

**SONOMA VALLEY COUNTY  
SANITATION DISTRICT**

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

For the Year Ended June 30, 2007

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
FOR THE YEAR ENDED JUNE 30, 2007**

**TABLE OF CONTENTS**

	<u>Page</u>
<b>Independent Auditor's Report</b> .....	1-2
<b>Management's Discussion and Analysis (Required Supplementary Information)</b> .....	3-10
<b>Basic Financial Statements:</b>	
Statement of Net Assets .....	11
Statement of Revenues, Expenses and Changes in Net Assets .....	12
Statement of Cash Flows.....	13-14
Notes to the Basic Financial Statements .....	15-28
<b>Other Report:</b>	
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 <i>Government Auditing Standards</i> .....	29-30



**MACIAS GINI & O'CONNELL** LLP  
CERTIFIED PUBLIC ACCOUNTANTS & MANAGEMENT CONSULTANTS

3000 S Street, Suite 300  
Sacramento, CA 95816  
916.928.4600

2175 N. California Boulevard, Suite 645  
Walnut Creek, CA 94596  
925.274.0190

515 S. Figueroa Street, Suite 325  
Los Angeles, CA 90071  
213.286.6400

402 West Broadway, Suite 400  
San Diego, CA 92101  
619.573.1112

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

## INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of the Sonoma Valley County Sanitation District (District), a component unit of the County of Sonoma, California, as of and for the year ended June 30, 2007, 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 the 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, 2007, and the changes in its financial position and its cash flows, for the 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 October 26, 2007 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.

The management's discussion and analysis (MD&A) on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Macias Gini & O'Connell CP*

Certified Public Accountants

Sacramento, California  
October 26, 2007

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

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2007**

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, 2007. We encourage readers to consider the information presented here in conjunction with the District's financial statements (pages 11-14) and the accompanying notes to the basic financial statements (pages 15-28).

**Reporting Entity**

The Sonoma Valley County Sanitation District is managed by the Sonoma County Water Agency, which provides administration, engineering, operational and maintenance services. The District is governed by a three-member Board of Directors. The District is considered an integral part of the County of Sonoma's (County) reporting entity, resulting in the District's financial statements being included in the County's annual financial statements.

Please refer to the reporting entity definition 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 \$61,716,938 (*net assets*). Of this amount, \$5,025,850 (*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 of \$13,252,302 during fiscal year 2006/07. Of this amount, \$9,247,257 consists of charges for services (operating revenues), and \$829,243 of nonoperating revenues consisting of investment earnings, property taxes, conservation program, and intergovernmental revenue. The District also recognized capital contributions of \$391,449 from connection fees and \$2,784,353 from PG&E for energy rebates associated with construction of a photovoltaic facility.

*Expenses*

The District incurred expenses totaling \$9,150,048 during fiscal year 2006/07. \$8,740,846 represents operating expenses related to the collection, treatment, disposal, and reclamation of effluent, as well as administrative and general expenses. The nonoperating expenses total \$409,202 which is comprised of conservation program expenses and interest expense related to the District's long-term debt obligation.

*Increase in Net Assets*

The District recorded operating income of \$506,411 for fiscal year 2006/07. The District recognized an overall increase in net assets of \$4,102,254.

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2007**

**Overview of the Financial Statement**

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 the narrative overview that users need to interpret the financial statements. Management's discussion and analysis also provides analysis of some 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. The notes to the basic financial statements can be found on pages 15-28.

**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 \$61,716,938 at the close of the most recent fiscal year compared to net assets of \$57,614,684 as of June 30, 2006.

The largest portion of the District's net assets (86.8% for fiscal year 2007 compared to 71.6% for 2006) reflects its investment in capital assets (e.g., land and buildings), less any 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. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2007**

*Net Assets*

	June 30, 2006	June 30, 2007	Percentage Change
Current and other assets	\$ 17,270,685	\$ 10,825,403	(37.3)%
Capital assets	57,345,514	69,090,776	20.5%
<b>Total Assets</b>	<b>74,616,199</b>	<b>79,916,179</b>	<b>7.1%</b>
Current liabilities	1,282,570	3,075,928	139.8%
Noncurrent liabilities	15,718,945	15,123,313	(3.8)%
<b>Total Liabilities</b>	<b>17,001,515</b>	<b>18,199,241</b>	<b>7.0%</b>
Invested in capital assets net of related debt	41,264,923	53,566,320	29.8%
Restricted for conservation program	2,065,459	2,040,256	(1.2)%
Restricted for debt service	940,318	1,084,512	15.3%
Unrestricted	13,343,984	5,025,850	(62.3)%
<b>Total Net Assets</b>	<b>\$ 57,614,684</b>	<b>\$ 61,716,938</b>	<b>7.1%</b>

