

**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, 2023

**South Park County Sanitation District  
For the Fiscal Year Ended June 30, 2023**

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## Independent Auditor's Report

Board of Directors  
South Park County Sanitation District

### Report on the Audit of the Financial Statements

#### **Opinion**

We have audited the 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, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of June 30, 2023, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***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 is the responsibility of management and, 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.

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2023, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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.

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

Santa Rosa, California  
September 29, 2023

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

**South Park County Sanitation District  
Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2023**

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, 2023. 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 (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 (the County) reporting entity, resulting in the District's financial statements being included in the County's Annual Comprehensive Financial Report.

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

**Financial Highlights**

*Net Position*

The assets and deferred outflows of resources of the District exceeded its liabilities at the close of the most recent fiscal year by \$30,186,161 (*net position*). Of this amount, \$12,597,991 (*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 \$5,067,357 during the fiscal year ended June 30, 2023. Of this amount, \$4,597,603 represents operating revenues, \$214,782 represents investment earnings, \$30,179 represents intergovernmental revenue and \$224,793 represents connection fees.

*Expenses*

The District incurred expenses totaling \$3,451,216 during the fiscal year ended June 30, 2023. Of this amount, \$3,418,242 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 \$32,974 in interest expenses.

*Increase in Net Position*

The District recognized operating income of \$1,179,361 for the fiscal year ended June 30, 2023, while recognizing an overall increase in net position of \$1,616,141.

**South Park County Sanitation District  
Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2023**

**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 \$30,186,161 at the close of the most recent fiscal year compared to net position of \$28,570,020 as of June 30, 2022. The \$1,616,141 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 (56.9% as of June 30, 2023 compared to 61.3% as of June 30, 2022) 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, 2023**

**Financial Analysis (continued)**

*Condensed Statements of Net Position*

	June 30, 2022	June 30, 2023	Percentage Change
Current and other assets	\$ 13,197,616	\$ 14,982,497	13.5%
Capital assets, net	18,492,925	17,950,473	-2.9%
<b>Total assets</b>	<b>31,690,541</b>	<b>32,932,970</b>	<b>3.9%</b>
<b>Total deferred outflows of resources</b>	<b>50,466</b>	<b>37,849</b>	<b>-25.0%</b>
Current liabilities	446,006	203,488	-54.4%
Noncurrent liabilities	2,724,981	2,581,170	-5.3%
<b>Total liabilities</b>	<b>3,170,987</b>	<b>2,784,658</b>	<b>-12.2%</b>
Net investment in capital assets	17,524,970	17,163,605	-2.1%
Restricted for debt service	418,424	424,565	1.5%
Unrestricted	10,626,626	12,597,991	18.6%
<b>Total net position</b>	<b>\$ 28,570,020</b>	<b>\$ 30,186,161</b>	<b>5.7%</b>

A portion of the District's net position, \$424,565 as of June 30, 2023, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position of \$12,597,991 as of June 30, 2023, 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, 2023**

