

**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, 2014

**SOUTH PARK COUNTY SANITATION DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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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, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2014, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Local partnership. Global solutions.

Independent Auditor's Report (continued)

Other Matters – Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2014, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants and agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

PricewaterhouseCoopers LLP

Petaluma, California
September 30, 2014

Management's Discussion and Analysis

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

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, 2014. We encourage readers to consider the information presented here in conjunction with the District's financial statements and the accompanying notes to the financial statements.

Reporting Entity

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

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

Financial Highlights

Net Position

The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$19,630,889 (*net position*). Of this amount, \$5,347,030 (*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 \$3,537,763 during the fiscal year ended June 30, 2014. Of this amount, \$3,400,169 consists of flat charges, charges for services and other operating revenues and \$137,594 consisted of investment earnings (nonoperating revenues).

Expenses

The District incurred expenses totaling \$2,514,438 during the fiscal year ended June 30, 2014. Of this amount \$2,439,964 represents operating expenses related to the collection, treatment, disposal, and reclamation of effluent, as well as administrative and general expenses. Nonoperating expenses totaled \$74,474, which is comprised of interest expense (\$51,991) related to the District's long-term debt obligations, and a loss on disposal of capital assets (\$22,483).

Increase in Net Position

The District recognized operating income of \$960,205 for the fiscal year ended June 30, 2014, while recognizing an overall increase in net position of \$1,023,325.

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

Overview of the Financial Statements

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

Management's Discussion and Analysis

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 exceeded liabilities by \$19,630,889 at the close of the most recent fiscal year compared to net position of \$18,668,827 as of June 30, 2013. The \$1,023,325 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 (71.4% as of June 30, 2014 compared to 61.7% as of June 30, 2013) 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, 2014**

Condensed Statements of Net Position

	June 30, 2013	June 30, 2014	Percentage Change
Current and other assets	\$ 8,483,914	\$ 7,913,542	-6.7%
Capital assets	13,795,422	16,175,469	17.3%
Total Assets	22,279,336	24,089,011	8.1%
Total Deferred Outflows of Resources	-	186,381	100.0%
Current liabilities	147,121	1,137,984	673.5%
Noncurrent liabilities	3,463,388	3,506,519	1.2%
Total Liabilities	3,610,509	4,644,503	28.6%
Net investment in capital assets	11,510,619	14,009,579	21.7%
Restricted for debt service	250,252	274,280	9.6%
Unrestricted	6,907,956	5,347,030	-22.6%
Total Net Position	\$ 18,668,827	\$ 19,630,889	5.2%

A portion of the District's net position, \$274,280 as of June 30, 2014, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position of \$5,347,030 as of June 30, 2014, 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, 2014**

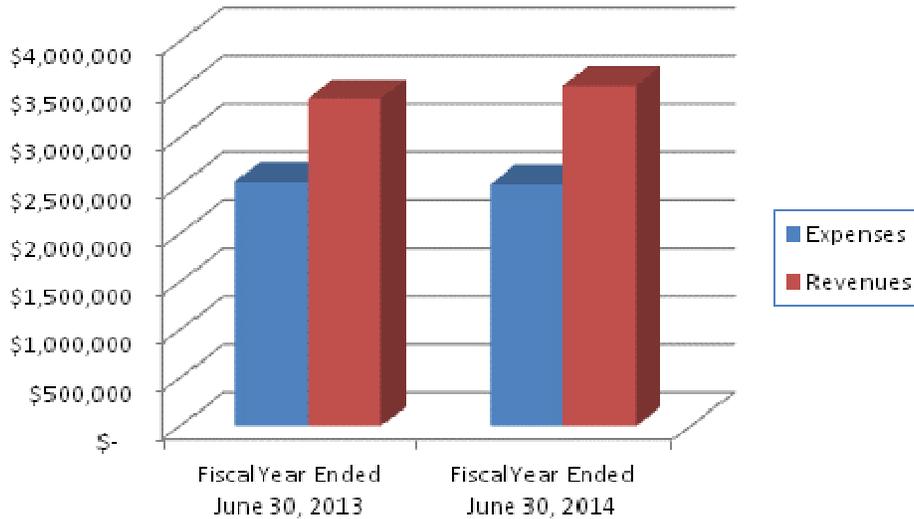
Condensed Statements of Changes in Net Position