A portion of the District's net assets \$3,124,768 (5.1% for fiscal year 2007) and \$3,005,777 (5.2% for 2006) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets of \$5,025,850 for 2007 and \$13,343,984 for 2006 may be used to meet the District's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the District is able to report positive balances in all categories of net assets.

*Changes in Net Assets*

	June 30, 2006	June 30, 2007	Percentage Change
Revenues:			
Operating revenues	\$ 8,931,953	\$ 9,247,257	3.5%
Nonoperating revenues	735,022	829,243	12.8%
<b>Total revenues</b>	<b>9,666,975</b>	<b>10,076,500</b>	<b>4.2%</b>
Expenses:			
Services and supplies	5,246,508	6,481,147	23.5%
Fiscal agent fees and legal services	14,940	38,082	154.9%
Depreciation and amortization	2,174,034	2,221,617	2.2%
Conservation program	110,525	95,402	(13.7)%
Interest expense	252,013	313,800	24.5%
<b>Total expenses</b>	<b>7,798,020</b>	<b>9,150,048</b>	<b>17.3%</b>

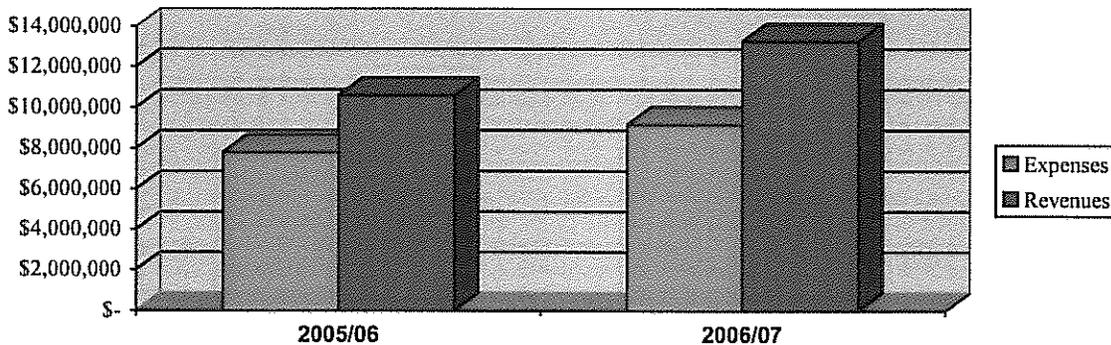
**SONOMA VALLEY COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2007**

*Changes in Net Assets (continued)*

	June 30, 2006	June 30, 2007	Percentage Change
Income before contributions	1,868,955	926,452	(50.4)%
Capital contributions:			
Connection fees	933,386	391,449	(58.1)%
Energy rebate – PG&E	-	2,784,353	-
Increase in net assets	2,802,341	4,102,254	46.4%
Net assets - beginning of year	54,812,343	57,614,684	5.1%
Net assets - end of year	\$ 57,614,684	\$ 61,716,938	7.1%

The District's net assets increased by \$4,102,254 during the year ended June 30, 2007 compared to an increase of \$2,802,341 for the year ended June 30, 2006.

