

**RUSSIAN RIVER COUNTY  
SANITATION DISTRICT**

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

For the Year June 30, 2009

**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
FOR THE YEAR ENDED JUNE 30, 2009**

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**MACIAS GINI & O'CONNELL** LLP  
Certified Public Accountants & Management Consultants

SACRAMENTO  
3000 S Street, Suite 300  
Sacramento, CA 95816  
916.928.4600

WALNUT CREEK

OAKLAND

LOS ANGELES

NEWPORT BEACH

SAN MARCOS

SAN DIEGO

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

## INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of the Russian River County Sanitation District (District), a component unit of the County of Sonoma, California, as of and for the year ended June 30, 2009, 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 above present fairly, in all material respects, the financial position of the District as of June 30, 2009, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America

As described in Note C to the basic financial statements, effective July 1, 2008, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.

In accordance with *Government Auditing Standards*, we have issued our report dated November 4, 2009 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 accounting principles generally accepted in the United States of America. 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 Hui & O'Connell LLP*

Certified Public Accountants

Sacramento, California

November 4, 2009

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

**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2009**

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, 2009. 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 - 27).

**Reporting Entity**

The Russian River County Sanitation District is managed by the Sonoma County 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 of Sonoma's reporting entity, resulting in the District's financial statements being included in the County's annual financial statements.

Please refer to the reporting entity definition 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 \$26,207,365 (*net assets*). Of this amount, \$4,091,197 (*unrestricted net assets*) may be used to meet the District's ongoing obligations to citizens and creditors.

*Revenues*

The District recognized total revenues of \$3,404,666 during fiscal year 2008/09. Of this amount, \$3,040,232 consists of charges for services (operating revenues), and \$359,222 of nonoperating revenues consisting of investment earnings, property taxes, and intergovernmental revenue. The District also recognized capital contributions in the amount of \$5,212 from connection fees during 2008/09.

*Expenses*

The District incurred expenses totaling \$3,555,141 during fiscal year 2008/09. Of this amount \$3,418,444 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 related to the District's long-term debt obligation of \$129,033, and conservation program expenses of \$7,664.

*Increase in Net Assets*

The District recorded an operating loss of \$378,212 for fiscal year 2008/09, while recognizing an overall decrease in net assets of \$150,475.

**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2009**

**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 financial statements.

*Management's Discussion and Analysis*

*Management's discussion and analysis* is intended to provide the narrative overview that users need to interpret the financial statements. Management's discussion and analysis also provides analysis of some 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 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 financial statements can be found on pages 16 – 27.

**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 \$26,207,365 at the close of the most recent fiscal year compared to net assets of \$26,357,840 as of June 30, 2008.

The largest portion of the District's net assets (81.8% for fiscal year 2008/09 compared to 82.1% for 2007/08) reflects its investment in capital assets (e.g., land 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. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2009**

*Condensed Statement of Net Assets*

	June 30, 2008	June 30, 2009	Percentage Change
Current and other assets	\$ 4,848,913	\$ 4,850,298	0.0%
Capital assets	27,377,706	26,841,483	(2.0)%
<b>Total Assets</b>	<b>32,226,619</b>	<b>31,691,781</b>	<b>(1.7)%</b>
Current liabilities	363,956	318,927	(12.4)%
Noncurrent liabilities	5,504,823	5,165,489	(6.2)%
<b>Total Liabilities</b>	<b>5,868,779</b>	<b>5,484,416</b>	<b>(6.5)%</b>
Invested in capital assets net of related debt	21,627,404	21,441,660	(0.9)%
Restricted for debt service	108,000	632,172	485.3%
Restricted for conservation	-	42,336	-
Unrestricted	4,622,436	4,091,197	(11.5)%
<b>Total Net Assets</b>	<b>\$ 26,357,840</b>	<b>\$26,207,365</b>	<b>(0.6)%</b>

A portion of the District's net assets \$674,508 (2.6% for 2008/09) and \$108,000 (2.3% for 2007/08) represents resources that are subject to external restrictions on how they may be used. The balance of unrestricted net assets of \$4,091,197 for 2008/09 may be used to meet the District's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the District is able to report positive balances in all categories of net assets.

