

**RUSSIAN RIVER COUNTY  
SANITATION DISTRICT  
(A Component Unit of the County of Sonoma)**

Independent Auditors' Report, Management's  
Discussion and Analysis and Basic  
Financial Statements

For the Fiscal Year Ended June 30, 2012

**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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## Independent Auditors' Report

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

We have audited the accompanying basic 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, 2012, as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic 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 the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2012, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2012, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants and agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Local partnership. Global solutions.*

**Independent Auditors' Report (continued)**  
Russian River County Sanitation District

Accounting principles generally accepted in the United States of America require that 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 evidence sufficient to express an opinion or provide any assurance.

*Pisani & Baker LLP*

Petaluma, California  
October 19, 2012

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

**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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, 2012. 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 Assets*

The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$26,036,229 (*net assets*). Of this amount, \$1,232,362 (*unrestricted net assets*) may be used to meet the District's ongoing obligations to citizens and creditors.

*Revenues*

The District recognized total revenues and capital contributions of \$3,936,606 during the fiscal year ended June 30, 2012. Of this amount, \$3,667,781 consists of operating revenues including flat charges and charges for services, \$258,591 of nonoperating revenues consisting of investment income (\$52,326), property taxes (\$196,595), intergovernmental revenue (\$9,670), and capital contributions (\$10,234) consisting of connection fees and a dedicated sewer easement.

*Expenses*

The District incurred expenses totaling \$3,841,972 during the fiscal year ended June 30, 2012. Of this amount \$3,838,176 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 \$671 related to the District's long-term debt obligations, and conservation program expenses of \$3,125.

*Increase in Net Assets*

The District recorded an operating loss of \$170,395 for the fiscal year ended June 30, 2012, while recognizing an overall increase in net assets of \$94,634.

**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**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*

*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 assets (or cost recovery), financial position, and cash flow. The financial statements presented are the *statement of net assets; the statement of revenues, expenses and changes in net assets; 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 assets may serve over time as a useful indicator of a District's financial position. In the case of the District, assets exceeded liabilities by \$26,036,229 at the close of the most recent fiscal year compared to net assets of \$25,941,595 as of June 30, 2011. The primary reason for the \$94,634 increase in net assets was an increase of \$194,167 in operating revenues compared to the prior fiscal year offset by a decrease in connection fee revenue of \$153,943.

The largest portion of the District's net assets (92.1% as of June 30, 2012 compared to 82.2% for June 30, 2011) 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, 2012**

**Financial Analysis (Continued)**

*Condensed Statements of Net Assets*

	June 30, 2011	June 30, 2012	Percentage Change
Current and other assets	\$ 4,744,963	\$ 2,135,153	-55.0%
Capital assets	26,018,281	28,320,706	8.8%
<b>Total Assets</b>	<b>30,763,244</b>	<b>30,455,859</b>	<b>-1.0%</b>
Current liabilities	372,255	347,205	-6.7%
Noncurrent liabilities	4,449,394	4,072,425	-8.5%
<b>Total Liabilities</b>	<b>4,821,649</b>	<b>4,419,630</b>	<b>-8.3%</b>
Invested in capital assets, net of related debt	21,321,234	23,991,312	12.5%
Restricted for debt service	641,915	812,555	26.6%
Unrestricted	3,978,446	1,232,362	-69.0%
<b>Total Net Assets</b>	<b>\$ 25,941,595</b>	<b>\$ 26,036,229</b>	<b>0.4%</b>

A portion of the District's net assets, \$812,555 (3.1% as of June 30, 2012) represents resources that are subject to external restrictions on how they may be used. The balance of unrestricted net assets of \$1,232,362 as of June 30, 2012 may be used to meet the District's ongoing obligations to citizens and creditors. As of June 30, 2012, the District reports positive balances in all categories of net assets.

