

**WATERLOO WATER AND LIGHT COMMISSION**

**Report to the City Council**

**April 7, 2016**

*The information in this presentation is taken from the  
Management Discussion and Analysis  
section of the 2015 Financial Statements*

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**MANAGEMENT'S DISCUSSION  
AND ANALYSIS**

# WATERLOO WATER AND LIGHT COMMISSION

## MANAGEMENT'S DISCUSSION AND ANALYSIS As of and for the Years Ended December 31, 2015 and 2014

The management of the Waterloo Water and Light Commission (utility) offers all persons interested in the financial position of the utility this narrative overview and analysis of the utility's financial performance during the fiscal years ending December 31, 2015 and 2014. You are invited to read this narrative in conjunction with the utility's financial statements.

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### FINANCIAL HIGHLIGHTS

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The following summarizes the operating results of each utility.

#### *ELECTRIC UTILITY EARNINGS*

Operating income increased from \$243,000 in 2014 to \$297,000 in 2015. Revenues decreased 2% as a result of a decrease in sales volume. Operating expenses decreased compared to the prior year by 3%. The rate of return increased from 4.60% to 6.83% in 2015.

#### *WATER UTILITY EARNINGS*

The water utility had an operating income of \$227,000 in 2015 compared to \$153,000 in 2014. Operating revenues increased by 4% compared to the previous year partially as a result of the rate increase implemented midway through 2015. The rate of return increased from 2.24% to 4.94% in 2015.

#### *SEWER UTILITY EARNINGS*

The sewer utility had an operating income in 2015 of \$231,000 compared to \$145,000 in 2014. Operating revenues increase by 7% due to higher usage in 2015 compared to 2014.

#### *DEBT COVERAGE*

The actual combined debt coverage for 2015 was 2.30 which exceeds the requirement of 1.25.

#### *OTHER ITEMS*

The utility implemented GASB Statement No. 68 in 2015, establishing a net pension asset and deferred outflows related to the pension on the Utility's Statement of Net Position.

# WATERLOO WATER AND LIGHT COMMISSION

## MANAGEMENT'S DISCUSSION AND ANALYSIS As of and for the Years Ended December 31, 2015 and 2014

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### OVERVIEW OF THE FINANCIAL STATEMENTS/USING THIS REPORT

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The Waterloo Water and Light Commission is an enterprise fund of the City of Waterloo. The purpose of the utility is to provide electric, water and sewer service to properties located within the municipality and selected areas outside the city.

This annual report consists of two parts: Management's Discussion and Analysis (this section) and the basic financial statements. The Waterloo Water and Light Commission is a self-supporting entity and follows enterprise fund reporting; accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Enterprise fund statements offer short- and long-term financial information about the activities and operations of the Waterloo Water and Light Commission.

- > The Statements of Net Position includes all of the Waterloo Water and Light Commission's assets, liabilities, deferred outflows of resources and net position, and provides information about the nature and amount of investments in resources and the obligations to creditors. This statement provides the basis for evaluating the capital structure and assessing the liquidity and financial flexibility of the Waterloo Water and Light Commission.
- > The Statements of Revenues, Expenses, and Changes in Net Position provide an indication of the Waterloo Water and Light Commission's financial health.
- > The Statements of Cash Flows report the cash provided and used by operating activities, as well as other cash sources such as investment income and cash payments for repayment of bonds and capital additions.

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### UTILITY FINANCIAL ANALYSIS

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An analysis of the utility's financial position begins with a review of the Statements of Net Position, and the Statements of Revenues, Expenses and Changes in Net Position report information. These two statements report the utility's net position and changes therein. The utility's net position – "the difference between assets, deferred outflows, and liabilities" is key to measuring the financial health of the utility. Over time, increases or decreases in the net position value are an indicator of whether the financial position is improving or deteriorating. However, it should be noted that the financial position can also be affected by other non-financial factors, including economic conditions, customer growth, climate conditions and new regulations.

