

**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, 2014

**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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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, 2014, 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, 2014, 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 September 30, 2014, 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* in considering the District's internal control over financial reporting and compliance.

*PricewaterhouseCoopers LLP*

Petaluma, California  
September 30, 2014

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

**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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, 2014. 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 \$26,432,385 (*net position*). Of this amount, \$2,200,292 (*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 \$4,237,733 during the fiscal year ended June 30, 2014. Of this amount, \$3,984,768 consists of operating revenues including flat charges and charges for services, \$220,517 of nonoperating revenues consisting of investment income (\$99,188) and property taxes (\$121,329). Capital contributions consisted of connection fees (\$20,448) and dedicated easements (\$12,000).

*Expenses*

The District incurred expenses totaling \$5,826,022 during the fiscal year ended June 30, 2014. Of this amount \$5,041,743 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 \$116,369 related to the District's long-term debt obligations, along with a \$594,904 loss on impairment of capital assets due to abandoning capitalized costs from the Russian River equalization basin project, and \$72,081 in accrued expenses payable for a refund owed as a result of the event closeout for the 2005/06 flood. As well, \$925 in expenses towards the District's conservation program were incurred.

**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

*Change in Net Position*

The District recorded an operating loss of \$1,056,975 for the fiscal year ended June 30, 2014, while recognizing an overall decrease in net position of \$1,588,289.

**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 \$26,432,385 at the close of the most recent fiscal year compared to net position of \$28,020,674 as of June 30, 2013. The primary reasons for the \$1,588,289 decrease in net position were an operating loss of \$1,056,975 and the District's recognition of a loss on impairment of capital assets from an abandoned capital project with costs totaling \$594,904.

The largest portion of the District's net position (87.5% as of June 30, 2014 compared to 79.1% for June 30, 2013) reflects its investment in capital assets (e.g., land, easements, infrastructure, machinery and equipment, and construction in progress), 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, 2014**

**Financial Analysis (Continued)**

*Condensed Statements of Net Position*

	June 30, 2013	June 30, 2014	Percentage Change
Current and other assets	\$ 5,948,644	\$ 3,595,459	-39.6%
Capital assets, net	27,945,951	28,504,586	2.0%
<b>Total Assets</b>	<b>33,894,595</b>	<b>32,100,045</b>	<b>-5.3%</b>
Current liabilities	431,747	714,606	65.5%
Noncurrent liabilities	5,442,174	4,953,054	-9.0%
<b>Total Liabilities</b>	<b>5,873,921</b>	<b>5,667,660</b>	<b>-3.5%</b>
<b>Net position:</b>			
Net investment in capital assets	22,161,174	23,125,331	4.4%
Restricted for debt service	932,390	888,086	-4.8%
Restricted for capital projects	196,952	218,676	11.0%
Unrestricted	4,730,158	2,200,292	-53.5%
<b>Total Net Position</b>	<b>\$ 28,020,674</b>	<b>\$ 26,432,385</b>	<b>-5.7%</b>

A portion of the District's net position, \$1,106,762 (4.2% as of June 30, 2014) represents resources that are subject to external restrictions on how they may be used. The balance of unrestricted net position of \$2,200,292 as of June 30, 2014 may be used to meet the District's ongoing obligations to citizens and creditors. As of June 30, 2014, 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, 2014**

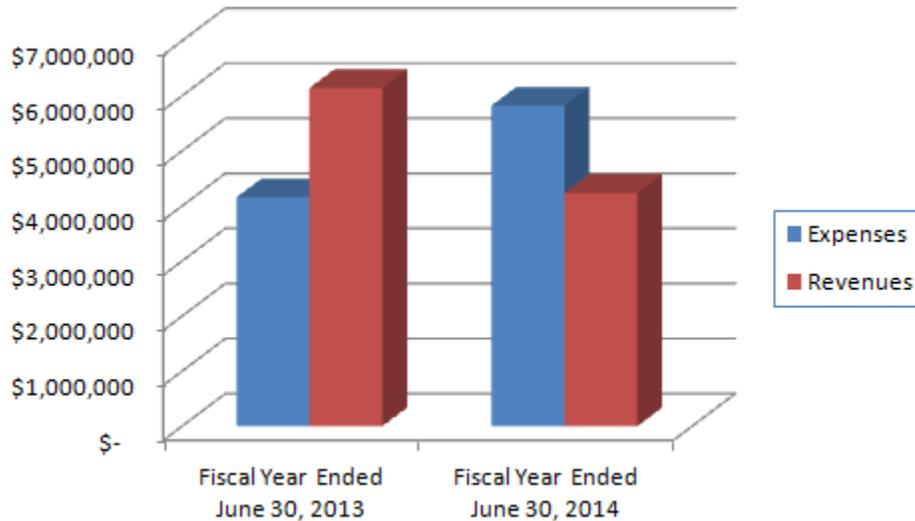
*Condensed Statements of Changes in Net Position*

