



Guam Waterworks Authority FY 2014 Financial Highlights

June 29, 2015

The Guam Waterworks Authority (GWA) closed fiscal year (FY) 2014 with a decrease in net position (net loss) of \$7.9 million (M). The net loss was primarily due to the increase in interest on bonds of \$6.5M, going from \$13.5M in FY 2013 to \$20M in FY 2014 and increases in other non-operating expenses totaling \$8.2M. In FY 2014, total revenue bonds payable increased by \$169.7M, from \$207.3M in the prior year to \$377.1M. Deloitte and Touche, LLP rendered an unmodified “clean” opinion on the financial statements.

Debt Service and Future Borrowings

In December 2013, GWA issued 2013 Series Revenue Bonds of \$172.6M to fund capital projects in its five-year Capital Improvement Plan (CIP). In August 2014, GWA also issued 2014 Series Refunding Bonds of \$85.6M to refund all of GWA’s 2005 Series Revenue Bonds. The full annual debt service of \$2.9M for the issued 2014 Bonds will begin in July 2015. By September 30, 2015, total annual debt service requirements (principal and interest) will amount to \$23.3M, an increase of \$9.1M from FY 2014 of \$14.2M. GWA plans to issue additional bonds of \$161M in FY 2016 to implement approximately \$129M of capital projects pursuant to GWA’s 2014-2019 CIP.

Future Cost for Court Order Required Projects

The 2006 Court Order which required GWA to perform approximately \$220M worth of capital improvement projects to bring GWA’s system into compliance, is estimated to cost GWA \$450M to \$500M. Back in November 2011, the United States Environmental Protection Agency (USEPA) denied GWA’s primary treatment permits for the Hagatna and Northern District Wastewater Treatment Plants. As a result of this denial, GWA will be required to upgrade these plants to secondary treatment. The upgrade to secondary treatment plants is estimated to cost \$300M. GWA intends to negotiate with USEPA on the timelines for upgrading the plants, which will determine the implementation schedule for secondary treatment.

State of GWA’s Drinking Water Supply Well

A draft report on Guam’s drinking water assessment entitled “Guam Drinking Water Source Assessment and Protection Program and Wellhead Protection Plan” listed the overall vulnerability ranking of GWA’s drinking water supply wells to contamination, from high risk to moderate to low risk. Of the 122 wells, 77 are considered high risk, 39 moderate risk, and 6 low risk. GWA intends to address these high risk wells through its Capital Improvement Plan. A Wellhead Protection Plan was completed which provides management strategies for GWA to continue and improve protection of wells.

Increase in Operating Revenues was offset by Increases in Non-Operating Expenses

GWA’s total operating revenues increased by \$7.9M, going from \$74.8M to \$82.7M. In addition, operating and maintenance expenses declined by \$2.5M going from \$69.6M to \$67.1M.

Accordingly, operating income grew by \$10.5M or 201% to \$15.7M from \$5.2M. However, the increase of \$10.5M was offset by net increases in non-operating expenses of \$12.3M. These increases were attributed to the increases in interest on bonds of \$6.5M, bond issuance costs of \$4.2M, loss on property, plant and equipment disposals of \$2.8M, and other non-operating expenses of \$1.3M.

Of GWA's \$82.7M operating revenues, water revenues (\$53.2M) account for 64% and wastewater revenues (\$28.9M) account for 35%. The increase in water revenues of \$7.4M was due in part to an 11% increase in water rates and an 8% increase in wastewater rates. However, the water and wastewater consumptions of 6.1M kilo gallons and 4.3M kilo gallons, respectively, have both decreased by 100,000 kilo gallons each from the 2013 consumption.

Governmental Accounting Statement -Pension Liability

The implementation of the Government Accounting Standards Board (GASB) Statement No. 68 related to *Accounting and Financial Reporting for Pensions* will result in significant changes in the GWA's financial statements, as it will be required to report its pro rata share of \$39.3M of Government of Guam's pension liability of \$1.3 billion in FY 2015.

Reports on Compliance and on Internal Control and Major Federal Programs

The auditors rendered an unmodified "clean" opinion on the report on compliance on major federal programs. One non-compliance finding was identified pertaining to procurement wherein purchases totaling \$48K were divided into four smaller purchases ranging \$7K to \$15K and the lack of documentation for procurement method used. This violates the Guam Procurement Rules and Regulations.

A Management Letter identified seven deficiencies pertaining to internal control over information technology environment. In a letter to those charged with governance, there were two areas of deficiencies in internal controls, which pertained to construction in progress and fixed assets. These deficiencies involved unlocated fixed assets, unrecorded asset disposals and depreciation expense, untimely monitoring of projects and lump sum recording of project management expenses. These findings occurred because of the lack of coordination and communication between engineering, operations, and accounting.

Audit Adjustments and Uncorrected Misstatements

The auditors proposed 18 adjustments resulting in a decrease in the net position of \$2.7M. Additionally, there were three uncorrected misstatements that could have reduced the net position by \$275K, however, management determined that the uncorrected misstatements were not material to the FY 2014 financial statements.

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