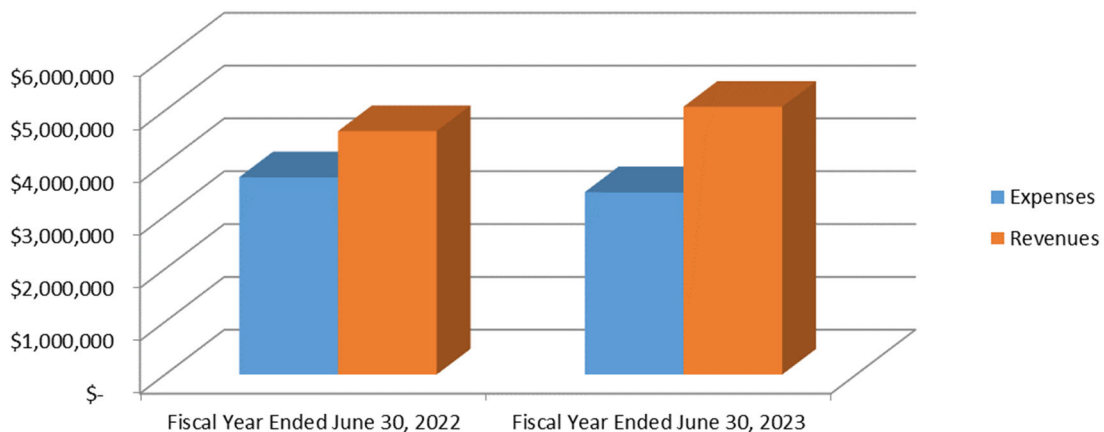
**Financial Analysis (continued)**

*Condensed Statements of Changes in Net Position*

	<b>Fiscal Year Ended</b>		<b>Percentage Change</b>
	<b>June 30, 2022</b>	<b>June 30, 2023</b>	
<b>Revenues</b>			
Operating revenues	\$ 4,550,580	\$ 4,597,603	1.0%
Nonoperating revenues:			
Investment earnings	-	214,782	100.0%
Intergovernmental	-	30,179	100.0%
<b>Total revenues</b>	<b>4,550,580</b>	<b>4,842,564</b>	<b>6.4%</b>
<b>Expenses</b>			
Services and supplies	2,775,939	2,873,512	3.5%
Depreciation	544,730	544,730	0.0%
Interest expense and amortization of deferred refunding	37,456	32,974	-12.0%
Investment loss	376,637	-	-100.0%
<b>Total expenses</b>	<b>3,734,762</b>	<b>3,451,216</b>	<b>-7.6%</b>
Income before capital contributions	815,818	1,391,348	70.5%
Capital contributions - connection fees	55,428	224,793	305.6%
Increase in net position	871,246	1,616,141	85.5%
<b>Net position, beginning of year</b>	<b>27,698,774</b>	<b>28,570,020</b>	<b>3.1%</b>
<b>Net position, end of year</b>	<b>\$ 28,570,020</b>	<b>\$ 30,186,161</b>	<b>5.7%</b>

The District's net position increased by \$1,616,141 during the fiscal year ended June 30, 2023, compared to an increase of \$871,246 during the fiscal year ended June 30, 2022. Overall total revenues (including capital contributions) recognized by the District increased 10.0% from the fiscal year ended June 30, 2022. Total expenses incurred during the fiscal year ended June 30, 2023, decreased 7.6% from the fiscal year ended June 30, 2022.

*Expenses and Revenues*



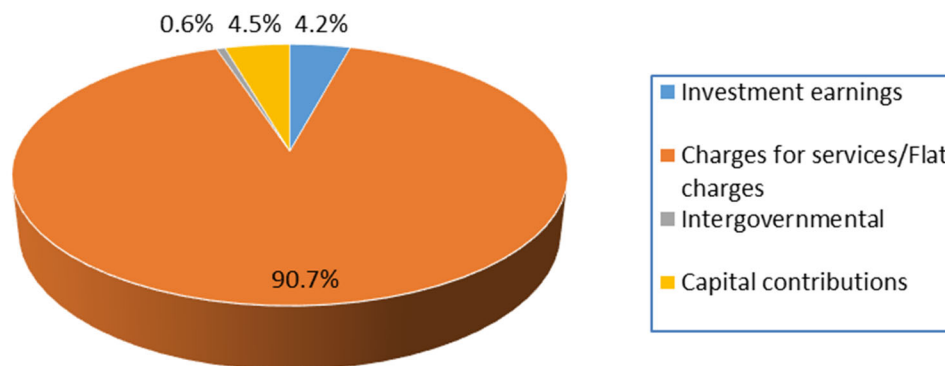
**South Park County Sanitation District  
Management’s Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2023**

**Financial Analysis (continued)**

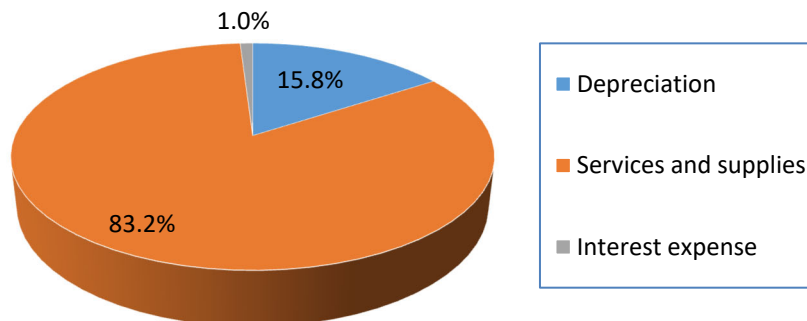
*Expenses and Revenues (continued)*

Total revenues, including capital contributions, of the District for the fiscal year ended June 30, 2023, totaled \$5,067,357 representing an increase of \$461,349 from the preceding fiscal year’s revenues of \$4,606,008. This increase is primarily the result of increases in connection fees and rate-based sewer service charges.

