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Guam Waterworks Authority – Fiscal Year 2018 Financial Highlights

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Hagåtña, Guam – The Office of Public Accountability released the Guam Waterworks Authority (GWA) financial statements, report on compliance and internal control, management letter, and the auditor’s communication with those charged with governance for fiscal year (FY) 2018. GWA closed FY 2018 with an increase in net position (net income) of \$24.8 million (M), due primarily to the \$23.2M increase in operating income. Also, the FY 2017 financial statements were restated in order to report the net obligation of other post-employment benefits (OPEB), according to the Governmental Accounting Standards Board (GASB) Statement No. 75 –Accounting and Financial Reporting for Post- Employment Benefits other than Pensions.

Independent auditors Deloitte & Touche, LLP (D&T) rendered unmodified “clean” opinions on GWA’s financial statements and compliance for all major federal programs. No findings pertaining to federal funds were identified in FY 2018. For the third consecutive year, GWA qualified as a low-risk auditee.

Status of GWA Capital Improvement Plan, Water Resource Master Plan, and Debt Service

In FY 2018, capital assets increased by \$90.1M. The increase is attributable to on-going major capital improvement projects associated with a 2011 Federal Court Order and GWA’s five-year Capital Improvement Plan (CIP). GWA estimated project costs at \$450M to \$500M. The on-going capital improvement projects are related to wastewater treatment plant replacement, transmission lines, reservoir replacements, booster pump upgrades, sewer line rehabilitation or replacements, acquisition of mechanical and electrical equipment, and general plant improvements. Of 93 court-ordered projects and requirements, 90 are completed or on-schedule for completion by their deadlines. However, the decrease in the availability of foreign workers has led to construction delays, increased construction costs, and fewer bidders for GWA projects due to their size and complex nature.

In 2018, the Consolidated Commission on Utilities approved the adoption of the 2018 Water Resource Master Plan (WRMP). The WRMP outlines GWA’s 20-year planning projections, enterprise consideration, updated goals and objectives, and the CIP needed to upgrade, maintain and sustain the GWA Water and Wastewater Systems. The WRMP will be implemented in 5-year increments. While the 5-year CIP and Rate Plan is being developed, the WRMP indicated initial annual rate increases of 4% to 4.5%, to support anticipated development, and tapering off to 3% to keep pace with inflation.

GWA’s outstanding long-term debt decreased by \$9.7M to \$505.3M as of FY 2018 from \$515.0M in FY 2017.

Non-Revenue Water Continues to be a Challenge

One of GWA’s most challenging problems is the amount of non-revenue water, or unaccounted for water. According to GWA’s latest figures, approximately 58% of the water produced annually is not

consumed or contributing to GWA's revenue, due to either water losses (leaks or breaks) or unauthorized or unbilled consumption. Leaks account for the largest source of non-revenue water. GWA expanded its water loss control program to include leak detection to help reduce non-revenue water. GWA is currently pilot-testing satellite-based, leak detection, which uses advanced satellite imaging to detect potable water leaks within the GWA service area.

Operating Revenues Increased by \$3.2M and Operating Expenses Increased by \$4.2M

GWA's \$24.8M net income increased its total net position to \$164.2M as of FY 2018. Operating revenues totaled \$107.6 M or \$3.2M more than the \$104.4M raised in the prior year. The increase was due primarily to a \$2.2M increase in water revenues from private customers and a \$957 thousand (K) increase in wastewater revenues from government customers. In FY 2018, water revenues (\$69.3M) accounted for 64% of GWA's operating revenues, while wastewater revenues (\$40.0M) accounted for 37%. The residential (48%), commercial (21%), and hotel (21%) sectors continue to account for 90% of water revenues. Residential water revenues significantly increased by \$2.3M.

Operating and maintenance expenses increased by \$4.2M in FY 2018. The top two contributing factors were increases in power expenses and water purchased from the U.S. Navy. Power expenses increased by \$2.6M due to a combination of approximately 1.8M additional kilowatt-hours of power purchased and a 15.6% increase in GPA's tariff. Water purchased from the U.S. Navy increased by \$1.4M due to a combination of approximately 37.7K additional kilogallons of water purchased and a 13.8% increase in the Navy's tariff. As a result, operating income declined by a net of \$978K during FY 2018.

FY 2017 Financial Statements Restatement, OPEB, and Pension Liabilities

GWA implemented GASB No. 75, which pertains to the accounting and reporting of post-employment medical, dental, and life insurance benefits to retirees, their spouses, children, and survivors. The recording of GWA's \$93.7M net OPEB obligation as of FY 2017 resulted in the restatement of its FY 2017 financial statements, which decreased its previously reported net position by \$83.5M. GWA's restatement of its FY 2017 retiree healthcare costs and other benefits decreased its previously reported net income by \$7.8M. GWA recorded an \$89.0M liability for its net OPEB obligation as of FY 2018.

As of FY 2018, GWA recorded its \$45.5M proportionate share of the Government of Guam's net pension liabilities. GWA's \$45.5M net pension liability included \$10.9M for the ad hoc cost of living allowance (COLA)/supplemental annuity plan for Defined Benefit retirees and \$1.4M for the ad hoc COLA plan for Defined Contribution Retirement System retirees. GWA's pension expense decreased to \$2.3M in FY 2018.

Reports on Compliance and on Internal Control and Major Federal Programs

D&T issued clean opinions on GWA's financial statements and compliance for all major federal programs, with zero findings in FY 2018. In addition, D&T issued management letter comments identifying four deficiencies pertaining to GWA's internal control over its information technology environment.

In its Letter to Those Charged with Governance, D&T identified one deficiency pertaining to GWA potentially understating its allowance for doubtful accounts by \$550K.

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