



GUAM WATERWORKS AUTHORITY
Financial Highlights
Fiscal Year 2012

June 10, 2013

The Guam Waterworks Authority (GWA) closed fiscal year (FY) 2012 with an increase in net assets of \$512 thousand (K) compared to the \$2.9 million (M) decrease in FY 2011. The increase in net assets is due in part to increases of \$2.1M in total water and wastewater revenues and increases in grants from the United States (US) Government totaling \$2.9M. Although revenues increased, overall water consumption declined by 3% or 196M gallons while waste water consumption declined by 116M gallons. The authority continues to be challenged with regulatory requirements and estimates that will cost nearly \$350M to comply with citations by the US Environmental Protection Agency (USEPA) to replace aging infrastructure.

Independent auditors Deloitte and Touche, LLP rendered unqualified “clean” opinions on GWA’s financial statements and report on compliance. Auditors identified two significant deficiencies relative to untimely review and monitoring of fixed assets and communication of construction in progress (CIP) and lack of submission of interim federal financial reports. For FY 2012, GWA had over \$35M in construction work and progress due to the ongoing capital upgrades. A separate management letter identified six findings of which the lack of timely review and communication of fixed assets and CIP was again emphasized.

Increase in Net Operating Income

Operating revenues increased by \$2.2M or 3%, going from \$67.3M in the prior year to \$69.5M. Of the \$69.5M of operating revenues, water revenues account for 63% and wastewater revenues account for 36%. For water revenues, there was a nominal net increase of \$324K in private, government, and legislative surcharge by \$4.1M which was offset by the decline in the Public Utility Commission (PUC) surcharge of \$3.6M and the system development charge of \$238K. The legislative surcharge, which increased by \$1.3M were earmarked to pay benefits for GWA’s supplemental annuity for retirees, medical, dental, life insurance, and COLA.

Similarly, wastewater increased by \$1.8M, a 7.8% increase over the prior year. The increases in private, government, and legislative surcharge amount to \$2.3M which was offset in part by the decline in PUC surcharge of \$224K and system development surcharge of \$247K. Although water and wastewater revenues increased, there was a decline in consumption of water by 196 gallons and wastewater by 116 gallons. The decline was due to antiquated meters and water conservation measures by consumers. In addition to increased operating revenues, GWA received contribution grants from the US Government of \$6.7M. This was an increase of \$2.9M from the prior year.

Operating expenses increased by 1% or \$625K, going from \$63.6M to \$64.2M. The largest expense item to increase was power purchases which increased by \$1.8M or 12% to \$17M. Power represents the second largest expense item, representing 27% of total expenses. The largest expense category is salaries, wages, and benefits which represent 29% or \$18.9M in FY 2012. Although fulltime employees declined by 12, going from 324 to 312 employees, salaries increased by 2.1% or \$392K. Water purchases from the Navy declined by 16% or \$1M to \$5.3M.

Orders and Compliance to USEPA

Despite improved financial performance for FY 2012, GWA faces issues pertaining to meeting compliance with the Safe Drinking Water Act and Clean Water Act standards. Because GWA was unable to meet all deadlines set out in the Stipulated Order, the District Court issued an order setting new deadlines for the unfinished projects and established new projects in November 2011. Additionally, the PUC issued an order requiring GWA to pay the amount of \$18.3M to GovGuam. GWA has not recorded this as a liability for FY 2012 and is currently pending final resolution of the matter.

Also, in November 2011, the USEPA informed GWA that its primary treatment permits for its Wastewater Treatment Plants had been denied and that GWA would be required to upgrade the plants to secondary treatment. As a result, GWA is faced with upgrades estimated to cost approximately \$350M.

Annual Rate Increases

In June 2013, GWA will file its second Five Year Financial Rate Plan with the PUC. Annual rate increases will be requested aggregating to 67% during the Rate Plan period. The rate increases are associated with debt service for three separate capital finances amounting to \$450M to take place in calendar year (CY) 2013, CY 2015 and CY 2017 to address project costs and meet construction deadlines.

Compliance Report and Management Letter

GWA received an unqualified opinion for its Report's on Compliance and Internal Control. Two significant deficiencies were identified pertaining to GWA's untimely and periodic review of fixed assets and non compliance within their grant reporting. Additionally, a Management Letter reported six findings, one of which was a repeat from the prior year. These findings included:

- Year End Adjustments: Lack of timely monitoring and review resulted in 86 post closing adjustments to fixed assets, CIP and related accounts.
- Inventory Reconciliation: GWA's inventory system is antiquated wherein inventory counts and reconciliation were not completed until February 2013.
- Inventory Count – Offsite Locations: upon reconciliation, GWA discovered that inventory within their offsite locations were not accounted for.
- Monitoring of CIP: ten projects totaling \$18M related to fixed assets did not contain an assessment review of the potential effects and six projects totaling \$17.9M was completed in September 2012, but adjusted in February 2013.
- CIP Additions: Two items totaling \$582K were non-CIP related. One transaction for \$43K related replacement of pumps and cables and took less than a month to complete and another item totaling \$65K was for prepaid vehicle maintenance.
- Fire Hydrant Receivables: Since FY 2008, receivables totaling \$6.5M have been outstanding.

For a more detailed discussion on GWA's operations, refer to the Management's Discussion and Analysis or view the reports in its entirety at our website at www.guamopa.org.