

**SOUTH PARK COUNTY  
SANITATION DISTRICT  
(A Component Unit of the County of Sonoma)**

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

For the Fiscal Year Ended June 30, 2013

**SOUTH PARK COUNTY SANITATION DISTRICT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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## **Independent Auditor's Report**

Board of Directors  
South Park County Sanitation District  
Santa Rosa, California

### **Report on the Financial Statements**

We have audited the accompanying basic financial statements of the South Park County Sanitation District (the "District"), a component unit of the County of Sonoma, California, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

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

#### ***Auditor's Responsibility***

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 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***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, 2013, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Local partnership. Global solutions.*

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

### ***Other Matters – Required Supplementary Information***

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2013, on our considerations of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants and 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* in considering the District's internal control over financial reporting and compliance.

*PricewaterhouseCoopers*

Petaluma, California  
October 8, 2013

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

**SOUTH PARK COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

As management of the South Park 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, 2013. We encourage readers to consider the information presented here in conjunction with the District's financial statements and the accompanying notes to the financial statements.

**Reporting Entity**

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

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

**Financial Highlights**

*Net Position*

The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$18,668,827 (*net position*). Of this amount, \$6,907,956 (*unrestricted net position*) may be used to meet the District's ongoing obligations to citizens and creditors.

*Revenues and Capital Contributions*

The District recognized total revenues, including capital contributions, of \$3,406,483 during the fiscal year ended June 30, 2013. Of this amount, \$3,208,818 consists of flat charges and charges for services (operating revenues) and \$100,705 represented nonoperating revenues, consisting of investment earnings (\$80,999) and intergovernmental revenue (\$19,706). The District recognized \$96,960 in connection fees during the fiscal year.

*Expenses*

The District incurred expenses totaling \$2,542,119 during the fiscal year ended June 30, 2013. Of this amount \$2,456,022 represents operating expenses related to the collection, treatment, disposal, and reclamation of effluent, as well as administrative and general expenses. Nonoperating expenses totaled \$86,097, which is comprised of interest expense (\$66,391) related to the District's long-term debt obligations and other expenses (\$19,706).

*Increase in Net Position*

The District recognized operating income of \$752,796 for the fiscal year ended June 30, 2013, while recognizing an overall increase in net position of \$864,364.

**SOUTH PARK COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the District's financial statements. The District's financial statements are comprised of three components: (1) management's discussion and analysis, (2) financial statements, and (3) notes to the basic financial statements.

*Management's Discussion and Analysis*

This section is intended to provide a narrative overview that users need to interpret the financial statements. Management's discussion and analysis also provides analysis of key data presented in the financial statements.

*Financial Statements*

The District is engaged only in business-type activities. The District accounts for its financial activities utilizing fund accounting, specifically enterprise fund accounting, to ensure and demonstrate compliance with finance-related legal requirements. An enterprise fund is a proprietary fund type used to report activities for which a fee is charged to external customers for goods or services provided. The focus of an enterprise fund is the determination of operating income, changes in net position (or cost recovery), financial position, and cash flow. The financial statements presented are the *statement of net position; the statement of revenues, expenses and changes in net position; and the statement of cash flows*.

*Notes to the Basic Financial Statements*

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

**Financial Analysis**

Net position may serve over time as a useful indicator of a District's financial position. In the case of the District, assets exceeded liabilities by \$18,668,827 at the close of the most recent fiscal year compared to net position of \$17,804,463 as of June 30, 2012. The \$864,364 increase in net position is due primarily to the District's continued focus on minimizing increases to its expenses combined with fairly consistent revenues from the collection, treatment and disposal of effluent (operating activities).

A portion of the District's net position (61.7% as of June 30, 2013 compared to 65.0% as of June 30, 2012) reflects its investment in capital assets (e.g., construction in progress and buildings and improvements), 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.

