

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

**(GOVERNMENTAL FUNDS OF THE
GOVERNMENT OF GUAM)**

**FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION AND
INDEPENDENT AUDITORS' REPORT**

YEAR ENDED SEPTEMBER 30, 2016

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Year Ended September 30, 2016
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INDEPENDENT AUDITORS' REPORT

Honorable Eddie Baza Calvo
Governor of Guam:

Report on the Financial Statements

We have audited the accompanying financial statements of the Government of Guam Solid Waste Operations Fund and of those funds related to the Government of Guam Limited Obligation (Section 30) Bonds, 2016 Series A (the Funds), which comprise the balance sheet as of September 30, 2016, and the related statement of revenues, expenditures, and changes in fund balances for the year then ended, and the related notes to the financial statements, which collectively comprise the Funds' financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Government of Guam Solid Waste Operations Fund and of those funds related to the Government of Guam Limited Obligation (Section 30) Bonds, 2016 Series A, as of September 30, 2016, and the results of their operations for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

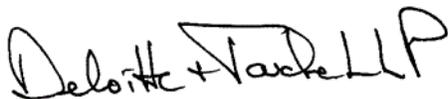
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Funds' basic financial statements. The comparative financial statement information on pages 22 through 25 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The comparative financial statement information is the responsibility of the Funds' management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the comparative financial statement information is fairly stated, in all material respects, in relation to the basic financial statements as a whole. The comparative schedule of employees and other data on page 26 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 24, 2017, on our consideration of the Funds' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Funds' internal control over financial reporting and compliance.



May 24, 2017

**GOVERNMENT OF GUAM
SOLID WASTE OPERATIONS FUND**

Management's Discussion and Analysis
September 30, 2016 and 2015

Our discussion and analysis of the Government of Guam ("GovGuam") Solid Waste Operations Fund ("GGSWOF") financial performance provides an overview of the GGSWOF's financial activities for the fiscal years ended September 30, 2016 and 2015. Please read it in conjunction with the GGSWOF's financial statements, which follow this section.

1. Financial Highlights

- For the fiscal year ended September 30, 2016, total fund balance decreased by \$476,696 (or 1.1%) from a fund balance of \$42,222,857 in 2015 to a fund balance of \$41,746,161 in 2016.
- During the years ended September 30, 2016, and 2015, total combined expenditures for governmental fund operations were \$35,732,353 and \$54,385,231, respectively, including expenditures recorded or payments relating to capital projects of \$3,446,594 and \$24,465,860, respectively; debt service requirements of \$15,669,956 and \$15,669,956, respectively; and receiver fee expenditures of \$1,623,602 and \$1,611,380, respectively. These expenditures were funded, in part, by the generation of tipping fees revenues during the years ended September 30, 2016 and 2015 of \$19,309,680 and \$18,251,015 respectively; and a transfer from GovGuam's General Fund during the years ended September 30, 2016 and 2015 of \$15,669,956 and \$15,669,956, respectively, for debt service.
- Total combined expenditures decreased by \$18,652,878 (or 34.3%) from 2015 to 2016 due primarily to a decrease in capital projects expenditures of \$21,019,266. Total combined revenues increased by \$1,036,233 (or 3%) from 2015 to 2016 due primarily to an increase in tipping fees revenues of \$1,058,665 (or 5.8%).
- During the years ended September 30, 2016 and 2015, the Solid Waste Operations Fund generated operating surpluses of \$3,591,235 and \$4,868,830, respectively. Tipping fees revenues recorded by the Solid Waste Operations Fund were \$19,309,680 in 2016, an increase of \$1,058,665 (or 5.8%) compared to the previous year. Expenditures recorded by the Solid Waste Operations Fund were \$15,771,969 in 2016, an increase of \$2,348,148 (or 17.5%) compared to the previous year.
- During the years ended September 30, 2016 and 2015, receiver fees paid to Gershman, Brickner & Bratton (the Receiver) were \$1,623,602 and \$1,611,380, respectively. Accumulated receiver fee expenditures since the appointment of the Receiver on March 17, 2008 through September 30, 2016 total \$17,662,600.
- On August 17, 2016, GovGuam issued Limited Obligations (Section 30) Bonds, 2016 Series A in the amount of \$236,605,000. Proceeds from these bonds were used to refund the 2009 Limited Obligations (Section 30) Bonds.

2. Overview of the Financial Statements

The GGSWOF's financial statements include all of the activities of the Solid Waste Operations Fund and funds related to the Limited Obligation (Section 30) Bonds, 2016 Series A (the "Funds"). The financial statements present a balance sheet and a statement of revenues, expenditures, and changes in fund balance. The assets, liabilities and fund balances of the Funds are reported in self-balancing funds.

**GOVERNMENT OF GUAM
SOLID WASTE OPERATIONS FUND**

Management's Discussion and Analysis
September 30, 2016 and 2015

GGSWOF's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The GGSWOF financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual; generally when they are both measurable and available. Expenditures generally are recorded in the period in which the related fund liability is incurred, as under accrual accounting, with the exception of debt service expenditures, which are recorded only when payment is due.

The notes to the financial statements include additional information needed to provide a further understanding of the basic financial statements.

3. Financial Statement Analysis

Balance Sheet

The balance sheet presents information on GGSWOF's assets, liabilities and fund balance at year-end. A condensed summary of GGSWOF's balance sheet is shown below as of September 30, 2016 and 2015.

	<u>2016</u>	<u>2015</u>
Assets:		
Cash and cash equivalents	\$ 19,704,826	\$ 16,011,974
Tipping Fee Receivables	3,054,647	3,469,600
Due from General Fund	6,819,725	-
Restricted assets	<u>16,499,597</u>	<u>47,916,258</u>
Total Assets	\$ <u>46,078,795</u>	\$ <u>67,397,832</u>
Liabilities:		
Accounts payable and other	\$ 3,439,996	\$ 7,858,948
Due to General Fund	<u>964,790</u>	<u>17,316,027</u>
Total Liabilities	<u>4,404,786</u>	<u>25,174,975</u>
Fund Balances:		
Restricted	22,173,087	25,745,636
Committed	<u>19,500,922</u>	<u>16,477,221</u>
Total Fund Balances	<u>41,674,009</u>	<u>42,222,857</u>
Total Liabilities and Fund Balances	\$ <u>46,078,795</u>	\$ <u>67,397,832</u>

Total assets decreased by \$21,319,037 (or 31.6%) during 2016 from \$67,397,832 to \$46,078,795. Total liabilities decreased by \$20,770,189 (or 82.5%) during 2016 from \$25,174,975 to \$4,404,786. These decreases were primarily the result of a decrease in restricted assets held for debt service together with a corresponding decrease in Due to General Fund.

Total fund balances decreased by \$548,848 (or 1.3%) during 2016 from \$42,222,857 to \$41,674,009. Of the total fund balance amounts presented at each respective fiscal year end, certain restrictions limit the availability of fund resources for future use. Specifically, fund balances are restricted by the bond indenture associated with the Limited Obligation (Section 30) Bond, 2016 Series A, wherein these funds are restricted for (i) capital projects associated with Consent decree projects, and (ii) future debt service.

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Management's Discussion and Analysis
September 30, 2016 and 2015

Statement of Revenues, Expenses and Changes in Fund Balances

The Statement of Revenues, Expenses and Changes in Fund Balance show the effect of revenues and expenditures on GGSWOF's fund balance for the year. GGSWOF's statements of revenues, expenses and changes in fund balances for the years ended September 30, 2016 and 2015 are summarized as follows.

