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Guam Waterworks Authority – Fiscal Year 2020 Financial Highlights

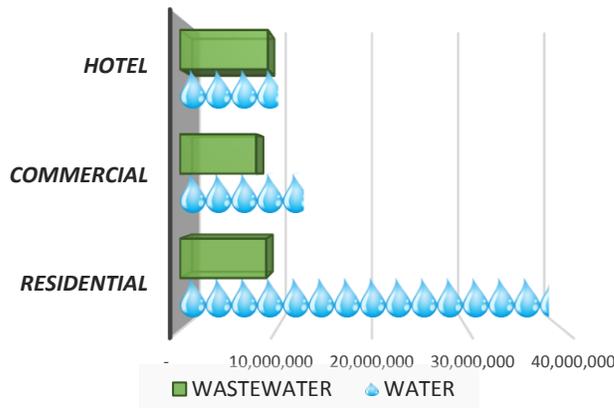
March 23, 2021

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) 2020. GWA closed FY 2020 with an increase in net position (net income) of \$61.7 million (M). Independent auditors Deloitte & Touche, LLP (Deloitte) 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 2020. We commend GWA for qualifying as a low-risk auditee for the fifth consecutive year.

Decrease in Operating Revenues

GWA’s \$61.7M net income increased its total net position to \$263.3M as of FY 2020. Operating revenues decreased by \$7.3M to \$103.3M in FY 2020, due primarily to a \$2.1M decrease in water revenues and a \$5.3M decrease in wastewater revenues, with hotel and commercial customers accounting for most of the decrease. The decreases in operating revenues were a direct effect of the COVID-19 pandemic.

Chart 1: FY 2020 Top 3 Water and Wastewater Revenues



In FY 2020 water revenues (\$68.4M) accounted for 66% of GWA’s operating revenues, while wastewater revenues (\$35.6M) accounted for 34%. The residential (56%), commercial (19%), and hotel (15%) sectors account for 90% of water revenues. Hotel and commercial water and wastewater revenues significantly decreased by \$8.7M and \$1.8M, respectively. Residential increases of \$3.8M in water and wastewater revenues only slightly offset the decreases.

Since wastewater revenues are driven by consumption for non-residential customers, wastewater was similarly impacted with no offsets by residential customers.

Increase in Operating Expenses

GWA implemented cost containment measures to mitigate the financial impacts of reduced revenues. Despite this, operating and maintenance expenses increased by \$3.7M in FY 2020, mainly due to increased labor costs of \$1.5M from additional COVID-19 compensation and \$2.1M increases in pension and Other Post-Employment Benefits (OPEB) adjustments.

Power rates were significantly reduced during the pandemic due to reductions in fuel prices. As a result, power costs decreased by \$2.0M. Further, water purchases decreased by \$700 thousand (K) due to Navy price reductions as a result of lowered power costs and drops in consumption by 159K kilo gallons of water.

Although operating income decreased by \$10.9M during FY 2020, GWA received additional grants from the United States Government, which contributed to the overall net income of \$61.7M.

COVID-19 Impact

Governor Lourdes A. Leon Guerrero declared a Guam State of Emergency in response to the COVID-19 pandemic in March 2020 and extended that emergency through the date of this audit. The projected delay in the economic recovery of Guam's tourism sector will have a continuing effect on GWA's sales and revenues within the related rate classes. While residential consumption has picked up over the pandemic period, it has not been enough to offset losses in business and hotel consumption. Accordingly, GWA continues its strategy to contain costs, reduce production, and improve water loss control while monitoring the effect of the pandemic on its revenues.

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

In FY 2020, capital assets increased by \$81.1M. The increase is attributable to ongoing major capital improvement projects associated with a 2011 Federal Court Order, GWA's 5-year Capital Improvement Plan (CIP), and the August 2018 Water Resources Master Plan Update. Delays in the Public Utilities Commission action on GWA's Five-Year Financial Plan and CIP resulted in non-compliance with the original 2011 Federal Court Order deadline of December 31, 2020. Therefore, GWA filed for an extension, which the Court approved to extend the completion deadline of the sole remaining compliance requirement by June 23, 2023.

GWA continues to see the effects of the H-2B visa issue that decreased the availability of skilled construction workers and negatively affected the planned procurements for non-Department of Defense capital projects.

The approved stipulation of GWA's Five-Year Financial Plan called for a comprehensive review and update of the financial plan and rates for FY 2022 through 2024 after several analytical studies are completed no later than March 31, 2021. These studies are intended to inform future rate adjustments related to GWA's cost-of-service, rate design, water loss control efforts, and expansion of wastewater collection customer base. The added complication of the COVID-19 pandemic on customer demand and revenues has been taken into consideration in the analytical studies and will be reflected in the proposed rates for the remaining of the 5-year planning period.

GWA's outstanding long-term debt increased by \$146.4M to \$642.8M as of FY 2020.

Non-Revenue Water and Line Replacements

GWA's latest figures showed a slight improvement in overall non-revenue water, or unaccounted for water. Approximately 53% 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. To complement and complete the program, GWA has included several pipe replacement programs in its 5-Year CIP.

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 an \$84.2M liability for its net OPEB obligation as of FY 2020, which significantly increased by \$21.5M from FY 2019. GWA's pension expense slightly decreased to \$6.3M in FY 2020.

GWA recorded its \$54.4M proportionate share of the Government of Guam's net pension liabilities as of FY 2020. GWA's net pension liability included \$12.9M for the ad hoc cost of living allowance (COLA)/supplemental annuity plan for Defined Benefit retirees and \$1.3M for the ad hoc COLA plan for Defined Contribution Retirement System retirees.

Reports on Internal Control and Compliance and Management Letter

Deloitte issued clean opinions on GWA's financial statements and compliance for all major federal programs, with no findings in FY 2020. In its Letter to Those Charged with Governance, Deloitte identified two deficiencies for management to (1) ascertain the completeness of construction in progress reporting and perform a timely transfer of completed projects and (2) consider the reassessment of long outstanding receivables. In addition, a separate Management Letter on GWA's internal control over information technology identified three deficiencies.

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