreserved	25,779,747	30,123,305
Total all other governmental funds	<u>\$ 117,902,026</u>	<u>\$ 120,365,487</u>



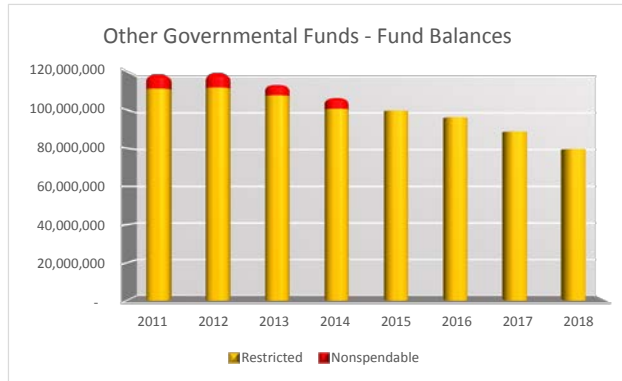
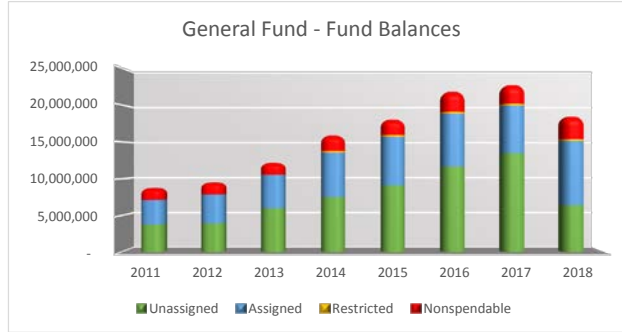
	June 30,		
	2011 (1)	2012	2013
General Fund			
Nonspendable	\$ 1,578,367	\$ 1,592,999	\$ 1,605,010
Restricted	-	-	-
Assigned	3,355,545	3,953,877	4,558,922
Unassigned	3,774,342	3,928,987	5,986,297
Total General Fund	<u>\$ 8,708,254</u>	<u>\$ 9,475,863</u>	<u>\$ 12,150,229</u>
All other governmental funds			
Nonspendable	\$ 7,971,008	\$ 8,161,081	\$ 5,950,798
Restricted	111,054,618	111,543,506	107,475,354
Total all other governmental funds	<u>\$ 119,025,626</u>	<u>\$ 119,704,587</u>	<u>\$ 113,426,152</u>

Notes:

(1) During the fiscal year ended June 30, 2011 the Water Agency implemented GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, under which governmental fund balances are reported as nonspendable, restricted, committed, assigned, and unassigned.

Source: Sonoma County Auditor-Controller-Treasurer-Tax Collector

**Sonoma County Water Agency
Fund Balances of Governmental Funds (Unaudited)
Last Ten Fiscal Years
(modified accrual basis of accounting)**



June 30,					
2014	2015	2016	2017	2018	
					General Fund
\$ 2,100,665	\$ 2,141,132	\$ 2,807,196	\$ 2,627,502	\$ 3,060,176	Nonspendable
250,000	250,000	250,000	250,000	250,000	Restricted
6,045,621	6,557,623	7,158,891	6,429,828	8,708,445	Assigned
7,487,201	9,104,242	11,635,437	13,446,060	6,416,548	Unassigned
<u>\$ 15,883,487</u>	<u>\$ 18,052,997</u>	<u>\$ 21,851,524</u>	<u>\$ 22,753,390</u>	<u>\$ 18,435,169</u>	Total General Fund
					All other governmental funds
\$ 5,950,798	\$ -	\$ 364	\$ 18,967	\$ 1,122	Nonspendable
100,465,183	99,575,876	96,046,979	88,586,028	79,489,571	Restricted
<u>\$ 106,415,981</u>	<u>\$ 99,575,876</u>	<u>\$ 96,047,343</u>	<u>\$ 88,604,995</u>	<u>\$ 79,490,693</u>	Total all other governmental funds

Sonoma County Water Agency
Changes in Fund Balances of Governmental Funds (Unaudited)
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year Ended June 30,				
	2009	2010	2011	2012	2013
Revenues					
Property taxes	\$ 19,455,086	\$ 18,911,088	\$ 18,325,641	\$ 18,853,029	\$ 20,075,888
Investment earnings	6,197,798	6,074,946	2,510,438	5,908,377	284,722
Intergovernmental	449,198	459,134	673,076	601,153	788,858
Charges for services	390,969	407,982	467,917	498,619	918,787
Miscellaneous	261,518	157,035	147,216	281,626	269,614
Total Revenues	<u>26,754,569</u>	<u>26,010,185</u>	<u>22,124,288</u>	<u>26,142,804</u>	<u>22,337,869</u>
Expenditures					
Current:					
General government	2,501,938	2,043,912	5,331,399	4,745,682	3,378,536
Intergovernmental	-	-	-	-	-
Flood control	7,596,046	7,179,108	6,652,635	8,742,207	9,739,923
Warm Springs dam	1,651,684	3,309,084	3,226,944	2,864,948	4,024,221
Capital outlay	197,789	125,210	845,066	1,007,826	927,214
Debt Service:					
Principal	2,667,797	2,753,832	2,842,644	2,934,319	3,028,951
Interest and fiscal charges	3,617,775	3,531,740	3,442,928	3,351,252	3,256,620
Total expenditures	<u>18,233,029</u>	<u>18,942,886</u>	<u>22,341,616</u>	<u>23,646,234</u>	<u>24,355,465</u>
Excess (deficiency) of revenues over expenditures	<u>8,521,540</u>	<u>7,067,299</u>	<u>(217,328)</u>	<u>2,496,570</u>	<u>(2,017,596)</u>
Other financing sources (Uses)					
Transfers in	6,285,571	1,875,344	105,000	-	-
Transfers out	(9,887,196)	(5,493,366)	(3,567,705)	(1,050,000)	(1,784,429)
Proceeds from sale of capital assets	-	-	-	-	197,956
Total other financing uses	<u>(3,601,625)</u>	<u>(3,618,022)</u>	<u>(3,462,705)</u>	<u>(1,050,000)</u>	<u>(1,586,473)</u>
Net change in fund balances	<u>\$ 4,919,915</u>	<u>\$ 3,449,277</u>	<u>\$ (3,680,033)</u>	<u>\$ 1,446,570</u>	<u>\$ (3,604,069)</u>
Debt service as a percentage of noncapital expenditures	34.9%	33.4%	29.2%	27.8%	26.8%

Notes:

- (1) Beginning in FY 2015 - 16, reimbursements from outside governments for services were reclassified from a reduction in expenditures to charges for services.
- (2) Beginning in FY 2016 - 17, general government expenditures related to services and contributions provided to outside governments were re-classified as intergovernmental expenses

Source: Sonoma County Auditor-Controller-Treasurer-Tax Collector

Sonoma County Water Agency
Changes in Fund Balances of Governmental Funds (Unaudited)
Last Ten Fiscal Years
(modified accrual basis of accounting)

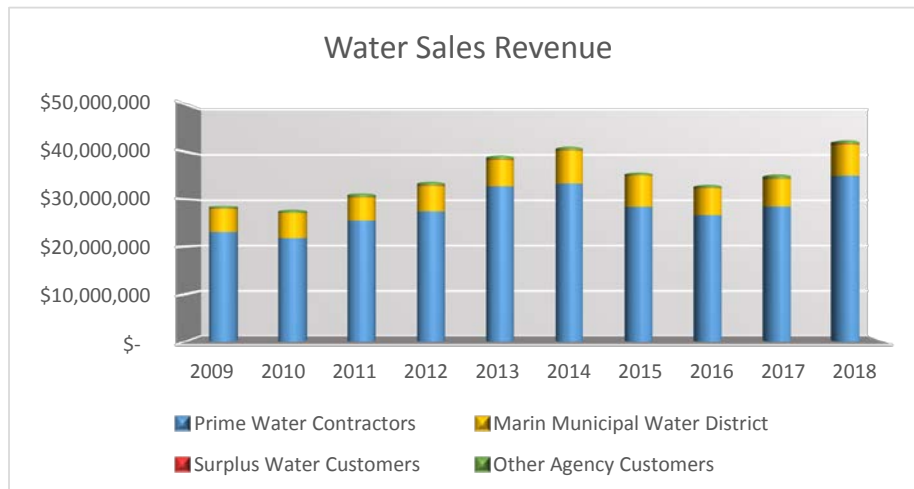
		Fiscal Year Ended June 30,					
2014	2015	2016	2017	2018			
		(1)	(2)				
Revenues							
\$ 20,350,239	\$ 21,953,368	\$ 23,629,448	\$ 25,228,577	\$ 26,877,486		Property taxes	
1,920,952	1,448,245	2,138,047	447,480	1,135,042		Investment earnings	
1,622,316	1,723,931	3,133,516	1,273,673	2,856,392		Intergovernmental	
1,115,125	1,098,927	12,337,610	13,506,968	13,103,270		Charges for services	
46,992	68,852	89,471	32,711	2,834		Miscellaneous	
<u>25,055,624</u>	<u>26,293,323</u>	<u>41,328,092</u>	<u>40,489,409</u>	<u>43,975,024</u>		Total Revenues	
Expenditures							
Current:							
2,927,603	5,351,148	17,502,809	5,954,665	9,321,669		General government	
-	-	-	13,794,014	14,336,168		Intergovernmental	
9,888,655	8,161,854	8,560,561	8,903,573	11,851,261		Flood control	
6,118,708	8,609,601	6,675,502	9,824,653	10,774,266		Warm Springs dam	
1,262,999	1,045,743	1,115,520	682,415	1,694,878		Capital outlay	
Debt Service:							
3,126,635	3,227,469	3,331,555	3,438,997	3,549,905		Principal	
3,158,937	3,058,103	2,954,017	2,846,574	2,735,667		Interest and fiscal charges	
<u>26,483,537</u>	<u>29,453,918</u>	<u>40,139,964</u>	<u>45,444,891</u>	<u>54,263,814</u>		Total expenditures	
<u>(1,427,913)</u>	<u>(3,160,595)</u>	<u>1,188,128</u>	<u>(4,955,482)</u>	<u>(10,288,790)</u>		Excess (deficiency) of revenues over expenditures	
Other financing sources (Uses)							
-	-	-	200,000	-		Transfers in	
(1,850,000)	(1,510,000)	(918,134)	(1,785,000)	(3,143,733)		Transfers out	
1,000	-	-	-	-		Proceeds from sale of capital assets	
<u>(1,849,000)</u>	<u>(1,510,000)</u>	<u>(918,134)</u>	<u>(1,585,000)</u>	<u>(3,143,733)</u>		Total other financing uses	
<u>\$ (3,276,913)</u>	<u>\$ (4,670,595)</u>	<u>\$ 269,994</u>	<u>\$ (6,540,482)</u>	<u>\$ (13,432,523)</u>		Net change in fund balances	
24.9%	22.1%	16.1%	14.0%	12.0%		Debt service as a percentage of noncapital expenditures	

**Sonoma County Water Agency
Water Sales Revenue by Customer Type (Unaudited)
Last Ten Fiscal Years**

Fiscal Year Ended June 30,	Prime Water Contractors (1)	Marin Municipal Water District	Other Agency Customers (2)	Surplus Water Customers (3)	Less Meter Fees	Total Water Sales Revenue
2009	\$23,113,974	\$ 4,846,885	\$ 624,022	\$ 61,209	\$ (30,701)	\$28,615,389
2010	21,847,462	5,189,705	701,661	58,905	(30,232)	27,767,501
2011	25,454,882	4,907,207	796,155	73,668	(30,037)	31,201,875
2012	27,462,327	5,360,431	768,716	89,911	(30,047)	33,651,338
2013	32,751,708	5,547,274	864,850	101,831	(28,421)	39,237,242
2014	33,290,607	6,904,919	935,050	86,226	(26,184)	41,190,618
2015	28,338,254	6,600,960	731,064	41,064	(24,517)	35,686,825
2016	26,620,930	5,641,893	797,695	47,252	(24,664)	33,083,106
2017	28,450,986	5,836,453	905,679	54,399	(23,820)	35,223,697
2018	34,908,724	6,554,780	979,715	131,706	(23,820)	42,551,105

Notes:

- (1) Prime Water Contractors include all parties to the Restructured Agreement for Water Supply except the Water Agency and Forestville Water District.
- (2) Other Agency Customers means the Agency, the County of Sonoma, California-American Water Company, Forestville Water District, Lawndale Mutual Water Company, Kenwood Village Water Company, Penngrove Water Company, the State of California, and Santa Rosa Junior College. Includes meter fees.
- (3) Surplus Water is water that from time to time may be available for delivery from the Transmission System in excess of the amounts required to meet the Agency's contractual obligations and the requirements of all the Agency's Regular Customers. Includes meter fees.



