



## **Water System of the Virgin Islands Water and Power Authority**

**Management's Discussion and Analysis,  
Financial Statements (with Independent  
Auditor's Report Thereon), Required  
Supplementary Information, and  
Supplementary Schedule (Unaudited)  
Years Ended June 30, 2019 and 2018**

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Supplementary Schedule (Unaudited)  
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# Water System of the Virgin Islands Water and Power Authority

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## **Independent Auditor's Report**

To the Governing Board  
Virgin Islands Water and Power Authority

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Water System (the Water System) of the Virgin Islands Water and Power Authority (the Authority), a major fund of the Authority, as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Water System's basic financial statements as listed in the table of contents. The Authority is a component unit of the Government of the U.S. Virgin Islands.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water System of the Virgin Islands Water and Power Authority, as of June 30, 2019 and 2018, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of a Matter***

As discussed in Note 1 to the financial statements, these financial statements present only the Water System and do not purport to, and do not present fairly the financial position of the Authority, as of June 30, 2019 and 2018, the respective changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, schedule of changes in OPEB liability and related ratios, schedule of the Water System's OPEB contributions, schedule of the Water System's share of the net pension liability, and schedule of the Water System's pension contributions on pages 6 through 11 and 43 through 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the Water System's basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information - Supplementary Schedule***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Water System's basic financial statements. The five-year comparative summary of operations is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.



### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2021, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

*BDO USA, LLP*

June 30, 2021

## **Management's Discussion and Analysis**

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# Water System of the Virgin Islands Water and Power Authority

## Management's Discussion and Analysis

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The Virgin Islands Water and Power Authority (the Authority) owns, operates, and maintains a water production and distribution system (the Water System) and an electric generation and distribution system (the Electric System), which are separately financed and require separate accounting and reporting. Each of these systems is accounted for as a separate enterprise fund. As management of the Authority, we offer readers of the Water System financial statements this discussion and analysis of the financial activities of the Water System for the years ended June 30, 2019 and 2018, with selected comparative information for the year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with the financial statements that follow this section.

The Water System's service territory includes the islands of St. Thomas, St. Croix, and St. John. Because of the historical development of the Water System and certain characteristics unique to the U.S. Virgin Islands, the Water System serves a small portion of the potential customers in the U.S. Virgin Islands. Among such factors is a U.S. Virgin Islands building code requirement revised in 1996, that all new residential and commercial buildings have cisterns to accumulate rainwater. This requirement has reduced the demand for potable water from the Authority. In addition, because of the mountainous, rocky terrain, especially on the islands of St. Thomas and St. John, the construction of the water distribution system has been difficult and costly.

The Authority provides water service to approximately 13,000 customers (as of June 30, 2019). The Authority also provides electric service to over 37,000 customers (as of June 30, 2019). The Water System's rates are under the jurisdiction of the Virgin Islands Public Services Commission (PSC or the Commission), unlike many other municipal systems. These rates are intended to provide revenues to recover operating and maintenance expenses, funds for debt service coverage requirements, and funds for working capital and capital expenses. The Authority does not use rate base or rate of return principles for setting rates.

### Financial Highlights - 2019

The Water System's net position increased by \$1.0 million, or 11% as a result of 2019 operations. There was \$28.1 million in total operating revenues and \$3.6 million in capital grant contributions, offset by \$30.1 million in operating and production expenses and \$572 thousand in total net non-operating expenses.

- The Water System's Levelized Energy Adjustment Clause (LEAC) factors approved by the PSC were able to fully recover the cost of fuel in the current period leading to a fuel rate revenue refundable of \$4.2 million in the current period.
- During 2019, the Water System's total operating revenues increased by \$3.4 million, or a 14% increase. The increase is attributable mainly to increases in customer and Government sales revenues of \$3.5 million, an increase in fuel escalator revenues of \$2.0 million, offset by an increase in bad debt expense of \$2.1 million.
- Operating and production expenses decreased by \$0.2 million from \$30.3 million to \$30.1 million, compared to the prior year. This was due to a decrease of \$2.6 million in administrative and general expenses offset by an increase in production cost of water distributed and customer service cost of \$2.4 million.

# Water System of the Virgin Islands Water and Power Authority

## Management's Discussion and Analysis

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### Financial Highlights - 2018

The Water System's net position declined by \$6.2 million, or 37% as a result of 2018 operations. There was \$24.8 million in total operating revenues and \$1.3 million in capital grant contributions, offset by \$30.3 million in operating and production expenses and \$236 thousand in total non-operating expenses.

- The Water System's fuel costs recoverable balance reversed to a fuel rate revenue refundable of \$1.6 million as the LEAC factors approved by the PSC were able to fully recover the full cost of fuel in the current period.
- During 2018, the Water System's total operating revenues decreased by \$6.5 million, or a 21% decrease. The decrease is attributable mainly to decreases in customer and Government sales revenues of \$2.6 million, a decrease in fuel escalator revenues of \$3.2 million and an increase in bad debt expense of \$499 thousand.
- Operating and production expenses decreased from \$30.4 million to \$30.2 million, a 1% decrease compared to the prior year. This was due to a decrease of \$1.0 million in operating and maintenance expenses which was offset by the increase in production cost of water distributed of \$0.9 million.

### Overview of the Financial Statements

#### *Statement of Net Position*

This statement includes all of the Water System's assets and deferred outflows of resources, and liabilities and deferred inflows or resources and provides information about the nature and amounts of investments in resources (assets) and the obligations to Water System creditors (liabilities). It also provides the basis for evaluating the capital structure of the Water System and assessing the liquidity and financial flexibility of the Water System.

#### *Statement of Revenues, Expenses, and Changes in Net Position*

All of the current year revenues and expenses are accounted for in this statement. This statement measures the success of the Water System's operations over the past year and can be used to determine whether the Water System has successfully recovered all of its costs through its user fees and other charges, and maintained profitability and creditworthiness.

#### *Statement of Cash Flows*

The primary purpose of this statement is to provide information about the Water System's cash receipts and cash payments during the reporting period. This statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities and provides answers to such questions as "where did cash come from?," "what was cash used for?," and "what was the change in cash balances during the reporting period?"

# Water System of the Virgin Islands Water and Power Authority

## Management's Discussion and Analysis

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### Notes to the Financial Statements

The notes provide additional information that is essential to fully understanding the data provided in the financial statements. The notes to the financial statements can be found on pages 17-42 of this report.

### Financial Analysis of the Authority's Water System

One of the most important questions asked about the Water System's finances is: "Is the Water System better off or worse off as a result of the fiscal year activities?" The statement of net position and the statement of revenues, expenses, and changes in net position report information about the activities of the Water System in a way that will help answer this question. These two statements report the net position of the Water System and the changes in them. You can think of the Water System's net position - the difference between assets and liabilities - as one way to measure financial health or financial position. Over time, increases or decreases in the Water System's net position are one indicator of whether its financial health is improving or deteriorating. However, you will need to consider other nonfinancial factors such as changes in economic conditions, customer growth, and new or changed legislation and regulation to gauge overall changes in financial health.

The table below provides a comparative review of key statement of net position captions.

<i>As of June 30,</i>	2019	2018	2017
Current assets	\$ 14,598,349	\$ 14,396,269	\$ 12,607,908
Restricted assets	2,030,678	1,044,949	9,701,851
Other non-current assets	77,638,699	78,476,292	3,575,436
Capital assets	69,690,193	66,055,776	64,828,724
Deferred outflows of resources	6,884,252	11,891,672	16,804,499
<b>Total assets and deferred outflows of resources</b>	<b>\$ 170,842,171</b>	<b>\$ 171,864,958</b>	<b>\$ 107,518,418</b>
Long-term liabilities	\$ 129,578,776	\$ 140,457,685	\$ 73,907,024
Other liabilities	14,951,736	9,765,432	11,668,113
Deferred inflows of resources	14,673,600	11,049,947	5,186,400
<b>Total liabilities and deferred inflows of resources</b>	<b>159,204,112</b>	<b>161,273,064</b>	<b>90,761,537</b>
Net investment in capital assets	69,690,193	66,055,775	61,738,714
Restricted	371,726	649,029	9,026,073
Unrestricted (deficit)	(58,423,860)	(56,112,910)	(54,007,906)
<b>Total net position</b>	<b>11,638,059</b>	<b>10,591,894</b>	<b>16,756,881</b>
<b>Total liabilities, deferred inflows of resources, and net position</b>	<b>\$ 170,842,171</b>	<b>\$ 171,864,958</b>	<b>\$ 107,518,418</b>

# Water System of the Virgin Islands Water and Power Authority

## Management's Discussion and Analysis

At June 30, 2019, the Water System had total assets and deferred outflows of resources of \$170.8 million of which \$69.7 million or 41% represents net capital assets.

Changes in net position can be seen by reviewing the following condensed statements of revenues, expenses, and changes in net position.

<i>Years ended June 30,</i>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Base revenues	\$ 22,672,115	\$ 19,229,970	\$ 21,852,730
Fuel escalator revenues	7,767,873	5,745,500	8,971,868
Line loss surcharge	675,990	692,663	783,003
Investment earnings	2,847	15,744	33,029
Bad debt expense	(2,991,903)	(899,632)	(400,928)
<b>Total revenues</b>	<b>28,126,922</b>	<b>24,784,245</b>	<b>31,239,702</b>
Production cost of water distributed	14,154,179	12,045,668	11,136,598
Operating expenses, excluding production, depreciation, and amortization	14,689,629	17,003,391	18,017,386
Depreciation, net of amortization	1,228,854	1,211,667	1,198,779
Interest expense	574,755	251,816	323,221
<b>Total expenses</b>	<b>30,647,417</b>	<b>30,512,542</b>	<b>30,675,984</b>
Income (loss) before capital grants and contributions and special item	(2,520,495)	(5,728,297)	563,718
Capital grants and contributions	3,566,660	1,302,659	2,826,369
Impairment loss on capital assets	-	(1,273,354)	-
<b>Increase (decrease) in net position</b>	<b>1,046,165</b>	<b>(5,698,992)</b>	<b>3,390,087</b>
<b>Net position, beginning of year</b>	<b>10,591,894</b>	<b>16,290,886*</b>	<b>13,366,794</b>
<b>Net position, end of year</b>	<b>\$ 11,638,059</b>	<b>\$ 10,591,894</b>	<b>\$ 16,756,881</b>

\*As restated for implementation of GASB Statement No. 75; see Note 1

The Water System's net position increased by \$1.0 million during the fiscal year ended June 30, 2019. Key elements of the 2019 changes are as follows:

- Operating revenues have increased by \$3.4 million, or 14%, as base sales to customers and the Government rose to reflect growing demand post the September 2017 hurricanes that devastated the islands.
- Operating expenses decreased by \$188 thousand, or 0.6%, mainly as a result of a \$2.6 million fall in administrative and general expenses tempered by \$2.4 increase in the production cost of water distributed and \$17 thousand in depreciation.
- Total production expenses have increased by \$2.1 million, or 18% when compared to the prior year mostly due to resumption of operations.