# WATERLOO WATER AND LIGHT COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS  
As of and for the Years Ended December 31, 2015 and 2014

## UTILITY FINANCIAL ANALYSIS (cont.)

### CONDENSED STATEMENTS OF NET POSITION

	2013	2014	2015
<b>ASSETS AND DEFERRED OUTFLOWS</b>			
Unrestricted Cash and Investments	\$ 333,603	\$ 405,427	\$ 872,252
Customer Accounts Receivable	623,740	672,997	617,733
Restricted and Designated Assets	2,792,076	1,740,688	1,879,552
Other Assets and Deferred Outflows	266,809	353,954	343,561
Net Electric Plant	3,399,112	3,259,104	3,152,768
Net Water Plant	3,850,306	3,827,894	3,702,094
Net Sewer Plant	3,312,008	3,122,673	2,875,263
Total Assets and Deferred Outflows	14,577,654	13,382,737	13,443,223
<b>LIABILITIES</b>			
Long-Term Liabilities	5,675,207	5,366,867	4,997,336
Other Liabilities	2,085,843	1,165,559	1,133,520
Total Liabilities	7,761,050	6,532,426	6,130,856
<b>NET POSITION</b>			
Net Investment in Capital Assets	5,755,398	5,616,118	5,605,742
Restricted for:			
Debt Service	503,419	531,095	495,755
Equipment Replacement	662,355	669,815	755,795
Pension Asset	-	-	89,024
Unrestricted	(104,568)	33,283	366,051
<b>TOTAL NET POSITION</b>	<b>\$ 6,816,604</b>	<b>\$ 6,850,311</b>	<b>\$ 7,312,367</b>

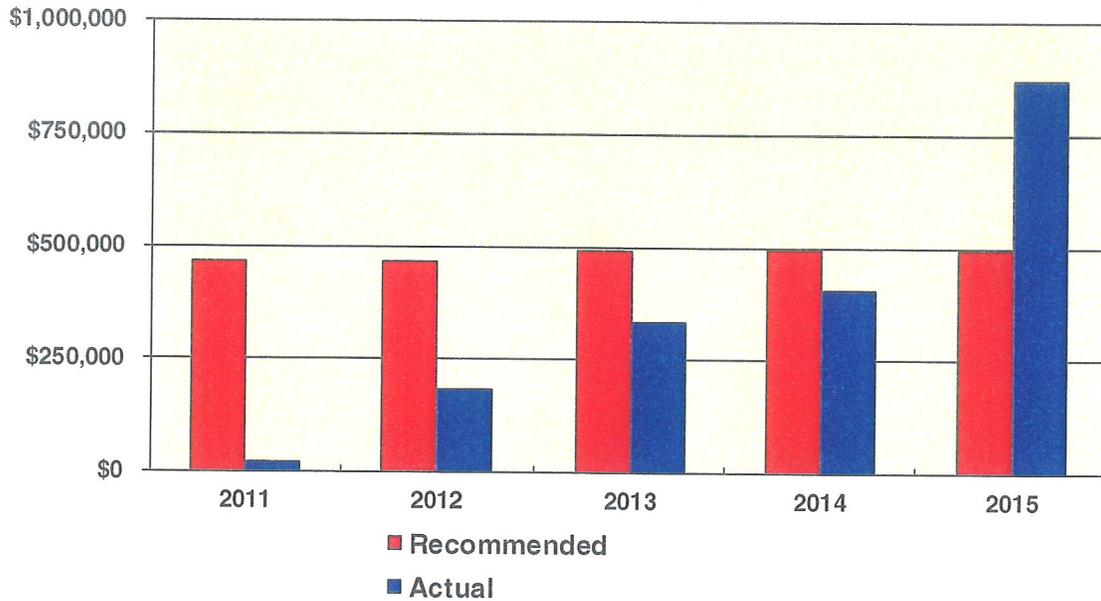
Most categories remained relatively stable in 2015 and 2014. As stated on page 3, the utility implemented GASB Statement No. 68 in 2015, establishing the net pension asset shown as restricted net position above.

