

**SONOMA VALLEY COUNTY  
SANITATION DISTRICT**

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

For the Fiscal Year Ended June 30, 2011

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

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

### INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of Sonoma Valley 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 10 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**

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

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, 2011. 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 (the Water Agency), which provides administration, engineering, operational and maintenance services. The District is governed by a three member board, including two members of the Board of Supervisors (Board) of the County of Sonoma (the County). The District is considered an integral part of the County of Sonoma's (the County) reporting entity, resulting in the District's financial statements being included in the County's Comprehensive Annual Financial Report.

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

**Financial Highlights**

*Net Assets*

The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$58,331,239 (*net assets*). Of this amount, \$11,113,354 (*unrestricted net assets*) 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 \$12,780,650 during the fiscal year ended June 30, 2011. Of this amount, \$11,529,226 consists of operating revenues including charges for services, and \$394,563 of nonoperating revenues consisting of investment earnings, property taxes, conservation program, and intergovernmental revenue. The District also recognized capital contributions of \$439,650 from connection fees, and proceeds from state and federal grants totaling \$417,211.

*Expenses*

The District incurred expenses totaling \$12,097,397 during the fiscal year ended June 30, 2011. \$11,343,226 represents operating expenses related to the collection, treatment, disposal, and reclamation of effluent, as well as administrative and general expenses. Nonoperating expenses total \$754,171 which is comprised of conservation program expenses of \$34,801, a loss on the disposal of capital assets of \$79,573 and interest expense of \$639,797 related to the District's long-term debt obligations.

*Increase in Net Assets*

The District recognized an increase in net assets of \$683,253.

**SONOMA VALLEY 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*, 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 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 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 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 \$58,331,239 at the close of the most recent fiscal year compared to net assets of \$57,647,986 as of June 30, 2010. The increase in net assets of \$683,253 is due primarily to the receipt of capital contributions from connection fees and proceeds from state and federal grants.

The largest portion of the District's net assets (77.0% as of June 30, 2011 compared to 76.2% for June 30, 2010) reflects its investment in capital assets (e.g., land and buildings and improvements), 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, 2011**

*Condensed Statements of Net Assets*

	June 30, 2010	June 30, 2011	Percentage Change
Current and other assets	\$ 14,676,620	\$ 15,106,034	2.9%
Capital assets	64,104,657	64,865,780	1.2%
<b>Total Assets</b>	<b>78,781,277</b>	<b>79,971,814</b>	<b>1.5%</b>
Current liabilities	1,933,843	2,910,058	50.5%
Noncurrent liabilities	19,199,448	18,730,517	-2.4%
<b>Total Liabilities</b>	<b>21,133,291</b>	<b>21,640,575</b>	<b>2.4%</b>
Invested in capital assets net of related debt	43,900,286	44,918,287	2.3%
Restricted for conservation	107,613	173,510	61.2%
Restricted for debt service	1,986,717	2,126,088	7.0%
Unrestricted	11,653,370	11,113,354	-4.6%
<b>Total Net Assets</b>	<b>\$ 57,647,986</b>	<b>\$ 58,331,239</b>	<b>1.2%</b>

A portion of the District's net assets totaling \$2,299,598 (3.9% as of June 30, 2011) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets of \$11,113,354 as of June 30, 2011 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 categories of net assets.

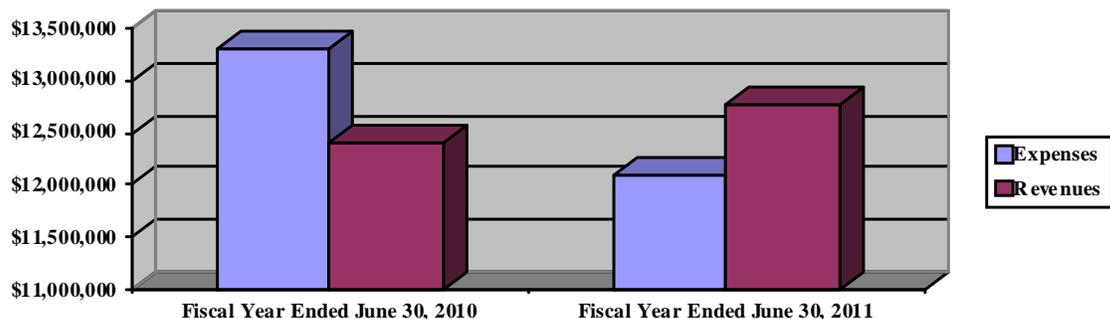
**SONOMA VALLEY COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