	Fiscal Year Ended		Percentage Change
	June 30, 2013	June 30, 2014	
Revenues			
Operating revenues	\$ 3,208,818	\$ 3,400,169	6.0%
Nonoperating revenues	100,705	137,594	36.6%
Total revenues	3,309,523	3,537,763	6.9%
Expenses			
Services and supplies	2,106,918	2,084,546	-1.1%
Fiscal agent fees and legal services	2,609	2,953	13.2%
Depreciation and amortization	346,495	352,465	1.7%
Interest expense	66,391	51,991	-21.7%
Loss on disposal of capital assets	-	22,483	100.0%
Other expenses	19,706	-	-100.0%
Total expenses	2,542,119	2,514,438	-1.1%
Income before contributions	767,404	1,023,325	33.3%
Capital contributions - connection fees	96,960	-	-100.0%
Increase in net position	864,364	1,023,325	18.4%
Net position - beginning of year	17,804,463	18,668,827	4.9%
Change in accounting principle - GASB 65	-	(61,263)	100.0%
Net position - beginning of year, as restated	17,804,463	18,607,564	4.5%
Net position - end of year	\$ 18,668,827	\$ 19,630,889	5.2%

The District's net position increased by \$1,023,325 during the fiscal year ended June 30, 2014 compared to an increase of \$864,364 during the fiscal year ended June 30, 2013. Overall total revenues (including capital contributions) recognized by the District increased 3.9% from the fiscal year ended June 30, 2013. Total expenses incurred during the fiscal year ended June 30, 2014 decreased 1.1% primarily as a result of decreases in services and supplies and interest expense.

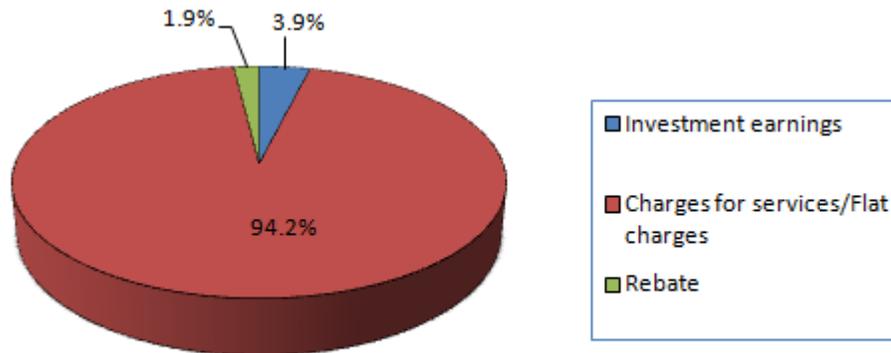
**SOUTH PARK COUNTY SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Expenses and Revenues



Total revenues, including capital contributions, of the District for the fiscal year ended June 30, 2014 totaled \$3,537,763 representing an increase of \$131,280 from the preceding fiscal year revenues of \$3,406,483. This increase is primarily the result of increases in revenue from operations as well as higher interest recognized on cash and investments.

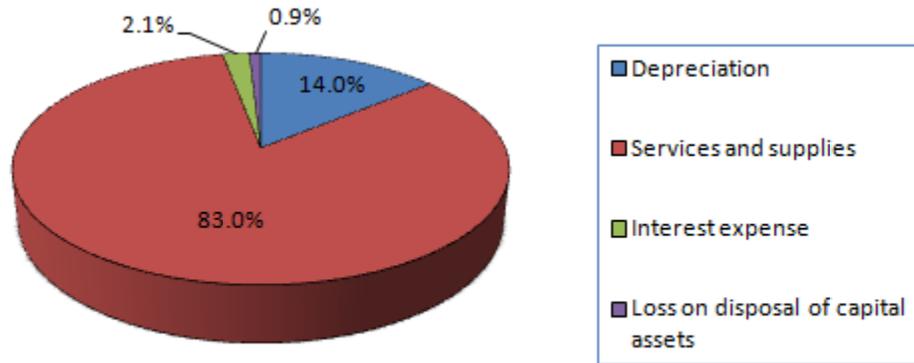
Revenues by Source



As previously mentioned, the District recognized \$3,537,763 of revenue and capital contributions during the fiscal year ended June 30, 2014. Of this amount \$3,400,169 or 96.1% 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 \$68,801. Investment earnings represent 3.9% of revenues and consist of earnings on pooled cash held with the Sonoma County Treasurer.

