

SANTA YNEZ COMMUNITY SERVICES DISTRICT

MEMORANDUM

TO: Board of Directors

FROM: Wendy Berry, Secretary/Treasurer

DATE: February 16, 2022

SUBJECT: Receive presentation from the District's auditor, Nigro & Nigro and accept the audit report for fiscal year 2020/2021 ending June 30, 2021.

Recommendation

Accept the audit report as submitted by Nigro & Nigro for fiscal year ending June 30, 2021.

Fiscal Implications

The District awarded a three year contract to Nigro & Nigro to conduct annual audits for the fiscal years 2020-2021, 2021-2022, and 2022-2023 for \$9,500.00 per year for a three-year total of \$28,500.00.

Discussion:

Special Districts are required by Government Code §26909 to have annual independent audits conducted by a certified public accountant and file with the State Controller's Office. Annual audits maintain financial transparency.

Staff released the RFP for Auditing Services in November 2020. January 7, 2021, staff and the Finance Committee reviewed a summary of the RFPs. Staff and the finance committee recommended two auditing firms: Nigro & Nigro, Moss, Levy and Hartzheim LLP, based on the number of hours and cost for the services to be provided.

At the January 20, 2021, the Board of Directors approved a three-year contract with Nigro & Nigro to complete audits for fiscal years 2020-2021, 2021-2022, and 2022-2023.

Nigro & Nigro completed the fiscal year 2020-2021 audit on October 26, 2021.

Paul Kaymark will provide the Board with a with a presentation and will be discussing some of the highlights of Nigro & Nigro's comprehensive financial review. Mr. Kaymark will be available to answer any questions or concerns the Board may have.

Attachments

Final Draft Audit Report

**SANTA YNEZ
COMMUNITY SERVICES DISTRICT
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
For the Fiscal Year Ended
June 30, 2021
(With Comparative Amounts as of June 30, 2020)**

**NIGRO
& NIGRO^{PC}**

SANTA YNEZ COMMUNITY SERVICES DISTRICT

For the Fiscal Year Ended June 30, 2021

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Financial Section



NIGRO & NIGRO^{PC}

A Professional Accountancy Corporation

INDEPENDENT AUDITORS' REPORT

Board of Directors
Santa Ynez Community Services District
Santa Ynez, California

We have audited the accompanying financial statements of the Santa Ynez Community Services District (District), which comprise the balance sheet as of June 30, 2021, and the related statement of revenues, expenses and changes in net position and cash flows for the fiscal year then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements.

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 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.

Auditors' Responsibility

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2021, and the respective 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 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.

Prior-Year Comparative Information

The financial statements include partial prior-year comparative information. Such information does not include sufficient detail to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2020, from which such partial information was derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a separate report dated December 31, 2021, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Murrieta, California
December 31, 2021

SANTA YNEZ COMMUNITY SERVICES DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Years Ended June 30, 2020 and 2019

Management's Discussion and Analysis (MD&A) offers readers of SANTA YNEZ COMMUNITY SERVICES District's financial statements a narrative overview of the District's financial activities for the year ended June 30, 2020. This MD&A presents financial highlights, an overview of the accompanying financial statements, an analysis of net position and results of operations, a current-to prior year analysis, a discussion on restrictions, commitments and limitations, and a discussion of significant activity involving capital assets and long-term debt. Please read in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- In fiscal year 2021, the District's net position decreased 0.99% or \$77,936 from the prior year's net position of \$7,878,663 to \$7,800,727, as a result of the year's operations.
- In fiscal year 2021, total revenues increased by 0.14% or \$2,846 from \$2,011,115 to \$2,013,961, from the prior year, primarily due to an increase in the sewer service charge collected with a decrease in investment earnings.
- In fiscal year 2021, total expenses increased by 10.55% or \$214,549 from \$2,032,808 to \$2,236,523, from the prior year, primarily due to an increase in depreciation expense.

REQUIRED FINANCIAL STATEMENTS

This annual report consists of a series of financial statements. The Balance Sheet, Statement of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies.

The Balance Sheet includes all of the District's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness. The final required financial statement is the Statement of Cash Flows, which provides information about the District's cash receipts and cash payments during the reporting period. The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

SANTA YNEZ COMMUNITY SERVICES DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Years Ended June 30, 2020 and 2019

FINANCIAL ANALYSIS OF THE DISTRICT

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Position report information about the District in a way that helps answer this question.

