

**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, 2023

**Russian River County Sanitation District
For the Fiscal Year Ended June 30, 2023**

Table of Contents

	<u>Page(s)</u>
Independent Auditor’s Report	1-3
Management’s Discussion and Analysis (Required Supplementary Information)	4-11
Basic Financial Statements:	
Statement of Net Position.....	12-13
Statement of Revenues, Expenses and Changes in Net Position.....	14
Statement of Cash Flows	15-16
Notes to the Basic Financial Statements.....	17-28
Compliance:	
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>	29-30



Independent Auditor's Report

Board of Directors
Russian River County Sanitation District

Report on the Audit of the Financial Statements

Opinion

We have audited the 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, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the District as of June 30, 2023, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Independent Auditor's Report (continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 is the responsibility of management and, 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.

Independent Auditor's Report (continued)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2023, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 & Brinku LLP". The signature is written in a cursive, flowing style.

Santa Rosa, California

October 6, 2023

Management's Discussion and Analysis

**Russian River County Sanitation District
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2023**

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, 2023. We encourage readers to consider the information presented here in conjunction with the District's financial statements and the accompanying notes to the basic financial statements.

Reporting Entity

The District is managed by the Sonoma County Water Agency (Sonoma Water) which provides administration, engineering, operational and maintenance services. The District is governed by a Board of Directors (the Board) which is the County of Sonoma (the 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 Annual Comprehensive Financial Report.

Please refer to the definition of the reporting entity within the notes to the basic 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 \$28,440,537 (*net position*). Of this amount, \$8,049,522 (*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 \$13,305,435 during the fiscal year ended June 30, 2023. Of this amount, \$6,155,292 consists of operating revenues including flat charges and charges for services, and \$5,540,878 represents nonoperating revenues consisting of \$5,426,594 in intergovernmental revenue, \$114,270 in investment earnings and \$14 in property taxes. Capital contributions totaling \$1,609,265 consisted of \$1,600,914 in capital replacement grants from other governments and \$8,351 in connection fees.

Expenses

The District incurred expenses totaling \$6,906,519 during the fiscal year ended June 30, 2023. Of this amount \$6,865,117 represents operating expenses related to the collection, treatment, disposal, and reclamation of effluent, as well as administrative and general expenses. Nonoperating expenses consisted of \$41,402 of interest expense related to the District's long-term debt.

Change in Net Position

The District recorded an operating loss of \$709,825 for the fiscal year ended June 30, 2023, while recognizing an overall increase in net position of \$6,398,916.

**Russian River County Sanitation District
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2023**

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 \$28,440,537 at the close of the most recent fiscal year compared to net position of \$22,041,621 as of June 30, 2022. The District recorded an operating loss of \$709,825 for the fiscal year ended June 30, 2023. This loss was offset by capital contributions of \$1,609,265.

The largest portion of the District's net position (70.4% as of June 30, 2023 compared to 84.5% for June 30, 2022) 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, 2023**

Financial Analysis (continued)

A portion of the District's net position, \$373,823 (1.3% as of June 30, 2023), represents resources that are subject to external restrictions on how they may be used. The balance of unrestricted net position of \$8,049,522 as of June 30, 2023, may be used to meet the District's ongoing obligations to citizens and creditors. As of June 30, 2023, the District reports positive balances in all categories of net position.

Condensed Statements of Net Position

	June 30, 2022	June 30, 2023	Percentage Change
Current and other assets	\$ 4,652,820	\$ 9,237,425	98.5%
Capital assets, net	20,398,723	21,759,667	6.7%
Total assets	25,051,543	30,997,092	23.7%
Current liabilities	1,555,099	1,432,442	-7.9%
Noncurrent liabilities	1,454,823	1,124,113	-22.7%
Total liabilities	3,009,922	2,556,555	-15.1%
Net position:			
Net investment in capital assets	18,621,350	20,017,192	7.5%
Restricted for capital projects	367,426	373,823	1.7%
Unrestricted	3,052,845	8,049,522	163.7%
Total net position	\$ 22,041,621	\$ 28,440,537	29.0%

**Russian River County Sanitation District
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2023**

Financial Analysis (continued)