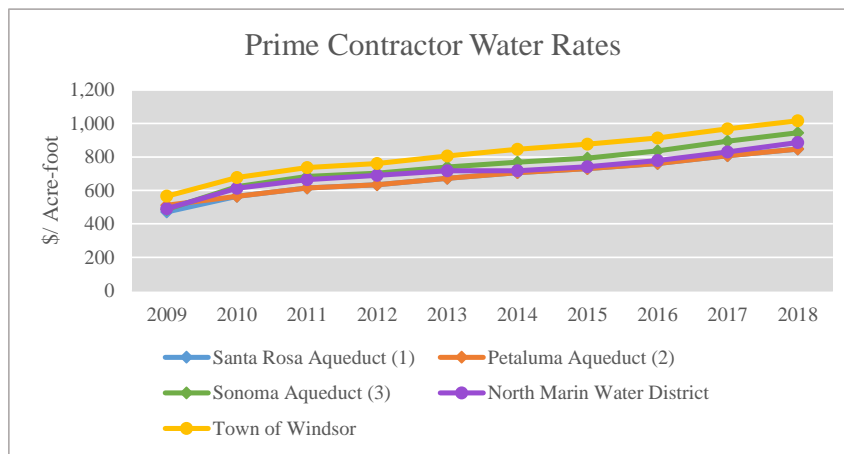
**Sonoma County Water Agency
Water Rates by Category (Unaudited)
Last Ten Fiscal Years**

Water Rates (in dollars per acre-foot)

Fiscal Year Ended June 30,	Prime Water Contractor Rates				
	Santa Rosa Aqueduct (1)	Petaluma Aqueduct (2)	Sonoma Aqueduct (3)	North Marin Water District	Town of Windsor
2009	\$ 471.12	\$ 511.12	\$ 486.22	\$ 490.62	\$ 565.34
2010	564.78	564.78	622.11	611.90	677.74
2011	613.58	613.58	684.14	664.56	736.30
2012	634.11	634.11	703.33	690.43	760.93
2013	672.03	672.03	740.34	717.97	806.44
2014	705.30	705.30	768.75	717.27	846.35
2015	730.68	730.68	793.24	741.78	876.81
2016	761.05	761.05	836.55	778.46	913.26
2017	806.59	806.59	894.62	829.97	967.91
2018	846.78	846.78	944.56	886.28	1,016.14

Notes:

- (1) Rate charged to the City of Santa Rosa
- (2) Rate charged to the City of Rohnert Park, City of Petaluma and City of Cotati
- (3) Rate charged to the City of Sonoma and the Valley of the Moon Water District

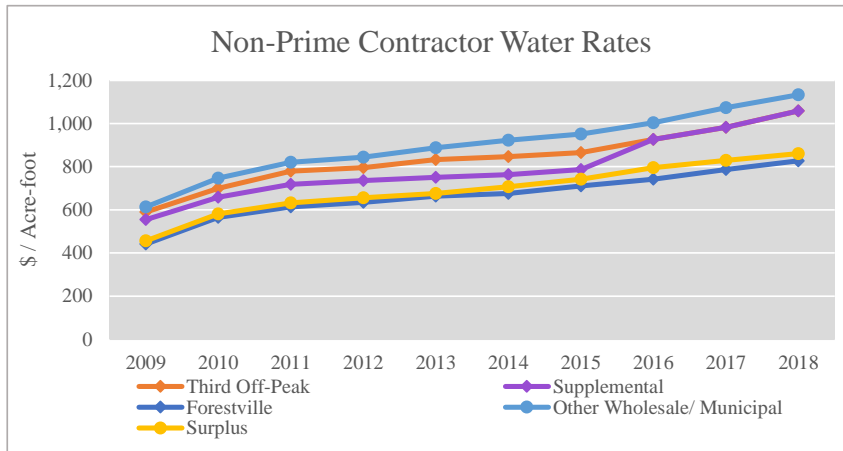


Source: Sonoma County Water Agency Finance and Accounting Division

**Sonoma County Water Agency
Water Rates by Category (Unaudited)
Last Ten Fiscal Years**

Water Rates (in dollars per acre-foot)

Fiscal Year Ended June 30,	Marin Municipal Water District		Municipal / Wholesale		
	Third Off- Peak	Supplemental	Forestville	Other	
				Wholesale/ Municipal	Surplus
2009	\$ 589.56	\$ 554.40	\$ 441.12	\$ 613.35	\$ 455.95
2010	699.81	658.14	564.78	746.54	581.33
2011	778.76	717.58	613.58	820.96	632.35
2012	795.60	735.64	634.11	843.99	656.34
2013	832.42	750.88	662.78	888.40	675.36
2014	846.77	762.97	676.30	922.50	706.73
2015	865.86	786.91	711.18	951.88	741.95
2016	926.54	926.54	741.53	1,003.83	795.50
2017	982.54	982.54	787.09	1,073.54	829.76
2018	1,058.79	1,058.79	827.28	1,133.47	860.83



**Sonoma County Water Agency
Principal Water Customers (Unaudited)
Current Year and Nine Years Ago**

Customer	Water Sales Principal Customers					
	Fiscal Year Ended June 30, 2018			Fiscal Year Ended June 30, 2009		
	Water Sales Revenue	Rank	Percentage of Total Water Sales	Water Sales Revenue	Rank	Percentage of Total Water Sales
City of Santa Rosa	\$ 14,843,259	1	34.9%	\$ 9,614,508	1	33.6%
City of Petaluma	6,998,333	2	16.4%	4,359,812	3	15.2%
Marin Municipal Water District	6,554,780	3	15.4%	4,846,885	2	16.9%
North Marin Water District	5,419,409	4	12.7%	4,111,302	4	14.4%
City of Rohnert Park	2,563,587	5	6.0%	1,555,330	5	5.4%
Valley of the Moon Water District	1,910,796	6	4.5%	1,235,902	6	4.3%
City of Sonoma	1,814,616	7	4.3%	1,001,982	7	3.5%
Town of Windsor	944,023	8	2.2%	443,574	8	1.6%
City of Cotati	414,702	9	1.0%	308,178	9	1.1%
Forestville Water District	337,979	10	0.8%			
Cal American Water				220,031	10	0.8%
	<u>\$41,801,483</u>		<u>98.2%</u>	<u>\$27,697,505</u>		<u>96.8%</u>

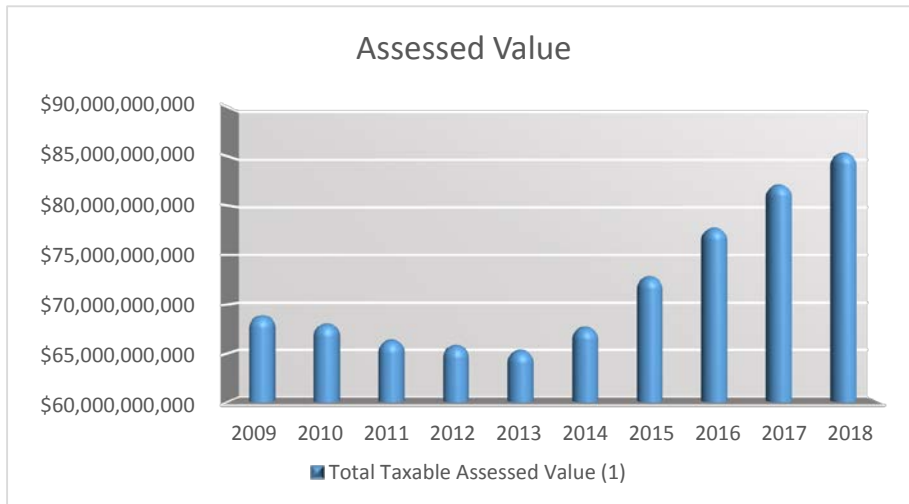
Source: Sonoma County Water Agency Finance and Accounting Division

**Sonoma County Water Agency
Assessed Value of Taxable Property (Unaudited)
Last Ten Fiscal Years**

Fiscal Year Ended June 30,	Secured	Unsecured	Exempt	Total Taxable Assessed Value (1)	County of Sonoma General Levy (2)
2009	\$ 68,603,764,447	\$ 2,465,231,768	\$ (2,194,032,966)	\$ 68,874,963,249	1.0000%
2010	67,795,680,668	2,554,701,383	(2,313,445,928)	68,036,936,123	1.0000%
2011	66,227,139,764	2,515,625,810	(2,382,685,545)	66,360,080,029	1.0000%
2012	65,715,028,613	2,550,892,232	(2,437,205,096)	65,828,715,749	1.0000%
2013	65,424,658,533	2,394,377,795	(2,514,060,747)	65,304,975,581	1.0000%
2014	68,023,889,617	2,402,413,179	(2,740,544,667)	67,685,758,129	1.0000%
2015	73,289,558,548	2,476,588,015	(2,916,460,625)	72,849,685,938	1.0000%
2016	78,257,731,081	2,681,991,907	(3,116,013,957)	77,823,709,031	1.0000%
2017	82,727,351,207	2,659,027,299	(3,171,081,846)	82,215,296,660	1.0000%
2018	85,835,554,404	2,758,805,707	(3,139,459,862)	85,454,900,249	1.0000%

Notes:

- (1) Assessed value is subject to the limitations of Proposition 13.
- (2) County-wide Prop 13 rate. See the schedule *Direct and Overlapping Tax Rates* on the following page for tax rates applicable to the Water Agency.



Source: County of Sonoma Auditor-Controller-Treasurer-Tax Collector, Property Tax Division

**Sonoma County Water Agency
Property Tax Rates-Direct and Overlapping Governments (Unaudited)
Last Ten Fiscal Years**

Fiscal Year Ended June 30,	County Direct Rates			Overlapping Rates				Total Direct and Overlapping Tax Rate	
	Sonoma County Water Agency		Other	Sonoma County General Levy		Sonoma County Water Agency			Schools and other Districts
	(1)	County		(2)	(3)	Cities			
2009	0.0235%	0.2123%	0.7642%	1.0000%	0.0070%	0.0725%	0.0304%	1.1099%	
2010	0.0235%	0.2127%	0.7638%	1.0000%	0.0070%	0.0625%	0.0303%	1.0998%	
2011	0.0233%	0.2135%	0.7632%	1.0000%	0.0070%	0.0675%	0.0322%	1.1067%	
2012	0.0233%	0.2131%	0.7636%	1.0000%	0.0070%	0.0750%	0.0331%	1.1151%	
2013	0.0233%	0.2133%	0.7634%	1.0000%	0.0070%	0.0750%	0.0317%	1.1137%	
2014	0.0233%	0.2133%	0.7634%	1.0000%	0.0070%	0.0650%	0.0307%	1.1027%	
2015	0.0233%	0.2128%	0.7639%	1.0000%	0.0070%	0.0520%	0.0316%	1.0906%	
2016	0.0233%	0.2130%	0.7637%	1.0000%	0.0070%	0.0570%	0.0309%	1.0949%	
2017	0.0233%	0.2133%	0.7634%	1.0000%	0.0070%	0.1070%	0.0300%	1.1440%	
2018	0.0233%	0.2135%	0.7632%	1.0000%	0.0070%	0.1070%	0.0289%	1.1429%	

Notes:

- (1) County General Levy apportioned to the Water Agency.
- (2) The County General Levy represents ad valorem taxes levied by the County and authorized by Article 13A of the Constitution of the State of California. Overlapping rates are taxes levied to service voter-approved debt of overlapping jurisdictions such as a school district or local city.
- (3) Weighted average of ad valorem taxes levied to service voter-approved debt for the Sonoma County Water Agency.

Source:

County of Sonoma Auditor-Controller-Treasurer-Tax Collector, Property Tax Division

**Sonoma County Water Agency
Principal Revenue Taxpayers (Unaudited)
Current Year and Nine Years Ago**

Taxpayer	Fiscal Year Ended June 30, 2018			Fiscal Year Ended June 30, 2009		
	Total Taxes (2)	Rank	Percentage of Total County Taxes	Total Taxes (2)	Rank	Percentage of Total County Taxes
Pacific Gas and Electric Company	\$ 14,311,766	1	1.36%	\$ 6,727,560	2	0.85%
Geysers Power Co LLC	13,103,508	2	1.25%	7,754,450	1	0.98%
Keysight Technologies (1)	2,409,634	3	0.23%			
Pacific Bell	1,884,435	4	0.18%	1,931,788	3	0.24%
Enclave Apartments Property LLC	1,642,954	5	0.16%			
Jackson Family Investments III LLC	1,339,515	6	0.13%			
Ferrari-Carano Vineyards & Winery LLC	1,271,475	7	0.12%			
CWI Fairmont Sonoma Hotel LLC	1,206,636	8	0.11%			
Foley Family Wines Inc.	1,198,824	9	0.11%			
Lytton Rancheria of California	1,162,978	10	0.11%			
Agilent Technologies (1)				1,859,052	4	0.23%
SC Sonoma Development LLC				921,418	5	0.12%
Constellation Wines US Inc.				912,339	6	0.12%
SMI Real Estate LLC				903,230	7	0.11%
Quarry Heights LLC				856,800	8	0.11%
EMI Santa Rosa LTD PTP				789,642	9	0.10%
Carinalli Clement C & Ann Marie				785,375	10	0.10%
Total Taxes Top 10 Taxpayers	39,531,725		3.76%	23,441,654		2.96%
Taxes Paid by all Other Taxpayers	<u>1,012,170,432</u>		<u>96.24%</u>	<u>768,103,736</u>		<u>97.04%</u>
Total Taxes	\$ 1,051,702,157		100.00%	\$ 791,545,390		100.00%

Notes

- (1) Keysight Technologies is a 2014 spinoff of Agilent Technologies.
- (2) Secured property taxes.