**SOUTH PARK COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

*Condensed Statements of Net Position*

	June 30, 2012	June 30, 2013	Percentage Change
Current and other assets	\$ 7,710,710	\$ 8,483,914	10.0%
Capital assets	13,972,597	13,795,422	-1.3%
<b>Total Assets</b>	<b>21,683,307</b>	<b>22,279,336</b>	<b>2.7%</b>
Current liabilities	296,544	147,121	-50.4%
Noncurrent liabilities	3,582,300	3,463,388	-3.3%
<b>Total Liabilities</b>	<b>3,878,844</b>	<b>3,610,509</b>	<b>-6.9%</b>
Net investment in capital assets	11,573,882	11,510,619	-0.5%
Restricted for debt service	222,048	250,252	12.7%
Unrestricted	6,008,533	6,907,956	15.0%
<b>Total Net Position</b>	<b>\$ 17,804,463</b>	<b>\$ 18,668,827</b>	<b>4.9%</b>

A portion of the District's net position, \$250,252 as of June 30, 2013, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position of \$6,907,956 as of June 30, 2013, may be used to meet the District's ongoing obligations to citizens and creditors. The District reported positive balances in all categories of net position.

**SOUTH PARK COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

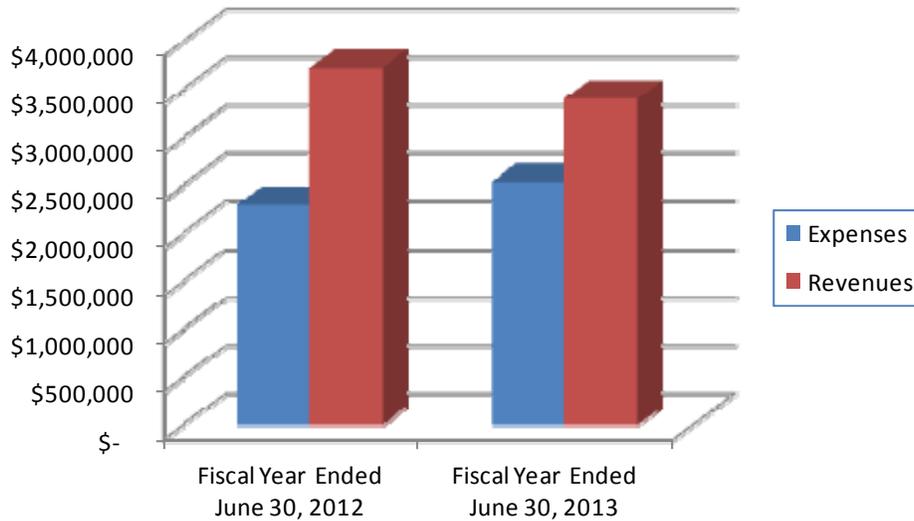
*Condensed Statements of Changes in Net Position*

	<b>Fiscal Year Ended</b>		<b>Percentage Change</b>
	<b>June 30, 2012</b>	<b>June 30, 2013</b>	
<b>Revenues</b>			
Operating revenues	\$ 3,307,377	\$ 3,208,818	-3.0%
Nonoperating revenues	136,220	100,705	-26.1%
<b>Total revenues</b>	<b>3,443,597</b>	<b>3,309,523</b>	<b>-3.9%</b>
<b>Expenses</b>			
Services and supplies	1,979,494	2,106,918	6.4%
Fiscal agent fees and legal services	19,242	2,609	-86.4%
Depreciation and amortization	286,324	346,495	21.0%
Interest expense	11,464	66,391	479.1%
Other expenses	-	19,706	100.0%
<b>Total expenses</b>	<b>2,296,524</b>	<b>2,542,119</b>	<b>10.7%</b>
Income before contributions	1,147,073	767,404	-33.1%
Capital contributions - federal grants	277,543	-	-100.0%
Capital contributions - donated assets	517,807	-	-100.0%
Capital contributions - connection fees	2,960	96,960	3175.7%
Increase in net position	1,945,383	864,364	-55.6%
<b>Net position, beginning of year</b>	<b>15,859,080</b>	<b>17,804,463</b>	<b>12.3%</b>
<b>Net position, end of year</b>	<b>\$ 17,804,463</b>	<b>\$ 18,668,827</b>	<b>4.9%</b>

The District's net position increased by \$864,364 during the fiscal year ended June 30, 2013 compared to an increase of \$1,945,383 during the fiscal year ended June 30, 2012. Overall total revenues (including capital contributions) recognized by the District decreased 19.7% from the fiscal year ended June 30, 2012. Total expenses incurred during the fiscal year ended June 30, 2013 increased 10.7% primarily as a result of increases in services and supplies, interest, and depreciation expense.