Condensed Statements of Changes in Net Position

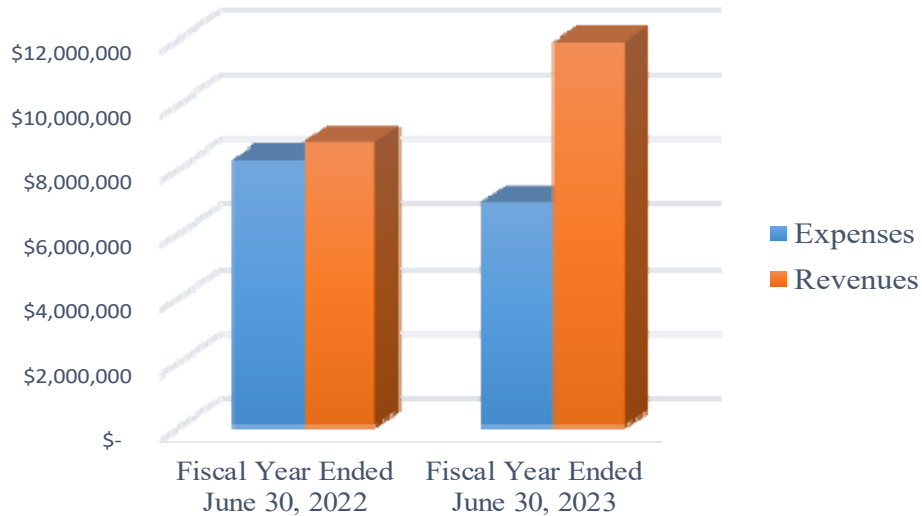
	Fiscal Year Ended		Percentage Change
	June 30, 2022	June 30, 2023	
Revenues			
Operating revenues	\$ 5,710,766	\$ 6,155,292	7.8%
Nonoperating revenues:			
Intergovernmental	1,914,188	5,426,594	183.5%
Investment earnings	-	114,270	100.0%
Property taxes	223	14	-93.7%
Total revenues	7,625,177	11,696,170	53.4%
Expenses			
Services and supplies	6,610,157	5,221,829	-21.0%
Depreciation and amortization	1,440,026	1,574,657	9.3%
Fiscal agent fees and legal services	87,644	68,631	-21.7%
Interest expense	49,461	41,402	-16.3%
Investment loss	53,319	-	-100.0%
Total expenses	8,240,607	6,906,519	-16.2%
Loss before contributions	(615,430)	4,789,651	-878.3%
Capital contributions - State	160,291	1,431,450	793.0%
Capital contributions - Federal	1,068,040	169,464	-84.1%
Capital contributions - connection fees	69,530	8,351	-88.0%
Increase in net position	682,431	6,398,916	837.7%
Net position, beginning of year	21,359,190	22,041,621	3.2%
Net position, end of year	\$ 22,041,621	\$ 28,440,537	29.0%

The District's net position increased by \$6,398,916 during the fiscal year ended June 30, 2023, compared to an increase of \$682,431 during the fiscal year ended June 30, 2022. The primary reasons for the increase in net position were an increase in intergovernmental revenue and capital contributions.

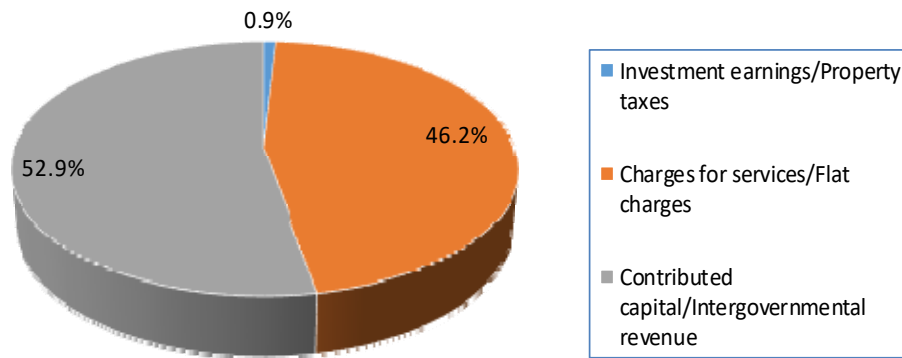
**Russian River County Sanitation District
Management’s Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2023**

Financial Analysis (continued)

