

**Russian River County
Sanitation District
(A Component Unit of the County of Sonoma)**

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

For the Fiscal Year Ended June 30, 2019

**Russian River County Sanitation District
For the Fiscal Year Ended June 30, 2019**

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Russian River County Sanitation District (the "District"), a component unit of the County of Sonoma, California, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Independent Auditor's Report (continued)

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, 2019, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters – Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2019, 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, grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Santa Rosa, California
September 27, 2019

Management's Discussion and Analysis

**Russian River County Sanitation District
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2019**

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, 2019. We encourage readers to consider the information presented here in conjunction with the District's financial statements and the accompanying notes to the financial statements.

Reporting Entity

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

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

Financial Highlights

Net Position

The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$22,766,399 (*net position*). Of this amount, \$2,753,661 (*unrestricted net position*) may be used to meet the District's ongoing obligations to citizens and creditors.

Revenues

The District recognized total revenues and capital contributions of \$5,197,362 during the fiscal year ended June 30, 2019. Of this amount, \$5,017,963 consists of operating revenues including flat charges and charges for services, and \$150,609 represents nonoperating revenues consisting of intergovernmental revenue (\$757), investment income (\$149,130) and property taxes (\$722). Capital contributions totaling \$28,790 consisted of capital replacement grants from other governments (\$22,726) and connection fees (\$6,064).

Expenses

The District incurred expenses totaling \$5,709,672 during the fiscal year ended June 30, 2019. Of this amount \$5,627,360 represents operating expenses related to the collection, treatment, disposal, and reclamation of effluent, as well as administrative and general expenses. Nonoperating expense consisted of \$82,312 of interest expense related to the District's long-term debt.

Change in Net Position

The District recorded an operating loss of \$609,397 for the fiscal year ended June 30, 2019, while recognizing an overall decrease in net position of \$512,310.

**Russian River County Sanitation District
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2019**

Overview of the Financial Statements

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

Management's Discussion and Analysis

This section is intended to provide a narrative overview that users need to interpret the financial statements. Management's discussion and analysis also provides analysis of key data presented in the financial statements.

Financial Statements

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

Notes to the Basic Financial Statements

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

**Russian River County Sanitation District
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2019**

Financial Analysis

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$22,766,399 at the close of the most recent fiscal year compared to net position of \$23,278,709 as of June 30, 2018. The primary reason for the \$512,310 decrease in net position was an operating loss of \$609,397.

The largest portion of the District's net position (84.0% as of June 30, 2019 compared to 84.6% for June 30, 2018) reflects its investment in capital assets (e.g., land, easements, infrastructure, machinery and equipment, and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

A portion of the District's net position, \$899,641 (4.0% as of June 30, 2019) represents resources that are subject to external restrictions on how they may be used. The balance of unrestricted net position of \$2,753,661 as of June 30, 2019 may be used to meet the District's ongoing obligations to citizens and creditors. As of June 30, 2019, the District reports positive balances in all categories of net position.

Condensed Statements of Net Position

	June 30, 2018	June 30, 2019	Percentage Change
Current and other assets	\$ 3,800,354	\$ 3,754,937	-1.2%
Capital assets, net	22,897,716	21,926,150	-4.2%
Total Assets	26,698,070	25,681,087	-3.8%
Current liabilities	606,308	515,894	-14.9%
Noncurrent liabilities	2,813,053	2,398,794	-14.7%
Total Liabilities	3,419,361	2,914,688	-14.8%
Net position:			
Net investment in capital assets	19,682,787	19,113,097	-2.9%
Restricted for debt service	642,849	666,249	3.6%
Restricted for capital projects	225,493	233,392	3.5%
Unrestricted	2,727,580	2,753,661	1.0%
Total Net Position	\$ 23,278,709	\$ 22,766,399	-2.2%

**Russian River County Sanitation District
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2019**

Financial Analysis (continued)

