

**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, 2021

**Russian River County Sanitation District  
For the Fiscal Year Ended June 30, 2021**

**Table of Contents**

	<u>Page(s)</u>
<b>Independent Auditor's Report</b> .....	1-2
<b>Management's Discussion and Analysis (Required Supplementary Information)</b> .....	3-10
<b>Basic Financial Statements:</b>	
Statement of Net Position .....	11-12
Statement of Revenues, Expenses and Changes in Net Position .....	13
Statement of Cash Flows .....	14-15
Notes to the Basic Financial Statements.....	16-29
<b>Compliance:</b>	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	30-31



## 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, 2021, 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, 2021, 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 30, 2021, 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.

*Pasenti & Brinku LLP*

Santa Rosa, California  
September 30, 2021

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

**Russian River County Sanitation District  
Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2021**

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, 2021. 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 \$21,359,190 (*net position*). Of this amount, \$3,365,929 (*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 \$5,696,533 during the fiscal year ended June 30, 2021. Of this amount, \$5,466,037 consists of operating revenues including flat charges and charges for services, and \$52,195 represents nonoperating revenues consisting of \$1,503 in intergovernmental revenue, \$50,678 in investment income and \$14 in property taxes. Capital contributions totaling \$178,301 consisted of \$131,249 in capital replacement grants from other governments and \$47,052 in connection fees.

*Expenses*

The District incurred expenses totaling \$7,273,678 during the fiscal year ended June 30, 2021. Of this amount \$7,216,434 represents operating expenses related to the collection, treatment, disposal, and reclamation of effluent, as well as administrative and general expenses. Nonoperating expenses consisted of \$57,244 of interest expense related to the District's long-term debt.

*Change in Net Position*

The District recorded an operating loss of \$1,750,397 for the fiscal year ended June 30, 2021, while recognizing an overall decrease in net position of \$1,577,145.

**Russian River County Sanitation District  
Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2021**

**Overview of the Financial Statements**

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

*Management's Discussion and Analysis*

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

*Financial Statements*

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

*Notes to the Basic Financial Statements*

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

**Financial Analysis**

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$21,359,190 at the close of the most recent fiscal year compared to net position of \$22,936,335 as of June 30, 2020. The District recorded an operating loss of \$1,750,397 for the fiscal year ended June 30, 2021. This loss was partially offset by capital contributions of \$178,301.

The largest portion of the District's net position (82.5% as of June 30, 2021 compared to 80.0% for June 30, 2020) reflects its investment in capital assets (e.g., land, easements, infrastructure, machinery and equipment, and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

**Russian River County Sanitation District  
Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2021**

**Financial Analysis (continued)**

A portion of the District's net position, \$378,313 (1.8% as of June 30, 2021), represents resources that are subject to external restrictions on how they may be used. The balance of unrestricted net position of \$3,365,929 as of June 30, 2021 may be used to meet the District's ongoing obligations to citizens and creditors. As of June 30, 2021, the District reports positive balances in all categories of net position.

*Condensed Statements of Net Position*

	<b>June 30, 2020</b>	<b>June 30, 2021</b>	<b>Percentage Change</b>
Current and other assets	\$ 4,726,172	\$ 4,927,988	4.3%
Capital assets, net	20,745,751	19,706,912	-5.0%
<b>Total assets</b>	<b>25,471,923</b>	<b>24,634,900</b>	<b>-3.3%</b>
Current liabilities	443,624	1,498,338	237.7%
Noncurrent liabilities	2,091,964	1,777,372	-15.0%
<b>Total liabilities</b>	<b>2,535,588</b>	<b>3,275,710</b>	<b>29.2%</b>
<b>Net position:</b>			
Net investment in capital assets	18,346,957	17,614,948	-4.0%
Restricted for capital projects	377,684	378,313	0.2%
Unrestricted	4,211,694	3,365,929	-20.1%
<b>Total net position</b>	<b>\$ 22,936,335</b>	<b>\$ 21,359,190</b>	<b>-6.9%</b>



