



FY 2022 Annual Audit and Financial Reports

Board of Directors Workshop | December 14, 2022
Financial Services Area



Annual Audit Results

Annual Audit Results – Key Highlights

- Audit Firm is Baker Tilly
 - Audit Services are bid every three years
 - Baker Tilly was selected by the Audit Committee and Approved by the Board of Directors in April 2022
- Great News! Unqualified opinion with no auditor adjustments for both the a) Annual Comprehensive Financial Report and b) Statement of Expenses and Federal Awards
 - Also known as a “clean” audit opinion
- Even better! Another year with a clean internal control report
 - Two minor comments carried forward from FY 2021 which are being addressed



FY 2022 Financial Report Highlights

ACFR Contents

- ✓ ACFR = Annual Comprehensive Financial Report
- ✓ Prepared in accordance with Generally Accepted Accounting Standards (GAAP)
- ✓ Report content aligns with criteria to apply for the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting (earned by GLWA in prior three years – 2019 through 2021)
- ✓ Key Sections:
 - ✓ Transmittal Letter – page i
 - ✓ Independent Auditors Report – page 1
 - ✓ Management’s Discussion & Analysis – page 4
 - ✓ Basic Financial Statements (including footnotes) – page 29
 - ✓ Required Supplementary Information – page 89
 - ✓ Supplementary Information – page 94
 - ✓ Statistical Section – page 114
 - ✓ Financial Trends (115), Revenue Capacity (124), Debt Capacity (130), Demographic and Economic Information (142), and Operating Information (144)

What are the overall financial results for FY 2022?

- ✓ The “Management Discussion & Analysis” in summarizes Basic Financial Statements overall for the combined Water & Sewer Funds
- ✓ Positive “Operating Income” offset set by Nonoperating expenses (largely interest on debt and depreciation)
- ✓ The following slides provide further analysis

	Changes in Net Position (\$000)						
	Fiscal Year			Change 2022 vs 2021		Change 2021 vs 2020	
	2022	2021	2020	Amount	Percent	Amount	Percent
Operating revenues	\$ 816,345	\$ 815,369	\$ 800,889	\$ 976	0.1%	\$ 14,479	1.8%
Operating expenses	609,951	579,460	593,153	30,491	5.3%	(13,693)	-2.3%
Operating income	206,394	235,909	207,736	(29,514)	-12.5%	28,173	13.6%
Nonoperating revenues (expenses)	(222,552)	(230,424)	(234,449)	(7,871)	-3.4%	(4,025)	-1.7%
Income (loss) before capital contributions	(16,158)	5,485	(26,713)	(21,643)	-394.6%	32,198	120.5%
Capital contributions	6,991	5,960	5,960	1,031	17.3%	-	0.0%
Change in net position	(9,167)	11,445	(20,753)	(20,612)	-180.1%	32,198	155.2%
Net position (deficit), beginning of year	(210,132)	(221,578)	(200,825)	11,445	5.2%	(20,753)	-10.3%
Net position (deficit), end of year	\$ (219,299)	\$ (210,132)	\$ (221,578)	\$ (9,167)	-4.4%	\$ 11,445	5.2%

Source: FY 2022 ACFR Page 9

Why is there a net deficit? Is there a plan to cure?

- ✓ Net Position remains in a deficit position of \$219 million mainly due to the revaluation of assets and acquisition of debt as part of the stand-up of GLWA on January 1, 2016.
- ✓ The increase in asset values results in higher depreciation expense in the short-term.
- ✓ The positive increase in the net investment in capital assets is due to the reductions in debt and increase in capital asset additions being larger than the depreciation expense.
- ✓ The decrease in unrestricted is due to the planned use of I&E funds to fund capital additions. This is part of the long-term strategic goal to reduce reliance on debt to fund capital expenditures.
- ✓ The GLWA long-term financial forecast anticipates a positive net position by FY 2030.

	Net Position (\$000)						
	Fiscal Year			Change 2022 vs 2021		Change 2021 vs 2020	
	2022	2021	2020	Amount	Percent	Amount	Percent
Net position (Deficit)							
Net investment in capital assets	(194,715)	(302,012)	(351,219)	107,297	-35.5%	49,206	-14.0%
Restricted for debt service	123,415	114,545	105,283	8,870	7.7%	9,262	8.8%
Restricted for payment assistance program	12,318	11,043	8,988	1,275	11.5%	2,055	22.9%
Unrestricted	(160,317)	(33,707)	15,370	(126,609)	375.6%	(49,078)	-319.3%
Total net position (deficit)	\$ (219,299)	\$ (210,132)	\$ (221,578)	\$ (9,167)	4.4%	\$ 11,445	-5.2%

Source: FY 2022 ACFR Page 7

How did the Operating Expense Budget perform?

