

AGENDA

**INVESTMENT AND FINANCE COMMITTEE MEETING
LEUCADIA WASTEWATER DISTRICT**

November 5, 2020 – 9:30 a.m.
Via Teleconference

Pursuant to the State of California Executive Order N-29-20, and in the interest of public health, the District is temporarily taking actions to mitigate the COVID-19 pandemic by holding meetings by teleconference. The general public may not attend this meeting at the District's office due to social distancing requirements.

Members of the public attending via teleconference will be provided with an opportunity to comment on each agenda item prior to Committee discussion.

**To join this meeting via Teleconference please dial: (669) 900-6833
Meeting ID: 871 2187 3610 Password: 862043**

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1. **Call to Order**
 2. **Roll Call**
 3. **Public Comment**
 4. **New Business**
 - A. Receive and file the Fiscal Year 20 (FY20) Comprehensive Annual Financial Report (CAFR). (Pages 2-23, Enclosure 4)
 5. **Information Items**

None.
 6. **Directors' Comments**
 7. **General Manager's Comments**
 8. **Adjournment**

MEMORANDUM

Ref: 21-7350

DATE: October 29, 2020
TO: Investment and Finance Committee
FROM: Paul J. Bushee, General Manager *rad for PJB*
SUBJECT: Fiscal Year 2020 (FY20) Comprehensive Annual Financial Report

RECOMMENDATION:

Staff requests that the Investment and Finance Committee (IFC) recommend that the Board of Directors:

1. Receive and File the FY20 Comprehensive Annual Financial Report (CAFR).
2. Discuss and take other action, as appropriate.

DISCUSSION:

Tactical Goal: Financial / FY20 Audit

State law requires the Leucadia Wastewater District (LWD) to prepare a complete set of financial statements in conformance with generally accepted accounting principles (GAAP). The law also requires that the financial statements be audited in accordance with generally accepted auditing standards. For LWD, these documents collectively take the form of LWD's annual financial audit.

LWD prepares a more comprehensive financial audit, which is known as a Comprehensive Annual Financial Report or CAFR. This year's CAFR includes the following sections:

- Introductory section that includes the letter of transmittal.
- A Financial section that includes the Independent Auditor's Report, Management's Discussion and Analysis, Basic Financial Statements with notes, and Supplementary Information.
- Statistical section that includes cost and revenue comparisons and other LWD statistics for the past 10 years.
- Other information.

The accounting firm of Davis Farr LLP has completed its audit of LWD's FY20 CAFR. Staff is pleased to report that the auditors found that the financial statements fairly represent LWD's financial condition and is in conformance with GAAP.

Attached for the committee's review is the Auditor's information letter which reports on any significant audit findings as a result of their audit, and the Auditor's Report on Internal Controls, Compliance, and Other Matters. Also provided is a copy of the full CAFR which is enclosed for your review.

Staff along with Shannon Ayala, CPA of Davis Farr LLP, will present an overview of the CAFR at the upcoming meeting.

rad:PJB

Attachment
Enclosure

To the Board of Directors
Leucadia Wastewater District

We have audited the financial statements of Leucadia Wastewater District for the year ended June 30, 2020. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 13, 2020. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Leucadia Wastewater District are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during 2020. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Leucadia Wastewater District's financial statements were:

Management's estimate of which capital projects represent ordinary maintenance activities necessary to keep an asset operational for its originally intended useful life versus significant improvement, replacement, and life extending projects that should be capitalized as additions to capital assets is based on management's knowledge of the assets and their useful lives.

Management's estimate of transactions related to net pension and OPEB liabilities based on actuarial information. We evaluated the key factors and assumptions used to develop the estimates above and determined they are reasonable in relation to the financial statements taken as a whole.

There were no particularly sensitive note disclosures affecting the financial statements.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. There were no such misstatements noted.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 2, 2020.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Leucadia Wastewater District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Leucadia Wastewater District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to *Management's Discussion and Analysis, Schedule of the Proportionate Share of the Net Pension Liability, Schedule of Contributions-Defined Benefit Pension Plan, Schedule of Changes in Net OPEB Liability and Related Ratios and Schedule of OPEB Contributions*, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the financial statements and *Combining Schedule of Changes in Net Position* which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory section, statistical section and other information which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

Restriction on Use

This information is intended solely for the use of the Board of Directors and management of Leucadia Wastewater District and is not intended to be, and should not be, used by anyone other than these specified parties.

