

**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, 2021

**Occidental County Sanitation District  
For the Fiscal Year Ended June 30, 2021**

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## **Independent Auditor's Report**

Board of Directors  
Occidental County Sanitation District  
Santa Rosa, California

### **Report on the Financial Statements**

We have audited the accompanying 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, 2021, and the related notes to the financial statements, which collectively comprise the District'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 an opinion 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 opinion.

## **Independent Auditor's Report (continued)**

### ***Opinion***

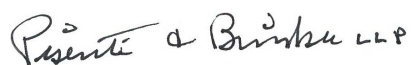
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2021, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters – 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, 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, 2021, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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, 2021

## **Management's Discussion and Analysis**

**Occidental County Sanitation District  
Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2021**

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, 2021. 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 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 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 Comprehensive Annual Financial Report.

Please refer to the definition of the reporting entity within the notes to the 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 \$5,535,597 (*net position*). Of this amount, \$1,071,019 (*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 and capital contributions of \$1,371,707 during the fiscal year ended June 30, 2021. This amount includes \$371,379 in operating revenues, \$2,000 in connection fees, and \$998,328 in nonoperating revenues. Nonoperating revenues consisted of \$6,203 in investment earnings and \$992,125 in intergovernmental revenues.

*Expenses*

The District incurred expenses totaling \$1,242,962 for the fiscal year ended June 30, 2021. 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 \$871,583 for the fiscal year ended June 30, 2021. This loss was offset by net nonoperating revenues totaling \$998,328 as well as \$2,000 in capital contributions resulting in an increase in net position of \$128,745.

**Occidental County Sanitation District  
Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2021**

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the District's financial statements. The District's financial statements are comprised of three components: (1) management's discussion and analysis, (2) financial statements, and (3) notes to the basic 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 \$5,535,597 at the close of the most recent fiscal year compared to net position of \$5,406,852 as of June 30, 2020. The \$128,745 increase in net position can be primarily attributed to contributions from Sonoma Water for operations in the amount of \$992,000 and the District's operating loss of \$871,583.

A significant portion of the District's net position (80.7% as of June 30, 2021 compared to 85.5% for June 30, 2020) reflects its net investment in capital assets (e.g., construction in progress and infrastructure). The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

**Occidental County Sanitation District  
Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2021**

*Condensed Statements of Net Position*

	<b>June 30, 2020</b>	<b>June 30, 2021</b>	<b>Percentage Change</b>
Current and other assets	\$ 796,662	\$ 1,146,207	43.9%
Capital assets, net	4,623,909	4,464,578	-3.4%
<b>Total assets</b>	<b>5,420,571</b>	<b>5,610,785</b>	<b>3.5%</b>
Current liabilities	13,719	75,188	448.1%
<b>Net position:</b>			
Invested in capital assets	4,623,909	4,464,578	-3.4%
Unrestricted	782,943	1,071,019	36.8%
<b>Total net position</b>	<b>\$ 5,406,852</b>	<b>\$ 5,535,597</b>	<b>2.4%</b>

The balance of unrestricted net position of \$1,071,019 may be used to meet the District's ongoing obligations to citizens and creditors. As of June 30, 2021, the District reports positive balances in all of its categories of net position.

*Condensed Statements of Changes in Net Position*

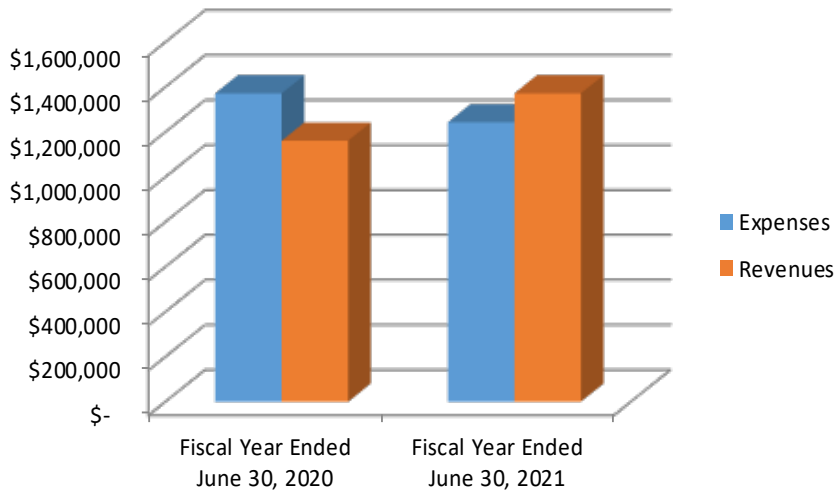
	<b>Fiscal Year Ended</b>		<b>Percentage</b>
	<b>June 30, 2020</b>	<b>June 30, 2021</b>	<b>Change</b>
Revenues			
Operating revenues	\$ 649,866	\$ 371,379	-42.9%
Nonoperating revenues	508,874	998,328	96.2%
<b>Total revenues</b>	<b>1,158,740</b>	<b>1,369,707</b>	<b>18.2%</b>
Expenses			
Services and supplies	1,218,527	1,079,779	-11.4%
Fiscal agent fees and legal services	3,357	1,587	-52.7%
Depreciation	149,772	161,596	7.9%
<b>Total expenses</b>	<b>1,371,656</b>	<b>1,242,962</b>	<b>-9.4%</b>
Income / (Loss) before capital contributions	(212,916)	126,745	-159.5%
Capital contributions	2,460	2,000	-18.7%
Increase / (decrease) in net position	(210,456)	128,745	-161.2%
<b>Net position, beginning of year</b>	<b>5,617,308</b>	<b>5,406,852</b>	<b>-3.7%</b>
<b>Net position, end of year</b>	<b>\$ 5,406,852</b>	<b>\$ 5,535,597</b>	<b>2.4%</b>



