

**SANTA CRUZ COUNTY  
SANITATION DISTRICT**

**A COMPONENT UNIT OF  
THE COUNTY OF SANTA CRUZ**

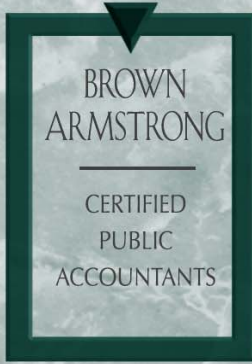
**BASIC FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORTS**

**JUNE 30, 2016**

**SANTA CRUZ COUNTY SANITATION DISTRICT  
JUNE 30, 2016**

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# BROWN ARMSTRONG

*Certified Public Accountants*

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the  
Santa Cruz County Sanitation District  
Santa Cruz, California

### Report on the Financial Statements

We have audited the accompanying statement of net position of the Santa Cruz Sanitation District (the District), a component unit of the County of Santa Cruz (the County), as of June 30, 2016, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the 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 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 the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether these 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 District'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 District'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.

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## 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, 2016, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

## Emphasis of Matters

The financial statements present only the District and do not purport to, and do not, present fairly the financial position of the County as of June 30, 2016, or the changes in its financial position, or, where applicable, its cash flows for the year then ended, in conformity 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 information on pages 3-6 be presented to supplement the 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 December 7, 2016, on our consideration of the County's internal control over financial reporting relating to the District and on our tests of the County's compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 County's internal control over financial reporting and compliance relating to the District.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong  
Accountancy Corporation*

Bakersfield, California  
December 7, 2016

**SANTA CRUZ COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016**

## **INTRODUCTION**

This section of the Santa Cruz County Sanitation District's (the District) annual financial report presents a discussion and analysis of the District's financial performance during the fiscal year that ended June 30, 2016. Please read it in conjunction with the District's basic financial statements following this section.

## **THE FINANCIAL HIGHLIGHTS**

- The assets of the District exceeded liabilities at the close of the 2015/2016 fiscal year by \$127,129,154 (net position). Of this amount, \$7,663,549 (unrestricted) may be used to meet ongoing obligations to citizens and creditors; \$969,937 is restricted for specific purpose (restricted for debt service); and \$118,495,668 is the net investment in capital assets.
- The District's total net position increased by \$3,462,541. This is an increase of \$1,185,970 from the prior year's change in net position. This increase is primarily attributable to the District receiving an increase in revenues from customers of \$1,079,051, receiving an increase in aid from other governmental agencies of \$1,586,016, and recording a \$303,028 decrease in depreciation expense, offset by an increase in services and supplies expense of \$1,268,434, and an increase in general and administrative expense of \$691,954.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise two components: (1) Government-wide financial statements, and (2) Notes to the basic financial statements. Fund financial statements are not included in the basic financial statements because all activities of the District are accounted for within a single enterprise fund. Enterprise funds are accounted for using the accrual method of accounting. Required Supplementary Information is included in addition to the basic financial statements.

### Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to private-sector business.

The *statement of net position* presents information on all District assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether or not the financial position of the District is improving or deteriorating.

The *statement of revenues, expenses, and changes in net position* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in a future fiscal period.

Both of these government-wide financial statements would distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). However, there are no governmental activities in the District.

### Notes to the Basic Financial Statements

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$127,129,154 at the close of the most recent fiscal year. Further detail is provided in the following table.

	2016	Restated 2015	Increase (Decrease) %
<b>Assets</b>			
Current assets	\$ 14,250,771	\$ 19,837,861	-28.2%
Capital assets, net	135,868,817	128,303,126	5.9%
Noncurrent assets	1,025,014	1,025,014	0.0%
<b>Total Assets</b>	<b>151,144,602</b>	<b>149,166,001</b>	<b>1.3%</b>
<b>Liabilities</b>			
Current liabilities	9,705,098	8,126,238	19.4%
Long-term liabilities	14,310,350	17,373,150	-17.6%
<b>Total Liabilities</b>	<b>24,015,448</b>	<b>25,499,388</b>	<b>-5.8%</b>
<b>Net Position</b>			
Net investment in capital assets	118,495,668	107,959,003	9.8%
Restricted	969,937	968,799	0.1%
Unrestricted	7,663,549	14,738,811	-48.0%
<b>Total Net Position</b>	<b>\$ 127,129,154</b>	<b>\$ 123,666,613</b>	<b>2.8%</b>

The significant changes in the District's net position are summarized as follows:

- Capital assets, net have increased by \$7,565,691. Further information is presented under the Capital Assets and Debt Administration section of this Management's Discussion and Analysis.
- Long-term liabilities have decreased by \$3,062,800. The substantial decrease is the result of bond and loan payments of \$2,970,972. Further information is presented under the Capital Assets and Debt Administration section of this Management's Discussion and Analysis.