Irvine, California
November 2, 2020

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

Board of Directors
Leucadia Wastewater District
Carlsbad, California

Independent Auditor's Report

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Leucadia Wastewater District (the District), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 2, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of

our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

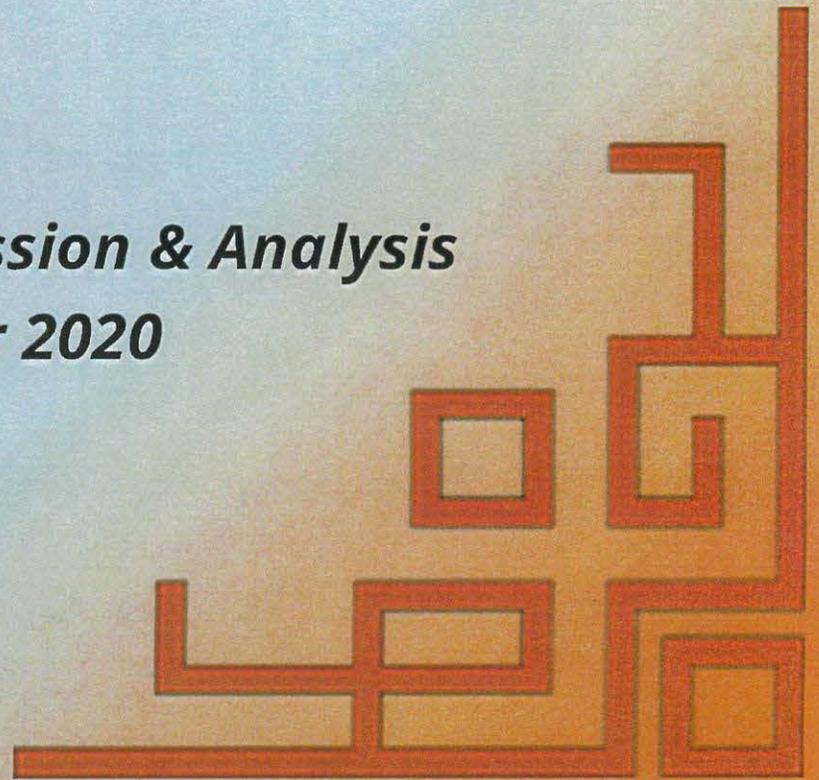
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Irvine, California
November 2, 2020

LWD Comprehensive Annual Financial Report

for the year ended June 30, 2020

***Management Discussion & Analysis
November 2020***



CAFR

Φ Introductory Section

Φ Financial Section

Φ Statistical Section

Φ Other Information

MD&A – Financial Highlights

Φ Wastewater service charges unchanged

\$343.68 per EDU per Year

Φ Net Increase of 17 EDU's

28,739
EDUs

Φ Operating revenues up \$5k (0.05%)

Φ Operating expenses up \$1.1M (16%)

MD&A – Financial Highlights

Φ Capital construction costs \$6.2m

Φ Investment Earnings up \$66k (6%)

