

**SOUTH PARK COUNTY  
SANITATION DISTRICT**

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

For the Fiscal Year Ended June 30, 2011

**SOUTH PARK COUNTY SANITATION DISTRICT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

### INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of South Park County Sanitation District (District), a component unit of the County of Sonoma, California, as of and for the fiscal year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the District's management. 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 the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2011, and the changes in its financial position and its cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued our report dated November 1, 2011 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 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.

*Macie Mini & O'Connell LLP*

Sacramento, California  
November 1, 2011

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

**SOUTH PARK COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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, 2011. 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 Assets*

The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$15,859,080 (*net assets*). Of this amount, \$6,861,003 (*unrestricted net assets*) 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 \$3,108,657 during the fiscal year ended June 30, 2011. Of this amount, \$3,035,517 consists of flat charges, charges for services and other revenue (operating revenues) and \$71,140 represented nonoperating revenues, consisting of investment earnings. The District also recognized \$2,000 in capital contributions relating to connection fees during the fiscal year.

*Expenses*

The District incurred expenses totaling \$2,449,413 during the fiscal year ended June 30, 2011. Of this amount \$2,355,522 represents operating expenses related to the collection, treatment, disposal, and reclamation of effluent, as well as administrative and general expenses. Nonoperating expenses totaled \$93,891, which is comprised of interest expense related to the District's long-term debt obligation and conservation program expenses.

*Increase in Net Assets*

The District recognized operating income of \$679,995 for the fiscal year ended June 30, 2011, while recognizing an overall increase in net assets of \$659,244.

**SOUTH PARK COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**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 assets (or cost recovery), financial position, and cash flow. The financial statements presented are the *statement of net assets; the statement of revenues, expenses and changes in net assets; and the statement of cash flows.*

*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 assets may serve over time as a useful indicator of a District's financial position. In the case of the District, assets exceeded liabilities by \$15,859,080 at the close of the most recent fiscal year compared to net assets of \$15,199,836 as of June 30, 2010. The \$659,244 increase in net assets is due primarily to the District's focus on minimizing increases to its expenses.

A portion of the District's net assets (55.5% as of June 30, 2011 compared to 54.8% as of June 30, 2010) reflects its investment in capital assets (e.g., construction in progress and buildings and improvements), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

**SOUTH PARK COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

*Condensed Statements of Net Assets*

	June 30, 2010	June 30, 2011	Percentage Change
Current and other assets	\$ 8,206,825	\$ 8,515,115	3.8%
Capital assets	10,944,835	11,316,959	3.4%
<b>Total Assets</b>	<b>19,151,660</b>	<b>19,832,074</b>	<b>3.6%</b>
Current liabilities	141,694	276,778	95.3%
Noncurrent liabilities	3,810,130	3,696,216	-3.0%
<b>Total Liabilities</b>	<b>3,951,824</b>	<b>3,972,994</b>	<b>0.5%</b>
Invested in capital assets, net of related debt	8,323,290	8,804,328	5.8%
Restricted for debt service	166,976	193,749	16.0%
Unrestricted	6,709,570	6,861,003	2.3%
<b>Total Net Assets</b>	<b>\$ 15,199,836</b>	<b>\$ 15,859,080</b>	<b>4.3%</b>

A portion of the District's net assets, \$193,749 as of June 30, 2011, represent resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets of \$6,861,003 as of June 30, 2011, may be used to meet the District's ongoing obligations to citizens and creditors. The District reported positive balances in all categories of net assets.

**SOUTH PARK COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

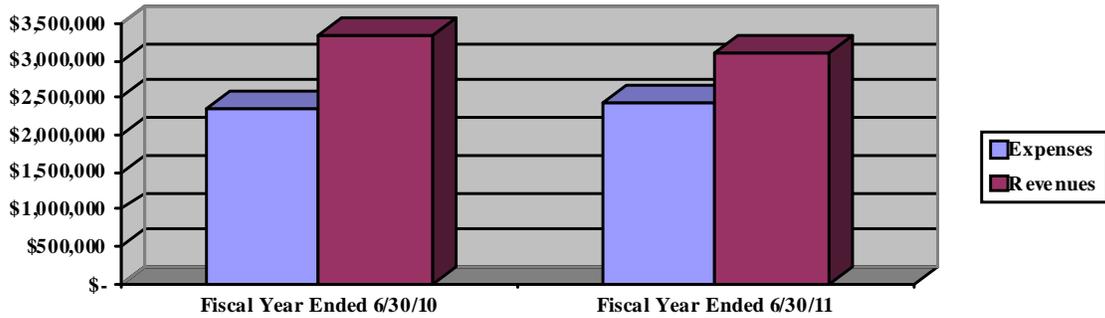
*Condensed Statements of Changes in Net Assets*