*Expenses and Revenues*

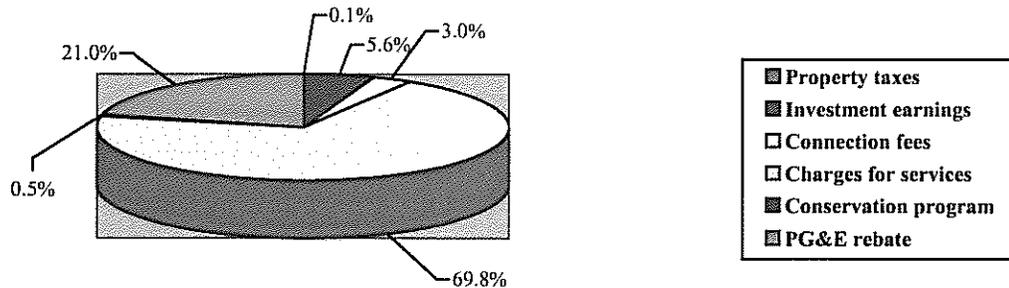


Total revenues of the District for fiscal year 2006/07 totaled \$13,252,302 representing an increase of \$2,651,941 from the preceding fiscal year revenues of \$10,600,361. The rate based charges for services, representing 69.8% of the District's total revenue, increased by \$315,304 (3.5%), investment earnings increased by \$194,902 (36.0%) as well as a decrease in conservation program revenue of \$104,970 (59.9%). The District recognized \$2,784,353 in capital contributions from energy rebates received from PG&E associated with the construction of a photovoltaic facility. The combined effect of these changes is an overall increase in revenues of 25.0%.

Total expenses for the District increased by \$1,352,028 to \$9,150,048 for fiscal year 2006/07, due primarily to increases in expenses related to maintenance (\$614,514), chemicals (\$165,867), and utilities (\$159,741). The overall effect of these changes was an increase in expenses of 17.3%.

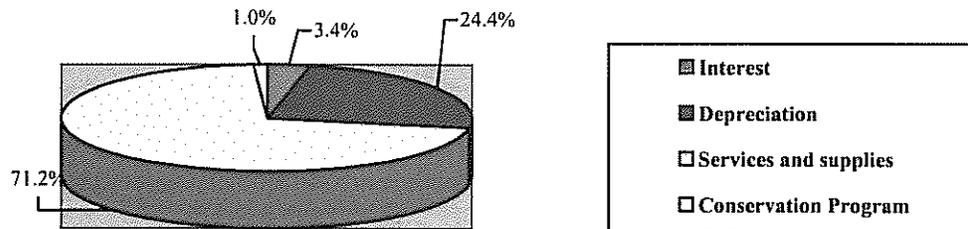
**SONOMA VALLEY COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2007**

*Revenues and Capital Contributions by Source*



As previously mentioned, revenues collected by the District for 2006/07 totaled \$13,252,302. Of this amount \$9,247,257 or 69.8%, was generated through charges for services. Charges for services represent sewer services charges to cover operations and maintenance costs, which are initially collected through the permitting process, then subsequently through the tax rolls. Property tax revenues accounted for 0.5% of annual revenues, and are collected through the tax rolls to satisfy debt service requirements. Investment earnings represent 5.6% of revenues and consist of earnings on pooled cash held with the Sonoma County Treasurer. Conservation program revenues accounted for 0.1% of the District's 2006/07 revenues. The District also recognized \$391,449 in capital contributions related to connection fees, which are collected through the permitting process, and recognized \$2,784,353 in capital contributions from energy rebates received from PG&E associated with the construction of a photovoltaic facility.

*Expenses by Function*



Total expenses for the District for fiscal year 2006/07 totaled \$9,150,048. Costs associated with the collection, treatment, and disposal of effluent represent 71.2% of the District's costs. The next largest functional area is the annual depreciation expense on capital assets and represents \$2,221,617 (24.4%) of total expenses. Interest expense totaling \$313,800 (3.4%) represents the cost of meeting current debt service obligations. Conservation program expenses totaled \$95,402 (1.0%) for fiscal year 2006/07.

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2007**

**Capital Asset and Debt Administration**

*Capital Assets*

The District's investment in capital assets as of June 30, 2007, amounts to \$69,090,776 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, and construction in progress.

Major capital asset activity during the fiscal year included:

- Irrigation pipeline
- Photovoltaic facility
- 5<sup>th</sup> Street / East Napa / East McMinn collection system

*Sonoma Valley County Sanitation District's Capital Assets*

	June 30. 2006	June 30. 2007	Percentage Change
Land	\$ 3,072,311	\$ 3,094,707	0.7%
Buildings and improvements	73,643,892	87,568,764	18.9%
Machinery and equipment	227,179	227,179	0.0%
Construction in progress	8,010,668	8,010,398	0.0%
Accumulated depreciation	(27,608,536)	(29,810,272)	8.0%
<b>Total</b>	<b>\$ 57,345,514</b>	<b>\$ 69,090,776</b>	<b>20.5%</b>

Additional information on the District's capital assets can be found in Note D on page 22 of the financial statement footnotes.

