

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2017 and 2016. This discussion and analysis should be read in conjunction with the transmittal letter beginning at page 1 and the District's basic financial statements following this section.

### Financial Highlights for the fiscal year ended June 30, 2017

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$62.7 million (*net position*). Of the \$42.2 million (*unrestricted net position*), \$11.6 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 increased slightly by \$36,826, or 0.1%.
- The District's total revenues increased by 10.2% to \$16.8 million and total expenses increased by 2% to \$16.7 million.

### Financial Highlights for the fiscal year ended June 30, 2016

- The assets of the District exceeded its liabilities at the close of 2016 by \$62.7 million (*net position*). Of the \$41.4 million (*unrestricted net position*), \$10.2 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 \$1,184,081, or 1.9%.
- The District's total revenues stayed the same at \$15.2 million and total expenses increased by 1.1% to \$16.4 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 25-27 of this report.

The *Statements of Net Position* present 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 *Statements 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 *Statements of Cash Flows* present 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>2017</u>	<u>2016</u>	<u>Change</u>	<u>% Change</u>
Assets:				
Current assets	\$ 13,548,688	\$ 12,025,977	\$ 1,522,711	12.7%
Restricted current assets	1,376,806	1,315,718	61,088	4.6%
LVMWD/TSD-joint venture	30,603,461	31,159,462	(556,001)	-1.8%
Capital assets, net	40,191,465	29,615,922	10,575,543	35.7%
<b>Total assets</b>	<u>85,720,420</u>	<u>74,117,079</u>	<u>11,603,341</u>	15.7%
Liabilities:				
Liabilities payable from unrestricted current assets	3,027,364	2,058,099	969,265	47.1%
Liabilities payable from restricted current assets	708,494	713,718	(5,224)	-0.7%
Non-current liabilities	19,268,214	8,665,740	10,602,474	122.3%
<b>Total liabilities</b>	<u>23,004,072</u>	<u>11,437,557</u>	<u>11,566,515</u>	101.1%
Net Position:				
Net investment in capital assets	19,867,037	20,705,185	(838,148)	-4.0%
Restricted:				
Conifer loan reserve requirement	602,000	602,000	-	0.0%
Unrestricted	42,247,311	41,372,337	874,974	2.1%
<b>Total net position</b>	<u>\$ 62,716,348</u>	<u>\$ 62,679,522</u>	<u>\$ 36,826</u>	0.1%

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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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 (\$42.2 million) is the District's unrestricted net position. \$30.6 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 42-43. The remaining \$11.6 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 (\$19.9 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, 2017 and 2016, the District had \$602,000 in restricted net position.

In fiscal year 2016, the District's capital assets investment in Joint Venture with the Las Virgenes Municipal Water District was \$31.2 million, 49.7% of total District net position, and 75.3% of the District's unrestricted assets. As seen in the table on page 18, total net position decreased by \$1,184,081 to \$62.7 million in fiscal year 2016.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### Condensed Statements of Net Position

	2016	2015	Change	% Change
Assets:				
Current assets	\$ 12,025,977	\$ 12,213,689	\$ (187,712)	-1.5%
Restricted current assets	1,315,718	1,307,403	8,315	0.6%
LVMWD/TSD-joint venture	31,159,462	32,295,953	(1,136,491)	-3.5%
Capital assets, net	29,615,922	30,498,739	(882,817)	-2.9%
<b>Total assets</b>	<b>74,117,079</b>	<b>76,315,784</b>	<b>(2,198,705)</b>	<b>-2.9%</b>
Liabilities:				
Liabilities payable from unrestricted current assets	2,058,099	2,607,106	(549,007)	-21.1%
Liabilities payable from restricted current assets	713,718	705,403	8,315	1.2%
Non-current liabilities	8,665,740	9,139,672	(473,932)	-5.2%
<b>Total liabilities</b>	<b>11,437,557</b>	<b>12,452,181</b>	<b>(1,014,624)</b>	<b>-8.1%</b>
Net Position:				
Net investment in capital assets	20,705,185	21,277,799	(572,614)	-2.7%
Restricted:				
Conifer loan reserve requirement	602,000	602,000	-	0.0%
Unrestricted	41,372,337	41,983,804	(611,467)	-1.5%
<b>Total net position</b>	<b>\$ 62,679,522</b>	<b>\$ 63,863,603</b>	<b>\$ (1,184,081)</b>	<b>-1.9%</b>

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### 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 increase in total net position was \$36,826 in fiscal year 2017.

Total revenues increased by \$1,554,566 (10.2%) compared to fiscal year 2016. Recycled water and potable water both are highly cyclical in nature due to the weather and some conservation efforts; both showed increases in 2017. Recycled water sales increased by \$110,235, potable water sales by \$850,238, and sanitation fees increased by \$512,660.