*Statement of Changes in Net Assets*

	June 30, 2008	June 30, 2009	Percentage Change
Revenues:			
Operating revenues	\$ 2,966,686	\$ 3,040,232	2.5%
Nonoperating revenues:			
Property taxes	181,964	178,891	(1.7)%
Investment earnings	191,562	130,324	(32.0)%
Intergovernmental	8	50,007	-
<b>Total revenues</b>	<b>3,340,220</b>	<b>3,399,454</b>	<b>1.8%</b>

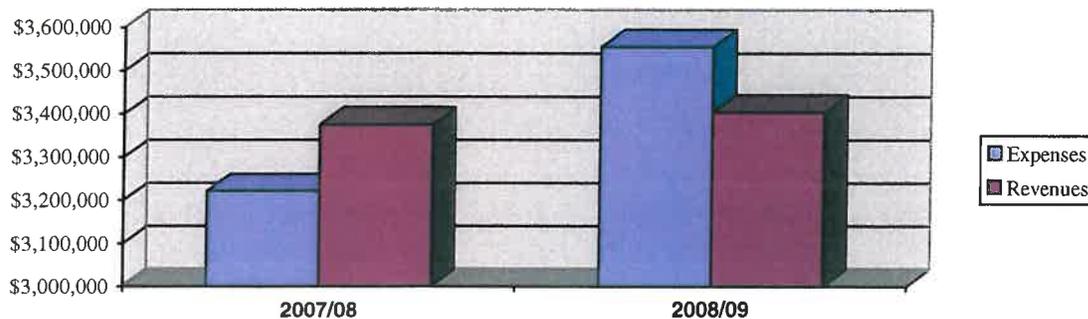
**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2009**

*Statement of Changes in Net Assets (continued)*

	June 30, 2008	June 30, 2009	Percentage Change
<b>Expenses:</b>			
Services and supplies	\$ 2,048,112	\$ 2,384,759	16.4%
Fiscal agent fees and legal services	3,878	6,703	72.8%
Depreciation and amortization	1,026,982	1,026,982	0.0%
Interest expense	142,326	129,033	(9.3)%
Conservation program expense	-	7,664	-
<b>Total expenses</b>	<b>3,221,298</b>	<b>3,555,141</b>	<b>10.4%</b>
Income before capital contributions	118,922	(155,687)	(230.9)%
Capital contribution – connection fees	35,398	5,212	(85.3)%
Increase in net assets	154,320	(150,475)	(197.5)%
Net assets – beginning of year	26,203,520	26,357,840	0.6%
Net assets – end of year	\$ 26,357,840	\$26,207,365	(0.6)%

The District's net assets decreased by (\$150,475) during 2008/09 compared to an increase of \$154,320 during 2007/08.

*Expenses and Revenues*

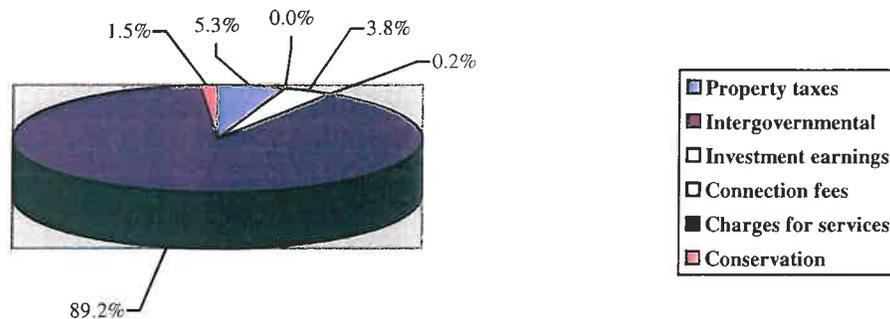


Total revenues, including capital contributions, of the District for fiscal year 2008/09 totaled \$3,404,666 representing an increase of \$64,446 from the preceding fiscal year revenues of \$3,340,220. The rate based charges for services, representing 89.2% of the District's total revenue, increased by \$73,546 (2.5%); property taxes, representing 5.3% of the District's total revenue, decreased by \$3,073. Investment earnings decreased from the preceding year by \$61,238. Intergovernmental revenue was received from the Sonoma County Water Agency towards the District's conservation program totaling \$50,000 and represented 1.5% of the District's 2008/09 revenue. The combined effect of these occurrences is an overall increase in revenues of 1.8%.

