

SANTA YNEZ COMMUNITY SERVICES DISTRICT
MEMORANDUM

TO: Board of Directors
FROM: Loch A. Dreizler, General Manager
DATE: April 19, 2023
SUBJECT: FY 2021/2022 Audit Report

Proposed Motion / Recommendation

Motion to accept the audit report submitted by Nigro & Nigro for the fiscal year ending June 30, 2022.

Policy Implications

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

On 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.

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

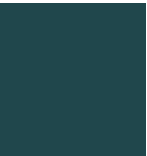

Alternatives Considered

None

Discussion

Paul Kaymark will give the Board a presentation and discuss highlights of Nigro & Nigro's *Financial Statement and Independent Auditor's Report*. In addition, Mr. Kaymark will answer questions from the public and Directors.

Attachment(s): *Financial Statement and Independent Auditor's Report*



**SANTA YNEZ
COMMUNITY SERVICES DISTRICT
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
For the Fiscal Year Ended
June 30, 2022
(With Comparative Amounts as of June 30, 2021)**

NIGRO & NIGRO^{PC}

SANTA YNEZ COMMUNITY SERVICES DISTRICT

For the Fiscal Year Ended June 30, 2022

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Financial Section



INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying financial statements of the Santa Ynez Community Services District (District), which comprise the balance sheet as of June 30, 2022, 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.

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, 2022, 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.

Basis for Opinion

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. 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 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.

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 twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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 generally accepted auditing standards 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 generally accepted auditing standards 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 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, 2021, 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 March 15, 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 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

March 15, 2023

SANTA YNEZ COMMUNITY SERVICES DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Years Ended June 30, 2022 and 2021

Management's Discussion and Analysis (MD&A) offers readers of the Santa Ynez Community Services District's financial statements a narrative overview of the District's financial activities for the year ended June 30, 2022. 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 2022, the District's net position increased 15.13% or \$1,179,919 from the prior year's net position of \$7,800,727 to \$8,980,646, as a result of the year's operations.
- In fiscal year 2022, total revenues decreased by 1.07% or \$21,531 from \$2,013,961 to \$1,992,430, from the prior year, primarily due to a decrease in the Indian reservation contract.
- In fiscal year 2022, total expenses decreased by 14.56% or \$325,710 from \$2,236,523 to \$1,910,813, from the prior year, primarily due to a decrease 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, 2022 and 2021

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, 2022</u>	<u>June 30, 2021</u>	<u>Change</u>
Assets:			
Current assets	\$ 5,643,448	\$ 4,897,041	\$ 746,407
Non-current assets	\$ 205,097	\$ -	205,097
Capital assets, net	<u>4,537,173</u>	<u>3,206,334</u>	<u>1,330,839</u>
Total assets	<u>\$ 10,385,718</u>	<u>\$ 8,103,375</u>	<u>\$ 2,282,343</u>
Liabilities:			
Current liabilities	\$ 153,798	\$ 302,648	\$ (148,850)
Non-current liabilities	<u>1,251,274</u>	<u>-</u>	<u>1,251,274</u>
Total liabilities	<u>1,405,072</u>	<u>302,648</u>	<u>1,102,424</u>
Net position:			
Net investment in capital assets	3,442,270	3,206,334	235,936
Unrestricted	<u>5,538,376</u>	<u>4,594,393</u>	<u>943,983</u>
Total net position	<u>8,980,646</u>	<u>7,800,727</u>	<u>1,179,919</u>
Total liabilities and net position	<u>\$ 10,385,718</u>	<u>\$ 8,103,375</u>	<u>\$ 2,282,343</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 \$8,980,646 as of June 30, 2022.

A portion of the District's net position (38% as of June 30, 2022) 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 2022, the District showed a positive balance in its unrestricted net position of \$5,538,376 which may be utilized in future years.

SANTA YNEZ COMMUNITY SERVICES DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Years Ended June 30, 2022 and 2021

FINANCIAL ANALYSIS OF THE DISTRICT (Continued)

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

	<u>June 30, 2022</u>	<u>June 30, 2021</u>	<u>Change</u>
Total operating revenue	\$ 1,287,085	\$ 1,265,762	\$ 21,323
Total operating expenses	<u>(1,206,066)</u>	<u>(1,247,551)</u>	41,485
Operating income before depreciation	81,019	18,211	62,808
Depreciation expense	<u>(241,166)</u>	<u>(512,904)</u>	271,738
Operating loss	(160,147)	(494,693)	334,546
Total non-operating revenues (expenses), net	<u>241,764</u>	<u>272,131</u>	<u>(30,367)</u>
Change in net position before capital contributions	<u>81,617</u>	<u>(222,562)</u>	304,179
Capital contributions	<u>1,098,302</u>	<u>144,626</u>	953,676
Change in net position	1,179,919	(77,936)	1,257,855
Net position - beginning of period	<u>7,800,727</u>	<u>7,878,663</u>	<u>(77,936)</u>
Net position - end of period	<u>\$ 8,980,646</u>	<u>\$ 7,800,727</u>	<u>\$ 1,179,919</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 increased 15.13% or \$1,179,919 from the prior year's net position of \$7,800,727 to \$8,980,646, as a result of the year's operations.

