

## **MANAGEMENT'S DISCUSSION AND ANALYSIS** **(For the fiscal year ended June 30, 2015)**

This section of the Triunfo Sanitation District's (District) Comprehensive Annual Financial Report (CAFR) offers readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal years ended June 30, 2015 and 2014. This discussion and analysis should be read in conjunction with the transmittal letter at the front of this page and the District's basic financial statements following this section.

### **Financial Highlights for the fiscal year ended June 30, 2015**

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$63.9 million (*net position*). Of the \$42.0 million (*unrestricted net position*), \$9.7 million may be used to meet the District's ongoing obligations to citizens and creditors (*net of investment-in-joint venture*).
- The District's total net position decreased by \$1,017,117, or 1.6%.
- The District's total revenues decreased by 7.6% to \$15.2 million and total expenses decreased by .3% to \$16.2 million.

### **Financial Highlights for the fiscal year ended June 30, 2014**

- The assets of the District exceeded its liabilities at the close of the 2013-14 fiscal year by \$64.9 million (*net position*). Of the \$43.1 million (*unrestricted net position*), \$10 million may be used to meet the District's ongoing obligations to citizens and creditors.
- The District's total net position increased by \$178,270, or .3%.
- The District's total revenues increased by 7.2% to \$16.4 million and total expenses increased by 1.9% to \$16.3 million.

### **Overview of the Financial Statements**

The Management's Discussion and Analysis (MD&A) is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements include two components: 1) enterprise fund financial statements; and 2) notes to the financial statements. In addition, required supplementary information, supplementary information, and statistical information are also included in the CAFR.

**Basic Financial Statements** The financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. The basic financial statements can be found on pages 23-27 of this report.

The *Statement of Net Position* presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *Statement of Revenues, Expenses, and Changes in Net Position* present information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
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The *Statement of Cash Flows* presents relevant information about the cash receipts and cash payments for the period categorized according to whether they stem from operating, non-capital financing, capital and related financing, and investing activities. It helps users assess the District's ability to generate future net cash flows, its ability to meet its obligations as they come due, and its needs for financing. It also helps assess the effects on the District's financial position of changes in its cash and non-cash investing, capital, and financing transactions during the period.

The *Notes to the Financial Statements* provide additional information that is essential to a full understanding of the data provided in the basic financial statements and are an integral part of the financial statements. The notes to the financial statements can be found on pages 28-49 of this report.

**Financial Analysis of the District**

The Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position report information about the District's activities in a way that will help answer questions as to whether the District, as a whole, is better or worse off as a result of the year's activities. These two statements report the net position of the District and changes in them. You can think of the District's position as the difference between assets (what is owned) and liabilities (what is owed) and one way to measure its financial health or position.

**Condensed Statements of Net Position**

To begin our analysis, a Condensed Statement of Net Position is presented in the following table for our analysis.

**Condensed Statements of Net Position**

	<u>2015</u>	<u>2014</u>	<u>Change</u>	<u>% Change</u>
<b>Assets:</b>				
Current assets	\$ 12,213,689	\$ 14,828,564	\$ (2,614,875)	-17.6%
Restricted current assets	1,307,403	1,306,458	945	0.1%
LVMWD/TSD-joint venture	32,295,953	33,136,526	(840,573)	-2.5%
Capital assets, net	30,498,739	28,726,744	1,771,995	6.2%
<b>Total assets</b>	<u>\$ 76,315,784</u>	<u>\$ 77,998,292</u>	<u>\$ (1,682,508)</u>	-2.2%
<b>Liabilities:</b>				
Liabilities payable from unrestricted current assets	\$ 2,607,106	\$ 2,817,768	\$ (210,662)	-7.5%
Liabilities payable from restricted current assets	705,403	704,458	945	0.1%
Non-current liabilities	9,139,672	9,595,346	(455,674)	-4.7%
<b>Total liabilities</b>	<u>12,452,181</u>	<u>13,117,572</u>	<u>(665,391)</u>	-5.1%
<b>Net Position:</b>				
Net investment in capital assets	21,277,799	21,228,218	49,581	0.2%
<b>Restricted:</b>				
Conifer loan reserve requirement	602,000	602,000	-	0.0%
Unrestricted	41,983,804	43,050,502	(1,066,698)	-2.5%
<b>Total net position</b>	<u>63,863,603</u>	<u>64,880,720</u>	<u>(1,017,117)</u>	-1.6%
<b>Total liabilities and net position</b>	<u>\$ 76,315,784</u>	<u>\$ 77,998,292</u>	<u>\$ (1,682,508)</u>	-2.2%

