

**Sonoma Valley 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

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

Table of Contents

	<u>Page(s)</u>
Independent Auditor’s Report	1-2
Management’s Discussion and Analysis (Required Supplementary Information)	3-10
Basic Financial Statements:	
Statement of Net Position.....	11-12
Statement of Revenues, Expenses and Changes in Net Position.....	13
Statement of Cash Flows.....	14-15
Notes to the Basic Financial Statements.....	16-32
Compliance:	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	33-34



Independent Auditor's Report

Board of Directors
Sonoma Valley County Sanitation District
Santa Rosa, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Sonoma Valley 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 on 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

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

As management of the Sonoma Valley 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 basic 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 three member board, including two members of the Sonoma County Board of Supervisors (Board) of the County of Sonoma (the County). 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 basic financial statements for additional detail.

Financial Highlights

Net Position

The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$86,688,239 (*net position*). Of this amount, \$15,691,508 (*unrestricted net position*) may be used to meet the District's ongoing obligations to citizens and creditors.

Revenues and Capital Contributions

The District recognized total revenues and capital contributions of \$19,565,559 during the fiscal year ended June 30, 2021. Of this amount, \$17,674,842 represents operating revenues including flat charges and charges for services, and \$420,374 represents nonoperating revenues consisting of investment earnings, intergovernmental revenue, other nonoperating revenue, real estate rental and conservation program revenue. The District also recognized capital contributions from connection fees of \$1,298,977, and from state and federal grants of \$171,366.

Expenses

The District incurred expenses totaling \$15,460,048 during the fiscal year ended June 30, 2021. \$14,969,873 represents operating expenses related to the collection, treatment, disposal, and reclamation of effluent, as well as administrative and general expenses. Nonoperating expenses total \$490,175 which includes conservation program expenses of \$56,360 and interest expense of \$433,815 related to the District's long-term debt obligations.

Increase in Net Position

The District recognized an overall increase in net position of \$4,105,511 for the fiscal year ended June 30, June 30, 2021.

**Sonoma Valley 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 Basic 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 a District's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities by \$86,688,239 at the close of the most recent fiscal year compared to net position of \$82,582,728 as of June 30, 2020. The increase in net position of \$4,105,511 is due to income from ongoing operations of \$2,704,969, capital contributions from connection fees of \$1,298,977, capital contributions from federal and state grants of \$171,366, and net nonoperating expenses of \$69,801.

The largest portion of the District's net position (77.2% as of June 30, 2021 compared to 74.7% for June 30, 2020) reflects its investment in capital assets (e.g., land and infrastructure), net of related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

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

Financial Analysis (continued)

Condensed Statements of Net Position

	June 30, 2020	June 30, 2021	Percentage Change
Current and other assets	\$ 23,518,870	\$ 21,705,037	-7.7%
Capital assets	78,592,505	81,884,881	4.2%
Total Assets	102,111,375	103,589,918	1.4%
Total Deferred Outflows of Resources	18,637	12,425	-33.3%
Current liabilities	3,296,393	2,655,575	-19.4%
Noncurrent liabilities	16,250,891	14,258,529	-12.3%
Total Liabilities	19,547,284	16,914,104	-13.5%
Net investment in capital assets	61,694,797	66,913,442	8.5%
Restricted for conservation	276,266	287,123	3.9%
Restricted for debt service	3,445,117	3,474,156	0.8%
Restricted for mitigation projects	319,641	320,174	0.2%
Unrestricted	16,846,907	15,693,344	-6.8%
Total Net Position	\$ 82,582,728	\$ 86,688,239	5.0%

A portion of the District's net position totaling \$4,081,453 (4.7% as of June 30, 2021) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position of \$15,693,344 as of June 30, 2021 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 categories of net position.

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

Financial Analysis (continued)

