

**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, 2015

**Sonoma Valley County Sanitation District
For the Fiscal Year Ended June 30, 2015**

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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, 2015, 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, 2015, 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.

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 30, 2015, 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.



Santa Rosa, California
October 30, 2015

Management's Discussion and Analysis

**Sonoma Valley County Sanitation District
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2015**

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, 2015. 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 \$67,036,423 (*net position*). Of this amount, \$16,931,686 (*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 \$15,043,714 during the fiscal year ended June 30, 2015. Of this amount, \$14,096,356 consists of operating revenues including charges for services, and \$394,746 of nonoperating revenues consisting of investment earnings, property taxes, conservation program, and intergovernmental revenue. The District also recognized capital contributions from connection fees of \$552,612.

Expenses

The District incurred expenses totaling \$13,635,680 during the fiscal year ended June 30, 2015. \$13,022,632 represents operating expenses related to the collection, treatment, disposal, and reclamation of effluent, as well as administrative and general expenses. Nonoperating expenses total \$613,048 which is comprised of conservation program expenses of \$68,104, interest expense of \$542,454 related to the District's long-term debt obligations, and a loss on impairment of assets of \$2,490.

Increase in Net Position

The District recognized an overall increase in net position of \$1,408,034.

**Sonoma Valley County Sanitation District
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2015**

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 \$67,036,423 at the close of the most recent fiscal year compared to net position of \$65,628,389 as of June 30, 2014. The increase in net position of \$1,408,034 is due primarily to income from ongoing operations of \$1,073,724, capital contributions from connection fees of \$552,612 and net nonoperating expenses of \$218,302.

The largest portion of the District's net position (68.9% as of June 30, 2015 compared to 72.0% for June 30, 2014) 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, 2015**

Condensed Statements of Net Position

	June 30, 2014	June 30, 2015	Percentage Change
Current and other assets	\$ 19,225,177	\$ 21,452,079	11.6%
Capital assets	74,343,287	72,796,927	-2.1%
Total Assets	93,568,464	94,249,006	0.7%
Total Deferred Outflows of Resources	315,172	257,108	-18.4%
Current liabilities	2,582,153	2,244,471	-13.1%
Noncurrent liabilities	25,673,094	25,225,220	-1.7%
Total Liabilities	28,255,247	27,469,691	-2.8%
Net investment in capital assets	47,268,076	46,181,002	-2.3%
Restricted for debt service	3,828,153	3,923,735	2.5%
Restricted for capital projects	1,256,300	-	-100.0%
Unrestricted	13,275,860	16,931,686	27.5%
Total Net Position	\$ 65,628,389	\$ 67,036,423	2.1%

A portion of the District's net position totaling \$3,923,735 (5.9% as of June 30, 2015) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position of \$16,931,686 as of June 30, 2015 may be used to meet the District's ongoing obligations to citizens and creditors. As of June 30, 2015, the District reports positive balances in all categories of net position.

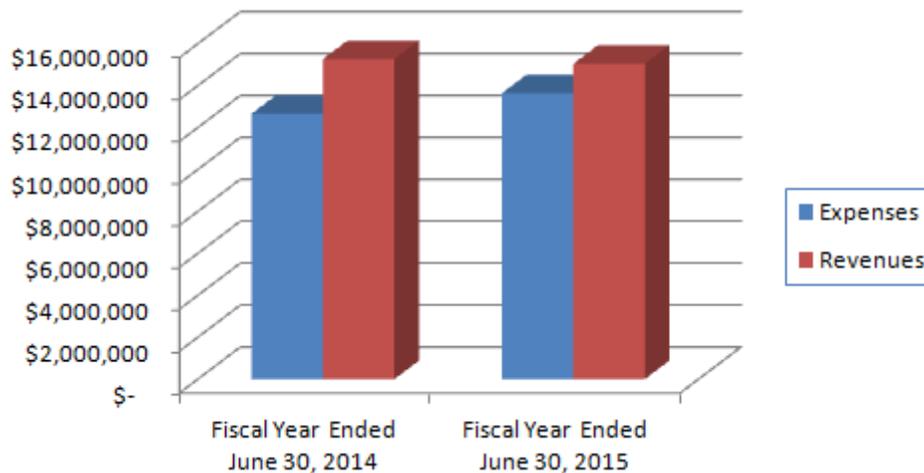
**Sonoma Valley County Sanitation District
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2015**

