

**RUSSIAN RIVER COUNTY  
SANITATION DISTRICT**

Independent Auditor's Reports, Management's  
Discussion and Analysis and Basic  
Financial Statements

For the Fiscal Year Ended June 30, 2010

**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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

### **INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying basic financial statements of Russian River County Sanitation District (District), a component unit of the County of Sonoma, California, as of and for the fiscal year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether 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, 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 financial statements referred to previously present fairly, in all material respects, the financial position of the District as of June 30, 2010, and the changes in its financial position and its cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America

In accordance with *Government Auditing Standards*, we have issued our report dated November 4, 2010 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 considered in assessing the results of our audit.

The management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Maclean Meiri & O'Connell LLP*

Certified Public Accountants

Sacramento, California

November 4, 2010

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

**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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, 2010. We encourage readers to consider the information presented here in conjunction with the District's financial statements (pages 11-15) and the accompanying notes to the financial statements (pages 16 -28).

**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 \$26,001,225 (*net assets*). Of this amount, \$4,268,364 (*unrestricted net assets*) may be used to meet the District's ongoing obligations to citizens and creditors.

*Revenues*

The District recognized total revenues of \$3,907,268 during the fiscal year ended June 30, 2010. Of this amount, \$3,481,054 consists of operating revenues including charges for services and a refund from the Water Agency, and \$426,214 of nonoperating revenues consisting of investment earnings, property taxes, and intergovernmental revenue.

*Expenses*

The District incurred expenses totaling \$4,113,408 during the fiscal year ended June 30, 2010. Of this amount \$3,758,166 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 \$100,214 related to the District's long-term debt obligations, and conservation program expenses of \$255,028.

*Increase in Net Assets*

The District recorded an operating loss of \$277,112 for the fiscal year ended June 30, 2010, while recognizing an overall decrease in net assets of \$206,140.

**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the District's financial statements. The District's financial statements are comprised of three components: (1) management's discussion and analysis, (2) financial statements, and (3) notes to the basic financial statements.

*Management's Discussion and Analysis*

*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. The notes to the basic financial statements can be found on pages 16 - 28.

**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 \$26,001,225 at the close of the most recent fiscal year compared to net assets of \$26,207,365 as of June 30, 2009. The primary reason for the \$206,140 decrease in net assets was an increase of \$247,364 in conservation program expenses compared to the prior fiscal year.

The largest portion of the District's net assets (81.1% as of June 30, 2010 compared to 81.8% for June 30, 2009) 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, 2010**

**Financial Analysis (Continued)**

*Condensed Statements of Net Assets*

	June 30, 2009	June 30, 2010	Percentage Change
Current and other assets	\$ 4,850,298	\$ 5,029,697	3.7%
Capital assets	26,841,483	26,151,064	-2.6%
<b>Total Assets</b>	<b>31,691,781</b>	<b>31,180,761</b>	<b>-1.6%</b>
Current liabilities	318,927	367,488	15.2%
Noncurrent liabilities	5,165,489	4,812,048	-6.8%
<b>Total Liabilities</b>	<b>5,484,416</b>	<b>5,179,536</b>	<b>-5.6%</b>
Invested in capital assets, net of related debt	21,441,660	21,095,574	-1.6%
Restricted for conservation	42,336	-	-100.0%
Restricted for debt service	632,172	637,287	0.8%
Unrestricted	4,091,197	4,268,364	4.3%
<b>Total Net Assets</b>	<b>\$ 26,207,365</b>	<b>\$ 26,001,225</b>	<b>-0.8%</b>

A portion of the District's net assets \$637,287 (2.5% as of June 30, 2010) represents resources that are subject to external restrictions on how they may be used. The balance of unrestricted net assets of \$4,268,364 as of June 30, 2010 may be used to meet the District's ongoing obligations to citizens and creditors. As of June 30, 2010, the District reports positive balances in all categories of net assets.

