

**RUSSIAN RIVER 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, 2013

**RUSSIAN RIVER COUNTY SANITATION DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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Independent Auditor's Report

Board of Directors
Russian River County Sanitation District
Santa Rosa, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Russian River County Sanitation District (the "District"), a component unit of the County of Sonoma, California, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2013, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Local partnership. Global solutions.

Independent Auditor's Report (continued)

Other Matters – Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2013, on our considerations of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants and agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

PricewaterhouseCoopers

Petaluma, California
October 8, 2013

Management's Discussion and Analysis

**RUSSIAN RIVER COUNTY SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

As management of the Russian River 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, 2013. We encourage readers to consider the information presented here in conjunction with the District's financial statements and the accompanying notes to the financial statements.

Reporting Entity

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

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

Financial Highlights

Net Position

The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$28,020,674 (*net position*). Of this amount, \$4,730,158 (*unrestricted net position*) may be used to meet the District's ongoing obligations to citizens and creditors.

Revenues

The District recognized total revenues and capital contributions of \$6,144,719 during the fiscal year ended June 30, 2013. Of this amount, \$3,847,481 consists of operating revenues including flat charges and charges for services, \$346,026 of nonoperating revenues consisting of investment income (\$59,868) and property taxes (\$286,158). Capital contributions consisted of connection fees (\$8,987) and State and federal contributions (\$1,942,225).

Expenses

The District incurred expenses totaling \$4,160,274 during the fiscal year ended June 30, 2013. Of this amount \$4,151,566 represents operating expenses related to the collection, treatment, disposal, and reclamation of effluent, as well as administrative and general expenses. Nonoperating expenses consisted of interest expense of \$8,583 related to the District's long-term debt obligations, and conservation program expenses of \$125.

Change in Net Position

The District recorded an operating loss of \$304,085 for the fiscal year ended June 30, 2013, while recognizing an overall increase in net position of \$1,984,445.

**RUSSIAN RIVER COUNTY SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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

Notes to the Basic Financial Statements

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

Financial Analysis

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$28,020,674 at the close of the most recent fiscal year compared to net position of \$26,036,229 as of June 30, 2012. The primary reason for the \$1,984,445 increase in net position was an increase of \$1,942,225 in State and federal capital contributions compared to the prior fiscal year.

The largest portion of the District's net position (79.1% as of June 30, 2013 compared to 92.1% for June 30, 2012) reflects its investment in capital assets (e.g., land, construction in progress and buildings), 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.

**RUSSIAN RIVER COUNTY SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Financial Analysis (Continued)

Condensed Statements of Net Position

	June 30, 2012	June 30, 2013	Percentage Change
Current and other assets	\$ 2,135,153	\$ 5,948,644	178.6%
Capital assets, net	28,320,706	27,945,951	-1.3%
Total Assets	30,455,859	33,894,595	11.3%
Current liabilities	347,205	431,747	24.3%
Noncurrent liabilities	4,072,425	5,442,174	33.6%
Total Liabilities	4,419,630	5,873,921	32.9%
Net position:			
Net investment in capital assets	23,991,312	22,161,174	-7.6%
Restricted for debt service	812,555	932,390	14.7%
Restricted for capital projects	-	196,952	100.0%
Unrestricted	1,232,362	4,730,158	283.8%
Total Net Position	\$ 26,036,229	\$ 28,020,674	7.6%

A portion of the District's net position, \$1,129,342 (4.0% as of June 30, 2013) represents resources that are subject to external restrictions on how they may be used. The balance of unrestricted net position of \$4,730,158 as of June 30, 2013 may be used to meet the District's ongoing obligations to citizens and creditors. As of June 30, 2013, the District reports positive balances in all categories of net position.

**RUSSIAN RIVER COUNTY SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

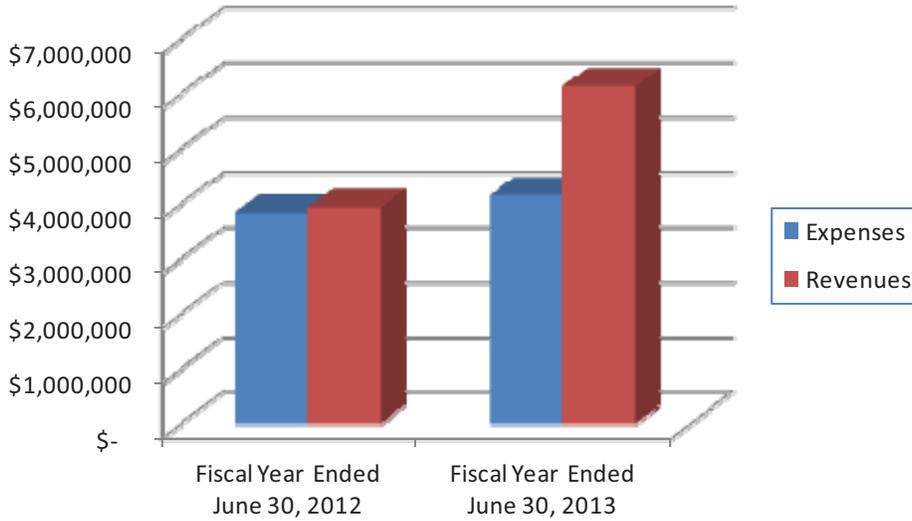
Condensed Statements of Changes in Net Position