These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District's net position and changes in them. You can think of the District's net position – the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources – as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, zoning and new or changed government legislation.

Condensed Balance Sheets

	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>Change</u>
Assets:			
Current assets	\$ 4,897,041	\$ 4,397,253	\$ 499,788
Capital assets, net	3,206,334	3,566,295	(359,961)
Total assets	<u>\$ 8,103,375</u>	<u>\$ 7,963,548</u>	<u>\$ 139,827</u>
Liabilities:			
Current liabilities	\$ 302,648	\$ 84,885	\$ 217,763
Total liabilities	<u>302,648</u>	<u>84,885</u>	<u>217,763</u>
Net position:			
Investment in capital assets	2,733,103	2,895,886	(162,783)
Unrestricted	5,067,624	4,982,777	84,847
Total net position	<u>7,800,727</u>	<u>7,878,663</u>	<u>(77,936)</u>
Total liabilities and net position	<u>\$ 8,103,375</u>	<u>\$ 7,963,548</u>	<u>\$ 139,827</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources of the District exceeded liabilities and deferred inflows of resources by \$7,800,727 as of June 30, 2021.

A portion of the District's net position (35% as of June 30, 2021) reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending.

At the end of year 2021, the District showed a positive balance in its unrestricted net position of \$5,067,624 which may be utilized in future years.

SANTA YNEZ COMMUNITY SERVICES DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Years Ended June 30, 2020 and 2019

FINANCIAL ANALYSIS OF THE DISTRICT (Continued)

Condensed Statements of Revenues, Expenses, and Changes in Net Position

	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>Change</u>
Total operating revenue	\$ 1,265,762	\$ 1,217,532	\$ 48,230
Total operating expenses	<u>(1,247,551)</u>	<u>(1,236,717)</u>	<u>(10,834)</u>
Operating income(loss) before depreciation	18,211	(19,185)	37,396
Depreciation expense	<u>(512,904)</u>	<u>(333,341)</u>	<u>(179,563)</u>
Operating loss	(494,693)	(352,526)	(142,167)
Total non-operating revenues (expenses), net	<u>272,131</u>	<u>330,833</u>	<u>(58,702)</u>
Change in net position before capital contributions	<u>(222,562)</u>	<u>(21,693)</u>	<u>(200,869)</u>
Capital contributions	<u>144,626</u>	<u>21,616</u>	<u>123,010</u>
Change in net position	(77,936)	(77)	(77,859)
Net position - beginning of period	<u>7,878,663</u>	<u>7,878,740</u>	<u>(77)</u>
Net position - end of period	<u>\$ 7,800,727</u>	<u>\$ 7,878,663</u>	<u>\$ (77,936)</u>

The statement of revenues, expenses and changes in net position shows how the District's net position changed during the fiscal years. In the case of the District, the District's net position decreased 0.99% or \$77,936 from the prior year's net position of \$7,878,663 to \$7,800,727, as a result of the year's operations.

Total Revenues

	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>Increase (Decrease)</u>
Operating revenues:			
Sewer service charge	\$ 1,217,750	\$ 1,149,614	\$ 68,136
Sewer benefit fees	38,863	38,829	34
Other charges for services	<u>9,149</u>	<u>29,089</u>	<u>(19,940)</u>
Total program revenues	<u>1,265,762</u>	<u>1,217,532</u>	<u>48,230</u>
Non-operating revenues:			
Property taxes - ad valerum	197,017	190,750	6,267
Voter approved taxes	1,812	1,799	13
Annexation fees	9,924	8,762	1,162
Investment earnings	22,848	74,729	(51,881)
Indian reservation contract	<u>516,598</u>	<u>517,543</u>	<u>(945)</u>
Total general revenues	<u>748,199</u>	<u>793,583</u>	<u>(45,384)</u>
Total revenues	<u>\$ 2,013,961</u>	<u>\$ 2,011,115</u>	<u>\$ 2,846</u>

SANTA YNEZ COMMUNITY SERVICES DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Years Ended June 30, 2020 and 2019

FINANCIAL ANALYSIS OF THE DISTRICT (Continued)

Total Revenues (Continued)

In fiscal year 2021, total revenues increased by 0.14% or \$2,846 from \$2,011,115 to \$2,013,961, from the prior year, primarily due to an increase in the sewer service charge collected with a decrease in investment earnings.