*Condensed Statements of Changes in Net Assets*

	<b>Fiscal Year Ended</b>		<b>Percentage Change</b>
	<b>June 30, 2010</b>	<b>June 30, 2011</b>	
<b>Revenues</b>			
Operating revenues	\$ 11,764,557	\$ 11,529,226	-2.0%
Nonoperating revenues	649,290	394,563	-39.2%
<b>Total revenues</b>	<b>12,413,847</b>	<b>11,923,789</b>	<b>-3.9%</b>
<b>Expenses</b>			
Services and supplies	8,044,480	8,134,424	1.1%
Fiscal agent fees and legal services	28,683	36,501	27.3%
Depreciation and amortization	3,091,605	3,172,301	2.6%
Conservation program	1,478,266	34,801	-97.6%
Interest expense	652,174	639,797	-1.9%
Loss on disposal of capital assets	-	79,573	na
<b>Total expenses</b>	<b>13,295,208</b>	<b>12,097,397</b>	<b>-9.0%</b>
Loss before contributions	(881,361)	(173,608)	-80.3%
<b>Capital contributions:</b>			
Donations	56,700	-	na
State and Federal grants	-	417,211	na
Connection fees	86,817	439,650	406.4%
Increase (decrease) in net assets	(737,844)	683,253	-192.6%
<b>Net assets, beginning of year</b>	<b>58,385,830</b>	<b>57,647,986</b>	<b>-1.3%</b>
<b>Net assets, end of year</b>	<b>\$ 57,647,986</b>	<b>\$ 58,331,239</b>	<b>1.2%</b>

The District's net assets increased by \$683,253 during the fiscal year ended June 30, 2011 compared to a decrease of \$737,844 for the fiscal year ended June 30, 2010.

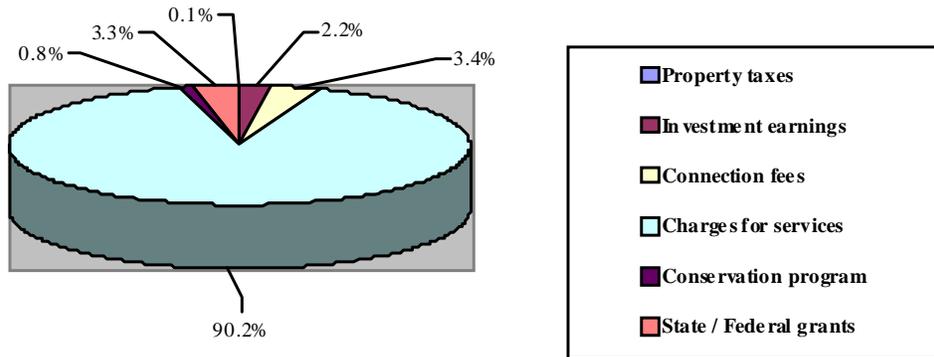
*Expenses and Revenues*



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

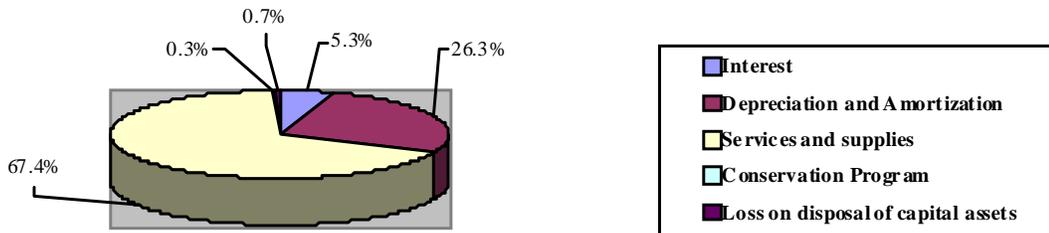
Revenues and capital contributions of the District for the fiscal year ended June 30, 2011 totaled \$12,780,650 representing an increase of \$223,286 from the preceding fiscal year revenues and capital contributions of \$12,557,364. The rate based charges for services, representing 90.2 % of the District's total revenue, increased by \$745,840 (6.9%) due primarily to a 6.0% rate increase from the previous year. Investment earnings decreased by \$51,880 (15.8%) due to a lower rate of return on pooled cash earned during the year. Conservation program revenue increased by \$47,841 (90.2%) due to an increase in sewer permits issued during the fiscal year ended June 30, 2011. In addition, the District received \$439,650 in capital contributions from connection fees, compared to \$86,817 received during the fiscal year ended June 30, 2010, and also received capital contributions from state and federal grants towards capital projects totaling \$417,211.