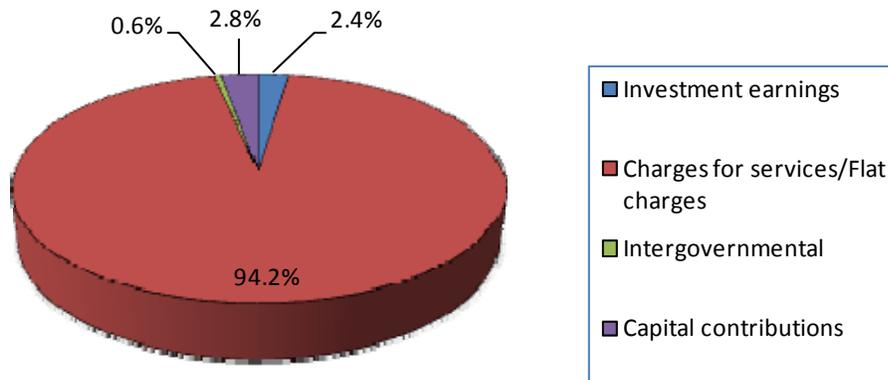
**SOUTH PARK COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

*Expenses and Revenues*



Total revenues, including capital contributions, of the District for the fiscal year ended June 30, 2013 totaled \$3,406,483 representing a decrease of \$835,424 from the preceding fiscal year revenues of \$4,241,907. This decrease is primarily the result of one time nonoperating revenues in the prior year from the receipt of donated assets consisting of land and equipment in the amount of \$517,807, and the receipt of \$277,543 in federal grant funds which included funding towards the Biwana Lane project (\$177,543) and the Gloria Meekland project (\$92,450).

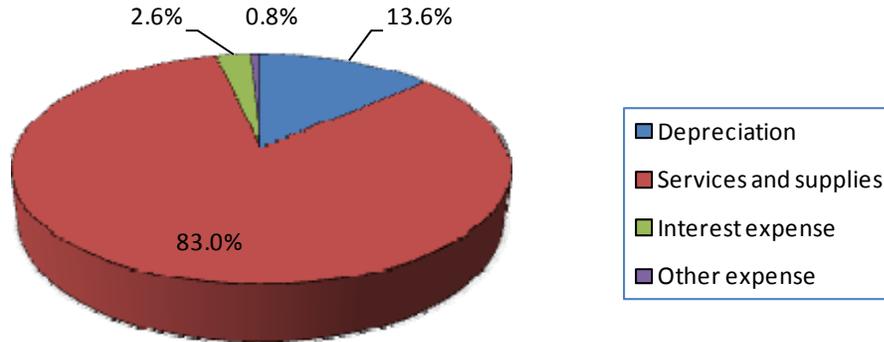
*Revenues by Source*



As previously mentioned, the District recognized \$3,406,483 of revenue and capital contributions during the fiscal year ended June 30, 2013. Of this amount \$3,208,818 or 94.2% 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. Investment earnings represent 2.4% of revenues and consist of earnings on pooled cash held with the Sonoma County Treasurer. Capital contributions consisting of connection fees accounted for 2.8% of the annual revenue. Intergovernmental revenues accounted for less than one percent of total revenue.

**SOUTH PARK COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

*Expenses by Function*



Expenses for the District for fiscal year ended June 30, 2013 totaled \$2,542,119. Costs associated with the collection, treatment, and disposal of effluent represent 83.0% of the District's costs. The next largest functional area is depreciation and amortization expense of \$346,495 (13.6%) of total expenses. Interest expense totaling \$66,391 (2.6%) represents the cost of meeting current debt service on the District's long-term obligations. Other expenses accounted for less than one percent of annual expenses.