	<u>2016</u>	<u>2015</u>
Revenues:		
Tipping fees	\$ 19,309,680	\$ 18,251,015
Use of money and property	203,869	298,453
Transfer from General Fund	<u>15,669,956</u>	<u>15,669,956</u>
	<u>35,183,505</u>	<u>34,219,424</u>
Expenditures:		
Current:		
General government	1,702,652	1,680,989
Environmental protection	14,611,958	12,262,554
Host Community premium benefits	301,193	305,872
Capital projects	3,446,594	24,465,860
Debt service	<u>15,669,956</u>	<u>15,669,956</u>
	<u>35,732,353</u>	<u>54,385,231</u>
Net Change in Fund Balances	\$ <u>(548,848)</u>	\$ <u>(20,165,807)</u>

Total revenues increased by \$964,081 (or 2.8%) from \$34,219,424 for 2015 to \$35,183,505 for 2016. This increase was primarily due to increase of tipping fees of \$1,058,665.

Total expenditures decreased by \$18,652,878 (or 34.3%) from \$54,385,231 for 2015 to \$35,732,353 for 2016. The decrease in 2016 was the result of decreased capital project expenditures from \$24,465,860 for FY15 to \$3,446,594 on FY16.

Capital Assets

The Layon landfill opened on September 1, 2011 and is included as a capital asset in GovGuam's government-wide financial statements. The new landfill will support eleven cells with a capacity in excess of 15.8 million cubic yards and is expected to service the island of Guam for 50 years. Cells one and two were completed in the initial construction.

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Long Term Debt

In June 2009, GovGuam issued Limited Obligation (Section 30) Series A Bonds in the amount of \$202.4 million, net of bond discount of \$5.6 million. Proceeds were primarily to be used for the purpose of constructing the new Layon landfill and other Consent Decree projects as well as funding closure and post-closure costs of Ordot Dump. In August 2016, GovGuam issued Limited Obligation (Section 30) 2016 Series A Bonds in the amount of \$236,605,000. Proceeds are primarily to be used for: (1) to refund all the outstanding GovGuam Limited Obligation (Section 30) Bonds, Series 2009A; (2) refinancing all the outstanding Series 2013B Guam Education Financing Foundation II, Inc. Certificates of Participation (Okkodo High School Expansion Project); (3) financing certain capital costs for Guam Memorial Hospital Authority (GMHA), refinancing of GMHA Bank of Guam Loan and paying vendor accounts payable for FY16 and FY17 and other bond expenses. The resultant long-term debt is included as a liability in GovGuam's government-wide financial statements. See note 6 to the accompanying financial statements for additional information relating to this long-term debt.

Ordot Dump

In accordance with the 2004 Consent Decree jointly filed by the U.S. Environmental Protection Agency (EPA) and the U.S. Department of Justice, GovGuam was required to close Ordot Dump and open a new landfill. Due to delays in meeting stipulated deadlines under the Consent Decree, the U.S. District Court of Guam placed the Solid Waste Division of GovGuam's Department of Public Works in Receivership. The Receiver has been tasked by the U.S. District Court with bringing GovGuam into compliance with the Consent Decree, including environmental closure of Ordot Dump in compliance with the engineering standards and regulations required by the U.S. EPA. On August 31, 2011, Ordot Dump was finally closed to the public. The Receiver continues engineering design work to ensure that Ordot Dump is closed in a manner that protects both human and environmental health. GovGuam has reported an amount of \$16,963,346 as landfill closure and post closure care liability at September 30, 2016 within GovGuam's government-wide financial statements, representing the cumulative amount reported based on 100 percent capacity for Ordot Dump. This amount is based on what it would cost to perform all closure and post closure care in 2016. Actual costs may be higher due to inflation, changes in technology or changes in regulations.

4. Outlook, Challenges and Opportunities

Transition to GSWA Board of Directors

The District Court of Guam issued an Order on May 2, 2016, approving the Timeline for Transition recommended by the Receiver for transferring control of GSWA from the Receiver to the Guam Solid Waste Authority (GSWA) Board of Directors. This timeline calls for the transfer to be completed on December 31, 2017.

In December 2016, the Receiver presented a recommended outline to the GSWA Board of Directors for complying with the Court's Order. This outline was approved by the board and establishes a plan for the hiring of the General Manager and Chief Financial Officer. The plan includes the following:

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January through March 2017: advertisements are created and placed in various print and online publications including the Pacific Daily News, Solid Waste Association of North America, Public Works Magazine, WASTE 360, California Resource Recovery Association, MSW Management Magazine, GSWA Website, GBB's Newsletter, Guam Association of Government Accountants, and AICPA Career Centers.

Completed applications and resumes are to be sent to the Clerk of the Board. Each applicant is then ranked each based on the minimum standards set out in Guam PL 31-20 and on years and type of work experience. The ranking is then sent to the GSWA subcommittee overseeing the hiring process.

By the end of April 2017, the GSWA Board of Directors' subcommittee conducts telephone interviews of the ranked candidates.

From the end of May to early June 2017, the entire Board conducts a second interview with selected candidates. After these interviews are completed the GSWA Board will select one or two candidates for reference and background checks to be completed by early July 2017.

The Board selects candidates for a site visit of GSWA facilities and GSWA staff. During the site visit in-person interviews with the members of the Board of Directors would also be conducted. These visits are expected to take place by early September 2017.

In September or early October the GSWA Board of Directors will make a final selection and finalize an offer to candidates for the position of General Manager and Chief Financial Officer. By mid-October to early November the two positions would be filled and working under the Receiver until the Court orders the complete transition.

Capital Projects

The Receiver has been tasked by the District Court to complete several capital improvement projects before 2017 comes to an end. These are as follows:

Dero Road: Dero Road travels from Route 4 to the Ordot Dump and beyond. The road had over years been damaged by all of the heavy vehicles that had used the Ordot Dump. In environmentally closing the Ordot Dump, the Receiver placed a sewer line to serve the Ordot Dump under the surface of Dero Road. The District Court ordered, on May 5, 2015, that the road be repaved and that proper storm water drainage and management also be installed. In developing the design, the Receiver consulted with USEPA, Guam EPA, and the Ordot Mayor. Although this project is substantially complete, the Receiver's engineering staff is currently reviewing an additional drainage issue at the intersection of Dero and Sablan Roads and will report its findings at the May 17, 2017, District Court hearing.

Residential Transfer Stations: The Government of Guam's Environmental Protection Agency had made the permitting of the existing Residential Transfer Stations a condition of the Layon Landfill's Solid Waste Permit. One is located in Malojloj and the other in Agat that have to be redesigned and upgraded in order to meet the permitting conditions. The Agat site was the location of an old dump that has had to be cleaned up by the Receiver. Contractors at the Malojloj site found a cave and ancient artifacts. This finding triggered the Archaeological Preservation protocol on the site. However, the Receiver continues to make progress and both transfer stations are expected to be finished by the end 2017 barring unforeseen developments.

The Dededo Transfer Station: In July 2015, the Government of Guam closed the Dededo Residential Transfer Station. The District Court has ordered the Receiver to environmentally close this facility. This will include demolishing and removing existing structures and such other work as is required by environmental regulations before turning the land back over to the Chamorro Land Trust. This project is expected to also be completed before the end of 2017.

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Contracts

The Receiver is currently working on three draft procurement documents. These are for:

- 1) A contractor to manage the post closure care of the Ordot Dump. There will be operational and maintenance regulatory activities that must be performed on an ongoing basis to ensure compliance with the requirements of the closure plan required by the United States Environmental Protection Agency and Guam Environmental Protection Agency. These two agencies are currently working with the Receiver to define what these regulatory requirements will be.
- 2) An independent engineer to act as a quality control manager of the contractor of the post closure care of the Ordot Dump.
- 3) A Trustee to oversee the contractor, the independent engineer and the funding necessary to ensure compliance with post-closure plan for the Ordot Dump. This Trustee would report directly to the District Court.

