

# Financial Statement Workshop, Part Two

Business & Finance and Audit & Ethics Committees  
Workshop  
November 23, 2010

# Supplemental Agenda

- Metropolitan's Trial Balance
- Water Sales/Accounts Receivable Process
- Financial Statement Walk-through
  - Capital Assets
  - Cash and Investments
  - Pension and OPEB
  - Short and Long-term Debt
  - Interest Rate Swaps

# Metropolitan's Trial Balance

- Represents a collection of accounts
  - Assets: 10000 series
  - Liabilities: 20000 series
  - Revenues: 30000 series
  - Expenses: 40000 series
- Most accounts have sub-accounts. For example, each revenue bond outstanding has its own sub-account under account number 22210: currently, accounts 22210-44 through 22210-69

# Metropolitan's Trial Balance (continued)

- Entries are processed throughout the month to increase and decrease balances in each account
  - Routine transactions are the result of automated interfaces from subsidiary systems, such as
    - Accounts Payable
    - Payroll
    - Water Information System (WINS)
  - Non-routine transactions result from manual journal entries, such as
    - Estimates
    - Bond issuances

# Metropolitan's Trial Balance (continued)

- The general ledger is closed each month
  - Cash is closed in 2 business days
  - Accrual is closed in 5 business days
  - Accounts are reviewed and reconciled
  - Routine and non-routine entries are processed
  - Monthly, quarterly and annual financial statements are created by aggregating the accounts into financial statement captions

# Water Sales/Accounts Receivable Process

- WINS is the repository of substantially all water-related data and is used by:
  - Water System Operations
    - Meter Operators look at it daily
    - Program Managers monitor their specialized programs (such as agricultural programs) and member agency activity on a monthly basis

# Water Sales/Accounts Receivable Process (continued)

- Water Resources Management
  - Program Managers monitor their storage and recycling programs
  - Analysts utilize the data to establish trends and make projections
- Member Agencies (currently 20 actively use WINS)
  - Have access to WINS throughout the month
  - Certify adjustments to water sales on-line
  - Agencies that don't use WINS certify by fax or e-mail

# Water Sales/Accounts Receivable Process (continued)

- WINS sends information to the General Ledger each month to create an accounting entry:
  - Dr: Account Receivable
  - Cr: Water Sales
- WINS creates invoices that are e-mailed to member agencies by the 10<sup>th</sup> of the month
- When cash is received the accounting entry is:
  - Dr: Cash
  - Cr: Accounts Receivable



# Financial Statement Walk-through

- Capital Assets, Participation Rights and State Water Project
- Cash and Investments
- Pension and OPEB
- Short and Long-term Debt
- Interest Rate Swaps

# Accounting and Reporting for Interest Rate Swaps

# New Pronouncement (rule)

- GASB 53 – Accounting and Financial Reporting for Derivative Instruments
  - Change in accounting and reporting for interest rate swap agreements
  - Fair value now included in financial statements as well as footnotes (footnotes 1q and 5f)

# Change in Balance Sheets

- Assets and Deferred Outflows (page 14)
  - Deferred Outflows new line item for effective interest rate swaps – moves information from footnotes to financial statements
- Liabilities (page 15)
  - Fair value of interest rate swaps new line item – moves information from footnotes to financial statements
- 2009 restated for comparability reflecting new accounting rules for interest rate swaps

# Statements of Revenues and Expenses Restated

- 2009 restated for comparability reflecting new accounting rules for interest rate swaps
- 2009 net income reduced \$4.7 million reflecting write-off of 'deemed terminated' and ineffective hedges
- 2010 net income includes \$3.1 million for write-off of 'deemed terminated' and ineffective hedges

# Statements of Cash Flows

(pages 18 and 19)

- No restatements – no cash impact from new accounting rules relating to interest rate swaps
- No budget or rate impact from new accounting rules relating to interest rate swaps
  - If swaps held to maturity or terminated at a gain, a one time increase in net revenue will be recognized

# Interest Rate Swaps

June 30, 2010

(\$ millions)

	Fair Market Value	Accounting
Effective (15)	(\$61.5)	Deferred outflow
Ineffective (2)	0.5	Recognize income or (loss)
Refunded	(87.2)	Defer and amortize loss on refunding
	<b>(\$148.2)</b>	