**Occidental County Sanitation District  
Management’s Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2021**

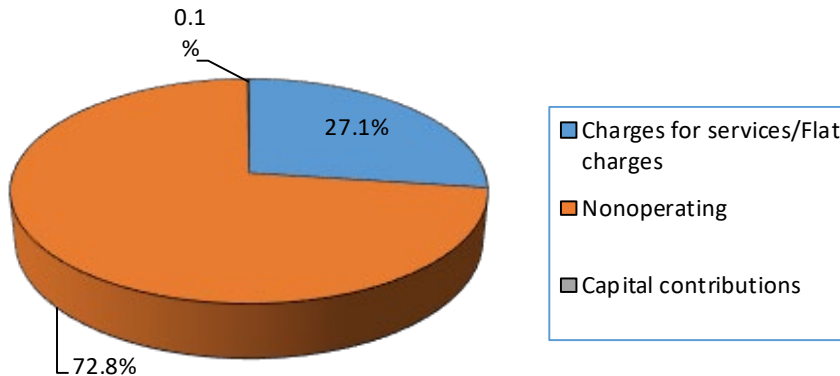
The District’s net position increased by \$128,745 during the fiscal year ended June 30, 2021 compared to a decrease of \$210,456 during the fiscal year ended June 30, 2020. Intergovernmental revenues include funding received from the Sonoma Water totaling \$992,000 in order to allow the District to meet its ongoing operating expenses.

*Expenses and Revenues*



Total expenses for the District decreased by \$128,694 to \$1,242,962 for the fiscal year ended June 30, 2021 due primarily to decreases in services and supplies. Services and supplies expense decreased by \$138,748. This decrease is primarily due to the reduction in wastewater generated by local restaurants due to the COVID-19 pandemic. This reduction in volume has reduced the cost of trucking untreated wastewater to the Airport/Larkfield/Wikiup Sanitation Zone treatment plant.

*Revenues by Source*

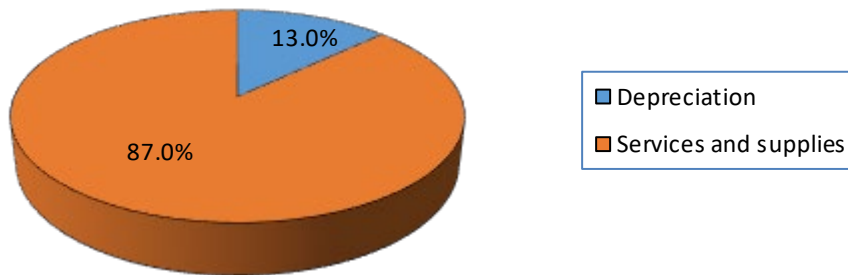


**Occidental County Sanitation District  
Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2021**

*Revenues by Source (continued)*

Revenues and capital contributions for the fiscal year ended June 30, 2021 totaled \$1,371,707, an increase of \$210,507 from the preceding fiscal year revenues of \$1,161,200. The rate based operating charges, representing 27.1% of the District's revenue, decreased by \$278,487. This decrease was due to a change in the way the District's largest users are billed for wastewater service. Because local restaurants have experienced reductions in business due to pandemic restrictions, the District began billing its largest customers based on actual volume. This change in the billing structure resulted in a reduction in operating revenues. Intergovernmental revenues, representing 72.3% of District revenues increased by \$499,600. Intergovernmental revenues consisted of a \$992,000 contribution from Sonoma Water toward operating costs. Investment earnings decreased from the preceding year by \$9,561, primarily due to a lower rate of return on pooled investments.