	<b>Fiscal Year Ended</b>		<b>Percentage Change</b>
	<b>June 30, 2013</b>	<b>June 30, 2014</b>	
<b>Revenues</b>			
Operating revenues	\$ 3,847,481	\$ 3,984,768	3.6%
Nonoperating revenues:			
Property taxes	286,158	121,329	-57.6%
Investment earnings	59,868	99,188	65.7%
<b>Total revenues</b>	<b>4,193,507</b>	<b>4,205,285</b>	<b>0.3%</b>
<b>Expenses</b>			
Services and supplies	3,045,510	3,705,465	21.7%
Fiscal agent fees and legal services	1,391	5,367	285.8%
Depreciation	1,104,665	1,330,911	20.5%
Loss on impairment of capital assets	-	594,904	100.0%
Conservation program	125	925	640.0%
Refund - 2005/06 flood event closeout	-	72,081	100.0%
Interest expense	8,583	116,369	1255.8%
<b>Total expenses</b>	<b>4,160,274</b>	<b>5,826,022</b>	<b>40.0%</b>
Income (loss) before contributions	33,233	(1,620,737)	-4976.9%
Capital contributions - connection fees	8,987	20,448	127.5%
Capital contributions - state and federal	1,942,225	-	-100.0%
Capital contributions - dedicated sewer easement	-	12,000	100.0%
Increase (decrease) in net position	1,984,445	(1,588,289)	-180.0%
<b>Net position, beginning of year</b>	<b>26,036,229</b>	<b>28,020,674</b>	<b>7.6%</b>
<b>Net position, end of year</b>	<b>\$ 28,020,674</b>	<b>\$ 26,432,385</b>	<b>-5.7%</b>

The District's net position decreased by \$1,588,289 during the fiscal year ended June 30, 2014 compared to an increase of \$1,984,445 during the fiscal year ended June 30, 2013.

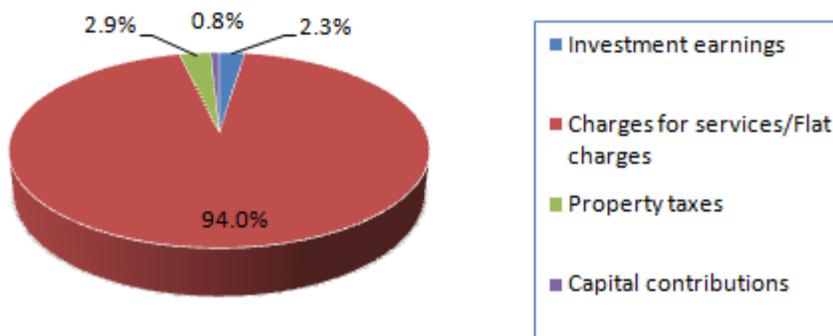
**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

*Expenses and Revenues*



Total revenues, including capital contributions, of the District for the fiscal year ended June 30, 2014 totaled \$4,237,733 representing a decrease of \$1,906,986 from the preceding fiscal year revenues of \$6,144,719. The rate based charges for services, representing 94.0% of the District's total revenue, increased by \$137,287; property taxes, representing 2.9% of the District's total revenue, decreased by \$164,829. Investment earnings increased from the preceding year by \$39,320. The District also received capital contributions totaling \$32,448 which was comprised of connection fees of \$20,448 and dedicated easements of \$12,000. The combined effect overall was a decrease in revenues, including capital contributions, of 31.0% for the fiscal year ended June 30, 2014.

