

**PORTION OF WATERLOO WATER AND LIGHT UTILITY
AUDIT REPORT**

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

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WATERLOO WATER AND LIGHT COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS As of and for the Years Ended December 31, 2011 and 2010

The management of the Waterloo Water and Light Commission 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, 2011 and 2010. You are invited to read this narrative in conjunction with the utility's financial statements.

FINANCIAL HIGHLIGHTS

The following summarizes the operating results of each utility.

ELECTRIC UTILITY

Operating income increased from \$177,000 in 2010 to \$321,000 in 2011. Revenues increased 4%, as a result of having the new electric rates for a full year despite a slight decrease in the volume of electricity sold. At the same time, operating expenses increased less than 1% during 2011. The rate of return increased from 2.65% to 7.14% for 2011.

WATER UTILITY

The water utility had an operating income of \$63,000 in 2011 compared to \$66,000 in 2010. While the volume of water sold increased slightly, revenues increased by 7% with a full year of the new rates. Overall operating and maintenance expenses increased by 9% and the PILOT increased by 13% and now makes up 18% of the utility's costs, excluding debt service. The water utility continues to earn a negative rate of return, (0.78)% for 2011, which is notably below the authorized rate of return of 3.0%. The combination of increasing costs, ongoing capital projects and flat sales may require management to review water rates in the near future.

SEWER UTILITY

The sewer utility had an operating loss of \$1,000 in 2011 compared to operating income of \$14,000 in 2010. Operating revenues increased 2% due to an increase in the volume charge late in the year while operating expenses increased by 4%. We understand that the sufficiency of rates will be reviewed in 2012 with the planned sludge project and to ensure compliance with the debt coverage requirements of the proposed Clean Water Fund Loan.

OTHER ITEMS

The utility continued to complete annual water and electric distribution system replacement projects in both 2010 and 2011. In addition during 2011 the sewer utility completed the preliminary engineering for sludge storage upgrades at the treatment plant.

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OVERVIEW OF THE FINANCIAL STATEMENTS/USING THIS REPORT

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 Assets includes all of the Waterloo Water and Light Commission's assets and liabilities 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 Assets 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

An analysis of the utility's financial position begins with a review of the Statements of Net Assets, and the Statements of Revenues, Expenses and Changes in Net Assets report information. These two statements report the utility's net assets and changes therein. The utility's net assets – 'the difference between assets and liabilities' is key to measuring the financial health of the utility. Over time, increases or decreases in the net asset 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
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UTILITY FINANCIAL ANALYSIS (cont.)

Condensed Statements of Net Assets

	<u>2009</u>	<u>2010</u>	<u>2011</u>
ASSETS			
Unrestricted Cash and Investments	\$ 118,720	\$ 44,881	\$ 22,301
Customer Accounts Receivable	505,359	549,234	575,747
Restricted and Designated Assets	1,230,491	1,068,736	1,089,245
Other Assets	575,909	615,232	576,751
Net Electric Plant	3,632,513	3,538,320	3,433,474
Net Water Plant	4,021,947	4,127,193	4,043,310
Net Sewer Plant	<u>2,345,201</u>	<u>2,168,698</u>	<u>2,081,192</u>
Total Assets	<u>12,430,140</u>	<u>12,112,294</u>	<u>11,822,020</u>
LIABILITIES			
Long-Term Liabilities	4,390,321	4,149,435	3,888,714
Other Liabilities	<u>850,358</u>	<u>909,057</u>	<u>912,009</u>
Total Liabilities	<u>5,240,679</u>	<u>5,058,492</u>	<u>4,800,723</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	5,858,042	5,926,408	5,891,481
Restricted	1,201,236	1,005,088	1,061,750
Unrestricted	<u>130,183</u>	<u>122,306</u>	<u>68,066</u>
TOTAL NET ASSETS	<u>\$ 7,189,461</u>	<u>\$ 7,053,802</u>	<u>\$ 7,021,297</u>

Most categories remained relatively stable in 2011 and 2010. Capital additions were discussed on page 3 and cash decreases are discussed on page 12.