*Expenses by Function*



Total expenses for the District for the fiscal year ended June 30, 2021 totaled \$1,242,962. Costs associated with the collection, treatment, and disposal of effluent represent 87.0% of the District's costs. Annual depreciation expense on capital assets (\$161,596) represents 13.0% of total expenses.

**Occidental County Sanitation District  
Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2021**

**Capital Assets**

The District's investment in capital assets as of June 30, 2021, amounts to \$4,464,578 (net of accumulated depreciation).

*Occidental County Sanitation District's Capital Assets*

	June 30, 2020	June 30, 2021	Percentage % Change
Intangible assets	\$ 279	\$ 279	0.0%
Construction in progress	251,151	253,416	0.9%
Infrastructure	6,414,336	6,414,336	0.0%
Machinery and equipment	115,824	115,824	0.0%
Accumulated depreciation	(2,157,681)	(2,319,277)	7.5%
<b>Total</b>	<b>\$ 4,623,909</b>	<b>\$ 4,464,578</b>	<b>-3.4%</b>

Additional information on the District's capital assets is in Note C of the financial statement footnotes.

**Next Year's Budget and Rates**

Budgeted gross expenses, including capital projects expenditures, for the District for the fiscal year ending June 30, 2022 have increased by \$931,600 (57.9%) for a total of \$2,541,000. The increase in operational expenses is due to an increase in intrafund transfers to fund capital projects. The increase in the construction fund is due to the Occidental-Graton Pipeline project.

The following table presents a comparison of the final budget for the fiscal year ended June 30, 2021 and the proposed budgeted expenses for the District for the fiscal year ending June 30, 2022.

	Fiscal Year Ended June 30, 2021	Fiscal Year Ending June 30, 2022	Increase / (Decrease)	Percentage Change
Operations	\$ 1,558,400	\$ 2,091,000	\$ 532,600	34.2%
Construction	51,000	450,000	399,000	782.4%
<b>Total</b>	<b>\$ 1,609,400</b>	<b>\$ 2,541,000</b>	<b>\$ 931,600</b>	<b>57.9%</b>

The sewer service fees were adjusted for the 2021/22 budget year by virtue of a Board approved increase of 4.0%.

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

**Occidental County Sanitation District  
Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2021**

	<b>Fiscal Year Ended June 30, 2021</b>	<b>Fiscal Year Ending June 30, 2022</b>	<b>Percentage Change</b>
Rate per Equivalent Single-Family Dwelling	\$ 2,504	\$ 2,604	4.0%
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, 2021**

**Assets**

Current assets:

Cash and investments	\$	1,058,403
Accounts receivable		50,741
Due from other governments		13
<hr/>		
Total current assets		1,109,157
<hr/>		

Noncurrent assets:

Accounts receivable, noncurrent portion		37,050
Capital assets not being depreciated:		
Intangible assets		279
Construction in progress		253,416
Capital assets, net of accumulated depreciation:		
Infrastructure		4,209,111
Machinery and equipment		1,772
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Total capital assets (net of accumulated depreciation)		4,464,578
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Total noncurrent assets		4,501,628
<hr/>		
Total assets		5,610,785
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**Liabilities**

Current liabilities:

Accounts payable and accrued expenses		75,188
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**Net Position**

Net investment in capital assets		4,464,578
Unrestricted		1,071,019
<hr/>		
Total net position	\$	5,535,597
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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, 2021**

<b>Operating revenues</b>	
Flat charges	\$ 285,205
Charges for services	86,174
<hr/>	
Total operating revenues	371,379
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<b>Operating expenses</b>	
Services and supplies	1,079,779
Fiscal agent fees and legal services	1,587
Depreciation	161,596
<hr/>	
Total operating expenses	1,242,962
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Operating loss	(871,583)
<hr/>	
<b>Nonoperating revenues</b>	
Investment earnings	6,203
Intergovernmental - State	125
Intergovernmental - Sonoma Water	992,000
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Total nonoperating revenues	998,328
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Capital contributions:	
Connection fees	2,000
<hr/>	
<b>Increase in net position</b>	<b>128,745</b>
<hr/>	
<b>Net position - beginning of year</b>	<b>5,406,852</b>
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<b>Net position - end of year</b>	<b>\$ 5,535,597</b>
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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, 2021**

