



## **FY 2023 Annual Financial Results**

Audit Committee Meeting | December 8, 2023

Board of Directors Workshop | December 13, 2023

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 recommendations which are being addressed



# FY 2023 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 four years – 2019 through 2022)
- ✓ Key Sections:
  - ✓ Transmittal Letter – page vi
  - ✓ Independent Auditors Report – page 1
  - ✓ Management’s Discussion & Analysis – page 5
  - ✓ Basic Financial Statements (including footnotes) – page 33
  - ✓ Required Supplementary Information – page 95
  - ✓ Supplementary Information – page 101
  - ✓ Statistical Section – page 123
    - ✓ Financial Trends (125), Revenue Capacity (135), Debt Capacity (143), Demographic and Economic Information (157), and Operating Information (161)

# What are the overall financial results for FY 2023?

- ✓ 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 2023 vs 2022		Change 2022 vs 2021	
	2023	2022	2021	Amount	Percent	Amount	Percent
Operating revenues	\$ 845,686	\$ 816,345	\$ 815,369	\$ 29,341	3.6%	\$ 976	0.1%
Operating expenses	660,786	609,951	579,460	50,835	8.3%	30,491	5.3%
Operating income	184,900	206,394	235,909	(21,494)	-10.4%	(29,514)	-12.5%
Nonoperating revenues (expenses)	(199,359)	(222,552)	(230,424)	(23,193)	-10.4%	(7,871)	-3.4%
Income (loss) before capital contributions	(14,459)	(16,158)	5,485	1,699	-10.5%	(21,643)	394.6%
Capital contributions	2,176	6,991	5,960	(4,815)	-68.9%	1,031	-17.3%
Change in net position	(12,283)	(9,167)	11,445	(3,116)	34.0%	(20,612)	180.1%
Net position (deficit), beginning of year	(219,299)	(210,132)	(221,578)	(9,167)	-4.4%	11,445	5.2%
Net position (deficit), end of year	\$ (231,582)	\$ (219,299)	\$ (210,132)	\$ (12,283)	-5.6%	\$ (9,167)	-4.4%

Source: FY 2023 ACFR Page 11

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

- ✓ Net Position remains in a deficit position of \$231.5 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 decrease in “net investment” from last year in capital assets is due to depreciation expense being higher than the debt related reductions.
- ✓ The increase in unrestricted is due to combined increase in unrestricted account activities

	Net Position (\$000)						
	Fiscal Year			Change 2023 vs 2022		Change 2022 vs 2021	
	2023	2022	2021	Amount	Percent	Amount	Percent
Net position (deficit)							
Net investment in capital assets	(336,553)	(194,715)	(302,012)	(141,838)	72.8%	107,297	-35.5%
Restricted for construction	2,181	-	-	2,181	100.0%	-	0.0%
Restricted for debt service	147,436	123,415	114,545	24,022	19.5%	8,870	7.7%
Restricted for payment assistance program	4,653	12,318	11,043	(7,666)	-62.2%	1,275	11.5%
Unrestricted	(49,299)	(160,317)	(33,707)	111,018	-69.2%	(126,609)	375.6%
Total net position (deficit)	<u>\$ (231,582)</u>	<u>\$ (219,299)</u>	<u>\$ (210,132)</u>	<u>\$ (12,283)</u>	5.6%	<u>\$ (9,167)</u>	4.4%

Source: FY 2023 ACFR Page 9

# How did the Operating Expense Budget perform?

- ✓ Audited results of \$361 million were materially consistent with the preliminary FY 2023 results distributed in October 2023 of \$358 million – difference is largely due to an estimated accrual for an unbilled amount from a vendor
- ✓ **Overall, GLWA operated within 0.22% of amended budget**
- ✓ Contractual services over budget due to increases in SCADA maintenance and repairs contracts, grounds, transmission mains and specialized service contracts.
- ✓ Utilities are over budget due to increased usage and rates as well as meter repair and replacement resulting in more accurate billing.
- ✓ Chemicals are over budget due to price increases

SCHEDULE OF OPERATING EXPENSES FOR COMBINED WATER AND SEWER OPERATIONS FUNDS - BUDGET TO ACTUAL  
For the Year Ended June 30, 2023

