



GUAM WATERWORKS AUTHORITY

Fiscal Year 2010 Financial Highlights

March 23, 2011

The Guam Waterworks Authority (GWA) ended Fiscal Year (FY) 2010 with an increase in net assets of \$6 million (M) compared to the \$1.7M increase in FY 2009. This was the second year in a row GWA ended with positive net earnings, which was due to an increase in water usage and the implementation of the first of five annual rate increases. Although GWA experienced positive financial performance, the authority continues to be challenged on its revenue collection from unaccountable water leakage, faulty meter readings, and physical inventory of equipment and reconciliation.

Independent auditors Deloitte and Touche, LLP 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 Report identified one repeat significant deficiency: the lack of a comprehensive biennial physical inventory of equipment in the last several years. As of September 30, 2010, cumulative questioned costs of \$473,000 remain unresolved. A separate Management Letter identifying three findings was issued pertaining to inventories, monitoring of Construction in Progress Projects, and procurement.

Increase in Operating Expenses Offset by Greater Increase in Revenues

Operating Revenues increased by 18% or \$10M, going from \$55.2M in the prior fiscal year to \$65.2M. Water revenues increased by \$8.5M over the prior fiscal year due to both an increase in consumption of 7% or 414.8 million gallons, and the new rate increases. The first of five rate increases of 8% went into effect in FY 2010, which also increased Wastewater revenues by \$2.6M from FY 2009. In addition, Operating Revenues also increased slightly because of a new system development charge, which was implemented in FY 2010. The fee is a one-time charge for water and wastewater services which creates a new demand or future capacity requirement of the system.

The increase in Operating Revenues surpassed the slight increase in Operating Expenses which went from \$57.6M in FY 2009 to \$60.3M in FY 2010, a 5% or \$2.7M increase. This was mainly due to the \$2.2M increase in Salaries and wages, now \$18.1M compared to \$15.9M in FY 2009. This increase was due to current and prior year increments for employees to include benefits and premium pay and significant increase in overtime. In addition, Water purchases increased by 29% or \$1.5M and GWA Retiree health care costs and benefits also increased 32.8% or \$468 thousand (K) from \$1.4M to \$1.9M.

Water Losses Continue

One of the most challenging problems befallen GWA is the amount of water that is unaccounted for. Because of the need both to purchase more water from the U.S. Navy and to pump more water, water leakages result in higher operating costs and higher energy bills. In January 2009, GWA hired a firm to conduct a three-year leak detection study of GWA’s entire water system with definitive targeted goals, discover and report incidents of water theft, train GWA employees in modern leak detection techniques using state-of-the-art equipment, conduct a system audit, and transfer the equipment at the conclusion of the contract. As of September 2009, 3,494 major leak points had been identified, resulting in a water loss rate of approximately 5 million gallons daily. Approximately 60% of the identified leaks have been repaired.

Faulty Meters

To address historic problems with identifying and reading meters, irregular meter locations and aging meter stock, GWA initiated the automated meter reading program in 2005. The program is designed to enable GWA to read its meters via radio signal, improve the accuracy of meter reads, and allow GWA to better monitor daily customer usage patterns. However, GWA began experiencing problems with the meters in late 2007 and then in 2008 became aware that the reliability of the new meters was substantially less than expected. In September 2009, GWA hired a consulting engineer firm to examine the underlying cause of the problems with the radio read meters. Although GWA has implemented a number of solutions to address the metering problem, the problems with the meters are not being detected in a timely manner to allow GWA to bill the customer for all of the lost revenue during months when the meter was not working properly.

Capital Improvement Projects

The primary objectives of GWA's Capital Improvement Program (CIP) are to improve the operations of the water system and to meet the requirements of the 2003 Stipulated Order administered by the U.S. Environmental Protection Agency. In November 2010, GWA entered into a supplemental indenture agreement for the issuance of \$118.9M water and wastewater system revenue bonds, Series 2010, to finance various water and wastewater capital improvement projects. In anticipation of the bond, GWA sought a \$30M loan to provide funds for the Moratorium Project, fund certain reserve accounts and other purposes approved by the Consolidated Commission on Utilities (CCU). This guarantee is a general obligation of the government of Guam, subject to the full faith and credit of the government of Guam.

Online Bill Paying Service

GWA launched its online bill paying service in October 2010 offering its customers the ability to pay water and wastewater bills and view billing and payment history over the internet. Customer service has been positive, with approximately 3,000 customers and growing utilizing the online bill paying service.

Military Buildup

GWA recognizes that the proposed military buildup will place immense pressure on the existing infrastructure. As such, GWA signed a Memorandum of Understanding with the Department of the Navy in July 2010 detailing a broad agreement to update water and wastewater infrastructure amounting to approximately \$1.4 billion dollars of projects. Although funding for these improvements has yet to be finalized, the funding will be obtained from Japan and Federal sources as committed by the U.S. Department of Defense (DOD) in the Record of Decision that was signed in September 2010. It is unknown what impact this will have on GWA operations, but DOD has committed to management and the CCU that any associated buildup capital costs will not be borne by the rate payers.

Management Letter

The management letter reported three findings, compared to 12 in FY 2009. These findings included: establishment of a policy for inventory obsolescence, procedures to enhance timely communications between accounting and engineering staff on the status of CIPs, and publish invitation for bids consistent with the minimum 15 day requirement.

Deloitte and Touche auditors issued a separate document to the CCU outlining audit strategies, emphasis, required communications, audit differences, and adjustments. Uncorrected misstatements related to an overstatement in inventory, interest capitalization, accrued settlement liability, and adjustment to Allowance for funds used during construction which reduced net assets by \$122,656. For more details, refer to the Management Discussion and Analysis in the audit report at www.guamopa.org and at www.guamwaterworks.org.