

**South Park County  
Sanitation District  
(A Component Unit of the County of Sonoma)**

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

For the Fiscal Year Ended June 30, 2015

**South Park County Sanitation District  
For the Fiscal Year Ended June 30, 2015**

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## **Independent Auditor's Report**

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

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

We have audited the accompanying basic financial statements of the South Park County Sanitation District (the "District"), a component unit of the County of Sonoma, California, as of and for the year ended June 30, 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**

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

As management of the South Park County Sanitation District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2015. We encourage readers to consider the information presented here in conjunction with the District's financial statements and the accompanying notes to the financial statements.

**Reporting Entity**

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

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

**Financial Highlights**

*Net Position*

The assets and deferred outflows of resources of the District exceeded its liabilities at the close of the most recent fiscal year by \$20,521,463 (*net position*). Of this amount, \$6,321,125 (*unrestricted net position*) may be used to meet the District's ongoing obligations to citizens and creditors.

*Revenues and Capital Contributions*

The District recognized total revenues, including capital contributions, of \$3,428,481 during the fiscal year ended June 30, 2015. Of this amount, \$3,412,926 consists of flat charges, charges for services and other operating revenues and \$11,975 consisted of investment earnings (nonoperating revenues). The District recognized \$3,580 in connection fees during the fiscal year.

*Expenses*

The District incurred expenses totaling \$2,537,907 during the fiscal year ended June 30, 2015. This amount represents operating expenses related to the collection, treatment, disposal, and reclamation of effluent, as well as administrative and general expenses.

*Increase in Net Position*

The District recognized operating income of \$875,019 for the fiscal year ended June 30, 2015, while recognizing an overall increase in net position of \$890,574.

**South Park 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*

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

*Financial Statements*

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

*Notes to the Basic Financial Statements*

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

**Financial Analysis**

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities by \$20,521,463 at the close of the most recent fiscal year compared to net position of \$19,630,889 as of June 30, 2014. The \$890,574 increase in net position is due primarily to the District's continued focus on minimizing increases to its expenses combined with fairly consistent revenues from the collection, treatment and disposal of effluent (operating activities).

A portion of the District's net position (67.7% as of June 30, 2015 compared to 71.4% as of June 30, 2014) reflects its investment in capital assets (e.g., construction in progress and infrastructure), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

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

**Financial Analysis (continued)**

*Condensed Statements of Net Position*

	June 30, 2014	June 30, 2015	Percentage Change
Current and other assets	\$ 7,913,542	\$ 7,947,986	0.4%
Capital assets	16,175,469	15,933,529	-1.5%
<b>Total Assets</b>	<b>24,089,011</b>	<b>23,881,515</b>	<b>-0.9%</b>
<b>Total Deferred Outflows of Resources</b>	<b>186,381</b>	<b>172,044</b>	<b>-7.7%</b>
Current liabilities	1,137,984	168,829	-85.2%
Noncurrent liabilities	3,506,519	3,363,267	-4.1%
<b>Total Liabilities</b>	<b>4,644,503</b>	<b>3,532,096</b>	<b>-24.0%</b>
Net investment in capital assets	14,009,579	13,896,554	-0.8%
Restricted for debt service	274,280	303,784	10.8%
Unrestricted	5,347,030	6,321,125	18.2%
<b>Total Net Position</b>	<b>\$ 19,630,889</b>	<b>\$ 20,521,463</b>	<b>4.5%</b>

A portion of the District's net position, \$303,784 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 \$6,321,125 as of June 30, 2015, may be used to meet the District's ongoing obligations to citizens and creditors. The District reported positive balances in all categories of net position.

