



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

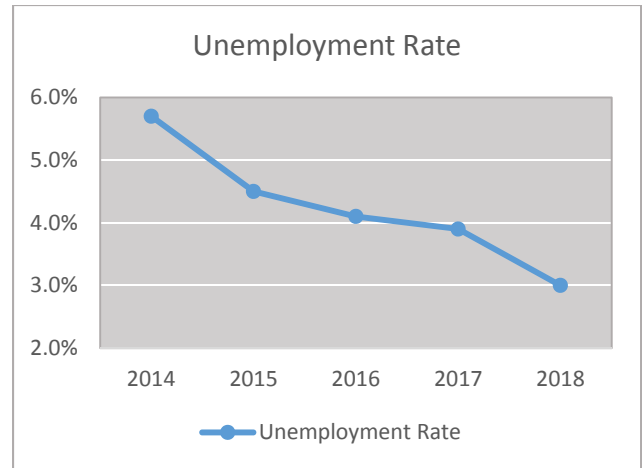
Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Sonoma County Auditor-Controller-Treasurer-Tax Collector, 585 Fiscal Drive, Suite 100, Santa Rosa, California 95403.

Factors Affecting Financial Condition

Financial Indicators

Employment

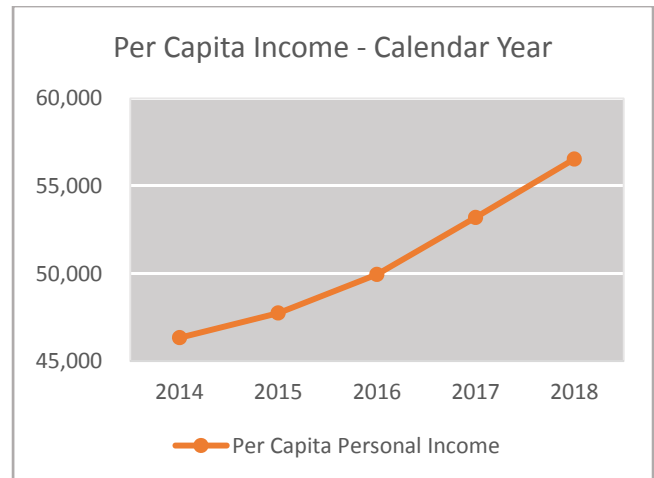
- The unemployment rate in Sonoma County decreased from 3.9% in June 2017 to 3.0% in June 2018. This compares with an unadjusted unemployment rate of 4.2% for California and 4.0% for the nation during the same period.