Condensed Statements of Changes in Net Position

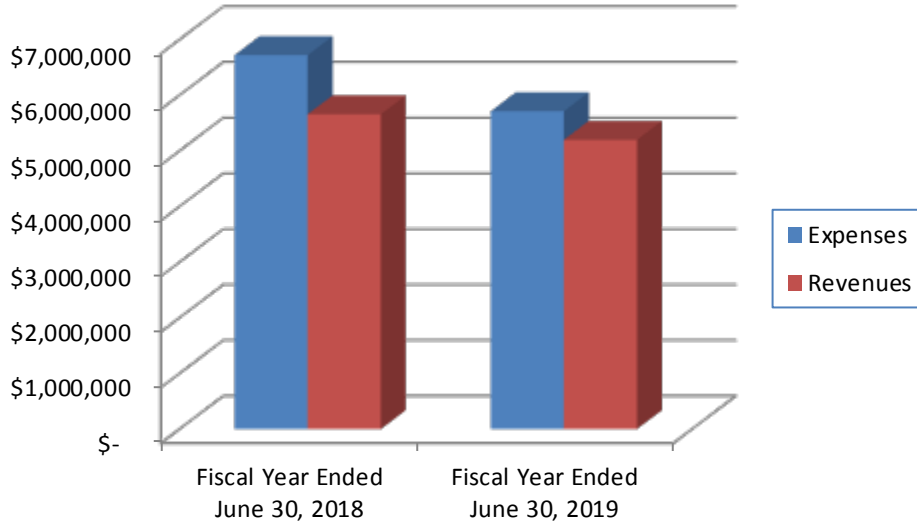
	Fiscal Year Ended		Percentage Change
	June 30, 2018	June 30, 2019	
Revenues			
Operating revenues	\$ 4,747,189	\$ 5,017,963	5.7%
Nonoperating revenues:			
Property taxes	60,244	722	-98.8%
Investment earnings	67,646	149,130	120.5%
Intergovernmental	569,870	757	-99.9%
Total revenues	5,444,949	5,168,572	-5.1%
Expenses			
Services and supplies	4,237,634	4,155,479	-1.9%
Fiscal agent fees and legal services	8,172	8,639	5.7%
Depreciation and amortization	1,448,562	1,463,242	1.0%
Loss on impairment of capital assets	920,897	-	-100.0%
Interest expense	102,904	82,312	-20.0%
Total expenses	6,718,169	5,709,672	-15.0%
Loss before contributions	(1,273,220)	(541,100)	-57.5%
Capital contributions - Federal	-	22,726	NA
Capital contributions - Sonoma Water	198,000	-	-100.0%
Capital contributions - connection fees	12,443	6,064	-51.3%
Decrease in net position	(1,062,777)	(512,310)	-51.8%
Net position, beginning of year	24,341,486	23,278,709	-4.4%
Net position, end of year	\$ 23,278,709	\$ 22,766,399	-2.2%

The District's net position decreased by \$512,310 during the fiscal year ended June 30, 2019 compared to a decrease of \$1,062,777 during the fiscal year ended June 30, 2018.

**Russian River County Sanitation District
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2019**

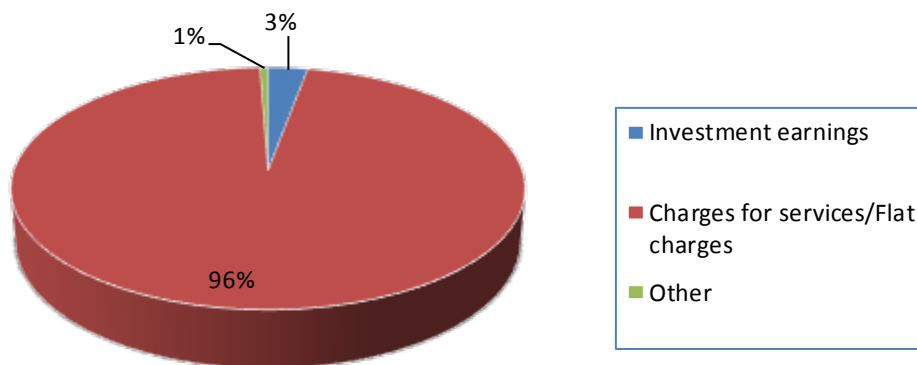
Financial Analysis (continued)

Expenses and Revenues



Total revenues, including capital contributions, of the District for the fiscal year ended June 30, 2019 totaled \$5,197,362, representing a decrease of \$458,030 from the preceding fiscal year revenues of \$5,655,392. The rate based operating charges, representing 96.5% of the District's total revenue, increased by \$270,774; property taxes, representing less than 0.1% of the District's total revenue, decreased by \$59,522 due to the payment in full of the 1979 General Obligation Bonds. Investment earnings increased from the preceding year by \$81,484. Capital contributions consisting of connection fees (\$6,064) and Federal contributions (\$22,726) comprised 0.6% of the District's revenue. Intergovernmental revenue totaling \$757 comprised less than 0.1% of the District's revenue. The combined effect overall was a decrease in revenues, including capital contributions, of 8.1% for the fiscal year ended June 30, 2019.