- ✓ Audited Total Combined Actual Operating Expense results of \$319 million were consistent the preliminary results presented in September 2022
- ✓ Personnel costs are under budget due to a tight labor market and staff turnover
- ✓ Contractual services under budget due to project delays due to competing priorities and staff vacancies
- ✓ Supplies & Other are under budget due to supply chain issues (technology equipment) and slower return to pre-COVID level of activities (national training, travel, projects)

SCHEDULE OF OPERATING EXPENSES FOR COMBINED WATER AND SEWER OPERATIONS FUNDS - BUDGET TO ACTUAL					
For the Year Ended June 30, 2022					
	Original Budget	Final Amended Budget	Actual	Variance Over (Under) Amended Budget	Percent Over (Under) Amended Budget
Operating Expenses					
Personnel	\$ 115,437,246	\$ 111,868,550	\$ 107,053,390	\$ (4,815,160)	-4.30%
Contractual services	103,375,858	111,198,547	107,713,902	(3,484,645)	-3.13%
Utilities	50,398,081	50,383,193	50,655,751	272,558	0.46%
Chemicals	16,044,300	19,842,300	20,382,163	539,863	2.72%
Supplies and other expenses	38,559,562	34,392,583	29,089,352	(5,323,231)	-15.48%
Capital program allocation	(3,470,948)	(2,684,248)	(2,632,136)	52,112	-1.94%
Intergovernmental reimbursements	(1,892,500)	(3,202,160)	(2,584,890)	617,270	-19.28%
Centralized services allocation	-	-	-	-	0.00%
Administrative services allocation	-	-	-	-	0.00%
Unallocated reserve	6,782,001	4,402,435	-	(4,402,435)	-100.00%
Total operating expenses before depreciation and amortization financial reporting basis	325,233,600	335,201,200	318,657,532	(16,543,668)	
SBITA	-	321,600	321,506	(94)	0.00%
Warehouse lease	-	319,600	319,584	(16)	-0.01%
TOTAL OPERATING EXPENSES BUDGET BASIS	\$ 325,233,600	\$ 335,842,400	\$ 319,298,622	\$ (16,543,778)	-4.93%

Source: FY 2022 ACFR Page 103

How did the Water System Revenue Requirements perform?

	2022 Adopted Budget	2022 Amended Budget	2022 Actual	Variance Over (Under) Amended Budget
Revenues				
Revenue from charges				
Suburban wholesale customers [1]	\$ 321,110,900	\$ 315,010,900	\$ 316,529,785	\$ 1,518,885
Local system charges	21,697,300	21,697,300	21,697,300	-
Total revenue from charges	342,808,200	336,708,200	338,227,085	1,518,885
Other revenue [2]	175,000	684,400	775,537	91,137
Investment earnings [3]	1,047,300	1,923,800	1,945,613	21,813
Total Revenues	\$ 344,030,500	\$ 339,316,400	\$ 340,948,235	\$ 1,631,835
Revenue Requirements				
Operations and maintenance [4]	\$ 143,933,800	\$ 143,933,800	\$ 136,436,567	\$ (7,497,233)
General Retirement System legacy pension	6,048,000	6,048,000	6,048,000	-
Debt service	135,481,000	135,121,000	136,039,760	918,760
General Retirement System accelerated pension	6,268,300	6,268,300	6,268,300	-
Water Residential Assistance Program contribution	1,705,500	1,705,500	1,705,500	-
Regional system lease	22,500,000	22,500,000	22,500,000	-
Transfer to the Improvement & Extension Fund	28,093,900	23,739,800	23,739,800	-
Total Revenue Requirements	\$ 344,030,500	\$ 339,316,400	\$ 332,737,927	\$ (6,578,473)
Revenue Requirement Variance	\$ -	\$ -	\$ 8,210,308	\$ 8,210,308

- ✓ Revenue Requirements are the basis for establishing Member Partner Charges
- ✓ The goal is to net to zero as the “bottom line”
- ✓ To extent there is a positive variance, those funds support an improve financial position for subsequent years
- ✓ The net positive variance of \$8.2 million is within 2.4% of the adopted budget of \$344 million
- ✓ This schedule also shows that GLWA met all of its financial and contractual commitments for the General Retirement System legacy pension, Water Residential Assistance Program, Regional System Lease
- ✓ All debt payments were made as required; the variance is due to estimates related to timing

Source: FY 2022 ACFR page 104

How did the Sewage Disposal System Revenue Requirements perform?