	<b>Fiscal Year Ended</b>		<b>Percentage Change</b>
	<b>June 30, 2010</b>	<b>June 30, 2011</b>	
<b>Revenues</b>			
Operating revenues	\$ 3,264,381	\$ 3,035,517	-7.0%
Nonoperating revenues	79,585	71,140	-10.6%
<b>Total revenues</b>	<b>3,343,966</b>	<b>3,106,657</b>	<b>-7.1%</b>
<b>Expenses</b>			
Services and supplies	2,000,201	2,056,741	2.8%
Fiscal agent fees and legal services	9,822	12,457	26.8%
Depreciation and amortization	258,092	286,324	10.9%
Interest expense	59,744	93,891	57.2%
Conservation program	39,633	-	-100.0%
<b>Total expenses</b>	<b>2,367,492</b>	<b>2,449,413</b>	<b>3.5%</b>
Income before capital contributions	976,474	657,244	-32.7%
Capital contributions - connection fees	5,220	2,000	-61.7%
Increase in net assets	981,694	659,244	-32.8%
<b>Net assets, beginning of year</b>	<b>14,218,142</b>	<b>15,199,836</b>	<b>6.9%</b>
<b>Net assets, end of year</b>	<b>\$ 15,199,836</b>	<b>\$ 15,859,080</b>	<b>4.3%</b>

The District's net assets increased by \$659,244 during the fiscal year ended June 30, 2011 compared to an increase of \$981,694 during the fiscal year ended June 30, 2010. Overall total revenues recognized by the District decreased 7.1% from the fiscal year ended June 30, 2010. Total expenses incurred during the fiscal year ended June 30, 2011 increased 3.5% primarily as a result of increases in depreciation expense and interest expense due to the completion of capital projects during the prior fiscal year.

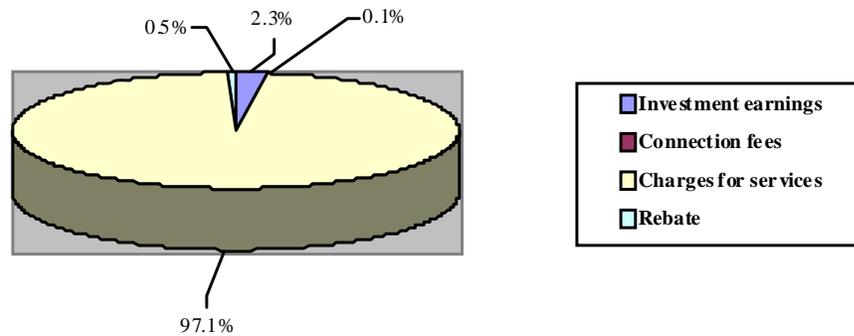
**SOUTH PARK COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

*Expenses and Revenues*



Total revenues, including capital contributions, of the District for the fiscal year ended June 30, 2011 totaled \$3,108,657 representing a decrease of \$240,529 from the preceding fiscal year revenues of \$3,349,186. This decrease is primarily the result of a refund received in the prior year from the Water Agency that was not received during the fiscal year ended June 30, 2011, combined with a lower rebate received from the City of Santa Rosa for the operation of the city's treatment plant.