# WATERLOO WATER AND LIGHT COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS  
As of and for the Years Ended December 31, 2015 and 2014

## UTILITY FINANCIAL ANALYSIS (cont.)

### UNRESTRICTED FUNDS ON HAND



**Unrestricted Funds on Hand  
Actual vs. Recommended  
2011 - 2014**

	2011	2012	2013	2014	2015
Minimum Funding Benchmark 1 Months Billings	<u>\$ 467,774</u>	<u>\$ 467,774</u>	<u>\$ 490,979</u>	<u>\$ 495,399</u>	<u>\$ 493,651</u>
Actual Funds on Hand	<u>\$ 22,301</u>	<u>\$ 181,582</u>	<u>\$ 333,603</u>	<u>\$ 405,427</u>	<u>\$ 872,252</u>
Months Billings on Hand	<u>0.0</u>	<u>0.39</u>	<u>0.68</u>	<u>0.82</u>	<u>1.77</u>

A utility should maintain funds to cover its operations in a normal business operating cycle (i.e. quarterly, monthly) plus a contingency. In addition, utilities should have available an amount equal to one year's capital improvements. These funding levels facilitate budgeting since there will be less concern for business cycle fluctuations.

This shows that the utility has had an increase in cash reserves in 2014 and 2015. The utility took out new debt in 2012 and 2013 in order to fund capital projects which combined with recent rate adjustments has allowed unrestricted funds on hand to increase to more acceptable levels.

# WATERLOO WATER AND LIGHT COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS  
As of and for the Years Ended December 31, 2015 and 2014

## UTILITY FINANCIAL ANALYSIS (cont.)

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

	2013	2014	2015
<b>OPERATING REVENUES</b>			
Electric	\$ 4,364,759	\$ 4,447,285	\$ 4,337,317
Water	571,759	615,514	643,039
Sewer	955,232	881,990	943,460
Total Operating Revenues	5,891,750	5,944,789	5,923,816
<b>OPERATING EXPENSES</b>			
Electric			
Operation and Maintenance	3,969,211	4,027,334	3,857,042
Depreciation	178,936	176,877	182,854
Total Electric	4,148,147	4,204,211	4,039,896
Water			
Operation and Maintenance	411,398	326,444	275,645
Depreciation	135,403	136,566	140,203
Total Water	546,801	463,010	415,848
Sewer			
Operation and Maintenance	431,540	463,780	450,498
Depreciation	237,572	273,517	262,392
Total Sewer	669,112	737,297	712,890
Total Operating Expenses	5,364,060	5,404,518	5,168,634
<b>OPERATING INCOME</b>			
Electric	216,612	243,074	297,421
Water	24,958	152,504	227,191
Sewer	286,120	144,693	230,570
Total Operating Income	527,690	540,271	755,182
<b>NON-OPERATING REVENUE</b>	11,871	11,330	10,858
<b>NON-OPERATING EXPENSES</b>	(265,298)	(125,373)	(116,624)
Income Before Contributions and Transfers	274,263	426,228	649,416
<b>CAPITAL CONTRIBUTIONS</b>	375,211	1,560	24,613
<b>OPERATING TRANSFER OUT</b>	(139,131)	(146,337)	(148,055)
<b>TRANSFERS - TAX EQUIVALENT</b>	(270,227)	(247,744)	(242,855)
<b>CHANGE IN NET POSITION</b>	\$ 240,116	\$ 33,707	\$ 283,119
Cumulative effect of a change in accounting principle	\$ -	\$ -	\$ 178,937