**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

*Condensed Statements of Changes in Net Assets*

	<b>Fiscal Year Ended</b>		<b>Percentage Change</b>
	<b>June 30, 2011</b>	<b>June 30, 2012</b>	
<b>Revenues</b>			
Operating revenues	\$ 3,473,614	\$ 3,667,781	5.6%
Nonoperating revenues:			
Property taxes	150,861	196,595	30.3%
Investment earnings	91,700	52,326	-42.9%
Intergovernmental	19,081	9,670	-49.3%
<b>Total revenues</b>	<b>3,735,256</b>	<b>3,926,372</b>	<b>5.1%</b>
<b>Expenses</b>			
Services and supplies	2,795,573	2,738,804	-2.0%
Fiscal agent fees and legal services	4,764	2,014	-57.7%
Depreciation	1,037,329	1,097,358	5.8%
Conservation program	53,509	3,125	-94.2%
Interest expense	62,888	671	-98.9%
<b>Total expenses</b>	<b>3,954,063</b>	<b>3,841,972</b>	<b>-2.8%</b>
Income (loss) before contributions	(218,807)	84,400	-138.6%
Capital contributions - connection fees	159,177	5,234	-96.7%
Capital contributions - dedicated sewer easement	-	5,000	na
Increase (decrease) in net assets	(59,630)	94,634	-258.7%
<b>Net assets, beginning of year</b>	<b>26,001,225</b>	<b>25,941,595</b>	<b>-0.2%</b>
<b>Net assets, end of year</b>	<b>\$ 25,941,595</b>	<b>\$ 26,036,229</b>	<b>0.4%</b>

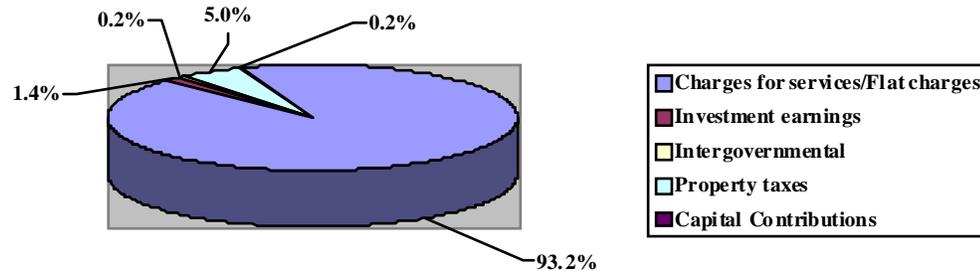
The District's net assets increased by \$94,634 during the fiscal year ended June 30, 2012 compared to a decrease of \$59,630 during the fiscal year ended June 30, 2011.

**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

*Expenses and Revenues*

Total revenues, including capital contributions, of the District for the fiscal year ended June 30, 2012 totaled \$3,936,606 representing an increase of \$42,173 from the preceding fiscal year revenues of \$3,894,433. The rate based charges for services, representing 93.2% of the District's total revenue, increased by \$194,167; property taxes, representing 5.0% of the District's total revenue, increased by \$45,734. Investment earnings decreased from the preceding year by \$39,374 as a result of a decrease in penalties on delinquent payments of flat charges. The District received intergovernmental revenue totaling \$9,670, the majority of which was received from the California Redevelopment Association sponsored AB 1290 and represented 0.2% of the District's annual revenue. The District also received capital contributions totaling \$10,234 which was comprised of connection fees of \$5,234 and a dedicated sewer easement of \$5,000. The combined effect was an overall increase in revenues, including capital contributions, of 1.0% for the fiscal year ended June 30, 2012.

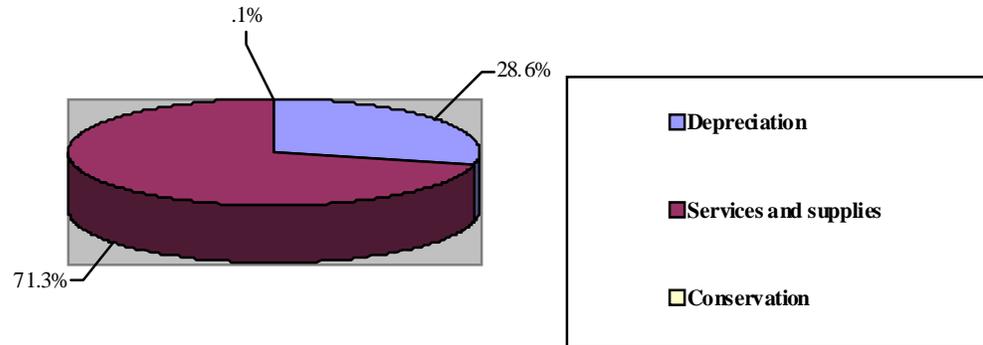
*Revenues by Source*



Total expenses for the District decreased by \$112,091 to \$3,841,972 for the fiscal year ended June 30, 2012. Interest expense decreased \$62,217 (98.9%) to \$671 due primarily to a greater amount of interest that was capitalized during the fiscal year ended June 30, 2012. Conservation Program expenses decreased \$50,384 to \$3,125 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 decreased \$56,769 (2.0%) to \$2,738,804 due primarily to decreases in maintenance and power costs. The overall effect of these occurrences is a decrease in expenses of 2.8%.