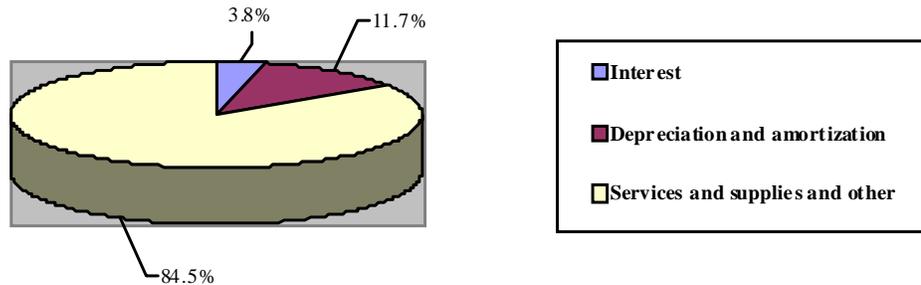
*Revenues by Source*



As previously mentioned, the District recognized \$3,108,657 of revenue and capital contributions during the fiscal year ended June 30, 2011. Of this amount \$3,018,840 or 97.1%, 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 District received a rebate from the City of Santa Rosa for sanitation services totaling \$16,677 or 0.5% of revenues. Investment earnings represent 2.3% of revenues and consist of earnings on pooled cash held with the Sonoma County Treasurer. Connection fees, which accounted for 0.1% of the annual revenue, are also collected through the permitting process.

**SOUTH PARK COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

*Expenses by Function*



Expenses for the District for fiscal year ended June 30, 2011 totaled \$2,449,413. Costs associated with the collection, treatment, and disposal of effluent represent 84.5% of the District's costs. The next largest functional area is depreciation and amortization expense of \$286,324 (11.7%) of total expenses. Interest expense totaling \$93,891 (3.8%) represents the cost of meeting current debt service on the District's long-term obligations.

**Capital Asset and Debt Administration**

*Capital assets*

The District's investment in capital assets as of June 30, 2011, amounts to \$11,316,959 (net of accumulated depreciation). In addition to reporting the District's investment in capital assets including land, buildings and systems, improvements, and construction in progress, the District reports its investment in intangible assets as required by Governmental Accounting Standards Board (GASB) Statement No. 51 – *Accounting and Financial Reporting for Intangible Assets*. Intangible assets for the District include easements (both permanent and temporary).

Major capital asset activity during the current fiscal year was related to the Biwana Lane and Gloria/Meekland Collection System Replacement projects.

*South Park County Sanitation District's Capital Assets*

	June 30, 2010	June 30, 2011	Percentage Change
Intangible assets	71,859	71,859	0.0%
Construction in progress	\$ 657,915	\$ 1,311,988	99.4%
Buildings and improvements	13,975,344	13,975,344	0.0%
Accumulated depreciation	(3,760,283)	(4,042,232)	7.5%
<b>Total</b>	<b>\$ 10,944,835</b>	<b>\$ 11,316,959</b>	<b>3.4%</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) (Continued)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

*Long-term Debt*

As of June 30, 2011, the District had a total of \$2,512,631 in outstanding revenue bonds.

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

	June 30, 2010	June 30, 2011	Percentage Change
Revenue bonds	\$ 2,621,545	\$ 2,512,631	-4.2%

The District's total debt decreased by \$108,914 during the current fiscal year. The decrease in revenue bonds is due to the annual principal payment (\$120,000) on the outstanding revenue bonds along with amortization of the original issue premium (\$3,251) and the deferred amount on refunding of \$14,337.

Additional information on the District's current and long-term debt 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, 2012 have decreased by \$8,203,244 (51.4%) for a total of \$7,749,784. The major component of the decrease within the Operations fund is related to a reduction in transfers to the Construction fund for capital projects. Decreases within the Construction fund resulted from the estimated completion of the Gloria/Meekland project during the fiscal year ended June 30, 2011. It is anticipated that the Operations Fund and Construction Fund budgets will be increased significantly during the 2011-12 fiscal year as the Gloria/Meekland project was not completed during the prior fiscal year as originally estimated and will need to be rebudgeted for the 2011-12 fiscal year.

Following is a comparison of the final budget for the fiscal year ended June 30, 2011 and the proposed budgeted expenses for the District for the fiscal year ending June 30, 2012.

	Fiscal Year Ended June 30, 2011	Fiscal Year Ending June 30, 2012	Decrease	Percentage Change
Operations	\$ 7,233,778	\$ 3,000,996	\$ (4,232,782)	-58.5%
Debt service - revenue bonds	148,978	144,996	(3,982)	-2.7%
Construction	8,570,272	4,603,792	(3,966,480)	-46.3%
<b>Total</b>	<b>\$ 15,953,028</b>	<b>\$ 7,749,784</b>	<b>\$ (8,203,244)</b>	<b>-51.4%</b>

Budgeted expenses for the fiscal year ended June 30, 2011 differ in several instances from the budgeted expenses presented in the management discussion and analysis issued for the period ending June 30, 2010. 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, 2010.

