Sonoma County Sanitation Districts
Forestville
Occidental
Russian River
Sonoma Valley
South Park
Basic Financial Statements

Year Ended June 30, 2003

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PISENTI & BRINKER LLP
CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS
AN INDEPENDENTLY OWNED MEMBER OF THE RSM McGLADREY NETWORK

Independent Auditors' Report

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

We have audited the accompanying basic financial statements of the **Sonoma County Sanitation Districts** (including Forestville, Occidental, Russian River, Sonoma Valley and South Park), (the "Districts"), a component unit of the County of Sonoma, as of and for the year ended June 30, 2003, which collectively comprise the **Districts'** basic financial statements as listed in this table of contents. These basic financial statements are the responsibility of the **Districts'** management. Our responsibility is to express an opinion on these basic 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 examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes 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 basic financial statements referred to above present fairly, in all material respects, the financial position of the **Districts** as of June 30, 2003, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note K to the financial statements, net assets as of June 30, 2002, have been restated for an error in the method of revenue and expense recognition related to the Conservation Program.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2003, on our consideration of the **Districts'** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis ("MD&A") on pages 3 - 12 is not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the MD&A. However, we did not audit the information and express no opinion on it.

Offices in Santa Rosa, Napa and Petaluma

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the **Sonoma County Sanitation Districts**. The accompanying information listed as supplementary information in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the **Districts**. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Pisanti & Brinker LLP

Santa Rosa, California
August 28, 2003

Management's Discussion and Analysis

As management of the Sonoma County Sanitation Districts (the "Districts"), we offer readers of the Districts' financial statements this narrative overview and analysis of the financial activities of the Districts for the fiscal year ended June 30, 2003. We encourage readers to consider the information presented here in conjunction with the Districts' financial statements (pages 13 - 17) and the accompanying notes to the financial statements (pages 18 - 37).

Reporting Entity

The Sonoma County Sanitation Districts are comprised of five (5) districts; Forestville, Occidental, Russian River, Sonoma Valley, and South Park. The Districts are managed by the Sonoma County Water Agency which provides administration, engineering, operational and maintenance services. The Districts are governed by a Board of Directors, which is the County of Sonoma Board of Supervisors, with the exception of Sonoma Valley which is governed by a three member board. The Districts are considered an integral part of the County of Sonoma's reporting entity, resulting in the Districts' 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 Districts exceeded their liabilities at the close of the most recent fiscal year by $85,598,545 (*net assets*). Of this amount, $17,362,138 (*unrestricted net assets*) may be used to meet the Districts' ongoing obligations to citizens and creditors.

Revenues

The Districts recognized total revenues of $15,785,288 during fiscal year 2002/03. Of this amount, $12,147,450 consists of charges for services (operating revenues), and $3,637,838 of non-operating revenues consisting of investment earnings, property taxes, connection fees, intergovernmental, conservation program revenues and capital grants.

Expenditures

The Districts incurred expenses totaling $12,394,884 during fiscal year 2002/03. Of this amount $11,772,509 represents operating expenses related to the collection, treatment, disposal, and reclamation of effluent, as well as administrative and general expenses and the environmental investigation within South Park County Sanitation District. The non-operating expenses total $622,375 representing interest expense related to debt obligation and conservation program expenses.

Increase/(Decrease) in Net Assets

The Districts recorded operating income of $374,941 for fiscal year 2002/03. Three of the districts, Forestville $(29,403), Occidental $(156,527), and Russian River $(202,974) reported operating losses, while Sonoma Valley and South Park reported operating income of $218,622 and $545,223, respectively. The Districts recognized an overall increase in net assets of $3,390,404 due to total revenues exceeding total expenses.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Districts' financial statements. The Districts' financial statements are comprised of three components: 1) Management's discussion and analysis, 2) combined financial statements, and 3) notes to the financial statements. This report also contains other supplementary information consisting of statements by District in addition to the basic financial statements themselves.

Management's discussion and analysis

The *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 Districts are engaged only in business-type activities. The Districts account for their 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.*

The comparative analysis included in this discussion and analysis includes a restatement of the fiscal year 2001/2002 financial statements as described in Note K to the financial statements.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 18 - 37.

The supplementary information statements by District referred to earlier are presented immediately following the notes to the financial statements in the supplementary information section of this report. These statements can be found on pages 38 - 42.

Financial Analysis

Net assets may serve over time as a useful indicator of a Districts' financial position. In the case of the Districts, assets exceeded liabilities by $85,598,545 at the close of the most recent fiscal year.

The largest portion of the Districts' net assets (75.5%) reflects their investment in capital assets (e.g., land, buildings, machinery and equipment, and construction in progress), less any related debt used to acquire those assets that is still outstanding. The Districts use these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Districts' investment in their 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.

Financial Analysis (continued)

Net Assets

	June 30, 2002	June 30, 2003	Percentage Change
Current and Other Assets	$ 26,467,924	$ 24,311,773	(8.2)%
Capital Assets	87,110,157	93,346,031	7.2 %
Total Assets	113,578,081	117,657,804	3.6 %
Current Liabilities	4,591,612	3,590,881	(21.8) %
Non-Current Liabilities	28,094,695	28,468,378	1.4 %
Total Liabilities	32,686,307	32,059,259	2.0 %
Invested in Capital Assets Net of Related Debt	59,193,683	64,560,230	9.1 %
Restricted for conservation program	1,316,367	1,488,326	13.1 %
Restricted for debt service	6,024,361	2,187,851	(63.7)%
Unrestricted	14,357,363	17,362,138	20.1 %
Total Net Assets	$ 80,891,774	$ 85,598,545	5.9 %

A portion of the Districts' net assets $3,676,177 (4.3%) represents resources that are subject to external restrictions on how they may be used. Restricted net assets decreased substantially from the proceeding year due to the completion of capital projects and the subsequent release of restrict assets set aside to finance the projects. The remaining balance of *unrestricted net assets* ($17,362,138) may be used to meet the Districts' ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Districts are able to report positive balances in all three categories of net assets, both for the Districts as a whole, as well as for each separate district with the exception of Forestville which reports a $660,378 deficit within unrestricted net assets.

Changes in Net Assets

	June 30, 2002	June 30, 2003	Percentage Change
Revenues:			
Program revenues			
Charges for services	$ 11,282,632	$ 12,147,450	7.7 %
General revenues			
Property taxes	117,649	134,854	14.7 %
Investment earnings	1,048,664	865,428	(17.5)%
Intergovernmental	433,542	401,264	(7.5)%
Conservation program revenues	216,788	253,550	17.0%
Gain on sale of asset	179,173	-	N/A
Contributions - connection fees	1,028,688	1,206,826	17.4 %
Capital grants	-	725,916	N/A
Other	-	50,000	N/A
Total Revenues	14,307,136	15,785,288	10.4%

Financial Analysis (continued)

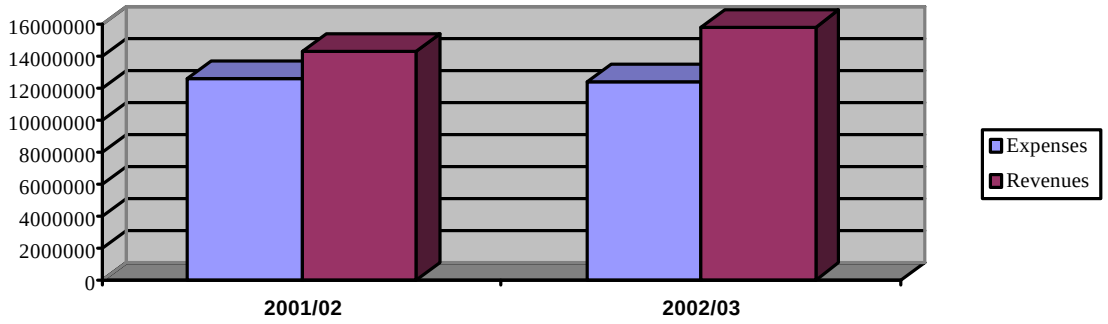
Changes in Net Assets (continued)

	June 30, 2002	June 30, 2003	Percentage Change
Expenses			
Services and supplies	$ 8,143,698	$ 8,625,294	6.0 %
Fiscal agent/legal services	171,251	97,563	(43.1)%
Depreciation/amortization	2,833,725	2,869,344	1.3%
Environmental investigation	428,377	180,308	(57.9)%
Interest expense	910,867	540,784	(40.7)%
Conservation program expense	82,459	81,591	(1.1)%
Other	37,711	-	N/A
Total expenses	12,608,088	12,394,884	(1.7)%
Increase in net assets	1,699,048	3,390,404	99.6 %
Net assets at beginning of year	80,509,093	82,208,141	2.2 %
Net assets at end of year	$ 82,208,141	$ 85,598,545	4.2 %

The Districts' net assets increased by $3,390,404 during the current fiscal year. This increase is a result of total revenues for the Districts exceeding total expenses. The Districts' net assets increased for fiscal year 2002/03, by $1,691,356 more than the increase in net assets for the preceding fiscal year. This is a result of increased revenues generated through charges for services, property taxes, connection fees and capital grants, as well as a slight reduction in expenses (1.7%).

