



OFFICE OF THE PUBLIC AUDITOR

**Guam Waterworks Authority**  
Fiscal Year 2007 Financial Highlights

May 12, 2008

In FY 2007, the Guam Waterworks Authority (GWA) purchased less water from the Navy due to improvements in leak detection and line repairs. FY 2007 revenues grew by \$5.1 million (M) improving net assets by \$6.2M, which was a negative \$8.1M in FY 2006. However, FY 2007 net assets were still in the negative by \$1.9M and operating expenses increased mainly from power purchases from the Guam Power Authority. In addition, \$6.3M in fire hydrant revenue is considered uncollectible because there is no government agency responsible for payment. For GWA to invest in future capital projects, a positive change in net assets is required.

**GWA Relying Less on Navy Water**

Water purchases during the year decreased by \$2.2M, from \$5M in FY 2006 to \$2.8M. GWA minimized its water purchases from the Navy by improving its repair efforts and addressing leaks. These efforts ultimately impacted additional water purchases from the Navy in order to provide adequate water supply to customers. GWA currently pays \$3.25 per 1,000 gallons for Navy water, while it charges customers \$2.40 per 1,000 gallons for a net loss of \$0.85.<sup>1</sup>

**Improvement in Revenues**

GWA improved operating revenues by \$5.1M from \$41.8M in FY 2006 to \$46.9M in FY 2007. This is due to a 2.2% increase in the number of customers and a slight increase in consumption of .43%. However, the water purchase savings and revenue increases were offset mainly by a \$1.4M increase in electricity purchases from the Guam Power Authority. Power rate increases from soaring fuel costs sent power purchases to \$11.9M in FY 2007 compared to \$10.5M in FY 2006. Other operating expenses such as salaries, administrative and general, and contractual expenses increased by \$1.1M.

**Uncollectible Fire Hydrant Receivables**

GWA continued to reserve uncollectible fire hydrant revenues. In FY 2007, fire hydrant revenue was \$259,000 increasing fire hydrant receivables to \$6.3M from \$6M in 2006. GWA maintains and provides water to fire hydrants and classifies the services as government water revenue. However, no government of Guam agency is tasked to pay for the services. GWA has not determined a solution to the mounting receivables, but plans to address the matter.

**Capital Funding**

In August 2007, the Public Utilities Commission approved a 14.24% rate increase to pay the debt service requirements for the \$105M 2005 Revenue Bond. In FY 2007, the debt service was approximately \$5.3M. When current bond fund money is exhausted, GWA will need to go to the bond market again to continue all other capital projects. Future rate increases will be inevitable

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<sup>1</sup> The residential lifeline rate up to 5,000 gallons of consumption is \$2.40 per 1,000 gallons. The rate for excess consumption over 5,000 gallons is \$3.55 per 1,000 gallons.

to fund capital improvement projects for the expected increase in population from the military build-up.

As a result of the stipulated order, GWA expended over \$24.9M for capital expansion during FY 2007. This includes \$7M for the installation of automated meters (AMR). To date, approximately 24,000 AMRs have been installed with 40% of active meters left to be replaced. GWA has already seen a 16% increase in billing due to more accurate meter readings.

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

The Independent Auditors' Report on Compliance and Internal Control identified eight findings, of which two are repeat findings for the lack of a federal compliance officer to ensure adherence to federal compliance requirements and the lack of an internal auditor. Three findings dealt with GWA not complying with requirements regarding cash management, reporting, and special tests provisions applicable to their major federal award program. The other three findings involved GWA's procurement documentation, safeguarding of capitalizable assets, and capitalization of completed projects. There were no questioned costs identified for the above findings compared to \$331,000 in 2006. Total unresolved questioned costs at the end of 2007 remain at \$446,000.

The management letter reported 12 findings compared to 10 findings in 2006. These findings included abnormal meter readings not verified, some meters not registering water consumption, and some customers back billed for more than four billing cycles, which is inconsistent with PUC regulations.

While independent auditors Deloitte and Touche rendered an unqualified opinion on the financial statements, a qualified opinion was expressed regarding GWA's compliance with requirements applicable to major federal award programs.

For more details, refer to the Management Discussion and Analysis in the audit report.