

**SONOMA VALLEY 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, 2014

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**TABLE OF CONTENTS**

	<b><u>Page(s)</u></b>
<b>Independent Auditor's Report</b> .....	1-2
<b>Management's Discussion and Analysis (Required Supplementary Information)</b> .....	3-10
<b>Basic Financial Statements:</b>	
Statement of Net Position .....	11-12
Statement of Revenues, Expenses and Changes in Net Position.....	13
Statement of Cash Flows .....	14-15
Notes to the Basic Financial Statements.....	16-32
<b>Compliance:</b>	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	33-34

## **Independent Auditor's Report**

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

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

We have audited the accompanying financial statements of the Sonoma Valley County Sanitation District (the "District"), a component unit of the County of Sonoma, California, as of and for the year ended June 30, 2014, 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, 2014, 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 September 30, 2014, on our consideration 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.

*Pratt & Brinker LLP*

Petaluma, California  
September 30, 2014

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

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

As management of the Sonoma Valley County Sanitation District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with the District's financial statements and the accompanying notes to the basic financial statements.

**Reporting Entity**

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

Please refer to the definition of the reporting entity within the notes to the basic 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 \$65,628,389 (*net position*). Of this amount, \$13,275,860 (*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 and capital contributions of \$15,269,427 during the fiscal year ended June 30, 2014. Of this amount, \$13,470,534 consists of operating revenues including charges for services, and \$548,911 of nonoperating revenues consisting of investment earnings, property taxes, conservation program, and intergovernmental revenue. The District also recognized capital contributions from connection fees (\$227,086), donated capital assets (\$88,000) and proceeds from state and federal grants (\$934,896).

*Expenses*

The District incurred expenses totaling \$12,659,604 during the fiscal year ended June 30, 2014. \$12,136,570 represents operating expenses related to the collection, treatment, disposal, and reclamation of effluent, as well as administrative and general expenses. Nonoperating expenses total \$523,034 which is comprised of conservation program expenses of \$3,000 and interest expense of \$520,034 related to the District's long-term debt obligations.

*Increase in Net Position*

The District recognized an overall increase in net position of \$2,609,823.

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**Overview of the Financial Statements**

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

*Management's Discussion and Analysis*

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

*Financial Statements*

The District is engaged only in business-type activities. The District accounts for its financial activity utilizing fund accounting, specifically enterprise fund accounting, to ensure and demonstrate compliance with finance-related legal requirements. An enterprise fund is a proprietary fund type used to report activities for which a fee is charged to external customers for goods or services provided. The focus of an enterprise fund is the determination of operating income, changes in net 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 \$65,628,389 at the close of the most recent fiscal year compared to net position of \$63,402,692 as of June 30, 2013. The increase in net position of \$2,609,823 is due primarily to the receipt of capital contributions from connection fees, donated assets, and proceeds from state and federal grants totaling \$1,249,982 combined with operating income of \$1,333,964 and net nonoperating revenues of \$25,877.

The largest portion of the District's net position (72.0% as of June 30, 2014 compared to 66.1% for June 30, 2013) reflects its investment in capital assets (e.g., land and infrastructure), net of related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

*Condensed Statements of Net Position*

	June 30, 2013	June 30, 2014	Percentage Change
Current and other assets	\$ 23,526,689	\$ 19,225,177	-18.3%
Capital assets	68,672,685	74,343,287	8.3%
<b>Total Assets</b>	92,199,374	93,568,464	1.5%
<b>Total Deferred Outflows of Resources</b>	-	315,172	100.0%
Current liabilities	3,626,556	2,582,153	-28.8%
Noncurrent liabilities	25,170,126	25,673,094	2.0%
<b>Total Liabilities</b>	28,796,682	28,255,247	-1.9%
Net investment in capital assets	41,892,004	47,268,076	12.8%
Restricted for conservation	60,448	-	-100.0%
Restricted for debt service	3,691,125	3,828,153	3.7%
Restricted for capital projects	6,020,706	1,256,300	-79.1%
Unrestricted	11,738,409	13,275,860	13.1%
<b>Total Net Position</b>	\$ 63,402,692	\$ 65,628,389	3.5%

A portion of the District's net position totaling \$5,084,453 (7.7% as of June 30, 2014) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position of \$13,275,860 as of June 30, 2014 may be used to meet the District's ongoing obligations to citizens and creditors. As of June 30, 2014, the District reports positive balances in all categories of net position.