Condensed Statements of Changes in Net Position

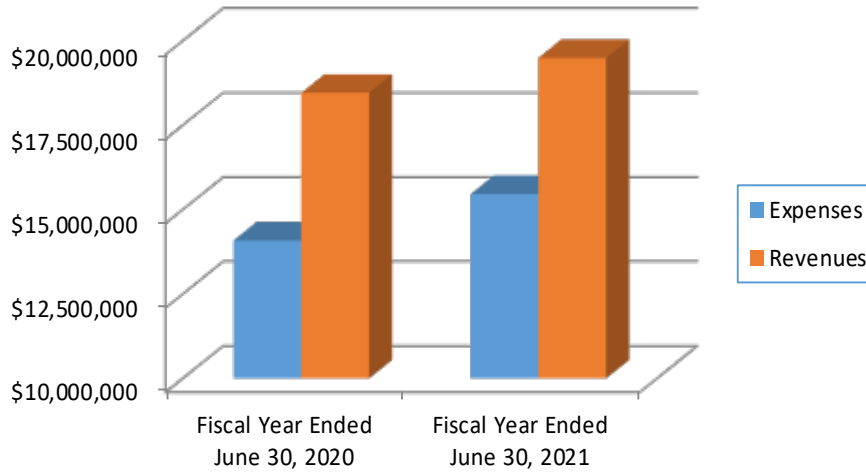
	Fiscal Year Ended		Percentage Change
	June 30, 2020	June 30, 2021	
Revenues			
Operating revenues	\$ 16,999,846	\$ 17,674,842	4.0%
Nonoperating revenues	566,886	420,374	-25.8%
Total revenues	17,566,732	18,095,216	3.0%
Expenses			
Services and supplies	9,532,777	10,852,300	13.8%
Fiscal agent fees and legal services	102,815	28,775	-72.0%
Depreciation and amortization	3,922,707	4,088,798	4.2%
Conservation program	25,352	56,360	122.3%
Interest expense	499,221	433,815	-13.1%
Loss on impairment of capital assets	3,471	-	-100.0%
Total expenses	14,086,343	15,460,048	9.8%
Income before contributions	3,480,389	2,635,168	-24.3%
Capital contributions:			
State and Federal grants	3,731	171,366	4493.0%
Connection fees	885,307	1,298,977	46.7%
Increase in net position	4,369,427	4,105,511	-6.0%
Net position, beginning of year	78,213,301	82,582,728	5.6%
Net position, end of year	\$ 82,582,728	\$ 86,688,239	5.0%

The District's net position increased by \$4,105,511 during the fiscal year ended June 30, 2021 compared to an increase of \$4,369,427 for the fiscal year ended June 30, 2020.

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

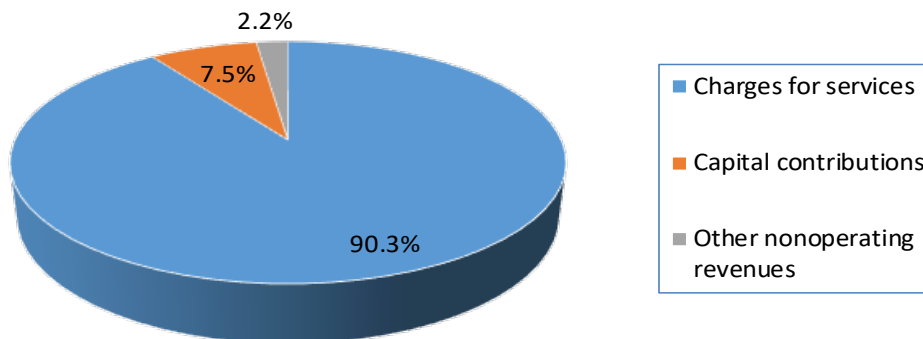
Financial Analysis (continued)

Expenses and Revenues



Total revenues and capital contributions of the District for the fiscal year ended June 30, 2021 totaled \$19,565,559 representing an increase of \$1,109,789 from the preceding fiscal year revenues and capital contributions of \$18,455,770. The rate based operating charges, representing 90.3% of the District’s total revenue, increased by \$674,996 (4.0%) due to a board approved increase in sewer service charges, increased discharge by commercial and industrial customers, and growth in total sewer service customers. Investment earnings decreased by \$345,528 (93.7%) due to lower interest rates on pooled investments. Conservation program revenue increased by \$41,865 (40.6%) because more sewer permits were issued during the fiscal year ended June 30, 2021. In addition, the District received \$1,298,977 in capital contributions from connection fees and \$171,366 in state and federal capital contributions, compared to \$885,307 and \$3,731 received respectively during the fiscal year ended June 30, 2020.