**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

*Expenses by Function*



**Capital Asset and Debt Administration**

*Capital Assets*

The District's investment in capital assets as of June 30, 2012 amounts to \$28,320,706 (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, 2011	June 30, 2012	Percentage Change
Land	\$ 223,833	\$ 223,833	0.0%
Intangible assets	268	5,268	1865.7%
Construction in progress	2,400,227	5,749,572	139.5%
Buildings and improvements	44,695,231	44,695,231	0.0%
Machinery and equipment	109,285	154,723	41.6%
Accumulated depreciation	(21,410,563)	(22,507,921)	5.1%
<b>Total</b>	<b>\$ 26,018,281</b>	<b>\$ 28,320,706</b>	<b>8.8%</b>

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, 2012**

*Long-term Obligations*

At June 30, 2012, the District had a total of \$4,329,394 in outstanding debt consisting of general obligation bonds, revenue bonds, and advances from other governments. Of this amount, \$875,000 comprises debt backed by the full faith and credit of the District, \$775,000 represents special obligations of the District payable solely from net revenues of the District's operations, and \$2,679,394 is related to advances from the State Water Resources Control Board.

*Russian River County Sanitation District's Long-Term Debt*

	June 30, 2011	June 30, 2012	Percentage Change
General obligation bonds	\$ 995,000	\$ 875,000	-12.1%
Revenue bonds	850,000	775,000	-8.8%
Advances from other governments	2,852,047	2,679,394	-6.1%
<b>Total long-term debt</b>	<b>\$ 4,697,047</b>	<b>\$ 4,329,394</b>	<b>-7.8%</b>

The District's total debt decreased by \$367,653 during the fiscal year ended June 30, 2012.

Advances from other governments decreased by \$172,653 (6.1%) due to the 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, 2013 have decreased by \$4,620,421 (45.1%) for a total of \$5,633,866. The major component of the decrease in budgeted expenses is related to an anticipated transfer of State loan proceeds from the District's Operations fund to its Construction fund. This loan is for the District's Disinfection Basin Project in the amount of \$3.8 Million; however, the loan was not received during the fiscal year ended June 30, 2012 as was originally anticipated. It is expected that the loan will be received during the fiscal year ended June 30, 2013 and that the budget will be 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, 2012**

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

Following is a comparison of the final budget for the fiscal year ended June 30, 2012 and the proposed budgeted expenses for the District for the fiscal year ending June 30, 2013.

	<b>Fiscal Year Ending June 30, 2012</b>	<b>Fiscal Year Ending June 30, 2013</b>	<b>Decrease</b>	<b>Percentage Change</b>
Operations	\$ 9,013,745	\$ 4,849,314	\$ (4,164,431)	-46.2%
Debt service - general obligation bonds	49,802	43,802	(6,000)	-12.0%
Debt service - Revenue bonds	42,500	38,750	(3,750)	-8.8%
Construction	1,148,240	702,000	(446,240)	-38.9%
<b>Total</b>	<b>\$ 10,254,287</b>	<b>\$ 5,633,866</b>	<b>\$ (4,620,421)</b>	<b>-45.1%</b>

Budgeted expenses for fiscal year ended June 30, 2012 differ in several instances from the budgeted expenses presented in the management's discussion and analysis for the period ended June 30, 2011. 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, 2011.

The Districts sewer service fees were increased for the 2012-2013 budget year due to a board approved increase of 5.0%.

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

	<b>Fiscal Year Ending June 30, 2012</b>	<b>Fiscal Year Ending June 30, 2013</b>	<b>Percentage Change</b>
Rate per Equivalent Single-Family Dwelling	\$ 1,153	\$ 1,211	5.0%
Number of Equivalent Single-Family Dwellings	3,207	3,208	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 ASSETS**  
**JUNE 30, 2012**

**ASSETS**

Current assets:

Cash and investments	\$	825,910
Accounts receivable		226,003
Restricted cash and investments		
General obligation bond fund		204,241
Revenue bond reserve fund		121,250
Revenue bond fund		369,552
Loan reserve fund		127,200
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Total current assets		1,874,156
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Noncurrent assets:

Accounts receivable, noncurrent portion		260,997
Capital assets:		
Land		223,833
Intangible assets		5,268
Construction in progress		5,749,572
Buildings and improvements		44,695,231
Machinery and equipment		154,723
Less accumulated depreciation and amortization		(22,507,921)
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Total capital assets, net		28,320,706
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Total assets		30,455,859
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The accompanying notes are an integral part of these financial statements.

