

**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, 2023

**Sonoma Valley County Sanitation District  
For the Fiscal Year Ended June 30, 2023**

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## Independent Auditor's Report

Board of Directors  
Sonoma Valley County Sanitation District

### Report on the Audit of the Financial Statements

#### **Opinion**

We have audited the 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, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the District as of June 30, 2023, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Basis for Opinion**

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

#### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

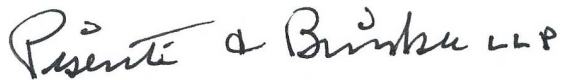
### ***Required Supplementary Information***

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

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2023, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Pimentel & Brinkley LLP". The signature is written in a cursive, flowing style.

Santa Rosa, California  
October 6, 2023

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

**Sonoma Valley County Sanitation District  
Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2023**

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, 2023. 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 the Sonoma County Water Agency (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 (the 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 Annual Comprehensive Financial Report.

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

**Financial Highlights**

*Net Position*

The assets 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 \$91,197,521 (*net position*). Of this amount, \$22,649,801 (*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 \$19,606,140 during the fiscal year ended June 30, 2023. Of this amount, \$18,891,107 represents operating revenues including flat charges and charges for services, and \$242,255 represents nonoperating revenues consisting of intergovernmental revenue, investment earnings and conservation program revenue. The District also recognized capital contributions from connection fees of \$325,749, and from Federal and State grants of \$147,029.

*Expenses*

The District incurred expenses totaling \$17,386,673 during the fiscal year ended June 30, 2023. Of this amount, \$16,270,346 represents operating expenses related to the collection, treatment, disposal, and reclamation of effluent, as well as administrative and general expenses. Nonoperating expenses total \$1,116,327 which includes conservation program expenses of \$40,270, interest expense of \$727,690 related to the District's long-term debt obligations and debt issuance cost of \$348,367.

*Increase in Net Position*

The District recognized an overall increase in net position of \$2,219,467 for the fiscal year ended June 30, 2023.

**Sonoma Valley County Sanitation District  
Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2023**

**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 the District's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities by \$91,197,521 at the close of the most recent fiscal year compared to net position of \$88,978,054 as of June 30, 2022. The increase in net position of \$2,219,467 is due to income from ongoing operations of \$2,620,761, capital contributions from connection fees of \$325,749, capital contributions from Federal and State grants of \$147,029, and net nonoperating expenses of \$874,072.

The largest portion of the District's net position (72.2% as of June 30, 2023 compared to 75.5% at June 30, 2022) 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, 2023**

**Financial Analysis (continued)**

*Condensed Statements of Net Position*

	June 30, 2022	June 30, 2023	Percentage Change
Current and other assets	\$ 24,017,815	\$ 36,663,071	52.6%
Capital assets	80,246,287	83,356,798	3.9%
<b>Total assets</b>	104,264,102	120,019,869	15.1%
<b>Total deferred outflows of resources</b>	6,213	-	-100.0%
Current liabilities	3,096,335	4,164,946	34.5%
Noncurrent liabilities	12,195,926	23,788,680	95.1%
<b>Total liabilities</b>	15,292,261	27,953,626	82.8%
<b>Total deferred inflows of resources</b>	-	868,722	100.0%
Net investment in capital assets	67,158,021	65,799,842	-2.0%
Restricted for conservation	297,405	313,400	5.4%
Restricted for debt service, capital projects, and reserve	3,485,658	2,118,103	-39.2%
Restricted for mitigation projects	310,960	316,375	1.7%
Unrestricted	17,726,010	22,649,801	27.8%
<b>Total net position</b>	\$ 88,978,054	\$ 91,197,521	2.5%

A portion of the District's net position totaling \$2,747,878 (3.0% as of June 30, 2023) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position of \$22,649,801 as of June 30, 2023, may be used to meet the District's ongoing obligations to citizens and creditors. As of June 30, 2023, 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, 2023**