Total Revenues

	<u>June 30, 2022</u>	<u>June 30, 2021</u>	<u>Increase (Decrease)</u>
Operating revenues:			
Sewer service charge	\$ 1,236,715	\$ 1,217,750	\$ 18,965
Sewer benefit fees	39,061	38,863	198
Other charges for services	<u>11,309</u>	<u>9,149</u>	2,160
Total program revenues	<u>1,287,085</u>	<u>1,265,762</u>	21,323
Non-operating revenues:			
Property taxes - ad valorem	209,156	197,017	12,139
Voter approved taxes	1,938	1,812	126
Annexation fees	9,970	9,924	46
Investment earnings	14,068	22,848	(8,780)
Indian reservation contract	<u>470,213</u>	<u>516,598</u>	<u>(46,385)</u>
Total general revenues	<u>705,345</u>	<u>748,199</u>	<u>(42,854)</u>
Total revenues	<u>\$ 1,992,430</u>	<u>\$ 2,013,961</u>	<u>\$ (21,531)</u>

SANTA YNEZ COMMUNITY SERVICES DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Years Ended June 30, 2022 and 2021

FINANCIAL ANALYSIS OF THE DISTRICT (Continued)

Total Revenues (Continued)

In fiscal year 2022, total revenues decreased by 1.07% or \$21,531 from \$2,013,961 to \$1,992,430, from the prior year, primarily due to a decrease in the Indian reservation contract.

Total Expenses

	<u>June 30, 2022</u>	<u>June 30, 2021</u>	<u>Increase (Decrease)</u>
Operating expenses:			
Sewage collection	\$ 745,883	\$ 745,945	\$ (62)
Sewage treatment	240,000	240,000	-
General and administrative	<u>220,183</u>	<u>261,606</u>	<u>(41,423)</u>
Total operating expenses	<u>1,206,066</u>	<u>1,247,551</u>	<u>(41,485)</u>
Depreciation expense	<u>241,166</u>	<u>512,904</u>	<u>(271,738)</u>
Non-operating expenses:			
Indian reservation contract	427,891	476,068	(48,177)
Interest expense	<u>35,690</u>	<u>-</u>	<u>35,690</u>
Total non-operating expenses	<u>463,581</u>	<u>476,068</u>	<u>(12,487)</u>
Total expenses	<u>\$ 1,910,813</u>	<u>\$ 2,236,523</u>	<u>\$ (325,710)</u>

In fiscal year 2022, total expenses decreased by 14.56% or \$325,710 from \$2,236,523 to \$1,910,813, from the prior year, primarily due to a decrease in depreciation expense.

Capital Assets

	<u>Balance June 30, 2022</u>	<u>Balance June 30, 2021</u>
Capital assets:		
Non-depreciable assets	\$ 149,109	\$ 473,231
Depreciable assets	8,614,796	6,718,670
Accumulated depreciation	<u>(4,226,732)</u>	<u>(3,985,567)</u>
Total capital assets, net	<u>\$ 4,537,173</u>	<u>\$ 3,206,334</u>

At the end of year 2022, the District's investment in capital assets amounted to \$4,537,173 (net of accumulated depreciation), respectively. Capital asset additions amounted to \$1,572,004 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, 2022 and 2021

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, 2022

(With Comparative Amounts as of June 30, 2021)

