

**GUAM WATERWORKS AUTHORITY**

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

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**YEARS ENDED SEPTEMBER 30, 2001 AND 2000**

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## INDEPENDENT AUDITORS' REPORT

The Board of Directors  
Guam Waterworks Authority:

We have audited the accompanying balance sheets of Guam Waterworks Authority (GWA), a component unit of the Government of Guam, as of September 30, 2001 and 2000, and the related statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of GWA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Guam Waterworks Authority as of September 30, 2001 and 2000, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 10 to the financial statements, GWA changed its method of accounting for nonexchange transactions to conform with Government Accounting Standards Board Statement No. 33 and has restated the 2000 financial statements to reflect the change.

Our audits of the financial statements for the years ended September 30, 2001 and 2000, was made for the purpose of expressing our opinion on the financial statements taken as a whole. The accompanying schedules on pages 14-16 are presented for purposes of additional analysis. These schedules are the responsibility of Guam Waterworks Authority's management. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and in our opinion, is fairly stated in all material respects, in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2002, on our consideration of the Guam Waterworks Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is stylized and appears to be written in cursive or a similar fluid script.

December 31, 2002, except for note 13 as to which  
the date is April 17, 2003

**GUAM WATERWORKS AUTHORITY**

Balance Sheets  
September 30, 2001 and 2000

<u>ASSETS</u>	<u>2001</u>	<u>2000</u>
Property, plant and equipment:		
Utility plant in service:		
Water system	\$ 190,081,683	\$ 183,131,528
Wastewater system	158,170,889	147,112,354
Non utility property	18,395,306	14,600,033
Construction work in progress	<u>18,194,162</u>	<u>25,619,367</u>
	384,842,040	370,463,282
Less accumulated depreciation	<u>(138,796,120)</u>	<u>(128,788,174)</u>
Total property, plant and equipment	<u>246,045,920</u>	<u>241,675,108</u>
Long-term receivable (note 2)	<u>123,842</u>	<u>172,057</u>
Current assets:		
Cash (note 8):		
Unrestricted	1,414,866	1,673,663
Restricted (note 11)	242,110	3,207,675
Accounts receivable, net (note 2)	13,752,691	19,410,226
Materials and supplies inventory, net of allowance for obsolescence of \$85,075 at September 30, 2001 and 2000	<u>1,361,592</u>	<u>721,441</u>
Total current assets	<u>16,771,259</u>	<u>25,013,005</u>
	<u>\$ 262,941,021</u>	<u>\$ 266,860,170</u>

See accompanying notes to financial statements.

GUAM WATERWORKS AUTHORITY

Balance Sheets, Continued  
September 30, 2001 and 2000

<u>LIABILITIES AND RETAINED EARNINGS</u>	<u>2001</u>	<u>2000</u> As restated (note 10)
Current liabilities:		
Current maturities of long-term debt (note 3)	\$ 2,032,907	\$ 767,309
Accounts payable:		
United States Navy	8,381,347	8,586,517
Guam Power Authority	17,094,704	15,821,451
Trade	5,490,174	6,565,896
Accrued payroll and employee benefits	310,029	1,086,944
Current portion of employee annual leave	486,819	413,806
Payable to contractors	1,533,773	874,214
Customer deposits	1,046,503	1,550,797
	<hr/>	<hr/>
Total current liabilities	36,376,256	35,666,934
Long-term debt, less current maturities (note 3)	-	1,535,244
Employee annual leave, less current portion	1,170,594	1,385,352
Retirement fund deferred contributions (note 4)	7,583,198	7,536,774
Advances for construction	242,110	3,205,007
Other liabilities	114,330	53,704
	<hr/>	<hr/>
Total liabilities	45,486,488	49,383,015
Retained earnings	217,454,533	217,477,155
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Commitments and contingencies (notes 7 and 9)	\$ 262,941,021	\$ 266,860,170
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See accompanying notes to financial statements.