Revenues by Source

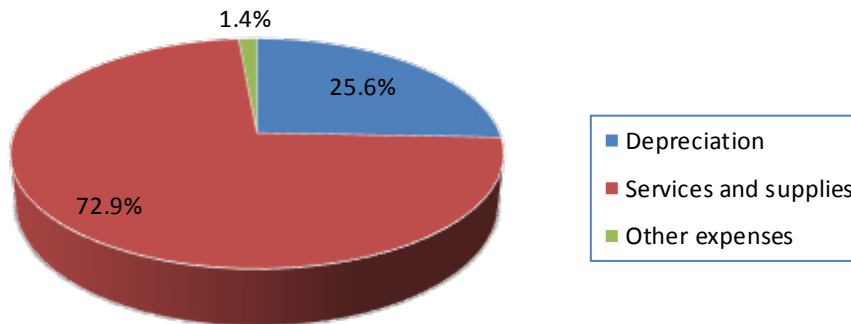


**Russian River County Sanitation District
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2019**

Financial Analysis (continued)

Total expenses for the District decreased \$1,008,497 to \$5,709,672 for the fiscal year ended June 30, 2019. The primary cause of this decrease was prior fiscal year asset impairments of \$920,897. Services and supplies, which reflect costs associated with the collection, treatment, and disposal of effluent decreased \$81,688 (1.9%) to \$4,164,118, due primarily to decreases in operations and maintenance costs. In addition, interest expense decreased by \$20,592, due to lower principal debt balances as compared to the prior year. The overall effect was a decrease in expenses of 15.0%.

Expenses by Function



Capital Asset and Debt Administration

Capital Assets

The District's investment in capital assets net of accumulated depreciation and amortization as of June 30, 2019, amounts to \$21,926,150. In addition to reporting the District's investment in capital assets including land, infrastructure and systems, improvements, and construction in progress, the District reports its investment in intangible assets as required by Governmental Accounting Standards Board (GASB) Statement No. 51 – *Accounting and Financial Reporting for Intangible Assets*. Intangible assets for the District consist of permanent and temporary easements. The decrease in capital asset is primarily attributable to scheduled accumulated depreciation.

Russian River County Sanitation District's Capital Assets

	June 30, 2018	June 30, 2019	Percentage Change
Land	\$ 223,833	\$ 223,833	0.0%
Intangible assets	82,783	82,792	0.0%
Construction in progress	40,333	120,923	199.8%
Infrastructure	53,042,191	53,445,938	0.8%
Machinery and equipment	111,737	119,067	6.6%
Accumulated depreciation and amortization	(30,603,161)	(32,066,403)	4.8%
Total	\$ 22,897,716	\$ 21,926,150	-4.2%

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

**Russian River County Sanitation District
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2019**

Capital Asset and Debt Administration (continued)

Long-term Obligations

At June 30, 2019, the District had a total of \$2,813,053 in outstanding debt consisting of revenue bonds and advances from other governments. Of this amount, \$115,000 represents special obligations of the District payable solely from net revenues of the District's operations and \$2,698,053 is related to advances from the State Water Resources Control Board.

Long-Term Debt

	June 30, 2018	June 30, 2019	Percentage Change
Revenue bonds	\$ 225,000	\$ 115,000	-48.9%
Advances from other governments	2,989,929	2,698,053	-9.8%
Total long-term debt	\$ 3,214,929	\$ 2,813,053	-12.5%

The District's total debt decreased by \$401,876 during the fiscal year ended June 30, 2019. Advances from other governments decreased by \$291,876 (9.8%) due to regular annual principal payments to the State Water Resources Control Board. The revenue bonds decreases are due to the scheduled annual repayments on the outstanding debt.

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

Next Year's Budget and Rates

Budgeted gross expenses, including capital projects expenditures, for the District for fiscal year ending June 30, 2020 have increased by \$3,795,362 (52.5%) for a total of \$11,019,434. The largest variances in year over year budget are increases in scheduled maintenance; increases in capital spending related to the seismic retrofit of secondary clarifiers project; increases in contract services in large part related to \$690,000 in grant-funded headworks, lift station and force main projects; and increases in maintenance and district operations charges payable to Sonoma Water.

