Occidental County Sanitation District
(A Component Unit of the County of Sonoma)

Independent Auditor's Reports, Management's
Discussion and Analysis and Basic
Financial Statements

For the Fiscal Year Ended June 30, 2025

Occidental County Sanitation District
For the Fiscal Year Ended June 30, 2025

Table of Contents

sorren CPAs P.C.

Independent Auditor's Report

Board of Directors
Occidental County Sanitation District

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Occidental County Sanitation District (the District), a component unit of the County of Sonoma, California, as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of June 30, 2025, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

3562 Round Barn Cir, #200, Santa Rosa, CA 95403
Ph: (707) 542 3343
sorren.com

Independent Auditor's Report (continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2025, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant 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 the District's 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 District's internal control over financial reporting and compliance.

Santa Rosa, California
September 30, 2025

Management's Discussion and Analysis

Occidental County Sanitation District
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2025

As management of the Occidental County Sanitation District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2025. We encourage readers to consider the information presented here in conjunction with the District's financial statements and the accompanying notes to the financial statements.

Reporting Entity

The District is managed by the Sonoma County Water Agency (Sonoma Water), which provides administration, engineering, operational and maintenance services. The District is governed by a Board of Directors, which is the County of Sonoma (the County) Board of Supervisors. The District is considered an integral part of the County's reporting entity, resulting in the District's financial statements being included in the County's Annual Comprehensive Financial Report.

Please refer to the definition of the reporting entity within the notes to the basic financial statements for additional detail.

Financial Highlights

Net Position

The assets of the District exceeded its liabilities at the close of the most recent fiscal year by $6,733,991 (*net position*). Of this amount, $2,328,472 (*unrestricted net position*) may be used to meet the District's ongoing obligations to citizens and creditors.

Revenues and Contributions

The District recognized total revenues of $1,699,107 during the fiscal year ended June 30, 2025.

Expenses

The District incurred expenses totaling $1,740,289 for the fiscal year ended June 30, 2025. This amount represents operating expenses related to the collection, treatment, disposal, and reclamation of effluent.

Change in Net Position

The District recorded an operating loss of $1,100,092 for the fiscal year ended June 30, 2025. This loss was offset by nonoperating revenues totaling $1,058,910, resulting in a decrease in net position of $41,182.

Occidental County Sanitation District
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2025

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: (1) management's discussion and analysis, (2) financial statements, and (3) notes to the financial statements.

Management's Discussion and Analysis

This section is intended to provide a narrative overview that users need to interpret the financial statements. Management's discussion and analysis also provides analysis of key data presented in the financial statements.

Financial Statements

The District is engaged only in business-type activities. The District accounts for its financial activity utilizing fund accounting, specifically enterprise fund accounting, to ensure and demonstrate compliance with finance-related legal requirements. An enterprise fund is a proprietary fund type used to report activities for which a fee is charged to external customers for goods or services provided. The focus of an enterprise fund is the determination of operating income, changes in net position (or cost recovery), financial position, and cash flow. The financial statements presented are the *statement of net position; the statement of revenues, expenses and changes in net position; and the statement of cash flows.*

Notes to the Financial Statements

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

Financial Analysis

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by $6,733,991 at the close of the most recent fiscal year compared to net position of $6,775,173 as of June 30, 2024. The $41,182 decrease in net position can be primarily attributed to the District's operating loss of $1,100,092 offset by contributions from Sonoma Water for operations in the amount of $970,000.

A significant portion of the District's net position (65.4% as of June 30, 2025, compared to 65.9% for June 30, 2024) reflects its net investment in capital assets. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Financial Analysis (continued)

Condensed Statements of Net Position

	June 30, 2024	June 30, 2025	Percentage Change
Current and other assets	$ 2,310,436	$ 2,332,155	0.9%
Capital assets, net	4,464,957	4,405,519	-1.3%
Total assets	6,775,393	6,737,674	-0.6%
Current liabilities	220	3,683	1574.1%
Net position			
Net investment in capital assets	4,464,957	4,405,519	-1.3%
Unrestricted	2,310,216	2,328,472	0.8%
Total net position	$ 6,775,173	$ 6,733,991	-0.6%

The balance of unrestricted net position of $2,328,472 may be used to meet the District's ongoing obligations to citizens and creditors. As of June 30, 2025, the District reports positive balances in all of its categories of net position.