**Financial Analysis (continued)**

*Condensed Statements of Changes in Net Position*

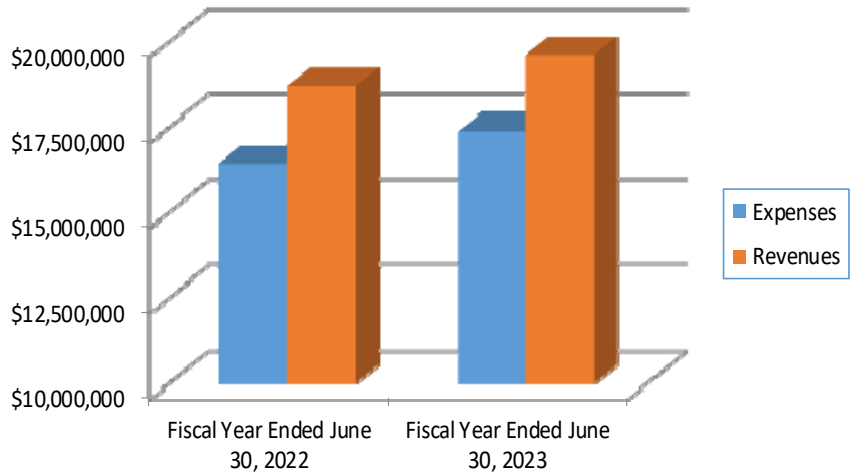
	<b>Fiscal Year Ended</b>		<b>Percentage Change</b>
	<b>June 30, 2022</b>	<b>June 30, 2023</b>	
<b>Revenues</b>			
Operating revenues	\$ 18,235,884	\$ 18,891,107	3.6%
Nonoperating revenues	55,089	242,255	339.8%
<b>Total revenues</b>	<b>18,290,973</b>	<b>19,133,362</b>	<b>4.6%</b>
<b>Expenses</b>			
Services and supplies	11,080,514	12,227,517	10.4%
Depreciation and amortization	4,292,412	4,042,829	-5.8%
Interest expense	367,143	727,690	98.2%
Debt issuance cost	-	348,367	100.0%
Conservation program	27,068	40,270	48.8%
Investment loss	652,782	-	-100.0%
<b>Total expenses</b>	<b>16,419,919</b>	<b>17,386,673</b>	<b>5.9%</b>
Income before contributions	1,871,054	1,746,689	-6.6%
<b>Capital contributions:</b>			
Connection fees	355,525	325,749	-8.4%
Federal and state grants	63,236	147,029	132.5%
Increase in net position	2,289,815	2,219,467	-3.1%
<b>Net position, beginning of year</b>	<b>86,688,239</b>	<b>88,978,054</b>	<b>2.6%</b>
<b>Net position, end of year</b>	<b>\$ 88,978,054</b>	<b>\$ 91,197,521</b>	<b>2.5%</b>

The District's net position increased by \$2,219,467 during the fiscal year ended June 30, 2023, compared to an increase of \$2,289,815 for the fiscal year ended June 30, 2022.

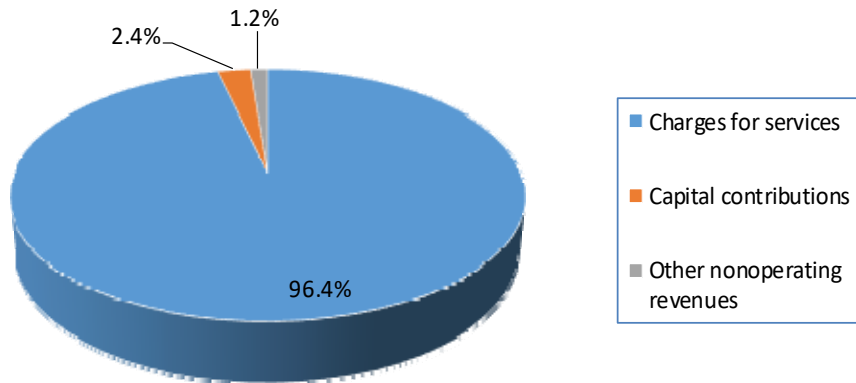
**Sonoma Valley County Sanitation District  
Management’s Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2023**

