



BARTLETT, PRINGLE
& WOLF, LLP



Montecito Sanitary District Financial Statement Audit For the year ended June 30, 2022

Tracey A. Solomon, Partner



Presentation Overview

1. Required Communications
 - Significant estimates in the financial statements
 - Audit entries
 - Internal control recommendations

2. Independent Auditor's Report

3. Year in review: Highlight of significant balances





Required Communications

1. A letter of planning communication was provided to the District. The letter covered certain aspects of the audit including, independence, planning, the concept of materiality, and audit risks in the planning phase.
2. We did not discuss with management any alternative treatments within generally accepted accounting principles for accounting policies or practices related to material items during the current audit period.
3. There were no new accounting standards that impacted the District in the current year, nor have there been any changes in existing significant accounting policies during the current year.
4. We did not identify any significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.
5. We did not identify any significant unusual transactions.
6. There were 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.



Significant Estimates in the Financial Statements

1. Depreciation: Calculated on a straight-line basis over the expected useful life of each asset.
 - (A) We evaluated the consistency and reasonableness of useful lives for current year additions.
 - (B) We also performed a reasonableness calculation over depreciation expense.

2. Net OPEB liability: Calculated by an actuary in accordance with the parameters of GASB 75, based on census data provided to the actuary by the District.
 - (A) We reviewed the validity of the underlying inputs.
 - (B) We recalculated the mathematical accuracy and evaluated the reasonableness of the components of the changes in the net OPEB obligation, OPEB expense, and related deferred inflows and outflows.



Significant Estimates in the Financial Statements

3. Net pension liability: Estimate of the proportionate share of the collective net pension liability. Underlying information was calculated by independent actuary, CalPERS in accordance with GASB 68.
 - (A) We evaluated current year changes identified by CalPERS at the Miscellaneous Pool level and recalculated the impact to each Plan.
 - (B) We compared payroll costs per the general ledger to the underlying payroll data submitted to the actuary. Underlying payroll costs are a significant component of the calculation of the net pension liability.



Audit Adjustments

Audit adjustments that were recorded after the initial trial balance was received related to fiscal year ended June 30, 2022 are included as an attachment to the letter of required communication.

Internal Control Matters

A letter of internal control findings and recommendations was provided.