**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2009**

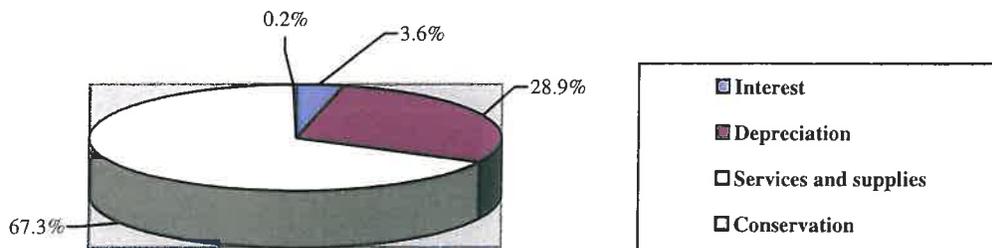
Total expenses for the District increased by \$333,843 to \$3,555,141 for fiscal year 2008/09. Interest expense decreased \$13,293 (9.3%) due to interest payments on the Third Unit Processes loan with the State Water Resources Control Board, while depreciation and amortization expenses were unchanged from the previous year's total of \$1,026,982. Additional increases in administrative support expenses of \$275,294 (23%) were also realized by the District in 2008/09. The overall effect of these occurrences is an increase in expenses of 10.4%.

*Revenues by Source*



As previously mentioned, total revenues collected by the District for 2008/09 totaled \$3,404,666. Of this amount \$3,040,232 or 89.2%, was generated through charges for services. Charges for services represent sewer services charges to cover operations and maintenance costs, which are initially collected through the permitting process, then subsequently through the tax rolls. Connection fees, which accounted for 0.2% of the annual revenue, are also collected through the permitting process. Property tax revenues accounted for 5.3% of the annual revenues, and are collected through the tax rolls to satisfy debt service requirements. Investment earnings represent 3.8% of revenues and consist of earnings on pooled cash held with the Sonoma County Treasurer.

*Expenses by Function*



Total expenses for the District for fiscal year 2008/09 totaled \$3,555,141. Costs associated with the collection, treatment, and disposal of effluent represent 67.3% of the District's costs. The next largest functional area is the annual depreciation expense on capital assets and represents \$1,026,982 (28.9%) of total expenses. Interest expense totaling \$129,033 (3.6%) represents the cost of meeting current debt service obligations. Conservation expenses totaled \$7,664 and represents 0.2% of the District's expenses.

**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2009**

**Capital Asset and Debt Administration**

*Capital Assets*

The District's investment in capital assets as of June 30, 2009, amounts to \$26,841,483 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, and construction in progress.

*Russian River County Sanitation District's Capital Assets*

	June 30, 2008	June 30, 2009	Percentage Change
Land	\$ 223,833	\$ 223,833	0.0%
Construction in progress	1,601,581	2,052,176	28.1%
Buildings and improvements	43,868,042	43,868,042	0.0%
Machinery and equipment	-	40,164	-
Accumulated depreciation	(18,315,750)	(19,342,732)	5.6%
<b>Total capital assets</b>	<b>\$ 27,377,706</b>	<b>\$ 26,841,483</b>	<b>(2.0)%</b>

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

*Long-term Debt*

At the end of the current fiscal year, the District had a total of \$5,399,823 in outstanding debt consisting of general obligation bonds, revenue bonds, and advances from other governments. Of this amount, \$1,220,000 comprises debt backed by the full faith and credit of the District, \$995,000 which are special obligations of the District payable solely from net revenues of District operations, and \$3,184,823 is related to advances from the State Water Resources Control Board.