Revenues and Capital Contributions by Source



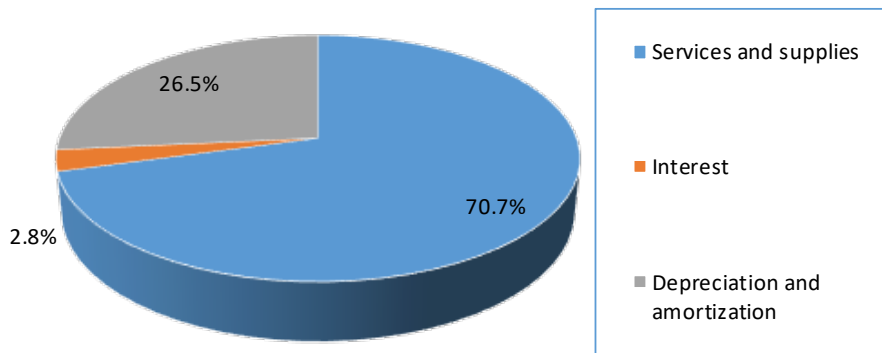
**Sonoma Valley County Sanitation District
Management’s Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2021**

Financial Analysis (continued)

Revenues and Capital Contributions by Source (continued)

Total expenses for the District increased by \$1,373,705 to \$15,460,048 for the fiscal year ended June 30, 2021, due primarily to increases in operations and maintenance related expenses during the fiscal year. The overall effect was an increase in expenses of 9.8%.

Expenses by Function



Costs associated with the collection, treatment, and disposal of effluent represent 70.7% of the District’s costs. Annual depreciation and amortization expense on capital assets of \$4,088,798 represents 26.5% of total expenses. Interest expense totaling \$433,815, 2.8% of total expenses, represents the cost of meeting current debt service obligations.

Capital Asset and Debt Administration

Capital Assets

The District’s investment in capital assets as of June 30, 2021, amounts to \$81,884,881 (net of accumulated depreciation and amortization). In addition to reporting the District’s investment in capital assets including land, buildings and improvements and construction in progress, the District reports its investment in intangible assets as required by Governmental Accounting Standards Board (GASB) Statement No. 51 – *Accounting and Financial Reporting for Intangible Assets*. Intangible assets for the District include easements (both temporary and permanent).

Major capital asset events during the fiscal year ended June 30, 2021 included the completion of the following projects:

- Main Sewer Trunk West
- Sewer Trunk Phase 4B
- Relining Basins 3 and 4 at the Treatment Plant
- Treatment Plant Electrical Upgrade

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

Capital Assets and Debt Administration (continued)

Capital Assets (continued)

<i>Capital Assets</i>		June 30, 2020	June 30, 2021	Percentage Change
Land	\$	4,506,972	\$ 4,506,972	0.0%
Intangible assets:				
Permanent easements		1,745,391	1,757,746	0.7%
Temporary easements		335,422	335,422	0.0%
Construction in progress		15,694,206	3,567,650	-77.3%
Infrastructure		129,778,082	149,265,989	15.0%
Machinery and equipment		596,248	603,716	1.3%
Accumulated depreciation/amortization		(74,063,816)	(78,152,614)	5.5%
Total	\$	78,592,505	\$ 81,884,881	4.2%

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

Long-term Obligations

<i>Long-Term Debt</i>		June 30, 2020	June 30, 2021	Percentage Change
Advances from other governments	\$	7,187,563	\$ 6,572,627	-8.6%
Revenue bonds payable		10,933,265	9,615,720	-12.1%
Total long-term debt	\$	18,120,828	\$ 16,188,347	-10.7%

Advances from other governments decreased by \$614,936 as a result of scheduled principal payments to the State Water Resources Control Board. Revenue bonds decreased by \$1,317,545 as a result of principal payments totaling \$1,255,000 during the fiscal year ended June 30, 2021 and a decrease of \$62,545 due to amortization of bond premiums.

Additional information on the current and long-term obligations can be found in the notes to the basic financial statements.

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

Economic Factors and Next Year's Budget and Rates

Budgeted gross expenditures, including expenditures for capital projects, for the District for fiscal year ending June 30, 2022 have increased by \$2,051,655 (5.2%) for a total of \$41,139,786. The major component of the increase in budgeted expenses is related to a budgeted transfer from the 2021 Revenue Bonds fund following the planned issuance of the bonds.

The following is a comparison of final 2020/21 and proposed 2021/22 budgeted expenses for the District:

	Fiscal Year Ended June 30, 2021	Fiscal Year Ending June 30, 2022	Increase / (Decrease)	Percentage Change
Operations	\$ 25,181,827	\$ 20,326,240	\$ (4,855,587)	-19.3%
Construction	13,437,060	9,641,195	(3,795,865)	-28.2%
Debt Service 2021 Revenue Bonds	-	10,763,200	10,763,200	NA
Debt service - Revenue bonds	353,565	301,965	(51,600)	-14.6%
State revolving fund loan	73,679	65,186	(8,493)	-11.5%
Wet weather mitigation	42,000	42,000	-	0.0%
Total	\$ 39,088,131	\$ 41,139,786	\$ 2,051,655	5.2%

Budgeted expenses for fiscal year ended June 30, 2021 differ in several instances from the budgeted expenses presented in the management's discussion and analysis for the period ended June 30, 2020. These variances are due to Board approved budgetary adjustments made subsequent to the publication of the audited basic financial statements for the fiscal year ended June 30, 2020. In upcoming FY 21/22 the District plans to issue a new bonds series to finance construction of capital projects.