**Capital Asset and Debt Administration**

*Capital assets*

The District's investment in capital assets as of June 30, 2013, amounts to \$13,795,422 (net of accumulated depreciation). In addition to reporting the District's investment in capital assets including land, buildings and systems, improvements, and construction in progress, the District reports its investment in intangible assets as required by Governmental Accounting Standards Board (GASB) Statement No. 51 – *Accounting and Financial Reporting for Intangible Assets*. Intangible assets for the District would normally include easements (both permanent and temporary), and development, acquisition, and implementation costs related to computer software. Software is included only when the aggregate costs exceed, or are anticipated to exceed, a threshold of \$100,000.

*South Park County Sanitation District's Capital Assets*

	June 30, 2012	June 30, 2013	Percentage Change
Intangible assets	\$ 88,209	\$ 124,102	40.7%
Construction in progress	1,220,310	1,353,729	10.9%
Buildings and improvements	16,988,258	16,983,890	0.0%
Accumulated depreciation	(4,324,180)	(4,666,299)	7.9%
<b>Total</b>	<b>\$ 13,972,597</b>	<b>\$ 13,795,422</b>	<b>-1.3%</b>

Additional information on the District's capital assets can be found in Note D of this report.

**SOUTH PARK COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

*Long-term Obligations*

As of June 30, 2013, the District had a total of \$2,284,803 in outstanding revenue bonds.

*South Park County Sanitation District's Outstanding Long-Term debt*

	June 30, 2012	June 30, 2013	Percentage Change
Revenue bonds	\$ 2,398,715	\$ 2,284,803	-4.7%

The District's total debt decreased by \$113,912 during the current fiscal year. The decrease in revenue bonds is due to the annual principal payment (\$125,000) on the outstanding revenue bonds along with amortization of the original issue premium (\$3,248) and the deferred amount on refunding of \$14,336.

Additional information on the District's current and long-term obligations can be found in Note E of this report.

**Next Year's Budget and Rates**

Budgeted gross expenses for the District for the fiscal year ending June 30, 2014 have decreased by \$4,806,178 (43.2%) for a total of \$6,322,681. The major component of the decrease within the Operations fund is related to a reduction from prior year in transfers to the Construction fund for capital projects. Decreases within the Construction fund resulted from a \$4,733,767 decrease in budgeted capital replacement partially offset by a \$1,130,000 increase in budgeted contributions to other governments.

Following is a comparison of the final budget for the fiscal year ended June 30, 2013 and the proposed budgeted expenses for the District for the fiscal year ending June 30, 2014.

	Fiscal Year Ending June 30, 2013	Fiscal Year Ending June 30, 2014	Increase (Decrease)	Percentage Change
Operations	\$ 5,213,019	\$ 4,080,648	\$ (1,132,371)	-21.7%
Debt service - revenue bonds	202,073	132,033	(70,040)	-34.7%
Construction	5,713,767	2,110,000	(3,603,767)	-63.1%
<b>Total</b>	<b>\$ 11,128,859</b>	<b>\$ 6,322,681</b>	<b>\$ (4,806,178)</b>	<b>-43.2%</b>

Budgeted expenses for the fiscal year ended June 30, 2013 differ in several instances from the budgeted expenses presented in the management discussion and analysis issued for the period ending June 30, 2012. These variances are due to Board approved budgetary adjustments made subsequent to the publication of the audited basic financial statements for the fiscal year ended June 30, 2012.

**SOUTH PARK COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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

The sewer service fee rates were increased for the fiscal year ended June 30, 2013 budget year by 2.5%.

The following tables show the sanitation services rates and equivalent single family dwellings for the District.