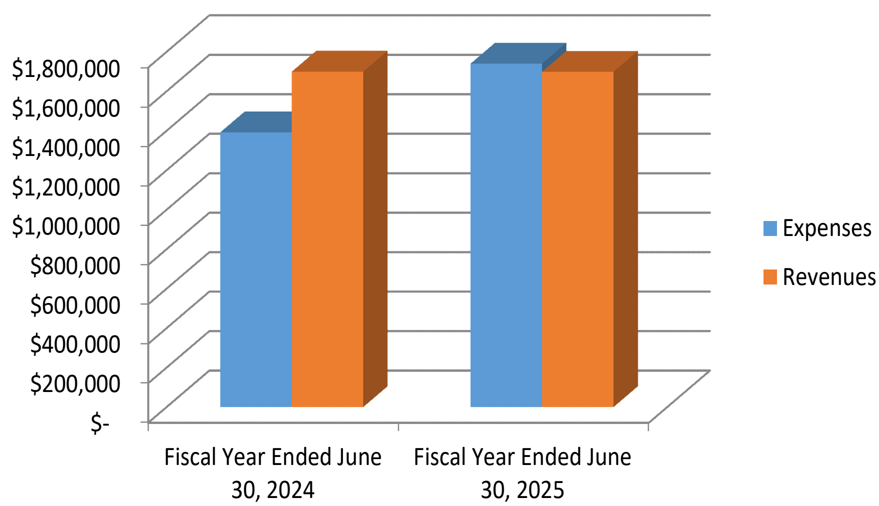
Condensed Statements of Changes in Net Position

	Fiscal Year Ended		Percentage
	June 30, 2024	June 30, 2025	Change
Revenues			
Operating revenues	$ 552,873	$ 640,197	15.8%
Nonoperating revenues	846,732	1,058,910	25.1%
Total revenues	1,399,605	1,699,107	21.4%
Expenses			
Services and supplies	1,240,510	1,588,707	28.1%
Depreciation	151,582	151,582	0.0%
Total expenses	1,392,092	1,740,289	25.0%
Income (loss) before capital contributions	7,513	(41,182)	-648.1%
Capital contributions	300,000	-	-100.0%
Increase (decrease) in net position	307,513	(41,182)	-113.4%
Net position, beginning of year	6,467,660	6,775,173	4.8%
Net position, end of year	$ 6,775,173	$ 6,733,991	-0.6%

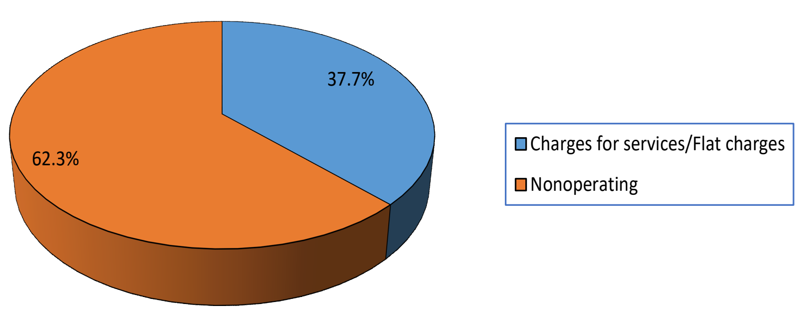
Financial Analysis (continued)

The District's net position decreased by $41,182 during the fiscal year ended June 30, 2025, compared to an increase of $307,513 during the fiscal year ended June 30, 2024. Intergovernmental revenues include funding received from Sonoma Water totaling $970,000 in order to allow the District to meet its ongoing operating expenses.

Expenses and Revenues



Revenues by Source

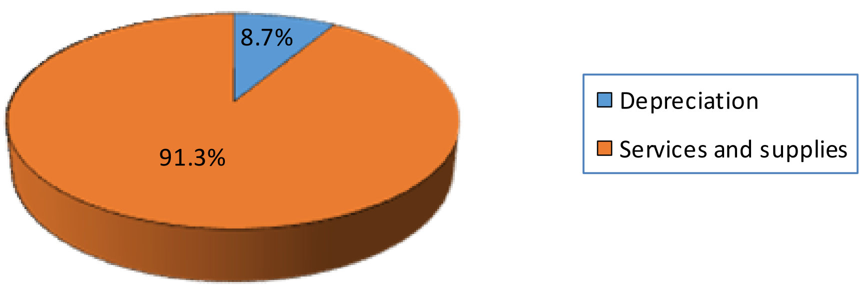


Financial Analysis (continued)