<u>ASSETS</u>	<u>2022</u>	<u>2021</u>
Current assets:		
Cash and cash equivalents (Note 2)	\$ 5,590,023	\$ 4,807,613
Accrued interest receivable	305	133
Accounts receivable – sewer and other services	39,423	71,256
Prepaid expenses and other deposits	13,697	18,039
Total current assets	<u>5,643,448</u>	<u>4,897,041</u>
Non-current assets:		
Restricted – cash and cash equivalents (Note 2 and 3)	205,097	-
Capital assets – not being depreciated (Note 4)	149,109	473,231
Capital assets – being depreciated, net (Note 4)	4,388,064	2,733,103
Total non-current assets	<u>4,742,270</u>	<u>3,206,334</u>
Total assets	<u>\$ 10,385,718</u>	<u>\$ 8,103,375</u>
<u>LIABILITIES & NET POSITION</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 48,626	\$ 272,541
Unearned revenue and deposits	2,000	2,200
Accrued interest payable	35,690	-
Long-term liabilities – due in one year:		
Compensated absences (Note 5)	18,756	27,907
Long-term debt payable (Note 6)	48,726	-
Total current liabilities	<u>153,798</u>	<u>302,648</u>
Non-current liabilities:		
Long-term debt payable (Note 6)	1,251,274	-
Total non-current liabilities	<u>1,251,274</u>	<u>-</u>
Total liabilities	<u>1,405,072</u>	<u>302,648</u>
Net position:		
Net investment in capital assets (Note 7)	3,442,270	3,206,334
Unrestricted	5,538,376	4,594,393
Total net position	<u>8,980,646</u>	<u>7,800,727</u>
Total liabilities and net position	<u>\$ 10,385,718</u>	<u>\$ 8,103,375</u>

SANTA YNEZ COMMUNITY SERVICES DISTRICT
Statements of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2022
(With Comparative Amounts for the Year Ended June 30, 2021)

	<u>2022</u>	<u>2021</u>
Operating Revenues:		
Sewer service charge	\$ 1,236,715	\$ 1,217,750
Sewer benefit fees	39,061	38,863
Other charges for services	<u>11,309</u>	<u>9,149</u>
Total operating revenues	<u>1,287,085</u>	<u>1,265,762</u>
Operating expenses:		
Sewage collection	745,883	745,945
Sewage treatment	240,000	240,000
General and administrative	<u>220,183</u>	<u>261,606</u>
Total operating expenses	<u>1,206,066</u>	<u>1,247,551</u>
Operating income before depreciation expense	81,019	18,211
Depreciation expense	<u>(241,166)</u>	<u>(512,904)</u>
Operating loss	<u>(160,147)</u>	<u>(494,693)</u>
Non-operating revenue (expense):		
Property taxes – ad valorem	209,156	197,017
Voter approved taxes	1,938	1,812
Annexation fees	9,970	9,924
Investment earnings	14,068	22,848
Interest expense	(35,690)	-
Indian reservation contract:		
Sewage collection and wastewater treatment plant operation	470,213	516,598
Sewage collection	(47,804)	(52,525)
Wastewater treatment plant operations	<u>(380,087)</u>	<u>(423,543)</u>
Total non-operating revenue, net	<u>241,764</u>	<u>272,131</u>
Change in net position before capital contributions	81,617	(222,562)
Capital contributions:		
Sewer extension fees	13,185	52,740
Connection fees	668,513	91,886
Golden Inn sewer pump station	<u>416,604</u>	<u>-</u>
Total capital contributions	<u>1,098,302</u>	<u>144,626</u>
Change in net position	1,179,919	(77,936)
Net position:		
Beginning of year	<u>7,800,727</u>	<u>7,878,663</u>
End of year	<u>\$ 8,980,646</u>	<u>\$ 7,800,727</u>

SANTA YNEZ COMMUNITY SERVICES DISTRICT*Statements of Cash Flows**June 30, 2022**(With Comparative Amounts as of June 30, 2021)*

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Cash receipts from customers and others	1,371,010	\$ 1,291,429
Cash paid to employees for salaries and wages	(665,306)	(670,229)
Cash paid to vendors and suppliers for materials and services	(769,484)	(371,593)
Net cash provided by operating activities	<u>(63,780)</u>	<u>249,607</u>
Cash flows from non-capital financing activities:		
Proceeds from property taxes - ad valorem	209,156	197,017
Net cash provided by non-capital financing activities	<u>209,156</u>	<u>197,017</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(1,155,400)	(152,943)
Proceeds from capacity contributions	681,698	144,626
Voter – approved taxes	1,938	1,812
Proceeds from long-term debt	1,300,000	-
Net cash used in capital and related financing activities	<u>828,236</u>	<u>(6,505)</u>
Cash flows from investing activities:		
Investment earnings	13,895	23,258
Net cash provided by investing activities	<u>13,895</u>	<u>23,258</u>
Net increase in cash and cash equivalents	987,507	463,377
Cash and cash equivalents:		
Beginning of year	4,807,613	4,344,236
End of year	<u>\$ 5,795,120</u>	<u>\$ 4,807,613</u>
Reconciliation of cash and cash equivalents to the balance sheet:		
Cash and cash equivalents	\$ 5,590,023	\$ 4,807,613
Restricted – cash and cash equivalents	205,097	-
Total cash and cash equivalents	<u>\$ 5,795,120</u>	<u>\$ 4,807,613</u>