Expenses and Revenues



Revenues by Source

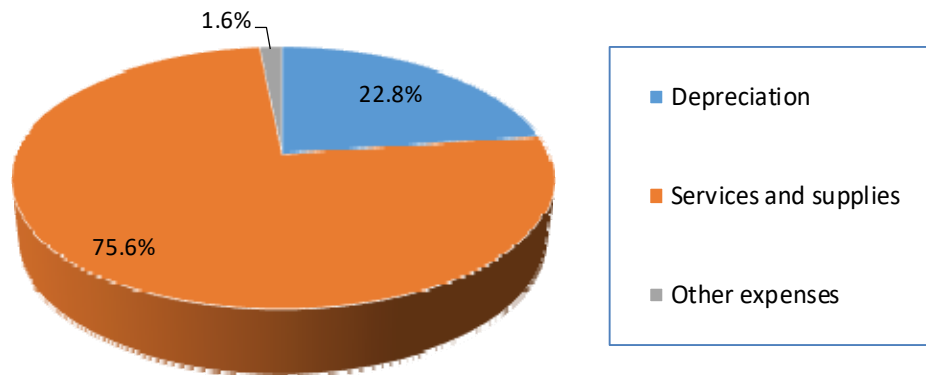


Total revenues, including capital contributions, of the District for the fiscal year ended June 30, 2023, totaled \$13,305,435, representing an increase of \$4,382,397 from the preceding fiscal year revenues of \$8,923,038. The rate based operating charges, representing 46.2% of the District’s total revenue, increased by \$444,526. Investment earnings increased from the preceding year by \$114,270. Intergovernmental revenue for the fiscal year ended June 30, 2023, totaled \$5,426,594, representing an increase of \$3,512,406 from the preceding fiscal year. Capital contributions totaled \$1,609,265 which increased from previous fiscal year’s total of \$1,297,861. The primary reason for the increase in capital contributions was an increase of \$1,271,159 in State contributions. Capital contributions and intergovernmental revenue make up 52.9% of the District’s revenue, which consists of connection fees of \$8,351, Federal contributions of \$169,464, State contributions of \$1,431,450 and intergovernmental revenue of \$5,426,594. The combined effect overall was an increase in revenues, including capital contributions, of 49.1% for the fiscal year ended June 30, 2023.

**Russian River County Sanitation District
Management’s Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2023**

Financial Analysis (continued)

Expenses by Function



Total expenses for the District decreased \$1,334,088 to \$6,906,519 for the fiscal year ended June 30, 2023. Services and supplies, which reflect costs associated with the collection, treatment, and disposal of effluent decreased by \$1,388,328 (21.0%) to \$5,221,829. This was due primarily to decreases in operations and maintenance costs including emergency lift station repairs, collection system maintenance, and a decrease in headworks, lift stations and force main assessment costs. Interest expenses decreased by \$8,059, due to lower principal debt balances as compared to the prior year. The overall effect was a decrease in expenses of 16.2%.

Services and supplies represented 75.6% of the District’s expenses. Annual depreciation expense on capital assets of \$1,574,657 represented 22.8% of the District’s total expenses. Other expenses consisting of interest expense and fiscal agent fees and legal services, represented 1.6% of the District’s total expenses.

Capital Asset and Debt Administration

Capital Assets

The District’s investment in capital assets net of accumulated depreciation and amortization as of June 30, 2023, amounts to \$21,759,667. 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 Statement No. 51 – *Accounting and Financial Reporting for Intangible Assets*. Intangible assets for the District consist of permanent and temporary easements.

**Russian River County Sanitation District
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2023**

Capital Asset and Debt Administration (continued)

District's Capital Assets

	June 30, 2022	June 30, 2023	Percentage Change
Land	\$ 223,833	\$ 223,833	0.0%
Intangible assets	92,837	92,837	0.0%
Construction in progress	503,648	1,606,690	219.0%
Infrastructure	55,823,751	57,472,762	3.0%
Machinery and equipment	147,829	331,377	124.2%
Accumulated depreciation and amortization	(36,393,175)	(37,967,832)	4.3%
Total	\$ 20,398,723	\$ 21,759,667	6.7%

The increase in infrastructure during the fiscal year ended June 30, 2023, was due to the completion of the emergency force main project. 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, 2023, the District had a total of \$1,454,823 in advances from other governments, related to advances from the State Water Resources Control Board.