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

**Financial Analysis (continued)**

*Condensed Statements of Changes in Net Position*

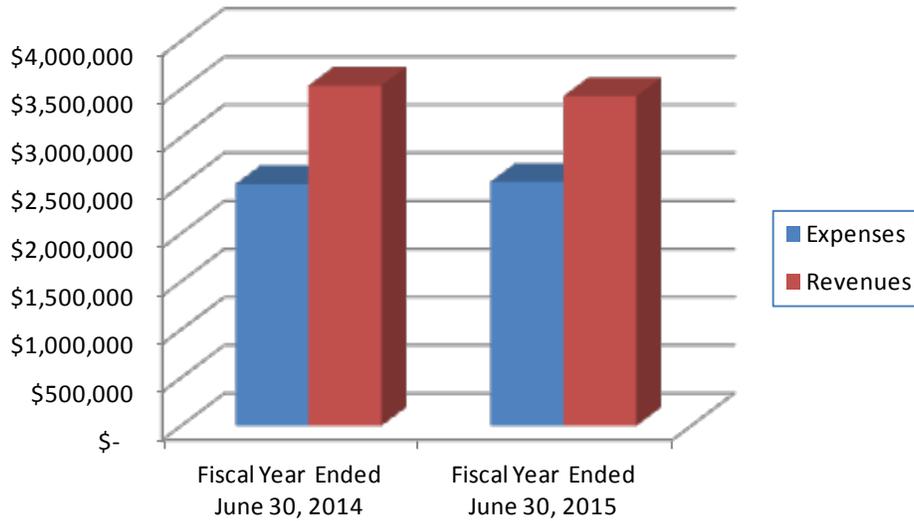
	<b>Fiscal Year Ended</b>		<b>Percentage Change</b>
	<b>June 30, 2014</b>	<b>June 30, 2015</b>	
<b>Revenues</b>			
Operating revenues	\$ 3,400,169	\$ 3,412,926	0.4%
Nonoperating revenues	137,594	11,975	-91.3%
<b>Total revenues</b>	<b>3,537,763</b>	<b>3,424,901</b>	<b>-3.2%</b>
<b>Expenses</b>			
Services and supplies	2,084,546	2,130,708	2.2%
Fiscal agent fees and legal services	2,953	3,839	30.0%
Depreciation and amortization	352,465	403,360	14.4%
Interest expense	51,991	-	-100.0%
Loss on disposal of capital assets	22,483	-	-100.0%
<b>Total expenses</b>	<b>2,514,438</b>	<b>2,537,907</b>	<b>0.9%</b>
Income before contributions	1,023,325	886,994	-13.3%
Capital contributions - connection fees	-	3,580	100.0%
Increase in net position	1,023,325	890,574	-13.0%
Net position - beginning of year	18,668,827	19,630,889	5.2%
Change in accounting principle - GASB 65	(61,263)	-	-100.0%
<b>Net position - beginning of year, as restated</b>	<b>18,607,564</b>	<b>19,630,889</b>	<b>5.5%</b>
<b>Net position - end of year</b>	<b>\$ 19,630,889</b>	<b>\$ 20,521,463</b>	<b>4.5%</b>

The District's net position increased by \$890,574 during the fiscal year ended June 30, 2015 compared to an increase of \$1,023,325 during the fiscal year ended June 30, 2014. Overall total revenues (including capital contributions) recognized by the District decreased 3.1% from the fiscal year ended June 30, 2014. Total expenses incurred during the fiscal year ended June 30, 2015 increased 0.9% primarily as a result of increases in services and supplies and depreciation expense.

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

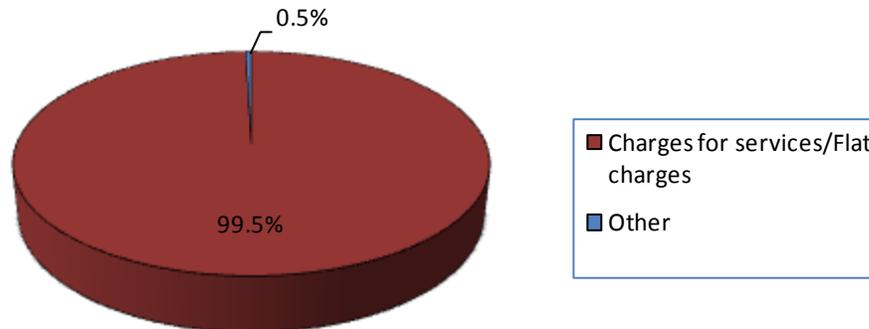
**Financial Analysis (continued)**

*Expenses and Revenues*



Total revenues, including capital contributions, of the District for the fiscal year ended June 30, 2015 totaled \$3,428,481 representing a decrease of \$109,282 from the preceding fiscal year revenues of \$3,537,763. This decrease is primarily the result of a decrease in investment earnings.