Source: County of Sonoma Auditor-Controller-Treasurer-Tax Collector, Property Tax Division

**Sonoma County Water Agency
Property Tax Levies and Collections (Unaudited)
Last Ten Fiscal Years**

Fiscal Year Ended June 30,	Taxes Levied (1)	Collections within the fiscal year of the levy		Collections in Subsequent Years (2)	Total Collections to Date	
		Amount	% of Levy		Amount	% of Levy
2009	688,749,632	658,445,000	95.6%	29,835,000	688,280,000	99.9%
2010	680,369,361	656,556,434	96.5%	23,093,000	679,649,434	99.9%
2011	663,600,800	645,683,701	97.3%	17,049,000	662,732,701	99.9%
2012	658,287,157	642,641,057	97.6%	14,723,000	657,364,057	99.9%
2013	653,049,756	641,750,036	98.3%	10,358,000	652,108,036	99.9%
2014	676,857,581	667,922,384	98.7%	7,920,000	675,842,384	99.9%
2015	728,496,859	721,075,408	99.0%	6,179,000	727,254,408	99.8%
2016	778,237,090	770,591,620	99.0%	5,795,000	776,386,620	99.8%
2017	822,152,967	815,344,431	99.2%	4,170,000	819,514,431	99.7%
2018	854,549,002	844,871,868	98.9%	-	844,871,868	98.9%

Notes:

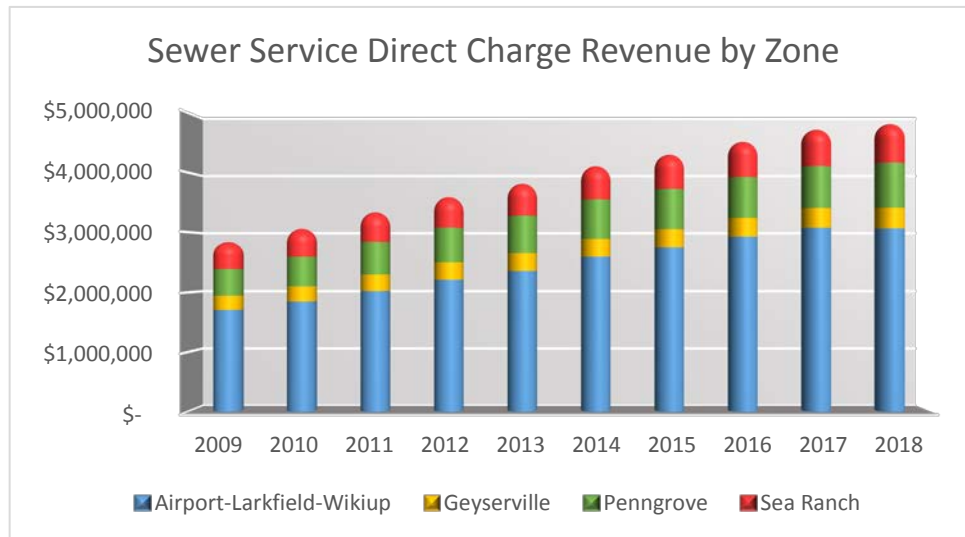
(1) Represents the County of Sonoma General Levy.

(2) Rounded to the nearest \$1,000.

Source: County of Sonoma Auditor-Controller-Treasurer-Tax Collector, Property Tax Division

**Sonoma County Water Agency
Sanitation Direct Charges by Zone (Unaudited)
Last Ten Fiscal Years**

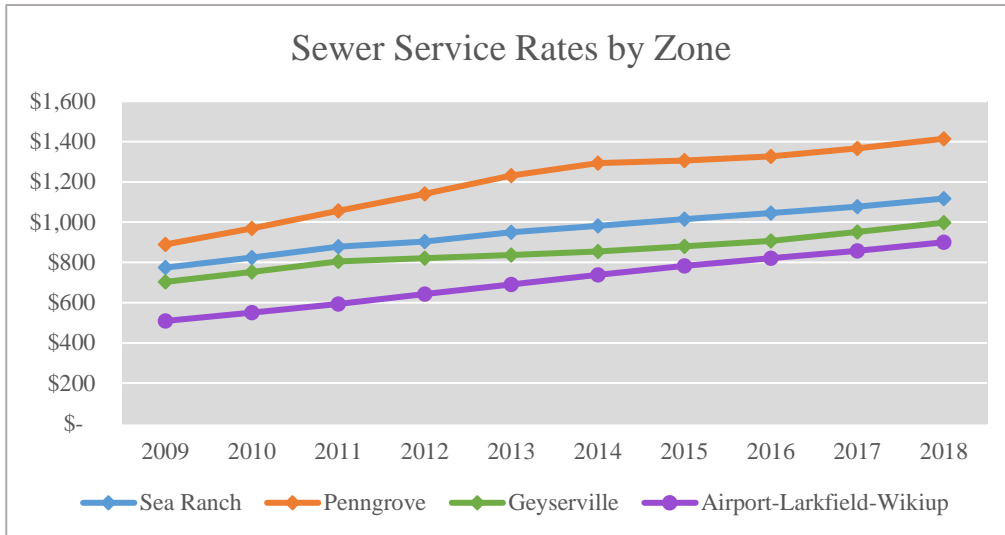
Fiscal Year Ended June 30,	Sea Ranch	Penngrove	Geyserville	Airport- Larkfield- Wikiup	Total
2009	\$ 443,192	\$ 448,777	\$ 237,431	\$ 1,706,639	\$ 2,836,039
2010	472,646	488,192	253,529	1,846,735	3,061,102
2011	505,377	536,247	277,194	2,022,192	3,341,010
2012	522,150	581,480	282,703	2,211,600	3,597,933
2013	548,143	627,896	289,050	2,359,595	3,824,684
2014	571,132	665,538	295,057	2,589,444	4,121,171
2015	591,973	675,293	303,899	2,745,446	4,316,611
2016	611,116	687,226	313,222	2,923,213	4,534,777
2017	631,397	705,194	328,941	3,074,625	4,740,157
2018	668,860	756,462	347,563	3,061,737	4,834,622



Source: Sonoma County Auditor-Controller-Treasurer-Tax Collector

**Sonoma County Water Agency
Sewer Rates by Zone (Unaudited)
Last Ten Fiscal Years
(in dollars per Equivalent Single-Family Dwelling per year)**

Fiscal Year Ended June 30,	Sea Ranch	Penngrove	Geyserville	Airport- Larkfield- Wikiup
2009	\$ 774	\$ 889	\$ 703	\$ 509
2010	824	969	752	550
2011	878	1,056	805	594
2012	904	1,140	821	642
2013	949	1,231	837	690
2014	982	1,293	854	738
2015	1,014	1,306	880	782
2016	1,045	1,326	906	821
2017	1,076	1,366	951	858
2018	1,117	1,414	997	900



Source: Sonoma County Water Agency, Finance and Accounting Division

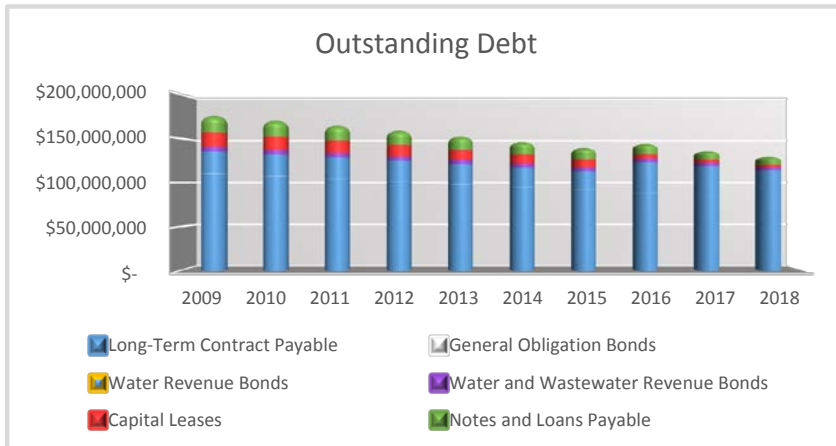
**Sonoma County Water Agency
Principal Sanitation Customers (Unaudited)
Current Year and Nine Years Ago**

Customer	Fiscal Year Ended June 30, 2018			Fiscal Year Ended June 30, 2009		
	Direct Charges	Rank	Percentage of Total Direct Charges	Direct Charges	Rank	Percentage of Total Direct Charges
Vineyard Creek LP	\$ 167,040	1	3.46%	\$ 94,470	1	3.33%
County of Sonoma	138,366	2	2.86%	76,360	2	2.69%
5209 Old Redwood Highway LLC	61,920	3	1.28%	35,019	3	1.23%
Lilli Ann Properties, Inc	58,023	4	1.20%	32,815	4	1.16%
Westle, Joel Tr and Julie Tr	49,773	5	1.03%	31,293	5	1.10%
Sutter Medical Center, Santa Rosa	43,092	6	0.89%			
Ring, Lorraine E et al	42,471	7	0.88%	23,348	8	0.82%
Redwood Village Mobile Home Park	41,328	8	0.85%	23,373	7	0.82%
Larkfield Oaks LP	40,320	9	0.83%	22,803	9	0.80%
Lavell Village Assoc	35,280	10	0.73%	19,953	10	0.70%
Mark West Union School District				31,029	6	1.09%
	<u>\$ 677,613</u>		<u>14.02%</u>	<u>\$ 359,434</u>		<u>12.67%</u>

Source: Sonoma County Water Agency, Finance and Accounting Division

**Sonoma County Water Agency
Ratios of Outstanding Debt (Unaudited)
Last Ten Fiscal Years**

Fiscal Year Ended June 30,	Governmental Activities		Business-Type Activities				Notes and Loans Payable	Total Outstanding Debt
	Long-Term Contract Payable	General Obligation Bonds	Water Revenue Bonds	Water and Wastewater Revenue Bonds	Capital Leases			
2009	\$ 109,512,272	\$ 362,000	\$ 25,030,000	\$ 5,605,000	\$ 16,102,078	\$ 19,967,445	\$ 176,578,795	
2010	106,758,440	334,000	24,470,000	5,385,000	15,097,740	18,960,232	171,005,412	
2011	103,915,796	304,000	23,979,130	5,155,000	14,048,238	17,919,301	165,321,465	
2012	100,981,477	273,000	23,375,949	4,920,000	12,951,535	16,843,478	159,345,439	
2013	97,952,525	241,000	22,460,000	4,675,000	11,805,506	15,731,546	152,865,577	
2014	94,825,890	207,000	21,740,000	4,420,000	10,606,351	14,582,242	146,381,483	
2015	91,598,421	172,000	21,010,000	4,160,000	9,354,745	13,394,267	139,689,433	
2016	88,266,867	134,000	34,715,000	3,885,000	5,014,426	12,166,260	144,181,553	
2017	84,827,870	94,000	33,555,000	3,690,356	3,794,453	9,793,493	135,755,172	
2018	81,276,964	53,000	32,360,000	3,357,050	3,167,925	9,021,479	129,236,418	



Fiscal Year Ended June 30,	Ratios of Water Agency Debt			
	Population	Percentage of Taxable Assessed Value	Percentage of Personal Income	Per Capita
2009	486,630	0.26%	0.85%	363
2010	493,285	0.25%	0.82%	347
2011	487,125	0.25%	0.82%	339
2012	487,011	0.24%	0.77%	327
2013	490,423	0.23%	0.70%	312
2014	490,486	0.22%	0.64%	298
2015	496,253	0.19%	0.59%	281
2016	501,959	0.19%	0.58%	287
2017	505,120	0.17%	0.51%	269
2018	503,332	0.15%	0.45%	257

Source: Sonoma County Auditor-Controller-Treasurer-Tax Collector, Client Accounting Division

**Sonoma County Water Agency
Direct and Overlapping Debt (Unaudited)
June 30, 2018**

2017-18 Assessed Valuation **\$ 85,454,900,249**

Direct General Obligation Debt
Sonoma County Water Agency **\$ 81,276,964**

<u>Overlapping General Obligation and Tax Assessment Debt</u>	Total Debt	Percent Applicable
County of Sonoma General Obligation Debt	\$ 513,084,421	100%
High School Districts	258,489,249	100%
Unified School Districts	437,198,451	100%
Elementary Districts	290,334,396	100%
Santa Rosa Junior College	252,970,000	100%

Total Overlapping General Obligation and Tax and Assessment Debt **\$ 1,752,076,517**

Total Direct and Overlapping Debt **\$ 1,833,353,481**

Ratio of 2017-18 Assessed Valuation

Total Direct Debt	0.10%
Total Overlapping and Direct Debt	2.15%

Notes:

- (1) Direct debt is an obligation of the Water Agency whereas overlapping debt is an obligation of other governments within the geographic boundary of the Water Agency's authority to levy taxes. Excludes tax and revenue anticipation notes.

Source: Sonoma County Auditor-Controller-Treasurer-Tax Collector, Property Tax Division

Sonoma County Water Agency
Revenue Bond Debt Coverage--Water Transmission (Unaudited)
Last Ten Fiscal Years

	Fiscal Year Ending June 30,				
	2009	2010	2011	2012	2013
Operating revenues:					
Water sales (1)	\$ 26,844,345	\$ 26,192,490	\$ 29,270,301	\$ 31,658,359	\$ 37,236,068
(Subcharges) (2)	(2,948,135)	(4,853,047)	(4,370,745)	(6,181,857)	(8,523,628)
Installation charges (3)	30,701	30,232	30,037	30,047	28,421
Miscellaneous revenue (4)	352,597	213,668	224,401	280,337	109,293
Power sales (5)	1,115,365	761,488	774,631	612,817	835,759
Total operating revenues	25,394,873	22,344,831	25,928,625	26,399,703	29,685,913
Other revenues/(expenses) (6)	2,206,375	1,515,339	354,055	982,306	664,726
Total gross revenues	27,601,248	23,860,170	26,282,680	27,382,009	30,350,639
(O&M expenses) (7)	(26,540,673)	(22,527,848)	(24,564,175)	(22,572,421)	(24,552,075)
O&M subfund expense Adjustment (8)	5,592,770	5,274,769	7,146,572	5,164,335	5,293,091
Net revenues	<u>\$ 6,653,345</u>	<u>\$ 6,607,091</u>	<u>\$ 8,865,077</u>	<u>\$ 9,973,923</u>	<u>\$ 11,091,655</u>
Principal and Interest Payments	2,743,299	2,744,527	2,739,267	2,741,654	2,739,267
Coverage ratio	243%	241%	324%	364%	405%

Notes:

- (1) Total Water Transmission fund water sales revenue.
- (2) Water sales subcharges restricted for water conservation, watershed planning, watershed management and restoration, and recycled water are excluded from pledged revenue in the debt covenants.
- (3) Connection fees and meter fees.
- (4) Represents charges for services, donations and reimbursements, and other miscellaneous adjustments.
- (5) Power sales from the Warm Springs Dam hydroelectric plant.
- (6) Includes non-operating revenues such as intergovernmental revenue and investment earnings.
- (7) Excludes the non-cash expense of depreciation.
- (8) Expenses for water conservation, watershed planning, watershed management and restoration, and recycled water projects funded by the subcharges in Note (2) are excluded from the debt coverage calculation.