It is expected that all three procurements will be completed and contracts in place before the end of 2017.

The Receiver has developed three rate options for presentation to the Guam Public Utilities Commission. Each option would provide for adequate funding for GGSWOF for 2013 and thereafter. These options are outlined in the following table:

Customer Type	Current Rate*	Full Gov't Reimbursement Rate	Two Landfill Rate**
Commercial (per ton)	\$ 172	\$ 225	\$ 110
Residential (per month)	\$ 30	\$ 35	\$ 20
Residential Transfer Station	\$7.50 / \$ 15	\$7.50 / \$ 15	\$7.50 / \$ 15
Cost to GovGuam	\$ 7,483,397	\$ -	\$ 11,737,208

* The effective commercial rate per ton is \$156 per ton when haulers pay on time, electronically using ACH, and do not use Public Law 25-93.

** Assumes approval of a second landfill.

Based on the Receiver's determination, the Current Rate option is adequate to provide for the operation of GGSWOF through 2016. The current rate is adequate well beyond 2016 if GovGuam does not seek to obtain reimbursement from GSWA for the debt service paid from Federal Section 30 funds. If, however, GovGuam determines to reimburse itself for its use of Section 30 Funds for debt service, it will need to adopt the full government reimbursement rate. To date, no action has been taken to adopt a new rate for GSWA.

The Two Landfill option is required if GovGuam allows a second landfill on Guam. In the event that GovGuam approves a permit for a second landfill, rates that will allow GovGuam to be reimbursed for the use of Section 30 revenue to pay debt service may not be sustained if the second landfill permit holder undercuts GGSWOF's current rates. Under this scenario, GovGuam would forgo annual reimbursement for the use of Section 30 revenue to pay debt service.

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Management's Discussion and Analysis
September 30, 2016 and 2015

5. Contacting Government of Guam Financial Management

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of GGSWOF's finances and to show the GGSWOF's accountability for the money it receives. Questions concerning any of the information provided in this report or request for additional information should be addressed to: Division of Accounts, Attention: Kathrine B. Kakigi, Financial Manager, P.O. Box 884, Hagatna, Guam 96932. Telephone No.: (671) 475-1169/1260, Facsimile: (671) 472-8483; Website address: [www.admin.gov.gu/doa/.](http://www.admin.gov.gu/doa/)

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Balance Sheet
September 30, 2016

	Solid Waste Operations Fund	Capital Projects Fund	Debt Service Fund	Total
<u>ASSETS</u>				
Cash and cash equivalents	\$ 19,704,826	\$ -	\$ -	\$ 19,704,826
Restricted assets:				
Cash and cash equivalents	3,901,675	1,667,817	10,908,008	16,477,500
Investments	-	22,097	-	22,097
Receivables:				
Tipping fees	3,054,647	-	-	3,054,647
Due from General Fund	-	-	6,819,725	6,819,725
Total assets	\$ 26,661,148	\$ 1,689,914	\$ 17,727,733	\$ 46,078,795
<u>LIABILITIES</u>				
Accounts payable	\$ 135,436	\$ -	\$ -	\$ 135,436
Contracts payable	1,934,532	56,823	-	1,991,355
Payable to receiver	267,396	283,468	-	550,864
Retention payable	215,005	378,190	-	593,195
Host Community Premium Benefits payable	72,605	-	-	72,605
Accrued payroll and other	96,541	-	-	96,541
Due to General Fund	537,036	427,754	-	964,790
Total liabilities	3,258,551	1,146,235	-	4,404,786
Commitments and contingencies				
<u>FUND BALANCES</u>				
Fund balances:				
Restricted for:				
Capital projects	3,901,675	543,679	-	4,445,354
Debt service	-	-	17,727,733	17,727,733
Committed for:				
Solid waste operations	19,500,922	-	-	19,500,922
Total fund balances	23,402,597	543,679	17,727,733	41,674,009
Total liabilities and fund balances	\$ 26,661,148	\$ 1,689,914	\$ 17,727,733	\$ 46,078,795

See accompanying notes to financial statements.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Statement of Revenues, Expenditures, and Changes in Fund Balances
Year Ended September 30, 2016

	Solid Waste Operations Fund	Capital Projects Fund	Debt Service Fund	Total
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Revenues:				
Tipping fees	\$ 18,963,975	\$ -	\$ -	\$ 18,963,975
Host Community Premium Surcharge fees	345,705	-	-	345,705
Use of money and property	53,524	5,920	193,393	252,837
Net change in fair value of investments	-	-	(48,968)	(48,968)
Transfer in from General Fund	-	-	15,669,956	15,669,956
	<u>19,363,204</u>	<u>5,920</u>	<u>15,814,381</u>	<u>35,183,505</u>
Total revenues				
Expenditures:				
Current:				
General government	858,818	843,834	-	1,702,652
Environmental protection	14,611,958	-	-	14,611,958
Capital projects	-	3,446,594	-	3,446,594
Debt service:				
Principal	-	-	5,330,000	5,330,000
Interest	-	-	10,339,956	10,339,956
Host Community Premium Benefits	301,193	-	-	301,193
	<u>15,771,969</u>	<u>4,290,428</u>	<u>15,669,956</u>	<u>35,732,353</u>
Total expenditures				
Net change in fund balances	3,591,235	(4,284,508)	144,425	(548,848)
Fund balances at the beginning of the year	<u>19,811,362</u>	<u>4,828,187</u>	<u>17,583,308</u>	<u>42,222,857</u>
Fund balances at the end of the year	<u>\$ 23,402,597</u>	<u>\$ 543,679</u>	<u>\$ 17,727,733</u>	<u>\$ 41,674,009</u>

See accompanying notes to financial statements.

**GOVERNMENT OF GUAM
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Notes to Financial Statements
September 30, 2016

(1) Summary of Significant Accounting Policies

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Solid Waste Operations Fund.

A. Reporting Entity

The Government of Guam (GovGuam) Solid Waste Operations Fund, created by Public Law 24-272, was established to provide solid waste collection and disposal services and a financing source for GovGuam's costs directly related to the closure and post-closure of the solid waste landfill. Revenues are derived from tipping, user and other associated fees to be used solely for solid waste management practices. On June 18, 2009, Limited Obligation (Section 30) Bonds, 2009 Series A, were issued for the purpose of constructing a new landfill, closure of Ordot Dump, prepaying a bank loan and funding capitalized interest. On August 17, 2016, the Limited Obligation (Section 30) Bonds, 2009 Series A were refunded through issuance of Limited Obligation (Section 30) Bonds, 2016 Series A. The Capital Projects Fund is used to account for the closure of the Ordot Dump and the construction of a new landfill from bond proceeds. The Debt Service Fund is used to account for funds required by the bond indenture to redeem bond principal and to pay bond interest as such becomes due.

On April 18, 2011, Public Law 31-20 was enacted, which provided for the continuation of the existence of the Solid Waste Management Division, a sub-entity of GovGuam's Department of Public Works, as an autonomous public corporation now referred to as the Guam Solid Waste Authority (GSWA). GSWA's transactions are accounted for under the GovGuam Solid Waste Operations Fund.

B. Fund Accounting

The accompanying financial statements present a balance sheet and a statement of revenues, expenditures, and changes in fund balances. The assets, liabilities and fund balances of the Solid Waste Operations Fund and those funds related to the Limited Obligation (Section 30) Bonds, 2016 Series A, are reported in self-balancing funds. Transactions between funds, if any, have not been eliminated.

C. Measurement Focus and Basis of Accounting

The accompanying financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual; generally when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, revenues are considered available if they are collected within 90 days of the end of the current fiscal period. Revenues susceptible to accrual include tipping, user and associated fees. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures generally are recorded in the period in which the related fund liability is incurred, as under accrual accounting, with the exception of debt service expenditures, which are recorded only when payment is due.