	Fiscal Year Ended		Percentage Change
	June 30, 2012	June 30, 2013	
Revenues			
Operating revenues	\$ 3,667,781	\$ 3,847,481	4.9%
Nonoperating revenues:			
Property taxes	196,595	286,158	45.6%
Investment earnings	52,326	59,868	14.4%
Intergovernmental	9,670	-	-100.0%
Total revenues	3,926,372	4,193,507	6.8%
Expenses			
Services and supplies	2,738,804	3,045,510	11.2%
Fiscal agent fees and legal services	2,014	1,391	-30.9%
Depreciation	1,097,358	1,104,665	0.7%
Conservation program	3,125	125	-96.0%
Interest expense	671	8,583	1179.1%
Total expenses	3,841,972	4,160,274	8.3%
Income (loss) before contributions	84,400	33,233	-60.6%
Capital contributions - connection fees	5,234	8,987	71.7%
Capital contributions - state and federal	-	1,942,225	100.0%
Capital contributions - dedicated sewer easement	5,000	-	-100.0%
Increase (decrease) in net position	94,634	1,984,445	1997.0%
Net position, beginning of year	25,941,595	26,036,229	0.4%
Net position, end of year	\$ 26,036,229	\$ 28,020,674	7.6%

The District's net position increased by \$1,984,445 during the fiscal year ended June 30, 2013 compared to an increase of \$94,634 during the fiscal year ended June 30, 2012.

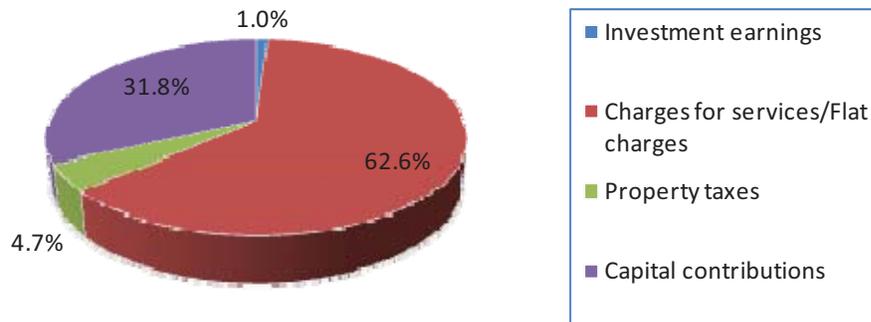
**RUSSIAN RIVER COUNTY SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Expenses and Revenues



Total revenues, including capital contributions, of the District for the fiscal year ended June 30, 2013 totaled \$6,144,719 representing an increase of \$2,208,113 from the preceding fiscal year revenues of \$3,936,606. The rate based charges for services, representing 62.6% of the District's total revenue, increased by \$179,700; property taxes, representing 4.7% of the District's total revenue, increased by \$89,563. Investment earnings increased from the preceding year by \$7,542. The District also received capital contributions totaling \$1,951,212 which was comprised of connection fees of \$8,987 and a State and federal capital contributions of \$1,942,225. The combined effect was an overall increase in revenues, including capital contributions, of 56.1% for the fiscal year ended June 30, 2013.

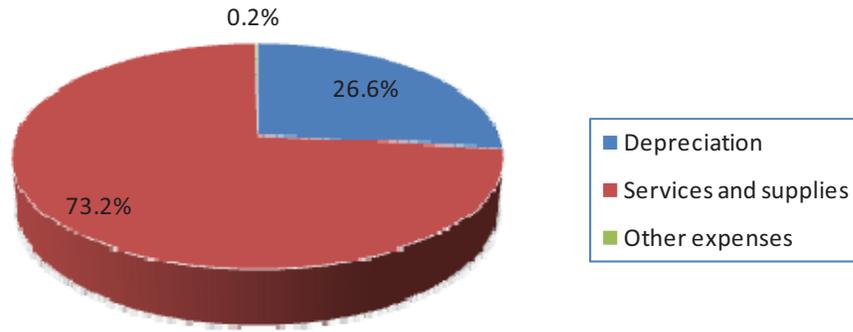
Revenues by Source



Total expenses for the District increased by \$318,302 to \$4,160,274 for the fiscal year ended June 30, 2013. Interest expense increased \$7,912 to \$8,583 due primarily to a lesser amount of interest that was capitalized during the fiscal year ended June 30, 2013. Conservation Program expenses decreased \$3,000 to \$125 due to a higher volume of plumbing rebates issued during the prior fiscal year. Services and supplies expenses, which reflects costs associated with the collection, treatment, and disposal of effluent increased \$306,083 (11.2%) to \$3,046,901 due primarily to increases in operations and maintenance costs. The overall effect of these occurrences is an increase in expenses of 8.3%.