### Analysis of Net Position

The largest portion of the District's net position (\$118,495,668 (93%)) reflects its net investment in capital assets (e.g., pumping stations, transmission systems, mobile equipment, other equipment, sewage treatment plant, and construction in progress), less related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay these debts must be provided from other sources, since the capital assets themselves cannot be used to liquidate these debts.

An additional portion of the District's net position (\$969,937 (1%)) represents resources that are subject to external restrictions on how they may be used. The remaining balance of the District's net position (\$7,663,549 (6%)) is unrestricted and may be used to meet the District's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the District reported positive balances in all three categories of net position.

	2016	Restated 2015	Increase (Decrease) %
<b>Revenues</b>			
Program Revenues			
Charges for services	\$ 23,491,067	\$ 22,412,016	4.8%
General Revenues			
Special assessments	91,598	90,297	1.4%
Aid from other governmental agencies	1,586,016	-	100.0%
Investment income	144,855	153,593	-5.7%
Gain on sale of capital assets	600	84,529	-99.3%
<b>Total Revenues</b>	<b>25,314,136</b>	<b>22,740,435</b>	<b>11.3%</b>
<b>Expenses</b>			
Sanitation District	21,851,595	20,463,864	6.8%
<b>Total Expenses</b>	<b>21,851,595</b>	<b>20,463,864</b>	<b>6.8%</b>
<b>Change in Net Position</b>	<b>3,462,541</b>	<b>2,276,571</b>	<b>52.1%</b>
<b>Net Position, Beginning as restated</b>	<b>123,666,613</b>	<b>121,390,042</b>	<b>1.9%</b>
<b>Net Position, Ending</b>	<b>\$ 127,129,154</b>	<b>\$ 123,666,613</b>	<b>2.8%</b>

#### Analysis of Changes in Net Position

The District's change in net position is \$3,462,541 for the current fiscal year. This is an increase of \$1,185,970 over the prior year. This increase is primarily attributable to the District receiving an increase in revenues from customers of \$1,079,051, receiving an increase in aid from other governmental agencies of \$1,586,016, and recording a \$303,028 decrease in depreciation expense, offset by an increase in services and supplies expense of \$1,268,434, and an increase in general and administrative expense of \$691,952.

#### **CAPITAL ASSETS AND DEBT ADMINISTRATION**

##### Capital Assets

The District's net capital assets as of June 30, 2016, amounted to \$135,868,817. These net capital assets include pumping stations, transmission systems, mobile equipment, other equipment, sewage treatment plant, and construction in progress.

The net increase in the District's capital assets (net book value) for the current period was \$7,565,691 or 5.9%.

Major capital asset events during the current fiscal year included the following:

- Additions to construction in progress amounted to \$11,599,939.
- Completed construction in progress reduced construction in progress by \$294,427 and increased transmission systems by \$294,427. The remaining changes in capital assets were additions of \$299,789, deletions of \$961,974, and depreciation expense of \$4,334,037.

The District's capital assets are presented below by type to illustrate changes from the prior year:

	2016	2015	Increase (Decrease) %
Pumping station	\$ 42,808,761	\$ 42,808,761	0.0%
Transmission systems	109,744,952	109,321,561	0.4%
Sewage treatment plant	35,148,509	35,148,509	0.0%
Construction in progress	24,556,291	13,250,779	85.3%
Mobile equipment	3,393,010	3,379,469	0.4%
Other equipment	1,648,003	2,452,693	-32.8%
Total cost	217,299,526	206,361,772	5.3%
Less accumulated depreciation	(81,430,709)	(78,058,646)	4.3%
Capital assets, net	<u>\$ 135,868,817</u>	<u>\$ 128,303,126</u>	<u>5.9%</u>

#### Long-Term Debt

At June 30, 2016, the District had total long-term debt outstanding of \$17,373,151 (including current portion of \$3,062,801) as compared to \$20,344,123 (including current portion of \$2,970,973) in the prior year. This current year amount was comprised of \$2,180,000 of revenue bonds (including current portion of \$940,000); \$255,000 of special assessments bonds (including current portion of \$80,000); and \$14,921,486 of loans payable (including current portion of \$2,040,566). The decrease relates to bond and loan payments of \$2,970,972.

#### **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Santa Cruz County Auditor-Controller, 701 Ocean Street, Room 100, Santa Cruz, CA 95060.



