



## **GUAM WATERWORKS AUTHORITY Fiscal Year 2011 Financial Highlights**

April 23, 2012

The Guam Waterworks Authority (GWA) ended Fiscal Year (FY) 2011 with a decrease in net assets of \$2.9 million (M) compared to the \$6.1M increase in FY 2010. The decrease in net assets occurred despite the implementation of the third of five annual rate increases and the increase in water revenue by 4% or \$1M from \$36M in FY 2010 to \$37M. The authority continues to be challenged with the high costs of complying with regulatory issues cited by the United States Environmental Protection Agency (USEPA) and replacing an aging infrastructure.

GWA is to be applauded as independent auditors Deloitte and Touche, LLP rendered unqualified “clean” opinions on GWA’s financial statements and report on compliance. A separate management letter identifying three findings was issued pertaining to communicating the status of Construction in Progress Projects, capitalized labor, and information technology matters.

### **Increase in Operating Expenses Outpace Increase in Revenues**

Operating revenues increased by 3% or \$2.1M, from \$65.2M in the prior year to \$67.3M. Water revenues increased by \$1M over the prior fiscal year due to the new rate increases. The third of five rate increases of 8% went into effect in FY 2011, which increased wastewater revenues by \$308K from FY 2010. In addition, the system development charges, which was implemented in FY 2010, increased by 105% in FY 2011 to \$1.6M from \$794K. The fee is a one-time charge for new water and wastewater services which creates a new demand or reserve requirement in the system.

Operating expenses on the other hand, increased by 6% or \$3.3M from \$60.3M in FY 2010 to \$63.6M in FY 2011, due to increases in administrative and general expenses and retiree health care costs. Administrative and general expenses increased by \$1.8M from \$4.1M to \$5.9M, because GWA acquired property and general liability insurance in 2011. The Retiree health care costs and other benefits increased by \$347K to \$2.2M from \$1.9M in the prior year. Interest expenses, a major factor of losses for the agency, that were paid for revenue bonds more than doubled (144% or by \$6.7M) to \$11.4M from \$4.7M in FY 2010, due to the issuance of the 2010 Revenue Bonds in November 2010. Future rate increases will be needed to pay higher debt service and to provide working capital for repairs and maintenance.

### **Capital Improvement Projects**

In November 2010, GWA issued \$118.8M in 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 and fund certain reserve accounts and other purposes approved by the Consolidated Commission on Utilities (CCU). The \$30M loan was guaranteed by the Government of Guam. Currently, there is \$300M in capital improvement projects that GWA must issue to satisfy requirements of the 2011 amended Federal Court Order administered by the USEPA and to improve its water and wastewater infrastructure.

### **Water Losses and Faulty Meters**

Throughout its history, GWA has been plagued with the challenge to address perennial water losses and pipeline leaks. GWA recently adopted a Water Audit Program and Water Loss Control Plan, which

were prepared in accordance with American Water Works Association water loss and audit standards and has laid the ground work for detecting and repairing leaks. In addition, GWA has stated that water leaks have declined, resulting from the acquisition of a leak detection contractor and a leak repair contractor, who work alongside GWA staff to address the leaks. This implementation has also caused a decline in the need to purchase water from the U.S. Navy.

When GWA initiated the automated meter reading program in 2006, the program was 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. The agency has since replaced those faulty meters and approximately 13,000 new meters have been installed. GWA is setting up a meter test bench and meter facility to better manage the meters and is currently in the process of looking into different manufacturers.

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

GWA received an unqualified opinion for its Report on Compliance and Internal Controls and the auditors did not identify any findings in FY 2011. However, cumulative questioned costs of \$358,000 from prior years remain unresolved as of September 30, 2011.

The management letter reported three findings, one of which was a repeat from the prior year. These findings included: procedures to enhance timely communications between accounting and engineering staff on the status of CIPs (also included in FY 2010's management letter), to consider adopting formal methodologies for capitalizing labor, and to annually conduct network vulnerability tests and/or network penetration testing (IT matter).

Deloitte and Touche auditors issued a separate document to the CCU 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).