**Russian River County Sanitation District  
Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2021**

**Financial Analysis (continued)**

*Condensed Statements of Changes in Net Position*

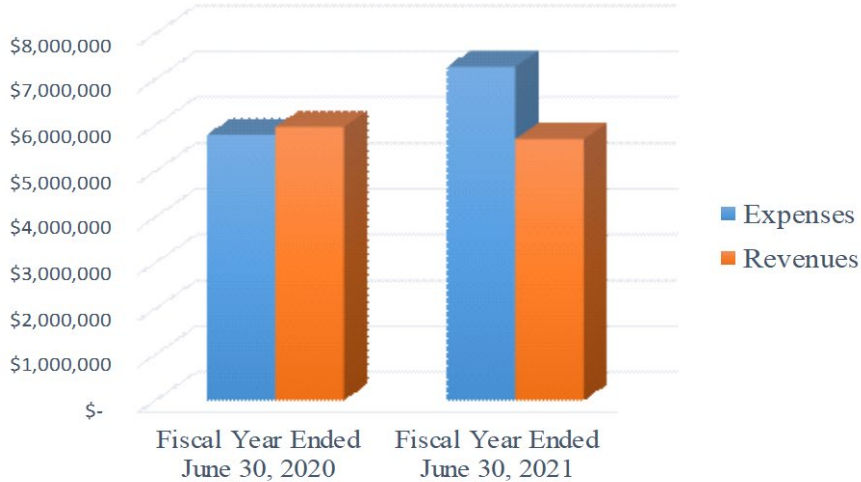
	<b>Fiscal Year Ended</b>		<b>Percentage Change</b>
	<b>June 30, 2020</b>	<b>June 30, 2021</b>	
<b>Revenues</b>			
Operating revenues	\$ 5,251,040	\$ 5,466,037	4.1%
Nonoperating revenues:			
Property taxes	59	14	-76.3%
Investment earnings	82,644	50,678	-38.7%
Intergovernmental	127,862	1,503	-98.8%
<b>Total revenues</b>	<b>5,461,605</b>	<b>5,518,232</b>	<b>1.0%</b>
<b>Expenses</b>			
Services and supplies	4,181,451	5,772,437	38.0%
Fiscal agent fees and legal services	8,865	10,355	16.8%
Depreciation and amortization	1,470,696	1,433,642	-2.5%
Loss on impairment of capital assets	62,736	-	-100.0%
Interest expense	69,342	57,244	-17.4%
<b>Total expenses</b>	<b>5,793,090</b>	<b>7,273,678</b>	<b>25.6%</b>
Loss before contributions	(331,485)	(1,755,446)	429.6%
Capital contributions - Federal	146,193	131,249	-10.2%
Capital contributions - Sonoma Water	350,000	-	-100.0%
Capital contributions - connection fees	5,228	47,052	800.0%
Increase (decrease) in net position	169,936	(1,577,145)	-1028.1%
<b>Net position, beginning of year</b>	<b>22,766,399</b>	<b>22,936,335</b>	<b>0.7%</b>
<b>Net position, end of year</b>	<b>\$ 22,936,335</b>	<b>\$ 21,359,190</b>	<b>-6.9%</b>

The District's net position decreased by \$1,577,145 during the fiscal year ended June 30, 2021 compared to an increase of \$169,936 during the fiscal year ended June 30, 2020. The primary reasons for the decrease in net position were a decrease in capital contributions of \$323,120 and an increase of \$1,590,986 in services and supplies expense.