## **BASIC FINANCIAL STATEMENTS**

**SANTA CRUZ COUNTY SANITATION DISTRICT  
STATEMENT OF NET POSITION  
JUNE 30, 2016**

	2016
<b>ASSETS</b>	
Current Assets:	
Cash and investments with County Treasurer, unrestricted	\$ 14,081,483
Account receivables	155,904
Inventories	13,384
Total Current Assets	14,250,771
Noncurrent Assets:	
Cash and investments with fiscal agents	969,937
Capital assets, net	135,868,817
Promissory note receivable	55,077
Total Noncurrent Assets	136,893,831
<b>Total Assets</b>	<b>151,144,602</b>
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts payable and accrued liabilities	6,378,577
Accrued bond interest	135,076
Due to other County funds	128,644
Bonds and loans payable, current portion	3,062,801
Total Current Liabilities	9,705,098
Noncurrent Liabilities:	
Bonds and loans payable, net	14,310,350
Total Noncurrent Liabilities	14,310,350
<b>Total Liabilities</b>	<b>24,015,448</b>
<b>NET POSITION</b>	
Net Investment in Capital Assets	118,495,668
Restricted for Debt Service	969,937
Unrestricted	7,663,549
<b>Total Net Position</b>	<b>\$ 127,129,154</b>

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

**SANTA CRUZ COUNTY SANITATION DISTRICT  
STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN NET POSITION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	2016
<b>OPERATING REVENUES</b>	
Charges for services	\$ 23,491,067
<b>OPERATING EXPENSES</b>	
General and administrative	5,331,941
Services and supplies	11,784,103
Depreciation	4,334,037
<b>Total Operating Expenses</b>	21,450,081
Operating Income	2,040,986
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Special assessments	91,598
Aid from other government agencies	1,586,016
Investment income	144,855
Bond interest and related fees	(401,514)
Gain on sale of capital assets	600
<b>Total Nonoperating Revenues (Expenses)</b>	1,421,555
<b>Change in Net Position</b>	3,462,541
<b>Net Position - Beginning as previously stated</b>	124,637,087
<b>Prior period adjustment</b>	(970,474)
<b>Net Position - Beginning as restated</b>	123,666,613
<b>Net Position - Ending</b>	\$ 127,129,154

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

**SANTA CRUZ COUNTY SANITATION DISTRICT  
STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	2016
<b>Cash Flows from Operating Activities:</b>	
Cash receipts from customers	\$ 23,490,144
Cash paid to suppliers for goods and services	(5,147,446)
Cash paid for interfund services used	(8,771,351)
	<b>9,571,347</b>
<b>Cash Flows from Noncapital Financing Activities:</b>	
Subsidy from other government agencies	1,435,814
	<b>1,435,814</b>
<b>Cash Flows From Capital and Related Financing Activities:</b>	
Special assessments	91,598
Acquisition and construction of capital assets	(14,301,602)
Principal paid on capital debt	(2,202,632)
Interest paid on capital debt	(479,824)
Other receipts	600
	<b>(16,891,860)</b>
<b>Cash Flows from Investing Activities:</b>	
Interest and investment income received	144,855
	<b>144,855</b>
<b>Net Decrease in Cash and Investments</b>	<b>(5,739,844)</b>
<b>Cash and Investments, Beginning</b>	<b>20,791,264</b>
<b>Cash and Investments, Ending</b>	<b>\$ 15,051,420</b>

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

**SANTA CRUZ COUNTY SANITATION DISTRICT  
STATEMENT OF CASH FLOWS (Continued)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**Reconciliation of Operating Income to Net Cash**

**Provided by Operating Activities:**

Operating income	\$ 2,040,986
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	4,334,037
Changes in assets and liabilities:	
Accounts receivable	(131,243)
Inventories	550
Accounts payable	3,327,017
	<u>\$ 9,571,347</u>

**Supplemental Data**

Cash and investments with County Treasurer, unrestricted	\$ 14,081,483
Cash and investments with fiscal agents	969,937
	<u>\$ 15,051,420</u>

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

**SANTA CRUZ COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Santa Cruz County Sanitation District (the District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

**A. Description of the Reporting Entity**

The District is managed by the Santa Cruz County Department of Public Works (Department) under the direction of the District Board of Directors. Among other assignments, the Department provides management, administration, engineering, maintenance, and construction services for the District. In addition, other Santa Cruz County (County) services provided to the District are:

1. Collection, by the Treasurer-Tax Collector, of sewer charges included on the customers' tax bill.
2. Collection of connection fees by the Planning Department.
3. Providing of investment services by the Treasurer.
4. Providing of legal services by the County Counsel.

The Department recovers its administrative costs from a 3.0% to 10.0% overhead surcharge on all services performed. Other charges related to construction and acquisitions of sewage processing facilities have been capitalized in the accompanying financial statements once the improvements or acquisitions have been completed.

The District's financial statements are presented as an enterprise fund and as a discretely presented component unit in the County's financial statements, pursuant to GASB Statement No. 61.

The District does not have employees. All employees are employees of the Department. The County charges the District a weighted labor rate for work performed on behalf of the District.

**B. Measurement Focus, Basis of Accounting, and Basis of Presentation**

The basic financial statements include the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows.