*Long-term Debt*

At the end of the current fiscal year, the District had a total of \$15,770,713 in outstanding debt consisting of general obligation bonds, revenue bonds, and advances from other governments. Of this amount, \$124,000 comprises debt backed by the full faith and credit of the District, \$15,293,307 which are special obligations of the District payable solely from net revenues of District operations, and \$353,406 is related to advances from the State Water Resources Control Board.

*Sonoma Valley County Sanitation District's Outstanding Current and Long Term Debt*

	June 30. 2006	June 30. 2007	Percentage Change
General obligation bonds	\$ 135,000	\$ 124,000	(8.1)%
Revenue bonds	15,855,539	15,293,307	(3.5)%
Advances from other governments	392,518	353,406	(10.0)%
<b>Total</b>	<b>\$ 16,383,057</b>	<b>\$ 15,770,713</b>	<b>(3.7)%</b>

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2007**

The District's total debt decreased by \$612,344 during the current fiscal year.

Advances from other governments decreased by \$39,112 due to the annual repayment of the existing outfall line advance received from the State Water Resources Control Board.

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

Additional information on the District's current and long-term debt can be found in Notes E and F on pages 23-25 of this report.

**Next Year's Budget and Rates**

Budgeted gross expenses for the District for fiscal year 2007/08 has increased by \$3,423,668 (11.6%) for a total of \$32,878,941. The major component of the increase in budgeted expenses is related to increases in operating expenses and the State Revolving Fund Loan program.

Following is a comparison of final 2006/07 and proposed 2007/08 budgeted expenses for the District:

	2006/07	2007/08	Increase (Decrease)	Percentage Change
Operations	\$12,365,538	\$14,887,915	\$2,522,377	20.4%
Debt service - general obligation bonds	6,802	6,252	(550)	(8.1)%
Debt service - revenue bonds	724,347	725,059	712	0.1%
Debt service - outfall line	10,598	9,542	(1,056)	(10.0)%
Construction	16,347,988	10,080,119	(6,267,869)	(38.3)%
State Revolving Fund Loan	-	7,170,054	7,170,054	-
	<u>\$29,455,273</u>	<u>\$32,878,941</u>	<u>\$ 3,423,668</u>	<u>11.6%</u>

Budgeted expenses for fiscal year 2006/07 differ in several instances from the budgeted expenses presented in the management's discussion and analysis for the period ending June 30, 2006. These variances are due to Board approved budgetary adjustments made subsequent to the publication of the 2006/07 audited basic financial statements.

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2007**

**Next Year's Budgets and Rates (continued)**

The sewer service fees were increased by 6% for the 2007-2008 budget year.

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

<i>Rate per Equivalent Single-Family Dwelling</i>			Percentage
	2006/07	2007/08	Change
	\$549	\$578	5.3%

<i>Number of Equivalent Single-Family Dwellings by District</i>			Percentage
	2006/07	2007/08	Change
	17,097	17,365	1.6%

**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 101F, Santa Rosa, CA. 95403.

SONOMA VALLEY COUNTY SANITATION DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2007

**ASSETS**

Current assets:

Cash and investments	\$	6,642,786
Accounts receivable		431,156
Prepaid expenses		125,060
<b>Total current assets</b>		<b>7,199,002</b>

Noncurrent assets

Restricted cash and investments:

Conservation program		2,040,256
General obligation bond fund		5,264
Revenue bond fund		1,261,621
Debt service		38,465
Capital projects		17,269
<b>Total restricted assets</b>		<b>3,362,875</b>

Other assets 263,526

Capital assets:

Land		3,094,707
Buildings and improvements		87,568,764
Machinery and equipment		227,179
Construction in progress		8,010,398
Less accumulated depreciation		(29,810,272)
<b>Total capital assets (net of accumulated depreciation)</b>		<b>69,090,776</b>

**Total noncurrent assets** 72,717,177

**Total assets** **79,916,179**

**LIABILITIES**

Current liabilities

Accounts payable and accrued expenses		2,207,690
Advances from other governments		40,168
<b>Total current liabilities</b>		<b>2,247,858</b>

Current liabilities payable from restricted assets:

Revenue bonds payable		607,232
Accrued interest payable		220,838
<b>Total current liabilities payable from restricted assets</b>		<b>828,070</b>