Condensed Statements of Changes in Net Position

	<u>Fiscal Year Ended</u>		Percentage Change
	June 30, 2014	June 30, 2015	
Revenues			
Operating revenues	\$ 13,470,534	\$ 14,096,356	4.6%
Nonoperating revenues	548,911	394,746	-28.1%
Total revenues	14,019,445	14,491,102	3.4%
Expenses			
Services and supplies	8,776,968	9,305,996	6.0%
Fiscal agent fees and legal services	29,900	80,056	167.7%
Depreciation and amortization	3,329,702	3,636,580	9.2%
Conservation program	3,000	68,104	2170.1%
Interest expense	520,034	542,454	4.3%
Loss on disposal of capital assets	-	2,490	100.0%
Total expenses	12,659,604	13,635,680	7.7%
Income (loss) before contributions	1,359,841	855,422	-37.1%
Capital contributions:			
State and Federal grants	934,896	-	-100.0%
Donated assets	88,000	-	-100.0%
Connection fees	227,086	552,612	143.3%
Increase in net position	2,609,823	1,408,034	-46.0%
Net position - beginning of year	63,402,692	65,628,389	3.5%
Change in accounting principle - GASB 65	(384,126)	-	-100.0%
Net position - beginning of year, as restated	63,018,566	65,628,389	4.1%
Net position, end of year	\$ 65,628,389	\$ 67,036,423	2.1%

The District's net position increased by \$1,408,034 during the fiscal year ended June 30, 2015 compared to an increase of \$2,609,823 for the fiscal year ended June 30, 2014.

