



OFFICE OF THE PUBLIC AUDITOR  
**GUAM WATERWORKS AUTHORITY**  
Fiscal Year 2008 Financial Highlights

May 27, 2009

The Guam Waterworks Authority (GWA) ended Fiscal Year (FY) 2008 with a loss of \$1.3 million (M), which is a slight improvement compared to the \$1.9M loss in FY 2007. FY 2008, operating revenues increased by \$5.5M, from \$45.3M to \$50.8M due to a 14.2% rate increase and increases in consumption and residential accounts. However, these improvements were offset by the \$6M increase in operating expenses due to increases in expenses for power and water purchases and for salaries and wages. GWA and the Consolidated Commission on Utilities (CCU) did not anticipate higher energy and water costs; consequently, these increases affected GWA's ability to maintain at least 125% of net revenues of the current annual debt service requirement of the outstanding 2005 revenue bonds, and thus, was granted an Order in February 2009 by the Public Utilities Commission (PUC) for a 6.6% interim rate increase effective April 1, 2009.

While independent auditors Deloitte and Touche rendered an unqualified "clean" opinion on the financial statements, a qualified opinion was expressed regarding GWA's compliance with requirements applicable to major federal award programs. The Compliance and Internal Control Report identified four findings, two of which are repeat findings. As of September 30, 2008, \$446,000 in cumulative questioned costs is unresolved. In addition, a separate Management Letter identified 18 findings.

**Effects of Increases in Power and Water Purchases**

GWA improved operating revenues by \$5.5M from \$45.3M in FY 2007 to \$50.8M in FY 2008. This is due to a 14.2% rate increase effective September 2007. FY 2008 reflects the full effect of the 14.2% rate increase. Consumption increased by 3.7%, from 7 billion (B) gallons to 7.2B gallons and residential customers increased slightly by 2.8%, from 34,961 to 35,956.

Revenue increases, however, were offset by increases in operating and maintenance expenses of \$6M. Salaries and wages increased by \$2M (or 13.8%), from \$14.2M to \$16.1M, due to an increase in personnel, from 251 to 308, and the implementation of the Certified, Technical and Professional Compensation Plan. Power rate increases from soaring fuel costs increased power purchases by \$2.7M (or 22.8%), from \$11.9M to \$14.6M. Water purchases increased by \$1.6M (or 56%), from \$2.8M to \$4.4M, due to rate increases charged by the Navy. Per 1,000 gallons, GWA paid \$3.25 in FY 2008 compared to \$2.09 in FY 2007. Currently, GWA is paying \$3.80 per 1,000 gallons for Navy water, but in October 2009, the rate will increase to \$4.16 per 1,000 gallons.

**Surcharge for Supplemental/Cost of Living Allowance Annuities**

In August 2007, the PUC ordered a surcharge of 3.49% to pay for GWA's supplemental annuities for retirees. The first time the surcharge went into effect was in April 2004, at a rate of 1.89% and the rate increased to 4.13% in February 2006.

In 2007, \$1.5M in revenues was received from the surcharge and \$889,000 was expended resulting in a \$646,000 over recovery. In 2008, however, \$1.5M was collected from the surcharge and \$1.6M was expended. The increase in the supplemental/COLA annuity is primarily due to the 174% increase in medical and dental insurance for retirees, from \$424,000 to \$1.2M.

### **Allowance for Doubtful Receivables More than Half**

As of September 30, 2008, GWA has \$24.6M in accounts receivable. Of this amount, GWA has estimated \$16.8M will be uncollectible. This means that GWA is expected to collect only 32 cents on the dollar. Of the \$13.9M in private accounts receivables, \$9.1M is expected be uncollectible, or 65 cents on the dollar. Of the \$9.7M in government accounts receivables \$7.7M is expected to be uncollectible, or 80 cents on the dollar, of which \$6.5M represents fire hydrant receivables. Fire hydrant receivables have been accumulating as there is no government agency responsible for payment. GWA has stated that they are currently pursuing the matter of billing such service with the PUC.

### **Report on Compliance and Management Letter**

The Independent Auditors' Report on Compliance and Internal Control identified four findings, of which two are repeat findings: (1) the lack of a federal compliance officer to ensure adherence to federal compliance requirements, and (2) no environmental impact reviews performed applicable to their federal award program. The other two findings involved the following:

- No physical inventory and identification of assets acquired with federal funds were conducted; and
- Adequate records were not maintained to document compliance with procurement regulations totaling \$211,000, though no questioned costs were cited.

The management letter reported 18 findings compared to 12 findings in 2007. These findings included:

- No execution or documentation of a promissory note for the settlement of an outstanding account;
- Assets disposed of were still recorded in the fixed asset account;
- Four findings relating to inventory procedures;
- Three findings relating to billings; and
- Two findings relating to procurement.

A separate document to the CCU was issued by Deloitte and Touche auditors outlining audit strategies, emphasis, required communications, audit differences, and adjustments.

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