The increase in budgeted sewer service fees revenue is 3.5% for the fiscal year ending June 30, 2022. The following table indicates the sanitation sewer service rates and equivalent single dwellings for the District:

	Fiscal Year Ending June 30, 2021	Fiscal Year Ending June 30, 2022	Percentage Change
Rate per Equivalent Single-Family Dwelling	\$ 1,094	\$ 1,132	3.5%
Number of Equivalent Single-Family Dwellings	17,609	17,757	0.8%

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

Sonoma Valley County Sanitation District
Statement of Net Position
June 30, 2021

Assets

Current assets:

Cash and investments	\$	14,647,151
Accounts receivable		1,196,918
Prepaid items		4,065
Due from other governments		258,026
Restricted cash and investments:		
Conservation program		287,123
Revenue bond fund		1,593,250
Debt service		442,972
Mitigation fund		320,174
Total current assets		18,749,679

Noncurrent assets:

Cash and investments restricted for debt service and reserve		2,817,764
Accounts receivable, noncurrent portion		137,594
Capital assets not being depreciated:		
Land		4,506,972
Intangible assets		1,757,746
Construction in progress		3,567,650
Capital assets, net of accumulated depreciation and amortization:		
Infrastructure		71,718,567
Machinery and equipment		212,312
Intangible assets		121,634
Total capital assets (net of accumulated depreciation and amortization)		81,884,881
Total noncurrent assets		84,840,239
Total assets		103,589,918

Deferred outflows of resources

Deferred charge on refunding		12,425

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

Sonoma Valley County Sanitation District
Statement of Net Position (continued)
June 30, 2021

Liabilities

Current liabilities:

Accounts payable and accrued expenses	477,060
Advances from other governments	629,818
Accrued interest payable	73,350
<hr/>	
Total current liabilities	1,180,228
<hr/>	

Current liabilities payable from restricted assets:

Revenue bonds payable	1,300,000
Accrued interest payable	175,347
<hr/>	
Total current liabilities payable from restricted assets	1,475,347
<hr/>	

Noncurrent liabilities:

Advances from other governments	5,942,809
Revenue bonds payable	8,315,720
<hr/>	
Total noncurrent liabilities	14,258,529
<hr/>	

Total liabilities	16,914,104
<hr/>	

Net position

Net investment in capital assets	66,913,442
Restricted for conservation	287,123
Restricted for debt service	3,474,156
Restricted for mitigation projects	320,174
Unrestricted	15,693,344
<hr/>	
Total net position	\$ 86,688,239
<hr/>	

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

Sonoma Valley County Sanitation District
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2021

Operating revenues	
Flat charges	\$ 15,758,028
Charges for services	1,915,174
Other	1,640
<hr/>	
Total operating revenues	17,674,842
<hr/>	
Operating expenses	
Services and supplies	10,852,300
Fiscal agent fees and legal services	28,775
Depreciation and amortization	4,088,798
<hr/>	
Total operating expenses	14,969,873
<hr/>	
Operating income	2,704,969
<hr/>	
Nonoperating revenues (expenses)	
Investment earnings	23,075
Interest expense	(433,815)
Intergovernmental	116,194
Other nonoperating revenue	125,000
Real estate rental	11,220
Conservation program revenue	144,885
Conservation program expense	(56,360)
<hr/>	
Total nonoperating expenses, net	(69,801)
<hr/>	
Income before capital contributions	2,635,168
Capital contributions:	
Federal and state grants	171,366
Connection fees	1,298,977
<hr/>	
Increase in net position	4,105,511
<hr/>	
Net position - beginning of year	82,582,728
<hr/>	
Net position - end of year	\$ 86,688,239
<hr/>	

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

Sonoma Valley County Sanitation District
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2021