Financial Analysis (continued)

Expenses and Revenues

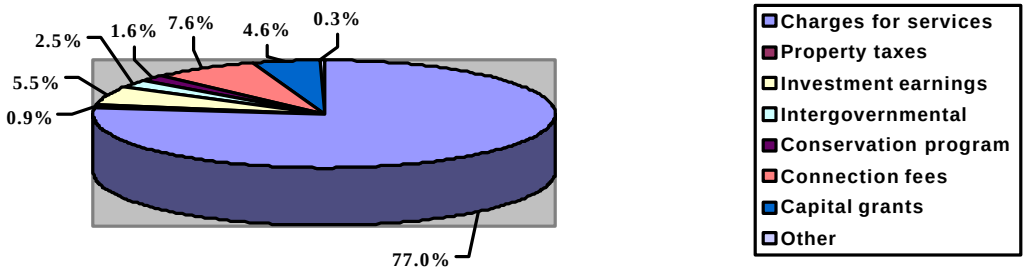


Total revenues of the Districts for fiscal year 2002/03 totaled $15,785,288 representing an increase of $1,478,152 from the preceding fiscal year revenues of $14,307,136. The rate based charges for services, representing 77.0% of the Districts' total revenue, increased by $864,818 (7.7%); property taxes, representing 0.9% of the Districts' total revenue, increased by $17,205; connection fees, representing 7.6% of the Districts' total revenue, increased by $178,138; capital grants accounted for an increase of $725,916. Other revenue categories (investment earnings and intergovernmental), declined from the preceding year. The combined effect of these occurrences is an overall increase in revenues of 10.4%.

Total expenses for the Districts decreased by $213,204 to $12,394,884 for fiscal year 2002/03. Costs related to environmental investigation decreased 57.9% or $248,069, interest expense decreased 40.7% or $370,083, and fiscal agent/legal services decreased by $73,688. The most significant decreases are from environmental investigation due to the conclusion of the South Park HVOC plume investigation, while the reduction in interest expense is a result of completed capital projects and the resulting capitalized interest (an offset to interest expense). Costs related to collection and administrative/general reflect only inflationary cost increases.

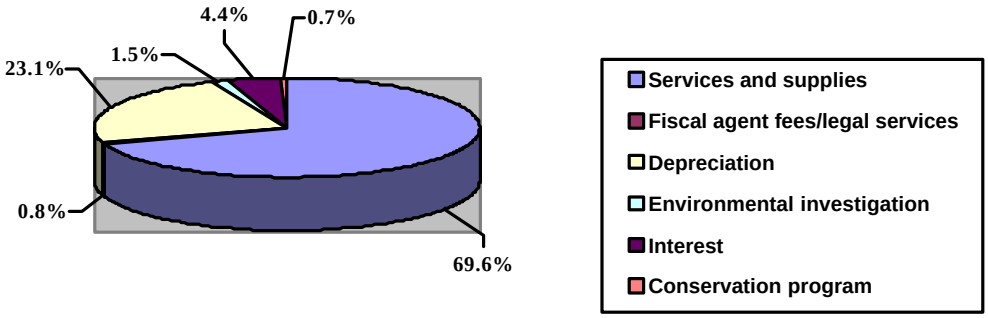
Financial Analysis (continued)

Revenues by Source



As previously mentioned, total revenues collected by the Districts for 2002/03 totaled $15,785,288. Of this amount $12,147,450, or 77.0%, 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. Connection fees, which accounted for 7.6% of the annual revenue, are also collected through the permitting process. Property tax revenues accounted for 0.9% of the annual revenues, and are collected through the tax rolls to satisfy debt service requirements. Investment earnings represent 5.5% of revenues and consist of earnings on pooled cash held with the Sonoma County Treasurer, as well as interest earnings on revenue bond reserve accounts held with trustees. The 7.2% of revenue attributable to intergovernmental revenues and capital grants is related to Environmental Protection Agency Grants to the Forestville County Sanitation District for the advanced wastewater treatment upgrade.

Expenses by Function



Total expenses for the Districts for fiscal year 2002/03 totaled $12,394,884. Costs associated with the collection, treatment, and disposal of effluent represent 69.6% of the Districts' operating costs. The next largest functional area is the annual depreciation expense on capital assets and represents $2,869,344 (23.1%) of total expenses. Interest expense totaling $540,784 (4.4%) represents the cost of meeting current debt service obligations, while the environmental costs of $180,308 (1.5%) are related to the groundwater plume investigation within the South Park County Sanitation District and have decreased 58.0% from the preceding year. The remaining 1.5% of expenses represents fiscal agent/legal services fees of $97,563 and conservation program expenses of $81,591.

Capital Asset and Debt Administration

Capital assets

The Districts' investment in capital assets as of June 30, 2003, amounts to $93,346,031 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, machinery and equipment, and construction in progress.

Major capital asset events during the current fiscal year included the following:

- Effluent storage reservoir - Sonoma Valley (ongoing) - to mitigate a shortage of storage and disposal capacity
- Chlorine scrubbers - Sonoma Valley (ongoing) - to increase the capacity of the treatment plant and to reduce operational costs.
- Electrical service upgrade – Sonoma Valley (ongoing) – generator replacement at the district's treatment plant.
- Aeration system phase 3 - Sonoma Valley (ongoing) - to increase the reliability of the collection system and treatment process and to reduce operational costs.
- Third unit processes project - Russian River (ongoing) - to increase the reliability of the treatment plant during wet weather conditions per directive of the North Coast Regional Water Quality Control Board.
- Advanced wastewater treatment - Forestville (ongoing) - to meet standards required by the North Coast Regional Water Quality Control Board, construction estimated to be completed in 2003/04.
- Kenmore Lane Collection System - South Park (ongoing) - collection system replacement along Kenmore Lane.

Sonoma County Sanitation Districts' Capital Assets

	June 30, 2002	June 30, 2003	Percentage Change
Land	$ 3,633,823	$ 3,637,487	0.1 %
Buildings and improvements	105,213,543	117,944,474	10.8 %
Machinery and equipment	290,510	290,510	0.0 %
Construction in progress	13,689,014	10,020,329	(13.7) %
Accumulated depreciation	(35,716,733)	(38,546,769)	7.3 %
Total	$ 87,110,157	$ 93,346,031	6.7 %

Additional information on the Districts' capital assets can be found in Note D on pages 25 and 26 of the financial statement footnotes.

Capital Asset and Debt Administration (continued)

Long-term debt

At the end of the current fiscal year, the Districts had a total of $29,969,399 in outstanding debt consisting of general obligation bonds, revenue bonds, and advances from other governments. Of this amount, $1,950,000 comprises debt backed by the full faith and credit of the Districts, $23,742,127 which are special obligations of the Districts payable solely from net revenues of Districts operations, and $4,277,272 is related to advances from the County of Sonoma, the Sonoma County Water Agency, and the United States Department of Agriculture (USDA).

Sonoma County Sanitation Districts' Outstanding Current and Long Term Debt

	June 30, 2002	June 30, 2003	Percentage Change
General obligation bonds	$ 2,040,000	$ 1,950,000	(4.6)%
Revenue bonds	24,394,527	23,742,127	(2.8)%
Advances/Due to	3,125,172	4,277,272	26.9 %
Total	$ 29,559,699	$ 29,969,399	1.4 %

The Districts' total debt increased by $409,700 (1.4%) during the current fiscal year.

Advances from other governments/funds has increased by $1,152,100 (27.0%) due to the receipt of a $200,000 transfer within the Forestville Sanitation District from the Sonoma County Water Agency, and funding from the United States Department of Agriculture for the tertiary upgrade of the treatment plant ($1,138,100), offset by the annual repayments of existing advances ($186,000).

