

**OCCIDENTAL COUNTY  
SANITATION DISTRICT**

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

For the Fiscal Year Ended June 30, 2011

**OCCIDENTAL COUNTY SANITATION DISTRICT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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Board of Directors  
Occidental County Sanitation District  
Santa Rosa, California

### INDEPENDENT AUDITOR’S REPORT

We have audited the accompanying basic financial statements of Occidental County Sanitation District (District), a component unit of the County of Sonoma, California, as of and for the fiscal year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the District’s management. 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 the 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2011, and the changes in its financial position and its cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued our report dated November 1, 2011 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 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.

*Maciar Gini & O'Connell LLP*

Sacramento, California  
November 1, 2011

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

**OCCIDENTAL COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

As management of the Occidental County Sanitation District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with the District's financial statements and the accompanying notes to the financial statements.

**Reporting Entity**

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

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

**Financial Highlights**

*Net Assets*

The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$3,650,046 (*net assets*). Of this amount, \$579,913 (*unrestricted net assets*) may be used to meet the District's ongoing obligations to citizens and creditors.

*Revenues and Contributions*

The District recognized total revenues and capital contributions of \$734,414 during the fiscal year ended June 30, 2011. This amount includes \$417,522 in operating revenues, \$308,167 in nonoperating revenues consisting of investment earnings totaling \$8,167 and contributions from the Water Agency towards the District's operations totaling \$300,000. The District also received grant proceeds from the Environmental Protection Agency (EPA) totaling \$8,725.

*Expenses*

The District incurred expenses totaling \$665,509 for the fiscal year ended June 30, 2011. This amount represents operating expenses related to the collection, treatment, disposal, and reclamation of effluent, totaling \$658,942, along with \$6,567 in expenses towards the District's conservation program.

*Increase in Net Assets*

The District recorded an operating loss of \$241,420 for the fiscal year ended June 30, 2011 that was offset by net nonoperating revenues and capital contributions totaling \$301,600 and \$8,725, respectively, resulting in an increase in net assets of \$68,905.

**OCCIDENTAL COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**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*

*Management's discussion and analysis* is intended to provide a narrative overview that allows users 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 assets (or cost recovery), financial position, and cash flow. The financial statements presented are the *statement of net assets; the statement of revenues, expenses and changes in net assets; and the statement of cash flows*.

*Notes to the Financial Statements*

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

**Financial Analysis**

Net assets may serve over time as a useful indicator of a District's financial position. In the case of the District, assets exceeded liabilities by \$3,650,046 at the close of the most recent fiscal year compared to net assets of \$3,581,141 as of June 30, 2010. The \$68,905 increase in net assets can be primarily attributed to a decrease in maintenance related expenses combined with a \$300,000 contribution from the Sonoma County Water Agency towards operating costs.

A significant portion of the District's net assets (82.5% as of June 30, 2011 compared to 86.4% for June 30, 2010) reflects its investment in capital assets (e.g., construction in progress and buildings and improvements. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

**OCCIDENTAL COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

*Condensed Statements of Net Assets*

	June 30, 2010	June 30, 2011	Percentage Change
Current assets	\$ 495,972	\$ 657,151	32.5%
Capital assets	3,093,525	3,011,599	-2.6%
<b>Total Assets</b>	<b>3,589,497</b>	<b>3,668,750</b>	<b>2.2%</b>
Current liabilities	8,356	18,704	123.8%
Invested in capital assets	3,093,525	3,011,599	-2.6%
Restricted for conservation	65,101	58,534	-10.1%
Unrestricted	422,515	579,913	37.3%
<b>Total Net Assets</b>	<b>\$ 3,581,141</b>	<b>\$ 3,650,046</b>	<b>1.9%</b>

A portion of the District's net assets (\$58,534) represent resources that are subject to restrictions on how they may be used. The remaining balance of unrestricted net assets of \$579,913 may be used to meet the District's ongoing obligations to citizens and creditors. As of June 30, 2011, the District reports positive balances in all of its net assets categories.