*Russian River County Sanitation District's Outstanding Current and Long Term Debt*

	June 30, 2008	June 30, 2009	Percentage Change
General obligation bonds	\$1,325,000	\$ 1,220,000	(7.9)%
Revenue bonds	1,060,000	995,000	(6.1)%
Advances from other governments	3,345,149	3,184,823	(4.8)%
<b>Total long-term debt</b>	<b>\$5,730,149</b>	<b>\$ 5,399,823</b>	<b>(5.8)%</b>

The District's total debt decreased by \$330,326 during the current fiscal year.

Advances from other governments decreased by \$160,326 (4.8%) due to the annual principal payment to the State Water Resources Control Board.

**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2009**

*Long-term Debt (continued)*

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 debt can be found in Note F on pages 23 - 25 of this report.

**Next Year's Budget and Rates**

Budgeted gross expenses for the District for fiscal year 2009/10 have increased by \$4,706,833 (54.4%) for a total of \$13,355,649. The major component of the increase in budgeted expenses is related to an increase in anticipated planned capital projects and the related appropriations for an operating transfer from the Operations fund to the Construction fund..

Following is a comparison of final 2008/09 and proposed 2009/10 budgeted expenses for the District:

	2008/09	2009/10	Increase (Decrease)	Percentage Change
Operations	\$3,923,997	\$ 8,323,497	\$4,399,500	112.1%
Debt service - general obligation bonds	66,302	61,052	(5,250)	(7.9)%
Debt service - revenue bonds	53,000	49,750	(3,250)	(6.1)%
Construction	4,605,517	4,921,350	315,833	6.9%
	<u>\$8,648,816</u>	<u>\$13,355,649</u>	<u>\$4,706,833</u>	<u>54.4%</u>

Budgeted expenses for fiscal year 2008/09 differ in several instances from the budgeted expenses presented in the management's discussion and analysis for the period ending June 30, 2008. These variances are due to Board approved budgetary adjustments made subsequent to the publication of the 2007/08 audited basic financial statements.

Sewer service fees were increased for the 2009/2010 budget year. The rates were increased by 5.0%.

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

*Rate per Equivalent Single-Family Dwelling*

	2008/09	2009/10	Percentage Change
	\$987	\$1,036	5.0%

*Number of Equivalent Single-Family Dwellings*

	2008/09	2009/10	Percentage Change
	3,183	3,183	0.0%

**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2009**

**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.

## **Basic Financial Statements**

**RUSSIAN RIVER COUNTY SANITATION DISTRICT**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2009**

**ASSETS**

Current assets:

Cash and investments	\$ 3,805,798
Accounts receivable	399,890
Restricted cash and investments	
General obligation bond fund	164,797
Revenue bond reserve fund	121,250
Revenue bond fund	358,563

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Total current assets	4,850,298
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Noncurrent assets:

Capital assets:

Land	223,833
Construction in progress	2,052,176
Buildings and improvements	43,868,042
Machinery and equipment	40,164
Less accumulated depreciation	(19,342,732)

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Total capital assets (net of (accumulated depreciation))	26,841,483
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Total noncurrent assets	26,841,483
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Total assets	31,691,781
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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, 2009**

**LIABILITIES**

Current liabilities

Accounts payable and accrued expenses	\$	25,710
Due to other governments		164,334
Accrued interest payable		46,445

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Total current liabilities		236,489
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Current liabilities payable from  
restricted assets

Revenue bonds payable	70,000
Accrued interest payable	12,438

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Total current liabilities payable from restricted assets	82,438
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Noncurrent liabilities

General obligation bonds payable	1,220,000
Revenue bonds payable	925,000
Advances from other governments	3,020,489

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Total noncurrent liabilities	5,165,489
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Total liabilities	5,484,416
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**Net Assets**

Invested in capital assets, net of related debt	21,441,660
Restricted for conservation	42,336
Restricted for debt service	632,172
Unrestricted	4,091,197

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Total net assets	26,207,365
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Total liabilities and net assets	\$ 31,691,781
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The accompanying notes are an integral part of these financial statements.