**Russian River County Sanitation District  
Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2021**

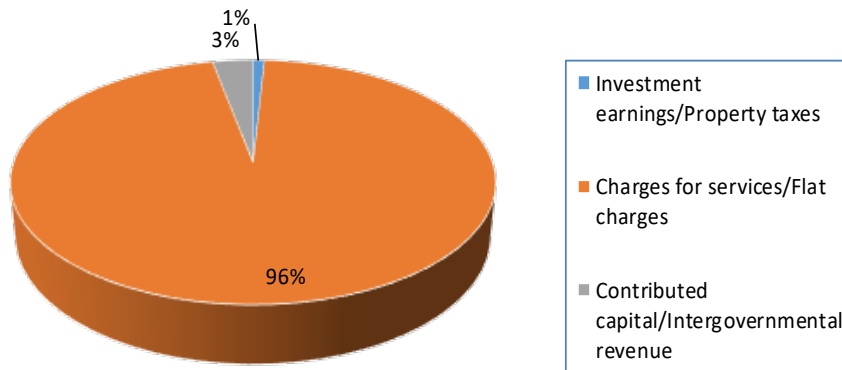
**Financial Analysis (continued)**

*Expenses and Revenues*



Total revenues, including capital contributions, of the District for the fiscal year ended June 30, 2021 totaled \$5,696,533, representing a decrease of \$266,493 from the preceding fiscal year revenues of \$5,963,026. The rate based operating charges, representing 96.0% of the District's total revenue, increased by \$214,997. Investment earnings decreased from the preceding year by \$31,966. Intergovernmental revenue for the fiscal year ended June 30, 2021 totaled \$1,503, representing a decrease of \$126,359 from the preceding fiscal year. Capital contributions totaled \$178,301 which decreased from previous fiscal year's total of \$501,421. The primary reason for the decrease in capital contributions was a decrease of \$350,000 from Sonoma Water. Capital contributions and intergovernmental revenue make up 3% of the District's revenue, which consists of connection fees \$47,052, Federal contributions \$131,249 and intergovernmental revenue of \$1,503. The combined effect overall was a decrease in revenues, including capital contributions, of 4.5% for the fiscal year ended June 30, 2021.

*Revenues by Source*



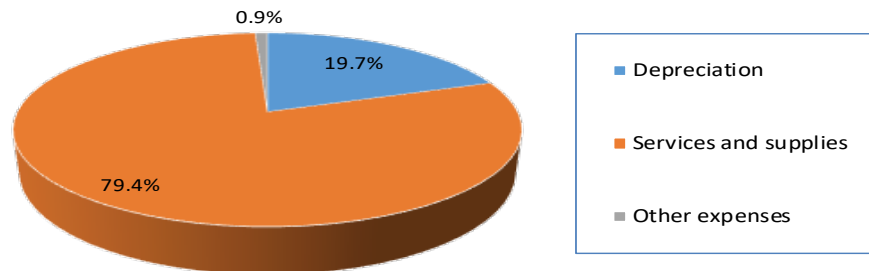
**Russian River County Sanitation District  
Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2021**

**Financial Analysis (continued)**

Total expenses for the District increased \$1,480,588 to \$7,273,678 for the fiscal year ended June 30, 2021. Services and supplies, which reflect costs associated with the collection, treatment, and disposal of effluent increased \$1,590,986 (38.0%) to \$5,772,437. This was due primarily to increases in operations and maintenance costs including an emergency manhole repair, collection system maintenance, a pump replacement, and the estimated costs of ongoing settlement negotiations with regulators concerning storm sewer overflows during storm events in 2017 and 2019. Interest expenses decreased by \$12,098, due to lower principal debt balances as compared to the prior year. The overall effect was an increase in expenses of 25.6%.

Services and supplies represented 79.4% of the District's expenses. Annual depreciation expense on capital assets of \$1,433,642 represented 19.7% of the District's total expenses. Other expenses consisting of interest expense and fiscal agent and legal services, represented less than 1% of the District's total expenses.

*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, 2021, amounts to \$19,706,912. 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 assets is primarily attributable to scheduled depreciation and amortization.

**Russian River County Sanitation District  
Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2021**

**Capital Asset and Debt Administration (continued)**

*Russian River County Sanitation District's Capital Assets*

	June 30, 2020	June 30, 2021	Percentage Change
Land	\$ 223,833	\$ 223,833	0.0%
Intangible assets	92,837	92,837	0.0%
Construction in progress	368,713	749,624	103.3%
Infrastructure	53,445,938	53,445,938	0.0%
Machinery and equipment	133,937	147,829	10.4%
Accumulated depreciation and amortization	(33,519,507)	(34,953,149)	4.3%
<b>Total</b>	<b>\$ 20,745,751</b>	<b>\$ 19,706,912</b>	<b>-5.0%</b>

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

*Long-term Obligations*

At June 30, 2021, the District had a total of \$2,091,964 in advances from other governments, related to advances from the State Water Resources Control Board.