Total Expenses

	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>Increase (Decrease)</u>
Operating expenses:			
Sewage collection	\$ 745,945	\$ 577,406	\$ 168,539
Sewage treatment	240,000	240,000	-
General and administrative	<u>261,606</u>	<u>419,311</u>	<u>(157,705)</u>
Total operating expenses	<u>1,247,551</u>	<u>1,236,717</u>	<u>10,834</u>
Depreciation expense	<u>512,904</u>	<u>333,341</u>	<u>179,563</u>
Non-operating expenses:			
Indian reservation contract	<u>476,068</u>	<u>462,750</u>	<u>13,318</u>
Total non-operating expenses	<u>476,068</u>	<u>462,750</u>	<u>13,318</u>
Total expenses	<u>\$ 2,236,523</u>	<u>\$ 2,032,808</u>	<u>\$ 214,549</u>

In fiscal year 2021, total expenses increased by 10.55% or \$214,549 from \$2,032,808 to \$2,236,523, from the prior year, primarily due to an increase in depreciation expense.

Capital Assets

	<u>Balance June 30, 2021</u>	<u>Balance June 30, 2020</u>
Capital assets:		
Non-depreciable assets	\$ 473,231	\$ 670,409
Depreciable assets	6,718,670	6,718,670
Accumulated depreciation	<u>(3,985,567)</u>	<u>(3,822,784)</u>
Total capital assets, net	<u>\$ 3,206,334</u>	<u>\$ 3,566,295</u>

At the end of year 2020, the District's investment in capital assets amounted to \$3,206,334 (net of accumulated depreciation), respectively. Capital asset additions amounted to \$152,943 for various projects and equipment. See Note 3 for further information.

SANTA YNEZ COMMUNITY SERVICES DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Years Ended June 30, 2020 and 2019

FINANCIAL ANALYSIS OF THE DISTRICT (Continued)

NOTES TO THE BASIC FINANCIAL STATEMENTS

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

CONDITIONS AFFECTING CURRENT AND FUTURE FINANCIAL POSITION

Management is unaware of any item that would affect the current financial position.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's General Manager at 1070 Faraday Street, Santa Ynez, CA 93460 - (805) 688-3008.

SANTA YNEZ COMMUNITY SERVICES DISTRICT*Balance Sheets**June 30, 2021**(With Comparative Amounts as of June 30, 2020)*

<u>ASSETS</u>	<u>2021</u>	<u>2020</u>
Current assets:		
Cash and cash equivalents (Note 2)	\$ 4,807,613	\$ 4,344,236
Accrued interest receivable	133	543
Accounts receivable – sewer and other services	71,256	46,469
Prepaid expenses and other deposits	18,039	6,005
Total current assets	<u>4,897,041</u>	<u>4,397,253</u>
Non-current assets:		
Capital assets – not being depreciated (Note 3)	473,231	670,409
Capital assets – being depreciated, net (Note 3)	2,733,103	2,895,886
Total non-current assets	<u>3,206,334</u>	<u>3,566,295</u>
Total assets	<u>\$ 8,103,375</u>	<u>\$ 7,963,548</u>
<u>LIABILITIES & NET POSITION</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 272,541	\$ 60,732
Unearned revenue and deposits	2,200	2,200
Long-term liabilities – due in one year:		
Compensated absences (Note 4)	27,907	21,953
Total liabilities	<u>302,648</u>	<u>84,885</u>
Net position:		
Investment in capital assets	2,733,103	2,895,886
Unrestricted	5,067,624	4,982,777
Total net position	<u>7,800,727</u>	<u>7,878,663</u>
Total liabilities and net position	<u>\$ 8,103,375</u>	<u>\$ 7,963,548</u>

SANTA YNEZ COMMUNITY SERVICES DISTRICT
Statements of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2021
(With Comparative Amounts for the Year Ended June 30, 2020)