SANTA YNEZ COMMUNITY SERVICES DISTRICT*Statements of Cash Flows (Continued)**June 30, 2022**(With Comparative Amounts as of June 30, 2021)*

	<u>2022</u>	<u>2021</u>
Reconciliation of operating loss to net cash provided by (used in) operating activities:		
Operating loss	\$ (160,147)	\$ (494,693)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	241,166	512,904
Annexation fees	9,970	9,924
Indian reservation contract, net	42,322	40,530
Change in assets - (increase)decrease:		
Accounts receivable – sewer and other services	31,833	(24,787)
Prepaid expenses	4,342	(12,034)
Change in liabilities - increase(decrease):		
Accounts payable and accrued expenses	(223,915)	211,809
Unearned revenue and deposits	(200)	-
Compensated absences	(9,151)	5,954
Total adjustments	<u>96,367</u>	<u>744,300</u>
Net cash provided by(used in) operating activities	<u>\$ (63,780)</u>	<u>\$ 249,607</u>
Noncash investing, capital and financing transactions:		
Golden Inn sewer pump station contributed capital	<u>\$ 416,604</u>	<u>\$ -</u>

SANTA YNEZ COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2022

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, 2022

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. 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, 2022

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:

Net investment in capital assets - This component of net position consists of capital assets net of accumulated depreciation reduced by any associated long-term debt obligation.

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 January 1
Levy date July 1
Due dates November 1 and April 10
Collection dates December 10 and April 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, 2022

NOTE 2 – CASH AND INVESTMENTS

Cash and cash equivalents were classified in the accompanying financial statement as follows:

<u>Description</u>	<u>June 30, 2022</u>
Cash and cash equivalents	\$ 5,590,023
Restricted - cash and cash equivalents	<u>205,097</u>
Total cash and cash equivalents	<u>\$ 5,795,120</u>

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

<u>Description</u>	<u>June 30, 2022</u>	<u>June 30, 2021</u>
Cash on hand	\$ 222	\$ 150
Demand deposits with financial institutions	76,240	109,269
Money market mutual funds	5,557,835	4,535,714
Local agency investment fund (LAIF)	<u>160,823</u>	<u>162,480</u>
Total cash and cash equivalents	<u>\$ 5,795,120</u>	<u>\$ 4,807,613</u>

Demand Deposits with Financial Institutions

At June 30, 2022, the carrying amount of the District's demand deposits was \$76,240 and the financial institution's balance was \$125,632. 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, 2022, the District held \$5,557,835 in money market funds.

SANTA YNEZ COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2022

NOTE 2 – CASH AND INVESTMENTS (Continued)

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.

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, 2022, the District held \$160,823 in LAIF.

NOTE 3 – RESTRICTED – CASH AND CASH EQUIVALENTS

Restricted – cash and cash equivalents as of June 30th consisted of the following:

<u>Description</u>	<u>June 30, 2022</u>
Unspent proceeds from loan issuance	\$ 205,097
Less: Unspent proceeds from loan issuance	<u>(205,097)</u>
Total restricted - net position	<u>\$ -</u>

The restricted – cash and cash equivalents balance on the balance sheet at June 30, 2022 held debt proceeds from the remaining unused loan proceeds. This amount is then used in the calculation of net investment in capital assets. (See Note 7).

SANTA YNEZ COMMUNITY SERVICES DISTRICT
Notes to Financial Statements
June 30, 2022

NOTE 4 – CAPITAL ASSETS

Changes in capital assets for the year were as follows:

<u>Description</u>	<u>Balance July 1, 2021</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance June 30, 2022</u>
Non-depreciable capital assets:				
Land	\$ 149,109	\$ -	\$ -	\$ 149,109
Construction-in-progress	324,122	-	(324,122)	-
Total non-depreciable capital assets	<u>473,231</u>	<u>-</u>	<u>(324,122)</u>	<u>149,109</u>
Depreciable capital assets:				
Structures and improvements	6,450,163	1,572,004	324,122	8,346,289
Furniture and equipment	268,507	-	-	268,507
Total depreciable capital assets	<u>6,718,670</u>	<u>1,572,004</u>	<u>324,122</u>	<u>8,614,796</u>
Accumulated depreciation:				
Structures and improvements	(3,749,797)	(233,895)	-	(3,983,692)
Furniture and equipment	(235,770)	(7,270)	-	(243,040)
Total accumulated depreciation	<u>(3,985,567)</u>	<u>(241,165)</u>	<u>-</u>	<u>(4,226,732)</u>
Total depreciable capital assets, net	<u>2,733,103</u>	<u>1,330,839</u>	<u>324,122</u>	<u>4,388,064</u>
Total capital assets, net	<u><u>\$ 3,206,334</u></u>	<u><u>\$ 1,330,839</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 4,537,173</u></u>

