



OFFICE OF PUBLIC ACCOUNTABILITY

Suite 401 DNA Building, 238 Archbishop Flores Street, Hagåtña, Guam 96910

Tel (671) 475-0390 · Fax (671) 472-7951 · Hotline: 47AUDIT (472-8348)

www.opaguam.org

Guam Waterworks Authority – FY 2022 Financial Highlights

August 21, 2023

Hagåtña, Guam – The Office of Public Accountability has released the Guam Waterworks Authority’s (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) 2022. GWA closed FY 2022 with an increase in net position of \$12.5 million (M), which was primarily due to \$35.8M in capital contributions. Independent auditors Ernst and Young LLP rendered unmodified “clean” opinions on GWA’s financial statements and compliance for all major federal programs, and did not identify any material weaknesses or significant deficiencies. GWA is commended for qualifying as a low-risk auditee for the seventh consecutive year.

Operating Revenues Increase

GWA’s operating revenues increased by \$1.5M, going from \$99.7M in FY 2021 to \$101.1M in FY 2022. The increase is primarily due to a \$2.1M increase in wastewater revenues, but was offset by a \$526 thousand (K) decrease in water revenues. Government water and wastewater revenues increased by \$1.1M and \$905K, respectively. Private water revenues decreased by \$1.4M, while wastewater revenues increased by \$1.2M. This, along with the lifting of quarantine protocols, indicates the gradual return from home use back to normal working and business conditions. Because non-residential wastewater revenues are driven by water consumption, wastewater revenues showed similar improvements from FY 2021 in the government, commercial, and hotel sectors.

Expenses Continue to Increase

Despite GWA’s continued implementation of cost containment measures to mitigate the financial impacts of reduced revenues, operating and maintenance expenses continued to increase – going from \$92.5M in FY 2021 to \$96.2M in FY 2022. The increase of \$3.7M is mainly due to a \$6.1M increase in power purchases resulting from increased power rates, and a \$1.6M increase in depreciation. Decreases in other expense categories helped to defray any negative impacts, including reductions to salaries, wages and benefits by \$2M; water purchases by \$959K; and retiree health costs by \$843K.

GASB Statement No. 87, Leases

In June 2017, the Governmental Accounting Standards Board issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. The adoption of this Statement did not have an effect on beginning net position. GWA recorded lease assets and lease liability of \$783K on October 1, 2021.

Water Loss Control

In March 2021, GWA completed its analytical study on water loss control and issued a *Water Loss Control Program Development Final Report*. Recommendations in the final report included the

implementation of permanent District Metered Areas (DMAs) to monitor the supply and demand within discrete, defined areas across GWA's entire distribution system; as well as expanding GWA's in-house leak detection capabilities to provide complete inspections of the entire distribution system three times per year. The report also included a revision to GWA's water loss control metrics to align with industry changes away from % water loss. GWA is in year two (through August 2023) of a three-year implementation of island-wide DMAs. As of FY 2022, 18 of 36 DMAs have been established. GWA deployed two dedicated leak detection teams, and is actively engaged in detection and repairs within the established DMAs to curb water losses.

Five-Year Financial Plan Deferred

A decision on the *Comprehensive Review & Update to GWA's FY 2020-FY 2024 5-Year Financial Plan*, submitted on May 1, 2021, was not made until September 2022, resulting in a full year without needed rate relief to fund revenue requirements. The Public Utilities Commission, in its September 2022 order, deferred acting on proposed changes in rate design, which included going from two tiers to three tiers of residential consumption; and changing residential wastewater billing from a flat fee to one based on consumption derived from water use. GWA resubmitted its request for these rate design changes to be used in the next five-year financial plan, FY 2025 through FY 2029, which will be filed in 2024.

Financial Management System

In FY 2023, GWA will start Phase 2 of its Financial Management System upgrade. The overall objective of the project is to support the efficient execution of Capital Improvement Projects (CIP), including digitizing procurement, CIP planning, and engineering document management. The project goals are to deliver:

- Operational efficiency through reduced negotiation cycle times and workflow automation to reduce processing costs.
- Cost management by reducing cost of supply with digital go-to-market and contracting, negotiated agreements for preferred suppliers and accurate CIP forecasting.
- Contractor collaboration to share accurate documentation and online collaboration services for each step in the procurement lifecycle.
- Governance and control through improved risk management by enforcing CIP procurement policies and segregation of duties. The system will also improve visibility to data, auditable spend record for capital projects and manage supplier qualifications and performance.

Subsequent Event – Typhoon Mawar

On May 24, 2023, the island of Guam suffered severe damages caused by Typhoon Mawar. As of the date of this report, GWA is unable to reasonably estimate the potential impact on its future financial statements.

Certificates of Title Litigation

GWA is seeking to quiet title in property listed in a current court action brought by the Government of Guam (GovGuam), Department of Land Management to rescind certificates of title. Although the private party holder certificates of title that GovGuam seeks to rescind and correct has claimed \$220M in compensation, no judgment of damages or compensation has been made. Management is of the opinion that based on the current status of the litigation, and courses of action still available to it, liabilities of a material nature will not be realized. Therefore, no related provision has been recorded in the financial statements for the potential impact, if any, of this matter. This case is currently in the

Superior Court of Guam, and on August 14, 2023, the court issued a Decision and Order that GWA will either seek reconsideration on or appeal to the Guam Supreme Court. A status hearing is scheduled for September 2023, which may lead to a trial, further review (for reconsideration), an appeal, or new motion filings.

Management Letter

EY issued a separate management letter that identified one recommendation that management should continue to monitor and reassess its allowance for doubtful accounts based on the current economic conditions and historical experience of collectability to adequately set the level of allowance for doubtful accounts.

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