# Water System of the Virgin Islands Water and Power Authority

## Management's Discussion and Analysis

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The Water System's net position decreased by \$6.2 million during the fiscal year ended June 30, 2018. Key elements of the 2018 changes are as follows:

- Operating revenues have declined by \$6.5 million, or 21%, as base sales to customers and the Government fell dramatically post September 2017 hurricanes that devastated the islands.
- Operating expenses decreased by \$1.0 million, or 6%, mainly as a result of a \$1.0 million fall in operations and maintenance expenses tempered by a \$0.2 million increase in administrative and general expenses.
- Total production expenses have increased by \$0.9 million as compared to the prior year.

### Capital Asset and Debt Administration

#### *Capital Assets*

The Water System's capital assets as of June 30, 2019, amounted to \$69.7 million (net of accumulated depreciation and property-related gains), which reflected an increase of \$3.6 million, or 6% compared to last year. These capital assets include land, transmission, distribution and collection systems, buildings and fixed equipment, and furniture, fixtures, and equipment. The table below provides the detail of capital assets net of accumulated depreciation and property-related gains.

<i>June 30,</i>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Land	\$ 184,225	\$ 184,225	\$ 184,225
Utility plant in service	55,721,103	54,598,458	54,045,096
Buildings and fixed equipment	4,281,385	3,991,763	5,884,535
Furniture, fixtures, and equipment	381,041	463,514	596,895
Construction in progress	9,122,439	6,817,816	4,117,973
<b>Net utility plant</b>	<b>\$ 69,690,193</b>	<b>\$ 66,055,776</b>	<b>\$ 64,828,724</b>

The Authority's fiscal year 2019 capital budget included investing \$15.9 million in capital projects. Included in the amount of capital projects are \$8.7 million of water projects that have been identified for funding from the U.S. Department of Interior, U.S. Department of Agriculture, U.S. Environmental Protection Agency, Virgin Islands local agencies, and \$1.5 million from the Virgin Islands Government Property Capital Tax Fund. The balance of the funding for the capital program was expected to be provided from internal sources, including available cash balances. Additional information on capital assets can be found in Note 7.

# Water System of the Virgin Islands Water and Power Authority

## Management's Discussion and Analysis

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### *Long-Term Debt*

The table below provides the detail of long-term debt.

<i>June 30,</i>	2019	2018	2017
Revenue bonds	\$ 75,000,000	\$ 75,000,000	\$ 3,665,000
Less unamortized bond discount	-	-	-
<b>Total</b>	<b>\$ 75,000,000</b>	<b>\$ 75,000,000</b>	<b>\$ 3,665,000</b>

The Authority's ability to incur long-term indebtedness is capped by Virgin Islands statute at \$750.0 million for the Electric and Water Systems combined. As of June 30, 2019, combined long-term debt amounts to approximately \$483.5 million. Additional information on long-term debt can be found in Note 9.

### **Coronavirus COVID-19 Pandemic**

In December 2019, a novel strain of coronavirus, known as COVID-19, was reported which quickly spread around the globe, including the United States and its Territories. In March 2020, the Governor of the U.S. Virgin Islands declared a state of emergency due to COVID-19. The extent of the impact of COVID-19 on the operational and financial performance of the Authority will depend on certain developments, including the duration and spread of the outbreak and impact on customers, employees, and vendors, all of which are uncertain and cannot be predicted.

### **Requests for Information**

This financial report is designed to provide a general overview of the Water System's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, Virgin Islands Water and Power Authority, P.O. Box 1450, St. Thomas, USVI 00804.

## **Financial Statements**

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# Water System of the Virgin Islands Water and Power Authority

## Statements of Net Position

June 30,	2019	2018
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 7,730,515	\$ 3,569,831
Accounts receivable:		
Customers and other, net	1,027,770	3,560,154
Virgin Islands Government, net	2,027,503	1,956,162
Grants receivable	37,292	1,071,985
Unbilled revenues	1,640,551	2,223,471
Inventories:		
Water	234,578	424,323
Materials and supplies	517,789	558,740
Prepayments and other current assets	1,382,351	1,031,603
Total current assets	14,598,349	14,396,269
Restricted assets:		
Cash and cash equivalents	2,030,678	1,044,949
Other noncurrent assets:		
Virgin Islands Government accounts receivable, net	2,638,699	3,476,292
Interfund advance to Electric System	75,000,000	75,000,000
Total other noncurrent assets	77,638,699	78,476,292
Capital assets:		
Utility plant in service	112,729,637	110,170,989
Less accumulated depreciation	(51,857,381)	(50,441,018)
Property-related gains, net	(488,727)	(676,236)
Net utility plant in service	60,383,529	59,053,735
Non-depreciable assets	9,306,664	7,002,041
Net capital assets	69,690,193	66,055,776
<b>Deferred Outflows of Resources</b>		
Pension related outflows	6,790,472	11,804,892
OPEB outflows	93,780	86,780
Total deferred outflows of resources	6,884,252	11,891,672
Total assets and deferred outflows of resources	\$ 170,842,171	\$ 171,864,958

*Continued on next page.*

# Water System of the Virgin Islands Water and Power Authority

## Statements of Net Position (continued)

<i>June 30,</i>	2019	2018
<b>Liabilities, Deferred Inflows of Resources, and Net Position</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 6,539,560	\$ 5,289,525
Fuel rate revenue refundable	4,231,769	1,558,533
Lines of credit	2,521,455	2,521,455
<b>Total current liabilities</b>	<b>13,292,784</b>	<b>9,369,513</b>
Liabilities payable from restricted assets:		
Unearned revenue	1,108,549	253,229
Accrued interest payable	550,403	142,690
<b>Total liabilities payable from restricted assets</b>	<b>1,658,952</b>	<b>395,919</b>
Long-term debt:		
Water System revenue bonds	75,000,000	75,000,000
Other long-term liabilities:		
Net pension liability	44,298,575	50,670,361
Net OPEB liability	9,858,518	9,478,955
Due to Electric System	421,683	5,308,369
<b>Total long-term liabilities</b>	<b>54,578,776</b>	<b>65,457,685</b>
<b>Total liabilities</b>	<b>144,530,512</b>	<b>150,223,117</b>
Deferred inflows of resources:		
Pension related inflows	13,413,953	9,562,974
OPEB inflows	1,259,647	1,486,973
<b>Total deferred inflows of resources</b>	<b>14,673,600</b>	<b>11,049,947</b>
Net position:		
Net investment in capital assets	69,690,193	66,055,775
Restricted	371,726	649,029
Unrestricted (deficit)	(58,423,860)	(56,112,910)
<b>Total net position</b>	<b>11,638,059</b>	<b>10,591,894</b>
<b>Total liabilities, deferred inflows of resources, and net position</b>	<b>\$ 170,842,171</b>	<b>\$ 171,864,958</b>

*See accompanying notes to financial statements.*

# Water System of the Virgin Islands Water and Power Authority

## Statements of Revenues, Expenses, and Changes in Net Position

Years Ended June 30,	2019	2018
<b>Operating Revenues</b>		
Water sales to customers	\$ 12,776,297	\$ 10,374,308
Water sales to Virgin Islands Government	9,224,851	8,386,394
Fuel escalator revenues	7,767,873	5,745,500
Line loss surcharge	675,990	692,663
Other operating revenues	670,967	469,268
Bad debt expense	(2,991,903)	(899,632)
Total operating revenues	28,124,075	24,768,501
<b>Operating and Production Expenses</b>		
Production cost of water distributed	14,154,179	12,045,668
Operations and maintenance	6,386,649	6,333,334
Customer service	1,013,886	776,402
Administrative and general	7,289,095	9,893,655
Depreciation, net of amortization	1,228,854	1,211,667
Total operating and production expenses	30,072,663	30,260,726
Operating loss	(1,948,588)	(5,492,225)
<b>Nonoperating Revenues (Expenses)</b>		
Interest expense	(574,755)	(251,816)
Investment earnings	2,848	15,744
Total nonoperating expenses	(571,907)	(236,072)
Change in net position, before capital grants and contributions and special item	(2,520,495)	(5,728,297)
Capital grants and contributions	3,566,660	1,302,659
Impairment loss on capital assets	-	(1,273,354)
Increase (decrease) in net position	1,046,165	(5,698,992)
Net position, beginning of year, as previously reported	10,591,894	16,756,881
Change in accounting principle (see Note 1)	-	(465,995)
Net position, beginning of year, as restated	10,591,894	16,290,886
Net position, end of year	\$ 11,638,059	\$ 10,591,894

*See accompanying notes to financial statements.*

# Water System of the Virgin Islands Water and Power Authority

## Statements of Cash Flows

Years Ended June 30,	2019	2018
<b>Cash Flows from Operating Activities</b>		
Receipts from customers	\$ 32,005,631	\$ 22,231,927
Payments to suppliers	(23,888,261)	(21,480,392)
Payments to employees	(3,400,164)	(3,578,686)
<hr/>		
Net cash provided by (used in) operating activities	4,717,206	(2,827,151)
<hr/>		
<b>Cash Flows from Capital and Related Financing Activities</b>		
Principal paid on long-term debt	-	(3,665,000)
Proceeds from Water Revenue Bonds	-	75,000,000
Interest paid on long-term debt	(142,690)	(100,787)
Interest paid on lines of credit	(24,352)	(87,671)
Interfund advance to Electric System	-	(75,000,000)
Acquisition and construction of capital assets	(4,863,271)	(3,712,072)
Capital grants and contributions received	5,456,672	62,000
<hr/>		
Net cash provided by (used in) capital and related financing activities	426,359	(7,503,530)
<hr/>		
<b>Cash Flows from Investing Activities</b>		
Interest received	2,848	15,744
Purchases, sales, and maturities of investments, net	-	7,658,329
<hr/>		
Net cash provided by investing activities	2,848	7,674,073
<hr/>		
Net change in cash and cash equivalents	5,146,413	(2,656,608)
Cash and cash equivalents, beginning of year	4,614,780	7,271,388
<hr/>		
Cash and cash equivalents, end of year	\$ 9,761,193	\$ 4,614,780