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(CONTINUED)**

Net position includes three components: *Net investment in capital assets; restricted net position; and unrestricted net position.*

The largest component of the District's net position (\$42 million) is the District's unrestricted net position. \$32.3 million reflects the District's capital assets investment in a Joint Venture with the Las Virgenes Municipal Water District. The Joint Venture's capital assets investment is equivalent to property, plant, and equipment within the Joint Venture offset by operating costs. Additional information regarding the District's capital assets investment in the Joint Venture can be located in note B-5 on pages 41-43. The remaining \$9.7 million reflects unrestricted net position that may be used to meet the District's ongoing obligations to creditors and constituencies.

Another component of the District's net position (\$21.3 million) reflects capital assets net of accumulated depreciation less any outstanding debt used to acquire them (net investment in capital assets). The District uses these capital assets to provide services to its constituency; consequently, they are not available for future spending. Although the District's investment in its capital assets is reported net of related debt and other payables, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The third and final component of the District's net position is the restricted net position which represents resources that are subject to external restrictions of how they may be used. Loan agreements relating to long-term debt restrict certain amounts for debt service, as well as restricted funding received in advance of expenses. The restricted net position is not available for other uses by the District. At June 30, 2015 and 2014, the District had \$602,000 in restricted net position.

In fiscal year 2014, the District's capital assets investment in Joint Venture with the Las Virgenes Municipal Water District was \$33.1 million, 51.1% of total District net position, and 77% of the District's unrestricted assets. As seen in the table on page 17, total net position increased by \$178,270 to \$64.9 million in fiscal year 2014.

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)**

**Condensed Statements of Net Position**

	<b>2014</b>	<b>2013*</b>	<b>Change</b>	<b>% Change</b>
<b>Assets:</b>				
Current assets	\$ 14,828,564	\$ 12,349,784	\$ 2,478,780	20.1%
Restricted current assets	1,306,458	1,299,958	6,500	0.5%
LVMWD/TSD-joint venture	33,136,526	33,238,210	(101,684)	-0.3%
Capital assets, net	28,726,744	28,717,302	9,442	0.0%
<b>Total assets</b>	<b>\$ 77,998,292</b>	<b>\$ 75,605,254</b>	<b>\$ 2,393,038</b>	<b>3.2%</b>
<b>Liabilities:</b>				
Liabilities payable from unrestricted current assets	\$ 2,817,768	\$ 2,706,320	\$ 111,448	4.1%
Liabilities payable from restricted current assets	704,458	697,958	6,500	0.9%
Non-current liabilities	9,595,346	7,498,526	2,096,820	28.0%
<b>Total liabilities</b>	<b>13,117,572</b>	<b>10,902,804</b>	<b>2,214,768</b>	<b>20.3%</b>
<b>Net Position:</b>				
Net investment in capital assets	21,228,218	21,726,237	(498,019)	-2.3%
<b>Restricted:</b>				
Conifer loan reserve requirement	602,000	602,000	-	0.0%
Unrestricted	43,050,502	42,374,213	676,289	1.6%
<b>Total net position</b>	<b>64,880,720</b>	<b>64,702,450</b>	<b>178,270</b>	<b>0.3%</b>
<b>Total liabilities and net position</b>	<b>\$ 77,998,292</b>	<b>\$ 75,605,254</b>	<b>\$ 2,393,038</b>	<b>3.2%</b>

\* The presentation of certain prior fiscal year balances have been reclassified to conform to current fiscal year presentation.