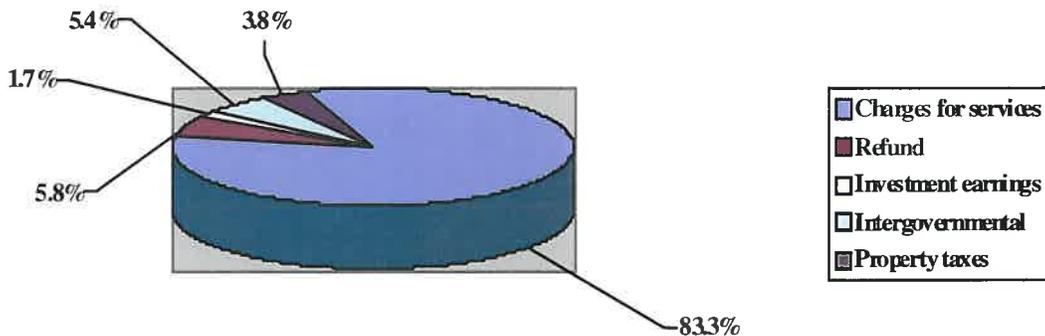
**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

*Condensed Statements of Changes in Net Assets*

	Fiscal Year Ended		Percentage Change
	June 30, 2009	June 30, 2010	
<b>Revenues</b>			
Operating revenues	\$ 3,040,232	\$ 3,481,054	14.5%
Nonoperating revenues:			
Property taxes	178,891	147,768	-17.4%
Investment earnings	130,324	66,637	-48.9%
Intergovernmental	50,007	211,809	323.6%
<b>Total revenues</b>	<b>3,399,454</b>	<b>3,907,268</b>	<b>14.9%</b>
<b>Expenses</b>			
Services and supplies	2,384,759	2,724,458	14.2%
Fiscal agent fees and legal services	6,703	3,206	-52.2%
Depreciation	1,026,982	1,030,502	0.3%
Conservation program	7,664	255,028	3227.6%
Interest expense	129,033	100,214	-22.3%
<b>Total expenses</b>	<b>3,555,141</b>	<b>4,113,408</b>	<b>15.7%</b>
Loss before contributions	(155,687)	(206,140)	32.4%
Capital contributions - connection fees	5,212	-	-100.0%
Decrease in net assets	(150,475)	(206,140)	37.0%
<b>Net assets, beginning of year</b>	<b>26,357,840</b>	<b>26,207,365</b>	<b>-0.6%</b>
<b>Net assets, end of year</b>	<b>\$ 26,207,365</b>	<b>\$ 26,001,225</b>	<b>-0.8%</b>

The District's net assets decreased by \$206,140 during the fiscal year ended June 30, 2010 compared to a decrease of \$150,475 during the fiscal year ended June 30, 2009.