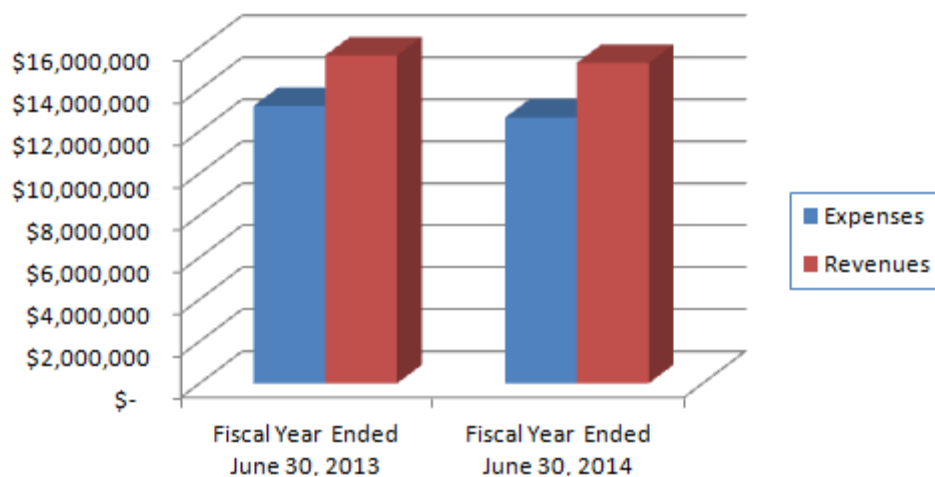
**SONOMA VALLEY COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

*Condensed Statements of Changes in Net Position*

	<b>Fiscal Year Ended</b>		<b>Percentage</b>
	<b>June 30, 2013</b>	<b>June 30, 2014</b>	<b>Change</b>
<b>Revenues</b>			
Operating revenues	\$ 13,240,768	\$ 13,470,534	1.7%
Nonoperating revenues	499,992	548,911	9.8%
<b>Total revenues</b>	<b>13,740,760</b>	<b>14,019,445</b>	<b>2.0%</b>
<b>Expenses</b>			
Services and supplies	9,109,246	8,776,968	-3.6%
Fiscal agent fees and legal services	24,900	29,900	20.1%
Depreciation and amortization	3,424,583	3,329,702	-2.8%
Conservation program	21,233	3,000	-85.9%
Interest expense	612,774	520,034	-15.1%
Loss on disposal of capital assets	20,036	-	-100.0%
<b>Total expenses</b>	<b>13,212,772</b>	<b>12,659,604</b>	<b>-4.2%</b>
Income (loss) before contributions	527,988	1,359,841	157.6%
Capital contributions:			
State and Federal grants	1,399,897	934,896	-33.2%
Donated assets	188,270	88,000	-53.3%
Connection fees	296,870	227,086	-23.5%
Increase in net position	2,413,025	2,609,823	8.2%
Net position - beginning of year	60,989,667	63,402,692	4.0%
Change in accounting principle - GASB 65	-	(384,126)	-
<b>Net position - beginning of year, as restated</b>	<b>60,989,667</b>	<b>63,018,566</b>	<b>3.3%</b>
<b>Net position, end of year</b>	<b>\$ 63,402,692</b>	<b>\$ 65,628,389</b>	<b>3.5%</b>

The District's net position increased by \$2,609,823 during the fiscal year ended June 30, 2014 compared to an increase of \$2,413,025 for the fiscal year ended June 30, 2013.

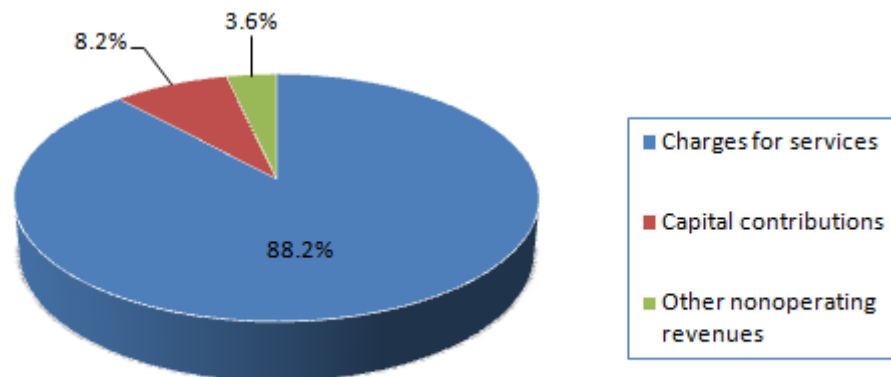
*Expenses and Revenues*



**SONOMA VALLEY COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

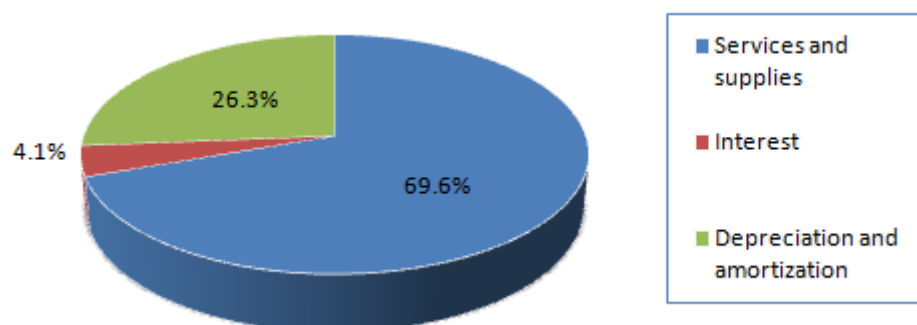
Revenues and capital contributions of the District for the fiscal year ended June 30, 2014 totaled \$15,269,427 representing a decrease of \$356,370 from the preceding fiscal year revenues and capital contributions of \$15,625,797. The rate based charges for services, representing 88.2% of the District's total revenue, increased by \$229,766 (1.7%) due primarily to a 5.5% rate increase from the previous year and a 0.2% increase in Equivalent Single-Family Dwellings serviced. Investment earnings increased by \$91,562 (30.2%) primarily due to the recurring pay down of principal balance on advances to the Sonoma County Water Agency. Conservation program revenue increased by \$22,187 (232.3%) due to a increase in sewer permits issued during the fiscal year ended June 30, 2014. In addition, the District received \$227,086 in capital contributions from connection fees, compared to \$296,870 received during the fiscal year ended June 30, 2013, along with donated capital assets totaling \$88,000. The District also received capital contributions from state and federal grants towards capital projects totaling \$934,896.