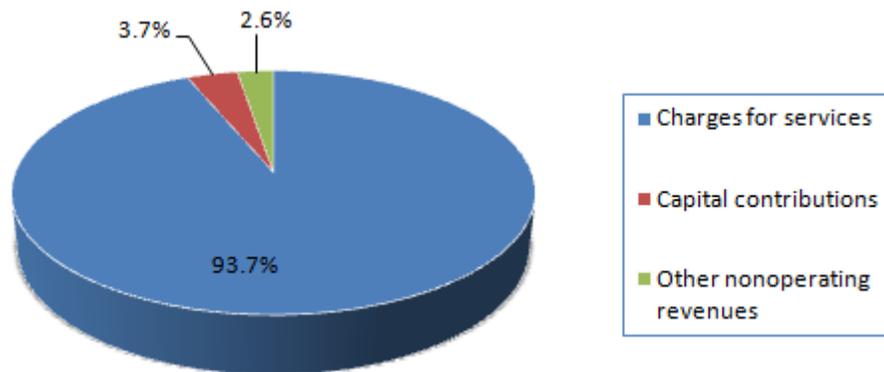
Expenses and Revenues



**Sonoma Valley County Sanitation District
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2015**

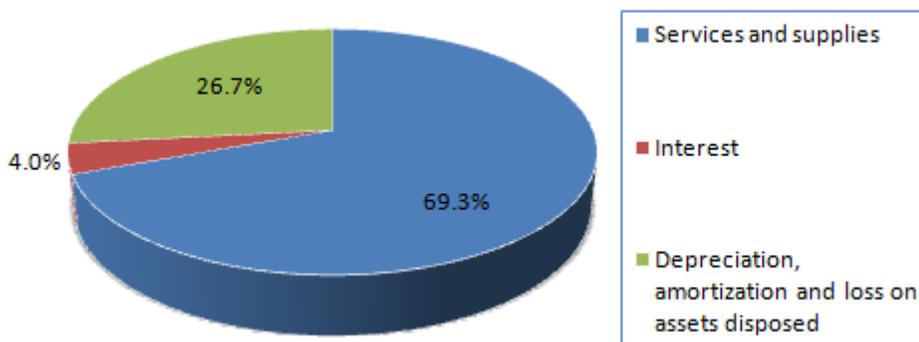
Revenues and capital contributions of the District for the fiscal year ended June 30, 2015 totaled \$15,043,714 representing a decrease of \$225,713 from the preceding fiscal year revenues and capital contributions of \$15,269,427. The rate based charges for services, representing 93.7% of the District's total revenue, increased by \$625,822 (4.6%) due primarily to a 5.1% rate increase from the previous year and a 0.2% increase in Equivalent Single-Family Dwellings serviced. Investment earnings decreased by \$141,144 (46.5%) primarily due to unrealized investment losses and the recurring pay down of principal balance on advances to the Sonoma County Water Agency. Conservation program revenue increased by \$58,551 (612.9%) due to a increase in sewer permits issued during the fiscal year ended June 30, 2015. In addition, the District received \$552,612 in capital contributions from connection fees, compared to \$227,086 received during the fiscal year ended June 30, 2014.

Revenues and Capital Contributions by Source



Total expenses for the District increased by \$976,076 to \$13,635,680 for the fiscal year ended June 30, 2015, due primarily to increases in operations and maintenance related expenses during the fiscal year. The overall effect was an increase in expenses of 7.7%.

Expenses by Function



Costs associated with the collection, treatment, and disposal of effluent represent 68.8% of the District's costs. Annual depreciation and amortization expense on capital assets of \$3,636,580 represented (26.7%) of total expenses. Interest expense totaling \$542,454 (4.0%) represents the cost of meeting current debt service obligations. Conservation program expenses of \$68,104 (0.5%) 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, 2015**

Capital Asset and Debt Administration

Capital Assets

The District's investment in capital assets as of June 30, 2015, amounts to \$72,796,927 (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, 2014	June 30, 2015	Percentage Change
Land	\$ 4,506,972	\$ 4,506,972	0.0%
Intangible assets			
Permanent easements	1,316,210	1,468,065	11.5%
Temporary easements	10,656	55,329	419.2%
Construction in progress	7,795,036	3,668,552	-52.9%
Infrastructure	111,554,754	117,565,095	5.4%
Machinery and equipment	393,346	393,485	0.0%
Accumulated depreciation/amortization	(51,233,687)	(54,860,571)	7.1%
Total	\$ 74,343,287	\$ 72,796,927	-2.1%

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, 2015**

Capital Asset and Debt Administration (continued)

Sonoma Valley County Sanitation District's Long-Term Debt

	June 30, 2014	June 30, 2015	Percentage Change
Advances from other governments	\$ 9,313,246	\$ 10,065,928	8.1%
Notes payable	201,709	-	-100.0%
General obligation bonds	33,000	17,000	-48.5%
Revenue bonds	17,842,428	16,790,105	-5.9%
Total long-term debt	\$ 27,390,383	\$ 26,873,033	-1.9%

The District's total debt decreased by \$517,350 during the fiscal year ended June 30, 2015.

Advances from other governments increased \$752,682 as a result of a loan received from the State Water Resources Control Board (SWRCB) for the bio-solids management upgrade project totaling \$1,215,939 net of all scheduled principal payments to the SWRCB totaling \$463,257.

Revenue bonds decreased by \$1,052,323 as a result of principal payments totaling \$965,000 during the fiscal year ended June 30, 2015 and net decrease of \$57,323 due to amortization of bond discounts and premiums.