*Revenues and Capital Contributions by Source*



Total expenses for the District decreased by \$1,197,811 to \$12,097,397 for the fiscal year ended June 30, 2011, due primarily to a large decrease in conservation program expenses of \$1,443,465. The overall effect was a decrease in expenses of 9.0%.

*Expenses by Function*



Expenses for the District for the fiscal year ended June 30, 2011 totaled \$12,097,397. Costs associated with the collection, treatment, and disposal of effluent represent 67.4% of the District's costs. Annual depreciation and amortization expense on capital assets of \$3,172,301 represented 26.3% of total expenses. Interest expense totaling \$639,797 (5.3%) represents the cost of meeting current debt service obligations. Conservation program expenses totaled \$34,801 (0.3%) for the fiscal year ended June 30, 2011. The District also recognized a loss on the disposal of capital assets of \$79,573 (0.7%).

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

**Capital Asset and Debt Administration**

*Capital Assets*

The District's investment in capital assets as of June 30, 2011, amounts to \$64,865,780 (net of accumulated depreciation). In addition to reporting the District's investment in capital assets including land, buildings and systems, improvements and construction in progress, the District reports its investment in intangible assets as required by Governmental Accounting Standards Board (GASB) Statement No. 51 – *Accounting and Financial Reporting for Intangible Assets*. Intangible assets for the District include easements (both temporary and permanent). Major capital assets activity during the fiscal year included the Napa Salt Marsh pipeline and trunk replacement from Main E. Watmaugh to the District's treatment plant.

*Sonoma Valley County Sanitation District's Capital Assets*

	June 30, 2010	June 30, 2011	Percentage Change
Land	\$ 3,568,116	\$ 4,506,972	26.3%
Intangible assets			
Permanent easements	815,772	836,008	2.5%
Temporary easements	10,656	10,656	-
Construction in progress	3,848,817	6,733,830	75.0%
Buildings and improvements	93,861,853	93,922,062	0.1%
Machinery and equipment	301,523	280,012	-7.1%
Accumulated depreciation/amortization	(38,302,080)	(41,423,760)	8.2%
<b>Total</b>	<b>\$ 64,104,657</b>	<b>\$ 64,865,780</b>	<b>1.2%</b>

Additional information on the District's capital assets 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, 2011**

**Capital Asset and Debt Administration (Continued)**

*Long-term Obligations*

At June 30, 2011, the District had a total of \$19,947,493 in outstanding debt consisting of general obligation bonds, revenue bonds, advances from other governments and notes payable. Of this amount, \$76,000 comprises debt backed by the full faith and credit of the District, \$12,749,381 in special obligations of the District payable solely from net revenues of the District's operations, \$6,361,066 is related to advances from the State Water Resources Control Board, and \$761,046 is related to a note issued towards the purchase of the Sasaki property in July, 2010 for \$933,000.

*Sonoma Valley County Sanitation District's Long-Term Debt*

	June 30, 2010	June 30, 2011	Percentage Change
Advances from other governments	\$ 6,698,757	\$ 6,361,066	-5.0%
Notes payable	-	761,046	na
General obligations bonds	89,000	76,000	-14.6%
Revenue bonds	13,416,614	12,749,381	-5.0%
<b>Total long-term debt</b>	<b>\$ 20,204,371</b>	<b>\$ 19,947,493</b>	<b>-1.3%</b>

The District's total debt decreased by \$256,878 during the fiscal year ended June 30, 2011.

Advances from other governments decreased \$337,691 as a result of scheduled principal payments for the existing outfall line advance received from the State Water Resources Control Board (SWRCB) in the amount of \$43,511, along with a principal payment to the SWRCB on the Treatment Plant Upgrade loan of \$294,180.

Decreases in both general obligation bonds and revenue bonds are also due to annual principal payments on the outstanding debt.

The balance for notes payable reflects additions and principal payments totaling \$933,000 and \$171,954, respectively, during the fiscal year.

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

**Next Year's Budget and Rates**

Budgeted gross expenses for the District for fiscal year ending June 30, 2012 have decreased by \$9,428,399 (26.3%) for a total of \$26,362,590. The major component of the decrease in budgeted expenses is related to decreases in capital projects and operations. The decreases in operations and construction are primarily due to a decrease in the budgeted receipt of grant and loan proceeds and the subsequent transfer of these proceeds from the operations fund to the construction fund as compared to the prior fiscal year. The District is anticipating loan proceeds in the amount of \$3.5 Million to be used towards a Bio-Solids project during the 2011-12 fiscal year. The District budgeted a total \$6.8 Million in grant and loan proceeds during the 2010-11 fiscal year. The \$6.8 Million was not expensed and reimbursed during the fiscal year ended June 30, 2011 and may be re-budgeted during the fiscal year ending June 30, 2012.