*Revenues and Capital Contributions by Source*



Total expenses for the District decreased by \$553,168 to \$12,659,604 for the fiscal year ended June 30, 2014, due primarily to increases in operations and maintenance related expenses during the fiscal year. The overall effect was a decrease in expenses of 4.2%.

*Expenses by Function*



Costs associated with the collection, treatment, and disposal of effluent represent 69.6% of the District's costs. Annual depreciation and amortization expense on capital assets of \$3,329,702 represented (26.3%) of total expenses. Interest expense totaling \$520,034 (4.1%) represents the cost of meeting current debt service obligations. Conservation program expenses of \$3,000 (0.3%) were grouped in services and supplies for presentation in the chart above.

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**Capital Asset and Debt Administration**

*Capital Assets*

The District's investment in capital assets as of June 30, 2014, amounts to \$74,343,287 (net of accumulated depreciation). In addition to reporting the District's investment in capital assets including land, buildings and improvements and construction in progress, the District reports its investment in intangible assets as required by Governmental Accounting Standards Board (GASB) Statement No. 51 – *Accounting and Financial Reporting for Intangible Assets*. Intangible assets for the District include easements (both temporary and permanent). Major capital asset activity during the fiscal year included the completion of the Napa Salt Marsh Recycled Water Pipeline project and ongoing construction in progress work on the Bio-Solids Handling Facility project.

*Sonoma Valley County Sanitation District's Capital Assets*

	June 30, 2013	June 30, 2014	Percentage Change
Land	\$ 4,506,972	\$ 4,506,972	0.0%
Intangible assets			
Permanent easements	1,151,355	1,316,210	14.3%
Temporary easements	10,656	10,656	0.0%
Construction in progress	7,348,565	7,795,036	6.1%
Buildings and improvements	103,217,631	-	-100.0%
Infrastructure	-	111,554,754	100.0%
Machinery and equipment	341,491	393,346	15.2%
Accumulated depreciation/amortization	(47,903,985)	(51,233,687)	7.0%
<b>Total</b>	<b>\$ 68,672,685</b>	<b>\$ 74,343,287</b>	<b>8.3%</b>

Additional information on the District's capital assets can be found in the notes to the basic financial statements.

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

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

	June 30, 2013	June 30, 2014	Percentage Change
Advances from other governments	\$ 7,845,580	\$ 9,313,246	18.7%
Notes payable	395,586	201,709	-49.0%
General obligation bonds	48,000	33,000	-31.3%
Revenue bonds	18,491,515	17,842,428	-3.5%
<b>Total long-term debt</b>	<b>\$ 26,780,681</b>	<b>\$ 27,390,383</b>	<b>2.3%</b>

The District's total debt increased by \$609,702 during the fiscal year ended June 30, 2014.

Advances from other governments increased \$1,467,666 as a result of a loan received from the State Water Resources Control Board (SWRCB) for the bio-solids management upgrade project totaling \$1,920,085 net of all scheduled principal payments to the SWRCB totaling \$452,419.

Revenue bonds decreased by \$649,087 as a result of principal payments totaling \$965,000 during the fiscal year ended June 30, 2014 and net decrease of \$57,324 due to amortization of bond discounts and premiums. These decreases are net of a \$373,237 increase due to the discreet presentation of deferred amounts on refunding in accordance with GASB Statement No. 65 – *Items Previously Reported as Assets and Liabilities*. Refer to Note B in the notes to the basic financial statement for additional information on deferred inflows/outflows of resources.

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

The balance for notes payable reflects principal payments totaling \$193,877 during the fiscal year.

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

**Next Year's Budget and Rates**

Budgeted gross expenses for the District for fiscal year ending June 30, 2015 have decreased by \$8,863,993 (23.3%) for a total of \$29,203,444. The major component of the decrease in budgeted expenses is related to decreases in capital projects and having no expenses budgeted out of the revenue bond projects fund. The decrease in operations is primarily due to a decrease in the budgeted receipt of proceeds for financial capital projects and the subsequent transfer of these proceeds from the operations fund to the construction fund as compared to the prior fiscal year.