*Continued on next page.*

# Water System of the Virgin Islands Water and Power Authority

## Statements of Cash Flows (continued)

Years Ended June 30,	2019	2018
<b>Cash and cash equivalents</b>		
Unrestricted	\$ 7,730,515	\$ 3,569,831
Restricted	2,030,678	1,044,949
	<b>\$ 9,761,193</b>	<b>\$ 4,614,780</b>
<b>Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities</b>		
Operating loss	\$ (1,948,588)	\$ (5,492,225)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation	1,416,363	1,399,176
Amortization of deferred property-related gains	(187,509)	(187,509)
Changes in operating assets and liabilities:		
Accounts receivable, net	3,881,556	(2,536,574)
Inventories	230,696	(74,216)
Prepayments and other current assets	(350,748)	(257,862)
Fuel rate revenue refundable	2,673,236	2,151,918
Due to Electric System	(4,886,686)	(2,358,510)
Accounts payable and accrued liabilities	1,250,036	309,101
Net pension liability	(6,371,786)	(6,078,816)
Deferred outflows of resources	5,007,420	4,912,827
Deferred inflows of resources	3,623,653	5,863,547
Net OPEB liability	379,563	(478,008)
Net cash provided by (used in) operating activities	<b>\$ 4,717,206</b>	<b>\$ (2,827,151)</b>

*See accompanying notes to financial statements.*

# Water System of the Virgin Islands Water and Power Authority

## Notes to the Financial Statements

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### 1. Reporting Entity and Summary of Significant Accounting Policies

#### *Reporting Entity*

The Virgin Islands Water and Power Authority (the Authority) is an instrumentality that was created by the government of the United States Virgin Islands (the Government) in 1964. The Authority was created to operate a water production and distribution system (the Water System) and an electric generation and distribution system (the Electric System) in the United States Virgin Islands. The Authority is governed by a nine-member board, three of whom are appointed by the Governor of the Virgin Islands from his Cabinet, and six of whom are nominated by the Governor of the Virgin Islands and confirmed by the Virgin Islands Legislature. As such, as the Government has determined that the Authority is a component unit. The Water and Electric Systems are separately financed, and each system's indebtedness is repayable from its net revenues. The Authority is required by its bond resolutions to maintain separate accounting for each system. Each system is a major fund of the Authority for financial reporting purposes.

The Water System of the Authority accounts for all activities associated with the production and distribution of water to customers. The accompanying financial statements include only the financial activities of the Water System major fund and are not intended to present fairly the financial position and changes in net position of the Authority.

#### *Measurement Focus and Basis of Accounting*

The Authority complies with all applicable pronouncements of the Governmental Accounting Standards Board (GASB). The operations of the Authority are presented as an enterprise fund and as such, the financial statements are reported using the economic measurement focus and the accrual basis of accounting. Under this basis, revenues are recognized in the period earned and expenses are recognized in the period incurred regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

In accordance with the Water System Revenue Bond Resolution (Bond Resolution), rates are designed to cover debt service, capital expenditures, and other operating expense requirements, excluding depreciation and other noncash expense items. This method of rate setting results in costs being included in the determination of rates in different periods rather than when these costs are recognized for financial statement purposes.

#### *Rates and Regulation*

The Authority is regulated by the Virgin Islands Public Services Commission (PSC or the Commission). The Commission has the authority to approve, modify, or deny any proposed rate changes made by the Authority.

The Authority is further subject to the provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* which address accounting rules for regulated operations. This standard allows regulated entities such as the Authority to record certain assets or liabilities as a result of the regulated ratemaking process.

# Water System of the Virgin Islands Water and Power Authority

## Notes to the Financial Statements

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Regulatory assets generally represent incurred costs that have been capitalized because such costs are probable of future recovery in customer rates and for the Water System, these comprise of fuel costs recoverable.

Regulatory liabilities generally represent obligations to make refunds to customers for previous collections for costs that are not likely to be incurred or items that will be credited to customers in future periods and for the Water System, these include fuel rate revenue refundable and unamortized property-related gains.

At June 30, 2019 and 2018, the fuel rate revenue refundable balance was \$4.2 million and \$1.6 million, respectively, which represent an excess collection of the Levelized Energy Adjustment Clause (LEAC) over the actual fuel costs incurred and will be refunded to customers in subsequent billings. Regulatory liabilities also include property-related gains, net of accumulated amortization, of \$489 thousand and \$676 thousand as of June 30, 2019 and 2018, respectively, which are being amortized over future periods as approved by the Commission.

In order for a rate-regulated entity to continue to apply the provisions of GASB Statement No. 62, it must meet the following three criteria: (1) the enterprise's rates for regulated services provided to customers must be established by an independent 3<sup>rd</sup> party regulator or its own governing board empowered by a statute to establish rates that bind customers, (2) the regulated rates must be designed to recover the specific enterprise's costs of providing the regulated services, and (3) in the view of the demand for the regulated services and level of competition, it is reasonable to assume that rates, set at levels that will recover the enterprise's costs, can be charged and collected from customers.

Management believes that the Authority currently meets the criteria for continued application of GASB Statement No. 62, but will continue to evaluate significant changes in the regulatory and competitive environment to assess the ability to continue to apply GASB Statement No. 62. If the Authority no longer applied GASB Statement No. 62 due to competition, regulatory changes, inadequate rates, or other reasons, the Authority would make certain adjustments that would include the write-off of all or a portion of its regulatory assets and liabilities, the evaluation of utility plant, contracts, and commitments, and the recognition, if necessary, of any losses to reflect market conditions.

### ***Cash and Cash Equivalents***

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, bank demand accounts, money market accounts, certificates of deposit, and overnight repurchase agreements. The Authority considers all investments with an original maturity of three months or less to be cash equivalents.

### ***Inventories***

Water, materials, and supplies inventories are stated at cost using the weighted-average unit cost method, which approximates the first-in, first-out method. Obsolete and unusable inventory is reduced to estimated salvage value.

# Water System of the Virgin Islands Water and Power Authority

## Notes to the Financial Statements

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### ***Prepayments and Other Current Assets***

Prepayments and other current assets consist primarily of amounts paid by the Authority for services not yet provided by vendors, which primarily relate to property and liability insurance.

### ***Capital Assets***

Capital assets are recorded at cost, which includes material, payroll-related costs, overhead, and an allowance for borrowed funds used during construction. Capital expenditures of \$1,000 or more are capitalized. Maintenance and repairs are charged to operating expense as incurred. The cost of depreciable plant retired is eliminated from the utility plant accounts, and such costs, plus cost of removal less salvage, are charged to accumulated depreciation.

Depreciation of capital assets is computed using the straight-line method over estimated service lives ranging from 3 to 100 years. Depreciation expense is net of the property-related gain amortization of \$188 thousand for each of the years ended June 30, 2019 and 2018. Depreciation, net of property-related gain amortization, was equivalent to 0.93% and 0.75% of average depreciable property for the years ended June 30, 2019 and 2018, respectively.

In accordance with accounting principles generally accepted in the United States of America, management reviews the estimated useful lives of capital assets on a periodic basis. The results of an engineering condition assessment and depreciation rate review indicated the lives of certain utility plant assets were longer than the estimated useful lives used for depreciation purposes in the Water System's financial statements. As a result, effective July 1, 2013, estimates of the useful lives were changed to better reflect the estimated periods during which these assets will remain in service.

The Authority also reviews the carrying value of its capital assets to determine if circumstances exist indicating impairment. If facts or circumstances support the possibility of impairment, management follows the guidance in GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. If impairment is indicated, an adjustment is made to the carrying value of the capital assets. Also see Notes 2 and 7.

### ***Property-Related Gains***

Insurance and Federal Emergency Management Agency (FEMA) proceeds exceeded the net book value of assets retired as a result of damages sustained from Hurricane Hugo in September 1989 and Hurricane Marilyn in September 1995. To account for these excess proceeds, the Authority recorded property-related gains to be recovered in future periods as mandated by the Commission. The property-related gains are being amortized and offset against depreciation expense over the estimated useful lives of the replacement assets. At June 30, 2019 and 2018, property-related gains, net of accumulated amortization, totaled \$489 and \$676 thousand, respectively.

### ***Deferred Outflows of Resources***

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until that time. Deferred outflows of resources for the Water System consist of unrecognized items not yet charged to pension expense and OPEB expense and contributions from the employer after the measurement date but before the end of the employer's reporting period, as may be applicable.

# Water System of the Virgin Islands Water and Power Authority

## Notes to the Financial Statements

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### ***Compensated Absences***

The Authority accrues for compensated absences in accordance with accounting principles generally accepted in the United States of America. The Authority allows vesting of permanent employee annual leave, which is governed by the period of employment. Vested annual leave in excess of 480 hours is transferred to the Employees' Retirement System of the Government of the Virgin Islands (GERS) for retirement service credit.

### ***Net Pension Liability***

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans, as well as additions to and deductions from the pension plan fiduciary net position have been determined on the same basis as they are reported in the financial statements of GERS. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Also see Note 10.

### ***Net Other Postemployment Benefits (OPEB) Liability***

The Authority provides certain postemployment health care benefits to retired employees under a single employer health insurance plan (OPEB plan). The Authority has an established trust for its OPEB obligations (OPEB Trust) that is held by an independent custodian. The OPEB Trust issues a stand-alone financial report.

The Authority's net OPEB liability was measured as of June 30, 2018 and June 30, 2017, respectively, using an actuarial valuation date of June 30, 2017. For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expenses, information about the fiduciary net position of the OPEB Trust, and additions to/deductions from the OPEB Trust's fiduciary net position have been determined on the same basis as they are reported by the Authority's OPEB plan as of the same measurement date. For this purpose, the Authority's OPEB plan recognizes benefit payments when due and payable in accordance with the benefit terms.

### ***Bond Issuance and Refunding***

Bonds and notes premiums and discounts are deferred and amortized over the life of the debt using the effective interest method and are reported net of the applicable bond premium or discount. When issuing new debt for refunding purposes, the difference between the reacquisition price of the new debt and the net carrying amount of the refunded debt is recognized as either a deferred outflow of resources or deferred inflow or resources and amortized using the straight-line method as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.

### ***Inter-System Transactions***

As of June 30, 2019 and 2018, the Water System had a payable to the Electric System in the amount of \$421 thousand and \$5.3 million, respectively, as a result of transfer of cash to pay for fuel costs incurred, and other allocated operating, maintenance, and administrative expenses. As of June 30, 2019 and 2018, the Water System also had an interfund advance receivable from the Electric System amounting to \$75.0 million as a result of an intersystem loan transaction. These intersystem balances are noninterest-bearing and have no set repayment date.

# Water System of the Virgin Islands Water and Power Authority

## Notes to the Financial Statements

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The Water System has classified these balances as noncurrent because it did not expect to collect or pay such amounts within 12 months of the respective fiscal year-ends.