Following is a comparison of the final budget for the fiscal year ended June 30, 2019 and the proposed budgeted expenses for the District for the fiscal year ending June 30, 2020.

	Fiscal Year Ended June 30, 2019	Fiscal Year Ending June 30, 2020	Increase / (Decrease)	Percentage Change
Operations	\$ 6,469,822	\$ 7,638,684	\$ 1,168,862	18.1%
Debt service - revenue bonds	11,250	5,750	(5,500)	-48.9%
Construction	743,000	3,375,000	2,632,000	354.2%
Total	\$ 7,224,072	\$ 11,019,434	\$ 3,795,362	52.5%

**Russian River County Sanitation District
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2019**

Next Year's Budget and Rates (continued)

Budgeted expenses for fiscal year ended June 30, 2019 differ in several instances from the budgeted expenses presented in the management's discussion and analysis for the period ended June 30, 2018. 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, 2018.

The Districts sewer service fees were increased for the 2019/20 budget year due to a board approved increase in rates of 4.5%.

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

	Fiscal Year Ended June 30, 2019	Fiscal Year Ending June 30, 2020	Percentage Change
Rate per Equivalent Single-Family Dwelling	\$ 1,555	\$ 1,625	4.5%
Number of Equivalent Single-Family Dwellings	3,212	3,216	0.1%

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. Client Accounting, 585 Fiscal Drive, Room 100, Santa Rosa, CA 95403.

Russian River County Sanitation District
Statement of Net Position
June 30, 2019

Assets

Current assets:

Cash and investments	\$ 2,487,483
Accounts receivable	150,528
Due from other governments	21,134
Prepaid expenses	111
Restricted cash and investments	
Revenue bond fund	120,750
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Total current assets	2,780,006
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Noncurrent assets:

Cash and investments restricted for debt service and reserves	546,937
Cash and investments restricted for capital projects	233,392
Accounts receivable, noncurrent portion	194,602
Capital assets not being depreciated:	
Land	223,833
Intangible assets	7,355
Construction in progress	120,923
Capital assets, net of accumulated depreciation and amortization:	
Infrastructure	21,502,881
Intangible assets	47,856
Machinery and equipment	23,302
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Total capital assets (net of accumulated depreciation and amortization)	21,926,150
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Total noncurrent assets	22,901,081
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Total assets	25,681,087
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The notes to the basic financial statements are an integral part of this statement.

Russian River County Sanitation District
Statement of Net Position (Continued)
June 30, 2019

Liabilities

Current liabilities payable from unrestricted assets	
Accounts payable and accrued expenses	71,609
Advances from other governments	299,259
Accrued interest payable	28,588
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Total current liabilities payable from unrestricted assets	399,456
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Current liabilities payable from restricted assets	
Revenue bonds payable	115,000
Accrued interest payable	1,438
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Total current liabilities payable from restricted assets	116,438
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Noncurrent liabilities	
Advances from other governments	2,398,794
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Total liabilities	2,914,688
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Net Position	
Net investment in capital assets	19,113,097
Restricted for debt service	666,249
Restricted for capital projects	233,392
Unrestricted	2,753,661
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Total net position	\$ 22,766,399
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The notes to the basic financial statements are an integral part of this statement.

Russian River County Sanitation District
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2019

Operating revenues	
Flat charges	\$ 4,972,448
Charges for services	45,064
Other	451
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Total operating revenues	5,017,963
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Operating expenses	
Services and supplies	4,155,479
Fiscal agent fees and legal services	8,639
Depreciation and amortization	1,463,242
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Total operating expenses	5,627,360
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Operating loss	(609,397)
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Nonoperating revenues (expenses)	
Investment income	149,130
Interest expense	(82,312)
Intergovernmental revenue	757
Property tax revenue	722
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Total nonoperating revenues, net	68,297
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Loss before capital contributions	(541,100)
Capital contributions:	
Capital contributed from other governments - Federal	22,726
Capital contribution - connection fees	6,064
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Decrease in net position	(512,310)
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Net position - beginning of year	23,278,709
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Net position - end of year	\$ 22,766,399
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The notes to the basic financial statements are an integral part of this statement.

