



TO: TMWA Board of Directors
FROM: Jeff Tissier, Chief Financial Officer
DATE: March 8, 2015
SUBJECT: **Presentation of Financial Performance for First Half Fiscal Year 2015**

First Half Financial Results

TMWA's financial performance was very good for the six months ended December 31, 2014, with total operating revenues 1.0 % or \$0.5 million greater than budget and operating spending 7.1% or \$1.5 million under budget. Please refer to **Attachment A-1** for budget to actual comparisons. TMWA personnel continue to do an excellent job managing operating expenses while TMWA experienced slightly better than planned water sales. Persistent warm weather patterns resulted in greater than planned residential and irrigation water sales. The budget assumed slightly cooler fall and weather patterns. A first half year-over-year financial comparison is presented in **Attachment A-2**. This comparison illustrates how weather patterns affect TMWA's water and hydroelectric power sales and also highlights how TMWA staff are performing an excellent job in controlling operational spending. The first half financial presentation is for TMWA only and does not include some preliminary consolidation activities which would greatly distort financial reporting for the first half of the fiscal year.

Total operating revenues were \$0.5 million or 1.0% higher than expected in the budget. Water sales were \$0.6 million or 1.3% greater than budget. Hydroelectric power sales were lower than a muted budget by \$0.2 million, or 35.5% below budget. The drought has significantly impacted hydroelectric sales with the river falling out in early August which was sooner than planned. Other operating sales were \$0.1 million greater than budget. Total operating revenues were \$0.6 million greater than in the comparable period last year with water sales over shadowing an extensive reduction in hydroelectric sales.

Total spending on operations was \$1.5 million, or 7.1% below budget. Spending on wages and salaries was \$0.3 million or 4.5% less than budget due to few sporadic position vacancies and greater efforts dedicated to consolidation activities which is reported in non-operating expenses. Less spending on employee benefits is reflective of lower than expected spending on health care benefits as well as the effect of sporadic position vacancies and consolidation efforts. Services and supplies spending was \$0.8 million or 7.3% less than budget with control over power expenses being the greatest contributor to this positive spending variance.

Investment income was essentially on budget. Investment returns continue to be at historically low levels. As investments mature they are being invested at slightly higher rates due to an increasing interest rate environment on the shorter end of the investment yield curve. With respect to TMWA's fixed rate debt, TMWA transfers \$2.5 million on a monthly basis to the

bond trustee which is invested in a manner to meet annual principal and semi annual interest payments. Secure investments in the six month and one year range of the yield curve have been almost non-existent yields. TMWA's other investment returns range from 0.4% to 5.5% and are laddered in maturities to meet future cash flow needs.

Interest expense on TMWA's outstanding debt is virtually on budget. TMWA continues to experience very low interest rates with TMWA's Tax-Exempt Commercial Paper Program (TECP). Recent remarketing of outstanding notes continues to be at very low interest rates of 0.09%. The TECP program continues to be a natural hedge against lower investment returns and virtually eliminates risk associated with changes in interest rates.

In total, developer contributions are significantly ahead of budget by a total of \$2.2 million. Development has been concentrated in limited residential activity and on small commercial activities. The budget assumed muted construction activity and budgeting in this area is somewhat challenging to predict. TMWA is not reliant on growth for financial stability.

Spending on capital outlays and construction projects as of December 31, 2014, was approximately \$11.5 million. Construction spending in the first half of the fiscal year was primarily focused on the completion of the Fleish Tunnel and transition structure project. TMWA also advanced some pump station reconstruction projects and the complete reconstruction of the Highland Finished Water Reservoir liners and cover. Capital spending is expected to increase during the winter and early spring somewhat while water system demands are low. TMWA expects capital spending to be lower than the original budget. Please refer to **Attachment A-3** which contains TMWA's Statement of Cash Flows that presents total capital spending and other cash flow information for the first half of the fiscal year.

