

**AGENDA**

**INVESTMENT AND FINANCE COMMITTEE MEETING  
LEUCADIA WASTEWATER DISTRICT  
November 8, 2018 – 9:00 AM  
1960 La Costa Avenue, Carlsbad, CA 92009**


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- 1. Call to Order**
- 2. Roll Call**
- 3. Public Comment**
- 4. New Business**
  - A. Receive and file the Fiscal Year 18 (FY18) Comprehensive Annual Financial Report (CAFR). (Pages 2-7, Enclosure 4A)
  - B. Authorize the General Manager to execute Amendment No.1 with Davis Farr LLP for Financial Auditing Services for Fiscal Year 2019 (FY19) and Fiscal Year 2020 (FY20) in an amount not to exceed \$45,550. (Pages 8-15)
  - C. CalPERS Update. (Pages 16-17)
- 5. Information Items**

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

MEMORANDUM

Ref: 19-6411

DATE: November 5, 2018  
TO: Investment and Finance Committee  
FROM: Paul J. Bushee, General Manager   
SUBJECT: **Fiscal Year 2018 (FY 18) Comprehensive Annual Financial Report**

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**RECOMMENDATION:**

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

1. Receive and File the FY18 Comprehensive Annual Financial Report (CAFR).
2. Discuss and take other action, as appropriate.

**DISCUSSION:**

**Tactical Goal: Financial / FY18 Audit**

State law requires the Leucadia Wastewater District (LWD) to prepare a complete set of financial statements in conformance with generally accepted accounting principals (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 FY18 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, 2018. 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 July 3, 2018. 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. As described in Note 11 to the financial statements, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 75 related to Other Post Employment Benefit (OPEB) obligations. The cumulative effect of the implementation of GASB Statement No. 75 as of the beginning of the year is described further in Note 14 to the financial statements. 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 the 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 October 26, 2018.

***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  
October 26, 2018



Board of Directors  
Leucadia Wastewater District  
Carlsbad, California

**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***

**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, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 26, 2018.

**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  
October 26, 2018

MEMORANDUM

Ref: 19-6413

**DATE:** November 5, 2018  
**TO:** Investment & Finance Committee  
**FROM:** Paul J. Bushee, General Manager   
**SUBJECT:** **Contract Amendment No. 1 to Davis Farr LLP for Financial Auditing Services**

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**RECOMMENDATION:**

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

1. Authorize the General Manager to execute a contract amendment with Davis Farr LLP for Financial Auditing Services for Fiscal Year 2019 (FY19) and Fiscal Year 2020 (FY20) in an amount not to exceed \$45,550.

**DISCUSSION:**

During April 2016, the Board of Directors authorized a three-year contract with Davis Farr LLP for financial auditing services. During the past three years, they have worked closely with the District to conduct thorough financial audits.

While the original agreement was for an initial three-year period, an option for an additional two-year extension was included. Staff believes that executing this option for Fiscal Years 2019 and 2020 will provide continuity to our auditing program and is in the best interest of the District. The proposed Amendment No.1 is attached for the committee's review.

Staff has received an estimate of fees not to exceed \$45,550 for the two-year extension. The fees are broken down by fiscal year as follows:

<u>Fiscal Year Ending</u>	<u>Total Audit Fees</u>
June 30, 2019	\$ 22,550
June 30, 2020	<u>23,000</u>
Total Two-Year Contract Price	<u>\$ 45,550</u>

For comparison purposes Davis Farr's contract price has been fixed at \$22,100 per year for the past three years. Therefore, staff believes the proposed contract price is fair and reasonable. Staff will appropriate funds each year as part of the budget process to cover the auditing fees for that year.

PJB:

Attachment



**AMENDMENT NO. 1  
TO THE PROFESSIONAL SERVICES AGREEMENT  
BETWEEN THE LEUCADIA WASTEWATER DISTRICT  
AND DAVIS FARR LLP  
FOR FINANCIAL AUDITING SERVICES**

Ref: 19-6416

This Amendment No. 1 to the AGREEMENT is made and entered into this 14th day of November, 2018 between the LEUCADIA WASTEWATER DISTRICT, hereinafter referred to as DISTRICT, and DAVIS FARR LLP, a Certified Public Accounting firm, hereinafter referred to as CONSULTANT.