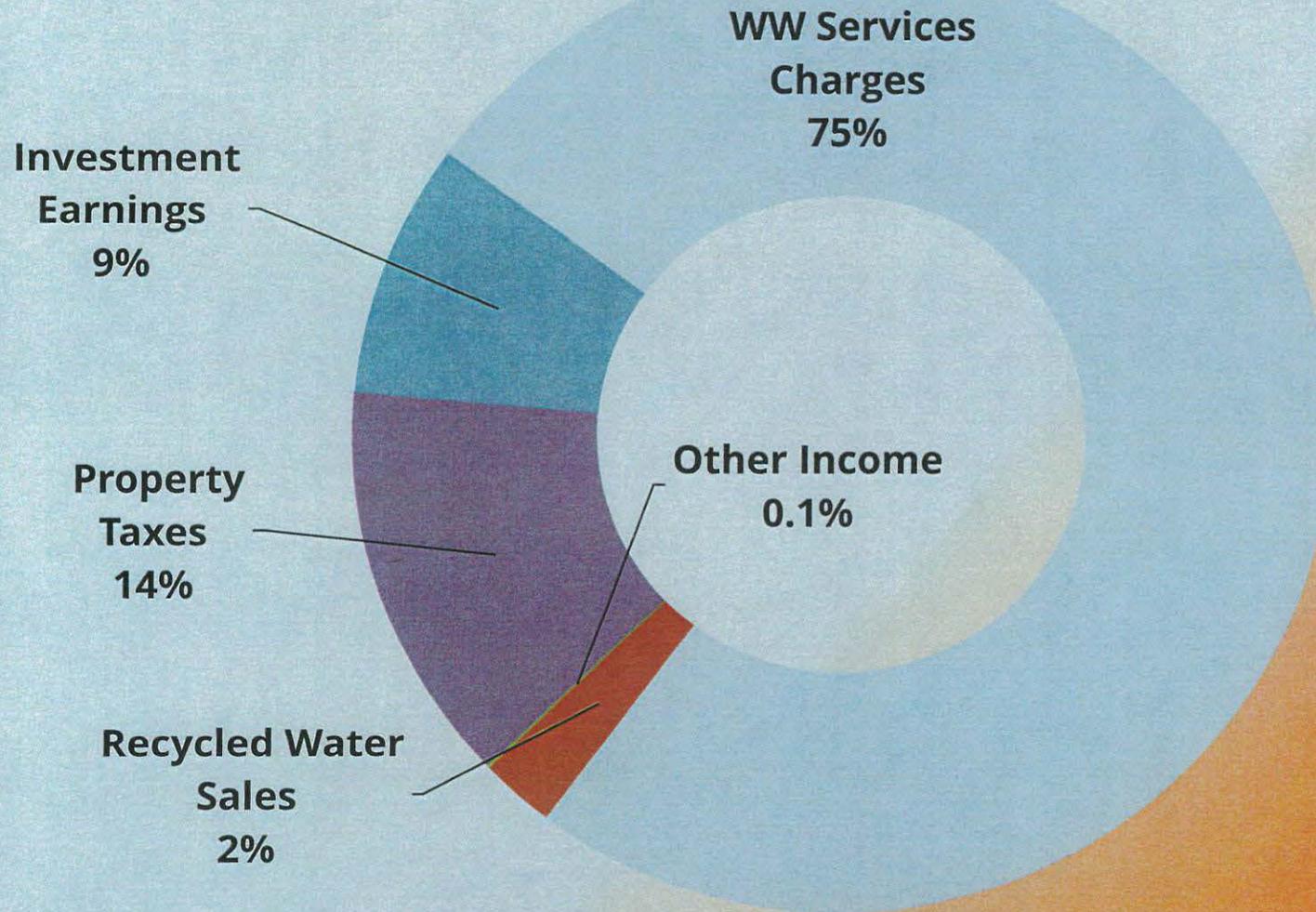
Φ Net pension liability up \$386k to \$4.4m

Φ Net position increased \$1.5m (1%)