**Financial Analysis (continued)**

*Expenses and Revenues*



*Revenues and Capital Contributions by Source*

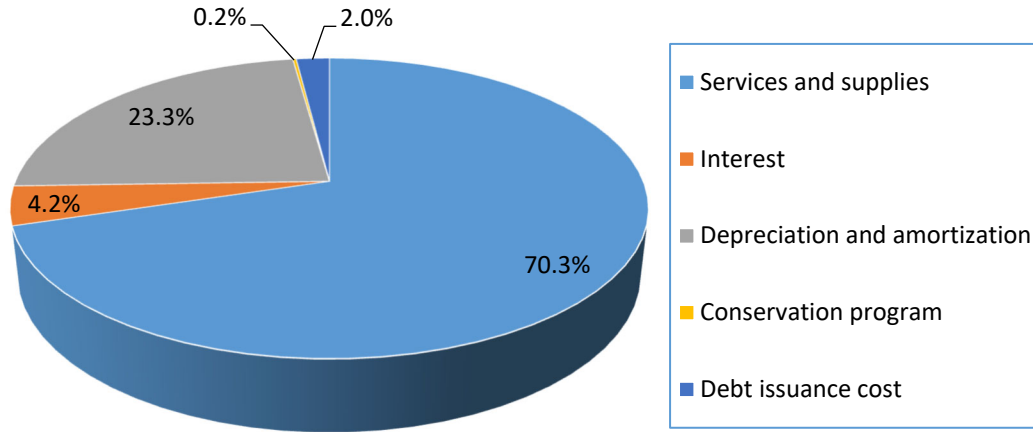


Total revenues and capital contributions of the District for the fiscal year ended June 30, 2023, totaled \$19,606,140 representing an increase of \$896,406 from the preceding fiscal year revenues and capital contributions of \$18,709,734. The rate based operating charges, representing 96.4% of the District’s total revenue, increased by \$655,223 (3.6%) due to a board approved increase in sewer service charges, increased discharge by commercial and industrial customers, and growth in total sewer service customers. Nonoperating revenues, which is made up of investment earnings, conservation program revenue, and intergovernmental revenue, increased by \$187,166 (339.8%) mainly due to an increase in investment earnings on pooled investments. In addition, the District received \$325,749 in capital contributions from connection fees and \$147,029 in Federal and State capital contributions, compared to \$355,525 and \$63,236 received, respectively, during the fiscal year ended June 30, 2022.

**Sonoma Valley County Sanitation District  
Management’s Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2023**

**Financial Analysis (continued)**

*Expenses by Function*



Total expenses for the District increased by \$966,754 to \$17,386,673 for the fiscal year ended June 30, 2023, due primarily to increases in operations and maintenance related expenses during the fiscal year as well as increases in interest expense and costs of issuance. The overall effect was an increase in expenses of 5.9%.

Costs associated with the collection, treatment, and disposal of effluent represent 70.3% of the District’s costs. Annual depreciation and amortization expense on capital assets of \$4,042,829 represents 23.3% of total expenses. Interest expense totaling \$727,690, 4.2% of total expenses, represents the cost of meeting current debt service obligations. Debt issuance cost of \$348,367 represents 2.0% of total expenses. Conservation program expense of \$40,270 represents 0.2% of total expenses.

**Capital Asset and Debt Administration**

*Capital Assets*

The District’s investment in capital assets as of June 30, 2023, amounts to \$83,356,798 (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 Statement No. 51 – *Accounting and Financial Reporting for Intangible Assets*. Intangible assets for the District include easements (both temporary and permanent).

**Sonoma Valley County Sanitation District  
Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2023**

**Capital Assets and Debt Administration (continued)**

*Capital Assets (continued)*

	June 30, 2022	June 30, 2023	Percentage Change
Land	\$ 4,506,972	\$ 4,506,972	0.0%
Intangible assets:			
Permanent easements	1,760,162	1,779,983	1.1%
Temporary easements	335,422	335,422	0.0%
Construction in progress	6,219,052	13,352,571	114.7%
Infrastructure	149,265,989	149,265,989	0.0%
Machinery and equipment	597,911	592,065	-1.0%
Accumulated depreciation/amortization	(82,439,221)	(86,476,204)	4.9%
<b>Total</b>	<b>\$ 80,246,287</b>	<b>\$ 83,356,798</b>	<b>3.9%</b>