Source: Sonoma County Auditor-Controller-Treasurer-Tax Collector

Sonoma County Water Agency
Revenue Bond Debt Coverage--Water Transmission (Unaudited)
Last Ten Fiscal Years

Fiscal Year Ending June 30,					
2014	2015	2016	2017	2018	
					Operating revenues:
\$ 39,312,638	\$ 34,207,795	\$ 31,147,906	\$ 33,208,443	\$ 39,778,515	Water sales (1)
(8,776,855)	(8,162,101)	(7,574,647)	(6,891,146)	(7,871,056)	(Subcharges) (2)
26,184	48,434	24,664	23,820	23,820	Installation charges (3)
130,635	618,570	474,482	494,169	299,470	Miscellaneous revenue (4)
715,029	618,418	589,644	210,280	144,524	Power sales (5)
<u>31,407,631</u>	<u>27,331,116</u>	<u>24,662,049</u>	<u>27,045,566</u>	<u>32,375,273</u>	Total operating revenues
(1,209,299)	366,439	817,601	865,572	891,745	Other revenues/(expenses) (6)
30,198,332	27,697,555	25,479,650	27,911,138	33,267,018	Total gross revenues
(27,450,432)	(24,534,397)	(28,718,318)	(28,384,243)	(28,676,002)	(O&M expenses) (7)
6,254,739	5,830,697	8,134,667	5,708,105	5,227,863	O&M subfund expense Adjustment (8)
<u>\$ 9,002,639</u>	<u>\$ 8,993,855</u>	<u>\$ 4,895,999</u>	<u>\$ 5,235,000</u>	<u>\$ 9,818,879</u>	Net revenues
2,606,495	2,604,651	2,518,562	3,363,145	3,379,027	Principal and Interest Payments
345%	345%	194%	156%	291%	Coverage ratio

Sonoma County Water Agency
Revenue Bond Debt Coverage--Airport-Larkfield-Wikiup Sanitation Zone (Unaudited)
Last Ten Fiscal Years

	Fiscal Year Ending June 30,				
	2009	2010	2011	2012	2013
Revenues:					
User fees (1),(2)	\$ 1,804,693	\$ 2,000,216	\$ 2,222,284	\$ 2,392,762	\$ 2,586,937
Change in accounting estimate - user fees (3)	-	-	-	-	-
Connection fees	242,650	113,970	269,201	42,150	503,824
Offset to connection fees (4)	-	-	-	-	-
Change in accounting estimate - connection fees (3)	-	-	-	-	-
Interest earnings	46,979	20,168	11,262	14,251	11,348
Other operating revenues (5)	239,634	471,534	604,544	565,345	833,403
Transfer from Rate Stabilization Fund (6)	-	-	-	-	-
Total revenues	<u>2,333,956</u>	<u>2,605,888</u>	<u>3,107,291</u>	<u>3,014,508</u>	<u>3,935,512</u>
Operating expenses (7)	<u>1,921,632</u>	<u>2,033,593</u>	<u>2,543,266</u>	<u>3,053,147</u>	<u>2,815,310</u>
System net revenues	<u>\$ 412,324</u>	<u>\$ 572,295</u>	<u>\$ 564,025</u>	<u>\$ (38,639)</u>	<u>\$ 1,120,202</u>
Debt service					
2005/2017 Bonds	<u>\$ 457,286</u>	<u>\$ 455,831</u>	<u>\$ 458,661</u>	<u>\$ 456,005</u>	<u>\$ 457,819</u>
Coverage ratio	90%	126%	123%	-8%	245%

Notes:

- (1) Includes direct charges and other sanitation services revenue.
- (2) FY 2017-2018 includes a \$67,371 adjustment for a FY 2016-2017 revenue correction recorded in FY 2017-2018.
- (3) Adjustments for a FY 2016-2017 revenue correction recorded in FY 2017-2018.
- (4) FY 2017-2018 includes a \$913,932 adjustment for a FY 2016-2017 revenue correction recorded in FY 2017-2018.
- (5) Includes intergovernmental and miscellaneous revenue.
- (6) Transfer from Rate Stabilization Fund made within 120 days after fiscal year end.
- (7) Excludes non-cash expense of depreciation and amortization.

Source: Sonoma County Auditor-Controller-Treasurer-Tax Collector

Sonoma County Water Agency
Revenue Bond Debt Coverage--Airport-Larkfield-Wikiup Sanitation Zone (Unaudited)
Last Ten Fiscal Years

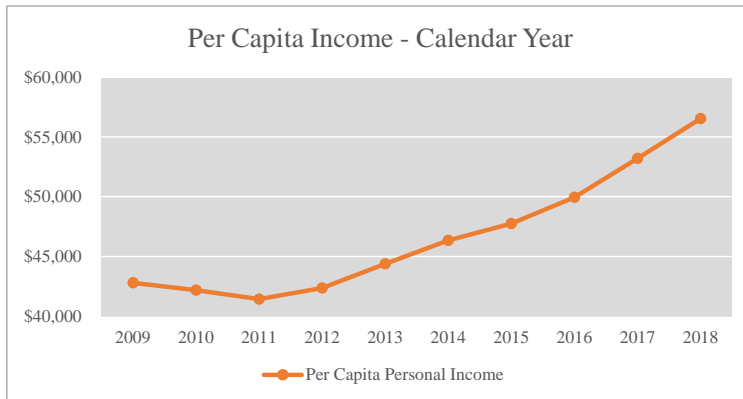
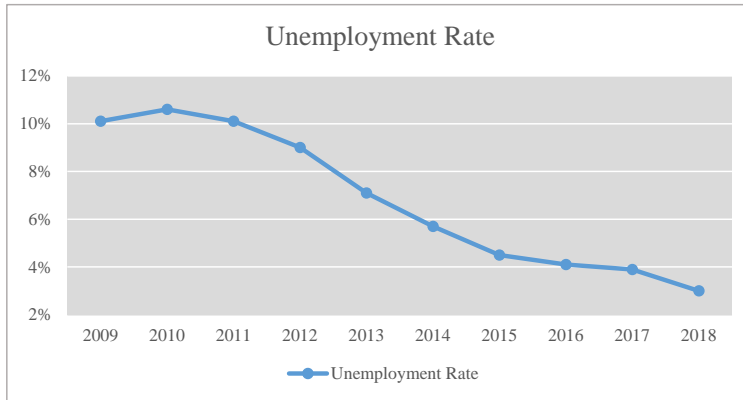
Fiscal Year Ending June 30,					
2014	2015	2016	2017	2018	
\$ 2,836,599	\$ 2,998,036	\$ 3,180,932	\$ 3,791,646	\$ 3,288,929	Revenues:
-	-	-	(67,371)	67,371	User fees (1),(2)
381,275	233,246	651,300	1,735,015	27,293	Change in accounting estimate - user fees (3)
-	-	-	-	(913,932)	Connection fees
-	-	-	(913,932)	913,932	Offset to connection fees (4)
32,112	4,202	20,377	17,857	44,227	Change in accounting estimate - connection fees (3)
285,351	104,999	250,308	187,635	1,197,506	Interest earnings
-	-	-	-	211,500	Other operating revenues (5)
3,535,337	3,340,483	4,102,917	4,750,850	4,836,826	Transfer from Rate Stabilization Fund (6)
2,209,981	2,703,581	2,333,550	2,952,236	4,338,604	Total revenues
\$ 1,325,356	\$ 636,902	\$ 1,769,367	\$ 1,798,614	\$ 498,222	Operating expenses (7)
					System net revenues
\$ 459,043	\$ 454,694	\$ 459,587	\$ 456,619	\$ 414,691	Debt service
289%	140%	385%	394%	120%	2005/2017 Bonds
					Coverage ratio

**Sonoma County Water Agency
Demographics and Economic Statistics (Unaudited)
Last 10 Fiscal Years**

Year (1)	Population (2)	Personal Income (3)	Per Capita Personal Income	School Enrollment (4)	Unemployment Rate (5)
2009	486,630	\$ 20,818,285	\$ 42,781	71,049	10.1%
2010	493,285	20,805,742	42,178	71,010	10.6%
2011	487,125	20,180,966	41,429	70,666	10.1%
2012	487,011	20,626,926	42,354	70,688	9.0%
2013	490,423	21,766,881	44,384	70,637	7.1%
2014	490,486	22,727,461	46,337	70,932	5.7%
2015	496,253	23,692,352	47,742	71,096	4.5%
2016	501,959	25,073,916	49,952	71,131	4.1%
2017	505,120	26,874,652	53,204	70,940	3.9%
2018	503,332	28,457,348	56,538	70,449	3.0%

Notes:

- (1) Calendar year
- (2) The population estimate for 2018 is as of January 1, 2018, the most recent available data
- (3) Personal income is estimated in thousands. The 2018 estimate is as of 2016, the most recent available data



Sources:

- (2) State of California, Department of Finance, E-1 Population Estimates for Cities, Counties and the State
- (3) US Department of Commerce, Bureau of Economic Analysis - Regional Data of GDP and Personal Income.
- (4) State of California Department of Education.
- (5) State of California Employment Development Department: Labor Force Statistics

**Sonoma County Water Agency
Principal Employers (Unaudited)
Current Year and Nine Years Ago**

Principal Employers								
Employer	Fiscal Year Ended June 30, 2018				Fiscal Year Ended June 30, 2009			
	Source	Number of Employees	Rank	% of Total County Employment	Number of Employees		% of Total County Employment	
					(8)	Rank	(8)	Rank
County of Sonoma	(1)	4,149	1	1.6%	4,254	1	1.8%	
Kaiser Permanente	(2)	3,508	2	1.4%	2,400	2	1.0%	
Santa Rosa Junior College	(2)	3,057	3	1.2%				
St. Joseph Health System	(2)	2,500	4	1.0%	1,781	3	0.8%	
State of California	(3)	1,753	5	0.7%				
Santa Rosa City Schools	(4)	1,600	6	0.6%				
Sonoma State University	(5)	1,504	7	0.6%				
Keysight Technologies	(2)	1,300	8	0.5%				
City of Santa Rosa	(6)	1,284	9	0.5%				
Jackson Family Wines	(2)	1,152	10	0.5%				
Sutter Medical Center					1,097	4	0.5%	
Safeway					1,082	5	0.5%	
Agilent Technologies					1,050	6	0.4%	
Medtronic					1,000	7	0.4%	
Amy's Kitchen					900	8	0.4%	
River Rock Casino					660	9	0.3%	
Wal-Mart Stores, Inc.					650	10	0.3%	
Ten largest employers		21,807		8.5%	14,874		6.3%	
All other employers		233,693		91.5%	221,326		93.7%	
Total County Employment	(7)	<u>255,500</u>		<u>100.0%</u>	<u>236,200</u>		<u>100.0%</u>	

Notes:

- (8) The 2008-2009 County CAFR did not report governmental entities in the major employers table.

Sources:

- (1) County of Sonoma Adopted Budget Schedules 2017-2018, 2008-2009
- (2) North Bay Business Journal Book of Lists
- (3) State of California, State Employee Demographics
- (4) Santa Rosa City Schools Website
- (5) Sonoma State University Fact Book
- (6) City of Santa Rosa, Santa Rosa Operations & Maintenance Budget
- (7) State of California Employment Development Department: Labor Force Statistics
- (8) County of Sonoma Adopted Budget Schedules 2008-2009, County of Sonoma CAFR, 2008-2009

Sonoma County Water Agency
Operating Indicators by Function/Program and Full-Time Equivalent Employees (Unaudited)
Last Ten Fiscal Years

	Fiscal Year Ended June 30,									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Flood Control										
Channel vegetation removed (cubic feet)	N/A	N/A	1,775	6,333	4,642	5,622	3,129	3,879	5,983	2,191
Sediment removed (cubic feet)	24,272	4,334	19,794	19,363	41,491	38,861	20,460	17,792	17,552	26,806
Water Transmission										
Total water delivered (acre-feet)	54,930	45,873	47,045	48,527	54,244	54,963	45,868	39,905	40,356	46,134
Hydroelectric power production (MWh)	9,795	13,679	14,231	10,725	13,261	10,926	9,777	8,820	8,951	3,356
Water Supply/Warm Springs Dam										
Total diversion (acre-feet)	51,981	45,439	48,084	50,989	55,428	55,538	46,176	40,028	41,873	45,745
Lake Sonoma water storage at Sept. 30 (acre-feet)	201,896	195,912	218,599	217,525	215,874	190,471	147,391	178,398	212,620	195,901
Sanitation										
Amount of wastewater treated (mg)	356	404	389	290	274	265	265	273	353	274
Number of ESD's (1)	4,981	5,058	5,107	5,143	5,172	5,185	5,235	5,252	5,325	5,314
Number of Employees (Full Time Equivalent)	210.00	211.00	197.00	195.50	194.50	207.50	209.50	221.75	226.75	229.75

Notes:

(1) From the 2018-19 budget.

N/A Information not available for the historical year referenced.