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

A condensed Statement of Revenues, Expenses, and Changes in Net Position is presented in the following table for our analysis. While the Statement of Net Position shows the change in financial position of the District's net position, the Statement of Revenues, Expenses, and Changes in Net Position provides answers as to the nature and source of these changes. As previously mentioned, the decrease in total net position was \$1,017,117 in fiscal year 2015.

Total revenues decreased by approximately \$1,245,496 (7.6%) compared to fiscal year 2014. Recycled water and potable water both are highly cyclical in nature due to the weather and some conservation efforts; both showed increases in 2015. Recycled water sales decreased by \$585,631, potable water sales by \$659,528, and connection fees decreased by \$47,244.

Total expenses decreased by approximately \$50,109 (.3%) compared to fiscal year 2014.

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)**

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

	<u>2015</u>	<u>2014</u>	<u>Change</u>	<u>% Change</u>
Revenues:				
Operating revenues:				
Sanitation fees	\$ 6,644,859	\$ 6,590,649	\$ 54,210	0.8%
Potable water sales	4,622,483	5,282,011	(659,528)	-12.5%
Recycled water sales	1,994,508	2,580,139	(585,631)	-22.7%
Water meter service fees	1,385,771	1,385,935	(164)	0.0%
Other	361,940	423,435	(61,495)	-14.5%
Non-operating revenues:				
Rental revenue - cellular antennas	120,147	153,863	(33,716)	-21.9%
Interest and investment earnings	38,939	26,290	12,649	48.1%
Other	28,179	-	28,179	NA
<b>Total revenues</b>	<u>15,196,826</u>	<u>16,442,322</u>	<u>(1,245,496)</u>	-7.6%
Expenses:				
Operating expenses:				
Wastewater treatment	4,305,047	3,783,274	521,773	13.8%
Potable water purchased	3,223,673	3,731,891	(508,218)	-13.6%
Recycled water purchased	1,665,181	2,131,331	(466,150)	-21.9%
Professional services	127,670	95,968	31,702	33.0%
Management and administrative	4,051,345	3,718,916	332,429	8.9%
Depreciation and amortization	899,549	865,402	34,147	3.9%
Change in investment LVMWD/TSD	1,915,400	1,917,034	(1,634)	-0.1%
Non-operating expenses:				
Interest expense	26,078	236	25,842	10950.0%
Debt administration	-	20,000	(20,000)	NA
<b>Total expenses</b>	<u>16,213,943</u>	<u>16,264,052</u>	<u>(50,109)</u>	-0.3%
<b>Change in net position</b>	(1,017,117)	178,270	(1,195,387)	-670.5%
<b>Net position, beginning of year, as restated</b>	<u>64,880,720</u>	<u>64,702,450</u>	178,270	0.3%
<b>Net position, end of year</b>	<u>\$ 63,863,603</u>	<u>\$ 64,880,720</u>	<u>\$ (1,017,117)</u>	-1.6%

Total revenues increased by approximately \$1,105,427 (7.2%) compared to fiscal year 2013. Recycled water and potable water both are highly cyclical in nature due to the weather and some conservation efforts; both showed increases in 2014. Recycled water sales increased by \$369,109, potable water sales by \$502,472, and connection fees increased slightly by \$194,351. The increase in connection fees is due to higher number of commercial and residential developments in Lake Sherwood and Thousand Oaks.

Total expenses increased by approximately \$296,426 (1.9%) compared to fiscal year 2013. The majority of the increase was due to increases in potable water costs of \$344,944 and recycled water costs of \$292,806.