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

Expenses by Function



Expenses for the District for fiscal year ended June 30, 2014 totaled \$2,514,438. Costs associated with the collection, treatment, and disposal of effluent represent 83.0% of the District's costs. The next largest functional area is depreciation and amortization expense of \$352,465 (14.0%) of total expenses. Interest expense totaling \$51,991 (2.1%) represents the cost of meeting current debt service on the District's long-term obligations. Other expenses accounted for less than one percent of annual expenses.

Capital Asset and Debt Administration

Capital assets

The District's investment in capital assets as of June 30, 2014, amounts to \$16,175,469 (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 \$100,000.

South Park County Sanitation District's Capital Assets

	June 30, 2013	June 30, 2014	Percentage Change
Intangible assets	\$ 124,102	\$ 124,602	0.4%
Construction in progress	1,353,729	3,568,434	163.6%
Buildings and improvements	16,983,890	-	-100.0%
Infrastructure	-	17,501,197	100.0%
Accumulated depreciation	(4,666,299)	(5,018,764)	7.6%
Total	\$ 13,795,422	\$ 16,175,469	17.3%

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, 2014**

Long-term Obligations

As of June 30, 2014, the District had a total of \$2,352,271 in outstanding revenue bonds.

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

	June 30, 2013	June 30, 2014	Percentage Change
Revenue bonds	\$ 2,284,803	\$ 2,352,271	3.0%

The District's total debt increased by \$67,468 during the current fiscal year. Revenue bonds increased by \$200,720 due to the discreet presentation of deferred amounts on refunding in accordance with GASB Statement No. 65 – *Items Previously Reported as Assets and Liabilities* (Refer to Note B in the notes to the basic financial statement for additional information on deferred inflows/outflows of resources). The increase in revenue bonds was partially offset by annual principal payment (\$130,000) on the outstanding revenue bonds along with amortization of the original issue premium (\$3,248).

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, 2015 have decreased by \$5,705,856 (56.3%) for a total of \$4,428,217. The major component of the decrease within the Operations fund is related to a reduction from prior year in transfers to the Construction fund for capital projects as well as a reduction for contributions to other governments. Decreases within the Construction fund are due to a decrease in budgeted capital replacement of \$3,202,449 as well as a reduction in budgeted contributions to other governments of \$1,200,000.

Following is a comparison of the final budget for the fiscal year ended June 30, 2014 and the proposed budgeted expenses for the District for the fiscal year ending June 30, 2015.

	Fiscal Year Ending June 30, 2014	Fiscal Year Ending June 30, 2015	Increase (Decrease)	Percentage Change
Operations	\$ 4,899,591	\$ 3,596,184	\$ (1,303,407)	-26.6%
Debt service - revenue bonds	132,033	132,033	-	0.0%
Construction	5,102,449	700,000	(4,402,449)	-86.3%
Total	\$ 10,134,073	\$ 4,428,217	\$ (5,705,856)	-56.3%

Budgeted expenses for the fiscal year ended June 30, 2014 differ in several instances from the budgeted expenses presented in the management discussion and analysis issued for the period ending June 30, 2013. These variances are due to Board approved budgetary adjustments made subsequent to the publication of the audited basic financial statements for the fiscal year ended June 30, 2013.

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

Next Year's Budget and Rates (continued)

The sewer service fee rates were increased for the fiscal year ended June 30, 2014 budget year by 2.5%.

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

	Fiscal Year Ending June 30, 2014	Fiscal Year Ending June 30, 2015	Percentage Change
Rate per Equivalent Single-Family Dwelling	\$ 830	\$ 851	2.5%
Number of Equivalent Single-Family Dwellings	3,990	4,019	0.7%

Request for Additional Information

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

SOUTH PARK COUNTY SANITATION DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2014

Assets

Current assets:

Cash and investments	\$ 7,512,740
Accounts receivable	47,375
Due from other governments	23,289
Restricted cash and investments:	
Revenue bond fund	300,635
Total current assets	7,884,039

Accounts receivable, noncurrent portion 29,503

Capital assets not being depreciated:

Intangible assets	124,602
Infrastructure-construction in progress	3,568,434
Capital assets, net of accumulated depreciation:	
Infrastructure	12,482,433
Total capital assets (net of accumulated depreciation)	16,175,469
Total noncurrent assets	16,204,972

