



## **Guam Waterworks Authority FY 2013 Financial Highlights**

June 13, 2014

The Guam Waterworks Authority (GWA) closed fiscal year (FY) 2013 with a significant decrease in net position (net loss) of \$5.5 million (M) compared to \$695 thousand (K) increase in net position in FY 2012. The loss was primarily due to the write-down on inventory of \$2.4M and property, plant and equipment disposals of \$2.2M, totaling \$4.7M. In October 2013, the Public Utilities Commission (PUC) approved GWA's second Five Year Rate Plan, which includes an overall base rate hike of 57% coupled with half a billion dollars of borrowing in three separate series of financing throughout the rate plan period. In December 2013, GWA successfully issued \$172.6M in revenue bonds to finance various water and wastewater capital improvement projects. The revenue bonds were issued at investment grade as GWA received the rating of A- with a stable outlook for 2013.

Deloitte and Touche, LLP, rendered unmodified or "clean" opinions on the financial statements and report on compliance for major federal programs. For the report on internal control, the auditors identified one deficiency pertaining to the lack of monitoring of compliance with applicable Davis-Bacon Act requirements. Although no management letter was issued, the letter to those charged with governance identified seven deficiencies in internal controls, of which six pertain to construction in progress and fixed assets. Findings identified occurred because of the lack of communication and cohesiveness between engineering, operations, and accounting.

### **Increase in Revenues was Offset by Increases in Expenses**

GWA's total operating revenues increased by \$5.3M, going from \$70M in FY 2012 to \$74.8M in FY 2013. Operating net income grew due to increases in water rates of 9.14% for both water and wastewater revenues and increased consumption. Water revenue increased by \$3.9M and wastewater revenues increased by \$2M over the prior fiscal year. The increase in revenues was offset by increase in expenses totaling \$5.4M, going from \$64.2M in FY 2012 to \$69.6M in FY 2013. The increase in expenses can be attributed to increases in salaries, wages, and benefits; power purchases; depreciation; waste disposal; and administrative and general expense.

GWA's highest expense items continue to be salaries, wages, and benefits, which account for \$20M or 29% of the Authority's total operating and maintenance expenses. Salaries increased by \$1.2M from the prior year, going from \$18.9M in FY 2012 to \$20.1M in FY 2013. Power purchases was the second largest expense item which increased by \$493K or 2.9%, going from \$17M in FY 2012 to \$17.5M in FY 2013. Depreciation is the third largest expense and is reflected in property, plant, and equipment, its largest asset. Depreciation increased by \$2.3M, going from \$12.1M in FY 2012 to \$14.3M in FY 2013. Administrative and general expense was \$6M or 8.6%, an increase of \$591K from \$5.4M in FY 2012.

Of GWA's \$74.8M in revenues, water revenues (\$48M) account for 64% and wastewater revenues (\$26.7M) account for 36%. The increase in water revenues of \$3.9M over the prior fiscal year was due in part to increased water rates of 9.14% and consumption. For FY 2013, GWA experienced an increase in consumption of water by 469.7M gallons and wastewater by 326.4M gallons.

### **Debt Service and Annual Rate Increases**

In October 2013, the PUC approved GWA's second Five Year Rate Plan which includes an increase in base rate in the aggregate of 57% and approximately half a billion dollars of additional borrowing in three separate series of financing throughout the rate plan period. In December 2013, GWA successfully issued \$172.6M in revenue bonds to finance various water and wastewater capital improvement projects. Amongst the newest capital additions, the three largest projects comprise of the Northern District Wastewater Treatment Interim Improvements of \$15.6M, Meter Replacement Program of \$6.5M, and Central Wastewater Moratorium Project of \$3.9M. Water rates are expected to rise to meet increased debt service. The full annual debt service of \$12M for the issued 2013 bonds will begin in FY 2020.

### **Reports on Compliance and on Internal Controls and Major Federal Programs**

Auditors rendered an unmodified or "clean" opinion on the report on compliance for major federal programs. For the report on internal controls, GWA had one significant deficiency pertaining to the lack of monitoring of compliance with applicable Davis-Bacon Act requirements. As such, related construction contracts did not include a requirement for the contractor or subcontractor to comply with the requirements of the Davis-Bacon Act and Department of Labor regulations, which include a requirement for the contractor or subcontractor to submit weekly a copy of the payroll and a statement of compliance. Although no management letter was issued, the letter to those charged with governance identified seven deficiencies in internal controls, of which six pertain to construction in progress and fixed assets. These findings included:

- Inventory Issuances: 12 items totaling \$62K related to inventory issuance where receipts were not documented and as a result the items were not recorded;
- Monitoring of Construction in Progress (CIP): Program management services were not allocated to specific projects and several CIP projects have not progressed.
- CIP Reclassifications/Closed to Fixed Assets: CIP projects and items related to projects were not timely recorded;
- Fixed Asset Additions: The replaced asset for a fixed asset addition of \$281K was not identified and estimated useful lives of 32 assets were based on an antiquated study in 1998;
- Fixed Asset Disposals: Disposals totaling \$18.1M for meter change outs, projects, and pumps and motors replacements were analyzed and recorded subsequent to year-end;
- Fixed Asset Register and GIS Reconciliation: Reconciliation of depreciated assets totaling \$36.2M have not been reconciled to the Geographic Information System; and
- Fixed Asset Existence: Fixed assets with net book values of \$199K could not be located or did not exist and appear to have been disposed. Those that were disposed were unrecorded.

Among the causes for the findings were the lack of communication and cohesiveness between engineering, operations, and accounting.

For more details, refer to the Management Discussion and Analysis in the audit report at [www.guamopa.org](http://www.guamopa.org) and at [www.guamwaterworks.org](http://www.guamwaterworks.org).