*Revenues by Source*

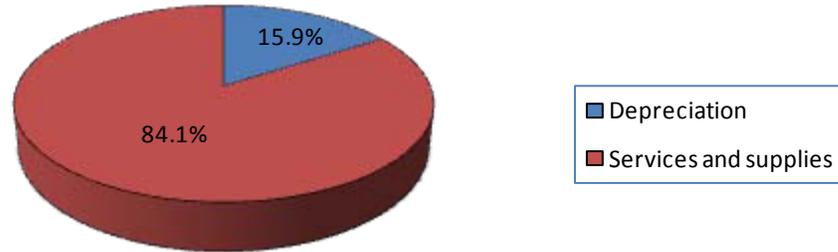


As previously mentioned, the District recognized \$3,428,481 of revenue and capital contributions during the fiscal year ended June 30, 2015. Of this amount \$3,412,926 or 99.5% was generated through charges for services. Charges for services represent sewer services charges to cover operations and maintenance costs, which are initially collected through the permitting process, then subsequently through the tax rolls. The remaining 0.5% of revenue and capital contributions consisted of investment earnings on pooled cash held with the Sonoma County Treasurer of \$11,975 and connection fees of \$3,580.

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

**Financial Analysis (continued)**

*Expenses by Function*



Expenses for the District for fiscal year ended June 30, 2015 totaled \$2,537,907. Costs associated with the collection, treatment, and disposal of effluent represent 84.1% of the District's costs. The next largest functional area is depreciation and amortization expense of \$403,360 (15.9%) of total expenses.

**Capital Asset and Debt Administration**

*Capital assets*

The District's investment in capital assets as of June 30, 2015, amounts to \$15,933,529 (net of accumulated depreciation). In addition to reporting the District's investment in capital assets including land, infrastructure, improvements, and construction in progress, the District reports its investment in intangible assets as required by Governmental Accounting Standards Board (GASB) Statement No. 51 – *Accounting and Financial Reporting for Intangible Assets*. Intangible assets for the District would normally include easements (both permanent and temporary), and development, acquisition, and implementation costs related to computer software. Software is included only when the aggregate costs exceed, or are anticipated to exceed, a threshold of \$25,000.

*South Park County Sanitation District's Capital Assets*

	June 30, 2014	June 30, 2015	Percentage Change
Intangible assets	\$ 124,602	\$ 124,602	0.0%
Construction in progress	3,568,434	336,874	-90.6%
Infrastructure	17,501,197	20,894,177	19.4%
Accumulated depreciation	(5,018,764)	(5,422,124)	8.0%
<b>Total</b>	<b>\$ 16,175,469</b>	<b>\$ 15,933,529</b>	<b>-1.5%</b>

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

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

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

*Long-term Obligations*

As of June 30, 2015, the District had a total of \$2,209,019 in outstanding revenue bonds.

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

	<b>June 30, 2014</b>	<b>June 30, 2015</b>	<b>Percentage Change</b>
Revenue bonds	\$ 2,352,271	\$ 2,209,019	-6.1%

The District's total debt decreased by \$143,252 during the current fiscal year. The decrease in revenue bonds is due to the annual principal payment (\$140,000) on the outstanding revenue bonds along with amortization of the original issue premium (\$3,252).

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

**Next Year's Budget and Rates**

Budgeted gross expenses for the District for the fiscal year ending June 30, 2016 have decreased by \$2,336,332 (36.6%) for a total of \$4,041,356. The major component of the increase within the Operations fund is related to increases in budgeted services and supplies expense, depreciation expense, and sewer capacity charges. Decreases within the Construction fund are due to a decrease in budgeted capital replacement of \$2,773,924.

Following is a comparison of the final budget for the fiscal year ended June 30, 2015 and the proposed budgeted expenses for the District for the fiscal year ending June 30, 2016.

	<b>Fiscal Year Ending June 30, 2015</b>	<b>Fiscal Year Ending June 30, 2016</b>	<b>Increase (Decrease)</b>	<b>Percentage Change</b>
Operations	\$ 3,651,014	\$ 3,919,331	\$ 268,317	7.3%
Debt service - revenue bonds	127,203	122,025	(5,178)	-4.1%
Construction	2,599,471	-	(2,599,471)	-100.0%
<b>Total</b>	<b>\$ 6,377,688</b>	<b>\$ 4,041,356</b>	<b>\$ (2,336,332)</b>	<b>-36.6%</b>

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

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

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

The sewer service fee rates were increased for the fiscal year ended June 30, 2016 budget year by 2.5%.

