

**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, 2020

**South Park County Sanitation District  
For the Fiscal Year Ended June 30, 2020**

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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 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, 2020, 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.

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

### ***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, 2020, 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.

### ***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, 2020, 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, grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the District's 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.

*Parenti & Brinku LLP*

Santa Rosa, California  
September 30, 2020

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

**South Park County Sanitation District  
Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2020**

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, 2020. 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 Sonoma Water, which provides administration, engineering, operational and maintenance services. The District is governed by a Board of Directors, which is the County of Sonoma Board of Supervisors. The District is considered an integral part of the County of Sonoma's reporting entity, resulting in the District's financial statements being included in the County's Comprehensive Annual Financial Report.

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

**Financial Highlights**

*Net Position*

The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$26,386,881 (*net position*). Of this amount, \$7,695,354 (*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 \$4,277,662 during the fiscal year ended June 30, 2020. Of this amount, \$4,073,830 represents operating revenues, \$162,232 represents investment earnings and \$41,600 represents connection fees.

*Expenses*

The District incurred expenses totaling \$2,980,346 during the fiscal year ended June 30, 2020. Of this amount, \$2,934,273 represents operating expenses related to the collection, treatment, disposal, and reclamation of effluent, as well as administrative and general expenses. The remaining non-operating expense consisted of interest expense \$46,073.

*Increase in Net Position*

The District recognized operating income of \$1,139,557 for the fiscal year ended June 30, 2020, while recognizing an overall increase in net position of \$1,297,316.

**South Park County Sanitation District  
Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2020**

**Overview of the Financial Statements**

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

*Management's Discussion and Analysis*

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

*Financial Statements*

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

*Notes to the Basic Financial Statements*

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

**Financial Analysis**

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities by \$26,386,881 at the close of the most recent fiscal year compared to net position of \$25,089,565 as of June 30, 2019. The \$1,297,316 increase in net position is due primarily to the District's continued focus on minimizing increases to its expenses combined with growing revenues from the collection, treatment and disposal of effluent (operating activities).

A portion of the District's net position (69.2% as of June 30, 2020 compared to 74.1% as of June 30, 2019) 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, 2020**

**Financial Analysis (continued)**

*Condensed Statements of Net Position*

	June 30, 2019	June 30, 2020	Percentage Change
Current and other assets	\$ 8,773,782	\$ 9,858,234	12.4%
Capital assets	20,077,574	19,576,308	-2.5%
<b>Total Assets</b>	<b>28,851,356</b>	<b>29,434,542</b>	<b>2.0%</b>
<b>Total Deferred Outflows of Resources</b>	<b>88,316</b>	<b>75,699</b>	<b>-14.3%</b>
Current liabilities	762,821	191,558	-74.9%
Noncurrent liabilities	3,087,286	2,931,802	-5.0%
<b>Total Liabilities</b>	<b>3,850,107</b>	<b>3,123,360</b>	<b>-18.9%</b>
Net investment in capital assets	18,593,997	18,262,161	-1.8%
Restricted for debt service	420,780	429,366	2.0%
Unrestricted	6,074,788	7,695,354	26.7%
<b>Total Net Position</b>	<b>\$ 25,089,565</b>	<b>\$ 26,386,881</b>	<b>5.2%</b>

A portion of the District's net position, \$429,366 as of June 30, 2020, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position of \$7,695,354 as of June 30, 2020, 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, 2020**