*Expenses and Revenues*

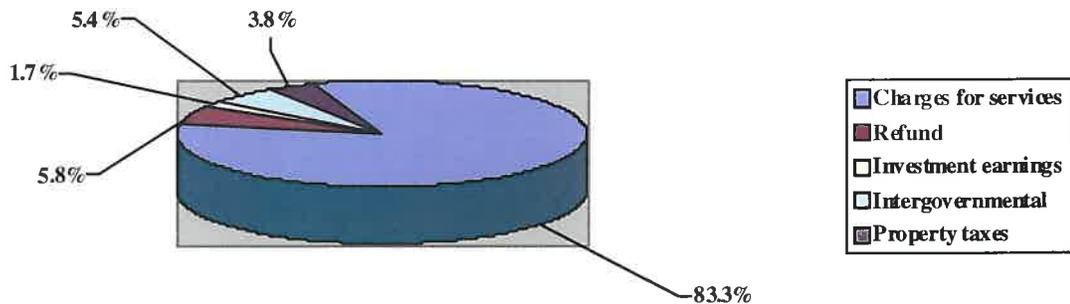


**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Total revenues, including capital contributions, of the District for the fiscal year ended June 30, 2010 totaled \$3,907,268 representing an increase of \$502,602 from the preceding fiscal year revenues of \$3,404,666. The rate based charges for services, representing 83.3% of the District's total revenue, increased by \$215,725 (7.1%) primarily as a result of a 5.0% rate increase from the prior fiscal year; property taxes, representing 4.3% of the District's total revenue, decreased by \$31,123 due to decreases in assessed values of properties within the District. Investment earnings decreased from the preceding year by \$63,687 as a result of a lower rate of return on District pooled cash than the previous year. The majority of the District's intergovernmental revenue was received from the Water Agency towards the District's conservation program totaling \$190,000 and represented 4.9% of the District's annual revenue. The District also received a refund from the Water Agency for prior year overhead and equipment charges totaling \$225,097. The combined effect was an overall increase in revenues, including capital contributions, of 14.8% for the fiscal year ended June 30, 2010.

Total expenses for the District increased by \$558,267 to \$4,113,408 for the fiscal year ended June 30, 2010. Interest expense decreased \$28,819 (22.3%). Conservation Program expenses increased \$247,364 due to a high volume of plumbing rebates issued. Services and supplies expenses increased \$339,699 (14.2%) due primarily to increases in administrative costs paid to the Water Agency, increased consultant services costs related to GIS system development and increased testing/analysis costs. The overall effect of these occurrences is an increase in expenses of 15.7%.

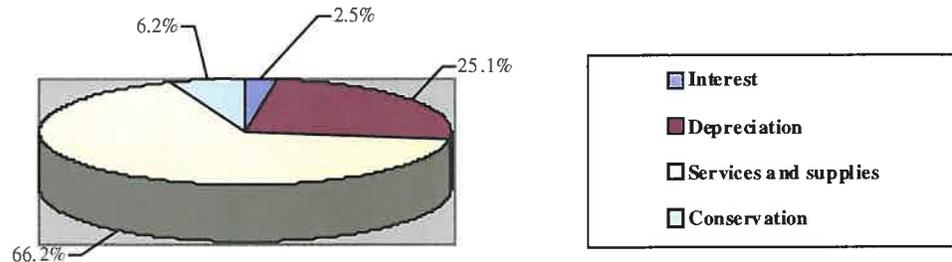
*Revenues by Source*



As previously mentioned, total revenues earned by the District for the fiscal year ended June 30, 2010 totaled \$3,907,268. Of this amount \$3,255,957 or 83.3%, was generated through flat charges and charges for services. These charges represent sewer services charges to cover operations and maintenance costs, which are initially collected through the permitting process, then subsequently through the tax rolls. Property tax revenues accounted for 3.8% of the annual revenues, and are collected through the tax rolls to satisfy debt service requirements. Investment earnings represent 1.7% of revenues and consist of earnings on pooled cash held with the Sonoma County Treasurer. The aforementioned refund from the Water Agency accounted for 5.8% of revenues, and Conservation Program funding from the Water Agency and other intergovernmental revenues accounted for 5.4%.

**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

*Expenses by Function*



Total expenses for the District for the fiscal year ended June 30, 2010 totaled \$4,113,408. Costs associated with the collection, treatment, and disposal of effluent represent 66.2% of the District's expenses. The next largest functional area is the annual depreciation expense on capital assets, which was \$1,030,502 (25.1%) of total expenses. Interest expense totaling \$100,214 (2.5%) represents the cost of meeting current debt service obligations. Conservation expenses totaled \$255,028 and represents 6.2% of the District's expenses.

**Capital Asset and Debt Administration**

*Capital Assets*

The District's investment in capital assets as of June 30, 2010, amounts to \$26,151,064 (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 is now reporting 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, 2009	June 30, 2010	Percentage Change
Land	\$ 223,833	\$ 223,833	0.0%
Construction in progress	2,052,176	2,380,417	16.0%
Intangible assets	-	268	-
Buildings and improvements	43,868,042	43,868,042	0.0%
Machinery and equipment	40,164	51,738	28.8%
Accumulated depreciation	(19,342,732)	(20,373,234)	5.3%
<b>Total</b>	<b>\$ 26,841,483</b>	<b>\$ 26,151,064</b>	<b>-2.6%</b>

Additional information on the District's capital assets can be found in Note E on page 23 of the financial statement footnotes.