	<b>Fiscal Year Ending June 30, 2013</b>	<b>Fiscal Year Ending June 30, 2014</b>	<b>Percentage Change</b>
Rate per Equivalent Single-Family Dwelling	\$ 810	\$ 830	2.5%
Number of Equivalent Single-Family Dwellings	3,990	3,990	0.0%

**Request for Additional Information**

This financial report is designed to provide a general overview of the District's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Sonoma County Auditor-Controller-Treasurer-Tax Collector's Office, ATTN. Fiscal Division, 585 Fiscal Drive, Room 100, Santa Rosa, CA 95403.

**SOUTH PARK COUNTY SANITATION DISTRICT**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2013**

**Assets**

Current assets:

Cash and investments	\$	8,013,174
Accounts receivable		62,981
Due from other governments		19,706
Restricted cash and investments:		
Revenue bond fund		277,744

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Total current assets		8,373,605
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Accounts receivable, noncurrent portion		49,046
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Debt issuance costs		61,263
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Capital assets not being depreciated:

Intangible assets		124,102
Construction in progress		1,353,729

Capital assets, net of accumulated depreciation:

Buildings and improvements		12,317,591
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Total capital assets (net of accumulated depreciation)		13,795,422
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Total noncurrent assets		13,905,731
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Total assets		22,279,336
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**Liabilities**

Current liabilities:

Accounts payable and accrued expenses		714
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Current liabilities payable from restricted assets:

Revenue bonds payable		118,915
Accrued interest payable		27,492

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Total current liabilities payable from restricted assets		146,407
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Noncurrent liabilities:

Pollution remediation		1,297,500
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Revenue bonds payable		2,165,888
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Total noncurrent liabilities		3,463,388
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Total liabilities		3,610,509
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**Net Position**

Net investment in capital assets		11,510,619
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Restricted for debt service		250,252
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Unrestricted		6,907,956
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Total net position	\$	18,668,827
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The notes to the basic financial statements are an integral part of this statement.

**SOUTH PARK COUNTY SANITATION DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

<b>Operating revenues</b>	
Flat charges	\$ 3,120,505
Charges for services	88,009
Other	304
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Total operating revenues	3,208,818
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<b>Operating expenses</b>	
Services and supplies	2,106,918
Fiscal agent fees and legal services	2,609
Depreciation and amortization	346,495
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Total operating expenses	2,456,022
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Operating income	752,796
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<b>Nonoperating revenues (expenses)</b>	
Investment earnings	80,999
Interest expense	(66,391)
Intergovernmental revenue	19,706
Other expense (reimbursable project costs)	(19,706)
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Total nonoperating revenues	14,608
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Income before capital contributions	767,404
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Capital contributions:	
Connection fees	96,960
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<b>Increase in net position</b>	<b>864,364</b>
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<b>Net position - beginning of year</b>	<b>17,804,463</b>
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<b>Net position - end of year</b>	<b>\$ 18,668,827</b>
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The notes to the basic financial statements are an integral part of this statement.

**SOUTH PARK COUNTY SANITATION DISTRICT  
STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 3,216,601
Payments to Sonoma County Water Agency	(145,755)
Payments to suppliers	(2,117,762)
<b>Net cash provided by operating activities</b>	<b>953,084</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Cash outflow - reimbursable project costs	(19,706)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Purchase of capital assets	(108,587)
Principal payments on revenue bonds payable	(125,000)
Interest paid on revenue bonds payable	(112,093)
Due from other governments	92,450
Connection fees	96,960
<b>Net cash used in capital and related financing activities</b>	<b>(156,270)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest received on pooled cash and investments	80,999
<b>Net increase in cash and cash equivalents</b>	<b>858,107</b>
<b>Cash and cash equivalents - beginning of year</b>	<b>7,432,811</b>
<b>Cash and cash equivalents - end of year</b>	<b>\$ 8,290,918</b>
<b>Reconciliation to the statement of net position</b>	
Cash and investments	\$ 8,013,174
Restricted cash and investments	277,744
<b>Cash and cash equivalents</b>	<b>\$ 8,290,918</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>	
Operating income	\$ 752,796
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	346,495
Change in assets and liabilities:	
Decrease in accounts receivable	7,783
Decrease in accounts payable and accrued expenses	(153,990)
<b>Net cash provided by operating activities</b>	<b>\$ 953,084</b>
<b>NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisitions of capital assets through accounts payable	\$ 630
Capitalized interest	55,726

The notes to the basic financial statements are an integral part of this statement.