GUAM WATERWORKS AUTHORITY

Statements of Operations and Retained Earnings  
Years Ended September 30, 2001 and 2000

	2001	2000 As restated (note 10)
Operating revenues:		
Water:		
Private	\$ 21,929,385	\$ 22,639,562
Government	2,127,288	2,551,547
	24,056,673	25,191,109
Wastewater:		
Private	11,302,742	10,920,954
Government	2,180,883	2,465,748
	13,483,625	13,386,702
Other	584,037	569,375
Total operating revenues	38,124,335	39,147,186
Operating and maintenance expenses:		
Water purchases	5,844,188	6,618,266
Power purchases	8,279,903	8,244,320
	14,124,091	14,862,586
Salaries and wages	11,465,867	13,159,125
Administrative and general	9,478,322	7,987,480
Depreciation	10,097,933	9,059,001
Contractual	4,437,380	6,138,934
Total operating and maintenance expenses	49,603,593	51,207,126
Operating loss	(11,479,258)	(12,059,940)
Other income:		
Grants from U.S. Government (note 12)	4,448,823	2,098,557
Contributions in aid of construction (note 12)	3,421,984	-
Grants from Government of Guam (note 12)	2,800,388	-
Recoveries of bad debts	411,330	-
Contributions from other agencies (note 12)	332,019	-
Interest income	42,092	30,874
	11,456,636	2,129,431
Net decrease in retained earnings	(22,622)	(9,930,509)
Retained earnings at beginning of year	217,477,155	227,407,664
Retained earnings at end of year	\$ 217,454,533	\$ 217,477,155

See accompanying notes to financial statements.

GUAM WATERWORKS AUTHORITY

Statements of Cash Flows  
Years Ended September 30, 2001 and 2000

	2001	2000
<u>Increase (decrease) in cash</u>		
Cash flows from operating activities:		
Cash received from customers	\$ 40,142,893	\$ 36,214,157
Cash payments to suppliers for goods and services	(20,838,587)	(19,005,702)
Cash payments to employees for services	(15,872,684)	(13,305,218)
Net cash provided by operating activities	3,431,622	3,903,237
Cash flows from non-capital financing activities:		
Operating grants received	69,960	29,631
Net cash provided by non-capital financing activities	69,960	29,631
Cash flows from capital and related financing activities:		
Contributed capital received	10,933,256	2,068,926
Acquisition of utility plant	(17,431,646)	(5,048,752)
Proceeds from issuance of long-term debt	180,696	679,805
Repayments of long-term debt	(450,342)	(749,529)
Net cash used in capital and related financing activities	(6,768,036)	(3,049,550)
Cash flows from investing activities:		
Transfers from (to) restricted fund (note 11)	2,965,565	(93,561)
Interest income received	42,092	30,874
Net cash provided by (used in) investing activities	3,007,657	(62,687)
Net (decrease) increase in cash	(258,797)	820,631
Unrestricted cash at beginning of year	1,673,663	853,032
Unrestricted cash at end of year	\$ 1,414,866	\$ 1,673,663

See accompanying notes to financial statements.

GUAM WATERWORKS AUTHORITY

Statements of Cash Flows, Continued  
Years Ended September 30, 2001 and 2000

	2001	2000
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (11,479,258)	\$ (12,059,940)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	10,097,933	9,059,001
Bad debt expense	3,594,225	1,575,384
Recovered revenue	411,330	-
(Increase) decrease in assets:		
Accounts receivable	2,063,308	(3,276,870)
Materials and supplies inventory	(640,151)	(320,761)
Long-term receivable	48,215	7,079
Increase (decrease) in liabilities:		
Accounts payable	651,923	8,541,314
Accrued payroll	(776,914)	153,192
Employees' annual leave	(141,745)	(299,287)
Customer deposits	(504,294)	336,759
Other liabilities	60,626	31,467
Retirement fund deferred contributions	46,424	155,899
Net cash provided by operating activities	\$ 3,431,622	\$ 3,903,237

See accompanying notes to financial statements.