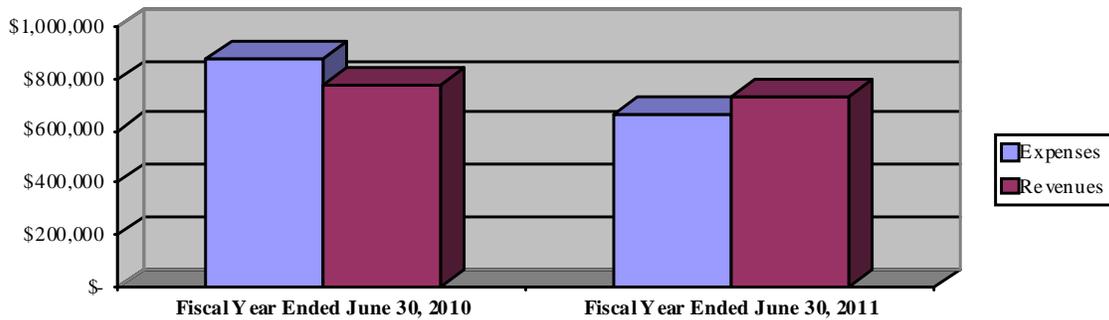
*Condensed Statements of Changes in Net Assets*

	Fiscal Year Ended		Percentage Change
	June 30, 2010	June 30, 2011	
Revenues			
Operating revenues	\$ 459,467	\$ 417,522	-9.1%
Nonoperating revenues	320,258	308,167	-3.8%
<b>Total revenues</b>	<b>779,725</b>	<b>725,689</b>	<b>-6.9%</b>
Expenses			
Services and supplies	642,738	519,970	-19.1%
Fiscal agent fees and legal services	6,458	4,602	-28.7%
Depreciation	134,371	134,370	0.0%
Conservation program	18,314	6,567	-64.1%
<b>Total expenses</b>	<b>801,881</b>	<b>665,509</b>	<b>-17.0%</b>
Income / (Loss) before capital contributions	(22,156)	60,180	-371.6%
Capital contributions	-	8,725	N/A
Increase / (Decrease) in net assets	(22,156)	68,905	-411.0%
<b>Net assets, beginning of year</b>	<b>3,603,297</b>	<b>3,581,141</b>	<b>-0.6%</b>
<b>Net assets, end of year</b>	<b>\$ 3,581,141</b>	<b>\$ 3,650,046</b>	<b>1.9%</b>

**OCCIDENTAL COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

The District's net assets increased by \$68,905 during the fiscal year ended June 30, 2011 compared to a decrease of \$22,156 during the fiscal year ended June 30, 2010. Intergovernmental revenues include funding received from the Water Agency totaling \$300,000 in order to allow the District to meet its ongoing operating expenses, along with \$8,725 from an Environmental Protection Agency grant towards the District's storage and reclamation project.

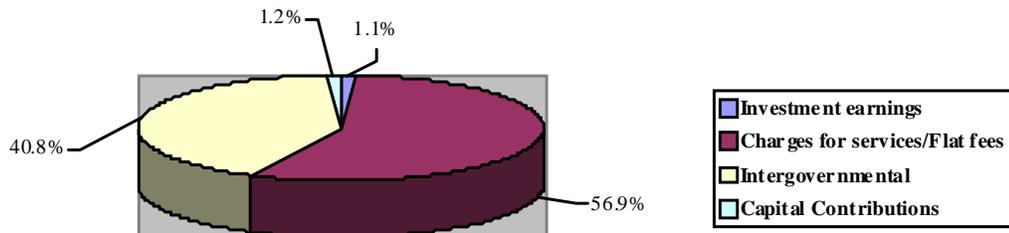
*Expenses and Revenues*



Total expenses for the District decreased by \$136,372 to \$665,509 for the fiscal year ended June 30, 2011 due primarily to a large decrease in maintenance related expenses incurred by the District during the fiscal year ended June 30, 2011 compared to maintenance expenses incurred during the fiscal year ended June 30, 2010.