Revenues by Source (continued)

Revenues and capital contributions for the fiscal year ended June 30, 2025, totaled $1,699,107, a decrease of $498 from the preceding fiscal year's revenues of $1,699,605. The rate-based operating charges, representing 37.7% of the District's revenue, increased by $87,324 due to a Board of Directors approved increase of sewer service fees. Nonoperating revenues make up 62.3% of the District's revenue and include intergovernmental revenue and investment earnings. Nonoperating revenue totaled $1,058,910, an increase of $212,178 from the preceding fiscal year's nonoperating revenue. The increase in nonoperating revenue was a result of receiving $170,000 more in intergovernmental revenues compared to the preceding fiscal year. Intergovernmental revenues consisted of a $970,000 contribution from Sonoma Water toward operating costs. Investment earnings increased from the preceding year by $52,645 due to a higher rate of return on pooled investments. Capital contributions decreased from the preceding year by $300,000 due to no contribution from Sonoma Water for capital projects in fiscal year ended June 30, 2025.

Expenses by Function



Total expenses for the District increased by $348,197 to $1,740,289 for the fiscal year ended June 30, 2025, due primarily to increases in services and supplies. Services and supplies expenses increased by $348,197 which was mainly due to an increased need for waste hauling and pumping services and an increase in treatment plant maintenance costs. Costs associated with the collection, treatment, and disposal of effluent represent 91.3% of the District's costs. Annual depreciation expense of $151,582 on capital assets represents 8.7% of total expenses.

Capital Assets

The District's investment in capital assets as of June 30, 2025, amounts to $4,405,519 (net of accumulated depreciation).

Occidental County Sanitation District's Capital Assets

	June 30, 2024	June 30, 2025	Percentage Change
Infrastructure	$ 6,414,336	$ 6,414,336	0.0%
Construction in progress	720,232	812,376	12.8%
Machinery and equipment	115,824	115,824	0.0%
Intangible assets	279	279	0.0%
Accumulated depreciation	(2,785,714)	(2,937,296)	5.4%
Total	**$ 4,464,957**	**$ 4,405,519**	**-1.3%**

Additional information on the District's capital assets is in Note C of the notes to the basic financial statements.

Next Year's Budget and Rates

The following table presents a comparison of the final budget for the fiscal year ended June 30, 2025, and the proposed budgeted expenses for the District for the fiscal year ending June 30, 2026.

	Fiscal Year Ended June 30, 2025	Fiscal Year Ending June 30, 2026	Increase / (Decrease)	Percentage Change
Operations	$ 2,044,840	$ 2,732,138	$ 687,298	33.6%
Construction	1,718,981	835,214	(883,767)	-51.4%
Total	**$ 3,763,821**	**$ 3,567,352**	**$ (196,469)**	**-5.2%**

The sewer service fees were adjusted for the 2025/26 budget year by virtue of a Board of Directors approved increase of 4.7%.

Next Year's Budget and Rates (continued)

The following table illustrates the sanitation service rates and estimated equivalent single-family dwellings for the District.

	Fiscal Year Ended June 30, 2025	Fiscal Year Ending June 30, 2026	Percentage Change
Rate per Equivalent Single-Family Dwelling	$ 3,006	$ 3,146	4.7%
Number of Equivalent Single-Family Dwellings	273	273	0.0%

Request for Additional Information:

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

Occidental County Sanitation District
Statement of Net Position
June 30, 2025

Assets		
Current assets:		
Cash and investments	$	2,164,524
Accounts receivable		135,799
Prepaid expenses		1,755
Total current assets		2,302,078
Noncurrent assets:		
Accounts receivable		30,077
Capital assets, net of accumulated depreciation		3,592,864
Capital assets not being depreciated		812,655
Total capital assets, net		4,405,519
Total noncurrent assets		4,435,596
Total assets		6,737,674
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses		3,124
Due to other governments		559
Total current liabilities		3,683
Total liabilities		3,683
Net Position		
Net investment in capital assets		4,405,519
Unrestricted		2,328,472
Total net position	$	6,733,991

The notes to the basic financial statements are an integral part of this statement.