<b>Cash flows from operating activities</b>	
Receipts from customers	\$ 334,063
Payments to Sonoma Water - services and supplies	(844,825)
Payments to suppliers	(175,073)
Net cash used in operating activities	(685,835)
 <b>Cash flows from noncapital financing activities</b>	
Intergovernmental revenue - State of California	615
Intergovernmental revenue - Sonoma Water	992,000
Net cash provided by noncapital financing activities	992,615
 <b>Cash flows from capital and related financing activities</b>	
Construction of capital assets	(2,265)
Connection fees	2,000
Net cash used in capital and related financing activities	(265)
 <b>Cash flows from investing activities</b>	
Interest received	6,203
Net increase in cash and cash equivalents	312,718
<b>Cash and cash equivalents - beginning of year</b>	745,685
<b>Cash and cash equivalents - end of year</b>	\$ 1,058,403
 <b>Reconciliation of operating loss to net cash used in operating activities</b>	
Operating loss	\$ (871,583)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	161,596
Change in assets and liabilities:	
Increase in accounts receivable	(37,316)
Increase in accounts payable and accrued expenses	61,468
Net cash used in operating activities	\$ (685,835)

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, 2021**

**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 (GAAP) as applicable to governmental units. A summary of significant accounting policies is included below.

*Defining the Financial Reporting Entity*

The District is managed by 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 Sonoma County 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 Comprehensive Annual 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.

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.



**Occidental County Sanitation District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2021**

**Note A. Summary of Significant Accounting Policies (continued)**

*Cash and Investments*

The District's cash and investments are pooled with the Treasurer of Sonoma County. The Treasurer also acts as a disbursing agent for the District. The fair value of the investments in the pool is determined quarterly. Realized and unrealized gains or losses and interest earned on pooled investments are allocated quarterly to the District based on its respective average daily balance for that quarter in the County Treasury Investment Pool (the Treasury Pool), an external investment pool.

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 County Treasurer. 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, the District considers all pooled cash and investments as cash and cash equivalents because the Treasury Pool is used as a demand deposit account. Restricted cash and investments with a maturity of three months or less when purchased are also treated as cash and cash equivalents.

*Accounts Receivable*

Accounts receivable consists of uncollected fees for sanitation services and flat charges. Flat charges are established annually by the Board and are billed through the County's property tax system. The District does not record an allowance for uncollectible receivables as it deems all receivables as fully collectible.

*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 valued at their estimated fair value on the date of donation.

**Occidental County Sanitation District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2021**

**Note A. Summary of Significant Accounting Policies (continued)**

*Capital Assets (continued)*

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.

Assets acquired under capital lease are amortized over the lesser of the useful life of the asset or the lease term. Depreciation and amortization are recognized using the straight-line method over the estimated useful life of the asset.

Intangible assets are stated at cost or estimated historical cost. 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	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
Construction in progress	Projects expected to exceed the capitalization threshold for the applicable asset class	N/A

**Occidental County Sanitation District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2021**

**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 adopted or through external restrictions imposed by creditors, grantors, or laws or regulation of other governments.

*Budget and Budgetary Accounting*

The Board adopts a budget annually to be effective July 1<sup>st</sup> for the ensuing fiscal year for the District. The general manager of Sonoma Water is authorized to transfer budgeted amounts of the District except for transfers between funds or major expense classes (e.g. transfers between capital assets and operating expenses). Such transfers require approval by the County Administrator and/or the Board.

*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 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**

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

Interest income earned on pooled cash and investments is allocated quarterly based on the average daily balance of the District during the quarter.

**Occidental County Sanitation District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2021**

**Note B. Cash and Investments (continued)**

*Investment Guidelines*

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.

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 Investment Policy is available upon request from the Treasurer at 585 Fiscal Drive, Room 100, Santa Rosa, California, 95403.

As of June 30, 2021 the fair value of the District's cash and investments was \$1,058,403 which includes an unrealized loss fair value adjustment of \$306. 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 749 days as of June 30, 2021. The credit rating and other information regarding specific investments maintained in the Treasury Pool as of June 30, 2021 are disclosed in the County's Comprehensive Annual Financial Report.

**Occidental County Sanitation District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2021**

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

*Custodial Credit Risk*

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. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Treasury Pool does not have a credit rating. 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, 2021 are disclosed in the County's Comprehensive Annual Financial Report.