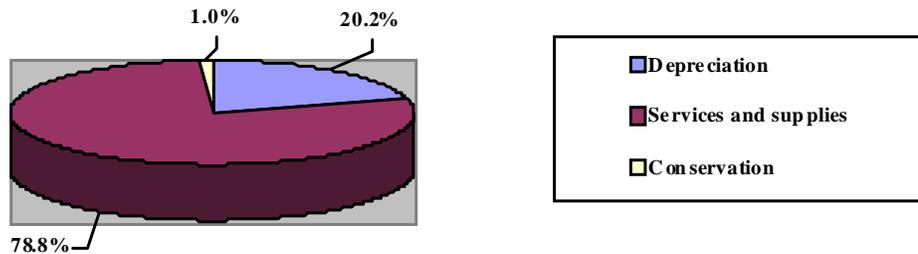
Total revenues and capital contributions of the District for the fiscal year ended June 30, 2011 totaled \$734,414 representing a decrease of \$45,311 from the preceding fiscal year revenues, of \$779,725. The decrease in revenues is due primarily to a \$61,391 refund that was received from the Sonoma County Water Agency during the fiscal year ended June 30, 2010, however no refund was received during the fiscal year ended June 30, 2011. The rate based charges for services, which represent sewer service charges collected through the tax rolls, represented 56.9% of the District's total revenue and increased by \$19,446 due primarily to a 9.0% increase in the sewer service fee rate; Investment earnings increased from the preceding year by \$3,166. Intergovernmental revenues of \$300,000 representing 40.8% of District revenues were received from the Water Agency towards operating costs. The District also recognized \$8,725 in capital contributions from the Environmental Protection Agency towards its storage and reclamation project.

*Revenues by Source*



**OCCIDENTAL COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

*Expenses by Function*



Total expenses for the District for the fiscal year ended June 30, 2011 totaled \$665,509. Costs associated with the collection, treatment, and disposal of effluent represent 78.8% of the District's costs. Annual depreciation expense on capital assets represents \$134,370 (20.2%) of total expenses. Conservation program expenses totaled \$6,567, or 1.0% of total expenses.

**Capital Asset and Debt Administration**

*Capital Assets*

The District's investment in capital assets as of June 30, 2011, amounts to \$3,011,599 (net of accumulated depreciation).

*Occidental County Sanitation District's Capital Assets*

	June 30, 2010	June 30, 2011	Percentage Change
Construction in progress	\$ 121,378	\$ 173,822	43.2%
Buildings and improvements	3,931,872	3,931,872	0.0%
Accumulated depreciation	(959,725)	(1,094,095)	14.0%
<b>Total</b>	<b>\$ 3,093,525</b>	<b>\$ 3,011,599</b>	<b>-2.6%</b>

Additional information on the District's capital assets can be found in Note D of the financial statement footnotes.

**OCCIDENTAL COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**Next Year's Budget and Rates**

Total budgeted expenses for the District for the fiscal year ending June 30, 2012 have increased by \$577,975 (56.9%) for a total of \$1,593,000. The major components of the increase in budgeted expenses are related to the ongoing storage and reclamation capital project and increases in planned maintenance related expenses.

Following is a comparison of the final budget for the fiscal year ended June 30, 2011 and the proposed budgeted expenses for the District for the fiscal year ending June 30, 2012.

	<b>Fiscal Year Ended June 30, 2011</b>	<b>Fiscal Year Ending June 30, 2012</b>	<b>Increase</b>	<b>Percentage Change</b>
Operations	\$ 815,025	\$ 1,306,000	\$ 490,975	60.2%
Construction	200,000	287,000	87,000	43.5%
<b>Total</b>	<b>\$ 1,015,025</b>	<b>\$ 1,593,000</b>	<b>\$ 577,975</b>	<b>56.9%</b>

The sewer service fees were increased for the 2011/12 budget year due to a board approved increase of 5.0%.

Following are tables showing the sanitation services rates and equivalent single dwellings for the District.

	<b>Fiscal Year Ended June 30, 2011</b>	<b>Fiscal Year Ending June 30, 2012</b>	<b>Percentage Change</b>
Rate per Equivalent Single-Family Dwelling	\$ 1,526	\$ 1,602	5.0%
Number of Equivalent Single-Family Dwellings	287	284	-1.0%

**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. Fiscal Division, 585 Fiscal Drive, Room 100, Santa Rosa, CA 95403.