WHEREAS, the DISTRICT and CONSULTANT entered into an AGREEMENT on April 13, 2016 for financial auditing services; and

WHEREAS, the AGREEMENT allows for an additional two-year extension; and

WHEREAS, the DISTRICT has determined that a two-year extension is in the best interest of the District.

NOW THEREFORE, in consideration of their mutual promises, obligations, and covenants hereinafter contained, DISTRICT and CONSULTANT agree to amend the AGREEMENT as follows:

**ARTICLE 2: SERVICES TO BE PERFORMED BY CONSULTANT**

The Scope of Work shall be amended to include financial auditing services for an additional two-year period for the fiscal years ending June 30, 2019 and 2020 as described in Exhibit A.

**ARTICLE 4: COMPENSATION**

Compensation for all work performed under Amendment No. 1 shall be calculated on a time and materials basis. Compensation for the services described in this AMENDMENT shall not exceed \$45,550. This amount shall be added to the previous amount to bring the total not to exceed amount for the AGREEMENT to \$111,850. This amount shall not be exceeded unless there is a change in scope of work, in writing and agreed to by both parties.

All other terms and conditions of the Agreement shall remain unchanged.

IN WITNESS WHEREOF, the parties hereto caused this AGREEMENT to be executed the day and year first above written.

**LEUCADIA WASTEWATER DISTRICT**

**DAVIS FARR LLP**

By: \_\_\_\_\_  
Elaine Sullivan  
President

By: \_\_\_\_\_  
Jennifer Farr  
Engagement Partner

EXHIBIT A  
SCOPE OF WORK



**Davis Farr LLP**  
2301 Dupont Drive | Suite 200 | Irvine, CA 92612  
Main: 949.474.2020 | Fax: 949.263.5520

October 16, 2018

To the Board of Directors  
Leucadia Wastewater District  
1960 La Costa Avenue  
Carlsbad, CA 92008

We are pleased to confirm the arrangements of our engagement and the nature of the services we will provide **Leucadia Wastewater District** (the "Entity").

**ENGAGEMENT OBJECTIVES**

We will audit the financial statements Entity's basic financial statements, as of **June 30, 2019 and 2020** and for the year then ended, and the related notes to the financial statements.

Accounting Standards generally accepted in the United States of America ("US GAAP") provide for certain required supplementary information ("RSI"), such as management's discussion and analysis ("MD&A"), to supplement the Entity's basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. As part of our engagement, we will apply certain limited procedures to the Entity's RSI in accordance with auditing standards generally accepted in the United States of America ("US GAAS"). These limited procedures will consist 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 will not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The following RSI is required by US GAAP and will be subjected to certain limited procedures but will not be audited.

1. Management's Discussion and Analysis
2. Schedule of the District's Share of the Proportionate Net Pension Liability and Related Ratios
3. Schedule of Pension Plan Contributions
4. Schedule of Net OPEB Liability
5. Schedule of OPEB Contributions

We have also been engaged to report on supplementary information other than RSI that accompanies the Entity's financial statements. We will subject the following supplementary information to the auditing procedures applied in our audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America, and we will provide an opinion in relation to the financial statements as a whole.

1. Combining Schedule of Changes in Net Position

### **OUR RESPONSIBILITIES**

The objective of our audit is the expression of an opinion as to whether the financial statements are fairly presented, in all material respects, in conformity with US GAAP and to report on the fairness of the additional information referred to above when considered in relation to the financial statements taken as a whole.

We will also provide a report, which does not include an opinion on, Internal controls related to the financial statements and compliance with the provisions of laws, regulations, contracts, and grant agreements, noncompliance which could have a material effect on the financial statements as required by *Government Auditing Standards*. The report on internal control and compliance will each include a paragraph that states the report is solely to describe the scope and testing of internal control over financial reporting and compliance, and the results of that testing and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance and the results of that testing and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance and that the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control over financial reporting and compliance and that the report is not suitable for any other purpose.