	2022 Adopted Budget	2022 Amended Budget	2022 Actual	Variance Over (Under) Amended Budget
Revenues				
Revenue from charges				
Suburban wholesale customers	\$ 272,130,000	\$ 268,130,000	\$ 268,813,369	\$ 683,369
Local system charges	188,662,200	188,662,200	188,662,200	-
Industrial waste control	9,024,800	8,324,800	8,300,278	(24,522)
Pollutant surcharges	4,188,900	5,088,900	5,181,816	92,916
Total revenue from charges	474,005,900	470,205,900	470,957,663	751,763
Other revenue [1]	400,000	538,000	817,448	279,448
Investment earnings [2]	1,023,300	1,876,200	1,842,475	(33,725)
Total Revenues	\$ 475,429,200	\$ 472,620,100	\$ 473,617,586	\$ 997,486
Revenue Requirements				
Operations and maintenance [3]	181,299,800	191,908,600	182,862,055	(9,046,545)
General Retirement System legacy pension	10,824,000	10,824,000	10,824,000	-
Debt service	207,209,500	204,984,500	206,490,151	1,505,651
General Retirement System accelerated pension	11,620,700	11,620,700	11,620,700	-
Water Residential Assistance Program contribution	2,358,300	2,358,300	2,358,300	-
Regional system lease	27,500,000	27,500,000	27,500,000	-
Transfer to the Improvement & Extension Fund [4]	34,616,900	23,424,000	23,424,000	-
Total Revenue Requirements	\$ 475,429,200	\$ 472,620,100	\$ 465,079,206	\$ (7,540,894)
Revenue Requirement Variance	\$ -	\$ -	\$ 8,538,380	\$ 8,538,380

- ✓ Revenue Requirements are the basis for establishing Member Partner Charges
- ✓ The goal is to net to zero as the “bottom line”
- ✓ To extent there is a positive variance, those funds support an improve financial position for subsequent years
- ✓ The net positive variance of \$8.5 million is within 1.8% of the adopted budget of \$475 million
- ✓ This schedule also shows that GLWA met all of its financial and contractual commitments for the General Retirement System legacy pension, Water Residential Assistance Program, Regional System Lease
- ✓ All debt payments were made as required; the variance is due to estimates related to timing

Source: FY 2022 ACFR page 105

How did the Improvement & Extension Funds Perform?

Water I&E Fund (Source: FY 2022 ACFR page 107)

	Adopted Budget	Amended Budget	Actual [3]	Variance Over (Under) Amended Budget
Inflows				
Revenue transfers	\$ 28,093,900	\$ 23,739,800	\$ 23,739,800	\$ -
Investment earnings [1]	-	1,329,000	1,335,993	6,993
Total Inflows	28,093,900	25,068,800	25,075,793	6,993
Outflows				
Capital spending other (net operating expenses)	-	1,500,000	1,540,154	40,154
Capital outlay	17,006,600	6,288,092	3,668,396	(2,619,696)
GASB 96 transfer to operating fund [2]	-	-	253,171	253,171
Investment earnings transfer out [1]	-	1,329,000	1,879,155	550,155
Revenue financed capital - transfer to Water Construction Fund	108,308,000	142,635,308	124,161,444	(18,473,864)
Total Outflows	125,314,600	151,752,400	131,502,320	(20,250,080)
Net Increase (Decrease) - Budget Basis	\$ (97,220,700)	\$ (126,683,600)	(106,426,527)	\$ 20,257,073
Non-budgeted inflows (outflows)				
Unrealized net decrease in fair value of investments			(2,793,070)	
Combining Schedule Water I&E Fund Change in Net Position [3]			\$ (109,219,597)	

Sewer I&E Fund (Source: FY 2022 ACFR page 108)