Russian River County Sanitation District
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2019

Cash flows from operating activities	
Receipts from customers	\$ 5,006,923
Payments to Sonoma Water - services and supplies	(2,819,334)
Payments to suppliers	(1,408,233)
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Net cash provided by operating activities	779,356
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Cash flows from noncapital financing activities	
Property taxes received	722
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Cash flows from capital and related financing activities	
Purchases of capital assets	(525,951)
Principal payments - advances from other governments	(291,876)
Principal payments - revenue bonds	(110,000)
Interest paid on capital debt	(87,412)
Connection fees received	6,064
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Net cash used in capital and related financing activities	(1,009,175)
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Cash flows from investing activities	
Interest received	149,130
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Net decrease in cash and cash equivalents	(79,967)
Cash and cash equivalents - beginning of year	3,468,529
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Cash and cash equivalents - end of year	\$ 3,388,562
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Reconciliation to the statement of net position	
Cash and investments	\$ 2,487,483
Restricted cash and investments	901,079
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Total cash and cash equivalents	\$ 3,388,562
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The notes to the basic financial statements are an integral part of this statement.

Russian River County Sanitation District
Statement of Cash Flows (Continued)
For the Fiscal Year Ended June 30, 2019

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

Operating loss	\$	(609,397)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation		1,463,242
Change in assets and liabilities:		
Increase in accounts and other receivables		(11,040)
Increase in prepaid expenses		(28)
Decrease in accounts payable and accrued expenses		(63,421)
Net cash provided by operating activities	\$	779,356

Non-cash investing, capital and financing activities:

Acquisition of capital assets in accounts payable		(34,277)
Grants receivable		756
Capital grants receivable		22,726

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

**Russian River County Sanitation District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019**

Note A. 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:

Defining the Financial Reporting Entity

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

Component Unit Reporting

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

New Accounting Pronouncements

The following Governmental Accounting Standards Board (GASB) Statements have been implemented in the current financial statements:

GASB Statement No. 83, *Certain Asset Retirement Obligations*. The requirements of this statement are effective for periods beginning after June 15, 2018 (FY 2018-19). This Statement addresses accounting and financial reporting for certain asset retirement obligations. The District implemented this statement as of July 1, 2018.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The requirements of this statement are effective for periods beginning after June 15, 2018 (FY 2018-19). The primary objective of this statement is to improve the information that is disclosed in note to government financial statements related to debt, including direct borrowings and direct placements. The District implemented this statement as of July 1, 2018.

GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The requirements of this statement are effective for periods beginning after December 15, 2019 (FY 2020-21). The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The District early adopted this statement as of July 1, 2018. Because of the early adoption of GASB Statement No. 89, the District expensed \$3,091 in interest that would have otherwise been capitalized.

**Russian River County Sanitation District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019**

Note A. Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

The District's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. All assets and liabilities associated with the operation of the District are included on the statement of net position. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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.

**Russian River County Sanitation District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019**

Note A. Summary of Significant Accounting Policies (continued)

Cash and Investments (continued)

In accordance with GASB Statement No. 31, “*Accounting and Financial Reporting for Certain Investments and External Investment Pools*” and GASB Statement No. 72, “*Fair Value Measurement and Application*”, investments are stated at fair value in the statement of net position and balance sheet and the corresponding changes in the fair value of investments are recognized in the year in which the change occurred. The District follows the practice of pooling cash and investments of all funds with the County Treasurer except for certain restricted funds held by outside custodians, funds held by a trustee or funds in dedicated investments for the benefit of an individual pool participant. The fair value of investments is determined annually. Interest earned on pooled investments is allocated quarterly to the appropriate funds based on their respective average daily balance for that quarter.

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 at the end of the year. Flat charges are established annually by the Board of Supervisors and billed through the County's property tax system. The District has recorded an allowance for uncollectible receivables and periodically assesses receivables for collectability.

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.

**Russian River County Sanitation District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019**

Note A. Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets include land, land improvements, buildings and improvements, machinery and equipment, infrastructure, and intangible assets. Assets that are purchased or constructed are reported at historical cost or at estimated historical cost if actual historical cost is not available. Capital projects spanning multiple years are recorded as construction in progress. Interest costs incurred during the construction phase of capital projects are included in the capitalized value of the assets constructed. Donated capital assets are valued at their estimated fair value on the date of donation.

Maintenance and repair costs are charged to operations when incurred. Improvements to existing assets that significantly increase performance, change capacities or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

Assets acquired under capital lease are amortized over the lesser of the useful life of the asset or the lease term. Depreciation and amortization are recognized using the straight-line method over the estimated useful life of the asset.