The basic financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows of resources, liabilities, and deferred inflows of resources (whether current or noncurrent) are included on the Statement of Net Position. The Statement of Revenues, Expenses, and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

The District distinguishes operating revenues and expenses from nonoperating items. Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as property taxes and investment income, result from nonexchange transactions or ancillary activities in which the District gives (receives) value without directly receiving (giving) equal value in exchange.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**B. Measurement Focus, Basis of Accounting, and Basis of Presentation** (Continued)

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.

The District has elected to apply all GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the Committee on Accounting Procedure unless they contradict or conflict with GASB Statement No. 61.

The District's accounting records are a part of the County's centralized accounting system.

**C. Cash and Investments**

The District maintains all of its cash and investments with the County Treasurer in an investment pool. On a monthly basis the County Treasurer allocates interest to participants based upon their average daily balances. Investments in the investment pool are highly liquid, as deposits and withdrawals can be made at anytime without penalty. The County does not impose any maximum investment limit. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's prorated share of the fair value provided by the County for the entire investment pool. The balance available for withdrawal is based on the accounting records maintained by the County, which are recorded on an amortized cost basis of accounting.

**D. Restricted Cash and Investments**

Restricted cash and investments are comprised of funds reserved for debt service.

**E. Inventories**

Inventories consist of materials and supplies which are valued using the FIFO method (first-in, first-out).

**F. Capital Assets**

Capital assets, which include land, construction in progress, buildings and improvements, improvements other than buildings, machinery and equipment, autos and trucks, equipment under capitalized leases, and infrastructure assets (e.g., roads, bridges, traffic signals, and similar items), are reported in the Government-Wide Financial Statements. County policy has set the capitalization threshold for reporting capital assets at \$5,000 for equipment and vehicles and \$25,000 for infrastructure, buildings, and structures. Capital assets are valued at historical cost or estimated historical cost if actual historical cost was not available. Donated assets are valued at their estimated market value on the date donated.

Depreciation is recorded on a straight line basis over the estimated useful lives of the assets as follows:

Infrastructure	4-65 years
Buildings and structures	10-50 years
Equipment and vehicles	3-15 years

For infrastructure systems, the County elected to use the "Basic Approach" as defined by GASB Statement No. 34 for infrastructure reporting.

## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

### F. Capital Assets (Continued)

The County defines infrastructure as the basic physical assets that allow the County to function. The assets include streets, bridges, sidewalks, drainage systems, etc. Each major infrastructure system can be divided into subsystems. For example, the street system can be subdivided into pavement, curb and gutters, sidewalks, medians, streetlights, landscaping, and land. These subsystems were not delineated in the basic financial statements. The appropriate operating department maintains information regarding the subsystems.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest on construction-related debt incurred during the period of construction is capitalized as a cost of the constructed assets.

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, 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 the operations.

### G. Deferred Outflows and Inflows of Resources

Deferred outflows of resources and deferred inflows of resources are recognized in accordance with GASB Statement No. 63 and GASB Statement No. 65. Deferred outflows and inflows of resources were items previously reported as assets and liabilities and are defined as “a consumption of net position by the government that is applicable to a future reporting period, and an acquisition of net position by the government that is applicable to a future reporting period, respectively.” The District has no deferred outflows of resources or deferred inflows of resources to report for the year ended June 30, 2016.

### H. Net Position

In the Statement of Net Position, net position is classified in the following categories:

Net Investment in Capital Assets – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Position – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Position – This amount consists of all net position that does not meet the definition of “net investment in capital assets” or “restricted net position.”

### I. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

### J. Effect of New Governmental Accounting Standards Board Pronouncements

During the fiscal year ending June 30, 2016, the District implemented the following standards:

**GASB Statement No. 72** – *Fair Value Measurement and Application*. The provisions of this statement are effective for financial statements for reporting periods beginning after June 15, 2015. The District has implemented the provisions of GASB Statement No. 72 in the current year. There was no effect on the District’s accounting or financial reporting as a result of implementing this standard.



**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

J. Effect of New Governmental Accounting Standards Board Pronouncements (Continued)

**GASB Statement No. 73** – *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68.* The provisions of this statement are effective for fiscal years beginning after June 15, 2015 – except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of GASB Statement No. 68, which are effective for fiscal years beginning after June 15, 2016. The District has implemented the provisions of GASB Statement No. 73 in the current year. There was no effect on the District's accounting or financial reporting as a result of implementing this standard.

**GASB Statement No. 76** – *Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* The provisions of this statement are effective for fiscal years beginning after June 15, 2015. The District has implemented the provisions of GASB Statement No. 76 in the current year. There was no effect on the District's accounting or financial reporting as a result of implementing this standard.

K. Future Governmental Accounting Standards Board Pronouncements

Recently released standards by GASB affecting future fiscal years are as follows:

**GASB Statement No. 74** – *Financial Reporting for Postemployment Benefits Other than Pension Plans.* The provisions of this statement are effective for fiscal years beginning after June 15, 2016. The District has not fully judged the effect of the implementation of GASB Statement No. 74 as of the date of the basic financial statements.