The general obligation and revenue bonds decrease in outstanding debt is related to the annual required payments.

Additional information on the Districts' current and long-term debt can be found in Notes E, F and G on pages 26 - 30 of this report.

Next Year's Budgets and Rates

Budgeted gross expenditures for the Districts for fiscal year 2003/04 have decreased by $24,487,262 (45.9%) for a total of $28,910,069. Each of the five Districts reflect a significant reduction in budgeted expenditures from the preceding fiscal year. The reductions range from a 35% decrease within Occidental to a 65% reduction within Forestville. The major component of the reduction in budget expenditures is related to significantly lower anticipated capital expenditures. Reduced capital expenditures account for 79% ($19,321,562) of the reduction in budget from fiscal year 2002/03. The other component is the reduction in appropriations within the revenue bond funds within Sonoma Valley and South Park. The reductions in Sonoma Valley ($3,477,900), and South Park ($1,900,000) are due to the fact that no transfer of bond funds for construction projects is anticipated for fiscal year 2003/04.

Next Year's Budgets and Rates (continued)

Following is a comparison of 2002/03 and 2003/04 budgeted expenditures for the five Districts:

	2002/03	2003/04	Increase (Decrease)	Percentage Change
Forestville				
Operations	$ 552,558	$ 604,420	$ 51,862	9.4 %
Construction	3,531,093	827,202	(2,703,891)	(76.6)%
	4,083,651	1,431,622	(2,652,029)	(64.9)%
Occidental				
Operations	371,743	266,269	(105,474)	(28.4)%
General Obligation Bonds	510	510	-	-0- %
Construction	6,000,000	3,875,000	(2,125,000)	(35.4)%
	6,372,253	4,141,779	(2,230,474)	(35.0)%
Russian River				
Operations	3,079,987	3,102,267	22,280	0.7 %
General Obligation Bonds	93,200	89,200	(4,000)	(4.3)%
Revenue Bonds	69,750	67,250	(2,500)	(3.6)%
Construction	4,292,493	1,443,978	(2,848,515)	(66.4)%
	7,535,430	4,702,695	(2,832,735)	(37.6)%
Sonoma Valley				
Operations	9,006,888	9,062,897	56,009	0.6 %
Construction	13,994,681	4,415,419	(9,579,262)	(68.5)%
Outfall line	13,653	12,675	(978)	(7.2)%
Glen Ellen Bonds	8,850	8,400	(450)	(5.1)%
Revenue Bonds	4,414,543	936,643	(3,477,900)	(78.8)%
	27,438,615	14,436,034	(13,002,581)	(47.4)%
South Park				
Operations	2,640,422	2,835,873	195,451	7.4 %
Revenue Bonds	2,186,910	286,910	(1,900,000)	(86.9)%
Construction	3,140,050	1,075,156	(2,064,894)	(65.8)%
	7,967,382	4,197,939	(3,769,443)	(47.3)%
	$ 53,397,331	$ 28,910,069	$(24,487,262)	(45.9)%

NOTE: Budgeted expenditures for fiscal year 2002/03 differ in several instances from the budgeted expenditures presented in the financial statements issued for the period ending June 30, 2002. These variances are due to Board approved budgetary adjustments made subsequent to the publication of the 2001/02 financial audit.

Next Year's Budgets and Rates (continued)

The sewer service fees were increased for the 2003-2004 budget year. The rates were increased by an average of 5.2 %.

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

Rate per Equivalent Single-Family Dwelling

	2002/03	2003/04	Percentage Change
District			
Forestville	$894	$930	4.0%
Occidental	890	930	4.5%
Russian River	748	782	4.5%
Sonoma Valley	427	455	6.5%
South Park	600	640	6.7%

Number of Equivalent Single-Family Dwelling by District

	2002/03	2003/04	Percentage Change
District			
Forestville	384	381	(0.8) %
Occidental	284	271	(4.8) %
Russian River	3,168	3,145	(0.7) %
Sonoma Valley	15,923	1,513	3.7 %
South Park	4,003	3,888	(2.9) %

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's Office, ATTN. Fiscal Division, 585 Fiscal Drive, Room 101F, Santa Rosa, Ca. 95403

Basic Financial Statements

Sonoma County Sanitation Districts

Statement of Net Assets

		June 30, 2003
Assets		
Current assets		
Cash and cash equivalents	$	18,213,972
Accounts receivable (net of allowance for uncollectibles of $37,711)		759,508
Other receivables		96,437
Due from other related governments		8,396
Total current assets		19,078,313
Noncurrent assets		
Restricted cash, cash equivalents, and investments:		
Cash - conservation program		1,488,326
Cash - general obligation bond fund		154,515
Cash - revenue bond fund		406,026
Cash with trustee restricted for debt service		1,627,310
Cash with trustee restricted for capital projects		983,598
Total restricted assets		4,659,775
Other receivables		132,490
Other assets		441,195
Capital assets:		
Land		3,637,487
Buildings and improvements		117,944,474
Machinery and equipment		290,510
Construction in progress		10,020,329
Less accumulated depreciation		(38,546,769)
Total capital assets (net of accumulated depreciation)		93,346,031
Total noncurrent assets		98,579,491
Total assets	$	117,657,804

See accompanying Notes to Financial Statements

		June 30, 2003
Liabilities		
Current liabilities payable from unrestricted assets		
Accounts payable and accrued expenses	$	1,586,692
Due to other governments		73,621
Due to other related governments		721,400
Accrued interest payable		47,249
Total current liabilities payable from unrestricted assets		2,428,962
Current liabilities payable from restricted assets		
General obligation bonds payable		1,000
Revenue bonds payable		705,000
Accrued interest payable		455,919
Total current liabilities payable from restricted assets		1,161,919
Total current liabilities		3,590,881
Noncurrent liabilities		
General obligation bonds payable		1,949,000
Revenue bond payable		23,037,127
Advances from other governments		2,285,098
Advances from other related governments		1,197,153
Total noncurrent liabilities		28,468,378
Total liabilities		32,059,259
Net assets		
Invested in capital assets, net of related debt		64,560,230
Restricted for conservation program		1,488,326
Restricted for debt service		2,187,851
Unrestricted		17,362,138
Total net assets	$	85,598,545

See accompanying Notes to Financial Statements

Sonoma County Sanitation Districts

Statement of Revenues, Expenses and Changes in Net Assets

		Year Ended June 30, 2003
Operating revenues		
Flat charges	$	11,159,489
Charges for services		928,740
Other		59,221
Total operating revenue		12,147,450
Operating expenses		
Services and supplies		8,625,294
Fiscal agent fees and legal services		97,563
Depreciation and amortization		2,869,344
Environmental investigation		180,308
Total operating expenses		11,772,509
Operating income		374,941
Nonoperating revenues (expenses)		
Investment income		865,428
Interest expense		(540,784)
Intergovernmental		401,264
Property taxes		134,854
Conservation program revenue		253,550
Conservation program expense		(81,591)
Other		50,000
Net nonoperating revenue		1,082,721
Income before contributions		1,457,662
Capital contributions		
Connection fees		1,206,826
Capital grants		725,916
Increase in net assets		3,390,404
Net assets at beginning of year (as restated - Note K)		82,208,141
Net assets at end of year	$	85,598,545

See accompanying Notes to Financial Statements

Sonoma County Sanitation Districts

Statement of Cash Flows

		Year Ended June 30, 2003
Cash flows from operating activities		
Receipts from customers	$	12,157,256
Payments for interfund services used		(5,446,653)
Payments to suppliers		(3,387,250)
Net cash provided by operating activities		3,323,353
Cash flows from noncapital financing activities		
Taxes		134,854
Intergovernmental revenue		401,264
Conservation program - net		170,459
Principal payments - advances		(120,000)
Net cash provided by noncapital financing activities		586,577
Cash flows from capital and related financing activities		
Purchase of capital assets		(7,995,764)
Intergovernmental revenue		641,719
Principal payments - other governments		(51,088)
Principal payments - bonds		(760,000)
Principal payments - advances		(66,000)
Interest paid on capital debt		(1,341,638)
Advances from other governments		1,274,567
Advances from other related governments		200,000
Connection fees		1,376,760
Net cash used in capital related financing activities		(6,721,444)
Cash flows from investing activities		
Interest received on pooled cash and investments		865,428
Net decrease in cash and cash equivalents		(1,946,086)
Cash and cash equivalents at beginning of year		24,819,833
Cash and cash equivalents at end of year	$	22,873,747
Cash and cash equivalent includes the following at June 30, 2003:		
Cash and cash equivalents	$	18,213,972
Restricted cash and cash equivalents		4,659,775
	$	22,873,747