### ***Deferred Inflows of Resources***

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources for the Water System consist of the unamortized portion of the net differences between projected and actual earnings on pension plan and OPEB plan investments, changes in assumptions, and other differences between expected and actual experience.

### ***Net Position***

Net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition or construction of those assets. Net position is reported as restricted when there are limitations imposed on its use, either through legislation or external restrictions imposed by creditors, grantors, laws, or regulations. Unrestricted Net Position consists of assets which do not meet the definition of the two preceding categories.

### ***Revenue Recognition***

Revenues are recorded as service is provided to customers. The Water System accrues the nonfuel portion of base revenues for services rendered but unbilled. The cost of fuel for the Water System is passed directly through to its customers. Every six months, the Commission establishes a LEAC rate that is designed to true-up the fuel costs recovered through the Water System's base rates.

If the amount recovered through rates exceeds actual fuel costs, the Water System records fuel costs refundable as a regulatory liability, plus interest at 8.75%, for amounts to be refunded through future rates over the following six-month period. If the amount recovered through rates is less than the actual fuel costs, the Water System records fuel costs recoverable as a regulatory asset, without interest, for amounts to be collected through future rates, generally over the following six-month period.

The Water System distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering water, in connection with the Water System's principal ongoing operations. The principal operating revenues for the Water System are charges to customers for sales and services. Operating expenses for the Water System include the cost of sales and services, administrative expenses, and depreciation on utility plant. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

### ***Capital Grants and Contributions***

The United States Government and the Virgin Islands Government appropriate and make available to the Authority grant funds for the construction and improvement of water production and distribution facilities. The assets and revenues arising from government grants are recorded when the Authority meets the eligibility requirements. If resources are received in advance of satisfying certain eligibility requirements, the recognition of revenues is deferred.

# Water System of the Virgin Islands Water and Power Authority

## Notes to the Financial Statements

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The Authority also receives capital contributions from customers (nongovernment) for construction and improvement of the facilities. The Authority maintains ownership and operation of the facilities. For the years ended June 30, 2019 and 2018, the Water System recognized capital grants of \$3.6 million and \$1.1 million, respectively, from the United States Government. For the year ended June 30, 2018, the Authority recognized capital grants of \$169 thousand from the Virgin Islands Government. There were no such amounts received from the Virgin Islands Government for the year ended June 30, 2019.

### ***Cost Allocation***

The Water and Electric Systems share administrative and operating personnel. Payroll and a substantial portion of other operating expenses are initially incurred by the Electric System and are subsequently allocated to the Water System based on labor costs and hours. The operating costs allocated to the Water System for the years ended June 30, 2019 and 2018, amounted to \$5.5 million and \$6.5 million, respectively.

Expenses incurred for common or integrated facilities are allocated between the systems using an engineering study that is based on monthly production statistics and the Water System's power consumption. The production costs allocated to the Water System for the years ended June 30, 2019 and 2018, amounted to \$2.6 million and \$2.5 million, respectively.

### ***Commitments and Contingencies***

The Authority accrues liabilities for loss contingencies, including deductibles for insurance claims and environmental remediation costs, arising from claims, assessments, litigation, fines and penalties, and other sources when it is probable that a liability has been incurred and the amount of the claim, assessment, and/or remediation can be reasonably estimated.

### ***Use of Estimates in the Preparation of Financial Statements***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### ***Adoption of Accounting Procurements***

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions. It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The requirements of this Statement were effective for the Authority's financial statements for the year ended June 30, 2018. The Authority has evaluated this Statement and restated the financial statements to reflect the beginning OPEB liability, deferred outflows and inflows of resources, and the recognition of OPEB expense and contributions made between the start of the measurement period and the Authority's prior fiscal year. Also see Note 11.

# Water System of the Virgin Islands Water and Power Authority

## Notes to the Financial Statements

The following details the restatement to net position as of July 1, 2017, as a result of the adoption of GASB Statement No. 75.

Net position, July 1	\$ 16,756,881
Adoption of GASB Statement No. 75	(465,995)
Net position, July 1, as restated	\$ 16,290,886

Following are statements issued by GASB that are effective in future years. In light of the COVID-19 pandemic, on May 8, 2020, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, to provide relief to governments. This Statement, which was effective upon issuance, postpones the effective dates of certain provisions in these upcoming pronouncements for one year, except for GASB Statement No. 87 which is postponed for eighteen months.

GASB Statement No.	Adoption Effective in Fiscal Year (as Revised)
83	Certain Asset Retirement Obligations 2020
84	Fiduciary Activities 2021
87	Leases 2022
88	Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements 2020
89	Accounting for Interest Cost Incurred Before the End of a Construction Period 2022
90	Majority Equity Interests - An Amendment of GASB Statements No. 14 and No. 61 2021
91	Conduct Debt Obligations 2023
92	Omnibus 2020 2022
93	Replacement of Interbank Offered Rates 2022
94	Public-Private and Public-Public Partnerships and Availability Payment Arrangements 2023
96	Subscription-Based Information Technology Agreements 2023
97	Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32 2022

# Water System of the Virgin Islands Water and Power Authority

## Notes to the Financial Statements

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Certain provisions of GASB Statement No. 92 are excluded from GASB Statement No. 95. Additionally, GASB Statement No. 95 excludes provisions in GASB Statement No. 93 related to lease modifications and excludes GASB Statement No. 94 since the GASB considered the pandemic in determining effective dates. Earlier application of the standards is permitted to the extent specified in each pronouncement as originally issued. The Authority is currently evaluating the impact of these statements.

### ***Reclassifications***

Certain amounts in the 2018 financial statements have been reclassified to conform to the 2019 presentation.

## **2. Natural Disasters - Hurricanes Irma and Maria**

On September 6 and 19, 2017, the United States Virgin Islands were struck by two Category 5 hurricanes. The extent and severity of the storms was unprecedented and resulted in catastrophic damage to the Territory, as a whole.

The Authority's water distribution storage tanks, in general, suffered minor damages except for one tank which lost approximately 20% of its dome roof plate as a result of flying debris. There were no complete tank failures to the water storage tanks on the Territory. As a result, the Authority was able to provide water service to customers at low elevations immediately after the storm events.

On or about September 7 and 20, 2017, the President of the United States declared the United States Virgin Islands a disaster area and eligible for Federal Emergency Management Agency (FEMA) recovery assistance. As such, to further aid with storm related losses caused by the hurricanes, reimbursement of expenditures will be secured through Federal assistance and other contributions. Also see Notes 9 and 14.

## **3. Deposits and Investments**

In accordance with its policies and Revenue Bond Resolution, the Authority is authorized, with certain restrictions, to invest in open accounts, time deposits, certificates of deposit, repurchase agreements, obligations of the United States Government, and obligations of any state within the United States, mutual funds, and corporate commercial paper.

The Water System held certificates of deposits of approximately \$3.2 million as of June 30, 2019 and 2018, respectively, with a maturity date of less than a year. Cash deposits were \$403 thousand and \$1.4 million as of June 30, 2019 and 2018, respectively.

Interest Rate Risks - As a means of limiting its exposure to fair value losses from rising interest rates, the Authority has an investment practice for operating funds which is structured to provide sufficient liquidity to pay obligations as they come due and (1) limits 80% of investments to not more than one-year maturities and (2) requires that the portfolio have no more than 20% in securities maturing in or having an average life of more than ten years. Bond proceeds and reserve funds are managed in accordance with bond covenants and funding needs which could result in maturities longer than ten years.

# Water System of the Virgin Islands Water and Power Authority

## Notes to the Financial Statements

Credit Risks and Concentration of Credit Risks - As of June 30, 2019, the Water System's exposure to credit risk is evaluated by the ratio of investments including deposits and investments in U.S. government securities, certificates of deposit, and cash deposits. The Authority places no limit on the amount the Water System may invest in any one permitted investment type.

As of June 30, 2019, 36% of the Water System's cash is invested in certificates of deposit and 64% are in cash deposits. As of June 30, 2018, 69% of the Water System's cash is invested in certificates of deposit and 31% are in cash deposits.

Custodial Risks - Custodial credit risk is the risk that in the event of bank failure, the Authority's deposit may not be returned. The Authority does not have a custodial risk policy. The Authority maintains its deposits at several financial institutions, which, at times may exceed federally insured limits. Generally, the Federal Deposit Insurance Corporation insures depositor funds up to \$250,000. The Authority places both Water and Electric System cash and cash equivalents with some of the same high credit quality financial institutions that are federally insured. Therefore, in the event of a loss, federal insurance recoveries would have to be allocated among the two systems. As such, the potential amounts held in excess of the FDIC limits for the Water System were \$6.0 million at June 30, 2019. The Authority has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents.

### 4. Accounts Receivable

Accounts receivable, current and non-current, at June 30, 2019 and 2018, consists of the following:

	2019	2018
Customers	\$ 10,669,177	\$ 10,404,423
Other	3,105	3,106
<u>Less allowance for doubtful accounts</u>	<u>(9,644,512)</u>	<u>(6,847,375)</u>
Customers and other, net	1,027,770	3,560,154
Virgin Islands Government	4,709,807	5,476,042
<u>Less allowance for doubtful accounts</u>	<u>(43,605)</u>	<u>(43,588)</u>
Virgin Islands Government, net	4,666,202	5,432,454
Grants	37,292	1,071,985
<u>Unbilled revenues</u>	<u>1,640,551</u>	<u>2,223,471</u>
Accounts receivable, net	\$ 7,371,815	\$ 12,288,064

Management of the Authority has been working with the Government and its various instrumentalities in an attempt to obtain payment on outstanding receivable balances and to increase the percentage of remittances on current billings for services.

The Authority has made certain arrangements with specific governmental agencies concerning the collection of past due accounts receivable. As of June 30, 2019 and 2018, the Authority has classified Government accounts receivable of approximately \$2.6 million and \$3.5 million, respectively, as noncurrent because these balances are expected to take longer than one year from the statement of net position dates to be paid by the various government agencies.

# Water System of the Virgin Islands Water and Power Authority

## Notes to the Financial Statements

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### 5. Restricted Assets

The Water System Revenue Bond Resolution, as amended, and certain Commission regulatory orders establish the following funds and accounts, which are restricted as to their usage:

Construction and Rehabilitation Funds - Amounts in the Construction and Rehabilitation Funds shall be used to pay the cost of construction of plant and equipment used in the production and distribution of water. The Construction and Rehabilitation Funds are held by the Authority.

Line Loss Fund - Amounts maintained in the Line Loss Fund are to be utilized for projects that address losses on the Water System.

Water System revenues and all funds established by the Bond Resolution are pledged for payment of bond principal and interest. The trustee funds as outlined above consist primarily of cash equivalents. Other funds specified by the Bond Resolution and the Commission are also primarily in cash and cash equivalents.