Noncurrent liabilities

General obligation bonds payable		124,000
Revenue bonds payable		14,686,075
Advances from other governments		313,238
<b>Total noncurrent liabilities</b>		<b>15,123,313</b>

**Total liabilities** **18,199,241**

**NET ASSETS**

Invested in capital assets, net of related debt		53,566,320
Restricted for conservation program		2,040,256
Restricted for debt service		1,084,512
Unrestricted		5,025,850
<b>Total net assets</b>		<b>\$ 61,716,938</b>

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 YEAR ENDED JUNE 30, 2007**

<b>Operating revenues</b>		
Flat charges	\$	8,234,343
Charges for services		1,012,754
Other		160
<b>Total operating revenues</b>		<b>9,247,257</b>
<b>Operating expenses</b>		
Services and supplies		6,481,147
Fiscal agent fees and legal services		38,082
Depreciation and amortization		2,221,617
<b>Total operating expenses</b>		<b>8,740,846</b>
<b>Operating income</b>		<b>506,411</b>
<b>Nonoperating revenues (expenses)</b>		
Investment earnings		736,596
Interest expense		(313,800)
Intergovernmental		5,276
Property taxes		17,171
Conservation program revenue		70,200
Conservation program expense		(95,402)
<b>Total nonoperating revenues</b>		<b>420,041</b>
<b>Income before capital contributions</b>		<b>926,452</b>
Capital contributions:		
Connection fees		391,449
Energy rebate - PG&E		2,784,353
<b>Increase in net assets</b>		<b>4,102,254</b>
<b>Net assets - beginning of year</b>		<b>57,614,684</b>
<b>Net assets - end of year</b>		<b>\$ 61,716,938</b>

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

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2007**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	9,152,291
Payments for interfund services used	(5,207,934)
Payments to suppliers	(1,184,144)
Net cash provided by operating activities	2,760,212
 <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Taxes	17,171
Intergovernmental revenue	5,276
Conservation program	(25,202)
Net cash used by noncapital financing activities	(2,755)
 <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Purchase of capital assets	(8,836,370)
Loan principal payments to other governments	(39,112)
Principal payments - bonds	(636,000)
Interest paid on capital debt	(663,498)
Connection fees	391,449
Net cash used by capital and related financing activities	(9,783,531)
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest received on pooled cash and investments	736,596
Net decrease in cash and cash equivalents	(6,289,477)
Cash and cash equivalents - beginning of year	16,295,138
Cash and cash equivalents - end of year	\$ 10,005,661
 <b>Reconciliation to the statement of net assets</b>	
Cash and investments	\$ 6,642,786
Restricted cash and investments	3,362,875
Cash and cash equivalents	\$ 10,005,661

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

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
STATEMENT OF CASH FLOWS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2007**

**RECONCILIATION OF OPERATING INCOME TO NET**

<b>CASH PROVIDED BY OPERATING ACTIVITIES:</b>	
Operating income	\$ 506,411
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	2,221,617
Change in assets and liabilities:	
Decrease in accounts receivable	16,546
Decrease in prepaid expenses	81,877
Decrease in accounts payable and accrued expenses	(66,239)
<b>Net cash provided by operating activities</b>	<b>\$ 2,760,212</b>
<b>NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Increase in capital assets from energy rebate received from PG&E	\$ 2,784,353

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

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2007**

**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 annual financial statements.

**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 YEAR ENDED JUNE 30, 2007**

**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.

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 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.

*Cash and Investments*

The District's cash and investments are pooled with the Sonoma County Treasurer except for restricted funds held by an outside trustee. The Sonoma County 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 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 disclosures on common deposit and investment risk related to credit risk, interest rate risk and foreign currency risk.

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2007**

**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. 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 consists of uncollected fees for sanitation services and flat charges as of June 30, 2007. These flat charges are established annually by the Board and billed through the County's property tax system.

*Other Assets*

Other assets represent bond issuance costs of \$263,526 as of June 30, 2007, net of accumulated amortization. These costs are amortized using the straight-line method over the term of the outstanding bonds. Amortization expense for the year ended June 30, 2007 related to the bond issuance costs was \$19,882.

*Prepaid Expenses*

Prepaid expenses represent payments made to vendors for services that will benefit periods beyond June 30, 2007.