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



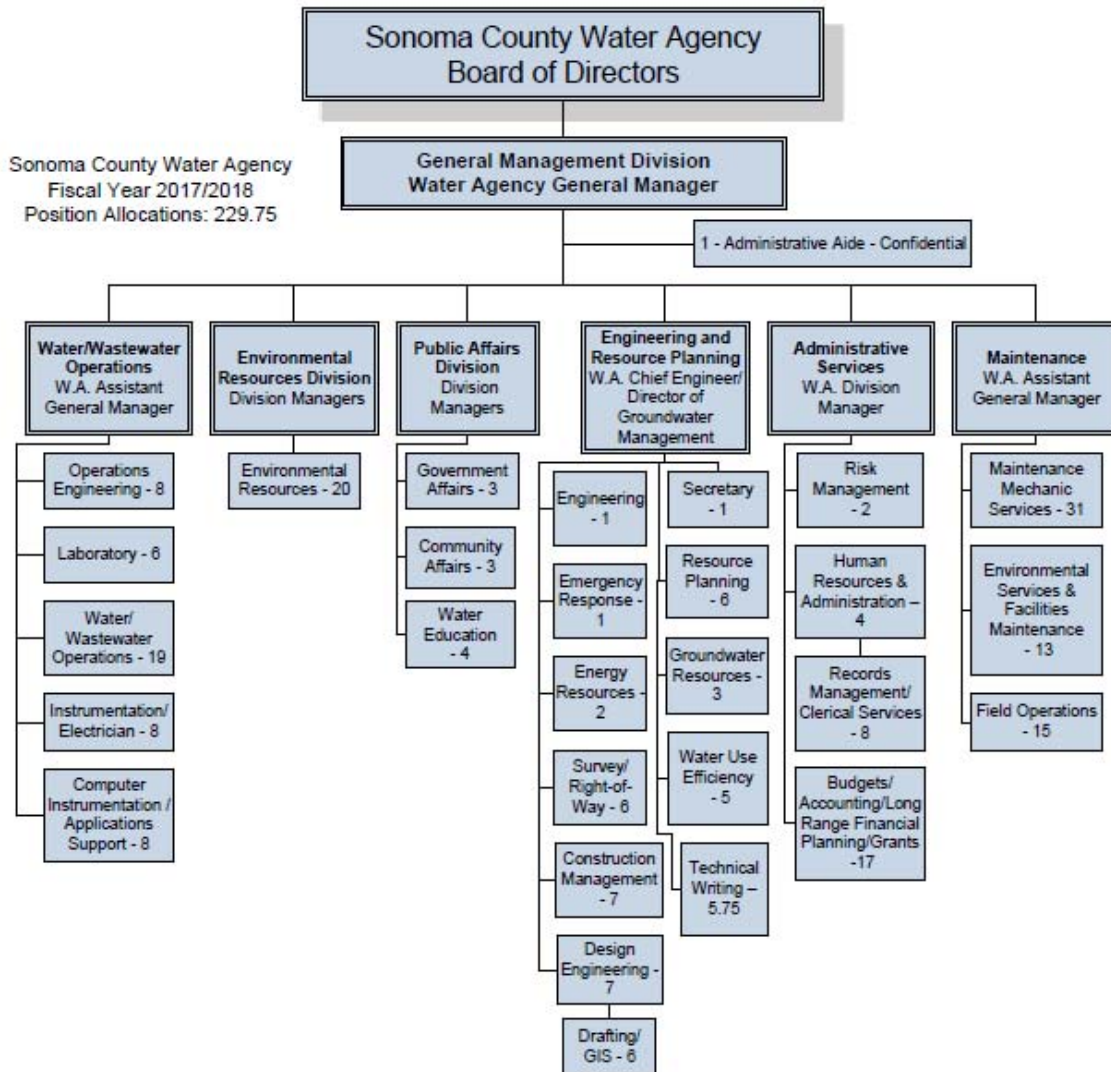
Michael Thompson

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

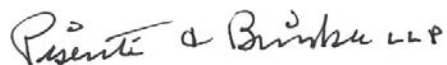
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Water Agency's basic financial statements. The introductory section, the combining fund information, and statistical section are presented for purposes of additional analysis and are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

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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
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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
Management's Discussion and Analysis
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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

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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.

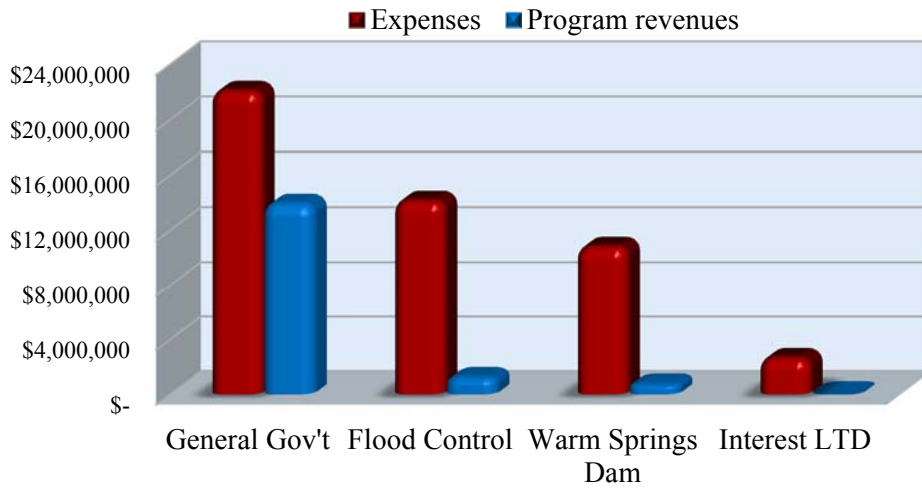
- Program revenues for the fiscal year ended June 30, 2018 increased by \$1,149,144 from the prior fiscal year. This increase consisted of a decrease of \$437,564 in charges for services, an increase of \$1,306,602 in operating grants and contributions, and an increase of \$280,106 in capital grants 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.

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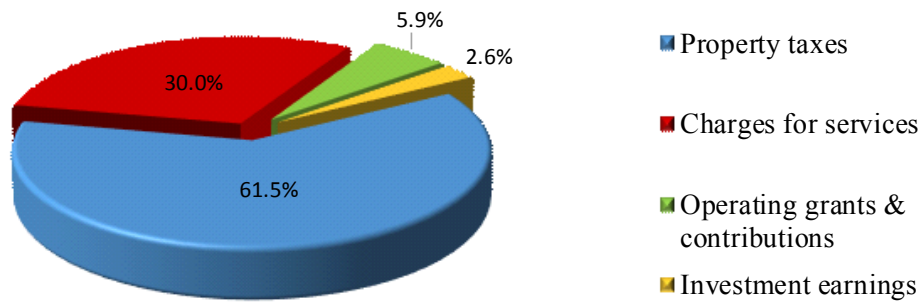
Government-wide Financial Analysis (continued)

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.

