



Wastewater Treatment



TRANSFORMING  
WASTEWATER  
TO RESOURCES



Recycled Water



Energy Production



Biosolids Reuse

# FY22/23 Financial Audit Results

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Cropper Accountancy (District's External Auditor)

Board of Directors Meeting  
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# Background

- Annual external audit of basic financial statements is required to comply with legal and regulatory requirements
  - Cropper Accountancy Corporation is the CPA firm serving as the District's external auditor (third year)
- District has exceeded basic requirements and prepared an Annual Comprehensive Financial Report (ACFR)
  - Includes Transmittal Letter and Statistical Section for improved reader context and transparency

# FY22/23 Financial Audit

## Key Findings



- ACFR presents the District's financial position
  - “Unmodified” or “clean” opinion issued by the auditor represents the highest quality outcome
  
- District continues to maintain a strong financial position
  - Net position increased by \$20.2 million in FY22/23

# FY22/23 Financial Audit

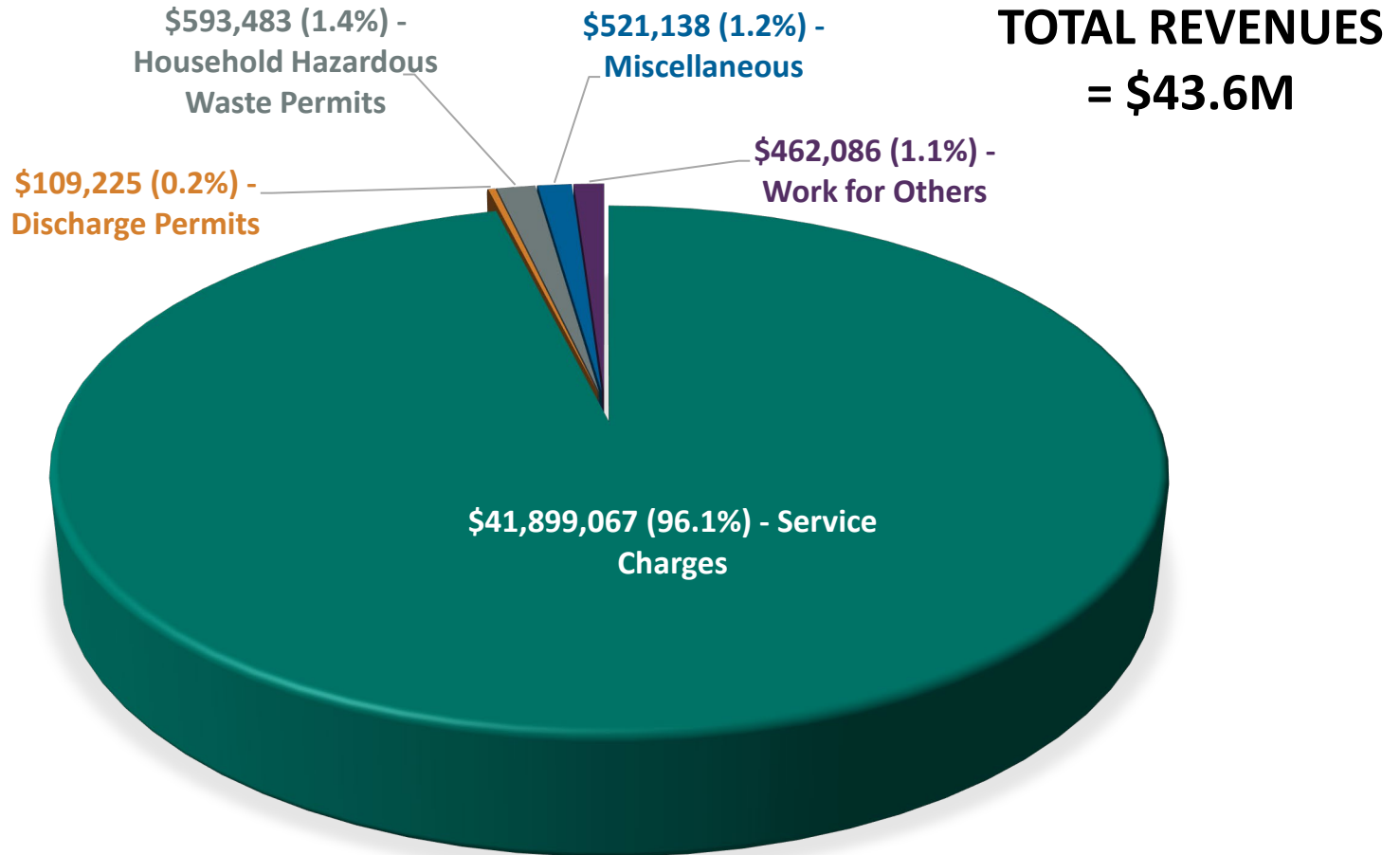
## Key Findings/Highlights



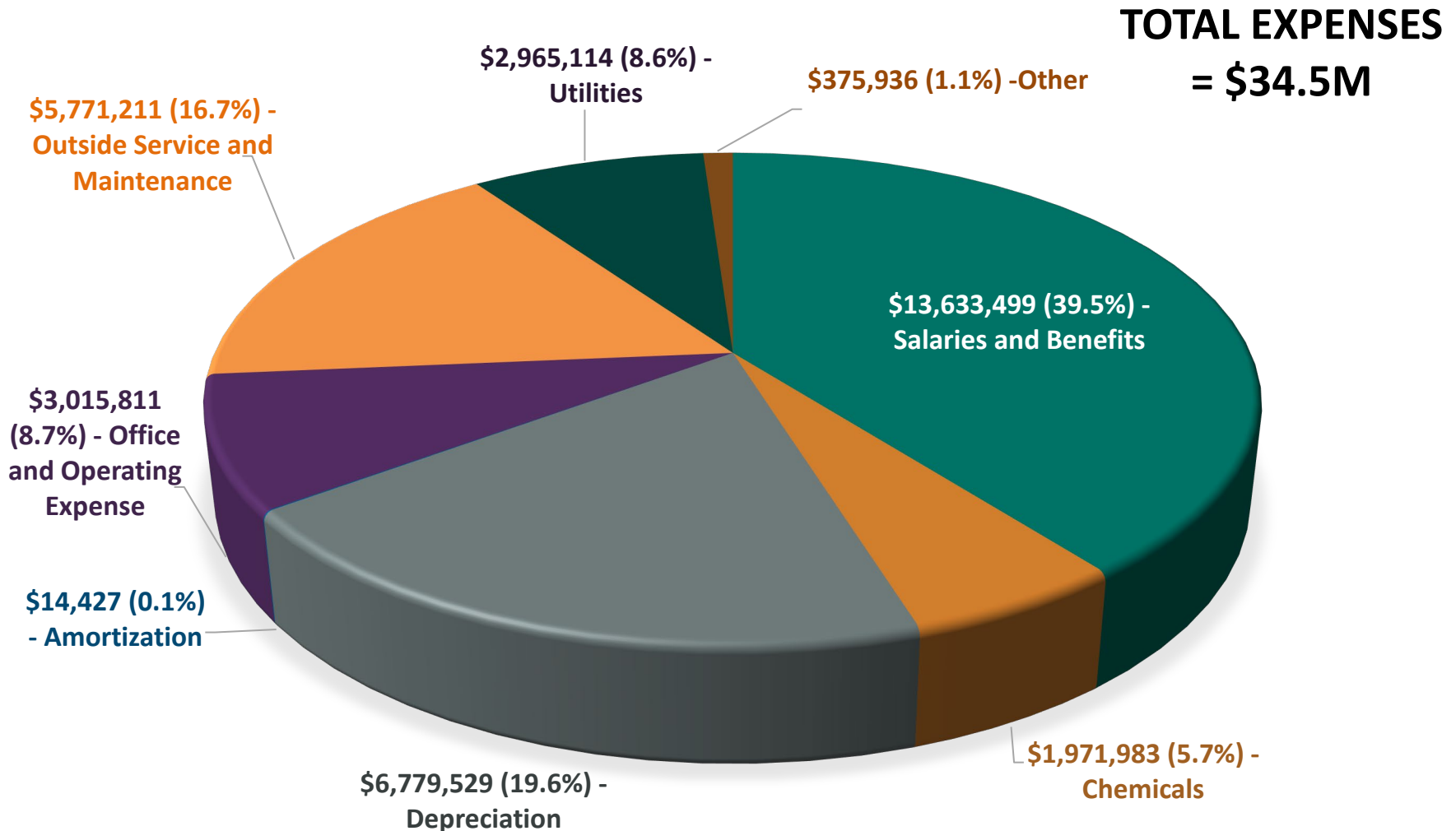
- Net position increased by \$20.2M in FY22/23
  - Operating Revenues (\$43.6M) less Operating Expenses (\$34.5M) yielded \$9.1M in net income before non-operating
  - Other key factors driving increased net position
    - Net non-operating revenue of \$11.2M (CFCCs of \$4.2M + ad valorem property taxes of \$4.1M + interest income of \$2.1M + grant revenue of \$1.7M – interest expense of \$1.0M)
- Total net position was \$227.8M on June 30, 2023
  - Net investment in capital assets (land, treatment, and collection facilities, machinery, equipment) = \$132.0M
  - Unrestricted net position = **\$94.1M** (\$51.4M in “committed investments”)
  - Restricted for debt service = \$1.7 million

