

**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, 2020

**Russian River County Sanitation District
For the Fiscal Year Ended June 30, 2020**

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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, 2020, 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, 2020, 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, 2020, 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.

A handwritten signature in black ink that reads "Presente & Brink LLP". The signature is written in a cursive, flowing style.

Santa Rosa, California
September 30, 2020

Management's Discussion and Analysis

**Russian River County Sanitation District
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2020**

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, 2020. 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 \$22,936,335 (*net position*). Of this amount, \$4,211,694 (*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 \$5,963,026 during the fiscal year ended June 30, 2020. Of this amount, \$5,251,040 consists of operating revenues including flat charges and charges for services, and \$210,565 represents nonoperating revenues consisting of intergovernmental revenue (\$127,862), investment income (\$82,644) and property taxes (\$59). Capital contributions totaling \$501,421 consisted of capital replacement grants from other governments (\$496,193) and connection fees (\$5,228).

Expenses

The District incurred expenses totaling \$5,793,090 during the fiscal year ended June 30, 2020. Of this amount \$5,661,012 represents operating expenses related to the collection, treatment, disposal, and reclamation of effluent, as well as administrative and general expenses. Nonoperating expenses consisted of \$69,342 of interest expense related to the District's long-term debt and a \$62,736 loss on impairment of capital assets.

Change in Net Position

The District recorded an operating loss of \$409,972 for the fiscal year ended June 30, 2020, while recognizing an overall increase in net position of \$169,936.

**Russian River County Sanitation District
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2020**

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, 2020**

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 \$22,936,335 at the close of the most recent fiscal year compared to net position of \$22,766,399 as of June 30, 2019. The primary reason for the \$169,936 increase in net position was \$501,421 in capital contributions partially offset by an operating loss of \$409,972.

The largest portion of the District's net position (80.0% as of June 30, 2020 compared to 84.0% for June 30, 2019) 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, \$377,684 (1.6% as of June 30, 2020), represents resources that are subject to external restrictions on how they may be used. The balance of unrestricted net position of \$4,211,694 as of June 30, 2020 may be used to meet the District's ongoing obligations to citizens and creditors. As of June 30, 2020, the District reports positive balances in all categories of net position.

Condensed Statements of Net Position

| | June 30, 2019 | June 30, 2020 | Percentage Change |
|----------------------------------|----------------------|----------------------|------------------------------|
| Current and other assets | \$ 3,754,937 | \$ 4,726,172 | 25.9% |
| Capital assets, net | 21,926,150 | 20,745,751 | -5.4% |
| Total Assets | 25,681,087 | 25,471,923 | -0.8% |
| Current liabilities | 515,894 | 443,624 | -14.0% |
| Noncurrent liabilities | 2,398,794 | 2,091,964 | -12.8% |
| Total Liabilities | 2,914,688 | 2,535,588 | -13.0% |
| Net position: | | | |
| Net investment in capital assets | 19,113,097 | 18,346,957 | -4.0% |
| Restricted for debt service | 666,249 | - | -100.0% |
| Restricted for capital projects | 233,392 | 377,684 | 61.8% |
| Unrestricted | 2,753,661 | 4,211,694 | 52.9% |
| Total Net Position | \$ 22,766,399 | \$ 22,936,335 | 0.7% |

**Russian River County Sanitation District
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2020**

Financial Analysis (continued)