Cash flows from operating activities	
Receipts from customers	\$ 17,155,925
Payments to Sonoma Water - services and supplies	(8,077,965)
Payments to suppliers	(2,914,827)
<hr/>	
Net cash provided by operating activities	6,163,133
<hr/>	
Cash flows from noncapital financing activities	
Conservation program receipts	144,885
Conservation program outlays	(56,360)
Other receipts	50,000
Real estate rental	11,220
<hr/>	
Net cash provided by noncapital financing activities	149,745
<hr/>	
Cash flows from capital and related financing activities	
Purchase of capital assets	(7,938,123)
Principal payments - advances from other governments	(614,936)
Principal payments - revenue bonds	(1,255,000)
Interest paid on capital debt	(521,616)
Capital contributions from other governments	36,307
Connection fees received	1,311,882
<hr/>	
Net cash used in capital and related financing activities	(8,981,486)
<hr/>	
Cash flows from investing activities	
Interest received	23,075
<hr/>	
Net decrease in cash and cash equivalents	(2,645,533)
Cash and cash equivalents - beginning of year	22,753,967
Cash and cash equivalents - end of year	\$ 20,108,434
<hr/>	
Reconciliation to the statement of net position	
Cash and investments	\$ 14,647,151
Restricted cash and investments	5,461,283
Cash and cash equivalents	\$ 20,108,434

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

**Sonoma Valley County Sanitation District
Statement of Cash Flows (Continued)
For the Fiscal Year Ended June 30, 2021**

Reconciliation of operating income to net cash provided by operating activities:

Operating income	\$	2,704,969
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization		4,088,798
Change in assets and liabilities:		
Increase in accounts and other receivables		(518,917)
Increase in prepaid items		(3,637)
Decrease in accounts payable and accrued expenses		(108,080)
Net cash provided by operating activities	\$	6,163,133

Noncash capital and related financing activities:

Increase in capital grants receivable	\$	135,059
Increase in grants receivable		116,194

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

**Sonoma Valley 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 Sonoma Valley 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 in the Sonoma Valley area of Sonoma County. The District has an ordinance defining policies, including user fees.

Component Unit Reporting

The District is governed by a three member board, including two members of the Board of Supervisors (Board) of the County of Sonoma (the County). 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 have also been 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.

**Sonoma Valley 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)

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

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.

Cash and Investments

The District's cash and investments are pooled with the Sonoma County Treasurer (Treasurer) except for restricted funds held by an outside trustee. The Treasurer also acts as a disbursing agent for the 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 balance sheet 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 except for certain restricted funds held by outside custodians, funds held by a trustee or funds in dedicated investments for the benefit of an individual pool participant. 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. Cash with trustee and restricted cash and investments with a maturity of three months or less when purchased are also considered cash and cash equivalents.

Sonoma Valley 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)

Accounts Receivable

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

Restricted Assets

Restricted assets represent cash and investments maintained in accordance with bond resolutions or by agreement, for the purpose of funding certain mitigation projects.

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.

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

Depreciation and amortization are recognized using the straight-line method over the estimated useful life of the asset.

**Sonoma Valley 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)

Intangible assets are stated at cost or estimated historical cost. Intangible assets for the District consist of temporary and permanent easements. Temporary easements are defined by the District as any easement acquired during the course of a project that, by agreement, will expire after a certain period of time after the completion of a project, and has an estimated useful life in excess of one year. Temporary easements are amortized using the straight line method over the duration of the easement. 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

Bond Discounts and Premiums

Revenue bond discounts (discounts) and premiums are deferred and amortized using the straight-line method, which approximates the effective interest method, over the term of the outstanding bonds. Unamortized bond discounts reduce the carrying value of the related debt and unamortized premiums increase the carrying value of the related debt.

Sonoma Valley 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)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expenses) until then. The District only has one item that qualifies for reporting in this category, the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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

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, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. 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 regulations of other governments.

Budget and Budgetary Accounting

The Board adopts a budget annually to be effective July 1st 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.

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.

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

Note B. Cash and Investments

The District follows the practice of pooling cash and investments of all funds with the Treasurer except for funds required to be held by outside fiscal agents or trustees under the provisions of bond indentures and lease agreements. The Investment Oversight Committee has regulatory oversight for all funds deposited into the Treasury Pool. Interest income from cash and investments with fiscal agents or trustees is credited directly to the District.

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 of Supervisors. The objectives of the policy are, in order of priority: safety of capital, liquidity and maximum rate of return. The policy addresses the soundness of financial institutions in which the 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 power agreements
- 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.