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

	2017	2016	Change	% Change
Revenues:				
Operating revenues:				
Sanitation fees	\$ 7,657,139	\$ 7,144,479	\$ 512,660	7.2%
Potable water sales	4,575,323	3,725,085	850,238	22.8%
Recycled water sales	2,406,038	2,295,803	110,235	4.8%
Water meter service fees	1,679,051	1,379,077	299,974	21.8%
Other	269,137	464,169	(195,032)	-42.0%
Non-operating revenues:				
Rental revenue - cellular antennas	111,672	112,270	(598)	-0.5%
Interest and investment earnings	50,628	69,338	(18,710)	-27.0%
Other	7,249	11,450	(4,201)	-36.7%
<b>Total revenues</b>	16,756,237	15,201,671	1,554,566	10.2%
Expenses:				
Operating expenses:				
Wastewater treatment	4,058,695	3,917,234	141,461	3.6%
Potable water purchased	2,961,082	2,680,573	280,509	10.5%
Recycled water purchased	1,629,682	1,871,720	(242,038)	-12.9%
Professional services	230,423	94,030	136,393	145.1%
Management and administrative	4,249,750	4,338,605	(88,855)	-2.0%
Depreciation and amortization	1,271,388	1,288,281	(16,893)	-1.3%
Change in investment LVMWD/TSD	1,874,056	1,827,859	46,197	2.5%
Non-operating expenses:				
Interest expense	444,335	367,450	76,885	20.9%
<b>Total expenses</b>	16,719,411	16,385,752	333,659	2.0%
<b>Change in net position</b>	36,826	(1,184,081)	1,220,907	-103.1%
<b>Net position, beginning of fiscal year</b>	62,679,522	63,863,603	(1,184,081)	-1.9%
<b>Net position, end of fiscal year</b>	\$ 62,716,348	\$ 62,679,522	\$ 36,826	0.1%

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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In fiscal year 2016, total revenues remained the same compared to fiscal year 2015. Recycled water and potable water both are highly cyclical in nature due to the weather and some conservation efforts. Recycled water sales increased by \$301,295, potable water sales decreased by \$897,398, and sanitation fees increased by \$499,620.

Total expenses increased by \$171,809 (1.1%) compared to fiscal year 2015. The increase was attributable to interest expense of the new loan for the Automated Meter Read project.

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

	2016	2015	Change	% Change
Revenues:				
Operating revenues:				
Sanitation fees	\$ 7,144,479	\$ 6,644,859	\$ 499,620	7.5%
Potable water sales	3,725,085	4,622,483	(897,398)	-19.4%
Recycled water sales	2,295,803	1,994,508	301,295	15.1%
Water meter service fees	1,379,077	1,385,771	(6,694)	-0.5%
Other	464,169	361,940	102,229	28.2%
Non-operating revenues:				
Rental revenue - cellular antennas	112,270	120,147	(7,877)	-6.6%
Interest and investment earnings	69,338	38,939	30,399	78.1%
Other	11,450	28,179	(16,729)	-59.4%
<b>Total revenues</b>	15,201,671	15,196,826	4,845	0.0%
Expenses:				
Operating expenses:				
Wastewater treatment	3,917,234	4,305,047	(387,813)	-9.0%
Potable water purchased	2,680,573	3,223,673	(543,100)	-16.8%
Recycled water purchased	1,871,720	1,665,181	206,539	12.4%
Professional services	94,030	127,670	(33,640)	-26.3%
Management and administrative	4,338,605	4,051,345	287,260	7.1%
Depreciation and amortization	1,288,281	899,549	388,732	43.2%
Change in investment LVMWD/TSD	1,827,859	1,915,400	(87,541)	-4.6%
Non-operating expenses:				
Interest expense	367,450	26,078	341,372	1309.0%
<b>Total expenses</b>	16,385,752	16,213,943	171,809	1.1%
<b>Change in net position</b>	(1,184,081)	(1,017,117)	(166,964)	16.4%
<b>Net position, beginning of fiscal year, as restated</b>	63,863,603	64,880,720	(1,017,117)	-1.6%
<b>Net position, end of fiscal year</b>	\$ 62,679,522	\$ 63,863,603	\$ (1,184,081)	-1.9%

**MANAGEMENT’S DISCUSSION AND ANALYSIS**

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**Capital Asset and Debt Administration**

***Capital Assets***

The District’s investment in capital assets as of June 30, 2017, (at cost) amounted to \$61.9 million or \$40.2 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 2017 were:

	<u>Balance 2016</u>		<u>Transfers/ Additions</u>		<u>Transfers/ Deletions</u>		<u>Balance 2017</u>
Capital Assets:							
Non-depreciable assets	\$ 777,212	\$	11,846,931	\$	(11,733,979)	\$	890,164
Depreciable assets	49,320,494		11,733,979		-		61,054,473
Accumulated depreciation and amortization	<u>(20,481,784)</u>		<u>(1,271,388)</u>		<u>-</u>		<u>(21,753,172)</u>
Total capital assets, net	<u>\$ 29,615,922</u>	<u>\$</u>	<u>22,309,522</u>	<u>\$</u>	<u>(11,733,979)</u>	<u>\$</u>	<u>40,191,465</u>