It is the Authority's policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted assets are available.

Restricted assets at June 30, 2019 and 2018, consist of the following:

	2019	2018
Rehabilitation Fund	\$ 518,151	\$ 516,512
Construction Fund	203,172	155,533
Line Loss Fund	200,806	119,675
Advances on Grants	1,108,549	253,229
	<u>\$ 2,030,678</u>	<u>\$ 1,044,949</u>

### 6. Advances on Grants

The Authority received advance grant funding from the Government to improve the water distribution system and to extend the water lines to Anna's Retreat and Smith Bay for the purpose of making potable water available to customers on the eastern end of St. Thomas. As of June 30, 2019, and 2018, the Authority received \$1.1 million and \$253 thousand of the advances, respectively, and these are reflected as unearned revenues in the accompanying Statements of Net Position.

# Water System of the Virgin Islands Water and Power Authority

## Notes to the Financial Statements

### 7. Capital Assets

Capital assets activity for the year ended June 30, 2019, was as follows:

Description	Beginning Balance	Additions	Transfers	Impairment, Disposals, and Other	Ending Balance
Non-depreciable assets:					
Land and land right	\$ 184,225	\$ -	\$ -	\$ -	\$ 184,225
Constructions in progress	6,817,816	3,432,644	(1,128,021)	-	9,122,439
<b>Total non-depreciable assets</b>	<b>7,002,041</b>	<b>3,432,644</b>	<b>(1,128,021)</b>	<b>-</b>	<b>9,306,664</b>
Depreciable assets:					
Utility plant	110,170,989	1,430,627	1,128,021	-	112,729,637
Accumulated depreciation	(50,441,018)	(1,416,363)	-	-	(51,857,381)
Property-related gains	(676,236)	-	-	187,509	(488,727)
<b>Total depreciable assets, net</b>	<b>59,053,735</b>	<b>14,264</b>	<b>1,128,021</b>	<b>187,509</b>	<b>60,383,529</b>
<b>Capital assets, net</b>	<b>\$ 66,055,776</b>	<b>\$ 3,446,908</b>	<b>\$ -</b>	<b>\$ 187,509</b>	<b>\$ 69,690,193</b>

Capital assets activity for the year ended June 30, 2018, was as follows:

Description	Beginning Balance	Additions	Transfers	Impairment, Disposals, and Other	Ending Balance
Non-depreciable assets:					
Land and land right	\$ 184,225	\$ -	\$ -	\$ -	\$ 184,225
Constructions in progress	4,117,973	3,008,906	(280,284)	(28,779)	6,817,816
<b>Total non-depreciable assets</b>	<b>4,302,198</b>	<b>3,008,906</b>	<b>(280,284)</b>	<b>(28,779)</b>	<b>7,002,041</b>
Depreciable assets:					
Utility plant	112,665,722	731,946	280,284	(3,506,963)	110,170,989
Accumulated depreciation	(51,275,451)	(1,399,176)	-	2,233,609	(50,441,018)
Property-related gains	(863,745)	-	-	187,509	(676,236)
<b>Total depreciable assets, net</b>	<b>60,526,526</b>	<b>(667,230)</b>	<b>280,284</b>	<b>(1,085,845)</b>	<b>59,053,735</b>
<b>Capital assets, net</b>	<b>\$ 64,828,724</b>	<b>\$ 2,341,676</b>	<b>\$ -</b>	<b>\$ (1,114,624)</b>	<b>\$ 66,055,776</b>

In September 2017, the U.S. Virgin Islands were struck by two category 5 hurricanes. As a result of the hurricanes, the Authority evaluated its capital assets in accordance with GASB Statement No. 42 and realized a loss from impairment of \$1.3 million for the year ended June 30, 2018. Actual repairs to damaged capital assets are expected to far exceed the calculated impairment losses. The impairment loss is reported as a special item in the accompanying Statements of Revenues, Expenses, and Changes in the Net Position.

# Water System of the Virgin Islands Water and Power Authority

## Notes to the Financial Statements

### 8. Lines of Credit

The Authority has available bank lines of credit of \$2.5 million for the Water System. Interest on amounts borrowed is payable quarterly at a variable interest rate of prime plus 1.0%, London Inter-Bank Offer Rate (LIBOR) plus 1.75%, or 175 basis points above the interest rate on three-year United States Government treasury notes.

The Authority has the option to select the variable interest rate to utilize for any borrowings on these notes. At both June 30, 2019 and 2018, there was \$2.5 million outstanding under the lines of credit for the Water System. The lines were extended to have a maturity of July 2021. Furthermore, there are certain financial reporting covenants that the Authority must comply with. The agreements require the Authority to deliver audited financial statements within 180 days after the end of its fiscal year. The banks have granted the Authority a waiver from this requirement for the year ended June 30, 2019.

### 9. Long-Term Liabilities

Long-term debt consists of the following at June 30:

	2019	2018
2018 Series, Water System Revenue and Refunding Bonds, interest payable semiannually at 2.3% - 2.9%, maturing semiannually through July 1, 2033. Interest is paid in January and July.	\$ 75,000,000	\$ 75,000,000
Less current installments	-	-
<b>Long-term debt, excluding current installments</b>	<b>\$ 75,000,000</b>	<b>\$ 75,000,000</b>

In November 2017, in order to fund its working capital needs in the aftermath of Hurricanes Irma and Maria, the Authority obtained \$31.0 million under the Community Disaster Loan program administered by FEMA. In March 2018, the Authority entered into another loan for \$44.0 million and refinanced the existing \$31.0 million for a combined loan of \$75.0 million, secured now as a first lien of the Water System's revenues. The proceeds of these loans were used to provide working capital mostly for fuel invoices, payroll, and other critical operating expenses. While the loan is reflected under the Water System, the payment of principal and interest is subject to an intercompany agreement whereby 17% will be allocated to the Water System and 83% to the Electric System. The Authority may request draw-downs periodically. The interest rate varies with each draw-down, ranging from 2.3% to 2.9%.

The first interest payment is due July 1, 2021 with subsequent payments due semiannually. The first principal payment is due January 1, 2022 with subsequent payments due semiannually. The following is a schedule of changes in long-term debt for the year ended June 30, 2019:

Description	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Revenue bonds	\$ 75,000,000	\$ -	\$ -	\$ 75,000,000	\$ -

# Water System of the Virgin Islands Water and Power Authority

## Notes to the Financial Statements

The following is a schedule of changes in long-term debt for the year ended June 30, 2018:

Description	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Revenue bonds	\$ 3,665,000	\$ 75,000,000	\$ (3,665,000)	\$ 75,000,000	\$ -

Future debt service requirements to maturity as of June 30, 2019, on the revenue bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2020	\$ -	\$ -	\$ -
2021	-	1,072,710	1,072,710
2022	-	4,961,092	4,961,092
2023	3,541,921	4,207,155	7,749,076
2024	5,887,315	1,877,660	7,764,975
2025 - 2029	32,210,649	6,904,292	39,114,941
2030 - 2034	33,360,115	2,281,353	35,641,468
<b>Total</b>	<b>\$ 75,000,000</b>	<b>\$ 21,304,262</b>	<b>\$ 96,304,262</b>

### 10. Pension Plan

Following is a description of the pension plan and accounting for pension expense, liabilities, and deferred outflows/inflows of resources. As required, the Authority follows the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68* and GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*.

#### *Plan Description and Benefits*

Full time employees of the Authority are members of the Government Employees' Retirement System of the U.S. Virgin Islands (GERS), a cost sharing multi-employer, defined benefit pension plan (the plan) established as of October 1, 1959 Title 3, Chapter 27 of the Virgin Islands Code to provide retirement, death, and disability benefits. Benefits may be extended to beneficiaries of plan members.

The plan covers all employees of the Authority, except employees compensated on a contract fee basis, casual, per diem or provisional, and part time employees who work less than 20 hours per week. Persons over the age of 55 may opt out of the plan by providing formal notification to the plan. Vesting of benefits occurs after 10 years of service. Benefits may be extended to beneficiaries of plan members.

There are two tiers within the plan:

- Tier I: Employees hired prior to September 30, 2005
- Tier II: Employees hired on or after October 1, 2005

# Water System of the Virgin Islands Water and Power Authority

## Notes to the Financial Statements

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Regular Tier I employees who have completed thirty (30) years of credited service or have attained age sixty (60) with at least ten (10) years of credited service are eligible for a full-service retirement annuity. Regular Tier II employees who have attained age sixty-five (65) with at least ten (10) years of service are eligible for a full-service retirement annuity.

Members who are considered "safety employees " as defined in the Code are eligible for full-service retirement benefits under Tier I when they have earned at least twenty (20) years of government service or have reached the age of fifty-five (55) with at least ten (10) years of credited service. Under Tier II, safety employees are eligible for full retirement when they have earned at least twenty-five (25) years of government service and have reached age fifty-eight (58) or have reached age (60) with at least ten (10) years of service.

The monthly annuity benefit payment is determined by applying a stipulated benefit ratio to the member's average compensation. Average compensation for regular and safety Tier I members is determined by averaging the five highest years of credited service within the last ten years of service, subject to the maximum salary limitations in effect during such service. Average compensation for regular and safety Tier II members is based on career average salary, subject to the maximum salary limitations in effect during the service. The maximum annual salary that can be used in this computation is \$65,000.

In 1995, the Early Retirement Incentive Training and Promotion Act was amended by the Legislature to allow a member with a combined aggregate number of years of service and age of at least seventy-five (75) years to retire without a reduction in their annuity. Early retirement benefits provided under the Act vary depending upon age of retirement, type of employment, and credited years of service.

GERS is a separate and independent agency that is included for financial reporting purposes as a blended pension trust fund of the Government. GERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Government Employees' Retirement System of the U.S. Virgin Islands, 3438 Kronprindsens Gade, St. Thomas, Virgin Islands 00802.

### ***Funding and Contribution Policy***

Contributions to GERS are established by the Board of Trustees of GERS. The Government's required employer contribution for Tier I and Tier II members effective January 1, 2015, was 20.50% of the member's annual salary. On January 1, 2020, the employer contribution for Tier I and Tier II members was increased to 23.5%.

Employee contribution rates (as a percentage of payroll) for fiscal years 2019 and 2018 were as follows:

	<u>Tier 1</u>	<u>Tier 2</u>
Regular Employees	11.0%	11.5%
Public Safety Employees	13.0%	13.625%

Prior to June 29, 2000, member contributions were refundable without interest upon withdrawal from employment before retirement. Effective July 1, 2009, GERS' Board of Trustees approved an effective annual interest rate on refunded contributions of 2.00% per annum.