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)**

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

	<u>2014</u>	<u>2013</u>	<u>Change</u>	<u>% Change</u>
Revenues:				
Operating revenues:				
Sanitation fees	\$ 6,590,649	\$ 6,594,736	\$ (4,087)	-0.1%
Potable water sales	5,282,011	4,779,539	502,472	10.5%
Recycled water sales	2,580,139	2,211,030	369,109	16.7%
Water meter service fees	1,385,935	1,327,623	58,312	4.4%
Other	423,435	263,288	160,147	60.8%
Non-operating revenues:				
Rental revenue - cellular antennas	153,863	149,093	4,770	3.2%
Interest and investment earnings	26,290	11,586	14,704	126.9%
<b>Total revenues</b>	<u>16,442,322</u>	<u>15,336,895</u>	<u>1,105,427</u>	7.2%
Expenses:				
Operating expenses:				
Wastewater treatment	3,783,274	3,873,043	(89,769)	-2.3%
Potable water purchased	3,731,891	3,386,897	344,994	10.2%
Recycled water purchased	2,131,331	1,838,525	292,806	15.9%
Professional services	95,968	181,497	(85,529)	-47.1%
Management and administrative	3,718,916	3,755,051	(36,135)	-1.0%
Depreciation and amortization	865,402	904,630	(39,228)	-4.3%
Change in investment LVMWD/TSD	1,917,034	2,018,902	(101,868)	-5.0%
Non-operating expenses:				
Interest expense	236	9,081	(8,845)	-97.4%
Debt administration	20,000	-	20,000	NA
<b>Total expenses</b>	<u>16,264,052</u>	<u>15,967,626</u>	<u>296,426</u>	1.9%
<b>Change in net position</b>	178,270	(630,731)	809,001	-128.3%
<b>Net position, beginning of year, as restated</b>	<u>64,702,450</u>	<u>65,333,181</u>	<u>(630,731)</u>	-1.0%
<b>Net position, end of year</b>	<u>\$ 64,880,720</u>	<u>\$ 64,702,450</u>	<u>\$ 178,270</u>	0.3%

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)**

**Capital Asset and Debt Administration**

*Capital Assets*

The District's investment in capital assets as of June 30, 2015, (at cost) amounted to \$49.7 million or \$30.5 million (net of accumulated depreciation). The District's capital assets include land and land improvements, structures and improvements, construction in progress, equipment, and infrastructure.

Changes in capital asset amounts for 2015 were:

	<u>Balance 2014</u>		<u>Transfers/ Additions</u>		<u>Transfers/ Deletions</u>		<u>Balance 2015</u>
Capital Assets:							
Non-depreciable assets	\$ 11,761,500	\$	2,671,544	\$	(11,620,187)	\$	2,812,857
Depreciable assets	35,259,198		11,620,187		-		46,879,385
Accumulated depreciation and amortization	<u>(18,293,954)</u>		<u>(899,549)</u>		<u>-</u>		<u>(19,193,503)</u>
Total capital assets, net	<u>\$ 28,726,744</u>	\$	<u>13,392,182</u>	\$	<u>(11,620,187)</u>	\$	<u>30,498,739</u>

Changes in capital asset amounts for 2014 were:

	<u>Balance 2013</u>		<u>Transfers/ Additions</u>		<u>Transfers/ Deletions</u>		<u>Balance 2014</u>
Capital Assets:							
Non-depreciable assets	\$ 10,934,868	\$	826,632	\$	-	\$	11,761,500
Depreciable assets	35,210,985		48,213		-		35,259,198
Accumulated depreciation and amortization	<u>(17,428,552)</u>		<u>(865,402)</u>		<u>-</u>		<u>(18,293,954)</u>
Total capital assets, net	<u>\$ 28,717,301</u>	\$	<u>9,443</u>	\$	<u>-</u>	\$	<u>28,726,744</u>

Major capital asset events during the fiscal year 2015 included the following:

- Advanced Metering Infrastructure - \$2,270,169
- Conifer Tank - \$11,620,187
- Accumulated depreciation - \$899,549

Major capital asset events during the fiscal year 2014 included the following:

- Conifer Tank - \$826,632
- Accumulated depreciation - \$865,402

Additional information on the District's capital assets can be found in note B-4 pages 39-41 of this report.

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)**

***Debt Administration***

The District's long-term debt outstanding as of June 30, 2015, was \$9,125,237.