Investment in Capital Assets – Up \$2.2M
Reserves ----- Down \$733K

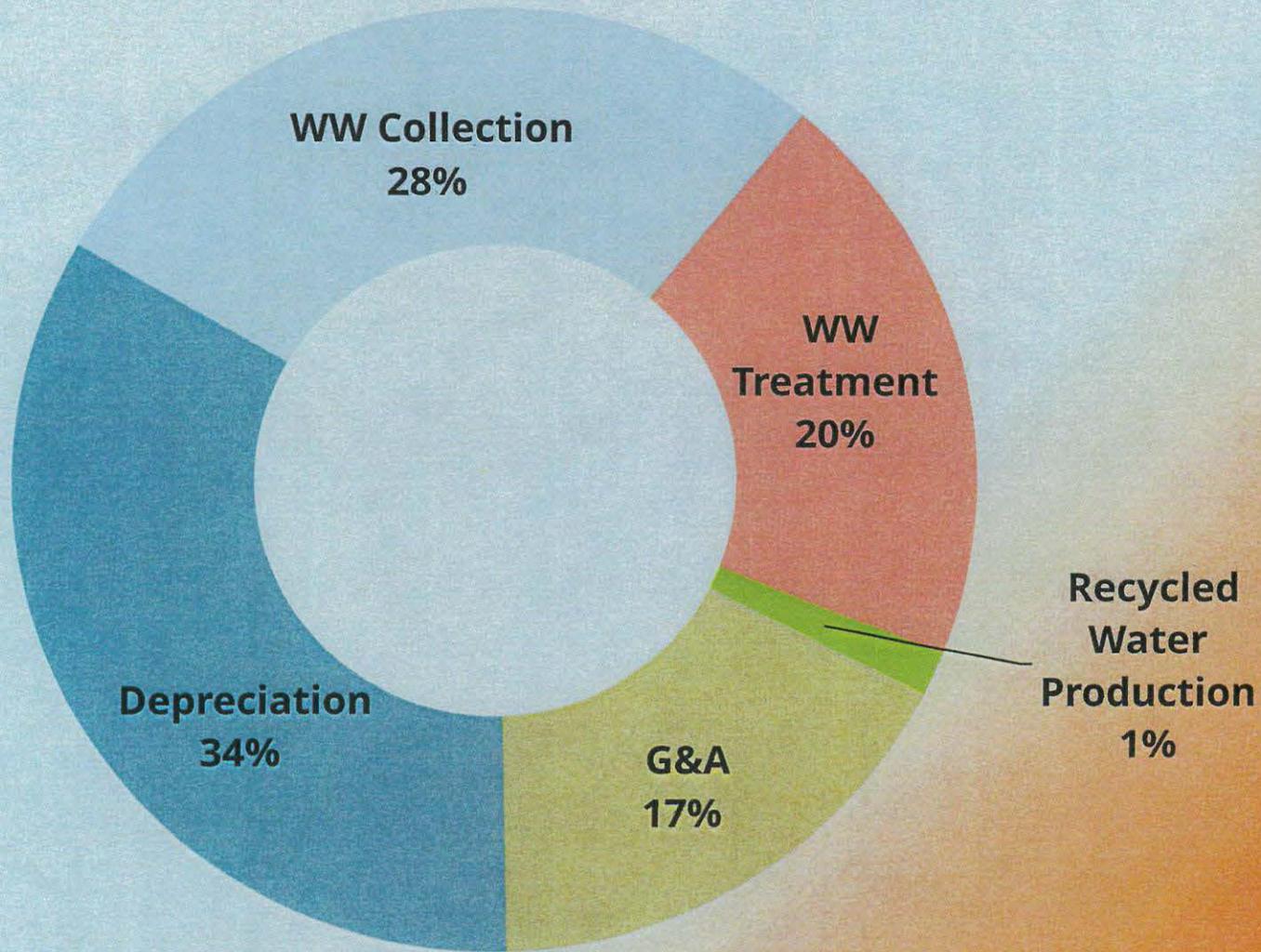
FY 20 Revenues

\$13.1M



FY 20 Expenses

\$12.1M



Key Financial Ratios

Ratio	FY 20	FY 19	FY 18
Current Ratio	9.7	8.0	9.2
Operating Margin (before depr.)	1.3/1	1.5/1	1.5/1
Total Margin Ratio	1.1/1	1.2/1	1.2/1
Capital Asset Condition	36%	36%	35%
Total Liabilities to Equity Ratio	1/19	1/21	1/22
Net Pension Liability to Equity %	3.0%	2.8%	2.9%

NET POSITION

Category	June 30, 2020	June 30, 2019
Investment in Capital Assets	\$ 112,718,595	\$ 110,480,358
Restricted Reserves	\$ 2,143,622	\$ 2,258,975
Unrestricted Reserves	\$ 32,097,039	\$ 32,714,661
Total Net Position	<u>\$ 146,959,256</u>	<u>\$ 145,453,994</u>

Restricted Reserve Balances

Designation	June 30, 2020	June 30, 2019
Capital Improvement	\$ 102,422	\$ 217,775
EWA Deposit Reserve	\$ 2,041,200	\$ 2,041,200
Total	<u>\$ 2,143,622</u>	<u>\$ 2,258,975</u>