# Water System of the Virgin Islands Water and Power Authority

## Notes to the Financial Statements

Both the plan and the Authority have a September fiscal year end. GASB Statement No. 68 requires that the reported results must pertain to liability and asset information within certain defined time frames. For this report, the following time frames are used:

	2019	2018
Valuation Date	October 1, 2018	October 1, 2017
Measurement Date	September 30, 2018	September 30, 2017
Measurement Period	October 1, 2017 - September 30, 2018	October 1, 2016 - September 30, 2017

The Authority is considered an employer of the plan with a proportionate share of 6.2448% and 6.8044% as of the measurement dates of September 30, 2018 and 2017, respectively. The Authority's percentage was estimated by management based on the average of each employer's contributions during the period October 1, 2013 through September 30, 2018. Management has determined an allocation percentage to apply to the Electric System and Water System based on those systems' employment burdens to the Authority as a whole (approximately 83% and 17%, respectively).

The Authority's proportionate share of employer contributions recognized by GERS was \$5.1 million for each of the plan's fiscal years ended September 30, 2018 and 2017. The Water System's allocated share of employer contributions for the same period was \$0.9 million per fiscal year.

### ***Pension Liabilities, Expense, and Deferred Outflows/Inflows of Resources***

As of June 30, 2019 and 2018, the Authority's proportionate share of the net pension liability of the Plan was \$260.6 million and \$298.1 million, respectively, and the allocation to the Water System was \$44.3 million and \$50.7 million, respectively. The net pension liability of the plan is measured as of September 30, 2018 and 2017, and the total pension liability for the plan used to calculate the net pension liability was determined by an actuarial valuation as of October 1, 2018 and 2017, respectively.

For the years ended June 30, 2019 and 2018, the Authority recognized pension expense of \$13.6 million and \$22.1 million, respectively, inclusive of amortization of deferred outflows of pension related items. Of those amounts, \$2.3 million and \$3.8 million was allocated to the Water System's pension expense, respectively. Following is a schedule of deferred outflows of resources and deferred inflows of resources allocated to the Water System in the computation of net pension liability for the year ended June 30, 2019:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ 5,207,526	\$ 5,516,659
Net difference between projected and actual earnings on pension plan investments	83,658	-
Difference between expected and actual experience	1,028,493	-
Changes in proportionate share	-	7,897,294
Contributions made subsequent to measurement date	470,795	-
	\$ 6,790,472	\$ 13,413,953

# Water System of the Virgin Islands Water and Power Authority

## Notes to the Financial Statements

Following is a schedule of deferred outflows of resources and deferred inflows of resources allocated to the Water System in the computation of net pension liability for the year ended June 30, 2018:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ 8,357,110	\$ 3,585,821
Net difference between projected and actual earnings on pension plan investments	287,465	-
Difference between expected and actual experience	1,533,027	-
Changes in proportionate share	1,051,514	5,977,153
Contributions made subsequent to measurement date	575,776	-
	\$ 11,804,892	\$ 9,562,974

Amounts reported as deferred outflows and inflows, exclusive of contributions made after the measurement date, will be recognized in pension expense as follows:

*Year ending June 30,*

2020	\$ (12,365,574)
2021	(10,961,221)
2022	1,890,173
2023	1,738,832
2024	8,556,744
Thereafter	4,046,770
	\$ (7,094,276)

### ***Actuarial Assumptions***

A summary of the actuarial assumptions and methods used to calculate the total pension liability as of the measurement dates at September 30, 2018 and 2017 is provided below, including any assumptions that differ from those used in the corresponding October 1, 2018 and 2017 actuarial valuations. Refer to the October 1, 2018 and 2017 actuarial valuation reports for a complete description of all other assumptions, which can be found on GERS' website.

<i>September 30,</i>	<b>2018</b>	<b>2017</b>
Inflation Rate	2.50%	2.50%
Salary Increases	3.25% including inflation	3.25% including inflation
Actuarial Cost Method	Entry age normal	Entry age normal
Expected Rate of Return	7.00%	7.00%
Municipal Bond Yield	4.18%	3.64%
Discount Rate	4.25%	3.74%
Mortality Table	RP-2014 Blue Collar	RP-2014 Blue Collar

The demographic assumptions for the 2018 actuarial valuation are based on the results of an actuarial experience study for the period October 1, 2011 through September 30, 2015.

# Water System of the Virgin Islands Water and Power Authority

## Notes to the Financial Statements

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### *Investment Rate of Return*

The long-term expected rates of return of 7.00% for the years ended 2018 and 2017, respectively, on plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the plan's target asset allocation, as of the measurement date at September 30, 2018, are summarized below:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Domestic equity	29%	6.16%
International equity	12%	6.71%
Fixed income	27%	1.71%
Cash	2%	0.91%
Alternative	30%	5.50%

Best estimates of arithmetic real rates of return for each major asset class included in the plan's target asset allocation, as of the measurement date at September 30, 2017, are summarized below:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Domestic equity	29%	6.21%
International equity	12%	7.21%
Fixed income	27%	1.56%
Cash	2%	0.91%
Alternative	30%	5.50%

### *Discount Rate*

The discount rate used to measure the total pension liability was 4.25% as of the measurement date at September 30, 2018, and 3.74% as of the measurement date at September 30, 2017. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate, including the future increases in the employee contribution rates legislated. Based on those assumptions, the plan's fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members.

Therefore, the long-term expected rate of return on plan investments of 7.00% was applied to all periods of projected benefit payments that are covered by projected assets. For periods where projected future benefit payments are not covered by projected assets, the yield on a 20-year AA Municipal Bond Index was applied, which was 4.18% and 3.64% as of the measurement date at September 30, 2018 and 2017, respectively.

# Water System of the Virgin Islands Water and Power Authority

## Notes to the Financial Statements

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### *Sensitivity of Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*

The following presents the Water System's allocation of the Authority's proportionate share of the net pension liability (NPL) for the plan, calculated using the discount rate, as well as what the Water System's allocation of the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate for the year ended June 30, 2019:

1.0% Decrease - Share of NPL @ 3.25%	Share of NPL @ 4.25%	1.0% Increase - Share of NPL @ 5.25%
\$ 50,955,483	\$ 44,298,575	\$ 38,767,522

The following presents the Water System's allocation of the Authority's proportionate share of the net pension liability (NPL) for the plan, calculated using the discount rate, as well as what the Water System's allocation of the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate for the year ended June 30, 2018:

1.0% Decrease - Share of NPL @ 2.74%	Share of NPL @ 3.74%	1.0% Increase - Share of NPL @ 4.74%
\$ 58,783,677	\$ 50,670,361	\$ 43,975,369

Detailed information about the pension plan's fiduciary net position is available in the separately issued GERS financial report.

## 11. Other Post-Employment Benefits (OPEB) Plan

### *Plan Description and Benefits*

The Authority provides certain post-employment health care benefits to retirees under a health insurance plan. These benefits are extended at the discretion of the Authority, which reserves the right to change or terminate benefits and to change premium contributions required from retirees in the future as circumstances change. All employees who are eligible for service retirement with the GERS (see Note 10) qualify for the Authority's post-employment health care benefits. An OPEB trust, the Virgin Islands Water and Power Authority Voluntary Employees' Beneficiary Association Trust, was established during the measurement period ended on June 30, 2017.

The post-employment benefits include continued access to coverage for the retiree and dependents in the medical, prescription, and dental plan sponsored by the Authority. At June 30, 2019, the following current and former employees were covered by the benefit terms:

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Active employees	513
Inactive employees or beneficiaries	407
Total participants	920

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# Water System of the Virgin Islands Water and Power Authority

## Notes to the Financial Statements

### **Net OPEB Liability**

The Authority employs an actuary to assist in estimating the OPEB liability for the Authority as a whole and then allocates that liability and related cost systematically to the Water and Electric Systems. The total OPEB liability for the Authority's years ended June 30, 2019 and June 30, 2018 were measured as of June 30, 2018 and June 30, 2017, respectively, using an actuarial valuation date of June 30, 2017.

The following table shows the components of the Authority's changes in the total OPEB liability, the plan fiduciary net position, and the net OPEB liability during the measurement period ended June 30, 2018.

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Beginning balances	\$ 10,200,455	\$ 721,500	\$ 9,478,955
Changes for the year:			
Service cost	357,696	-	357,696
Interest	415,560	-	415,560
Changes to assumptions	-	-	-
Contributions - employer	-	82,683	(82,683)
Contributions - other	-	255,618	(255,618)
Net investment income	-	55,392	(55,392)
Benefit payments	(82,683)	(82,683)	-
Distributions - other	(255,618)	(255,618)	-
Net changes	434,955	55,392	379,563
Ending balances	\$ 10,635,410	\$ 776,892	\$ 9,858,518

# Water System of the Virgin Islands Water and Power Authority

## Notes to the Financial Statements

The following table shows the components of the Authority's changes in the total OPEB liability, the plan fiduciary net position, and the net OPEB liability during the measurement period ended June 30, 2017.

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Beginning balances, as restated	\$ 11,453,816	\$ -	\$ 11,453,816
Changes for the year:			
Service cost	456,666	-	456,666
Interest	342,993	-	342,993
Changes to assumptions	(1,724,693)	-	(1,724,693)
Contributions - employer	-	1,030,858	(1,030,858)
Net investment income	-	18,969	(18,969)
Benefit payments	-	(328,327)	328,327
Distributions - other	(328,327)	-	(328,327)
Net changes	(1,253,361)	721,500	(1,974,861)
Ending balances	\$ 10,200,455	\$ 721,500	\$ 9,478,955

### Actuarial Assumptions

The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Actuarial Cost Method:	Entry Age Normal
Inflation:	2.50%
Salary Increases:	3.25%, including inflation
Investment rate of return:	4.00%
Healthcare cost trend rates:	Based on the Getzen Model, with trend starting at 0.00% in FY 2018 to reflect actual premiums, 6.75% in FY 2019, and gradually decreasing to an ultimate trend rate of 4.51%. The ultimate trend value includes a 0.27% load for excise tax.
Mortality:	For pre-retirement mortality and post-retirement healthy mortality, 110% of the RP-2014 Blue Collar Employee Mortality Table with generational projection from 2015 using Scale MP-2015. For post-retirement disabled lives, 125% of the RP-2014 Disabled Annuitant Mortality Table with generational projection from 2015 using Scale MP-2015.