# GUAM WATERWORKS AUTHORITY

Notes to Financial Statements  
September 30, 2001 and 2000

## (1) Organization Summary of Significant Accounting Policies

### Organization

The Guam Waterworks Authority (GWA) is a component unit of the Government of Guam (GovGuam). GWA is subject to the regulations of the Public Utility Commission of Guam (PUC). GWA became an autonomous agency in 1996 under Public Law 23-119 and derives its revenues mainly from its water and wastewater system. The water system is engaged in the production, treatment, and distribution of water to villages and communities of Guam. The wastewater system is engaged in the collection and treatment of wastewater from residences and industries in the villages of Guam. GWA is governed by a seven-member Board of Directors appointed by the Governor of Guam which determines such matters as rates and charges for services, approval of contracts and GWA policies.

The financial statements of GWA have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. Government Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting", requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. The Government of Guam has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

### Basis of Accounting

GWA is accounted for on a "flow of economic resources management focus," using the accrual basis of accounting. Under this method, all assets and liabilities associated with operations are included on the balance sheet, and revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

### Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

### Materials and Supplies Inventories

Materials and supplies inventory are stated at the lower of cost or market with cost determined under the first-in, first-out method.



# GUAM WATERWORKS AUTHORITY

Notes to Financial Statements  
September 30, 2001 and 2000

## (1) Organization Summary of Significant Accounting Policies, Continued

### Property, Plant and Equipment

Plant in service amounting to \$324,988,118 is stated at estimated historical cost as determined by an independent engineering consultant at September 30, 1998. Plant in service acquired subsequent to that date is stated at cost. Non-utility property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets (5 - 50 years for plant assets).

### Accrued Annual Leave

Compensated absences are accrued and reported as a liability in the period earned. Annual leave expected to be paid out within the next fiscal year is accrued and is included in current liabilities. Employees are credited with vacation leave at rates of 104, 156 or 208 hours per fiscal year, depending upon their service time with GWA. Accumulation of such vacation credits is normally limited to 480 hours at fiscal year end; however, management has exercised its authority in certain conditions to allow accumulation of up to 720 hours. All such vacation credit is convertible to pay upon termination of employment.

### Revenue

Customer water meters are read on a cyclical basis throughout a monthly period depending on the route schedules of the Guam Power Authority (GPA) pursuant to a combined billing system arrangement between GWA and GPA. Revenue is recognized in the period that meters are read. Wastewater treatment is billed at a flat rate of \$20 per month for residential accounts and 80% of current water consumption for commercial and government accounts.

Pursuant to local law, GWA provides water to fire hydrants in Guam and classifies such service as government water revenue. Historically, however, no GovGuam agency has been tasked with paying for such service. Consequently, GWA provides an allowance for the full amount of the billings, on a monthly basis. GWA is currently pursuing the matter of billing such service with the PUC. Fire hydrant revenue was \$786,300 and \$788,300 for the years ended September 30, 2001 and 2000, respectively.

### Grant and Contributions

Grants and contributions consist of government mandated and voluntary nonexchange transactions as defined by GASB Statement No. 33. Approved capital grants not yet received amounted to approximately \$2 million and \$4.1 million at September 30, 2001 and 2000, respectively.

### Reclassifications

Certain account balances in the 2000 financial statements have been reclassified to correspond with the 2001 financial statement presentation.

## GUAM WATERWORKS AUTHORITY

Notes to Financial Statements  
September 30, 2001 and 2000

### (2) Accounts Receivable

Accounts receivable at September 30, 2001 and 2000, are as follows:

	<u>2001</u>	<u>2000</u>
Customers:		
Private	\$ 16,701,686	\$ 15,245,717
Government	<u>6,683,257</u>	<u>6,668,939</u>
	23,384,943	21,914,656
Federal agencies	2,191,365	4,779,990
GPA	<u>184,903</u>	<u>309,206</u>
	<u>25,761,211</u>	<u>27,003,852</u>
Less allowance for doubtful receivables:		
Private	(6,903,807)	(5,084,995)
Government	<u>(5,104,713)</u>	<u>(2,508,631)</u>
	<u>(12,008,520)</u>	<u>(7,593,626)</u>
	\$ <u>13,752,691</u>	\$ <u>19,410,226</u>

Substantially all of GWA's customer accounts receivable are from individuals, companies and government agencies based in Guam.

