



## **GUAM WATERWORKS AUTHORITY**

### Fiscal Year 2009 Financial Highlights

April 19, 2010

For the first time in four years, the Guam Waterworks Authority (GWA) ended Fiscal Year 2009 with positive net earnings. GWA's net assets increased by \$1.7 million (M), compared to its loss of \$400,000 in FY 2008. The increase can be attributed to increases in federal grants and water and wastewater services to federal customers. GWA developed a financial rate plan calling for a series of rate increases amounting to 41% by 2013. The first increase took effect in August 2009 at the rate of 14% and will continue on October 1<sup>st</sup> each succeeding year culminating with an 8% increase in 2013. The increased rates will address capital improvement project requirements.

Independent auditors Deloitte and Touche rendered an unqualified "clean" opinion on GWA's financial statements, but expressed a qualified opinion regarding compliance with requirements for major federal award programs. The Compliance and Internal Control Report identified four findings, of which one is a repeat finding. As of September 30, 2009, cumulative questioned costs of \$473,000 remain unresolved. A separate Management Letter identifying 12 findings was issued.

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

FY 2009 operating revenues increased by \$2.9M, from \$52.3M to \$55.3M, primarily due to increased services to federal customers. Water consumption among federal customers increased by 144 thousand (K) gallons to 1.7M gallons, or 9.2% more than in FY 2008. In contrast, water consumption among all other customer classes decreased as GWA realized billing adjustments due to their improved meter readings: Agricultural (23.4%), Golf Course (88.9%), Commercial (38.2%), Government (8.3%), Hotel (15.1%), Irrigation (38.2%), and Residential (17.1%). This resulted in a net decrease in water sales of \$1.6M. The same trend was found in wastewater services. Federal customers utilized 842M gallons, 57.3% (or 307M gallons) more than last year's 535M gallons. Wastewater service to all other customer classes decreased: Commercial (35.7%), Government (3.3%), Hotel (1%) and Residential (6.8%). Overall, revenues from wastewater services increased by 15.6%, or \$2.7M, from \$17M to \$19.7M.

Water production costs also increased as water purchases from the Navy rose to \$5.2M, from \$4.4M in FY 2008. In FY 2009, the Navy increased its rate to \$3.80 per 1,000 gallons. The rate was \$3.25 in FY 2008. Currently, GWA pays the Navy \$4.06 per 1,000 gallons and charges customers \$6.26 per 1,000 gallons. In times past, GWA charged customers less than what was actually being paid for Navy water. Other production costs included increases in power purchases, which rose by \$339K to \$15M. As a result, GWA's gross margin (the difference between sales minus production costs) increased to \$35.1M, compared to \$33.3M in FY 2008. This increase, however, was off-set by increased operating and maintenance expenses, which rose 5.4%, or \$2.9M, from \$54.7M to \$57.6M. With the exception of retiree health care costs and benefits, all other categories increased. Administrative and general expenses increased by 25.9% from \$4.2M to \$5.3M which was mainly attributable to the increase in materials

purchases. Salaries and Wages increased by \$585,000 to \$15.9M. While GWA implemented its Certified, Technical, and Professional Compensation Plan in October 2007, in order to bring employees up to the 10<sup>th</sup> percentile of national wages, the second phase of the plan has not been implemented due to cash flow problems. As of September 30, 2009 GWA gained 13 new employees for a total of 321.

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

As of September 30, 2009, 59% (\$15.5M) of GWA's \$26.3M in accounts receivables were deemed uncollectible. Although it may appear that GWA is only collecting 41 cents on the dollar its cash collection ratio was 97% at year's end. Uncollectible amounts consist of balances from years past. These include \$6.5M in receivables for fire hydrants. Since no agency is tasked to pay for fire hydrants and the Legislature makes no appropriation for them, GWA continues to reserve revenues of \$6.5M for the hydrants.

### **Capital Projects**

In FY 2009, GWA developed a financial rate plan for the first time in its history. The plan calls for a series of rate increases equal to 41% over the next five years. In fiscal years 2010 and 2012, GWA plans to obtain \$300M in short and long term financing, grants and system development charges to address requirements of the 2003 stipulated order, to fund its 2005 Capital Improvement Projects Master Plan, and to meet bond covenant standards.

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

The Compliance and Internal Control Report identified four findings. One finding concerning the lack of a required comprehensive physical inventory and identification of fixed assets acquired with federal funding is a repeat finding. The three other findings involved:

- Lack of internal controls to ensure grant awards are cleared in accordance with federal requirements;
- Lack of documentation to detail the significant history of a procurement resulting in questioned costs of \$27,000; and
- Lack of procedures and adequate records for items totaling \$31,600 paid to one vendor, though no questioned costs were cited.

The management letter reported 12 findings, compared to 18 in 2008. These findings included:

- Inefficiencies in inventory count procedures, such as non-segregation of inventory and non-inventory items;
- Collection efforts were not performed on accounts written off;
- Capital assets were not recorded in the correct period;
- Project percentage of completion was not maintained and updated; and
- 8% of water meters tested did not register water consumption.

Deloitte and Touche auditors issued a separate document to the Consolidated Commission on Utilities 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) and at [www.guamwaterworks.org](http://www.guamwaterworks.org).