**OCCIDENTAL COUNTY SANITATION DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2011**

**Assets**

Current assets:

Cash and investments	\$	423,277
Accounts receivable		166,115
Due from other governments		8,725
Deposits with others		500
Restricted cash and investments:		
Restricted for conservation program		58,534
<hr/>		
Total current assets		657,151

Noncurrent assets:

Capital assets:		
Construction in progress		173,822
Buildings and improvements		3,931,872
Less accumulated depreciation		(1,094,095)
<hr/>		
Total capital assets (net of accumulated depreciation)		3,011,599
<hr/>		
Total noncurrent assets		3,011,599
<hr/>		
Total assets		3,668,750

**Liabilities**

Current liabilities:

Accounts payable and accrued expenses		18,704
<hr/>		
Total liabilities		18,704

**Net Assets**

Invested in capital assets		3,011,599
Restricted for conservation		58,534
Unrestricted		579,913
<hr/>		
Total net assets	\$	3,650,046

The accompanying notes are an integral part of these financial statements.

**OCCIDENTAL COUNTY SANITATION DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

<b>Operating revenues</b>	
Flat charges	\$ 404,154
Charges for services	13,368
<hr/>	
Total operating revenues	417,522
<hr/>	
<b>Operating expenses</b>	
Services and supplies	519,970
Fiscal agent fees and legal services	4,602
Depreciation	134,370
<hr/>	
Total operating expenses	658,942
<hr/>	
Operating loss	(241,420)
<hr/>	
<b>Nonoperating revenues (expenses)</b>	
Investment earnings	8,167
Conservation expenses	(6,567)
Intergovernmental - Sonoma County Water Agency	300,000
<hr/>	
Total nonoperating revenues, net	301,600
<hr/>	
Capital contribution:	
Capital contributed from other governments - EPA	8,725
<hr/>	
<b>Increase in net assets</b>	<b>68,905</b>
<hr/>	
<b>Net assets - beginning of year</b>	<b>3,581,141</b>
<hr/>	
<b>Net assets - end of year</b>	<b>\$ 3,650,046</b>
<hr/>	

The accompanying notes are an integral part of these financial statements.

**OCCIDENTAL COUNTY SANITATION DISTRICT  
STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 395,183
Payments to Sonoma County Water Agency	(398,059)
Payments to suppliers	(116,165)
Conservation program outlays	(6,567)
<hr/>	
Net cash used by operating activities	(125,608)
<hr/>	
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Intergovernmental revenue - Sonoma County Water Agency	300,000
<hr/>	
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Purchase of capital assets	(52,444)
<hr/>	
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest received on pooled cash and investments	8,167
<hr/>	
Net increase in cash and cash equivalents	130,115
<b>Cash and cash equivalents - beginning of year</b>	351,696
<hr/>	
<b>Cash and cash equivalents - end of year</b>	<b>\$ 481,811</b>
<hr/>	
<b>Reconciliation to the statement of net assets:</b>	
Cash and cash equivalents	\$ 423,277
Restricted cash and cash equivalents	58,534
<hr/>	
Cash and cash equivalents	<b>\$ 481,811</b>
<hr/>	
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>	
Operating loss	\$ (241,420)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	134,370
Conservation program outlays	(6,567)
Change in assets and liabilities:	
Increase in accounts receivable	(22,339)
Increase in accounts payable and accrued expenses	10,348
<b>Net cash used by operating activities</b>	<b>\$ (125,608)</b>

The accompanying notes are an integral part of these financial statements.

**OCCIDENTAL COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**Note A. Defining the Financial Reporting Entity**

The Occidental County Sanitation District (the District) is managed by the Sonoma County Water Agency (the Water Agency), which provides engineering, administration, operational, and maintenance services. The District is responsible for maintaining and operating the local sanitation collection systems, pump stations, and treatment plants.

*Component Unit Reporting*

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

**Note B. Summary of Significant Accounting Policies**

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.

*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 assets. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**OCCIDENTAL COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**Note B. Summary of Significant Accounting Policies (Continued)**

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

The District has elected under Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncement of the Financial Accounting Standards Board or any Accounting Research Bulletins issued on or before November 20, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. Governments have the option of following private-sector guidance issued subsequent to November 30, 1989, as such, the District has elected not to follow private-sector guidance subsequent to November 30, 1989.