**RUSSIAN RIVER COUNTY SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Expenses by Function



Capital Asset and Debt Administration

Capital Assets

The District's net investment in capital assets as of June 30, 2013 amounts to \$27,945,951 (net of accumulated depreciation). In addition to reporting the District's investment in capital assets including land, buildings and systems, improvements, and construction in progress, the District reports its investment in intangible assets as required by Governmental Accounting Standards Board (GASB) Statement No. 51 – *Accounting and Financial Reporting for Intangible Assets*. Intangible assets for the District consist of permanent easements.

Russian River County Sanitation District's Capital Assets

	June 30, 2012	June 30, 2013	Percentage Change
Land	\$ 223,833	\$ 223,833	0.0%
Intangible assets	5,268	5,268	0.0%
Construction in progress	5,749,572	1,993,409	-65.3%
Buildings and improvements	44,695,231	49,172,519	10.0%
Machinery and equipment	154,723	163,508	5.7%
Accumulated depreciation	(22,507,921)	(23,612,586)	4.9%
Total	\$ 28,320,706	\$ 27,945,951	-1.3%

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

**RUSSIAN RIVER COUNTY SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Long-term Obligations

At June 30, 2013, the District had a total of \$5,784,777 in outstanding debt consisting of general obligation bonds, revenue bonds, and advances from other governments. Of this amount, \$745,000 comprises debt backed by the full faith and credit of the District, \$695,000 represents special obligations of the District payable solely from net revenues of the District's operations, and \$4,344,777 is related to advances from the State Water Resources Control Board.

Russian River County Sanitation District's Long-Term Debt

	June 30, 2012	June 30, 2013	Percentage Change
General obligation bonds	\$ 875,000	\$ 745,000	-14.9%
Revenue bonds	775,000	695,000	-10.3%
Advances from other governments	2,679,394	4,344,777	62.2%
Total long-term debt	\$ 4,329,394	\$ 5,784,777	33.6%

The District's total debt increased by \$1,455,383 during the fiscal year ended June 30, 2013.

Advances from other governments increased by \$1,665,383 (62.2%) due to the District receiving a loan of \$3,884,450 from the State Water Resources Control Board to aid in funding the Disinfection Upgrade Project. That increase was offset by the State Water Resources Control Board forgiving \$1,942,225 of the principal due and by regular annual principal payment to the State Water Resources Control Board.

The general obligation and revenue bonds decrease is due to the scheduled annual repayments on the outstanding debt.

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

Next Year's Budget and Rates

Budgeted gross expenses for the District for fiscal year ending June 30, 2014 have decreased by \$7,992,656 (59.4%) for a total of \$5,459,706. The major component of the decrease in budgeted expenses is related to previously received loan proceeds in the District's Operations fund which were transferred to its Construction fund. This loan was for the District's Disinfection Basin Project in the amount of \$3,884,450. The loan was received during the fiscal year ended June 30, 2013 and the budget was amended to enable the transfer of proceeds from the Operations fund to the Construction fund.

**RUSSIAN RIVER COUNTY SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Next Year's Budget and Rates (Continued)

Following is a comparison of the final budget for the fiscal year ended June 30, 2013 and the proposed budgeted expenses for the District for the fiscal year ending June 30, 2014.

	Fiscal Year Ending June 30, 2013	Fiscal Year Ending June 30, 2014	Decrease	Percentage Change
Operations	\$ 9,692,810	\$ 5,157,654	\$ (4,535,156)	-46.8%
Debt service - general obligation bonds	43,802	37,302	(6,500)	-14.8%
Debt service - revenue bonds	38,750	34,750	(4,000)	-10.3%
Construction	3,677,000	230,000	(3,447,000)	-93.7%
Total	\$ 13,452,362	\$ 5,459,706	\$ (7,992,656)	-59.4%

Budgeted expenses for fiscal year ended June 30, 2013 differ in several instances from the budgeted expenses presented in the management's discussion and analysis for the period ended June 30, 2012. These variances are due to Board approved budgetary adjustments made subsequent to the publication of the audited basic financial statements for the fiscal year ended June 30, 2012.