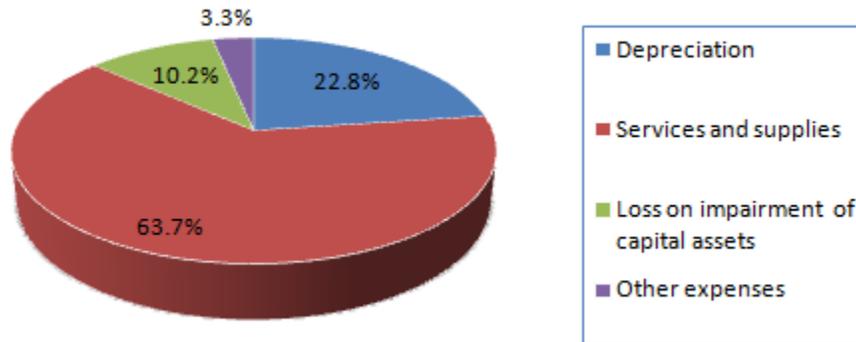
*Revenues by Source*



Total expenses for the District increased by \$1,665,748 to \$5,826,022 for the fiscal year ended June 30, 2014. A \$594,904 loss on impairment of capital assets and \$72,081 in accrued expenses related to close out of the fiscal 2005-06 flood event were large factors in the increase. As well, interest expense increased \$107,786 to \$116,369 due primarily to a lesser amount of interest that was capitalized during the fiscal year ended June 30, 2014. Conservation Program expenses increased \$800 to \$925 due to a higher volume of plumbing rebates issued during the prior fiscal year. Services and supplies expenses, which reflect costs associated with the collection, treatment, and disposal of effluent increased \$663,931 (21.8%) to \$3,710,832 due primarily to increases in operations and maintenance costs. The overall effect of these occurrences is an increase in expenses of 40.0%.

**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

*Expenses by Function*



**Capital Asset and Debt Administration**

*Capital Assets*

The District's net investment in capital assets as of June 30, 2014 amounts to \$28,504,586 (net of accumulated depreciation). In addition to reporting the District's investment in capital assets including land, infrastructure 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 and temporary easements.

*Russian River County Sanitation District's Capital Assets*

	June 30, 2013	June 30, 2014	Percentage Change
Land	\$ 223,833	\$ 223,833	0.0%
Intangible assets	5,268	7,355	39.6%
Construction in progress	1,993,409	3,841,964	92.7%
Buildings and improvements	49,172,519	-	-100.0%
Infrastructure	-	49,184,519	100.0%
Machinery and equipment	163,508	190,412	16.5%
Accumulated depreciation	(23,612,586)	(24,943,497)	5.6%
<b>Total</b>	<b>\$ 27,945,951</b>	<b>\$ 28,504,586</b>	<b>2.0%</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, 2014**

*Long-term Obligations*

At June 30, 2014, the District had a total of \$5,307,174 in outstanding debt consisting of general obligation bonds, revenue bonds, and advances from other governments. Of this amount, \$610,000 comprises debt backed by the full faith and credit of the District, \$610,000 represents special obligations of the District payable solely from net revenues of the District's operations, and \$4,087,174 is related to advances from the State Water Resources Control Board.

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

	June 30, 2013	June 30, 2014	Percentage Change
General obligation bonds	\$ 745,000	\$ 610,000	-18.1%
Revenue bonds	695,000	610,000	-12.2%
Advances from other governments	4,344,777	4,087,174	-5.9%
<b>Total long-term debt</b>	<b>\$ 5,784,777</b>	<b>\$ 5,307,174</b>	<b>-8.3%</b>

The District's total debt decreased by \$477,603 during the fiscal year ended June 30, 2014.

Advances from other governments decreased by \$257,603 (5.9%) due regular annual principal payments 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, 2015 have decreased by \$4,298,333 (44.5%) for a total of \$5,351,119. One major component of the decrease in budgeted expenses is for labor and overhead related to operations and maintenance costs for collection, treatment, and disposal of effluent. The other major component is a decrease in budgeted capital costs associated with the biological nutrient removal project.

**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

Following is a comparison of the final budget for the fiscal year ended June 30, 2014 and the proposed budgeted expenses for the District for the fiscal year ending June 30, 2015.