The sewer service fee rates were increased for the fiscal year ending June 30, 2012 budget year by 2.1%

**SOUTH PARK COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

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

	<b>Fiscal Year Ended June 30, 2011</b>	<b>Fiscal Year Ending June 30, 2012</b>	<b>Percentage Change</b>
Rate per Equivalent Single-Family Dwelling	\$ 778	\$ 794	2.1%
Number of Equivalent Single-Family Dwellings	4,008	4,008	0.0%

**Request for Additional Information**

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

**SOUTH PARK COUNTY SANITATION DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2011**

**Assets**

Current assets:

Cash and investments	\$ 7,909,164
Accounts receivable	312,601
Restricted cash and investments	
Revenue bond fund	223,335
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Total current assets	8,445,100
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Other assets 70,015

Capital assets:

Intangible assets	71,859
Construction in progress	1,311,988
Buildings and improvements	13,975,344
Less accumulated depreciation	(4,042,232)
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Total capital assets (net of (accumulated depreciation))	11,316,959
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Total noncurrent assets	11,386,974
<hr/>	
Total assets	19,832,074
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**Liabilities**

Current liabilities:

Accounts payable and accrued expenses	133,277
Current liabilities payable from restricted assets:	
Revenue bonds payable	113,915
Accrued interest payable	29,586
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Total current liabilities payable from restricted assets	143,501
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Noncurrent liabilities:

Pollution remediation	1,297,500
Revenue bonds payable	2,398,716
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Total noncurrent liabilities	3,696,216
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Total liabilities	3,972,994
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**Net Assets**

Invested in capital assets, net of related debt	8,804,328
Restricted for debt service	193,749
Unrestricted	6,861,003
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Total net assets	\$ 15,859,080
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The accompanying notes are an integral part of these financial statements.

**SOUTH PARK COUNTY SANITATION DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

<b>Operating revenues</b>		
Flat charges	\$	2,982,931
Charges for services		35,909
Other		16,677
Total operating revenues		3,035,517
<b>Operating expenses</b>		
Services and supplies		2,056,740
Fiscal agent fees and legal services		12,457
Depreciation and amortization		286,325
Total operating expenses		2,355,522
Operating income		679,995
<b>Nonoperating revenues (expenses)</b>		
Investment earnings		71,140
Interest expense		(93,891)
Total nonoperating revenues/(expenses)		(22,751)
Income before capital contributions		657,244
Capital contribution - connection fees		2,000
<b>Increase in net assets</b>		659,244
<b>Net assets - beginning of year</b>		15,199,836
<b>Net assets - end of year</b>		\$ 15,859,080

The accompanying notes are an integral part of these financial statements.

**SOUTH PARK COUNTY SANITATION DISTRICT  
STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from customers	\$ 3,027,566
Other receipts	16,677
Payments to Sonoma County Water Agency	(122,935)
Payments to suppliers	(1,946,407)
<hr/>	
Net cash provided by operating activities	974,901
<hr/>	

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

Purchase of capital assets	(486,386)
Principal payments on revenue bonds payable	(120,000)
Interest paid on revenue bonds payable	(120,263)
Connection fees	2,000
<hr/>	
Net cash used by capital and related financing activities	(724,649)
<hr/>	

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest received on pooled cash and investments	71,140
Net increase in cash and cash equivalents	321,392

**Cash and cash equivalents - beginning of year** 7,811,107

**Cash and cash equivalents - end of year** \$ 8,132,499

**Reconciliation to the statement of net assets**

Cash and investments	\$ 7,909,164
Restricted cash and investments	223,335
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**Cash and cash equivalents** \$ 8,132,499

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

Operating income	\$ 679,995
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	286,325
Change in assets and liabilities:	
Increase in accounts receivable	8,726
Decrease in accounts payable and accrued expenses	(145)
<hr/>	
Net cash provided by operating activities	\$ 974,901
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**NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES**

Acquisitions of capital assets through accounts payable	\$ 131,189
Capitalized interest	36,498

The accompanying notes are an integral part of these financial statements.

**SOUTH PARK COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**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 responsible for maintaining and operating the local sanitation collection systems and pump stations. The District has an ordinance defining policies, including user fees.