*Restricted Assets*

Restricted assets represent cash and investments maintained in accordance with bond resolutions and formal actions of the Board 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, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Depreciation has been provided, excluding land, using the straight-line method over estimated 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.

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2007**

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

*Capital Assets (continued)*

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

*Bond Issuance Discount and Deferred Amount on Refunding*

Revenue bond discounts are deferred and amortized using the straight-line method over the term of the outstanding bonds. Bond 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 or addition 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 adopted or through external restrictions imposed by creditors, grantors or laws or regulation of other governments. The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

*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 Sonoma County Water Agency is authorized to transfer budgeted amounts within any District except for transfers between the 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.

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2007**

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

*Property Tax Revenue (continued)*

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 will 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 assessed valuation occur due to sales transactions or the completion of construction. Property tax collection and valuation information is disclosed in the County's annual financial statements.

*Intergovernmental Transactions*

Intergovernmental transactions made during the year are primarily quasi-external (charges for current services) transactions for services rendered or facilities provided. These transactions are recorded as revenue in the receiving fund and expenses in the disbursing fund.

*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 of all funds with the County Treasurer except for funds required to be held by outside fiscal agents or trustees under the provisions of bond indentures and lease agreements. The Treasury Oversight Committee has regulatory oversight for all monies deposited into the Treasury Pool.

Interest income earned on pooled cash and investments is allocated quarterly based on the average daily balances of the District during the quarter. Interest income from cash and investments with fiscal agents or trustees is credited directly to the District.

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2007**

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

*Investment Guidelines*

The District's pooled cash and investments are invested pursuant to investment policy guidelines established by the County 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 County 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 issued by local agencies
- Registered state warrants and municipal notes
- Negotiable certificates of deposit
- Bankers' acceptances
- Commercial paper
- Medium-term corporate notes
- Local Agency Investment Fund (State Pool) deposits
- Repurchase agreements
- Reverse repurchase agreements
- Money market mutual funds
- Collateralized mortgage obligations
- Joint power agreements

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

Cash and investments included the following:

	Fair Value
Cash and investments in County Treasury Pool	\$ 9,988,392
Cash and investments with trustee	17,269
	\$10,005,661

As of June 30, 2007, 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 414 days. The credit rating and other information regarding specific investments maintained in the Treasury Pool as of June 30, 2007 are disclosed in the County's 2006-07 Comprehensive Annual Financial Report.

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2007**

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

*Interest Rate Risk*

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value 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 is held in the Treasury Pool. As of June 30, 2007, \$17,269 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 8 days as of June 30, 2007.

*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 the year end for each investment type. The credit rating and other information regarding the Treasury Pool for the fiscal year 2006-07 are disclosed in the County's 2006-2007 Comprehensive Annual Financial Report. Ratings for amounts the U.S. Treasury obligation held by trustee are exempt from disclosure.

Investment Type	Total	Minimum Legal Rating	Credit Rating at Year-End
Held by trustee:			
Money market mutual funds	\$ 17,269	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 District was not exposed to custodial credit risk as of June 30, 2007.

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2007**

**Note D. Capital Assets**

Capital asset activity for the year ended June 30, 2007 was as follows:

	July 1, 2006	Additions	Retirements	Transfers	June 30, 2007
Capital assets, not being depreciated:					
Land	\$ 3,072,311	\$ 22,396	\$ -	\$ -	\$3,094,707
Construction in progress	8,010,668	11,140,249	-	(11,140,519)	8,010,398
<b>Total capital assets, not being depreciated</b>	<b>11,082,979</b>	<b>11,162,645</b>	<b>-</b>	<b>(11,140,519)</b>	<b>11,105,105</b>
Capital assets, being depreciated:					
Buildings and improvements	73,643,892	2,784,353	-	11,140,519	87,568,764
Machinery and equipment	227,179	-	-	-	227,179
<b>Total capital assets being depreciated</b>	<b>73,871,071</b>	<b>2,784,353</b>	<b>-</b>	<b>11,140,519</b>	<b>87,795,943</b>
Less accumulated depreciation for:					
Buildings and improvements	(27,442,325)	(2,188,238)	-	-	(29,630,563)
Machinery and equipment	(166,211)	(13,497)	-	-	(179,708)
<b>Total accumulated depreciation</b>	<b>(27,608,536)</b>	<b>(2,201,735)</b>	<b>-</b>	<b>-</b>	<b>(29,810,271)</b>
<b>Total capital assets, being depreciated, net</b>	<b>46,262,535</b>	<b>582,618</b>	<b>-</b>	<b>11,140,519</b>	<b>57,985,672</b>
<b>Total capital assets, net</b>	<b>\$ 57,345,514</b>	<b>\$11,745,263</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$69,090,776</b>

Depreciation expense amounted to \$2,201,735 for the year ended June 30, 2007.