	<b>Fiscal Year Ending June 30, 2014</b>	<b>Fiscal Year Ending June 30, 2015</b>	<b>Increase / (Decrease)</b>	<b>Percentage Change</b>
Operations	\$ 6,029,960	\$ 4,979,067	\$ (1,050,893)	-17.4%
Debt service - general obligation bonds	37,302	37,302	-	0.0%
Debt service - revenue bonds	34,750	34,750	-	0.0%
Construction	3,547,440	300,000	(3,247,440)	-91.5%
<b>Total</b>	<b>\$ 9,649,452</b>	<b>\$ 5,351,119</b>	<b>\$ (4,298,333)</b>	<b>-44.5%</b>

Budgeted expenses for fiscal year ended June 30, 2014 differ in several instances from the budgeted expenses presented in the management's discussion and analysis for the period ended June 30, 2013. 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, 2013.

The Districts sewer service fees were increased for the 2014-2015 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.

	<b>Fiscal Year Ending June 30, 2014</b>	<b>Fiscal Year Ending June 30, 2015</b>	<b>Percentage Change</b>
Rate per Equivalent Single-Family Dwelling	\$ 1,253	\$ 1,297	3.5%
Number of Equivalent Single-Family Dwellings	3,207	3,200	-0.2%

**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, 2014**

**ASSETS**

Current assets:

Cash and investments	\$ 1,943,359
Accounts receivable	221,408
Restricted cash and investments	
General obligation bond fund	269,495
Revenue bond reserve fund	121,250
Revenue bond fund	376,013
Loan reserve fund	128,953
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Total current assets	3,060,478
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Noncurrent assets:

Cash and investments restricted for capital projects	218,676
Accounts receivable, noncurrent portion	316,305
Capital assets not being depreciated:	
Land	223,833
Intangible assets	7,355
Construction in progress	3,841,964
Capital assets, net of accumulated depreciation:	
Infrastructure	24,318,997
Machinery and equipment	112,437
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Total capital assets (net of accumulated depreciation and amortization)	28,504,586
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Total noncurrent assets	29,039,567
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Total assets	32,100,045
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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, 2014**

**LIABILITIES**

Current liabilities

Accounts payable and accrued expenses	237,365
Advances from other governments, current portion	336,201
Accrued interest payable	43,415
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Total current liabilities	616,981
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Current liabilities payable from restricted assets

Revenue bonds payable	90,000
Accrued interest payable	7,625
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Total current liabilities payable from restricted assets	97,625
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Noncurrent liabilities

Advances from other governments	3,823,054
General obligation bonds payable	610,000
Revenue bonds payable	520,000
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Total noncurrent liabilities	4,953,054
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Total liabilities	5,667,660
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**NET POSITION**

Net investment in capital assets	23,125,331
Restricted for debt service	888,086
Restricted for capital projects	218,676
Unrestricted	2,200,292
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Total net position	\$ 26,432,385
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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, 2014**

<b>Operating revenues</b>	
Flat charges	\$ 3,953,841
Charges for services	30,927
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Total operating revenues	3,984,768
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<b>Operating expenses</b>	
Services and supplies	3,705,465
Fiscal agent fees and legal services	5,367
Depreciation	1,330,911
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Total operating expenses	5,041,743
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<b>Operating loss</b>	<b>(1,056,975)</b>
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<b>Nonoperating revenues (expenses)</b>	
Investment income	99,188
Interest expense	(116,369)
Conservation program expense	(925)
Loss on impairment of capital assets	(594,904)
Refund - 2005/06 flood event closeout	(72,081)
Property taxes	121,329
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Total nonoperating expenses, net	(563,762)
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<b>Loss before capital contributions</b>	<b>(1,620,737)</b>
Capital contribution - connection fees	20,448
Capital contribution - dedicated sewer easement	12,000
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<b>Decrease in net position</b>	<b>(1,588,289)</b>
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<b>Net position - beginning of year</b>	<b>28,020,674</b>
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<b>Net position - end of year</b>	<b>\$ 26,432,385</b>
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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, 2014**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from customers	\$	4,019,163
Payments to Water Agency		(2,449,935)
Payments to suppliers		(1,231,351)