NOTE 5 – COMPENSATED ABSENCES

Changes in compensated absences were as follows:

<u>Balance July 1, 2021</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2022</u>
\$ 27,907	\$ 20,830	\$ (29,981)	\$ 18,756

SANTA YNEZ COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2022

NOTE 6 – LONG-TERM DEBT PAYABLE

Changes in long-term debt payable for the year ended June 30, 2022, were as follows:

<u>Long-term Debt</u>	<u>Balance July 1, 2021</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance June 30, 2022</u>	<u>Current Portion</u>	<u>Long-term Portion</u>
Loan payable	\$ -	\$ 1,300,000	\$ -	\$ 1,300,000	\$ 48,726	\$ 1,251,274
Total loans payable	<u>\$ -</u>	<u>\$ 1,300,000</u>	<u>\$ -</u>	<u>\$ 1,300,000</u>	<u>\$ 48,726</u>	<u>\$ 1,251,274</u>

Loan Payable - 2022

The District entered into an installment agreement with Municipal Finance Corporation on June 16, 2021 for \$1,300,000. The loan is to finance the costs of constructing certain improvements to the wastewater facilities. The note is scheduled to mature in fiscal year 2042. Principal and interest annual installments of \$86,816 are payable on July 23rd of each year at a rate of 2.93%. Annual debt service requirements on the note are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 48,726	\$ 38,090	\$ 86,816
2024	50,154	36,662	86,816
2025	51,623	35,193	86,816
2026	53,136	33,680	86,816
2027	54,692	32,124	86,816
2028-2032	298,460	135,620	434,080
2033-2037	344,822	89,257	434,079
2038-2042	<u>398,387</u>	<u>35,692</u>	<u>434,079</u>
Total	1,300,000	<u>\$ 436,318</u>	<u>\$ 1,736,318</u>
Current	<u>(48,726)</u>		
Long-term	<u>\$ 1,251,274</u>		

NOTE 7 – NET INVESTMENT IN CAPITAL ASSETS

Net investment in capital assets was calculated as follows as of June 30:

<u>Description</u>	<u>June 30, 2022</u>	<u>June 30, 2021</u>
Net investment in capital assets:		
Capital assets – not being depreciated	\$ 149,109	\$ 473,231
Capital assets, net – being depreciated	4,388,064	2,733,103
Loan payable – current portion	(48,726)	-
Loan payable – non-current portion	(1,251,274)	-
Unspent proceeds from loan issuance (Note 3)	<u>205,097</u>	<u>-</u>
Total net investment in capital assets	<u>\$ 3,442,270</u>	<u>\$ 3,206,334</u>

SANTA YNEZ COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2022

NOTE 8 – 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, 2021 – 499 member agencies
D. Governing board	Seven representatives employed by members
E. District payments for FY 2022:	
Property/Liability policy	\$13,408
Workers' compensation policy	\$29,516
F. Condensed financial information	June 30, 2021

	June 30, 2021
Statement of net position:	
Total assets	\$ 139,860,914
Deferred outflows	606,052
Total liabilities	73,886,665
Deferred inflows	237,014
Net position	<u>\$ 66,343,287</u>
Statement of revenues, expenses and changes in net position:	
Total revenues	\$ 84,001,505
Total expenses	<u>(78,600,852)</u>
Change in net position	5,400,653
Beginning – net position	60,942,634
Ending – net position	<u>\$ 66,343,287</u>

At June 30, 2022, 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.

SANTA YNEZ COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2022

NOTE 8 – RISK MANAGEMENT (Continued)

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 2022, 2021 and 2020. 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, 2022, 2021 and 2020.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

Excluded Leases – Short-Term Leases and De Minimis Leases

The District does not recognize a lease receivable and a deferred inflow of resources for short-term leases. Short-term leases are certain leases that have a maximum possible term under the lease contract of 12-months (or less), including any options to extend, regardless of their probability of being exercised.

Also, *de minimis* lessor or lessee leases are certain leases (i.e., room rental, copiers, printers, postage machines) that regardless of their lease contract period are *de minimis* with regards to their aggregate total dollar amount to the financial statements as a whole.

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 10 – SUBSEQUENT EVENTS

The District has evaluated subsequent events through March 15, 2023, the date which the financial statements were available to be issued.

Other Independent Auditors' Reports



**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, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 15, 2023.

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
March 15, 2023