The total amount of interest capitalized in connection with wastewater treatment facilities construction projects during the year ended June 30, 2007 amounted to \$407,347.

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2007**

**Note E. Long-Term Obligations**

*Advances From Other Governments*

During fiscal year 1994-95, the District received a loan of \$760,992 from the State Water Resources Control Board for an outfall rehabilitation project. As of June 30, 2007, the outstanding balance is \$353,406. 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 these revolving loans are as follows:

Year ending June 30.	Principal	Interest
2008	\$ 40,168	\$ 9,542
2009	41,252	8,458
2010	42,366	7,344
2011	43,510	6,200
2012	44,685	5,025
2013 – 2014	141,425	7,705
<b>Total</b>	<b>\$ 353,406</b>	<b>\$ 44,274</b>

*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, 2007 was \$124,000, with interest rates ranging from 4% to 5%.

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

Year ending June 30,	Principal	Interest
2008	\$ -	\$ 6,475
2009	11,000	5,925
2010	12,000	5,350
2011	12,000	4,750
2012	13,000	4,125
2013 – 2017	76,000	9,900
<b>Total</b>	<b>\$ 124,000</b>	<b>\$ 36,525</b>

The District also issued bonds where the revenue derived from charges for services are pledged to pay for the debt service.

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2007**

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

*Revenue Bonds*

On September 7, 2005, the Water Agency, 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. Total amounts outstanding and terms of the 1998 Special Revenue Bonds and Series 2005C Revenue Bonds are as follows:

	Interest Rates	Maturity Date	Amount
1998 Special Revenue Bonds	4.00% - 5.10%	August 1, 2023	\$6,460,000
Series 2005C Revenue Bonds	2.70% - 4.05%	October 1, 2018	9,615,000

The total revenue bonds outstanding as of June 30, 2007, in the aggregate was \$16,075,000, with interest rates ranging from 2.70% to 5.10%.

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

Year ending June 30.	Principal	Interest
2008	\$ 670,000	\$ 626,799
2009	690,000	607,703
2010	705,000	587,010
2011	730,000	564,203
2012	755,000	539,676
2013 – 2017	4,165,000	2,270,827
2018 – 2022	5,595,000	1,334,011
2023 – 2024	2,765,000	132,881
<b>Total</b>	<b>\$ 16,075,000</b>	<b>\$ 6,663,110</b>

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2007**

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

*Changes in Long-Term Obligations*

Long-term obligations activity for the year ended June 30, 2007 was as follows:

	July 1, 2006	Additions	Reductions	June 30, 2007	Due Within One Year
Advances from other governments	\$ 392,518	\$ -	\$ (39,112)	\$ 353,406	\$ 40,168
General obligation bonds	135,000	-	(11,000)	124,000	-
Revenue bonds	16,700,000	-	(625,000)	16,075,000	670,000
Less deferred amounts for:					
Original issue discount	(170,385)	-	10,917	(159,468)	(10,917)
Deferred amount on refunding	(674,076)	-	51,851	(622,225)	(51,851)
Total revenue bonds payable	15,855,539	-	(562,232)	15,293,307	607,232
<b>Total</b>	<b>\$ 16,383,057</b>	<b>\$ -</b>	<b>\$ (612,344)</b>	<b>\$15,770,713</b>	<b>\$647,400</b>

**Note F. Debt Defeasance**

In September 2005, the District, through the Water Agency and the California Statewide Communities Development Authority, issued Water and Wastewater Revenue Bonds (Series 2005C) totaling \$10,240,000. The proceeds of the bonds were used to purchase U.S. government securities, which were deposited into an irrevocable trust with an escrow agent to advance refund the District's outstanding 1998 Special Revenue Bonds totaling \$11,095,000. As a result, the 1998 Special Revenue Bonds are considered defeased and the related liability is not reported in the District's financial statements. As of June 30, 2007, \$10,460,000 of the 1998 Special Revenue bonds was outstanding.