See accompanying Notes to Financial Statements

		Year Ended June 30, 2003
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$	374,941
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense		2,869,344
Change in assets and liabilities:		
Decrease in accounts receivable		6,926
Decrease in other receivable		4,252
Decrease in other assets		7,929
Increase in accounts payable and accrued expenses		59,961
Net cash provided by operating activities	$	3,323,353

Noncash investing, capital and financing activities:		
Project costs included in accounts payable	$	(265,554)
Net increase in fair value of investment in County Treasurer's Pooled cash	$	72,733

See accompanying Notes to Financial Statements

The notes to the financial statements include a summary of significant accounting policies and other notes considered essential to fully disclose and fairly present the transactions and financial position of the Districts as follows:

Note A. Defining the Financial Reporting Entity

Note B. Summary of Significant Accounting Policies

Note C. Cash and Investments

Note D. Capital Assets

Note E. Due to Other Governments

Note F. Interfund Accounts

Note G. Long-Term Obligations

Note H. Accrued Interest Payable

Note I. Segment Information

Note J. Deficit in Unrestricted Net Assets

Note K. Restatement of Net Assets

Note L. Related Party Transactions

Note M. Commitments and Contingencies

Note N. Future Governmental Accounting Standards

Note O. Subsequent Event

Note A. Defining the Financial Reporting Entity

The five Sonoma County Sanitation Districts (the "Districts") including Forestville, Occidental, Russian River, Sonoma Valley and South Park, are managed by the Sonoma County Water Agency, which provides engineering, administration, operational, and maintenance services. Prior to December 31, 1994, the Districts were managed by the Department of Transportation and Public Works. The Districts are responsible for maintaining and operating the local sanitation collection systems, pump stations, and treatment plants. Each District has an ordinance defining policies, including user fees.

An agreement for transfer of responsibility to the City of Santa Rosa of collection system operation and maintenance, and subsequent dissolution of South Park Sanitation District, was finalized on February 27, 1996 and amended February 1998 and June 2000. Under this agreement, 1) South Park will be dissolved no later than July 1, 2006, 2) the City of Santa Rosa shall acquire the unused capacity of South Park, and 3) South Park will upgrade the collection system to meet City of Santa Rosa standards. The agreement requires South Park to replace, slip-line, or repair 41,610 feet of the collection system and upgrade the Todd Road lift station before transfer of South Park to the City of Santa Rosa. On July 1, 1996, the City of Santa Rosa accepted responsibility for the operation and routine maintenance of the collection system.

The Sonoma County Water and Wastewater Financing Authority (the "Authority") was established in December 1995 and is a joint powers authority between the Sonoma County Water Agency and the Forestville County Sanitation District (the "Forestville CSD"), created under the laws of the State of California. The Authority was created for the purpose of assisting in the financing of certain public programs and projects of the Sonoma County Water Agency and the Forestville CSD, and for the purpose of aiding in the financing of public capital improvements. The Authority is administered by the Sonoma County Board of Supervisors. The Authority does not issue separate financial statements. The operations of the Authority are included in the Graton Sanitation Zone, an Enterprise Fund of the Sonoma County Water Agency.

Component Unit Reporting

The Districts (except for Sonoma Valley) are governed by the Board of Supervisors ("Board of Supervisors") of the County of Sonoma (the "County"). Sonoma Valley Sanitation District is governed by a three member board, including two County Supervisors. The exercise of this oversight responsibility causes the Districts to be an integral part of the County of Sonoma's reporting entity. Therefore, the Districts' financial statements have also been included in the County's annual financial statements.

There are no other organizations or agencies whose basic financial statements should be combined and presented with these basic financial statements.

Note B. Summary of Significant Accounting Policies

The Districts conform to accounting principles generally accepted in the United States of America as applicable to governmental units. A summary of significant accounting policies is included below:

Note B. Summary of Significant Accounting Policies (continued)

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of revenues, expenses and changes in net assets) displays information on the Districts as a whole. These financial statements include the financial activities of the District's nonfiduciary activities. For the most part, the effect of inter-district activity has been removed from these statements. The Districts do not have any activities that are considered government-type or fiduciary activities. The statement of net assets presents the financial condition of the business activities of the Districts at year end.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Districts use a proprietary (enterprise) fund to account for their activities. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

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

The District has elected under 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 pronouncement. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncement (Statements and Interpretations), constitutes GAAP for governmental units.

Net assets (i.e. total assets net of total liabilities) are segregated into three components: 1) invested in capital assets, net of related debt, 2) restricted components, and 3) unrestricted components.

Note B. Summary of Significant Accounting Policies (continued)

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. 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 Districts are charges for services. Operating expenses for the Districts 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 net assets are available, restricted resources are used only after the unrestricted resources are depleted.

Cash and Investments

The Districts' 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 Districts. 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 appropriate funds based on their respective average daily balance for that quarter in the County Treasury Investment Pool (the "Treasury Pool".) The value of the Districts' pool shares is based on amortized cost, which is different than fair value. In accordance with GASB No. 31, interest income has been recorded in the fund that earned the interest. The Districts have not provided nor obtained any legally binding guarantees during the year ended June 30, 2003, to support the value of pool shares.

The Districts apply the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, which require governmental entities, including governmental external investment pools, to report certain investments at fair value in the balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred. In accordance with GASB No. 31, the District has stated certain Treasury Pool investments at fair value.

Statement of cash flows are presented for proprietary fund types. For this purpose, the Districts consider all pooled cash and investments as cash and cash equivalents because the County Treasurer's investment pool is used as a demand deposit account. Cash with trustee, customer deposits and restricted cash and investments with a maturity of three months or less when purchased are also treated as cash and cash equivalents.

Accounts and Other Receivables

Accounts receivable consists of uncollected fees for sanitation services at June 30, 2003.

Other accounts receivables represents outstanding flat charges at June 30, 2003. These flat charges are established annually by the Board of Supervisors and billed through the County's property tax system.

Note B. Summary of Significant Accounting Policies (continued)

Accounts and Other Receivables (continued)

All trade and property tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of one year comprise the allowance for uncollectibles.

Other receivables includes amounts to be collected for connection fees related to Russian River Ordinance #39. The Ordinance #39 receivables have 15 year lives with an interest rate of 5%.

Other Assets

Other assets are composed of debt issuance costs of $413,610 and a deferred charge of $27,585 from retirement of debt, net of accumulated amortization. These costs are amortized over a method which approximates the interest rate method over the terms of the related long-term debt.

Amortization expense amounted to $39,308 for the year.

Restricted Assets

Restricted assets represent cash, investments and receivables maintained in accordance with bond resolutions and formal actions of the Board of Supervisors 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 government 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 assets lives, are not capitalized.

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

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, 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 invested in capital assets, net of related debt, excludes $983,598 in unspent debt proceeds for the year ended June 30, 2003. Net assets are reported as restricted when there are limitations imposed on their use, either through enabling legislation adopted through external restrictions imposed by creditors, grantors or laws or regulation of other governments.

Note B. Summary of Significant Accounting Policies (continued)

Budget and Budgetary Accounting

The Board of Supervisors adopts a budget annually to be effective July 1st for the ensuing fiscal year for all governmental and proprietary fund types. The general manager of the Sonoma County Water Agency is authorized to transfer budgeted amounts within any District except for transfers between the major expenditure classes or transfers between fixed assets and operating expenses. Such transfers require approval by the County Administrator and/or the Board of Supervisors.

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 Districts.

The County of Sonoma has adopted the Teeter 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 Districts each fiscal year. Any subsequent delinquent payments and related penalties and interest will revert to Sonoma County.

Property taxes are recognized as revenue when they are levied because they are considered to be both measurable and available. 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 of Sonoma's financial statements.

Interfund Transactions

The following is a description of the basic types of interfund transactions made during the year and the related accounting policies:

1) Quasi-external (charges for current services) - Transactions for services rendered or facilities provided. These transactions are recorded as revenue in the receiving fund and expenditures in the disbursing fund.

Interfund transactions occurring between the Districts are eliminated from the totals of the financial statements.