GWA has obtained signed commitments from private customers that require making specified minimum monthly payments on account until account balances are paid in full. Payment terms do not include interest. At September 30, 2001, minimum future cash flows are as follows:

2002	\$ 61,921
2003	24,768
2004	18,576
2005	12,384
2006	<u>6,193</u>
	\$ <u>123,842</u>

### (3) Long-Term Debt

Long-term debt represents invoices financed by IBM Credit Corporation (ICC) under a \$3.5 million line of credit. The purpose of the credit line is for the preapproved purchase, installation and upgrades of GWA's accounting and operating software and hardware systems, technical training and support of such systems, and related expenses. As of September 30, 2000, GWA had used \$2,302,553 of its credit line.

On June 4, 2001, ICC restructured 100% of the outstanding balance of the credit line due to nonpayment under existing terms. The new terms required GWA to pay the outstanding principal balance of \$2,185,325 in monthly installments of \$51,996 through October 2001, changing to \$103,996 through November 2002, and a balloon payment of \$554,336 on December 1, 2002. All payments include interest at a fixed rate of 7.07%.

# GUAM WATERWORKS AUTHORITY

Notes to Financial Statements  
September 30, 2001 and 2000

## (3) Long-Term Debt, Continued

GWA adhered to the restructured plan until January 2002, but made no payments thereafter. On June 21, 2002, ICC sent to GWA an official notice of default of the line of credit agreement. Accordingly, all unpaid principal at September 30, 2001 is classified as current in the accompanying balance sheet.

## (4) Employees' Retirement Plan

Employees of GWA hired before September 30, 1995 are under the Government of Guam Employees' Retirement System (a defined benefit, contributory pension plan). Employees hired after September 30, 1995, are members of the Defined Contribution Retirement System (DCRS). Until December 31, 1999, those employees who are members of the defined benefit plan with less than 20 years of service at September 30, 1995, had the option to switch to the Defined Contribution Retirement System. Otherwise, they remained under the old plan.

The Defined Benefit Plan and the DCRS are administered by the Government of Guam Retirement Fund, to which GWA contributes based upon a fixed percentage of the payroll for those employees who are members of the Plan.

As a result of the most recent actuarial valuation performed as of September 30, 2000, it has been determined that for the year ended September 30, 2001, a minimum combined employer and employee contribution rate of 34.64% of covered Defined Benefit Plan payroll is required to appropriately fund the current cost, amortize prior service costs and provide for interest on the unfunded accrued liability. Statutory contribution rates for employee and employer contributions were 9.5% and 19.675%, respectively, for the year ended September 30, 2001. The effect of GWA's prior year accruals for its share of pension underfunding reduces the actuarially determined employer contribution rate from 25.14% to an effective rate of 20.05% for the year ended September 30, 2001. In recognition of the above, an accrual increase of 0.375% of covered payroll is necessary to adjust the unfunded liability based on the difference between the effective rate of 20.05% and the employer's statutory rate of 19.675%. The effective employer accrual rate for the year ended September 30, 2000 was 19.74%.

The plan utilized the actuarial cost method termed "entry age normal" with an assumed rate of return of 8% and an assumed salary scale increase of 8.5% per annum for short service employees and 4% per annum for longer service employees. The most recent actuarial valuation performed as of September 30, 2000, did not provide a breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net assets available for benefits by sponsor. If the actuarial valuation were performed for GWA as a separate sponsor, the accrued unfunded liability at September 30, 2001 and 2000, may be materially different than that recorded in the accompanying financial statements.

# GUAM WATERWORKS AUTHORITY

Notes to Financial Statements  
September 30, 2001 and 2000

## (4) Employees' Retirement Plan, Continued

Contributions into the DCRS by members are based on an automatic deduction of 5% of the member's regular base pay. The contribution is periodically deposited into an individual annuity account within the DCRS. Employees are afforded the opportunity to select from different annuity accounts available under the DCRS.

Employer contributions into the DCRS are based on a statutory amount of 19.675% of the member's regular base pay. Of the amount contributed by the employer, only 5% of the member's regular base pay is deposited into the member's individual annuity account. The remaining 14.675% is contributed towards the unfunded liability of the defined benefit plan.