Significant effort by District over last few years to increase cash reserves to fund major capital projects—Secondary Process Improvements (>\$80M), Cogeneration System Improvements (\$20M), Antioch Pump Station/Conveyance System (\$19M)

# FY22/23 Operating Revenues



# FY22/23 Operating Expenses



# FY22/23 Operating Expenses



	<u>FY22/23</u>	<u>FY21/22</u>	YTY Change	%
Salaries and Benefits	\$13,633,499	\$15,849,013	<b>\$-2,215,514</b>	<b>-14%</b>
Chemicals	1,971,983	1,555,667	416,316	27%
Depreciation	6,779,529	7,176,966	-397,437	-6%
Amortization	14,427	2,404	12,023	500%
Office and Operating	3,015,811	2,528,359	487,452	19%
Outside Service and Maintenance	5,771,211	5,608,812	162,399	3%
Utilities	2,965,114	2,686,744	278,370	10%
Other	375,936	241,521	134,415	56%
<b>Total Operating Expenses</b>	<b>\$34,527,510</b>	<b>\$35,649,486</b>	<b>\$-1,121,976</b>	<b>-3%</b>

**Note:** Salaries and Benefits YTY change is mainly attributed to **GASB reporting entries** to record changes in the District's pension and OPEB Trust Fund liabilities.



# Additional Notes

- Pension under GASB 68 (9<sup>th</sup> year)
  - Net Pension Liability = \$23,457,269
  - Deferred Outflows = \$10,824,110
  - Deferred Inflows = \$1,648,597
  
- OPEB under GASB 75 (6<sup>th</sup> year)
  - Net OPEB Liability = \$1,160,741
  - Deferred Outflows = \$1,287,330
  - Deferred Inflows = \$2,183,139

**These two GASB reporting entries directly impacted District pension and OPEB Trust Fund costs in FY22/23**

*Pension, OPEB represent 41% of Total Liabilities (and Deferred Inflows)*



# Auditor Findings and Recommendations



Provide insights and guidance for organizations to strengthen their internal controls, manage risks effectively, ensure compliance, and improve overall operations and performance

## **Auditor Finding #1**

Review the timing and review of the ongoing capital improvement projects to ensure accounting for expenditures in the proper fiscal year

## **District Response**

A more thorough analysis of capital costs will be performed to ensure proper recording of capital costs in the correct fiscal year

# Auditor Findings and Recommendations (cont'd)



Provide insights and guidance for organizations to strengthen their internal controls, manage risks effectively, ensure compliance, and improve overall operations and performance

## **Auditor Finding #2**

A pair of nine-year-old, stale-dated checks were discovered during the bank reconciliation review

## **District Response**

The District will review its outstanding checks and will exercise proper procedure and diligence to ensure that old stale-date checks are reissued or transferred to the State of California as unclaimed money.

# Auditor Findings and Recommendations (cont'd)



Provide insights and guidance for organizations to strengthen their internal controls, manage risks effectively, ensure compliance, and improve overall operations and performance

## **Auditor Finding #3**

The District needs a Code of Conduct/Ethics Policy to ensure proper compliance with purchasing and managerial oversight

## **District Response**

The District has hired a consultant to assist in developing key financial policies, including the Code of Conduct/Ethics Policy. The updated policy will allow the District to ensure compliance with purchasing, procurement, and other matters as deemed appropriate and reasonable. The Code of Conduct should be specific enough regarding required and prohibited behavior to provide a reasonable guide to employees in making appropriate decisions.

# Status of Prior Year (FY21/22) Auditor Findings



## ▪ Update on Material Weakness

- \$1.2M CCCERA pension prior period adjustment had no recommendation for follow up and is considered complete

## ▪ Update on Auditor Findings

- Issue regarding segregation of duties within Munis financial system has been resolved by involving the District's IT Division in initial setup of new users
- Issue identified regarding client entries made after audit fieldwork has subsequently been improved (related to current Audit Finding #1)
- Issue regarding specific controls in CAL-card purchases will be addressed via engagement with outside consultant and District update to purchasing policies and procedures

# Any Questions?