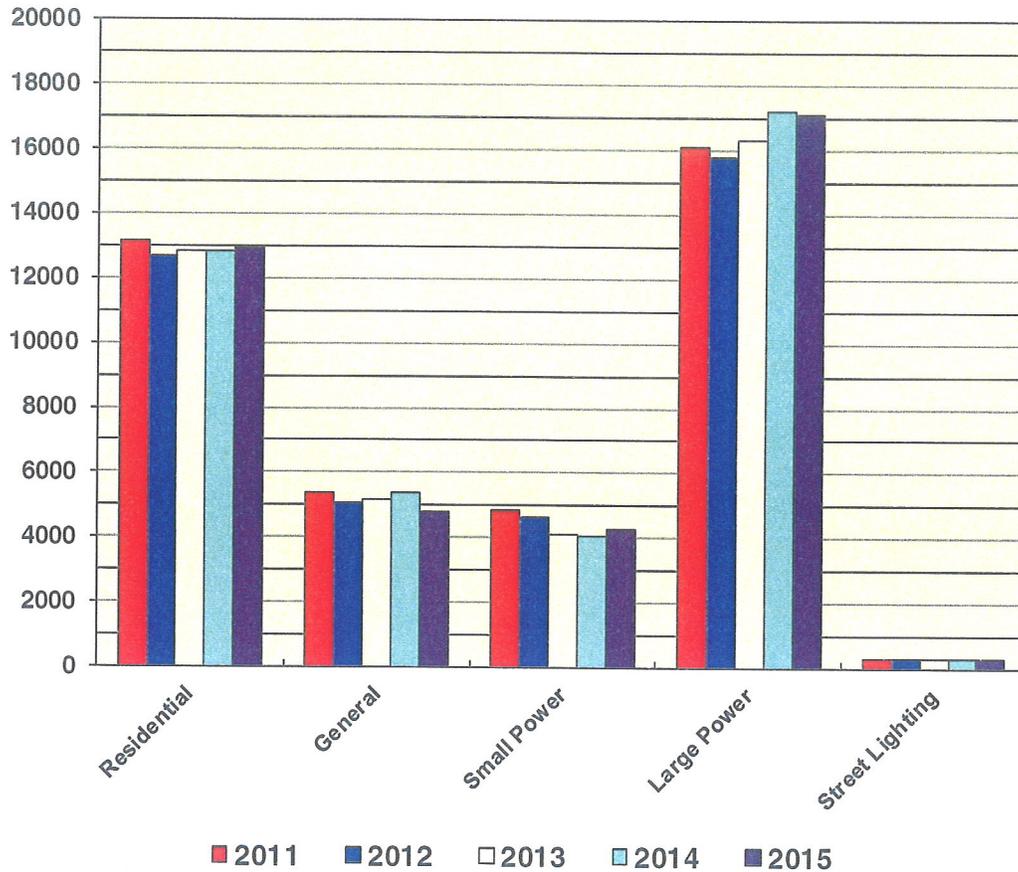
See Independent Auditors' Report

# WATERLOO WATER AND LIGHT COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS  
As of and for the Years Ended December 31, 2015 and 2014

## UTILITY FINANCIAL ANALYSIS (cont.)

### Electric Sales



### Electric Sales (000 kWh Sold)

	2011	2012	2013	2014	2015
Residential	13,170	12,672	12,829	12,846	12,962
General	5,362	5,048	5,162	5,383	4,831
Small Power	4,837	4,657	4,138	4,094	4,287
Large Power	16,112	15,790	16,337	17,219	17,088
Street Lighting	329	310	305	305	305
<b>Total</b>	<b>39,810</b>	<b>38,477</b>	<b>38,771</b>	<b>39,847</b>	<b>39,473</b>

Residential and small power had a slight increase in usage in 2015 while general and large power had a small decrease in usage. The fluctuations are due to weather patterns.

