

## Water and Sewer Funds

Last fiscal year when the City's external financial auditor made his presentation, he mentioned that he was close to issuing a going concern qualification for the City's water and sewer enterprise funds.

The going concern principle is the assumption that a business will continue in the future, unless there is evidence to the contrary. When an auditor conducts an examination of the accounting records of a business enterprise, he/she has an obligation to review its ability to continue as a going concern. If the assessment is that there is a substantial doubt regarding the business's ability to continue in the future, a going concern qualification must be included in the audit opinion of the business's financial statements.

For many years, the City had experienced negative trends when it came to its water and sewer funds. Both staff and the City's auditors had provided financial information to Council, which showed operating losses for at least the last 5 years. In addition, the consultant that was hired to perform the City's water and sewer rate study, came to the same conclusions. The City's funds would run out of money.

A going concern qualification is of great concern to lenders, since it is a major indicator of the inability of a business to pay back its debts. If a going concern qualification would have been issued on the City's water and sewer funds, it is likely that the City may not have been able to move forward with its refundings and perhaps the sewer loan that was received.

However, an auditor's going concern qualification may be mitigated by management if it has a plan to counteract the problem. City Council has made some very difficult decisions over the last year regarding water and sewer rates. If Council would have not taken action, the water and sewer funds would be in jeopardy and the auditors would have issued a going concern qualification. Staff believes that Council did the right thing by raising the rates, which is responsible financial management.

Many don't understand the reason for the rate increase. However it is quite simple: Rates had to be increased to ensure the funds remained solvent; to ensure there would be enough cash for operations so that the City can continue to provide water and sewer services and to begin reserving cash for replacement and repair of capital assets. This is a big deal. Last year, Council was provided with a list of the City's water and sewer capital assets and what reserves should be.

### Very Conservative Estimates using only a 2% inflation factor:

<b>Water Capital Assets:</b>	<b>\$117 million</b>	
Capital Reserves at 6/30/17:	\$1.1 million	\$3 million in lieu of fees (for future WTP project)
Reserves necessary at 6/30/17:	\$19-27 million	-17.9
6 mos Cash for operations at 6/30/17:	\$4.6 million	
<b>Sewer Capital Assets:</b>	<b>\$40 million</b>	
Capital Reserves at 6/30/17:	\$7.2 million	
Reserves necessary at 6/30/17:	\$12-18 million	-4.8
6 mos Cash for operations at 6/30/17:	\$1.4 million	