**Financial Analysis (continued)**

*Condensed Statements of Changes in Net Position*

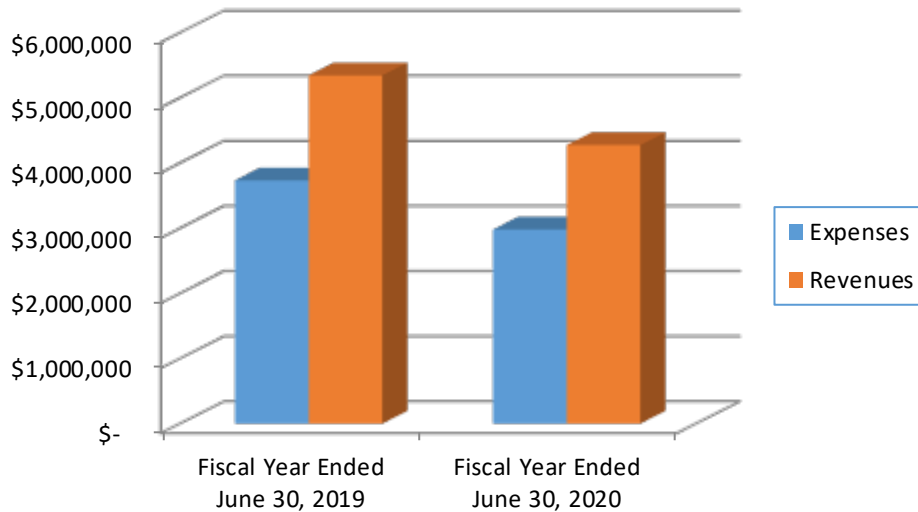
	<b>Fiscal Year Ended</b>		<b>Percentage Change</b>
	<b>June 30, 2019</b>	<b>June 30, 2020</b>	
<b>Revenues</b>			
Operating revenues	\$ 4,099,347	\$ 4,073,830	-0.6%
Nonoperating revenues	1,170,475	162,232	-86.1%
<b>Total revenues</b>	<b>5,269,822</b>	<b>4,236,062</b>	<b>-19.6%</b>
<b>Expenses</b>			
Services and supplies	2,423,072	2,401,531	-0.9%
Fiscal agent fees and legal services	878	1,668	90.0%
Depreciation and amortization	462,172	531,074	14.9%
Interest expense and debt issuance costs	50,303	46,073	-8.4%
Contributions to other governments	798,064	-	-100.0%
<b>Total expenses</b>	<b>3,734,489</b>	<b>2,980,346</b>	<b>-20.2%</b>
Income before contributions	1,535,333	1,255,716	-18.2%
Capital contributions - connection fees	75,580	41,600	-45.0%
Increase in net position	1,610,913	1,297,316	-19.5%
Net position - beginning of year	23,478,652	25,089,565	6.9%
<b>Net position - end of year</b>	<b>\$ 25,089,565</b>	<b>\$ 26,386,881</b>	<b>5.2%</b>

The District's net position increased by \$1,297,316 during the fiscal year ended June 30, 2020 compared to an increase of \$1,610,913 during the fiscal year ended June 30, 2019. Overall total revenues (including capital contributions) recognized by the District decreased 20.0% from the fiscal year ended June 30, 2019. Total expenses incurred during the fiscal year ended June 30, 2020 decreased 20.2% primarily as a result of a decrease in contributions to other governments related to the completion of the Blackwell Tract project, and an increase in depreciation and amortization expenses.

**South Park County Sanitation District  
Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2020**

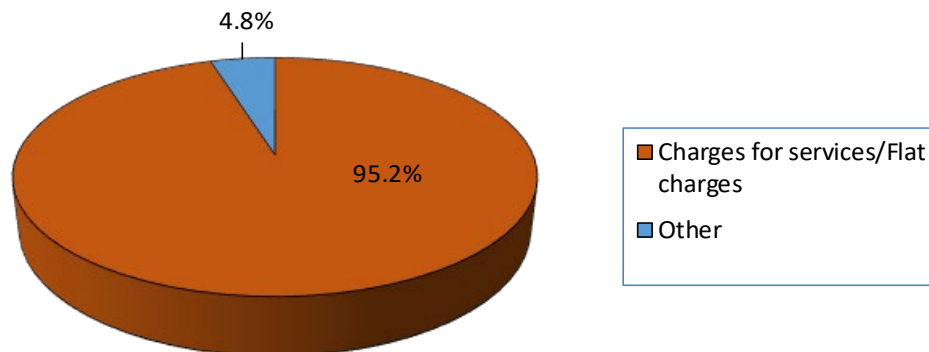
**Financial Analysis (continued)**

*Expenses and Revenues*



Total revenues, including capital contributions, of the District for the fiscal year ended June 30, 2020 totaled \$4,277,662 representing an a decrease of \$1,067,740 from the preceding fiscal year revenues of \$5,345,402. This decrease is primarily the result of a decrease in intergovernmental revenue due to the completion of the Blackwell Tract project.