# Water System of the Virgin Islands Water and Power Authority

## Notes to the Financial Statements

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### *Discount Rate*

GASB Statement No. 75 includes a specific requirement for the discount rate that is used for the purpose of the measurement of the total OPEB liability (TOL). This rate considers the ability of the fund to meet benefit obligations in the future. To make this determination, employer contributions, employee contributions, benefit payments, expenses, and investment returns are projected into the future. The projected plan fiduciary net position (assets) in future years can then be determined and compared to its obligation to make benefit payments in those years. For years when assets are projected to be on hand to meet benefit payments, the assumed net long-term rate of return is used as the discount rate. For years when assets are not projected to be sufficient to meet benefit payments, the use of a specific municipal yield is used as the discount rate, as described in the following paragraph.

The Single Discount Rate (SDR) is equivalent to applying the following two rates to the benefits that are projected to be paid during the different time periods. The SDR reflects (1) the long-term expected rate of return on OPEB plan investments (during the period in which the fiduciary net position is projected to be sufficient to pay benefits) and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating (which is published by Fidelity) as of the measurement date (to the extent that the projected plan fiduciary net position based on the long-term expected rate of return is insufficient to pay benefits).

For the purpose of this measurement, the expected rate of return on OPEB plan investments is 4.00% as of June 30, 2017; the municipal bond rate is 3.56% as of June 30, 2017. The Authority does not have a formal funding policy. However, the Authority has a track record of paying benefits out of its general revenue in addition to depositing ad hoc amounts into the OPEB trust. It was assumed that the Authority would continue this practice. Based on the current pattern, the OPEB plan's fiduciary net position together with the future contributions are expected to be available to finance all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

### *Sensitivity of the Net OPEB Liability to Changes in the Discount Rate*

The following presents the Water System's allocation of the Authority's net OPEB liability (NOL) to changes in the Single Discount Rate, calculated using a Single Discount Rate of 4.00%, as well as what the Water System's allocation of the Authority's net OPEB liability would be if it were calculated using a Single Discount Rate that is 1% lower or 1% higher than the current rate for the year ended June 30, 2019:

<b>1.0% Decrease - Share of NOL @ 3.00%</b>	<b>Share of NOL @ 4.00%</b>	<b>1.0% Increase - Share of NOL @ 5.00%</b>
<b>\$ 11,511,212</b>	<b>\$ 9,858,518</b>	<b>\$ 8,515,364</b>

# Water System of the Virgin Islands Water and Power Authority

## Notes to the Financial Statements

The following presents the Water System's allocation of the Authority's net OPEB liability (NOL) to changes in the Single Discount Rate, calculated using a Single Discount Rate of 4.00%, as well as what the Water System's allocation of the Authority's net OPEB liability would be if it were calculated using a Single Discount Rate that is 1% lower or 1% higher than the current rate for the year ended June 30, 2018:

1.0% Decrease - Share of NOL @ 3.00%	Share of NOL @ 4.00%	1.0% Increase - Share of NOL @ 5.00%
\$ 11,075,099	\$ 9,478,955	\$ 8,196,838

### *Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates*

Regarding the sensitivity of the net OPEB liability to changes in the healthcare cost trend rates, the following presents the Water System's allocation of the Authority's net OPEB liability, calculated using the same trend rates as employed in the most recent funding valuation as well as what the plan's net OPEB liability would be if it were calculated using a sequence of rates that are 1% lower or 1% higher than the current rate for the year ended June 30, 2019:

1.00% Decrease	Current healthcare cost Trend Rate Assumption Baseline	1.00% Increase
\$ 8,505,654	\$ 9,858,518	\$ 11,855,919

The following presents the Water System's allocation of the Authority's net OPEB liability, calculated using the same trend rates as employed in the most recent funding valuation as well as what the plan's net OPEB liability would be if it were calculated using a sequence of rates that are 1% lower or 1% higher than the current rate for the year ended June 30, 2018:

1.00% Decrease	Current healthcare cost Trend Rate Assumption Baseline	1.00% Increase
\$ 8,045,797	\$ 9,478,955	\$ 11,302,378

### *OPEB Plan Fiduciary Net Position.*

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued Trust financial report.

# Water System of the Virgin Islands Water and Power Authority

## Notes to the Financial Statements

### ***OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB***

For the year ended June 30, 2019, the Authority recognized OPEB expense of \$2.9 million of which \$.5 million was allocated to the Water System. Following is a schedule of deferred outflows of resources and deferred inflows of resources allocated to the Water System in the computation of net OPEB liability for the year ended June 30, 2019:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ -	\$ 1,231,923
Net difference between projected and actual earnings on pension plan investments	-	27,724
Contributions made subsequent to measurement date	93,780	-
	\$ 93,780	\$ 1,259,647

For the year ended June 30, 2018, the Authority recognized OPEB expense of \$3.2 million of which \$.5 million was allocated to the Water System. Following is a schedule of deferred outflows of resources and deferred inflows of resources allocated to the Water System in the computation of net OPEB liability for the year ended June 30, 2018:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ -	\$ 1,478,308
Net difference between projected and actual earnings on pension plan investments	-	8,665
Contributions made subsequent to measurement date	86,780	-
	\$ 86,780	\$ 1,486,973

Amounts reported as deferred outflows and inflows, exclusive of contributions made after the measurement date, will be recognized in OPEB expense as follows:

*Year ending June 30,*

2020	\$ (253,857)
2021	(253,857)
2022	(253,857)
2023	(251,691)
2024	(246,385)
	\$ (1,259,647)

### ***Payable to the OPEB Plan***

At June 30, 2019 and 2018, the Water System reported a payable of \$93,780, and \$86,780 for the outstanding amount of contributions to the Plan required for the year ended June 30, 2018 and 2017, respectively.

# Water System of the Virgin Islands Water and Power Authority

## Notes to the Financial Statements

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### 12. Commitments and Contingencies

#### *Litigation*

The Authority is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Water System's financial position, changes in net position, or liquidity. Additionally, Title 30, Section 111(a) of the Virgin Islands Code exempts the Authority's Water System property from lien, levy, and sale as the result of any judgment against the Authority, except by bondholders.

#### *Grant Funds*

In connection with Federal and state government grant programs, the Authority is obligated to administer and spend the grant monies in accordance with regulatory restrictions, and is subject to audit by the grantor agencies. In cases of non-compliance, the agencies involved may require the Authority to refund program monies. Management believes these non-compliance instances, if any, should not materially affect the Authority's financial position.

#### *Insurance Program*

The Water System is exposed to various risks of loss related to damage and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The Authority mitigates this risk of loss by purchasing commercial insurance, including general liability, excess liability, workers' compensation, property, and employee health, life, and accident.

The Authority's commercial insurance policies cover catastrophic exposures, as well as those risks required to be insured by law or contract. It is the policy of the Authority to retain a significant portion of certain losses related primarily to physical loss to property, business interruption resulting from such loss, and comprehensive general and vehicle liability. There were no reductions in coverage from the prior year, and the amount of settlements has not exceeded insurance coverage for each of the past three years. Also see Notes 2 and 7.

#### *Construction Contracts*

During the normal course of business, the Authority contracts with various construction companies to help the Authority maintain, replace, and expand its utility plant. These construction costs are expected to be paid for using proceeds from government grants, contributions from developers, and cash from operations.

#### *Agreements with Seven Seas Corporation*

The Authority has signed two agreements with Seven Seas Corporation to build, operate, and maintain two reverse osmosis facilities, one on St. Croix and one on St. Thomas, and sell the water from the facilities to the Water System. The agreements both have 20-year terms expiring through 2032. The amounts paid by the Water System to Seven Seas Corporation under the agreements were \$10.0 million and \$8.8 million for 2019 and 2018, respectively.

# Water System of the Virgin Islands Water and Power Authority

## Notes to the Financial Statements

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### *Operating Leases*

During the normal course of business, the Authority leases various property and equipment to support Water System operations. The leases are generally short term in nature and lease payments are not significant to the overall operations of the Water System.

### **13. Regulatory Matters**

In April 1998, the Governor signed into law Virgin Islands Act No. 6224, which provides that the Authority, as well as certain other instrumentalities of the Government, make a payment to the Government in lieu of taxes equal to 10% of net revenues or \$500,000, whichever is greater. The term “net revenues” is not defined in the legislation. Subject to further clarification from the Legislature, the Authority has interpreted net revenues as net income calculated in accordance with accounting principles generally accepted in the United States of America. For the years ended June 30, 2019 and 2018, the Water System did not incur any expenses related to this tax.

### **14. Subsequent Events**

#### *Federal Assistance - Hurricanes Irma and Maria*

FEMA’s Public Assistance Grant Program (PA) provides federal support to include assistance for debris removal, life-saving emergency protective measures, and the repair, replacement, or restoration of disaster-damaged facilities. As of February 2021, the Authority has been approved for approximately \$540.8 million in grant funding for emergency restoration work. Additionally, as of February 2021, FEMA has approved approximately \$642.3 million in grant funding for permanent and hazard mitigation projects.

In addition to incurring significant storm related expenses, recurring operating revenues of the Authority have been reduced. In the interim, the Authority has revised its fiscal years 2020 and 2021 budgets. In a further effort to close potential shortfalls and to serve returning citizens, the Authority continues to work closely with Federal agencies, to maximize its recovery from all available sources. While inflows of Federal and private funds continue to bolster the reconstruction activity, the eventual amount and timing for receipt of such funds cannot be predicted at this time.

In December 2020, the Authority through the Government of the Virgin Islands, received notice from FEMA of the results of audits related to the PA program awards. As a result, the Authority received a notice of potential debt in the amount of \$97.1 million. In response to the notice, in February 2021, the Authority exercised its option to appeal the notice and provided additional clarification and documentation. Management believes these non-compliance instances, if any, should not materially affect the Authority’s financial position.

# Water System of the Virgin Islands Water and Power Authority

## Notes to the Financial Statements

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### ***Rate Case***

In November 2019, the Authority proposed a reduction in the Water System LEAC from \$6.350 per KGAL to \$5.030 per KGAL to the Public Services Commission. In its December 2019 meeting, the Commission voted to approve the reduced LEAC rates. The decreased Water System LEAC rates went into effect on all bills issued on or after January 1, 2020.

### ***Global Pandemic***

In January 2020, the World Health Organization announced a global health emergency due to a new strain of coronavirus known as COVID-19. Subsequently, in March 2020, the Governor of the U.S. Virgin Islands declared a state of emergency. The state of emergency was approved by the President of the United States under the provisions of the Stafford Act and the National Emergencies Act. A federally approved state of emergency activates federal assistance to states in the form of financial, logistical, and technical assistance. The state of emergency also activates other emergency response protocols and systems to protect citizenry such as stay-at-home orders, travel restrictions, and social distancing requirements.

As the emergency measures are eased, management continues to actively monitor the evolving impact of the COVID-19 outbreak on its financial condition, including the duration of the closings, speed of recovery, and impact on demand. The Authority believes that it will have the necessary resources to fund essential services and make timely debt service payments.