**SOUTH PARK COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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

The South Park 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 a distinct legal entity from the Water Agency and was formed by action of the Sonoma County Board of Supervisors. The District is responsible for maintaining and operating the local sanitation collection systems and pump stations. The District has an ordinance defining policies, including user fees.

An agreement for transfer of responsibility to the City of Santa Rosa of the collection system operation and maintenance, and subsequent dissolution of the District, was finalized on February 27, 1996 and amended February 1998, June 2000, April 1, 2004 and is currently being amended further to allow sufficient time for the District to complete required work on the collection system. The District is planning to replace three sections of the collection system through the 2014-15 fiscal year. Under this agreement and the anticipated amendment, upon completion of the required collection system improvements (1) the District will be dissolved, (2) the City of Santa Rosa shall acquire the unused capacity of the District, and (3) the District will upgrade the collection system to meet the standards of the City of Santa Rosa. The agreement requires the District to replace, slip-line, or repair 41,610 feet of the collection system and upgrade the Todd Road lift station before the City of Santa Rosa assumes responsibility for operation and maintenance of the collection system.

*Component Unit Reporting*

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

**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.

**SOUTH PARK COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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

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 position. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Proprietary funds distinguish operating from nonoperating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District are flat charges and charges for services. Operating expenses for the District include expenses relating to the collection, treatment, disposal, and reclamation of effluent as well as administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

*Cash and Investments*

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

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

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

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

**SOUTH PARK COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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

*Accounts Receivable*

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

*Debt issuance costs*

Debt issuance costs represent unamortized deferred bond issuance costs. For the fiscal year ended June 30, 2013, amortization of debt issuance costs was \$4,376. These costs are amortized using the straight-line method over the term of the outstanding bonds.

*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, and improvements and extensions to the collection systems.

*Capital Assets*

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

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

*Intangible Assets*

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

**SOUTH PARK COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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

*Revenue Bond Premium and Deferred Amount on Refunding*

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

*Net Position*

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use, either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulation of other governments.

*Budget and Budgetary Accounting*

The Board adopts a budget annually to be effective July 1<sup>st</sup> for the ensuing fiscal year for the District. The general manager of the Water Agency is authorized to transfer budgeted amounts within the 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.

*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.

*Adoption of GASB Statement No. 63 - Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*

The District adopted this pronouncement as of July 1, 2012. The adoption primarily had the effect of replacing the term “net assets” with “net position” and did not affect the recorded assets or liabilities of the District. Additionally, no deferred outflows or inflows of resources were recognized as a result of the adoption of this statement.

**SOUTH PARK COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**Note C. Cash and Investments**

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

*Investment Guidelines*

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

Permitted investments include the following:

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

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

As of June 30, 2013 the District's investments consisted of \$8,290,918 in the Treasury Pool managed by the County Treasurer, which is not rated by credit rating agencies, and had a weighted average maturity of 1,102 days. The credit rating and other information regarding specific investments maintained in the Treasury pool as of June 30, 2013, are disclosed in the County's Comprehensive Annual Financial Report.

**SOUTH PARK COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**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 is to changes in market interest rates. As of June 30, 2013 all of the District's investments are in the Treasury Pool which is not subject to interest rate risk.

*Custodial Credit Risk*

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the County's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits and securities lending transactions:

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

Investments in external investment pools and in open-end mutual funds are not exposed to custodial credit risk. As of June 30, 2013, all of the District's investments were in the County Treasury Pool and, are therefore, not exposed to custodial credit risk.

*Credit Risk*

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Treasury Pool does not have a credit rating. The District follows the County's policy to purchase investments with the minimum ratings required by the California Government Code. The credit rating of investments held and other information regarding the Treasury Pool for the year ended June 30, 2013 are disclosed in the County's Comprehensive Annual Financial Report.