Tipping and associated fees imposed are as follows:

Commercial

Commercial haulers are billed per tonnage of trash. The rate per tonnage is \$171.60.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Notes to Financial Statements
September 30, 2016

(1) Summary of Significant Accounting Policies, Continued

C. Measurement Focus and Basis of Accounting, Continued

Residential

Residential customers are billed for weekly curbside trash collection services. The monthly rate per one 96-gallon cart is \$30.

Further, residential customers are billed \$15 per month for every additional 96-gallon cart.

Residential customers bringing their household trash to the transfer stations are assessed the following fees: (a) \$7.50 up to three cubic yards, and (b) \$15 from three up to a maximum of six cubic yards.

Host Community Premium Surcharge

On July 16, 2010, the Guam Legislature passed Public Law 30-165, amended by Public Law 32-021 on April 11, 2013, which determined that a "Host Community Premium" be awarded for the villages of Inarajan and Ordot in the annual amount of \$150,000 each. Pursuant to Public Law 30-165, as amended by Public law 32-021, and an Order by the Guam Public Utilities Commission on July 30, 2012, as amended on July 30, 2013, GSWA was authorized to assess Host Community Premium Surcharge (HCPS) fees of \$3.57 per ton for commercial, including government customers, and \$0.38 per month for residential customers beginning October 1, 2012. The HCPS fees were to compensate the villages of Inarajan and Ordot where solid waste management facilities, such as sanitary landfills, are located. During the year ended September 30, 2016, HCPS revenues were \$345,705.

D. Budgetary Process

Legislation requires the Governor to present a proposed budget to the Legislature at the beginning of each annual session. The Legislature enacts the budget through passage of specific departmental appropriations. Before signing the Appropriations Act, the Governor may veto or reduce any specific appropriation, subject to legislative override. Once passed and signed, the budget becomes the financial plan for the ensuing fiscal year. Supplemental appropriations for specific purposes are made throughout the year.

Encumbrances are commitments related to unperformed (executory) contracts for goods or services and are generally evidenced by outstanding purchase orders, contracts, and intradepartmental work requests. Encumbrances outstanding at year end are reported within the fund balance classifications since they do not constitute expenditures or liabilities. Unencumbered appropriations normally lapse at the end of each fiscal year unless they are designated by the Guam Legislature as representing in continuing appropriations.

E. Cash and Cash Equivalents

Cash and cash equivalents include cash held in demand deposit accounts and short-term investments in U.S. Treasury obligations and commercial paper with maturity dates within three months of the date acquired.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Notes to Financial Statements
September 30, 2016

(1) Summary of Significant Accounting Policies, Continued

F. Investments

Investments and related investment earnings of the primary government and the discretely presented component units are recorded at fair value using quoted market prices. Fair value is the price that would be received to sell an asset or paid to transfer a liability (ie, the exit price) in an orderly transaction between market participants at the date as of which the fair value of an asset or liability is determined.

GovGuam categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In certain instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy is based on the lowest level of input that is significant to the fair measurement. Investments not categorized under the fair value hierarchy are shown at either Net Asset Value (NAV) or amortized cost.

G. Receivables and Allowance for Uncollectible Accounts

Receivables are due from commercial haulers, government agencies and individuals residing on the island of Guam, are uncollateralized and are stated net of estimated allowances for uncollectible accounts. The allowance for uncollectible accounts is based on the evaluation of the collectability of current accounts and historical trends.

H. Interfund Receivables/Payables

During the course of its operations, GovGuam's General Fund records transactions between individual funds for goods provided or services rendered. These balances result from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made, and are scheduled to be collected in the subsequent year.

I. Restricted Assets

The bond indenture relating to the Limited Obligation (Section 30) Bonds, 2016 Series A, requires amounts to be restricted for capital projects and debt service. These amounts have been classified as restricted assets.

J. Fund Balance

Governmental fund balances are classified as follows:

- Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Notes to Financial Statements
September 30, 2016

(1) Summary of Significant Accounting Policies, Continued

J. Fund Balance, Continued

Restricted/committed amounts are spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this.

A formal minimum fund balance policy has not been adopted.

K. Encumbrances

Encumbrance accounting is utilized to identify fund obligations. Encumbrances represent commitments related to unperformed contracts for goods. At September 30, 2016, significant encumbrances are summarized as follows:

Solid Waste Operations <u>Fund</u>	Capital Projects <u>Fund</u>	Debt Service <u>Fund</u>	<u>Total</u>
\$ <u>701,701</u>	\$ <u>1,915,599</u>	\$ <u> -</u>	\$ <u>2,617,300</u>

L. Management Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

M. Total Columns

Total columns are presented primarily to facilitate financial analysis. The Management's Discussion and Analysis includes certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a full comparative presentation. Accordingly, such information should be read in conjunction with the financial statements of the Government of Guam Solid Waste Operations Fund and of those funds related to the Government of Guam Limited Obligation (Section 30) Bonds, 2016 Series A, for the year ended September 30, 2015 from which summarized information was derived.

(2) Deposits

The deposit and investment policies of GovGuam are governed by 5 GCA 21, Investments and Deposits, in conjunction with applicable bond indentures. The Director of Administration is responsible for the safekeeping of all monies paid into the Treasury of Guam. The Director of Administration invests any monies of GovGuam that are deemed not necessary for immediate use. Legally authorized investments include securities issued or guaranteed by the U.S. Treasury or agencies of the United States government; demand and time deposits in or certificate of deposit of, or bankers' acceptances issued by, any eligible institution; corporate debt obligations, including commercial paper; certain money market funds; state and local government securities, including municipal bonds; and repurchase and investment agreements. With the exception of investments in U.S. government securities, which are explicitly or implicitly guaranteed by the United States government, all other investments must be rated Aa1/P-1 by Moody's.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Notes to Financial Statements
September 30, 2016

(2) Deposits, Continued

Custodial credit risk is the risk that in the event of a bank failure, the entity's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized, or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name.

As of September 30, 2016, the carrying amount of cash and cash equivalents was \$36,182,326 and the corresponding bank balances were \$36,182,326, of which \$25,241,006 was maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining balances of \$10,941,320 represents short-term investments held and administered by GovGuam's trustees in accordance with various trust agreements and bond indentures. Based on negotiated trust and custody contracts, all of these investments were held in GovGuam's name by GovGuam's custodial financial institutions at September 30, 2016. As of September 30, 2016, bank deposits in the amount of \$626,934 were FDIC insured. GovGuam does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

Restricted cash and cash equivalents consist of funds restricted for the following purposes:

Capital projects	\$ 1,667,817
Debt service	10,908,008
Operations, maintenance, renewal and replacement reserve fund	<u>3,901,675</u>
	\$ <u>16,477,500</u>

(3) Investments

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for GovGuam.

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, GovGuam will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. GovGuam's investments are held and administered by trustees in accordance with the bond indenture for the purpose of funding various capital projects and future debt service requirements. Based on negotiated trust and custody contracts, all of these investments were held in GovGuam's name by GovGuam's custodial financial institutions at September 30, 2016.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. GovGuam does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

As of September 30, 2016, investments measured at the Net Asset Value are as follows:

Mutual funds	\$ <u>22,097</u>
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Restricted investments consist of funds restricted for the following purposes:

Capital projects	\$ <u>22,097</u>
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**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Notes to Financial Statements
September 30, 2016

(4) Receivables

Receivables as of September 30, 2016, including allowances for uncollectible accounts, are as follows:

Commercial	\$ 2,151,131
Residential	1,697,181
Government:	
Guam Waterworks Authority (GWA)	135,553
Other	<u>223,808</u>
	4,207,673
Allowance for uncollectible accounts	<u>(1,153,026)</u>
	\$ <u>3,054,647</u>

The Solid Waste Operations Fund entered into a \$750,000 promissory note with a commercial customer for past due tipping fees. The note, due in initial monthly installments of principal and interest of \$19,022 commencing February 29, 2012, bears interest at 10% per annum. Effective February 29, 2016, monthly principal and interest payments on the note increased to \$26,790 and matures in February 2017. In September 2016, the remaining outstanding balance was fully collected.