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

Following is a comparison of final 2013/14 and proposed 2014/15 budgeted expenses for the District:

	<b>Fiscal Year Ending June 30, 2014</b>	<b>Fiscal Year Ending June 30, 2015</b>	<b>Decrease</b>	<b>Percentage Change</b>
Operations	\$ 20,524,165	\$ 18,933,378	\$ (1,590,787)	-7.8%
Debt service - general obligation bonds	2,452	2,452	-	0.0%
Debt service - Revenue bonds	735,308	708,108	(27,200)	-3.7%
Revenue bond - projects	4,800,000	-	(4,800,000)	-100.0%
Debt service - outfall line	2,579	2,579	-	0.0%
Construction	11,874,911	9,428,905	(2,446,006)	-20.6%
State revolving fund loan	128,022	128,022	-	0.0%
<b>Total</b>	<b>\$ 38,067,437</b>	<b>\$ 29,203,444</b>	<b>\$ (8,863,993)</b>	<b>-23.3%</b>

Budgeted expenses for fiscal year ended June 30, 2014 differ in several instances from the budgeted expenses presented in the management's discussion and analysis for the period ended June 30, 2013. 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, 2013.

The increase in budgeted sewer service fees revenue is 5.1% for the fiscal year ending June 30, 2015.

The following table indicates the sanitation sewer service rates and equivalent single dwellings for the District.

	<b>Fiscal Year Ending June 30, 2014</b>	<b>Fiscal Year Ending June 30, 2015</b>	<b>Percentage Change</b>
Rate per Equivalent Single-Family Dwelling	\$ 811	\$ 852	5.1%
Number of Equivalent Single-Family Dwellings	17,294	17,329	0.2%

**Request for Additional Information**

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

**SONOMA VALLEY COUNTY SANITATION DISTRICT**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2014**

**ASSETS**

Current assets:

Cash and investments	\$ 10,365,548
Accounts receivable	469,312
Advances to Sonoma County Water Agency	477,609
Due from other governments	227,308
Restricted cash and investments	
General obligation bond fund	3,467
Revenue bond fund	3,163,407
Debt service	602,059
Loan reserve fund	403,831
<b>Total current assets</b>	<b>15,712,541</b>

Noncurrent assets:

Cash and investments restricted for capital projects	1,256,300
Accounts receivable, noncurrent portion	136,803
Advances to Sonoma County Water Agency	2,119,533
Capital assets not being depreciated:	
Land	4,506,972
Intangible assets	1,316,210
Construction in progress	7,795,036
Capital assets, net of accumulated depreciation:	
Infrastructure	60,517,761
Machinery and equipment	205,177
Intangible assets	2,131
<b>Total capital assets (net of accumulated depreciation and amortization)</b>	<b>74,343,287</b>
<b>Total noncurrent assets</b>	<b>77,855,923</b>
<b>Total assets</b>	<b>93,568,464</b>

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred charge on refunding	315,172
<b>Total Deferred outflows of resources</b>	<b>315,172</b>

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

**SONOMA VALLEY COUNTY SANITATION DISTRICT**  
**STATEMENT OF NET POSITION (CONTINUED)**  
**JUNE 30, 2014**

**LIABILITIES**

Current liabilities:

Accounts payable and accrued expenses	520,253
Advances from other governments	463,257
Note payable	201,709
Accrued interest payable	118,114
<b>Total current liabilities</b>	<b>1,303,333</b>

Current liabilities payable from restricted assets:

Revenue bonds payable	1,052,323
Accrued interest payable	226,497
<b>Total current liabilities payable from restricted assets</b>	<b>1,278,820</b>

Noncurrent liabilities:

Advances from other governments	8,849,989
General obligation bonds payable	33,000
Revenue bonds payable	16,790,105
<b>Total noncurrent liabilities</b>	<b>25,673,094</b>
<b>Total liabilities</b>	<b>28,255,247</b>

**NET POSITION**

Net investment in capital assets	47,268,076
Restricted for debt service	3,828,153
Restricted for capital projects	1,256,300
Unrestricted	13,275,860
<b>Total net position</b>	<b>\$ 65,628,389</b>

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

**SONOMA VALLEY COUNTY SANITATION DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**Operating revenues**

Flat charges	\$ 12,223,181
Charges for services	1,228,018
Other	19,335
<b>Total operating revenues</b>	<b>13,470,534</b>

**Operating expenses**

Services and supplies	8,776,968
Fiscal agent fees and legal services	29,900
Depreciation and amortization	3,329,702
<b>Total operating expenses</b>	<b>12,136,570</b>
<b>Operating income</b>	<b>1,333,964</b>

**Nonoperating revenues (expenses)**

Investment earnings	395,025
Interest expense	(520,034)
Intergovernmental	104,876
Property taxes	17,270
Conservation program revenue	31,740
Conservation program expense	(3,000)
<b>Total nonoperating revenues, net</b>	<b>25,877</b>

**Income before capital contributions** 1,359,841

Capital contributions:

Capital contributions - federal and state grants	934,896
Capital contributions - donated capital assets	88,000
Connection fees	227,086

**Increase in net position** 2,609,823

Net position - beginning of year	63,402,692
Change in accounting principle - GASB 65	(384,126)