### **Audit**

Our audit will be conducted in accordance with US GAAS, the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our audit will include tests of the accounting records and other procedures we consider necessary to enable us to express such an opinion and render the required reports. We cannot provide assurance that an unmodified opinion will be expressed. Circumstances may arise in which it is necessary for us to modify our opinion or add an emphasis-of-matter or other-matter paragraph. If, for any reason, we are unable to complete the audit, or are unable to form or have not formed an opinion, we may decline to express an opinion or withdraw from this engagement.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts (e.g., tests of the physical existence of inventories, direct confirmation of certain assets and liabilities by correspondence with selected customers, creditors, and financial institutions, etc.). We may also request written representations from the Entity's attorneys as part of the engagement, and they may bill the Entity for responding to this inquiry.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We will plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether from errors, fraudulent financial reporting, misappropriation of assets, or violations of laws or governmental regulations that are attributable to the Entity or to acts by management or employees acting on behalf of the Entity.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal controls, and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us, even though the audit is properly planned and performed in accordance with US GAAS. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements. We will inform the appropriate level of management and those charged with governance of any material errors, fraudulent financial reporting, or misappropriation of assets that comes to our attention. We will also inform the appropriate level of management and those charged with governance of any violations of

laws or governmental regulations that come to our attention, unless clearly inconsequential, and any material abuse that comes to our attention. Our responsibility, as auditors, is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

### **Internal Control**

Our audit will include obtaining an understanding of the Entity and its environment, including internal controls sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing and extent of further audit procedures.

We will obtain an understanding of the design of the relevant controls and whether they have been placed in operation, and we will assess control risk. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Tests of controls relative to the financial statements are required only if control risk is assessed below the maximum level. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

An audit is not designed to provide assurance on internal controls or to identify control deficiencies. However, we will inform management and those charged with governance of internal control matters that are required to be communicated under professional standards.

### **Compliance**

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the Entity's compliance with the provisions of applicable laws, regulations, contracts, agreements, and grants. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

The services described above do not relieve management or those charged with governance of their responsibilities.

### **THOSE CHARGED WITH GOVERNANCE**

The preparation and presentation of the financial statements of the Entity are the responsibility of management with oversight from those charged with governance. Those charged with governance are also responsible for overseeing the strategic direction of the Entity and any obligations related to its accountability, resolving disagreements between management and us regarding financial reporting, appointing us to perform the services described above, and informing us about all known or suspected fraud involving the Entity. In turn, we will provide those charged with governance with any communications required by the professional standards described above.

### **MANAGEMENT'S RESPONSIBILITIES**

Management is responsible for all management decisions and performing all management functions, and for designating an individual, preferably from senior management, with suitable skill, knowledge, or experience to oversee these services, any bookkeeping services, tax services, or other services we provide. Management is responsible for evaluating the adequacy and results of the services performed and accepting responsibility for them.

Management is responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. Management is also responsible for providing us with



(a) access to all information they are aware of that is relevant to the preparation and fair presentation of the financial statements, (b) additional information that we may request for the purpose of this engagement, and (c) unrestricted access to persons within the Entity from whom we determine it necessary to obtain information.

Management is responsible for establishing and maintaining internal controls, including monitoring ongoing activities, for the selection and application of accounting principles, for the safeguarding of assets, and for the preparation and fair presentation of the financial statements in conformity with US GAAP even though we may assist management with their preparation. Accordingly, management may be required to acknowledge in the written representation letter our assistance with preparation of the financial statements and that management has reviewed and approved the financial statements and related notes prior to their issuance and has accepted responsibility for them.