Total assets 24,089,011

Deferred outflows of resources

Deferred amount on refunding	186,381
Total deferred outflows of resources	186,381

Liabilities

Current liabilities:

Accounts payable and accrued expenses	968,377
Current liabilities payable from restricted assets:	
Revenue bonds payable	143,252
Accrued interest payable	26,355
Total current liabilities	1,137,984

Noncurrent liabilities:

Pollution remediation	1,297,500
Revenue bonds payable	2,209,019
Total noncurrent liabilities	3,506,519

Total liabilities 4,644,503

Net Position

Net investment in capital assets	14,009,579
Restricted for debt service	274,280
Unrestricted	5,347,030
Total net position	\$ 19,630,889

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, 2014**

Operating revenues	
Flat charges	\$ 3,245,317
Charges for services	86,051
Other	68,801
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Total operating revenues	3,400,169
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Operating expenses	
Services and supplies	2,084,546
Fiscal agent fees and legal services	2,953
Depreciation and amortization	352,465
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Total operating expenses	2,439,964
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Operating income	960,205
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Nonoperating revenues (expenses)	
Investment earnings	137,594
Interest expense	(51,991)
Loss on disposal of capital assets	(22,483)
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Total nonoperating revenues	63,120
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Increase in net position	1,023,325
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Net position - beginning of year	18,668,827
Change in accounting principle - GASB 65	(61,263)
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Net position - beginning of year, as restated	18,607,564
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Net position - end of year	\$ 19,630,889
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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, 2014**

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$	3,435,319
Payments to Sonoma County Water Agency		(92,979)
Payments to suppliers		(1,694,896)
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Net cash provided by operating activities		1,647,444
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CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Due from other governments		(23,289)
Cash inflow - reimbursable projects costs		877,252
Cash outflow - reimbursable project costs		(877,252)
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Net cash used in noncapital financing activities		(23,289)
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CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchase of capital assets		(2,021,304)
Principal payments on revenue bonds payable		(130,000)
Interest paid on revenue bonds payable		(107,694)
Due from other governments		19,706
<hr/>		
Net cash used in capital and related financing activities		(2,239,292)
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CASH FLOWS FROM INVESTING ACTIVITIES

Interest received on pooled cash and investments		137,594
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Net decrease in cash and cash equivalents		(477,543)

Cash and cash equivalents - beginning of year		8,290,918
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Cash and cash equivalents - end of year	\$	7,813,375
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Reconciliation to the statement of net position

Cash and investments	\$	7,512,740
Restricted cash and investments		300,635
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Cash and cash equivalents	\$	7,813,375

RECONCILIATION OF OPERATING INCOME TO NET CASH

PROVIDED BY OPERATING ACTIVITIES:

Operating income	\$	960,205
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization		352,465
Change in assets and liabilities:		
Decrease in accounts receivable		35,150
Increase in accounts payable and accrued expenses		299,624
<hr/>		
Net cash provided by operating activities	\$	1,647,444

NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisitions of capital assets through accounts payable	\$	668,670
Capitalized interest		65,651

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, 2014**

Note A. Defining the Financial Reporting Entity

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

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

Component Unit Reporting

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

Note B. Summary of Significant Accounting Policies

The District conforms to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. A summary of significant accounting policies is included below.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The District uses a proprietary (enterprise) fund to account for its activities. An enterprise fund may be used to report any activity for which a fee is charged to external users for goods or services. Enterprise funds are required for any activity whose principal external revenue sources meet any of the following criteria: (1) issued debt is backed solely by fees and charges, (2) the cost of providing services for any activity (including capital costs such as depreciation or debt service) must be legally recovered through fees or charges, or (3) if the government's policy is to establish activity fees or charges designed to recover the cost of providing services.

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

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, 2014**

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

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

Intangible Assets

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

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. 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, 2014**

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

Budget and Budgetary Accounting

The Board adopts a budget annually to be effective July 1st for the ensuing fiscal year for the District. The general manager of the Water Agency is authorized to transfer budgeted amounts within the District except for transfers between 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, 2014**

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, 2014 the fair value of the District's cash and investments was \$7,813,375 which includes an unrealized gain fair value adjustment of \$62,498. Funds are held in the Treasury Pool managed by the Treasurer, which is not rated by credit rating agencies, and had a weighted average maturity of 791 days as of June 30, 2014. The credit rating and other information regarding specific investments maintained in the Treasury pool as of June 30, 2014, are disclosed in the County's Comprehensive Annual Financial Report.