The capitalization thresholds and estimated useful lives for capital assets are as follows:

	Capitalization Threshold	Estimated Useful Life
Land	\$ -	N/A
Land improvements	25,000	15 to 50 years
Buildings and improvements:		
Buildings	25,000	50 years
Building improvements	25,000	15 to 20 years
Machinery and equipment	5,000	5 to 20 years
Infrastructure	100,000	25 to 75 years
Intangible Assets		
Computer software	25,000	3 to 10 years
Temporary easements	-	Life of easement
Permanent easements	-	N/A
Construction in progress	Projects expected to exceed the capitalization threshold for the applicable asset class	

**Russian River County Sanitation District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019**

Note A. 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 at the time of receipt and are not amortized.

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until then. The District did not have any items that qualified for reporting in this category as of June 30, 2019.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The District did not have any items that qualified for reporting in this category as of June 30, 2019. The District did not have any items that qualified for reporting in this category as of June 30, 2019.

Net Position

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

Budget and Budgetary Accounting

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

**Russian River County Sanitation District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019**

Note A. Summary of Significant Accounting Policies (continued)

Property Tax Revenue

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

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

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

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note B. Cash and Investments

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

Investment Guidelines

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

**Russian River County Sanitation District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019**

Note B. Cash and Investments (continued)

Investment Guidelines (continued)

Permitted investments include the following:

- U.S. Treasury and Federal Agency securities
- Bonds and Notes issued by local agencies
- Registered State warrants and municipal notes and bonds
- Negotiable certificates of deposit
- Bankers' acceptances
- Commercial paper
- Medium-term corporate notes
- Local Agency Investment Fund (State Pool) deposits
- Repurchase agreements
- Reverse repurchase agreements
- Securities lending agreements
- Mutual funds and money market mutual funds
- Collateralized mortgage obligations
- Collateral time deposits
- Joint power agreements
- Investment Trust of California (CalTRUST)
- Obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation or Inter-American Development Bank

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, 2019, the fair value of the District's cash and investments was \$3,388,562 which includes an unrealized gain fair value adjustment of \$30,429. Funds are held in the Treasury Pool managed by the Treasurer, which is not rated by credit rating agencies, and had a weighted average maturity of 552 days. The credit rating and other information regarding specific investments maintained in the Treasury Pool as of June 30, 2019 are disclosed in the County's Comprehensive Annual Financial Report.

Interest Rate Risk

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

Russian River County Sanitation District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

Note B. Cash and Investments (continued)

Custodial Credit Risk

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

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

Investments in external investment pools and in open-end mutual funds are not exposed to custodial credit risk. As of June 30, 2019, all of the District's investments were in the Treasury Pool and are therefore not exposed to custodial credit risk.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Treasury Pool does not have a credit rating. The District follows the County's policy to purchase investments with the minimum ratings required by the California Government Code. The credit ratings of investments held and other information regarding the Treasury Pool for the fiscal year ended June 30, 2019 are disclosed in the County's Comprehensive Annual Financial Report.

Fair Value Measurements

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District has a recurring fair value measurement for its investment in the Sonoma County Treasury Pool which is valued using significant other observable inputs (Level 2).

**Russian River County Sanitation District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019**

Note C. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2019 was as follows:

	July 1, 2018	Increases	Decreases	Transfers & Reclassification	June 30, 2019
Capital assets, not being depreciated:					
Land	\$ 223,833	\$ -	\$ -	\$ -	\$ 223,833
Intangibles	7,346	9	-	-	7,355
Construction in progress	40,333	484,337	-	(403,747)	120,923
Total capital assets, not being depreciated	271,512	484,346	-	(403,747)	352,111
Capital assets, being depreciated/amortized:					
Infrastructure	53,042,191	-	-	403,747	53,445,938
Intangibles	75,437	-	-	-	75,437
Machinery and equipment	111,737	7,330	-	-	119,067
Less accumulated depreciation/amortization for:					
Infrastructure	(30,493,691)	(1,449,366)	-	-	(31,943,057)
Intangibles	(20,025)	(7,556)	-	-	(27,581)
Machinery and equipment	(89,445)	(6,320)	-	-	(95,765)
Total accumulated depreciation/amortization	(30,603,161)	(1,463,242)	-	-	(32,066,403)
Total capital assets, being depreciated, net	22,626,204	(1,455,912)	-	403,747	21,574,039
Total capital assets, net	\$ 22,897,716	\$ (971,566)	\$ -	\$ -	\$ 21,926,150

Depreciation and amortization expense amounted to \$1,463,242 for the fiscal year ended June 30, 2019.