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

*Long-term Obligations*

	June 30, 2022	June 30, 2023	Percentage Change
Advances from other governments	\$ 5,942,810	\$ 5,297,751	-10.9%
Revenue bonds payable	8,253,175	20,486,601	148.2%
<b>Total long-term debt</b>	<b>\$ 14,195,985</b>	<b>\$ 25,784,352</b>	<b>81.6%</b>

Advances from other governments decreased by \$645,059 as a result of scheduled principal payments to the State Water Resources Control Board. Revenue bonds increased by \$12,233,426 due to primarily the issuance of the Sonoma County Water and Wastewater Financing Authority 2022 Revenue Bonds (2022 Bonds) and the refunding of the Sonoma County Water and Wastewater Financing Authority 2013 Revenue Bonds (2013 Bonds). The annual principal payment of the 2013 bonds (\$1,355,000) was made and in August 2022, the remaining balance (\$5,960,000) of the 2013 bonds was refunded with the issuance of the 2022 Bonds. The 2022 Bonds principal due at issuance totaled \$18,525,000 with interest rates ranging from 4% to 5%.

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, 2023**

**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, 2024, have decreased by \$14,802,718 (25.4%) for a total of \$43,553,468. The largest variances in year over year budget are decreases in capital spending related to various capital projects and decreases in budgeted transfers from the revenue bonds fund to the construction fund.

The following is a comparison of final 2022/23 and proposed 2023/24 budgeted expenses for the District:

	<b>Fiscal Year Ended June 30, 2023</b>	<b>Fiscal Year Ending June 30, 2024</b>	<b>Increase / (Decrease)</b>	<b>Percentage Change</b>
Operations	\$ 23,550,949	\$ 25,140,248	\$ 1,589,299	6.7%
Construction	23,504,976	13,340,387	(10,164,589)	-43.2%
Debt service - Revenue bonds	11,201,765	4,983,225	(6,218,540)	-55.5%
State revolving fund loan	56,496	47,608	(8,888)	-15.7%
Wet weather mitigation	42,000	42,000	-	0.0%
<b>Total</b>	<b>\$ 58,356,186</b>	<b>\$ 43,553,468</b>	<b>\$ (14,802,718)</b>	<b>-25.4%</b>

Budgeted expenses for fiscal year ended June 30, 2023, differ in several instances from the budgeted expenses presented in the management’s discussion and analysis for the period ended June 30, 2022. 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, 2022.

The increase in budgeted sewer service fees revenue is 6.0% for the fiscal year ending June 30, 2024. The following table indicates the sanitation sewer service rates and equivalent single dwellings for the District:

	<b>Fiscal Year Ended June 30, 2023</b>	<b>Fiscal Year Ending June 30, 2024</b>	<b>Percentage Change</b>
Rate per Equivalent Single-Family Dwelling	\$ 1,200	\$ 1,272	6.0%
Number of Equivalent Single-Family Dwellings	17,791	17,789	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.

**Sonoma Valley County Sanitation District**  
**Statement of Net Position**  
**June 30, 2023**

**Assets**

Current assets:

Cash and investments	\$ 23,880,559
Accounts receivable	790,035
Prepaid expenses	21,207
Due from other governments	153,135
Restricted cash and investments:	
Conservation program	313,400
Revenue bond fund	2,114,725
Mitigation fund	316,375
Total current assets	27,589,436

Noncurrent assets:

Cash and investments restricted for debt service, capital projects, and reserve	8,945,049
Accounts receivable, noncurrent portion	128,586
Capital assets not being depreciated:	
Land	4,506,972
Intangible assets	1,779,983
Construction in progress	13,352,571
Capital assets, net of accumulated depreciation and amortization:	
Infrastructure	63,501,463
Machinery and equipment	150,314
Intangible assets	65,495
Total capital assets (net of accumulated depreciation and amortization)	83,356,798
Total noncurrent assets	92,430,433
Total assets	120,019,869

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, 2023**

**Liabilities**

Current liabilities:

Accounts payable and accrued expenses	1,236,048
Advances from other governments	660,672
Unearned revenue	500,000
Accrued interest payable	63,522
Total current liabilities	2,460,242

Current liabilities payable from restricted assets:

Revenue bonds payable	1,335,000
Accrued interest payable	369,704
Total current liabilities payable from restricted assets	1,704,704

Noncurrent liabilities:

Advances from other governments	4,637,079
Revenue bonds payable	19,151,601
Total noncurrent liabilities	23,788,680

Total liabilities	27,953,626
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**Deferred inflows of resources**

Deferred amounts related to charge on refunding	868,722

**Net position**

Net investment in capital assets	65,799,842
Restricted for conservation	313,400
Restricted for debt service, capital projects, and reserve	2,118,103
Restricted for mitigation projects	316,375
Unrestricted	22,649,801
Total net position	\$ 91,197,521

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, 2023**

<b>Operating revenues</b>	
Flat charges	\$ 17,532,582
Charges for services	1,346,366
Other	12,159
<hr/>	
Total operating revenues	18,891,107
<hr/>	
<b>Operating expenses</b>	
Services and supplies	12,227,517
Depreciation and amortization	4,042,829
<hr/>	
Total operating expenses	16,270,346
<hr/>	
<b>Operating income</b>	<b>2,620,761</b>
<hr/>	
<b>Nonoperating revenues (expenses)</b>	
Investment earnings	158,894
Intergovernmental - federal	47,096
Conservation program revenue	36,265
Conservation program expense	(40,270)
Debt issuance cost	(348,367)
Interest expense	(727,690)
<hr/>	
Total nonoperating expenses, net	(874,072)
<hr/>	
<b>Income before capital contributions</b>	<b>1,746,689</b>
Capital contributions:	
Connection fees	325,749
Federal and state grants	147,029
<hr/>	
Total capital contributions	472,778
<hr/>	
<b>Increase in net position</b>	<b>2,219,467</b>
<hr/>	
<b>Net position - beginning of year</b>	<b>88,978,054</b>
<hr/>	
<b>Net position - end of year</b>	<b>\$ 91,197,521</b>

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, 2023**

**Cash flows from operating activities**

Receipts from customers	\$	19,167,096
Payments to Sonoma Water - services and supplies		(8,080,756)
Payments to suppliers		(3,999,626)
<hr/>		
Net cash provided by operating activities		7,086,714

**Cash flows from noncapital financing activities**

Return of unexpended grant funds		(58,552)
Conservation program receipts		36,265
Conservation program outlays		(40,270)
<hr/>		
Net cash used by noncapital financing activities		(62,557)

**Cash flows from capital and related financing activities**

Purchase of capital assets		(6,808,769)
Proceeds from issuance of revenue bonds		15,000,000
Cash used to refund debt		(772,888)
Principal payments - advances from other governments		(645,059)
Principal payments - revenue bonds		(1,355,000)
Interest paid on long-term debt		(623,120)
Capital contributions from other governments		31,780
Connection fees received		325,749
<hr/>		
Net cash provided by capital and related financing activities		5,152,693

**Cash flows from investing activities**

Investment earnings		158,894
<hr/>		
Net increase in cash and cash equivalents		12,335,744
Cash and cash equivalents - beginning of year		23,234,364
Cash and cash equivalents - end of year	\$	35,570,108

**Reconciliation to the statement of net position**

Cash and investments	\$	23,880,559
Restricted cash and investments		11,689,549
<hr/>		
Cash and cash equivalents	\$	35,570,108

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, 2023**

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

Operating income	\$	2,620,761
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization		4,042,829
Change in assets and liabilities:		
Decrease in accounts and other receivables		275,989
Increase in prepaid expenses		(20,277)
Increase in accounts payable and accrued expenses		167,412
Net cash provided by operating activities	\$	7,086,714

**Noncash capital and related financing activities:**

Acquisition of capital assets in accounts payable	\$	344,571
Decrease in capital grants receivable		115,249

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, 2023**

**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 County Water Agency (Sonoma Water), which provides engineering, administration, operational, and maintenance services. The District is a distinct legal entity from Sonoma Water and was formed by action of the 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 (the 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 Annual Comprehensive Financial Report as a discretely presented component unit.

*Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

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

The District's financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. All assets and liabilities associated with the operations 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, 2023**

**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*

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 31, "Accounting and Financial Reporting for Certain Investments and External Investment Pools" and GASB Statement No. 72, "Fair Value Measurement and Application", investments are stated at fair value in the statement of net position and the corresponding changes in the fair value of investments are recognized in the year in which the change occurred. The District follows the practice of pooling cash and investments of all funds with the Sonoma County Treasurer (the Treasurer) 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 in the County Treasury Investment Pool (the Treasury Pool).

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

*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.

**Sonoma Valley County Sanitation District**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2023**

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

*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.

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

**Sonoma Valley County Sanitation District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2023**

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

*Capital Assets (continued)*

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

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

*Bond Discounts and Premiums*

Revenue bond 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.

*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 does not have any items that qualify for reporting in this category.

**Sonoma Valley County Sanitation District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2023**

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

*Deferred Outflows/Inflows of Resources (continued)*

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 only has one item that qualifies for reporting in this category, the deferred amounts related to charge on refunding reported in the government-wide statement of net position. The deferred amounts related to 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.

*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 District budget amounts within the same fund. Transfers between funds or major expense classes (e.g. transfers between capital assets and operating expenses) 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.

*Connection Fees*

Sewer connection fees represent fees received from developers and residents to connect to, or extend, existing trunk sewer systems. These fees are required to be used for capital purposes. Sewer and water connection fees are recorded as capital contributions in the enterprise funds, in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Certain Non-exchange Transactions*.



**Sonoma Valley County Sanitation District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2023**

**Note B. Cash and Investments**

*Investment Guidelines*

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 Treasurer also acts as a disbursing agent for the District. The Investment Oversight Committee has regulatory oversight for all funds deposited into the Treasury Pool.

The District's pooled cash and investments are invested pursuant to investment policy guidelines established by the Treasurer and approved by the Board 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, 2023**

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

*Investment Guidelines (continued)*

Cash and investments included the following at June 30, 2023:

	<b>Fair Value</b>
Cash and investments in Treasury Pool	\$ 35,569,780
Cash and investments with trustee	328
<b>Total</b>	<b>\$ 35,570,108</b>

As of June 30, 2023, the fair value of the District's pooled cash and investments includes an unrealized loss fair value adjustment of \$1,254,673. 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 539 days as of June 30, 2023. The credit rating and other information regarding specific investments maintained in the Treasury Pool as of June 30, 2023, are disclosed in the County's Annual Comprehensive 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, 2023, \$328 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. Credit Risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District follows the County's policy to purchase investments with the minimum ratings required by the California Government Code. 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, 2023 for each investment type.

**Sonoma Valley County Sanitation District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2023**

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

*Credit Risk (continued)*

	<b>Fair Value</b>	<b>Minimum Legal Rating</b>
Held by trustee:		
Money market mutual funds	\$ 328	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.

As of June 30, 2023, the District’s investment held by trustee in money market accounts is insured up to \$250,000 by the Federal Deposit Insurance Corporation. Accordingly, none of the District’s investment in money market accounts is subject to custodial credit risk. Investments in external investment pools are not exposed to custodial credit risk.

*Fair Value Measurements*

The District categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District has the following fair value measurements as of June 30, 2023:

- Investment in money market mutual funds which are valued using quoted prices in active markets (Level 1).
- Investment in the 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, 2023**

**Note C. Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2023 was as follows:

	July 1, 2022	Increases	Decreases	Transfers & Reclassification	June 30, 2023
Capital assets, not being depreciated/amortized:					
Land	\$ 4,506,972	\$ -	\$ -	\$ -	\$ 4,506,972
Intangibles	1,760,162	12,000	-	7,821	1,779,983
Construction in progress	6,219,052	7,141,340	-	(7,821)	13,352,571
Total capital assets, not being depreciated/amortized	12,486,186	7,153,340	-	-	19,639,526
Capital assets, being depreciated/amortized:					
Infrastructure	149,265,989	-	-	-	149,265,989
Intangibles	335,422	-	-	-	335,422
Machinery and equipment	597,911	-	(5,846)	-	592,065
Total capital assets being depreciated/amortized	150,199,322	-	(5,846)	-	150,193,476
Less accumulated depreciation/amortization for:					
Infrastructure	(81,776,292)	(3,988,234)	-	-	(85,764,526)
Intangibles	(241,857)	(28,070)	-	-	(269,927)
Machinery and equipment	(421,072)	(26,525)	5,846	-	(441,751)
Total accumulated depreciation/amortization	(82,439,221)	(4,042,829)	5,846	-	(86,476,204)
Total capital assets, being depreciated, net	67,760,101	(4,042,829)	-	-	63,717,272
Total capital assets, net	\$ 80,246,287	\$ 3,110,511	\$ -	\$ -	\$ 83,356,798