	<u>2021</u>	<u>2020</u>
Operating Revenues:		
Sewer service charge	\$ 1,217,750	\$ 1,149,614
Sewer benefit fees	38,863	38,829
Other charges for services	9,149	29,089
Total operating revenues	<u>1,265,762</u>	<u>1,217,532</u>
Operating expenses:		
Sewage collection	745,945	577,406
Sewage treatment	240,000	240,000
General and administrative	261,606	419,311
Total operating expenses	<u>1,247,551</u>	<u>1,236,717</u>
Operating income(loss) before depreciation expense	18,211	(19,185)
Depreciation expense	<u>(512,904)</u>	<u>(333,341)</u>
Operating loss	<u>(494,693)</u>	<u>(352,526)</u>
Non-operating revenue (expense):		
Property taxes – ad valorem	197,017	190,750
Voter approved taxes	1,812	1,799
Annexation fees	9,924	8,762
Investment earnings	22,848	74,729
Indian reservation contract:		
Sewage collection and wastewater treatment plant operation	516,598	517,543
Sewage collection	(52,525)	(35,931)
Wastewater treatment plant operations	<u>(423,543)</u>	<u>(426,819)</u>
Total non-operating revenue, net	<u>272,131</u>	<u>330,833</u>
Net loss before capital contributions	(222,562)	(21,693)
Capital contributions:		
Sewer extension fees	52,740	-
Connection fees	91,886	21,616
Total capital contributions	<u>144,626</u>	<u>21,616</u>
Change in net position	(77,936)	(77)
Net position:		
Beginning of year	<u>7,878,663</u>	<u>7,878,740</u>
End of year	<u>\$ 7,800,727</u>	<u>\$ 7,878,663</u>

SANTA YNEZ COMMUNITY SERVICES DISTRICT
Statements of Cash Flows
June 30, 2021
(With Comparative Amounts as of June 30, 2020)

	<u>June 30, 2021</u>	<u>June 30, 2020</u>
Cash flows from operating activities:		
Cash receipts from customers and others	1,291,429	\$ 1,292,113
Cash paid to employees for salaries and wages	(670,229)	(769,848)
Cash paid to vendors and suppliers for materials and services	<u>(371,593)</u>	<u>(440,030)</u>
Net cash provided by operating activities	<u>249,607</u>	<u>82,235</u>
Cash flows from non-capital financing activities:		
Proceeds from property taxes - ad valorem	<u>197,017</u>	<u>190,750</u>
Net cash provided by non-capital financing activities	<u>197,017</u>	<u>190,750</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(152,943)	(30,724)
Proceeds from capacity contributions	144,626	21,616
Voter – approved taxes	<u>1,812</u>	<u>1,799</u>
Net cash used in capital and related financing activities	<u>(6,505)</u>	<u>(7,309)</u>
Cash flows from investing activities:		
Proceeds from maturity of investments	-	310,706
Investment earnings	<u>23,258</u>	<u>75,929</u>
Net cash provided by investing activities	<u>23,258</u>	<u>386,635</u>
Net increase in cash and cash equivalents	463,377	652,311
Cash and cash equivalents:		
Beginning of year	<u>4,344,236</u>	<u>3,691,925</u>
End of year	<u>\$ 4,807,613</u>	<u>\$ 4,344,236</u>

SANTA YNEZ COMMUNITY SERVICES DISTRICT*Statements of Cash Flows (Continued)**June 30, 2021**(With Comparative Amounts as of June 30, 2020)*

	<u>June 30, 2021</u>	<u>June 30, 2020</u>
Reconciliation of operating loss to net cash provided by operating		
Operating loss	\$ (494,693)	\$ (352,526)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	512,904	333,341
Annexation fees	9,924	8,762
Indian reservation contract, net	40,530	54,793
Change in assets - (increase)decrease:		
Accounts receivable – sewer and other services	(24,787)	11,026
Prepaid expenses	(12,034)	852
Change in liabilities - increase(decrease):		
Accounts payable and accrued expenses	211,809	31,481
Unearned revenue and deposits	-	50
Compensated absences	5,954	(5,544)
Total adjustments	<u>744,300</u>	<u>434,761</u>
Net cash provided by operating activities	<u>\$ 249,607</u>	<u>\$ 82,235</u>

SANTA YNEZ COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2021

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Description of Organization

The Santa Ynez Community Services District (District) is an independent governmental unit within the unincorporated area of the County of Santa Barbara and derives its decision-making capabilities from State legislation. The District was formed in 1971, pursuant to Section 61000, Title 6, Division 2 of the Community Services District Law of the State of California. The primary purposes of the District are the collection, treatment, and disposal of sewage for inhabitants of the District.