	Original Budget	Final Amended Budget	Actual	Variance Over (Under) Amended Budget	Percent Over (Under) Amended Budget
<b>Operating Expenses</b>					
Personnel	\$ 122,144,300	\$ 116,145,400	\$ 114,808,018	\$ (1,337,382)	-1.15%
Contractual services	104,579,200	106,625,000	109,703,247	3,078,247	2.89%
Utilities	51,007,400	74,621,700	77,276,536	2,654,836	3.56%
Chemicals	16,118,600	29,524,800	30,542,063	1,017,263	3.45%
Supplies and other expenses	34,911,800	34,968,700	34,571,711	(396,989)	-1.14%
Capital program allocation	(4,376,200)	(2,135,300)	(2,189,642)	(54,342)	2.54%
Intergovernmental reimbursements	(2,925,000)	(1,570,800)	(4,247,812)	(2,677,012)	170.42%
Centralized services allocation	-	-	-	-	0.00%
Administrative services allocation	-	-	-	-	0.00%
Unallocated reserve	7,440,200	1,496,800	-	(1,496,800)	-100.00%
Total operating expenses before depreciation and amortization financial reporting basis	328,900,300	359,676,300	360,464,121	787,821	
SBITA	-	704,400	704,318	(82)	0.00%
Warehouse lease	-	489,500	489,546	46	0.01%
<b>TOTAL OPERATING EXPENSES BUDGET BASIS</b>	<b>\$ 328,900,300</b>	<b>\$ 360,870,200</b>	<b>\$ 361,657,985</b>	<b>\$ 787,785</b>	<b>0.22%</b>

Source: FY 2023 ACFR Page 112



SCADA: System Control and Data Acquisition  
SBITA: Subscription-Based Information Technology Arrangements

# How did the Water System Revenue Requirements perform?

	Adopted Budget	Amended Budget	Actual	Variance Over (Under) Amended Budget
<b>Revenues</b>				
Revenue from charges				
Suburban wholesale customers [1]	\$ 331,962,000	\$ 333,856,300	\$ 334,141,233	\$ 284,933
Local system charges	<u>22,985,900</u>	<u>22,834,300</u>	<u>22,834,300</u>	<u>-</u>
Total revenue from charges	<u>354,947,900</u>	<u>356,690,600</u>	<u>356,975,533</u>	<u>284,933</u>
Other revenue [2]	175,000	995,000	1,378,706	383,706
Investment earnings [3]				
Restricted			3,660,022	
Unrestricted			5,501,592	
Total Investment earnings	<u>948,700</u>	<u>9,670,200</u>	<u>9,161,614</u>	<u>(508,586)</u>
<b>Total Revenues</b>	<u>\$ 356,071,600</u>	<u>\$ 367,355,800</u>	<u>\$ 367,515,853</u>	<u>\$ 160,053</u>
<b>Revenue Requirements</b>				
Operations and maintenance [4]	144,847,700	156,747,700	154,327,770	(2,419,930)
General Retirement System legacy pension	6,048,000	6,048,000	6,048,000	-
Debt service	150,337,100	150,055,300	150,055,300	-
General Retirement System accelerated pension	6,268,300	6,268,300	6,268,300	-
Water Residential Assistance Program contribution	1,770,500	1,770,500	1,770,500	-
Extraordinary Repair & Replacement Reserve Fund	-	200,000	2,200,000	2,000,000
Regional system lease	22,500,000	22,500,000	22,500,000	-
Transfer to the Improvement & Extension Fund	<u>24,300,000</u>	<u>23,766,000</u>	<u>23,766,000</u>	<u>-</u>
<b>Total Revenue Requirements</b>	<u>\$ 356,071,600</u>	<u>\$ 367,355,800</u>	<u>\$ 366,935,870</u>	<u>\$ (419,930)</u>
<b>Revenue Requirement Variance</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 579,983</u>	<u>\$ 579,983</u>

- ✓ 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 \$580 thousand is within 0.2% of the adopted budget of \$356 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

Source: FY 2023 ACFR page 113

# How did the Sewage Disposal System Revenue Requirements perform?

	Adopted Budget	Amended Budget	Actual	Variance Over (Under) Amended Budget
<b>Revenues</b>				
Revenue from charges				
Suburban wholesale customers	\$ 275,403,500	\$ 274,907,200	\$ 275,917,502	\$ 1,010,302
Local system charges	191,042,200	191,042,200	191,042,200	-
Industrial waste control	8,420,000	8,420,000	8,393,103	(26,897)
Pollutant surcharges	4,950,800	4,950,800	4,894,567	(56,233)
Total revenue from charges	479,816,500	479,320,200	480,247,372	927,172
Other revenue [1]	400,000	2,355,000	4,901,316	2,546,316
Investment earnings [2]				
Restricted			4,102,394	
Unrestricted			8,395,898	
Total Investment earnings	1,155,600	13,532,100	12,498,292	(1,033,808)
<b>Total Revenues</b>	<b>\$ 481,372,100</b>	<b>\$ 495,207,300</b>	<b>\$ 497,646,980</b>	<b>\$ 2,439,680</b>
<b>Revenue Requirements</b>				
Operations and maintenance [3]	184,052,600	204,122,500	207,330,215	3,207,715
General Retirement System legacy pension	10,824,000	10,824,000	10,824,000	-
Debt service	205,638,100	212,509,100	212,669,100	160,000
General Retirement System accelerated pension	11,620,700	11,620,700	11,620,700	-
Water Residential Assistance Program contribution	2,394,200	2,394,200	2,394,200	-
Regional system lease	27,500,000	27,500,000	27,500,000	-
Transfer to the Improvement & Extension Fund	39,342,500	26,236,800	26,236,800	-
<b>Total Revenue Requirements</b>	<b>\$ 481,372,100</b>	<b>\$ 495,207,300</b>	<b>\$ 498,575,015</b>	<b>\$ 3,367,715</b>
<b>Revenue Requirement Variance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (928,035)</b>	<b>\$ (928,035)</b>