**Sonoma Valley 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 (continued)

Cash and investments included the following at June 30, 2021:

	Fair Value
Cash and investments in Treasury Pool	\$ 19,265,672
Cash and investments with trustee	842,762
Total	\$ 20,108,434

As of June 30, 2021 the fair value of the District's pooled cash and investments includes an unrealized loss fair value adjustment of \$5,845. 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.

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 District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments, and by timing cash flows from maturities so that a portion of the portfolio is maturing, or coming close to maturity, evenly over time, as necessary, to provide the cash flow and liquidity needed for operations. The majority of the District's cash and investments are held in the Treasury Pool. As of June 30, 2021, \$842,762 of the District's investments were held by a trustee and invested in a money market mutual fund that provides daily liquidity and is not exposed to significant interest rate risk.

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 District follows the County's policy to purchase investments with the minimum ratings required by the California Government Code. Presented on the following page is the minimum rating required by (where applicable) the California Government Code, the County's investment policy, or debt agreements, and the actual rating as of June 30, 2021 for each investment type. 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.

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

Note B. Cash and Investments (continued)

Credit Risk (continued)

	Fair Value	Minimum Legal Rating
Held by trustee:		
Money market mutual funds	\$ 842,762	AAAm

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

Investments in external investment pools are not exposed to custodial credit risk.

As of June 30, 2021, the District's investment held by trustee in money market accounts is Federal Deposit Insurance Corporation insured up to \$250,000. Accordingly, \$592,762 of the District's investment in money market accounts is subject to custodial credit risk.

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 the following fair value measurements as of June 30, 2021:

- Investment in Money Market Mutual Funds which are valued using quoted prices in active markets (Level 1).
- Investment in the Sonoma County Treasury Pool which is valued using significant other observable inputs (Level 2).

**Sonoma Valley 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/amortized:					
Land	\$ 4,506,972	\$ -	\$ -	\$ -	\$ 4,506,972
Intangibles	1,745,391	-	-	12,355	1,757,746
Construction in progress	15,694,206	7,373,706	-	(19,500,262)	3,567,650
Total capital assets, not being depreciated/amortized	21,946,569	7,373,706	-	(19,487,907)	9,832,368
Capital assets, being depreciated/amortized:					
Infrastructure	129,778,082	-	-	19,487,907	149,265,989
Intangibles	335,422	-	-	-	335,422
Machinery and equipment	596,248	7,468	-	-	603,716
Total capital assets being depreciated/amortized	130,709,752	7,468	-	19,487,907	150,205,127
Less accumulated depreciation/amortization for:					
Infrastructure	(73,523,778)	(4,023,644)	-	-	(77,547,422)
Intangibles	(185,719)	(28,069)	-	-	(213,788)
Machinery and equipment	(354,319)	(37,085)	-	-	(391,404)
Total accumulated depreciation/amortization	(74,063,816)	(4,088,798)	-	-	(78,152,614)
Total capital assets, being depreciated, net	56,645,936	(4,081,330)	-	19,487,907	72,052,513
Total capital assets, net	\$ 78,592,505	\$ 3,292,376	\$ -	\$ -	\$ 81,884,881

Depreciation and amortization expense related to capital assets amounted to \$4,088,798 for the fiscal year ended June 30, 2021.

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

Note D. Long-Term Obligations

Advances from Other Governments

The District received funding from the State Water Resources Control Board as a direct borrowing during the fiscal year ended June 30, 2008 and fiscal year ended June 30, 2009 for the Tertiary Treatment Plant Upgrade project totaling \$6,996,831. The loan is a State Revolving Loan with annual debt service payments of \$442,972. Payments are secured by a pledge of net revenues earned by the District. The total principal and interest outstanding on the advance from the State Water Resources Control Board secured by net revenues earned by the District as of June 30, 2021 is \$2,834,133 and \$266,667, respectively. The term of the loan is 20 years at an annual interest rate of 2.3% with the final payment currently scheduled for 2027.

The loan for the Tertiary Treatment Upgrade project has a provision that a penalty in the amount of 0.1% of the amount due will be due for each day of nonpayment following a 10-day grace period. The loan also contains a provision that if the District discontinues use, leases, or disposes of any significant part of the project before the end of its useful life, then the District may be required to repay all or a portion of the remaining funds covered by the loan agreement together with accrued interest.