During the fiscal year ended June 30, 2005, the District received a loan of \$3,352,796, as a direct borrowing 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, 2019, the outstanding balance on the loan is \$1,343,730. 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.

**Russian River County Sanitation District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019**

Note D. Long-Term Obligations

Advances from other governments

The loan for the Third Unit Processes project has a provision that a penalty in the amount of 0.1% of the amount due will be due for each day of nonpayment following a 10-day grace period. The loan also contains a provision that if the District discontinues use, leases, or disposes of any significant part of the project before the end of its useful life, then the District may be required to repay all or a portion of the remaining funds covered by the loan agreement together with accrued interest.

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

Fiscal Year Ending June 30,	Principal	Interest	Total
2020	\$ 210,361	\$ 33,593	\$ 243,954
2021	215,620	28,334	243,954
2022	221,010	22,944	243,954
2023	226,536	17,418	243,954
2024	232,199	11,755	243,954
2025	238,004	5,950	243,954
Total	\$ 1,343,730	\$ 119,994	\$ 1,463,724

During fiscal year ended June 30, 2014, the District received a loan of \$3,884,450, as a direct borrowing from the State Water Resources Control Board to aid in funding the Disinfection Upgrade Project. In August 2014, the State Water Resources Control Board forgave \$1,942,225 of the principal contingent on the District's performance under the financing agreement. As of June 30, 2019, the outstanding balance on the loan is \$1,354,323. The loan is a State Revolving Loan with payments of principal and interest of \$124,111, payable annually in April. The term is 20 years at an annual interest rate of 2.6% with the last payment scheduled for April 2032.

The loan for the Disinfection Upgrade project has a provision that if the District fails to satisfy the terms of the agreement, no principal will be forgiven and the original loan principal will be due and payable immediately at the highest legal rate of interest. The loan also contains a provision that in the event of default, a penalty in the amount of costs incurred to the State Water Board will be due for each day of nonpayment following a 10-day grace period. Costs may include lost interest earnings, staff time, bond debt service default penalties, and other costs incurred. The loan also contains a provision that if the District discontinues use, leases, or disposes of any significant part of the project before the end of its useful life, then the District may be required to repay all or a portion of the remaining funds covered by the loan agreement together with accrued interest.

**Russian River County Sanitation District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019**

Note D. Long-Term Obligations (continued)

Advances from other governments (continued)

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

Fiscal Year Ending June 30,	Principal	Interest	Total
2020	\$ 88,898	\$ 35,212	\$ 124,110
2021	91,210	32,901	124,111
2022	93,581	30,530	124,111
2023	96,014	28,096	124,110
2024	98,511	25,600	124,111
2025-2029	532,331	88,223	620,554
2030-2032	353,778	18,554	372,332
Total	\$ 1,354,323	\$ 259,116	\$ 1,613,439

Revenue Bonds

The District also issued revenue bonds as a direct placement where the District pledges income derived from charges for services to pay debt service. The original amount of revenue bonds issued to finance construction projects to both expand existing wastewater treatment facilities and construct additional facilities was \$2,000,000. The bonds were issued in 1981 with an interest rate of 5.0%, 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, 2019 is \$115,000 and scheduled interest payments total \$5,750 which equals the remaining income pledged by the District through the fiscal year ending June 30, 2020 towards debt service on the revenue bonds. Principal and interest paid for the fiscal year ended June 30, 2019 and total customer net revenues were \$121,250 and \$1,002,975 respectively.

Revenue bond debt service requirements to maturity are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2020	\$ 115,000	\$ 5,750	\$ 120,750
Total	\$ 115,000	\$ 5,750	\$ 120,750

**Russian River County Sanitation District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019**

Note D. Long-Term Obligations (continued)

Changes in Long-Term Obligations

Long-term obligation activity for the year ended June 30, 2019 is as follows:

	July 1, 2018	Additions	Retirements	June 30, 2019	Due Within One Year
Advances from other					
governments - direct borrowings	\$ 2,989,929	\$ -	\$ (291,876)	\$ 2,698,053	\$ 299,259
Revenue bonds - direct placements	225,000	-	(110,000)	115,000	115,000
Total	\$ 3,214,929	\$ -	\$ (401,876)	\$ 2,813,053	\$ 414,259

Note E. Accrued Interest Payable

Interest payable as of June 30, 2019 consists of interest accrued on the State Water Resources Control Board loans of \$28,588 and the revenue bonds of \$1,438.