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Note C. Cash and Investments

The Districts follow 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 to the various funds based on the average daily balances by fund during the quarter. Interest income from cash and investments with fiscal agents or trustees is credited directly to the related fund.

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) demand deposits
- Repurchase agreements
- Reverse repurchase agreements
- Shares of a mutual fund average life
- Collateralized mortgage obligations

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

Investment in County Treasurer's Pooled Cash

As of June 30, 2003, the weighted average maturity of the Treasury Pool was approximately one year. Forty-eight percent have maturities of zero to one year, thirty-one percent have maturities of one to three years, and twenty-one percent have maturities of three to five years.

A portion of the securities in the Treasury Pool have variable interest rates that are tied to certain indices such as LIBOR (floating rate securities). Floating rate securities will influence the performance of the portfolio based on the increase/decrease occurring in interest rates over the short term.

Note C. Cash and Investments (continued)

Investment in County Treasurer's Pooled Cash (continued)

Fair value fluctuates with interest rates, and increasing rates could cause fair value to decline below original cost. County management believes the liquidity in the portfolio is more than adequate to meet cash flow requirements and to preclude the County from having to sell investments below original cost for that purpose.

The Sanitation Districts' shares of the net increase in fair value of investments during the year ended June 30, 2003, and included in revenue - investment income, were as follows:

Forestville County Sanitation District	$ 398
Occidental County Sanitation District	520
Russian River County Sanitation District	8,716
Sonoma Valley County Sanitation District	41,109
South Park County Sanitation District	21,990

These amounts take into account all changes in fair value (including purchases and sales) that occurred during the fiscal year.

Cash with trustee

Cash with fiscal agents is collateralized by securities held by the financial institutions acting as fiscal agent. Such securities are typically held in a pool for the purpose of providing collateral and are not held in the name of the individual districts. Funds are available for their designated purpose on short notice and are treated as a cash equivalent.

Note D. Capital Assets

Capital asset activity for the year ended June 30, 2003 was as follows:

	Beginning Balance July 1, 2002	Increase	Decrease	Ending Balance June 30, 2003
Capital assets, not being depreciated:				
Land	$ 3,633,823	$ 3,664	$ -	$ 3,637,487
Construction in progress	13,689,014	9,062,246	(12,730,931)	10,020,329
Total capital assets, not being depreciated	17,322,837	9,065,910	(12,730,931)	13,657,816

Note D. **Capital Assets** (continued)

Capital assets, being depreciated:				
Buildings and improvements	105,213,543	12,730,931	-	117,944,474
Machinery and equipment	290,510	-	-	290,510
Total capital assets being depreciated	105,504,053	12,730,931	-	118,234,984
Less accumulated depreciation for:				
Buildings and improvements	(35,579,118)	(2,806,210)	-	(38,385,328)
Machinery and equipment	(137,615)	(23,826)	-	(161,441)
Total accumulated depreciation	(35,716,733)	(2,830,036)	-	(38,546,769)
Total capital assets, being depreciated, net	69,787,320	9,900,895	-	79,688,215
Total capital assets, net	$ 87,110,157	$ 18,966,805	$(12,730,931)	$ 93,346,031

Depreciation expense amounted to $2,830,036 for the year.

The total interest expense incurred by the Sanitation Districts during the current fiscal year was $1,345,378. Of this amount, $804,594 was included as part of the cost of capital assets under construction in connection with wastewater treatment facilities construction projects.

Note E. **Due to Other Governments**

The United States Department of Agriculture and the State Water Resources Control Board have advanced funds to certain Sanitation Districts. Interest rates range from 2.7% to 5.0%.

Annual debt service requirements to maturity for amount due to other governments are as follows:

Year ending June 30,	Principal	Interest
2004	$ 73,621	$ 67,369
2005	53,715	103,293
2006	55,559	101,450
2007	57,472	99,537
2008	59,457	97,551
2009 – 2013	329,826	455,215
2014 – 2018	239,059	396,854
2019 – 2023	183,725	352,768
2024 – 2028	235,183	301,310
2029 – 2033	301,054	235,439
2034 – 2038	385,375	151,118
2039 – 2042	384,673	44,521
	$ 2,358,719	$2,406,425

Note E. **Due to Other Governments** (continued)

During fiscal year 1994-95, Sonoma Valley received a loan of $760,992 from the State Water Resources Control Board for an outfall rehabilitation project. As of June 30, 2003, the outstanding balance is $503,791. The loan is a State Revolving Loan with an initial payment of $44,065 and subsequent payments of $49,894, 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.

During fiscal year 2001-02, Forestville received a loan from the United States Department of Agriculture to help fund an upgrade of it's wastewater treatment plant. This upgrade is necessary to comply with the North Coast Regional Water Quality Control Board's Basin Plan for the Russian River. The United States Division of Agriculture has committed a total of $2,640,500 to be loaned for this project. As of June 30, 2003, Forestville had received $1,868,728 of this total and has a payable in the amount of $1,854,928. The loan currently has semiannual payments of $53,649. The expected term is 40 years at an annual interest rate of 5.0% with the last payment scheduled for February 2042.

Note F. **Interfund Accounts**

At June 30, 2003, interfund balances between the Districts, Sonoma County Water Agency, and the County of Sonoma are as follows:

Due from other related governments

Receivable District	Payable Fund		Amount
Sonoma Valley	Sonoma County Water Agency - Agency Fund	$	8,396

(Due to) other related governments

Receivable Fund	Payable District		Amount
Sonoma County Water Agency General Fund	Forestville	$	(555,400)
County of Sonoma General Fund	Russian River		(66,000)
County of Sonoma General Fund	South Park		(100,000)
		$	(721,400)

Note F. **Interfund Accounts** (continued)

Advances to/(from) other related governments

Receivable Fund	Payable District	Amount
Sonoma County Water Agency		
General Fund	Forestville	$ (563,000)
County of Sonoma		
General Fund	Occidental	(250,000)
County of Sonoma		
General Fund	Russian River	(284,153)
County of Sonoma		
General Fund	South Park	(100,000)
		$ (1,197,153)

Activity between related governments that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other related governments" (i.e., the current portion of interfund loans) or "advances to/from other related governments" (i.e., the non-current portion of interfund loans).

Note G. **Long-Term Obligations**

General Obligation Bonds

The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. The original amount of general obligation bonds issued in prior years was $3,232,000. No new general obligation bonds were issued during the current fiscal year.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. General obligation bonds currently outstanding are as follows:

District	Interest Rates	Amount
Occidental	4.75%	$ 6,000
Russian River	5.00%	1,780,000
Sonoma Valley	5.00%	164,000
		$ 1,950,000

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

General Obligation Bonds (continued)

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

Year ending June 30,	Principal	Interest
2004	$ 1,000	$ 48,885
2005	95,000	95,087
2006	96,000	90,315
2007	101,000	85,392
2008	107,000	80,195
2009 - 2013	613,000	313,648
2014 - 2018	772,000	140,575
2019 - 2022	165,000	4,250
Total	$ 1,950,000	$ 858,347

Revenue Bonds

The government also issues bonds where the government pledges income derived from charges for services to pay debt service. The original amount of revenue bonds issued in prior years to finance construction projects to both expand existing wastewater treatment facilities and construct additional facilities was $26,975,000. No new revenue bonds were issued during the current fiscal year.

Purpose	Interest Rates	Outstanding Amount
Wastewater treatment		
Russian River	5.00%	$ 1,345,000
Sonoma Valley	4.00 - 5.00%	19,340,000
South Park	4.00 - 5.00%	3,415,000
		$ 24,100,000

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

Revenue bonds (continued)

Revenue bond debt service requirements to maturity are as follows:

Year ending June 30,	Principal	Interest
2004	$ 705,000	$ 1,146,915
2005	735,000	1,117,575
2006	750,000	1,086,834
2007	785,000	1,053,232
2008	830,000	1,017,198
2009 - 2013	4,720,000	4,461,554
2014 - 2018	5,990,000	3,169,350
2019 - 2023	7,270,000	1,497,504
2024 - 2027	2,315,000	138,979
Total	$ 24,100,000	$ 14,689,141

Changes in Long-Term Obligations

Long-term obligation activity for the year ended June 30, 2003 was as follows:

	Beginning Balance July 1, 2002	Additions	Reductions	Ending Balance June 30, 2003	Due Within One Year
Bonds payable:					
General obligation bonds	$ 2,040,000	$ -	$ (90,000)	$ 1,950,000	$ 1,000
Revenue bonds	24,770,000	-	(670,000)	24,100,000	705,000
Less deferred amounts:					
For issuance discounts	(375,473)	-	17,600	(357,873)	N/A
Total revenue bonds payable	24,394,527	-	(652,400)	23,742,127	705,000
Total bonds payable	$ 26,434,527	$ -	$ (742,400)	$ 25,692,127	$ 706,000

Note H. **Accrued Interest Payable**

Interest payable consists of interest accrued on the following obligations:

Payable from current assets:	
Interfund advances	$ 19,381
United States Department of Agriculture	27,868
Payable from restricted assets:	
State Water Resources Control Board	13,602
Long-term bonds	442,317
Total accrued interest payable	$ 503,168

Note I. Segment Information

Several of the Districts issued revenue bonds to finance treatment plant upgrades and construction. Investors in the revenue bonds rely solely on the revenue generated by the individual districts for repayment. Summary financial information for the individual districts is presented below.