Annual debt service requirements to maturity for the revolving loan are as follows:

Fiscal Year Ending		Principal		Interest		Total
June 30,						
2022	\$	377,787	\$	65,185	\$	442,972
2023		386,476		56,496		442,972
2024		395,365		47,607		442,972
2025		404,458		38,514		442,972
2026		413,760		29,211		442,971
2027-2028		856,287		29,654		885,941
Total	\$	2,834,133	\$	266,667	\$	3,100,800

During the fiscal year ended June 30, 2013, the District received a loan of \$2,320,304 as a direct borrowing from the State Water Resources Control Board for the Watmaugh main sewer trunk replacement project. As of June 30, 2021, the outstanding balance is \$1,391,905. The loan is a State Revolving Loan with debt service payments of \$147,120, payable annually in November. The expected term is 20 years at an annual interest rate of 2.6% with the last payment scheduled for November 2031.

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

Note D. Long-Term Obligations (continued)

Advances from Other Governments (continued)

The loan for the Watmaugh main sewer trunk replacement project has a provision that a penalty in the amount of costs incurred to the State Water Board will be due for each day of nonpayment following a 10-day grace period. Costs may include lost interest earnings, staff time, bond debt service default penalties, and other costs incurred. The loan also contains a provision that if the District discontinues use, leases, or disposes of any significant part of the project before the end of its useful life, then the District may be required to repay all or a portion of the remaining funds covered by the loan agreement together with accrued interest.

Annual debt service requirements to maturity for the revolving loan are as follows:

Fiscal Year Ending		Principal		Interest		Total
June 30,						
2022	\$	110,930	\$	36,190	\$	147,120
2023		113,814		33,305		147,119
2024		116,774		30,346		147,120
2025		119,810		27,310		147,120
2026		122,925		24,195		147,120
2027-2031		664,260		71,340		735,600
2032		143,392		3,728		147,120
Total	\$	1,391,905	\$	226,414	\$	1,618,319

During the fiscal years ended June 30, 2014 and 2015, the District received loan proceeds totaling \$3,136,024 as a direct borrowing from the State Water Resources Control Board for the District's Biosolids Management Upgrade project. As of June 30, 2021, the outstanding balance is \$2,346,589. The loan is a State Revolving Loan with debt service payments of \$202,112, payable annually in August. The expected term is 20 years at an annual interest rate of 2.6% with the last payment scheduled for August 2034.

The loan for the Biosolids Management Upgrade project has a provision that a penalty in the amount of costs incurred to the State Water Board will be due for each day of nonpayment following a 10-day grace period. Costs may include lost interest earnings, staff time, bond debt service default penalties, and other costs incurred. The loan also contains a provision that if the District discontinues use, leases, or disposes of any significant part of the project before the end of its useful life, then the District may be required to repay all or a portion of the remaining funds covered by the loan agreement together with accrued interest.

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

Note D. Long-Term Obligations (continued)

Advances from Other Governments (continued)

Annual debt service requirements to maturity for the revolving loan are as follows:

Fiscal Year Ending		Principal		Interest		Total
June 30,						
2022	\$	141,101	\$	61,011	\$	202,112
2023		144,769		57,343		202,112
2024		148,533		53,579		202,112
2025		152,395		49,717		202,112
2026		156,357		45,755		202,112
2027-2031		844,922		165,638		1,010,560
2032-2036		758,512		49,936		808,448
Total	\$	2,346,589	\$	482,979	\$	2,829,568

Principal and interest paid for the year ended June 30, 2021 on advances from other governments totaled \$792,203. Total net revenues for the year were \$8,287,185. Annual principal and interest payments on these advances are expected to require no more than 9.4% of net revenues.

Revenue Bonds

In February 2013 the District issued Sonoma County Water and Wastewater Financing Authority 2013 Revenue Bonds (2013 Bonds). This issuance refunded the remaining \$6,460,000 of 1998 Special Revenue bonds, as well as providing \$6,000,000 in financing for acquisition and construction of certain improvements to the District's existing wastewater system.

The bonds have interest rates ranging from 2.0% to 4.0% and are payable solely from sanitation customer net revenues through 2037. Annual principal and interest payments are expected to require no more than 23.1% of net revenues. The total principal and interest outstanding on the Revenue Bonds as of June 30, 2021 is \$8,615,000 and \$1,735,976, respectively which equals the remaining income pledged by the District through the fiscal year ending June 30, 2038 towards debt service on the revenue bonds. Principal and interest paid for the fiscal year ended June 30, 2021 and total net revenues were \$1,599,350 and total net revenues were \$6,816,842, respectively.