The Districts sewer service fees were increased for the 2013-2014 budget year due to a board approved increase of 3.5%.

The following table shows the sanitation service rate and equivalent single-family dwellings for the District.

	Fiscal Year Ending June 30, 2013	Fiscal Year Ending June 30, 2014	Percentage Change
Rate per Equivalent Single-Family Dwelling	\$ 1,211	\$ 1,253	3.5%
Number of Equivalent Single-Family Dwellings	3,208	3,207	0.0%

Request for Additional Information:

This financial report is designed to provide a general overview of the District's finances for all those with an interest 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 Sonoma County Auditor-Controller Treasurer Tax Collector's Office, ATTN. Fiscal Division, 585 Fiscal Drive, Room 100, Santa Rosa, CA 95403.

RUSSIAN RIVER COUNTY SANITATION DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2013

ASSETS

Current assets:

Cash and investments	\$ 4,235,511
Accounts receivable	253,333
Restricted cash and investments	
General obligation bond fund	318,384
Revenue bond reserve fund	121,250
Revenue bond fund	373,249
Loan reserve fund	128,195
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Total current assets	5,429,922
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Noncurrent assets:

Cash and investments restricted for capital projects	196,952
Accounts receivable, noncurrent portion	321,770
Capital assets not being depreciated:	
Land	223,833
Intangible assets	5,268
Construction in progress	1,993,409
Capital assets, net of accumulated depreciation:	
Buildings and improvements	25,612,515
Machinery and equipment	110,926
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Total capital assets (net of accumulated depreciation and amortization)	27,945,951
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Total noncurrent assets	28,464,673
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Total assets	33,894,595
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The notes to the basic financial statements are an integral part of this statement.

RUSSIAN RIVER COUNTY SANITATION DISTRICT
STATEMENT OF NET POSITION (CONTINUED)
JUNE 30, 2013

LIABILITIES

Current liabilities

Accounts payable and accrued expenses	33,996
Advances from other governments, current portion	257,603
Accrued interest payable	46,460
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Total current liabilities	338,059
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Current liabilities payable from restricted assets

Revenue bonds payable	85,000
Accrued interest payable	8,688
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Total current liabilities payable from restricted assets	93,688
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Noncurrent liabilities

Advances from other governments	4,087,174
General obligation bonds payable	745,000
Revenue bonds payable	610,000
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Total noncurrent liabilities	5,442,174
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Total liabilities	5,873,921
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NET POSITION

Net investment in capital assets	22,161,174
Restricted for debt service	932,390
Restricted for capital projects	196,952
Unrestricted	4,730,158
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Total net position	\$ 28,020,674
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The notes to the basic financial statements are an integral part of this statement.

**RUSSIAN RIVER COUNTY SANITATION DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Operating revenues	
Flat charges	\$ 3,800,936
Charges for services	46,545
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Total operating revenues	3,847,481
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Operating expenses	
Services and supplies	3,045,510
Fiscal agent fees and legal services	1,391
Depreciation	1,104,665
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Total operating expenses	4,151,566
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Operating loss	(304,085)
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Nonoperating revenues (expenses)	
Investment income	59,868
Interest expense	(8,583)
Conservation program expense	(125)
Property taxes	286,158
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Total nonoperating revenues, net	337,318
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Income before capital contributions	33,233
Capital contribution - connection fees	8,987
Capital contributions - state and federal	1,942,225
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Increase in net position	1,984,445
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Net position - beginning of year	26,036,229
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Net position - end of year	\$ 28,020,674
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The notes to the basic financial statements are an integral part of this statement.

**RUSSIAN RIVER COUNTY SANITATION DISTRICT
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 3,755,492
Payments to Water Agency	(2,282,054)
Payments to suppliers	(779,112)
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Net cash provided by operating activities	694,326
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CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Taxes received	286,160
Conservation program outlays	(125)
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Net cash provided by noncapital financing activities	286,035
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CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of capital assets	(551,597)
Principal payments - advances from other governments	(276,842)
Principal payments - bonds	(210,000)
Interest paid on capital debt	(173,723)
Proceeds from state and federal loans	3,884,450
Connection fees received	12,764
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Net cash provided by capital and related financing activities	2,685,052
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CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received on pooled cash and investments	59,975
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Net increase in cash and cash equivalents	3,725,388
Cash and cash equivalents - beginning of year	1,648,153
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Cash and cash equivalents - end of year	\$ 5,373,541
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Reconciliation to the statement of net position:	
Cash and investments	\$ 4,235,511
Restricted cash and investments	1,138,030
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Total cash and cash equivalents	\$ 5,373,541
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The notes to the basic financial statements are an integral part of this statement.