**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

*Long-term Obligations*

At June 30, 2010, the District had a total of \$5,055,490 in outstanding debt consisting of general obligation bonds, revenue bonds, and advances from other governments. Of this amount, \$1,110,000 comprises debt backed by the full faith and credit of the District, \$925,000 which are special obligations of the District payable solely from net revenues of the District's operations, and \$3,020,490 is related to advances from the State Water Resources Control Board.

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

	June 30, 2009	June 30, 2010	Percentage Change
General obligations bonds	\$ 1,220,000	\$ 1,110,000	-9.0%
Revenue bonds	995,000	925,000	-7.0%
Advances from other governments	3,184,823	3,020,490	-5.2%
<b>Total long-term debt</b>	<b>\$ 5,399,823</b>	<b>\$ 5,055,490</b>	<b>-6.4%</b>

The District's total debt decreased by \$344,333 during fiscal year ended June 30, 2010.

Advances from other governments decreased by \$164,333 (5.2%) 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 Note F on pages 24 -26 of this report.

**Next Year's Budget and Rates**

Budgeted gross expenses for the District for fiscal year ending June 30, 2011 have decreased by \$8,061,535 (58.6%) for a total of \$5,689,983. The major component of the decrease in budgeted expenses is related to a decrease in planned capital projects.

**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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

Following is a comparison of the final budget for the fiscal year ended June 30, 2010 and the proposed budgeted expenses for the District for the fiscal year ending June 30, 2011.

	<b>Fiscal Year Ended June 30, 2010</b>	<b>Fiscal Year Ending June 30, 2011</b>	<b>Decrease</b>	<b>Percentage Change</b>
Operations	\$ 8,654,739	\$ 4,731,543	\$ (3,923,196)	-45.3%
Debt service - general obligation bonds	61,052	55,552	(5,500)	-9.0%
Debt service - Revenue bonds	49,750	46,250	(3,500)	-7.0%
Construction	4,985,977	856,638	(4,129,339)	-82.8%
<b>Total</b>	<b>\$ 13,751,518</b>	<b>\$ 5,689,983</b>	<b>\$ (8,061,535)</b>	<b>-58.6%</b>

Budgeted expenses for fiscal year ended June 30, 2010 differ in several instances from the budgeted expenses presented in the management's discussion and analysis for the period ended June 30, 2009. 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, 2010.

Sewer service fees were increased for the 2010-2011 budget year. The rates were increased by 6.0%.

Following are tables showing the sanitation services rates and equivalent single dwellings for the District.

	<b>Fiscal Year Ended June 30, 2010</b>	<b>Fiscal Year Ending June 30, 2011</b>	<b>Percentage Change</b>
Rate per Equivalent Single-Family Dwelling	\$ 1,036	\$ 1,098	6.0%
Number of Equivalent Single-Family Dwellings	3,183	3,182	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, 2010**

**ASSETS**

Current assets:

Cash and investments	\$ 3,861,910
Accounts receivable	518,937
Restricted cash and investments:	
General obligation bond fund	165,130
Revenue bond reserve fund	121,250
Revenue bond fund	362,470

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Total current assets	5,029,697
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Noncurrent assets:

Capital assets:

Land	223,833
Construction in progress	2,380,417
Intangible assets	268
Buildings and improvements	43,868,042
Machinery and equipment	51,738
Less accumulated depreciation	(20,373,234)

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Total capital assets, net	26,151,064
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Total assets	\$ 31,180,761
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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, 2010**

**LIABILITIES**

Current liabilities:

Accounts payable and accrued expenses	\$	68,435
Due to other governments		168,442
Accrued interest payable		44,048
Total current liabilities		280,925

Current liabilities payable from  
restricted assets

Revenue bonds payable		75,000
Accrued interest payable		11,563
Total current liabilities payable from restricted assets		86,563

Noncurrent liabilities:

General obligation bonds payable		1,110,000
Revenue bonds payable		850,000
Advances from other governments		2,852,048
Total noncurrent liabilities		4,812,048

Total liabilities		5,179,536
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**NET ASSETS**

Invested in capital assets, net of related debt		21,095,574
Restricted for debt service		637,287
Unrestricted		4,268,364
Total net assets		26,001,225
Total liabilities and net assets	\$	31,180,761

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, 2010**

<b>Operating revenues</b>	
Flat charges	\$ 3,241,198
Charges for services	14,759
Refund from Sonoma County Water Agency	225,097
Total operating revenues	3,481,054
<b>Operating expenses</b>	
Services and supplies	2,724,458
Fiscal agent fees and legal services	3,206
Depreciation	1,030,502
Total operating expenses	3,758,166
<b>Operating loss</b>	(277,112)
<b>Nonoperating revenues (expenses)</b>	
Investment earnings	66,637
Interest expense	(100,214)
Conservation program expense	(255,028)
Intergovernmental - Sonoma County Water Agency	190,000
Intergovernmental	21,809
Property taxes	147,768
Total nonoperating revenues, net	70,972
<b>Decrease in net assets</b>	(206,140)
<b>Net assets - beginning of year</b>	26,207,365
<b>Net assets - end of year</b>	\$ 26,001,225

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, 2010**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from customers	\$	3,102,127
Refund from Water Agency		225,097
Payments to Water Agency		(2,226,996)
Payments to suppliers		(457,316)
Conservation program outlays		(255,028)
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Net cash provided by operating activities		387,884

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Taxes received		147,768
Intergovernmental		21,809
Conservation program contribution from Water Agency		190,000
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Net cash provided by noncapital financing activities		359,577

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Purchases of capital assets		(253,858)
Principal payments - advances from other governments		(164,333)
Principal payments - bonds		(180,000)
Interest paid on capital debt		(190,338)
Connection fees received		31,460
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Net cash used by capital and related financing activities		(757,069)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest received on pooled cash and investments		69,960
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Net increase in cash and cash equivalents		60,352
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Cash and cash equivalents - beginning of year		4,450,408
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Cash and cash equivalents - end of year	\$	4,510,760

**Reconciliation to the statement of net assets:**

Cash and investments	\$	3,861,910
Restricted cash and investments		648,850
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Total cash and cash equivalents	\$	4,510,760

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, 2010**

**Reconciliation of operating loss to net cash**

**provided by operating activities:**

Operating loss	\$ (277,112)
Adjustments to reconcile operating loss to net cash	
provided by operating activities:	
Conservation program outlays	(255,028)
Depreciation	1,030,502
Change in assets and liabilities:	
Increase in accounts receivable	(153,830)
Increase in accounts payable and accrued expenses	43,352
Net cash provided by operating activities	\$ 387,884

**Noncash investing, capital and financing activities:**

Capital assets acquired through accounts payable	\$ 6,170
Capitalized interest	86,852

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, 2010**

**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. The District has an ordinance defining policies, including user fees.

*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, 2010**

**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 (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, 2010**

**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 June 30, 2010. 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. Ordinance #39 receivables have fifteen year lives with an interest rate of 5%. The District does not expect to collect \$23,026 of accounts receivable related to Ordinance #39 within the next year. 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 initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. 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, 2010**

**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, 2010**

**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 annual financial statements.

*Intergovernmental Revenues*

Intergovernmental revenues primarily consist of contributions from the Water Agency for operations and for the District's conservation program.

