

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Triunfo Water & 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, 2020 and 2019. 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

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$70.1 million (*net position*), an increase of \$3.9 million from the \$66.2 million ending balance in fiscal year 2019. Of the \$50.9 (*unrestricted net position*) in fiscal year 2020, \$18.6 million may be used to meet the District's ongoing obligations to citizens and creditors, in comparison to \$15.1 million in the prior year.
- The District's \$3.4 million net position increase in fiscal year 2020 represents 5.9%, an increase from the \$1.5 million or 2.3% increase in fiscal year 2019.
- In fiscal year 2020, the District's total revenues increased by 5.5% to \$21.4 million while total expenses decreased by 6.9% to \$17.5 million as compared to fiscal year 2019 in which revenues increased by 3.5% to \$20.3 million and total expenses increased by 6.9% to \$18.8 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 26-29 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.

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 30-53 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 net 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>2020</u>	<u>2019</u>	<u>Change</u>	<u>% Change</u>
Assets:				
Current assets	\$ 20,476,948	\$ 16,707,711	\$ 3,769,237	22.6%
Restricted current assets	1,302,725	1,276,040	26,685	2.1%
LVMWD/TSD-joint venture	32,295,857	31,306,909	988,948	3.2%
Capital assets, net	<u>35,519,593</u>	<u>37,264,240</u>	<u>(1,744,647)</u>	-4.7%
Total assets	<u>89,595,123</u>	<u>86,554,900</u>	<u>3,040,223</u>	3.5%
Liabilities:				
Liabilities payable from unrestricted current assets	3,152,725	2,782,262	370,463	13.3%
Liabilities payable from restricted current assets	700,725	674,040	26,685	4.0%
Non-current liabilities	<u>15,661,957</u>	<u>16,905,313</u>	<u>(1,243,356)</u>	-7.4%
Total liabilities	<u>19,515,407</u>	<u>20,361,615</u>	<u>(846,208)</u>	-4.2%
Net Position:				
Net investment in capital assets	18,614,280	19,157,347	(543,067)	-2.8%
Restricted:				
Conifer Loan reserve requirement	602,000	602,000	-	0.0%
Unrestricted	<u>50,863,436</u>	<u>46,433,938</u>	<u>4,429,498</u>	9.5%
Total net position	<u>\$ 70,079,716</u>	<u>\$ 66,193,285</u>	<u>\$ 3,886,431</u>	5.9%

Total assets experienced an increase \$3.0 million. While capital assets saw a \$1.7 million reduction, it was offset by increases in current assets and the LVMWD/TSD-joint venture. Total liabilities experienced a reduction of \$.8 million mainly due to the repayment long-term debt (\$1.2 million), resulting in an overall increase of \$3.9 million or 5.9% in net position in fiscal year 2020.

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

The investment in capital asset component of the District's net position is \$18.6 million and is reflected net of accumulated depreciation and related debt, which represents capital assets used by the District to provide services to its constituency. 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.

Another 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, 2020 and 2019, the District's restricted net position was \$602,000 for both fiscal years.

The largest and final component of the District's net position (\$50.9 million) reflects unrestricted net position that may be used to meet the District's ongoing obligations to creditors and constituencies. This figure includes \$32.3 million for the District's capital assets investment in a Joint Venture with the Las Virgenes Municipal Water District, which reflects 46.1% of total District net position, and 63.5% of the District's unrestricted assets. 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 investment in the Joint Venture can be located in Note B5 on pages 43-45.

In fiscal year 2019, the District's net investment in capital assets was \$19.2 million and the unrestricted net position totaled \$46.4 million. The District's unrestricted net position of \$46.4 million includes capital assets investment in Joint Venture with the Las Virgenes Municipal Water District of \$31.3 million which reflects 47.3% of total District net position, and 67.5% of the District's unrestricted assets. As seen in the table on below, total net position increased by \$1.5 million to \$66.2 million in fiscal year 2019.

Condensed Statements of Net Position				
	2019	2018	Change	% Change
Assets:				
Current assets	\$ 16,707,711	\$ 15,870,458	\$ 837,253	5.3%
Restricted current assets	1,276,040	1,349,030	(72,990)	-5.4%
LVMWD/TSD-joint venture	31,306,909	30,611,211	695,698	2.3%
Capital assets, net	37,264,240	38,796,500	(1,532,260)	-3.9%
Total assets	86,554,900	86,627,199	(72,299)	-0.1%
Liabilities:				
Liabilities payable from unrestricted current assets	2,782,262	3,094,693	(312,431)	-10.1%
Liabilities payable from restricted current assets	674,040	704,638	(30,598)	-4.3%
Non-current liabilities	16,905,313	18,106,893	(1,201,580)	-6.6%
Total liabilities	20,361,615	21,906,224	(1,544,609)	-7.1%
Net Position:				
Net investment in capital assets	19,157,347	19,528,285	(370,938)	-1.9%
Restricted:				
Conifer Loan reserve requirement	602,000	602,000	-	0.0%
Escrow funds	-	42,392	(42,392)	-100.0%
Unrestricted	46,433,938	44,548,298	1,885,640	4.2%
Total net position	\$66,193,285	\$64,720,975	\$ 1,472,310	2.3%

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 \$3,886,431 in fiscal year 2020.

