



Financial Services Audit Committee Communication

Date: June 15, 2018

To: Great Lakes Water Authority Audit Committee
Nicolette Bateson, CPA, Chief Financial Officer/Treasurer

From: Steve Hoover, Financial Reporting Manager

Re: April 30, 2018 Interim Monthly Financial Report (Unaudited)

Background: The Interim Monthly Financial Report (unaudited) provides information and analysis related to the financial performance of the Great Lakes Water Authority (GLWA). The monthly report is accounted for on a full accrual basis with the exception of certain items below which are adjusted at year-end only.

1. Balance sheet only reclassification
 - a. Restricted versus unrestricted cash
 - b. Construction work in progress (CWIP) versus closed projects
 - c. Deferred Pension versus net pension liability
 - d. No delineation between current versus noncurrent assets
2. Non-cash reclassification between expenses versus assets or liabilities
 - a. Interest expense versus capitalized interest on CWIP
 - b. Wages expense versus adjustments to accrued compensated absences
 - c. Fringe benefits versus adjustments to accrued worker's compensation
 - d. CWIP is shown as an expense for budgetary monitoring

It should be noted that this is the first monthly interim GLWA financial report that moves toward a full accrual basis. Several of the above classification matters will be addressed in future months as our month-end close process continues to mature.

Analysis: See attached report.

Proposed Action: Receive and file report.

Statement of Net Position (Unaudited)
As of April 30, 2018

	Water	Sewage Disposal	Total Business-type Activities	Comparative June 30, 2017
Assets				
Cash	\$ 352,583,517	\$ 279,040,920	\$ 631,624,438	
Investments	249,180,913	292,876,643	542,057,556	
Accounts Receivable	113,490,051	68,142,263	181,632,314	
Due from Other Funds	24,419,658	34,624,548	59,044,206	
Other Assets	527,839,598	387,888,098	915,727,696	
Fixed Assets	1,920,177,913	2,715,697,183	4,635,875,095	
Deferred Inflow	116,733,775	226,975,079	343,708,854	
Total Assets	\$3,187,691,650	\$3,778,269,655	\$6,965,961,305	\$7,397,336,050
Liabilities				
Liabilities – Short-Term	\$ 218,581,911	\$ 186,798,777	\$ 405,380,688	
Due to Other Funds	20,673,914	38,370,292	59,044,206	
Other Liabilities	2,573,982	5,985,734	8,559,715	
Liabilities – Long-Term	3,060,888,538	3,842,779,627	6,903,668,165	
Deferred Outflow	66,494,373	59,033,220	125,527,593	
Total Liabilities	\$3,302,718,345	\$4,073,934,429	\$7,376,652,774	\$7,500,171,043
Net Assets (Deficit)	(\$ 64,787,292)	(\$127,722,915)	(\$192,510,208)	(\$102,834,993)

Net position is defined by the accounting standards as the residual of all other elements presented in a statement of financial position. It is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. A net deficit occurs when the liabilities and deferred inflows exceed assets and deferred outflows. For GLWA, deferred inflows and deferred outflows generally relate to financing activity and GLWA's share of the GRS pension obligation.

Statement of Revenues, Expenses and Changes in Net Position (Unaudited)
For the Ten Months ended April 30, 2018