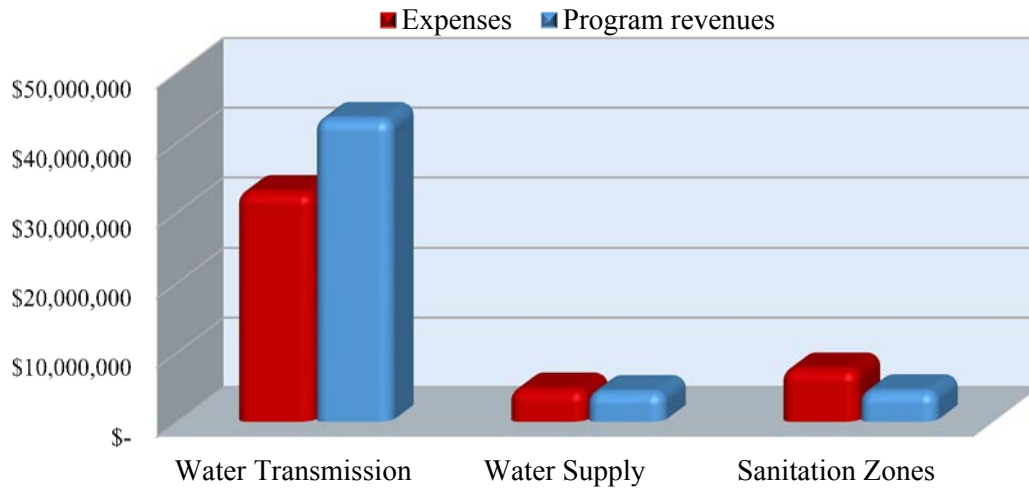
- Water sales revenue increased \$7,327,408 from the prior fiscal year. This increase was due to a 14.3% increase in total acre-feet sold and an average increase of 4.5% in water rates.
- Sanitation revenue increased due to increases in the annual rates combined with increases in the total Equivalent 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.

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(Unaudited)**

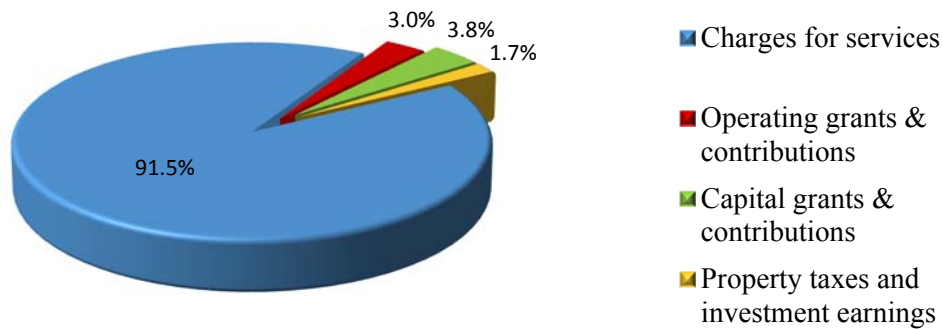
Government-wide Financial Analysis (continued)

Business-type Activities (continued)

Expenses and Program Revenues – Business-type Activities



Revenues by Source – Business-type activities



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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.

**Sonoma County Water Agency
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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.

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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

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

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		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
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
	<u>General</u>	<u>Flood Control</u>	<u>Warm Springs Dam</u>	<u>Debt Service</u>	
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)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>	
Capital outlay	1,694,878
Depreciation expense	(1,762,306)
<p>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.</p>	
	(2,044)
<p>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.</p>	
	(811,779)
<p>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.</p>	
	3,550,906
<p>Some expenses reported in the statement of activities do not require the use of current financial resources, and therefore are not reported as expenditures in governmental funds.</p>	
Change in interest payable	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
	(8,922,395)
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

	Business-type Activities - Enterprise Funds				
	Water Transmission	Water Supply	Sanitation	Total	Internal Service Funds
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	1,304,953	-	343,722	1,648,675	-
Total current liabilities payable from restricted assets	<u>1,861,919</u>	<u>-</u>	<u>389,277</u>	<u>2,251,196</u>	<u>-</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

<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>
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	<u>5,125,017</u>	<u>(433,122)</u>	<u>(3,615,538)</u>	<u>1,076,357</u>	<u>3,848,970</u>
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	<u>7,875,017</u>	<u>1,024,139</u>	<u>(2,239,804)</u>	<u>6,659,352</u>	<u>4,297,703</u>
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	

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.