*Revenues by Source*

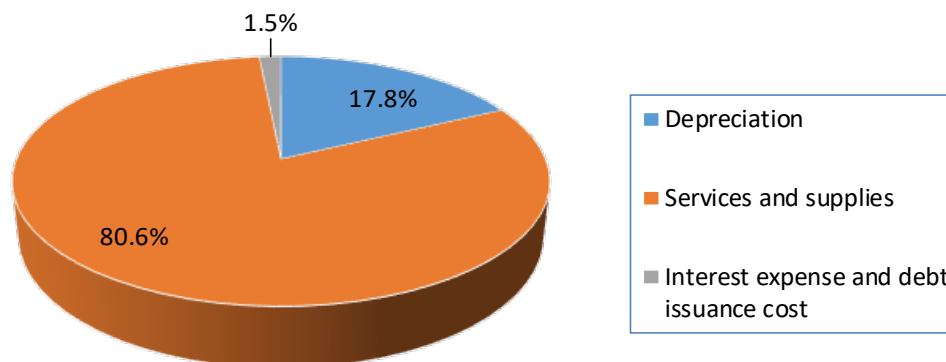


As previously mentioned, the District recognized \$4,277,662 of revenue and capital contributions during the fiscal year ended June 30, 2020. Of this amount \$4,073,830 or 95.2% was generated through flat charges and charges for services. These charges represent sewer services charges to cover operations and maintenance costs, which are initially collected through the permitting process, then subsequently through the tax rolls. The remaining 4.8% of revenue and capital contributions consisted of interest earnings of \$162,232, and connection fees of \$41,600.

**South Park County Sanitation District  
Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2020**

**Financial Analysis (continued)**

*Expenses by Function*



Expenses for the District for fiscal year ended June 30, 2020 totaled \$2,980,346. Costs associated with the collection, treatment, and disposal of effluent totaled \$2,403,199, and represent 80.6% of the District's costs. The next largest functional area of total expenses is depreciation and amortization expense of \$531,074 (17.8%), and interest expense of \$46,073 (1.5%).

**Capital Asset and Debt Administration**

*Capital assets*

The District's investment in capital assets as of June 30, 2020, amounts to \$19,576,308 (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 include permanent easements. Major capital asset activity for the year ended June 30, 2020 included the completion of the East Robles sewer main project.

*South Park County Sanitation District's Capital Assets*

	June 30, 2019	June 30, 2020	Percentage Change
Intangible assets	\$ 124,602	\$ 124,602	0.0%
Construction in progress	2,128,591	-	-100.0%
Infrastructure	24,992,616	27,151,015	8.6%
Accumulated depreciation	(7,168,235)	(7,699,309)	7.4%
<b>Total</b>	<b>\$ 20,077,574</b>	<b>\$ 19,576,308</b>	<b>-2.5%</b>

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

**South Park County Sanitation District  
Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2020**

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

*Long-term Obligations*

As of June 30, 2020, the District had a total of \$1,389,846 in outstanding revenue bonds.

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

	June 30, 2019	June 30, 2020	Percentage Change
Revenue bonds	\$ 1,571,893	\$ 1,389,846	-11.6%

The District's total debt decreased by \$182,047 during the current fiscal year. The decrease in revenue bonds is due to scheduled payments on the Sonoma County Water and Wastewater Financing Authority 2017 Revenue Bonds (2017 Bonds). The 2017 bonds principal due at issuance totaled \$1,929,628 with an average coupon rate of 2.33%.

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

**Next Year's Budget and Rates**

Budgeted gross expenses, including expenditures for capital projects, for the District for the fiscal year ending June 30, 2021 have increased by \$4,407,073 (99.0%) for a total of \$8,858,748. The major component of the change of the increase in the Operations fund budget is an increase of \$4,500,000 in budgeted operating transfers to the Construction fund to fund future capital replacement projects. The following is a comparison of the final budget for the fiscal year ended June 30, 2020 and the proposed budgeted expenses for the District for the fiscal year ending June 30, 2021.