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

	<b>Fiscal Year Ending June 30, 2015</b>	<b>Fiscal Year Ending June 30, 2016</b>	<b>Percentage Change</b>
Rate per Equivalent Single-Family Dwelling	\$ 851	\$ 872	2.5%
Number of Equivalent Single-Family Dwellings	4,019	4,018	0.0%

**Request for Additional Information**

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

**South Park County Sanitation District**  
**Statement of Net Position**  
**June 30, 2015**

**Assets**

Current assets:

Cash and investments	\$ 7,555,127
Accounts receivable	43,920
Restricted cash and investments:	
Revenue bond fund	328,861
Total current assets	7,927,908

Accounts receivable, noncurrent portion	20,078
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Capital assets not being depreciated:

Intangible assets	124,602
Infrastructure-construction in progress	336,874

Capital assets, net of accumulated depreciation:

Infrastructure	15,472,053
Total capital assets (net of accumulated depreciation)	15,933,529
Total noncurrent assets	15,953,607

Total assets	23,881,515
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**Deferred outflows of resources**

Deferred amount on refunding	172,044
Total deferred outflows of resources	172,044

**Liabilities**

Current liabilities:

Accounts payable and accrued expenses	500
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Current liabilities payable from restricted assets:

Revenue bonds payable	143,252
Accrued interest payable	25,077
Total current liabilities	168,829

Noncurrent liabilities:

Pollution remediation	1,297,500
Revenue bonds payable	2,065,767
Total noncurrent liabilities	3,363,267

Total liabilities	3,532,096
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**Net Position**

Net investment in capital assets	13,896,554
Restricted for debt service	303,784
Unrestricted	6,321,125
Total net position	\$ 20,521,463

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

**South Park County Sanitation District**  
**Statement of Revenues, Expenses And Changes In Net Position**  
**For the Fiscal Year Ended June 30, 2015**

<b>Operating revenues</b>	
Flat charges	\$ 3,328,598
Charges for services	68,660
Other	15,668
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Total operating revenues	3,412,926
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<b>Operating expenses</b>	
Services and supplies	2,130,708
Fiscal agent fees and legal services	3,839
Depreciation and amortization	403,360
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Total operating expenses	2,537,907
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Operating income	875,019
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<b>Nonoperating revenues (expenses)</b>	
Investment earnings	11,975
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Total nonoperating revenues	11,975
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Income before capital contributions	886,994
Capital contributions:	
Connection fees	3,580
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<b>Increase in net position</b>	<b>890,574</b>
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<b>Net position - beginning of year</b>	<b>19,630,889</b>
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<b>Net position - end of year</b>	<b>\$ 20,521,463</b>
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The notes to the basic financial statements are an integral part of this statement.

**South Park County Sanitation District**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2015**

**Cash Flows From Operating Activities**

Receipts from customers	\$	3,425,805
Payments to Sonoma County Water Agency		(159,741)
Payments to suppliers		(2,250,725)
<hr/>		
Net cash provided by operating activities		1,015,339
<hr/>		

**Cash Flows From Capital and Related Financing Activities**

Purchase of capital assets		(717,420)
Principal payments on revenue bonds payable		(140,000)
Interest paid on revenue bonds payable		(102,861)
Connection fees		3,580
<hr/>		
Net cash used in capital and related financing activities		(956,701)
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**Cash Flows From Investing Activities**

Interest received on pooled cash and investments		11,975
<hr/>		
Net increase in cash and cash equivalents		70,613

<b>Cash and cash equivalents - beginning of year</b>		7,813,375
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<b>Cash and cash equivalents - end of year</b>	\$	7,883,988
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**Reconciliation to the statement of net position**

Cash and investments	\$	7,555,127
Restricted cash and investments		328,861
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Cash and cash equivalents	\$	7,883,988
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**Reconciliation of Operating Income to Net Cash**

**Provided by Operating Activities:**

Operating income	\$	875,019
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization		403,360
Change in assets and liabilities:		
Decrease in accounts receivable		12,879
Decrease in due from other governments		23,289
Decrease in accounts payable and accrued expenses		(299,208)
<hr/>		
Net cash provided by operating activities	\$	1,015,339
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**Noncash Capital and Related Financing Activities**

Capitalized interest		112,669
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The notes to the basic financial statements are an integral part of this statement.

