



Guam Waterworks Authority FY 2017 Financial Highlights

April 24, 2018

For the second consecutive year, the Guam Waterworks Authority (GWA) qualified as a low-risk auditee. No findings pertaining to federal funds were identified in fiscal year (FY) 2017. Independent auditors Deloitte and Touche, LLP rendered an unmodified “clean” opinion on GWA’s financial statements and compliance over major federal programs. GWA closed FY 2017 with a significant increase in net position (net income) of \$40.4 million (M), primarily due to the \$21.8M in federal capital grants, compared to the \$27.2M in net income the prior year. The 2016 financial statements were restated due to the implementation of the Governmental Accounting Standards Board (GASB) Statement No. 73.

Unaccounted Water

Historically, one of GWA’s most challenging problems is the amount of unaccounted for (non-revenue) water. In FY 2017, approximately 59% of water produced annually is not consumed or contributing to GWA’s revenue due to water losses (leaks or breaks) and unauthorized or unbilled consumption. Leaks, for the most part, account for the largest source of unaccounted for water. GWA has engaged in a water loss prevention program that includes leak detection to help reduce non-revenue water.

GWA Capital Improvement Plan, Debt Service, and Future Borrowings

In FY 2017, capital assets increased by \$72.0M. The increase is attributable to on-going major capital improvement projects associated with the 2011 Federal Court Order and GWA’s five-year Capital Improvement Plan (CIP). CIP project costs were estimated at \$450M-\$500M. On-going construction projects included replacement of wastewater treatment plant, transmission lines, booster pump upgrades, sewer line rehabilitation or replacements, deep well rehabilitations, acquisition of mechanical and electrical equipment, and general plant improvements. GWA is currently working with Guam contractors on the H-2B visa issue due to the industry’s decreasing availability of foreign workers. This poses a conundrum for the local construction industry and has already led to construction delays, escalating costs, and fewer bidders for GWA projects due to the size and complex nature of GWA’s project.

In Fall 2016, GWA was awarded \$55.3M in grants from the U.S. Department of Defense Office of Economic Adjustment. This was to initiate projects associated with the design and construction of improvements needed to bring the Northern District Wastewater Treatment Plant (NDWWTP) to full secondary treatment capability as required by the new National Pollutant Discharge Elimination System permit issued by the U.S. Environmental Protection Agency. GWA is on schedule to complete the NDWWTP upgrades by December 2021. In late 2017, GWA received an additional grant totaling \$117.9M for construction of wastewater improvements related to the build-up.

GWA had a long-term debt outstanding of \$515.0M in FY 2017. This is a \$7.9M decrease from the \$522.9M in FY 2016. In December 2017, GWA refinanced the 2010 revenue bond series.

Decrease in Operating Revenues and Increase in Operating Expenses

GWA’s total net position (net income) increased by \$40.4M from \$182.5M in FY 2016 to \$222.9M in FY 2017.

Operating revenues totaled \$104.4M or a 1% decrease compared to \$105.4M in the prior year. The decline was primarily due to a 2% or \$645 thousand (K) decrease in water and wastewater revenues. Of GWA's \$104.4M operating revenues (net of bad debts expense), water revenues (\$66.6M) accounted for 64% and wastewater revenues (\$38.7M) accounted for 37%. The residential (48%), commercial (21%), and hotel (20%) sectors continue to account for 89% of water revenues. While hotel water revenues increased by \$383K, residential water revenues decreased by \$650K. Operating and maintenance expenses increased by \$3.5M from \$68.8M in FY 2016 to \$72.4M in FY 2017. The top two contributing factors were increases in depreciation expenses and water purchases. Navy water purchases increased due to a combination of approximately 17.6K additional kgals of water purchases and a 15% increase in the Navy's tariff. As a result, operating income was \$32.0M compared to \$36.5M, a decline of \$4.5M.

FY 2016 Financial Statements Restatement

In FY 2017, GWA implemented GASB No. 73, which aligns the reporting of pensions, ad hoc cost-of-living adjustments (COLA) and supplemental annuity payments. The implementation of this statement had a material effect on GWA resulting in the restatement of its FY 2016 financial statements. GWA's FY 2016 salaries, wages, and benefits increased by \$1.4M and beginning net position was reduced by \$9.8M. This resulted in an \$11.2M decrease in total net position from \$193.7M to \$182.5M for FY 2016 and corresponding increase in net pension liability by \$12.7M to \$50.9M.

As of FY 2017, GWA's net pension liability of \$49.2M includes its proportionate share of the Government of Guam's (GovGuam) pension, ad hoc COLA, and supplemental annuity payments. Of the \$49.2M, \$8.9M was for the ad hoc COLA/supplemental annuity plan for Defined Benefit retirees and \$1.6M was for ad hoc COLA plan for Defined Contribution Retiree System retirees. Pension expense amounted to \$4.6M in FY 2017 and \$5.8M in FY 2016.

Other Post-Employment Benefits (OPEB)

GASB No. 75 (Post-Employment Benefits Other than Pensions) is effective and will be recorded in GWA's FY 2018 financial statements. This pertains to post-employment medical, dental, and life insurance benefits to retirees, spouses, children, and survivors. Upon implementation, it is anticipated that GWA will record an additional \$36.4M liability as of FY 2017 arising from other post-employment benefits.

Reports on Compliance and on Internal Control and Major Federal Programs

GWA received 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 2017. In addition, the Management Letter identified seven deficiencies pertaining to internal control over information technology environment.

The Letter to Those Charged with Governance identified two deficiencies pertaining to: 1) Construction in Progress projects not timely transferred to the fixed assets account, and 2) Inactive Accounts Receivable balance increased due to failure to timely disconnect meters and terminate accounts for non-payment.

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