An agreement for transfer of responsibility to the City of Santa Rosa of the collection system operation and maintenance, and subsequent dissolution of the District, was finalized on February 27, 1996 and amended February 1998, June 2000, April 1, 2004 and is anticipated to be amended further to allow sufficient time for the District to complete required work on the collection system. The District is planning to replace three sections of the collection system through the fiscal year ending June 30, 2015. Under this agreement and the anticipated amendment, upon completion of the required collection system improvements (1) the District will be dissolved, (2) the City of Santa Rosa shall acquire the unused capacity of the District, and (3) the District will upgrade the collection system to meet the standards of the City of Santa Rosa. The agreement requires the District to replace, slip-line, or repair 41,610 feet of the collection system and upgrade the Todd Road lift station before the City of Santa Rosa assumes responsibility for operation and maintenance of the collection system.

*Component Unit Reporting*

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

**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 (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

*Measurement Focus, Basis of Accounting, and Financial Statement Presentation  
(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 assets. 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.

The District has elected under Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncement of the Financial Accounting Standards Board or any Accounting Research Bulletins issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The GASB periodically updates its codification of existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. Governments have the option of following private-sector guidance issued subsequent to November 30, 1989, as such, the District has elected not to follow private-sector guidance subsequent to November 30, 1989.

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.

**SOUTH PARK COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

*Cash and Investments (Continued)*

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 assets 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.

*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.

*Other Assets*

Other assets represent unamortized deferred bond issuance costs of \$70,015 as of June 30, 2011. These costs are amortized using the straight-line method over the term of the outstanding bonds.

*Restricted Assets*

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

*Capital Assets*

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

**SOUTH PARK COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

*Capital Assets (Continued)*

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

*Intangible Assets*

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

*Revenue Bond Premium and Deferred Amount on Refunding*

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

*Net Assets*

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

**SOUTH PARK COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

*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.

**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.

**SOUTH PARK COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**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 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, 2011 the District's investments consisted of \$8,132,499 in the Treasury Pool managed by the County Treasurer, which is not rated by credit rating agencies, and had a weighted average maturity of 751 days. The credit rating and other information regarding specific investments maintained in the Treasury pool as of June 30, 2011, are disclosed in the County's Comprehensive Annual Financial Report.

*Interest Rate Risk*

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes in market interest rates. As of June 30, 2011 all of the District's investments are in the Treasury Pool.

*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:

**SOUTH PARK COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

*Custodial Credit Risk (Continued)*

- 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, 2011, 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 District follows the County's policy to purchase investments with the minimum ratings required by the California Government Code. The credit rating and other information regarding the Treasury Pool as of specific investments maintained in June 30, 2011 are disclosed in the County's Comprehensive Annual Financial Report.

**SOUTH PARK COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**Note D. Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2011 was as follows:

	<b>July 1, 2010</b>	<b>Additions</b>	<b>Retirements</b>	<b>Transfers</b>	<b>June 30, 2011</b>
Capital assets, not being depreciated					
Intangible assets	\$ 71,859	\$ -	\$ -	\$ -	\$ 71,859
Construction in progress	657,915	654,073	-	-	1,311,988
<b>Total capital assets not being depreciated</b>	<b>729,774</b>	<b>654,073</b>	<b>-</b>	<b>-</b>	<b>1,383,847</b>
Capital assets being depreciated:					
Buildings and improvements	13,975,344	-	-	-	13,975,344
Less: accumulated depreciation	(3,760,283)	(281,949)	-	-	(4,042,232)
<b>Total capital assets, being depreciated, net</b>	<b>10,215,061</b>	<b>(281,949)</b>	<b>-</b>	<b>-</b>	<b>9,933,112</b>
<b>Total capital assets, net</b>	<b>\$ 10,944,835</b>	<b>\$ 372,124</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 11,316,959</b>

Depreciation expense amounted to \$281,949 for the fiscal year ended June 30, 2011.

The total amount of interest capitalized in connection with collection system construction projects during the fiscal year ended June 30, 2011 was \$36,498.