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

Following is a comparison of final 2010/11 and proposed 2011/12 budgeted expenses for the District:

	Fiscal Year Ended June 30, 2011	Fiscal Year Ending June 30, 2012	Decrease	Percentage Change
Operations	\$ 23,764,369	\$ 20,737,499	\$ (3,026,870)	-12.7%
Debt service - general obligation bonds	4,502	3,852	(650)	-14.4%
Debt service - Revenue bonds	654,939	636,642	(18,297)	-2.8%
Debt service - outfall line	6,200	5,025	(1,175)	-19.0%
Construction	11,212,188	4,837,547	(6,374,641)	-56.9%
State revolving fund loan	148,791	142,025	(6,766)	-4.5%
<b>Total</b>	<b>\$ 35,790,989</b>	<b>\$ 26,362,590</b>	<b>\$ (9,428,399)</b>	<b>-26.3%</b>

Budgeted expenses for fiscal year ended June 30, 2011 differ in several instances from the budgeted expenses presented in the management's discussion and analysis for the period ended June 30, 2010. 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, 2010.

The increase in budgeted sewer service fees revenue is 5.5% for the fiscal year ending June 30, 2011.

The following tables indicate the sanitation sewer service rates and equivalent single dwellings for the District.

	Fiscal Year Ended June 30, 2011	Fiscal Year Ending June 30, 2012	Percentage Change
Rate per Equivalent Single-Family Dwelling	\$ 694	\$ 732	5.5%
Number of Equivalent Single-Family Dwellings	17,249	17,246	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. Fiscal Division, 585 Fiscal Drive, Room 100, Santa Rosa, CA, 95403.

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

**ASSETS**

Current assets:

Cash and investments	\$ 7,285,001
Accounts receivable	704,237
Due from Sonoma County Water Agency	422,177
Due from other governments	425,278
Restricted cash and investments	
Conservation program	147,606
General obligation bond fund	5,988
Revenue bond fund	1,674,620
Debt service	593,692
Loan reserve fund	142,227

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Total current assets 11,400,826

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Noncurrent assets:

Advances to Sonoma County Water Agency	3,495,410
Deposits with others	25,800
Other assets	183,998
Capital assets:	
Land	4,506,972
Intangible assets	846,664
Construction in progress	6,733,830
Buildings and improvements	93,922,062
Machinery and equipment	280,012
Less accumulated depreciation and amortization	(41,423,760)

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Total capital assets (net of accumulated depreciation and amortization) 64,865,780

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Total noncurrent assets 68,570,988

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Total assets 79,971,814

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**LIABILITIES**

Current liabilities:

Accounts payable and accrued expenses	1,402,643
Due to other governments	345,633
Notes payable	179,112
Accrued interest payable	99,707

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Total current liabilities 2,027,095

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Current liabilities payable from restricted assets:

Revenue bonds payable	692,231
Accrued interest payable	190,732

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Total current liabilities payable from restricted assets 882,963

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Noncurrent liabilities:

Advances from other governments	6,015,433
Notes payable	581,934
General obligation bonds payable	76,000
Revenue bonds payable	12,057,150

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Total noncurrent liabilities 18,730,517

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Total liabilities 21,640,575

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**NET ASSETS**

Invested in capital assets, net of related debt	44,918,287
Restricted for conservation	173,510
Restricted for debt service	2,126,088
Unrestricted	11,113,354

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Total net assets \$ 58,331,239

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

**SONOMA VALLEY 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	\$	10,456,345
Charges for services		1,045,214
Other		27,667
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Total operating revenues		11,529,226
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<b>Operating expenses</b>		
Services and supplies		8,134,424
Fiscal agent fees and legal services		36,501
Depreciation and amortization		3,172,301
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Total operating expenses		11,343,226
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<b>Operating income</b>		186,000
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<b>Nonoperating revenues (expenses)</b>		
Investment earnings		277,431
Interest expense		(639,797)
Intergovernmental		128
Property taxes		16,156
Loss on disposal of capital assets		(79,573)
Conservation program revenue		100,848
Conservation program expense		(34,801)
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Total nonoperating revenues, net		(359,608)
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<b>Loss before capital contributions</b>		(173,608)
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Capital contributions:		
Capital contributions - federal and state grants		417,211
Connection fees		439,650
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<b>Increase in net assets</b>		683,253
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<b>Net assets - beginning of year</b>		57,647,986
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<b>Net assets - end of year</b>	\$	58,331,239
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The accompanying notes are an integral part of these financial statements.