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

The balance for notes payable was fully liquidated after the final principal payment of \$201,709 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, 2016 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, 2015**

Next Year's Budget and Rates (continued)

Following is a comparison of final 2014/15 and proposed 2015/16 budgeted expenses for the District:

	Fiscal Year Ending June 30, 2015	Fiscal Year Ending June 30, 2016	Increase / (Decrease)	Percentage Change
Operations	\$ 18,561,764	\$ 19,214,100	\$ 652,336	3.5%
Debt service - general obligation bonds	1,703	903	(800)	-47.0%
Debt service - Revenue bonds	666,995	632,372	(34,623)	-5.2%
Revenue bond - projects	2,200,000	-	(2,200,000)	-100.0%
Debt service - outfall line	2,579	-	(2,579)	-100.0%
Construction	12,060,537	7,270,000	(4,790,537)	-39.7%
State revolving fund loan	120,778	113,369	(7,409)	-6.1%
Total	\$ 33,614,356	\$ 27,230,744	\$ (6,383,612)	-19.0%

Budgeted expenses for fiscal year ended June 30, 2015 differ in several instances from the budgeted expenses presented in the management's discussion and analysis for the period ended June 30, 2014. 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, 2014.

The increase in budgeted sewer service fees revenue is 4.5% for the fiscal year ending June 30, 2016.

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

	Fiscal Year Ending June 30, 2015	Fiscal Year Ending June 30, 2016	Percentage Change
Rate per Equivalent Single-Family Dwelling	\$ 852	\$ 890	4.5%
Number of Equivalent Single-Family Dwellings	17,329	17,329	0.0%

Request for Additional Information

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

Sonoma Valley County Sanitation District
Statement of Net Position
June 30, 2015

Assets

Current assets:

Cash and investments	\$	14,103,322
Accounts receivable		496,043
Prepaid expenses		105,105
Deposits with others		96,000
Advances to Sonoma County Water Agency		497,659
Due from other governments		162,801
Restricted cash and investments		
General obligation bond fund		4,362
Revenue bond fund		3,273,576
Debt service		584,193
Loan reserve fund		442,373
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Total current assets		19,765,434
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Noncurrent assets:

Accounts receivable, noncurrent portion		64,771
Advances to Sonoma County Water Agency		1,621,874
Capital assets not being depreciated:		
Land		4,506,972
Intangible assets		1,468,065
Construction in progress		3,668,552
Capital assets, net of accumulated depreciation:		
Infrastructure		62,937,081
Machinery and equipment		176,548
Intangible assets		39,709
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Total capital assets (net of accumulated depreciation and amortization)		72,796,927
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Total noncurrent assets		74,483,572
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Total assets		94,249,006
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Deferred Outflows of Resources

Deferred charge on refunding		257,108
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Total Deferred outflows of resources		257,108
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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, 2015

Liabilities

Current liabilities:

Accounts payable and accrued expenses	215,889
Advances from other governments	560,490
Accrued interest payable	163,220
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Total current liabilities	939,599
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Current liabilities payable from restricted assets:

Revenue bonds payable	1,087,323
Accrued interest payable	217,549
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Total current liabilities payable from restricted assets	1,304,872
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Noncurrent liabilities:

Advances from other governments	9,505,438
General obligation bonds payable	17,000
Revenue bonds payable	15,702,782
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Total noncurrent liabilities	25,225,220
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Total liabilities	27,469,691
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Net Position

Net investment in capital assets	46,181,002
Restricted for debt service	3,923,735
Unrestricted	16,931,686
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Total net position	\$ 67,036,423
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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, 2015

Operating revenues	
Flat charges	\$ 12,585,964
Charges for services	1,375,683
Other	134,709
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Total operating revenues	14,096,356
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Operating expenses	
Services and supplies	9,305,996
Fiscal agent fees and legal services	80,056
Depreciation and amortization	3,636,580
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Total operating expenses	13,022,632
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Operating income	1,073,724
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Nonoperating revenues (expenses)	
Investment earnings	162,319
Interest expense	(542,454)
Intergovernmental	145,952
Property taxes	18,371
Loss on impairment of capital assets	(2,490)
Conservation program revenue	68,104
Conservation program expense	(68,104)
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Total nonoperating expenses, net	(218,302)
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Income before capital contributions	855,422
Capital contributions:	
Connection fees	552,612
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Increase in net position	1,408,034
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Net position - beginning of year	65,628,389
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Net position - end of year	\$ 67,036,423
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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, 2015