# Interest Rate Swaps

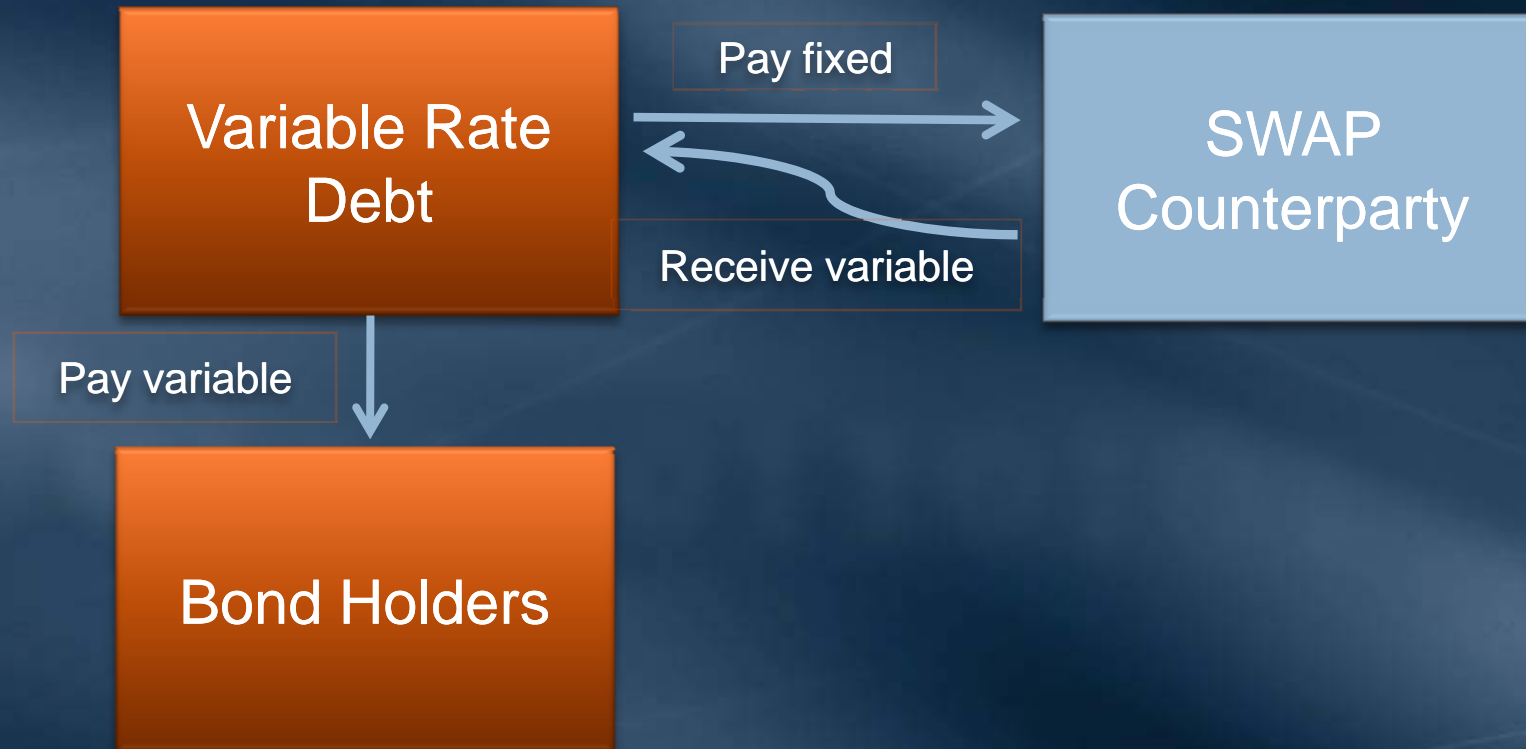
June 30, 2010

- Objective – manage interest rate risk and reduce debt service payments
- 17 swap agreements
- 15 effective; 2 ineffective
- 8 ‘deemed terminations’ due to refunding variable rate debt associated with swap agreements
  - Swap agreements re-associated with other outstanding variable rate debt