	Water	Sewage Disposal	Total Business-type Activities	Year Ended June 30, 2017
Revenue				
Wholesale customer charges	\$268,107,558	\$226,193,000	\$494,300,558	
Industrial waste charges	-	11,949,734	11,949,734	
Local system charges (DWSD)	12,608,830	149,141,000	161,749,830	
Other nonoperating revenue/(expense)	(1,506,554)	(2,248,980)	(3,755,534)	
Other revenue	50,343	3,748,889	3,799,232	
Pollutant surcharges	-	5,038,642	5,038,642	
Total Revenue	\$279,260,177	\$393,822,284	\$673,082,461	\$857,557,026
Operating Expenses				
Chemicals	3,948,552	6,686,037	10,634,589	
Contractual services	31,852,382	51,015,737	82,868,119	
Employee Benefits Group	(2,267,802)	-	(2,267,802)	
Personnel - Benefits	11,668,470	7,427,860	19,096,330	
Personnel - Overtime	2,672,538	2,606,207	5,278,745	
Personnel - Salaries & Wages	21,268,902	33,256,501	54,525,403	
Supplies and other	8,136,755	14,494,212	22,630,967	
Utilities - Electric	20,969,547	12,863,306	33,832,853	
Utilities - Gas	892,261	4,563,301	5,455,562	
Utilities - Sewage	331,427	823,901	1,155,328	
Utilities - Water	1,558	3,230,550	3,232,108	
Capital program allocation	(427,158)	(643,236)	(1,070,394)	
Shared services allocation	(6,167,744)	(40,564)	(6,208,308)	
Operating Expenses	92,879,688	136,283,812	229,163,500	283,049,215
Depreciation	120,096,813	156,105,914	276,202,727	329,766,377
Total Operating Expenses	212,976,501	292,389,726	505,366,227	582,815,592
Operating Income	(66,283,676)	(101,432,559)	(167,716,235)	274,741,434
Nonoperating (Revenues)/ Expenses				
(Gain) loss on disposal of assets	6,225	853	7,078	
<i>Interest income local*</i>	<i>(19,464,206)</i>	<i>(12,921,083)</i>	<i>(32,385,290)</i>	
Investment earnings	(5,323,994)	(4,899,852)	(10,223,846)	
Other nonoperating revenue	(47,648)	2,022	(45,626)	
<i>Interest expense*</i>	<i>112,462,552</i>	<i>126,541,304</i>	<i>239,003,856</i>	
<i>CWIP expense*</i>	<i>18,550,774</i>	<i>49,769,470</i>	<i>68,320,245</i>	
Other	11,586,884	(4,301,920)	7,284,964	
Net Nonoperating Expense	94,596,819	162,794,634	257,391,453	174,600,651
Change in Net Position (Increase) Decrease	\$ (28,313,143)	\$(61,362,075)	\$(89,675,219)	\$(102,834,993)

An "*" denotes categories where year-end reclassifications from a portion of expenses to Net Assets will occur.

Financial Highlights

Water Fund

Wholesale water customer charges of \$268.1 million account for 96.0% of Water System revenues.

Operating expenses of \$212.9 million represent 76.3% of total operating revenue. Depreciation is the largest operating expense at \$120.1 million or 56.4% of operating expense. The remaining 43.6% of operating expenses is allocated among seven categories as shown below.

Water Operating Expenses, excluding depreciation	Amount	Percent of Operating Expenses
Personnel	\$ 33,342,108	15.7%
Contractual services	31,852,382	15.0%
Utilities	22,194,793	10.4%
Chemicals	3,948,552	1.9%
Supplies and other expenses	8,136,755	3.8%
Capital program allocation	(427,158)	-0.2%
Shared services allocation	(6,167,744)	-2.9%
Total Nonoperating expenses, excluding depreciation	\$92,879,688	43.6%

The largest category of nonoperating activities is interest expense of \$112.4 million. This expense is currently reported in gross but will be reviewed for partial capitalization at the end of the fiscal year related to CWIP. Interest expense before capitalization is largely attributable to debt service with the remainder related to the Water Lease and obligation payable.

Operating income after operating expenses (including depreciation) equals \$66.2 million or 23.7% of operating revenue.

Sewage Disposal Fund

Wholesale customer charges of \$226.1 million account for 57.4% of Sewer System revenues. Wholesale customer charges are based on a "share" percentage of the annual budget billed one-twelfth each month. The shares are established based upon historical flows and are formally revisited every five years. The result is no revenue shortfall or overestimation.

Local system (DWSD) revenues of \$149.1 million account for 37.8% of total operating revenues.

The remaining 4.7% of revenue is due to other charges such as industrial waste charges, pollutant surcharges which are charged to non-residential users.

Operating expenses of \$292.3 million represent 74.2% of total operating revenue. Depreciation is the largest operating expense at \$156.1 million or 53.4% of total operating expense. The remaining 46.6% of operating expenses is allocated among seven categories as shown below.