**Net position - beginning of year, as restated** 63,018,566

**Net position - end of year** **\$ 65,628,389**

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



**SONOMA VALLEY COUNTY SANITATION DISTRICT  
STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from customers	\$ 13,580,092
Payments to Sonoma County Water Agency	(5,278,381)
Payments to suppliers	(3,699,581)
Net cash provided by operating activities	4,602,130

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Taxes received	17,270
Intergovernmental revenue received	294,598
Conservation program receipts	31,740
Conservation program outlays	(3,000)
Net cash provided by noncapital financing activities	340,608

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Purchase of capital assets	(9,540,509)
Proceeds from State grants	163,411
Proceeds from federal grants	1,565,922
Advances received from other governments	1,889,375
Principal payments - note payable	(193,877)
Principal payments - advances from other governments	(452,419)
Principal payments - bonds	(980,000)
Interest paid on capital debt	(840,418)
Connection fees received	227,086
Net cash used by capital and related financing activities	(8,161,429)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Advances to other government repayment from Sonoma County Water Agency - principal	458,367
Advances to other government repayment from Sonoma County Water Agency - interest	128,599
Interest received on pooled cash and investments	266,425
Net cash provided by investing activities	853,391

Net decrease in cash and cash equivalents	(2,365,300)
Cash and cash equivalents - beginning of year	18,159,912
Cash and cash equivalents - end of year	\$ 15,794,612

**Reconciliation to the statement of net position**

Cash and investments	\$ 10,365,548
Restricted cash and investments	5,429,064
Cash and cash equivalents	\$ 15,794,612

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

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
STATEMENT OF CASH FLOWS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**RECONCILIATION OF OPERATING INCOME TO NET  
CASH PROVIDED BY OPERATING ACTIVITIES:**

Operating income	\$ 1,333,964
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	3,329,702
Change in assets and liabilities:	
Decrease in accounts receivable	109,558
Decrease in accounts payable and accrued expenses	(171,094)
Net cash provided by operating activities	<u>\$ 4,602,130</u>

**NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:**

Acquisition of capital assets in accounts payable	\$ (303,098)
Capitalized interest	328,606
Contributed capital assets	88,000

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

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

The Sonoma Valley County Sanitation District (the District) is managed by the Sonoma County Water Agency (the Water Agency), which provides engineering, administration, operational, and maintenance services. The District is 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, pump stations, and treatment plants. The District has an ordinance defining policies, including user fees.

*Component Unit Reporting*

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

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. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

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

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

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

*Cash and Investments*

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

The District applies the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, which requires governmental entities to report certain investments at fair value in the statement of net 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 reported 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. Cash with trustee and restricted cash and investments with a maturity of three months or less when purchased are also considered cash and cash equivalents.

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

*Accounts Receivable*

Accounts receivable primarily consists of uncollected fees for sanitation services and flat charges as of June 30, 2014. Flat charges are established annually by the Board and billed through the County's property tax system. The District has not recorded an allowance for uncollectible receivables as it deems all receivables fully collectible.

*Restricted Assets*

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

*Capital Assets*

Capital assets are stated at cost or estimated historical cost. Capital assets are defined by the District as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of one year.

Depreciation has been provided, excluding land and construction in progress, using the straight-line method over estimated useful lives ranging from 3 to 50 years. Useful lives of machinery and equipment are generally estimated to be 3 to 15 years. Buildings and improvements are generally estimated to have useful lives ranging from 30 to 50 years.

The costs of normal maintenance and repairs that do not add to the value or materially extend the useful life of capital assets are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets, offset by interest earned on unspent debt proceeds, is included as part of the capitalized value of the assets constructed.

*Intangible Assets*

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

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

*Bond Discounts and Premiums*

Revenue bond discounts (discounts) and premiums are deferred and amortized using the straight-line method, which approximates the effective interest method, over the term of the outstanding bonds. Unamortized bond discounts reduce the carrying value of the related debt and unamortized premiums increase the carrying value of the related debt.

*Deferred outflows/inflows of resources*

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expenses) until then. The District only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenues) until that time. The District does not have any items that qualify for reporting in this category.

*Net Position*

Net position represents the difference between (a) assets and deferred outflows of resources, and (b) liabilities and deferred inflows of resources. 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 regulations of other governments.

*Budget and Budgetary Accounting*

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

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

*Property Tax Revenue*

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

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

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

*Intergovernmental Revenues*

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

*Use of Estimates*

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

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**Note C. Cash and Investments**

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

*Investment Guidelines*

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

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

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

Cash and investments included the following at June 30, 2014:

	<b>Fair Value</b>
Cash and investments in Treasurer's Pool	\$ 14,918,469
Cash and investments with trustee	876,143
<b>Total</b>	<b>\$ 15,794,612</b>



**SONOMA VALLEY COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

*Investment Guidelines (continued)*

As of June 30, 2014 the fair value of the District's pooled cash and investments includes an unrealized gain fair value adjustment of \$119,330. Funds are held in the Treasury Pool managed by the Treasurer, which is not rated by credit rating agencies, and had a weighted average maturity of 791 days as June 30, 2014. The credit rating and other information regarding specific investments maintained in the Treasury Pool as of June 30, 2014 are disclosed in the County's Comprehensive Annual Financial Report.