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

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from customers	\$	11,469,408
Payments to Sonoma County Water Agency		(6,286,985)
Payments to suppliers		(1,963,304)
Conservation program outlays		(34,801)

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Net cash provided by operating activities		3,184,318
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**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Taxes received		16,156
Intergovernmental revenue received		128
Conservation program receipts		99,078

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Net cash provided by noncapital financing activities		115,362
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**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Purchase of capital assets		(2,028,308)
Refund of eminent domain deposits		131,600
Proceeds from State grants		242,390
Principal payments - notes payable		(171,954)
Loan principal payments - advances from other governments		(337,691)
Principal payments - bonds		(743,000)
Interest paid on capital debt		(765,310)
Connection fees received		439,650

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Net cash used by capital and related financing activities		(3,232,623)
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**CASH FLOWS FROM INVESTING ACTIVITIES**

Loan repayment from Sonoma County Water Agency - principal		405,168
Loan repayment from Sonoma County Water Agency - interest		181,731
Interest received on pooled cash and investments		95,700

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Net cash provided by investing activities		682,599
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Net increase in cash and cash equivalents		749,656
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Cash and cash equivalents - beginning of year		9,099,478
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Cash and cash equivalents - end of year	\$	9,849,134
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**Reconciliation to the statement of net assets**

Cash and investments	\$	7,285,001
Restricted cash and investments		2,564,133

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Cash and cash equivalents	\$	9,849,134
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The accompanying notes are an integral part of these financial statements.

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
STATEMENT OF CASH FLOWS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**RECONCILIATION OF OPERATING INCOME TO NET**

**CASH PROVIDED BY OPERATING ACTIVITIES:**

Operating income	\$	186,000
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization		3,172,301
Conservation program outlays		(34,801)
Change in assets and liabilities:		
Increase in accounts receivable		(59,818)
Decrease in accounts payable and accrued expenses		(79,364)
Net cash provided by operating activities	\$	3,184,318

**NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:**

Acquisition of capital assets in accounts payable	\$	907,880
Capitalized interest		176,755
Capitalized costs in retention payable		84,139
Land acquired with note payable		933,000

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

**SONOMA VALLEY 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 Sonoma Valley 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. The District has an ordinance defining policies, including user fees.

*Component Unit Reporting*

The District is governed by a three member board, including two members of the Board of Supervisors (Board) of the County of Sonoma (the County). The exercise of this oversight responsibility causes the District to be an integral part of the County's reporting entity. Therefore, the District's financial statements have also been included in the County's Comprehensive Annual Financial Report.

**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.

**SONOMA VALLEY 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 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The GASB periodically updates its codification of 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 Sonoma County Treasurer (Treasurer) except for restricted funds held by an outside trustee. The Treasurer also acts as a disbursing agent for the District. The fair value of the investments in the pool is determined quarterly. Realized and unrealized gains or losses and interest earned on pooled investments are allocated quarterly to the District based on its respective average daily balance for that quarter in the County Treasury Investment Pool (the Treasury Pool), an external investment pool.

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 reported its investment in the Treasury Pool at estimated fair value.

**SONOMA VALLEY 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)*

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 disclosures on common deposit and investment risks related to credit risk, interest rate risk and custodial credit risk.

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 as of June 30, 2011. Flat charges are established annually by the Board and 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.

*Other Assets*

Other assets represent unamortized bond issuance costs of \$183,998 as of June 30, 2011. These costs are amortized using the straight-line method over the term of the outstanding bonds. Amortization expense for the year ended June 30, 2011 related to the bond issuance costs was \$19,883.

*Deposits with Others*

Deposits with others represents cash on deposit with the Sonoma County Superior Court towards eminent domain proceedings related to the District's Sewer Trunk Main replacement project.

*Restricted Assets*

Restricted assets represent cash and investments maintained in accordance with bond resolutions or by agreement, for the purpose of funding certain debt service payments, rebate programs and improvements and extensions to the wastewater treatment systems.

*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.

**SONOMA VALLEY 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)**

*Capital Assets (Continued)*

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 or materially extend the useful life of the assets, 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.

*Intangible Assets*

Intangible assets are stated at cost or estimated historical cost. Intangible assets for the District consist of temporary and permanent easements. Temporary easements are defined by the District as any easement acquired during the course of a project that, by agreement, will expire after a certain period of time after the completion of a project, and has an estimated useful life in excess of 1 year. Temporary easements are amortized using the straight line method over the duration of the easement. Permanent easements, including dedicated easements, are stated at cost, estimated historical cost, or fair value and are not amortized.