	General Fund	Special Revenue			Total
		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
<u>Total general obligation bonds payable</u>				<u>\$ 53,000</u>

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
<u>Total capital leases</u>				<u>\$ 3,167,925</u>

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)
<u>Total</u>	<u>\$ 13,493,518</u>

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
<u>Total water revenue bonds payable, net</u>				<u>\$ 33,739,811</u>

**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.

**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	<u>402,381</u>	<u>165,834</u>	<u>169,945</u>	<u>-</u>
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	<u>-</u>	<u>917</u>	<u>-</u>	<u>-</u>
Total liabilities	434,037	226,619	76,646	16,271
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
			Liabilities and fund balances
\$ -	\$ -	\$ 752,656	Liabilities:
-	-	917	Accounts payable
-	-	-	Unearned revenue
<u>-</u>	<u>-</u>	<u>753,573</u>	Total liabilities
			Fund balances:
76,072	2,586,016	23,505,987	Restricted
<u>76,072</u>	<u>2,586,016</u>	<u>23,505,987</u>	Total fund balances
			Total liabilities and fund balances
<u>\$ 76,072</u>	<u>\$ 2,586,016</u>	<u>\$ 24,259,560</u>	

Sonoma County Water Agency
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Flood Control Special Revenue Funds
For the Fiscal Year Ended June 30, 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	
\$ -	\$ 174,500	\$ 10,144,613	Revenues
918	29,534	287,156	Property taxes
-	1,186	1,142,669	Investment earnings
-	-	112,633	Intergovernmental
-	-	1,016	Charges for services
918	205,220	11,688,087	Miscellaneous
			Total revenues
-	14,802	11,851,261	Expenditures
-	-	66,310	Services and supplies
-	14,802	11,917,571	Capital outlay
			Total expenditures
918	190,418	(229,484)	Net change in fund balances
75,154	2,395,598	23,735,471	Fund balances - beginning of year
<u>\$ 76,072</u>	<u>\$ 2,586,016</u>	<u>\$ 23,505,987</u>	Fund balances - end of year

**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

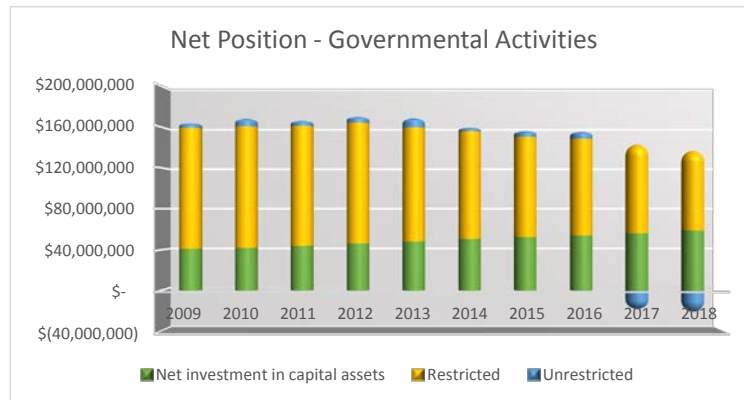
Financial Trends	110
These schedules contain trend information to help the reader understand how the Water Agency's financial performance and well-being have changed over time.	
Revenue Capacity	120
These schedules contain information to help the reader assess the Water Agency's most significant local 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.	
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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:

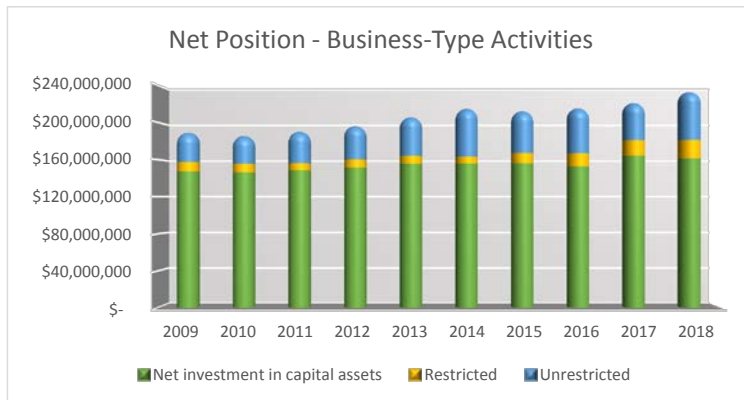
- (1) FY 2008 - 09 net position was restated from \$352,927,614 to \$353,487,239 for the implementation of GASB 51.
- (2) FY 2012 - 13 net position was restated from \$375,816,617 to \$375,138,980 for the implementation of GASB 65.
- (3) FY 2013 - 14 net position was restated from \$385,129,551 to \$374,929,454 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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- (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 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.