Condensed Statements of Changes in Net Position

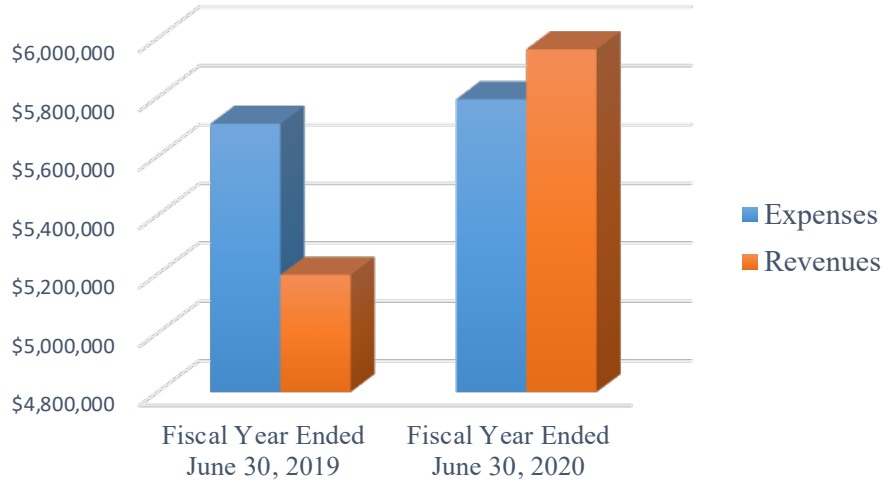
| | Fiscal Year Ended | | Percentage Change |
|---|--------------------------|----------------------|------------------------------|
| | June 30, 2019 | June 30, 2020 | |
| Revenues | | | |
| Operating revenues | \$ 5,017,963 | \$ 5,251,040 | 4.6% |
| Nonoperating revenues: | | | |
| Property taxes | 722 | 59 | -91.8% |
| Investment earnings | 149,130 | 82,644 | -44.6% |
| Intergovernmental | 757 | 127,862 | 16790.6% |
| Total revenues | 5,168,572 | 5,461,605 | 5.7% |
| Expenses | | | |
| Services and supplies | 4,155,479 | 4,181,451 | 0.6% |
| Fiscal agent fees and legal services | 8,639 | 8,865 | 2.6% |
| Depreciation and amortization | 1,463,242 | 1,470,696 | 0.5% |
| Loss on impairment of capital assets | - | 62,736 | NA |
| Interest expense | 82,312 | 69,342 | -15.8% |
| Total expenses | 5,709,672 | 5,793,090 | 1.5% |
| Loss before contributions | (541,100) | (331,485) | -38.7% |
| Capital contributions - Federal | 22,726 | 146,193 | 543.3% |
| Capital contributions - Sonoma Water | - | 350,000 | NA |
| Capital contributions - connection fees | 6,064 | 5,228 | -13.8% |
| Increase (decrease) in net position | (512,310) | 169,936 | -133.2% |
| Net position, beginning of year | 23,278,709 | 22,766,399 | -2.2% |
| Net position, end of year | \$ 22,766,399 | \$ 22,936,335 | 0.7% |

The District's net position increased by \$169,936 during the fiscal year ended June 30, 2020 compared to a decrease of \$512,310 during the fiscal year ended June 30, 2019.

**Russian River County Sanitation District
Management’s Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2020**

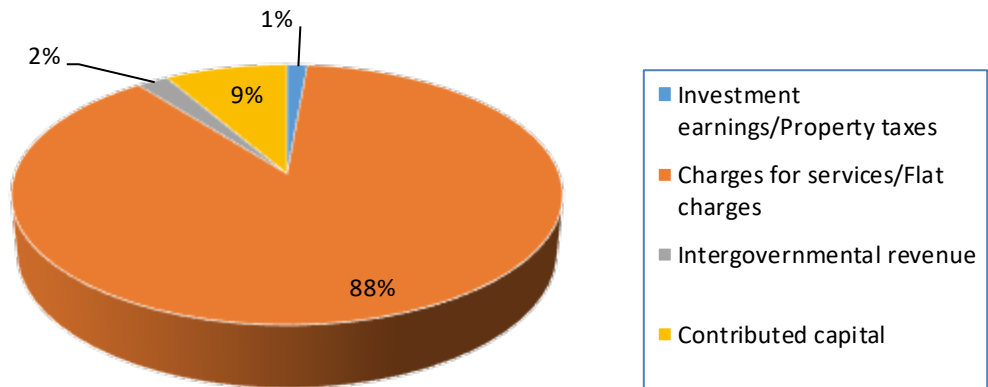
Financial Analysis (continued)

Expenses and Revenues



Total revenues, including capital contributions, of the District for the fiscal year ended June 30, 2020 totaled \$5,963,026, representing an increase of \$765,664 from the preceding fiscal year revenues of \$5,197,362. The rate based operating charges, representing 88.1% of the District’s total revenue, increased by \$233,077; property taxes, representing less than 0.1% of the District’s total revenue, decreased by \$663 due to the payment in full of the 1979 General Obligation Bonds. Investment earnings decreased from the preceding year by \$66,486. Capital contributions consisting of connection fees (\$5,228), Federal contributions (\$146,193) and Sonoma Water contributions (\$350,000) comprised 8.4% of the District’s revenue. Intergovernmental revenue totaling \$127,862 comprised 2.1% of the District’s revenue. The combined effect overall was an increase in revenues, including capital contributions, of 14.7% for the fiscal year ended June 30, 2020.