	Fiscal Year Ended June 30, 2020	Fiscal Year Ending June 30, 2021	Increase/ Decrease
Operations	\$ 4,026,553	\$ 8,440,378	\$ 4,413,825
Debt service - revenue bonds	50,122	43,370	(6,752)
Construction	375,000	375,000	-
<b>Total</b>	<b>\$ 4,451,675</b>	<b>\$ 8,858,748</b>	<b>\$ 4,407,073</b>

**South Park County Sanitation District  
Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2020**

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

On October 10, 2017, the District received Board approval to execute an amended agreement with the City of Santa Rosa to provide a framework for continued coordination and cooperation between the District and the City following the City's annexation of certain County islands in southwest Santa Rosa. The agreement addresses rate restructuring, transfer of operations to the City, and a new governance structure to allow for the eventual transfer of all District operation and function to the City.

During the transition, the District will be moving to a new rate structure designed first and foremost to recover the cost of providing District services while also providing customers greater control over their sewer bill with the phased introduction of volume-based rates and is similar to the City's rate structure. The District's current rate structure includes one component: fixed charges. The District's new proposed rate structure is designed to recover the costs of providing sewer services and would include two components (A) fixed charges; and (B) volumetric charges that are based on water used.

South Park County Sanitation District's proposed FY 2020/21 wastewater rates will collect 40% of revenue from fixed charges and 60% of revenue from volumetric charges. The fixed charge recovers the District's costs to provide sewer services, including costs associated with the sewage treatment and collection system that are incurred regardless of increased or decreased sewage flow into the system. The fixed charge for all customers is \$396 per equivalent single family dwelling.

The volume-based charge recovers the District's costs to provide sewer services, including the costs associated with the sewage treatment and collection system that vary with the amount of sewage conveyed and treated, and gives District ratepayers the opportunity to control a portion of their sewer bill. The District will use City of Santa Rosa water usage data to calculate the annual volumetric charge portion of the sewer fee. All District customers will pay an annual volumetric charge.

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

	<b>Fiscal Year Ended June 30, 2020</b>	<b>Fiscal Year Ending June 30, 2021</b>
Fixed Rate per Equivalent Single-Family Dwelling	\$ 546	\$ 396
Volumetric Rate per 1000 gal. For Residential Customers	\$ 9.95	\$ 11.60
Number of Equivalent Single-Family Dwellings	4,267	4,312

**Request for Additional Information**

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

**South Park County Sanitation District**  
**Statement of Net Position**  
**June 30, 2020**

**Assets**

Current assets:

Cash and investments	\$ 9,265,719
Accounts receivable	85,557
Restricted cash and investments:	
Revenue bond fund	213,177
Total current assets	9,564,453

Non-current assets:

Cash and investments restricted for debt service	224,195
Accounts receivable, noncurrent portion	69,586
Capital assets not being depreciated:	
Intangible assets	124,602
Capital assets, net of accumulated depreciation:	
Infrastructure	19,451,706
Total capital assets (net of accumulated depreciation)	19,576,308
Total noncurrent assets	19,870,089
Total assets	29,434,542

**Deferred outflows of resources**

Deferred amount on refunding	75,699
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**Liabilities**

Current liabilities:

Accounts payable and accrued expenses	628
Current liabilities payable from restricted assets:	
Revenue bonds payable	182,924
Accrued interest payable	8,006
Total current liabilities	191,558

Noncurrent liabilities:

Pollution remediation	1,724,880
Revenue bonds payable	1,206,922
Total noncurrent liabilities	2,931,802
Total liabilities	3,123,360

**Net position**

Net investment in capital assets	18,262,161
Restricted for debt service	429,366
Unrestricted	7,695,354
Total net position	\$ 26,386,881

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, 2020**

<b>Operating revenues</b>	
Flat charges	\$ 4,003,233
Charges for services	70,597
<b>Total operating revenues</b>	<b>4,073,830</b>
<b>Operating expenses</b>	
Services and supplies	2,401,531
Fiscal agent fees and legal services	1,668
Depreciation and amortization	531,074
<b>Total operating expenses</b>	<b>2,934,273</b>
Operating income	<b>1,139,557</b>
<b>Nonoperating revenues (expenses)</b>	
Investment earnings	162,232
Interest expense and amortization of deferred refunding	(46,073)
<b>Total nonoperating revenue, net</b>	<b>116,159</b>
Income before capital contributions	1,255,716
Capital contributions:	
Connection fees	41,600
<b>Increase in net position</b>	<b>1,297,316</b>
<b>Net position - beginning of year</b>	<b>25,089,565</b>
<b>Net position - end of year</b>	<b>\$ 26,386,881</b>