Occidental County Sanitation District
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2025

Operating revenues		
Flat charges	$	422,432
Charges for services		217,765
Total operating revenues		640,197
Operating expenses		
Services and supplies		1,588,707
Depreciation		151,582
Total operating expenses		1,740,289
Operating loss		(1,100,092)
Nonoperating revenues		
Intergovernmental - Sonoma Water		970,000
Investment earnings		88,910
Total nonoperating revenues		1,058,910
Decrease in net position		(41,182)
Net position - beginning of year		6,775,173
Net position - end of year	$	6,733,991

The notes to the basic financial statements are an integral part of this statement.

Occidental County Sanitation District
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2025

Cash flows from operating activities	
Receipts from customers	$ 602,825
Payments to Sonoma Water - services and supplies	(1,126,000)
Payments to suppliers	(456,158)
Net cash used in operating activities	(979,333)
Cash flows from noncapital financing activities	
Intergovernmental revenue - Sonoma Water	970,000
Cash flows from capital and related financing activities	
Acquisition of capital assets	(92,144)
Cash flows from investing activities	
Interest received	88,910
Net decrease in cash and cash equivalents	(12,567)
Cash and cash equivalents - beginning of year	2,177,091
Cash and cash equivalents - end of year	$ 2,164,524
Reconciliation of operating loss to net cash used in operating activities	
Operating loss	$ (1,100,092)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	151,582
Change in assets and liabilities:	
Increase in accounts receivable	(37,372)
Decrease in prepaid expenses	3,086
Increase in accounts payable and accrued expenses	2,904
Increase in due to other governments	559
Net cash used in operating activities	$ (979,333)

The notes to the basic financial statements are an integral part of this statement.

Occidental County Sanitation District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2025

Note A. Summary of Significant Accounting Policies

The Occidental County Sanitation District (the District) conforms to accounting principles generally accepted in the United States of America, as applicable to governmental units (hereinafter referred to as generally accepted accounting principles (GAAP)). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. A summary of significant accounting policies is included below.

Defining the Financial Reporting Entity

The District is managed by Sonoma County Water Agency (Sonoma Water), which provides engineering, administration, operational, and maintenance services. The District is a distinct legal entity from Sonoma Water and was formed by action of the County of Sonoma Board of Supervisors. The District is responsible for maintaining and operating the local sanitation collection systems, pump stations, and treatment plants.

Component Unit Reporting

The District is governed by a Board of Directors (the Board) which is the County of Sonoma (the County) Board of Supervisors. The exercise of this oversight responsibility causes the District to be an integral part of the County's reporting entity. Therefore, the District's financial statements are also included in the County's Annual Comprehensive Financial Report as a discretely presented component unit.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The District uses a proprietary (enterprise) fund to account for its activities. An enterprise fund may be used to report any activity for which a fee is charged to external users for goods or services. Enterprise funds are required for any activity whose principal external revenue sources meet any of the following criteria: (1) issued debt is backed solely by fees and charges, (2) the cost of providing services for any activity (including capital costs such as depreciation or debt service) must be legally recovered through fees or charges, or (3) if the government's policy is to establish activity fees or charges designed to recover the cost of providing services.

The District's financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. All assets and liabilities associated with the operation of the District are included on the statement of net position. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Proprietary funds distinguish operating from nonoperating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District are flat charges and charges for services. Operating expenses for the District include expenses relating to the collection, treatment, disposal, and reclamation of effluent as well as administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Note A. Summary of Significant Accounting Policies (continued)

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

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

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 the corresponding changes in the fair value of investments are recognized in the year in which the change occurred. The District follows the practice of pooling cash and investments of all funds with the Sonoma County Treasurer (the Treasurer). The Treasurer also acts as a disbursing agent for the District. 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 in the County Treasury Investment Pool (the Treasury Pool), an external investment pool.

For purposes of the statement of cash flows, the District considers all pooled cash and investments as cash and cash equivalents because the Treasury Pool is used as a demand deposit account.

Accounts Receivable

Accounts receivable consists of uncollected fees for sanitation services and flat charges. Noncurrent accounts receivable consists of uncollected fees for sanitation services and flat charges that are not expected to be received within a year. Flat charges are established annually by the Board and are billed through the County's property tax system. Management has not recorded an allowance for uncollectible receivables as it deems all receivables as fully collectible.