Upcoming Standards

Upcoming standard GASB 96 – Subscription Based Information Technology



Independent Auditor's Report

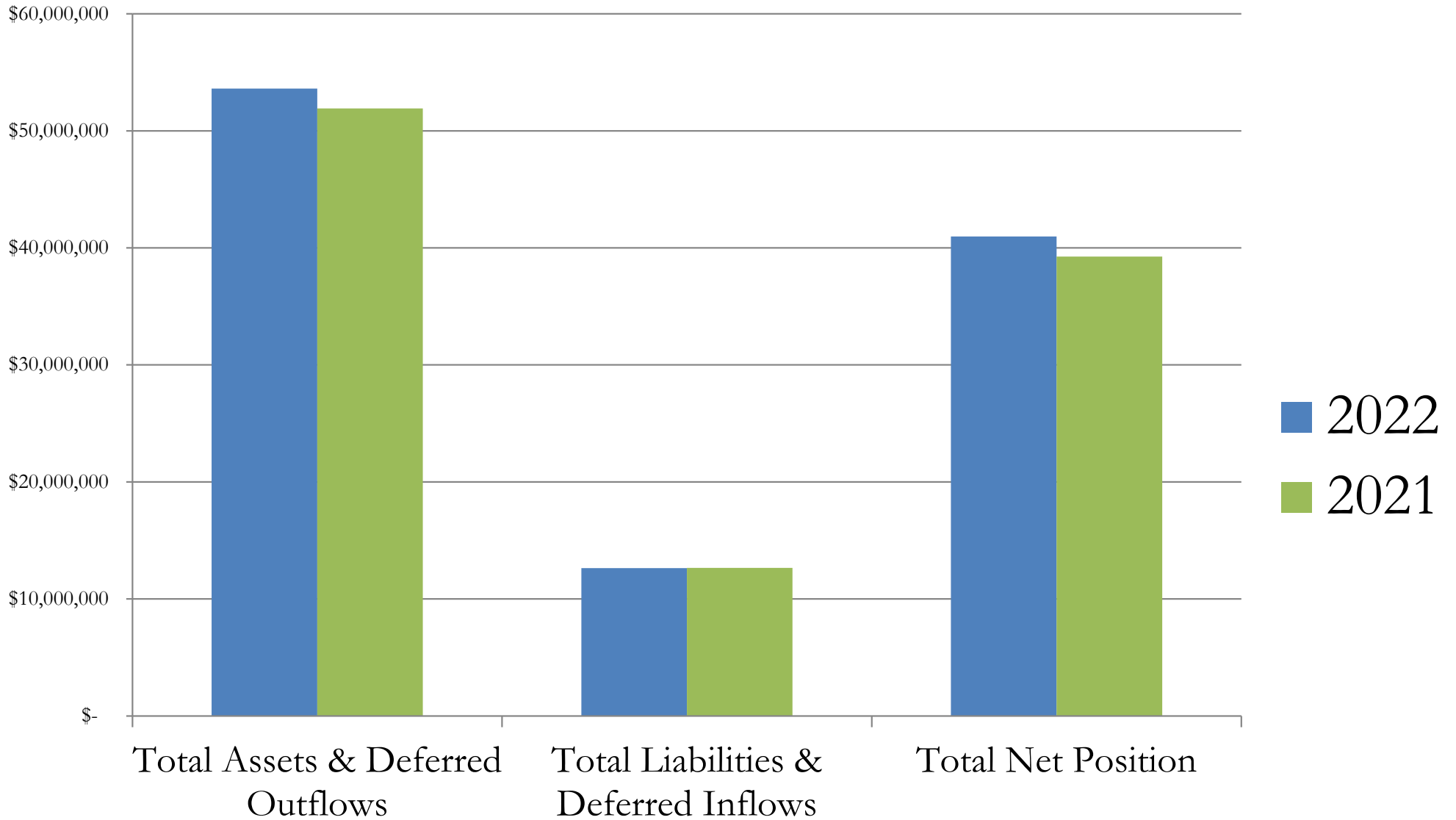
Unmodified Opinion (Clean Opinion)

In our opinion, the financial statements present fairly, **in all material respects**, the financial position of the District and respective changes in financial position and cash flows the years ended June 30, 2022 and 2021 in accordance with accounting principles generally accepted in the United States of America.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. The audit is planned and performed to obtain reasonable assurance (not absolute) about whether the financial statements as a whole are free from **material** misstatement.

We considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the internal control. Accordingly, we express no such opinion.

Year-End Snapshot June 30, 2022 and 2021



Statement of Net Position Highlights



	<u>2022</u>	<u>2021</u>
ASSETS		
Current Assets:		
Cash and investments (Note 2 and 3)	\$ 19,684,936	\$ 19,047,109
Receivables	34,976	58,305
Prepaid expenses	59,338	53,275
Total current assets	<u>19,779,250</u>	<u>19,158,689</u>
Capital Assets:		
Depreciable:		
Plant and equipment	55,612,113	54,792,416
Less accumulated depreciation	<u>(25,039,289)</u>	<u>(23,796,045)</u>
	30,572,824	30,996,371
Non-depreciable:		
Construction in progress	2,271,375	655,129
Land and improvements	<u>106,500</u>	<u>106,500</u>
Net capital assets (Note 2 and 4)	<u>32,950,699</u>	<u>31,758,000</u>
Total Assets	<u>52,729,949</u>	<u>50,916,689</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred pensions (Note 8)	593,052	650,339
Deferred postemployment health care benefits (Note 9)	<u>291,218</u>	<u>342,403</u>
Total deferred outflows of resources	<u>884,270</u>	<u>992,742</u>
Total assets and deferred outflows of resources	<u>\$ 53,614,219</u>	<u>\$ 51,909,431</u>

1. Cash and investments saw a net increase of approximately \$637K from prior year.
2. Net capital assets increased \$1.2M, primarily due to CIP.
3. Total deferred outflows decreased \$108K.