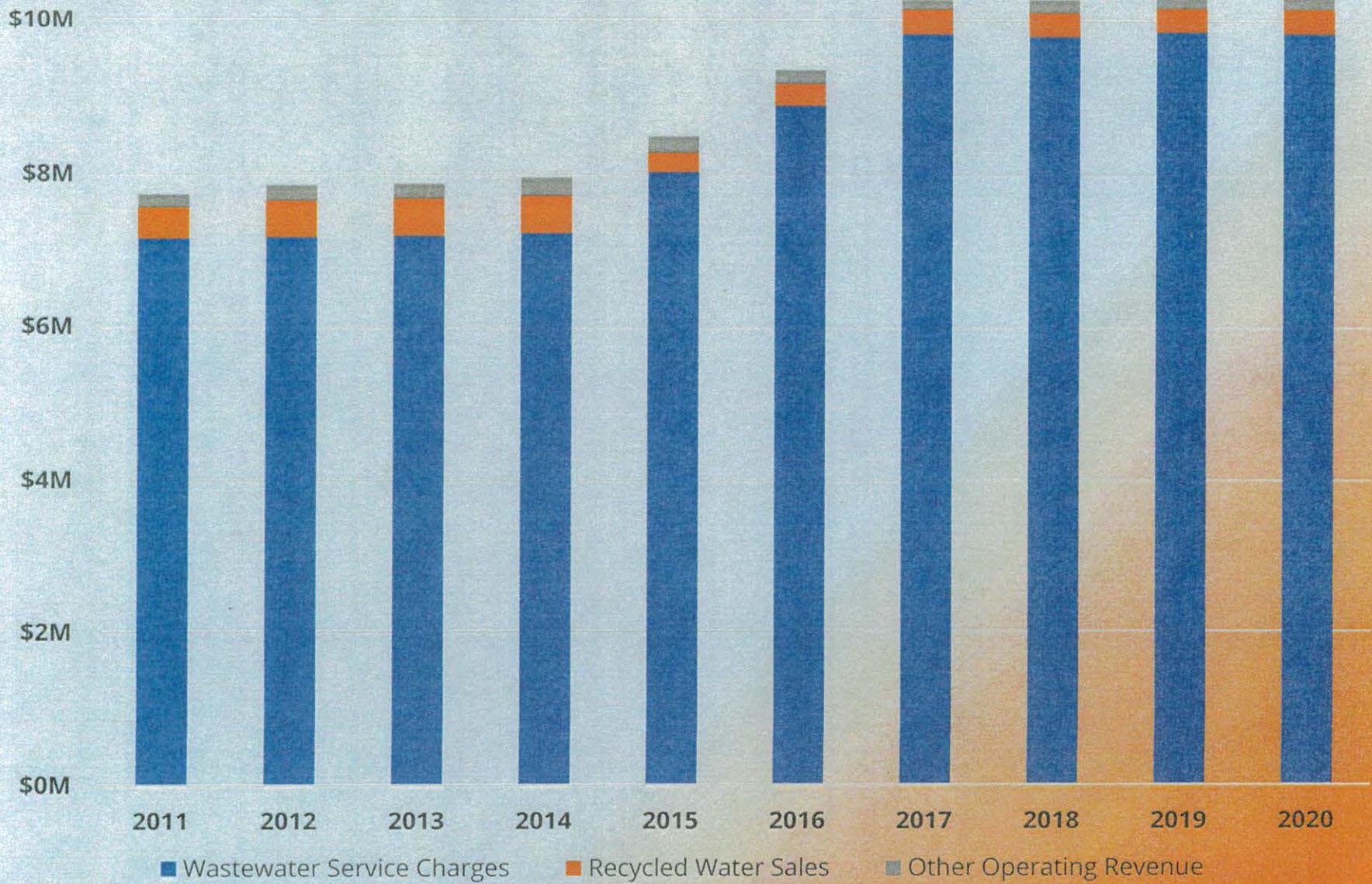
Unrestricted Reserve Balances

Designation	June 30, 2020	June 30, 2019
Operations	\$ 2,748,321	\$ 2,608,294
Replacement	\$ 20,454,735	\$ 21,291,147
Water Recycling	\$ 1,393,983	\$ 1,315,220
Emergency	<u>\$ 7,500,000</u>	<u>\$ 7,500,000</u>
Total	<u>\$ 32,097,039</u>	<u>\$ 32,714,661</u>

