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### **Guam Waterworks Authority – Fiscal Year 2019 Financial Highlights**

May 15, 2020

Hagåtña, Guam – The Office of Public Accountability released the Guam Waterworks Authority (GWA) financial statements, report on compliance and internal control, and the auditor's communication with those charged with governance for fiscal year (FY) 2019. GWA closed FY 2019 with an increase in net position (net income) of \$37.3 million (M). Independent auditors Deloitte & Touche, LLP 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 2019. We commend GWA for qualifying as a low-risk auditee for the fourth consecutive year.

#### **Status of GWA Capital Improvement Plan, Financial Plan, and Debt**

In FY 2019, capital assets increased by \$67.4M. The increase is attributable to on-going major capital improvement projects associated with a 2011 Federal Court Order, GWA's 5-year Capital Improvement Plan (CIP), and the Water Resources Master Plan (WRMP) Update in August 2018. GWA continues to see the effects of the decreasing availability of skilled construction workers but remains focused on meeting the requirements of the 2011 Federal Court Order resulting in only one element remaining of the 93 compliance items.

In 2018, the Consolidated Commission on Utilities approved the adoption of the 2018 WRMP, which 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.

In June 2019, GWA's Five-Year Financial Plan was approved in correspondence to its CIP, which was based on the first five years of GWA's 2018 WRMP. A stipulation was later signed agreeing to rate increases of 5% for both FY 2020 and FY 2021, with the rate increase for FY 2020 taking effect on March 1, 2020. The stipulation also calls for a comprehensive review and update of the financial plan and rates for FY 2022 through 2024 after several analytical studies have been completed. These studies are intended to inform future rate adjustments in relation to GWA's cost-of-service, rate design, water loss control efforts, and expansion of wastewater collection customer base.

GWA's outstanding long-term debt decreased by \$8.9M to \$496.4M as of FY 2019.

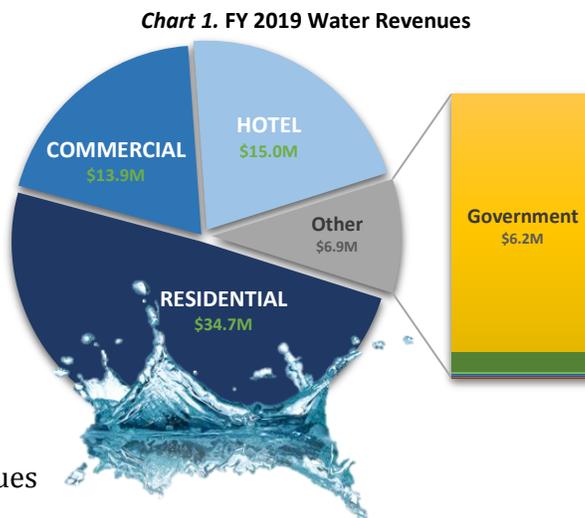
#### **Non-Revenue Water Continues to be a Challenge**

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 61% 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. GWA continues to incorporate its focus on leak repairs, pressure zone re-alignments, and the pilot testing of District Metered Areas by installing

meters at discrete supply points and monitoring results as part of its comprehensive Water Loss Control Program.

### **Increase in Operating Revenues and Decrease in Operating Expenses**

GWA's \$37.3M net income increased its total net position to \$201.5M as of FY 2019. Operating revenues increased by \$3M to \$110.5M in FY 2019, due primarily to a \$1.9M increase in water revenues and a \$1.5M increase in wastewater revenues, with hotel customers accounting for most of the increase. As rates did not change in FY 2019, the increases in revenues were due to increases in customers and consumption. In FY 2019, water revenues (\$70.8M) accounted for 64% of GWA's operating revenues, while wastewater revenues (\$41.2M) accounted for 37%. The residential (49%), commercial (20%), and hotel (21%) sectors continue to account for 90% of water revenues. Hotel water revenues significantly increased by \$1.2M.



Operating and maintenance expenses decreased by \$1.7M in FY 2019, mainly due to decreases in retiree health care costs and other benefits and savings from the decline in water purchases. Retiree health care costs and other benefits decreased by \$6.3M. Water purchased from the U.S. Navy decreased by \$2.4M due to a combination of decreases in approximately 171K kilo gallons of water purchased and a decrease in the Navy's tariff from \$11.27 to \$10.18 in FY 2019. As a result, operating income increased by \$4.6M during FY 2019.

### **Other Post-Employment Benefits (OPEB) and Pension Liabilities**

Governmental Accounting Standards Board (GASB) No. 75 pertains to the accounting and reporting of post-employment medical, dental, and life insurance benefits to retirees, their spouses, children, and survivors. GWA recorded a \$62.7M liability for its net OPEB obligation as of FY 2019, which significantly decreased by \$26.3M from FY 2018.

GWA recorded its \$49.6M proportionate share of the Government of Guam's net pension liabilities as of FY 2019. GWA's net pension liability included \$11.2M for the ad hoc cost of living allowance (COLA)/supplemental annuity plan for Defined Benefit retirees and \$1.1M for the ad hoc COLA plan for Defined Contribution Retirement System retirees. GWA's pension expense decreased to \$6.4M in FY 2019.

### **Reports on Internal Control and Compliance and Management Letter**

D&T issued clean opinions on GWA's financial statements and compliance for all major federal programs, with no findings in FY 2019. In its Letter to Those Charged with Governance, D&T identified one deficiency to consider the reassessment of long outstanding receivables. In addition, a separate Management Letter on GWA's internal control over information technology identified four deficiencies.

For more details, refer to the Management's Discussion and Analysis in the audit report at [www.opaguam.org](http://www.opaguam.org) and at [www.guamwaterworks.org](http://www.guamwaterworks.org).