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Net cash provided by operating activities		337,877
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**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Taxes received		121,329
Conservation program outlays		(925)

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Net cash provided by noncapital financing activities		120,404
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**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Purchases of capital assets		(2,236,643)
Principal payments - advances from other governments		(257,603)
Principal payments - bonds		(220,000)
Interest paid on capital debt		(182,461)
Connection fees received		23,223

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Net cash used in capital and related financing activities		(2,873,484)
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**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest received on pooled cash and investments		99,408
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Net decrease in cash and cash equivalents		(2,315,795)
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Cash and cash equivalents - beginning of year		5,373,541
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Cash and cash equivalents - end of year	\$	3,057,746
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**Reconciliation to the statement of net position:**

Cash and investments	\$	1,943,359
Restricted cash and investments		1,114,387

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Total cash and cash equivalents	\$	3,057,746
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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, 2014**

**Reconciliation of operating loss to net cash  
provided by operating activities:**

Operating loss	\$ (1,056,975)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	1,330,911
Change in assets and liabilities:	
Decrease in accounts receivable	34,395
Increase in accounts payable and accrued expenses	29,546
<b>Net cash provided by operating activities</b>	<b>\$ 337,877</b>

Non-cash investing, capital and financing activities:

Capital assets acquired through accounts payable	\$ 184,089
Capitalized interest	61,984
Reduction in capital assets due to impairments recognized	594,904

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, 2014**

**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, 2014**

**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, 2014**

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

*Accounts Receivable*

Accounts receivable consists of uncollected fees for sanitation services and flat charges at the end of the year. 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 infrastructure. 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. Infrastructure is 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 at the time of receipt and are not amortized.

**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

*Deferred outflows/inflows of resources*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until then. The District did not have any items that qualified for reporting in this category as of June 30, 2014.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The District did not have any items that qualified for reporting in this category as of June 30, 2014.

*Net Position*

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

*Budget and Budgetary Accounting*

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

**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

*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.

**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  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**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, 2014, the fair value of the District's cash and investments was \$3,057,746 which includes an unrealized gain fair value adjustment of \$24,458. Funds are held in the Treasury Pool managed by the Treasurer, which is not rated by credit rating agencies, and had a weighted average maturity of 791 days. The credit rating and other information regarding specific investments maintained in the Treasury Pool as of June 30, 2014 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  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**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, 2014, 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 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, 2014 are disclosed in the County's Comprehensive Annual Financial Report.

**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**Note D. Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2014 was as follows:

	July 1, 2013	Increases	Decreases	Transfers & Reclassification	June 30, 2014
Capital assets, not being depreciated:					
Land	\$ 223,833	\$ -	\$ -	\$ -	\$ 223,833
Intangibles	5,268	2,087	-	-	7,355
Construction in progress	1,993,409	2,443,459	(594,904)	-	3,841,964
Total capital assets, not being depreciated	2,222,510	2,445,546	(594,904)	-	4,073,152
Capital assets, being depreciated:					
Buildings and improvements	49,172,519	-	-	(49,172,519)	-
Infrastructure	-	12,000	-	49,172,519	49,184,519
Machinery and equipment	163,508	26,904	-	-	190,412
Less: accumulated depreciation for					
Buildings and improvements	(23,560,004)	-	-	23,560,004	-
Infrastructure	-	(1,305,518)	-	(23,560,004)	(24,865,522)
Machinery and equipment	(52,582)	(25,393)	-	-	(77,975)
Total capital assets, being depreciated, net	25,723,441	(1,292,007)	-	-	24,431,434
Total capital assets, net	\$ 27,945,951	\$ 1,153,539	\$ (594,904)	\$ -	\$ 28,504,586

During the fiscal year ended June 30, 2014, the District reclassified as infrastructure its collection and treatment systems which were previously classified as buildings and improvements. Depreciation expense amounted to \$1,330,911 for the fiscal year ended June 30, 2014.

The District reported a \$594,904 expense during the fiscal year ended June 30, 2014 for a loss on impairment from the Russian River equalization basin project which was abandoned in order to pursue a more cost effective project.

The total amount of interest capitalized in connection with wastewater treatment facilities construction projects during the fiscal year ended June 30, 2014 was \$61,984.