**RUSSIAN RIVER COUNTY SANITATION DISTRICT
STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Reconciliation of operating loss to net cash

provided by operating activities:

Operating loss	\$	(304,085)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation		1,104,665
Change in assets and liabilities:		
Increase in accounts receivable		(91,989)
Decrease in accounts payable and accrued expenses		(14,265)
Net cash provided by operating activities	\$	694,326

Non-cash investing, capital and financing activities:

Capital assets acquired through accounts payable	\$	10,265
Capitalized interest		171,526
Forgiveness of advances from other governments		1,942,225

The notes to the basic financial statements are an integral part of this statement.

**RUSSIAN RIVER COUNTY SANITATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Note A. Defining the Financial Reporting Entity

The Russian River County Sanitation District (the District) is managed by the Sonoma County Water Agency (Water Agency), which provides engineering, administration, operational, and maintenance services. The District is a distinct legal entity from the Water Agency and was formed by action of the Sonoma County Board of Supervisors. The District is responsible for maintaining and operating the local sanitation collection systems, pump stations, and treatment plants.

Component Unit Reporting

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

Note B. Summary of Significant Accounting Policies

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**RUSSIAN RIVER COUNTY SANITATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Note B. Summary of Significant Accounting Policies (continued)

*Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(continued)*

Proprietary funds distinguish operating from nonoperating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District are flat charges and charges for services. Operating expenses for the District include expenses relating to the collection, treatment, disposal, and reclamation of effluent as well as administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Cash and Investments

The District's cash and investments are pooled with the Sonoma County Treasurer (Treasurer). The Treasurer also acts as a disbursing agent for the District. The fair value of the investments in the pool is determined quarterly. Realized and unrealized gains or losses and interest earned on pooled investments are allocated quarterly to the District based on its respective average daily balance for that quarter in the County Treasury Investment Pool (the Treasury Pool), an external investment pool.

The District applies the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, which requires governmental entities to report certain investments at fair value in the statement of net position and recognize the corresponding change in the fair value of investments in the year in which the change occurred. In accordance with GASB Statement No. 31, the District has stated its investment in the Treasury Pool at estimated fair value.

The District applies the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures* – an amendment to GASB Statement No. 3, which requires governmental entities to provide proper footnote disclosures on common deposit and investment risks related to credit risk, interest rate risk and custodial credit risk.

For purposes of the statement of cash flows, the District considers all pooled cash and investments as cash and cash equivalents because the Treasury Pool is used as a demand deposit account. Restricted cash and investments with a maturity of three months or less when purchased are also treated as cash and cash equivalents.

**RUSSIAN RIVER COUNTY SANITATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Note B. Summary of Significant Accounting Policies (continued)

Accounts Receivable

Accounts receivable consists of uncollected fees for sanitation services and flat charges as June 30, 2013. Flat charges are established annually by the Board of Supervisors and billed through the County's property tax system. Accounts receivable also include amounts to be collected for connection fees related to Russian River Ordinance #39. The District has not recorded 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 wastewater treatment systems.

Capital Assets

Capital assets are stated at cost or estimated historical cost. Capital assets are defined by the District as assets with an estimated useful life in excess of one year, and an initial, individual cost of more than \$5,000 for machinery and equipment and more than \$25,000 for buildings and improvements. Depreciation has been provided, excluding land and construction in progress, using the straight-line method over estimated useful lives ranging from 3 to 50 years. Useful lives of machinery and equipment are generally estimated to be 3 to 15 years. Buildings and improvements are generally estimated to have useful lives ranging from 30 to 50 years.

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

Intangible Assets

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

**RUSSIAN RIVER COUNTY SANITATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Note B. Summary of Significant Accounting Policies (continued)

Net Position

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

Budget and Budgetary Accounting

The Board adopts a budget annually to be effective July 1st for the ensuing fiscal year for the District. The general manager of the Water Agency is authorized to transfer budgeted amounts within the District except for transfers between major expense classes or transfers between capital assets and operating expenses. Such transfers require approval by the Sonoma County Administrator and/or the Board.

Property Tax Revenue

Property taxes, including tax rates, are regulated by the State and are administered locally by the County. The County is responsible for assessing, collecting and distributing property taxes in accordance with state law. The County is responsible for the allocation of property taxes to the District.

The County has adopted the Alternative Method of Property Tax Allocation known as the Teeter Plan. The State Revenue and Taxation Code allows counties to distribute secured real property and supplemental property taxes on an accrual basis resulting in full payment to the District each fiscal year. Any subsequent delinquent payments and related penalties and interest will revert to the County.