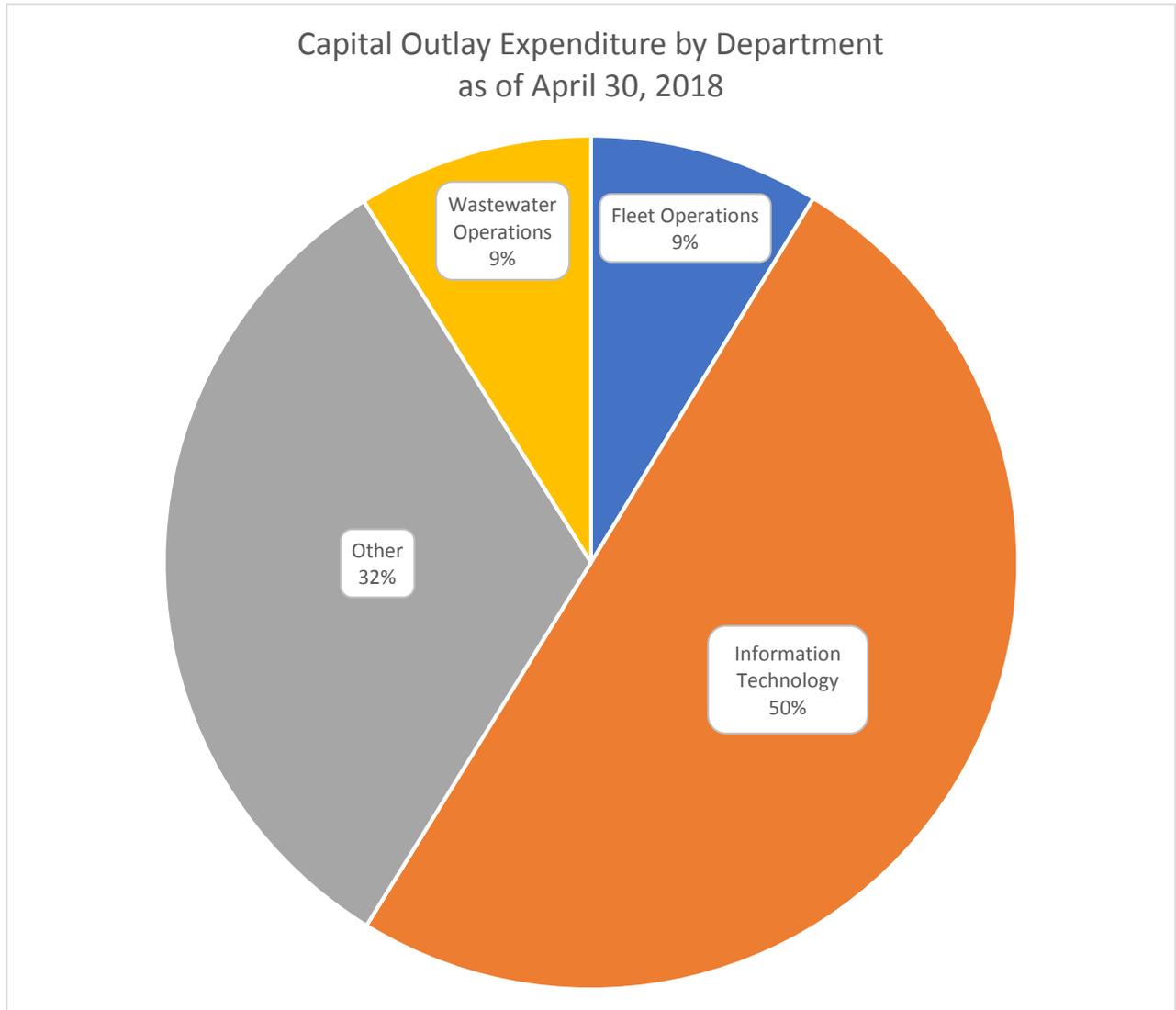
Balance of Sewer Operating Expenses	Amount	Percent of Operating Expenses
Personnel	\$ 43,290,568	14.8%
Contractual services	51,015,737	17.4%
Utilities	21,481,058	7.3%
Chemicals	6,686,037	2.3%
Supplies and other expenses	14,494,212	5.0%
Capital program allocation	(643,236)	-0.2%
Shared services allocation	(40,564)	0.0%
	\$136,283,812	46.6%

The largest category of nonoperating activities is interest expense of \$126.5 million which is currently reported in gross and is reviewed for possible capitalization at the end of the fiscal year. Interest expense before capitalization is largely attributable to debt service with the remainder related to the Sewer Lease and obligation payable.