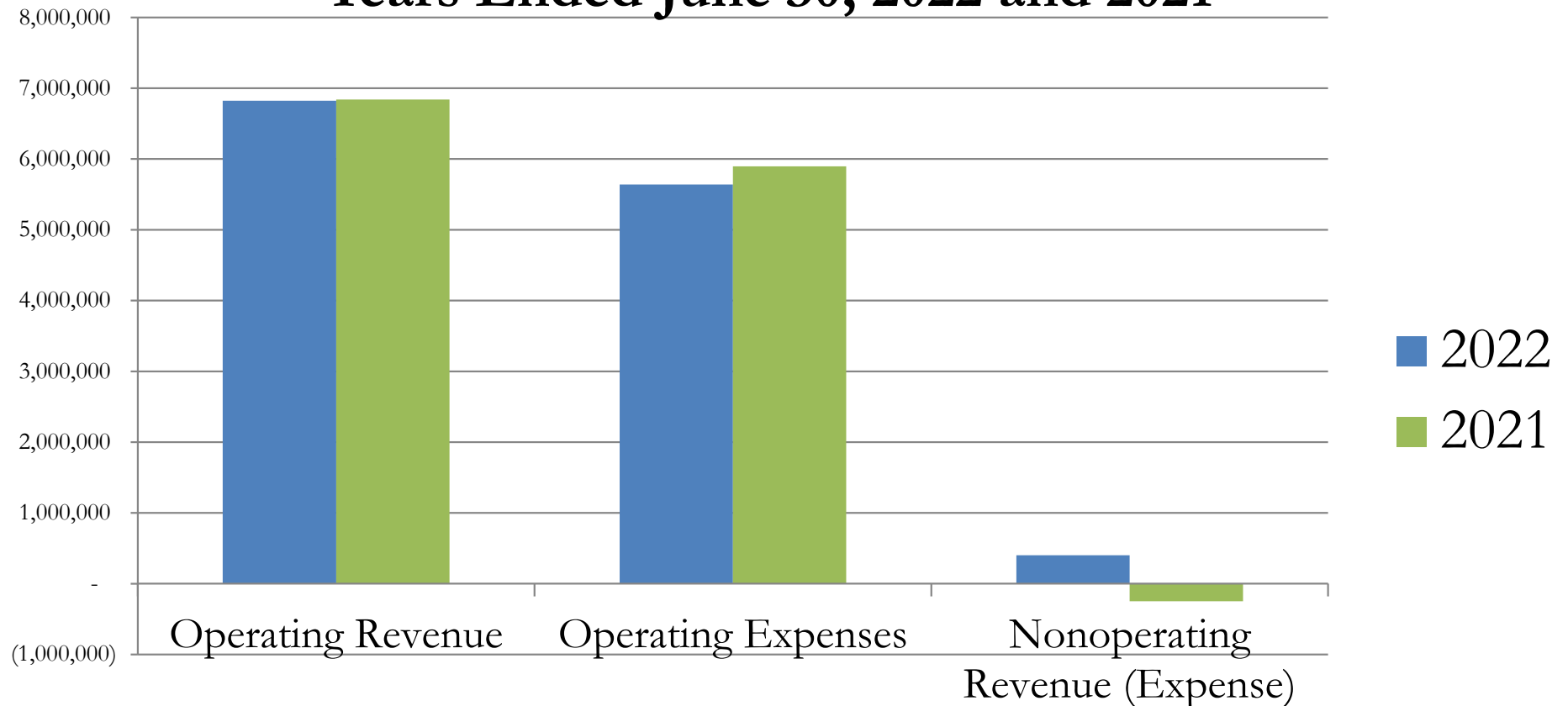
Statement of Net Position Highlights



	2022	2021
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 561,959	\$ 131,806
Accrued salaries and benefits	24,113	45,699
Accrued interest	305,323	318,023
Customer deposits	469,837	376,156
Current portion of long-term debt (Note 6)	655,000	635,000
Total current liabilities	2,016,232	1,506,684
Long-Term Liabilities:		
Compensated absences payable (Note 5)	184,682	180,617
Long-term debt, net of current portion (Note 6)	6,957,706	7,686,794
Net pension liability (Note 8)	1,483,020	2,541,896
Net OPEB liability (Note 9)	588,459	603,068
Total long-term liabilities	9,213,867	11,012,375
Total Liabilities	11,230,099	12,519,059
DEFERRED INFLOWS OF RESOURCES		
Deferred pensions (Note 8)	1,331,615	59,003
Deferred postemployment health care benefits (Note 9)	8,421	1,914
Deferred gain on refunding debt	65,602	73,802
Total deferred inflows of resources	1,405,638	134,719
Total liabilities and deferred inflows of resources	12,635,737	12,653,778
NET POSITION		
Net investment in capital assets	25,272,391	23,362,404
Unrestricted, designated for retirement benefits obligation	178,429	184,072
Unrestricted, designated for capital replacement	6,414,295	7,622,671
Unrestricted, designated for reserves	1,995,964	2,016,534
Unrestricted, designated for recycled water	979,671	1,096,679
Unrestricted	6,137,732	4,973,293
Total Net Position	\$ 40,978,482	\$ 39,255,653

4. Total liabilities decreased \$1.3K.
 - Current liabilities increased \$500k, primarily due to capital related payments due at year end.
 - Long-term debt decreased \$1.8M, primarily due to net pension liability decrease of \$1M (which was offset by increase from deferred outflow from pension as noted below).
5. Deferred inflows increased \$1.3M, primarily from pension.
6. Total net position increased \$1.7M.
 - Largest component is net position invested in capital.