Members of the DCRS who have completed five years of government service, have a vested balance of 100% of both member and employer contributions plus any earnings thereon.

Retirement expense for the years ended September 30, 2001 and 2000 is as follows:

	<u>2001</u>	<u>2000</u>
Cash contributions	\$ 3,039,518	\$ 3,083,741
Adjustment of accrued unfunded liability	<u>46,424</u>	<u>155,899</u>
	\$ <u>3,085,942</u>	\$ <u>3,239,640</u>

## (5) Real Estate Properties Transferred by Government of Guam

The Government of Guam, pursuant to Public Law 23-119, assigned to GWA various real estate properties under GWA's administration. As of September 30, 2001 and 2000, the properties have not been recognized in the financial statements pending completion of formal transfer proceedings.

## (6) Agreements with the United States Navy

Pursuant to a Memorandum of Agreement, the United States Navy supplies water through its water system to GWA for distribution and resale to non-military customers. Total purchases from the U.S. Navy for the years ended September 30, 2001 and 2000 are \$3,834,100 and \$4,516,915, respectively.

## (7) Commitments and Contingencies

### Claims

The U.S. Navy is suing for recovery of payment for water provided by the U.S. Navy to the former Public Utility Agency of Guam and to GWA from the Fena reservoir. Furthermore, due to the nature of its operations, GWA is subject to various claims by private and governmental customers and vendors for various alleged losses. Because an estimate of the amount or range of potential loss cannot be determined at this time, no provision for any liability that may result from such claims has been made in the financial statements.

# GUAM WATERWORKS AUTHORITY

Notes to Financial Statements  
September 30, 2001 and 2000

## (7) Commitments and Contingencies, Continued

### Self Insurance

GWA has adopted a policy of self-insuring potential risks relative to its property, plant and equipment. GWA has not purchased insurance relative to its property, plant and equipment, and no other risks are insured. GWA is of the opinion that it has suffered no material losses in the past three years related to damages to its utility plant-in-service.

### Contract Commitments

Contract commitments in connection with projects currently in construction amount to approximately \$1.19 million at September 30, 2001.

### Medicare

The Government of Guam and its component units, including GWA, began withholding and remitting funds to the U.S. Social Security System for the health insurance component of its salaries and wages effective October 1998. Prior to that date, the Government of Guam did not withhold or remit Medicare payments to the U.S. Social Security System. If the Government is found to be liable for Medicare payments on salaries and wages prior to October 1998, an indeterminate liability could result. It has been the practice of GWA and all other component units of the Government of Guam that payment of this health insurance component is optional prior to October 1998. Therefore, no liability for any amount which may ultimately arise from this matter has been recorded in the accompanying financial statements.

## (8) Cash and Cash Equivalents

For purposes of the balance sheets and the statements of cash flows, cash is defined as cash deposits in banks and time certificates of deposit with initial maturities of three months or less.

Bank balances of demand and time deposit accounts held in the name of GWA totalled \$1,624,108 and \$4,848,471 as of September 30, 2001 and 2000, respectively, of which \$315,234 and \$160,052 were insured by the Federal Deposit Insurance Corporation and the remaining balances were uninsured and uncollateralized. In addition, \$32,868 was held on hand for the exchange fund and petty cash as of September 30, 2001 and 2000.

## (9) Other Matters

On December 31, 1989, the Government of Guam issued general obligation Water System Revenue Bonds, Series 1989, in the amount of \$49,190,000. The bonds have been issued for the purpose of expanding and improving the existing water system of the Government operated by GWA. The bond obligation is currently recognized on the books of the Government of Guam and is not reflected as a liability of GWA.

# GUAM WATERWORKS AUTHORITY

Notes to Financial Statements  
September 30, 2001 and 2000

## (10) Adoption of New Accounting Principle

Effective October 1, 2000, GWA adopted GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions." GASB No. 33 establishes more uniform revenue recognition criteria and financial reporting standards regarding the timing of recognition of the results of nonexchange transactions involving cash and other financial and capital resources. The provisions of GASB No. 33 were applied to all periods presented; and accordingly, the statement of operations for 2000 has been restated to reflect capital grants of \$2,068,926 and depreciation expense of \$6,799,125 on property, plant and equipment acquired with contributed capital. Implementation of GASB No. 33 had no impact on the balance sheets and statements of cash flows.