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

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

The South Park County Sanitation District (the District) is managed by the Sonoma County Water Agency (the Water Agency), which provides engineering, administration, operational, and maintenance services. The District is a distinct legal entity from the Water Agency and was formed by action of the Sonoma County Board of Supervisors. The District is responsible for maintaining and operating the local sanitation collection systems and pump stations. The District has an ordinance defining policies, including user fees.

An agreement for transfer of responsibility to the City of Santa Rosa of collection system operation and maintenance, and subsequent dissolution of the District, was finalized in February of 1996. The agreement has been amended several times in the subsequent years. Under this agreement the District was to be dissolved and transferred to the City of Santa Rosa, subject to certain conditions prior to transfer. These conditions included the replacement, slip-line, or repair of 41,610 feet of the collection system and upgrade of the Todd Road lift station.

In 2012, an amended and restated agreement recognized that dissolution of the District and transfer to the City of Santa Rosa could not occur without annexation by the City, and therefore, a specific schedule for dissolution was removed from the agreement, along with specific targets for collection system improvements. Nonetheless, the District and City are continuing to work collaboratively in addressing needed collection system upgrades with the understanding that dissolution and transfer to the City will ultimately occur.

*Component Unit Reporting*

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

**South Park 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 District's financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. All assets and liabilities associated with the operation of the District are included on the statement of net position. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

*Cash and Investments*

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

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

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

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

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

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

*Accounts Receivable*

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

*Restricted Assets*

Restricted assets represent cash and investments maintained in accordance with bond resolutions and formal actions of the Board or by agreement, for the purpose of funding certain debt service payments, and improvements and extensions to the collection systems.

*Capital Assets*

Capital assets 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.

**South Park 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	

*Intangible Assets*

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

*Revenue Bond Premium*

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

**South Park 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 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 regulation of other governments.

*Budget and Budgetary Accounting*

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

*Use of Estimates*

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

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

**Note C. Cash and Investments**

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

*Investment Guidelines*

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

Permitted investments include the following:

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

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

As of June 30, 2015 the fair value of the District's cash and investments was \$7,883,988. 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 of 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.

**South Park 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 County Treasurer manages the District's 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.

*Custodial Credit Risk*

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

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

Investments in external investment pools and in open-end mutual funds are not exposed to custodial credit risk. As of June 30, 2015, all of the District's investments were in the County Treasury Pool and, are therefore, not exposed to custodial credit risk.

*Credit Risk*

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Treasury Pool does not have a credit rating. The District follows the County's policy to purchase investments with the minimum ratings required by the California Government Code. The credit rating of investments held and other information regarding the Treasury Pool for the year ended June 30, 2015 are disclosed in the County's Comprehensive Annual Financial Report.

**South Park County Sanitation District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 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					
Intangible assets	\$ 124,602	\$ -	\$ -	\$ -	\$ 124,602
Construction in progress	3,568,434	161,420	-	(3,392,980)	336,874
Total capital assets not being depreciated	3,693,036	161,420	-	(3,392,980)	461,476
Capital assets being depreciated:					
Infrastructure	17,501,197	-	-	3,392,980	20,894,177
Less: accumulated depreciation	(5,018,764)	(403,360)	-	-	(5,422,124)
Total capital assets, being depreciated, net	12,482,433	(403,360)	-	3,392,980	15,472,053
Total capital assets, net	\$ 16,175,469	\$ (241,940)	\$ -	\$ -	\$ 15,933,529

Depreciation expense amounted to \$403,360 for the fiscal year ended June 30, 2015.

The total amount of interest capitalized in connection with collection system construction projects during the fiscal year ended June 30, 2015 was \$112,669.

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

**Note E. Long-Term Obligations**

*Revenue Bonds*

The District issues bonds where the District pledges income derived from charges for services to pay debt service. The original amount of revenue bonds issued to finance construction projects for expanding existing wastewater collection system and constructing additional facilities was \$3,565,000, of which \$3,255,000 was refunded in September 2005. The bonds are payable solely from sanitation customer net revenues and are payable through 2027. Annual principal and interest payments are expected to require no more than 19% of net revenues. The total principal and interest outstanding on the bonds, with interest rates ranging from 3.3% - 5.0%, as of June 30, 2015 is \$2,170,000 and \$680,621, respectively which equals the remaining income pledged by the District towards debt service on the bonds. Principal and interest paid during the fiscal year ended June 30, 2015 and total customer net revenues were \$242,861 and \$1,293,934, respectively.