*Long-Term Debt*

	June 30, 2020	June 30, 2021	Percentage Change
Advances from other governments	\$ 2,398,794	\$ 2,091,964	-12.8%
<b>Total long-term debt</b>	<b>\$ 2,398,794</b>	<b>\$ 2,091,964</b>	<b>-12.8%</b>

The District's total debt decreased by \$306,830 (12.8%) during the fiscal year ended June 30, 2021. This was due to a decrease in advances from other governments due to regular annual principal payments to the State Water Resources Control Board.

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

**Economic Factors and Next Year's Budget and Rates**

Budgeted gross expenses, including capital projects expenditures, for the District for fiscal year ending June 30, 2022 have decreased by \$7,497,666 (49.9%) for a total of \$7,520,654. The largest variances in year over year budget are decreases in capital spending related to various capital projects; decreases in contract services related to the grant funded headworks, lift station, and force main project; and decreases in budgeted transfers from the operations fund to the construction fund. Since the final principal and interest payments have been made on the revenue bonds, the budget for the fiscal year ending June 30, 2021 included a one-time transfer from the revenue bond reserve fund to the operations fund.

**Russian River County Sanitation District  
Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2021**

**Economic Factors and Next Year's Budget and Rates (continued)**

Following is a comparison of the final budget for the fiscal year ended June 30, 2021 and the proposed budgeted expenses for the District for the fiscal year ending June 30, 2022.

	Fiscal Year Ended June 30, 2021	Fiscal Year Ending June 30, 2022	Increase / (Decrease)	Percentage Change
Operations	\$ 8,714,406	\$ 6,720,974	\$ (1,993,432)	-22.9%
Revenue bonds	419,092	-	(419,092)	-100.0%
Bonds	51,550	-	(51,550)	-100.0%
Revenue bonds reserve	121,250	-	(121,250)	-100.0%
Construction	5,712,022	799,680	(4,912,342)	-86.0%
<b>Total</b>	<b>\$ 15,018,320</b>	<b>\$ 7,520,654</b>	<b>\$ (7,497,666)</b>	<b>-49.9%</b>

Budgeted expenses for fiscal year ended June 30, 2021 differ in several instances from the budgeted expenses presented in the management's discussion and analysis for the period ended June 30, 2020. 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, 2020.

The District's sewer service fees were increased for the 2021/22 budget year due to a board approved increase in rates of 4.0%.

The following table shows the sanitation service rates and equivalent single-family dwellings for the District:

	Fiscal Year Ended June 30, 2021	Fiscal Year Ending June 30, 2022	Percentage Change
Rate per Equivalent Single-Family Dwelling	\$ 1,706	\$ 1,774	4.0%
Number of Equivalent Single-Family Dwellings	3,213	3,214	0.0%

**Request for Additional Information:**

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Sonoma County Auditor-Controller Treasurer Tax Collector's Office, ATTN: Client Accounting, 585 Fiscal Drive, Room 100, Santa Rosa, CA 95403.

**Russian River County Sanitation District**  
**Statement of Net Position**  
**June 30, 2021**

**Assets**

Current assets:

Cash and investments	\$	4,065,167
Accounts receivable		143,913
Due from other governments		120,207
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Total current assets		4,329,287
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Noncurrent assets:

Cash and investments restricted for capital projects		378,313
Accounts receivable, noncurrent portion		220,388
Capital assets not being depreciated:		
Land		223,833
Intangible assets		17,400
Construction in progress		749,624
Capital assets, net of accumulated depreciation and amortization:		
Infrastructure		18,629,193
Intangible assets		32,744
Machinery and equipment		54,118
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Total capital assets (net of accumulated depreciation and amortization)		19,706,912
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Total noncurrent assets		20,305,613
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Total assets		24,634,900
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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, 2021**

**Liabilities**

Current liabilities:

Accounts payable and accrued expenses	126,077
Unearned revenue	265,755
Due to other governments	771,057
Advances from other governments	314,592
Accrued interest payable	20,857
Total current liabilities	1,498,338

Noncurrent liabilities:

Advances from other governments	1,777,372
Total liabilities	3,275,710

**Net Position**

Net investment in capital assets	17,614,948
Restricted	378,313
Unrestricted	3,365,929
Total net position	\$ 21,359,190