*Bond Issuance Discount and Deferred Amount on Refunding*

Revenue bond discounts (discounts) are deferred and amortized using the straight-line method over the term of the outstanding bonds. Discounts reduce the carrying value of the related long-term debt. The deferred amount on refunding of revenue bonds, results from the difference between the carrying amount of defeased/refunded debt and its reacquisition price. Deferred amounts on refunding are amortized over the remaining life of the refunded debt or the remaining life of the newly issued debt, whichever is shorter. The unamortized portion of the deferred amount on refunding is reported as a direct reduction to the carrying amount of the refunding debt.

*Net Assets*

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, 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 assets are reported as restricted when there are limitations imposed on their use, either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. At June 30, 2011, the District has \$173,510 restricted for the District's conservation program and \$2,126,088 restricted for debt service.

**SONOMA VALLEY 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)**

*Budget and Budgetary Accounting*

The Board of Directors 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 within 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 of Directors.

*Property Tax Revenue*

Property taxes, including tax rates, are regulated by the State and are administered locally by the County. The County is responsible for assessing, collecting and distributing property taxes in accordance with state law. The County is responsible for the allocation of property taxes to the District.

The County has adopted the Alternative Method of Property Tax Allocation known as the Teeter Plan. The State Revenue and Taxation Code allows counties to distribute secured real property and supplemental property taxes on an accrual basis resulting in full payment to the District each fiscal year. Any subsequent delinquent payments and related penalties and interest revert to the County.

Property taxes are recognized as revenue when they are levied. Liens on real property are established January 1 for the ensuing fiscal year. The property tax is levied as of July 1 on all taxable property located in the County. Secured property taxes are due in two equal installments on November 1 and February 1, and are delinquent after December 10 and April 10, respectively. Additionally, supplemental property taxes are levied on a pro rata basis when changes in the assessed valuation occur due to sales transactions or the completion of construction. Property tax collection and valuation information is disclosed in the County's Comprehensive Annual Financial Report.

*Intergovernmental Revenues*

Intergovernmental revenues primarily consist of grants received from the State of California.

*Use of Estimates*

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

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

**Note C.      Cash and Investments**

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

*Investment Guidelines*

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

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

**SONOMA VALLEY 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)*

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

Cash and investments included the following at June 30, 2011:

	<b>Fair Value</b>
Cash and investments in Treasurer's Pool	\$ 9,831,861
Cash and investments with trustee	17,273
<b>Total</b>	<b>\$ 9,849,134</b>

As of June 30, 2011, the District's investments in the Treasury Pool managed by the County Treasurer, which is not rated by credit rating agencies, had a weighted average to 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 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, 2011, \$17,273 of the District's investments were held by a trustee and invested in a money market mutual fund with a weighted average to maturity of 41 days.

*Credit Risk*

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District follows the County's policy to purchase investments with the minimum ratings required by the California Government Code. Presented below 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, 2011 for each investment type. The credit rating and other information regarding the Treasury Pool as of June 30, 2011 are disclosed in the County's Comprehensive Annual Financial Report.

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

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

*Credit Risk (continued)*

	<b>Fair Value</b>	<b>Minimum Credit Rating</b>	<b>Credit Rating</b>
Held by trustee:			
Money market mutual funds	\$ 17,273	AAA	AAA

*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, none of the District's investments were exposed to custodial credit risk.

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

**Note D. Capital Assets**

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

	July 1, 2010	Additions	Retirements	Transfers	June 30, 2011
Capital assets, not being depreciated/amortized:					
Land	\$ 3,568,116	\$ 938,856	\$ -	\$ -	\$ 4,506,972
Intangibles	815,772	20,236	-	-	836,008
Construction in progress	3,848,817	3,020,904	(75,682)	(60,209)	6,733,830
<b>Total capital assets, not being depreciated/amortized</b>	<b>8,232,705</b>	<b>3,979,996</b>	<b>(75,682)</b>	<b>(60,209)</b>	<b>12,076,810</b>
Capital assets, being depreciated/amortized:					
Buildings and improvements	93,861,853	-	-	60,209	93,922,062
Intangibles	10,656	-	-	-	10,656
Machinery and equipment	301,523	13,117	(34,628)	-	280,012
<b>Total capital assets being depreciated/amortized</b>	<b>94,174,032</b>	<b>13,117</b>	<b>(34,628)</b>	<b>60,209</b>	<b>94,212,730</b>
Less accumulated depreciation/amortization for:					
Buildings and improvements	(38,133,096)	(3,122,514)	-	-	(41,255,610)
Intangibles	-	(2,131)	-	-	(2,131)
Machinery and equipment	(168,984)	(27,772)	30,737	-	(166,019)
<b>Total accumulated depreciation/amortization</b>	<b>(38,302,080)</b>	<b>(3,152,417)</b>	<b>30,737</b>	<b>-</b>	<b>(41,423,760)</b>
<b>Total capital assets, being depreciated, net</b>	<b>55,871,952</b>	<b>(3,139,300)</b>	<b>(3,891)</b>	<b>60,209</b>	<b>52,788,970</b>
<b>Total capital assets, net</b>	<b>\$ 64,104,657</b>	<b>\$ 840,696</b>	<b>\$ (79,573)</b>	<b>\$ -</b>	<b>\$ 64,865,780</b>

Depreciation expense amounted to \$3,152,417 for the fiscal year ended June 30, 2011.