**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**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, 2014, the outstanding balance on the loan is \$2,321,031. 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
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	205,230	38,724	243,954
2020-2024	1,105,726	114,045	1,219,771
2025	238,003	5,950	243,953
<b>Total</b>	<b>\$ 2,321,031</b>	<b>\$ 362,464</b>	<b>\$ 2,683,495</b>

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, 2014, the outstanding balance on the loan is \$1,766,143. 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, 2014**

**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,				
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		86,646	37,465	124,111
2020-2024		468,214	152,339	620,553
2025-2029		532,330	88,223	620,553
2030-2032		353,778	18,554	372,332
<b>Total</b>	<b>\$</b>	<b>1,766,143</b>	<b>\$ 467,850</b>	<b>\$ 2,233,993</b>

Advances from other governments, current portion additionally includes \$72,081 in accrued expenses for a refund due to other governments as a result of the event closeout for the 2005/06 flood.

*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, 2014 were \$610,000 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, 2014**

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

*General Obligation Bonds (continued)*

Fiscal Year Ending		Principal	Interest	Total
June 30,				
2015	\$	-	\$ 33,875	\$ 33,875
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
<b>Total</b>	<b>\$</b>	<b>610,000</b>	<b>\$ 96,875</b>	<b>\$ 706,875</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 5.0% 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 32% of net revenues. The total principal outstanding on the 1981 Revenue Bonds as of June 30, 2014 is \$610,000 and scheduled interest payments total \$111,000 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, 2014 and total customer net revenues were \$119,750 and \$373,124 respectively.

Revenue bond debt service requirements to maturity are as follows:

Fiscal Year Ending		Principal	Interest	Total
June 30,				
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		110,000	11,250	121,250
2020		115,000	5,750	120,750
<b>Total</b>	<b>\$</b>	<b>610,000</b>	<b>\$ 111,000</b>	<b>\$ 721,000</b>

**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

Long-term obligation activity for the year ended June 30, 2014 was as follows:

	<b>July 1, 2013</b>	<b>Additions</b>	<b>Retirements</b>	<b>June 30, 2014</b>	<b>Due Within One Year</b>
Advances from					
other governments	\$ 4,344,777	\$ -	\$ (257,603)	\$4,087,174	\$ 264,120
General obligation bonds	745,000	-	(135,000)	610,000	-
Revenue bonds	695,000	-	(85,000)	610,000	90,000
<b>Total</b>	<b>\$ 5,784,777</b>	<b>\$ -</b>	<b>\$ (477,603)</b>	<b>\$5,307,174</b>	<b>\$ 354,120</b>

**Note F. Accrued Interest Payable**

Interest payable as of June 30, 2014 consists of interest accrued on the State Water Resources Control Board loans of \$43,415 and the revenue bonds of \$7,625.

**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 \$2,449,935 to the Water Agency for administrative support during the fiscal year ended June 30, 2014.

**Note H. Commitments and Contingencies**

*Commitments*

The District has active construction projects as of June 30, 2014. The projects include expansion and/or improvements of several wastewater treatment facilities. As of June 30, 2014, the District's commitments to construction projects included \$3,841,964 spent to date with remaining commitments of \$719,757 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, 2014**

**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.

On August 14, 2014, the NC Regional Board issued CDO R1-2014-0034. The CDO specifies compliance schedules for actions necessary to achieve final land discharge specifications for total dissolved solids and sodium and to ensure compliance with groundwater limitations and discharge prohibitions specified in Order No. R1-2014-0002.

- The NC Regional Board has informed RRCSD that an ACL for effluent limit violations under Order No. R1-2009-0003 for the period of 10/1/2009 thru 2/28/2014 will be issued within the next several months. It is expected that the ACL will also include fines for the February 13, 2014 spill that discharged approximately 134,000 gallons to the Russian River. Minimum mandatory penalties for the effluent limit violations are estimated in the range of \$50,000 to \$150,000.

*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, 2014**

**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 \$80,000,000 per occurrence for earthquake. Deductibles for these perils are \$50,000 per occurrence.

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

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

**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, 2014, 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 September 30, 2014.

**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 September 30, 2014.

*PricewaterhouseCoopers LLP*

Petaluma, California  
September 30, 2014