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Standards Board Statement No. 61, The Financial Reporting Entity (GASB Statement No. 61). The District is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable if it appoints a voting majority of the organization's governing body and: 1) It is able to impose its will on that organization, or 2) There is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

B. Basis of Presentation, Basis of Accounting

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the year in which all eligibility requirements have been satisfied.

Operating revenues are those revenues that are generated from the primary operations of the District. The District reports a measure of operations by presenting the change in net position from operations as operating income in the statement of revenues, expenses, and changes in net position. Operating activities are defined by the District as all activities other than financing and investing activities (interest expense and investment income), grants and subsidies, and other infrequently occurring transactions of a non-operating nature. Operating expenses are those expenses that are essential to the primary operations of the District. All other expenses are reported as non-operating expenses.

SANTA YNEZ COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2021

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Assets, Deferred Outflows of Resources, Liabilities, and Net Position

1. Cash and Cash Equivalents

The District considers cash and cash equivalents to be cash on hand and demand deposits.

2. Fair Value Measurements

In accordance with fair value measurements, the District categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement.

Financial assets and liabilities recorded on the balance sheet are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical investments, such as stocks, corporate and government bonds. The District has the ability to access the holding and quoted prices as of the measurement date.

Level 2 – Inputs, other than quoted prices, that are observable for the asset or liability either directly or indirectly, including inputs from markets that are not considered to be active.

Level 3 – Inputs that are unobservable. Unobservable inputs reflect the District’s own assumptions about the factors market participants would use in pricing an investment, and is based on the best information available in the circumstances.

3. Prepaids

Certain payments of vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

4. Capital Assets

Capital assets are recorded in the government-wide financial statements. Included in capital assets are land, building, building improvements, equipment and furniture and fixtures. District policy has set the capitalization threshold for reporting capital assets at \$5,000. Donated assets are recorded at estimated fair market value at the date of donation. Capital outlay is recorded as expenditures of the General Fund and as assets in the government-wide financial statements to the extent the District’s capitalization threshold is met. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

<u>Asset Class</u>	<u>Useful Lives</u>
Structures and improvements	30-50 years
Furniture and equipment	5-20 years

SANTA YNEZ COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2021

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Assets, Deferred Outflows of Resources, Liabilities, and Net Position (Continued)

5. Compensated Absences

The District's policy is to permit employees to accumulate an amount of earned vacation pay and sick leave benefits.

6. Net Position

Net position is classified into two components: net investment in capital assets and unrestricted. These classifications are defined as follows:

Investment in capital assets - This component of net position consists of capital assets net of accumulated depreciation.

Unrestricted net position - This component of net position consists of net position that is available for operations.

7. Capital Contributions

Capital contributions represent cash, capital grants and capital asset additions contributed to the District by outside parties.

D. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reported period. Actual results could differ from those estimates.

E. Property Taxes and Special Assessments

Property taxes and special assessments attach as an enforceable lien on property as of January 1, each year. Secured property taxes are levied on July 1 and are payable in two installments, on December 10 and April 10. The County of Santa Barbara Assessor's Office assesses all real and personal property within the County each year. Property tax in California is levied in accordance with Article 13A of the State Constitution at one (1%) of countywide assessed valuations. The County of Santa Barbara Treasurer's Office remits an undisclosed portion of the one (1%) current and delinquent property tax collections and special assessments to the District throughout the year.

The property tax calendar is as follows:

Lien date March 1
Levy date July 1
Due dates November 1 and March 1
Collection dates December 10 and November 10

F. Reclassifications

The District has reclassified certain prior year information to conform with current year presentation.