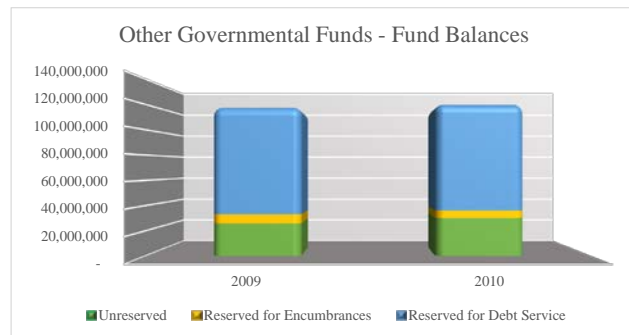
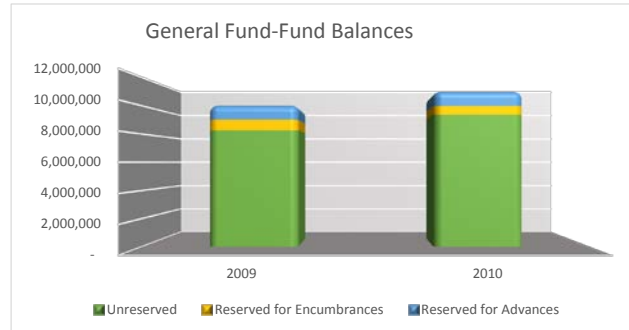
Source: Sonoma County Auditor-Controller-Treasurer-Tax Collector

**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>



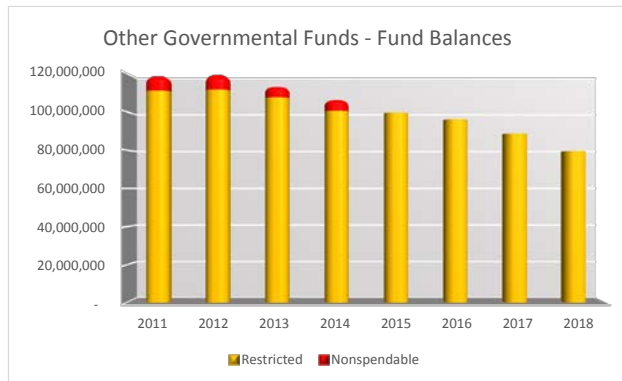
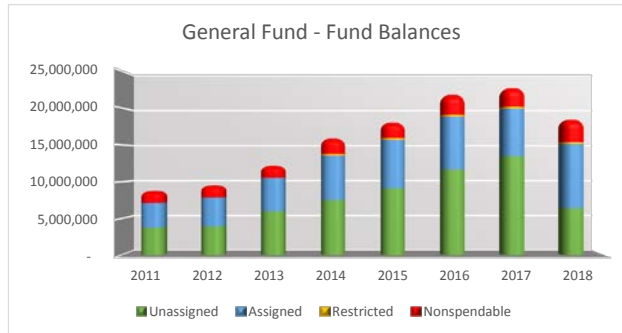
	June 30,		
	2011 (1)	2012	2013
General Fund			
Nonspendable	\$ 1,578,367	\$ 1,592,999	\$ 1,605,010
Restricted	-	-	-
Assigned	3,355,545	3,953,877	4,558,922
Unassigned	3,774,342	3,928,987	5,986,297
Total General Fund	<u>\$ 8,708,254</u>	<u>\$ 9,475,863</u>	<u>\$ 12,150,229</u>
All other governmental funds			
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)

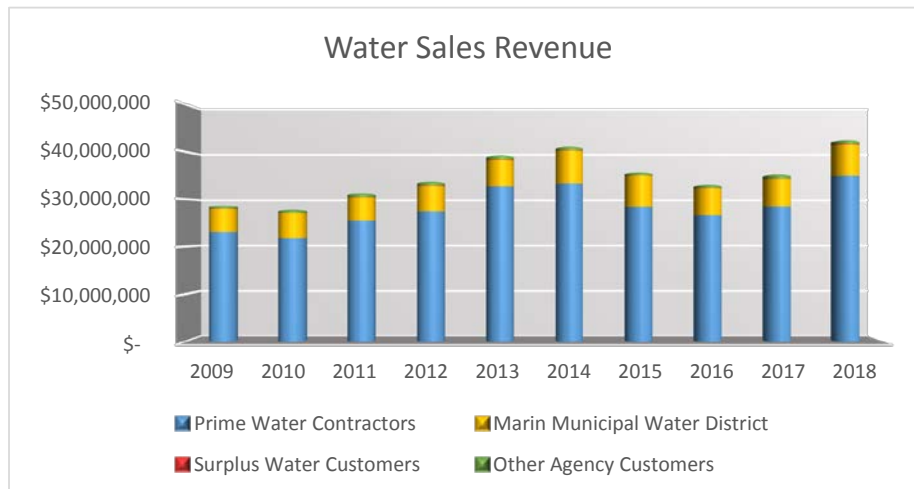
Fiscal Year Ended June 30,					
2014	2015	2016	2017	2018	
		(1)	(2)		
Revenues					
\$ 20,350,239	\$ 21,953,368	\$ 23,629,448	\$ 25,228,577	\$ 26,877,486	Property taxes
1,920,952	1,448,245	2,138,047	447,480	1,135,042	Investment earnings
1,622,316	1,723,931	3,133,516	1,273,673	2,856,392	Intergovernmental
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.