(5) Bonds Payable

The Limited Obligation (Section 30) Bonds, 2016 Series A (original issue of \$236,605,000, dated August 17, 2016) have varying interest rates at 2% - 5% per annum, payable semiannually on June 1 and December 1, principal fund payments due in varying annual installments commencing with a payment of \$1,630,000 on December 1, 2016 and increasing to a final payment of \$4,435,000 on December 1, 2046. The bonds were issued for the purpose of refunding the 2009 Limited Obligation (Section 30) Bonds and to provide additional proceeds to fund non-landfill related costs of GovGuam, and are backed by the full faith and credit of GovGuam, payable solely from and collateralized by a pledge of Section 30 federal income tax collections.

The 2016 Series A Section 30 Bonds are limited obligations of GovGuam and are authorized to be issued pursuant to Public Law 30-7 and an Indenture dated June 1, 2009, as amended and restated by an Amended and Restated Indenture dated August 1, 2016. Under the Indenture, GovGuam appointed a Trustee, Co-Trustee and Depositary for the Bonds and a Paying Agent and registrar for the Bonds. The Bonds are payable entirely from a first lien and pledge of Section 30 revenues. Section 30 revenues are amounts received by or on behalf of GovGuam or the Trustee from the United States as proceeds of custom duties, federal income taxes and any other taxes derived from Guam.

As defined by the terms of the bond indenture, these revenues include the following: (1) all amounts received by GovGuam as proceeds of Federal income taxes derived from Guam ("Section 30" monies); (2) customs duties collected by GovGuam derived from Guam; (3) the proceeds of all taxes collected under the Internal Revenue laws of the United States on articles produced in Guam and transported to the United States, its Territories or possessions, or consumed in Guam; and (4) the proceeds of any other taxes which may be levied by Congress on the inhabitants of Guam. "Revenue" further includes all interest, profits or other income derived from investments in any fund or account created pursuant to the bond indenture.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Notes to Financial Statements
September 30, 2016

(5) Bonds Payable, Continued

In accordance with the Indenture, the following funds are established:

- . Section 30 Revenue Fund - GovGuam shall deposit or cause to be deposited all Section 30 Revenues upon receipt into the Section 30 Revenue Fund which the Trustee shall maintain and hold in trust, except that all interest and other profit from the investment of moneys in the Rebate Fund will be retained therein, all interest and other profit from the investment of moneys in the Construction Fund will be transferred to the Capitalized Interest Account, which shall be established, maintained and held in trust by the Depository as a separate account within the Section 30 Revenue Fund. The Trustee shall be entitled to and shall collect and receive all of the Section 30 Revenues, and any Section 30 Revenues collected or received by GovGuam shall be deemed to be held, and to have been collected or received, by GovGuam as the agent of the Trustee and shall promptly be paid by GovGuam to the Trustee.

On the fifth day of each calendar month, the Trustee shall transfer from the Section 30 Revenue Fund (to the Co-Trustee or Depository, as necessary), for deposit into one or more separate funds, amounts in the order of priority as required under the Indenture, the requirements of each such fund or account (including the making up of any deficiencies in any such fund or account resulting from lack of Section 30 Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied, and the results of such satisfaction being taken into account, before any transfer is made to any account subsequent in priority: (A) the Debt Service Fund; (B) the Bond Reserve Fund; (C) the Rebate Fund; (D) the Bond Expense Fund; and (E) the Section 30 Surplus Fund.

- . Debt Service Fund - The Debt Service Fund shall initially be held by the Trustee, and the Trustee shall apply moneys on deposit in the Debt Service Fund in the amounts and at the times required by the Indenture solely to (1) pay interest on the Bonds as it becomes due and payable, (2) pay principal of Bonds when due and payable and (3) purchase or redeem or pay at maturity Term Bonds as provided in the Indenture.
- . Bond Reserve Fund - The Indenture requires the Trustee to establish and maintain the Bond Reserve Fund and to deposit with respect to any series of Bonds an amount equal to the Bond Reserve Fund Requirement to be held by the Trustee. The Bond Reserve Fund Requirement means, as of any date of calculation and with respect to any Bonds, an amount equal to (i) the least of (A) Maximum Annual Debt Service, calculated on all such Bonds Outstanding as of such date, (B) one hundred twenty-five percent (125%) of average annual debt service on all such Bonds Outstanding as of such date, or (C) such amount as may be calculated in connection with the issuance of an Additional Series of Bonds by adding not more than ten percent (10%) of the original principal amount of such Additional Series of Bonds to the Bond Reserve Fund Requirement immediately before such issuance, or (ii) such larger amount as may be established as the Bond Reserve Fund Requirement by any Supplemental Indenture and which, in the opinion of Bond Counsel, may be funded from Bond proceeds and invested at an unlimited yield consistent with the Internal Revenue Code.
- . Construction Fund - At closing, there shall be deposited in the Series 2009A Construction Account within the Construction Fund a portion of the proceeds of the 2009A Bonds. Moneys on deposit therein will be disbursed to fund the 2009A Bonds Project, which consists of the acquisition, construction, improving and equipping the New Landfill and the acquisition and construction of the closure of the Ordot Dump.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Notes to Financial Statements
September 30, 2016

(5) Bonds Payable, Continued

- . Bond Expense Fund - All amounts in the Bond Expense Fund shall be used and withdrawn by the Trustee upon receipt of a Requisition of GovGuam, solely for the purpose of paying (i) fees and expenses of the Fiduciaries, as such term is defined in the Indenture, (ii) fees and expenses with respect to any Credit Facility, as such term is defined in the Indenture, and (iii) any other costs or expenses designated as payable from the Bond Expense Fund by a Supplemental Indenture.

The "Section 30 Revenue Fund" is accounted for within the General Fund. The "Capitalized Interest Account", "Debt Service Fund", "Bond Reserve Fund" and "Bond Expense Fund" accounts are accounted for within the Debt Service Fund. The "Construction Fund" account is accounted for within the Capital Projects Fund.

Annual debt service requirements to maturity for principal and interest are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 1,630,000	\$ 9,277,876	\$ 10,907,876
2018	2,380,000	11,689,250	14,069,250
2019	5,410,000	11,494,500	16,904,500
2020	9,860,000	11,112,750	20,972,750
2021	10,375,000	10,606,875	20,981,875
2022 - 2026	51,565,000	45,066,125	96,631,125
2027 - 2031	57,555,000	31,972,125	89,527,125
2032 - 2036	59,380,000	16,047,250	75,427,250
2037 - 2041	14,895,000	7,825,125	22,720,125
2042 - 2046	19,120,000	3,594,250	22,714,250
2047	<u>4,435,000</u>	<u>110,875</u>	<u>4,545,875</u>
	<u>\$ 236,605,000</u>	<u>\$ 158,797,001</u>	<u>\$ 395,402,001</u>

During the year ended September 30, 2016, payments for debt service totaled \$15,669,956.

GovGuam has pledged a portion of future General Fund Section 30 revenues to repay the \$236,605,000 in limited obligation bonds. This debt is payable solely from Section 30 revenues payable to GovGuam by the United States Government pursuant to Section 30 of the Organic Act, Title 48, U.S. Code, Section 41421(h). Total principal and interest remaining on this debt is approximately \$395,402,001 payable through December 2046. For the year ended September 30, 2016, Section 30 revenues were \$78,467,450.