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, 2021**

<b>Operating revenues</b>	
Flat charges	\$ 5,431,326
Charges for services	34,711
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Total operating revenues	5,466,037
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<b>Operating expenses</b>	
Services and supplies	5,772,437
Fiscal agent fees and legal services	10,355
Depreciation and amortization	1,433,642
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Total operating expenses	7,216,434
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Operating loss	(1,750,397)
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<b>Nonoperating revenues (expenses)</b>	
Investment earnings	50,678
Intergovernmental revenue	1,503
Interest expense	(57,244)
Property taxes	14
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Total nonoperating expenses, net	(5,049)
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Loss before capital contributions	(1,755,446)
Capital contributions:	
Federal grants	131,249
Connection fees	47,052
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<b>Decrease in net position</b>	<b>(1,577,145)</b>
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<b>Net position - beginning of year</b>	<b>22,936,335</b>
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<b>Net position - end of year</b>	<b>\$ 21,359,190</b>
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The notes to the basic financial statements are an integral part of this statement.



**Russian River County Sanitation District**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2021**

<b>Cash flows from operating activities</b>	
Receipts from customers	\$ 5,475,638
Payments to Sonoma Water - services and supplies	(3,786,929)
Payments to suppliers	(2,011,906)
<b>Net cash used in operating activities</b>	<b>(323,197)</b>
<b>Cash flows from noncapital financing activities</b>	
Intergovernmental revenue received	1,051,510
Property taxes received	14
<b>Net cash provided by noncapital financing activities</b>	<b>1,051,524</b>
<b>Cash flows from capital and related financing activities</b>	
Purchase of capital assets	(343,475)
Capital contributions from other governments - Federal	147,361
Principal payments - advances from other governments	(306,830)
Interest paid on capital debt	(61,235)
Connection fees	47,052
<b>Net cash used in capital and related financing activities</b>	<b>(517,127)</b>
<b>Cash flows from investing activities</b>	
Interest received	50,678
<b>Net increase in cash and cash equivalents</b>	<b>261,878</b>
<b>Cash and cash equivalents - beginning of year</b>	<b>4,181,602</b>
<b>Cash and cash equivalents - end of year</b>	<b>\$ 4,443,480</b>
<b>Reconciliation to the statement of net position:</b>	
Cash and investments	\$ 4,065,167
Restricted cash and investments	378,313
<b>Cash and cash equivalents</b>	<b>\$ 4,443,480</b>

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, 2021**

**Reconciliation of operating loss to net cash  
used in operating activities:**

Operating loss	\$ (1,750,397)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	1,433,642
Change in assets and liabilities:	
Decrease in accounts receivable	9,602
Decrease in prepaid items	97
Decrease in accounts payable and accrued expenses	(16,141)
<b>Net cash used in operating activities</b>	<b>\$ (323,197)</b>

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

Acquisition of capital assets in accounts payable	\$ 51,328
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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, 2021**

**Note A. Summary of Significant Accounting Policies**

The Russian River County Sanitation District (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 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 in the Russian River area of Sonoma County.

*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.

*Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

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

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

**Russian River County Sanitation District**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2021**

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

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

Proprietary funds distinguish operating from nonoperating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District are flat charges and charges for services. Operating expenses for the District include expenses relating to the collection, treatment, disposal, and reclamation of effluent as well as administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

*Cash and Investments*

The District's cash and investments are pooled with the Sonoma County Treasurer (Treasurer). The Treasurer also acts as a disbursing agent for the District. The fair value of the investments in the pool is determined quarterly. Realized and unrealized gains or losses and interest earned on pooled investments are allocated quarterly to the District based on its respective average daily balance for that quarter in the County Treasury Investment Pool (the Treasury Pool), an external investment pool.

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.

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

**Russian River County Sanitation District**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2021**

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

*Accounts Receivable*

Accounts receivable consists of uncollected fees for sanitation services and flat charges at the end of the year. Flat charges are established annually by the Board of Supervisors and billed through the County's property tax system. The District has not recorded an allowance for uncollectible receivables as it deems all receivables as fully collectable. However some receivables have been classified as noncurrent as they are not considered collectable in the subsequent period.