*Interest Rate Risk*

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity its fair value is to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments, and by timing cash flows from maturities so that a portion of the portfolio is maturing, or coming close to maturity, evenly over time, as necessary, to provide the cash flow and liquidity needed for operations. The majority of the District's cash and investments are held in the Treasury Pool. As of June 30, 2014, \$876,143 of the District's investments were held by a trustee and invested in a money market mutual fund that provides daily liquidity and is not exposed to significant interest rate risk.

*Credit Risk*

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District follows the County's policy to purchase investments with the minimum ratings required by the California Government Code. Presented below is the minimum rating required by (where applicable) the California Government Code, the County's investment policy, or debt agreements, and the actual rating as of June 30, 2014 for each investment type. The credit rating and other information regarding the Treasury Pool as of June 30, 2014 are disclosed in the County's Comprehensive Annual Financial Report.

	<b>Fair Value</b>	<b>Credit Rating (Moody's / S &amp; P)</b>
Held by trustee:		
Money market mutual funds	\$ 876,143	P-1 / A-1+

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

*Custodial Credit Risk*

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

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

Investments in external investment pools are not exposed to custodial credit risk.

As of June 30, 2014, the District's investment in money market accounts is FDIC insured up to \$250,000. Accordingly, \$626,143 of the District's investment in money market accounts is subject to custodial credit risk.

**SONOMA VALLEY COUNTY SANITATION DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**Note D. Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2014 was as follows:

	July 1, 2013	Increases	Decreases	Transfers & Reclassification	June 30, 2014
Capital assets, not being depreciated/amortized:					
Land	\$ 4,506,972	\$ -	\$ -	\$ -	\$ 4,506,972
Intangibles	1,151,355	164,855	-	-	1,316,210
Construction in progress	7,348,565	8,695,594	-	(8,249,123)	7,795,036
Total capital assets, not being depreciated/amortized	13,006,892	8,860,449	-	(8,249,123)	13,618,218
Capital assets, being depreciated/amortized:					
Buildings and improvements	103,217,631	-	-	(103,217,631)	-
Infrastructure	-	88,000	-	111,466,754	111,554,754
Intangibles	10,656	-	-	-	10,656
Machinery and equipment	341,491	51,855	-	-	393,346
Total capital assets being depreciated/amortized	103,569,778	139,855	-	8,249,123	111,958,756
Less accumulated depreciation/amortization for:					
Buildings and improvements	(47,745,043)	-	-	47,745,043	-
Infrastructure	-	(3,291,950)	-	(47,745,043)	(51,036,993)
Intangibles	(6,394)	(2,131)	-	-	(8,525)
Machinery and equipment	(152,548)	(35,621)	-	-	(188,169)
Total accumulated depreciation/amortization	(47,903,985)	(3,329,702)	-	-	(51,233,687)
Total capital assets, being depreciated, net	55,665,793	(3,189,847)	-	8,249,123	60,725,069
Total capital assets, net	\$ 68,672,685	\$ 5,670,602	\$ -	\$ -	\$ 74,343,287

During the fiscal year ended June 30, 2014, the District reclassified as infrastructure its collection and treatment systems which were previously classified as buildings and improvements. Depreciation and amortization expense related to capital assets amounted to \$3,329,702 for the fiscal year ended June 30, 2014.

The total amount of interest capitalized in connection with wastewater treatment facilities construction projects during the fiscal year ended June 30, 2014 amounted to \$328,606.

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

During the fiscal year ended June 30, 2008, the District transferred ownership of its photovoltaic facility to the Water Agency. Terms of the transfer agreement included a contribution to the Water Agency in the amount of \$2,784,354 along with a loan totaling \$5,442,922. The term of the loan is 12 years, with the final payment due in 2019, at an interest rate of 4.198%. The total outstanding amount of the loan as of June 30, 2014 is \$2,597,142. The current portion of the long-term receivable from the Water Agency in the amount of \$477,609 is reported as advances to Sonoma County Water Agency in the statement of net position.

**Note F. Long-Term Obligations**

*Advances from Other Governments*

During the fiscal year ended June 30, 1995, the District received a loan of \$760,992 from the State Water Resources Control Board for an outfall rehabilitation project. As of June 30, 2014, the outstanding balance is \$48,376. The loan is a State Revolving Loan with current payments of \$49,710, payable annually in July. The expected term is 20 years at an annual interest rate of 2.7% with the last payment scheduled for July 2014.

Annual debt service requirements to maturity for this revolving loan are as follow:

<b>Fiscal Year Ending</b>					
<b>June 30,</b>		<b>Principal</b>		<b>Interest</b>	<b>Total</b>
2015	\$	48,376	\$	1,306	\$ 49,682
<b>Total</b>		<b>\$ 48,376</b>	<b>\$</b>	<b>1,306</b>	<b>\$ 49,682</b>

The District received funding from the State Water Resources Control Board during the fiscal year ended June 30, 2008 and fiscal year ended June 30, 2009 for the Tertiary Treatment Plant Upgrade project totaling \$6,996,831. The loan is a State Revolving Loan with annual payments of \$442,972. Payments are secured by a pledge of net revenues earned by the District. The total principal and interest outstanding on the advance from the State Water Resources Control Board secured by net revenues earned by the District as of June 30, 2014 is \$5,251,214 and \$950,390, respectively. The District made an initial payment in November 2008. The term of the loan is 20 years at an annual interest rate of 2.3% with the final payment currently scheduled for 2027.

