



To: Board of Directors
From: Jeff Tissier, Chief Financial Officer
Date: September 28, 2015
Subject: **Presentation of TMWA Unaudited FY2015 Financial Performance**

Recommendation

The TMWA Board accepts the unaudited financial report for the fiscal year ended June 30, 2015.

Discussion

The purpose of this report is to provide a brief overview of TMWA’s financial performance for the fiscal year 2015. This report is being presented in advance of the annual audited financial statements to bring timely information to the board. The financial results for fiscal year 2015 include preliminary financial results from the consolidation of the Washoe County Water Utility (WCWU) and the South Truckee Meadows General Improvement District (STMGID) into TMWA. At the time of writing this report some consolidation accounting required finalization but such accounting elements are not material to the overall financial presentation in this report. Referenced in this report are the fiscal year 2015 Statement of Revenues, Expenses and Changes in Net Position, Actual to Budget and Statement of Net Position. The Statement of Cash Flows for the fiscal year is not presented since further financial closing work still needs to be completed.

For fiscal year 2015, TMWA is required to adopt Governmental Accounting Standard 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*. This adoption is not currently incorporated in the financial presentation to the Board since TMWA and its external auditors are finalizing interpretation of the actuarial analysis provided by Public Employer’s Retirement System of Nevada (NVPERS). This pronouncement requires TMWA to record its proportionate share of the net pension liability of NVPERS, any deferred outflows and inflows of financial resources and net pension expense. There is a high probability of insufficient audit evidence to support the amounts and disclosures contained in the basic financial statements which will result in a modified audit opinion for TMWA financial statements as a result of adoption of this pronouncement. In addition, due to the adoption of GASB 68, comparative financial statements will not be presented in the annual Comprehensive Annual Financial Report (CAFR) for fiscal year 2015. TMWA expects to record on the order of \$22+ million in net pension obligations on the Statement of Net Position.

Consolidated water utility financial performance for the fiscal year ended June 30, 2015 was excellent. Total operating revenues were approximately \$90.0 million, \$0.2 million, or 0.2% less than the revised consolidated operating revenue budget. This was an excellent result because consolidated water sale revenues anticipated to some degree demand shaving due to conservation efforts.

For fiscal year 2015 consolidated water sales were \$0.5 million or 0.6% greater than the revised consolidated water sales budget. This was the result of higher water demands in April which was mitigated by the implementation of conservation efforts in late spring/early summer in accordance to the board approved conservation plan. The effect of weather patterns on TMWA water sales cannot be underestimated. Hydroelectric revenues were \$0.9 million or 39.3% less than budget due to river flows declining rapidly in August 2014. The budget anticipated river flows, necessary to generate electricity, to fall off in late September. Other miscellaneous water sales were \$0.2 million or 9.6% greater than budget and were due to greater amounts of inspection fees for new business activities as residential building activity becomes more robust in the consolidated service area.

Total operating expenses before depreciation were approximately \$43.2 million, \$2.2 million or 4.8% less than the revised consolidated budget. This was an excellent result since the water utility consolidation brings a number of spending uncertainties. Lower spending was experienced on salaries, wages and benefits due to position vacancies. Spending on service and supplies was less due to lower than anticipated well-mitigation reimbursements and lower power costs. Lower spending on employee expenses was due to managing positions and lower than expected benefit spending was experienced on health care. TMWA as a consolidated water utility will be aggressively managing power expenses in the future.

Net non-operating expenses were over budget as a result of lower than planned investment income and greater bond/note issuance costs as result of bond issuance expenses incurred on the TMWA 2005 refunding. TMWA also had to record the refund to former STMGID customers as a non-operating expense since prior to the STMGID consolidation the STMGID Board approved refunds were not recorded on the first six months of STMGID financial activities. These refunds were also approved by the TMWA Board and incorporated in the consolidation closing documents.

Total capital contributions were \$ 3.2 million or 22.9% greater than planned as a result of greater residential construction activity in the service area. At the time of writing this report financial staff was still valuing developer dedicated infrastructure for the consolidated service area.