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, 2020**

<b>Cash Flows From Operating Activities</b>	
Receipts from customers	\$ 4,074,647
Payments to Sonoma Water - services and supplies	(54,499)
Payments to suppliers	(2,530,120)
<hr/>	
Net cash provided by operating activities	1,490,028
<b>Cash Flows From Capital and Related Financing Activities</b>	
Acquisition and construction of capital assets	(392,040)
Principal payments - revenue bonds	(182,047)
Interest paid on revenue bonds	(34,505)
Connection fees	41,600
<hr/>	
Net cash used in capital and related financing activities	(566,992)
<b>Cash Flows From Investing Activities</b>	
Interest received on pooled cash and investments	162,231
<hr/>	
Net increase in cash and cash equivalents	1,085,267
<b>Cash and cash equivalents - beginning of year</b>	<b>8,617,824</b>
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<b>Cash and cash equivalents - end of year</b>	<b>\$ 9,703,091</b>
<hr/>	
<b>Reconciliation to the statement of net position</b>	
Cash and investments	\$ 9,265,719
Restricted cash and investments	437,372
<hr/>	
Cash and cash equivalents	\$ 9,703,091
<hr/>	
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>	
Operating income	\$ 1,139,557
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	531,074
Pollution remediation inflation adjustment	27,440
Change in assets and liabilities:	
Decrease in accounts and other receivables	818
Decrease in accounts payable and accrued expenses	(208,861)
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Net cash provided by operating activities	\$ 1,490,028
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The notes to the basic financial statements are an integral part of this statement.



**South Park County Sanitation District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020**

**Note A. 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.

*Defining the Financial Reporting Entity*

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

An agreement for transfer of responsibility to the City of Santa Rosa of collection system operation and maintenance, and subsequent dissolution of the District, was finalized in February of 1996. The agreement has been amended several times in the subsequent years.

On August 2, 2017, the Sonoma County Local Agency Formation Commission (LAFCO) approved the annexation of certain County islands in southwest Santa Rosa, including the large island commonly known as Roseland. Because the annexation will result in the annexation of less than 70% of the territory underlying the District, the District cannot be fully dissolved in conjunction with the Roseland Annexation. Therefore, LAFCO's annexation approval requires that the City and District amend the Transfer Agreement to address rate restructuring, transfer of operations to the City, and a new governance structure to allow for the eventual transfer of all District operations and functions to the City.

In October 2017, an amended agreement established a five year timeline for transitioning the rate structure from annual fixed rates charged on the tax roll to volumetric rates billed monthly by the City. Prior to or concurrent with the transition, the District will transfer control of the full operation and function of the District to the City. The District will seek a termination of the management agreement with Sonoma Water and approval of a new agreement with the City to document transfer of control. After full operation and function of the District is transferred to the City, a new Board of Directors will be created to manage the operation of the District. The District and the City are working collaboratively to address needed collection system upgrades in preparation for the transfer of management.

*Component Unit Reporting*

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

**South Park County Sanitation District**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2020**

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

*New Accounting Pronouncements*

The following Governmental Accounting Standards Board (GASB) Statements have been implemented in the current financial statements:

GASB Statement No. 95, *Postponement of the Effective Dates of Certain authoritative Guidance*. The requirements of this statement are effective for periods effective immediately. The primary objective of this statement provides temporary relief to help governments and other stakeholders in light of the COVID-19 pandemic by postponing the effective dates of certain provisions in Statements and Implementation Guides.

*Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

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

The District's financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. All assets and liabilities associated with the operation of the District are included on the statement of net position. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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.

**South Park County Sanitation District**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2020**

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

*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.

In accordance with GASB Statement No. 31, “*Accounting and Financial Reporting for Certain Investments and External Investment Pools*” and GASB Statement No. 72, “*Fair Value Measurement and Application*”, investments are stated at fair value in the statement of net position and balance sheet and the corresponding changes in the fair value of investments are recognized in the year in which the change occurred. The District follows the practice of pooling cash and investments of all funds with the County Treasurer except for certain restricted funds held by outside custodians, funds held by a trustee or funds in dedicated investments for the benefit of an individual pool participant. The fair value of investments is determined annually. Interest earned on pooled investments is allocated quarterly to the appropriate funds based on their respective average daily balance for that quarter.