*Revenues by Source*



As previously mentioned, the District recognized \$5,067,357 of revenue and capital contributions during the fiscal year ended June 30, 2023. Of this amount \$4,597,603 or 90.7% 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 9.3% of revenue and capital contributions consisted of connection fees of \$224,793, investment earnings of \$214,782 and intergovernmental revenue of \$30,179.



Expenses for the District for fiscal year ended June 30, 2023 totaled \$3,451,216. Costs associated with the collection, treatment, and disposal of effluent totaled \$2,873,512, and represent 83.2% of the District’s costs. The next largest functional area of total expenses is depreciation expense of \$544,730 (15.8%) and interest expense and amortization of deferred refunding of \$32,974 (1.0%).

**South Park County Sanitation District  
Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2023**

**Capital Asset and Debt Administration**

*Capital Assets*

The District's investment in capital assets as of June 30, 2023, amounts to \$17,950,473 (net of accumulated depreciation). In addition to reporting the District's investment in capital assets including infrastructure, and construction in progress, the District reports its investment in intangible assets as required by Governmental Accounting Standards Board Statement No. 51 – *Accounting and Financial Reporting for Intangible Assets*. Intangible assets for the District include permanent easements.

*District's Capital Assets*

	<b>June 30, 2022</b>	<b>June 30, 2023</b>	<b>Percentage Change</b>
Intangible assets	\$ 130,679	\$ 130,679	0.0%
Construction in progress	-	2,278	100.0%
Infrastructure	27,151,015	27,151,015	0.0%
Accumulated depreciation	(8,788,769)	(9,333,499)	6.2%
<b>Total</b>	<b>\$ 18,492,925</b>	<b>\$ 17,950,473</b>	<b>-2.9%</b>

Additional information on the District's capital assets can be found in Note C of the notes to the basic financial statements

*Long-Term Obligations*

As of June 30, 2023, the District had a total of \$824,717 in outstanding revenue bonds.

*District's Outstanding Long-Term debt*

	<b>June 30, 2022</b>	<b>June 30, 2023</b>	<b>Percentage Change</b>
Revenue bonds	\$ 1,018,421	\$ 824,717	-19.0%

The District's total debt decreased by \$193,704 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.

Additional information on the District's current and long-term obligations can be found in Note D of the notes to the basic financial statements

**South Park County Sanitation District  
Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2023**

**Next Year's Budget and Rates**

Budgeted gross expenses, including expenditures for capital projects, for the District for the fiscal year ending June 30, 2024, decreased by \$1,825,806 (24.5%) for a total of \$5,626,349. The major component of the decrease in the Operations fund budget is due to a decrease of \$999,749 in budgeted operating transfers to the Construction fund to fund future capital replacement projects. The decrease in budget in the Construction fund is due to a reduction in estimated active construction projects. The following is a comparison of the final budget for the fiscal year ended June 30, 2023, and the proposed budgeted expenses for the District for the fiscal year ending June 30, 2024.

	<b>Fiscal Year Ended June 30, 2023</b>	<b>Fiscal Year Ending June 30, 2024</b>	<b>Increase/ (Decrease)</b>	<b>Percentage Change</b>
Operations	\$ 5,642,565	\$ 4,635,928	\$ (1,006,637)	-17.8%
Debt service - revenue bonds	34,590	30,021	(4,569)	-13.2%
Construction	1,775,000	960,400	(814,600)	-45.9%
<b>Total</b>	<b>\$ 7,452,155</b>	<b>\$ 5,626,349</b>	<b>\$ (1,825,806)</b>	<b>-24.5%</b>

On October 10, 2017, the District received Board approval to execute an amended agreement with the City of Santa Rosa (the City) 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 is 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 new rate structure is designed to recover the costs of providing sewer services and includes two components (A) fixed charges; and (B) volumetric charges that are based on water used.