Source: Sonoma County Water Agency, Finance and Accounting Division

Sonoma County Water Agency
Capital Asset Statistics by Function/Program (Unaudited)
Last Ten Fiscal Years

	Fiscal Year Ended June 30,									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Flood Control										
Miles of engineered channels	150	150	150	150	150	150	150	150	150	150
Number of reservoirs	8	8	8	8	8	8	8	8	8	8
Reservoir capacity (acre-feet)	85,827	85,827	85,827	85,827	85,827	85,827	85,827	85,827	85,827	85,827
Water Transmission										
Water mains (miles)	85	85	85	85	85	85	85	85	85	85
Number of chlorination facilities	3	3	3	3	3	3	3	3	3	3
Number of pumping plants and booster stations	21	21	21	21	21	21	21	21	21	21
Tank storage capacity (thousands of gallons)	129,000	129,000	129,000	129,000	129,000	129,000	129,000	129,000	129,000	129,000
Number of production wells	9	9	9	9	9	9	9	9	9	9
Water Supply/ Warm Springs Dam										
Water rights (acre-feet)	245,000	245,000	245,000	245,000	245,000	245,000	245,000	245,000	245,000	245,000
Water Supply Storage (acre-feet)	381,000	381,000	381,000	381,000	381,000	381,000	381,000	381,000	381,000	381,000
Sanitation										
Collection system mileage	38	38	38	38	38	38	38	38	38	38
Number of treatment plants	4	4	4	4	4	4	4	4	4	4
Treatment capacity (thousands of gallons)	1,179	1,179	1,179	1,179	1,179	1,179	1,179	1,179	1,179	1,179
Number of lift stations	7	7	7	7	7	7	7	7	7	7

Source: Sonoma County Water Agency, Finance and Accounting Division

Compliance





**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 financial statements as listed in the table of contents of the Sonoma County Water Agency (the "Water Agency"), a component unit of the County of Sonoma, California, as of and for the year ended June 30, 2018, and have issued our report thereon dated November 2, 2018.

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.

**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)**

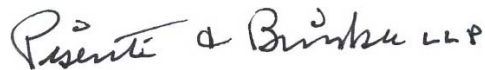
Independent Auditor's Report (continued)

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*.

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.



Santa Rosa, California
November 2, 2018

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APPENDIX C

[FORM OF CONTINUING DISCLOSURE AGREEMENT]

DISCLOSURE DISSEMINATION AGENT AGREEMENT

\$11,010,000

**SONOMA COUNTY WATER AGENCY
Water Revenue Bonds,
2019 Series A**

This Disclosure Dissemination Agent Agreement (the “Disclosure Agreement”), dated as of July 3, 2019, is executed and delivered by the Sonoma County Water Agency (the “Issuer”) and Digital Assurance Certification, L.L.C., as exclusive Disclosure Dissemination Agent (the “Disclosure Dissemination Agent” or “DAC”) for the benefit of the Holders (hereinafter defined) of the bonds captioned above (the “Bonds”) and in order to provide certain continuing disclosure with respect to the Bonds in accordance with Rule 15c2-12 of the United States Securities and Exchange Commission under the Securities Exchange Act of 1934, as it may be amended from time to time (the “Rule”).

The services provided under this Disclosure Agreement solely relate to the execution of instructions received from the Issuer through use of the DAC system and do not constitute “advice” within the meaning of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Act”). DAC will not provide any advice or recommendation to the Issuer or anyone on the Issuer’s behalf regarding the “issuance of municipal securities” or any “municipal financial product” as defined in the Act and nothing in this Disclosure Agreement shall be interpreted to the contrary.

SECTION 1. Definitions. Capitalized terms not otherwise defined in this Disclosure Agreement shall have the meaning assigned in the Rule or, to the extent not in conflict with the Rule, in the Official Statement (hereinafter defined). The capitalized terms shall have the following meanings:

“Annual Report” means an Annual Report described in and consistent with Section 3 of this Disclosure Agreement.

“Annual Filing Date” means the date that is nine months after the end of the Agency’s fiscal year, or March 31 each year based on the Agency’s current fiscal year-end of June 30.

“Annual Financial Information” means annual financial information as such term is used in paragraph (b)(5)(i) of the Rule and specified in Section 3(a) of this Disclosure Agreement.

“Audited Financial Statements” means the financial statements (if any) of the Issuer for the prior fiscal year, certified by an independent auditor as prepared in accordance with generally accepted accounting principles or otherwise, as such term is

used in paragraph (b)(5)(i) of the Rule and specified in Section 3(b) of this Disclosure Agreement.

“Bonds” means the bonds captioned above and as listed on the attached Exhibit A, with the 9-digit CUSIP numbers relating thereto.

“Certification” means a written certification of compliance signed by the Disclosure Representative stating that the Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure delivered to the Disclosure Dissemination Agent is the Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure required to be submitted to the MSRB under this Disclosure Agreement. A Certification shall accompany each such document submitted to the Disclosure Dissemination Agent by the Issuer and include the full name of the Bonds and the 9-digit CUSIP numbers for all Bonds to which the document applies.

“Disclosure Representative” means Division Manager, Administrative Services Division, or his or her designee, or such other person as the Issuer designates in writing to the Disclosure Dissemination Agent from time to time as the person responsible for providing Information to the Disclosure Dissemination Agent.

“Disclosure Dissemination Agent” means Digital Assurance Certification, L.L.C, acting in its capacity as Disclosure Dissemination Agent hereunder, or any successor Disclosure Dissemination Agent designated in writing by the Issuer pursuant to Section 9 hereof.

“Failure to File Event” means the Issuer’s failure to file an Annual Report on or before the Annual Filing Date.

“Force Majeure Event” means: (i) acts of God, war, or terrorist action; (ii) failure or shut-down of the Electronic Municipal Market Access system maintained by the MSRB; or (iii) to the extent beyond the Disclosure Dissemination Agent’s reasonable control, interruptions in telecommunications or utilities services, failure, malfunction or error of any telecommunications, computer or other electrical, mechanical or technological application, service or system, computer virus, interruptions in Internet service or telephone service (including due to a virus, electrical delivery problem or similar occurrence) that affect Internet users generally, or in the local area in which the Disclosure Dissemination Agent or the MSRB is located, or acts of any government, regulatory or any other competent authority the effect of which is to prohibit the Disclosure Dissemination Agent from performance of its obligations under this Disclosure Agreement.

“Holder” means any person (a) having the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries) or (b) treated as the owner of any Bonds for federal income tax purposes.

“Information” means, collectively, the Annual Reports, the Audited Financial Statements (if any), the Notice Event notices, the Failure to File Event notices, the Voluntary Event Disclosures and the Voluntary Financial Disclosures.

“MSRB” means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934.

“Notice Event” means any of the events enumerated in paragraph (b)(5)(i)(C) of the Rule and listed in Section 4(a) of this Disclosure Agreement.

“Obligated Person” means any person, including the Issuer, who is either generally or through an enterprise, fund, or account of such person committed by contract or other arrangement to support payment of all, or part of the obligations on the Bonds (other than providers of municipal bond insurance, letters of credit, or other liquidity facilities), as shown on Exhibit A.

“Official Statement” means that Official Statement dated June 13, 2019, prepared by the Issuer in connection with the issuance and sale of the Bonds.

“Trustee” means MUFG Union Bank, N.A., or any successor institution appointed and acting as trustee for the Bonds.

“Voluntary Event Disclosure” means information of the category specified in any of subsections (e)(vi)(1) through (e)(vi)(11) of Section 2 of this Disclosure Agreement that is accompanied by a Certification of the Disclosure Representative containing the information prescribed by Section 7(a) of this Disclosure Agreement.

“Voluntary Financial Disclosure” means information of the category specified in any of subsections (e)(vii)(1) through (e)(vii)(9) of Section 2 of this Disclosure Agreement that is accompanied by a Certification of the Disclosure Representative containing the information prescribed by Section 7(b) of this Disclosure Agreement.

SECTION 2. Provision of Annual Reports.

(a) The Issuer shall provide, annually, an electronic copy of the Annual Report and Certification to the Disclosure Dissemination Agent not later than the Annual Filing Date, commencing March 31, 2020. Promptly upon receipt of an electronic copy of the Annual Report and the Certification, the Disclosure Dissemination Agent shall provide an Annual Report to the MSRB not later than the Annual Filing Date. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 3 of this Disclosure Agreement.

(b) If on the 15th day prior to the Annual Filing Date, the Disclosure Dissemination Agent has not received a copy of the Annual Report and Certification, the Disclosure Dissemination Agent shall contact the Disclosure Representative by telephone and in writing (which may be by e-mail) to remind the Issuer of its undertaking to provide the Annual Report pursuant to Section 2(a). Upon such reminder, the Disclosure Representative shall either (i) provide the Disclosure Dissemination Agent with an

electronic copy of the Annual Report and the Certification no later than two business days prior to the Annual Filing Date, or (ii) instruct the Disclosure Dissemination Agent in writing that the Issuer will not be able to file the Annual Report within the time required under this Disclosure Agreement, state the date by which the Annual Report for such year will be provided and instruct the Disclosure Dissemination Agent that a Failure to File Event has occurred and to immediately send a notice to the MSRB in substantially the form attached as Exhibit B, accompanied by a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-1.

(c) If the Disclosure Dissemination Agent has not received an Annual Report and Certification by 6:00 p.m. Eastern time on Annual Filing Date (or, if such Annual Filing Date falls on a Saturday, Sunday or holiday, then the first business day thereafter) for the Annual Report, a Failure to File Event occurs and the Issuer irrevocably directs the Disclosure Dissemination Agent to immediately send a notice to the MSRB in substantially the form attached as Exhibit B without reference to the anticipated filing date for the Annual Report, accompanied by a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-1.

(d) If Audited Financial Statements of the Issuer are prepared but not available prior to the Annual Filing Date, the Issuer shall, when the Audited Financial Statements are available, provide in a timely manner an electronic copy to the Disclosure Dissemination Agent, accompanied by a Certification, for filing with the MSRB.

(e) The Disclosure Dissemination Agent shall:

(i) verify the filing specifications of the MSRB each year prior to the Annual Filing Date;

(ii) upon receipt, promptly file each Annual Report received under Sections 2(a) and 2(b) with the MSRB;

(iii) upon receipt, promptly file each Audited Financial Statement received under Section 2(d) with the MSRB;

(iv) upon receipt, promptly file the text of each Notice Event received under Sections 4(a) and 4(b)(ii) with the MSRB, identifying the Notice Event as instructed by the Issuer pursuant to Section 4(a) or 4(b)(ii) (being any of the categories set forth below) when filing pursuant to Section 4(c) of this Disclosure Agreement:

- (1) "Principal and interest payment delinquencies;"
- (2) "Non-Payment related defaults, if material;"
- (3) "Unscheduled draws on debt service reserves reflecting financial difficulties;"
- (4) "Unscheduled draws on credit enhancements reflecting financial difficulties;"

- (5) “Substitution of credit or liquidity providers, or their failure to perform;”
- (6) “Adverse tax opinions, IRS notices or events affecting the tax status of the security;”
- (7) “Modifications to rights of securities holders, if material;”
- (8) “Bond calls, if material;”
- (9) “Defeasances;”
- (10) “Release, substitution, or sale of property securing repayment of the securities, if material;”
- (11) “Rating changes;”
- (12) “Tender Offers;”
- (13) “Bankruptcy, insolvency, receivership or similar event of the obligated person;”
- (14) “Merger, consolidation, or acquisition of the obligated person, if material;”
- (15) “Appointment of a successor or additional trustee, or the change of name of a trustee, if material;”
- (16) “Incurrence of a financial obligation of the Obligated Person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the Obligated Person, any of which affect security holders, if material;” and
- (17) “Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the Obligated Person, any of which reflect financial difficulties.”

(v) upon receipt (or irrevocable direction pursuant to Section 2(c) of this Disclosure Agreement, as applicable), promptly file a completed copy of Exhibit B to this Disclosure Agreement with the MSRB, identifying the filing as “Failure to provide annual financial information as required” when filing pursuant to Section 2(b)(ii) or Section 2(c) of this Disclosure Agreement;

(vi) upon receipt, promptly file the text of each Voluntary Event Disclosure received under Section 7(a) with the MSRB, identifying the Voluntary Event Disclosure as instructed by the Issuer pursuant to Section 7(a) (being any

of the categories set forth below) when filing pursuant to Section 7(a) of this Disclosure Agreement:

- (1) “amendment to continuing disclosure undertaking;”
- (2) “change in obligated person;”
- (3) “notice to investors pursuant to bond documents;”
- (4) “certain communications from the Internal Revenue Service;”
- (5) “secondary market purchases;”
- (6) “bid for auction rate or other securities;”
- (7) “capital or other financing plan;”
- (8) “litigation/enforcement action;”
- (9) “change of tender agent, remarketing agent, or other on-going party;”
- (10) “derivative or other similar transaction;” and
- (11) “other event-based disclosures;”

(vii) upon receipt, promptly file the text of each Voluntary Financial Disclosure received under Section 7(b) with the MSRB, identifying the Voluntary Financial Disclosure as instructed by the Issuer pursuant to Section 7(b) (being any of the categories set forth below) when filing pursuant to Section 7(b) of this Disclosure Agreement:

- (1) “quarterly/monthly financial information;”
- (2) “change in fiscal year/timing of annual disclosure;”
- (3) “change in accounting standard;”
- (4) “interim/additional financial information/operating data;”
- (5) “budget;”
- (6) “investment/debt/financial policy;”
- (7) “information provided to rating agency, credit/liquidity provider or other third party;”
- (8) “consultant reports;” and
- (9) “other financial/operating data.”

(viii) provide the Issuer evidence of the filings of each of the above when made, which shall be by means of the DAC system, for so long as DAC is the Disclosure Dissemination Agent under this Disclosure Agreement.

(f) The Issuer may adjust the Annual Filing Date upon change of its fiscal year by providing written notice of such change and the new Annual Filing Date to the

Disclosure Dissemination Agent and the MSRB, provided that the period between the existing Annual Filing Date and new Annual Filing Date shall not exceed one year.