Cash flows from operating activities	
Receipts from customers	\$ 14,141,657
Payments to Sonoma County Water Agency	(5,766,750)
Payments to suppliers	(3,626,597)
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Net cash provided by operating activities	4,748,310
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Cash flows from noncapital financing activities	
Taxes received	18,371
Intergovernmental revenue received	91,479
Conservation program receipts	68,104
Conservation program outlays	(68,104)
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Net cash provided by noncapital financing activities	109,850
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Cash flows from capital and related financing activities	
Purchase of capital assets	(2,311,261)
Proceeds from State grants	118,980
Advances received from other governments	1,215,939
Principal payments - note payable	(201,709)
Principal payments - advances from other governments	(463,257)
Principal payments - bonds	(1,011,000)
Interest paid on capital debt	(785,178)
Connection fees received	552,612
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Net cash used by capital and related financing activities	(2,884,874)
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Cash flows from investing activities	
Payment received on advances to Sonoma County Water Agency - principal	477,609
Payment received on advances to Sonoma County Water Agency - interest	109,236
Interest received on pooled cash and investments	53,083
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Net cash provided by investing activities	639,928
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Net increase in cash and cash equivalents	2,613,214
Cash and cash equivalents - beginning of year	15,794,612
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Cash and cash equivalents - end of year	\$ 18,407,826
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Reconciliation to the statement of net position	
Cash and investments	\$ 14,103,322
Restricted cash and investments	4,304,504
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Cash and cash equivalents	\$ 18,407,826
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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, 2015**

**Reconciliation of operating income to net cash
provided by operating activities:**

Operating income	\$	1,073,724
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization		3,636,580
Change in assets and liabilities:		
Decrease in accounts and other receivables		45,301
Decrease in accounts payable and accrued expenses		(7,295)
Net cash provided by operating activities	\$	4,748,310

Noncash Capital and Related Financing Activities:

Acquisition of capital assets in accounts payable	\$	6,029
Capitalized interest		279,623
Reduction in capital assets dues to impairments recognized		2,490

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, 2015

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 discretely presented 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, 2015

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, 2015

Note B. Summary of Significant Accounting Policies (continued)

Accounts Receivable

Accounts receivable primarily consists of uncollected fees for sanitation services and flat charges. 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 include land, land improvements, buildings and improvements, machinery and equipment, infrastructure, and intangible assets. Assets that are purchased or constructed are reported at historical cost or at estimated historical cost if actual historical cost is not available. Capital projects spanning multiple years are recorded as construction in progress. Interest costs incurred during the construction phase of capital projects are included in the capitalized value of the assets constructed. Donated capital assets are valued at their estimated fair value on the date of donation.

Maintenance and repair costs are charged to operations when incurred. Improvements to existing assets that significantly increase performance, change capacities or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

Assets acquired under capital lease are amortized over the lesser of the useful life of the asset or the lease term. Depreciation and amortization are recognized using the straight-line method over the estimated useful life of the asset.

**Sonoma Valley County Sanitation District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015**

Note B. Summary of Significant Accounting Policies (continued)

The capitalization thresholds and estimated useful lives for capital assets are as follows:

	Capitalization Threshold	Estimated Useful Life
Land	\$ -	N/A
Land improvements	25,000	15 to 50 years
Buildings and improvements:		
Buildings	25,000	50 years
Building improvements	25,000	15 to 20 years
Machinery and equipment	5,000	5 to 20 years
Infrastructure	100,000	25 to 75 years
Intangible Assets		
Computer software	25,000	3 to 10 years
Temporary easements	-	Life of easement
Permanent easements	-	N/A
Construction in progress	Projects expected to exceed the capitalization threshold for the applicable asset class	N/A

Intangible Assets

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

Bond 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.

**Sonoma Valley County Sanitation District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015**

Note B. Summary of Significant Accounting Policies (continued)

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

Property Tax Revenue

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

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

Sonoma Valley County Sanitation District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Note B. Summary of Significant Accounting Policies (continued)

Property Tax Revenue (continued)

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. Revenue on these grants is recognized based on the specific terms of the grant agreement.