Note F. 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 Sonoma Water are component units of the County, and therefore, are considered related parties.

The District is managed by Sonoma Water, which provides administration, engineering, operational, and maintenance services. The District does not incur any payroll expenses. Sonoma Water charges the District for services based on direct labor plus overhead for Sonoma Water labor applied to District activities. The overhead rate is reviewed periodically by management to determine its effectiveness. During the fiscal year ended June 30, 2019, the District paid \$2,819,334 to Sonoma Water for operational services and \$59,432 for capital related services.

Note G. Commitments and Contingencies

Commitments

The District has active construction projects as of June 30, 2019. The projects include expansion and/or improvements of several wastewater treatment facilities. The June 30, 2019 construction in progress balance of \$120,913 represents the District's commitment to ongoing construction projects. This commitment includes both internal expenses and expenses paid to outside contractors.

Contractual commitments related to District operations and capital expansion were \$582,617 and \$29,644 respectively as of June 30, 2019.

**Russian River County Sanitation District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019**

Note G. Commitments and Contingencies (continued)

Pending Litigation, Claims, and Assessments

On August 14, 2014, the California Regional Water Quality Control Board, North Coast Region (NC Regional Board) issued a Cease and Desist Order (CDO) specifying compliance schedules for actions necessary to achieve final land discharge specifications for total dissolved solids and sodium and to ensure compliance with groundwater limitations and discharge prohibitions. Compliance actions under this CDO have been completed and reported to the Board. Final Board review is expected during District permit reissuance expected by mid-2020,

On June 20, 2016, the NC Regional Board adopted a Settlement Agreement and Order resolving an Administrative Liability Complaint ("ACL") for effluent limit violations at the District treatment plant from 2009 through 2014. The Settlement Agreement and Order also addresses an accidental spill that occurred from one of the District force mains in February 2014 due to a pipe rupture. The amount of \$67,885, a portion of the settlement amount, shall be suspended upon completion of an Enhanced Compliance Action which previously consisted of a manway installation into the force main at the main lift station by a deadline in October 2019. Staff met with NC Regional Board staff to discuss projects that may affect the deadline and recommended to the NC Regional Board that it was more fiscally responsible to rehabilitate the force main using grant funding. NC Regional Board staff agreed and staff are in process of completing the grant funding documentation. The amount of \$135,000 shall be suspended upon completion of a Compliance Project consisting of the rehabilitation and replacement of tertiary filters by October 2018, and this project was completed before the deadline. The District was to complete a force main assessment within five years from the date of the Order but as noted above has received agreement to rehabilitate the force main rather than assess its condition. District staff will be meeting with NC Regional Board staff to determine a final schedule for completing the rehabilitation which will go beyond the initial five year requirement.

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 litigation from various environmental groups and individuals. The District is also subject to Section X of the Endangered Species Act which deals with habitat conservation planning.

**Russian River County Sanitation District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019**

Note H. Risk Management

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

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

The County maintains "All Risk" property insurance including flood and earthquake through participation in the CSAC-EIA Property Insurance Program. Limits of coverage are \$800,000,000 per occurrence for All Risk, \$600,000,000 for flood (limits vary in FEMA flood zones) and earthquake coverage with shared limits of \$740,000,000. Deductibles for these perils are \$50,000 - \$100,000 per occurrence.

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

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

Note I. Future Governmental Accounting Standards

The Governmental Accounting Standards Board (GASB) has released the following standards which will be implemented in future financial statements:

GASB Statement No. 87 – Leases

The requirements of this Statement are effective for periods beginning after December 15, 2019 (FY 2020-21). The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

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



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

Independent Auditor's Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Russian River County Sanitation District (the "District"), a component unit of the County of Sonoma, California which comprise the statement of net position as of June 30, 2019, the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the notes to the financial statements, and have issued our report thereon dated September 27, 2019.

Internal Control over Financial Reporting

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

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

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

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

Independent Auditor's Report (continued)

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*.

Purpose of this Report

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

Pisenti & Brink LLP

Santa Rosa, California
September 27, 2019