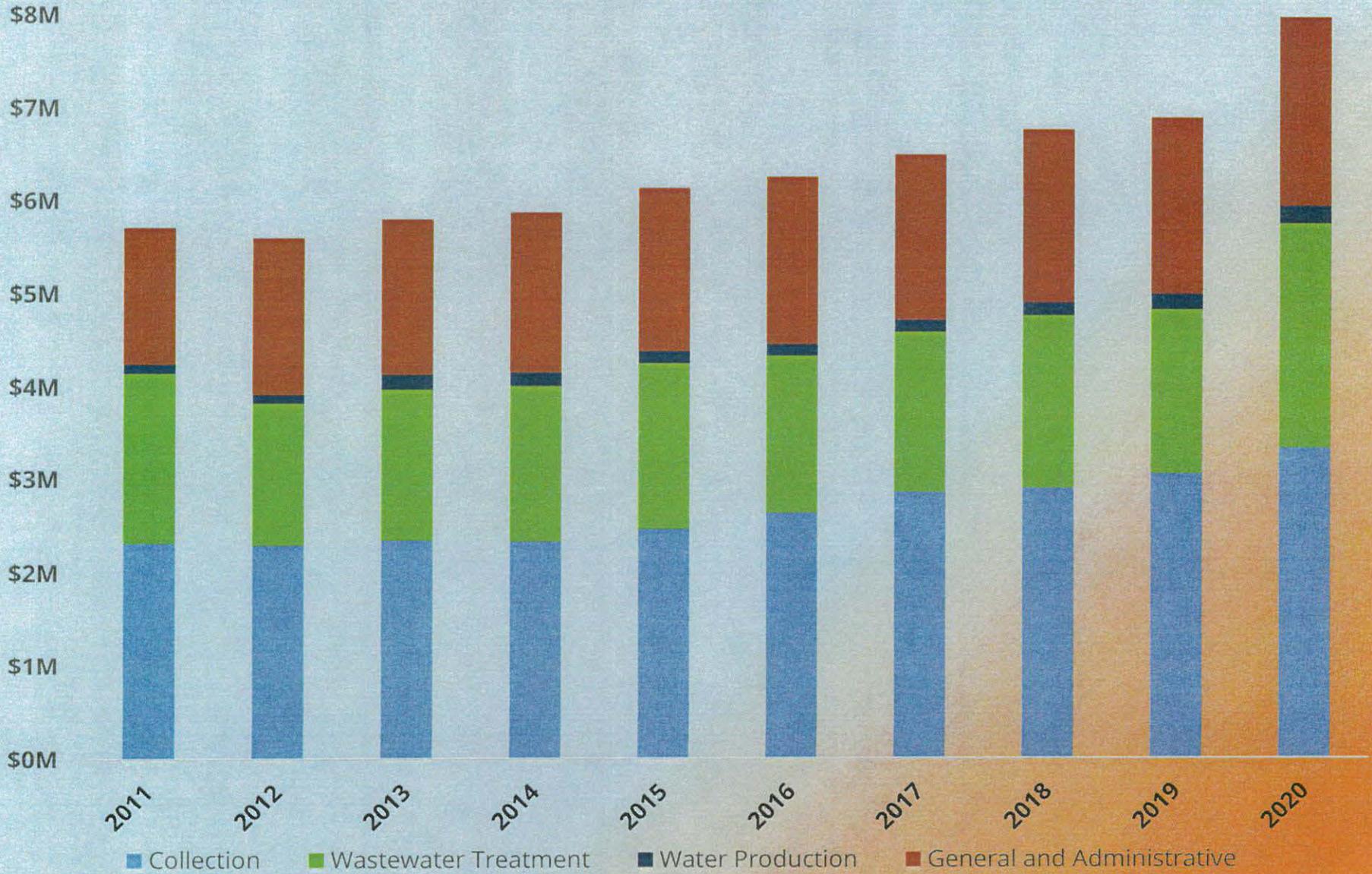
Reserves vs Cash & Investment Balances

Category	June 30, 2020	June 30, 2019
Total Reserves	\$ 34,240,661	\$ 34,973,636
Cash & Investments	\$ 38,314,300	\$ 38,482,202