**SOUTH PARK COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**Note D. Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2013 was as follows:

	July 1, 2012	Additions	Retirements	Transfers	June 30, 2013
Capital assets, not being depreciated					
Intangible assets	\$ 88,209	\$ 31,525	-	4,368	\$ 124,102
Construction in progress	1,220,310	133,419	-	-	1,353,729
Total capital assets not being depreciated	1,308,519	164,944	-	4,368	1,477,831
Capital assets being depreciated:					
Buildings and improvements	16,988,258	-	-	(4,368)	16,983,890
Less: accumulated depreciation	(4,324,180)	(342,119)	-	-	(4,666,299)
Total capital assets, being depreciated, net	12,664,078	(342,119)	-	(4,368)	12,317,591
Total capital assets, net	\$ 13,972,597	\$ (177,175)	\$ -	\$ -	\$ 13,795,422

Depreciation expense amounted to \$342,119 for the fiscal year ended June 30, 2013.

The total amount of interest capitalized in connection with collection system construction projects during the fiscal year ended June 30, 2013 was \$55,726.

**SOUTH PARK COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**Note E. Long-Term Obligations**

*Revenue Bonds*

The District issues bonds where the District pledges income derived from charges for services to pay debt service. The original amount of revenue bonds issued to finance construction projects for expanding existing wastewater collection system and constructing additional facilities was \$3,565,000, of which \$3,255,000 was refunded in September 2005. The bonds are payable solely from sanitation customer net revenues and are payable through 2027. Annual principal and interest payments are expected to require no more than 20% of net revenues. The total principal and interest outstanding on the bonds, with interest rates ranging from 3.3% - 5.0%, as of June 30, 2013 is \$2,440,000 and \$891,179, respectively which equals the remaining income pledged by the District towards debt service on the bonds. Principal and interest paid during the fiscal year ended June 30, 2013 and total customer net revenues were \$237,093 and \$1,210,859, respectively.

Revenue bond debt service requirements to maturity are as follows:

<b>Fiscal Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2014	\$ 130,000	\$ 107,694	\$ 237,694
2015	140,000	102,864	242,864
2016	140,000	97,684	237,684
2017	145,000	92,268	237,268
2018	155,000	86,454	241,454
2019-2023	865,000	319,981	1,184,981
2024-2027	865,000	84,234	949,234
<b>Total</b>	<b>\$2,440,000</b>	<b>\$ 891,179</b>	<b>\$3,331,179</b>

*Changes in Long-Term Obligations*

Long-term obligation activity for the fiscal year ended June 30, 2013 was as follows:

	<b>July 1, 2012</b>	<b>Additions</b>	<b>Retirements</b>	<b>June 30, 2013</b>	<b>Due Within One Year</b>
Revenue bonds	\$ 2,565,000	\$ -	\$ (125,000)	\$2,440,000	\$ 130,000
Less deferred amounts for:					
Original issue premium	48,771	-	(3,248)	45,523	3,252
Deferred amount on refunding	(215,056)	-	14,336	(200,720)	(14,337)
<b>Total revenue bonds</b>	<b>\$ 2,398,715</b>	<b>\$ -</b>	<b>\$ (113,912)</b>	<b>\$2,284,803</b>	<b>\$ 118,915</b>

**SOUTH PARK COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**Note F. Related Party Transactions**

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

The District is managed by the Water Agency, which provides administration, engineering, operational, and maintenance services. The District does not incur any payroll expenses. The Water Agency allocates overhead costs to the District via the use of an overhead rate charged on labor applicable to the District. The overhead rate is reviewed periodically by management to determine its effectiveness. The District paid \$145,755 to the Water Agency for administrative support during the fiscal year ended June 30, 2013.

**Note G. Risk Management**

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

The County 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). Limits of this coverage are \$25,000,000.