First Half Cash Position

Referring to TMWA's Statement of Net Assets in **Attachment A-4**, total cash on hand was \$140.4 million as of December 31, 2014 which is \$4.2 million higher than at the beginning of the fiscal year. Of this total, \$73.5 million was unrestricted to be used for future operating/maintenance expenses, principal/interest payments, and for upcoming construction projects. Unrestricted cash increased since the beginning of the year because TMWA receives a large part of its unrestricted cash from water sale revenue during the first six months of every year.

The remaining \$66.9 million was restricted to pay for scheduled bond principal and interest payments as well as maintaining required reserves as stipulated in TMWA's bond indentures.

TRUCKEE MEADOWS WATER AUTHORITY
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION - BUDGET TO ACTUAL
FOR THE SIX MONTHS ENDED DECEMBER 31, 2014

	<u>Budget</u>	<u>UNAUDITED Actual</u>	<u>Variance</u>
OPERATING REVENUES			
Charges for water sales	\$ 46,944,118	\$ 47,567,256	\$ 623,138
Hydroelectric sales	669,317	431,422	(237,895)
Other operating sales	956,500	1,045,167	88,667
Total Operating Revenues	<u>48,569,935</u>	<u>49,043,845</u>	<u>473,910</u>
OPERATING EXPENSES			
Salaries and wages	6,604,812	6,310,330	294,482
Employee benefits	3,044,130	2,668,729	375,401
Services and supplies	10,938,304	10,140,439	797,865
Total Operating Expenses before Depreciation	<u>20,587,246</u>	<u>19,119,498</u>	<u>1,467,748</u>
Depreciation	12,044,724	11,617,878	426,846
Total Operating Expenses	<u>32,631,970</u>	<u>30,737,376</u>	<u>1,894,594</u>
Operating Income	<u>15,937,965</u>	<u>18,306,469</u>	<u>2,368,504</u>
NONOPERATING REVENUES (EXPENSES)			
Grants	-	105,707	105,707
Investment earnings	1,084,527	1,071,362	(13,165)
Gain (Loss) on disposal of assets	-	4,268	4,268
Bond/note issuance expenses	(232,440)	(187,323)	45,117
Interest expense	(10,413,882)	(10,436,384)	(22,502)
Other non-operating revenue	-	-	-
Other non operating expense	(550,000)	(527,416)	22,584
Total Nonoperating Revenues (Expenses)	<u>(10,111,795)</u>	<u>(9,969,786)</u>	<u>142,009</u>
Income (Loss) before Capital Contributions	<u>5,826,170</u>	<u>8,336,683</u>	<u>2,510,513</u>
CAPITAL CONTRIBUTIONS			
Water meter retrofit program	328,446	494,508	166,062
Developer infrastructure contributions	594,594	-	(594,594)
Developer will-serve contributions (net of refunds)	136,002	626,390	490,388
Developer capital contributions-other	260,490	1,093,025	832,535
Developer facility charges (net of refunds)	573,300	1,816,851	1,243,551
Contributions from others	-	83,361	83,361
Net Capital Contributions	<u>1,892,832</u>	<u>4,114,135</u>	<u>2,221,303</u>
Change in Net Position	<u>7,719,002</u>	<u>12,450,818</u>	<u>4,731,816</u>
NET POSITION , BEGINNING OF YEAR	<u>294,362,552</u>	<u>311,563,018</u>	
NET POSITON , END OF DECEMBER	<u>\$302,081,554</u>	<u>\$ 324,013,836</u>	

TRUCKEE MEADOWS WATER AUTHORITY
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION - ACTUAL TO ACTUAL
FOR THE SIX MONTHS ENDED DECEMBER 31, 2014 AND 2013