	<u>Balance at June 30, 2014</u>		<u>Additions</u>		<u>Payments/ Deletions</u>		<u>Balance at June 30, 2015</u>
Long-term debt:							
2014 AMR Loan	\$ 2,535,000	\$	-	\$	(133,659)	\$	2,401,341
2011 Construction Loan	<u>7,001,164</u>		<u>-</u>		<u>(277,268)</u>		<u>6,723,896</u>
Total long-term debt	9,536,164	\$	<u>-</u>	\$	<u>(410,927)</u>		9,125,237
Less current portion	<u>(410,927)</u>						<u>(428,420)</u>
Total long-term portion	<u>\$ 9,125,237</u>					\$	<u>8,696,817</u>

Additional information on the District's long-term liabilities can be found in note B-6 on pages 44-46 of this report.

The District's long-term debt outstanding as of June 30, 2014, was \$9,536,164.

	<u>Balance at July 1, 2013</u>		<u>Additions</u>		<u>Payments/ Deletions</u>		<u>Balance at June 30, 2014</u>
Long-term debt:							
2014 AMR Loan	\$ -	\$	2,535,000	\$	-	\$	2,535,000
2011 Construction Loan	<u>7,265,897</u>		<u>-</u>		<u>(264,733)</u>		<u>7,001,164</u>
Total long-term debt	7,265,897	\$	<u>2,535,000</u>	\$	<u>(264,733)</u>		9,536,164
Less current portion	<u>(264,733)</u>						<u>(410,927)</u>
Total long-term portion	<u>\$ 7,001,164</u>					\$	<u>9,125,237</u>

**Economic Factors and Next Fiscal Year's Budget and Rates**

- The District Board considered the factors mentioned above when setting the fiscal year 2016 budget, rates, and fees. The District's fiscal year 2015-16 adopted budget (expenses not including the change in investment-in-joint venture LVMWD/TSD) totaled \$15,020,300 or 3.8% decrease when compared to the prior year.
- Following the wastewater rate study, the District Board approved a 6.5% rate increase every fiscal year starting with Fiscal Year 2016 through Fiscal Year 2020.



## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

- Based on the recycled water rate study, the District Board approved a 4% rate increase with no planned increases for the next two fiscal years except for pass through rate adjustments.
- In response to the State Water Resource Control Board's mandate of reducing water usage by 32% as compared to the 2013 base year usage data, the District Board declared a Stage 2 Water Supply Shortage that included a customer water allocation and approved the water conservation rates included in the Water Shortage Contingency Plan. In addition, the District Board also approved penalty charges for excessive water use.
- Calleguas Municipal Water District (CMWD) wholesale supply rate will increase effective January 1, 2016. The CMWD rate increase is a pass through increase to the Oak Park Water Service (OPWS) customers. The equivalent increase in the potable water rates will be eleven cents per hundred cubic feet (\$.11/HCF) across all the tiers effective February 1, 2016.
- Calleguas Municipal Water District (CMWD) wholesale reclaimed rate will increase effective January 1, 2016. The CMWD rate increase is a pass through increase to the reclaimed water customers. The equivalent increase in the reclaimed water rates will be nine cents per hundred cubic feet (\$.09/HCF) effective January 1, 2015.
- District staff is provided entirely by contract with the Ventura Regional Sanitation District (VRSD). This support consists of approximately fifteen (15.13) full-time equivalent positions made up of the part-time efforts of approximately seventy-eight (83.02) people in twenty-five (25) different areas of expertise. The VRSD hourly billing rates increased on average by 1.3% effective July 1, 2015.
- The term of the TSD/VRSD contract is ending June 30, 2015. On June 4, 2015, a new ten-year contract agreement was entered into between TSD and VRSD.

The District Board held workshops to assess the available working capital, the operating, and capital needs of the District. Additional information is provided in the transmittal letter on Page 1 of this report and Note C of the Notes to the Financial Statements.

### **Requests for Information**

This financial report is designed to provide a general overview of the District's finances for all those with an interest in them. Questions concerning any of the information provided should be addressed to the Director of Finance & Administration, Triunfo Sanitation District, 1001 Partridge Drive, Suite 150, Ventura, California, 93003-0704. Please visit the District's website at [www.triunfosanitation.com](http://www.triunfosanitation.com)