**RUSSIAN RIVER COUNTY SANITATION DISTRICT**  
**STATEMENT OF NET ASSETS (CONTINUED)**  
**JUNE 30, 2012**

**LIABILITIES**

Current liabilities

Accounts payable and accrued expenses	41,474
Due to other governments	176,969
Accrued interest payable	39,074

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Total current liabilities	257,517
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Current liabilities payable from restricted assets

Revenue bonds payable	80,000
Accrued interest payable	9,688

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Total current liabilities payable from restricted assets	89,688
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Noncurrent liabilities

Advances from other governments	2,502,425
General obligation bonds payable	875,000
Revenue bonds payable	695,000

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Total noncurrent liabilities	4,072,425
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Total liabilities	4,419,630
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**NET ASSETS**

Invested in capital assets, net of related debt	23,991,312
Restricted for debt service	812,555
Unrestricted	1,232,362

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Total net assets	\$ 26,036,229
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The accompanying notes are an integral part of these financial statements.

**RUSSIAN RIVER COUNTY SANITATION DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

<b>Operating revenues</b>	
Flat charges	\$ 3,639,987
Charges for services	27,794
<b>Total operating revenues</b>	<b>3,667,781</b>
<b>Operating expenses</b>	
Services and supplies	2,738,804
Fiscal agent fees and legal services	2,014
Depreciation	1,097,358
<b>Total operating expenses</b>	<b>3,838,176</b>
<b>Operating Loss</b>	<b>(170,395)</b>
<b>Nonoperating revenues (expenses)</b>	
Investment income	52,326
Interest expense	(671)
Conservation program expense	(3,125)
Intergovernmental	9,670
Property taxes	196,595
<b>Total nonoperating revenues, net</b>	<b>254,795</b>
<b>Income before capital contributions</b>	<b>84,400</b>
Capital contribution - connection fees	5,234
Capital contribution - dedicated sewer easement	5,000
<b>Increase in net assets</b>	<b>94,634</b>
<b>Net assets - beginning of year</b>	<b>25,941,595</b>
<b>Net assets - end of year</b>	<b>\$ 26,036,229</b>

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

**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 3,612,911
Payments to Water Agency	(2,273,242)
Payments to suppliers	(498,784)
<hr/>	
Net cash provided by operating activities	840,885
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<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Conservation program outlays	(3,125)
Taxes received	196,595
Intergovernmental revenues received	9,670
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Net cash provided by noncapital financing activities	203,140
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<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Purchases of capital assets	(3,235,062)
Principal payments - advances from other governments	(172,653)
Principal payments - bonds	(195,000)
Interest paid on capital debt	(163,551)
Connection fees received	22,056
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Net cash used by capital and related financing activities	(3,744,210)
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<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest received on pooled cash and investments	52,286
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Net decrease in cash and cash equivalents	(2,647,899)
Cash and cash equivalents - beginning of year	4,296,052
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Cash and cash equivalents - end of year	\$ 1,648,153
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<b>Reconciliation to the statement of net assets:</b>	
Cash and investments	\$ 825,910
Restricted cash and investments	822,243
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Total cash and cash equivalents	\$ 1,648,153
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The accompanying notes are an integral part of these financial statements.

**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
STATEMENT OF CASH FLOWS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**Reconciliation of operating loss to net cash**

**provided by operating activities:**

Operating loss	\$	(170,395)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation		1,097,358
Change in assets and liabilities:		
Increase in accounts receivable		(54,870)
Decrease in accounts payable and accrued expenses		(31,208)
Net cash provided by operating activities	\$	840,885

**Non-cash investing, capital and financing activities:**

Capital assets acquired through accounts payable	\$	3,479
Donated capital assets - dedicated sewer easement		5,000
Capitalized interest		159,425

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

**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**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 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.

**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 assets. 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 (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**Note B. Summary of Significant Accounting Policies (Continued)**

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

The District has elected under Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncement of the Financial Accounting Standards Board or any Accounting Research Bulletins issued on or before November 20, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The GASB periodically updates its codification of existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. Governments have the option of following private-sector guidance issued subsequent to November 30, 1989, as such, the District has elected not to follow private-sector guidance subsequent to November 30, 1989.