(g) Any Information received by the Disclosure Dissemination Agent before 6:00 p.m. Eastern time on any business day that it is required to file with the MSRB pursuant to the terms of this Disclosure Agreement and that is accompanied by a Certification and all other information required by the terms of this Disclosure Agreement will be filed by the Disclosure Dissemination Agent with the MSRB no later than 11:59 p.m. Eastern time on the same business day; provided, however, the Disclosure Dissemination Agent shall have no liability for any delay in filing with the MSRB if such delay is caused by a Force Majeure Event provided that the Disclosure Dissemination Agent uses reasonable efforts to make any such filing as soon as possible.

SECTION 3. Content of Annual Reports.

(a) Each Annual Report shall contain Annual Financial Information with respect to the Issuer, which shall consist of updates to the following tables contained in the Official Statement, updated to reflect information as of the Issuer's most recently completed fiscal year:

- (i) Table 2, Historical Water Deliveries
- (ii) Table 4, Largest Customers
- (iii) Table 6, Water Transmission System, Outstanding Long-Term Debt
- (iv) Table 7, Water Transmission System, Historical Debt Service Coverage
- (v) Table 8, Water Transmission System, Projected Debt Service Coverage

(b) Audited Financial Statements prepared in accordance with generally accepted accounting principles ("GAAP") as described in the Official Statement will be included in the Annual Report. If audited financial statements are not available, then, unaudited financial statements, prepared in accordance with GAAP as described in the Official Statement will be included in the Annual Report. Audited Financial Statements (if any) will be provided pursuant to Section 2(d).

Any or all of the items listed above may be included by specific reference from other documents, including official statements of debt issues with respect to which the Issuer is an "obligated person" (as defined by the Rule), which have been previously filed with the Securities and Exchange Commission or available on the MSRB Internet Website. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The Issuer will clearly identify each such document so incorporated by reference.

Any Annual Financial Information containing modified operating data or financial information is required to explain, in narrative form, the reasons for the modification and

the impact of the change in the type of operating data or financial information being provided.

SECTION 4. Reporting of Notice Events.

(a) The occurrence of any of the following events with respect to the Bonds constitutes a Notice Event:

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults, if material;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
- (7) Modifications to rights of Bond holders, if material;
- (8) Bond calls, if material, and tender offers;
- (9) Defeasances;
- (10) Release, substitution, or sale of property securing repayment of the Bonds, if material;
- (11) Rating changes;
- (12) Bankruptcy, insolvency, receivership or similar event of the Obligated Person;

Note to subsection (a)(12) of this Section 4: For the purposes of the event described in subsection (a)(12) of this Section 4, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an Obligated Person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Obligated Person, or

if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Obligated Person.

- (13) The consummation of a merger, consolidation, or acquisition involving an Obligated Person or the sale of all or substantially all of the assets of the Obligated Person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material; and
- (15) Incurrence of a financial obligation of the Obligated Person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the Obligated Person, any of which affect security holders, if material; and
- (16) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the Obligated Person, any of which reflect financial difficulties.

Note to subsections (a)(15) and (a)(16) of this Section 4:

For purposes of Section 4(a)(15) and 4(a)(16), “financial obligation” means a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term financial obligation shall not include municipal securities as to which a final official statement has been provided to the Municipal Securities Rulemaking Board consistent with the Rule.

The Issuer shall, in a timely manner not in excess of ten business days after its occurrence, notify the Disclosure Dissemination Agent in writing of the occurrence of a Notice Event. Such notice shall instruct the Disclosure Dissemination Agent to report the occurrence pursuant to subsection (c) and shall be accompanied by a Certification. Such notice or Certification shall identify the Notice Event that has occurred (which shall be any of the categories set forth in Section 2(e)(iv) of this Disclosure Agreement), include the text of the disclosure that the Issuer desires to make, contain the written authorization of the Issuer for the Disclosure Dissemination Agent to disseminate such information, and identify the date the Issuer desires for the Disclosure Dissemination Agent to disseminate

the information (provided that such date is not later than the tenth business day after the occurrence of the Notice Event).

(b) The Disclosure Dissemination Agent is under no obligation to notify the Issuer or the Disclosure Representative of an event that may constitute a Notice Event. In the event the Disclosure Dissemination Agent so notifies the Disclosure Representative, the Disclosure Representative will within two business days of receipt of such notice (but in any event not later than the tenth business day after the occurrence of the Notice Event, if the Issuer determines that a Notice Event has occurred), instruct the Disclosure Dissemination Agent that (i) a Notice Event has not occurred and no filing is to be made or (ii) a Notice Event has occurred and the Disclosure Dissemination Agent is to report the occurrence pursuant to subsection (c) of this Section 4, together with a Certification. Such Certification shall identify the Notice Event that has occurred (which shall be any of the categories set forth in Section 2(e)(iv) of this Disclosure Agreement), include the text of the disclosure that the Issuer desires to make, contain the written authorization of the Issuer for the Disclosure Dissemination Agent to disseminate such information, and identify the date the Issuer desires for the Disclosure Dissemination Agent to disseminate the information (provided that such date is not later than the tenth business day after the occurrence of the Notice Event).

(c) If the Disclosure Dissemination Agent has been instructed by the Issuer as prescribed in subsection (a) or (b)(ii) of this Section 4 to report the occurrence of a Notice Event, the Disclosure Dissemination Agent shall promptly file a notice of such occurrence with MSRB in accordance with Section 2 (e)(iv) hereof. This notice will be filed with a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-1.

SECTION 5. CUSIP Numbers. Whenever providing information to the Disclosure Dissemination Agent, including but not limited to Annual Reports, documents incorporated by reference to the Annual Reports, Audited Financial Statements, Notice Event notices, Failure to File Event notices, Voluntary Event Disclosures and Voluntary Financial Disclosures, the Issuer shall indicate the full name of the Bonds and the 9-digit CUSIP numbers for the Bonds as to which the provided information relates.

SECTION 6. Additional Disclosure Obligations. The Issuer acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Issuer, and that the duties and responsibilities of the Disclosure Dissemination Agent under this Disclosure Agreement do not extend to providing legal advice regarding such laws. The Issuer acknowledges and understands that the duties of the Disclosure Dissemination Agent relate exclusively to execution of the mechanical tasks of disseminating information as described in this Disclosure Agreement.

SECTION 7. Voluntary Filing.

(a) The Issuer may instruct the Disclosure Dissemination Agent to file a Voluntary Event Disclosure with the MSRB from time to time pursuant to a Certification of the Disclosure Representative. Such Certification shall identify the Voluntary Event Disclosure (which shall be any of the categories set forth in Section 2(e)(vi) of this

Disclosure Agreement), include the text of the disclosure that the Issuer desires to make, contain the written authorization of the Issuer for the Disclosure Dissemination Agent to disseminate such information, and identify the date the Issuer desires for the Disclosure Dissemination Agent to disseminate the information. If the Disclosure Dissemination Agent has been instructed by the Issuer as prescribed in this Section 7(a) to file a Voluntary Event Disclosure, the Disclosure Dissemination Agent shall promptly file such Voluntary Event Disclosure with the MSRB in accordance with Section 2(e)(vi) hereof. This notice will be filed with a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-2.

(b) The Issuer may instruct the Disclosure Dissemination Agent to file a Voluntary Financial Disclosure with the MSRB from time to time pursuant to a Certification of the Disclosure Representative. Such Certification shall identify the Voluntary Financial Disclosure (which shall be any of the categories set forth in Section 2(e)(vii) of this Disclosure Agreement), include the text of the disclosure that the Issuer desires to make, contain the written authorization of the Issuer for the Disclosure Dissemination Agent to disseminate such information, and identify the date the Issuer desires for the Disclosure Dissemination Agent to disseminate the information. If the Disclosure Dissemination Agent has been instructed by the Issuer as prescribed in this Section 7(b) to file a Voluntary Financial Disclosure, the Disclosure Dissemination Agent shall promptly file such Voluntary Financial Disclosure with the MSRB in accordance with Section 2(e)(vii) hereof. This notice will be filed with a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-3.

(c) The parties hereto acknowledge that the Issuer is not obligated pursuant to the terms of this Disclosure Agreement to file any Voluntary Event Disclosure pursuant to Section 7(a) hereof or any Voluntary Financial Disclosure pursuant to Section 7(b) hereof.

(d) Nothing in this Disclosure Agreement shall be deemed to prevent the Issuer from disseminating any other information through the Disclosure Dissemination Agent using the means of dissemination set forth in this Disclosure Agreement or including any other information in any Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure, in addition to that required by this Disclosure Agreement. If the Issuer chooses to include any information in any Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure in addition to that which is specifically required by this Disclosure Agreement, the Issuer shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure.

SECTION 8. Termination of Reporting Obligation. The obligations of the Issuer and the Disclosure Dissemination Agent under this Disclosure Agreement shall terminate with respect to the Bonds upon the legal defeasance, prior redemption or payment in full of all of the Bonds, when the Issuer is no longer an obligated person with respect to the Bonds, or upon delivery by the Disclosure Representative to the Disclosure Dissemination Agent of an opinion of counsel expert in federal securities laws to the effect that continuing disclosure is no longer required.

SECTION 9. Disclosure Dissemination Agent. The Issuer has appointed Digital Assurance Certification, L.L.C. as exclusive Disclosure Dissemination Agent under this Disclosure Agreement. The Issuer may, upon 30 days' written notice to the Disclosure Dissemination Agent, replace or appoint a successor Disclosure Dissemination Agent. Upon termination of DAC's services as Disclosure Dissemination Agent, whether by notice of the Issuer or DAC, the Issuer agrees to appoint a successor Disclosure Dissemination Agent or, alternately, agrees to assume all responsibilities of Disclosure Dissemination Agent under this Disclosure Agreement for the benefit of the Holders of the Bonds. Notwithstanding any replacement or appointment of a successor, the Issuer shall remain liable until payment in full for any and all sums owed and payable to the Disclosure Dissemination Agent. The Disclosure Dissemination Agent may resign at any time by providing 30 days' prior written notice to the Issuer.

SECTION 10. Remedies in Event of Default. In the event of a failure of the Issuer or the Disclosure Dissemination Agent to comply with any provision of this Disclosure Agreement, the Holders' rights to enforce the provisions of this Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the parties' obligation under this Disclosure Agreement. Any failure by a party to perform in accordance with this Disclosure Agreement shall not constitute a default on the Bonds or under any other document relating to the Bonds, and all rights and remedies shall be limited to those expressly stated herein.

SECTION 11. Duties, Immunities and Liabilities of Disclosure Dissemination Agent.

(a) The Disclosure Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement. The Disclosure Dissemination Agent's obligation to deliver the information at the times and with the contents described herein shall be limited to the extent the Issuer has provided such information to the Disclosure Dissemination Agent as required by this Disclosure Agreement. The Disclosure Dissemination Agent shall have no duty with respect to the content of any disclosures or notice made pursuant to the terms hereof. The Disclosure Dissemination Agent shall have no duty or obligation to review or verify any Information or any other information, disclosures or notices provided to it by the Issuer and shall not be deemed to be acting in any fiduciary capacity for the Issuer, the Holders of the Bonds or any other party. The Disclosure Dissemination Agent shall have no responsibility for the Issuer's failure to report to the Disclosure Dissemination Agent a Notice Event or a duty to determine the materiality thereof. The Disclosure Dissemination Agent shall have no duty to determine, or liability for failing to determine, whether the Issuer has complied with this Disclosure Agreement. The Disclosure Dissemination Agent may conclusively rely upon Certifications of the Issuer at all times.

The obligations of the Issuer under this Section shall survive resignation or removal of the Disclosure Dissemination Agent and defeasance, redemption or payment of the Bonds.

(b) The Disclosure Dissemination Agent may, from time to time, consult with legal counsel (either in-house or external) of its own choosing in the event of any

disagreement or controversy, or question or doubt as to the construction of any of the provisions hereof or its respective duties hereunder, and shall not incur any liability and shall be fully protected in acting in good faith upon the advice of such legal counsel. The reasonable fees and expenses of such counsel shall be payable by the Issuer.

(c) All documents, reports, notices, statements, information and other materials provided to the MSRB under this Agreement shall be provided in an electronic format and accompanied by identifying information as prescribed by the MSRB.

SECTION 12. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Issuer and the Disclosure Dissemination Agent may amend this Disclosure Agreement and any provision of this Disclosure Agreement may be waived, if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws acceptable to both the Issuer and the Disclosure Dissemination Agent to the effect that such amendment or waiver does not materially impair the interests of Holders of the Bonds and would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule; provided neither the Issuer or the Disclosure Dissemination Agent shall be obligated to agree to any amendment modifying their respective duties or obligations without their consent thereto.

Notwithstanding the preceding paragraph, the Disclosure Dissemination Agent shall have the right to adopt amendments to this Disclosure Agreement necessary to comply with modifications to and interpretations of the provisions of the Rule as announced by the Securities and Exchange Commission from time to time by giving not less than 20 days written notice of the intent to do so together with a copy of the proposed amendment to the Issuer. No such amendment shall become effective if the Issuer shall, within 10 days following the giving of such notice, send a notice to the Disclosure Dissemination Agent in writing that it objects to such amendment.

SECTION 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Trustee of the Bonds, the Disclosure Dissemination Agent, the underwriter, and the Holders from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 14. Governing Law. This Disclosure Agreement shall be governed by the laws of the State of California (other than with respect to conflicts of laws).

SECTION 15. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

The Disclosure Dissemination Agent and the Issuer have caused this Continuing Disclosure Agreement to be executed, on the date first written above, by their respective officers duly authorized.