Capital Assets

Capital assets include machinery and equipment, infrastructure, construction in progress 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 valued at their estimated fair value on the date of donation.

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

Note A. Summary of Significant Accounting Policies (continued)

Capital Assets (continued)

Intangible assets are stated at cost or estimated historical cost (except for intangible right-to-use lease assets). Intangible right-to-use lease assets are initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the right-to-use lease asset is amortized on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset. Intangible assets for the District consist of permanent easements. Permanent easements, including dedicated easements, are stated at cost, estimated historical cost, or fair value and are not amortized.

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

	Capitalization Threshold	Estimated Useful Life
Land	$ -	N/A
Land improvements	100,000	15 to 50 years
Buildings and improvements:		
Buildings	100,000	50 years
Building improvements	100,000	15 to 20 years
Machinery and equipment	5,000	5 to 20 years
Infrastructure	100,000	25 to 75 years
Intangible assets:		
Computer software	100,000	3 to 10 years
Temporary easements	-	Life of easement
Permanent easements	-	N/A
Right-to-use leases	100,000	Shorter of the lease term or the useful life of the underlying asset
Right-to-use software assets (SBITAs)	100,000	Shorter of the subscription term or the useful life of the underlying IT assets
Construction in progress	Projects expected to exceed the capitalization threshold for the applicable asset class	N/A

Note A. Summary of Significant Accounting Policies (continued)

Net Position

Net position represents the difference between (a) assets and deferred outflows of resources, and (b) liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation. Net position is reported as restricted when there are limitations imposed on its use, either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulation of other governments.

Intergovernmental Revenues

Intergovernmental revenues represent contributions from Sonoma Water, state, or federal government for operations.

Capital Contributions

Capital contributions represent financial resources obtained from external sources that are not related to the operations of the District. It is the policy of the District to recognize capital contributions on an accrual basis (when all applicable eligibility requirements are met).

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note B. Cash and Investments

Investment Guidelines

The District follows the practice of pooling cash and investments with the Treasurer. The Investment Oversight Committee has regulatory oversight for all monies deposited into the Treasury Pool.

The District's pooled cash and investments are invested pursuant to investment policy guidelines established by the Treasurer and approved by the Board. 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 Treasurer 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.

Note B. Cash and Investments (continued)

Investment Guidelines (continued)

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 and bonds
- 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 agreement
- 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 Treasurer at 585 Fiscal Drive, Room 100, Santa Rosa, California 95403.

As of June 30, 2025, the fair value of the District's cash and investments was $2,164,524, which includes an unrealized gain fair value adjustment of $1,219. Funds are held in the Treasury Pool managed by the Treasurer, which is not rated by credit rating agencies, and had a weighted average maturity of 732 days as of June 30, 2025. The credit rating and other information regarding specific investments maintained in the Treasury Pool as of June 30, 2025, are disclosed in the County’s Annual Comprehensive Financial Report.

Note B. 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 more sensitive its fair value is to changes in market interest rates. One of the ways that the Treasurer manages the District's exposure to interest rate risk is by purchasing a combination of short and long term investments, and by timing cash flows from maturities so that a portion of the portfolio is maturing, or coming close to maturity, evenly over time, as necessary, to provide the cash flow and liquidity needed for operations.

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. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as the Treasury Pool).

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. Credit risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District follows the County's policy to purchase investments with the minimum ratings required by the California Government Code. The credit ratings of investments held and other information regarding the Treasury Pool for the fiscal year ended June 30, 2025, are disclosed in the County's Annual Comprehensive Financial Report.

Fair Value Measurements

The District categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District has a recurring fair value measurement for its investment in the Treasury Pool which is valued using significant other observable inputs (Level 2).

Note C. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2025, was as follows:

	July 1, 2024	Increases	Decreases	June 30, 2025
Capital assets, not being depreciated:				
Construction in progress	$ 720,232	$ 92,144	$ -	$ 812,376
Intangibles	279	-	-	279
Total capital assets, not being depreciated	720,511	92,144	-	812,655
Capital assets being depreciated:				
Infrastructure	6,414,336	-	-	6,414,336
Machinery and equipment	115,824	-	-	115,824
Less accumulated depreciation for:				
Infrastructure	(2,669,890)	(151,582)	-	(2,821,472)
Machinery and equipment	(115,824)	-	-	(115,824)
Total accumulated depreciation	(2,785,714)	(151,582)	-	(2,937,296)
Total capital assets, being depreciated, net	3,744,446	(151,582)	-	3,592,864
Total capital assets, net	$ 4,464,957	$ (59,438)	$ -	$ 4,405,519

Depreciation expense amounted to $151,582 for the fiscal year ended June 30, 2025.