Revenues by Source

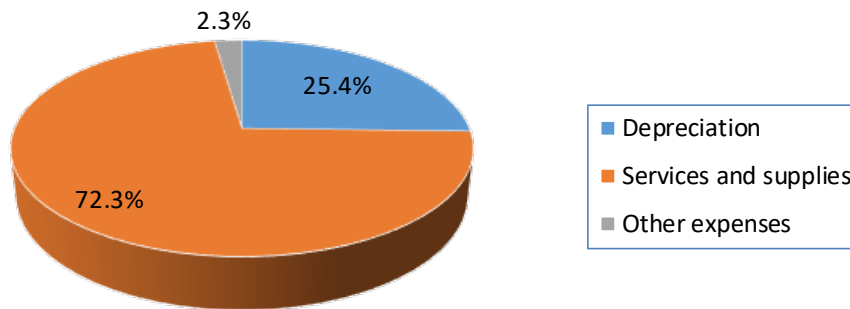


**Russian River County Sanitation District
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2020**

Financial Analysis (continued)

Total expenses for the District increased \$83,418 to \$5,793,090 for the fiscal year ended June 30, 2020. The primary cause of this increase was a loss on capital asset impairments of \$62,736. Services and supplies, which reflect costs associated with the collection, treatment, and disposal of effluent increased \$26,198 (0.6%) to \$4,190,316, due primarily to increases in operations and maintenance costs. In addition, interest expense decreased by \$12,970, due to lower principal debt balances as compared to the prior year. The overall effect was an increase in expenses of 1.5%.

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, 2020, amounts to \$20,745,751. 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 depreciation and amortization.

Russian River County Sanitation District's Capital Assets

| | June 30, 2019 | June 30, 2020 | Percentage Change |
|---|----------------------|----------------------|-------------------|
| Land | \$ 223,833 | \$ 223,833 | 0.0% |
| Intangible assets | 82,792 | 92,837 | 12.1% |
| Construction in progress | 120,923 | 368,713 | 204.9% |
| Infrastructure | 53,445,938 | 53,445,938 | 0.0% |
| Machinery and equipment | 119,067 | 133,937 | 12.5% |
| Accumulated depreciation and amortization | (32,066,403) | (33,519,507) | 4.5% |
| Total | \$ 21,926,150 | \$ 20,745,751 | -5.4% |

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, 2020**

Capital Asset and Debt Administration (continued)

Long-term Obligations

At June 30, 2020, the District had a total of \$2,398,794 in advances from other governments, related to advances from the State Water Resources Control Board.

Long-Term Debt

| | June 30, 2019 | June 30, 2020 | Percentage Change |
|---------------------------------|---------------------|---------------------|----------------------|
| Revenue bonds | \$ 115,000 | \$ - | -100.0% |
| Advances from other governments | 2,698,053 | 2,398,794 | -11.1% |
| Total long-term debt | \$ 2,813,053 | \$ 2,398,794 | -14.7% |

The District's total debt decreased by \$414,259 during the fiscal year ended June 30, 2020. Advances from other governments decreased by \$299,259 (11.1%) due to regular annual principal payments to the State Water Resources Control Board. The final payment on the revenue bonds was made during the fiscal year ended June 30, 2020.

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, 2021 have decreased by \$1,811,587 (15.4%) for a total of \$9,941,708. The largest variances in year over year budget are decreases in increases in capital spending related to the seismic retrofit of secondary clarifiers project; decreases in contract services related to the grant funded project headworks, lift station, and force main project; and decreases in district operations charges payable to Sonoma Water. Since the final principal and interest payments have been made on the revenue bonds, the budget for the fiscal year ending June 30, 2021 includes a one-time transfer from the revenue bond reserve fund to the operations fund.

Following is a comparison of the final budget for the fiscal year ended June 30, 2020 and the proposed budgeted expenses for the District for the fiscal year ending June 30, 2021.

| | Fiscal Year Ended June 30, 2020 | Fiscal Year Ending June 30, 2021 | Increase / (Decrease) | Percentage Change |
|------------------------------|---------------------------------------|--|--------------------------|----------------------|
| Operations | \$ 7,898,545 | \$ 7,165,867 | \$ (732,678) | -9.3% |
| Debt service - revenue bonds | 5,750 | - | (5,750) | -100.0% |
| Revenue bonds reserve | - | 121,250 | 121,250 | 100.0% |
| Construction | 3,849,000 | 2,654,591 | (1,194,409) | -31.0% |
| Total | \$ 11,753,295 | \$ 9,941,708 | \$ (1,811,587) | -15.4% |

**Russian River County Sanitation District
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2020**

Next Year's Budget and Rates (continued)

Budgeted expenses for fiscal year ended June 30, 2020 differ in several instances from the budgeted expenses presented in the management's discussion and analysis for the period ended June 30, 2019. 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, 2019.