Amounts in thousands

	Forestville	Occidental	Russian River	Sonoma Valley	South Park
Assets					
Current assets	$ 314	$ 128	$ 2,111	$12,105	$ 4,425
Noncurrent assets:					
Restricted assets	-	6	550	3,051	1,053
Other receivables	-	-	133	-	-
Other assets	28	-	-	295	119
Advances from other funds	-	-	-	-	5
Capital assets (net of accumulated depreciation)	6,773	873	25,786	54,821	5,092
Total assets	$ 7,115	$ 1,007	$28,580	$70,272	$10,694
Liabilities					
Current liabilities					
Due to other funds	$ -	$ 5	$ -	$ -	$ -
Due to other related governments	555	-	66	-	100
Other current liabilities	1,040	11	38	619	-
Total current liabilities	1,595	16	104	619	100
Current liabilities payable from restricted assets	-	1	67	969	125
Total current liabilities	1,595	17	171	1,588	225
Noncurrent liabilities					
Advances from other funds	-	4	-	-	-
Advances from other related governments	563	250	284	-	100
Other noncurrent liabilities	1,817	5	3,075	19,060	3,314
Total noncurrent liabilities	2,380	259	3,359	19,060	3,414
Total liabilities	3,975	276	3,530	20,648	3,639

Note I. **Segment Information** (continued)

Amounts in thousands

	Forestville	Occidental	Russian River	Sonoma Valley	South Park
Net assets					
Invested in capital assets, net of related debt	3,800	617	22,311	35,212	2,621
Restricted for:					
Conservation program	-	-	-	1,488	-
Debt service	-	6	550	1,501	131
Unrestricted (deficit)	(660)	108	2,189	11,423	4,303
Total net assets	$ 3,140	$ 731	$25,050	$49,624	$ 7,055
Operating revenues					
Flat charges	$ 253	$ 223	$ 2,311	$ 6,075	$ 2,297
Charges for services	181	21	6	688	33
Other	-	-	-	5	55
Total operating revenue	434	244	2,317	6,768	2,385
Operating expenses					
Depreciation and amortization	96	30	865	1,790	89
Other operating expenses	367	370	1,655	4,759	1,751
Total operating expenses	463	400	2,520	6,549	1,840
Operating income (loss)	(29)	(156)	(203)	219	545
Nonoperating revenues (expenses)					
Investment income	-	4	152	555	155
Interest expense	-	-	(98)	(421)	(22)
Intergovernmental	131	270	-	-	-
Property taxes	-	1	117	18	-
Conservation program revenue	-	-	-	254	-
Conservation program expense	-	-	-	(82)	-
Other	-	50	-	-	-
Total nonoperating revenue	131	325	171	324	133
Income (loss) before contributions	101	169	(32)	543	678
Capital contributions – connection fees	-	-	68	1,100	39
Capital grants	567	-	-	75	84
Increase (decrease) in net assets	668	169	36	1,718	801
Net assets at beginning of year	2,472	562	25,014	47,906	6,254
Net assets at end of year	$ 3,140	$ 731	$25,050	$49,624	$ 7,055

Note I. **Segment Information** (continued)

Amounts in thousands

	Forestville	Occidental	Russian River	Sonoma Valley	South Park
Net cash provided by (used in) operating activities	$ 55	$ (112)	$ 691	$ 2,077	$ 613
Net cash provided by (used in) noncapital financing activities	131	246	117	188	(95)
Net cash used in capital related financing activities	(264)	(108)	(595)	(5,453)	(302)
Net cash provided by investing activities	-	4	152	555	155
Net increase (decrease) in cash and cash equivalents	(78)	30	365	(2,633)	371
Cash and cash equivalent at beginning of year	383	97	2,047	17,403	4,889
Cash and cash equivalents at end of year	$ 305	$ 127	$ 2,412	$14,770	$ 5,260

Note J. **Deficit in Unrestricted Net Assets**

The Forestville County Sanitation District has a deficit unrestricted net assets of $660,378 at June 30, 2003. This district has incurred expenses in excess of revenues during the current year. Forestville is currently receiving advances from the Sonoma County Water Agency to cover losses resulting from its inability to increase revenues or to further reduce its cost of operations.

Note K. **Restatement of Net Assets**

Conservation Program

The Sonoma Valley Sanitation District collects additional amounts from customers upon their connection to the Sanitation System for a water conservation program. The amounts collected will not be returned to the customers, but will be used for conservation education and rebates. These amounts were recorded as a liability (Customer deposits payable) for the years prior to the year ended June 30, 2003. The Sonoma Valley Sanitation District has reported the collected amounts as revenue and disbursements under the program as expenses for the year ended June 30, 2003. The unexpended funds at the end of the year have been reported as restricted net assets.

Note K. **Restatement of Net Assets** (continued)

Conservation Program (continued)

The impact of the restatement on the net assets as previously reported is presented below:

	Combined Districts	Sonoma Valley
Net assets June 30, 2002, as originally stated	$ 80,891,774	$ 46,589,845
Restatement of liability to net assets	1,316,367	1,316,367
Net assets June 30, 2002, as restated	$ 82,208,141	$ 47,906,212

Increase in net assets for the year ended June 30, 2002 increased by $98,329 as a result of the restatement.

Note L. **Related Party Transactions**

The Sanitation Districts are Special Districts under the Board of Supervisors, and as such, have the same or similar board members as the County of Sonoma.

The Districts are managed by the Sonoma County Water Agency, which provides administration, engineering, operational, and maintenance services. The Sonoma County Water Agency allocates overhead costs amongst the Districts via the use of a 55% overhead rate charged on all expenditures applicable to the Districts. The overhead rate is reviewed annually by management to determine its effectiveness.

Forestville Sanitation District is the managing entity for a special assessment district, Mirabel Heights, that is expected to be annexed into Forestville in the next year. (See Note M) The revenues from Mirabel Heights are transferred to Forestville to offset payment of this special assessment district's proportionate share of operations and maintenance expenses. The amount of revenue transferred during the year ended June 30, 2003 amounted to $97,516.

The following schedule details approximate amounts paid to Sonoma County Water Agency for administrative support during the year ended June 30, 2003:

District	
Forestville	$ 295,432
Occidental	289,870
Russian River	1,271,088
Sonoma Valley	3,130,545
South Park	31,543

Note L. **Related Party Transactions** (continued)

A summary of additional related party transactions is as follows:

Receipt from	Payment to	Amount	Purpose
Sonoma County Water Agency General Fund	Forestville	$ 130,500	Provide funding to allow Sanitation District to meet operating expenses
Sonoma County Water Agency General Fund	Occidental	270,500	Provide funding to allow Sanitation District to meet operating expenses
		$ 401,000	

The above amounts have been included as intergovernmental revenue for the respective district.

Note M. **Commitments and Contingencies**

The government has active construction projects as of June 30, 2003. The projects include expansion and/or improvements of several wastewater treatment facilities. At year end, the Sanitation District's commitments to construction projects are as follows:

Project	Spent-to-date	Remaining Commitment
Forestville upgrade	$ 4,417,026	$ 760,202
Russian River expansion	891,113	73,978
Sonoma Valley expansion	3,480,502	1,745,420
South Park improvements	511,085	6,656
Total	$ 9,299,726	$ 2,586,256

Note M. Commitments and Contingencies (continued)

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

South Park Sanitation District is required to pay $125,000 per year for a period of five years to the North Coast Regional Water Quality Control Board (NCRWQCB). Payments began September 1, 1999 in order to cover administrative costs of the NCRWQCB for the purpose of ensuring progress in investigation, cleanup, outreach, and potentially responsible party identification in the volatile organic compound plume area within the District

On December 10, 2002, the Board of Directors of the Forestville County Sanitation District adopted a resolution for the reorganization of the Forestville County Sanitation District. The existing District will be dissolved and the successor in interest will be the combination of the Forestville County Sanitation District, as it was, and the Mirabel Heights Zone of Benefit of County Service Area No. 41. (See Note L) The target date for this reorganization is July 1, 2004.