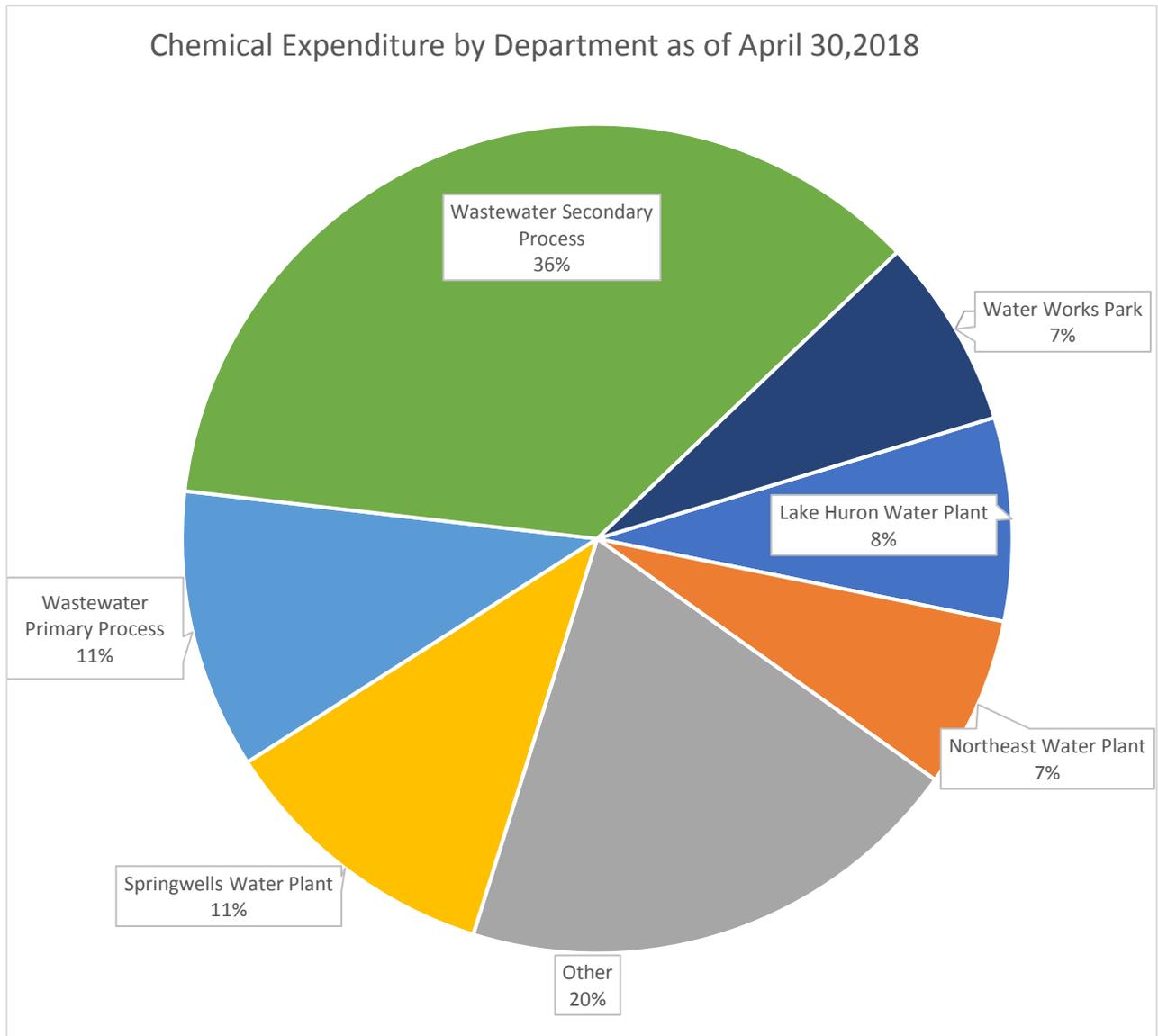
Operating income after operating expenses (including depreciation) equals \$101.4 million or 25.7% of operating revenue.