Property taxes are recognized as revenue in the year they are levied. Liens on real property are established January 1 for the ensuing fiscal year. The property tax is levied as of July 1 on all taxable property located in the County. Secured property taxes are due in two equal installments on November 1 and February 1, and are delinquent after December 10 and April 10, respectively. Additionally, supplemental property taxes are levied on a pro rata basis when changes in assessed valuation occur due to sales transactions or the completion of construction. Property tax collection and valuation information is disclosed in the County's comprehensive annual financial report.

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.

**RUSSIAN RIVER COUNTY SANITATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Note B. Summary of Significant Accounting Policies (continued)

Adoption of GASB Statement No. 63 - Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position

The District adopted this pronouncement as of July 1, 2012. The adoption primarily had the effect of replacing the term “net assets” with “net position” and did not affect the recorded assets or liabilities of the District. Additionally, no deferred outflows or inflows of resources were recognized as a result of the adoption of this statement.

Note C. Cash and Investments

The District follows the practice of pooling cash and investments with the Treasurer except for funds required to be held by outside fiscal agents or trustees under the provisions of bond indentures. The Investment Oversight Committee has regulatory oversight for all funds deposited into the Treasury Pool.

Investment Guidelines

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

Permitted investments include the following:

- U.S. Treasury and Federal Agency securities
- Bonds and Notes issued by local agencies
- Registered State warrants and municipal notes and bonds
- Negotiable certificates of deposit
- Bankers' acceptances
- Commercial paper
- Medium-term corporate notes
- Local Agency Investment Fund (State Pool) deposits
- Repurchase agreements
- Reverse repurchase agreements
- Securities lending agreements
- Mutual funds and money market mutual funds
- Collateralized mortgage obligations
- Collateral time deposits
- Joint power agreements
- Investment Trust of California (Caltrust)

**RUSSIAN RIVER COUNTY SANITATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Note C. Cash and Investments (continued)

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, 2013, the District's investments consisted of \$5,373,541 in the Treasury Pool managed by the Treasurer, which is not rated by credit rating agencies, and had a weighted average maturity of 1,102 days. The credit rating and other information regarding specific investments maintained in the Treasury Pool as of June 30, 2013 are disclosed in the County's Comprehensive Annual Financial Report.

Interest Rate Risk

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

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

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

Investments in external investment pools and in open-end mutual funds are not exposed to custodial credit risk. As of June 30, 2013, all of the District's investments were in the Treasury Pool and are therefore not exposed to custodial credit risk.

**RUSSIAN RIVER COUNTY SANITATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Note C. Cash and Investments (continued)

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Treasury Pool does not have a credit rating. The District follows the County's policy to purchase investments with the minimum ratings required by the California Government Code. The credit ratings of investments held and other information regarding the Treasury Pool for the fiscal year ended June 30, 2013 are disclosed in the County's Comprehensive Annual Financial Report.

Note D. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2013 was as follows:

	July 1, 2012	Additions	Retirements	Transfers	June 30, 2013
Capital assets, not being depreciated:					
Land	\$ 223,833	\$ -	\$ -	\$ -	\$ 223,833
Intangibles	5,268	-	-	-	5,268
Construction in progress	5,749,572	721,125	-	(4,477,288)	1,993,409
Total capital assets, not being depreciated	5,978,673	721,125	-	(4,477,288)	2,222,510
Capital assets, being depreciated:					
Buildings and improvements	44,695,231	-	-	4,477,288	49,172,519
Machinery and equipment	154,723	8,785	-	-	163,508
Less: accumulated depreciation for					
Buildings and improvements	(22,478,350)	(1,081,654)	-	-	(23,560,004)
Machinery and equipment	(29,571)	(23,011)	-	-	(52,582)
Total capital assets, being depreciated, net	22,342,033	(1,095,880)	-	4,477,288	25,723,441
Total capital assets, net	\$ 28,320,706	\$ (374,755)	\$ -	\$ -	\$ 27,945,951

Depreciation expense amounted to \$1,104,665 for the fiscal year ended June 30, 2013.

The total amount of interest capitalized in connection with wastewater treatment facilities construction projects during the fiscal year ended June 30, 2013 was \$171,526.