**GASB Statement No. 75** – *Accounting and Financial Reporting for Postemployment Benefits Other than Pension Plans.* The provisions of this statement are effective for fiscal years beginning after June 15, 2017. The District has not fully judged the effect of the implementation of GASB Statement No. 75 as of the date of the basic financial statements.

**GASB Statement No. 77** – *Tax Abatement Disclosures.* The requirements of this statement are effective for reporting periods beginning after December 15, 2015. The District has not fully judged the effect of the implementation of GASB Statement No. 77 as of the date of the basic financial statements.

**GASB Statement No. 78** – *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans.* The requirements of this statement are effective for reporting periods beginning after December 15, 2015. The District has not fully judged the effect of the implementation of GASB Statement No. 78 as of the date of the basic financial statements.

**GASB Statement No. 79** – *Certain External Investment Pools and Pool Participants.* The requirements of this statement are effective for fiscal years beginning after June 15, 2015, except for the provisions in paragraphs 18, 19, 23– 26, and 40, which are effective for reporting periods beginning after December 15, 2015. The District has not fully judged the effect of the implementation of GASB Statement No. 79 as of the date of the basic financial statements.

**GASB Statement No. 80** – *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14.* The requirements of this statement are effective for reporting periods beginning after June 15, 2016. The District has not fully judged the effect of the implementation of GASB Statement No. 80 as of the date of the basic financial statements.

**GASB Statement No. 81** – *Irrevocable Split-Interest Agreements.* The requirements of this statement are effective for reporting periods beginning after December 15, 2016. The District has not fully judged the effect of the implementation of GASB Statement No. 81 as of the date of the basic financial statements.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

K. Future Governmental Accounting Standards Board Pronouncements

**GASB Statement No. 82 – *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73.*** The requirements of this statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of paragraph 7 in a circumstance in which an employer’s pension liability is measured as of a date other than the employer’s most recent fiscal year-end. In that circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged. The District has not fully judged the effect of the implementation of GASB Statement No. 88 as of the date of the basic financial statements.

**NOTE 2 – CASH AND INVESTMENTS**

A. Pooled Cash

Cash and investments are presented on the Statement of Net Position as follows at June 30, 2016:

Cash and investments with County Treasurer, unrestricted	\$ 14,081,483
Cash and investments with fiscal agents	<u>969,937</u>
Total	<u>\$ 15,051,420</u>

B. Cash Held with the Santa Cruz County Treasurer

The District pools cash from all sources and all funds except “Cash and investments with fiscal agents” with the County Treasurer so that it can be invested at the maximum yield, consistent with safety and liquidity, while individual funds can make expenditures at any time. The Santa Cruz County Treasury Oversight Committee oversees the Treasurer’s investments and policies.

The California Government Code requires California banks and savings and loan associations to secure the County’s cash deposits by pledging securities as collateral. This code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the County’s name.

The market value of pledged securities must equal at least 110% of the County’s cash deposits. California law also allows institutions to secure County deposits by pledging first trust deed mortgage notes having a value of 150% of the County’s total cash deposits. The County may waive collateral requirements for cash deposits, which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation. The County, however, has not waived the collateralization requirements.

C. Investments

The table below identifies the investment types that are authorized for the County by the California Government Code or the County’s investment policy, where more restrictive. The table also identifies certain provisions of the County’s investment policy that address interest rate risk, credit risk, and concentration risk.

**NOTE 2 – CASH AND INVESTMENTS** (Continued)

C. Investments (Continued)

Authorized Investment Types	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local agency bonds	5 Years	10%	None
U.S. Treasury obligations	5 Years	100%	None
U.S. Government Agency obligations	5 Years	100%	25%
Bankers' acceptances	180 Days	40%	10%
Commercial paper	270 Days	25%	10%
Negotiable certificates of deposit	5 Years	30%	10%
Bank deposit	5 Years	10%	10%
Repurchase agreements	1 Year	100%	10%
Medium term notes	5 Years	30%	10%
Mutual funds/money market mutual funds	N/A	20%	None
Local Agency Investment Fund (LAIF)	N/A	\$50 million	None
Joint Powers Authority investment fund	None	25%	None
Supranationals	5 Years	30%	None

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments were stated cost, as the fair value adjustment at the year-end was immaterial. The fair value of investments generally changes with fluctuations of interest rates. When interest rates fall, the fair value of investments increases, and conversely when interest rates rise, the fair value of investments could fall below the original cost of the investments.

Market interest rates remained relatively stable in the fiscal year 2015/2016 period resulting in no meaningful change in fair value of pooled investments as of June 30, 2016.

Investments of debt proceeds held by the bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the County's investment policy.

D. Interest Rate Risk

The County manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to five years or less in accordance with its investment policy.