The Districts sewer service fees were increased for the 2020/21 budget year due to a board approved increase in rates of 5.0%.

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

| | Fiscal Year Ended June 30, 2020 | Fiscal Year Ending June 30, 2021 | Percentage Change |
|--|--|---|------------------------------|
| Rate per Equivalent Single-Family Dwelling | \$ 1,625 | \$ 1,706 | 5.0% |
| Number of Equivalent Single-Family Dwellings | 3,212 | 3,213 | 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, 2020

Assets

Current assets:

| | |
|----------------------------|--------------|
| Cash and investments | \$ 3,803,918 |
| Accounts receivable | 160,709 |
| Due from other governments | 170,571 |
| Prepaid expenses | 97 |
| <hr/> | |
| Total current assets | 4,135,295 |

Noncurrent assets:

| | |
|---|------------|
| Cash and investments restricted for capital projects | 377,684 |
| Accounts receivable, noncurrent portion | 213,193 |
| Capital assets not being depreciated: | |
| Land | 223,833 |
| Intangible assets | 17,400 |
| Construction in progress | 368,713 |
| Capital assets, net of accumulated depreciation and amortization: | |
| Infrastructure | 20,046,786 |
| Intangible assets | 40,300 |
| Machinery and equipment | 48,719 |
| <hr/> | |
| Total capital assets (net of accumulated depreciation and amortization) | 20,745,751 |
| <hr/> | |
| Total noncurrent assets | 21,336,628 |
| <hr/> | |
| Total assets | 25,471,923 |

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, 2020

Liabilities

Current liabilities

| | |
|---------------------------------------|---------|
| Accounts payable and accrued expenses | 90,889 |
| Due to other governments | 21,057 |
| Advances from other governments | 306,830 |
| Accrued interest payable | 24,848 |
| <hr/> | |
| Total current liabilities | 443,624 |
| <hr/> | |

Noncurrent liabilities

| | |
|---------------------------------|-----------|
| Advances from other governments | 2,091,964 |
| <hr/> | |
| Total liabilities | 2,535,588 |
| <hr/> | |

Net position

| | |
|----------------------------------|---------------|
| Net investment in capital assets | 18,346,957 |
| Restricted for capital projects | 377,684 |
| Unrestricted | 4,211,694 |
| <hr/> | |
| Total net position | \$ 22,936,335 |
| <hr/> <hr/> | |

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, 2020

| | |
|--|----------------------|
| Operating revenues | |
| Flat charges | \$ 5,175,234 |
| Charges for services | 46,405 |
| Other | 29,401 |
| <hr/> | |
| Total operating revenues | 5,251,040 |
| <hr/> | |
| Operating expenses | |
| Services and supplies | 4,181,451 |
| Fiscal agent fees and legal services | 8,865 |
| Depreciation and amortization | 1,470,696 |
| <hr/> | |
| Total operating expenses | 5,661,012 |
| <hr/> | |
| Operating loss | (409,972) |
| <hr/> | |
| Nonoperating revenues (expenses) | |
| Investment income | 82,644 |
| Interest expense | (69,342) |
| Loss on impairment of capital assets | (62,736) |
| Intergovernmental revenue | 127,862 |
| Property tax revenue | 59 |
| <hr/> | |
| Total nonoperating revenues, net | 78,487 |
| <hr/> | |
| Loss before capital contributions | (331,485) |
| Capital contributions: | |
| Federal | 146,193 |
| Sonoma Water | 350,000 |
| Connection fees | 5,228 |
| <hr/> | |
| Increase in net position | 169,936 |
| <hr/> | |
| Net position - beginning of year | 22,766,399 |
| <hr/> | |
| Net position - end of year | \$ 22,936,335 |
| <hr/> | |