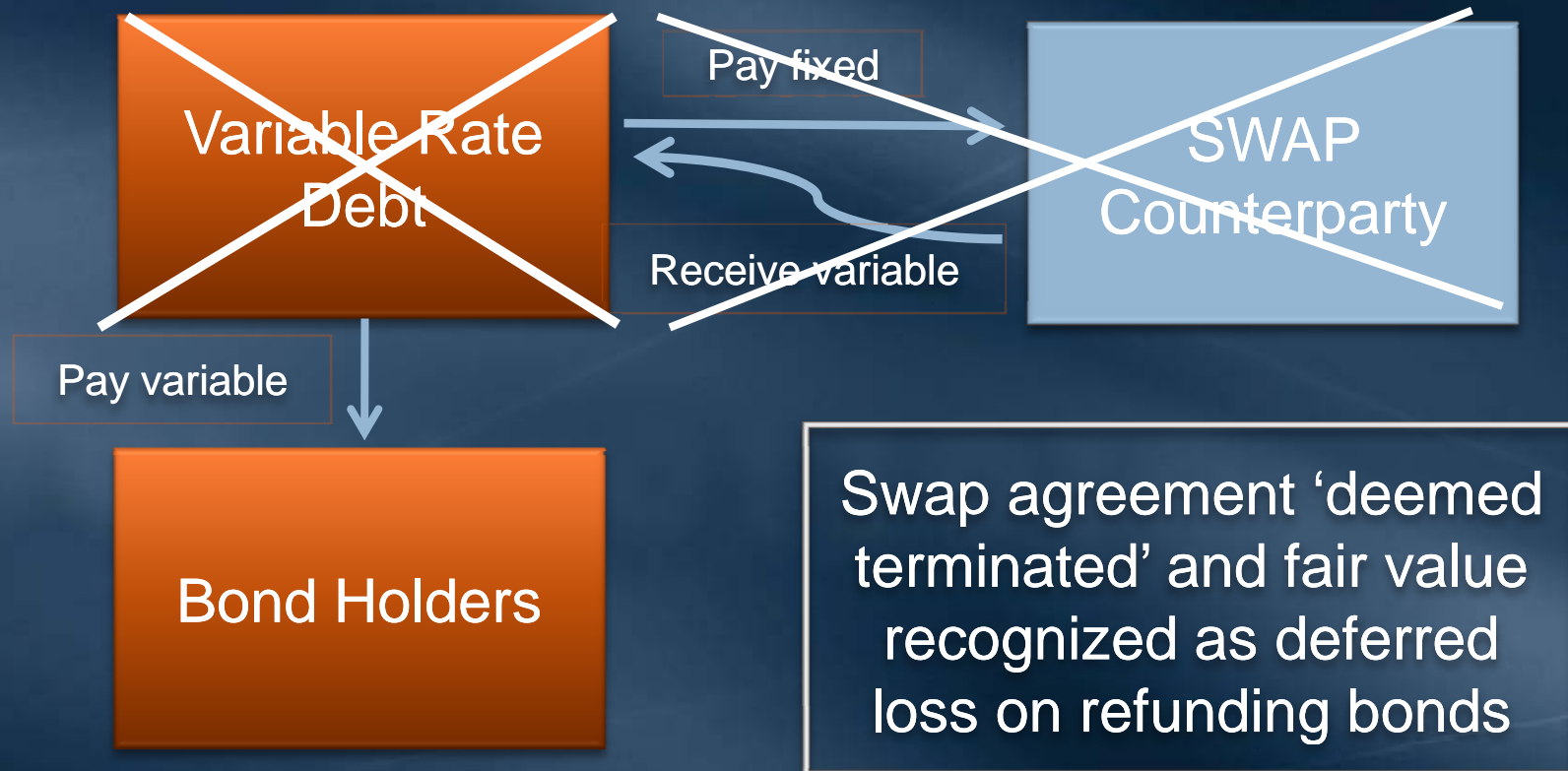
# Deemed Termination and Re-Association

## 1. Typical swap agreement structure



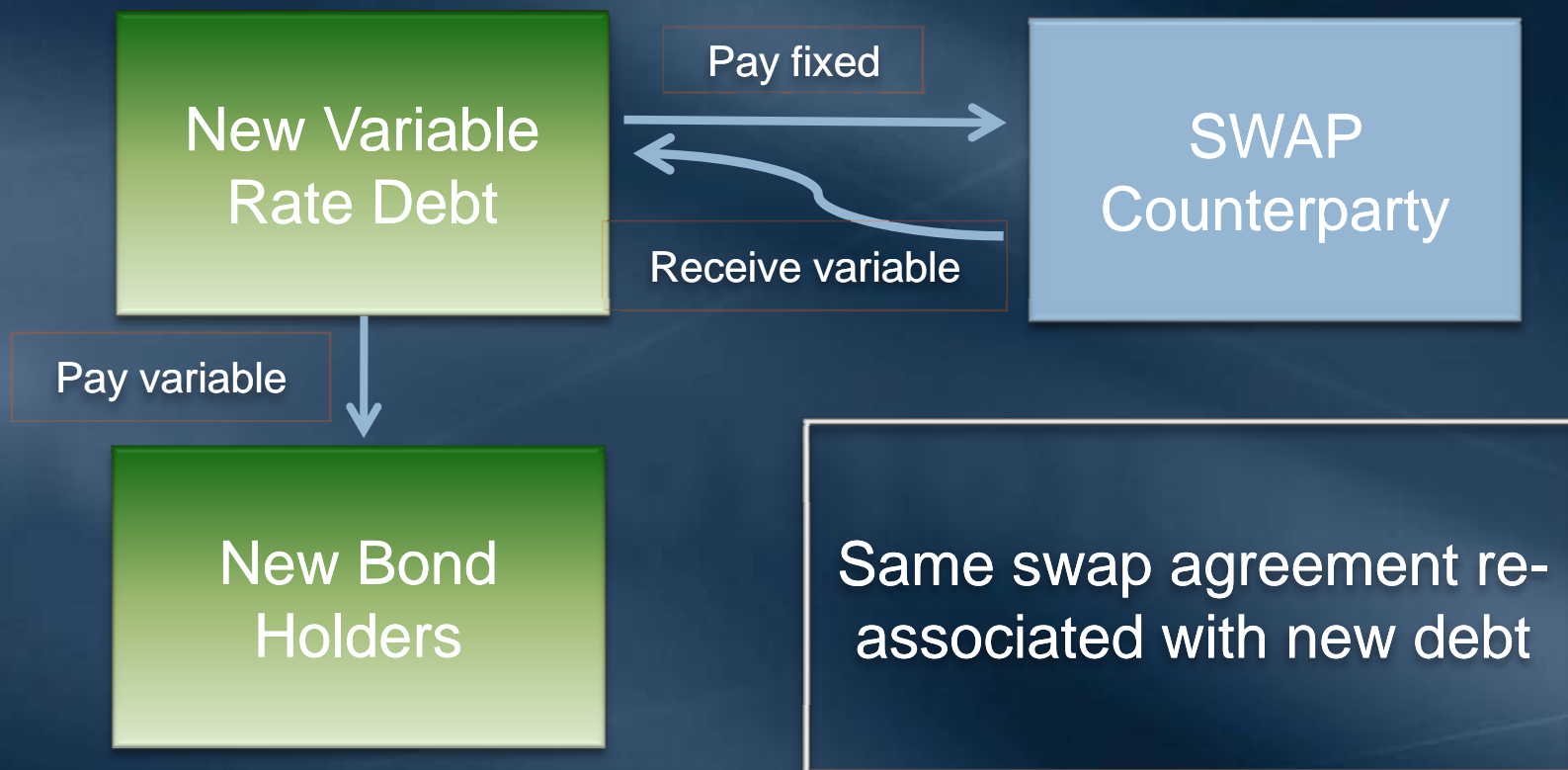
# Deemed Termination and Re-Association

## 2. Variable debt refunded



# Deemed Termination and Re-Association

## 3. Swap agreement re-associated with new variable rate debt



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## Balance Sheet

Assets & Deferred Outflows		Liabilities and Net Assets	
Deferred outflow	\$61.5	FMV of SWAPS	(\$61.5)

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	<b>(\$148.2)</b>	

## Balance Sheet

Assets & Deferred Outflows		Liabilities and Net Assets	
Deferred outflow	\$61.5	FMV of SWAPS	(\$61.0)
		Net assets	(0.5)

# Interest Rate Swaps

June 30, 2010

(\$ millions)

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	<b>(\$148.2)</b>	

## Balance Sheet

Assets & Deferred Outflows		Liabilities and Net Assets	
Deferred outflow	\$61.5	FMV of SWAPS	(\$148.2)
		Net assets	(0.5)
		Long-term debt	87.2

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June 30, 2010

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## Balance Sheet

Assets & Deferred Outflows		Liabilities and Net Assets	
<b>Deferred outflow</b>	<b>\$61.5</b>	<b>FMV of SWAPS</b>	<b>(\$148.2)</b>
		Net assets	(0.5)
		Long-term debt	87.2



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June 30, 2010

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	<b>(\$148.2)</b>	

## Income Statement

Revenues		Expenses	
Investment Income	\$1.5		
Change in FMV -- 6/30/09 = \$(1.0M); 6/30/10 = \$0.5M; change = \$1.5M			

# Interest Rate Swaps

June 30, 2010

(\$ millions)

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	<b>(\$148.2)</b>	

## Income Statement

Revenues		Expenses	
		<b>Bond interest expense</b>	<b>\$4.6</b>
		Deferred loss on refunding is amortized over the life of the old or new debt, whichever is shorter	

# FY 2010 Net Income Impact Accounting for Interest Rate Swaps

(\$ millions)

Investment Income	\$1.5
Bond interest expense	(4.6)
<b>Impact on net income</b>	<b>\$(3.1)</b>