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

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. As of June 30, 2014 all of the District's investments are in the Treasury Pool which is not subject to interest rate risk.

Custodial Credit Risk

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

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

Investments in external investment pools and in open-end mutual funds are not exposed to custodial credit risk. As of June 30, 2014, 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, 2014 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, 2014**

Note D. Capital Assets

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

	July 1, 2013	Increases	Decreases	Transfers & Reclassification	June 30, 2014
Capital assets, not being depreciated					
Intangible assets	\$ 124,102	\$ -	\$ -	\$ 500	\$ 124,602
Construction in progress	1,353,729	2,754,881	(22,369)	(517,807)	3,568,434
Total capital assets not being depreciated	1,477,831	2,754,881	(22,369)	(517,307)	3,693,036
Capital assets being depreciated:					
Buildings and improvements	16,983,890	-	-	(16,983,890)	-
Infrastructure	-	-	-	17,501,197	17,501,197
Less: accumulated depreciation	(4,666,299)	(352,465)	-	-	(5,018,764)
Total capital assets, being depreciated, net	12,317,591	(352,465)	-	517,307	12,482,433
Total capital assets, net	\$13,795,422	\$2,402,416	\$ (22,369)	\$ -	\$16,175,469

During the fiscal year ended June 30, 2014, the District reclassified as infrastructure its collection and treatment systems which were previously classified as buildings and improvements. Depreciation expense amounted to \$352,465 for the fiscal year ended June 30, 2014.

The total amount of interest capitalized in connection with collection system construction projects during the fiscal year ended June 30, 2014 was \$65,651.

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

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 17% 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, 2014 is \$2,310,000 and \$783,485, 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, 2014 and total customer net revenues were \$237,694 and \$1,398,273, respectively.

Revenue bond debt service requirements to maturity are as follows:

Fiscal Year Ending	Principal	Interest	Total
June 30,			
2015	\$ 140,000	\$ 102,864	\$ 242,864
2016	140,000	97,684	237,684
2017	145,000	92,268	237,268
2018	155,000	86,454	241,454
2019	160,000	80,231	240,231
2020-2024	905,000	276,531	1,181,531
2025-2027	665,000	47,453	712,453
Total	\$2,310,000	\$ 783,485	\$3,093,485

Changes in Long-Term Obligations

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

	July 1,			June 30,	Due Within
	2013	Additions	Retirements	2014	One Year
Revenue bonds	\$ 2,440,000	\$ -	\$ (130,000)	\$2,310,000	\$ 140,000
Less amounts for:					
Original issue premium	45,523	-	(3,252)	42,271	-
Total revenue bonds	\$ 2,485,523	\$ -	\$ (133,252)	\$2,352,271	\$ 140,000

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

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 \$92,979 to the Water Agency for administrative support during the fiscal year ended June 30, 2014.

Note G. Risk Management

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

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

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

The County maintains "All Risk" property insurance including flood and earthquake through participation in the CSAC-EIA Property Insurance Program. Limits of coverage are \$600,000,000 per occurrence for All Risk, \$300,000,000 for flood and \$80,000,000 per occurrence for earthquake. 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, 2014**

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 SPCSD 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, 2014**

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, 2014, 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, 2014, as the investigation to identify responsible parties has not been concluded.

Note J. Beginning Net Position Adjustment – Implementation of New Accounting Principle

During the fiscal year ended June 30, 2014, the District implemented the provisions of GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, which establishes accounting and financial reporting standards for deferred outflows of resources and deferred inflows of resources. Refer to the District's Summary of Significant Accounting Policies (Note B.) for additional information on these financial statement elements. GASB 65 also requires that debt issuance costs, other than prepaid insurance, be recognized as an expense in the period incurred. A \$61,263 decrease in net position due to previously amortizable debt issuance costs was reported as a beginning net position adjustment. Additionally, the District's deferred loss on refunding of debt was reclassified as a deferred outflow of resources.

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

Independent Auditor's Report

Board of Directors
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, 2014, the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the notes to the financials statements, and have issued our report thereon dated September 30, 2014.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Local partnership. Global solutions.

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

Independent Auditor's Report (continued)

Purpose of this Report

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

We noted certain other matters that we reported to management of the District in a separate letter dated September 30, 2014.

PricewaterhouseCoopers

Petaluma, California
September 30, 2014