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, 2020

| | |
|---|--------------|
| Cash flows from operating activities | |
| Receipts from customers | \$ 5,218,434 |
| Payments to Sonoma Water - services and supplies | (3,199,547) |
| Payments to suppliers | (1,005,786) |
| <hr/> | |
| Net cash provided by operating activities | 1,013,101 |
| <hr/> | |
| Cash flows from noncapital financing activities | |
| Intergovernmental revenue received | 112,915 |
| Property taxes received | 59 |
| <hr/> | |
| Net cash provided by noncapital financing activities | 112,974 |
| <hr/> | |
| Cash flows from capital and related financing activities | |
| Acquisition and construction of capital assets | (318,719) |
| Principal payments - advances from other governments | (299,259) |
| Principal payments - revenue bonds | (115,000) |
| Interest paid on capital debt | (74,521) |
| Capital contributions from other governments - Sonoma Water | 350,000 |
| Capital contributions from other governments - Federal | 36,593 |
| Connection fees received | 5,228 |
| <hr/> | |
| Net cash used in capital and related financing activities | (415,678) |
| <hr/> | |
| Cash flows from investing activities | |
| Interest received | 82,644 |
| <hr/> | |
| Net increase in cash and cash equivalents | 793,040 |
| Cash and cash equivalents - beginning of year | 3,388,562 |
| <hr/> | |
| Cash and cash equivalents - end of year | \$ 4,181,602 |
| <hr/> | |
| Reconciliation to the statement of net position | |
| Cash and investments | \$ 3,803,918 |
| Restricted cash and investments | 377,684 |
| <hr/> | |
| Total cash and cash equivalents | \$ 4,181,602 |
| <hr/> | |

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, 2020

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

| | | |
|--|----|-----------|
| Operating loss | \$ | (409,972) |
| Adjustments to reconcile operating loss to net cash provided by operating activities: | | |
| Depreciation and amortization | | 1,470,696 |
| Change in assets and liabilities: | | |
| Increase in accounts and other receivables | | (32,605) |
| Decrease in prepaid expenses | | 14 |
| Decrease in accounts payable and accrued expenses | | (15,032) |
| Net cash provided by operating activities | \$ | 1,013,101 |

Non-cash investing, capital and financing activities:

| | | |
|---|----|---------|
| Impairment of capital assets | \$ | 62,736 |
| Acquisition of capital assets in accounts payable | | 34,312 |
| Grants receivable | | 36,003 |
| Capital grants receivable | | 109,600 |

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, 2020**

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 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.

New Accounting Pronouncements

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

GASB Statement No. 95, *Postponement of the Effective Dates of Certain authoritative Guidance*. The requirements of this statement are effective for periods effective immediately. The primary objective of this statement provides temporary relief to help governments and other stakeholders in light of the COVID-19 pandemic by postponing the effective dates of certain provisions in Statements and Implementation Guides. The effective dates of future accounting standards described in Note I have been modified based on GASB Statement No. 95.

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.

Russian River County Sanitation District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2020

Note A. Summary of Significant Accounting Policies (continued)

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

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.

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.

**Russian River County Sanitation District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2020**

Note A. Summary of Significant Accounting Policies (continued)

Cash and Investments (continued)

The District applies the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures* – an amendment to GASB Statement No. 3, which requires governmental entities to provide 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 not recorded an allowance for uncollectible receivables as it deems all receivables as fully collectable.

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, 2020**

Note A. Summary of Significant Accounting Policies (continued)

Capital Assets (continued)

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 |

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, 2020.

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, 2020.

**Russian River County Sanitation District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2020**

Note A. Summary of Significant Accounting Policies (continued)

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.

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.

**Russian River County Sanitation District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2020**

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.

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, 2020, the fair value of the District's cash and investments was \$4,181,602 which includes an unrealized gain fair value adjustment of \$26,017. 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 787 days. The credit rating and other information regarding specific investments maintained in the Treasury Pool as of June 30, 2020 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, 2020**

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, 2020 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, 2020

Note C. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2020 was as follows:

| | July 1, 2019 | Increases | Decreases | Transfers & Reclassification | June 30, 2020 |
|---|-----------------|---------------|-------------|---------------------------------|------------------|
| Capital assets, not being depreciated: | | | | | |
| Land | \$ 223,833 | \$ - | \$ - | \$ - | \$ 223,833 |
| Intangibles | 7,355 | - | - | 10,045 | 17,400 |
| Construction in progress | 120,923 | 353,033 | (62,736) | (42,507) | 368,713 |
| Total capital assets, not being depreciated | 352,111 | 353,033 | (62,736) | (32,462) | 609,946 |
| Capital assets, being depreciated/amortized: | | | | | |
| Infrastructure | 53,445,938 | - | - | - | 53,445,938 |
| Intangibles | 75,437 | - | - | - | 75,437 |
| Machinery and equipment | 119,067 | - | (17,592) | 32,462 | 133,937 |
| Total capital assets being depreciated/amortized | 53,640,442 | - | (17,592) | 32,462 | 53,655,312 |
| Less accumulated depreciation/amortization for: | | | | | |
| Infrastructure | (31,943,057) | (1,456,095) | - | - | (33,399,152) |
| Intangibles | (27,581) | (7,556) | - | - | (35,137) |
| Machinery and equipment | (95,765) | (7,045) | 17,592 | - | (85,218) |
| Total accumulated depreciation/amortization | (32,066,403) | (1,470,696) | 17,592 | - | (33,519,507) |
| Total capital assets, being depreciated, net | 21,574,039 | (1,470,696) | - | 32,462 | 20,135,805 |
| Total capital assets, net | \$21,926,150 | \$(1,117,663) | \$ (62,736) | \$ - | \$20,745,751 |