*Fair Value Measurements*

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

**Occidental County Sanitation District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2021**

**Note C. Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2021 was as follows:

	July 1, 2020	Increases	Decreases	Transfers & Reclassification	June 30, 2021
Capital assets, not being depreciated:					
Intangibles	\$ 279	\$ -	\$ -	\$ -	\$ 279
Construction in progress	251,151	2,265	-	-	253,416
Total capital assets, not being depreciated	251,430	2,265	-	-	253,695
Capital assets being depreciated:					
Infrastructure	6,414,336	-	-	-	6,414,336
Machinery and equipment	115,824	-	-	-	115,824
Less accumulated depreciation for:					
Infrastructure	(2,045,401)	(159,824)	-	-	(2,205,225)
Machinery and equipment	(112,280)	(1,772)	-	-	(114,052)
Total capital assets, being depreciated, net	4,372,479	(161,596)	-	-	4,210,883
Total capital assets, net	\$ 4,623,909	\$ (159,331)	\$ -	\$ -	\$ 4,464,578

Depreciation expense amounted to \$161,596 for the fiscal year ended June 30, 2021.

**Note D. Related Party Transactions**

The District is a special district under the 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, 2021, the District paid \$844,825 to Sonoma Water for operational services and \$1,930 for acquisitions and construction of capital assets. Of the operational services charges, \$141,807 was related to an agreement to truck sewage to the Airport-Larkfield Sanitation Zone.

During the year ended June 30, 2021, 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 \$992,000 for the fiscal year ended June 30, 2021.

**Occidental County Sanitation District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2021**

**Note E. Commitments and Contingencies**

*Commitments*

The District has one active construction project as of June 30, 2021. The project is a development and implementation of automation improvements at the treatment plant. As of June 30, 2021 the District's commitments to construction projects included \$253,416 spent to date, with \$28,794 in remaining commitments. The balances spent to date include both internal expenses and expenses paid to outside contractors.

Commitments related to District operations were \$209,198 as of June 30, 2021.

*Contingencies*

A Cease and Desist Order (CDO) issued by the North Coast Regional Water Quality Control Board (NC Regional Board) required the District to construct a compliance project to address historical discharge permit violations. The NC Regional Board postponed the compliance project due date six months to July 31, 2018, and required a pollution prevention plan project. On February 1, 2018, the District began operating its trucking program to transport wastewater to the Airport-Larkfield-Wikiup treatment plant in order to comply with the CDO. The District has completed upgrades to its treatment facility to better facilitate the trucking program. The District staff entered into an agreement with Gold Ridge Resource Conservation District to execute the pollution prevention plan project. Gold Ridge Resource Conservation District has constructed the pollution prevention project and plans to implement the vegetation plan this coming season followed by two years of monitoring to complete the pollution prevention project.

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a “Public Health Emergency of International Concern” and on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the District operates. While it is unknown how long these conditions will last and what the complete financial effect will be to the District, the outbreak has not had a material adverse impact to the District’s operations to date. However, the future impact of the outbreak is highly uncertain and cannot be predicted. Accordingly, there is no assurance that the outbreak will not have a material adverse impact in the future.

*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.

**Occidental County Sanitation District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2021**

**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 California State Association of Counties, Excess Insurance Authority (CSAC-EIA). Limits of this coverage are \$25,000,000.

The County maintains "All Risk" property insurance including flood and earthquake through participation in the CSAC-EIA Property Insurance Program. Limits of coverage are \$600,000,000 per occurrence for All Risk, \$225,000,000 for flood (limits vary in FEMA flood zones) and earthquake coverage with shared limits of \$665,000,000. Deductibles for these perils are \$50,000 per occurrence.

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

The 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. Future Governmental Accounting Standards**

The Governmental Accounting Standards Board (GASB) has released the following standards which will be implemented in future financial statements:

*GASB Statement No. 87 – Leases*

The requirements of this Statement are effective for periods beginning after June 15, 2021 (FY 2021-22). 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.

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



**Occidental County Sanitation District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2021**

**Note G. Future Governmental Accounting Standards (continued)**

*GASB Statement No. 91 – Conduit Debt Obligations*

The requirement of this statement are effective for the fiscal year ending June 30, 2023. This statement provides a single method of reporting conduit debt obligations by issues and eliminates diversity in practice with (1) commitments extended by users, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This statement achieves those objectives by clarifying the existing definition of a conduit debt obligations; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

*GASB Statement No. 92 – Omnibus 2020*

The requirements of this statement are effective for the fiscal year ending June 30, 2022. The objective of this statement enhances comparability in accounting and financial reporting by addressing practice issues that have been identified during the implementation and application of certain GASB statements.

*GASB Statement No. 96 – Subscription-Based Information Technology Arrangements*

Statement No. 96. Provides guidance on the accounting and financial reporting for subscription-based information technology for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset- an intangible asset- and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended.



## **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  
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 of 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, 2021, the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the notes to the financial statements, and have issued our report thereon dated September 30, 2021.

### **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) to determine the 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.

**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.

*Parent & Brink LLP*

Santa Rosa, California  
September 30, 2021