SANTA YNEZ COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2021

NOTE 2 – CASH AND INVESTMENTS

Cash and cash equivalents consisted of the following at June 30:

<u>Description</u>	<u>June 30, 2021</u>
Cash on hand	\$ 150
Demand deposits with financial institutions	109,269
Money market mutual funds	4,535,714
Local agency investment fund (LAIF)	<u>162,480</u>
Total cash and cash equivalents	<u>\$ 4,807,613</u>

Demand Deposits with Financial Institutions

At June 30, 2021 and 2020, the carrying amount of the District's demand deposits were \$629,227 and \$1,161,856, respectively, and the financial institution's balances were \$637,031 and \$1,161,857, respectively. The net difference represents outstanding checks, deposits-in-transit and/or other reconciling items between the financial institution's balance and the District's balance for each year.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC) and are collateralized by the respective financial institutions. In addition, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits.

Money-Market Funds

Money-market funds are an investment whose objective is to earn modest investment earnings while maintaining a net asset value (NAV) of \$1 per share (which is the funds main goal – preservation of principal). A money-market fund's portfolio is typically comprised of short-term, or less than one year, securities representing high-quality, liquid debt and monetary instruments with minimal credit risk. Money-market funds are Level 1 investments (with quoted prices in active markets for identical assets) that are Not Rated under the current credit risk ratings format. For financial reporting purposes, the District considers money market funds a cash equivalent due to their highly liquid nature and NAV of \$1 per share. As of June 30, 2021, the District held \$4,535,714 in money market funds.

Local Agency Investment Fund (LAIF)

The California State Treasurer, through the Pooled Money Investment Account (PMIA), invests taxpayers' money to manage the State's cash flow and strengthen the financial security of local governmental entities. PMIA policy sets as primary investment objectives safety, liquidity and yield. Through the PMIA, the Investment Division manages the Local Agency Investment Fund (LAIF). The LAIF allows cities, counties and special districts to place money in a major portfolio and, at no additional costs to taxpayers, use the expertise of Investment Division staff. Participating agencies can withdraw their funds from the LAIF at any time as LAIF is highly liquid and carries a dollar-in dollar-out amortized cost methodology.

SANTA YNEZ COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2021

NOTE 2 – CASH AND INVESTMENTS (Continued)

Local Agency Investment Fund (LAIF) (Continued)

The District is a voluntary participant in LAIF. The fair value of the District's investment in this pool is reported at an amount based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of the of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF. LAIF is not categorized under the fair value hierarchy established by GAAP as it is held at an amortized cost basis and it is Not Rated under the current credit risk ratings format. For financial reporting purposes, the District considers LAIF a cash equivalent due to its highly liquid nature and dollar-in dollar-out amortized cost methodology. As of June 30, 2021, the District held \$162,480 in LAIF.

NOTE 3 – CAPITAL ASSETS

Changes in capital assets for the year were as follows:

Description	Balance July 1, 2020	Additions/ Transfers	Deletions/ Transfers	Balance June 30, 2021
Non-depreciable capital assets:				
Land	\$ 149,109	\$ -	\$ -	\$ 149,109
Construction-in-progress	521,300	152,943	(350,121)	324,122
Total non-depreciable capital assets	670,409	152,943	(350,121)	473,231
Depreciable capital assets:				
Structures and improvements	6,450,163	-	-	6,450,163
Furniture and equipment	268,507	-	-	268,507
Total depreciable capital assets	6,718,670	-	-	6,718,670
Accumulated depreciation:				
Structures and improvements	(3,596,762)	(503,156)	350,121	(3,749,797)
Furniture and equipment	(226,022)	(9,748)	-	(235,770)
Total accumulated depreciation	(3,822,784)	(512,904)	350,121	(3,985,567)
Total depreciable capital assets, net	2,895,886	(512,904)	350,121	2,733,103
Total capital assets, net	\$ 3,566,295	\$ (359,961)	\$ -	\$ 3,206,334

NOTE 4 – COMPENSATED ABSENCES

Changes in compensated absences were as follows:

Balance July 1, 2020	Additions	Deletions	Balance June 30, 2021
\$ 21,953	\$ 31,578	\$ (25,624)	\$ 27,907

SANTA YNEZ COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2021

NOTE 5 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the Special District Risk Management Authority (SDRMA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California special districts. The purpose of the SDRMA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage.