	Adopted Budget	Amended Budget	Actual [3]	Variance Over (Under) Amended Budget
Inflows				
Revenue transfers	\$ 34,616,900	\$ 23,424,000	\$ 23,424,000	\$ -
Receipt of DWSD shortfall receivable payments	406,400	144,900	8,441,496	8,296,596
Investment earnings [1]	-	1,004,900	855,242	(149,658)
Total Inflows	35,023,300	24,573,800	32,720,738	8,146,938
Outflows				
Capital spending other (net operating expenses)	-	722,200	4,536,959	3,814,759
Capital outlay	15,965,100	9,137,700	8,080,463	(1,057,237)
GASB 96 transfer to operating fund [2]	-	-	560,971	560,971
Investment earnings transfer out [1]	-	1,004,900	876,480	(128,420)
Revenue financed capital - transfer to Sewer Construction Fund	47,546,000	63,279,200	48,145,694	(15,133,506)
Total Outflows	63,511,100	74,144,000	62,200,567	(11,943,433)
Net Increase (Decrease) - Budget Basis	\$ (28,487,800)	\$ (49,570,200)	(29,479,829)	\$ 20,090,371
Non-budgeted inflows (outflows)				
Transfer for FY 2020 DWSD shortfall [4]			10,817,815	
Unrealized net decrease in fair value of investments			(1,732,451)	
Other transfers in			281,498	
Combining Schedule Sewer I&E Fund Change in Net Position [3]			\$ (20,112,967)	

✓ The Improvement & Extension (I&E) Funds reflect a planned use of revenue financed capital to fund capital projects to reduce the reliance on debt financing.

How did the Construction Funds perform?

Water Construction Fund (Source FY 2022 ACFR page 109)

	Adopted Budget	Amended Budget	Actual [2]	Variance Over (Under) Amended Budget
Inflows				
Transfers from Water Improvement & Extension Fund	\$ 108,308,000	\$ 142,635,300	\$ 124,161,444	\$ (18,473,856)
State revolving loans	26,100,000	27,000,000	25,642,083	(1,357,917)
Investment earnings [1]	-	-	32,093	32,093
Total Inflows	134,408,000	169,635,300	149,835,620	(19,799,680)
Outflows				
Investment earnings transfer out [1]	-	-	31,890	31,890
Capital projects	134,408,000	169,635,300	157,628,118	(12,007,182)
Total Outflows	134,408,000	169,635,300	157,660,008	(11,975,292)
Net Increase (Decrease) - Budget Basis	\$ -	\$ -	(7,824,388)	\$ (7,824,388)
Non-budgeted inflows (outflows)				
Unrealized net increase in fair value of investments			480	
Combining Schedule Water Construction Fund Change in Net Position [2]			\$ (7,823,908)	

Sewer Construction Fund (Source: FY 2022 ACFR page 110)

	Adopted Budget	Amended Budget	Actual [2]	Variance Over (Under) Amended Budget
Inflows				
Transfers from Sewer Improvement & Extension Fund	\$ 47,546,000	\$ 63,279,200	\$ 48,145,694	\$ (15,133,506)
State revolving loans	31,992,000	10,000,000	9,215,214	(784,786)
Transfer from operations fund-proceeds from sale of assets	-	-	200,000	200,000
Investment earnings [1]	-	-	26,444	26,444
Total Inflows	79,538,000	73,279,200	57,587,352	(15,691,848)
Outflows				
Investment earnings transfer out [1]	-	-	26,475	26,475
Capital projects	79,538,000	73,279,200	65,148,518	(8,130,682)
Total Outflows	79,538,000	73,279,200	65,174,993	(8,104,207)
Net Increase (Decrease) - Budget Basis	\$ -	\$ -	(7,587,641)	\$ (7,587,641)
Non-budgeted inflows (outflows)				
Unrealized net increase in fair value of investments			481	
Combining Schedule Sewage Disposal Construction Fund Change in Net Position [2]			\$ (7,587,160)	

- ✓ The Construction Funds expenditures for Water were \$12 million less than the amended budget and Sewer were \$8 million less than the amended budget
- ✓ There were no bond funds remaining at June 30, 2022
- ✓ The I&E Fund has been providing the cash to the Construction Fund for the fiscal year in addition to the state revolving fund loans



Acknowledgements

Direct Contributors and Participants in the Annual Financial Audit

Excellence in financial management and a commitment to strong internal controls is supported by all GLWA team members.

Every successful audit is the result of collaboration and partnership between GLWA team members and our auditors. We are pleased to acknowledge the efforts of those directly involved in the audit from all areas of GLWA in addition to the Board of Directors Audit Committee and GLWA Executive Leadership Team.

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