Note D. Related Party Transactions

The District is a special district under the County of Sonoma Board of Supervisors, and as such, has the same board members as the County. Both the District and Sonoma Water are component units of the County, and therefore, are considered related parties.

The District is managed by Sonoma Water, which provides administration, engineering, operational, and maintenance services. The District does not incur any payroll expenses. Sonoma Water charges the District for services based on direct labor plus overhead for Sonoma Water labor applied to District activities. The overhead rate is reviewed periodically by management to determine its effectiveness.

During the fiscal year ended June 30, 2025, the District paid $1,126,000 to Sonoma Water for operational services and $91,359 for acquisitions and construction of capital assets. Of the operational services charges, $154,259 was related to an agreement to truck sewage to the Airport-Larkfield Sanitation Zone.

During the fiscal year ended June 30, 2025, the District received funding from Sonoma Water to allow the District to meet its operating expenses. The total funding received by the District amounted to $970,000 for the fiscal year ended June 30, 2025.

Note E. Commitments and Contingencies

Commitments

The District has one active construction project as of June 30, 2025. The project is an Occidental-Graton wastewater conveyance pipeline construction project. As of June 30, 2025, the District's commitments to construction projects included $812,376 spent to date, with no remaining commitments. The balance spent to date include both internal expenses and expenses paid to outside contractors.

Commitments related to District operations were $16,615 as of June 30, 2025.

Other Regulatory Matters

The District is subject to Section VII of the Endangered Species Act. Section VII requires that all affected agencies, including the District, consult with fish and wildlife officials before performing any work which might disrupt or harm any endangered or threatened species or their habitat. The District is also subject to Section X of the Endangered Species Act which deals with habitat conservation planning.

Note F. Risk Management

The District is exposed to various risks of loss related torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District is covered by the County's self-insurance program, which is accounted for in the County's Risk Management Internal Service Fund. The District 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 Public Risk Innovation, Solutions, and Management (PRISM) risk sharing pool. Limits of this coverage are $35,000,000.

The County maintains "All Risk" property insurance including flood and earthquake through participation in the PRISM Property Insurance Program with the following limits and deductibles: $600,000,000 limit (shared) per occurrence and $50,000 deductible for "All Risk", and $225,000,000 limit (shared) per occurrence and $100,000 deductible for flood (limits vary depending on flood zones).

The County of Sonoma is permissibly self-insured for workers' compensation for its employees and volunteers in the amount of $300,000 per occurrence. Excess workers' compensation coverage in excess of $300,000 with statutory limits is obtained through participation in the PRISM Excess Workers' Compensation Program.

The District 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 G. Governmental Accounting Standards

GASB releases new accounting and financial reporting standards which may have a significant impact on the District’s financial reporting process.

The following GASB statement has been implemented for the fiscal year ended June 30, 2025:

GASB Statement No. 102 – Certain Risk Disclosures

The requirements of this Statement are effective for the fiscal year ending June 30, 2025. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. The implementation of this Statement did not have a material effect on the financial statements.

Future Accounting Pronouncements:

GASB Statement No. 103 - Financial Reporting Model Improvements

The requirements of this Statement are effective for the fiscal year ending June 30, 2026. The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues.

GASB Statement No. 104 – Disclosure of Certain Capital Assets

The requirements of this Statement are effective for the fiscal year ending June 30, 2026. The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets.

The impact on the basic financial statements of the District of these pronouncements, which have not yet been adopted, is unknown at this time.

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
Occidental County Sanitation District

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 of the Occidental County Sanitation District (the District), a component unit of the County of Sonoma, California which comprise the statement of net position as of June 30, 2025, the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the notes to the basic financial statements, and have issued our report thereon dated September 30, 2025.

Internal Control over Financial Reporting

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

3562 Round Barn Cir, #200, Santa Rosa, CA 95403
Ph: (707) 542-3343
sorren.com

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 District'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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sorren CPAs P.C.

Santa Rosa, California
September 30, 2025