E. Concentration of Credit Risk

At June 30, 2016, in accordance with State law and the County's Investment Policy, the County did not have 10% or more of its net investment in commercial paper, corporate bonds, or medium term notes of a single organization, nor did it have 10% or more of its net investment in any one money market mutual fund. Investments in obligations of the U.S. government, U.S. government agencies, or government-sponsored enterprises are exempt from these limitations.

F. Custodial Credit Risk

For investments and deposits held with fiscal agents, custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or deposits that are in the possession of an outside party. At year-end, the County's investment pool and cash with fiscal agents had no securities exposed to custodial credit risk.

## NOTE 2 – CASH AND INVESTMENTS (Continued)

### G. Local Agency Investment Fund

The County is a participant in the LAIF which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The County's investments with LAIF at June 30, 2016, included a portion of the pool funds invested in Structured Notes and Asset-Backed Securities:

Structured Notes: debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or have embedded forwards or options.

Asset-Backed Securities: generally mortgage-backed securities that entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (for example, Collateralized Mortgage Obligations) or credit card receivables.

As of June 30, 2016, the County had \$38,060,159 invested in LAIF, which had invested 0.08% of the pool investment funds in Structured Notes and Asset-Backed Securities as compared to 0.13% in the previous year. LAIF provided a fair value factor of 1.000621222 to calculate the fair value of the investments in LAIF. However, an adjustment was not made to reflect the fair value of LAIF, as the fair value adjustment was considered immaterial.

LAIF is overseen by the Local Agency Investment Advisory Board, which consists of five members, in accordance with State statute.

## NOTE 3 – CAPITAL ASSETS

Capital assets at June 30, 2016, are as follows:

	Balance July 1, 2015	Additions	Deletions	Reclassification	Balance June 30, 2016
Nondepreciable assets:					
Construction in progress	\$ 13,250,779	\$ 11,599,939	\$ -	\$ (294,427)	\$ 24,556,291
Total nondepreciable assets	13,250,779	11,599,939	-	(294,427)	24,556,291
Depreciable assets:					
Pumping stations	42,808,761	-	-	-	42,808,761
Transmission systems	109,321,561	423,391	-	-	109,744,952
Sewage treatment capacity rights	35,148,509	-	-	-	35,148,509
Mobile equipment	3,379,469	93,784	(80,243)	-	3,393,010
Other equipment	2,452,693	77,041	(881,731)	-	1,648,003
Total depreciable assets	193,110,993	594,216	(961,974)	-	192,743,235
Accumulated depreciation:					
Pumping stations	(22,146,066)	(756,343)	-	-	(22,902,409)
Transmission systems	(37,429,636)	(2,355,762)	-	-	(39,785,398)
Sewage treatment capacity rights	(14,001,508)	(912,948)	-	-	(14,914,456)
Mobile equipment	(2,663,620)	(173,293)	80,243	-	(2,756,670)
Other equipment	(1,817,816)	(135,691)	881,731	-	(1,071,776)
Total accumulated depreciation	(78,058,646)	(4,334,037)	961,974	-	(81,430,709)
Depreciable assets, net	115,052,347	(3,739,821)	-	-	111,312,526
Total capital assets, net	\$ 128,303,126	\$ 7,860,118	\$ -	\$ (294,427)	\$ 135,868,817

**NOTE 3 – CAPITAL ASSETS** (Continued)

The District owns 47% of capacity rights of the City of Santa Cruz (City) Treatment Plant. Operation and maintenance of these treatment and outfall facilities are the responsibility of the City, with the District paying its proportionate share based on actual levels of flow. The District's investment in the City Treatment Plant is included in the District's capital assets.

Depreciation expense for the District for the year ended June 30, 2016, was \$4,334,037.

**NOTE 4 – BONDS AND LOANS PAYABLE**

The following is a summary of long-term liabilities transactions for the year ended June 30, 2016:

Description	Beginning Balance July 1, 2015	Additions	Deletions	Ending Balance June 30, 2016	Amounts Due Within One Year	Amounts Due in More Than One Year
Revenue Bond:						
2005 Wastewater Revenue Refunding Bonds	\$ 3,070,000	\$ -	\$ (890,000)	\$ 2,180,000	\$ 940,000	\$ 1,240,000
Special Assessment Bond:						
Limited Obligation Refunding Improvement Bonds	330,000	-	(75,000)	255,000	80,000	175,000
Loans Payable:						
City of Santa Cruz	6,088,299	-	(1,484,347)	4,603,952	1,508,192	3,095,760
State Water Resources Control Board	10,836,924	-	(519,390)	10,317,534	532,374	9,785,160
Unamortized Bond Charges	18,900	-	(2,235)	16,665	2,235	14,430
Total Bonds and Loans Payable, Net	<u>\$ 20,344,123</u>	<u>\$ -</u>	<u>\$ (2,970,972)</u>	<u>\$ 17,373,151</u>	<u>\$ 3,062,801</u>	<u>\$ 14,310,350</u>

**A. 2005 Wastewater Revenue Refunding Bonds**

During 2005, the District issued \$9,335,000 of 2005 Wastewater Revenue Refunding Bonds which refunded the 1977 Sewer Revenue Bonds, Series A, and the 1994 Certificates of Participation issued for the wastewater treatment plant. The bonds are obligations of the District and are payable from, and secured by, a pledge of net revenues. The amount outstanding at June 30, 2016, is \$2,180,000.