**RUSSIAN RIVER COUNTY SANITATION DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED JUNE 30, 2009**

<b>Operating revenues</b>	
Flat charges	\$ 3,010,184
Charges for services	30,048
Total operating revenues	3,040,232
 <b>Operating expenses</b>	
Services and supplies	2,384,759
Fiscal agent fees and legal services	6,703
Depreciation and amortization	1,026,982
Total operating expenses	3,418,444
<b>Operating loss</b>	(378,212)
 <b>Nonoperating revenues (expenses)</b>	
Investment earnings	130,324
Interest expense	(129,033)
Conservation program	(7,664)
Intergovernmental - Sonoma County Water Agency	50,000
Property taxes	178,891
Miscellaneous	7
Total nonoperating revenues	222,525
<b>Loss before capital contributions</b>	(155,687)
Capital contribution - connection fees	5,212
<b>Decrease in net assets</b>	(150,475)
<b>Net assets - beginning of year</b>	26,357,840
<b>Net assets - end of year</b>	\$ 26,207,365

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

**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2009**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 3,019,149
Payments for interfund services used	(1,937,532)
Payments to suppliers	(491,461)
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Net cash provided by operating activities	590,156
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<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Taxes	178,891
Conservation program	(7,664)
Intergovernmental - Sonoma County Water Agency	50,000
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Net cash provided by noncapital financing activities	221,227
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<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Purchases of capital assets	(413,266)
Principal payments - other governments	(160,326)
Principal payments - bonds	(170,000)
Principal payments - advances from the County	(20,153)
Interest paid on capital debt	(202,879)
Connection fees	5,228
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Net cash used by capital and related financing activities	(961,396)
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<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest received on pooled cash and investments	126,890
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Net decrease in cash and cash equivalents	(23,123)
Cash and cash equivalents - beginning of year	4,473,531
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Cash and cash equivalents - end of year	\$ 4,450,408
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<b>Reconciliation to the statement of net assets:</b>	
Cash and investments	\$ 3,805,798
Restricted cash and investments	644,610
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Total cash and cash equivalents	\$ 4,450,408
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The accompanying notes are an integral part of these financial statements.

**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
STATEMENT OF CASH FLOWS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2009**

**Reconciliation of operating loss to net cash**

**provided by operating activities:**

Operating loss	\$ (378,212)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation and amortization	1,026,983
Miscellaneous revenue	7
Change in assets and liabilities:	
Increase in accounts receivable	(21,091)
Decrease in accounts payable and accrued expenses	(37,531)
<b>Net cash provided by operating activities</b>	<b>\$ 590,156</b>

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

## **Notes to the Basic Financial Statements**

**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2009**

**Note A. Defining the Financial Reporting Entity**

The Russian River County Sanitation District (the District) is managed by the Sonoma County Water Agency (the 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 have also been included in the County's annual financial statements.

There are no other organizations or agencies whose basic financial statements should be combined and presented with these basic financial statements.

**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 YEAR ENDED JUNE 30, 2009**

**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 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The GASB periodically updates its codification of the 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 Treasurer of Sonoma County. 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 reported its investment in the Treasury Pool at fair value.

**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2009**

**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 disclosures on common deposit and investment risk related to credit risk, interest rate risk and foreign currency risk.

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

*Accounts Receivable*

Accounts receivable consists of uncollected fees for sanitation services and flat charges as of June 30, 2009. These 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 \$37,830 of accounts receivable related to Ordinance #39 within the next year.

*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, rebate programs 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, using the straight-line method over estimated 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 or materially extend the useful life of the assets, 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 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 YEAR ENDED JUNE 30, 2009**

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

*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 adopted or through external restrictions imposed by creditors, grantors or laws or regulations 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 the major expense classes or transfers between capital assets and operating expenses. Such transfers require approval by the Sonoma County Administrator and/or the Board.