Spending on capital outlays and construction projects for the fiscal year ended June 30, 2015 was approximately \$26.1 million, \$4.1 million or 13.6% less than \$30.2 million of capital spending projected in the consolidated budget. The most significant construction project was the Fleish Hydroelectric Tunnel and flume tie in structures which was completed in the fourth quarter of fiscal year 2015 for \$6.1 million. Other construction

activities focused on rehabilitative construction spending on water mains, pump stations, certain treatment plant improvements, and well rehabilitation. Construction efforts in the former WCWU and STMGID service areas were beginning to ramp up in the latter part of the fourth quarter of fiscal year 2015.

Total cash and investments as of June 30, 2015 was approximately \$195.1 million of which approximately \$89.7 million was restricted by bond indenture requirements and conditions of the STMGID water utility consolidation. The remaining balance of \$105.4 million was available to pay for future operating and maintenance expenses, construction spending, future debt payments, and commercial paper redemptions. Unrestricted cash increased substantially year over year because of the transfer of the WCWU treasury into TMWA. Prior to the water utility consolidation, TMWA had \$63.2 million in unrestricted cash reserves. A subsequent event that will take place after fiscal year end will be the final transfer of treasury from the WCWU water utility. This amount is expected to be on the order of \$9.8 million which will be recorded as due from other governments.

STATEMENT OF REVENUES, EXPENSES AND CHANGES
 IN NET POSITION - ACTUAL TO BUDGET
 FOR THE FISCAL YEAR ENDED JUNE 30, 2015

| | TMWA | Consolidated | Variance | |
|---|---------------------|---------------------|------------------|---------------|
| | Consolidated | Budget | \$ | % |
| OPERATING REVENUES | | | | |
| Charges for water sales | \$ 86,186,695 | 85,685,423 | 501,272 | 0.6% |
| Hydroelectric sales | 1,366,786 | 2,251,551 | -884,765 | -39.3% |
| Other operating sales | 2,466,366 | 2,250,675 | 215,691 | 9.6% |
| Total Operating Revenues | 90,019,847 | 90,187,649 | -167,802 | -0.2% |
| OPERATING EXPENSES | | | | |
| Salaries and wages | 14,161,431 | 14,682,962 | 521,531 | 3.6% |
| Employee benefits | 5,954,742 | 6,764,173 | 809,431 | 12.0% |
| Services and supplies | 23,106,607 | 23,935,127 | 828,520 | 3.5% |
| Total Operating Expenses before Depreciation | 43,222,780 | 45,382,262 | 2,159,482 | 4.8% |
| Depreciation | 31,095,214 | 30,675,488 | (419,726) | -1.4% |
| Total Operating Expenses | 74,317,994 | 76,057,750 | 1,739,756 | 2.3% |
| Operating Income | 15,701,853 | 14,129,899 | 1,571,954 | 11.1% |
| NONOPERATING REVENUES (EXPENSES) | | | | |
| Investment earnings | 2,292,446 | 2,474,087 | (181,641) | -7.3% |
| Net increase in fair value of investments | 22,733 | 0 | 22,733 | N/A |
| Gain (Loss) on disposal of assets | (643,203) | 0 | (643,203) | N/A |
| Amortization of bond/note issuance costs | (1,132,755) | (920,714) | 212,041 | -23.0% |
| Interest expense | (21,688,411) | (21,573,822) | 114,589 | -0.5% |
| Other non-operating revenue | 307,343 | 300,000 | 7,343 | 2.4% |
| Refund to former STMGID customers | (1,916,972) | 0 | 1,916,972 | N/A |
| Other non operating expense | (887,003) | (900,000) | (12,997) | 1.4% |
| Total Nonoperating Revenues (Expenses) | (23,645,822) | (20,620,449) | 3,025,373 | -14.7% |
| Income (Loss) before Capital Contributions | (7,943,969) | (6,490,550) | 1,453,419 | -22.4% |
| CAPITAL CONTRIBUTIONS | | | | |
| Grants | 276,260 | 0 | 276,260 | N/A |
| Water meter retrofit program | 1,013,896 | 656,892 | 357,004 | 54.3% |
| Developer infrastructure contributions | - | 1,189,188 | (1,189,188) | -100.0% |
| Developer will-serve contributions (net of refunds) | 1,864,446 | 272,004 | 1,592,442 | 585.4% |
| Developer capital contributions-other | 1,588,158 | 520,980 | 1,067,178 | 204.8% |
| Developer facility charges (net of refunds) | 2,494,434 | 1,532,965 | 961,469 | 62.7% |
| Contributions from others | 9,698,535 | 9,605,400 | 93,135 | 1.0% |
| Net Capital Contributions | 16,935,729 | 13,777,429 | 3,158,300 | 22.9% |
| Change in Net Position | 8,991,760 | 7,286,879 | 1,704,881 | 23.4% |
| NET POSITION , BEGINNING OF YEAR | 577,052,330 | 554,392,607 | | |
| NET POSITON , END OF YEAR | 586,044,090 | 561,679,486 | | |