**SOUTH PARK COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**Note E. Long-Term Debt**

*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 18% 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, 2011 is \$2,690,000 and \$1,119,554, respectively. Principal and interest paid during the fiscal year ended June 30, 2011 and total customer net revenues were \$240,264 and \$1,039,460, 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>		
2012	\$	125,000	\$	116,281	\$	241,281
2013		125,000		112,094		237,094
2014		130,000		107,694		237,694
2015		140,000		102,864		242,864
2016		140,000		97,684		237,684
2017-2021		795,000		396,390		1,191,390
2022-2026		1,000,000		181,406		1,181,406
2027		235,000		5,141		240,141
<b>Total</b>	<b>\$</b>	<b>2,690,000</b>	<b>\$</b>	<b>1,119,554</b>	<b>\$</b>	<b>3,809,554</b>

*Changes in Long-Term Debt*

Long-term obligation activity for the fiscal year ended June 30, 2011 was as follows:

	<b>July 1,</b>			<b>June 30,</b>	<b>Due Within</b>
	<b>2010</b>	<b>Additions</b>	<b>Retirements</b>	<b>2011</b>	<b>One Year</b>
Revenue bonds	\$ 2,810,000	\$ -	\$ (120,000)	\$ 2,690,000	\$ 125,000
Less deferred amounts for:					
Original issue premium	55,275	-	(3,251)	52,024	3,252
Deferred amount on refunding	(243,730)	-	14,337	(229,393)	(14,337)
<b>Total revenue bonds</b>	<b>\$ 2,621,545</b>	<b>\$ -</b>	<b>\$ (108,914)</b>	<b>\$ 2,512,631</b>	<b>\$ 113,915</b>

**SOUTH PARK COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**Note F. Related Party Transactions**

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

The District is managed by the Water Agency, which provides administration, engineering, operational, and maintenance services. The District does not incur any payroll expenses. The Water Agency allocates overhead costs to the District via the use of an overhead rate charged on labor applicable to the District. The overhead rate is reviewed periodically by management to determine its effectiveness. The District paid \$122,935 to the Water Agency for administrative support during the fiscal year ended June 30, 2011.

**Note G. Risk Management**

The District is exposed to various risks of loss related to 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) and Excess Liability Program. Limits of this coverage are \$ 15,000,000.

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

The County maintains "All Risk" property insurance including flood and earthquake through participation in the CSAC-EIA property insurance program. Limits of coverage are \$600,000,000 per occurrence including flood and \$80,000,000 per occurrence for earthquake. Deductibles for most perils are \$50,000 per occurrence, with flood at \$200,000 per county per occurrence and earthquake at 5% of total insured values per unit, per occurrence, subject to a \$500,000 minimum per occurrence. For losses within the deductible, the County maintains a deductible self-insured pool for losses in excess of \$5,000. The Sonoma County Water Agency pays an annual premium to the County for this insurance on behalf of the District. The Water Agency recovers this cost as a component of the administrative support charges to the District.

**SOUTH PARK COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**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. The District and the County may be held responsible for conducting remediation of the property. 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. It is too early to predict the amount or allocation of these costs.

*Other Regulatory Matters*

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

**Note I. Pollution Remediation**

The District and the County entered into a Plan of Action with the North Coast Regional Quality Control Board (NC Regional Board) in 1999 to investigate a groundwater plume of halogenated volatile organic compounds (HVOC's) believed to have leaked from former dry cleaning operations and possibly using sewer pipes as a conduit. The investigation was completed in February 2002 at a cost of approximately \$1,250,000. Currently, the NC Regional Board is focusing on other potentially responsible parties (mainly oil companies) in connection with a petroleum hydrocarbon plume which is co-mingled with the HVOC plume. The District is working with the NC Regional Board to require other potentially responsible parties to conduct investigations of HVOC source areas on their properties. In this regard, the NC Regional Board sent out two information request/source investigation letters in late 2005 to owners of properties in the area which may be a source of HVOCs. The District and the County may be held responsible for conducting remediation of the plume. In such event, substantial additional costs may be incurred in connection with the remedial action. In addition, negotiation of a clean-up strategy will result in costs from technical and legal consultants. As of June 30, 2011, 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, 2011, as the investigation to identify responsible parties has not been concluded.

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

**INDEPENDENT AUDITOR'S 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**

We have audited the basic financial statements of South Park County Sanitation District (District) as of and for the fiscal year ended June 30, 2011, and have issued our report thereon dated November 1, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## **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*.

This report is intended for the information of the Board of Directors and District management and is not intended to be and should not be used by anyone other than these specified parties.

*Macinnis & O'Connell LLP*

Sacramento, California

November 1, 2011