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Guam Waterworks Authority – Fiscal Year 2021 Financial Highlights

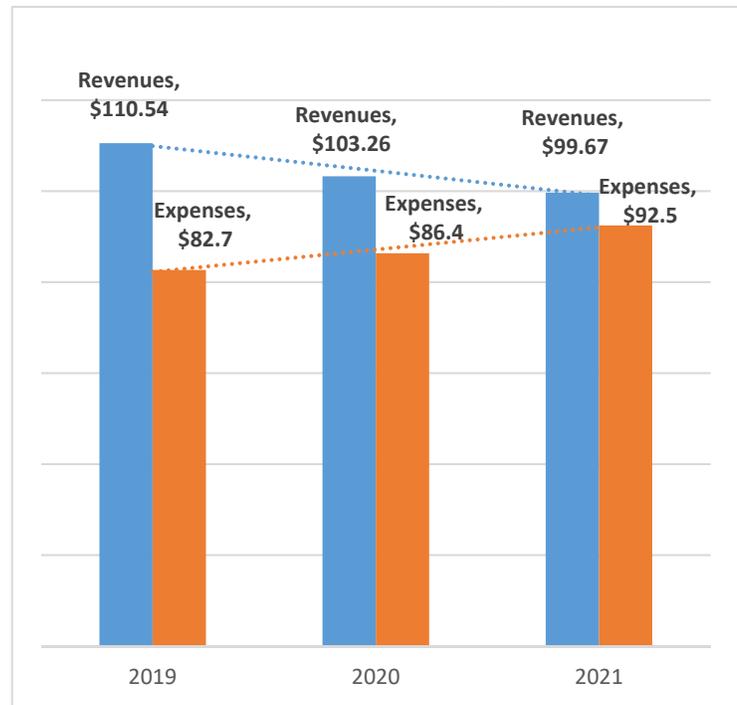
April 7, 2022

Hagåtña, Guam – The Office of Public Accountability has 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) 2021. GWA closed FY 2021 with an increase in net position (net income) of \$46.5 million (M). Independent auditors Deloitte & Touche, LLP (Deloitte) 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 in its compliance report. GWA is commended for qualifying as a low-risk auditee for the sixth consecutive year.

Operating Revenues Continue to Decrease while Expenses Continue to Increase

GWA’s operating revenues continue to decrease, going from \$103.3M in FY 2020 to \$99.7M in FY 2021. The decrease of \$3.6M is primarily due to a \$2.6M decrease in wastewater revenues and a \$931 thousand (k) decrease in water revenues. Most of the decrease was from hotel customers, where water and wastewater revenues significantly decreased by \$6.3M. Revenues from residential customers slightly increased by \$1.5M.

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 \$86.4M in FY 2020 to \$92.5M in FY 2021. The increase of \$6.1M is mainly due to expenses that are not controlled by the cost containment measures implemented. These include \$5.3M increases in pension and Other Post-Employment Benefits (OPEB) adjustments and a \$1.8M increase in Depreciation. Power costs decreased by \$1.6M which was offset by the \$1.1M increase in water purchases.



Operating income decreased by \$9.7M, going from \$16.9M in FY 2020 to \$7.2M in FY 2021. GWA also received fewer grants from the United States Government which decreased by \$7.7M, going from \$72.2M in FY 2020 to \$64.6M in FY 2021. Despite this, GWA’s \$46.5M increase in net position managed to bring the net position at the end of the year to \$309.7M.

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*. The 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 changes within the industry away from % water loss. GWA is in the process of full implementation of the forty-two (42) DMAs, as well as updating the water audit and loss reporting metrics.

GWA's Long Term Debt

GWA has five revenue bonds with a total debt service of \$1.2 billion as of FY 2021: (1) 2013 Series revenue bonds with interest at 5.25% per annum, (2) 2014 Series refunding bonds with interest at 5% per annum, (3) 2016 Series Revenue Bonds with interest at 5% per annum, (4) 2017 Series refunding bonds with interest at 5% per annum, and (5) 2020A Series revenue bonds with interest at 5% per annum. A portion of the 2013 Series revenue bonds were refunded as the 2020B Series revenue bonds with interest at varying rates from 2.75% to 3.70% per annum. All are payable semiannually in January and July.

Annual debt service requirements to maturity for principal and interest are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 9,745,000	\$ 29,296,402	\$ 39,041,402
2023	10,235,000	28,801,678	39,036,678
2024	10,760,000	28,282,065	39,042,065
2025	11,305,000	27,735,777	39,040,777
2026	11,875,000	27,161,815	39,036,815
2027 through 2031	75,815,000	126,315,150	202,130,150
2032 through 2036	96,715,000	107,932,718	204,647,718
2037 through 2041	121,110,000	84,194,615	205,304,615
2042 through 2046	151,980,000	55,109,670	207,089,670
2047 through 2050	<u>134,000,000</u>	<u>16,307,500</u>	<u>150,307,500</u>
	<u>\$ 633,540,000</u>	<u>\$ 531,137,390</u>	<u>\$ 1,164,677,390</u>

Financial Management System

In May 2021, GWA successfully transitioned from JDE World ERP to JDE Enterprise 1 (E-1) adopting paperless digital processes and successfully integrating GWA business systems. Account balances on April 30, 2021, were brought forward into JDE E-1 while transactions for April 2021 and prior remained on JDE World. Additionally, a mobile application, Rinami Cantara, was implemented allowing staff to access and enter information from the field for customer work orders as well as preventive and corrective maintenance.

Northern District Wastewater Treatment Plant (NDWWTP) Litigation

GWA is seeking resolution in a quiet-title action for its NDWWTP, which is still in litigation in the Superior Court of Guam. The pending litigation involves a multi-million dollar counterclaim against GWA. On November 30, 2021, the Superior Court issued a Decision and Order concluding that the disputed issues of material fact exist regarding GWA's ownership in the NDWWTP. However, GWA petitioned the Supreme Court for permission to appeal the November 30, 2021 Decision and Order in January 2022. GWA also filed a Motion to Stay in the Superior Court requesting all proceedings be paused until their permission to appeal in the Supreme Court is resolved. As of March 2022, GWA's appeal and Motion to Stay remain pending. GWA believes that an unfavorable outcome in this litigation is remote.

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