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

*Advances from Other Governments (continued)*

Annual debt service requirements to maturity for the revolving loan are as follows:

<b>Fiscal Year Ending</b>					
<b>June 30,</b>		<b>Principal</b>		<b>Interest</b>	<b>Total</b>
2015	\$	322,194	\$	120,778	\$ 442,972
2016		329,604		113,368	442,972
2017		337,185		105,787	442,972
2018		344,940		98,032	442,972
2019		352,874		90,098	442,972
2020-2024		1,889,909		324,948	2,214,857
2025-2028		1,674,508		97,379	1,771,887
<hr/>					
Total	\$	5,251,214	\$	950,390	\$ 6,201,604

During the fiscal year ended June 30, 2013, the District received a loan of \$2,320,304 from the State Water Resources Control Board for the Watmaugh main sewer trunk replacement project. As of June 30, 2014, the outstanding balance is \$2,093,571. The loan is a State Revolving Loan with current payments of \$147,120, payable annually in November. The expected term is 20 years at an annual interest rate of 2.6% with the last payment scheduled for November 2031.

Annual debt service requirements to maturity for the revolving loan are as follows:

<b>Fiscal Year Ending</b>					
<b>June 30,</b>		<b>Principal</b>		<b>Interest</b>	<b>Total</b>
2015	\$	92,687	\$	54,433	\$ 147,120
2016		95,097		52,023	147,120
2017		97,570		49,550	147,120
2018		100,106		47,014	147,120
2019		102,709		44,411	147,120
2020-2024		555,017		180,581	735,598
2025-2029		631,019		104,578	735,597
2030-2032		419,366		21,994	441,360
<hr/>					
Total	\$	2,093,571	\$	554,584	\$ 2,648,155

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

*Advances from Other Governments (continued)*

During the fiscal year ended June 30, 2014 the District received loan proceeds totaling \$1,920,085 from the State Water Resources Control Board for the District's Biosolids Management Upgrade project. The current agreement with the State provides for a maximum of \$3,100,000 to be loaned to the District. The loan agreement requires repayment beginning one year after the completion of construction. The expected term is 20 years at an annual interest rate of 2.6%.

Principal and interest paid for the year ended June 30, 2014 on advances from other governments totaled \$639,802. Total net revenues for the year were \$6,220,673. Annual principal and interest payments on these advances are expected to require no more than 11% of net revenues.

*Note payable*

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

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

<b>Fiscal Year Ending</b>							
<b>June 30,</b>		<b>Principal</b>		<b>Interest</b>		<b>Total</b>	
2015	\$	201,709	\$	6,071	\$	207,780	
Total	\$	201,709	\$	6,071	\$	207,780	

*General Obligation Bonds*

General obligation bonds are direct obligations of the District. Principal and interest on the bonds are paid from revenue derived from an annual tax collected on all taxable property within the District. General obligation bonds outstanding as of June 30, 2014 were \$33,000, with interest rates ranging from 4% to 5%.

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

<b>Fiscal Year Ending</b>							
<b>June 30,</b>		<b>Principal</b>		<b>Interest</b>		<b>Total</b>	
2015	\$	-	\$	1,250	\$	1,250	
2016		16,000		425		16,425	
2017		17,000		-		17,000	
Total	\$	33,000	\$	1,675	\$	34,675	

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

*Revenue Bonds*

On September 7, 2005, the District, through the California Statewide Communities Development Authority, issued \$10,240,000 in Water and Wastewater Revenue Bonds (Series 2005C) for the purpose of partially refinancing the outstanding 1998 Special Revenue Bonds, which were initially issued to finance various treatment plant upgrades within the District. The remaining \$6,460,000 of 1998 Special Revenue bonds were refunded in February 2013 with the issuance of Sonoma County Water And Wastewater Financing Authority 2013 Revenue Bonds (2013 Bonds). In addition to the refunding, the 2013 Bonds were issued for the purpose of financing \$6,000,000 for acquisition and construction of certain improvements to the District's existing wastewater system. The bonds are payable solely from sanitation customer net revenues through 2037.

Annual principal and interest payments are expected to require no more than 32% of net revenues. The total principal and interest outstanding on the Revenue Bonds as of June 30, 2014 is \$16,430,000 and \$5,075,986, respectively which equals the remaining income pledged by the District through the fiscal year ending June 30, 2038 towards debt service on the revenue bonds. Principal and interest paid for the fiscal year ended June 30, 2014 and total customer net revenues were \$1,601,735 and \$5,058,691 respectively.