At September 30, 2016, fund balance of \$17,727,733 is restricted for debt service purposes.

At September 30, 2016, GovGuam management is of the opinion that it is in compliance with the bond covenants as outlined in the bond indenture.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Notes to Financial Statements
September 30, 2016

(6) Commitments and Contingencies

A. Landfill Closure and Postclosure Costs

On February 11, 2004, GovGuam and the U.S. Environmental Protection Agency filed a Consent Decree in the United States District Court of Guam. The consent decree included deadlines for the opening of a new landfill and implementing an Ordot Dump closure plan. Within a period of forty-five months, GovGuam was required to complete an environmental impact statement analyzing at least three potential new landfill locations; complete design, permitting, and construction for the selected landfill location; begin operations at the new landfill; and properly and permanently close the Ordot Dump. In the event that GovGuam failed to meet any of the stipulated deadlines under the consent decree, GovGuam would be liable for civil penalties.

On March 17, 2008, the United States District Court of Guam issued a Court Order that placed the Solid Waste Division of the Department of Public Works (DPW) in Guam in Receivership. After receiving and reviewing qualifications information on firms presented by GovGuam and the U.S. Environmental Protection Agency, and conducting interviews and reference checks, the District Court Judge selected and appointed a receiver. The Receiver was given full power and authority to enforce the terms of the Consent Decree, including closure of the Ordot Dump and opening of a new landfill, and assume all of the responsibilities for the operations of DPW's Solid Waste Division. For the year ended September 30, 2016, recorded receiver related expenditures were \$1,623,602 with accumulated receiver related expenditures since the appointment of the Receiver on March 17, 2008 through September 30, 2016 amount to \$17,662,600. Of this amount, \$3,848,700 was funded by the General Fund and the remaining was funded from solid waste operations. The District Court maintains a separate trust account from which Receiver fees are paid. Accordingly, timing differences occur between GovGuam records and the fees actually paid and payable to the Receiver by the District Court of Guam.

Pursuant to the Court Order, the appointment of the Receiver shall be for the period necessary to achieve compliance with the consent decree unless: (a) the Receiver recommends termination of the Court Order as no longer necessary, or modification thereof, and said termination or modification is accepted by the court, (b) the Receiver requests to be relieved and such request is approved by the court, and (c) the Court Order is otherwise modified or terminated by the court.

On February 13, 2009, the United States District Court of Guam issued a Court Order associated with the DPW Solid Waste Division Receivership requiring GovGuam to provide for costs of the new landfill. On June 4, 2009, GovGuam issued \$202,425,000 in Limited Obligation Revenue Bonds for the purpose of financing facilities of the Solid Waste Management System of Guam. On August 31, 2011, the Ordot Dump was finally closed and the Layon landfill opened on September 1, 2011.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Notes to Financial Statements
September 30, 2016

(6) Commitments and Contingencies, Continued

A. Landfill Closure and Postclosure Costs, Continued

State and federal laws and regulations require GovGuam to place a final cover on its landfill sites when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Closure and post closure care costs reported as expenditures in the accompanying financial statements represent actual closure and post closure care costs incurred during fiscal year 2016. The estimated landfill closure and post closure care liability at September 30, 2016 is not included in the accompanying fund financial statements. Instead, GovGuam has reported an amount of \$12,671,849 as landfill closure and post closure care liability at September 30, 2016 within GovGuam's government-wide financial statements based on 100% capacity for the Ordot Dump and \$4,291,497 reported based on the use of 4.48% of the estimated capacity of Layon landfill. The Layon landfill consists of up to eleven cells and has an estimated lifespan of 50 years. Currently, GovGuam has projected utilizing two cells that together have a projected life of 10 years. GovGuam will recognize the remaining estimated cost of closure and post closure care of \$91,500,845 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post closure care in 2016. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

B. Land Condemnation

On October 31, 2012, a Court Order was issued for the payment of approximately \$25,115,683 for the condemnation of land which encompasses the Layon landfill. A payment of \$3,410,000 was deposited to the Court and distributed to the landowners, with the remaining balance of \$21,705,683 plus interest at 6% per annum calculated from January 24, 2008 to be made. GovGuam negotiated long-term tax credit certificates with certain landowners. During the year ended September 30, 2016, tax credits in the amount of \$1,152,057 were redeemed in lieu of payments associated with this Court Order. As of September 30, 2016, the outstanding liability associated with these tax credits is \$6,091,085, and which is reported as a liability within GovGuam's government-wide financial statements.

C. Contract Commitments

GovGuam has commitments under certain significant contracts at September 30, 2016. As of September 30, 2016, encumbrances associated with these contracts are as follows:

Solid Waste Operations Fund	\$ 3,037,183
Capital Projects Fund	<u>1,915,599</u>
	\$ <u>4,952,782</u>

D. Litigation

GSWA is party to various legal proceedings. GSWA's legal counsel is of the opinion that the probable outcome of such cases existing at September 30, 2016, is not predictable. No provision for any liability has been made in the accompanying financial statements because management believes that no unfavorable outcome is likely to occur.

(7) Major Customers

During the year ended September 30, 2016, one commercial customer accounted for approximately 28% of total tipping fees revenues.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Comparative Balance Sheets
September 30, 2016 and 2015

	Solid Waste Operations Fund		Capital Projects Fund		Debt Service Fund	
	2016	2015	2016	2015	2016	2015
ASSETS						
Cash and cash equivalents	\$ 19,704,826	\$ 16,011,974	\$ -	\$ -	\$ -	\$ -
Restricted assets:						
Cash and cash equivalents	3,901,675	3,334,141	1,667,817	11,113,855	10,908,008	15,748,582
Investments	-	-	22,097	22,097	-	17,697,583
Receivables, net:						
Tipping fees	3,054,647	3,469,600	-	-	-	-
Due from General Fund	-	-	-	-	6,819,725	-
Total assets	<u>\$ 26,661,148</u>	<u>\$ 22,815,715</u>	<u>\$ 1,689,914</u>	<u>\$ 11,135,952</u>	<u>\$ 17,727,733</u>	<u>\$ 33,446,165</u>
LIABILITIES						
Accounts payable	\$ 135,436	\$ 163,957	\$ -	\$ -	\$ -	\$ -
Contracts payable	1,934,532	679,317	56,823	3,191,750	-	-
Receiver fees payable	267,396	225,478	283,468	324,373	-	-
Retention payable	215,005	27,408	378,190	2,712,418	-	-
Host community premium benefits payable	72,605	98,755	-	-	-	-
Accrued payroll and other	96,541	42,942	-	-	-	-
Unearned revenue	-	392,550	-	-	-	-
Due to General Fund	537,036	1,373,946	427,754	79,224	-	15,862,857
Total liabilities	<u>3,258,551</u>	<u>3,004,353</u>	<u>1,146,235</u>	<u>6,307,765</u>	<u>-</u>	<u>15,862,857</u>
FUND BALANCES						
Fund balances:						
Restricted for:						
Capital projects	3,901,675	3,334,141	543,679	4,828,187	-	-
Debt service	-	-	-	-	17,727,733	17,583,308
Committed for:						
Solid waste operations	19,500,922	16,477,221	-	-	-	-
Total fund balances	<u>23,402,597</u>	<u>19,811,362</u>	<u>543,679</u>	<u>4,828,187</u>	<u>17,727,733</u>	<u>17,583,308</u>
Total liabilities and fund balances	<u>\$ 26,661,148</u>	<u>\$ 22,815,715</u>	<u>\$ 1,689,914</u>	<u>\$ 11,135,952</u>	<u>\$ 17,727,733</u>	<u>\$ 33,446,165</u>