The District's proposed fiscal year 2023/24 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 \$440 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 the City's water usage data to calculate the annual volumetric charge portion of the sewer fee. All District customers will pay an annual volumetric charge.

**South Park County Sanitation District  
Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2023**

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

The following table shows the sanitation services rates and equivalent single-family dwellings for the District.

	<b>Fiscal Year Ended June 30, 2023</b>	<b>Fiscal Year Ending June 30, 2024</b>
Fixed Rate per Equivalent Single-Family Dwelling	\$ 425	\$ 440
Volumetric Rate per 1,000 gal. for Residential Customers	\$ 12.42	\$ 12.84
Number of Equivalent Single-Family Dwellings	4,371	4,364

**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, 2023**

**Assets**

Current assets:

Cash and investments	\$ 14,448,661
Accounts receivable	67,615
Restricted cash and investments:	
Revenue bond fund	215,427
Total current assets	14,731,703

Noncurrent assets:

Cash and investments restricted for debt service	213,889
Accounts receivable, noncurrent portion	36,905
Capital assets not being depreciated:	
Intangible assets	130,679
Construction in progress	2,278
Capital assets, net of accumulated depreciation:	
Infrastructure	17,817,516
Total capital assets (net of accumulated depreciation)	17,950,473
Total noncurrent assets	18,201,267

Total assets	32,932,970
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**Deferred outflows of resources**

Deferred amount on refunding	37,849

**Liabilities**

Current liabilities:

Accounts payable and accrued expenses	4,964
Current liabilities payable from restricted assets:	
Revenue bonds payable	198,524
Total current liabilities	203,488

Noncurrent liabilities:

Pollution remediation	1,954,977
Revenue bonds payable	626,193
Total noncurrent liabilities	2,581,170

Total liabilities	2,784,658
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**Net position**

Net investment in capital assets	17,163,605
Restricted	424,565
Unrestricted	12,597,991
Total net position	\$ 30,186,161

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, 2023**

<b>Operating revenues</b>	
Flat charges	\$ 4,505,243
Charges for services	92,360
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Total operating revenues	4,597,603
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<b>Operating expenses</b>	
Services and supplies	2,873,512
Depreciation	544,730
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Total operating expenses	3,418,242
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Operating income	1,179,361
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<b>Nonoperating revenues (expenses)</b>	
Investment earnings	214,782
Intergovernmental - Federal	30,179
Interest expense and amortization of deferred refunding	(32,974)
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Total nonoperating revenues, net	211,987
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Income before capital contributions	1,391,348
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Capital contributions:	
Connection fees	224,793
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<b>Increase in net position</b>	<b>1,616,141</b>
<hr/>	
<b>Net position - beginning of year</b>	<b>28,570,020</b>
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<b>Net position - end of year</b>	<b>\$ 30,186,161</b>
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The notes to the basic financial statements are an integral part of this statement.



**South Park County Sanitation District**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2023**

<b>Cash flows from operating activities</b>	
Receipts from customers	\$ 4,669,469
Payments to Sonoma Water - services and supplies	(103,362)
Payments to suppliers	(2,926,898)
Net cash provided by operating activities	1,639,209
<b>Cash flows from noncapital financing activities</b>	
Intergovernmental revenue received	30,179
<b>Cash flows from capital and related financing activities</b>	
Purchase of capital assets	(2,278)
Principal payments - revenue bonds	(193,704)
Interest paid on revenue bonds	(21,473)
Connection fees	224,793
Net cash provided by capital and related financing activities	7,338
<b>Cash flows from investing activities</b>	
Interest received	214,782
Net increase in cash and cash equivalents	1,891,508
<b>Cash and cash equivalents - beginning of year</b>	12,986,469
<b>Cash and cash equivalents - end of year</b>	<b>\$ 14,877,977</b>
<b>Reconciliation to the statement of net position:</b>	
Cash and investments	\$ 14,448,661
Restricted cash and investments	429,316
Cash and cash equivalents	<b>\$ 14,877,977</b>
<b>Reconciliation of operating income to net cash provided by operating activities</b>	
Operating income	\$ 1,179,361
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	544,730
Increase in pollution remediation liability	54,713
Change in assets and liabilities:	
Decrease in accounts receivable	106,627
Decrease in accounts payable and accrued expenses	(211,457)
Decrease in unearned revenue	(34,765)
Net cash provided by operating activities	<b>\$ 1,639,209</b>