The District's total debt decreased by \$322,550 (18.1%) during the fiscal year ended June 30, 2023. This was 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, 2024, have decreased by \$8,320,629 (43.1%) for a total of \$10,991,157. The largest variances in year over year budget are decreases in operations, decreases in capital spending related to various capital projects and decreases in budgeted transfers from the operations fund to the construction fund.

**Russian River County Sanitation District
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2023**

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, 2023, and the proposed budgeted expenses for the District for the fiscal year ending June 30, 2024.

	Fiscal Year Ended June 30, 2023	Fiscal Year Ending June 30, 2024	Increase / (Decrease)	Percentage Change
Operations	\$ 12,267,480	\$ 8,911,357	\$ (3,356,123)	-27.4%
Construction	7,044,306	2,079,800	(4,964,506)	-70.5%
Total	\$ 19,311,786	\$ 10,991,157	\$ (8,320,629)	-43.1%

Budgeted expenses for fiscal year ended June 30, 2023, differ in several instances from the budgeted expenses presented in the management's discussion and analysis for the period ended June 30, 2022. 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, 2022.

The District's sewer service fees were increased for the 2023/24 budget year due to a board approved increase in rates of 8.9%.

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

	Fiscal Year Ended June 30, 2023	Fiscal Year Ending June 30, 2024	Percentage Change
Rate per Equivalent Single-Family Dwelling	\$ 1,932	\$ 2,104	8.9%
Number of Equivalent Single-Family Dwellings	3,214	3,217	0.1%

Request for Additional Information

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

Russian River County Sanitation District
Statement of Net Position
June 30, 2023

Assets

Current assets:

Cash and investments	\$	6,292,761
Accounts receivable		110,042
Due from other governments		2,238,253
Prepaid expenses		2,400
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Total current assets		8,643,456
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Noncurrent assets:

Cash and investments restricted for capital projects		373,823
Accounts receivable, noncurrent portion		220,146
Capital assets not being depreciated:		
Land		223,833
Intangible assets		17,400
Construction in progress		1,606,690
Capital assets, net of accumulated depreciation and amortization:		
Infrastructure		19,673,764
Intangible assets		17,631
Machinery and equipment		220,349
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Total capital assets (net of accumulated depreciation and amortization)		21,759,667
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Total noncurrent assets		22,353,636
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Total assets		30,997,092
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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, 2023

Liabilities

Current liabilities:

Accounts payable and accrued expenses	348,771
Unearned revenue	469,576
Due to other governments	270,653
Advances from other governments	330,710
Accrued interest payable	12,732
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Total current liabilities	1,432,442

Noncurrent liabilities:

Advances from other governments	1,124,113
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Total liabilities	2,556,555
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Net Position

Net investment in capital assets	20,017,192
Restricted	373,823
Unrestricted	8,049,522
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Total net position	\$ 28,440,537
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The notes to the basic financial statements are an integral part of this statement.

Russian River County Sanitation District
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2023

Operating revenues	
Flat charges	\$ 6,115,726
Charges for services	32,548
Other	7,018
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Total operating revenues	6,155,292
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Operating expenses	
Services and supplies	5,221,829
Depreciation and amortization	1,574,657
Fiscal agent fees and legal services	68,631
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Total operating expenses	6,865,117
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Operating loss	(709,825)
Nonoperating revenues (expenses)	
Intergovernmental - Sonoma Water	4,607,000
Intergovernmental - State	549,665
Intergovernmental - Federal	269,929
Investment earnings	114,270
Property taxes	14
Interest expense	(41,402)
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Total nonoperating revenues, net	5,499,476
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Income before capital contributions	4,789,651
Capital contributions:	
State grants	1,431,450
Federal grants	169,464
Connection fees	8,351
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Total capital contributions	1,609,265
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Increase in net position	6,398,916
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Net position - beginning of year	22,041,621
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Net position - end of year	\$ 28,440,537
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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, 2023

Cash flows from operating activities

Receipts from customers	\$	6,203,322
Payments to Sonoma Water - services and supplies		(3,975,878)
Payments to suppliers		(1,456,126)
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Net cash provided by operating activities		771,318

Cash flows from noncapital financing activities

Intergovernmental revenue received		4,938,071
Property taxes received		14
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Net cash provided by noncapital financing activities		4,938,085