**RUSSIAN RIVER COUNTY SANITATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Note E. Long-Term Obligations

Advances from other governments:

During the fiscal year ended June 30, 2005, the District received a loan of \$3,352,796 from the State Water Resources Control Board to aid in funding the Third Unit Processes project. The District received an additional \$448,173 during the fiscal year ended June 30, 2007. As of June 30, 2013, the outstanding balance on the loan is \$2,502,425. The loan is a State Revolving Loan with payments of \$243,954, payable annually in November. The term is 20 years at an annual interest rate of 2.5% with the last payment scheduled for November 2024. Annual debt service requirements to maturity for this loan are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2014	\$ 181,393	\$ 62,560	\$ 243,953
2015	185,929	58,026	243,955
2016	190,577	53,377	243,954
2017	195,341	48,613	243,954
2018	200,225	43,729	243,954
2019-2023	1,078,757	141,014	1,219,771
2024-2025	470,203	17,707	487,910
Total	\$ 2,502,425	\$ 425,026	\$ 2,927,451

During fiscal year ended June 30, 2013, the District received a loan of \$3,884,450 from the State Water Resources Control Board to aid in funding the Disinfection Upgrade Project. Based on the District's performance under the financing agreement, the State Water Resources Control Board forgave \$1,942,225 of the principal due. As of June 30, 2013, the outstanding balance on the loan is \$1,842,352. The loan is a State Revolving Loan with payments of principal and interest of \$124,111, payable annually in April. The term is 20 years at an annual interest rate of 2.6% with the last payment scheduled for April 2032.

**RUSSIAN RIVER COUNTY SANITATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Note E. Long-Term Obligations (continued)

Advances from other governments (continued)

Annual debt service requirements to maturity for this loan are as follows:

Fiscal Year Ending		Principal	Interest	Total
June 30,				
2014	\$	76,210	\$ 47,901	\$ 124,111
2015		78,191	45,920	124,111
2016		80,224	43,887	124,111
2017		82,310	41,801	124,111
2018		84,450	39,661	124,111
2019-2023		456,348	164,205	620,553
2024-2028		518,840	101,713	620,553
2029-2032		465,779	30,663	496,442
Total	\$	1,842,352	\$ 515,751	\$ 2,358,103

General Obligation Bonds

The District issued general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations of the District. Principal and interest on the bonds are paid from revenue derived from an annual tax collected on all taxable property within the District. The original amount of general obligation bonds issued was \$2,900,000. General obligation bonds outstanding as of June 30, 2013 were \$745,000 at an annual interest rate of 5.0% and are due in annual payments through July 2018. Annual debt service requirements to maturity for general obligation bonds as presented on the following page are as follow:

**RUSSIAN RIVER COUNTY SANITATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Note E. Long-Term Obligations (continued)

General Obligation Bonds (continued)

Fiscal Year Ending June 30,	Principal	Interest	Total
2014	\$ -	\$ 40,500	\$ 40,500
2015	135,000	33,875	168,875
2016	140,000	27,000	167,000
2017	150,000	19,750	169,750
2018	155,000	12,125	167,125
2019	165,000	4,125	169,125
Total	\$ 745,000	\$ 137,375	\$ 882,375

Revenue Bonds

The District also issued revenue bonds where the District pledges income derived from charges for services to pay debt service. The original amount of revenue bonds issued to finance construction projects to both expand existing wastewater treatment facilities and construct additional facilities was \$2,000,000. The bonds were issued in 1981 with an interest rate of 5.0% and are payable solely from sanitation customer net revenues and are payable through 2020.

Annual principal and interest payments are expected to require no more than 14% of net revenues. The total principal outstanding on the 1981 Revenue Bonds as of June 30, 2013 is \$695,000 and scheduled interest payments total \$145,750 which equals the remaining income pledged by the District through the fiscal year ending June 30, 2020 towards debt service on the revenue bonds. Principal and interest paid for the fiscal year ended June 30, 2013 and total customer net revenues were \$118,750 and \$860,448 respectively.

Revenue bond debt service requirements to maturity are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2014	\$ 85,000	\$ 34,750	\$ 119,750
2015	90,000	30,500	120,500
2016	95,000	26,000	121,000
2017	100,000	21,250	121,250
2018	100,000	16,250	116,250
2019-2020	225,000	17,000	242,000
Total	\$ 695,000	\$ 145,750	\$ 840,750

**RUSSIAN RIVER COUNTY SANITATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Note E. Long-Term Obligations (continued)

Long-term obligation activity for the year ended June 30, 2013 was as follows:

	July 1, 2012	Additions	Retirements	June 30, 2013	Due Within One Year
Advances from					
other governments	\$ 2,679,394	\$ 3,884,450	\$ (2,219,067)	\$ 4,344,777	\$ 257,603
General obligation bonds	875,000	-	(130,000)	745,000	-
Revenue bonds	775,000	-	(80,000)	695,000	85,000
Total	\$ 4,329,394	\$ 3,884,450	\$ (2,429,067)	\$ 5,784,777	\$ 342,603

Note F. Accrued Interest Payable

Interest payable as of June 30, 2013 consists of interest accrued on the State Water Resources Control Board loans of \$46,460 and the revenue bonds of \$8,688.

