



Guam Waterworks Authority FY 2015 Financial Highlights

January 25, 2016

The Guam Waterworks Authority (GWA) closed fiscal year (FY) 2015 with a net income (net position) of \$18.6 million (M) after two successive annual net losses in FY 2014 and FY 2013. The \$18.6M includes a net pension adjustment of \$3.6M due to the implementation of Government Accounting Standards Board (GASB) Statement No. 68 pertaining to the recording of Pension Liability. Had it not been for this pension adjustment, the ending net income would have been \$15M.

Independent auditors Deloitte and Touche, LLP rendered an unmodified “clean” opinion on GWA’s financial statements, with an emphasis on GWA’s adoption of GASB 68 and 71, which resulted in the restatement of its FY 2014 financial statements. The auditors also rendered an unmodified opinion on its reports on internal control and compliance and Single Audit report on compliance for major federal programs. GWA is to be commended for having no findings for the second year on its report on internal control and compliance.

Governmental Accounting Statement - Pension Liability

The implementation of GASB 68 related to *Accounting and Financial Reporting for Pensions* in FY 2015 resulted in the restatement of GWA’s financial statements for FY 2014, recognizing GWA’s pro rata share of the Government of Guam’s (GovGuam) net pension liability. Per the Government of Guam Retirement Fund, GovGuam’s pension liability of \$1.3 billion (B) in FY 2014 was reduced to \$1.2B in FY 2015. GWA’s pro rata share decreased by \$4.5M, going from \$38.5M in FY 2014 to \$34.0M in FY 2015. The restatement and the change in pension liability reduced salaries, wages, and benefits expenses by \$1.2M and increased net income by the same amount in FY 2014. Similarly in FY 2015, salaries were also reduced by \$3.6M.

Future Cost for Court Order Projects and other Capital Projects

In 2011, the United States Environmental Protection Agency (USEPA), denied GWA’s primary treatment permits for the Hagatna and Northern Wastewater Treatment Plants. GWA and USEPA’s ongoing discussion may lead up to the scheduling timeline for upgrading the plants. GWA expects to receive federal funding of \$170M from Department of Defense (DOD) for the Northern District plant upgrade as the build up from the relocation of US military personnel will directly impact the plant. Approximately \$105M has already been appropriated and authorized to DOD for water and waste water projects.

Debt Service and Future Borrowings

As of September 30, 2015, total bonds payable was \$373.1M and GWA is planning to issue additional bonds of \$161M in FY 2016. The new bonds are to fund GWA’s 2014 - 2019 Capital Improvement Plan. Annual debt service in FY 2015 amounts to \$23.4M. The bonds will mature in

2043 with a total interest of \$381.8M or 102% of the principal amount of \$373.1M. GWA's highest bond rating is A- from Standard & Poor's.

The Guam Power Authority (GPA) incurred \$39M for the design and construction of The Gloria B. Nelson Public Service Building which was funded by 2010 Revenue Bonds. Both GPA and GWA personnel moved into the building in December 2014. Beginning October 2015, GWA will pay \$269,170 annually or \$30,759 monthly for its pro rata share of building costs, inclusive of cost on security guards, janitorial services building insurance and other maintenance.

Increase in Operating Revenues and Decreases in Operating and Non-Operating Expenses

Operating revenues totaled \$93.1M or a 13% increase compared to \$82.7M in the prior year. The increase was primarily due to an 11.8% increase in water rates and a 14.5% in wastewater rates. Subsequently, a 16.5% rate increase became effective for FY 2016.

Operating and maintenance expenses declined by \$1.9M from \$65.9M to \$64M due to decreases in power and water purchases, and waste disposal fees of \$2.6M.

Of GWA's \$93.1M operating revenues, water revenues (\$59.5M) accounted for 64% and wastewater revenues (\$33.9M) accounted for 36%. The commercial, hotel, and residential sectors account for 89% of water revenues.

Reports on Compliance and Internal Control and Major Federal Programs

The auditors rendered an unmodified "clean" opinion on the Report on Compliance and Internal Controls and on major federal programs. The auditors did not identify any findings in FY 2015.

The Management Letter identified seven deficiencies pertaining to internal control over information technology environment.

The letter to those charged with governance identified four deficiencies involving GWA's internal control over financing reporting involving:

- **Fixed Assets Existence.** Certain fixed assets could not be located or appeared no longer usable or disposed of.
- **Monitoring of Construction in Progress (CIP).** Project management costs of \$4.3M for CIP were not appropriately allocated to specific projects for capitalization. Several CIP projects completed as of September 2015 were not timely transferred to fixed assets at year-end. CIP projects were not timely monitored.
- **Monitoring of Inventory.** Two items counted did not agree with the year-end inventory.
- **Accounts Payable Reconciliation.** The accounts payable sub-ledger did not agree with the general ledger, which resulted in an overstatement of accounts payable, but was corrected by management in its closing process.

For FY 2015 there were two uncorrected adjustments that would have decreased net position by \$209.2K.

For more details, refer to the Management Discussion and Analysis in the audit report at www.opaguam.org and at www.guamwaterworks.org.