*Restricted Assets*

Restricted assets represent cash and investments maintained in accordance with state loan agreements.

*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.

**Russian River County Sanitation District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2021**

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

*Capital Assets (continued)*

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.

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	N/A

*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.

**Russian River County Sanitation District**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2021**

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

*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 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.

*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.

**Russian River County Sanitation District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2021**

**Note B. Cash and Investments (continued)**

*Investment Guidelines*

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

Permitted investments include the following:

- U.S. Treasury and Federal Agency securities
- Bonds and Notes issued by local agencies
- Registered State warrants and municipal notes and bonds
- Negotiable certificates of deposit
- Bankers' acceptances
- Commercial paper
- Medium-term corporate notes
- Local Agency Investment Fund (State Pool) deposits
- Repurchase agreements
- Reverse repurchase agreements
- Securities lending agreements
- Mutual funds and money market mutual funds
- Collateralized mortgage obligations
- Collateral time deposits
- Joint power agreements
- Investment Trust of California (CalTRUST)
- 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, 2021, the fair value of the District's cash and investments was \$4,443,480 which includes an unrealized loss fair value adjustment of \$1,357. 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 749 days. The credit rating and other information regarding specific investments maintained in the Treasury Pool as of June 30, 2021 are disclosed in the County's Comprehensive Annual Financial Report.



**Russian River County Sanitation District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2021**

**Note B. Cash and Investments (continued)**

*Interest Rate Risk*

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

*Custodial Credit Risk*

With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as the Treasury Pool.)

*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, 2021 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, 2021**

**Note C. Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2021 was as follows:

	July 1, 2020	Increases	Decreases	Transfers & Reclassification	June 30, 2021
Capital assets, not being depreciated:					
Land	\$ 223,833	\$ -	\$ -	\$ -	\$ 223,833
Intangibles	17,400	-	-	-	17,400
Construction in progress	368,713	394,803	-	(13,892)	749,624
Total capital assets, not being depreciated	609,946	394,803	-	(13,892)	990,857
Capital assets, being depreciated/amortized:					
Infrastructure	53,445,938	-	-	-	53,445,938
Intangibles	75,437	-	-	-	75,437
Machinery and equipment	133,937	-	-	13,892	147,829
Total capital assets being depreciated/amortized	53,655,312	-	-	13,892	53,669,204
Less accumulated depreciation/amortization for:					
Infrastructure	(33,399,152)	(1,417,593)	-	-	(34,816,745)
Intangibles	(35,137)	(7,556)	-	-	(42,693)
Machinery and equipment	(85,218)	(8,493)	-	-	(93,711)
Total accumulated depreciation/amortization	(33,519,507)	(1,433,642)	-	-	(34,953,149)
Total capital assets, being depreciated, net	20,135,805	(1,433,642)	-	13,892	18,716,055
Total capital assets, net	\$ 20,745,751	\$ (1,038,839)	\$ -	\$ -	\$ 19,706,912

Depreciation and amortization expense amounted to \$1,433,642 for the fiscal year ended June 30, 2021.

**Note D. Long-Term Obligations**

*Advances from Other Governments*

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, 2021, the outstanding balance on the loan is \$917,749. The loan is a State Revolving Loan with principal and interest 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, 2021**

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

*Advances from Other Governments (continued)*

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
2022	\$ 221,011	\$ 22,944	\$ 243,955
2023	226,535	17,418	243,953
2024	232,199	11,755	243,954
2025	238,004	5,950	243,954
<b>Total</b>	<b>\$ 917,749</b>	<b>\$ 58,067</b>	<b>\$ 975,816</b>

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, 2021, the outstanding balance on the loan is \$1,174,215. 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, 2021**

**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		Principal	Interest	Total
June 30,				
2022	\$	93,581	\$ 30,530	\$ 124,111
2023		96,014	28,096	124,110
2024		98,511	25,600	124,111
2025		101,072	23,039	124,111
2026		103,700	20,411	124,111
2027-2031		560,371	60,182	620,553
2032		120,966	3,145	124,111
<b>Total</b>	<b>\$</b>	<b>1,174,215</b>	<b>\$ 191,003</b>	<b>\$ 1,365,218</b>