*Property Tax Revenue*

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

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

Property taxes are recognized as revenue 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.

**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2009**

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

*Intergovernmental Transactions*

Intergovernmental transactions made during the year are primarily charges for current services rendered or facilities provided. These transactions are recorded as revenues and expenses by the District. The District also received \$50,000 from the Water Agency associated with the Water Conservation Rebate Program for developing or implementing water efficiency programs within the zone of the District.

*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, 2008 the District implemented GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, issued in November 2006. This Statement establishes accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The Statement establishes once any of five specified obligating events occurs, that a government is required to estimate the components of the expected pollution remediation outlays and determine whether the outlays for those components should be recorded as a liability or, if appropriate, capitalized when goods and services are acquired.

There was no impact on the District's financial statements for the year ended June 30, 2009 as a result of the implementation of GASB Statement No. 49.

**Note D. Cash and Investments**

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

Interest income earned on pooled cash and investments is allocated quarterly based on the average daily balances of the District during the quarter.

**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2009**

**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 County 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 County 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
- Money market mutual funds
- Collateralized mortgage obligations
- Collateralized time deposits
- Joint power agreements

A copy of the County Investment Policy is available upon request from the County Treasurer at 585 Fiscal Drive, Room 100, Santa Rosa, California, 95403.

As of June 30, 2009, the District's investments consisted of \$4,450,408 in the Treasury Pool managed by the County Treasurer, which is not rated by credit rating agencies, and had a weighted average maturity of 265 days.

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

**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2009**

**Note D. 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 and the County's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits and securities lending transactions:

- 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.
- 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, 2009, all of the District's investments were in the County 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 fiscal year 2008/09 are disclosed in the County's 2008/2009 Comprehensive Annual Financial Report.

**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2009**

**Note E. Capital Assets**

Capital asset activity for the year ended June 30, 2009 was as follows:

	July 1, 2008	Additions	Retirements	June 30, 2009
Capital assets, not being depreciated:				
Land	\$ 223,833	\$ -	\$ -	\$ 223,833
Construction in progress	1,601,581	450,595	-	2,052,176
<b>Total capital assets, not being depreciated</b>	<b>1,825,414</b>	<b>450,595</b>	<b>-</b>	<b>2,276,009</b>
Capital assets, being depreciated:				
Buildings and improvements	43,868,042	-	-	43,868,042
Machinery & equipment	-	40,164	-	40,164
Less accumulated depreciation for:				
Buildings and improvements	(18,315,750)	(1,026,982)	-	(19,342,732)
<b>Total capital assets, being depreciated, net</b>	<b>25,552,292</b>	<b>(986,818)</b>	<b>-</b>	<b>24,565,474</b>
<b>Total capital assets, net</b>	<b>\$ 27,377,706</b>	<b>\$ (536,223)</b>	<b>\$ -</b>	<b>\$26,841,483</b>

Depreciation expense amounted to \$1,026,982 for the year ended June 30, 2009.

The total amount of interest capitalized in connection with wastewater treatment facilities construction projects during the year ended June 30, 2009 was \$70,696.

**Note F. Long-Term Obligations**

*Advances from other governments:*

During fiscal year 2004/2005, 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 fiscal year 2006/07. The loan agreement requires repayment to begin within one year of the project's completion, which occurred during March 2006. As of June 30, 2009, the outstanding balance is \$3,184,823. The loan is a State Revolving Loan with current payments of \$243,954, payable annually in November. The expected term is 20 years at an annual interest rate of 2.5% with the last payment scheduled for November 2024.

**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2009**

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

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

Year ending June 30,	Principal	Interest
2010	\$ 164,334	\$ 77,224
2011	168,442	73,056
2012	172,653	68,783
2013	176,969	64,404
2014	181,394	59,915
2015 – 2019	977,301	228,218
2020 – 2024	1,105,726	97,920
2025	238,004	2,480
<b>Total</b>	<b>\$ 3,184,823</b>	<b>\$ 671,200</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, 2009 were \$1,220,000 with interest rates ranging from 4% to 5%.