A. Entity	SDRMA	
B. Purpose	To pool member contributions and realize the advantages of self-insurance	
C. Participants	As of June 30, 2020 – 505 member agencies	
D. Governing board	Seven representatives employed by members	
E. District payments for FY 2020:		
Property/Liability policy	\$18,213	
F. Condensed financial information	June 30, 2020	
Statement of net position:		June 30, 2020
Total assets		<u>\$ 130,676,871</u>
Deferred outflows		<u>595,599</u>
Total liabilities		<u>70,083,643</u>
Deferred inflows		<u>246,193</u>
Net position		<u><u>\$ 60,942,634</u></u>
Statement of revenues, expenses and changes in net position:		
Total revenues		\$ 82,459,850
Total expenses		<u>(77,881,779)</u>
Change in net position		4,578,071
Beginning – net position		<u>56,364,563</u>
Ending – net position		<u><u>\$ 60,942,634</u></u>
G. Member agencies share of year-end financial position		Not Calculated

SANTA YNEZ COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2021

NOTE 5 – RISK MANAGEMENT (Continued)

At June 30, 2021, the District participated in the liability and property programs of the SDRMA as follows:

- General and auto liability, public officials and employees' errors and omissions: Total risk financing self-insurance limits of \$5,000,000, combined single limit at \$5,000,000 per occurrence. The District purchased additional excess coverage layers: \$10,000,000 for general, auto and public officials liability, which increases the limits on the insurance coverage noted above.

In addition to the above, the District also has the following insurance coverage:

- Employee dishonesty coverage up to \$1,000,000 per loss includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction coverage's.
- Property loss is paid at the replacement cost for property on file, if replaced within three years after the loss, otherwise paid on an actual cash value basis, to a combined total of \$1.0 billion per occurrence, subject to a \$1,000 deductible per occurrence.
- Boiler and machinery coverage for the replacement cost up to \$100 million per occurrence, subject to a \$1,000 deductible per occurrence.
- Public officials personal liability up to \$500,000 each occurrence, with an annual aggregate of \$500,000 per each elected/appointed official to which this coverage applies, subject to the terms, with a deductible of \$500 per claim.
- Workers' compensation insurance per statutory requirements and Employer's Liability Coverage up to \$5 million.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years. There were no reductions in insurance coverage in fiscal year 2021, 2020 and 2019. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2021, 2020 and 2019.

NOTE 6 – COMMITMENTS AND CONTINGENCIES

Litigation

The District is involved in routine litigation incidental to its business and may be subject to claims and litigation from outside parties. After consultation with legal counsel and/or management, management believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

NOTE 7 – SUBSEQUENT EVENTS

The District has evaluated subsequent events through December 31, 2021, the date which the financial statements were available to be issued.

Other Independent Auditors' Reports



NIGRO & NIGRO^{PC}

A Professional Accountancy Corporation

**INDEPENDENT AUDITORS' 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**

Board of Directors
Santa Ynez Community Services District
Santa Ynez, California

We have audited, in accordance with the 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 the Santa Ynez Community Services District (District) as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 31, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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 may exist that have not been identified.

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.

Murrieta, California
December 31, 2021

SANTA YNEZ COMMUNITY SERVICES DISTRICT
Report to the Board of Directors
For the Fiscal Year Ended
June 30, 2021

NIGRO & NIGRO^{PC}

SANTA YNEZ COMMUNITY SERVICES DISTRICT

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For the Fiscal Year Ended June 30, 2021

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NIGRO & NIGRO^{PC}

A Professional Accountancy Corporation

Board of Directors
Santa Ynez Community Services District
Santa Ynez, California

We are pleased to present this report related to our audit of the financial statements of the Santa Ynez Community Services District (District) as of and for the year ended June 30, 2021. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the District's financial reporting process.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be, and should not be, used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have about this report. We appreciate the opportunity to continue to be of service to the District.

Very truly yours,

Murrieta, California
December 31, 2021

Required Communications

SANTA YNEZ COMMUNITY SERVICES DISTRICT

Required Communications

For the Fiscal Year Ended June 30, 2021

Generally accepted auditing standards (AU-C 260, *The Auditor's Communication With Those Charged With Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the financial statement audit as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial reporting process.