Depreciation and amortization expense related to capital assets amounted to \$4,042,829 for the fiscal year ended June 30, 2023.

**Sonoma Valley County Sanitation District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2023**

**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, 2023, is \$2,069,872 and \$144,986, 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:

<b>Fiscal Year Ending</b>					
<b>June 30,</b>		<b>Principal</b>		<b>Interest</b>	<b>Total</b>
2024	\$	395,365	\$	47,607	\$ 442,972
2025		404,458		38,514	442,972
2026		413,760		29,211	442,971
2027		423,277		19,695	442,972
2028		433,012		9,959	442,971
<hr/>					
Total	\$	2,069,872	\$	144,986	\$ 2,214,858

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, 2023, the outstanding balance is \$1,167,160. 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, 2023**

**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:

<b>Fiscal Year Ending</b>					
<b>June 30,</b>		<b>Principal</b>		<b>Interest</b>	<b>Total</b>
2024	\$	116,774	\$	30,346	\$ 147,120
2025		119,810		27,310	147,120
2026		122,925		24,195	147,120
2027		126,121		20,999	147,120
2028		129,400		17,720	147,120
2029-2032		552,130		36,349	588,479
<b>Total</b>	<b>\$</b>	<b>1,167,160</b>	<b>\$</b>	<b>156,919</b>	<b>\$ 1,324,079</b>

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, 2023, the outstanding balance is \$2,060,719. 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, 2023**

**Note D. Long-Term Obligations (continued)**

*Advances from Other Governments (continued)*

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

<b>Fiscal Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2024	\$ 148,533	\$ 53,579	\$ 202,112
2025	152,395	49,717	202,112
2026	156,357	45,755	202,112
2027	160,423	41,689	202,112
2028	164,594	37,518	202,112
2029-2033	889,429	121,131	1,010,560
2034-2035	388,988	15,235	404,223
<b>Total</b>	<b>\$ 2,060,719</b>	<b>\$ 364,624</b>	<b>\$ 2,425,343</b>

Principal and interest paid for the year ended June 30, 2023 on advances from other governments totaled \$792,204. Total net revenues for the year, per the State Water Resources Control Board agreement, were \$7,295,261. Annual principal and interest payments on these advances are expected to require no more than 10.9% of net revenues.

*Revenue Bonds*

During the fiscal year ended June 30, 2023, the District issued Sonoma County Water and Wastewater Financing Authority 2022 Revenue Bonds (2022 Bonds). This issuance refunded the remaining principal (\$5,960,000) of the Sonoma County Water and Wastewater Financing Authority 2013 Revenue Bonds (2013 Bonds), as well as providing \$15,000,000 to finance the acquisition and construction of certain improvements to the District's existing wastewater system.

The 2022 Bonds have interest rates ranging from 4.0% to 5.0% and are payable solely from sanitation customer net revenues through 2048. Annual principal and interest payments are expected to require no more than 27.1% of net revenues. The total principal and interest outstanding on the 2022 Bonds as of June 30, 2023 is \$18,525,000 and \$9,636,250, respectively, which equals the remaining income pledged by the District through the fiscal year ending June 30, 2048 towards debt service. Principal and interest paid for the year ended June 30, 2023, on the 2013 Bonds and 2022 Bonds totaled \$1,488,625 and \$356,861, respectively. Total net revenues for the year, per the 2022 Bonds agreement, were \$6,822,483.