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 (the 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 assets 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.

**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**Note B. Summary of Significant Accounting Policies (Continued)**

*Cash and Investments (Continued)*

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.

*Accounts Receivable*

Accounts receivable consists of uncollected fees for sanitation services and flat charges as of June 30, 2012. 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 does not record an allowance for uncollectible receivables as it deems all receivables as fully collectible.

*Restricted Assets*

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

**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**Note B. Summary of Significant Accounting Policies (Continued)**

*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.

*Net Assets*

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, 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 assets are reported as restricted when there are limitations imposed on their use, either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulation of other governments.

*Budget and Budgetary Accounting*

The Board adopts a budget annually to be effective July 1<sup>st</sup> for the ensuing fiscal year for the District. The general manager of 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.

**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**Note B. Summary of Significant Accounting Policies (Continued)**

Property taxes are recognized as revenue when 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.

**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.

**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**Note C. Cash and Investments (Continued)**

Permitted investments include the following:

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

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, 2012, the District's investments consisted of \$1,648,153 in the Treasury Pool managed by the Treasurer, which is not rated by credit rating agencies, and had a weighted average maturity of 1,176 days. The credit rating and other information regarding specific investments maintained in the Treasury Pool as of June 30, 2012 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.

**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**Note C. Cash and Investments (Continued)**

*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, 2012, all of the District's investments were in the Treasury Pool and are therefore not exposed to custodial credit risk.

*Credit Risk*

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District follows the County's policy to purchase investments with the minimum ratings required by the California Government Code. The credit rating and other information regarding the Treasury Pool for the fiscal year ended June 30, 2012 are disclosed in the County's Comprehensive Annual Financial Report.

**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**Note D Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2012 was as follows:

	July 1, 2011	Additions	Retirements	June 30, 2012
Capital assets, not being depreciated:				
Land	\$ 223,833	\$ -	\$ -	\$ 223,833
Intangibles	268	5,000		5,268
Construction in progress	2,400,227	3,349,345	-	5,749,572
Total capital assets, not being depreciated	2,624,328	3,354,345	-	5,978,673
Capital assets, being depreciated:				
Buildings and improvements	44,695,231	-	-	44,695,231
Machinery and equipment	109,285	45,438	-	154,723
				-
Less: accumulated depreciation for				
Buildings and improvements	(21,396,697)	(1,081,653)	-	(22,478,350)
Machinery and equipment	(13,866)	(15,705)	-	(29,571)
Total capital assets, being depreciated, net	23,393,953	(1,051,920)	-	22,342,033
Total capital assets, net	\$ 26,018,281	\$ 2,302,425	\$ -	\$ 28,320,706

Depreciation expense amounted to \$1,097,358 for the fiscal year ended June 30, 2012.

The total amount of interest capitalized in connection with wastewater treatment facilities construction projects during the fiscal year ended June 30, 2012 was \$159,425.

**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**Note E. Long-Term Obligations**

*Advances from other governments:*

During 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, 2012, the outstanding balance on the loan is \$2,679,394. 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. Payments are secured by a pledge of net revenues earned by the District. Annual debt service requirements to maturity for this loan are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2013	\$ 176,969	\$ 66,985	\$ 243,954
2014	181,394	62,560	243,954
2015	185,928	58,026	243,954
2016	190,577	53,377	243,954
2017	195,341	48,613	243,954
2018-2022	1,052,446	167,325	1,219,771
2023-2025	696,739	35,124	731,863
<b>Total</b>	<b>\$ 2,679,394</b>	<b>\$ 492,010</b>	<b>\$ 3,171,404</b>

*General Obligation Bonds*

The District issued general obligation bonds to provide funds for the acquisition and construction of major capital facilities. The original amount of general obligation bonds issued was \$2,900,000. General obligation bonds are direct obligations and pledge the full faith and credit of the District. General obligation bonds outstanding as of June 30, 2012 were \$875,000 at an annual interest rate of 5% 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 follows:

**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

*General Obligation Bonds*

Fiscal Year Ending June 30,	Principal	Interest	Total
2013	\$ -	\$ 21,875	\$ 21,875
2014	130,000	40,500	170,500
2015	135,000	33,875	168,875
2016	140,000	27,000	167,000
2017	150,000	19,750	169,750
2018-2019	320,000	16,250	336,250
<b>Total</b>	<b>\$ 875,000</b>	<b>\$ 159,250</b>	<b>\$ 1,034,250</b>