Management is responsible for adjusting the financial statements to correct material misstatements and for confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Management is responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the Entity involving (a) management, (b) employees who have significant roles in internal controls, and (c) others where the fraud could have a material effect on the financial statements. Management is also responsible for informing us of any known allegations of fraud or suspected fraud affecting the Entity received in communications from employees, former employees, regulators, or others. In addition, management is also responsible for identifying and ensuring that the Entity complies with applicable laws, regulations, contracts, agreements, and grants and for taking timely and appropriate steps to remedy any fraud, illegal acts, violations of contracts or grant agreements, or abuse that we may report.

During the course of our engagement, we will request information and explanations from management regarding the Entity. At the conclusion of our engagement, we will require, as a precondition to the issuance of our report, that management provide certain representations in a written representation letter. The procedures we will perform in our engagement and the conclusions we reach as a basis for our report will be heavily influenced by the written and oral representations that we receive from management. In view of the foregoing, the Entity agrees to release our firm, its shareholders, and other personnel from any liability and costs relating to our services under this letter resulting from false or misleading representations made to us by any member of the Entity's management.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying for us previous financial audits, attestation engagements, performance audits or other related studies. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits, attestation engagements, performance audits, or other studies. Management is responsible for providing its views on our current findings, conclusions, and recommendations, as well as management's planned corrective actions, for the report, and for the timing and format for providing that information.

## **OTHER SERVICES**

As a result of our prior or future services, we might be requested to provide information or documents to the Entity or a third party in a legal, administrative, or arbitration or similar proceeding in which we are not a party. If this occurs, our efforts in complying with such requests will be deemed billable to the Entity as a separate

engagement. We shall be entitled to compensation for our time and reasonable reimbursement for our expenses (including legal fees) in complying with the request. For all requests, we will observe the confidentiality requirements of our profession and will notify management promptly of the request.

**ENGAGEMENT FEES**

We estimate that our fixed fees for the services previously outlined will be as noted below:

Fiscal Year 2018/19	\$22,550
Fiscal Year 2019/20	\$23,000

Our fees are based upon the complexity of the work to be performed, timing of the engagement, experience level of the personnel required, and estimates of the professional time to complete the required services.

Additionally, our fees are dependent on the availability, quality, and completeness of the Entity's records and, where applicable, upon the Entity's personnel providing the level of assistance identified in the "prepared by client" request list distributed at the end of our planning work (e.g., Entity employees preparing confirmations and schedules we request, locating documents selected by us for testing, etc.).

Should our assumptions with respect to these matters be incorrect, or should the condition of the records, degree of cooperation, or other matters beyond our reasonable control require additional commitments by us beyond those upon which our estimated fees are based, we may adjust our fees and planned completion dates. If significant additional time is necessary, we will discuss it with management and arrive at a new fee estimate as soon as reasonably practicable. In addition, fees for any related projects, such as proposed business combinations or research and/or consultation on special business or financial issues, will be billed separately from the fee referred to above and will be subject to separate arrangements.

We consider telephone calls and meetings on accounting and reporting matters to be an integral part of the engagement and no additional fees are charged for these services. If, however, there is a significant transaction or new accounting issue that requires us to spend a substantial amount of time that was not anticipated in our fees, there may be additional billings.

The fee estimate above assumes no adjustments will be necessary for routine accounting entries normally made before the beginning of the engagement. If, for any reason, we are asked to assist in the preparation of these entries, before beginning this service, we will provide an estimate of the time required to perform such services and the additional fees to be billed.

Invoices will be submitted as the work progresses and a final invoice will be submitted upon completion of the services. Invoices are payable upon receipt. If our invoices for this, or any other engagements the Entity may have with us, are not paid within 30 days, we may suspend or terminate our services for this and any other engagements. In the event our work is suspended or terminated as a result of nonpayment, the Entity agrees we will not be responsible for any consequences.

**OTHER ENGAGEMENT MATTERS**

This letter set forth the rights and responsibilities of the parties with respect to the services to be provided. This engagement is being undertaken solely for the benefit of the parties to this agreement and no other person shall be entitled to enforce the terms of this agreement.

As required by *Government Auditing Standards*, we included a copy of the report on the most recent peer review of our firm in our proposal for audit services.