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Comparative Statements of Revenues, Expenditures by Function, and Changes in Fund Balances
Years Ended September 30, 2016 and 2015

	Solid Waste Operations Fund		Capital Projects Fund		Debt Service Fund	
	2016	2015	2016	2015	2016	2015
Revenues:						
Tipping fees	\$ 18,963,975	\$ 17,918,559	\$ -	\$ -	\$ -	\$ -
Host Community Premium Surcharge fees	345,705	332,456	-	-	-	-
Use of money and property	53,524	41,636	5,920	37,064	193,393	233,861
Net change in fair value of investments	-	-	-	11,909	(48,968)	(26,017)
Transfer in from General Fund	-	-	-	-	15,669,956	15,669,956
Total revenues	19,363,204	18,292,651	5,920	48,973	15,814,381	15,877,800
Expenditures:						
Current:						
General government	858,818	855,395	843,834	825,594	-	-
Environmental protection	14,611,958	12,262,554	-	-	-	-
Capital projects	-	-	3,446,594	24,465,860	-	-
Debt service:						
Principal	-	-	-	-	5,330,000	5,070,000
Interest	-	-	-	-	10,339,956	10,599,956
Host Community Premium Benefits	301,193	305,872	-	-	-	-
Total expenditures	15,771,969	13,423,821	4,290,428	25,291,454	15,669,956	15,669,956
Net change in fund balances	3,591,235	4,868,830	(4,284,508)	(25,242,481)	144,425	207,844
Fund balances at the beginning of the year	19,811,362	14,942,532	4,828,187	30,070,668	17,583,308	17,375,464
Fund balances at the end of the year	\$ 23,402,597	\$ 19,811,362	\$ 543,679	\$ 4,828,187	\$ 17,727,733	\$ 17,583,308

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Comparative Statements of Revenues, Expenditures by Object, and Changes in Fund Balances
Years Ended September 30, 2016 and 2015

	Solid Waste Operations Fund		Capital Projects Fund		Debt Service Fund	
	2016	2015	2016	2015	2016	2015
Revenues:						
Tipping fees	\$ 18,963,975	\$ 17,918,559	\$ -	\$ -	\$ -	\$ -
Host Community Premium Surcharge fees	345,705	332,456	-	-	-	-
Use of money and property	53,524	41,636	5,920	37,064	193,393	233,861
Net change in fair value of investments	-	-	-	11,909	(48,968)	(26,017)
Transfer in from General Fund	-	-	-	-	15,669,956	15,669,956
Total revenues	<u>19,363,204</u>	<u>18,292,651</u>	<u>5,920</u>	<u>48,973</u>	<u>15,814,381</u>	<u>15,877,800</u>
Expenditures:						
Salaries and wages - regular	980,037	976,664	-	-	-	-
Salaries and wages - overtime	52,951	64,907	-	-	-	-
Fringe benefits	367,740	385,023	-	-	-	-
Contractual services	11,967,216	11,185,833	3,895,606	25,226,611	-	-
Supplies	377,683	350,011	77,034	-	-	-
Equipment	11,393	14,384	-	-	-	-
Utilities - power and water	73,355	70,153	-	-	-	-
Capital outlays	1,553,551	-	317,775	64,768	-	-
Principal retirement	-	-	-	-	5,330,000	5,070,000
Interest and fiscal charges	-	-	-	-	10,339,956	10,599,956
Host Community Premium Benefits	301,193	305,872	-	-	-	-
Miscellaneous	86,850	70,974	13	75	-	-
Total expenditures	<u>15,771,969</u>	<u>13,423,821</u>	<u>4,290,428</u>	<u>25,291,454</u>	<u>15,669,956</u>	<u>15,669,956</u>
Net change in fund balances	3,591,235	4,868,830	(4,284,508)	(25,242,481)	144,425	207,844
Fund balances at the beginning of the year	<u>19,811,362</u>	<u>14,942,532</u>	<u>4,828,187</u>	<u>30,070,668</u>	<u>17,583,308</u>	<u>17,375,464</u>
Fund balances at the end of the year	<u>\$ 23,402,597</u>	<u>\$ 19,811,362</u>	<u>\$ 543,679</u>	<u>\$ 4,828,187</u>	<u>\$ 17,727,733</u>	<u>\$ 17,583,308</u>

See accompanying independent auditors' report.

GOVERNMENT OF GUAM

SOLID WASTE FUNDS

Comparative Schedule of Receivables, Billings and Collections
Years Ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Receivables:		
Commercial haulers	\$ 2,151,131	\$ 2,291,544
Residential	1,697,181	1,645,281
Government	<u>359,361</u>	<u>587,768</u>
	4,207,673	4,524,593
Allowance for uncollectible accounts	<u>(1,153,026)</u>	<u>(1,054,993)</u>
	\$ <u><u>3,054,647</u></u>	\$ <u><u>3,469,600</u></u>
Billings:		
Commercial haulers	\$ 10,492,762	\$ 10,085,101
Residential	6,666,092	6,281,321
Government	<u>1,640,484</u>	<u>1,490,020</u>
Total billings	\$ <u><u>18,799,338</u></u>	\$ <u><u>17,856,442</u></u>
Collections:		
Commercial haulers	\$ 10,671,402	\$ 10,409,332
Residential	6,622,703	6,381,693
Government	1,870,392	1,516,529
Transfer stations	249,223	298,682
Other	<u>64,558</u>	<u>53,879</u>
Total collections	\$ <u><u>19,478,278</u></u>	\$ <u><u>18,660,115</u></u>

See accompanying independent auditors' report.

GOVERNMENT OF GUAM
SOLID WASTE FUNDS

Comparative Schedule of Employees and Other Data
Years Ended September 30, 2016 and 2015

	2016	2015
<u>Full Time Employees:</u>		
Employee count:		
Administrative Support	3	3
Residential Collection	20	20
Convenience Center/Transfer Stations	5	5
Total employee count	28	28
Personnel costs:		
Salaries and wages - regular	\$ 980,037	\$ 976,664
Salaries and wages - overtime	52,951	64,907
Fringe benefits	367,740	385,023
Total personnel costs	\$ 1,400,728	\$ 1,426,594
<u>Contract services:</u>		
Employee count:		
Administrative Support	7	11
Sanitation Workers	26	27
Total employee count	33	38
Total personnel costs	\$ 1,366,295	\$ 1,199,103

See accompanying independent auditors' report.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Eddie Baza Calvo
Governor of Guam:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Government of Guam Solid Waste Operations Fund and of those funds related to the Government of Guam Limited Obligation (Section 30) Bonds, 2016 Series A (the "Funds") which comprise the balance sheet as of and for the year ended September 30, 2016, and the related statement of revenues, expenditures and changes in fund balances for the year then ended, and the related notes to the financial statements, which collectively comprise the Funds' financial statements, and have issued our report thereon dated May 24, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Funds' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Funds' internal control. Accordingly, we do not express an opinion on the effectiveness of the Funds' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

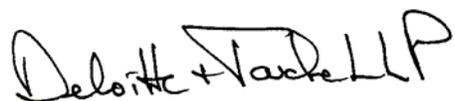
As part of obtaining reasonable assurance about whether the Funds' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as item 2016-001.

Solid Waste Operations Fund Response to Findings

The Funds' responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Funds' responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



May 24, 2017

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Schedule of Findings and Responses
Year Ended September 30, 2016

Finding No. 2016-001

Procurement

Criteria: In accordance with applicable procurement requirements, procurement transactions shall be conducted in a manner providing full and open competition, and will maintain records sufficient to detail the significant history of procurement. These records will include a rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

Local procurement regulations state that any procurement not exceeding the amount established by regulation, between \$500 and \$15,000 may be made in accordance with small purchase procedures. If these methods are not used, the other methods of source selection provided in 5 GCA §5210 (Methods of Source Selection) of the Guam Procurement Act and these Regulations shall apply.