*Changes in Long-Term Obligations*

Long-term obligation activity for the year ended June 30, 2021 is as follows:

	July 1, 2020	Additions	Retirements	June 30, 2021	Due Within One Year
Advances from other					
governments - direct borrowings	\$ 2,398,794	\$ -	\$ (306,830)	\$ 2,091,964	\$ 314,592
<b>Total</b>	<b>\$ 2,398,794</b>	<b>\$ -</b>	<b>\$ (306,830)</b>	<b>\$ 2,091,964</b>	<b>\$ 314,592</b>

**Note E. Accrued Interest Payable**

Interest payable as of June 30, 2021 consists of interest accrued on the State Water Resources Control Board loans of \$20,857.

**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, 2021, the District paid \$3,786,929 to Sonoma Water for operational services and \$245,416 for acquisition and construction of capital assets.

**Russian River County Sanitation District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2021**

**Note G. Commitments and Contingencies**

*Construction*

The District has active construction projects as of June 30, 2021. The projects include expansion and/or improvements of several wastewater treatment facilities. The June 30, 2021 construction in progress balance of \$749,624 represents the District's internal costs and amount paid to outside contractors.

*Commitments*

Future contractual commitments related to District operations and capital expansion were \$666,899 and \$1,333,652 respectively as of June 30, 2021.

*Pending Litigation, Claims, and Assessments*

On June 20, 2016, the North Coast Regional Water Quality Board (NC Regional Board) adopted a Settlement Agreement and Order resolving an Administrative Civil 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. 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.

On June 15, 2021, the North Coast Regional Water Quality Control Board invited the District and Sonoma Water to participate in settlement negotiations concerning storm sewer overflows that occurred from the District sewer system during the flooding disaster on the Russian River in both 2017 and 2019. The Regional Board is seeking to enforce for three overflows that occurred in 2017 and three overflows that occurred in 2019. The invitation to negotiate was accepted, and settlement negotiations are ongoing. It is uncertain whether the matter will settle or be adjudicated in a formal administrative hearing at this time, and it is not possible to determine what the final liability will be. Based on prior experience with similar settlement negotiations, the District has recorded a liability of \$750,000.

**Russian River County Sanitation District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2021**

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

*Other Regulatory Matters*

The District is subject to Section VII of the Endangered Species Act. Section VII requires that all affected agencies, including the District, consult with fish and wildlife officials before performing any work which might disrupt or harm any endangered or threatened species or their habitat. This Act increases the possibility of 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.

*Other Contingencies*

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the District operates. While it is unknown how long these conditions will last and what the complete financial effect will be to the District, the outbreak has not had a material adverse impact to the District's operations to date. However, the future impact of the outbreak is highly uncertain and cannot be predicted. Accordingly, there is no assurance that the outbreak will not have a material adverse impact in the future.

**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 \$600,000,000 per occurrence for All Risk, \$225,000,000 for flood (limits vary in the Federal Emergency Management Agency flood zones) and earthquake coverage with shared limits of \$665,000,000. Deductibles for these perils are \$50,000 per occurrence.

**Russian River County Sanitation District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2021**

**Note H. Risk Management (continued)**

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, 2021 (FY 2021-22). 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.

*GASB Statement No. 91 – Conduit Debt Obligations*

The requirements of this statement are effective for the fiscal year ending June 30, 2023. It provides a single method of reporting conduit debt obligations by issues and eliminates diversity in practice with (1) commitments extended by users, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

*GASB Statement No. 92 – Omnibus 2020*

The requirements of this statement are effective for the fiscal year ending June 30, 2022. The objective of this statement enhances comparability in accounting and financial reporting by addressing practice issues that have been identified during the implementation and application of certain GASB statements.

**Russian River County Sanitation District**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2021**

**Note I. Future Governmental Accounting Standards (continued)**

*GASB Statement No. 96 – Subscription-Based Information Technology Arrangements (SBITA)*

Statement No. 96 provides guidance on the accounting and financial reporting for subscription-based information technology for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset- an intangible asset- and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended.

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





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

### **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, 2021, 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 30, 2021.

### **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.



Santa Rosa, California  
September 30, 2021