Cash flows from capital and related financing activities

Purchase of capital assets		(2,647,949)
Capital contributions from other governments		305,014
Principal payments - advances from other governments		(322,550)
Interest paid on capital debt		(45,515)
Connection fees		8,351
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Net cash used in capital and related financing activities		(2,702,649)

Cash flows from investing activities

Interest received		114,270
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Net increase in cash and cash equivalents		3,121,024

Cash and cash equivalents - beginning of year		3,545,560
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Cash and cash equivalents - end of year	\$	6,666,584
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Reconciliation to the statement of net position:

Cash and investments	\$	6,292,761
Restricted cash and investments		373,823
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Cash and cash equivalents	\$	6,666,584

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, 2023**

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

Operating loss	\$	(709,825)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization		1,574,657
Change in assets and liabilities:		
Decrease in accounts receivable		48,035
Increase in prepaid expenses		(2,400)
Decrease in accounts payable and accrued expenses		(139,149)
Net cash provided by operating activities	\$	771,318

Non-cash investing, capital and financing activities:

Acquisition of capital assets in accounts payable	\$	287,652
Grants receivable		488,523
Capital grants receivable		1,295,900

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, 2023

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 County Water Agency (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 Annual Comprehensive 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, 2023

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

In accordance with Governmental Accounting Standards Board (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 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 Sonoma County Treasurer (the 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 in the County Treasury Investment Pool (the Treasury Pool).

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. However some receivables have been classified as noncurrent as they are not considered collectable in the subsequent period.

**Russian River County Sanitation District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2023**

Note A. Summary of Significant Accounting Policies (continued)

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. 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.

Intangible assets are stated at cost or estimated historical cost (except for intangible right-to-use lease assets). Intangible right-to-use lease assets are initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the right-to-use lease asset is amortized on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset. Intangible assets for the District consist of permanent easements. Permanent easements, including dedicated easements, are stated at cost, estimated historical cost, or fair value and are not amortized.

**Russian River County Sanitation District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2023**

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	100,000	15 to 50 years
Buildings and improvements:		
Buildings	100,000	50 years
Building improvements	100,000	15 to 20 years
Machinery and equipment	5,000	5 to 20 years
Infrastructure	100,000	25 to 75 years
Intangible assets:		
Computer software	100,000	3 to 10 years
Temporary easements	-	Life of easement
Permanent easements	-	N/A
Right-to-use leases	100,000	Shorter of the lease term or the useful life of the underlying asset
Right-to-use software assets (SBITAs)	100,000	Shorter of the subscription term or the useful life of the underlying IT assets
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.

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 District budget amounts within the same fund. Transfer between funds or major expense classes (e.g. transfers between capital assets and operating expenses) require approval by the County Administrator and/or the Board.

**Russian River County Sanitation District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2023**

Note A. Summary of Significant Accounting Policies (continued)

Property Tax Revenue

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

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

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

Investment Guidelines

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, 2023**

Note B. Cash and Investments (continued)

Investment Guidelines (continued)

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, 2023, the fair value of the District's cash and investments was \$6,666,584 which includes an unrealized loss fair value adjustment of \$76,904. 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 539 days. The credit rating and other information regarding specific investments maintained in the Treasury Pool as of June 30, 2023, are disclosed in the County's Annual Comprehensive Financial Report.

Russian River County Sanitation District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2023

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 more sensitive the fair value is 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. Credit risk 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.

Fair Value Measurements

The District categorizes its fair value measurements within the fair value hierarchy established by GAAP. 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 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, 2023**

Note C. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2023, was as follows:

	July 1, 2022	Increases	Decreases	Transfers & Reclassification	June 30, 2023
Capital assets, not being depreciated:					
Land	\$ 223,833	\$ -	\$ -	\$ -	\$ 223,833
Intangibles	17,400	-	-	-	17,400
Construction in progress	503,648	2,935,601	-	(1,832,559)	1,606,690
Total capital assets, not being depreciated	744,881	2,935,601	-	(1,832,559)	1,847,923
Capital assets, being depreciated/amortized:					
Infrastructure	55,823,751	-	-	1,649,011	57,472,762
Intangibles	75,437	-	-	-	75,437
Machinery and equipment	147,829	-	-	183,548	331,377
Total capital assets being depreciated/amortized	56,047,017	-	-	1,832,559	57,879,576
Less accumulated depreciation/amortization for:					
Infrastructure	(36,242,264)	(1,556,734)	-	-	(37,798,998)
Intangibles	(50,249)	(7,557)	-	-	(57,806)
Machinery and equipment	(100,662)	(10,366)	-	-	(111,028)
Total accumulated depreciation/amortization	(36,393,175)	(1,574,657)	-	-	(37,967,832)
Total capital assets, being depreciated, net	19,653,842	(1,574,657)	-	1,832,559	19,911,744
Total capital assets, net	\$ 20,398,723	\$ 1,360,944	\$ -	\$ -	\$ 21,759,667