In addition, local procurement regulations Article 9 Subarticle A, Section 5425 (g) states that in the event of a timely protest under Subsection (a) of this Section or under Subsection (a) of § 5480 of this Chapter, the Territory shall not proceed further with the solicitation or with the award of the contract prior to final resolution of such protest, and any such further action is void, unless under specific circumstances provided in this Subsection (g).

Condition:

- A. During the year ended September 30, 2016, local funds totaling \$1,337,857 were utilized for Solid Waste Management Division expenditures, which did not demonstrate competitive procurement (ie., sole source procurement) or which were procured through a possible inappropriate procurement method. A summary of these services is as follows:

Temporary staffing services for the Guam Solid Waste Authority	\$ 1,220,201
Independent contractor services as the Guam Solid Waste Authority Services Administrator	61,839
Independent contractor services as the Guam Solid Waste Authority Customer Service Supervisor	<u>55,817</u>
	\$ <u>1,337,857</u>

- B. GSWA cancelled IFB GSWA004-15 when a potential vendor filed a procurement protest and appealed to the Office of Public Accountability (OPA). GSWA resolicited through IFB GSWA002-16 and in January 4, 2016, a contract was awarded to a vendor. However, the pending procurement protest before the OPA had yet to be decided when the contract was awarded. OPA's decision was issued in April 22, 2016 concluding that the appeal was granted.

Cause: The lack of potential compliance with Guam procurement requirements.

Effect: The Solid Waste Operations Fund maybe in noncompliance with applicable procurement regulations.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Schedule of Findings and Responses, Continued
Year Ended September 30, 2016

Finding No. 2016-001, Continued

Recommendation: We recommend that the department or agency responsible for procuring goods or services under the Solid Waste Operations Fund follow established procurement regulations consistently for all procurements. Furthermore, based on the goods and services being procured, we recommend that the responsible department or agency use the appropriate method of source selection.

Prior Year Status: Lack of compliance with Guam procurement requirements was reported as a finding in prior audits as items 2013-1, 2014-001, and 2015-001.

Auditee Response and Corrective Action Plan: The Department of Administration agrees with the finding; however, we are unable to provide a corrective action plan to the particulars of finding as long as Solid Waste Operations Fund continued to be under the direct control of the Receiver. With anticipation of the Guam Solid Waste Operations management and operations being returned to the Government of Guam, a corrective action plan will be implemented in order to resolve the finding.

The Receiver strongly disagrees with this finding. Compliance should always be evaluated for compliance with the procedures authorized by the legal authority that exists at the time the issues subject to the finding actually occurred. Since March 17, 2008, when the United States District Court of Guam placed the Government of Guam's Solid Waste Program into receivership, the legal authority under which the program is governed was modified by the terms of the District Court's Order placing the program into receivership and the Court's subsequent orders to effectuate the receivership.

In its initial Order, the Court provided the Receiver with the following power and authority:

"IT IS ORDERED that the Receiver shall have full power and authority to enforce the terms of the Consent Decree, and assume all of the responsibilities, functions, duties, powers and authority of the Solid Waste Management Division of the Department of Public Works, and any and all departments, or other divisions of the Department of Public Works insofar as they affect the Government of Guam's compliance with the Consent Decree."

The Court further stated:

"IT IS FURTHER ORDERED that the Receiver shall have the authority required or necessary for the complete management and control of the Consent Decree projects, including but not limited to: The entering into future contracts deemed necessary. In awarding any future contracts, the Receiver shall follow the procedures required in Guam's statutes and regulations, unless, in the best judgment of the Receiver, such compliance would unreasonably delay the progress in meeting the mandates of the Consent Decree {emphasis added};"

Among the areas the Court specifically enumerated to which this authority applies include:

"The hiring of all such consultants, professionals, contractors, engineering firms or counsel which the Receiver deems necessary for the performance of administrative, financial advisory, legal, accounting, engineering, construction, and operations services;"

A copy of the District Court's Order appointing the Receiver is attached for your review.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Schedule of Findings and Responses, Continued
Year Ended September 30, 2016

Finding No. 2016-001, Continued

It should be noted that the above authority granted to the Receiver by the District Court authorizes the Receiver to invoke this authority using its "best judgement" without the prior review or approval of the District Court. In a related procurement matter, the District Court recently sustained the Receiver's use of this authority and confirmed that it did not require the Court's prior approval or review" (see attached Order dated 1-27-2017).

With respect to the matters cited by the finding in Condition A, we were advised to use this authority by the Office of the Attorney General of Guam. The letter from the Deputy Attorney General is attached and it concludes "If the Receiver deems it necessary to hire its own employees to handle Consent Decree matters or contract with other entities to handle Consent Decree matters, it can do so pursuant to and in compliance with Guam and federal laws." The District Court was fully informed of the actions we took in these contract matters and of our use of the above cited authority. The renewal of these agreements has also been accomplished through the Receiver's exercise of this authority. To have subjected these matters to periodic rebidding was simply not practical and would have clearly been disruptive to and unreasonably delayed compliance with the Consent Decree. The Receiver is clearly authorized to make such a determination under the explicit authority referenced above.

The issue cited in Condition B of this finding, is based on the Receiver's exercise of the same authority cited with respect to the matters addressed in Condition A. Again, this action was taken to avoid unreasonable delay in meeting the mandates of the Consent Decree when it became apparent to the Receiver that the procedures required by Guam Procurement Law and Regulation were going to cause such delay.

After an initial effort to procure vitally needed equipment was delayed by protest, the Receiver invoked its authority to depart from Guam's procedures, cancelling the procurement and issuing a new procurement under the Receiver's authority. In the new procurement, the Receiver's authority was clearly stated, and while protests were allowed, it was explicitly stated that the Receiver's decision on any protest was final. The Government of Guam did not challenge our actions but a vendor did protest. The protest was considered by the Receiver and dismissed by the Receiver. The procurement was then concluded.

After the procurement was concluded, the vendor filed an appeal with the Office of the Public Auditor. The Public Auditor was without authority to hear this appeal.

In a subsequent but related matter, the same issue was again presented by the by the same vendor in a procurement for new trucks. Given the persistence of the vendor and the Public Auditor, the Receiver decided to seek clarification through the District Court to ensure that the Receiver's actions were proper. After hearing arguments from all parties, including the vendor, the District Court issued a formal Order sustaining the Receiver's use of its authority and affirming that the Receiver needed no prior review or approval from the District Court to exercise this authority (see the aforementioned Order dated 1-27-2017).

The vendor appealed the District Court's ruling to the U.S. Ninth Circuit Court of Appeals and requested a stay to prevent the Receiver from going forward with the procurement. The Court of Appeals denied this request and allowed the Receiver to complete the procurement. It could not be clearer that the Receiver handled this procurement properly under the legal authority that was applicable at the time the procurement occurred.

There is simply no basis for this finding.

**GOVERNMENT OF GUAM
SOLID WASTE FUNDS**

Unresolved Prior Year Findings
Year Ended September 30, 2016

Unresolved Prior Year Findings

As of September 30, 2016, the status of all audit findings included in the Schedule of Findings and Responses as of September 30, 2016 is as follows:

Finding No. 2011-1 – Not corrected. See corrective action plan to Finding No. 2016-001.

Finding No. 2012-1 – Not corrected. See corrective action plan to Finding No. 2016-001.

Finding No. 2013-1 – Not corrected. See corrective action plan to Finding No. 2016-001.

Finding No. 2014-001 – Not corrected. See corrective action plan to Finding No. 2016-001.

Finding No. 2015-001 – Not corrected. See corrective action plan to Finding No. 2016-001