DIGITAL ASSURANCE CERTIFICATION, L.L.C.,
as Disclosure Dissemination Agent

By: _____

Name: _____

Title: _____

SONOMA COUNTY WATER AGENCY,
as Issuer

By: _____

Name: _____ Grant Davis _____

Title: _____ General Manager _____

**EXHIBIT A
NAME AND CUSIP NUMBERS OF BONDS**

Name of Issuer Sonoma County Water Agency

Obligated Person(s) Sonoma County Water Agency

Name of Bond Issues: Sonoma County Water Agency
Water Revenue Bonds, 2019 Series A

Date of Issuance: July 3, 2019

Date of Official Statement: June 13, 2019

**2019 Series A Bonds
Base CUSIP: 835577**

Maturity (July 1)	Principal Amount	CUSIP
2020	\$340,000	JL2
2021	360,000	JM0
2022	375,000	JN8
2023	395,000	JP3
2024	415,000	JQ1
2025	435,000	JR9
2026	460,000	JS7
2027	485,000	JT5
2028	505,000	JU2
2029	535,000	JV0
2030	560,000	JW8
2031	590,000	JX6
2032	615,000	JY4
2033	640,000	JZ1
2034	665,000	KA4
2035	685,000	KB2
2036	705,000	KC0
2037	725,000	KD8
2038	750,000	KE6
2039	770,000	KF3

EXHIBIT B
NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer	Sonoma County Water Agency
Obligated Person(s)	Sonoma County Water Agency
Name of Bond Issues:	Sonoma County Water Agency Water Revenue Bonds, 2019 Series A
Date of Issuance:	July 3, 2019
Date of Disclosure Agreement:	July 3, 2019
CUSIP Number:	835577

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual Report with respect to the above-named Bonds as required by the Disclosure Agreement between the Issuer and Digital Assurance Certification, L.L.C., as Disclosure Dissemination Agent. The Issuer has notified the Disclosure Dissemination Agent that it anticipates that the Annual Report will be filed by _____.

Dated: _____

Digital Assurance Certification, L.L.C.,
as Disclosure Dissemination Agent, on behalf of the
Issuer

By: _____

**EXHIBIT C-1
EVENT NOTICE COVER SHEET**

This cover sheet and accompanying "event notice" will be sent to the MSRB, pursuant to Securities and Exchange Commission Rule 15c2-12(b)(5)(i)(C) and (D).

Issuer's and/or Other Obligated Person's Name:

Issuer's Six-Digit CUSIP Number:

or Nine-Digit CUSIP Number(s) of the bonds to which this event notice relates:

Number of pages attached: _____

_____ Description of Notice Events (Check One):

1. _____ "Principal and interest payment delinquencies;"
2. _____ "Non-Payment related defaults, if material;"
3. _____ "Unscheduled draws on debt service reserves reflecting financial difficulties;"
4. _____ "Unscheduled draws on credit enhancements reflecting financial difficulties;"
5. _____ "Substitution of credit or liquidity providers, or their failure to perform;"
6. _____ "Adverse tax opinions, IRS notices or events affecting the tax status of the security;"
7. _____ "Modifications to rights of securities holders, if material;"
8. _____ "Bond calls, if material;"
9. _____ "Defeasances;"
10. _____ "Release, substitution, or sale of property securing repayment of the securities, if material;"
11. _____ "Rating changes;"
12. _____ "Tender offers;"
13. _____ "Bankruptcy, insolvency, receivership or similar event of the obligated person;"
14. _____ "Merger, consolidation, or acquisition of the obligated person, if material;"
15. _____ "Appointment of a successor or additional trustee, or the change of name of a trustee, if material;"
16. _____ "Incurrence of a financial obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the obligated person, any of which affect security holders, if material;" and
17. _____ "Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the obligated person, any of which reflect financial difficulties."

_____ Failure to provide annual financial information as required.

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly:

Signature:

Name: _____ Title: _____

Digital Assurance Certification, L.L.C.
390 N. Orange Avenue
Suite 1750
Orlando, FL 32801
407-515-1100

Date:

**EXHIBIT C-2
VOLUNTARY EVENT DISCLOSURE COVER SHEET**

This cover sheet and accompanying "voluntary event disclosure" will be sent to the MSRB, pursuant to the Disclosure Dissemination Agent Agreement dated as of _____ between the Issuer and DAC.

Issuer's and/or Other Obligated Person's Name:

Issuer's Six-Digit CUSIP Number:

or Nine-Digit CUSIP Number(s) of the bonds to which this notice relates:

Number of pages attached: _____

_____ Description of Voluntary Event Disclosure (Check One):

1. _____ "amendment to continuing disclosure undertaking;"
2. _____ "change in obligated person;"
3. _____ "notice to investors pursuant to bond documents;"
4. _____ "certain communications from the Internal Revenue Service;"
5. _____ "secondary market purchases;"
6. _____ "bid for auction rate or other securities;"
7. _____ "capital or other financing plan;"
8. _____ "litigation/enforcement action;"
9. _____ "change of tender agent, remarketing agent, or other on-going party;"
10. _____ "derivative or other similar transaction;" and
11. _____ "other event-based disclosures."

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly:

Signature:

Name: _____ Title: _____

Digital Assurance Certification, L.L.C.
390 N. Orange Avenue
Suite 1750
Orlando, FL 32801
407-515-1100

Date:

**EXHIBIT C-3
VOLUNTARY FINANCIAL DISCLOSURE COVER SHEET**

This cover sheet and accompanying "voluntary financial disclosure" will be sent to the MSRB, pursuant to the Disclosure Dissemination Agent Agreement dated as of _____ between the Issuer and DAC.

Issuer's and/or Other Obligated Person's Name:

Issuer's Six-Digit CUSIP Number:

or Nine-Digit CUSIP Number(s) of the bonds to which this notice relates:

Number of pages attached: _____

_____ Description of Voluntary Financial Disclosure (Check One):

1. _____ "quarterly/monthly financial information;"
2. _____ "change in fiscal year/timing of annual disclosure;"
3. _____ "change in accounting standard;"
4. _____ "interim/additional financial information/operating data;"
5. _____ "budget;"
6. _____ "investment/debt/financial policy;"
7. _____ "information provided to rating agency, credit/liquidity provider or other third party;"
8. _____ "consultant reports;" and
9. _____ "other financial/operating data."

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly:

Signature:

Name: _____ Title: _____

Digital Assurance Certification, L.L.C.
390 N. Orange Avenue
Suite 1750
Orlando, FL 32801
407-515-1100

Date:

APPENDIX D

GENERAL INFORMATION REGARDING SONOMA COUNTY AND MARIN COUNTY

General

Sonoma County. One of California's original 27 counties (incorporated in 1850), Sonoma County is the northernmost of the nine greater San Francisco Bay Area counties. Bordered on the north and east by Mendocino, Lake, and Napa counties and to the west and south by the Pacific Ocean, Marin County, and San Pablo Bay, its area encompasses 1,598 square miles. Varied terrain in Sonoma County includes Pacific coastline, the Russian River, vineyards, and old growth redwoods. Sonoma County is the original home of wine production in northern California and still the largest producer of quality wine.

Geographically, Sonoma County is divided almost equally into mountainous regions, rolling hills and valley land. Three narrow valleys, separated by mountains, run northwest to southeast. Elevations range from sea level to 4,262 feet at Mt. Saint Helena, where Sonoma, Napa, and Lake counties converge.

Marin County. Marin County is one of the original counties of California, created in 1850 at the time of statehood. Marin County has a total area of 828 miles and, as of January 1, 2013, a population of approximately 254,007. Geographically, Marin County forms a large, southward-facing peninsula, with the Pacific Ocean to the west, San Pablo Bay and San Francisco Bay to the east, and – across the Golden Gate Bridge – the City and County of San Francisco to the south. Marin County's northern border is with Sonoma County. Most of Marin County's population resides on the eastern side, with a string of communities running along the Bay, from Sausalito to Tiburon to San Rafael to Corte Madera. The interior contains large areas of agricultural and open space; West Marin, through which California State Route 1 runs alongside the California coast, contains many small unincorporated communities dependent on agriculture and tourism for their economies.

Population

The historic population estimates of the cities that are in Marin County and Sonoma County and the State, as of January 1 of the past five years, are shown in the following tables.

MARIN COUNTY, SONOMA COUNTY AND STATE OF CALIFORNIA Population Estimates

Year	Sonoma County	Marin County	State of California
2015	500,083	262,409	38,912,464
2016	502,475	263,210	39,179,627
2017	504,613	263,262	39,500,973
2018	502,866	262,803	39,740,508
2019	500,675	262,879	39,927,315

Source: California State Department of Finance, Demographic Research Unit

Employment and Industry

The unemployment rate in Sonoma County was 2.6% in April 2019, down from a revised 3.2% in March 2019, and below the year-ago estimate of 2.7%. This compares with an unadjusted unemployment rate of 3.9% for California and 3.3% for the nation during the same period.

The following table shows the average annual estimated numbers by industry comprising the civilian labor force, as well as unemployment information for years 2014 through 2018.

**SONOMA COUNTY
Civilian Labor Force, Employment and Unemployment,
Annual Averages, 2014 through 2018
(March 2018 Benchmark)**

	2014	2015	2016	2017	2018
Civilian Labor Force ⁽¹⁾	256,700	258,400	260,100	262,900	262,300
Employment	242,300	246,800	249,800	254,000	255,200
Unemployment	14,400	11,600	10,400	8,900	7,200
Unemployment Rate	5.6%	4.5%	4.0%	3.4%	2.7%
<u>Wage and Salary Employment ⁽²⁾</u>					
Agriculture	6,100	6,000	6,100	6,100	6,600
Mining and Logging	300	200	200	200	200
Construction	10,500	11,600	12,400	13,100	15,000
Manufacturing	20,700	22,000	22,700	23,000	23,400
Wholesale Trade	7,200	7,200	7,300	7,400	7,500
Retail Trade	24,300	24,700	25,000	25,100	24,900
Transportation, Warehousing and Utilities	4,300	4,300	4,200	4,000	4,100
Information	2,700	2,700	2,700	2,700	2,700
Financial Activities	7,700	8,100	8,400	8,800	8,900
Professional and Business Services	20,300	20,600	21,000	21,800	23,000
Educational and Health Services	31,200	32,100	33,000	34,100	35,000
Leisure and Hospitality	23,900	24,700	25,400	25,700	25,400
Other Services	6,800	7,000	7,200	7,200	7,100
Federal Government	1,300	1,300	1,300	1,400	1,300
State Government	5,000	5,100	5,000	4,800	4,400
Local Government	24,900	25,400	26,000	26,100	25,600
Total, All Industries ⁽³⁾	197,100	202,700	207,800	211,500	215,200

(1) Labor force data is by place of residence; includes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

(2) Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

(3) Totals may not add due to rounding.

Source: State of California Employment Development Department.

The unemployment rate in Marin County was 2.1% in April 2019, down from a revised 2.6% in March 2019, and below the year-ago estimate of 2.2%. This compares with an unadjusted unemployment rate of 3.9% for California and 3.3% for the nation during the same period.

The following table shows civilian labor force data and wage and salary employment data for Marin County for the years 2014 through 2018.

MARIN COUNTY
Civilian Labor Force, Employment and Unemployment
Annual Averages, 2014 through 2018
(March 2018 benchmark)

	2014	2015	2016	2017	2018
Civilian Labor Force ⁽¹⁾	139,100	139,500	140,300	141,400	141,100
Employment	133,200	134,600	135,700	137,300	137,700
Unemployment	5,900	4,900	4,600	4,100	3,400
Unemployment Rate	4.3%	3.5%	3.3%	2.9%	2.4%
<u>Wage and Salary Employment:</u> ⁽²⁾					
Agriculture	400	300	300	300	300
Manufacturing	3,500	4,000	4,500	4,900	5,200
Wholesale Trade	2,500	2,500	2,500	2,500	2,500
Retail Trade	14,300	14,200	14,400	14,600	15,100
Transportation, Warehousing & Utils	1,200	1,300	1,300	1,300	1,300
Information	2,800	2,900	2,900	2,700	2,700
Financial Activities	6,800	6,400	6,200	5,800	5,600
Professional and Business Services	18,000	18,000	18,000	17,600	17,500
Educational and Health Services	19,700	20,100	20,600	21,000	21,100
Leisure and Hospitality	15,100	15,400	16,100	16,500	16,300
Other Services	5,200	5,200	5,500	5,700	5,700
Federal Government	700	700	700	700	700
State Government	1,800	1,900	2,000	2,000	2,000
Local Government	12,900	12,800	12,900	13,100	13,300
Total All Industries ⁽³⁾	110,900	112,300	114,500	115,800	116,900

(1) Labor force data is by place of residence; includes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

(2) Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

(3) Totals may not add due to rounding.

Source: State of California Employment Development Department.

Major Employers

The major employers in Sonoma County and Marin County are set forth below.

SONOMA COUNTY Major Employers (As of June 2019)

Employer Name	Location	Industry
Aabalat Fine & Rare Wines	Petaluma	Wineries (mfrs)
Amy's Kitchen Inc	Santa Rosa	Frozen Food Processors (mfrs)
Amys Kitchen	Santa Rosa	Frozen Food Processors (mfrs)
Army National Guard Recruiter	Santa Rosa	Government Offices-State
Calix Inc	Petaluma	Communications Services NEC
Democrat Press	Santa Rosa	Newspapers (publishers/Mfrs)
Flex Products	Santa Rosa	Coatings-Vacuum Deposition (mfrs)
Ghilotti Construction Co	Santa Rosa	Excavating Contractors
Kaiser Permanente Santa Rosa	Santa Rosa	Hospitals
Korbel Champagne Cellars	Guerneville	Wineries (mfrs)
Macy's	Santa Rosa	Department Stores
Medtronic Cardiovascular	Santa Rosa	Surgical Instruments-Manufacturers
Petaluma City Passports	Petaluma	Government Offices-City/Village & Twp
Petaluma Valley Hospital	Petaluma	Hospitals
Protransport-1 LLC	Cotati	Transportation Services
Santa Rosa Memorial Hospital	Santa Rosa	Hospitals
Santa Rosa Police Dept	Santa Rosa	Police Departments
Sante At the Fairmont Sonoma	Sonoma	Hotels & Motels
Solairus Aviation	Petaluma	Aircraft Charter Rental & Leasing Svc
Sonoma County Sheriff	Santa Rosa	Government Offices-County
Sonoma Developmental Ctr	Eldridge	Hospitals
Sonoma Valley Hospital	Sonoma	Hospitals
Sutter Santa Rosa Regl Hosp	Santa Rosa	Hospitals
US Coast Guard	Petaluma	Federal Government-Transportation Pgrms
Walmart	Windsor	Department Stores

Source: State of California Employment Development Department, extracted from the America's Labor Market Information System (ALMIS) Employer Database, 2019 2nd Edition.