The workpapers for this engagement will be retained in accordance with our firm policy, or for any additional period requested by the Entity's cognizant agency, oversight agency for audit, or pass-through entity. If we are aware that a federal awarding agency, pass-through entity, or auditee is contesting an audit finding, we will contact the party(ies) contesting the audit finding for guidance prior to destroying the workpapers.

The undersigned is the engagement partner responsible for supervising the engagement and signing the report.

We appreciate the opportunity to provide these services and believe this letter accurately summarizes the significant terms of our engagement. Please sign the enclosed copy of this letter and return it to us.

Very truly yours,



Jennifer Farr, Partner  
Davis Farr LLP

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The services and arrangements described in this letter are in accordance with our understanding and are acceptable to us.

**Leucadia Wastewater District**

By \_\_\_\_\_

By \_\_\_\_\_

Name \_\_\_\_\_

Name \_\_\_\_\_

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Title \_\_\_\_\_

Title \_\_\_\_\_

Date \_\_\_\_\_

Date \_\_\_\_\_

MEMORANDUM

Ref: 19-6412

**DATE:** November 5, 2018  
**TO:** Investment and Finance Committee  
**FROM:** Paul J. Bushee, General Manager   
**SUBJECT:** California Public Employees' Retirement System (CalPERS) Update

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**RECOMMENDATION:**

- 1) Discuss and provide direction as appropriate.

**BACKGROUND:**

**Tactical Goal: Financial/ PERS Unfunded Accrued Liability/ Evaluate and Present Options**

At the March 2018 Board meeting, staff presented an overview of recent changes to the CalPERS assumptions and the impact they will have on LWD's future employer contributions. At that time, the Board directed staff to follow-up with potential options to address this issue once CalPERS completed its fiscal year (FY) 2017 actuarial report, which was expected to be released in October 2018. This item was subsequently included as a goal in LWD's FY 2019 Tactical Plan and LWD received the CalPERS FY 2017 actuarial report in October as expected.

By way of background, CalPERS charges both an "employee" rate and an "employer" rate for its retirement system. LWD employees pay their full share of the employee rate. LWD's employer rate is further broken down into two categories: the normal cost and the unfunded accrued liability (UAL). The normal cost reflects the annual cost of service and is paid as part of payroll, whereas the UAL reflects the cost needed to fund past service credit earned by retired and current employees. LWD currently pays its UAL expenses annually based on a 30-year amortization period.

**DISCUSSION:**

As referred to above, CalPERS recently made a significant change to its discount rate assumption – lowering it from 7.5% to 7.0% over a three-year period beginning in FY 2019. The discount rate is the assumed rate of return that CalPERS expects its investments to earn over time. This change increases LWD's PERS contribution costs for both normal costs and UAL payments.

The impact to the normal costs is being phased in over the three-year period, while the increase to LWD's UAL is being phased in over the next seven years. As a result, the increases in the required contributions are expected to continue for seven years from FY 2019 through FY 2025. During this period, employer contributions are expected to almost double from approximately \$373,000 in FY 2018 to \$694,000 in FY 2025.

In addition, the composition of the employer payments changes over this 7-year period. The UAL payment portion grows from about 45% in FY 2018 to about 62% in FY 2025. Since almost half of the employers UAL payments, over the current 30-year amortization period, is interest expense



there are some potential options LWD could use to reduce the UAL expense. The following options will be presented to the IFC for discussion:

1. Status Quo – Current 30 Year Amortization.
2. Fresh Start – Reduce Amortization Period.
3. Ad Hoc Basis – Make Additional Payments on a periodic basis.
4. Pay Off – Pay off current UAL balance in full.

The purpose of this item is to: 1) update the Board on this recent change in the CalPERS discount rate assumption; 2) review its effect on LWD's required PERS employer contributions; and 3) to present an overview of the options that LWD could use to address this issue.

Staff is requesting that the IFC provide direction on the best way for LWD to move forward on this issue.

rad:PJB