Use of Estimates

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

Note C. Cash and Investments

The District follows the practice of pooling cash and investments of all funds with the 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.

**Sonoma Valley County Sanitation District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015**

Note C. Cash and Investments (continued)

Investment Guidelines (continued)

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, 2015:

	Fair Value
Cash and investments in Treasurer's Pool	\$ 17,531,481
Cash and investments with trustee	876,345
Total	\$ 18,407,826

As of June 30, 2015 the fair value of the District's pooled cash and investments includes an unrealized gain fair value adjustment of \$46,165. 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 600 days as June 30, 2015. The credit rating and other information regarding specific investments maintained in the Treasury Pool as of June 30, 2015 are disclosed in the County's Comprehensive Annual Financial Report.

**Sonoma Valley County Sanitation District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015**

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 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, 2015, \$876,345 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, 2015 for each investment type. The credit rating of investment held by, and other information regarding the Treasury Pool, as of June 30, 2015 are disclosed in the County's Comprehensive Annual Financial Report.

	Fair Value	Credit Rating (Moody's / S & P)
Held by trustee:		
Money market mutual funds	\$ 876,345	P-1 / A-1+

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.

Sonoma Valley County Sanitation District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Note C. Cash and Investments (continued)

Custodial Credit Risk (continued)

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, 2015, the District's investment in money market accounts is FDIC insured up to \$250,000. Accordingly, \$626,345 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, 2015**

Note D. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2015 was as follows:

	July 1, 2014	Increases	Decreases	Transfers & Reclassification	June 30, 2015
Capital assets, not being depreciated/amortized:					
Land	\$ 4,506,972	\$ -	\$ -	\$ -	\$ 4,506,972
Intangibles	1,316,210	-	-	151,855	1,468,065
Construction in progress	7,795,036	2,080,385	-	(6,206,869)	3,668,552
Total capital assets, not being depreciated/amortized	13,618,218	2,080,385	-	(6,055,014)	9,643,589
Capital assets, being depreciated/amortized:					
Infrastructure	111,554,754	-	-	6,010,341	117,565,095
Intangibles	10,656	-	-	44,673	55,329
Machinery and equipment	393,346	12,325	(12,186)	-	393,485
Total capital assets being depreciated/amortized	111,958,756	12,325	(12,186)	6,055,014	118,013,909
Less accumulated depreciation/amortization for:					
Infrastructure	(51,036,993)	(3,591,021)	-	-	(54,628,014)
Intangibles	(8,525)	(7,095)	-	-	(15,620)
Machinery and equipment	(188,169)	(38,464)	9,696	-	(216,937)
Total accumulated depreciation/amortization	(51,233,687)	(3,636,580)	9,696	-	(54,860,571)
Total capital assets, being depreciated, net	60,725,069	(3,624,255)	(2,490)	6,055,014	63,153,338
Total capital assets, net	\$ 74,343,287	\$ (1,543,870)	\$ (2,490)	\$ -	\$ 72,796,927

Depreciation and amortization expense related to capital assets amounted to \$3,636,580 for the fiscal year ended June 30, 2015.

The total amount of interest capitalized in connection with wastewater treatment facilities construction projects during the fiscal year ended June 30, 2015 amounted to \$279,623.

**Sonoma Valley County Sanitation District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015**

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, 2015 is \$2,119,533. The current portion of the long-term receivable from the Water Agency in the amount of \$497,659 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. The loan had a term of 20 years. The final debt service payment made was made in July 2014 relieving the remaining principal balance of \$48,376.

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 debt service 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, 2015 is \$4,929,020 and \$829,613, respectively. The term of the loan is 20 years at an annual interest rate of 2.3% with the final payment currently scheduled for 2027.