*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. Implementation of New Governmental Accounting Standards**

Effective July 1, 2009 the District implemented GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, issued in June 2007. This statement establishes accounting and financial reporting requirements for intangible assets to reduce inconsistencies in the accounting and financial reporting of such assets among state and local governments. This statement also provides authoritative guidance that specifically addresses the nature of the intangible assets including internally generated intangible assets. The District is reporting intangible assets on its financial statements as of June 30, 2010. The District's financial statements have not been restated for prior periods as no intangible assets have been identified that would require a restatement.

**Note D. 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.

**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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

*Investment Guidelines*

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

Permitted investments include the following:

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

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, 2010, the District's investments consisted of \$4,510,760 in the Treasury Pool managed by the Treasurer, which is not rated by credit rating agencies, and had a weighted average maturity of 486 days. The credit rating and other information regarding specific investments maintained in the Treasury Pool as of June 30, 2010 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, 2010**

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

*Interest Rate Risk*

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

*Custodial Credit Risk*

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

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

Investments in external investment pools and in open-end mutual funds are not exposed to custodial credit risk. As of June 30, 2010, 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, 2010 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, 2010**

**Note E Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2010 was as follows:

	July 1, 2009	Additions	Retirements	June 30, 2010
<b>Capital assets, not being depreciated:</b>				
Land	\$ 223,833	\$ -	\$ -	\$ 223,833
Intangibles	-	268	-	268
Construction in progress	2,052,176	328,241	-	2,380,417
<b>Total capital assets, not being depreciated</b>	<b>2,276,009</b>	<b>328,509</b>	<b>-</b>	<b>2,604,518</b>
<b>Capital assets, being depreciated:</b>				
Buildings and improvements	43,868,042	-	-	43,868,042
Machinery and equipment	40,164	11,574	-	51,738
<b>Less: accumulated depreciation for</b>				
Buildings and improvements	(19,342,732)	(1,026,984)	-	(20,369,716)
Machinery and equipment	-	(3,518)	-	(3,518)
<b>Total capital assets, being depreciated, net</b>	<b>24,565,474</b>	<b>(1,018,928)</b>	<b>-</b>	<b>23,546,546</b>
<b>Total capital assets, net</b>	<b>\$ 26,841,483</b>	<b>\$ (690,419)</b>	<b>\$ -</b>	<b>\$ 26,151,064</b>

Depreciation expense amounted to \$1,030,502 for the fiscal year ended June 30, 2010.

The total amount of interest capitalized in connection with wastewater treatment facilities construction projects during the fiscal year ended June 30, 2010 was \$86,852.

**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**Note F. 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, 2010, the outstanding balance on the loan is \$3,020,490. 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
2011	\$ 168,442	\$ 75,512	\$ 243,954
2012	172,653	71,301	243,954
2013	176,969	66,985	243,954
2014	181,394	62,560	243,954
2015	185,928	58,026	243,954
2016-2020	1,001,734	218,036	1,219,770
2021-2025	1,133,370	86,400	1,219,770
<b>Total</b>	<b>\$ 3,020,490</b>	<b>\$ 638,820</b>	<b>\$ 3,659,310</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, 2010 were \$1,110,000 with interest rates ranging from 4% to 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, 2010**

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

*General Obligation Bonds*

Fiscal Year Ending June 30,	Principal	Interest	Total
2011	\$ -	\$ 27,750	\$ 27,750
2012	115,000	52,625	167,625
2013	120,000	46,750	166,750
2014	130,000	40,500	170,500
2015	135,000	33,875	168,875
2016-2019	610,000	63,000	673,000
<b>Total</b>	<b>\$ 1,110,000</b>	<b>\$ 264,500</b>	<b>\$ 1,374,500</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 12% of net revenues. The total principal outstanding on the 1981 Revenue Bonds as of June 30, 2010 is \$925,000 and scheduled interest payments total \$273,250. Principal and interest paid for the fiscal year ended June 30, 2010 and total customer net revenues were \$119,750 and \$954,507 respectively. Total amounts outstanding as of June 30, 2010 are as follows.