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

The District applies the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, which requires governmental entities to report certain investments at fair value in the statement of net assets and recognize the corresponding change in the fair value of investments in the year in which the change occurred. In accordance with GASB Statement No. 31, the District has stated its investment in the Treasury Pool at estimated fair value.

The District applies the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures* – an amendment to GASB Statement No. 3, which requires governmental entities to provide proper footnote disclosures on common deposit and investment risks related to credit risk, interest rate risk and custodial credit risk.

**OCCIDENTAL COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**Note B. Summary of Significant Accounting Policies (Continued)**

*Cash and Investments (Continued)*

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

*Accounts Receivable*

Accounts receivable consists of uncollected fees for sanitation services and flat charges as of June 30, 2011. Flat charges are established annually by the Board and are billed through the County's property tax system. The District does not record an allowance for uncollectible receivables as it deems all receivables as fully collectible.

*Capital Assets*

Capital assets are stated at cost or estimated historical cost. Capital assets are defined by the District as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of one year. Depreciation has been provided, excluding land and construction in progress, using the straight-line method over estimated useful lives ranging from 3 to 50 years. Useful lives of machinery and equipment are generally estimated to be 3 to 15 years. Buildings and improvements are generally estimated to have useful lives ranging from 30 to 50 years.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets, offset by interest earned on unspent debt proceeds, is included as part of the capitalized value of the assets constructed.

*Net Assets*

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use, either through enabling legislation adopted or through external restrictions imposed by creditors, grantors or laws and regulations of other governments. At June 30, 2011, the District has \$58,534 restricted for the District's conservation program

*Budget and Budgetary Accounting*

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

**OCCIDENTAL COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**Note B. Summary of Significant Accounting Policies (Continued)**

*Intergovernmental Revenues*

Intergovernmental revenues represent contributions from the Water Agency for operations and for the District's conservation program.

*Use of Estimates*

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Note C. Cash and Investments**

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

*Investment Guidelines*

The District's pooled cash and investments are invested pursuant to investment policy guidelines established by the Treasurer and approved by the Board. The objectives of the policy are, in order of priority: safety of capital, liquidity and maximum rate of return. The policy addresses the soundness of financial institutions in which the Treasurer will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity.

**OCCIDENTAL COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**Note C. Cash and Investments (Continued)**

*Investment Guidelines (Continued)*

Permitted investments include the following:

- U.S. Treasury and Federal Agency securities
- Bonds and notes issued by local agencies
- Registered state warrants and municipal notes and bonds
- Negotiable certificates of deposit
- Bankers' acceptances
- Commercial paper
- Medium-term corporate notes
- Local Agency Investment Fund (State Pool) deposits
- Repurchase agreements
- Reverse repurchase agreements
- Securities lending agreements
- Mutual funds and Money market mutual funds
- Collateralized mortgage obligations
- Collateralized time deposits
- Joint powers agreement
- Investment Trust of CA. (Caltrust)

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

As of June 30, 2011 the District's cash and investments consisted of \$481,811 in the Treasury Pool managed by the Treasurer, which is not rated by credit rating agencies, and had a weighted average maturity of 751 days. The credit rating and other information regarding specific investments maintained in the Treasury Pool as of June 30, 2011 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 County Treasurer manages the District's exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments, and by timing cash flows from maturities so that a portion of the portfolio is maturing, or coming close to maturity, evenly over time, as necessary, to provide the cash flow and liquidity needed for operations.

**OCCIDENTAL COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**Note C. Cash and Investments (Continued)**

*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. The California Government Code and the County's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits and securities lending transactions:

- The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.
- The California Government Code limits the total of all securities lending transactions to 20% of the fair value of the investment portfolio.

Investments in external investment pools and in open-end mutual funds are not exposed to custodial credit risk. As of June 30, 2011, all of the District's investments were in the Treasury Pool and, are therefore, not exposed to custodial credit 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. The credit rating and other information regarding the Treasury Pool for the fiscal year ended June 30, 2011 are disclosed in the County's Comprehensive Annual Financial Report.