Depreciation and amortization expense amounted to \$1,574,657 for the fiscal year ended June 30, 2023.

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, 2023, the outstanding balance on the loan is \$470,203. 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, 2023**

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
2024	\$ 232,199	\$ 11,755	\$ 243,954
2025	238,004	5,950	243,954
Total	\$ 470,203	\$ 17,705	\$ 487,908

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, 2023, the outstanding balance on the loan is \$984,620. 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, 2023**

Note D. Long-Term Obligations (continued)

Advances from Other Governments (continued)

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

Fiscal Year Ending June 30,	Principal	Interest	Total
2024	\$ 98,511	\$ 25,600	\$ 124,111
2025	101,072	23,039	124,111
2026	103,700	20,411	124,111
2027	106,396	17,715	124,111
2028	109,162	14,949	124,111
2029-2032	465,779	30,664	496,443
Total	\$ 984,620	\$ 132,378	\$ 1,116,998

Changes in Long-Term Obligations

Long-term obligation activity for the year ended June 30, 2023 is as follows:

	June 30, 2022	Additions	Retirements	June 30, 2023	Due Within One Year
Advances from other					
governments - direct borrowings	\$ 1,777,373	\$ -	\$ (322,550)	\$ 1,454,823	\$ 330,710

Note E. 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, 2023, the District paid \$3,975,878 to Sonoma Water for operational services and \$1,143,036 for acquisition and construction of capital assets.

During the fiscal year ended June 30, 2023, the District received funding from Sonoma Water to allow the District to meet its operating expense obligations. The total funding received by the District amounted to \$4,607,000 for the fiscal year ended June 30, 2023.

**Russian River County Sanitation District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2023**

Note F. Commitments and Contingencies

Construction

The District has active construction projects as of June 30, 2023. The projects include expansion and/or improvements of several wastewater treatment facilities. The June 30, 2023 construction in progress balance of \$1,606,690 represents the District's internal costs and amount paid to outside contractors.

Commitments

Future contractual commitments related to District operations and capital expansion were \$318,307 and \$91,571, respectively, as of June 30, 2023.

Pending Litigation, Claims, and Assessments

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 disasters on the Russian River in both 2017 and 2019. The District has reached a proposed settlement that is expected to be approved by the Executive Officer and executed on or around September 28, 2023. Under the settlement the parties stipulate to fines for the 2019 floods, and the 2017 floods will not be prosecuted. The District and Sonoma Water are jointly responsible for these fines. \$886,545 of the fines will be suspended and satisfied once the District and Sonoma Water complete a West County Water Quality and Recycled Water Supply Feasibility Project (the Project). The Project is expected to be completed in 2026. \$147,001 of the fine will be payable to the State 30 days following the Executive Officer's execution of the settlement. In 2021, a previous liability estimate was recorded in the amount of \$750,000. In 2023, the liability was reduced to the estimated fine amount of \$147,001 and will be paid entirely by the District.

Other Regulatory Matters

The District is subject to Section VII of the Endangered Species Act (the 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 Act which deals with habitat conservation planning.

Russian River County Sanitation District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2023

Note G. 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. 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 H. Future Governmental Accounting Standards

GASB has released the following standards which will be implemented in future financial statements:

GASB Statement No. 100 – Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62

The requirements of this Statement are effective for the fiscal year ending June 30, 2024. The objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

The impact on the basic financial statements of the District of these pronouncements 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

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, 2023, the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the notes to the basic financial statements, and have issued our report thereon dated October 6, 2023.

Report on 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) as a basis for designing 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 a 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 or significant deficiencies may exist that were not 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)

Report on 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
October 6, 2023