Revenue bond debt service requirements to maturity are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2011	\$ 75,000	\$ 46,250	\$ 121,250
2012	75,000	42,500	117,500
2013	80,000	38,750	118,750
2014	85,000	34,750	119,750
2015	90,000	30,500	120,500
2016-2020	520,000	80,500	600,500
<b>Total</b>	<b>\$ 925,000</b>	<b>\$ 273,250</b>	<b>\$ 1,198,250</b>

**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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

Long-term obligation activity for the year ended June 30, 2010 was as follows:

	July 1, 2009	Additions	Retirements	June 30, 2010	Due Within One Year
Advances from					
other governments	\$ 3,184,823	\$ -	\$ (164,333)	\$ 3,020,490	\$ 168,442
General obligation bonds	1,220,000	-	(110,000)	1,110,000	-
Revenue bonds	995,000	-	(70,000)	925,000	75,000
<b>Total</b>	<b>\$ 5,399,823</b>	<b>\$ -</b>	<b>\$ (344,333)</b>	<b>\$ 5,055,490</b>	<b>\$ 243,442</b>

**Note G. Accrued Interest Payable**

Interest payable as of June 30, 2010 consists of interest accrued on the State Water Resources Control Board loan of \$44,048 and the revenue bonds of \$11,563.

**Note H. 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 \$2,226,996 to the Water Agency for administrative support during the fiscal year ended June 30, 2010. The District received \$190,000 from the Water Agency to fund the conservation program. The District also received a \$225,097 refund from the Water Agency for overpayment of overhead charges.

**Note I. Commitments and Contingencies**

*Commitments*

The District has active construction projects as of June 30, 2010. The projects include expansion and/or improvements of several wastewater treatment facilities. As of June 30, 2010, the District's commitments to construction projects included \$2,380,417 spent to date with remaining commitments of \$569,738 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, 2010**

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

The commitments for wastewater treatment facilities are being financed by revenue bonds secured by sanitation customer net revenues and by net assets.

*Pending Litigation, Claims, and Assessments*

A Draft Administrative Civil Liability Order (ACLO) was issued on September 1, 2010. The ACLO proposes to assess mandatory minimum penalties for effluent limitation exceedances between June 1, 2007 and May 31, 2009. The proposed ACLO provides a time schedule for completion of the compliance project. Financial penalties totaling \$57,000 are included in the proposed ACLO.

The District approved a project to design, construct, operate, and maintain an approximately 3.6 million gallon earthen equalization basin and appurtenant structures within the boundaries of the wastewater treatment plant. The project would implement a strategy necessary to satisfy North Coast Regional Water Quality Control Board Cease and Desist Order No 98-57, and minimize the potential for Clean Water Act permit violations by increasing the District's wastewater storage capacity and adding redundancy to the system during large storm events, periods of high influent flow, and process upset conditions. A CEQA challenge has been filed. The District is negotiating with the petitioner, has prepared a draft settlement agreement, and expects to settle the litigation without cost.

*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 J. Risk Management**

The District is exposed to various risks of loss related to 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) and Excess Liability Program. Limits of this coverage are \$15,000,000.

**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**Note J. Risk Management (Continued)**

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 including flood and \$80,000,000 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 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.

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

**INDEPENDENT AUDITOR'S 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***

We have audited the basic financial statements of Russian River County Sanitation District (District) as of and for the fiscal year ended June 30, 2010, and have issued our report thereon dated November 4, 2010. 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**

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 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 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*.



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

**INDEPENDENT AUDITOR'S 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**

We have audited the basic financial statements of Russian River County Sanitation District (District) as of and for the fiscal year ended June 30, 2010, and have issued our report thereon dated November 4, 2010. 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**

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 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 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*.

This report is intended for the information of the Board of Directors and District management and is not intended to be and should not be used by anyone other than these specified parties.

*Macinnis Meiri & O'Connell LLP*

Certified Public Accountants

Sacramento, California

November 4, 2010