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, 2023**

**Note A. Summary of Significant Accounting Policies**

The South Park County Sanitation District (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 District is managed by Sonoma County Water Agency (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 (the City) 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 set forth the process for transitioning the rate structure from annual fixed rates charged on the property 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 Annual Comprehensive 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, 2023**

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

*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.

*Cash and Investments*

In accordance with Governmental Accounting Standards Board (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 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 Sonoma County Treasurer (the 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 in the County Treasury Investment Pool (the Treasury Pool).

**South Park County Sanitation District**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2023**

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

*Cash and Investments (continued)*

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. Restricted cash and investments with a maturity of three months or less when purchased are also treated as cash and cash equivalents.

*Accounts Receivable*

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

*Restricted Assets*

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

*Capital Assets*

Capital assets include land, land improvements, buildings and improvements, machinery and equipment, infrastructure, and intangible assets. Assets that are purchased or constructed are reported at historical cost or at estimated historical cost if actual historical cost is not available. Capital projects spanning multiple years are recorded as construction in progress. 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.

Intangible assets are stated at cost or estimated historical cost (except for intangible right-to-use lease assets). Intangible right-to-use lease assets are initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the right-to-use lease asset is amortized on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset. 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.

**South Park County Sanitation District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2023**

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

*Capital Assets (continued)*

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

	Capitalization Threshold	Estimated Useful Life
Land	\$ -	N/A
Land improvements	100,000	15 to 50 years
Buildings and improvements:		
Buildings	100,000	50 years
Building improvements	100,000	15 to 20 years
Machinery and equipment	5,000	5 to 20 years
Infrastructure	100,000	25 to 75 years
Intangible assets:		
Computer software	100,000	3 to 10 years
Temporary easements	-	Life of easement
Permanent easements	-	N/A
Right-to-use leases	100,000	Shorter of the lease term or the useful life of the underlying asset
Right-to-use software assets (SBITAs)	100,000	Shorter of the subscription term or the useful life of the underlying IT assets
Construction in progress	Projects expected to exceed the capitalization threshold for the applicable asset class	N/A

*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.

**South Park County Sanitation District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2023**

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

*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 District budget amounts. Transfer between funds or major expense classes (e.g. transfers between capital assets and operating expenses), require approval by the County Administrator and/or the Board.

*Use of Estimates*

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

**Note B. Cash and Investments**

*Investment Guidelines*

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.

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

**South Park County Sanitation District**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2023**

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

*Investment Guidelines (continued)*

Permitted investments include the following:

- U.S. Treasury and Federal Agency securities
- Bonds and notes issued by local agencies
- Registered state warrants and municipal notes and bonds
- Negotiable certificates of deposit
- Bankers' acceptances
- Commercial paper
- Medium-term corporate notes
- Local Agency Investment Fund (State Pool) deposits
- Repurchase agreements
- Reverse repurchase agreements
- Securities lending agreements
- Mutual funds and money market mutual funds
- Collateralized mortgage obligations
- Collateralized time deposits
- Joint 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 Treasurer at 585 Fiscal Drive, Room 100, Santa Rosa, California 95403.

As of June 30, 2023, the fair value of the District's cash and investments was \$14,877,977 which includes restricted cash and investments of \$429,316. 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 539 days as of June 30, 2023. The credit rating and other information regarding specific investments maintained in the Treasury Pool as of June 30, 2023, are disclosed in the County's Annual Comprehensive Financial Report.