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

The County maintains "All Risk" property insurance including flood and earthquake through participation in the CSAC-EIA Property Insurance Program. Limits of coverage are \$600,000,000 per occurrence for All Risk, \$300,000,000 for flood and \$82,500,000 per occurrence for earthquake. Deductibles for these perils are \$50,000 per occurrence.

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.

**SOUTH PARK COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**Note H. Commitments and Contingencies**

*Pending Litigation, Claims, and Assessments*

In 2004, a property owner sued the City of Santa Rosa, the County, and the District, alleging that each public entity owns and operates sewer lines in the vicinity of the plaintiff's property and that the sewer lines have leaked, causing contamination to the plaintiff's property and to the groundwater beneath the plaintiff's property. The complaint was filed in May 2004. The plaintiffs subsequently dismissed their lawsuit in January 2005. However, because the site is still contaminated, there is the possibility that plaintiffs may re-file their action against the County and the District. No action from the North Coast Regional Water Quality Control Board has been taken on this matter in the last several years.

*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 I. Pollution Remediation**

The District and the County entered into a Plan of Action with the North Coast Regional Quality Control Board (NC Regional Board) in 1999 to investigate a groundwater plume of halogenated volatile organic compounds (HVOC's) believed to have leaked from former dry cleaning operations and possibly using sewer pipes as a conduit. The investigation was completed in February 2002 at a cost of approximately \$1,250,000. Currently, the NC Regional Board is focusing on other potentially responsible parties (mainly oil companies) in connection with a petroleum hydrocarbon plume which is co-mingled with the HVOC plume. The District is working with the NC Regional Board to require other potentially responsible parties to conduct investigations of HVOC source areas on their properties. In this regard, the NC Regional Board sent out two information request/source investigation letters in late 2005 to owners of properties in the area which may be a source of HVOCs.

The District and the County may be held responsible for conducting remediation of the plume. In such event, substantial additional costs may be incurred in connection with the remedial action. In addition, negotiation of a clean-up strategy will result in costs from technical and legal consultants. As of June 30, 2013, the District has estimated a liability of \$1,297,500 for potential remediation activities using the expected cash flow technique which measures the liability as the sum of probability-weighted amounts in a range of possible estimated amounts. The District did not perform any pollution remediation activity during the fiscal year ended June 30, 2013, as the investigation to identify responsible parties has not been concluded.

**SOUTH PARK COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**Note J. Future Governmental Accounting Standards**

The Governmental Accounting Standards Board (GASB) has released the following new standards:

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, issued in March 2012. The objective of this Statement is to either (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). These determinations are based on the definitions of those elements in Concepts Statement No. 4, *Elements of Financial Statement*. GASB Statement No. 65 is effective for financial statements for fiscal years beginning after December 15, 2012.

GASB Statement No. 66, *Technical Corrections – 2012*, an amendment of GASB Statements No. 10 and No. 62, issued in March 2012. The objective of this Statement is to improve accounting and financial reporting by state and local governmental entities by resolving conflicting guidance that resulted from the issuance of two pronouncements—Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Since the release of these Statements, questions have arisen concerning differences between the provisions in Statement 54 and Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, regarding the reporting of risk financing activities. Questions also have arisen about differences between Statement 62 and Statements No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, regarding the reporting of certain operating lease transactions, and No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, concerning the reporting of the acquisition of a loan or a group of loans and the recognition of servicing fees related to mortgage loans that are sold. GASB Statement No. 66 is effective for financial statements for fiscal years beginning after December 15, 2012.

The impact on the basic financial statements of the District of these pronouncements which have not yet been adopted is unknown at this time.

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

**Independent Auditor's Report**

Board of Directors  
South Park County Sanitation District  
Santa Rosa, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of South Park County Sanitation District (the "District"), a component unit of the County of Sonoma, California which comprise the statement of net position as of June 30, 2013, the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the notes to the financials statements, and have issued our report thereon dated October 8, 2013

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**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*.

*Local partnership. Global solutions.*

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

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

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We noted certain other matters that we reported to management of the District in a separate letter dated October 8, 2013.

*PricewaterhouseCoopers*

Petaluma, California  
October 8, 2013