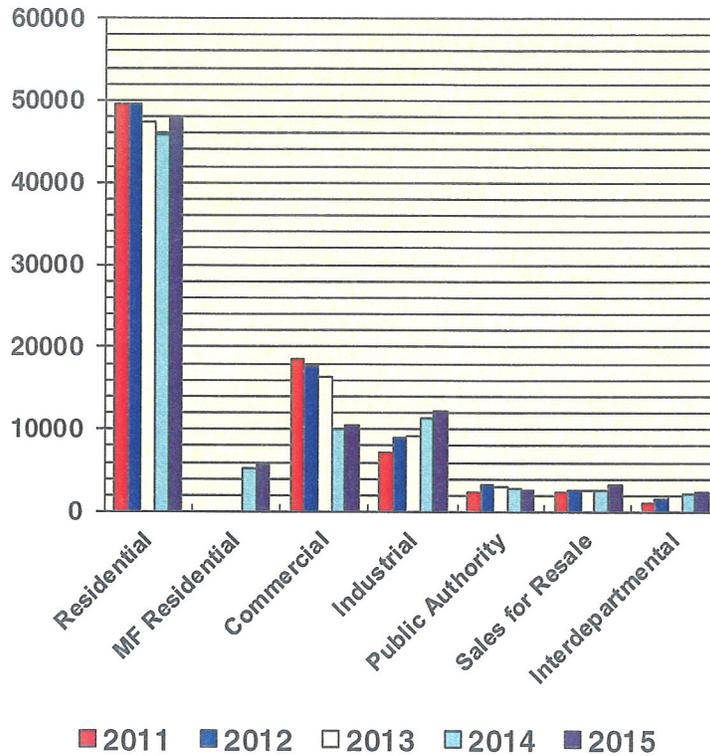
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# WATERLOO WATER AND LIGHT COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS  
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## UTILITY FINANCIAL ANALYSIS (cont.)

### Water Sales



### Water Sales (000s Gallons Sold) By Customer Class

	2011	2012	2013	2014	2015
Residential	49,578	49,616	47,328	45,753	48,000
Multi-family Residential	-	-	-	5,168	5,582
Commercial	18,663	17,742	16,429	10,023	10,413
Industrial	7,202	9,002	9,115	11,288	12,194
Public Authority	2,429	3,378	3,082	2,787	2,571
Sales for Resale (Portland)	2,386	2,593	2,546	2,655	3,203
Interdepartmental	1,184	1,511	1,972	2,285	2,495
<b>Total</b>	<b>81,442</b>	<b>83,842</b>	<b>80,472</b>	<b>79,959</b>	<b>84,458</b>

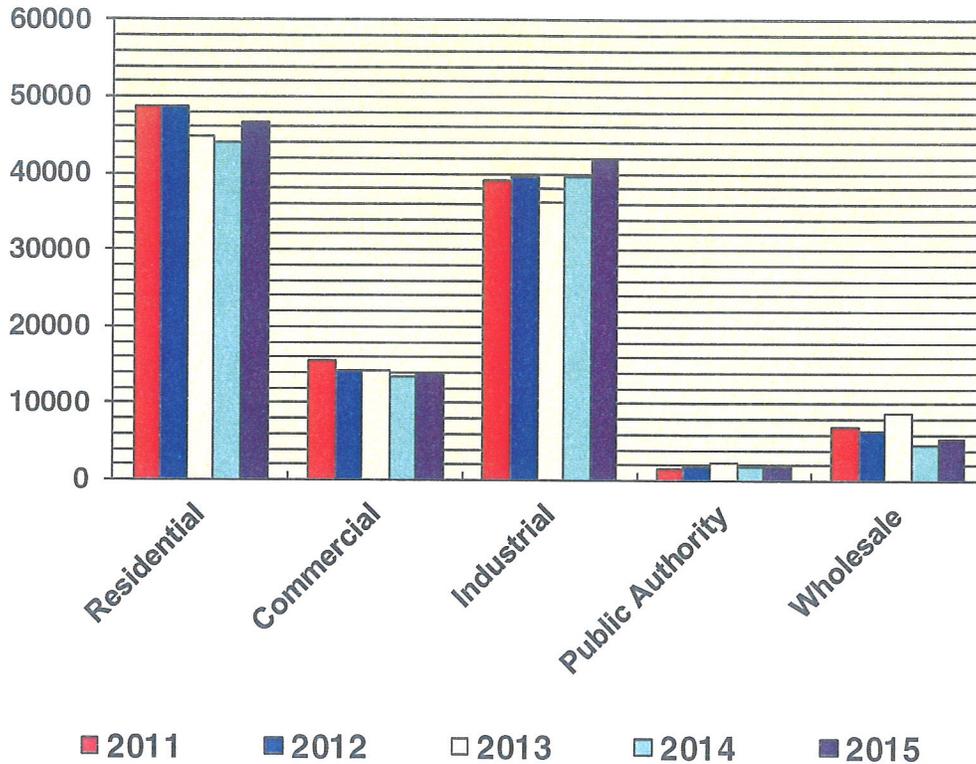
Prior to 2014, the Multi-family residential class was combined with the Commercial class. Water sales by customer class remained consistent with the prior year with slight increases and decrease due to yearly fluctuations. The large increase in Residential sales was due to additional customers in 2015.