**South Park County Sanitation District**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2023**

**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 more sensitive its fair value is to changes in market interest rates. One of the ways that the Treasurer manages the District's exposure to interest rate risk is by purchasing a combination of short and long 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. Credit risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District follows the County's policy to purchase investments with the minimum ratings required by the California Government Code. The credit rating of investments held and other information regarding the Treasury Pool for the year ended June 30, 2023, are disclosed in the County's Annual Comprehensive Financial Report.

*Fair Value Measurements*

The District categorizes its fair value measurements within the fair value hierarchy established by GAAP. 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 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, 2023**

**Note C. Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2023 was as follows:

	July 1, 2022	Increases	Decreases	June 30, 2023
Capital assets, not being depreciated				
Intangible assets	\$ 130,679	\$ -	\$ -	\$ 130,679
Construction in progress	-	2,278	-	2,278
<b>Total capital assets not being depreciated</b>	<b>130,679</b>	<b>2,278</b>	<b>-</b>	<b>132,957</b>
Capital assets being depreciated:				
Infrastructure	27,151,015	-	-	27,151,015
Less: accumulated depreciation	(8,788,769)	(544,730)	-	(9,333,499)
<b>Total capital assets, being depreciated, net</b>	<b>18,362,246</b>	<b>(544,730)</b>	<b>-</b>	<b>17,817,516</b>
<b>Total capital assets, net</b>	<b>\$ 18,492,925</b>	<b>\$ (542,452)</b>	<b>\$ -</b>	<b>\$ 17,950,473</b>

Depreciation expense amounted to \$544,730 for the fiscal year ended June 30, 2023.

**Note D. Long-Term Obligations**

*Revenue Bonds*

The District issued bonds where it 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 2.3% and are payable solely from the sanitation customer net revenues through 2027. Annual principal and interest payments are expected to require no more than 9.8% of net revenues. The total principal and interest outstanding on the bonds, as of June 30, 2023, is \$824,717 and \$39,099, 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, 2023, and total customer net revenues were \$215,177 and \$2,193,845, respectively.

**South Park County Sanitation District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2023**

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

*Revenue Bonds (continued)*

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.

Revenue bond debt service requirements to maturity are as follows:

<b>Fiscal Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2024	\$ 198,524	\$ 16,903	\$ 215,427
2025	202,951	12,226	215,177
2026	206,976	7,450	214,426
2027	216,266	2,520	218,786
<b>Total</b>	<b>\$ 824,717</b>	<b>\$ 39,099</b>	<b>\$ 863,816</b>

*Changes in Long-Term Obligations*

Long-term obligation activity for the fiscal year ended June 30, 2023 was as follows:

	<b>July 1, 2022</b>	<b>Additions</b>	<b>Payments/ Retirements</b>	<b>June 30, 2023</b>	<b>Due Within One Year</b>
Revenue bonds - direct placements	\$ 1,018,421	\$ -	\$ (193,704)	\$ 824,717	\$ 198,524
Total revenue bonds	\$ 1,018,421	\$ -	\$ (193,704)	\$ 824,717	\$ 198,524

**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, 2023, the District paid \$103,362 to Sonoma Water for operational services.

**South Park County Sanitation District**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2023**

**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 \$600,000,000 per occurrence for All Risk, \$225,000,000 for flood (limits vary in FEMA flood zones) and earthquake coverage with shared limits of \$665,000,000. 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**

*Other Regulatory Matters*

The District is subject to Section VII of the Endangered Species Act (the 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 Act which deals with habitat conservation planning.

**South Park County Sanitation District**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2023**

**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 and the County retained Downey Brand, LLP to assist in negotiations regarding a clean-up strategy. 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 HVOC's. 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, 2023, the District has estimated a liability of \$1,954,977 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, 2023, as the investigation to identify responsible parties has not been concluded.

**Note I.      Future Governmental Accounting Standards**

GASB has released the following standards which will be implemented in future financial statements:

*GASB Statement No. 100 – Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*

The requirements of this Statement are effective for the fiscal year ending June 30, 2024. The objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.



**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

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, 2023, the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the notes to the basic financial statements, and have issued our report thereon dated September 29, 2023.

**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.

Handwritten signature in black ink that reads "Parenti & Brink LLP". The signature is written in a cursive, flowing style.

Santa Rosa, California  
September 29, 2023