**Note G. Accrued Interest Payable**

Interest payable consists of interest accrued on the following obligations:

Payable from restricted current assets:	
State Water Resources Control Board	\$ 9,542
Long-term bonds	211,296
<b>Total accrued interest payable</b>	<b>\$220,838</b>

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2007**

**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 \$4,678,291 to the Water Agency for administrative support during the year ended June 30, 2007.

**Note I. Commitments and Contingencies**

*Commitments*

The District has active construction projects as of June 30, 2007. The projects include expansion and/or improvements of wastewater treatment facilities. At year end, the District's commitments to construction projects included \$18,746,677 of amounts spent to date with remaining commitments of \$5,560,119 for expansion.

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 early 2003, the San Francisco Bay Regional Water Control Board (SF Bay Regional Board) adopted a new discharge permit for the District. At that time, the SF Regional Board also adopted a Cease and Desist Order (CDO) that included penalties for zinc violations that occurred from January 2001 through March 2002. The CDO established interim effluent limitations for zinc through March 2005. In April 2005, the District's discharge permit was amended to include new, final effluent limitations for zinc. The District's counsel believes that the new limitations are achievable and that there will not be violations of effluent limitations for zinc in the future. The District's current discharge permit does, however, include several interim effluent limitations that are scheduled to become final effluent limitations from 2007 through 2010. Although a few of these final effluent limitations may become achievable through future permit amendments, site-specific objectives, or basin plan amendments, the District may have difficulty meeting all of the final effluent limitations. It is not possible to predict if this will be a problem for the District in the future. The District is currently in the process of hiring a consultant to assist with the renewal of the National Pollutant Discharge Elimination System (NPDES) permit. SF Bay Regional Board has scheduled the date for the District's NPDES permit hearing for January 2008.

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2007**

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

The District received a Minimum Mandatory Penalty (MMP) for violations occurring from March 2002 through March 2006 in the amount of \$39,000. The District was given the opportunity to pay \$12,000 to the SF Bay Regional Board and to conduct Supplementary Environmental Project (SEP) for the remaining balance of \$27,000. The District submitted a SEP proposal for a water education structure adjacent to the District's reclamation facilities. The project will be funded by the District's MMP of \$27,000 and through the Water Agency's Water Education Program (WEP). The WEP at District reclamation facilities will include a unit focused on wetland ecology, recycled water and sanitation. The District has received approval from the California Regional Water Quality Control Board. The water education structure is anticipated to be completed in the Fall of 2007.

*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.

**Note J. Risk Management**

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 \$5,000,000 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 \$200,000,000 per occurrence including flood and \$50,000,000 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 District pays an annual premium to the County for this insurance coverage. Settled claims have not exceeded this coverage for any of the past three fiscal years.

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2007**

**Note K. Recent Governmental Accounting Standards**

The Governmental Accounting Standard Board (GASB) has released the following new standard:

Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, issued in November 2006. This Statement establishes accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The Statement establishes once any of five specified obligating events occurs, that a government is required to estimate the components of the expected pollution remediation outlays and determine whether the outlays for those components should be recorded as a liability or, if appropriate, capitalized when goods and services are acquired. GASB Statement No. 49 is effective for financial statements for years beginning after December 15, 2007.

The impact on the financial statements of the District of this pronouncements which has been issued, but not yet adopted, is unknown at this time.



**MACIAS GINI & O'CONNELL** LLP  
CERTIFIED PUBLIC ACCOUNTANTS & MANAGEMENT CONSULTANTS

3000 S Street, Suite 300  
Sacramento, CA 95816  
916.928.4600

2175 N. California Boulevard, Suite 645  
Walnut Creek, CA 94596  
925.274.0190

515 S. Figueroa Street, Suite 325  
Los Angeles, CA 90071  
213.286.6400

402 West Broadway, Suite 400  
San Diego, CA 92101  
619.573.1112

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 financial statements of the Sonoma Valley County Sanitation District (District), as of and for the year ended June 30, 2007, and have issued our report thereon dated October 26, 2007. 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**

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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 solely for the information and use 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.

*Marcus Linn & O'Connell LLP*

Certified Public Accountants

Sacramento, California  
October 26, 2007