- ✓ 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 improved financial position for subsequent years
- ✓ The net negative variance of \$928 thousand is within 0.2% of the adopted budget of \$481.3 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 2023 ACFR page 114

# How did the Improvement & Extension Funds Perform?

*Water I&E Fund (Source: FY 2023 ACFR page 116)*

	Adopted Budget	Amended Budget	Actual [4]	Variance Over (Under) Amended Budget
<b>Inflows</b>				
Transfers in from Water Operations Fund				
Revenue transfers	\$ 24,300,000	\$ 23,766,000	\$ 23,766,000	\$ -
Transfers in from Water Construction Fund				
Working capital adjustment [1]	-	23,039,700	23,039,725	25
Investment earnings [2]	-	2,768,700	1,942,739	(825,961)
<b>Total Inflows</b>	<b>24,300,000</b>	<b>49,574,400</b>	<b>48,748,464</b>	<b>(825,936)</b>
<b>Outflows</b>				
Capital spending other (net operating expenses)	-	3,503,400	1,191,437	(2,311,963)
Capital outlay	15,452,600	5,570,100	6,405,255	835,155
Transfers out to Water Operations Fund				
GASB 96 expenditures [3]	-	-	1,930,471	1,930,471
Investment earnings [2]	-	2,768,700	2,361,890	(406,810)
Transfer out to Water Construction Fund				
Revenue financed capital	28,735,400	-	-	-
<b>Total Outflows</b>	<b>44,188,000</b>	<b>11,842,200</b>	<b>11,889,053</b>	<b>46,853</b>
<b>Net Increase (Decrease) - Budget Basis</b>	<b>\$ (19,888,000)</b>	<b>\$ 37,732,200</b>	<b>36,859,411</b>	<b>\$ (872,789)</b>
Non-budgeted inflows (outflows)				
Unrealized net increase in fair value of investments			1,275,456	
Other			72	
Other transfers in			360,397	
<b>Combining Schedule Water Improvement and Extension Fund Change in Net Position [4]</b>			<b>\$ 38,495,336</b>	

*Sewer I&E Fund (Source: FY 2023 ACFR page 117)*

	Adopted Budget	Amended Budget	Actual [4]	Variance Over (Under) Amended Budget
<b>Inflows</b>				
Transfers in from Sewer Operations Fund				
Revenue transfers	\$ 39,342,500	\$ 26,236,800	\$ 26,236,800	\$ -
Transfers in from Sewer Construction Fund				
Working capital adjustment [1]	-	7,410,800	7,410,807	7
Other nonoperating revenue - grants	-	-	46,996	46,996
Investment earnings [2]	-	3,395,700	2,533,262	(862,438)
<b>Total Inflows</b>	<b>39,342,500</b>	<b>37,043,300</b>	<b>36,227,865</b>	<b>(815,435)</b>
<b>Outflows</b>				
Capital spending other (net operating expenses)	-	7,748,000	5,167,616	(2,580,384)
Capital outlay	18,447,100	6,630,700	7,170,586	539,886
Transfers out to Sewer Operations Fund				
GASB 96 expenditures [3]	-	-	1,622,671	1,622,671
Investment earnings [2]	-	3,395,700	2,506,062	(889,638)
Transfer out to Sewer Construction Fund				
Revenue financed capital	26,444,900	-	-	-
<b>Total Outflows</b>	<b>44,892,000</b>	<b>17,774,400</b>	<b>16,466,935</b>	<b>(1,307,465)</b>
<b>Net Increase (Decrease) - Budget Basis</b>	<b>\$ (5,549,500)</b>	<b>\$ 19,268,900</b>	<b>19,760,930</b>	<b>\$ 492,030</b>
Non-budgeted inflows (outflows)				
Unrealized net increase in fair value of investments			734,651	
Other			79	
Other transfers in			100,686	
<b>Combining Schedule Sewer Improvement and Extension Fund Change in Net Position [4]</b>			<b>\$ 20,596,346</b>	