## (11) System Development Fund

Public Law 19-47 created the Water and Sewer Development Fund that authorized GWA to establish and implement a water and sewer system development charge schedule, which assesses a charge on each user who connects for the first time from any property onto the island's water or wastewater system, or to each builder if the density of development connected to the system is increased. Thus, such charge schedule takes into account any existing infrastructure on the property, present and future user demands, requirements for water and/or sewer services and installation of infrastructure to be done by the builder.

The Fund shall be expended only for expanding, upgrading or repairing water and wastewater facilities on Guam. Such restricted cash is placed in various savings and time certificate of deposit accounts. In 2001 and 2000, the net change in restricted cash equaled \$2,965,565 and \$93,561, respectively. The changes represent transfers to and transfers from the unrestricted fund, respectively, for the purposes previously mentioned in this note.

## (12) Contributions Received

Contributions received by GWA during the years ended September 30, 2001 and 2000 is as follows:

	<u>2001</u>	<u>2000</u>
Grants from U.S. Government:		
Received from the Department of the Interior	\$ 3,158,020	\$ 2,098,557
Received from the Environmental Protection Agency	1,015,345	-
Received from the Federal Emergency Management Agency	226,027	-
Received from the Economic Development Administration	<u>49,431</u>	<u>-</u>
	<u>\$ 4,448,823</u>	<u>\$ 2,098,557</u>
Contributions in aid of construction:		
Received from Tumon Area Water and Sewer Association members, and used for the Southern Link Sewer project	\$ <u>3,421,984</u>	\$ <u>-</u>

## GUAM WATERWORKS AUTHORITY

Notes to Financial Statements  
September 30, 2001 and 2000

### (12) Contributions Received, Continued

	<u>2001</u>	<u>2000</u>
Grants from Government of Guam:		
Received for Deepwell projects undertaken in conjunction with Department of Public Works	\$ <u>2,800,388</u>	\$ <u>      -</u>
Contributions from other agencies:		
Proceeds received through refinancing of Water Bond, and used for emergency repairs to the Fujita Sewer Pump Station	\$ <u>  332,019</u>	\$ <u>      -</u>

### (13) Subsequent Events

On October 13, 2001, an earthquake with a magnitude of 7.0 on the Richter scale struck Guam. Damage to GWA's property, plant and equipment, as a direct result of the earthquake, have not been determined. GWA's management expects to absorb a portion of the final loss amount through its self-insurance, and intends to seek reimbursement from federal sources for the remainder.

On July 5, 2002, Typhoon Chata'an struck Guam with destructive winds of approximately 110 miles per hour. Estimates of the damage to GWA's property, plant and equipment, as a direct result of the typhoon have not been determined. GWA's management expects to absorb a portion of the final loss amount through its self-insurance, and intends to seek reimbursement from federal sources for the remainder.

On December 8, 2002, Supertyphoon Pongsonga struck Guam with destructive winds of approximately 180 miles per hour. Estimates of the damage to GWA's property, plant and equipment resulting from the typhoon, have not been determined. GWA's intends to seek reimbursement from federal sources in compensation for its losses.

On or about December 2002, the United States Government filed a complaint against the Guam Waterworks Authority and the Government of Guam for alleged violations under the Federal Clean Water Act and the Safe Drinking Water Act. Because of the Authority's non-compliance with the National Primary Drinking Water Regulations, the U.S. Government is seeking both civil penalties and injunctive relief to address such non-compliance. Both the Authority and the U.S. Government of Justice, Environment and Natural Resources Division are currently moving together towards the finalization of a mutual agreement in the form of Stipulated Order to resolve the violation issues. Because of the uncertainty surrounding the amount and range of potential penalties and compliance costs, no provision for any liability that may result from such alleged violations has been made in the financial statements.