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.

*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.

**South Park County Sanitation District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020**

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

*Capital Assets*

Capital assets include land, land improvements, buildings and improvements, machinery and equipment, infrastructure, and intangible assets. Assets that are purchased or constructed are reported at historical cost or at estimated historical cost if actual historical cost is not available. Capital projects spanning multiple years are recorded as construction in progress. Donated capital assets are valued at their estimated fair value on the date of donation.

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

The District early adopted the provisions of GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, during the fiscal year ending June 30, 2019.

Depreciation and amortization are recognized using the straight-line method over the estimated useful life of the asset.

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

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

**South Park County Sanitation District**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2020**

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

*Intangible Assets*

Intangible assets for the District consist of permanent easements. Permanent easements, including dedicated easements, are stated at cost, estimated historical cost, or fair value and are not amortized.

*Deferred outflows/inflows of resources*

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

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

*Net Position*

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

*Budget and Budgetary Accounting*

The Board adopts a budget annually to be effective July 1<sup>st</sup> for the ensuing fiscal year for the District. The general manager of Sonoma Water is authorized to transfer budgeted amounts within the District except for transfers between funds or major expense classes (e.g. 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, 2020**

**Note B. 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 powers agreement
- Investment Trust of California (CalTRUST)
- Obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation or Inter-American Development Bank

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, 2020 the fair value of the District's cash and investments was \$9,703,091. 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 787 days as of June 30, 2020. The credit rating and other information regarding specific investments maintained in the Treasury pool as of June 30, 2020, 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, 2020**

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

*Interest Rate Risk*

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity its fair value is to changes in market interest rates. One of the ways that the County Treasurer manages the District's exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments, and by timing cash flows from maturities so that a portion of the portfolio is maturing, or coming close to maturity, evenly over time, as necessary, to provide the cash flow and liquidity needed for operations.

*Custodial Credit Risk*

With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as the Treasury Pool.)

*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, 2020 are disclosed in the County's Comprehensive Annual Financial Report.

*Fair Value Measurements*

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District has a recurring fair value measurement for its investment in the Sonoma County Treasury Pool which is valued using significant other observable inputs (Level 2).

**South Park County Sanitation District**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2020**

**Note C. Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2020 was as follows:

	July 1, 2019	Increases	Decreases	Transfers & Reclassification	June 30, 2020
Capital assets, not being depreciated					
Intangible assets	\$ 124,602	\$ -	\$ -	\$ -	\$ 124,602
Construction in progress	2,128,591	29,808	-	(2,158,399)	-
Total capital assets not being depreciated	2,253,193	29,808	-	(2,158,399)	124,602
Capital assets being depreciated:					
Infrastructure	24,992,616	-	-	2,158,399	27,151,015
Less: accumulated depreciation	(7,168,235)	(531,074)	-	-	(7,699,309)
Total capital assets, being depreciated, net	17,824,381	(531,074)	-	2,158,399	19,451,706
Total capital assets, net	\$ 20,077,574	\$ (501,266)	\$ -	\$ -	\$ 19,576,308

Depreciation expense amounted to \$531,074 for the fiscal year ended June 30, 2020.

**Note D. Long-Term Obligations**

*Revenue Bonds*

The District issued bonds where the District pledged 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. In April 2017 the Sonoma County Water and Wastewater Financing Authority issued Water and Wastewater Revenue Bonds (2017 Bonds) as direct placement conduit debt on the behalf of the District. The 2017 Bonds were issued to refund and defease the remaining balance (\$1,885,000) of the 2005C revenue bonds and pay associated costs of issuance.

The 2017 Bonds have an interest rate of 2.33% and 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 11.6% of net revenues. The total principal and interest outstanding on the bonds, as of June 30, 2020 is \$1,389,846 and \$116,749, 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, 2020 and total customer net revenues were \$216,552 and \$1,874,463, respectively.