*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% 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 10% of net revenues. The total principal outstanding on the 1981 Revenue Bonds as of June 30, 2012 is \$775,000 and scheduled interest payments total \$184,500 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, 2012 and total customer net revenues were \$117,500 and \$1,190,788 respectively. Revenue bond debt service requirements to maturity are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2013	\$ 80,000	\$ 38,750	\$ 118,750
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
2018-2020	325,000	33,250	358,250
<b>Total</b>	<b>\$ 775,000</b>	<b>\$ 184,500</b>	<b>\$ 959,500</b>

**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

Long-term obligation activity for the year ended June 30, 2012 was as follows:

	July 1, 2011	Additions	Retirements	June 30, 2012	Due Within One Year
Advances from					
other governments	\$ 2,852,047	\$ -	\$ (172,653)	\$ 2,679,394	\$ 176,969
General obligation bonds	995,000	-	(120,000)	875,000	-
Revenue bonds	850,000	-	(75,000)	775,000	80,000
<b>Total</b>	<b>\$ 4,697,047</b>	<b>\$ -</b>	<b>\$ (367,653)</b>	<b>\$ 4,329,394</b>	<b>\$ 256,969</b>

**Note F. Accrued Interest Payable**

Interest payable as of June 30, 2012 consists of interest accrued on the State Water Resources Control Board loan of \$39,074 and the revenue bonds of \$9,688.

**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 \$2,273,242 to the Water Agency for administrative support during the fiscal year ended June 30, 2012.

**Note H. Commitments and Contingencies**

*Commitments*

The District has active construction projects as of June 30, 2012. The projects include expansion and/or improvements of several wastewater treatment facilities. As of June 30, 2012, the District's commitments to construction projects included \$5,749,572 spent to date with remaining commitments of \$14,998 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 (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**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 completion of the compliance project mentioned above. Construction of the compliance project has been completed and the District is awaiting final approval.

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 has been completed and is awaiting final approval.

Administrative Civil Liability (ACL) Complaint Order No. R1-2010-0011: The ACL was adopted on April 8, 2011 and applies mandatory minimum penalties for various effluent limitation exceedances from June 1, 2007 through March 19, 2009. In February 2010, \$6,000 of the mandatory minimum penalty was paid by the District directly to the State Water Pollution Cleanup and Abatement Account and the remaining penalties were allowed to be applied to the completion of the compliance project (\$39,000). In addition, a new compliance schedule for completion of the compliance project noted above was established allowing for final completion by December 31, 2012. Construction of the compliance project has been completed.

**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

*Other Regulatory Matters*

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

**Note 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 \$610,000,000 per occurrence for All Risk, \$602,500,000 for flood and \$82,500,000 per occurrence for earthquake. Deductibles for most perils are \$50,000 per occurrence, with flood at \$200,000 per county per occurrence and earthquake at 5% of total insured values per unit, per occurrence, subject to a \$500,000 minimum per occurrence. For losses within the deductible, the County maintains a deductible self-insured pool for losses in excess of \$5,000.

The Sonoma County Water Agency pays an annual premium to the County for this insurance on behalf of the District. The Water Agency recovers this cost as a component of the administrative support charges to the District.

**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**Note J. Future Governmental Accounting Standards**

The Governmental Accounting Standards Board (GASB) has released the following new standards:

*GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, issued in December 2010. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

This Statement also supersedes Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement. GASB Statement No. 62 is effective for financial statements for fiscal years beginning after December 15, 2011.

*GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, issued in June 2011. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. *Concepts Statement No. 4, Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. GASB Statement No. 63 is effective for financial statements for fiscal years beginning after December 15, 2011.

**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**Note J. Future Governmental Accounting Standards (Continued)**

*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 Statements*. GASB Statement No. 65 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***

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

We have audited the basic financial statements of 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, 2012, and have issued our report thereon dated October 19, 2012. 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.

**Internal Control Over Financial Reporting**

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's basic 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 basic 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)**

We noted certain matters that we reported to management of the District in a separate letter dated October 19, 2012.

This report is intended solely for the information and use of the board of directors, management, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

*PricewaterhouseCoopers LLP*

Petaluma, California  
October 19, 2012