The 2013 revenue bonds have a provision that in the event of default the Trustee, as assignee of the Sonoma County Water and Wastewater Financing Authority, shall be entitled to declare the principal of all the bonds then outstanding and the interest accrued thereon at the Overdue Rate to be due and payable immediately. The Overdue Rate is defined as the highest rate of interest on any of the outstanding bonds as of the immediately preceding interest payment date on which payment was made.

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

Note D. Long-Term Obligations (continued)

Revenue Bonds (continued)

Debt service requirements to maturity for the Revenue Bonds are as follows:

Fiscal Year Ending June 30,	Principal		Interest		Total	
2022	\$	1,300,000	\$	293,250	\$	1,593,250
2023		1,355,000		240,150		1,595,150
2024		1,410,000		184,850		1,594,850
2025		650,000		143,650		793,650
2026		240,000		125,850		365,850
2027-2031		1,350,000		479,900		1,829,900
2032-2036		1,600,000		245,088		1,845,088
2037-2038		710,000		23,238		733,238
Total	\$	8,615,000	\$	1,735,976	\$	10,350,976

Changes in Long-Term Obligations

Long-term obligations activity for the fiscal year ended June 30, 2021 was as follows:

	July 1, 2020	Additions	Reductions	June 30, 2021	Due Within One Year
Advances from other Governments -					
Direct borrowings	\$ 7,187,563	\$ -	\$ (614,936)	\$ 6,572,627	\$ 629,818
Revenue Bonds	9,870,000	-	(1,255,000)	8,615,000	1,300,000
Premium	1,063,265	-	(62,545)	1,000,720	-
Total revenue bonds	10,933,265	-	(1,317,545)	9,615,720	1,300,000
Total	\$ 18,120,828	\$ -	\$ (1,932,481)	\$ 16,188,347	\$ 1,929,818

Note E. Accrued Interest Payable

Interest payable consists of interest accrued on the following obligations:

	Amount
Advances from other governments	\$ 115,675
Revenue bonds	133,022
Total	\$ 248,697

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

Note F. Related Party Transactions

The District is a special district under the Board of Supervisors, and as such, has similar 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 \$8,077,965 to Sonoma Water for operational services, and \$2,040,586 for acquisition and construction of capital assets.

Note G. 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 retains the risk for the first \$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 Federal Emergency Management Agency 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 H. Commitments and Contingencies

Commitments

The District has active construction projects as of June 30, 2021. The projects include expansion and/or improvements of wastewater treatment facilities. As of June 30, 2021, the District's costs incurred on construction projects in progress totaled \$3,567,650 with remaining commitments of \$352,869.

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

Note H. Commitments and Contingencies (continued)

Commitments (continued)

The construction project costs incurred include both internal expenses and expenses paid to outside contractors. The remaining commitment balances relate to commitments with outside contractors only.

The commitments for wastewater treatment facilities are being financed by revenue bonds secured by wastewater revenues, and other current resources.

Contractual commitments related to District operations were \$1,330,185 as of June 30, 2021.

Pending Litigation, Claims, and Assessments

In June 2015, the San Francisco Bay Regional Water Quality Board (Regional Board) issued a final Administrative Liability Complaint and Cease and Desist Order settlement agreement to settle pending enforcement actions for alleged violations by the District during the previous five years. The settlement agreement required certain compliance actions, including Board consideration of an ordinance for the inspection and repair of private sewer laterals; implementation of two trunk main replacement projects by October 2022 and October 2024 respectively; and implementation by the District of two Supplemental Environmental Projects ("SEPs") for a maximum credit against the penalty of \$365,000. One SEP became infeasible, and therefore funds associated with this project were paid to the Regional Board. The other SEP, a rebate program for sewer lateral repair, has been completed and approved by the Regional Board. One trunk main project is in progress. The District has commenced the preliminary design of the trunk main project required to be complete in 2024, and work on the trunk main project required by 2022 is continuing and anticipated to be complete in 2022.

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. This Act increases the possibility of threatened litigation from various environmental groups and individuals. The District is also subject to Section X of the Endangered Species Act which deals with habitat conservation planning.

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

Note H. Commitments and Contingencies (continued)

Other Contingencies

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.

Note I. 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 December 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.

GASB Statement No. 91 – Conduit Debt Obligations

The requirements of this statement are effective for the fiscal year ending June 30, 2023. It 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 obligation; 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.

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

Note I. Future Governmental Accounting Standards (continued)

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 GASB Statement No. 87, *Leases*, as amended.

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
Sonoma Valley 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 Sonoma Valley 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 opinions 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.



Santa Rosa, California
September 30, 2021