Total amounts outstanding and terms of the Series 2005C and 2013 Revenue Bonds are as follows:

	<b>Interest Rates</b>	<b>Maturity Date</b>	<b>Amount</b>
Series 2005C			
Revenue Bonds	2.7% - 4.1%	10/1/2018	\$ 4,485,000
2013 Revenue Bonds	2.0% - 4.0%	8/1/2037	11,945,000
<b>Total</b>			<b>\$ 16,430,000</b>

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

*Revenue Bonds (continued)*

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

<b>Fiscal Year Ending</b>			
<b>June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2015	\$ 995,000	\$ 595,625	\$ 1,590,625
2016	1,030,000	561,002	1,591,002
2017	1,070,000	523,324	1,593,324
2018	1,110,000	482,635	1,592,635
2019	1,155,000	439,625	1,594,625
2020-2024	6,520,000	1,456,050	7,976,050
2025-2029	1,670,000	586,650	2,256,650
2030-2034	1,500,000	339,750	1,839,750
2035-2038	1,380,000	91,325	1,471,325
<b>Total</b>	<b>\$ 16,430,000</b>	<b>\$ 5,075,986</b>	<b>\$ 21,505,986</b>

*Changes in Long-Term Obligations*

Long-term obligations activity for the fiscal year ended June 30, 2014 was as follows:

	<b>July 1, 2013</b>	<b>Additions</b>	<b>Reductions</b>	<b>June 30, 2014</b>	<b>Due Within One Year</b>
Advances from other Governments	\$ 7,845,580	\$ 1,920,085	\$ (452,419)	\$ 9,313,246	\$ 463,257
Note payable	395,586	-	(193,877)	201,709	201,709
General Obligation Bonds	48,000	-	(15,000)	33,000	-
Revenue Bonds	17,395,000	-	(965,000)	16,430,000	995,000
Premium	1,501,081	-	(62,545)	1,438,536	-
Discount	(31,329)	-	5,221	(26,108)	-
Total revenue bonds	18,864,752	-	(1,022,324)	17,842,428	995,000
<b>Total</b>	<b>\$ 27,153,918</b>	<b>\$ 1,920,085</b>	<b>\$ (1,683,620)</b>	<b>\$ 27,390,383</b>	<b>\$ 1,659,966</b>



**SONOMA VALLEY COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**Note G.      Accrued Interest Payable**

Interest payable consists of interest accrued on the following obligations:

	<b>Amount</b>
Advances from other governments	\$     118,114
General obligations and revenue bonds	226,497
Total	\$     344,611

**Note H.      Related Party Transactions**

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

The District is managed by the Water Agency, which provides administration, engineering, operational, and maintenance services. The District does not incur any payroll expenses. The Water Agency allocates overhead costs to the District via the use of an overhead rate charged on labor applicable to the District. The overhead rate is reviewed periodically by management to determine its effectiveness. The District paid \$5,278,381 to the Water Agency for administrative support during the fiscal year ended June 30, 2014.

**Note I.      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 \$80,000,000 per occurrence for earthquake. Deductibles for these perils are \$50,000 per occurrence.

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**Note I. Risk Management (continued)**

The County of Sonoma is permissibly self-insured for workers' compensation for its employees and volunteers. Excess workers' compensation coverage is obtained through participation in the CSAC-EIA.

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.

**Note J. Commitments and Contingencies**

*Commitments*

The District has active construction projects as of June 30, 2014. The projects include expansion and/or improvements of wastewater treatment facilities. As of June 30, 2014, the District's commitments to construction projects included \$7,795,036 spent to date with remaining commitments of \$444,399.

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

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

*Pending Litigation, Claims, and Assessments*

In July, 2010, the District received an Administrative Liability Complaint (ALC) from the California Regional Water Quality Control Board, San Francisco Bay Region (SF Bay Regional Board) for alleged discharge violations occurring from 2007 until early 2010. The ALC proposed an administrative penalty of \$348,000. Subsequently, four additional alleged violations were added for a sewer leak from a collection system pipe which occurred in July, 2010 bringing the total penalty to \$383,000. The District has settled the ALC, paying a penalty of \$199,750. The remaining penalty of \$183,000 was forgiven during the fiscal year ended June 30, 2014 upon the District's completion of the Supplemental Environment Project. On August 8, 2014 the SF Bay Regional Board issued a letter stating that the Fryer Creek Supplemental Environmental Project (SEP) for Administrative Civil Liability Order No. R2-2011-0021 was completed.

*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.

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**Note K.      Beginning Net Position Adjustment – Implementation of New Accounting Principles**

During the fiscal year ended June 30, 2014, the District implemented the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which establishes accounting and financial reporting standards for deferred outflows of resources and deferred inflows of resources. Refer to the District's Summary of Significant Accounting Policies (Note B.) for additional information on these financial statement elements. GASB 65 also requires that debt issuance costs, other than prepaid insurance, be recognized as an expense in the period incurred. A \$384,126 decrease in net position due to previously amortizable debt issuance costs was reported as a beginning net position adjustment. Additionally, the District's deferred loss on refunding of debt was reclassified as a deferred outflow of resources.

**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  
Sonoma Valley 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 Sonoma Valley 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, 2014, and 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 September 30, 2014.

**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 September 30, 2014.

*PricewaterhouseCoopers LLP*

Petaluma, California  
September 30, 2014