**MARIN COUNTY
Major Employers
(As of June 2019)**

Employer Name	Location	Industry
Autodesk Inc	San Rafael	Computer Programming Services
Bay Equity	Sausalito	Real Estate Loans
Biomarin Pharmaceutical Inc	San Rafael	Laboratories-Research & Development
Bradley Real Estate	Belvedere Tibrn	Real Estate
Cagwin & Dorward Landscape	Novato	Landscape Contractors
California Alpine Club	Mill Valley	Clubs
College of Marin	Kentfield	Junior-Community College-Tech Institutes
Community Action Marin	San Rafael	Non-Profit Organizations
Corrections Dept	San Quentin	Government Offices-State
Dominican University of Ca	San Rafael	Federal Government Contractors
Glassdoor Inc	Mill Valley	Website Hosting
Kaiser Permanente Sn Rafael MD	San Rafael	Hospitals
Macy's	Corte Madera	Department Stores
Managed Health Network Inc	San Rafael	Mental Health Services
Marin County Sheriff's Dept	San Rafael	Government Offices-County
Marin Independent Journal	San Rafael	Newspapers (publishers/Mfrs)
Marine General Hospital	Greenbrae	Hospitals
Nordstrom	Corte Madera	Department Stores
Novato Medical	Novato	Clinics
RH	Corte Madera	Furniture-Dealers-Retail
San Rafael Human Resources	San Rafael	Government Offices-City/Village & Twp
Sutter Care At Home	Novato	Health Care Facilities
Township Building Svc Inc	Novato	Janitor Service
Westamerica Bancorporation	San Rafael	Holding Companies (bank)
Ymca San Francisco	San Rafael	Youth Organizations & Centers

Source: State of California Employment Development Department, extracted from the America's Labor Market Information System (ALMIS) Employer Database, 2019 2nd Edition.

Effective Buying Income

“Effective Buying Income” is defined as personal income less personal tax and nontax payments, a number often referred to as “disposable” or “after-tax” income. Personal income is the aggregate of wages and salaries, other labor-related income (such as employer contributions to private pension funds), proprietor’s income, rental income (which includes imputed rental income of owner-occupants of non-farm dwellings), dividends paid by corporations, interest income from all sources, and transfer payments (such as pensions and welfare assistance). Deducted from this total are personal taxes (federal, state and local), nontax payments (fines, fees, penalties, etc.) and personal contributions to social insurance. According to U.S. government definitions, the resultant figure is commonly known as “disposable personal income.”

The following table summarizes the total effective buying income for the Counties, the State and the United States for the period 2015 through 2019.

**MARIN COUNTY AND SONOMA COUNTY
Effective Buying Income
As of January 2015 through 2019**

<u>Year</u>	<u>Area</u>	<u>Total Effective Buying Income (000's Omitted)</u>	<u>Median Household Effective Buying Income</u>
2015	Marin County	\$11,636,360	\$74,420
	Sonoma County	13,365,133	53,069
	California	901,189,699	50,072
	United States	7,357,153,421	45,448
2016	Marin County	\$12,751,873	\$80,192
	Sonoma County	14,241,130	56,067
	California	981,231,666	53,589
	United States	7,757,960,399	46,738
2017	Marin County	\$13,506,516	\$80,608
	Sonoma County	15,518,066	60,353
	California	1,036,142,723	55,681
	United States	8,123,748,136	48,043
2018	Marin County	\$14,293,951	\$85,923
	Sonoma County	16,179,391	62,413
	California	1,113,648,181	59,646
	United States	8,640,770,229	50,735
2019	Marin County	\$14,837,382	\$88,348
	Sonoma County	17,456,950	68,021
	California	1,183,264,399	62,637
	United States	9,017,967,563	52,841

Source: The Nielsen Company (US), Inc for years 2015 through 2018; Claritas, LLC for 2019

Commercial Activity

A summary of historic taxable sales within Sonoma County during the past five years in which data is available is shown in the following table. Total taxable sales during the first quarter of calendar year 2018 in Sonoma County were reported to be \$2,208,863,359 a 6.99% increase over the total taxable sales of \$2,064,475,577 reported during the first quarter of calendar year 2017. Annual figures are not yet available for calendar year 2018.

**SONOMA COUNTY
Taxable Transactions
Calendar Years 2013 through 2017
(\$s in thousands)**

<u>Year</u>	<u>Retail Permits on July 1</u>	<u>Retail Stores Taxable Transactions</u>	<u>Total Permits on July 1</u>	<u>Total Outlets Taxable Transactions</u>
2013	11,757	\$5,618,188	17,998	\$8,017,883
2014	11,881	5,931,984	18,179	8,467,551
2015 ⁽¹⁾	8,699	6,104,395	19,916	8,704,969
2016	11,381	6,348,476	20,378	9,002,536
2017	11,366	6,679,426	20,533	9,393,597

(1) Permit figures for calendar year 2015 are not comparable to that of prior years due to outlet counts in these reports including the number of outlets that were active during the reporting period. Retailers that operate part-time are now tabulated with store retailers.

Source: State Board of Equalization. Taxable Sales in California (Sales & Use Tax) for years 2013-2016. State Department of Tax and Fee Administration for year 2017.

A summary of historic taxable sales within Marin County during the past five years in which data is available is shown in the following table. Total taxable sales during the first quarter of calendar year 2018 in Marin County were reported to be \$1,202,124,721, a 4.36% increase over the total taxable sales of \$1,151,864,607 reported during the first quarter of calendar year 2017. Annual figures are not yet available for calendar year 2018.

**MARIN COUNTY
Taxable Transactions
Calendar Years 2013 through 2017
(\$s in thousands)**

<u>Year</u>	<u>Retail Permits on July 1</u>	<u>Retail Stores Taxable Transactions</u>	<u>Total Permits on July 1</u>	<u>Total Outlets Taxable Transactions</u>
2013	6,550	\$3,605,108	10,414	\$4,664,920
2014	6,457	3,745,315	10,272	4,861,801
2015 ⁽¹⁾	4,836	3,836,153	10,958	5,046,316
2016	6,059	3,855,662	10,941	5,045,785
2017	6,036	3,903,138	10,899	5,147,808

(2) Permit figures for calendar year 2015 are not comparable to that of prior years due to outlet counts in these reports including the number of outlets that were active during the reporting period. Retailers that operate part-time are now tabulated with store retailers.

Source: State Board of Equalization. Taxable Sales in California (Sales & Use Tax) for years 2013-2016. State Department of Tax and Fee Administration for year 2017.

Construction Activity

Building activity for the years 2013 through 2017 in Sonoma County and Marin County is shown in the following tables. Annual figures are not yet available for calendar year 2018.

**SONOMA COUNTY
Total Building Permit Valuations
(Figures in Thousands)**

	2013	2014	2015	2016	2017
<u>Permit Valuation</u>					
New Single-family	\$91,419.1	\$69,788.4	\$65,968.4	\$112,941.1	\$202,169.1
New Multi-family	51,210.7	22,017.8	27,797.3	26,149.2	46,674.0
Res. Alterations/Additions	<u>59,124.5</u>	<u>64,228.0</u>	<u>78,005.1</u>	<u>71,079.1</u>	<u>97,326.9</u>
Total Residential	201,754.3	156,034.2	171,770.8	210,169.4	346,170.0
New Commercial	60,889.7	55,718.9	53,975.7	93,462.5	79,737.8
New Industrial	0.0	0.0	2,484.9	156.4	759.6
New Other	9,776.3	8,657.2	16,513.5	19,225.1	25,572.7
Com. Alterations/Additions	<u>55,293.2</u>	<u>55,718.9</u>	<u>84,641.9</u>	<u>79,943.6</u>	<u>99,102.9</u>
Total Nonresidential	125,959.2	120,095.0	157,616.0	192,787.6	205,173.0
<u>New Dwelling Units</u>					
Single Family	295	292	236	560	881
Multiple Family	<u>732</u>	<u>214</u>	<u>206</u>	<u>264</u>	<u>351</u>
TOTAL	1,027	506	442	824	1,232

Source: Construction Industry Research Board, Building Permit Summary.

**MARIN COUNTY
Total Building Permit Valuation
(Figures in Thousands)**

	2013	2014	2015	2016	2017
<u>Permit Valuation</u>					
New Single-family	\$59,423.2	\$71,460.1	\$75,834.5	\$62,804.2	\$86,748.2
New Multi-family	33,397.4	14,069.1	2,426.4	7,869.8	0.0
Res. Alterations/Additions	<u>152,065.1</u>	<u>203,375.3</u>	<u>203,754.7</u>	<u>194,743.0</u>	<u>194,772.0</u>
Total Residential	244,885.7	288,904.5	282,015.6	265,417.0	281,520.2
New Commercial	26,262.6	76,204.6	10,439.6	17,564.0	24,300.5
New Industrial	154.9	0.0	0.0	0.0	0.0
New Other	15,072.2	24,104.2	42,614.2	54,015.5	35,898.9
Com. Alterations/Additions	<u>93,745.8</u>	<u>85,972.9</u>	<u>497,343.6</u>	<u>69,437.8</u>	<u>65,867.0</u>
Total Nonresidential	135,235.5	186,281.7	550,397.4	141,017.3	126,066.4
<u>New Dwelling Units</u>					
Single Family	90	112	121	89	104
Multiple Family	<u>212</u>	<u>76</u>	<u>20</u>	<u>17</u>	<u>0</u>
TOTAL	302	188	141	106	104

Source: Construction Industry Research Board, Building Permit Summary.

APPENDIX E

FORM OF BOND COUNSEL OPINION

[Dated Date]

Board of Directors
Sonoma County Water Agency
404 Aviation Boulevard
Santa Rosa, California 95401

OPINION: \$11,010,000 Sonoma County Water Agency
Water Revenue Bonds, 2019 Series A

Members of the Board:

We have acted as Bond Counsel in connection with the issuance by the Sonoma County Water Agency (the "Agency") of the water revenue bonds captioned above (the "2019 Bonds"). In such capacity, we have examined such law and such certified proceedings, certifications and other documents as we have deemed necessary to render this opinion.

The 2019 Bonds are issued pursuant to Sonoma County Water Agency Act (Cal. Stat. 1949, c. 994, as amended) (the "Act"), Master Ordinance No. 1, adopted December 28, 1970, as heretofore supplemented and amended and as supplemented and amended by a Tenth Supplemental Ordinance adopted by the Board of Directors of the Agency on April 30, 2019 (collectively, the "Master Ordinance"), and a resolution of the Board of Directors of the Agency adopted on April 30, 2019 (the "Resolution").

Under the Master Ordinance, the Agency has pledged certain net revenues (the "Net Revenues") of its water transmission system for the payment of principal, premium (if any), and interest on the 2019 Bonds when due.

Regarding questions of fact material to our opinion, we have relied on representations of the Agency contained in the Master Ordinance and the Resolution, and in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Based on the foregoing, we are of the opinion that, under existing law:

1. The Agency is duly created and validly existing as a public agency and political subdivision of the State of California with the power to adopt the Master Ordinance, perform the agreements on its part contained therein, and issue the 2019 Bonds.
2. The Master Ordinance has been duly adopted by the Agency and constitutes a valid and binding obligation of the Agency enforceable upon the Agency.

3. Pursuant to the Act, the Master Ordinance creates a valid lien on the Net Revenues and other funds pledged by the Master Ordinance for the security of the 2019 Bonds, on a parity with other bonds issued or to be issued in accordance with the Master Ordinance.

4. The 2019 Bonds have been duly authorized and executed by the Agency, and are valid and binding limited obligations of the Agency, payable solely from the Net Revenues and other funds provided therefor in the Master Ordinance.

5. The interest on the 2019 Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax. The opinions set forth in the preceding sentence are subject to the condition that the Agency comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the 2019 Bonds in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The Agency has made certain representations and covenants in order to comply with each such requirement. Inaccuracy of those representations, or failure to comply with certain of those covenants, may cause the inclusion of such interest in gross income for federal income tax purposes, which may be retroactive to the date of issuance of the 2019 Bonds.

6. The interest on the 2019 Bonds is exempt from personal income taxation imposed by the State of California.

We express no opinion regarding any other tax consequences arising with respect to the ownership, sale or disposition of, or the amount, accrual or receipt of interest on, the 2019 Bonds.

The rights of the owners of the 2019 Bonds and the enforceability of the 2019 Bonds and the Master Ordinance are limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally, and by equitable principles, whether considered at law or in equity.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur. Our engagement with respect to this matter has terminated as of the date hereof.

Respectfully submitted,

A Professional Law Corporation

APPENDIX F

DTC AND THE BOOK-ENTRY ONLY SYSTEM

The following description of the Depository Trust Company (“DTC”), the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

Neither the issuer of the Bonds (the “Issuer”) nor the trustee, fiscal agent or paying agent appointed with respect to the Bonds (the “Agent”) take any responsibility for the information contained in this Appendix.

No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedures” of DTC to be followed in dealing with DTC Participants are on file with DTC.

1. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the securities (the “Securities”). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each issue of the Securities, each in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned

subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. *The information contained on this Internet site is not incorporated herein by reference.*

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC’s records. The ownership interest of each actual purchaser of each Security (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC’s MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as

possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

10. Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

11. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.