# WATERLOO WATER AND LIGHT COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS  
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## UTILITY FINANCIAL ANALYSIS (cont.)

### Sewer Sales



### Sewer Revenues (000s Gallons Billed) By Customer Class

	2011	2012	2013	2014	2015
Residential	48,795	48,730	44,868	44,150	46,674
Commercial	15,497	14,295	14,277	13,579	13,870
Industrial	39,076	39,727	36,178	39,675	41,946
Public Authority	1,676	1,915	2,248	1,896	1,901
Wholesale (Portland)	7,101	6,426	8,752	4,790	5,391
Total	112,145	111,093	106,323	104,090	109,782

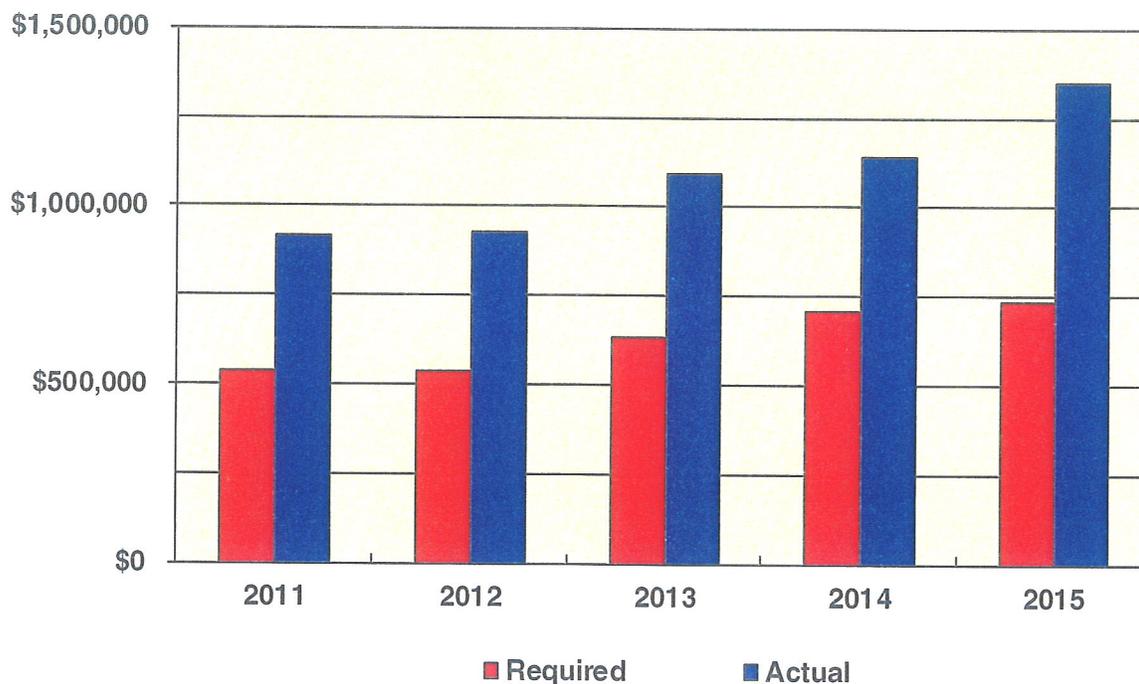
Since water revenues increase in 2015 it is expected that sewer sales would also increase due to normal fluctuations and additional customers.