The terms of the Revenue Refunding Bonds require the District to prescribe, revise, and collect rates, fees, and charges for the services and facilities furnished by the District during each fiscal year that are sufficient, after making allowances for contingencies, to pay for operation and maintenance costs, and the bond principal and interest payments that are due and payable during the fiscal year.

In addition to the gross revenues rate covenant, the District is required to prescribe, revise, and collect rates, fees, and charges for the services and facilities furnished by the District during each fiscal year which, taking into account allowances for contingencies, are sufficient to yield estimated Net Revenues at least equal to 125% of the aggregate amount of principal and interest on the bonds coming due and payable during the fiscal year.

**NOTE 4 – BONDS AND LOANS PAYABLE** (Continued)

A. 2005 Wastewater Revenue Refunding Bonds (Continued)

**Calculation for Gross Revenue Rate Covenant:**

Charges for Services		\$ 23,491,067
Operating Expenses (Excluding Depreciation)		(17,116,044)
2016 Debt Service - Principal		(890,000)
2016 Debt Service - Interest		<u>(125,400)</u>
	<b>Coverage</b>	<u><u>\$ 5,359,623</u></u>

**Calculation for Net Revenue Rate Covenant:**

Charges for Services		\$ 23,491,067
Operating Expenses (Excluding Depreciation)		<u>(17,116,044)</u>
		6,375,023
2016 Debt Service - Principal	\$ 890,000	
2016 Debt Service - Interest	<u>125,400</u>	<u>1,015,400</u>
	<b>Coverage Ratio</b>	627.83%

B. Special Assessment Bonds

During 2004, special assessment bonds were issued for the financing of public improvements deemed to benefit the properties against which special assessment bonds were issued pursuant to the Improvement Act of 1911 or the Improvement Act of 1915. Special assessment bonds are collateralized by liens against properties of the assessment districts. Bonds are repaid from assessments levied against the properties that benefited from the improvements. The amount outstanding at June 30, 2016, is \$255,000.

C. City of Santa Cruz Loan

The City loan represents 47% of a State Water Resources Control Board loan with the City for which the District has an agreement to participate in the repayment. The total loan proceeds made available in fiscal year 1998/1999 was approximately \$48 million, of which the District's share was 47% or approximately \$24.4 million of the original principal amount. These funds were used to construct the treatment plant expansion of which the District has capacity rights. On December 12, 2013, the City refunded the existing \$2.7 million 2005 Wastewater Bonds and \$16.0 million in State Revolving Funds, and issued \$18.7 million in 2013 Wastewater Revenue Refunding Bonds. The amount of the District's portion outstanding as of June 30, 2016, is \$4,603,950.

D. State Water Resources Control Board

During 2009, the District entered into a Project Finance Agreement (Agreement) with the State Water Resources Control Board (SWRCB) to finance the Aptos Transmission Main Relocation Project. Under this Agreement, the SWRCB has agreed to loan the District a total of \$16,725,699. As of June 30, 2016, the District has received a total of \$10,317,534 in loan disbursements pursuant to this Agreement. Pursuant to the Agreement, the interest rate is 2.5% and the District began making payments to repay the loan in the 2013/2014 fiscal year.

**NOTE 4 – BONDS AND LOANS PAYABLE (Continued)**

The annual requirements to amortize to maturity all long-term debt outstanding including interest payable are as follows:

Year Ending June 30,	Revenue Bonds		Special Assessment Bonds		Loans Payable		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 940,000	\$ 84,100	\$ 80,000	\$ 11,123	\$ 2,040,566	\$ 325,593	\$ 3,060,566	\$ 420,816
2018	535,000	47,225	85,000	6,913	2,078,104	288,056	2,698,104	342,194
2019	565,000	19,725	90,000	2,363	2,122,666	243,494	2,777,666	265,582
2020	140,000	2,800	-	-	573,309	217,004	713,309	219,804
2021	-	-	-	-	587,642	202,671	587,642	202,671
2022-2026	-	-	-	-	3,166,059	785,505	3,166,059	785,505
2027-2031	-	-	-	-	3,582,105	369,459	3,582,105	369,459
2032	-	-	-	-	771,035	19,276	771,035	19,276
<b>Sub-Total</b>	<b>\$ 2,180,000</b>	<b>\$ 153,850</b>	<b>\$ 255,000</b>	<b>\$ 20,399</b>	<b>\$ 14,921,486</b>	<b>\$ 2,451,058</b>	<b>\$ 17,356,486</b>	<b>\$ 2,625,307</b>

**NOTE 5 – RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts, theft or damage to and destruction of assets, errors and omissions, injuries to employees, and natural disasters.