### ***Economic Relief Legislation***

In March 2020, the President of the United States signed into law the “Coronavirus Aid, Relief, and Economic Security (CARES) Act.” The CARES Act, among other things, appropriated funds for the Coronavirus Relief Fund to be used to make payments for specified uses to state, territorial, local, and tribal governments.

In December 2020, “The Consolidated Appropriations (CA) Act” was passed. The CA Act, among other things, provided for an extension of time to spend any CARES Act funds until December 31, 2021, and provided funding for education, healthcare, broadband, and transportation. The Authority has evaluated all programs related to the CARES and CA Acts and has determined there is no impact to the Water System’s operations.

In March 2021, “The American Rescue Plan (ARP) Act of 2021” was signed into law. The ARP Act, among other things, appropriated funds for the Coronavirus Capital Projects Fund and for specified uses to state, territorial, local, and tribal governments. There is no assurance that the Authority will be eligible for these funds or will be able to obtain them. The Authority continues to examine the impact that the ARP Act may have on its operations.

### ***Management’s Evaluation***

Management has evaluated any events or transactions occurring after June 30, 2019, the statement of net position date, through June 30, 2021, the date the financial statements were available to be issued, and noted that there have been no additional events or transactions which would require adjustments to or disclosure in the Water System’s financial statements for the year ended June 30, 2019.

**Required  
Supplementary Information**

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# Water System of the Virgin Islands Water and Power Authority

## Schedule of Changes in OPEB Liability and Related Ratios

<i>Measurement year ended June 30,</i>	2018	2017
<b>Total OPEB Liability:</b>		
Service Cost	\$ 2,104,095	\$ 2,686,270
Interest on the Total OPEB Liability	2,444,471	2,017,603
Assumption Changes	-	(10,145,248)
Benefit Payments	(1,990,007)	(1,931,335)
Net Change in Total OPEB Liability	2,558,559	(7,372,710)
Total OPEB Liability - Beginning*	60,002,677	67,375,387
<b>Total OPEB Liability - Ending (a)</b>	<b>\$ 62,561,236</b>	<b>\$ 60,002,677</b>
<b>Plan Fiduciary Net Position:</b>		
Employer Contributions (Trust Deposits)	\$ 486,370	\$ 4,324,854
Employer Contributions (Benefits Paid Outside the Trust)	1,503,637	1,739,016
OPEB Plan Net Investment Income	325,836	111,584
Benefit Payments	(1,990,007)	(1,931,335)
Net Change in Plan Fiduciary Net Position	325,836	4,244,119
Plan Fiduciary Net Position - Beginning	4,244,119	-
<b>Plan Fiduciary Net Position - Ending (b)</b>	<b>\$ 4,569,955</b>	<b>\$ 4,244,119</b>
Net OPEB Liability (Asset) - Ending (a) - (b)	57,991,281	55,758,558
Plan Fiduciary Net Position as a percentage of Total OPEB Liability	7.30%	7.07%
Covered Payroll	\$ 31,157,523	\$ 30,176,778
<b>Net OPEB Liability as a Percentage of Covered Payroll</b>	<b>186.12%</b>	<b>184.77%</b>

*This schedule is intended to show a 10-year trend for the Authority of which the Water System's share would be 17% of the above. Additional years will be reported as they become available.*

*\* An OPEB trust was established during the measurement period ended June 30, 2017. Consequently, the beginning total OPEB liability was calculated using a discount rate of 2.92% based on municipal bond rates prevailing on June 30, 2016.*

# Water System of the Virgin Islands Water and Power Authority

## Schedule of Water System's OPEB Contributions

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<i>Fiscal Year</i>	2018	2017
Actuarially required contributions	\$ 841,030	\$ 1,431,446
Contributions in relation to the actuarially required contributions	338,301	1,030,858
Contribution deficiency (excess)	\$ 502,729	\$ 400,588
Covered payroll	\$ 5,296,779	\$ 5,130,052
Contributions as a percentage of covered payroll	6.39%	20.09%

*This schedule is intended to show a 10-year trend. Additional years will be reported as they become available. Actuarially required contributions are calculated as of June 30 of the preceding year, which is 24 months prior to the end of the fiscal year in which contributions are made and reported.*

# Water System of the Virgin Islands Water and Power Authority

## Schedule of the Water System's Share of the Net Pension Liability

<i>Fiscal Year</i>	2019	2018	2017	2016	2015
Water System's proportion of the net pension liability	1.0616%	1.1567%	1.2165%	1.2924%	1.4591%
Water System's proportionate share of the net pension liability	\$ 44,298,575	\$ 50,670,361	\$ 56,283,182	\$ 53,044,578	\$ 45,026,931
Water System's covered payroll	\$ 4,639,357	\$ 4,347,492	\$ 3,665,263	\$ 3,275,222	\$ 4,010,648
Water System's proportionate share of the net pension liability as a percentage of its covered payroll	955%	1166%	1536%	1620%	1123%
Plan fiduciary net position as a percentage of the total pension liability	15.56%	16.18%	16.54%	19.58%	27.26%

*This schedule is intended to show a 10-year trend. Additional years will be reported as they become available. The amounts presented for each fiscal year are as of the measurement date (September 30 of the previous year).*

# Water System of the Virgin Islands Water and Power Authority

## Schedule of the Water System's Pension Contributions

<i>Fiscal Year</i>	2019	2018	2017	2016	2015
Actuarially required contributions	\$ 3,441,816	\$ 3,651,478	\$ 3,587,192	\$ 3,030,406	\$ 2,919,510
Contributions in relation to the actuarially required contributions	575,327	753,841	735,017	597,521	793,748
Contribution deficiency (excess)	\$ 2,866,489	\$ 2,897,637	\$ 2,852,175	\$ 2,432,885	\$ 2,125,762
Covered payroll	\$ 4,297,164	\$ 4,639,357	\$ 4,347,492	\$ 3,665,263	\$ 3,725,222
Contributions as a percentage of covered payroll	13.39%	16.25%	16.91%	16.30%	21.31%

*This schedule is intended to show a 10-year trend. Additional years will be reported as they become available. The amounts presented for each fiscal year are as of the latest fiscal year.*

## Supplementary Schedule

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# Water System of the Virgin Islands Water and Power Authority

## Five-Year Comparative Summary of Operations (Unaudited)

Years ended June 30,	2019	2018	2017	2016	2015
<b>Operating revenues:</b>					
Water sales to customers	\$ 13,447,264	\$ 10,843,576	\$ 12,122,915	\$ 12,651,258	\$ 11,437,836
Water sales to Virgin Islands Government	9,224,851	8,386,394	9,729,815	8,223,966	9,503,662
Fuel escalator revenues	7,767,873	5,745,500	8,971,868	9,759,747	11,332,551
Line loss surcharge	675,990	692,663	783,003	723,183	756,256
Bad debt (expense) recovery	(2,991,903)	(899,632)	(400,928)	(80,420)	72,960
<b>Total operating revenues</b>	<b>28,124,075</b>	<b>24,768,501</b>	<b>31,206,673</b>	<b>31,277,734</b>	<b>33,103,265</b>
<b>Operating and production expenses:</b>					
Production cost of water distributed	14,154,179	12,045,668	11,136,598	11,835,397	13,502,213
Operations and maintenance	6,386,649	6,333,334	7,304,716	8,886,167	13,212,720
Customer service	1,013,886	776,402	976,983	925,581	1,248,120
Administrative and general	7,289,095	9,893,655	9,735,687	5,728,301	5,118,068
Depreciation and amortization	1,228,854	1,211,667	1,198,779	3,144,304	3,409,422
<b>Total operating and production expenses</b>	<b>30,072,663</b>	<b>30,260,727</b>	<b>30,352,763</b>	<b>30,519,750</b>	<b>36,490,543</b>
<b>Operating income (loss)</b>	<b>(1,948,588)</b>	<b>(5,492,225)</b>	<b>853,910</b>	<b>757,984</b>	<b>(3,387,278)</b>
<b>Nonoperating revenues (expenses):</b>					
Loss on retirement of capital assets	-	-	-	(3,147,815)	-
Interest expense	(574,755)	(251,816)	(323,221)	(506,873)	(695,573)
Investment earnings	2,848	15,744	33,029	12,922	9,844
<b>Total nonoperating expense</b>	<b>(571,907)</b>	<b>(236,072)</b>	<b>(290,192)</b>	<b>(3,641,766)</b>	<b>(685,729)</b>
Change in net position, before capital grants and contributions and special item	(2,520,495)	(5,728,298)	563,718	(2,883,782)	(4,073,007)
Capital grants and contributions	3,566,660	1,302,659	2,826,369	1,498,989	29,238
Impairment loss on capital assets	-	(1,273,354)	-	-	-
<b>Increase (decrease) in net position</b>	<b>\$ 1,046,167</b>	<b>\$ (5,698,992)</b>	<b>\$ 3,390,087</b>	<b>\$ (1,384,793)</b>	<b>\$ (4,043,769)</b>
<b>Water revenues:</b>					
Residential	\$ 5,688,382	\$ 4,453,075	\$ 4,713,748	\$ 4,548,624	\$ 4,354,561
Commercial	6,298,907	5,497,031	6,583,707	7,072,209	6,311,550
Virgin Islands Government	3,724,718	3,592,244	3,872,803	2,829,962	3,684,954
Other governments	6,394,621	4,794,150	5,857,011	5,394,004	5,818,708
Standpipe	789,008	424,202	378,936	547,669	292,751
Fuel escalator revenues	6,873,385	5,745,500	8,971,868	9,759,747	11,332,551
Line Loss Surcharge	675,990	692,663	783,003	723,183	756,256
Other	670,967	469,268	446,525	482,757	478,974
<b>Total</b>	<b>\$ 31,115,978</b>	<b>\$ 25,668,132</b>	<b>\$ 31,607,601</b>	<b>\$ 31,358,155</b>	<b>\$ 33,030,305</b>
<b>Water sales (gallons) (in thousands):</b>					
Residential	236,967	261,665	209,727	240,443	216,134
Commercial	336,787	181,238	278,953	286,867	262,335
Virgin Islands Government	188,958	149,547	184,051	133,699	185,874
Other governments	476,614	322,926	431,611	369,202	285,783
Standpipe	43,935	20,965	20,759	29,992	15,601
<b>Total</b>	<b>1,283,261</b>	<b>936,341</b>	<b>1,125,101</b>	<b>1,060,203</b>	<b>965,727</b>
<b>Number of customers at year-end</b>	<b>12,729</b>	<b>6,927</b>	<b>12,723</b>	<b>12,441</b>	<b>12,441</b>