The total amount of interest capitalized in connection with wastewater treatment facilities construction projects during the fiscal year ended June 30, 2011 amounted to \$176,755.

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

**Note E. Advances to Sonoma County Water Agency**

During the fiscal year ended June 30, 2008, the District transferred ownership of its photovoltaic facility to the Water Agency. Terms of the transfer agreement included a contribution to the Water Agency in the amount of \$2,784,354 along with a loan totaling \$5,442,922. The term of the loan is 12 years, with the final payment due in 2019, at an interest rate of 4.198%. The total outstanding amount of the loan as of June 30, 2011 is \$3,917,587. The current portion of the long-term receivable from the Water Agency in the amount of \$422,177 is reported as Due from Sonoma County Water Agency in the statement of net assets.

**Note F. Long-Term Obligations**

*Advances from Other Governments*

During the fiscal year ended June 30, 1995, the District received a loan of \$760,992 from the State Water Resources Control Board for an outfall rehabilitation project. As of June 30, 2011, the outstanding balance is \$186,086. The loan is a State Revolving Loan with current payments of \$49,710, payable annually in July. The expected term is 20 years at an annual interest rate of 2.7% with the last payment scheduled for July 2014.

Annual debt service requirements to maturity for this revolving loan is as follows:

<b>Fiscal Year Ending</b>					
<b>June 30,</b>	<b>Principal</b>		<b>Interest</b>		<b>Total</b>
2012	\$ 44,686	\$	5,024	\$	49,710
2013	45,902		3,808		49,710
2014	47,132		2,578		49,710
2015	48,366		1,306		49,672
<b>Total</b>	<b>\$ 186,086</b>	<b>\$</b>	<b>12,716</b>	<b>\$</b>	<b>198,802</b>

The District received funding from the State Water Resources Control Board 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 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, 2011 is \$6,174,980 and \$1,355,537, respectively. The District made an initial payment in November 2008. The outstanding balance as of June 30, 2011 is \$6,174,980. The term of the loan is 20 years at an annual interest rate of 2.3% with the final payment currently scheduled for 2027. Annual principal and interest payments are expected to require no more than 11% of net revenues. Principal and interest paid for the year ended June 30, 2011 for the Outfall and Tertiary Loans and total customer net revenues were \$492,682 and \$4,508,877 respectively.

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

**Note F. 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>
2012	\$ 300,947	\$ 142,025	\$ 442,972
2013	307,869	135,103	442,972
2014	314,950	128,022	442,972
2015	322,194	120,778	442,972
2016	329,604	113,368	442,972
2017-2021	1,765,282	449,576	2,214,858
2022-2026	1,977,845	237,013	2,214,858
2027-2028	856,289	29,654	885,943
<b>Total</b>	<b>\$ 6,174,980</b>	<b>\$ 1,355,539</b>	<b>\$ 7,530,519</b>

*Notes payable*

On July 2, 2010 the District completed the purchase of certain property with the execution of a promissory note in the amount of \$933,000. Terms of the note require semi-annual payments over a 5 year period at an annual interest rate of 4%.

Debt service requirements for the note to maturity are as follows:

<b>Fiscal Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2012	\$ 179,112	\$ 28,668	\$ 207,780
2013	186,348	21,432	207,780
2014	193,877	13,904	207,781
2015	201,709	6,071	207,780
<b>Total</b>	<b>\$ 761,046</b>	<b>\$ 70,075</b>	<b>\$ 831,121</b>

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

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

*General Obligation Bonds*

General obligation bonds are direct obligations and pledged by the full faith and credit of the District. General obligation bonds outstanding as of June 30, 2011 were \$76,000, with interest rates ranging from 4% to 5%.