The District is included within the terms of the County's insurance coverage. The County is self-insured for its general and auto liability, workers' compensation, and property coverage. The County has chosen to establish risk-financing internal service funds, where assets are set aside for claim settlements associated with the above risk of loss up to certain limits. Excess coverage is provided by the California State Association of Counties (CSAC)-Excess Insurance Authority, a joint powers authority whose purpose is to develop and fund programs of excess insurance for its member counties and public entities.

As of June 30, 2016, the workers' compensation self-insured retention is \$500,000.

The unpaid claims liability included in each of the County's Self-Insurance Internal Service Funds are based on the results of actuarial studies and include amounts for claims incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors. It is the County's practice to obtain full actuarial studies bi-annually. Annual premiums are charged by each self-insurance fund using various allocation methods which include actual costs, claims experience, claims exposures, and number of participants.

Management is not aware of any claims pending against the District. There have been no reductions in the District's insurance coverage from the prior year and no settlement amounts have exceeded commercial insurance coverage.

**NOTE 6 – COMMITMENTS AND CONTINGENCIES**

There are various claims and legal actions pending against the District for which no provision has been made in the accompanying basic financial statements. In the opinion of the District's management, liabilities arising from these claims and legal actions, if any, will not have an adverse material effect on the financial position of the District.

**NOTE 6 – COMMITMENTS AND CONTINGENCIES** (Continued)

The District has received Federal grants for specific purposes that are subject to review and audit by the Federal government. Although such audits could result in expenditure disallowance under grant terms, the required reimbursements, if any, are not expected to be material.

As of June 30, 2016, in the opinion of District Management, there were no additional outstanding matters that would have a significant effect on the financial position of the District.

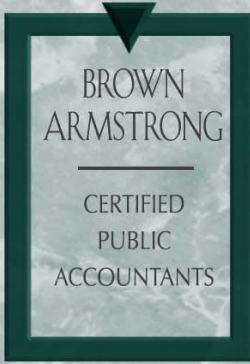
**NOTE 7 – SUBSEQUENT EVENTS**

Subsequent events have been evaluated through December 7, 2016, which is the day the financial statements were available to be issued. No events have occurred that would require disclosure.

**NOTE 8 – PRIOR PERIOD ADJUSTMENT**

The District recorded a prior period adjustment to the beginning net position in the amount of \$970,474 related to a fiscal year 2015 4<sup>th</sup> quarter invoice that was not properly accrued in the 2015 financial statements. This resulted in the beginning net position being decreased by \$970,474 and beginning accounts payable being increased by \$970,474.





BROWN ARMSTRONG  
Certified Public Accountants

**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of the  
Santa Cruz County Sanitation District  
Santa Cruz, California

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We have audited, in accordance with the 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 the Santa Cruz County Sanitation District (the District), a component unit of the County of Santa Cruz (the County), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 7, 2016.

**Internal Control Over Financial Reporting**

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

*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 a 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weakness. **[2016-001]**.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the County's 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*.

## **The District's Response to Findings**

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **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 County's internal control or on compliance relating to the District. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control and compliance relating to the District. Accordingly, this report is not suitable for any other purpose.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong  
Accountancy Corporation*

Bakersfield, California  
December 7, 2016

**SANTA CRUZ COUNTY SANITATION DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2016**

**2016-001: WATER BILLING**

**Criteria:**

In accordance with accounting standards generally accepted in the United States of America, internal controls should be designed to provide reasonable assurance of achieving effective and reliable financial reporting or in compliance with applicable laws and regulations.

**Condition:**

Santa Cruz County Sanitation District (the District) erroneously did not accrue a fiscal year 2015 4<sup>th</sup> quarter invoice in the 2015 financial statements in the amount of \$970,474.

**Cause:**

Cutoff procedures currently in place did not identify a material accrual that should have been made related to a reoccurring quarterly invoice that was received before the prior financial statements were issued in the prior year but was not estimated or recorded.

**Effect:**

Fiscal year 2015 expenses and accounts payable were materially understated by \$970,474.

**Recommendation:**

We recommend that the District improve their cutoff procedures to ensure that material expenses are recorded in the financials in the proper period. Additionally, if reoccurring quarterly invoices have not been received by the accounts payable cutoff period, the District should record an estimate of the accrual in the proper period.

**Management Response:**

The fiscal year 2014-15 4<sup>th</sup> quarter invoice of \$970,474 from the City of Santa Cruz Finance Department for water used in the 4<sup>th</sup> quarter was generated on 9/16/16, and received in our office on 1/27/16. An accrual should have been booked for the anticipated expenditure. Going forward, the Department of Public Works will estimate and accrue all subsequent payments ensuring that the financial statements are accurately stated.