	UNAUDITED 2014	UNAUDITED 2013	Variance
OPERATING REVENUES			
Charges for water sales	\$ 47,567,256	\$ 46,037,057	1,530,199
Hydroelectric sales	431,422	1,389,743	(958,321)
Other operating sales	1,045,167	983,543	61,624
Total Operating Revenues	<u>49,043,845</u>	<u>48,410,343</u>	<u>633,502</u>
OPERATING EXPENSES			
Salaries and wages	6,310,330	6,158,998	151,332
Employee benefits	2,668,729	2,623,917	44,812
Services and supplies	10,140,439	10,042,338	98,101
Total Operating Expenses before Depreciation	<u>19,119,498</u>	<u>18,825,253</u>	<u>294,245</u>
Depreciation	11,617,878	11,839,092	(221,214)
Total Operating Expenses	<u>30,737,376</u>	<u>30,664,345</u>	<u>73,031</u>
Operating Income	<u>18,306,469</u>	<u>17,745,998</u>	<u>560,471</u>
NONOPERATING REVENUES (EXPENSES)			
Grants	105,707	-	105,707
Investment earnings	1,071,362	1,082,132	(10,770)
Gain (Loss) on disposal of assets	4,268	7,128	(2,860)
Amortization of bond/note issuance costs	(187,323)	(430,330)	243,007
Interest expense	(10,436,384)	(10,704,391)	268,007
Other non-operating revenue	-	-	-
Other non operating expense	(527,416)	(67,101)	(460,315)
Total Nonoperating Revenues (Expenses)	<u>(9,969,786)</u>	<u>(10,112,562)</u>	<u>142,776</u>
Income (Loss) before Capital Contributions	<u>8,336,683</u>	<u>7,633,436</u>	<u>703,247</u>
CAPITAL CONTRIBUTIONS			
Water meter retrofit program	494,508	196,117	298,391
Developer infrastructure contributions	-	132,132	(132,132)
Developer will-serve contributions (net of refunds)	626,390	547,614	78,776
Developer capital contributions-other	1,093,025	257,644	835,381
Developer facility charges (net of refunds)	1,816,851	550,554	1,266,297
Contributions from others	83,361	101,884	(18,523)
Net Capital Contributions	<u>4,114,135</u>	<u>1,785,945</u>	<u>2,328,190</u>
Change in Net Position	<u>12,450,818</u>	<u>9,419,381</u>	<u>3,031,437</u>
NET POSITION , BEGINNING OF YEAR	<u>311,563,018</u>	<u>301,435,623</u>	
NET POSITON , END OF DECEMBER	<u>\$ 324,013,836</u>	<u>\$ 310,855,004</u>	

TRUCKEE MEADOWS WATER AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2014

	<u>2014</u>
INCREASE IN CASH AND CASH EQUIVALENTS	
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 52,287,289
Cash paid to employees	(9,386,384)
Cash paid to suppliers	<u>(10,549,682)</u>
Net Cash Provided by Operating Activities	<u>32,351,223</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(11,447,741)
Interest paid on financing	(9,723,545)
Principal paid on financing	(12,411,177)
Proceeds from capital debt issuance	-
Redemption of commercial paper notes	-
Proceeds from capital asset disposal	10,560
Contributions for water meter retrofit program	494,508
Contributions from developers-will-serve letters	626,390
Contributions from developers-other	1,093,025
Contributions from developers-facility charges	1,816,851
Contributions from others	83,361
Grants	283,224
Bond/Note issuance costs	<u>(157,045)</u>
Net Cash (Used) by Capital and Related Financing Activities	<u>(29,331,589)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	<u>1,186,048</u>
Net Increase (Decrease) in Cash and Cash Equivalents	4,205,682
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR (including \$72,701,209 in restricted accounts for the year ended June 30, 2014)	
	<u>136,244,037</u>
CASH AND CASH EQUIVALENTS, As of December 31, 2014 (including \$66,936,029 in restricted accounts as of December 31, 2014)	
	<u>\$ 140,449,719</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	<u>\$ 18,306,469</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	11,617,878
Other nonoperating revenues	-
Other nonoperating expenses	(527,416)
Changes in assets and liabilities:	-
(Increase) decrease in:	-
Accounts receivable, net	2,593,075
Due from others	194,460
Due from other governments	419,218
Prepaid assets	(71,894)
Increase (decrease) in:	-
Accounts payable	(169,273)
Accrued liabilities	120,091
Due to customers and developers	36,691
Due to other governments	<u>(168,076)</u>
Total Adjustments	<u>14,044,754</u>
Net Cash Provided by Operating Activities	<u>\$ 32,351,223</u>
NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES	
Developer infrastructure contributions	\$ -
Amortization of deferred bond/loan issuance expenses	(30,278)
Amortization of net bond premium	187,484
Amortization of refunding allowances to interest expense	1,321,421
SUPPLEMENTAL CASH FLOWS INFORMATION	
Capitalization of interest expense	-
Capitalization of interest revenue	-