TRUCKEE MEADOWS WATER AUTHORITY
 CONSOLIDATED STATEMENT OF NET POSITION
 JUNE 30, 2015

| | |
|--|----------------------|
| CURRENT ASSETS | |
| Cash and investments | \$ 105,409,548 |
| Accounts receivable, net | 12,564,431 |
| Due from others | 89,566 |
| Due from other governments | 10,569,408 |
| Interest receivable | 1,304,308 |
| Inventory | - |
| Prepaid assets | 1,166,731 |
| | <u>131,103,992</u> |
| RESTRICTED CURRENT ASSETS | |
| Cash and investments: | |
| Water meter retrofit program | 1,754,200 |
| Current bond debt service | 20,499,353 |
| | <u>22,253,553</u> |
| Total Current Assets | <u>153,357,545</u> |
| RESTRICTED NONCURRENT ASSETS | |
| Cash and investments: | |
| Future bond debt service | 33,633,502 |
| Operations and maintenance | 7,563,710 |
| Renewal and replacement | 10,000,000 |
| Renewal and replacement reserve-consolidation | 15,737,089 |
| Water rate stabilization | 500,000 |
| | <u>67,434,301</u> |
| NONCURRENT ASSETS | |
| Capital assets, not depreciated | 143,988,738 |
| Capital assets, depreciated | 759,075,539 |
| Other assets | 582,043 |
| Deferred charges | 1,074,865 |
| | <u>904,721,185</u> |
| Total Noncurrent Assets | <u>972,155,486</u> |
| DEFERRED OUTFLOW OF RESOURCES | |
| Deferred amount on bond refundings | 5,735,255 |
| Total Assets and Deferred Outflow of Resources | <u>1,131,248,286</u> |
| LIABILITIES | |
| CURRENT LIABILITIES PAYABLE FROM UNRESTRICTED | |
| CURRENT ASSETS | |
| Accounts payable | 3,999,601 |
| Contracts and retention payable | 2,448,722 |
| Accrued liabilities | 4,106,784 |
| Due to other governments | 2,738,816 |
| Due to other governments-eliminations | - |
| Accrued interest payable | 125,473 |
| Current portion of long term debt | 95,961,520 |
| Customer deposits and amounts due to developers | 3,284,638 |
| | <u>112,665,554</u> |
| CURRENT LIABILITIES PAYABLE FROM RESTRICTED | |
| CURRENT ASSETS | |
| Current portion of long term debt | 11,220,000 |
| Interest payable | 9,455,394 |
| | <u>20,675,394</u> |
| Total Current Liabilities | <u>133,340,948</u> |
| NONCURRENT LIABILITIES | |
| Long-term debt, net of current portion | 411,863,248 |
| Long-term debt-eliminations | - |
| Total Liabilities | <u>545,204,196</u> |
| NET POSITION | |
| Net investment in capital assets | 467,766,405 |
| Restricted for water meter retrofit program | 1,754,200 |
| Restricted for debt service | 18,708,758 |
| Restricted for operations and maintenance reserve | 2,963,710 |
| Restricted for renewal and replacement reserve | 25,737,089 |
| Restricted for water rate stabilization | 500,000 |
| Unrestricted | 68,613,928 |
| | <u>586,044,090</u> |
| Total Liabilities and Net Position | <u>1,131,248,286</u> |