Depreciation and amortization expense amounted to \$1,470,696 for the fiscal year ended June 30, 2020.

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, 2020, the outstanding balance on the loan is \$1,133,369. 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, 2020**

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:

| June 30, | Principal | Interest | Total |
|--------------|---------------------|------------------|---------------------|
| 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 | \$ 1,133,369 | \$ 86,401 | \$ 1,219,770 |

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, 2020, the outstanding balance on the loan is \$1,265,425. 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, 2020**

Note D. Long-Term Obligations (continued)

Advances from other governments (continued)

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

| June 30, | Principal | Interest | Total |
|--------------|---------------------|-------------------|---------------------|
| 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 | 101,072 | 23,039 | 124,111 |
| 2026-2030 | 546,171 | 74,383 | 620,554 |
| 2031-2032 | 238,866 | 9,356 | 248,222 |
| Total | \$ 1,265,425 | \$ 223,905 | \$ 1,489,330 |

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%. The final payment on the revenue bonds was made during the fiscal year ending June 30, 2020.

Changes in Long-Term Obligations

Long-term obligation activity for the year ended June 30, 2020 is as follows:

| | July 1, 2019 | Additions | Retirements | June 30, 2020 | Due Within One Year |
|-----------------------------------|---------------------|-------------|---------------------|---------------------|------------------------|
| Advances from other | | | | | |
| governments - direct borrowings | \$ 2,698,053 | \$ - | \$ (299,259) | \$ 2,398,794 | \$ 306,830 |
| Revenue bonds - direct placements | 115,000 | - | (115,000) | - | - |
| Total | \$ 2,813,053 | \$ - | \$ (414,259) | \$ 2,398,794 | \$ 306,830 |

Note E. Accrued Interest Payable

Interest payable as of June 30, 2020 consists of interest accrued on the State Water Resources Control Board loans of \$24,848.

**Russian River County Sanitation District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2020**

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, 2020, the District paid \$3,199,547 to Sonoma Water for operational services and \$148,451 for acquisition and construction of capital assets.

During the year ended June 30, 2020, the District received a capital contribution from Sonoma Water to allow the District to fund its construction projects. The total funding received by the District amounted to \$350,000 for the fiscal year ended June 30, 2020.

Note G. Commitments and Contingencies

Commitments

The District has active construction projects as of June 30, 2020. The projects include expansion and/or improvements of several wastewater treatment facilities. The June 30, 2020 construction in progress balance of \$368,713 represents the District's commitment to ongoing construction projects. This commitment includes both internal expenses and expenses paid to outside contractors.

Future contractual commitments related to District operations and capital expansion were \$561,821 and \$113,966 respectively as of June 30, 2020.

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 late 2020 or early 2021.

**Russian River County Sanitation District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2020**

Note G. Commitments and Contingencies (continued)

Pending Litigation, Claims, and Assessments (continued)

On June 20, 2016, the 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 grant award agreement was received in April 2020 and staff are proceeding with a consultant services agreement to move the project forward. However, in May 2020 staff received a request from NC Regional Board staff to identify any specific tasks for the force main replacement that the District has paid for, to date, from its own budget, that are equal to or more than the \$67,885 suspended penalty amount, and submit to us a written analysis demonstrating that this expenditure has accomplished or contributed towards work that is equivalent (or superior) to the manway installation project. In mid-July, staff submitted the requested documentation and is awaiting a response from the NC Regional Board. 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.

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.

**Russian River County Sanitation District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2020**

Note G. Commitments and Contingencies (continued)

Other Contingencies (continued)

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 \$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 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.

Russian River County Sanitation District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2020

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.

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

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.



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, 2020, 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, 2020.

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.

A handwritten signature in black ink that reads "Presenti & Brink LLP". The signature is written in a cursive, flowing style.

Santa Rosa, California
September 30, 2020