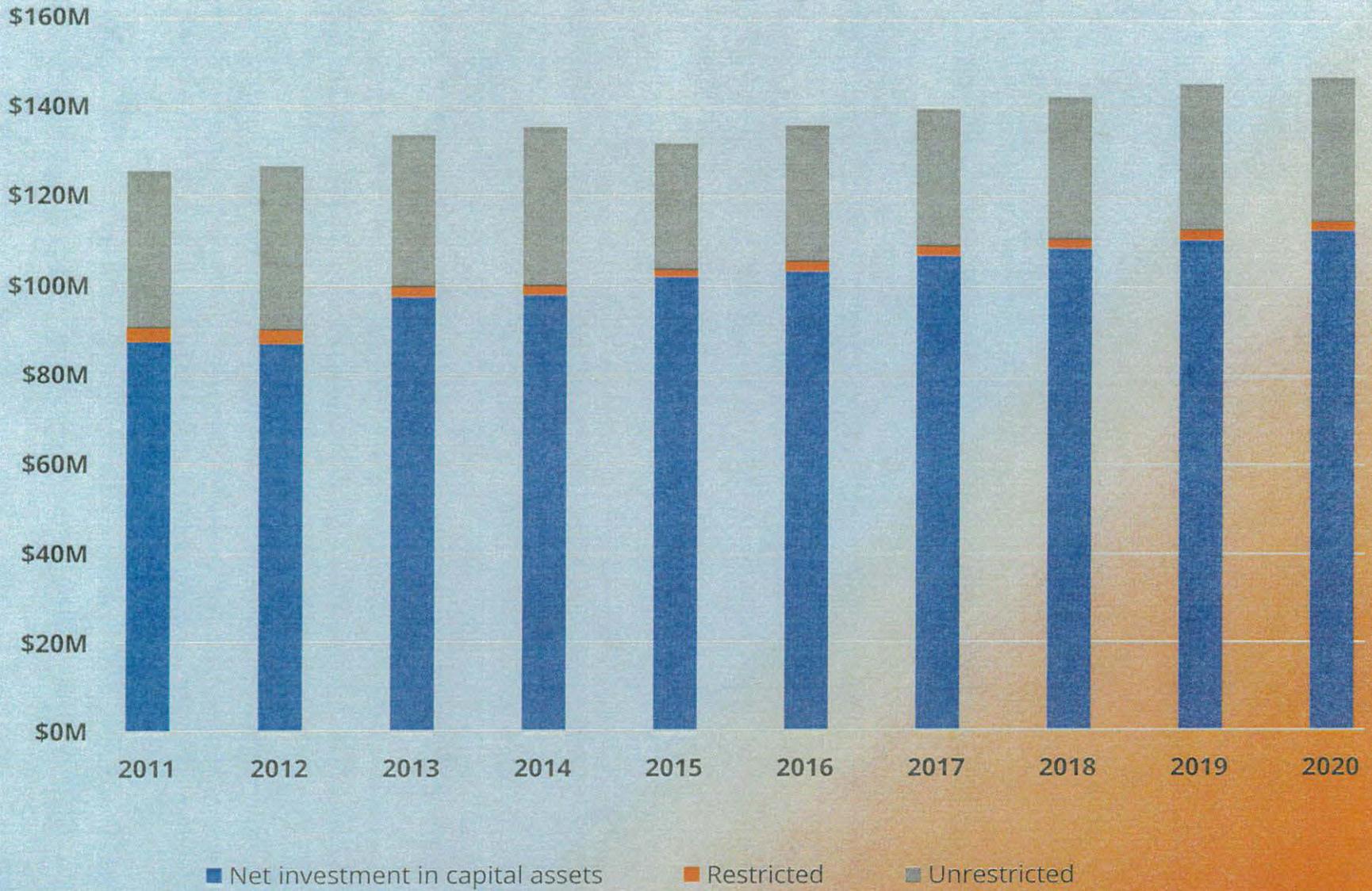
Operating Revenues by Source



Operating Expenses by Activity