Area	Comments
Our Responsibilities with Regard to the Financial Statement Audit	Our responsibilities under auditing standards generally accepted in the United States of America have been described to you in our arrangement letter dated June 1, 2021. Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities, which are also described in that letter.
Overview of the Planned Scope and Timing of the Financial Statement Audit	An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involved judgment about the number of transactions and the account-type of areas tested. There were no changes to the planned scope and timing of our audit testwork.
Accounting Policies and Practices	<p>Accounting Policies and Practices Under generally accepted accounting principles, in certain circumstances, management may select among alternative accounting practices. During our audit, no such circumstances were noted.</p> <p>Adoption of, or Change in, Significant Accounting Policies or Their Application Management has the ultimate responsibility for the appropriateness of the accounting policies used by the District. The District did not adopt any significant new accounting policies, nor have there been any changes in existing significant accounting policies during the current period.</p> <p>Significant or Unusual Transactions We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.</p> <p>Management's Judgments and Accounting Estimates Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgement. No such significant accounting estimates were noted or estimate applications were changed from the previous year.</p>
Audit Adjustments	Audit adjustments are summarized in the attached Summary of Adjusting Journal Entries .
Uncorrected Misstatements	We are not aware of any uncorrected misstatements other than misstatements that are clearly trivial.

SANTA YNEZ COMMUNITY SERVICES DISTRICT

Required Communications

For the Fiscal Year Ended June 30, 2021

Area	Comments
Discussions With Management	We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditor. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.
Disagreements With Management	We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the financial statements.
Consultations With Other Accountants	We are not aware of any consultations management had with other accountants about accounting or auditing matters.
Significant Issues Discussed With Management	No significant issues arising from the audit were discussed or the subject of correspondence with management.
Significant Difficulties Encountered in Performing the Audit	No significant difficulties were encountered in performing our audit.
Required Supplementary Information	We applied certain limited procedures to the: <ol style="list-style-type: none">1. Management's Discussion and Analysis Which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

This information is intended solely for the information and use of Board of Directors and management of the District and is not intended to be, and should not be, used by anyone other than these specified parties.

Summary of Adjusting Journal Entries

SANTA YNEZ COMMUNITY SERVICES DISTRICT
Summary of Adjusting Journal Entries
For the Fiscal Year Ended June 30, 2021

Account	Description	Debit	Credit
Adjusting Journal Entries			
Adjusting Journal Entries JE # 1			
To True Up Prepaids			
21001	Prepaid Expense	5,517.50	
51111	Computer Operations	600.00	
51123	Audit Contract	1,005.00	
55151	Collection System	5,000.00	
21001	Prepaid Expense		6,605.00
55151	Collection System		5,517.50
Total		<u><u>12,122.50</u></u>	<u><u>12,122.50</u></u>
Adjusting Journal Entries JE # 2			
To Accrue Expenses at 06/30/2021			
55201	Solvang WWTP Projects	170,634.52	
59005	Horizon/Stadium	2,880.00	
25300	Accrued Expenses		173,514.52
Total		<u><u>173,514.52</u></u>	<u><u>173,514.52</u></u>
Adjusting Journal Entries JE # 3			
To record the unrecorded receivable			
20100	Service Fees Receivable	21,806.76	
31020	Buy-In Fee		1,994.78
31050	Capacity Fees		6,336.98
31089	Plan Check Fees		175.00
31090	Inspection Fees		115.00
31110	Sewer Extension Fee Proj 1, 2		13,185.00
Total		<u><u>21,806.76</u></u>	<u><u>21,806.76</u></u>
Adjusting Journal Entries JE # 4			
To Accrue For Payroll Related Expenses at 06/30/21			
51010	Salaries	59.97	
51020	Employee Benefits	807.46	
55010	Salaries	111.37	
55020	Employee Benefits	3,128.27	
57110	Salaries	21.41	
57120	Employee Benefits	693.66	
57210	Salaries	58.34	
57220	Employee Benefits	2,793.47	
26000	Payroll Liabilities		7,673.95
Total		<u><u>7,673.95</u></u>	<u><u>7,673.95</u></u>
Total Adjusting Journal Entries		<u><u>215,117.73</u></u>	<u><u>215,117.73</u></u>
Total All Journal Entries		<u><u>215,117.73</u></u>	<u><u>215,117.73</u></u>