 - Remaining balance of net position is unrestricted, but primarily board designated.

Revenue and Expense Comparison Years Ended June 30, 2022 and 2021



- Operating revenue of \$6.8 million in 2022, comparable to prior year.
- Operating expenses of \$5.64 million in 2022 compared to \$5.9 million in 2021.
- Nonoperating revenue (expense) increased \$650k from prior year, primarily due to covid relief funds and insurance reimbursements.

Statement of Revenue, Expenses and Changes in Net Position



	<u>2022</u>	<u>2021</u>
Operating Revenues:		
Service charges	\$ 6,543,286	\$ 6,533,184
Connection fees	191,597	203,860
Other services	88,506	104,248
Total operating revenues	<u>6,823,389</u>	<u>6,841,292</u>
Operating Expenses:		
Sewage collection	1,846,737	2,075,985
Sewage treatment	2,402,440	2,358,547
Sewage disposal	73,851	63,393
Administrative	1,317,473	1,399,172
Total operating expenses	<u>5,640,501</u>	<u>5,897,097</u>
Income from operations	<u>1,182,888</u>	<u>944,195</u>
Nonoperating Revenue (Expense):		
Investment loss	(482,136)	(14,911)
Property taxes	676,669	633,568
Other income (expense)	403,564	(140,078)
Loss on disposal of assets	(0)	(505,200)
Interest expense	(195,412)	(220,813)
Total nonoperating revenue (expense)	<u>402,685</u>	<u>(247,434)</u>
Excess of revenue over expenses	<u>1,585,573</u>	<u>696,761</u>
Capital contributions:		
Contributed subsurface lines	137,256	154,807
Total capital contributions	<u>137,256</u>	<u>154,807</u>
Change in net position	1,722,829	851,568
Net position, beginning of year	<u>39,255,653</u>	<u>38,404,085</u>
Net position, end of year	<u>\$ 40,978,482</u>	<u>\$ 39,255,653</u>

1. Operating revenue was \$6.8 million. Service revenue comprised 96% of operating revenue.
2. Total operating expenses decreased \$256K.
3. Nonoperating revenue (expense) increased \$650K, and was a net revenue of \$403K for 2022.
4. Capital contributions for 2022 was \$137K.



Questions?



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