The 2022 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, 2023**

**Note D. Long-Term Obligations (continued)**

*Revenue Bonds (continued)*

Debt service requirements to maturity for the 2022 Revenue Bonds are as

follows: **Fiscal Year Ending**

<b>June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2024	\$ 1,335,000	\$ 779,725	\$ 2,114,725
2025	910,000	723,600	1,633,600
2026	515,000	687,975	1,202,975
2027	545,000	661,475	1,206,475
2028	570,000	633,600	1,203,600
2029-2033	3,335,000	2,697,375	6,032,375
2034-2038	3,865,000	1,865,100	5,730,100
2039-2043	3,355,000	1,164,900	4,519,900
2044-2048	4,095,000	422,500	4,517,500
<b>Total</b>	<b>\$ 18,525,000</b>	<b>\$ 9,636,250</b>	<b>\$ 28,161,250</b>

*Changes in Long-Term Obligations*

Long-term obligations activity for the fiscal year ended June 30, 2023 was as follows:

	<b>July 1, 2022</b>	<b>Additions</b>	<b>Reductions</b>	<b>June 30, 2023</b>	<b>Due Within One Year</b>
Advances from other Governments -					
Direct borrowings	\$ 5,942,810	\$ -	\$ (645,059)	\$ 5,297,751	\$ 660,672
2013 Revenue Bonds	7,315,000	-	(7,315,000)	-	-
Premium	938,175	-	(938,175)	-	-
2022 Revenue Bonds	-	18,525,000	-	18,525,000	1,335,000
Premium	-	2,043,334	(81,733)	1,961,601	-
Total revenue bonds	8,253,175	20,568,334	(8,334,908)	20,486,601	1,335,000
<b>Total</b>	<b>\$ 14,195,985</b>	<b>\$20,568,334</b>	<b>\$ (8,979,967)</b>	<b>\$ 25,784,352</b>	<b>\$ 1,995,672</b>



**Sonoma Valley County Sanitation District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2023**

**Note D. Long-Term Obligations (continued)**

*Refunding of the Sonoma County Water and Wastewater Financing Authority 2013 Revenue Bonds*

The original cash flows required to service the refunded debt and to complete the refunding are as follows:

	Principal	Interest	Additional Cash to Complete the Refunding	Total
2013 Bonds - defeased debt	\$ 5,960,000	\$ 1,309,100	\$ -	\$7,269,100
2022 Bonds - refunding debt	4,735,000	1,247,716	772,888	6,755,604
<b>Difference in cash flows</b>	<b>\$ 1,225,000</b>	<b>\$ 61,384</b>	<b>\$ (772,888)</b>	<b>\$ 513,496</b>

Refunding of the 2013 Bonds resulted in an economic gain (difference between the present values of the debt service payments of the old and new debt) of \$447,921. A deferred inflow of \$926,637 was recognized on the refunding.

**Note E. Accrued Interest Payable**

Interest payable consists of interest accrued on the following obligations:

	Amount
Advances from other governments	\$ 94,434
Revenue bonds	338,792
<b>Total</b>	<b>\$ 433,226</b>

**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, 2023, the District paid \$8,080,756 to Sonoma Water for operational services, and \$1,569,225 for acquisition and construction of capital assets.

**Sonoma Valley County Sanitation District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2023**

**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, 2023. The projects include expansion and/or improvements of wastewater treatment facilities. As of June 30, 2023, the District's costs incurred on construction projects in progress totaled \$13,352,571 with remaining commitments of \$712,395.

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

Contractual commitments related to District operations were \$1,523,207 as of June 30, 2023.

**Sonoma Valley County Sanitation District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2023**

**Note H. Commitments and Contingencies (continued)**

*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. The Regional Board amended the due date for the second trunk main project to be October 31, 2029, in a letter dated February 18, 2022. 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.

*Other Regulatory Matters*

The District is subject to Section VII of the Endangered Species Act (the 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 Act which deals with habitat conservation planning.

**Note I. Future Governmental Accounting Standards**

GASB has released the following standards which will be implemented in future financial statements:

*GASB Statement No. 100 – Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*

The requirements of this Statement are effective for the fiscal year ending June 30, 2024. The objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

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

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, 2023, the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the notes to the basic financial statements, and have issued our report thereon dated October 6, 2023.

**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.

A handwritten signature in black ink that reads "Pisenti & Brinku LLP". The signature is written in a cursive, flowing style.

Santa Rosa, California  
October 6, 2023