Occidental County Sanitation District Board of Directors approved an agreement for a wastewater collection, treatment and disposal project. In connection with this project, Occidental County Sanitation District entered into a contract with consulting engineers in the amount of $75,000. It is too early to predict the total level of cost for Occidental County Sanitation District to participate in the construction of this project.

Risk Management

The Sanitation Districts are covered by the County's self-insurance program, which is accounted for in the County's Risk Management Internal Service Fund. The Sanitation Districts are covered under this program for general liability, auto liability, public employees performance/dishonesty and property insurance.

The County maintains a self-insured retention of $750,000 per occurrence for general and automobile liability. Excess liability coverage is maintained through participation in the California State Association of Counties, Excess Insurance Authority ("CSAC-EIA"). Limits of this coverage are $10,000,000. Additional coverage with limits of $5,000,000 excess of the underlying $10,000,000 is maintained through a joint-purchase excess liability coverage provided by Lexington Insurance, administered through CSAC-EIA for a total limit per occurrence of $15,000,000.

The County maintains "All Risk" property insurance including flood and earthquake through participation in the CSAC-EIA property insurance program. Limits of coverage are $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 Sanitation Districts pay administrative fees (See Note L) to the County for this insurance coverage. Settled claims have not exceeded this coverage for any of the past three fiscal years.

Note M. Commitments and Contingencies (continued)

Pending Litigation, Claims, and Investigation

The Russian River Sanitation District is a defendant in a case entitled Burch v. Russian River County Sanitation District. The case arose from claims by Mr. and Mrs. Burch that the easement agreement signed in 1979 was breached and that the easement was overburdened by the Russian River Sanitation District. The Burches have demanded $1 million dollars to settle the case. The Russian River Sanitation District recently obtained a defense verdict on a summary judgment. The Burches have filed an appeal which is currently pending.

In 1999, South Park County Sanitation District and the County of Sonoma entered into a plan of action with the California Regional Water Quality Control Board to investigate a groundwater plume of volatile organic compounds. The investigation was completed in February 2002. However, the District and Sonoma County may incur substantial costs in connection with remediation. It is too early to predict the amount of such costs.

Note N. Future Governmental Accounting Standards

The Governmental Accounting Standards Board ("GASB") has released one new standard, known as GASB No. 40.

The GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures - an amendment of GASB Statement No. 3* in March 2003. This Statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. GASB No. 40 is effective for financial statements for years beginning after June 15, 2004. The Districts will comply with GASB No. 40 for the period ending June 30, 2004.

Note O. Subsequent Event

In August 2003, Sonoma Valley Sanitation District entered into a contract for a collection system replacement project. The contract is in the amount of $2,973,000 and construction will begin during the 2003-04 fiscal year.

Supplementary Information

Sonoma County Sanitation Districts

Statement of Net Assets, by District

June 30, 2003

	Forestville	Occidental	Russian River	Sonoma Valley	South Park	Eliminations	Total
Assets							
Current assets							
Cash and cash equivalents	$ 304,511	$ 121,486	$ 1,861,694	$ 11,718,868	$ 4,207,413	$ -	$ 18,213,972
Accounts receivable (net of allowance for uncollectibles of $37,711)	9,648	6,560	237,477	377,591	128,232	-	759,508
Other receivables	-	-	12,240	-	84,197	-	96,437
Due from other funds	-	-	-	-	5,305	(5,305)	-
Due from other related governments	-	-	-	8,396	-	-	8,396
Total current assets	314,159	128,046	2,111,411	12,104,855	4,425,147	(5,305)	19,078,313
Noncurrent assets							
Restricted cash, cash equivalents, and investments:							
Cash - conservation program	-	-	-	1,488,326	-	-	1,488,326
Cash - general obligation bond fund	-	-	149,820	4,695	-	-	154,515
Cash - revenue bond fund	-	5,591	400,435	-	-	-	406,026
Cash with trustee restricted for debt service	-	-	-	1,496,593	130,717	-	1,627,310
Cash with trustee restricted for capital projec	-	-	-	61,518	922,080	-	983,598
Total restricted assets	-	5,591	550,255	3,051,132	1,052,797	-	4,659,775
Other receivables	-	-	132,490	-	-	-	132,490
Other assets	27,585	-	-	294,742	118,868	-	441,195
Advances to other funds	-	-	-	-	4,623	(4,623)	-
Capital assets:							
Land	356,384	-	223,833	3,057,270	-	-	3,637,487
Buildings and improvements	2,460,023	987,214	38,281,925	69,241,402	6,973,910	-	117,944,474
Machinery and equipment	-	-	-	290,510	-	-	290,510
Construction in progress	4,730,684	377,902	890,825	3,509,834	511,084	-	10,020,329
Less accumulated depreciation	(773,796)	(491,791)	(13,611,055)	(21,277,423)	(2,392,704)	-	(38,546,769)
Total capital assets (net of accumulated depreciation)	6,773,295	873,325	25,785,528	54,821,593	5,092,290	-	93,346,031
Total noncurrent assets	6,800,880	878,916	26,468,273	58,167,467	6,268,578	(4,623)	98,579,491
Total assets	$ 7,115,039	$ 1,006,962	$ 28,579,684	$ 70,272,322	$ 10,693,725	$ (9,928)	$ 117,657,804

Statement of Net Assets, by District (continued)

June 30, 2003

	Forestville	Occidental	Russian River	Sonoma Valley	South Park	Eliminations	Total
Liabilities							
Current liabilities payable from unrestricted assets							
Accounts payable and accrued expenses	$ 954,873	$ 10,531	$ 37,749	$ 582,929	$ 610	$ -	$ 1,586,692
Due to other funds	-	5,305	-	-	-	(5,305)	-
Due to other governments	37,514	-	-	36,107	-	-	73,621
Due to other related governments	555,400	-	66,000	-	100,000	-	721,400
Accrued interest payable	47,249	-	-	-	-	-	47,249
Total current liabilities payable from unrestricted assets	1,595,036	15,836	103,749	619,036	100,610	(5,305)	2,428,962
Current liabilities payable from restricted assets							
General obligation bonds payable	-	1,000	-	-	-	-	1,000
Revenue bonds payable	-	-	50,000	575,000	80,000	-	705,000
Accrued interest payable	-	-	16,812	394,349	44,758	-	455,919
Total current liabilities payable from restricted assets	-	1,000	66,812	969,349	124,758	-	1,161,919
Total current liabilities	1,595,036	16,836	170,561	1,588,385	225,368	(5,305)	3,590,881
Noncurrent liabilities							
General obligation bonds payable	-	5,000	1,780,000	164,000	-	-	1,949,000
Revenue bond payable	-	-	1,295,000	18,428,404	3,313,723	-	23,037,127
Advances from other funds	-	4,623	-	-	-	(4,623)	-
Advances from other governments	1,817,414	-	-	467,684	-	-	2,285,098
Advances from other related governments	563,000	250,000	284,153	-	100,000	-	1,197,153
Total noncurrent liabilities	2,380,414	259,623	3,359,153	19,060,088	3,413,723	(4,623)	28,468,378
Total liabilities	3,975,450	276,459	3,529,714	20,648,473	3,639,091	(9,928)	32,059,259
Net assets							
Invested in capital assets, net of related debt	3,799,967	617,325	22,310,375	35,211,916	2,620,647	-	64,560,230
Restricted for conservation program	-	-	-	1,488,326	-	-	1,488,326
Restricted for debt service	-	5,591	550,255	1,501,288	130,717	-	2,187,851
Unrestricted (deficit)	(660,378)	107,587	2,189,340	11,422,319	4,303,270	-	17,362,138
Total net assets	$ 3,139,589	$ 730,503	$ 25,049,970	$ 49,623,849	$ 7,054,634	$ -	$ 85,598,545