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year ending June 30,	Principal	Interest
2010	\$ -	\$ 30,500
2011	110,000	58,250
2012	115,000	52,625
2013	120,000	46,750
2014	130,000	40,500
2015 – 2019	745,000	96,875
<b>Total</b>	<b>\$1,220,000</b>	<b>\$ 325,500</b>

**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2009**

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

*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 from net revenues through 2020. Annual principal and interest payments are expected to require no more than 12% of net revenues. The total principal and interest outstanding on the 1981 Revenue Bonds as of June 30, 2009 is \$995,000 and \$323,000. Principal and interest paid for the year ended June 30, 2009 and total customer net revenues were \$118,000 and \$1,013,204 respectively.

Revenue bond debt service requirements to maturity are as follows:

Year ending June 30,	Principal	Interest
2010	\$ 70,000	\$ 49,750
2011	75,000	46,250
2012	75,000	42,500
2013	80,000	38,750
2014	85,000	34,750
2015 – 2019	495,000	105,250
2020	115,000	5,750
<b>Total</b>	<b>\$ 995,000</b>	<b>\$ 323,000</b>

Activity for the District's long-term obligations for the year ended June 30, 2009, was as follows:

	July 1, 2008	Additions	Reductions	June 30, 2009	Due Within One Year
Advances from other governments	\$3,345,149	\$ -	\$(160,326)	\$3,184,823	\$164,334
General obligation bonds	1,325,000	-	(105,000)	1,220,000	-
Revenue bonds	1,060,000	-	(65,000)	995,000	70,000
<b>Total</b>	<b>\$5,730,149</b>	<b>\$ -</b>	<b>\$(330,326)</b>	<b>\$5,399,823</b>	<b>\$234,334</b>

**RUSSIAN RIVER COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2009**

**Note G.      Accrued Interest Payable**

Interest payable as of June 30, 2009 consists of interest accrued on the State Water Resources Control Board loan of \$46,445 and the revenue bonds of \$12,438.

**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 \$1,457,193 to the Water Agency for administrative support during the year ended June 30, 2009.

**Note I.      Commitments and Contingencies**

*Commitments*

The District has active construction projects as of June 30, 2009. The projects include expansion and/or improvements of several wastewater treatment facilities. At year end, the District's commitments to construction projects included \$2,052,176 spent to date with remaining commitments of \$87,923 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.

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

*Pending Litigation, Claims, and Assessments*

The District incurred fines for permit violations in fiscal year 2007-08 totaling \$99,000. A portion of these fines (\$68,000) will be used towards a disinfection upgrade at the District's treatment plant.

*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 (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2009**

**Note J. Risk Management**

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.

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 four fiscal years.

**Note K. Recent Governmental Accounting Standards**

The Governmental Accounting Standard Board (GASB) has released the following new standard that will be applicable to the District:

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. GASB Statement No. 51 is effective for financial statements for fiscal years beginning after June 15, 2009.

Statement No. 53 – *Accounting and Financial Reporting for Derivative Instruments*, issued in June 2008. This statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. GASB Statement No. 53 is effective for financial statements for fiscal years beginning after June 15, 2009.

The impact on the basic financial statements of the District of these pronouncements which have been issued, but not yet adopted, is anticipated to be minimal.

## **Other Report**



**MACIAS GINI & O'CONNELL** LLP  
Certified Public Accountants & Management Consultants

SACRAMENTO  
3000 S Street, Suite 300  
Sacramento, CA 95816  
916.928.4600

WALNUT CREEK

OAKLAND

LOS ANGELES

NEWPORT BEACH

SAN MARCOS

SAN DIEGO

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 year ended June 30, 2009, and have issued our report thereon dated November 4, 2009. Our report contained explanatory language describing the District's implementation of a new accounting standard, which was effective July 1, 2008. 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 basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

*Macie Mini & O'Connell LLP*

Certified Public Accountants

Sacramento, California  
November 4, 2009