Other Analysis

Capital Outlay spend is \$6,118,537 through April 30, 2018. The allocation is shown in the table below.

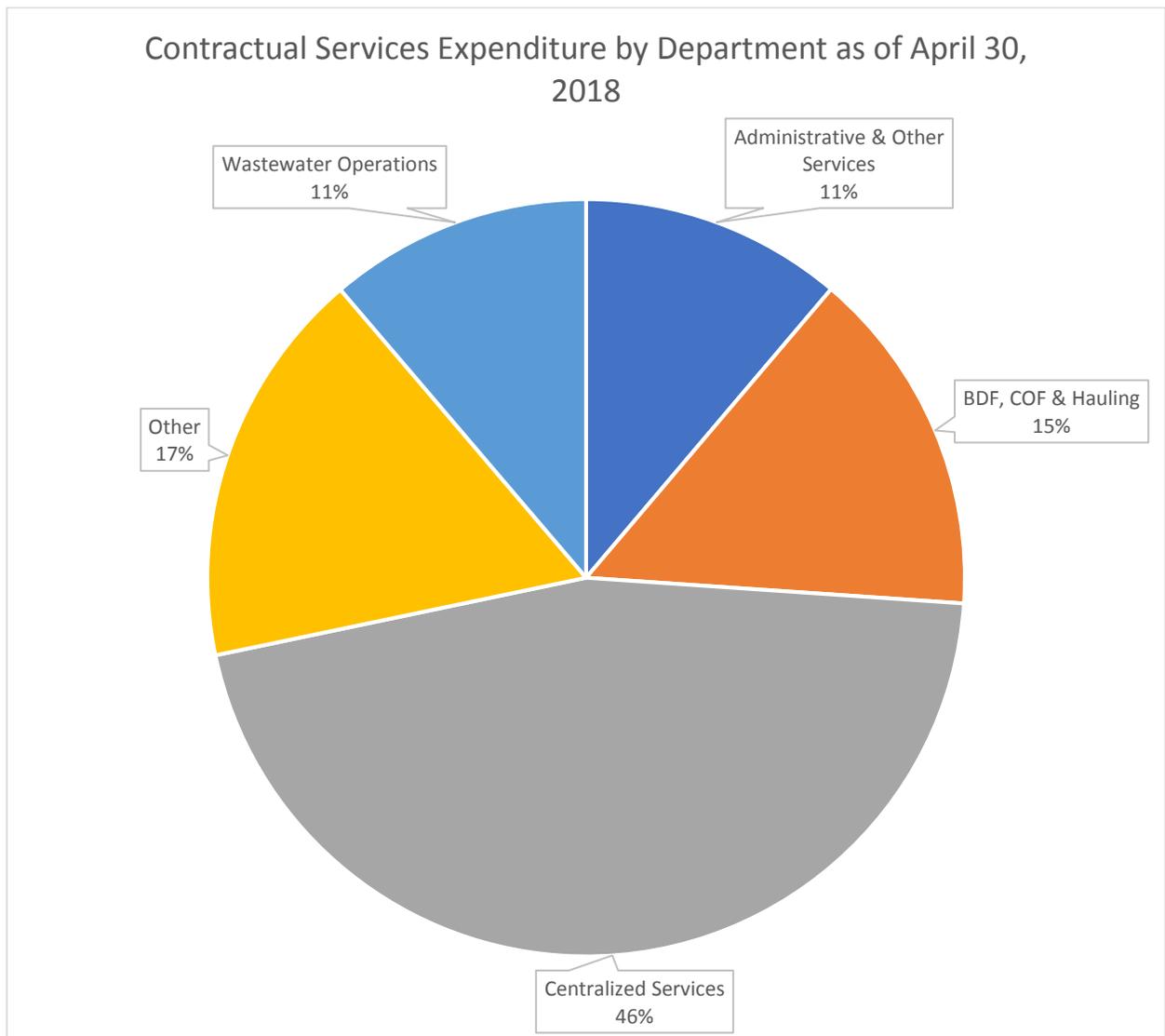


Chemical spend is \$10,634,589 through April 30, 2018. The allocation is shown in the table below.