Changes in capital asset amounts for 2016 were:

	<u>Balance 2015</u>		<u>Transfers/ Additions</u>		<u>Transfers/ Deletions</u>		<u>Balance 2016</u>
Capital Assets:							
Non-depreciable assets	\$ 2,812,857	\$	405,464	\$	(2,441,109)	\$	777,212
Depreciable assets	46,879,385		2,441,109		-		49,320,494
Accumulated depreciation and amortization	<u>(19,193,503)</u>		<u>(1,288,281)</u>		<u>-</u>		<u>(20,481,784)</u>
Total capital assets, net	<u>\$ 30,498,739</u>	<u>\$</u>	<u>1,558,292</u>	<u>\$</u>	<u>(2,441,109)</u>	<u>\$</u>	<u>29,615,922</u>

Major capital asset events during the fiscal year 2017 included the following:

- Recycled Water System - \$11,733,979
- Various capital projects - \$ 112,952
- Accumulated depreciation - \$1,271,388

Major capital asset events during the fiscal year 2016 included the following:

- Advanced Metering Infrastructure - \$2,441,109
- Various capital projects - \$ 405,464
- Accumulated depreciation - \$1,288,281

Additional information on the District’s capital assets can be found in note B-4 pages 40-41 of this report.

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### *Debt Administration*

The District's long-term debt outstanding as of June 30, 2017, was \$19,975,139.

	<b>Balance at June 30, 2016</b>	<b>Additions</b>	<b>Payments/ Deletions</b>	<b>Balance at June 30, 2017</b>
Long-term debt:				
2014 AMR Loan	\$ 2,263,316	\$ -	\$ (142,533)	\$ 2,120,783
2011 Construction Loan	6,433,501	-	(304,145)	6,129,356
2017 RW System Purchase Loan	<u>-</u>	<u>11,725,000</u>	<u>-</u>	<u>11,725,000</u>
Total long-term debt	8,696,817	<u>\$ 11,725,000</u>	<u>\$ (446,678)</u>	19,975,139
Less current portion	<u>(446,678)</u>			<u>(1,095,272)</u>
Total long-term portion	<u>\$ 8,250,139</u>			<u>\$ 18,879,867</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, 2016, was \$8,696,817.

	<b>Balance at June 30, 2015</b>	<b>Additions</b>	<b>Payments/ Deletions</b>	<b>Balance at June 30, 2016</b>
Long-term debt:				
2014 AMR Loan	\$ 2,401,341	\$ -	\$ (138,025)	\$ 2,263,316
2011 Construction Loan	<u>6,723,896</u>	<u>-</u>	<u>(290,395)</u>	<u>6,433,501</u>
Total long-term debt	9,125,237	<u>\$ -</u>	<u>\$ (428,420)</u>	8,696,817
Less current portion	<u>(428,420)</u>			<u>(446,678)</u>
Total long-term portion	<u>\$ 8,696,817</u>			<u>\$ 8,250,139</u>

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

- The District Board considered the factors mentioned above when setting the fiscal year 2018 budget, rates, and fees. The District's fiscal year 2017-18 adopted budget (expenses not including the change in investment-in-joint venture LVMWD/TSD) totaled \$16,745,228 or 2% decrease when compared to the prior year.
- Based on the wastewater rate study and the five-year programmed rate, this is the second year of the Board approved 6.5% rate increase which started in fiscal year 2016 ending in fiscal year 2020.

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- Based on the recycled water rate study, the District Board approved a five-year rate plan of 15% for fiscal years 2017 and 2018, and 3% for fiscal years 2019 and 2020, with no rate increase in fiscal year 2021.
- As recommended by the potable water rate study, the District Board approved a five-year rate plan of 13% for fiscal years 2017 and 2018, and 3% for fiscal years 2019 and 2020, with no rate increase for fiscal year 2021.
- Based on the State Water Resources Control Board's adopted statewide water conservation approach that replaced the prior percentage reduction-based water conservation standard with a localized self-certification approach, the Board rescinded the Stage 2 condition of the Water Shortage Contingency Plan and implemented Stage 1 in its place in May 2016. In April 2017, Governor Brown ended the Drought State of Emergency in most of California, which includes Ventura County.
- Calleguas Municipal Water District (CMWD) wholesale supply rate will increase effective January 1, 2018. 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 ten cents per hundred cubic feet (\$.17/HCF) across all the tiers effective January 1, 2018.
- District staff is provided entirely by contract with the Ventura Regional Sanitation District (VRSD). This support consists of approximately fifteen (15.90) full-time equivalent positions made up of the part-time efforts of approximately seventy-eight (78.21) people in twenty-five (25) different areas of expertise. The VRSD hourly billing rates increased on average by 2% effective July 1, 2017.

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, 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)