✓ The Construction Fund returned funds to the Improvement & Extension (I&E) Fund for working capital provided in previous years



# How did the Construction Funds perform?

**Water Construction Fund** (Source FY 2023 ACFR page 118)

	Adopted Budget	Amended Budget	Actual [4]	Variance Over (Under) Amended Budget
<b>Inflows</b>				
Transfers from Water Improvement & Extension Fund				
Revenue financed capital	\$ 28,735,400	\$ -	\$ -	\$ -
Transfers in from Water Operations Fund				
Bond proceeds	-	225,000,000	228,878,775	3,878,775
State revolving loans	54,992,000	95,000,000	87,088,198	(7,911,802)
Proceeds sale of asset [1]	-	185,300	185,281	(19)
Investment earnings [2]	128,800	4,565,800	6,179,231	1,613,431
<b>Total Inflows</b>	<b>83,856,200</b>	<b>324,751,100</b>	<b>322,331,485</b>	<b>(2,419,615)</b>
<b>Outflows</b>				
Capital projects	155,501,000	207,962,000	193,212,332	(14,749,668)
Transfers out to Water Operations Fund				
Investment earnings [2]	-	-	89,627	89,627
Bond cost of issuance	-	-	3,828,647	3,828,647
Transfers out to Water Improvement & Extension Fund				
Working capital adjustment [3]	-	23,039,700	23,039,725	25
<b>Total Outflows</b>	<b>155,501,000</b>	<b>231,001,700</b>	<b>220,170,331</b>	<b>(10,831,369)</b>
<b>Net Increase (Decrease) - Budget Basis</b>	<b>\$ -</b>	<b>\$ 23,039,700</b>	<b>102,161,154</b>	<b>\$ 8,411,754</b>
Non-budgeted inflows (outflows)				
Unrealized net increase in fair value of investments			405	
<b>Combining Schedule Water Construction Fund Change in Net Position [4]</b>			<b>\$ 102,161,559</b>	

**Sewer Construction Fund** (Source: FY 2023 ACFR page 119)

	Adopted Budget	Amended Budget	Actual [4]	Variance Over (Under) Amended Budget
<b>Inflows</b>				
Transfers in from Sewer Improvement & Extension Fund				
Revenue financed capital	\$ 26,444,900	\$ -	\$ -	\$ -
Transfers in from Sewer Operations Fund				
Bond proceeds	-	225,000,000	218,550,892	(6,449,108)
Reserve release	-	-	7,303,668	7,303,668
State revolving loans	18,720,000	20,000,000	17,712,417	(2,287,583)
Contributed capital	-	2,176,000	-	(2,176,000)
Proceeds sale of asset [1]	-	1,140,700	1,140,682	(18)
Other nonoperating revenue - grants	-	-	180,000	180,000
Investment earnings [2]	86,200	4,803,800	7,220,881	2,417,081
<b>Total Inflows</b>	<b>45,251,100</b>	<b>253,120,500</b>	<b>252,108,540</b>	<b>(1,011,960)</b>
<b>Outflows</b>				
Capital projects	94,449,000	106,220,300	102,028,356	(4,191,944)
Transfers out to Sewer Operations Fund				
Investment earnings [2]	-	-	62,665	62,665
Bond cost of issuance	-	-	831,251	831,251
Transfers out to Sewer Improvement & Extension Fund				
Working capital adjustment [3]	-	7,410,800	7,410,807	7
<b>Total Outflows</b>	<b>94,449,000</b>	<b>113,631,100</b>	<b>110,333,079</b>	<b>(3,298,021)</b>
<b>Net Increase (Decrease) - Budget Basis</b>	<b>\$ (49,197,900)</b>	<b>\$ 139,489,400</b>	<b>141,775,461</b>	<b>\$ 2,286,061</b>
Non-budgeted inflows (outflows)				
Unrealized net decrease in fair value of investments			(171,723)	
<b>Combining Schedule Sewer Construction Fund Change in Net Position [4]</b>			<b>\$ 141,603,738</b>	

- ✓ The Construction Funds expenditures for Water were \$10.8 million less than the amended budget and Sewer were \$3.3 million less than the amended budget
- ✓ The bond transaction in September 2022 replenished bond funds available for construction activities
- ✓ Funds were returned to the I&E Fund for working capital provided in prior years



# 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.

## GLWA Contributors

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## Baker Tilley Auditors

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