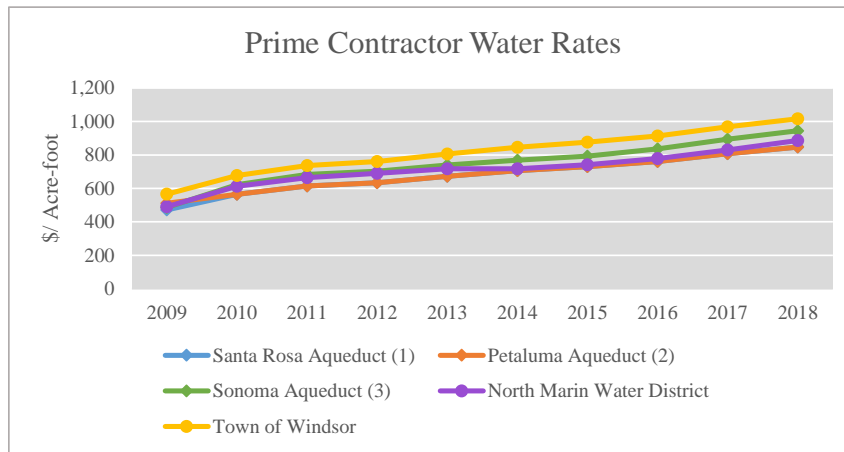
**Sonoma County Water Agency
Water Rates by Category (Unaudited)
Last Ten Fiscal Years**

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

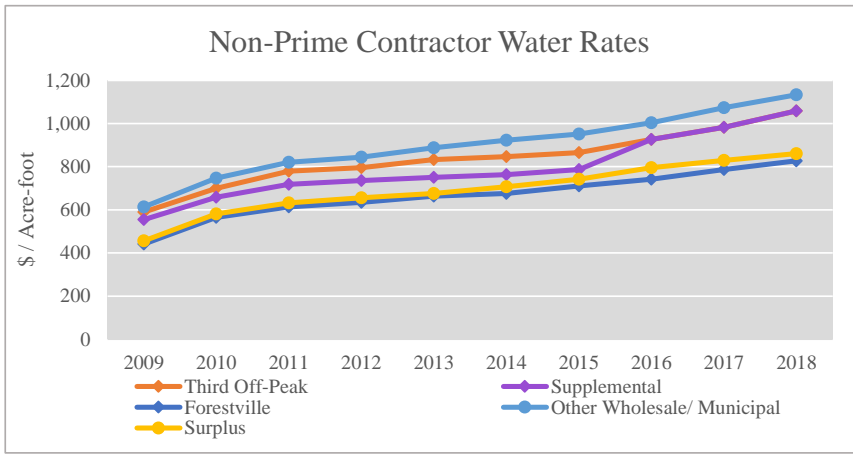


Source: Sonoma County Water Agency Finance and Accounting Division

**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>

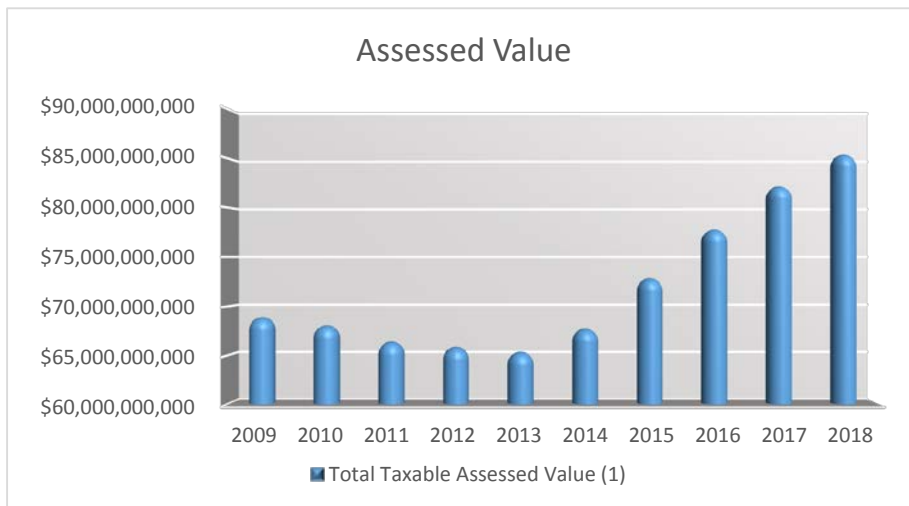
Source: Sonoma County Water Agency Finance and Accounting Division