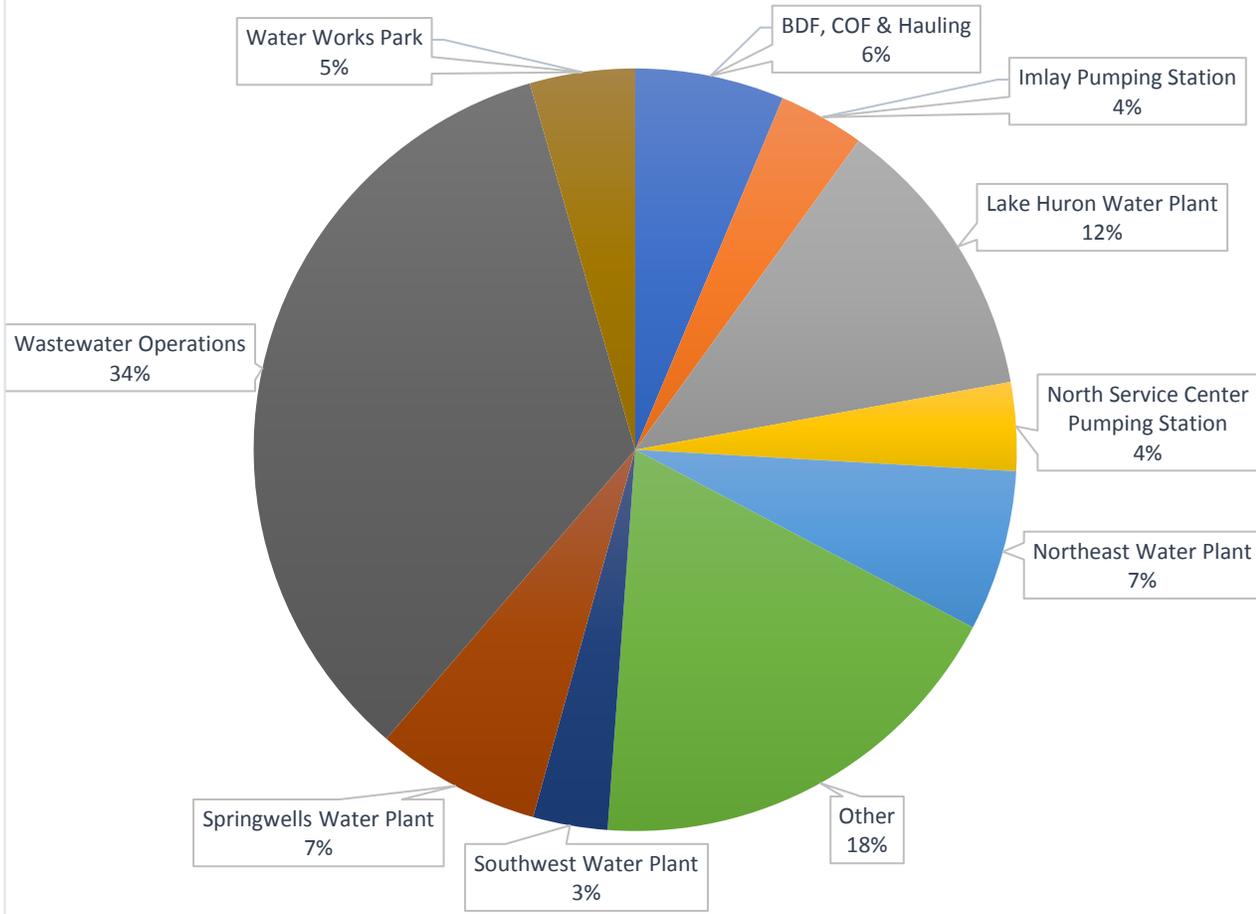
“Other” includes CSO, portions of the Wastewater process and two cost centers from Water.

Contractual services spend is \$82,868,119 through April 30, 2018. The allocation is shown in the table below.



Utility spend is \$43,675,851 through April 30, 2018. The allocation is shown in the table below.

Utility Expenditure by Department as of April 30, 2018



BDF: Biosolids Dryer Facility
COF: Central Offloading Facility

A measure of progress made in the month-end close process is that bank reconciliations are prepared soon after month end. The in-process items for April 2018 in the chart below represent adjusting entries and other reconciling items which have either been subsequently cleared or are under review.