**OCCIDENTAL COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**Note D. Capital Assets**

Capital assets activity for the fiscal year ended June 30, 2011 was as follows:

	July 1, 2010	Additions	Retirements	June 30 2011
Capital Assets, not being depreciated:				
Construction in progress	\$ 121,378	\$ 52,444	\$ -	\$ 173,822
Capital assets being depreciated:				
Buildings and improvements	3,931,872	-	-	3,931,872
Less: Accumulated depreciation	(959,725)	(134,370)	-	(1,094,095)
Total capital assets, being depreciated, net	2,972,147	(134,370)	-	2,837,777
Total capital assets, net	\$ 3,093,525	\$ (81,926)	\$ -	\$ 3,011,599

Depreciation expense amounted to \$134,370 for the fiscal year ended June 30, 2011.

**Note E. Related Party Transactions**

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

The District is managed by the Water Agency, which provides administration, engineering, operational, and maintenance services. The District does not incur any payroll expenses. The Water Agency allocates overhead costs to the District via the use of an overhead rate charged on labor applicable to the District. The overhead rate is reviewed periodically by management to determine its effectiveness. The District paid \$398,059 to the Water Agency for administrative support during the fiscal year ended June 30, 2011.

During the year ended June 30, 2011, the District received funding from the Water Agency to allow the District to meet its operating, construction, and conservation program expenses. The total funding received by the District amounted to \$300,000 for the fiscal year ended June 30, 2011.

**OCCIDENTAL COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**Note F. Commitments and Contingencies**

*Pending Litigation, Claims, and Assessments*

An enforcement order issued by the North Coast Regional Quality Control Board (NC Regional Board) against the District and the Water Agency remains outstanding pending completion of capital improvements for the District's facility. The enforcement order requires the District to construct a compliance project to address historical discharge permit violations. The compliance project has changed several times since the enforcement order was issued due to financial and political reasons. The District is currently working on a new project proposal for review and approval by the NC Regional Board. The NC Regional Board may issue a new Administrative Civil Liability (ACL) order either before or after project approval. It is too early to predict the cost for the District to participate in construction of the project which is proposed as the level of cost will depend on the cost of the project selected and the amount of grants and loans obtained from outside funding agencies.

*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 that relate to habitat conservation planning.

**Note G. Risk Management**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District is covered by the County's self-insurance program, which is accounted for in the County's Risk Management Internal Service Fund. The District is covered under this program for general liability, auto liability, public employees' performance/dishonesty and property insurance.

The County maintains a self-insured retention of \$1,000,000 per occurrence for general and automobile liability. Excess liability coverage is maintained through participation in the California State Association of Counties, Excess Insurance Authority (CSAC-EIA) and Excess Liability Program. Limits of this coverage are \$15,000,000.

The County also maintains public employee faithful performance/employee dishonesty coverage through a joint-purchase program provided by National Union Fire Insurance Company and administered by CSAC-EIA with limits of \$10,000,000 and a \$25,000 deductible.

**OCCIDENTAL COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**Note G. Risk Management (Continued)**

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 including flood and \$80,000,000 per occurrence for earthquake. Deductibles for most perils are \$50,000 per occurrence, with flood at \$200,000 per county per occurrence and earthquake at 5% of total insured values per unit, per occurrence, subject to a \$500,000 minimum per occurrence. For losses within the deductible, the County maintains a deductible self-insured pool for losses in excess of \$5,000. The Sonoma County Water Agency pays an annual premium to the County for this insurance on behalf of the District. The Water Agency recovers this cost as a component of the administrative support charges to the District.

Board of Directors  
Occidental County Sanitation District  
Santa Rosa, California

**INDEPENDENT AUDITOR’S 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**

We have audited the basic financial statements of Occidental County Sanitation District (District) as of and for the fiscal year ended June 30, 2011, and have issued our report thereon dated November 1, 2011. We conducted our audit 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.

**Internal Control over Financial Reporting**

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District’s internal control over financial reporting.

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 entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## 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*.

This report is intended for the information of the Board of Directors and District management and is not intended to be and should not be used by anyone other than these specified parties.

*Macie Mini & O'Connell LLP*

Sacramento, California  
November 1, 2011