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

Fiscal Year Ending		Principal	Interest	Total
June 30,				
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		360,990	81,982	442,972
2021-2025		1,933,377	281,481	2,214,858
2026-2028		1,270,050	58,865	1,328,915
Total	\$	4,929,020	\$ 829,613	\$ 5,758,633

**Sonoma Valley County Sanitation District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015**

Note F. Long-Term Obligations (continued)

Advances from Other Governments (continued)

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, 2015, the outstanding balance is \$2,000,884. The loan is a State Revolving Loan with debt service 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:

Fiscal Year Ending				
June 30,		Principal	Interest	Total
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		105,379	41,740	147,119
2021-2025		569,447	166,152	735,599
2026-2030		647,426	88,173	735,599
2031-2032		283,150	11,090	294,240
Total	\$	2,000,884	\$ 500,153	\$ 2,501,037

During the fiscal years ended June 30, 2014 and 2015, the District received loan proceeds totaling \$3,136,024 from the State Water Resources Control Board for the District's Biosolids Management Upgrade project. As of June 30, 2015, the outstanding balance is \$3,136,024. The loan is a State Revolving Loan with debt service payments of \$202,112, payable annually in August. The expected term is 20 years at an annual interest rate of 2.6% with the last payment scheduled for August 2034.

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

Fiscal Year Ending				
June 30,		Principal	Interest	Total
2016	\$	135,789	\$ 66,323	\$ 202,112
2017		124,106	78,006	202,112
2018		127,333	74,779	202,112
2019		130,643	71,469	202,112
2020		134,040	68,072	202,112
2021-2025		724,323	286,236	1,010,559
2026-2030		823,510	187,049	1,010,559
2031-2035		936,280	74,280	1,010,560
Total	\$	3,136,024	\$ 906,214	\$ 4,042,238

**Sonoma Valley County Sanitation District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015**

Note F. Long-Term Obligations (continued)

Advances from Other Governments (continued)

Principal and interest paid for the year ended June 30, 2015 on advances from other governments totaled \$639,774. Total net revenues for the year were \$5,425,235. Annual principal and interest payments on these advances are expected to require no more than 15% 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 required semi-annual debt service payments over a 5 year period at an annual interest rate of 4%. The final payments were made on the note during the fiscal year ended June 30, 2015 which relieved the remaining \$201,709 of principal due.

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, 2015 were \$17,000, with interest rates ranging from 4% to 5%.

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

Fiscal Year Ending					
June 30,		Principal	Interest		Total
2016	\$	-	\$	1,250	\$ 1,250
2017		17,000		425	17,425
Total	\$	17,000	\$	1,675	\$ 18,675

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 2014 with the issuance of Sonoma County Water And Wastewater Financing Authority 2014 Revenue Bonds (2014 Bonds). In addition to the refunding, the 2014 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.

**Sonoma Valley County Sanitation District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015**

Note F. Long-Term Obligations (continued)

Revenue Bonds (continued)

Annual principal and interest payments are expected to require no more than 33% of net revenues. The total principal and interest outstanding on the Revenue Bonds as of June 30, 2015 is \$15,435,000 and \$4,480,361, 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, 2015 and total customer net revenues were \$1,590,625 and \$4,872,623 respectively.

Total amounts outstanding and terms of the Series 2005C and 2014 Revenue Bonds are as follows:

	Interest Rates	Maturity Date	Amount
Series 2005C Revenue Bonds	2.7% - 4.1%	10/1/2018	\$ 3,655,000
2013 Revenue Bonds	2.0% - 4.0%	8/1/2037	11,780,000
Total			\$ 15,435,000

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

Fiscal Year Ending			
June 30,	Principal	Interest	Total
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	1,200,000	393,450	1,593,450
2021-2025	5,970,000	1,206,250	7,176,250
2026-2030	1,300,000	528,650	1,828,650
2031-2035	1,550,000	293,588	1,843,588
2036-2038	1,050,000	51,838	1,101,838
Total	\$ 15,435,000	\$ 4,480,361	\$ 19,915,361

**Sonoma Valley County Sanitation District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015**

Note F. Long-Term Obligations (continued)

Changes in Long-Term Obligations

Long-term obligations activity for the fiscal year ended June 30, 2015 was as follows:

	July 1, 2014	Additions	Reductions	June 30, 2015	Due Within One Year
Advances from other Governments	\$ 9,313,246	\$ 1,215,939	\$ (463,257)	\$ 10,065,928	\$ 560,490
Note payable	201,709	-	(201,709)	-	-
General Obligation Bonds	33,000	-	(16,000)	17,000	-
Revenue Bonds	16,430,000	-	(995,000)	15,435,000	1,030,000
Premium	1,438,536	-	(62,545)	1,375,991	-
Discount	(26,108)	-	5,222	(20,886)	-
Total revenue bonds	17,842,428	-	(1,052,323)	16,790,105	1,030,000
Total	\$ 27,390,383	\$ 1,215,939	\$ (1,733,289)	\$ 26,873,033	\$ 1,590,490

Note G. Accrued Interest Payable

Interest payable consists of interest accrued on the following obligations:

	Amount
Advances from other governments	\$ 163,220
General obligations and revenue bonds	217,549
Total	\$ 380,769

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 \$5,766,750 to the Water Agency for administrative support during the fiscal year ended June 30, 2015.

Sonoma Valley County Sanitation District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

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 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, \$415,000,000 for flood (limits vary in FEMA flood zones) and earthquake coverage with shared limits of \$560,000,000. Deductibles for these perils are \$50,000 per occurrence.

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, 2015. The projects include expansion and/or improvements of wastewater treatment facilities. As of June 30, 2015, the District's costs incurred on construction projects in progress totaled \$3,668,552 with remaining commitments of \$133,231.

The construction project incurred costs 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 other current resources.

Contractual commitments related to District operations were \$655,628 as of June 30, 2015.

**Sonoma Valley County Sanitation District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015**

Note J. Commitments and Contingencies (continued)

Pending Litigation, Claims, and Assessments

In June, 2015, the California Regional Water Quality Board (SF Bay Regional Board), issued a final Administrative Liability Complaint (ACL) and Cease and Desist Order (CDO) settlement agreement to settle pending enforcement actions for alleged violations by the District during the last five years. The terms of the settlement agreement were negotiated by staff and approved by the District Board, and include 1) Board consideration for adoption, by July 1, 2016, of a sewer lateral ordinance for the inspection and repair of private sewer laterals; 2) Completion of a Sewer Capacity Study and Rate/Funding Structure Report by August 1, 2016; 3) Submission of quarterly status reports; 4) Implementation of two trunk main replacement projects by October, 2022 and October, 2024 respectively; 5) Payment of a civil penalty of \$732,300; 6) Implementation by the District of two Supplemental Environmental Projects for a maximum credit against the penalty of \$365,000, reducing the monetary penalty payment to \$376,000. The District paid \$367,300 in penalties related to the ACL in June 2015.

In March, 2015, California River Watch filed a Clean Water Act Citizen Suit Complaint against the District seeking penalties and injunctive relief for alleged violations by the District during the last 5 years. A settlement in the case was reached in August, 2015. Pursuant to the settlement, the District will conduct a sewer line condition assessment and repair program, conduct additional reporting and response activities for certain spills, prepare a private sewer lateral ordinance and consider for adoption, and pay fees and costs of \$50,000. The settlement agreement was recently approved by federal agencies and the Federal District Court has dismissed the action.

In July, 2015, the SF Bay Regional Board sent an inquiry to Water Agency staff regarding historical contamination from a former dry cleaners that may have entered the District collection system 30 to 50 years ago. A formal request for information has been received from the SF Bay Regional Board. The SF Bay Regional Board is considering whether or not to name the District as a potentially responsible party for the contamination. It is too early to tell if there will be, and potential extent of, liability for this contamination

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, 2015

Note K. Future Governmental Accounting Standards

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

GASB Statement No. 72 – Fair Value Measurement and Application

Effective for periods beginning after June 15, 2015, This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

GASB Statement No. 76 – The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments

Effective for fiscal years beginning after June 15, 2015, This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. Earlier application is permitted.

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
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, 2015, 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 October 30, 2015.

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*.

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**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 30, 2015.



Santa Rosa, California
October 30, 2015