Total revenues increased by \$1,121,424 (5.5%) compared to fiscal year 2019, comprised of an increase of \$1,491,655 in operating revenues and a decrease of \$370,227 in non-operating revenues.

The \$1,491,655 increase in operating revenues resulted from the following activities:

- Sanitation fees rate increase of 9% resulted in a revenue increase of \$766,086 or 8.5%.
- Potable water rate increase of 3% and a pass through increase of 2% in January resulted in a revenue increase of \$604,847 or 10.4%.
- Recycled water rate increase of 3% and a pass through increase of 3% in January resulted in a revenue increase of \$31,790 or 1.5%.
- A 3% rate increase in Water meter service fees resulted in \$66,723 or 3.2% increase in revenue.
- Other revenues from violations, penalties and late fees increased by \$22,206 or 7.5%.

The \$370,227 decrease in non-operating revenues comprised of:

- A \$357,079 or 93% decrease in Other revenue is mainly the effect of accrued FEMA and insurance claims for property damages in fiscal year 2019.
- Although account balances were high, the declining interest rates resulted in a \$22,602 or 6.7% decrease in Interest and Investment Earnings; and
- Lease escalation adjustments based on cpi index resulted in a \$9,454 or 5.5% increase in Rental revenue.

Total expenses decreased by \$1,292,699 or 6.9% compared to fiscal year 2019. The decrease was primarily due to a decrease in operations, management and administrative costs of \$1,020,960 or 16.4%. The vast majority (\$822,521 or 81%) of the decrease in operations, management and administrative costs is attributed to expenses incurred in fiscal year 2019 due to the occurrence of significant events such as the Woolsey fire, name change project, water system repairs, legal fees and settlement funding. There were no major projects in fiscal year 2020 that required the same amount of resources. In addition, part of the decrease is a result of direct contracts for professional services entered into by the District shifting the expense to Professional services which saw an increase of \$432,102 or 85.7%.

Potable and recycled water purchase increased by \$204,318 and \$32,443 respectively due to a combination of a slight increase potable water units purchased and the increase in cost.

Other expense categories activity included decreases in wastewater treatment (\$337,808 or 7.6%), Investment in Joint Venture with LVMWD (\$542,008 or 33.6%), and Interest expense (\$39,328 or 6.1%), offset by the increase in Professional services (\$432,102 or 85.7%).

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

	<u>2020</u>	<u>2019</u>	<u>Change</u>	<u>% Change</u>
Revenues:				
Operating revenues:				
Sanitation fees	\$ 9,752,279	\$ 8,986,193	\$ 766,086	8.5%
Potable water sales	6,395,205	5,790,358	604,847	10.4%
Recycled water sales	2,208,635	2,176,845	31,790	1.5%
Water meter service fees	2,177,628	2,110,905	66,723	3.2%
Other	317,259	295,054	22,205	7.5%
Non-operating revenues:				
Rental revenue - cellular antennas	181,379	171,925	9,454	5.5%
Interest and investment earnings	313,269	335,873	(22,604)	-6.7%
Other	26,764	383,843	(357,079)	-93.0%
Total revenues	<u>21,372,418</u>	<u>20,250,996</u>	<u>1,121,422</u>	5.5%
Operating expenses:				
Wastewater treatment	4,120,929	4,458,737	(337,808)	-7.6%
Potable water purchased	3,436,768	3,232,450	204,318	6.3%
Recycled water purchased	597,313	564,870	32,443	5.7%
Professional services	936,461	504,359	432,102	85.7%
Operations, management and admin	5,213,936	6,234,896	(1,020,960)	-16.4%
Depreciation and amortization	1,505,341	1,526,799	(21,458)	-1.4%
Change in investment LVMWD/TSD	1,068,966	1,610,974	(542,008)	-33.6%
Non-operating expenses:				
Interest expense	606,273	645,601	(39,328)	-6.1%
Total expenses	<u>17,485,987</u>	<u>18,778,686</u>	<u>(1,292,699)</u>	-6.9%
Change in net position	3,886,431	1,472,310	2,414,121	164.0%
Net position, beginning of fiscal year	66,193,285	64,720,975	1,472,310	
Net position, end of fiscal year	<u>\$ 70,079,716</u>	<u>\$ 66,193,285</u>	<u>\$ 3,886,431</u>	

In fiscal year 2019, total revenues increased by \$685,292 or 3.5% compared to fiscal year 2018. Recycled water sales decreased by \$398,474 and potable water sales by \$359,225. Sanitation fees increased by \$732,886, water meter service fees by \$76,218 and other revenues by \$80,196.