**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			Sonoma County	Sonoma County		Schools and other Districts	
	Water Agency (1)	County	Other	General Levy (2)	Water Agency (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			Total Collections to Date	
		Amount	% of Levy	Collections in Subsequent Years (2)	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:

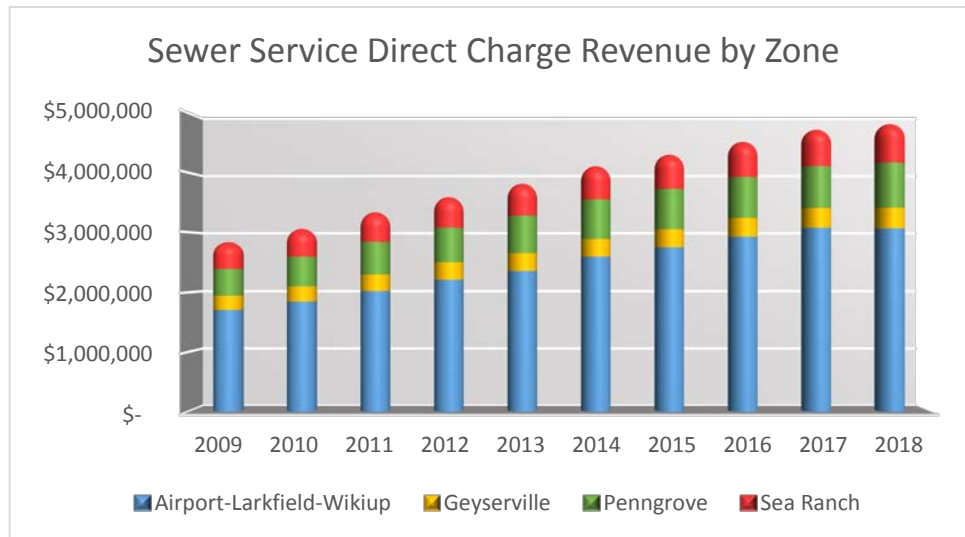
(1) Represents the County of Sonoma General Levy.

(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**

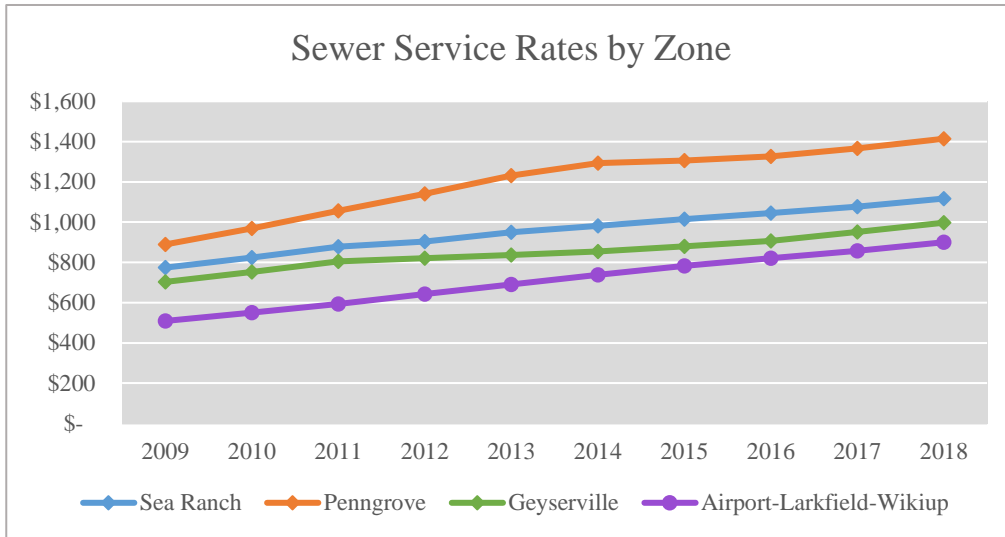
Fiscal Year Ended June 30,	Sea Ranch	Penngrove	Geyserville	Airport- Larkfield- Wikiup	Total
2009	\$ 443,192	\$ 448,777	\$ 237,431	\$ 1,706,639	\$ 2,836,039
2010	472,646	488,192	253,529	1,846,735	3,061,102
2011	505,377	536,247	277,194	2,022,192	3,341,010
2012	522,150	581,480	282,703	2,211,600	3,597,933
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