Note G. Related Party Transactions

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

The District is managed by the Water Agency, which provides administration, engineering, operational, and maintenance services. The District does not incur any payroll expenses. The Water Agency allocates overhead costs to the District via the use of an overhead rate charged on labor applicable to the District. The overhead rate is reviewed periodically by management to determine its effectiveness. The District paid \$2,282,054 to the Water Agency for administrative support during the fiscal year ended June 30, 2013.

Note H. Commitments and Contingencies

Commitments

The District has active construction projects as of June 30, 2013. The projects include expansion and/or improvements of several wastewater treatment facilities. As of June 30, 2013, the District's commitments to construction projects included \$1,993,409 spent to date with remaining commitments of \$116,856 for expansion. The balances spent to date include both internal expenses and expenses paid to outside contractors. The remaining commitment balances relate to commitments with outside contractors only.

**RUSSIAN RIVER COUNTY SANITATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Note H. Commitments and Contingencies (continued)

Pending Litigation, Claims, and Assessments

In June 2008, the NC Regional Board issued an Administrative Civil Liability (ACL) Order to the District and Water Agency. The ACL was issued in order to formalize the settlement of an ACL issued in November 2007 for waste discharge violations. The District and Water Agency were assessed a mandatory penalty of \$99,000. The District paid \$31,000 of the mandatory penalty directly into the State Water Pollution Cleanup and Abatement Account in December 2007. The remaining penalty (\$68,000) is eligible to be permanently suspended if the NC Regional Board determines that reasonable progress is being made (and reported) toward completion of a compliance project and the suspended amount is spent toward completion of a compliance project. Annual reports are submitted to the NC Regional Board to report progress on the selected compliance project, which is underway. Construction of the compliance project has been completed and is awaiting final approval.

A second ACL Order issued in June 2005 remains outstanding. The District paid \$2,600 of the mandatory penalty directly into the State Water Pollution Cleanup and Abatement Account in July 2005 while the remaining penalty (\$60,400) is eligible to be permanently suspended upon approval of the compliance project mentioned above.

Two additional actions related to the original ACL have been issued to the District and the Water Agency in order to levy additional fines associated with mandatory minimum penalties and violations of final effluent limitations. The enforcement actions include the following:

Cease and Desist Order No. R1-2010-0006 (CDO): The CDO was adopted on February 8, 2010 and identifies that the District is in violation of final effluent limitations. In order to meet the final effluent limitations, a compliance schedule was established. The compliance schedule required completion of the compliance project noted above by December 1, 2011 while a second compliance schedule requires compliance with copper final effluent limitations by October 1, 2014. Construction of the compliance project with the final deadline of December 1, 2011 has been completed and the construction of the second project with a final completion date of October 1, 2014 has been awarded. Construction will begin fall of 2013.

Other Regulatory Matters

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

**RUSSIAN RIVER COUNTY SANITATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Note I. Risk Management

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

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

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

The County maintains "All Risk" property insurance including flood and earthquake through participation in the CSAC-EIA Property Insurance Program. Limits of coverage are \$600,000,000 per occurrence for All Risk, \$300,000,000 for flood and \$82,500,000 per occurrence for earthquake. Deductibles for these perils are \$50,000 per occurrence.

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 J. Future Governmental Accounting Standards

GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, issued in March 2012. The objective of this Statement is to either (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). These determinations are based on the definitions of those elements in Concepts Statement No. 4, Elements of Financial Statement. GASB Statement No. 65 is effective for financial statements for fiscal years beginning after December 15, 2012.

**RUSSIAN RIVER COUNTY SANITATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Note J. Future Governmental Accounting Standards (continued)

GASB Statement No. 66, Technical Corrections – 2012, an amendment of GASB Statements No. 10 and No. 62, issued in March 2012. The objective of this Statement is to improve accounting and financial reporting by state and local governmental entities by resolving conflicting guidance that resulted from the issuance of two pronouncements—Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Since the release of these Statements, questions have arisen concerning differences between the provisions in Statement 54 and Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, regarding the reporting of risk financing activities. Questions' also have arisen about differences between Statement 62 and Statements No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, regarding the reporting of certain operating lease transactions, and No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, concerning the reporting of the acquisition of a loan or a group of loans and the recognition of servicing fees related to mortgage loans that are sold. GASB Statement No. 66 is effective for financial statements for fiscal years beginning after December 15, 2012.

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

**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
Russian River County Sanitation District
Santa Rosa, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Russian River 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, 2013, the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the notes to the financials statements, and have issued our report thereon dated October 8, 2013.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Local partnership. Global solutions.

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

Independent Auditor's Report (continued)

Purpose of this Report

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

We noted certain other matters that we reported to management of the District in a separate letter dated October 8, 2013.

PricewaterhouseCoopers LLP

Petaluma, California
October 8, 2013