Total expenses increased by \$1,217,609 or 6.9%, compared to fiscal year 2018. The increase was attributable to an increase in wastewater treatment expenses, professional services and operations, management and administrative services.

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

	<u>2019</u>	<u>2018</u>	<u>Change</u>	<u>% Change</u>
Revenues:				
Operating revenues:				
Sanitation fees	\$ 8,986,193	\$ 8,253,307	\$ 732,886	8.9%
Potable water sales	5,790,358	6,149,583	(359,225)	-5.8%
Recycled water sales	2,176,845	2,575,319	(398,474)	-15.5%
Water meter service fees	2,110,905	2,034,687	76,218	3.7%
Other	295,054	214,858	80,196	37.3%
Non-operating revenues:				
Rental revenue - cellular antennas	171,925	175,394	(3,469)	-2.0%
Interest and investment earnings	335,873	160,050	175,823	109.9%
Other	383,843	2,506	381,337	15217.0%
Total revenues	<u>20,250,996</u>	<u>19,565,704</u>	<u>685,292</u>	<u>3.5%</u>
Expenses:				
Operating expenses:				
Wastewater treatment	4,458,737	4,309,990	148,747	3.5%
Potable water purchased	3,232,450	3,366,431	(133,981)	-4.0%
Recycled water purchased	564,870	716,702	(151,832)	-21.2%
Professional services	504,359	103,494	400,865	387.3%
Operations, management and admin	6,234,896	5,071,651	1,163,245	22.9%
Depreciation and amortization	1,526,799	1,563,459	(36,660)	-2.3%
Change in investment LVMWD/TSD	1,610,974	1,744,428	(133,454)	-7.7%
Non-operating expenses:				
Interest expense	645,601	684,922	(39,321)	-5.7%
Total expenses	<u>18,778,686</u>	<u>17,561,077</u>	<u>1,217,609</u>	<u>6.9%</u>
Change in net position	1,472,310	2,004,627	(532,317)	-26.6%
Net position, beginning of fiscal year	<u>64,720,975</u>	<u>62,716,348</u>	<u>2,004,627</u>	
Net position, end of fiscal year	<u>\$66,193,285</u>	<u>\$64,720,975</u>	<u>\$ 1,472,310</u>	

Capital Asset and Debt Administration

Capital Assets

The District's investment in capital assets as of June 30, 2020, (at cost) amounted to \$61.9 million or \$35.5 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 2020 were:

	<u>Balance at June 30, 2019</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance at June 30, 2020</u>
Capital Assets:				
Non-depreciable assets	\$ 370,132	\$ -	\$ (239,306)	\$ 130,826
Depreciable assets	61,737,538	-	-	61,737,538
Accumulated depreciation and amortization	<u>(24,843,430)</u>	<u>(1,505,341)</u>	<u>-</u>	<u>(26,348,771)</u>
Total capital assets, net	<u>\$ 37,264,240</u>	<u>\$ (1,505,341)</u>	<u>\$ (239,306)</u>	<u>\$ 35,519,593</u>

Changes in capital asset amounts for 2019 were:

	<u>Balance at June 30, 2018</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance at June 30, 2019</u>
Capital Assets:				
Non-depreciable assets	\$ 704,113	\$ 198,717	\$ (532,698)	\$ 370,132
Depreciable assets	61,409,018	-	328,520	61,737,538
Accumulated depreciation and amortization	<u>(23,316,631)</u>	<u>(1,526,799)</u>	<u>-</u>	<u>(24,843,430)</u>
Total capital assets, net	<u>\$ 38,796,500</u>	<u>\$ (1,328,082)</u>	<u>\$ (204,178)</u>	<u>\$ 37,264,240</u>

Major capital asset activity during the fiscal year 2020 included the following:

North Shore Gravity System – Expended - \$239,306 – Abandoned project
Accumulated depreciation - \$1,505,341

Major capital asset activity during the fiscal year 2019 included the following:

North Shore Gravity System – Wastewater - \$239,305
Lakeside Lift Station Improvement - \$45,685 Polo Lift Station - \$13,771
Accumulated depreciation - \$1,526,799
Expensing of various construction in progress projects that did not materialize

Additional information on the District's capital assets can be found in Note B4 starting on page 42 of this report.