## WATERLOO WATER AND LIGHT COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS  
As of and for the Years Ended December 31, 2015 and 2014

### UTILITY FINANCIAL ANALYSIS (cont.)

#### Debt Coverage



#### Debt Coverage Actual vs. Required

	2011	2012	2013	2014	2015
Required Net Earnings	<u>\$ 536,713</u>	<u>\$ 539,598</u>	<u>\$ 634,610</u>	<u>\$ 708,079</u>	<u>\$ 733,240</u>
Actual Net Earnings	<u>\$ 913,878</u>	<u>\$ 929,521</u>	<u>\$ 1,091,472</u>	<u>\$ 1,138,561</u>	<u>\$ 1,351,489</u>
Times Coverage	<u>2.13</u>	<u>2.15</u>	<u>2.15</u>	<u>2.01</u>	<u>2.30</u>

Under terms of the bond resolutions, revenues must be sufficient to pay operation and maintenance expenses and revenue bond debt service. The excess of actual net earnings over required net earnings represents additional borrowing power.

# WATERLOO WATER AND LIGHT COMMISSION

## MANAGEMENT'S DISCUSSION AND ANALYSIS As of and for the Years Ended December 31, 2015 and 2014

### UTILITY FINANCIAL ANALYSIS (cont.)

#### *Consolidated Statements of Cash Flows*

	2013	2014	2015
<b>Cash Flow From:</b>			
Operating Activities	\$ 1,067,489	\$ 1,122,801	\$ 1,427,650
Investing Activities	50,204	16,865	(290,074)
Capital and Related Financing Activities			
Capital Improvements	(200,546)	(313,180)	(129,632)
Debt Service	(2,145,729)	(1,490,499)	(586,594)
Debt Issue	2,268,773	-	-
Contributions in aid of construction	-	-	43,353
Other Capital and Related Financing	370,798	866	400
Noncapital Financing Activities	<u>(373,828)</u>	<u>(309,768)</u>	<u>(247,744)</u>
Net Change in Cash and Cash Equivalents	1,037,161	(972,915)	217,359
 Cash and Cash Equivalents - Beginning of the Year	 <u>1,370,719</u>	 <u>2,407,880</u>	 <u>1,434,965</u>
 <b>Cash and Cash Equivalents - End of the Year</b>	 2,407,880	 1,434,965	 1,652,324
 Long-Term Investments	 <u>712,731</u>	 <u>706,082</u>	 <u>1,005,388</u>
 <b>Total Cash and Investments</b>	 <u>\$ 3,120,611</u>	 <u>\$ 2,141,047</u>	 <u>\$ 2,657,712</u>

Overall cash flows have been increasing due to increasing rates, debt issues, and contributions for capital projects. The increase in 2013 was the result of refunding the 2002 bonds and a decrease in capital projects compared to the prior year. Conversely, when the proceeds of the 2013 bonds were used to pay off the 2002 bonds in 2014, it resulted in a significant cash outflow.

Cash flows from operating activities increased during 2015 and 2014 as a result of rate increases.

Cash flows from investing activities result mainly from the purchase and sale of long-term investments and investment income. The increase in 2013 is the result of shifting funds that were previously invested in CDs to money markets in order to remain in compliance with the investment policy.

The cash flows from capital and related financing activities are related to new debt in 2013, debt payments, main replacement projects, and completing the upgrade of the sludge treatment equipment at the wastewater treatment plant.

### **CAPITAL ASSETS**

Details of utility capital assets are shown in Note 5 to the financial statements.

# WATERLOO WATER AND LIGHT COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS  
As of and for the Years Ended December 31, 2015 and 2014

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## **LONG-TERM DEBT**

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Details of the existing debt are included in Note 6.

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## **CURRENTLY KNOWN FACTS/ECONOMIC CONDITIONS**

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The utility continues to monitor the adequacy of retail rates. Electric and water rates increased in 2015. Increases in rates were designed to improve the utilities cash flow and rate of return and to meet debt coverage requirements.

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## **CONTACTING UTILITY'S FINANCIAL MANAGEMENT**

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This financial report is designed to provide our customers, investors and creditors with a general overview of the utility's finances. If you have questions about this report, or need additional financial information, contact the utility office at 575 Commercial Avenue, Waterloo, Wisconsin 53594.