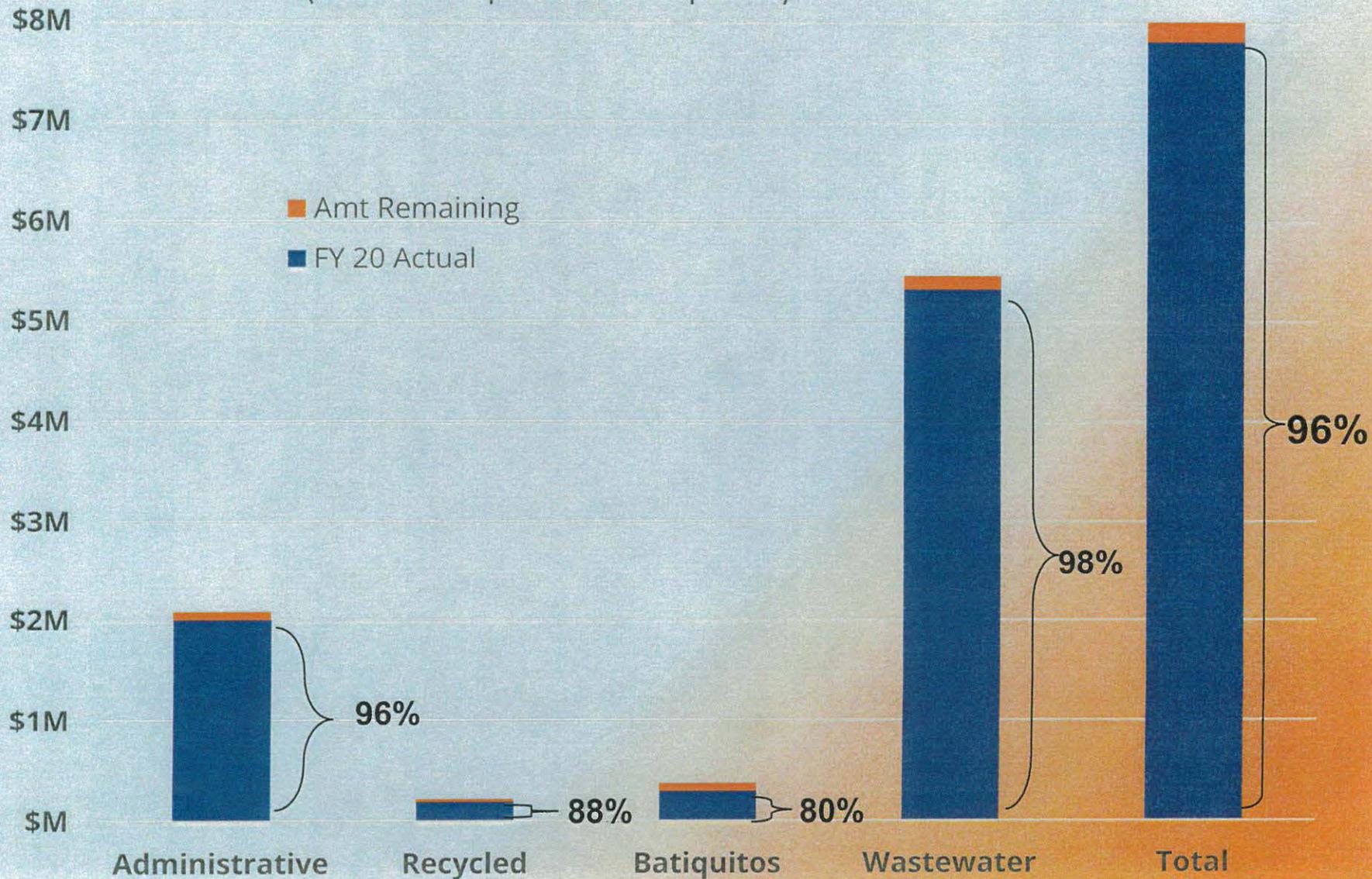


Net Position by Component



FY20 Budget to Actual

(without depreciation expense)



QUESTIONS?