Debt Administration

The District's long-term debt outstanding as of June 30, 2020 was \$16,571,473.

<u>Description</u>	<u>Balance at June 30, 2019</u>	<u>Additions</u>	<u>Payments/ Deletions</u>	<u>Balance at June 30, 2020</u>
Debt from Direct Borrowings:				
2017 RW System Purchase	\$ 10,447,018	\$ -	\$ (667,941)	\$ 9,779,077
2014 Automated Meter Read Loan	1,821,598	-	(156,961)	1,664,637
2011 Construction loan	<u>5,477,183</u>	<u>-</u>	<u>(349,424)</u>	<u>5,127,759</u>
Total long-term debt	17,745,799	<u>\$ -</u>	<u>\$(1,174,326)</u>	16,571,473
Less current portion	<u>(1,174,326)</u>			<u>(1,216,102)</u>
Total long-term portion	<u>\$ 16,571,473</u>			<u>\$ 15,355,371</u>

Additional information on the District's long-term liabilities can be found in Note B6 starting on page 45 of this report.

The District's long-term debt outstanding as of June 30, 2019 was \$17,745,799.

<u>Description</u>	<u>Balance at June 30, 2018</u>	<u>Additions</u>	<u>Payments/ Deletions</u>	<u>Balance at June 30, 2019</u>
Debt from Direct Borrowings:				
2017 RW System Purchase	\$ 11,095,462	\$ -	\$ (648,444)	\$ 10,447,018
2014 Automated Meter Read Loan	1,973,594	-	(151,996)	1,821,598
2011 Construction loan	5,810,811	-	(333,628)	5,477,183
Total long-term debt	18,879,867	<u>\$ -</u>	<u>\$(1,134,068)</u>	17,745,799
Less current portion	(1,134,068)			(1,174,326)
Total long-term portion	<u>\$ 17,745,799</u>			<u>\$ 16,571,473</u>

Economic Factors and Next Fiscal Year's Budget and Rates

- The District Board considered the factors mentioned above when setting the fiscal year 2021 budget, rates, and fees. The District's fiscal year 2020-21 Adopted Budget (expenses not including the change in investment-in-joint venture LVMWD/TSD) totaled \$17,696,113, representing a 1.87% increase when compared to the prior year.
- In May 2020, based on the wastewater rate study, the Board approved a five-year programmed rate that will increase sewer service fees by 15% for fiscal years 2021-2024 and 7% for fiscal year 2025. The 15% annual increase will generate approximately \$11.3 million in revenue for fiscal year 2021. In addition, sewer connection fee will also increase by 0.72% based on the Construction Cost Index (CCI) for the Los Angeles area. Revenues derived from the sewer charges were calculated to provide sufficient funding for implementing mandated treatment standards, funding reserves, and the Joint Powers Authority (JPA) capital needs including the Pure Water Project (PWP).
- In May 2020, based on the potable water rate study, the Board approved a five-year programmed rate that will increase quantity rates and monthly service charges by 6% for fiscal years 2021-2023 and 4% for fiscal year 2024-2025. The 6% annual increase will generate additional revenue of approximately \$475,000 for fiscal year 2021. In addition, water service connection fee will also increase by 0.72% based on the Construction Cost Index (CCI) for the Los Angeles area. Revenues derived from the water charges will provide sufficient revenue to meet operating and capital expenses, and to build and maintain adequate reserves.
- In May 2020, based on the recycled water rate study, the Board approved a five-year programmed rate that will increase quantity rates and monthly service charges by 2% for fiscal years 2021-2025. The 2% annual increase will generate additional revenue of approximately \$50,000 for fiscal year 2021. Revenues derived from the water charges will provide sufficient revenue to meet operating and capital expenses, and to build and maintain adequate reserves.
- The TWSD Board developed a business plan to transition into an independent and self-reliant District which consists of bringing all administrative and financial functions in-house. On October 1, 2020, the TWSD Board moved forward with approving employment contracts with the TWSD Core Management Team (CMT), making them employees of the District.
- Calleguas Municipal Water District (CMWD) wholesale supply rate will increase effective January 1, 2021. The CMWD rate increase is a pass through increase to the water customers of the District.

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 Water & Sanitation District, 1001 Partridge Drive, Suite 150, Ventura, California, 93003-0704. Please visit the District's website at www.triunfowsd.com.