Revenue bond debt service requirements to maturity are as follows:

<b>Fiscal Year Ending</b>			
<b>June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2016	\$ 140,000	\$ 97,684	\$ 237,684
2017	145,000	92,268	237,268
2018	155,000	86,454	241,454
2019	160,000	80,231	240,231
2020	165,000	72,906	237,906
2021-2025	950,000	230,156	1,180,156
2026-2027	455,000	20,922	475,922
<b>Total</b>	<b>\$ 2,170,000</b>	<b>\$ 680,621</b>	<b>\$2,850,621</b>

*Changes in Long-Term Obligations*

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

	<b>July 1,</b>			<b>June 30,</b>	<b>Due Within</b>
	<b>2014</b>	<b>Additions</b>	<b>Retirements</b>	<b>2015</b>	<b>One Year</b>
Revenue bonds	\$ 2,310,000	\$ -	\$ (140,000)	\$2,170,000	\$ 140,000
Unamortized premium					
on revenue bonds	42,271	-	(3,252)	39,019	
<b>Total revenue bonds</b>	<b>\$ 2,352,271</b>	<b>\$ -</b>	<b>\$ (143,252)</b>	<b>\$2,209,019</b>	<b>\$ 140,000</b>

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

**Note F. Related Party Transactions**

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

The District is managed by the Water Agency, which provides administration, engineering, operational, and maintenance services. The District does not incur any payroll expenses. The Water Agency allocates overhead costs to the District via the use of an overhead rate charged on labor applicable to the District. The overhead rate is reviewed periodically by management to determine its appropriateness. The District paid \$159,741 to the Water Agency for administrative support during the fiscal year ended June 30, 2015.

**Note G. Risk Management**

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

The County maintains a self-insured retention of \$1,000,000 per occurrence for general and automobile liability. Excess liability coverage is maintained through participation in the California State Association of Counties, Excess Insurance Authority (CSAC-EIA). Limits of this coverage are \$25,000,000.

The County 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.

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

**Note H. Commitments and Contingencies**

*Pending Litigation, Claims, and Assessments*

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

*Other Regulatory Matters*

The District is subject to Section VII of the Endangered Species Act. Section VII requires that all affected agencies, including the District, consult with fish and wildlife officials before performing any work which might disrupt or harm any endangered or threatened species or their habitat. This Act increases the possibility of threatened litigation from various environmental groups and individuals. The District is also subject to Section X of the Endangered Species Act which deals with habitat conservation planning.

In May 2007, the California Regional Water Quality Control Board issued Cleanup and Abatement Order (CAO) No. R1-2007-0040 requiring the District to take actions to eliminate threatened violations of prohibitions contained in the Basin Plan and to abate the ongoing threat to water quality and public health posed by sanitary sewer overflows. In September 2010, the District was granted a delay in the completion of the final three projects by the North Coast Regional Quality Control Board (NC Regional Board). Two of the three have been completed. The last project is slated for construction in 2018/19, at which time the District will request that the NC Regional Board affirm that the terms of the CAO have been met.

**Note I. Pollution Remediation**

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

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

**Note I.      Pollution Remediation (continued)**

The District and the County may be held responsible for conducting remediation of the plume. In such event, substantial additional costs may be incurred in connection with the remedial action. In addition, negotiation of a clean-up strategy will result in costs from technical and legal consultants. As of June 30, 2015, the District has estimated a liability of \$1,297,500 for potential remediation activities using the expected cash flow technique which measures the liability as the sum of probability-weighted amounts in a range of possible estimated amounts. The District did not perform any pollution remediation activity during the fiscal year ended June 30, 2015, as the investigation to identify responsible parties has not been concluded.

**Note J.      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  
South Park County Sanitation District  
Santa Rosa, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of South Park County Sanitation District (the "District"), a component unit of the County of Sonoma, California which comprise the statement of net position as of June 30, 2015, 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*.

*Local partnership. Global solutions.*

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

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

**Purpose of this Report**

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

We noted certain other matters that we reported to management of the District in a separate letter dated October 30, 2015.



Santa Rosa, California  
October 30, 2015