The 2017 bonds contain a provision that in the event of default, all principal components of the unpaid debt service payments, together with accrued interest from the immediately preceding payment date on which payment was made, is immediately due and payable.



**South Park County Sanitation District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020**

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

*Revenue Bonds (continued)*

Revenue bond debt service requirements to maturity are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2021	\$ 182,924	\$ 30,252	\$ 213,177
2022	188,501	25,925	214,427
2023	193,704	21,473	215,177
2024	198,523	16,903	215,426
2025	202,951	12,226	215,177
2026-2027	423,243	9,970	433,212
<b>Total</b>	<b>\$ 1,389,846</b>	<b>\$ 116,749</b>	<b>\$ 1,506,595</b>

*Changes in Long-Term Obligations*

Long-term obligation activity for the fiscal year ended June 30, 2020 was as follows:

	July 1, 2019	Additions	Payments/ Retirements	June 30, 2020	Due Within One Year
Revenue bonds - direct placements	\$ 1,571,893	\$ -	\$ (182,047)	\$1,389,846	\$ 182,924
Total revenue bonds	\$ 1,571,893	\$ -	\$ (182,047)	\$1,389,846	\$ 182,924

**Note E. 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 Sonoma Water are component units of the County. Therefore, Sonoma Water is considered a related party with respect to the District.

The District is managed by Sonoma Water, which provides administration, engineering, operational, and maintenance services. The District does not incur any payroll expenses. Sonoma Water charges the District for services based on direct labor plus overhead for Sonoma Water labor applied to District activities. The overhead rate is reviewed periodically by management to determine its effectiveness. During the fiscal year ended June 30, 2020, the District paid \$54,499 to Sonoma Water for operational services and \$27,971 for the acquisition and construction of capital assets.

**South Park County Sanitation District**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2020**

**Note F. 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 retains the risk for the first \$1,000,000 per occurrence for general and automobile liability. Excess liability coverage is maintained through participation in the California State Association of Counties, Excess Insurance Authority (CSAC-EIA). Limits of this coverage are \$25,000,000.

The County maintains "All Risk" property insurance including flood and earthquake through participation in the CSAC-EIA Property Insurance Program. Limits of coverage are \$800,000,000 per occurrence for All Risk, \$600,000,000 for flood (limits vary in FEMA flood zones) and earthquake coverage with shared limits of \$740,000,000. Deductibles for these perils are \$50,000 per occurrence.

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

The District pays an annual premium to the County for this insurance coverage. Settled claims have not exceeded this coverage for any of the past three fiscal years.

**Note G. Commitments and Contingencies**

*Commitments*

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the District operates. While it is unknown how long these conditions will last and what the complete financial effect will be to the District, the outbreak has not had a material adverse impact to the District's operations to date. However, the future impact of the outbreak is highly uncertain and cannot be predicted. Accordingly, there is no assurance that the outbreak will not have a material adverse impact in the future.

**South Park County Sanitation District**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2020**

**Note G. Commitments and Contingencies (continued)**

*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 H. 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. Limited further action from the Regional Board has been taken on this matter to the knowledge of the District in the last several years.

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, 2020, the District has estimated a liability of \$1,724,880 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, 2020, as the investigation to identify responsible parties has not been concluded.

**South Park County Sanitation District**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2020**

**Note I. Future Governmental Accounting Standards**

The Governmental Accounting Standards Board (GASB) has released the following standards which will be implemented in future financial statements:

*GASB Statement No. 87 – Leases*

The requirements of this Statement are effective for periods beginning after December 15, 2021 (FY 2021-22). The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The impact on the basic financial statements of the District of this pronouncement which has not yet been adopted is unknown at this time.

*GASB Statement No. 92 – Omnibus 2020*

The requirements of this statement are effective for the fiscal year ending June 30, 2022. The objective of this statement enhances comparability in accounting and financial reporting by addressing practice issues that have been identified during the implementation and application of certain GASB statements.



## **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, 2020, the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the notes to the financial statements, and have issued our report thereon dated September 30, 2020.

### **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.

**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)**

**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*.

**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.

A handwritten signature in black ink that reads "Presenti & Brinku LLP". The signature is written in a cursive, flowing style.

Santa Rosa, California  
September 30, 2020