Annual debt service requirements to maturity for the general obligation bonds are as follows:

<b>Fiscal Year Ending</b>					
<b>June 30,</b>	<b>Principal</b>		<b>Interest</b>		<b>Total</b>
2012	\$ -		\$ 3,450		\$ 3,450
2013	14,000		2,750		16,750
2014	14,000		2,025		16,025
2015	15,000		1,250		16,250
2016	16,000		425		16,425
2017	17,000		-		17,000
Total	\$ 76,000		\$ 9,900		\$ 85,900

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

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

*Revenue Bonds*

On September 7, 2005, the District, through the California Statewide Communities Development Authority, issued \$10,240,000 in Water and Wastewater Revenue Bonds (Series 2005C) for the purpose of partially refinancing the outstanding 1998 Special Revenue Bonds, which were initially issued to finance various treatment plant upgrades within the District. The bonds are payable solely from sanitation customer net revenues through 2024. Annual principal and interest payments are expected to require no more than 29% of net revenues. The total principal and interest outstanding on the 1998 Special Revenue Bonds and Series 2005C Revenue Bonds as of June 30, 2011 is \$13,280,000 and \$4,061,330, respectively. Principal and interest paid for the fiscal year ended June 30, 2011 and total customer net revenues were \$1,300,043 and \$4,508,877 respectively. Total amounts outstanding and terms of the 1998 Special Revenue Bonds and Series 2005C Revenue Bonds are as follows:

	<b>Interest Rates</b>	<b>Maturity Date</b>	<b>Amount</b>
1998 Special Revenue Bonds	4.00% - 5.10%	August 1, 2023	\$ 6,460,000
Series 2005C Revenue Bonds	2.7% - 4.05%	October 1, 2018	6,820,000
Total			\$ 13,280,000

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

<b>June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2012	\$ 755,000	\$ 545,905	\$ 1,300,905
2013	775,000	520,273	1,295,273
2014	805,000	493,010	1,298,010
2015	830,000	463,775	1,293,775
2016	860,000	432,503	1,292,503
2017-2021	5,200,000	1,311,009	6,511,009
2022-2024	4,055,000	294,856	4,349,856
Total	\$ 13,280,000	\$ 4,061,331	\$ 17,341,331

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

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

*Changes in Long-Term Obligations*

Long-term obligations activity for the fiscal year ended June 30, 2011 was as follows:

	July 1, 2010	Additions	Retirements	June 30, 2011	Due Within One Year
Advances from other Governments	\$ 6,698,757	\$ -	\$ (337,691)	\$ 6,361,066	\$ 345,633
Notes payable	-	933,000	(171,954)	761,046	179,112
General Obligation Bonds	89,000	-	(13,000)	76,000	-
Revenue Bonds	14,010,000	-	(730,000)	13,280,000	755,000
Less deferred amounts for					
Original issue discount	(126,717)	-	10,916	(115,801)	(10,917)
Deferred amount on refunding	(466,669)	-	51,851	(414,818)	(51,852)
Total revenue bonds	13,416,614	-	(667,233)	12,749,381	692,231
<b>Total</b>	<b>\$ 20,204,371</b>	<b>\$ 933,000</b>	<b>\$ (1,189,878)</b>	<b>\$ 19,947,493</b>	<b>\$ 1,216,976</b>

**Note G. Accrued Interest Payable**

Interest payable consists of interest accrued on the following obligations:

	Amount
Advances from other governments	\$ 99,707
General obligations and revenue bonds	190,732
<b>Total</b>	<b>\$ 290,439</b>

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

**Note H.      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 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 \$6,286,985 to the Water Agency for administrative support during the fiscal year ended June 30, 2011.

**Note I.      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.

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.

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

**Note J.      Commitments and Contingencies**

*Commitments*

The District has active construction projects as of June 30, 2011. The projects include expansion and/or improvements of wastewater treatment facilities. At June 30, 2011, the District's commitments to construction projects totaled \$4,675,308.

The balances spent to date include both internal expenses and expenses paid to outside contractors. The remaining commitment balances relate to commitments with outside contractors only.

The commitments for wastewater treatment facilities are being financed by revenue bonds secured by wastewater revenues and by net assets.

*Pending Litigation, Claims, and Assessments*

In July, 2010, the District received an Administrative Liability Complaint (ALC) from the California Regional Water Quality Control Board, San Francisco Bay Region (SF Bay Regional Board) for alleged discharge violations occurring from 2007 until early 2010. The ALC proposed an administrative penalty of \$348,000. Subsequently, four additional alleged violations were added for a sewer leak from a collection system pipe which occurred in July, 2010 bringing the total penalty to \$383,000. The District has settled the ALC, paying a penalty of \$199,750 with the remaining penalty suspended contingent upon the District's completion of a Supplemental Environment Project which is currently underway and will be fully implemented by the end of 2013.

*Other Regulatory Matters*

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

Board of Directors  
Sonoma Valley 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 Sonoma Valley 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