Sonoma County Sanitation Districts

Statement of Revenues, Expenses and Changes in Net Assets, by District

Year Ended June 30, 2003

	Forestville	Occidental	Russian River	Sonoma Valley	South Park	Total
Operating revenues						
Flat charges	$ 253,049	$ 222,829	$ 2,311,439	$ 6,075,113	$ 2,297,059	$ 11,159,489
Charges for services	180,948	20,568	5,984	687,894	33,346	928,740
Other	-	-	74	4,495	54,652	59,221
Total operating revenue	433,997	243,397	2,317,497	6,767,502	2,385,057	12,147,450
Operating expenses						
Services and supplies	359,028	353,245	1,617,738	4,740,633	1,554,650	8,625,294
Fiscal agent fees and legal services	8,445	16,771	37,669	18,691	15,987	97,563
Depreciation and amortization	95,927	29,908	865,064	1,789,556	88,889	2,869,344
Environmental investigation	-	-	-	-	180,308	180,308
Total operating expenses	463,400	399,924	2,520,471	6,548,880	1,839,834	11,772,509
Operating income (loss)	(29,403)	(156,527)	(202,974)	218,622	545,223	374,941
Nonoperating revenues (expenses)						
Investment income	71	3,912	151,982	554,683	154,780	865,428
Interest expense	-	-	(97,644)	(420,689)	(22,451)	(540,784)
Intergovernmental	130,500	270,500	13	251	-	401,264
Property taxes	-	800	116,399	17,655	-	134,854
Conservation program revenue	-	-	-	253,550	-	253,550
Conservation program expense	-	-	-	(81,591)	-	(81,591)
Other	-	50,000	-	-	-	50,000
Net nonoperating revenue	130,571	325,212	170,750	323,859	132,329	1,082,721
Net income (loss) before contributions	101,168	168,685	(32,224)	542,481	677,552	1,457,662
Capital contributions						
Connection fees	-	-	67,930	1,100,156	38,740	1,206,826
Capital grants	566,719	-	-	75,000	84,197	725,916
Increase in net assets	667,887	168,685	35,706	1,717,637	800,489	3,390,404
Net assets at beginning of year, as restated	2,471,702	561,818	25,014,264	47,906,212	6,254,145	82,208,141
Net assets at end of year	$ 3,139,589	$ 730,503	$ 25,049,970	$ 49,623,849	$ 7,054,634	$ 85,598,545

Sonoma County Sanitation Districts

Statement of Cash Flows, by District

Year Ended June 30, 2003

	Forestville	Occidental	Russian River	Sonoma Valley	South Park	Eliminations	Total
Cash flows from operating activities							
Receipts from customers	$ 426,438	$ 249,913	$ 2,376,110	$ 6,741,079	$ 2,363,716	$ -	$ 12,157,256
Payments for interfund services used	(304,532)	(299,192)	(1,344,024)	(3,467,362)	(31,543)	-	(5,446,653)
Payments to suppliers	(66,913)	(63,400)	(341,103)	(1,197,041)	(1,718,793)	-	(3,387,250)
Net cash provided by (used in) operating activities	54,993	(112,679)	690,983	2,076,676	613,380	-	3,323,353
Cash flows from noncapital financing activities							
Taxes	-	800	116,399	17,655	-	-	134,854
Intergovernmental revenue	130,500	270,500	13	251	-	-	401,264
Conservation program	-	-	-	170,459	-	-	170,459
Principal payments - advances	-	(20,000)	-	-	(100,000)	-	(120,000)
Principal payments - notes	-	(4,958)	-	-	-	4,958	-
Principal received - notes	-	-	-	-	4,958	(4,958)	-
Net cash provided by (used in) noncapital financing activit	130,500	246,342	116,412	188,365	(95,042)	-	586,577
Cash flows from capital and related financing activities							
Purchase of capital assets	(2,241,263)	(105,560)	(318,502)	(5,243,871)	(86,568)	-	(7,995,764)
Proceeds from Federal/State grants	566,719	-	-	75,000	-	-	641,719
Principal payments - other governments	(15,800)	-	-	(35,288)	-	-	(51,088)
Principal payments - bonds	-	(1,000)	(130,000)	(554,000)	(75,000)	-	(760,000)
Principal payments - advances	-	-	(66,000)	-	-	-	(66,000)
Interest paid on capital debt	(48,655)	(1,351)	(162,750)	(949,811)	(179,071)	-	(1,341,638)
Advances from other governments	1,274,567	-	-	-	-	-	1,274,567
Advances from other related governments	200,000	-	-	-	-	-	200,000
Connection fees	-	-	82,409	1,255,611	38,740	-	1,376,760
Net cash used in capital related financing activities	(264,432)	(107,911)	(594,843)	(5,452,359)	(301,899)	-	(6,721,444)
Cash flows from investing activities							
Interest received on pooled cash and investments	71	3,912	151,982	554,683	154,780	-	865,428
Net increase (decrease) in cash and cash equivalents	(78,868)	29,664	364,534	(2,632,635)	371,219	-	(1,946,086)
Cash and cash equivalents at beginning of year	383,379	97,413	2,047,415	17,402,635	4,888,991	-	24,819,833
Cash and cash equivalents at end of year	$ 304,511	$ 127,077	$ 2,411,949	$ 14,770,000	$ 5,260,210	$ -	$ 22,873,747

Statement of Cash Flows, by District (continued)

Year Ended June 30, 2003

	Forestville	Occidental	Russian River	Sonoma Valley	South Park	Eliminations	Total
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:							
Operating income (loss)	$ (29,403)	$ (156,527)	$ (202,974)	$ 218,622	$ 545,223	$ -	$ 374,941
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:							
Depreciation and amortization expense	95,927	29,908	865,064	1,789,556	88,889	-	2,869,344
Change in assets and liabilities:							
Decrease (increase) in accounts receivable	(7,560)	(1,413)	54,364	(17,123)	(21,342)	-	6,926
Decrease (increase) in other receivable	-	-	4,252	-	-	-	4,252
Decrease in other assets	-	7,929	-	-	-	-	7,929
Increase (decrease) in accounts payable and accrued expenses	(3,971)	7,424	(29,723)	85,621	610	-	59,961
Net cash provided by (used in) operating activities	$ 54,993	$ (112,679)	$ 690,983	$ 2,076,676	$ 613,380	$ -	$ 3,323,353
Noncash investing, capital and financing activities:							
Project costs included in accounts payable	$ (648,730)	$ 100,129	$ 55,123	$ 212,162	$ 15,762	$ -	$ (265,554)
Net increase in fair value of investment in County Treasurer's Pooled cash	$ 398	$ 520	$ 8,716	$ 41,109	$ 21,990	$ -	$ 72,733

Compliance

3550 ROUND BARN BLVD., SUITE 100, SANTA ROSA, CA 95403 (707) 542-3343 FAX (707) 527-5608 www.pandb.com

Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited the basic financial statements of the **Sonoma County Sanitation Districts** (including Forestville, Occidental, Russian River, Sonoma Valley and South Park), (the "Districts"), a component unit of the County of Sonoma, as of and for the year ended June 30, 2003, and have issued our report thereon dated August 28, 2003. 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.

Compliance

As part of obtaining reasonable assurance about whether the **Districts'** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the **Districts'** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the **Districts'** ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 02-02.

Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* (continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

This report is intended for the information of the management, Commission, County of Sonoma, and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Pisenti & Brinker LLP

Santa Rosa, California
August 28, 2003

Section I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	*unqualified*			
Internal control over financial reporting:				
Material weaknesses identified	_____	yes	X	no
Reportable conditions identified not considered to be material weaknesses	X	yes	_____	no
Noncompliance material to financial statements noted	_____	yes	X	no

Section II. Financial Statement Findings

Conditions Deemed to Not Be Material Weaknesses

The following observation was made during a prior audit:

Accounts Payable

Item 02-02

Observation

We noted during our audit that one large liability, totaling approximately $314,000, was not recorded for construction project work completed prior to year end.

Recommendation

We understand that due to the short period of time between year end and the beginning of the Districts' audit, it is hard to capture all invoices relating to year end. However, we recommend that the Districts maintain a log of invoices received after year end relating to construction in progress. Implementation of this procedure will help ensure proper cutoff between periods.

Districts' Response

The Districts will make efforts to ensure more accurate reporting of year-end accruals, including additional training of staff by the County's Auditor-Controller's office.