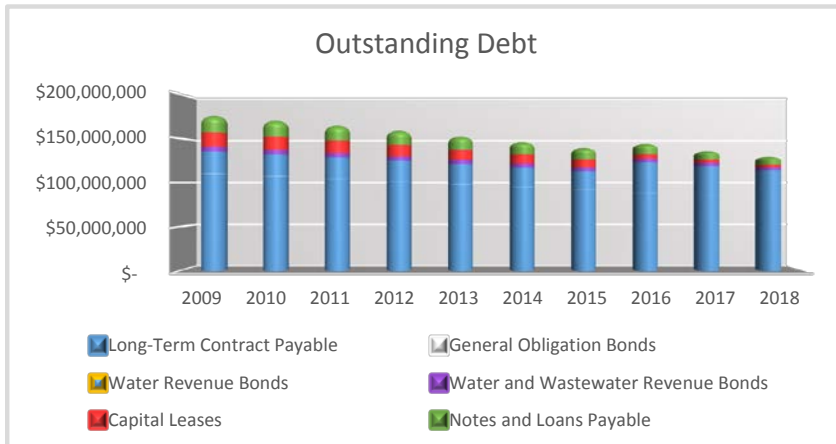
**Sonoma County Water Agency
Principal Sanitation Customers (Unaudited)
Current Year and Nine Years Ago**

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

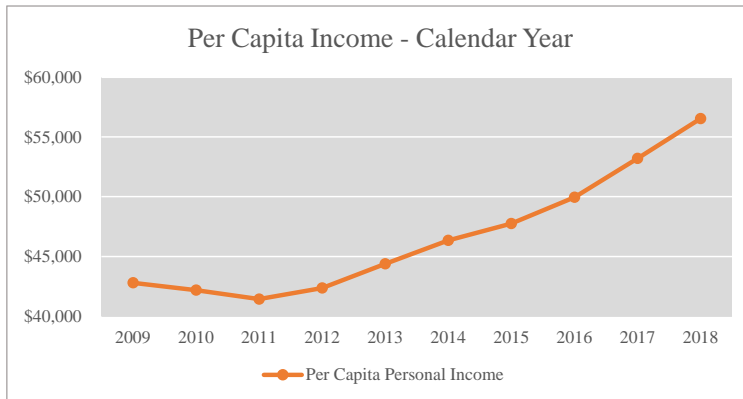
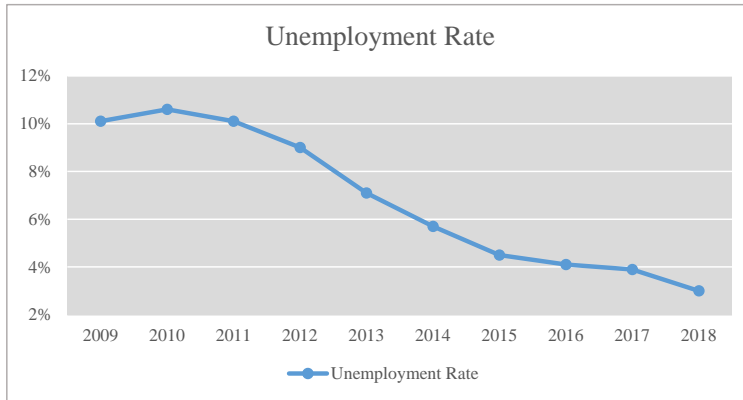
Fiscal Year Ending June 30,					
2014	2015	2016	2017	2018	
\$ 2,836,599	\$ 2,998,036	\$ 3,180,932	\$ 3,791,646	\$ 3,288,929	Revenues:
-	-	-	(67,371)	67,371	User fees (1),(2)
381,275	233,246	651,300	1,735,015	27,293	Change in accounting estimate - user fees (3)
-	-	-	-	(913,932)	Connection fees
-	-	-	(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	Number of Employees (8)	Rank	% of Total	
				County Employment			County Employment	
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)**

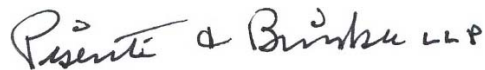
Independent Auditor's Report (continued)

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