TRUCKEE MEADOWS WATER AUTHORITY
STATEMENTS OF NET POSITION
DECEMBER 31, 2014 AS COMPARED TO JUNE 30, 2014
ASSETS

	UNAUDITED December 31, 2014	AUDITED June 30, 2014
CURRENT ASSETS		
Cash and investments	\$ 73,513,690	\$ 63,234,305
Accounts receivable, net	9,744,322	12,337,397
Due from others	210,109	404,569
Due from other governments	60,404	802,926
Interest receivable	1,083,977	1,086,131
Prepaid assets	923,059	851,165
	<u>85,535,561</u>	<u>78,716,493</u>
RESTRICTED CURRENT ASSETS		
Cash and investments:		
Water meter retrofit program	1,334,889	840,381
Current bond debt service	14,889,353	21,707,547
	<u>16,224,242</u>	<u>22,547,928</u>
Total Current Assets	<u>101,759,803</u>	<u>101,264,421</u>
RESTRICTED NONCURRENT ASSETS		
Cash and investments:		
Future bond debt service	33,633,502	33,633,502
Operations and maintenance	6,578,285	6,328,302
Renewal and replacement	10,000,000	10,000,000
Water rate stabilization	500,000	500,000
	<u>50,711,787</u>	<u>50,461,804</u>
NONCURRENT ASSETS		
Capital assets, not depreciated	122,870,084	111,758,439
Capital assets, depreciated	543,888,780	554,971,404
Deferred charges	1,058,344	1,088,622
	<u>667,817,208</u>	<u>667,818,465</u>
Total Noncurrent Assets	<u>718,528,995</u>	<u>718,280,269</u>
DEFERRED OUTFLOW OF RESOURCES		
Deferred amount on bond refundings	5,785,736	7,107,157
Total Assets and Deferred Outflow of Resources	<u>\$ 826,074,534</u>	<u>\$ 826,651,847</u>
LIABILITIES		
CURRENT LIABILITIES PAYABLE FROM UNRESTRICTED		
CURRENT ASSETS		
Accounts payable	\$ 1,371,109	\$ 1,540,382
Contracts and retention payable	1,716,856	1,544,660
Accrued liabilities	3,120,073	2,999,982
Due to other governments	1,665,413	1,833,489
Accrued interest payable	125,536	123,120
Current portion of long term debt	68,573,033	68,565,895
Customer deposits and amounts due to developers	1,549,282	1,512,591
	<u>78,121,302</u>	<u>78,120,119</u>
CURRENT LIABILITIES PAYABLE FROM RESTRICTED		
CURRENT ASSETS		
Current portion of long term debt	11,220,000	12,130,000
Interest payable	9,279,353	9,577,547
	<u>20,499,353</u>	<u>21,707,547</u>
Total Current Liabilities	<u>98,620,655</u>	<u>99,827,666</u>
NONCURRENT LIABILITIES		
Long-term debt, net of current portion	403,440,043	415,261,163
Total Liabilities	<u>502,060,698</u>	<u>515,088,829</u>
NET POSITION		
Net investment in capital assets	241,587,170	232,327,785
Restricted for water meter retrofit program	1,334,889	840,381
Restricted for debt service	5,610,000	12,130,000
Restricted for operations and maintenance reserve	1,978,285	1,728,302
Restricted for renewal and replacement reserve	10,000,000	10,000,000
Restricted for water rate stabilization	500,000	500,000
Unrestricted	63,003,492	54,036,550
Total Net Position	<u>324,013,836</u>	<u>311,563,018</u>
Total Liabilities and Net Position	<u>\$ 826,074,534</u>	<u>\$ 826,651,847</u>