On January 2, 2003, a five-member publicly elected Consolidated Commission on Utilities (CCU) officially convened pursuant to Guam Public Law 26-76. The CCU replaced and assumed the duties and responsibilities of the previous seven-member Board of Directors.

In April 2003, pursuant to a settlement agreement with the U.S. Navy, the CCU has approved a resolution to pay \$9 million to the U.S. Navy for past due water billings.

**GUAM WATERWORKS AUTHORITY**

Schedule 1  
Schedule of Equalization of Net Loss  
Years Ended September 30, 2001 and 2000

	2001	2000 As restated (note 10)	1999	1998 (1)	1997 (1)	1996 (1)	1995 (1)	1994 (1)	1993 (1)	1992 (1)	1991 (1)	1990 (1)
Net loss	\$ 22,622	\$ 9,930,509	\$ 9,756,403	\$ 20,589,668	\$ 12,002,404	\$ 2,486,481	\$ 7,293,467	\$ 10,920,041	\$ 3,069,762	\$ 4,394,359	\$ 1,744,519	\$ 67,612
Less transfers from GovGuam	2,800,388	-	-	-	-	18,538,800	22,743,010	16,136,274	24,959,972	27,447,270	22,064,351	24,009,417
Less other operating revenues recognized in 1999 attributable to prior years	-	-	4,282,966	-	-	-	-	-	-	-	-	-
Effect of unfunded pension liability	(46,424)	(155,899)	927,990	437,109	(3,516,573)	3,926,422	5,053	(278,750)	(784,801)	(1,478,412)	(1,389,512)	(2,346,147)
Equalization of net loss	<u>\$ 2,776,586</u>	<u>\$ 9,774,610</u>	<u>\$ 14,967,359</u>	<u>\$ 21,026,777</u>	<u>\$ 8,485,831</u>	<u>\$ 24,951,703</u>	<u>\$ 30,041,530</u>	<u>\$ 26,777,565</u>	<u>\$ 27,244,933</u>	<u>\$ 30,363,217</u>	<u>\$ 22,419,358</u>	<u>\$ 21,730,882</u>

(1) This information is extracted from prior Government of Guam general-purpose financial statements.

See accompanying independent auditors' report.



**GUAM WATERWORKS AUTHORITY**

Schedule 2  
 Schedule of Certain Operating and Maintenance Expenses  
 Years Ended September 30, 2001 and 2000

	2001	2000
Salaries and wages:		
Regular, differential and hazardous pay	\$ 9,934,457	\$ 10,901,395
Overtime pay	1,531,410	2,257,730
Total salaries and wages	\$ 11,465,867	\$ 13,159,125
Employees at end of year	330	317
Administrative and general:		
Bad debts	\$ 3,594,225	\$ 1,575,386
Pension costs	3,085,942	3,239,640
Materials and supplies	1,069,347	1,624,648
Annual leave	448,640	522,753
Regulatory expense	367,467	253,405
Chemicals	353,412	230,834
Transportation	247,043	182,583
Miscellaneous	168,918	46,230
Insurance	108,213	41,145
Advertising	35,115	44,137
Communications	-	226,719
Total administrative and general	\$ 9,478,322	\$ 7,987,480
Contractual:		
Labor, materials and others	\$ 2,053,059	\$ 2,669,633
Equipment rental	1,755,638	3,236,384
Legal	459,831	146,295
Testing	130,158	85,622
Miscellaneous	38,694	1,000
Total contractual	\$ 4,437,380	\$ 6,138,934

See accompanying independent auditors' report.

**GUAM WATERWORKS AUTHORITY**

Schedule 3  
Schedule of Cash Flows Indicating Financing Method  
Year Ended September 30, 2001

Cash flows provided by operating activities	\$ 3,431,622
Less nonpayment to GPA	<u>(1,273,253)</u>
Cash flows if all GPA expenses for 2001 were paid	2,158,369
Cash flows used for acquisition of utility plant, net of contributed capital received	<u>(6,498,390)</u>
Cash flows if GPA were fully paid and if utility plant were built, net of contributed capital received	<u><u>\$ (4,340,021)</u></u>

See accompanying independent auditors' report.